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CORPORATE PARTICIPANTS

James A. Varilek *Olin Corporation - Executive VP & COO*
John E. Fischer *Olin Corporation - Chairman, President & CEO*
Steve Keenan
Todd A. Slater *Olin Corporation - VP & CFO*

CONFERENCE CALL PARTICIPANTS

Aleksey V. Yefremov *KeyBanc Capital Markets Inc., Research Division - Research Analyst*
Arun Shankar Viswanathan *RBC Capital Markets, Research Division - Senior Equity Analyst*
Brian J Lalli *Barclays Bank PLC, Research Division - Director & Senior Analyst*
Donald David Carson *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*
Eric B Petrie *Citigroup Inc, Research Division - VP & Senior Associate*
Frank Joseph Mitsch *Fermium Research, LLC - Senior MD*
Hassan Ijaz Ahmed *Alembic Global Advisors - Partner & Head of Research*
John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*
Kevin William McCarthy *Vertical Research Partners, LLC - Partner*
Matthew Porter DeYoe *BofA Merrill Lynch, Research Division - VP*
Michael James Leithead *Barclays Bank PLC, Research Division - Research Analyst*
Michael Joseph Sison *Wells Fargo Securities, LLC, Research Division - Senior Analyst*
Neel Kumar *Morgan Stanley, Research Division - Equity Analyst*
Travis Edwards *Goldman Sachs Group Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Olin Corporation First Quarter 2020 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Steve Keenan, Olin's Director of Investor Relations. Please go ahead, Steve.

Steve Keenan

Good morning, everyone, and thank you for joining us today. Before we begin, let me remind you that this presentation, along with the associated slides and 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, the first quarter of 2020 Form 10-Q and in yesterday's first quarter earnings press release. A copy of today's transcript and slides will be available in our website in the Investors section under Past Events. The earnings press release and other financial data and information are available under Press Releases.

With me this morning is John Fischer, Olin's Chairman, President and Chief Executive Officer; Pat Dawson, Executive Vice President, Corporate Strategy and International; Jim Varilek, Executive Vice President and Chief Operating Officer; and Todd Slater, Vice President and Chief Financial Officer. We will begin with our prepared remarks, and thereafter, we will be happy to take your questions.

I'll now turn the call over to John Fischer. John?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

Thank you, Steve, and good morning, everyone. The response to the coronavirus did not have a significant impact on Olin's results in the first quarter of 2020. The Epoxy business did have mandatory manufacturing plant closures and operating reductions in Asia, which reduced first quarter 2020 Epoxy segment earnings by approximately $3 million. These epoxy resin manufacturing plants had resumed operations by the end of the first quarter of 2020. All Olin manufacturing facilities worldwide are currently operating, with the exception of those undergoing planned maintenance turnarounds. Our operations are among businesses that have been considered essential by government and public health authorities.

I will begin today's presentation with Olin's view on near-term market dynamics, followed by a discussion of the key highlights from Olin's first quarter, then close with a detailed review of each business segment. During the second half of March and into April, Olin began to experience reduced demand across our chemical portfolio. Chlorine demand from urethane and isocyanates customers has declined, and there have been discussions of extended outages later in the year, especially in the isocyanate space. Hydrochloric acid has experienced a significant decline in demand, tied to weakness in the oil and gas sector. Ethylene dichloride, which is an export product for Olin, has also declined, and we expect epoxy resin demand to decline in May and June from first quarter levels.

The lower demand levels and major planned maintenance outages in the first and second quarters for chlorinate organics, vinyls and epichlorohydrin have caused Chlor Alkali operating rates in our system to decline from 2019 levels. While sales of bleach and chlorine into disinfectants have been strong and are expected to remain so, the near-term demand outlook for our chlorine portfolio is unclear. The lower operating rates have reduced caustic soda supply in our system below the level of demand, and we have implemented order control at the 70% to 80% level across the regions in which we operate. We believe the recent price increase announcements are supported by these market conditions.

The Winchester business began experience increased commercial demand during the first quarter, and that is continuing. This improved demand, combined with the fourth quarter start of the Lake City Army contract, should result in a meaningful year-over-year increase in Winchester's 2020 adjusted EBITDA.

With that, let's turn to Slide 3.

During the first quarter, Olin recorded adjusted EBITDA of $122.8 million. During the quarter, Olin experienced onetime events that reduced adjusted EBITDA by approximately $13 million. The unplanned events included a European phenol supplier force majeure that reduced epoxy resin production, the Canadian rail blockades that forced the shutdown of our Canadian Chlor Alkali, and the COVID-19-related plant closure and operating reductions in Asia that I mentioned.

Lower Chlor Alkali product pricing for EDC, hydrochloric acid and caustic soda was the primary driver of our lower quarter-over-quarter adjusted EBITDA. Chlor Alkali segment pricing was approximately $26 million lower sequentially. The lower Chlor Alkali pricing was partially offset by pricing improvement and lower raw material costs in Epoxy and improved Winchester results. First quarter 2020 adjusted EBITDA also included approximately $50 million of planned maintenance turnaround costs. As a point of reference, fourth quarter 2019 planned maintenance turnaround costs were approximately $27 million.

Now I'll provide a bit more detail for each of our business segments, starting with Chlor Alkali Products and Vinyls on Slide 4.

First quarter 2020 adjusted EBITDA for our Chlor Alkali Products and Vinyls segment was $84.2 million, representing a 41% sequential decline from the fourth quarter of 2019. This reduction reflects declines in product pricing and higher maintenance turnaround costs. For the first quarter of 2020, caustic soda pricing in Olin's system declined approximately 8% when compared to the fourth quarter of 2019. At the same time, ethylene dichloride experienced approximately 14% lower pricing sequentially, and hydrochloric acid pricing declined by approximately 25%. The business experienced overall demand in the first quarter of 2020, similar to fourth quarter 2019 levels.

The second quarter Chlor Alkali Products and Vinyls adjusted EBITDA will include approximately $40 million of costs associated with planned maintenance turnaround at our vinyl chloride monomer facility in Freeport, Texas.

Now let's take a closer look at the changing chlor alkali, chlorine and caustic supply-demand balance, and that is on Slide 5. As we have discussed on previous calls, in 2019, Chlor Alkali Products and Vinyls business experienced an imbalance in demand that favored chlorine. Operating rates were driven by stronger construction and durable goods demand and relatively weaker caustic soda demand. This resulted in caustic soda pricing declines throughout 2019 and into the first quarter of 2020. Current indications are that the imbalance that we have seen over the last 1.5 years in favor of chlorine is reversing. We expect chlorine demand into vinyls, urethanes and isocyanates to decline significantly, reducing North American and global chlor alkali industry operating rates. As the chart indicates, there will be a relative demand shift as chlorine applications pull back and key caustic soda demand applications are less impacted. The combination of reduced operating rates and shifting demand is expected to lead to caustic soda favorable imbalance.

Now we'll look at caustic soda pricing on Slide 6. During the first quarter of 2020, industry caustic soda prices continued to decline, and

Olin's caustic soda pricing declined approximately 8% when compared to the fourth quarter of 2019. However, we believe caustic soda pricing reached a positive inflection point during the first quarter, reflecting the tightening of caustic soda supply and demand. Export caustic soda price indices increased sequentially by 6% during the first quarter and an additional $85 per metric ton in April of 2020. Domestic caustic soda pricing indices increased by $20 per ton in April. Olin has announced additional caustic soda price increases totaling $140 per ton for May and June. We expect lower North American chlor alkali industry operating rates during the second quarter to reduce the caustic soda supply, which is expected to support improved caustic soda pricing.

Now let's move to the performance of our Epoxy segment, which is on Slide 7. During the first quarter of 2020, Olin's Epoxy business generated adjusted EBITDA of $33.2 million. Our European Epoxy business experienced a force majeure declaration by phenol supplier during the first quarter, which reduced epoxy resin and epoxy resin precursor production at our Stade, Germany facility. The Epoxy business also faced the manufacturing plant closures and operating reductions in Asia due to the COVID-19 virus. These issues reduced our 2020 Epoxy segment earnings by approximately $10 million. The Epoxy business was able to partially offset these first quarter challenges through sequentially higher epoxy volumes, higher product pricing and lower raw material and operating costs.

In the second quarter, the Epoxy business is expected to experience weakening demand from its automotive, industrial coatings and oil and gas-related customers in both Europe and North America. Lower raw material costs, primarily benzene and propylene, are expected to provide an offset to these anticipated lower resin volumes. Finally, the second quarter 2020 Epoxy adjusted EBITDA will include approximately $15 million of costs associated with the planned maintenance turnaround at our Freeport, Texas epichlorohydrin plant.

We will now look at liquid epoxy resin prices, which are shown on Slide 8. During the first quarter, European and North American liquid epoxy resin pricing improved sequentially from fourth quarter 2019 levels due to tight supply conditions. The lower raw material costs, primarily benzene and propylene, together with an expected weaker resin demand environment in Europe and North America, are expected to pressure our proxy resin pricing during the second quarter.

Moving on to our Winchester business, which is summarized on Slide 9. For the third consecutive quarter, the Winchester business experienced year-over-year improvement in segment earnings. In the first quarter of 2020, Winchester experienced a 20% increase in sales compared to the same quarter last year, resulting in a 31% year-over-year increase in first quarter adjusted EBITDA. Winchester experienced a $20 million increase in sales to commercial ammunition customers and a $10 million increase in sales to law enforcement and military customers. The first quarter of 2020 represents the strongest first quarter in commercial demand since 2016. This level of improved commercial demand has continued into the second quarter. Reflecting this improved level of demand, Winchester's commercial ammunition backlog has more than doubled since this time last year. Our ammunition plants are currently increasing operating rates to meet this stronger demand. Finally, Winchester announced price increases ranging from 4% to 6% across its product line.

Moving to Slide 10, I'll provide an update on Winchester's Lake City project. Winchester is now 5 months away from assuming operational control of the U.S. Army Lake City Army Ammunition manufacturing facility. This multiyear contract is expected to increase Winchester's annual revenue by $450 million to $550 million, and contribute adjusted EBITDA of $40 million to $50 million. During 2020, Olin expects to incur approximately $20 million to $25 million of transition costs and invest approximately $80 million in working capital as part of this contract acquisition. This worldscale facility will benefit from more than a century of Winchester operational knowledge and experience. Likewise, Winchester will benefit from the scale and the incremental ammunition production capacity offered by this facility and its dedicated workforce.

And with that, I'd like to turn the call over to Todd Slater, Olin's Chief Financial Officer. Todd?

Todd A. Slater ***Olin Corporation - VP & CFO***

Thanks, John. We have placed a premium on preserving and enhancing our liquidity, given that the near-term demand outlook for our chemicals business is unclear. We've initiated several ongoing actions that we believe will mitigate -- partially mitigate the impact of the economic decline on our financial performance and also enhance our financial position. Several of these actions and our liquidity resources are included on Slide 11.

Our cash and cash equivalents at March 31 were $195 million. Olin has senior unsecured revolving credit facility with commitments of $800 million, which is undrawn. During the first quarter of 2020, we expanded and borrowed $150 million under our receivables financing agreement. And during April, we expanded our receivables financing agreement by an additional $100 million. We also have the ability to increase our accounts receivable factoring arrangements, which ultimately can accelerate the timing of cash receipts and enhance our cash position. Neither of these receivable programs impact our senior credit facility debt ratio covenants.

We are continuing to evaluate all sources and uses of cash, including expanding our leasing portfolio, alternatives available to us under our senior credit facility, early retirement of outstanding debt and the ability to access the high-yield debt markets. We have no required debt repayments until August of 2022. Our debt profile is comprised of manageable towers of debt with staggered maturities in future years. We're executing a strategy to improve our working capital and manage our balance sheet to maximize our financial flexibility. During 2020, Olin expects to reduce working capital by approximately $150 million, which would result in an approximately $250 million of incremental cash flow from March 2020 levels. We are forecasting capital spending to be in the $250 million to $275 million range in 2020, which is approximately $125 million lower than prior year levels. Based on our current outlook and lead time to implement, we expect an additional reduction in capital spending in 2021.

In late 2020 and beginning in 2021, we expect incremental annual cash generation of approximately $120 million -- I'm sorry, $200 million from the initiatives on Slide 12.

The vital chloride monomer contract is transitioning from a toll manufacturing arrangement that has been in place since the acquisition to a direct customer sale agreement beginning on January 1, 2021. The VCM facility is 1 of 2 operations that has had the most significant impact on our Chlor Alkali Products and Vinyls results: the full year effect of the new Lake City U.S. Army Ammunition contract and the expected $35 million reduction in operating costs from the previously announced permanent shutdown of our chlor alkali plant with a capacity of 230,000 tons and Olin's Vinylidene Chloride production facility both in Freeport, Texas. These closures are expected to be completed before the end of 2020. And these closures will allow Olin to optimize its chlor alkali operations and cost structure in Freeport, Texas.

And the winding down of the multiyear information technology project to integrate the acquired Dow chlorine products businesses will reduce spending by approximately $110 million between capital and expense. These cash flow enhancements of approximately $200 million provide significant incremental cash flows to Olin, independent of industry conditions.

Finally, on Thursday, April 23, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on June 10, 2020 to shareholders of record at the close of business on May 11, 2020. This is the 374th consecutive quarterly dividend to be paid by the company.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Don Carson with Susquehanna Financial.

Donald David Carson ***Susquehanna Financial Group, LLLP, Research Division - Senior Analyst***

A couple of questions. Todd, on the financing of the $493 million payment to Dow for the final ethylene tranche, how do you anticipate funding that? And at current rates and access to markets, are you still anticipating calling your high-yield bonds and refinancing those?

Todd A. Slater ***Olin Corporation - VP & CFO***

Don, the -- as far as the Dow bonds, they do, as you know, become callable in October, but they are not due until 2023 or 2025. Given the lack of visibility in our outlook for our chemical businesses, we will continue to evaluate all optional uses of cash in this environment.

As far as the Dow ethylene payment, we would fully expect, based on our liquidity and availability under the revolver and the expansion of our AR securitization, AR factoring and the various other items that I had just went through in our prepared remarks, to be able to fund the Dow payment at the end of the year.

Donald David Carson ***Susquehanna Financial Group, LLLP, Research Division - Senior Analyst***

And John, a follow-up on caustic outlook. Saw that the index went up $20 for April. What's your expectation for May and June? And if you could sort of expand on what kind of price strength you see in caustic as we swing back to -- from chlorine overweighting to caustic overweighting?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

Well, I think our view of it is reflected by the price increases we announced. We have a $60 price increase out there for May 1 and an $80 price increase out there for June 1. And as I said in the remarks, we're looking at 70% to 80% allocation on caustic soda as we speak. So I think we, at least in the short run, are bullish on caustic pricing.

Operator

The next question comes from Hassan Ahmed from Alembic Global.

Hassan Ijaz Ahmed ***Alembic Global Advisors - Partner & Head of Research***

Just a question around what you guys are seeing in terms of chlor alkali or chlorovinyls sort of capacity restarts, particularly in China. Obviously, all of this chatter out there about China sort of beginning to open up again and the like. But obviously, the cost curve today is quite different. Oil has come down, come down hard, but clearly, that doesn't impact the chlor alkali market that much, particularly keeping in mind how coal-exposed chlorovinyl production is in China. So just would love to hear your thoughts about, are there facilities that you're hearing about in China, which are delaying their restart, curtailing their restart, maybe even considering sort of shuttering some facilities and the like? Just your thoughts, China-specific about the supply situation and maybe a little more on the global side of things as well.

James A. Varilek ***Olin Corporation - Executive VP & COO***

This is Jim. It's a bit of a choppy picture, as you might imagine, in China. I think that there were some initial restarts with some of the chlorine and chlorine derivatives being a little bit stronger. So there were some -- there was restarts and so forth. But then you also hear about restarts and shutdowns that have taken place. So I think China is exactly where you would expect them to be, which is trying to restart and gradually refilling supply lines and so forth. And that's up and down, as you might expect, in some of the Chlor Alkali side of things.

I don't know. I think that around the world right now in terms of operating rates, you hear operating rates that are in the 75% range or so. And it's interesting that, that seems to be something that you hear in a lot of different regions. So I don't have a lot of specific insights inside of China, but very choppy, which is exactly what you would expect.

Hassan Ijaz Ahmed ***Alembic Global Advisors - Partner & Head of Research***

Understood. Understood. And as a follow-up, on the raw materials side of things, again, coming back to the oil theme, oils come down. A lot of people faring that there'll be fairly deep sort of production cuts on the shale side of things. And associated with these oil production cuts, maybe the natural gas market tightens and nat gas prices go up a fair bit. How are you guys thinking about nat gas as it pertains to you guys as a raw material? I mean, are you in the camp that you think that maybe in the near- to medium-term, natural gas prices do go up? And what are your thought processes about maybe even locking -- hedging or locking into sort of prices as we see them where they are today?

Todd A. Slater ***Olin Corporation - VP & CFO***

Hassan, this is Todd. As you may know, we do hedge natural gas as a proxy for our energy. As you know, 70% of our energy cost comes from natural gas. Generally, how we are hedged is about a quarter out, we are very heavily hedged and that we have a rolling hedge program to insulate us from price spikes. You would think we've taken advantage of some of the low prices and the low futures that you saw late in the first quarter. And so we are a hedger, and that process has continued.

Operator

The next question comes from Kevin McCarthy with Vertical Research Partners.

Kevin William McCarthy ***Vertical Research Partners, LLC - Partner***

(technical difficulty) percent. To the extent that you have gleaned some market intelligence, are your competitors on similar levels of order control at this point for caustic?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

Kevin, would you repeat the question? We didn't hear the first part of it.

Kevin William McCarthy ***Vertical Research Partners, LLC - Partner***

Yes. Apologies. The question related to your order control level for caustic soda in the range of 70% to 80%. Just wondering if your competitors are similarly in a position where they have to adopt similar programs and restrict supply of caustic at this point on similar levels.

James A. Varilek ***Olin Corporation - Executive VP & COO***

Kevin, this is Jim. Yes, I think that everybody is in some restrictive -- some level of restriction. That's what you're seeing. You see the pullback on the chlorine side of things. Obviously on PVC, extreme pullbacks there. And that imbalance, that was favorable to the chlorine side of things some months ago is now shifting to the other side of that. So very low chlorine demand, vinyls demand and so forth is pulling everything back. So everybody's on some degree of limitation on a going-forward basis.

Kevin William McCarthy ***Vertical Research Partners, LLC - Partner***

Okay. That's helpful. And then I had a second question for Todd on the liquidity side. On Slide 11, I didn't see any mention of a $1.2 billion delayed draw term loan facility. Is that facility still available to Olin? And if so, perhaps you could address what degrees of freedom you might have available to you in terms of how to deploy any proceeds from that.

Todd A. Slater ***Olin Corporation - VP & CFO***

Kevin, the delayed draw term loan is available to Olin. As the current agreement stands, it is available only to call the Dow bonds. But as you heard us comment in our -- we're evaluating everything, including alternatives available under our senior credit facility.

Operator

The next question comes from Mike Sison with Wells Fargo.

Michael Joseph Sison ***Wells Fargo Securities, LLC, Research Division - Senior Analyst***

So quick question on the -- on Slide 5 in terms of the U.S. caustic demand by end use. The areas that you have flat, urethanes, auto, alumina, inorganic, it seems to me that a lot of other companies are saying those are down. So maybe could you give a little bit of color why that could be flattish in 2Q?

James A. Varilek ***Olin Corporation - Executive VP & COO***

Mike, this is Jim. Yes, I think what we're trying to do here is to get the momentum or the change that's taking place. And so you might talk about alumina or so forth that's been down. That's why we have it yellow here. It's remaining relatively steady to where it has been. So what you should take away from this really -- I mean, the whole takeaway from this slide is simply that on the left-hand side of the chlorine demand, there's a lot of red, there's significant pullback and so forth, whereas on the caustic side of things, there's a lot less concern. It doesn't mean that demand hasn't dropped, but on a relative basis, the caustic side of the equation is increasing. So it's more of a momentum chart than anything that -- and again, the max takeaway is more red, more yellow on the left-hand side, which has heavy pullback as opposed to the caustic side, where you've got some resiliency.

Michael Joseph Sison ***Wells Fargo Securities, LLC, Research Division - Senior Analyst***

Understood. And then it's probably difficult to answer at this time, but when you think about the longer-term view for caustic and chlor alkali, and hopefully, we get out of these doldrums pretty quickly, how do you sort of rebuild some of the Chlor Alkali EBITDA power?

And I don't know if there's sort of a normalized level you think you should be at, at some point in time. And obviously, I'm not asking for exactly when. But how do you see that segment sort of rebuilding the EBITDA over time?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I would go back to what we've presented in February of 2019 in our Investors Day, where we talked about the long-term structural situation within the industry, where when you get into whatever -- a normal environment, whenever that might be, you're going to get demand growth on both sides of the molecule that are not going to be supported by supply. And I actually think an event like we're undergoing right now where you've got a significant pullback in demand is going to lower the probability of additional chlor alkali capacity getting built in the near term.

Operator

The next question is from Neel Kumar with Morgan Stanley.

Neel Kumar ***Morgan Stanley, Research Division - Equity Analyst***

I was wondering if you could just help frame for us the different moving pieces for the second quarter. What type of headwind do you expect from EDC with prices going off quite a bit over the last month or so? And do you expect that as well as lower chlor alkali operating rates to largely offset the benefit from the $20 caustic price improvement in April, I guess, before considering any potential May or June increase?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

What I would say about EDC, Neel, is that the majority of the EDC that Olin sells is sold under contract. So the prices that you've seen published, we are going to experience on a lag basis. We really only sell in the spot market opportunistically. And obviously, at the prices we've seen recently, that wouldn't qualify as an opportunity. So I think the negative from EDC for us in Q2 is not going to be quite as dramatic as it might look like. There is obviously a demand question, and we talked about lower demand pretty much across the portfolio. I would say, at the end of the day, I think worst case, EDC and the other negatives on chlorine side will offset the better caustic and the first tranche of caustic.

Neel Kumar ***Morgan Stanley, Research Division - Equity Analyst***

Okay. That's helpful. And then based on previous downturns, how long do you expect the demand imbalance between chlorine and caustic to last? Is there anything different with this downturn with respect to how end market demand is evolving that may allow to persist beyond that typical duration?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

What I would say about this downturn past -- compared to the prior ones is this was very abrupt. I mean, I don't think anybody's ever experienced a "global stop" on the economy. Usually, there was -- we experienced cyclical wind down of chlorine demand where housing starts to weaken before the broader economy. That takes place over 12 to 18 months, and we ended up in a 12- to 18-month period where caustic was tight and then the broader economy rolled over. And then typically, although this didn't happen in post-2008, chlorine recovers first. I'm not sure what -- how any of this necessarily comes back and in what sequence. I would just say, caustic demand at its core is more resilient than chlorine demand at its core.

Operator

The next question comes from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch ***Fermium Research, LLC - Senior MD***

I really appreciated the heat map on Slide 5. John, I want to come back to the comment about 70% to 80% order control on caustic. Is that -- was that just an April comment or is that for the entirety of 2Q? And can we assume that you don't have any spot availability on caustic right now?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I think based on the outlook that we have for Q2, we will remain on order control for the entire period. And your comment on spot is absolutely accurate. We have no spot to sell.

Frank Joseph Mitsch ***Fermium Research, LLC - Senior MD***

All right. And Todd, I wanted to come back to the comment about perhaps not prepaying the notes that are due or that are callable in October. I understand that everybody's visibility is very poor right now. But given the fact that there is some financing in place to take those out, I mean, more -- is it more likely that come year-end, those will be retired? Or how do we think about the probabilities? And I understand it's kind of difficult given the visibility but I just wanted to -- if you could offer a little more color, that'd be great.

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

Frank, this is John. I think the other thing we need to keep in mind here as we look forward is there's a pretty significant bond call premium that goes with that, which is an immediate use of cash versus a long term. It takes us over a year to get the benefit of the bonds on a net cash basis. So that's the other element that we have to look at, is where are we from a cash perspective. And previous question or asked about the Dow payment, which is obviously due at the end of the year, which is a big number.

Todd A. Slater ***Olin Corporation - VP & CFO***

Frank, the Dow bonds are not an all-or-nothing call. You can call any portion of that $1.2 billion.

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

And you can call it at any time.

Todd A. Slater ***Olin Corporation - VP & CFO***

Right. After October 15.

Operator

The next question comes from Eric Petrie with Citi.

Eric B Petrie ***Citigroup Inc, Research Division - VP & Senior Associate***

It's interesting that in the U.S. and Europe, caustic prices are going up. But I was taking a look at China caustic soda export prices, and they've actually trended lower to the low $200 per ton range. So do you see any export arbitrage from China into rest of world and taking share and potentially putting a cap on potential price realizations?

James A. Varilek ***Olin Corporation - Executive VP & COO***

Eric, this is Jim. I spoke earlier about the dynamics that are taking place in China. And China did start up, and they had some -- they ran some of the chlorine, chlorine derivatives, and the caustic market was not there initially, so they did do some exports. Now what you've seen over the last month is that the export market in Asia in general started off low and it moved up about $70 over the course of the month of April. So I think what you're seeing is that a little bit of excess caustic that there was in China worked itself off.

China is a relatively small exporter in the whole scheme of things relative to what they used to be. They reduced their exports by about 60% over the last 3 to 4 years. So -- and only the plants on the coast can actually export. So you may see something, a parcel here or there show up, but I don't think it's going to impact the shortness and the dramatic pullback that we've seen on operating rates over the next few months. So that's the view. It's a bit mixed but it's important that you look at the trend over the course of the month of April.

Eric B Petrie ***Citigroup Inc, Research Division - VP & Senior Associate***

Okay, helpful. Secondly, a competitor announced a plant shutdown for 3 weeks due to weak chlor alkali market conditions. Could Olin consider doing the same or fast-tracking your closures at Freeport, Texas?

James A. Varilek ***Olin Corporation - Executive VP & COO***

I think that what we're going to do is basically take a look at the demand. I mean, we're already -- I mean, we're already -- we already said that we're on order control and so forth. We look at our assets all the time. And what we're going to do is to take a look to see how demand materializes. We're really only a month or so into this severe downturn, and so we'll assess what we need to do over the next several months.

Operator

The next question comes from Mike Leithead with Barclays.

Michael James Leithead ***Barclays Bank PLC, Research Division - Research Analyst***

I just wanted to return to Slide 5 and maybe ask Mike Sison's question in another way on the caustic soda side. I guess, I understand the resilience for packaging or detergent applications, but I'm struggling to see how that bottom 40% in the chart that's going into autos, aircrafts or construction is not meaningfully falling off in 2Q when U.S. GDP is minus 30%. So can you just give us more color on what you're seeing in your order book for caustic in some of those more cyclical end markets?

James A. Varilek ***Olin Corporation - Executive VP & COO***

I'll specifically address the alumina, aluminum markets. And quite honestly, those markets have been relatively soft for the last 1 to 1.5 years. And so we're not seeing any trend change from where they have been. In fact, they've been relatively consistent. And I think you'll hear that is that -- and whether it's in Latin America, whether it's in China, wherever the alumina plants are, they're actually running consistently. So that's what we're saying. There's not a change relative to where they have been over the last few quarters. Clearly, automotive has been down for some period of time as well. So although it's certainly yellow, it's not a major change from where they have been operating. So that's the way to read the chart.

Michael James Leithead ***Barclays Bank PLC, Research Division - Research Analyst***

Got it. Okay. That's helpful. And then question for Todd. You obviously highlighted a number of different levers you're pulling to free up liquidity, but you haven't talked about the dividend at all. So I guess how sacrosanct do you consider paying the quarterly dividend?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

This is John, and I'll answer that question. I'd start by saying the dividend decision is a Board decision. It's not a management decision. I would say also that if you look at Olin over a long span of time, the dividend has been a key component of our shareholder value proposition. And obviously, we paid a quarterly dividend for something in excess of 90 consecutive years. So I would never say never, but I would say it is a key component of our shareholder value proposition. Management and the Board are aligned on that. And we obviously just declared the normal dividend that will be payable in June.

Operator

The next question comes from John Roberts with UBS.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

I'm glad you're all well. It's been a while since Winchester was the largest operating earnings item in our model. Does social distancing impede your ability to interact with the current Lake City people? And are you reimbursed for any additional cost there if it slows you down? And I couldn't remember, is Lake City highly automated like your new plant? Or is it very people-intensive like your old plant?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

The Lake City plant was built by the Army in 1945. It looks much more like the old plant than the new plant. The social distancing within the plant is not as big an issue as you might think because it's -- the pieces of equipment are relatively well spaced to start with. And that plant, plus all of our plants, are undergoing temperature monitoring on the way in. So there has not been a big issue there, and we have not been constrained in terms of our ability to interact. We had most of the people signed up that we need to go forward on October 1 well before we actually entered into the restrictions we're living under today.

John Ezekiel E. Roberts ***UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

Right. And then the $75 million for the VCM contract, how is that impacted by lower oil? So ethane is obviously much less advantaged. It might be disadvantaged temporarily here. But is that a Shintech degradation to earnings or an Olin degradation to earnings if ethane is less advantaged?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I'm not going to discuss the details of the contract other than to say, the biggest piece of the contract is that there's a pretty significant contract minimum for Olin. And as we look at the contract over the span of 10 years, which is what the contract is for, we think an average return on that contract is $75 million.

Operator

The next question comes from Travis Edwards with Goldman Sachs.

Travis Edwards ***Goldman Sachs Group Inc., Research Division - Research Analyst***

Quickly, we can appreciate the benefits of taking over that VCM contract. And I guess, just as we're looking at EBITDA sensitivity and liquidity for our estimates for 2020, just wondering, is there any scenario in which you would or could delay that payment and maybe push it out further and just take it over later? Or is that, for sure, happening in 2020?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I would say, I think for any number of reasons, we would prefer that, that payment happen.

Travis Edwards ***Goldman Sachs Group Inc., Research Division - Research Analyst***

Got it. Okay. That's helpful. And then also kind of appreciate that there's a lot of uncertainty around market conditions over the next couple of months. You mentioned a few factors that you're considering to improve liquidity, but maybe just hoping to get a bit more color on how you're thinking about those various levers in the context of the financial covenant that you have, the maintenance covenant that you have, just as you're thinking about upcoming cash outflows. I guess, maybe worded another way, what gives you confidence in your ability to fund some of these larger outflows just while remaining in compliance on that front? Any color there would be really appreciated.

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I guess I would say very broadly that the financial -- or the agreements that are in place with our bank group, we are -- we have -- we work with our bank group on a regular basis. And they are aware of the situation we're in. We're aware of the situation we're in. And there's a great deal of cooperation to ensure that the payments that need to get made, get made.

Operator

The next question is from Patrick [Fritz] with Bank of America.

Unidentified Analyst

Does the 2020 working capital reduction of $150 million include the onetime Lake City working capital build of $80 million? I.e. in other words, it would have been negative $230 million reduction without the Lake City build?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

No, it does not include that.

Unidentified Analyst

Okay. And secondly, can you comment on the driver of the significant increase in other current liabilities in March versus December, please?

Todd A. Slater ***Olin Corporation - VP & CFO***

Yes. Roger, this is Todd. That is the current portion from moving up from long term to current, the Dow ethylene payment.

Operator

The next question comes from Brian Lalli with Barclays.

Brian J Lalli ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

Maybe just a quick follow-up. I know it's been asked a couple of times. But on the existing $2 billion facility with the $1.2 billion delayed draw. If I could just dig in a little bit. Is it fair to say that the maintenance covenant at this point might be an issue? And that if you did get to October, do you expect you'd be able to draw down on that? Or maybe -- or would you assume that there might be some tightness in that we would need to potentially see an amendment from your banking group, maybe allows for some ratio headroom versus a smaller facility size with no direct plans on that refi? I know it's been asked a few different ways, but I just want to follow up.

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

The way the facility is structured today, it would not have an effect on the covenant because we would draw that down, and it's specifically designed to be used to call the Dow bond, the bonds that were issued with the Dow transaction. So it'd be neutral on debt. I think the question...

Brian J Lalli ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

But I guess -- to follow up on that, I mean, if you were to use those proceeds, it wouldn't -- you're saying it wouldn't impact the ratio? And I guess if that's the case, is there some reason why you wouldn't do it? I do appreciate the cash outlay for redemptions, but obviously, those are expensive and the loan is much cheaper from an interest expense standpoint. I just want to kind of get your thought process around potentially delaying some of that, again, appreciating the conservative messaging around uses of cash.

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I guess I'd come back to what we've said several times, and we said it in the remarks. The outlook that we have today is very unclear and we don't know what things are going to look like in October.

Brian J Lalli ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

Okay. Got it. And then maybe just 1 quick follow-up. You mentioned the high-yield bond market being accessible. Again, would generally agree with that. I guess, how might we think about your interest level in coming to the high-yield market? And to that end, would you maybe be open to talking about how much secured capacity you might have if you chose to use that as an avenue? Obviously, those deals that have been fairly topical over the last month, as you'd imagine, come with lower interest expense. Is that something you're thinking about? And how much would you have in terms of room under your various agreements as you think about liability management moving forward?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I would say we listed all of the things we're looking at as options to enhance and ensure liquidity over both the near term and the longer term.

Operator

The next question comes from Alex Yefremov with KeyBanc.

Aleksey V. Yefremov ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

Thank you for providing the 70% to 80% caustic soda allocation number. If we assume that the typical allocation would be 100% or a little higher, can we then assume that your volumes in the second quarter could be down roughly 25%? Or if not, how should we think about sequential volumes in your Chlor Alkali segment?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

Well, we said that volumes were going to be down. But we also talked about the fact that we've had -- we have more turnarounds in Q2 than anything else. So volumes were going to be down anyway.

Aleksey V. Yefremov ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

But just is there any way to quantify that, maybe including or excluding the effect of the turnarounds? Is that 25% math that I just went through your 70% to 80% allocation compared to a typical 100%, does that -- is that a reasonable logic to apply here or not for some reason?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

I don't think, as it relates to Q2, it's reasonable because of the magnitude of the turnarounds that we have.

Aleksey V. Yefremov ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

Okay. Understood. And then is there any way you could quantify your Epoxy volumes in the second quarter, maybe if you look at your April order book compared to Q1? Or from -- in any other way?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

What we said was, and this is the best quantification we can give, is we expect -- we started to see volumes for May and June decline. And I would say prior to that, the volumes were relatively similar across January through April.

Operator

The next question is from Matthew DeYoe with Bank of America.

Matthew Porter DeYoe ***BofA Merrill Lynch, Research Division - VP***

In the spirit of assessing avenues to boost liquidity, I wanted to ask about Winchester. If that business recovers and you start booking profits against Lake City, would you look at monetizing that maybe later this year or next year as a way to generate cash? I know in the past, you've considered it not core.

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

What I would say is everybody in Olin would admit that there is no synergy between a commodity chemical company and the Winchester business as it's configured today. I would tell you that it is vitally important to the long-term success of Winchester to affect an orderly transition and start-up of the Lake City contract. And that is what we're focused on right now.

Matthew Porter DeYoe ***BofA Merrill Lynch, Research Division - VP***

Okay, fair enough. And if I look at Slide 12, you listed a number of kind of discrete tailwinds for next year's cash flow in $200 million, but those numbers add up to a number much higher than $200 million. So I'm just wondering if there's some kind of offsetting headwind to cash flow that were not listed? Or that was maybe the math there? Or maybe I'm just missing something.

Todd A. Slater ***Olin Corporation - VP & CFO***

This is Todd. The numbers listed there include pretax items as well as capital. So the incremental cash flow generation of $200 million is an after-tax number, real cash in our pocket to be able to utilize.

Operator

The next question comes from Arun Viswanathan with RBC Capital Markets.

Arun Shankar Viswanathan ***RBC Capital Markets, Research Division - Senior Equity Analyst***

Hope you're all well. I guess, I just wanted to ask about caustic soda pricing. You noted some recent momentum due to lower operating rates, which could continue in the near term. I guess I just wanted to understand the dynamic between domestic contract pricing and export pricing. So in response to an earlier question, we noted that Asian prices were in the $200 to $300 level, and we know that contract prices here are considerably above that in the $500 to $600 per ton level. Could you just remind us why that is? And what supports the domestic contract price so high? I guess, included in that, maybe if you could just weave in your thoughts on why that would continue to be the case in potentially a new lower-cost environment with the reduction in oil and potentially a reduction in coal that's coming?

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

The export price in Asia is not a delivered price to the United States or delivered cost to the United States. You are probably looking at, depending on where you're shipping from, $150 of ocean freight. That would deliver it to a U.S. port. Then you'd have to put it into a terminal, you'd have to get it out of the terminal and incur another shipment to get it to the majority of the customers who are in the Mississippi River Valley, et cetera. So that is why the arbitrage from China is not as evident as you might think.

And that is very similar to the reason we always believe that the export price, in general, from the U.S. Gulf Coast can be lower and not tear down the U.S. domestic price, because the export price is put it on a boat and send it some place where it gets unloaded, versus delivering to a customer who takes 10 railcars of caustic somewhere inland in the United States every day. And that's a different logistics trail with a different cost structure.

Arun Shankar Viswanathan ***RBC Capital Markets, Research Division - Senior Equity Analyst***

Okay, that's helpful. And again, just to understand this, have you seen any change in the cost curve with the reduction in oil prices that we've observed over the last month or 2?

James A. Varilek ***Olin Corporation - Executive VP & COO***

No. I think your last comment was last month or 2. So I don't think that there's a dramatic change in cost curves or anything that take place in a very short period of time. So we'd have to see whether anything is sustained or not. But not in the short term.

Operator

This concludes the question-and-answer session. I would like to now turn the conference over to John Fischer for closing remarks.

John E. Fischer ***Olin Corporation - Chairman, President & CEO***

Yes. I'd like to thank everybody for joining us today, and we look forward to talking to you in about 3 months about our second quarter. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now all disconnect.