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Olin Corp. (OLN)

Q4 2018 Earnings Call

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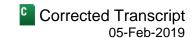
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Analyst, RBC Capital Markets LLC

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Analyst, Instinet LLC



MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Olin Corporation Fourth Quarter and Full Year 2018 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Larry Kromidas, Olin's Director of Investor Relations. Please go ahead, sir.

Larry P. Kromidas

Director-Investor Relations & Assistant Treasurer, Olin Corp.

Thank you, Karl. Good morning, everyone, and thank you for joining us on our fourth quarter and full year 2018 earnings call.

Before we begin this morning, I want to remind everyone that this presentation along with the associated slides and the question-and-answer session following our prepared remarks will include statements regarding estimates of future performance. Please note that these are forward-looking statements and that actual results could differ materially from those projected. Some of the factors that could cause actual results to differ from our projections are described without limitations in the Risk Factors section of our most recent Form 10-K and in yesterday's fourth quarter earnings press release.

A copy of today's transcript and slides will be available on our website in the Investors section under calendar of events. The earnings press release and other financial data are – and information are available under Press Releases. With me this morning are John Fischer, Olin's Chairman, President and Chief Executive Officer; Pat Dawson, Executive Vice President and President, Epoxy and International; Jim Varilek, Executive Vice President and President, Chlor Alkali Products and Vinyls and Services; and Todd Slater, Vice President and Chief Financial Officer.

Now, I'd like to turn the call over to John Fischer. John?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

Thank you, Larry. Good morning, and thank you for joining us today.

During this morning's call, I will begin by highlighting the key takeaways from the successful 2018, review Olin's solid performance in the fourth quarter and our forecast for 2019.

I will finish with a more detailed discussion of each of our business segments and market dynamics. Now let's turn to slide 3. As I mentioned 2018 was a successful year for Olin. The company generated a record full year adjusted EBITDA of \$1.265 billion which represents a 34% increase over 2017 adjusted EBITDA.

Adjusted EBITDA has grown 50% over the past two years. Driving the 2018 growth was a 35% improvement in Chlor Alkali Products and Vinyls adjusted EBITDA and an 88% increase in the Epoxy business adjusted EBITDA.



Both businesses benefited from double-digit revenue growth during 2018. During the fourth quarter of 2018, we generated adjusted EBITDA of \$301 million as we closed the year with strong December performances in our chemical businesses. Utilizing the cash flow generated by the businesses, we acquired 1.6 million shares of stock during the quarter, raising the total shares repurchased during 2018 to 2.1 million.

In addition, we were able to pay down \$122 million of debt during the quarter, bring our total debt repayments for the year to \$376 million which put the year end net debt to EBITDA ratio at 2.4 times. We remain committed to a balanced approach to capital allocation which includes ongoing deleveraging, investing in our businesses and returning cash to our shareholders.

Now let's turn to slide 4 and discuss our outlook for 2019. For full year 2019, we expect adjusted EBITDA to be comparable to our record 2018 results. Looking at the forecast in more detail during the fourth quarter and through January 2019, caustic soda prices have declined as a result of softer consumer demand likely destocking by customers and short-term demand disruptions in the export market. We experienced an approximate 10% decline in our caustic soda prices in the fourth quarter from third quarter levels and are expecting an additional 5% sequential decline in the first quarter. We expect these lower caustic soda prices to be a headwind as we progress through the first quarter of the year. As a result, we expect that the first quarter of 2019 will be the lowest adjusted EBITDA quarter during 2019.

Looking forward, we are confident that caustic soda pricing will reverse course. This will be driven by strong global demand for caustic soda, the resolution of the short-term demand related issues and the elevated level of late first quarter and second quarter planned industry maintenance turnarounds in North America. Our 2019 adjusted EBITDA forecast is based on full-year 2019 caustic soda prices being similar to those we experienced in the fourth quarter of 2018. Offsetting the lower caustic soda pricing is a forecast for improved pricing in chlorine, ethylene dichloride and other chlorine derivatives. Also, the year-end chlorine and caustic soda contract renegotiations should add approximately \$40 million to annual adjusted EBITDA in 2019. We expect the epoxy business will continue to improve in 2019 as compared to 2018 with higher sales volumes and lower hydrocarbon costs. Finally, we expect maintenance turnaround costs in 2019 to be lower than 2018 levels.

Now, turning to the business segments beginning with Chlor Alkali Products and Vinyls, which is on slide 5. The Chlor Alkali Products and Vinyls business continued to grow both top-line revenue and adjusted EBITDA during the fourth quarter and for the full year. Fourth quarter adjusted EBITDA of \$264 million improved approximately 6% over fourth quarter 2017 results and increased 35% or nearly \$300 million on a full year basis. The increased earnings for the full year reflects higher pricing on the majority of our products.

During the fourth quarter, we experienced higher ethylene costs as a result of higher ethane prices. Ethane, which averaged approximately \$0.27 per gallon during the first half of the year averaged \$0.35 per gallon during the fourth quarter. However, this was an \$0.08 per gallon decrease from third quarter prices. As a reminder a \$0.01 change in the price of a gallon of ethane impacts our adjusted EBITDA by approximately \$3 million on a full year basis. Freight costs for the full year continued to be a challenge with railroad rates increasing in the 10% range and truck freight rates increasing almost twice as fast.

Now, turning to caustic soda pricing, which is on slide 6. Caustic soda prices have declined over the past two quarters and in January of this year. We believe that this was due to softer customer demand. The demand softness is particularly attributed both to short term one-off events and to year-end inventory destocking. We are confident that as we move through 2019, caustic soda supply and demand will tighten with the significant announced planned industry maintenance outages in the first half of the year and resolution to some of the one-off events. As a result, we expect that caustic soda pricing will improve over the course of the year.



As we look forward into 2019, there are opportunities that can provide offsets to the earlier challenge that caustic soda pricing presents. We expect pricing in our chlorine derivative portfolio, including merchant chlorine, bleach, hydrochloric acid, ethylene dichloride and chlorinated organics to improve during 2019 based on current supply and demand fundamentals. Limited chlor alkali capacity additions are not keeping pace with global demand growth. While we expect our ethylene costs to be higher in 2019 compared to 2018 due to higher ethane pricing, we anticipate higher ethylene dichloride pricing in 2019 to more than compensate for higher ethylene costs.

Let's move on to the performance of our Epoxy business which is on slide 7. The Epoxy business finished its best year as a part of Olin with fourth quarter adjusted EBITDA of \$44 million. This level of earnings represents a nearly 86% improvement over the fourth quarter of 2017. The year-over-year increase reflects improved pricing for epoxy resins which more than offset lower sales volumes and modestly higher raw material costs. Fourth quarter 2018 Epoxy adjusted EBITDA declined \$12 million from the seasonally strong third quarter. This sequential decline was primarily driven by lower sales volume as a result of seasonally lower end-use demand and higher-than-normal customer destocking activities during the period. Epoxy resin prices declined during the quarter consistent with lower benzene and propylene costs.

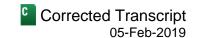
Looking ahead to the first quarter of 2019, we expect sales volumes to be higher sequentially and similar to the first quarter of 2018 levels. We also expect some further price erosion as raw material costs continue to decline. These factors, coupled with a significantly lower maintenance turnaround costs, should result in meaningful improvement in year-over-year first quarter results. This provides a solid starting point for another year of improved Epoxy adjusted EBITDA in 2019.

The chart on slide 8 displays liquid epoxy resin pricing in the United States, Europe and Asia. During the fourth quarter, pricing for liquid epoxy resins declined modestly as a result of significant declines in raw material input costs, primarily benzene and propylene. While global liquid epoxy resin prices have declined recently, they remain well above the lows experienced in all geographies during early 2016. We believe that the supportive supply and demand fundamentals that prevailed in 2018 will persist in 2019 and lead to favorable market conditions moving ahead.

Our view of the chlor alkali and epoxy markets is on slide 9. Olin remains positive about the long-term prospects for both its chemical businesses and sees increasing evidence that the structural supply and demand change in global chlor alkali markets is occurring. Demand growth is likely to outpace supply in key products areas such as caustic soda, chlorine derivatives, epoxy resins and epoxy resin precursors. There are minimal chlor alkali capacity additions expected in the near term. We do not believe that current economics justify additional greenfield investment required to fill this demand gap. At global operating rates of 88% to 90%, the chlor alkali industry would be effectively sold out by 2021. And as a result, supply and demand balances will continue to tighten creating additional upward pricing momentum.

We also remain encouraged by the overall supply and demand dynamics developed in the Epoxy market. And similar to the dynamics in the chlor alkali sector, steady demand growth coupled with minimal capacity additions support a favorable business outlook.

Moving on to the Winchester business on slide 10. Winchester concluded 2018 with fourth quarter adjusted EBITDA of \$9.4 million, a decrease of \$7 million from the fourth quarter of 2017. The year-over-year decrease was primarily attributed to lower shipments to commercial customers, higher commodity and other material costs of \$2 million, and a less favorable product mix and lower pricing. These were partially offset by lower operating costs. For full year 2018, commercial sales declined approximately 10% compared to full year 2017, a trend that



is expected to continue into early 2019. For the full year 2018, commodity and other material costs increased approximately \$20 million as compared to the full year 2017.

Looking ahead, we expect military and other government sales to be consistent with 2018 levels, while commercial demand is anticipated to decline further in the first quarter, as elevated consumer inventories continually – continue excuse me, to negatively impact the commercial market. While we believe that ammunition usage at the ultimate consumer level has remained steady, there is still an excess of personal inventory levels. Of note, the large majority of Winchester's 2019 expected military and other government sales is already under contract. As you know the fourth quarter is typically the weakest ammunition demand quarter and as a result, we expect that there will be a normal sequential improvement in first quarter 2019 results as compared to the fourth quarter of 2018. For full year 2019, we expect Winchester results to be similar to full year 2018 levels.

Before I turn the call over to Todd who will review some financial items, I would like to take a moment here to summarize a few points. First, 2018 was a very good year for the company. We achieved record earnings and considerable EBITDA growth. Additionally, due to the investments in our plants, we were able to run hard and reliably during the year. We were also successful in paying down debt to a 2.4 times ratio of net debt to adjusted EBITDA and returned approximately \$185 million to shareholders through share repurchases and our dividend.

Looking ahead, we expect to continue this momentum in 2019, generating significant cash flow which enables us to invest in our businesses further reduce debt and return cash to our shareholders. Beyond 2019, we are confident the structural supply and demand changes that are taking place in our chlor alkali and epoxy businesses will drive growth and value creation for Olin.

Lastly, I want to remind everyone that next week on February 12, we're hosting an Investors Day at 1:00 PM at the New York Stock Exchange where we will provide a detailed analysis of our industry views and outlook.

Now, I would like to turn the call over to Todd Slater, Olin's Chief Financial Officer.

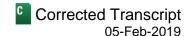
Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

Thanks John. Let's turn to our 2019 cash flow forecast which is on slide 11. We expect to generate approximately \$475 million of free cash flow in 2019. With the combination of debt reduction and EBITDA growth over the last 12 months, as of year-end, our net debt to adjusted EBITDA leverage ratio has been reduced to 2.4 times. We are targeting \$250 million to \$300 million of additional debt prepayments in 2019.

Starting with our full year adjusted EBITDA forecast, which is similar to 2018 levels on the far left of the waterfall chart. We deduct \$90 million in estimated cash tax payments. We are forecasting that our cash tax rate will be in the 25% range for the year. Cash taxes in 2019 are expected to be higher than 2018 by approximately \$40 million as Olin exhausted the tax credit carryforwards that were created with the 2015 acquisition during 2018.

Column 3 reflects the midpoint of our current forecast for capital spending of \$400 million which includes annual maintenance capital spending of between \$225 million and \$275 million. The investment associated with our multi-year information technology integration project of approximately \$80 million. As we previously discussed in 2017, we began a multi-year project to implement new enterprise resource planning, manufacturing and engineering systems across the heritage Olin and the acquired Dow Chlorine Products businesses. The project includes the required information technology infrastructure.



Now turning to column 4, we are expecting working capital to be neither a use nor a source of cash in 2019. In the next column one-time items include information technology integration costs and cash restructuring costs of approximately \$80 million. This includes approximately \$40 million for the IT integration project that I spoke – I just spoke about and approximately \$25 million of duplicate IT costs that are being incurred during the transition.

The next column represents an estimate of cash interest expense. We currently have approximately 30% of our debt at variable interest rates and we're forecasting 2019 interest rates will be slightly higher than those we experienced in 2018. On the far right column, we are forecasting \$475 million of free cash flow. We are committed to a balanced approach to capital allocation which includes ongoing de-leveraging, investing in our businesses and returning cash to our shareholders.

Turning to my last slide, I will discuss 2019 forecast assumptions. On slide 12, we provide some annual modeling and incorporate assumptions in our 2019 forecast. We're forecasting depreciation and amortization expense in 2019 to be in the \$590 million to \$610 million range which is comparable to 2018 levels. We are forecasting full year 2019 defined benefit pension income will be approximately \$15 million to \$20 million which is slightly lower than 2018, primarily due to increased amortization of deferred pension actuarial losses.

In 2018, we made \$2.6 million in pension contributions to international defined benefit pension plans. We expect 2019 contributions to these plans to be less than \$5 million. We are forecasting full year 2019 expenses for environmental investigatory and remedial activities to return to the historical level of \$15 million to \$20 million. In 2018, environmental expenses were \$7.3 million excluding the \$111 million of environmental insurance recoveries.

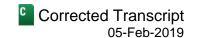
Full year 2019 corporate and other costs are forecast to increase due to higher stock-based compensation. In 2018, corporate and other costs were approximately \$100 million excluding legal costs associated with the environmental recovery actions and costs related to the information technology integration project. For 2019, we believe that both the book effective tax rate and the cash tax rate will be approximately 25%.

Finally on Friday January 25, Olin's board of directors declared a dividend of \$0.20 on each share of Olin common stock. The dividend is payable on March 11, 2019 to shareholders of record at the close of business on February 11, 2019. This is the 369th consecutive quarterly dividend to be paid by the company.

Operator, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question and answer session. [Operator Instructions] And the first question comes from Neel Kumar with Morgan Stanley. Please go ahead with your question. Neel Kumar Analyst, Morgan Stanley & Co. LLC Hi good morning. John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp. Morning. Todd A. Slater Chief Financial Officer & Vice President, Olin Corp. Good morning. Neel Kumar Analyst, Morgan Stanley & Co. LLC As a point of clarification you mentioned using fourth quarter caustic prices in your guidance, is that inclusive of the recent \$20 decline in the domestic index in January? John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp. No, it's not. Neel Kumar Analyst, Morgan Stanley & Co. LLC I see. Okay. And do know what roughly the impact that would have in terms of EBITDA for 2019? John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp. Why don't you answer the headwind question. Todd A. Slater Chief Financial Officer & Vice President, Olin Corp. I mean well, Neel, this is Todd. What- when you look at the fourth quarter, caustic soda pricing and you annualize that for all of 2019 that's between \$120 million and \$150 million year-over-year headwind to Olin. We've also said that the first quarter caustic soda pricing in our system will be down about 5% from the fourth quarter. Neel Kumar Analyst, Morgan Stanley & Co. LLC



Okay. That's very helpful. And then in terms of epoxy, it seems that pricing has come down but raw material costs seems to have been coming down even further. So would it be accurate to say that you would expect some margin expansion in 2019 assuming current pricing for resins and feedstock costs?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp. I would say that's true if the relationship stays the same and as we've seen over the last couple of years, raw

material costs move very dramatically and quickly. But I think if we were able to freeze everything where it is today, we would get some margin expansion.

Neel Kumar

Analyst, Morgan Stanley & Co. LLC

Okay. Great. Thank you.

Operator: And our next question comes from Don Carson with Susquehanna. Please go ahead with your question.

Donald David Carson

Analyst, Susquehanna Financial Group LLLP

Thank you. John, you've given your – you've been pretty specific on your caustic outlook. Can you talk a bit about what you expect EDC pricing to be and also what your assumptions are for ethane costs?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

In terms of our EDC pricing assumption, we're assuming that it will be better throughout 2019 than it was in 2018. And we've assumed that ethane prices as we move forward are going to be in the \$0.30 to \$0.35 range.

Donald David Carson

Analyst, Susquehanna Financial Group LLLP

And then on the caustic export market, the volumes were pretty low as you noted in Q4. Do you expect that weakness in offshore exports to continue. I guess the two offsetting factors here obviously when Alunorte comes back online that will be positive. But are you anticipating some softness, as some have projected in demand out of Australia this year for U.S. Gulf Coast exports?

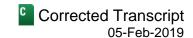
James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

Hi, Don, this is Jim Varilek. As far as the export volumes go, you are right, the fourth quarter was impacted and, quite honestly, exports have been impacted somewhat by the Alunorte outage as that was a direct export out of the U.S. We do expect, obviously, if that gets solved, and as that gets solved, we'll have an increase in exports. Out of Australia, the alumina business, as it continues to settle and improve, I think, the end-use demand, I think we'll see pretty steady demand out of Australia, and it's just a matter of where it's sourced. I think that's the issue. But we'd expect exports to continue to improve and we'll see a stronger export year this year than last year.

Donald David Carson

Analyst, Susquehanna Financial Group LLLP



And just one final question. You gave a lot of clarity in terms of the earnings leverage with everything but the exception of Epoxy margins. Is that something you're going to provide us more detail on next week?

James A. Varilek Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp. Not specifically, no.	A
Donald David Carson Analyst, Susquehanna Financial Group LLLP Okay. Good. Thank you.	Q
Operator: And our next question comes from Eric Petrie with Citi. Please go	o ahead with your question.
Eric B. Petrie Analyst, Citigroup Global Markets, Inc. Hi. Good morning.	Q
Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	A
Good morning.	
John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp.	A
Good morning.	
Eric B. Petrie Analyst, Citigroup Global Markets, Inc.	Q
Todd, as you noted, leverage has improved to the 2.4 times. What is your targoing forward.	get there and priorities for cash flow
Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	A
In 2019, we expect to repay or prepay another \$250 million to \$300 million of payment at the end of 2020 associated with the ethylene of \$450 million. If or 2019 is ultimately the final answer, that puts you at 2.2 times net debt to adju	ur forecast of the \$1.26-ish billion for
Eric B. Petrie Analyst, Citigroup Global Markets, Inc.	Q
Thanks. My second question is, you noted that the \$1.5 billion target was act guiding to roughly flat year over year compared to 2018. So, how do you see billion and what are the puts and takes?	
Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	A



I would say it really represents two things. It represents the combination of volume growth and it represents some pricing growth. But I would say, we see that that is achievable. It can be done with the assets that we have on hand. And I would also just point out, in a different pricing environment, which we had in the third quarter of 2018, we generated almost \$400 million of EBITDA in one quarter, which obviously puts us on – would put us on a path to generate \$1.5 billion.

Eric B. Petrie

Analyst, Citigroup Global Markets, Inc.

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Great. Thanks.

Operator: And our next question comes from Kevin McCarthy with Vertical Research Partners. Please go ahead with your question.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Yes. Good morning. Thank you. A few questions on epoxy. First, can you comment on how much you think global demands for epoxies grew in 2018 and any regional color related thereto?

And then second on slide number 8, you show some of the price changes. Very high numbers in North America and Asia, about half that amount in Europe. And so, could you comment on what is driving those regional differences in price?

Pat D. Dawson

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Executive Vice President & President, Epoxy and International, Olin Corp.

Yeah, Kevin, this is Pat. First of all, from a demand standpoint, Asia and China have been very lackluster. I don't know that China really grew hardly at all, it's pretty flat year over year. And I would say, that's true for most of Asia. You saw a lot of reports coming out of China, specifically on automotive being down 30%. So, that part of the world was pretty depressed. I think Europe did not grow as much in 2018 as it did in 2017. I think, Europe was relatively flat. North America was probably one of the better regions in 2018 and a lot of that was fueled by oil and gas being better. But overall, globally, Kevin, I would say the demand was pretty flat year over year. We are encouraged by what we're seeing here early in the first quarter with a big destock in Q4, but we are seeing demand levels around the globe come back to pretty much where they were in Q1 of last year.

From a pricing standpoint, on that question, Europe had very good gains. The European market was much tighter in 2017 than the way it evolved in the second half of 2018. So, Europe simply started out at higher prices in 2017 and cooled off as 2018 progressed. So, that's part of the reason on that percent difference. North America, obviously, was very consistent with the pricing improvements that we saw coming out of Asia Pacific in a lot of the Asian exports that find their way into North America and Europe. So, we had very good pricing momentum, quite frankly, though, throughout the whole year in all regions of the world.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

And last question, if I may. You made a comment in your prepared remarks, if I heard it correctly, that chlor alkali could be sold out by 2021. Perhaps, we'll hear more next week. But I was wondering if you could comment on the rates of demand and supply growth that you're basing that on?

John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp.	1
I would prefer to leave that for next week because we're going to have a third party talk about that.	
Kevin W. McCarthy Analyst, Vertical Research Partners LLC)
Okay. Thank you very much.	
Operator: And our next question comes from Jeff Zekauskas with JPMorgan. Please go ahead with your question.	
Jeffrey J. Zekauskas Analyst, JPMorgan Securities LLC)
Thanks very much. Your chlor alkali segment EBITDA was up I think \$294 million in 2018. Is 90% of the EBITDA increase caustic soda? Can you do some kind of bridge as to the different parts of the chlor alkali segment and how you got that \$294 million increase?	
John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp.	1
Go ahead.	
Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	1
The big driver of the just under \$300 million, Jeff, is pricing. And it's really pricing across virtually every product w had. Obviously caustic soda was a big driver but chlorine, EDC, chlorinated organics, HCL, bleach all those price were up year-over-year. And so caustic is the one that gets a lot of the headlines. But in fairness, all contributed significantly to that just under \$300 million earnings growth. Volume year-over-year was more flattish.	
Jeffrey J. Zekauskas Analyst, JPMorgan Securities LLC)
Plus say you had it divided up into percents, what percent came from caustic soda. What percent came from chlorine derivatives in rough terms of the increase	
Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	1
The 90% would be too high. We have not broken out those numbers specifically publicly.	
Jeffrey J. Zekauskas Analyst, JPMorgan Securities LLC)
Okay. And I guess you don't plan to, all right. In terms of the tax rate for 2020, is it much different than the tax rat in 2019 on a cash basis?	е
Todd A. Slater Chief Financial Officer & Vice President, Olin Corp.	1

This is Todd again. The 25% stull, 25% is still a good number that has a lot to do with the NOLs being utilized by the end of 2018. So 25% is still a good number.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Okay and then lastly on your CapEx of \$400 million. It includes \$80 million of information technology costs. But I thought some of that passes through the income statement. So shouldn't the net number for CapEx as to what it would be on the funds flow statement be lower than \$400 million?

Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

\$80 million goes through capital. There's another \$40 million associated with a project that runs through expense through those other one-time items.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Oh so in other words there's, okay there's \$80 million that goes through the cash flow statement and then an additional \$40 million that goes through the income statement. Is that right?

Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

Yeah we've tried to help folks out with that, the investors. If you look on the slide deck today on slide 25, we've tried to identify all those costs, expense and capital through the end of the project through 2020.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Okay great. Thank you so much.

Operator: And our next question comes from Jim Sheehan with SunTrust. Please go ahead with your question.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.

Good morning. Gentlemen if you could give us your best guess as to when the Alunorte operating rates will start to ramp up and they'll start ordering more caustic soda from the U.S. Gulf?

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

Yeah, Jim. This is Jim. I don't have a real good answer for you, but what I can say is that there's progress that's being – that are being made via the equivalent of the EPA has lifted the embargo. They're just basically saying that the plant is safe to operate and we're just waiting for a national embargo to be lifted before the restart. So it could be weeks, but we are dealing with government so it still could be longer than that. We're hopeful that it happens in the first quarter.

James Sheehan

Analyst, SunTrust Robinson Humphrey, Inc.



Thank you. And then on working capital, your outlook for flat working capital changes in 2019. Can you just provide your assumptions underlying that?

Todd A. Slater Chief Financial Officer & Vice President, Olin Corp. Yeah. This is Todd. We – obviously we're saying caustic soda pricing will obviously improve over the year in order to get to the 2018 fourth guarter average, so there could be a little bit of headwind in receivables. Having said that we've also assumed hydrocarbon costs are lower. So you'll see a little bit of benefit on the other side. Net-net, we're expecting working capital to be flat. James Sheehan Analyst, SunTrust Robinson Humphrey, Inc. Terrific. Thank you very much. Operator: And our next question comes from Matthew Blair with Tudor, Pickering Holt. Please go ahead with your question. Matthew Blair Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Hey. Good morning everyone. Todd A. Slater Chief Financial Officer & Vice President, Olin Corp. Good morning. John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp. Good morning. James A. Varilek Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp. Morning. Matthew Blair Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Of the \$400 million in CapEx for 2019, how much of that is growth versus maintenance? And are there any

upcoming organic projects such as, like another bleach plant that you'd like to highlight?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

I think when you add in the IT project that Todd just talked about and another project related to integration and add that to growth - or add that to maintenance, the majority of the spending is in maintenance. I would also say that there are smaller growth projects like bleach plants and bleach plant expansions, hydrochloric acid plants that are ongoing all the time. And I would tell you we will provide more guidance around what our objectives are around that next week.

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Okay. Thanks. And then with the rig count coming down it looks like HCL prices have come off in January. I think on slide 16, you highlighted HCL is up pretty strong in the fourth quarter. Is there any way that you could ballpark either volumes or EBITDA contribution from this area?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

What I would say is that prices have come down from fourth quarter to first quarter, but not dramatically. And I would also tell you that our volume forecasts for hydrochloric acid in 2019 are very similar to what we saw in 2018.

Matthew Blair

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Okay. Thank you.

Operator: And our next question comes from Mike Sison with KeyBanc. Please go ahead with your question.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Hey, guys. Nice quarter.

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

Thank you.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

In terms of caustic aside Alunorte are there any other end markets that you need to see improvement as the year unfolds to tighten up supply to kind of get that pricing improvement?

James A. Varilek

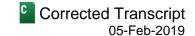
Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

Mike, this is Jim. I think generally what we need to see is to take some of the uncertainty out of the climate. We saw in the fourth quarter economic uncertainty. It wasn't just in chemicals but across all of industry. And so I think that's something that we that we need to see diminish and we are. Quite honestly we are seeing things as we go into January, we are seeing things pick up both here in the U.S. and also around the world. Another thing that will impact us in terms of the pricing is that there are a significant number of maintenance turnarounds and so forth that are scheduled in the first quarter, so the combination of improving demand and limited supply provide a better pricing environment as we go through the quarter.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Got it. And when you think about longer term and chlor alkali capacity it doesn't – is minimum the next two years to three years the demand is generally good. I don't want to steal your thunder from next week but where do you



think profitability for the segment would be a couple of years from now and then at what point would it make sense for Olin to think about adding some capacity.

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

Well I'll go back to one of the earlier questions that asked about the \$1.5 billion and say I think with the assets we have the combination of improved volumes which would mean higher operating rates for Olin and some improved pricing. We can see clear to making \$1.5 billion on that.

Michael J. Sison

Analyst, KeyBanc Capital Markets, Inc.

Got it. Thank you

Operator: And our next question comes from Vincent Anderson with Stifel. Please go ahead with your question.

Vincent Alwardt Anderson

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah thank you. I wanted to talk about the spot market a bit. How comfortable are you right now with the depth of the spot market given one where we are in the chlor alkali cycle. And also given the volatility that we observed over the last few months. I mean would you expect to shift more of your contracts towards shorter duration volume commitments or maybe take your lumps now by allocating more to spot to firm up bid/ask spreads in your larger volume contracts that you are negotiating right now. Just trying to get a sense of how you're managing your book in this environment.

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

This is Jim. As far as contracts go, the percentage of contracts this year is not going to be any different than last year. So we're not putting more or less into this – into the spot market. The spot market has been trading in pretty thin quantities over the last, actually the last six or seven months. I think that stems from the early part of last year where supply was actually very, very tight and so many of the customers contracted for high volumes and it made the spot market thin. And we saw that throughout the latter part of last year and we're seeing that again this year in January. For example, there was one spot barge domestic and two parcels on an export basis which is a very thin export market. So it would indicate to me that there's still a lot of contracts out there and supply demand fundamentals are intact.

Vincent Alwardt Anderson

Analyst, Stifel, Nicolaus & Co., Inc.

Great, thanks. And then how do you think about your acquisition pipeline right now along the chloride value chain? Are there any areas where procurement for instance might offer some low hanging synergies in this improving price environment for commodity chlorine?

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

I would say that we are not thinking about acquisition as it relates to our existing chlor alkali infrastructure. If you look at our position in North America from an anti-trust perspective, I don't believe there's anything out there that we could buy from a chlor alkali perspective.

Vincent Alwardt Anderson

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Thank you. And then if I could just ask one more clarification on Alunorte. Without guessing as to the exact date of the restart. They've said publicly that the ramp-up would take some months. But when you think about its impact on the caustic market, would you expect to see caustic benefit sooner as they're rebuilding raw material working capital? Or is your intelligence kind of pointing to they had enough inventory still sitting around when they were shut down that you would really have to wait for a full return to 100% utilization before it actually impacted caustic?

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

This is Jim. I think that you'll see advanced shipments of their restart, obviously, with lead times. And that's an – it's importing material, then you'll know in advance of their start up. So, it'll be positive before they actually start up and then building some inventory to be able to restart the plant.

Vincent Alwardt Anderson

Analyst, Stifel, Nicolaus & Co., Inc.

All right. Thanks so much.

Operator: And our next question comes from Mike Leithead with Barclays. Please go ahead with your question.

Michael Leithead

Analyst, Barclays Capital, Inc.

Good morning, guys. Just one on capital deployment. So, you're guiding to roughly \$475 million of free cash, \$275 million of that sounds to be going to debt pay down and roughly \$130 million going to dividend, which leaves maybe only \$70 million or so for buyback. So, I guess with net leverage now below your 2.5 times target, EBITDA growing, can you just talk about why further debt reduction is the top priority versus maybe a more aggressive share repurchase program here?

Todd A. Slater

Chief Financial Officer & Vice President, Olin Corp.

We will continue a balanced approach to capital allocation and we will continue to delever the balance sheet. We had talked about 2.5 times was the target for the end of 2018. We have ultimately talked that we want to be at 2 times or under by the time we get to mid cycle. So, we still need a little bit of debt repurchase – repayment to get there.

Michael Leithead

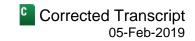
Analyst, Barclays Capital, Inc.

Fair enough. And then just a quick housekeeping item, what was the EBITDA tailwind from stock-based comp in the quarter?

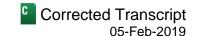
James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

We will have to get back to you on the answer to that question. Thank you. We will.



Michael Leithead Analyst, Barclays Capital, Inc.	Q
Okay. Thank you.	
Operator: And our next question comes from Frank Mitsch with Fermium Research. question.	Please go ahead with your
Frank J. Mitsch Analyst, Fermium Research LLC	Q
Good morning, folks. And John, I really appreciate the teaser for the Investor Day next party speaker. I am going to start a betting pool as to who that might be. When you guidance, you bracketed a plus or minus 5%. If I were to take that number for 2019, the billion to \$1.33 billion. Is your thought that that is too broad of a range? How should we outcomes around that the \$1.265 billion guidance?	uys put out your 2018 hat would get you to \$1.2
John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp.	А
I think the reason we said it was balanced is because the majority of the upside and the caustic soda. And that is, obviously, the product to which we have the most leverage. comfortable, given where we are at this moment, of actually trying to bracket it.	
Frank J. Mitsch Analyst, Fermium Research LLC	Q
Fair enough. Fair enough. And I was just taking your commentary, I guess the way the least looking at the first quarter, you're looking at something that would be up year over little bit sequentially. Is that a fair read of the puts and takes?	
John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp. Yes, it would be.	A
Frank J. Mitsch Analyst, Fermium Research LLC	Q
Thank you so much. See you next week.	
John E. Fischer Chairman, President and Chief Executive Officer, Olin Corp.	A
Okay.	
Operator: And our next question comes from John Roberts with UBS. Please go aho	ead with your question.
John Roberts Analyst, UBS Securities LLC	Q



Thank you. It's not as big a business as it used to be, but are there more restructuring opportunities you could have in Winchester to elevate it along the bottom here? And when might you expect your first up year-over-year quarter in earnings for that business?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

Α

The answer to your first question is yes, there's always things we can do in the business to make it better. And I think we're continuing to do those things. I would expect that we will see an up quarter in the second half of 2019.

John Roberts

Analyst, UBS Securities LLC

And then I'm kind of surprised, it sounded like you expect your contract versus spot sales in 2019 to be roughly the same volume mix that you had in 2018. Why wouldn't customers be letting contracts just expire given we've got this really large premium they're paying over spot prices, and then they could come back and re-contract next year. And just let – why aren't customers going more into the spot market to take advantage of the gap here?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.



Yeah, John what I meant – the comment that I made earlier was [ph] European (00:46:08) market is actually pretty thin. So to go out there in large quantities and so forth – or with large volumes to get product also is fairly difficult. And I believe that our customers understand the market pretty well and they see the fundamentals that we've been talking about for quite some time. So, their job number one is to get security of supply. Number two, to get it at the best pricing. So, I think they're voting with their feet in terms of how they want to go about contract and so forth.

John Roberts

Analyst, UBS Securities LLC



Thank you

Operator: And our next question comes from Steve Byrne with Bank of America. Please go ahead with your question.

Steve Byrne

Analyst, Bank of America Merrill Lynch



Yes. Thank you. What portion of your chlorine production is allocated to the VCM tolling agreement with Dow for their Shintech contract?

John E. Fischer



Chairman, President and Chief Executive Officer, Olin Corp.

We will provide guidance next week on - much more guidance on where our chlorine capacity goes next week.

Steve Byrne

Analyst, Bank of America Merrill Lynch



Can you comment on your interest in locking that up longer term versus finding other molecules to move that chlorine into?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

I think we announced about a year ago that we had already locked up the renewal of that contract. So beginning in 2021, that contract moves from a tolling arrangement with Olin supplying the chlorine to Dow again under a tolling arrangement to Olin selling VCM directly to Dow's current third-party customer.

Steve Byrne

Analyst, Bank of America Merrill Lynch

Okay. And how would you characterize the demand for caustic over the last year. Any changes in that demand that your customers may have sourced to different feedstocks such as bauxite for alumina that may have reduced global demand for caustic versus say 2017 levels before the run up in price?

James A. Varilek

Executive Vice President & President, Chlor Alkali Vinyls and Services, Olin Corp.

Yeah. This is Jim. What I would say is that there's always ups and downs in quarter-to-quarter variation in demand. What we look at is the long-term trend lines and the caustic demand moving more with consumables and so forth is going to be a steady drumbeat over a longer period of time. You do have the disruptions that we've already talked about between Bureau of Industry Standards or Alunorte or so forth. But as GDP clicks on industrial production moves along and consumables continue to grow that's the way the caustic market is going to go. And so that's what we would expect over the next several years to continue.

Steve Byrne

Analyst, Bank of America Merrill Lynch

Okay. Thank you.

Operator: And our next question comes from Arun Viswanathan with RBC Capital Markets. Please go ahead with your question.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Hey, thanks. Good morning, guys.

John E. Fischer

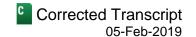
Chairman, President and Chief Executive Officer, Olin Corp.

Hey.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Just a couple of clarifications on the pricing and 2019 expectations. So, it looks like you're expecting caustic prices to be down 5% in Q1 sequentially. And then you also made the statement that on average your 2019 pricing would be similar to 2018. So, are you saying that you expect both spot export and contract pricing on caustic to be similar in 2019 versus 2018. And if so, is the assumption that you've got the 5% declines in Q1 back in Q2 through Q4. And maybe you can just highlight the cadence of that recovery – of that price recovery? Thanks.



John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

Let me clarify. We said that the - our assumption was that 2019 pricing would be equivalent to the fourth quarter of 2018 pricing, and the 5% – and that relates to domestic contract export spot the whole shebang, our 5%

decline in Q1 versus Q4 was on our entire portfolio. And our statement that we expected to recover throughout 2019 is also as it relates to our entire portfolio.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Okay. That's helpful. And then on the bridge to kind of – so on the bridge to flat EBITDA, I guess you did mention that epoxy could be higher on volume and potential hydrocarbon release. I guess what are you assuming for the other two, I guess, Winchester, would you expect that conditions would be still relatively challenged and potentially worse, or better in 2019. And then similarly is caustic given that the pricing would be similar to Q4, would that be a little bit worse in 2019. And maybe can you just tie in the comments on turnaround and you know anything else that's relevant there?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

There are essentially four big points to our full year guidance. We expect caustic soda year-over-year to be lower. We expect the impact of that to be partially offset by improved pricing across chlorine and the chlorine derivatives. We expect epoxy to improve with better of slightly better volumes, lower hydrocarbon costs and lower turnaround costs, because that's where the benefit of the turnaround cost will show up and we will have higher corporate costs, we've essentially assumed Winchester is flat.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Perfect. Thank you. And then lastly if I may on the mid-cycle bridge to \$1.5 billion, I think you had noted in the past that included epoxies of about \$250 million, Winchester at \$125 million and the rest being chlor alkali. Is that still how you think about getting to that \$1.5 billion or has that changed given the differences in the Winchester business and even caustic and epoxy. Maybe you can just bucket how you're looking at that \$1.5 billion? Thanks.

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

As we sit today, I would tell you that that \$1.5 billion would not include a \$125 million from Winchester. That there will be increased profitability from the chemicals side and lesser profitability from the Winchester side.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Understood. Thanks, John.

Operator: And our next question comes from Aleksey Yefremov with Nomura Instinet. Please go ahead with your question.

Aleksey Yefremov

Analyst, Instinet LLC

Good morning. Thank you for providing a lot of details around your guidance. Does the 5% quarter-over-quarter decline in caustic realization include the benefit of contract renegotiations or should we think of contract renegotiations offsetting that 5% in Q1?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

A

It includes the benefit of contract renegotiations.

Aleksey Yefremov

Analyst, Instinet LLC

Q

And just as a follow-up the timing of the benefit of contract renegotiations, does it pretty much kick in on January 1, so we can assume you'll get sort of \$10 million quarter-over-quarter pickup from that or that – that's more ratably over the course of the year?

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

А

No, I think for modeling purposes, you can assume it's pretty much even across the quarters of the year.

Aleksey Yefremov



And a last quick one if I may, on chlorine, you're assuming some pickup in pricing in both Q1 and in 2019 on average. I think so far January chlorine contract has been flat. Are you assuming that the contract itself will go up or you have better discounts similar to what you're experiencing in caustic?

John E. Fischer



Chairman, President and Chief Executive Officer, Olin Corp.

Well we did say in the remarks that the contract renegotiation benefit covered chlorine and caustic soda. So that's one point. Second, we've talked about better pricing across the chlorine derivative portfolio. So we've seen better pricing on for example on bleach, right now, we're experiencing better year-over-year pricing on EDC and that all factors into what our comments were Aleksey.

Aleksey Yefremov

Analyst, Instinet LLC



Understood. Thank you, John.

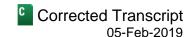
Operator: And this concludes our question-and-answer session. I would like to turn the conference back over to John Fischer for any closing remarks.

John E. Fischer

Chairman, President and Chief Executive Officer, Olin Corp.

Yeah, so I'd like to thank you all for joining us today. And I hope to see you all next week in New York. So thank you very much.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your line.



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