Olin Corporation (NYSE: OLN)
Short Thesis
3/31/25

Summary

Despite being down ~28% YTD, OLN remains a high-conviction short. OLN operates three segments: Chlor Alkali & Vinyls (55% of revenue), Epoxy (20%), and Winchester Ammunition (25%). Each is:

- *Tied to cyclical, volatile pricing*
- *Facing margin compression and structural overcapacity*
- *Lacking credible catalysts for recovery*

OLN is now in Phase 2 of a short: the market absorbed the 2023 earnings collapse, but the market still values OLN like a cyclical rebound is imminent. Meanwhile:

- *Operating income has declined ~83% since 2022*
- *2025 guidance shows further weakness*
- *Valuation has expanded despite collapsing fundamentals*

Segment Highlights

Chlor Alkali & Vinyls

- *Segment income fell from $1.2B (FY22) to $296M (FY24)*
- *Caustic soda prices collapsed in 2023, still no rebound*
- *2025Q1 guide: weaker sequentially*

Epoxy

- *Segment went from +$388M (FY22) to -$85M (FY24)*
- *Hit by global overcapacity, Asian dumping*
- *Anti-dumping relief pending but uncertain*

Winchester

- *Stable revenue, but segment income fell from $373M (FY22) to $238M (FY24)*
- *Consumer ammo demand softening; retailers destocking*
- *Military contracts provide stability, but cap upside*

Note: OLN's core chemical processes — electrolysis of brine to produce chlorine and caustic soda, and the combination of epichlorohydrin and bisphenol-A to make epoxy resin — are mature, standardized technologies with NO innovation. These are commodity processes used industry-wide for decades. OLN has no unique efficiency or IP advantage in production. In fact, its chlor-alkali operations are particularly energy-intensive, leaving them exposed to utility price volatility and outages (e.g., Freeport). The recent asset closures suggest not process improvement, but declining competitiveness. This is a basic flow business with no moat and no leverage to pricing power.

Valuation Disconnect

We can value OLN using a simple, intuitive framework. Using the current Enterprise Value (~$5.5B), we compare it to segment-level EBT across recent years:

- **EV/EBT 2022:** 2.8x
- **EV/EBT 2023:** 6.2x
- **EV/EBT 2024:** 12.2x
- At $24/share, OLN trades at 12.2x FY24 EBT — a premium multiple on trough earnings**.** Management already guided Q1 2025 chemicals earnings below Q4 2024, confirming further deterioration. Even at 7.0x — generous for cyclicals — implied equity value is ~$4/share. Fair value under normal conditions is closer to $0–$2/share

Conclusion: OLN is a textbook Phase 2 short. The stock is priced for a rebound that isn't coming. This is a structurally impaired chemicals business trading on legacy earnings power.

Catalyst Outline

- Apr–May: Q1 earnings miss likely based on guidance
- H1: Anti-dumping ruling timing unclear
- Mid-2025: Buyback capacity constrained as FCF slows

Q&A

- **Q1: Isn't this already priced in?**
  A: Not quite. While the stock has fallen, the valuation has expanded. EV remains ~$5.5B, but earnings have collapsed by ~83% since FY22. As a result, EV/EBT has grownfrom 2.8x to 12.2x. The market is still pricing in a cyclical recovery that is contradicted by guidance and fundamentals.
- **Q2: Isn't comparing today's EV to 2022 misleading?**
  A: Not if you focus on the valuation multiple…. simple analogy: imagine a coffee shop that used to make $100/day in profits, and now it only makes $25/day — but the asking price to buy the businesshasn't changed. You'd be paying 4x more for every dollar of earnings. That's what's happening with OLN: EV came down slightly, but earnings collapsed. You're paying a much higher price for far less earnings power — the stock is more expensive today than it was in 2022.
- **Q3: Couldn't pricing rebound in caustic soda or epoxy?**
  A: No evidence. OLN guided down for Q125. Caustic soda remains oversupplied, and epoxy continues to suffer from Asian dumping. Any rebound would be off a smaller capacity base due to asset closures.
- **Q4: Isn't Winchester a strong segment?**
  A: Stable but weakening. Income fell from $373M to $238M. Consumer demand is softening, and retailers are destocking. Military contracts provide stability but cap upside.
- **Q5: Do buybacks support the stock?**
  A: Only temporarily. Olin repurchased $300M in 2024 — more than its net income. With capex, debt, and environmental obligations rising, buybacks aren't sustainable. Once they slow, valuation must revert to fundamentals.
- **Final Word:** OLN isn't cheap — it's misunderstood. This isn't a cyclical dip — it's a structural reset priced like a rebound.