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PRESENTATION

Operator

Good morning, and welcome to the Olin Corporation Second 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 A. Keenan ***Olin Corporation - Director of IR***

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 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 results to differ from our projections are described without limitation in the Risk Factors section of our most recent Form 10-K, the second quarter 2020 Form 10-Q and in yesterday's second quarter earnings press release. A copy of today's transcript and slides will be available on 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 and President, Epoxy and International; Jim Varilek, Executive Vice President and Chief Operating Officer; and Todd Slater, Vice President and Chief Financial Officer.

We will begin with brief prepared remarks, and thereafter, we will be happy to take your questions. I will now turn the call over to John Fischer. John?

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

Thank you, Steve, and good morning, everyone. I hope you and your families are keeping safe and healthy during these challenging times. Olin shared our second quarter results last night. We'll keep our remarks this morning to a minimum in favor of addressing your specific questions. And I'll start on Slide 3. COVID-19 related demand losses were first seen in our chemical portfolio in March.

The demand impact continued through early June before showing signs of recovery. During the second quarter of 2020, Olin experienced significantly lower customer demand, partially driven by inventory reductions. Consequently, second quarter sales for the combined Chlor Alkali Products and Vinyls and Epoxy businesses declined by approximately 27% year-over-year. Weakness in demand was compounded by 2 large planned maintenance turnarounds that took place early in the quarter. These included a 1 in every 3-year vinyl chloride monomer turnaround and 1 in every 5-year Freeport epichlorohydrin turnaround. As a result, April and May were Olin's weakest volume months in the Chlor Alkali Products and Vinyls business.

Overall, Olin's Chemical business's sales increased each month during the quarter from the April low point. Olin's July sales levels have continued the improvement trend by exceeding June levels. As a further point of reference, the majority of our second quarter adjusted EBITDA was generated in June as maintenance turnarounds were completed and volumes improved. Olin has addressed the lower customer demand by extending maintenance outages where practical and temporarily idling Chlor Alkali and Epoxy assets.

Today, we have 1 Chlor Alkali plant undergoing an extended maintenance turnaround, and we plan to continue to temporarily idle plants to minimize operating costs. Third quarter 2020 will benefit from improved volumes, lower maintenance turnaround costs and higher product prices compared to the second quarter. We are forecasting third quarter 2020 adjusted EBITDA that is more than double second quarter 2020 levels.

Let's now turn to Slide 4. The most significantly impacted end uses for our products include automotive, aerospace, construction and oil and gas.

Chlorine demand from urethane and isocyanates customers represented our largest volume decline during the second quarter, and that demand outlook still remains challenged. Chlorine sold into titanium dioxide, which helped strong through the first quarter, began to weaken during April and is now below historic trends.

Hydrochloric acid demand and pricing is well below typical levels, also reflecting the weakness in the oil and gas sector. Weakness in global vinyls demand contributed to Olin's second quarter ethylene dichloride pricing decline of approximately 50% from first quarter levels. We have seen Olin's chloride -- ethylene dichloride pricing improved during the third quarter. Our second quarter Epoxy resin volumes decreased by approximately 30%, both sequentially and year-over-year across both in Europe and North America impacted by weak customer demand for automotive, Industrial coatings, and oil and gas. We're now 1 month into the third quarter and have seen an increase in vinyls and isocyanate demand and a slower paced recovery in resins and urethanes. On the caustic side, inorganic end uses are recovering, while several grades of pulp and paper demand are still showing signs of weakness.

Now let's take a closer look at caustic soda pricing, which is on Slide 5.

As chlorine operating rates slowed in the second quarter, caustic soda availability tightened and domestic caustic soda price indices rose $70 per ton. Second quarter 2020 caustic soda pricing in Olin's system increased approximately 8% when compared to the second quarter of 2020. This trend is expected to continue in the third quarter as Olin's July caustic soda price was the highest of the year.

The current environment across our chemical businesses is still marked by uncertainty and volatility. Future demand visibility on both sides of the ECU remains uncertain. Our customer order patterns have been and remain erratic and heavily influenced by their customers and supply chain inventories. As a result, we consider it equally likely that Olin's year-end 2020 caustic soda price will be higher than or lower than our July 2020 pricing.

Now let's talk about Winchester, which is on Slide 6. For the fourth consecutive quarter, the Winchester business experienced year-over-year segment earnings growth. In the second quarter of 2020, Winchester experienced a 17% increase in sales compared to the same quarter last year, resulting in a 61% year-over-year increase in adjusted EBITDA.

These year-over-year increases were due to higher commercial ammunition sales volume and improved pricing. The second quarter of 2020 represented the strongest quarter in commercial demand since 2016, and we expect this elevated level of commercial ammunition demand to continue at least through the balance of the year. Winchester has significantly reduced inventory levels responding to this surge. The lower level of inventory in the business will limit our ability to meaningfully increase our commercial ammunition sales volume during the third quarter.

Following the April 1 price increase, Winchester announced an additional 2020 commercial ammunition price increase effective August 1.

Moving to Slide 7, I'll provide an update on Winchester's Lake City project. Winchester will assume operational control of the U.S. Army's Lake City Army Ammunition Manufacturing Facility on October 1. This multiyear contract is expected to increase Winchester's annual revenue by $450 million to $550 million and increase annual adjusted EBITDA for Winchester by $40 million to $50 million.

Based on the transition work performed to date, we are confident that we can meet or exceed these incremental sales and adjusted EBITDA targets. During 2020, Olin expects to incur approximately $15 million to $20 million of transition costs and invest approximately $80 million of working capital as part of the Lake City contract acquisition.

In late 2020 and annually beginning in 2021, we expect to begin to realize incremental cash generation from a number of initiatives.

On January 1, 2021, our vinyl chloride monomer contract will transition from a toll manufacturing arrangement by a third-party to a direct customer sale agreement. The new contract is expected to improve annual adjusted EBITDA by $50 million to $75 million.

In 2021, we will realize the full benefit of our new Lake City U.S. Army Ammunition contract, an expect to $35 million reduction in annual operating costs from the permanent shutdown of a chlor-alkali plant with capacity of 230,000 tons and the associated vinylidene dichloride production facility, both in Freeport, Texas.

These closures are expected to be completed around year-end and will enable Olin to optimize its Freeport Texas chlor-alkali operations and cost structure. The winding down of the multiyear information technology project to integrate the acquired Chlorine Products businesses which is forecast to reduce spending by approximately $110 million annually, split between capital and expense. This wind down begins in the fourth quarter of this year.

These after-tax cash flow enhancements of approximately $200 million per year are generally independent of industry conditions. The associated adjusted EBITDA benefit is approximately $140 million annually.

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

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

Thanks, John. During the second quarter, we completed several refinancing actions that enhanced our liquidity is highlighted on Slide 9. These actions included the following: we reactivated our $250 million accounts receivable securitization facility, of which $240.7 million was drawn at June 30.

In May, we amended our $1.3 billion senior secured credit facility. It now includes a senior delayed draw term loan facility of $500 million and a senior revolving credit facility of $800 million, both facilities are undrawn.

The new bank structure provides additional financial flexibility. Also in May, we issued $500 million of 9.5% senior notes due in 2025. These refinancing actions provide the company with the financial flexibility to navigate the current economic conditions and should support the company over the next several years. Olin expects to refinance a portion of the high cost bonds, which were assumed during the 2015 Dow acquisition during the fourth quarter of 2020 when they first become callable.

By refinancing a portion of the high cost bonds, we expect to reduce annual interest expense by approximately $30 million. We ended the quarter with cash and cash equivalents of $238 million. We continue to focus on other liquidity enhancements, such as our 2020 target to reduce working capital by $150 million.

Year-to-date, we reduced working capital by $31 million, which represented approximately $130 million of incremental cash flow from March 2020 levels. We are forecasting capital spending to be $250 million to $275 million in 2020, which is approximately $135 million lower than the prior year levels.

The timing of the capital spending was front half loaded, and we expect lower capital spending in the second half of the year. We also expect that capital spending will be lower in 2021 than 2020.

Finally, on Thursday, July 30, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. This dividend is payable on September 10, 2020, to shareholders of record as of the close of business on August 10, 2020.

This is the 375th consecutive quarterly dividend to be paid by the company.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our question first question today will come from Kevin McCarthy with Vertical Research Partners.

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

I think you mentioned in the prepared remarks that you were idling some Chlor-Alkali plants. Can you expand on that in terms of locations and what you think the operating rates are likely to be? And then, I guess, on a related note, I think you announced in late 2019, your intention to shutter some capacity in Texas. Is that still on track for late 2020? Or has that time line changed?

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

This is John, Kevin. I'll answer the second question first. The Texas capacity shutdown is on pace to be done by the end of 2020.

And that was also done in context with another downstream plan. I would rather not address specifically what plants are down at any point in time. I can tell you, we've had one plant where we've been running it between 2 and 3 weeks a month and taking 7 to 10 days off every month since March. I can tell you there's a plant that's down now that in order to save costs, we took a turnaround that was typically done with contractors and done -- trying to be done in 2 weeks, and we're spreading it out over 5 to 6 weeks using just internal people and doing it only on first shift to avoid overtime costs.

So those are the kind of things we are doing. And I would say that we have had probably of the 7 different sites that have chlor-alkali plants. We've had some kind of shutdown at at least 5 of them over the last 4 months.

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

I see. That's helpful. And then I had a second question on the Epoxy business.

Benzene and propylene, I suppose, have been quite volatile in recent months. So if you take into account the inventory flow through effects of those important raw materials. How do you think your margins might trend moving forward into the third quarter versus the second quarter?

Pat D. Dawson ***Olin Corporation - Executive VP and President of Epoxy & International***

Kevin, this is Pat. You're right. They have been very volatile. We saw the big fall off here in the second quarter. And I would say that, that's benefiting us here late.

It benefited us a little bit late in the second quarter, and it will benefit us in the first half of the third quarter. However, you've seen hydrocarbons now start to kick up, both benzene and propylene. And that's the reason why we've got price increases out there right now in the third quarter. So it's kind of where we see it, there's a lot of volatility.

Operator

And our next question will come from Steve Byrne with Bank of America.

Steve Byrne ***BofA Merrill Lynch, Research Division - Director of Equity Research***

Yes. I wanted to ask a little bit about that VCM contract. Why is there now this $25 -- $25 million range in there? And what will be the mechanism for VCM pricing in that contract?

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

The reason for there's a range in there is when you look at the demand uncertainty that we're facing today, there's the prospect of just facing lower demand as we move into 2021 than we originally would have forecast because demand in that space had been a lot solider and the contract, I'm not going to give you any specifics, but it does have some movements around different raw material inputs.

Steve Byrne ***BofA Merrill Lynch, Research Division - Director of Equity Research***

And just also wanted to follow-up on your outlook for caustic pricing. You highlighted that you thought it would be higher in the third quarter. I don't know if that was just like sequentially an improvement in the average price from second quarter to third, because you also mentioned by year-end, could be roughly the same as the price in July. So what is your thinking on the cadence of pricing in the second half?

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

Our comment on the third quarter was simply the price in Olin system. That was all we were referencing. And then our outlook for the end of the year, where we said, equally likely, I think, just goes to the volatility around supply and demand or demand on both sides of the ECU, especially when you give consideration to the fact that PVC and chlorine demand typically weakens pretty significantly when we move from late third quarter into fourth quarter just on a seasonal basis.

Steve Byrne ***BofA Merrill Lynch, Research Division - Director of Equity Research***

And if I could just squeeze 1 more in there. Have you looked at the production of hydrogen out of your chlor-alkali electrolyzers and whether there's an alternative use for that hydrogen other than as a combustion fuel in your cogens?

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

Well, we use a significant amount of it to make hydrochloric acid, which we then sell. So -- and we do have other contracts with third parties who take the hydrogen for other than combustion purposes.

Operator

And our next question will come from Frank Mitsch with Fermium Research.

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

And John, I assume this is your last conference call. So, certainly, wanted to offer my congratulations and best wishes on your pending retirement.

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

Thank you, Frank.

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

And if I could follow-up on the caustic soda pricing because it is a little bit of a surprise that you're anticipating that prices are moving higher. Obviously, your system includes certain contract terms and so forth.

So I can understand why the third quarter caustic prices may be higher in your system. But as you look at the industry, overall, I mean, there is a thought that PVC demand and chlorine demand is doing a bit better than perhaps caustic demand.

As you think about the industry itself, wouldn't you have thought that maybe from the high July levels, we might start to tend off or trend off? Or that's not necessarily the case, you think?

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

I think, Frank, that there are a lot of views and a lot of uncertainty around demand on both sides of the molecule. And we have seen PVC operating rates improve. But they're still 10% to 15% below where they were a year ago. So they're not what I would term wildly robust.

And if we do get a seasonal slowdown in that, you could see a situation where caustic, if demand doesn't seasonally slow down, which it typically doesn't, caustic could go tight again.

We're just not convinced that some of the things that you read that say, caustic is going to roll over in the second half that that's true.

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

Got you. Got you. Understood. And you did mention that volumes in July were better than June. What does your crystal ball say in terms of when we might be at year-over-year parity in terms of volumes for Olin?

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

I'm not sure I can answer that question. I personally don't think that's going to happen in 2020.

Operator

And our next question will come from Hassan Ahmed with Alembic Global.

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

You guys talked about in your prepared remarks a couple of turnarounds in the quarter. I'm just trying to get a sense of what sort of negative EBITDA impact in the quarter those turnarounds may have had?

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

Hassan, this is Todd. I know we have a slide back on 22 in the deck that talks about specifically the maintenance cost. It was a little bit of a headwind from Q2 versus Q1. But the most significant penalty to us is really the volume impact, especially our Chlor-Alkali operations in April and the first part of May.

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

Fair enough. Fair enough. And now moving to the raw material side of things. Obviously, there's been some choppiness on the natural gas pricing side of things, the ethylene pricing side of things. As you guys have provided your Q3 guidance of more than doubling EBITDA, I'm just trying to get a sense of what sort of raw material pricing environment you were baking in into that guidance?

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

Hassan, this is Todd again. We -- as you know, we are heavily hedged at least a quarter out. So I think we have a high degree of confidence in our costs associated with ethane for ethylene and natural gas. And I think from Q2 to Q3, I think, it's a small good guy.

Operator

And our next question will come from Mike Sison with Wells Fargo.

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

Congrats to you as well, John. Can you give us a little bit of color where your operating rates were for the chlor-alkali footprint in June and heading into July? And what do you think you need to sustain to sort of get that outlook for the third quarter in terms of EBITDA versus the second quarter?

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

As you know, the industry operating rates in the second quarter were around 71%. I mean, they were higher in June than April. It would be our expectation that you're not going to see -- and that 71% is down 14% year-over-year. Again, we are expecting continued year-over-year softness in operating rates, but not a significant improvement in operating rates from late Q2 to Q3.

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

But -- and I would add to that, the scale of the turnarounds that we discussed made our operating rates in the second quarter, lower than those of the industry. And we've got a built-in larger step up as we move to Q3. And I would say that based on what we saw in July, July's operating rates are sufficient for us to achieve what we said about the third quarter.

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

Understood. And then when -- any changes to your long term view for the industry -- [you've had 5 in] the past out to several, several years. Made parts of (inaudible) in terms of operating rate -- capacity expansions, being mostly debottlenecking. Any sort of, do you think we are still on that same path in terms of the long term potential for the industry?

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

I think we're still on that long term path, and I think the likelihood of any near term capacity expansions within the industry globally has probably gone way down given what we've experienced in the last 3 or 4 months. And what -- and the uncertainty of the near to intermediate term outlook is.

Operator

And the next question will come from John Roberts with UBS.

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

And good luck John on your move to the executive chairman role. I'm sure Scott is listening in. So welcome.

On slide 4, for chlorine demand in the third quarter you have a green bar for organic -- inorganics. I think you said, TiO 2 was softening into the third quarter. So is TiO 2 a minority of that inorganic box, or is it large and the weakening in TiO 2 is just very modest?

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

I'll answer the first part. I think what we said was TiO 2 weakened significantly in the second quarter and is improving, which would be on the green box. And Jim, maybe you want to just talk about that category?

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

Yes. It's a broad-based category. There's a lot of different elements to it. And I read some other releases this morning where bromine actually was a good guy, was strong and so forth. So we see that as coming -- as increasing.

Again, it's coming off of what was a slow first and second quarter and improving. Automobiles are back up. So by definition, there's an improvement there. And then as I mentioned, Bromine and John just talked to the TiO 2. So it's a broad category that's improving.

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

Okay. And then also on Slide 4, all of the boxes improved from 2Q to 3Q, except for pulp and paper, for caustic soda. By flat, is it still at an elevated level like versus pre-COVID? Or has it come down from the initial surge of boxes and tissue and tile demand we had earlier this year?

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

Yes. There's those -- in the second quarter, you had the big surge, especially on the tissue side of things. And so that is waning to a certain extent. So it's just a pullback in some of the markets that were really in surge elements and so forth. And also there was -- the fine papers and so forth were expected -- with return to work, you would expect those to be coming up. And actually, that's being stretched out a little bit more with less people, fewer people coming back into offices and so forth. So not a dramatic drop off. It's just a settling back of where we were in the second quarter, which was very much to the upside.

Operator

And the next question will come from Eric Petrie with Citi.

Eric B Petrie ***Citigroup Inc. Exchange Research - Research Analyst***

John, could you talk a little bit about how the cost curve for ECU has changed with lower ethylene prices year-over-year as well as gas prices? And how does that impact your export economics? And do you see that holding still into 2021?

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

As it relates to the ECU, obviously, ethylene doesn't really affect that. I would say where we are on the cost curve is the biggest variable on the cost curve right now is just operating rate. And obviously, how you spread your fixed cost.

I think natural gas for us is in a very similar place to where it was last year on average. I think what matters in terms of EDC, and I'll let Jim elaborate on this, isn't so much what the absolute price of EDC is based on ethane, but how that relates to the price of PVC globally. And Jim, maybe you want to...

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

Yes. I'll talk just specifically on EDC, it's a very dynamic marketplace as, I think, everybody has seen. The dynamics that are taking place right now in EDC are that after the complete pullback in April where there was plummeting of EDC prices that took place, 70% type of drops in terms of the pricing. It's now come back off of the floor. There is a market. The market's come back. And so there's demand in Asia and around the world that's starting to pick up.

And importantly, speaking of the economics with oil moving up and therefore, naphtha based ethylene. There's a significant amount of cost push on the ethylene components for EDC. And in addition to that, you've got PVC pricing that's been moving up from the floors that were hit in the second quarter. All of those dynamics are playing to the increase in EDC pricing that's taking place from the low levels in the second quarter.

Eric B Petrie ***Citigroup Inc. Exchange Research - Research Analyst***

Helpful color. And then to help us think about your volume recovery sequentially. Can you give us where Olin's underweight versus overweight, ECU molecule compared to the industry?

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

I would say, if you look at the industry, we're underweight on the vinyls side, and we're probably overweight on the urethane/isocyanate side.

Operator

And the next question will come from Alex Yefremov with KeyBanc.

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

Congrats to John as well. Just a follow-up on the EDC price. Would you expect that price to be higher in the third quarter versus second quarter for -- in terms of your realizations?

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

Yes, higher in the third quarter.

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

And then on the balance sheet, do you have full access to your entire revolver capacity currently? And what are the covenants that are related to this revolver?

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

This is Todd. The -- we do have full access to the revolver and the delayed draw in term loan. The covenants now because we -- in May, went to a secured structure. The covenant is only based on secured debt. And at the end of June, we had $153 million of secured debt so -- and the covenant now is 3.5x, basically adjusted EBITDA. So well within any of those kind of metrics. So let's see. As we said, a significant improvement in financial flexibility associated with our new bank agreement.

Operator

And the next question will come from Matthew Blair with Tudor, Pickering, Holt.

Matthew Robert Lovseth Blair ***Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Refining and Chemicals Research***

I had a question on Winchester margins. It looks like revenue is back to approximately 2016 levels. But back then, your EBITDA margin was closer to 20%. Now it's still at 11%. So could you just talk about this ramp in revenue and volume you've seen this year. Why isn't it flown through to margins? And what do you expect going forward?

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

If you look at the way the Winchester business operates over the course of a demand cycle, you start out in the first phase of a surge, you get volume and as the surge matures because there's shortages of certain products, you get more pricing power and your margins typically expand over the course of the surge. So we are coming into this and really the first quarter of the surge was the second quarter, where we had been at the other end of that for almost 3.5 years. So we were coming in with, what I would call, cyclically low margins, and we are now on the path to cyclically higher margins. And as we said, there was an April 1 price increase, and now there's an August 1 price increase, none of which was really reflected much in the second quarter.

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

Sounds good. And then could you talk about your bleach activities? Did you have elevated demand in Q2? And if so, it looks like bleach pricing was flat quarter-over-quarter. Why didn't prices move up there?

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

I would say demand in bleach in the second quarter was a record for a second quarter, remembering that a lot of it is seasonal. I don't know what you're looking at to say that pricing was down or flat. So I can't comment on that other than it's just -- and some of that...

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

Just looking at Slide 16.

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

Okay. And some of that just goes to the mix.

Operator

And our next question will come from Mike Leithead with Barclays.

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

And John, my congrats as well. I wanted to first return to the topic of the heavy turnarounds in the quarter and its impact on the results that you talked about. If I go to Slide 22, in your deck, where it looks at maintenance turnarounds. If I just add up chlor-alkali and Epoxy, 2Q actually looks lower year-over-year and quarter-over-quarter. So are there other costs in there that I don't see on the slide? Or can you just help triangulate that for me?

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

Yes. Mike, this is Todd. The component that is missing, and as I mentioned earlier, really relates to the lost volume, especially in chlor-alkali because of the turnaround this year with the VCM turnaround and the Epoxy EPI turnaround affected our chlor-alkali operating rates significantly in April and the first part of May. So that is on top of the numbers that you see on this slide.

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

Got it. Okay. That's helpful. And then, John, just a bigger picture question around capital allocation. I think, obviously, the near-term focus is on cash flow and deleveraging and hopefully, the next mile marker in that is the refinancing of the callable bonds later this year. I guess, how does the Board view the dividend in light of this? Because I presume the dividend in some ways impairs your borrowing costs and your stock is probably not getting full credit for that dividend today.

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

I would say, if you look at all of it in over a long period of time, we recognize and the Board recognizes that it's a cyclical company. And there are points in time where the dividend is a very key component of shareholder value.

And the Board is looking at this company and the dividend over the long-haul as it has done, I'll speak for myself, for at least the last 35 years. So -- and that's the view. I don't have any sense that it is creating an issue as it relates to our borrowing capacity or anything like that.

Operator

And our next question will come from Arun Viswanathan with RBC Capital.

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

And congrats on your retirement pending as well, John. I appreciate working with you over the last several years. So yes, I guess, first off, maybe just talk about near-term caustic soda, looks like we saw the first decline here in July. I guess, do you expect, I guess, that to continue the declines? Or maybe we just see 1 month -- 1 month of declines would be unusual. Usually, we keep going. So maybe you can just offer your perspective as to the trajectory here and if pricing remains stable from here?

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

I think the point we were trying to make was that the visibility that we have, and I think that the industry has over demand on both sides of the molecule is very limited.

And it is entirely plausible to create a scenario where caustic does go down. And we said we gave that a 50% probability. But we also think there's a probability that caustic by the end of the year could be higher than it was in July. Keeping in mind that there is typically a very meaningful step down in operating rates in the industry driven by PVC in the fourth quarter. I mean, you typically see a 5 to 7-point drop in operating rates. Caustic demand is not that seasonal, and we typically see price increases in caustic [before] caustic announced late in the third quarter into the fourth quarter, recognizing that seasonality. I wasn't -- we were not making a forecast, we were just trying to point out broadly, there's a lot of uncertainty, and you could end up on either side of this.

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

Okay. And I appreciate the detail added on Slide 8. It looks like you're now expecting $140 million uplift in EBITDA in '21 versus '20. What's your confidence level on that? I guess, it sounds mostly company specific, not necessarily related to price or supply and demand, I guess, is that correct? And could you maybe offer some thoughts on sensitivity to price and volume in that $140 million?

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

What I would say is that $140 million, we say is relatively independent of market conditions. So we feel very good about that flowing through the income statement. I think there's an entirely different question about where our base volumes and base pricing going to be and I would suggest, I come back to what we said, at the moment, there's a lot of uncertainty about those because of the uncertainty around demand right now.

But I would just say, all other things being equal, and that's a lot of things to be equal, we would expect 2021's adjusted EBITDA to be $140 million higher than it was -- will be in 2020.

Operator

The next question will come from Travis Edwards with Goldman Sachs.

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

I just wanted to ask a follow-up question on the balance sheet. I can appreciate there's a lot of uncertainty. I can also appreciate there's a deal that you completed to improve the covenant structure and long-term liability of the business. But just wondering what your team is thinking as far as the potential or willingness to come to market again, either to preserve liquidity, take out more of those [blue cube] notes? And then if so, if there is willingness, can you just remind us again what your capacity looks like to issue debt at the secured level just between that secured leverage ratio you mentioned in your CNTA limitations?

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

Well, let me address the first part of that is the term loan that we have in place is there to be used to call the Dow bonds. And as Todd said in his remarks, we intend to do that. And we do have essentially $1.2 billion of callable bonds starting October 15.

So that $500 million can be used or more. You can answer the secured borrowing question. I don't...

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

I don't think we would comment at this point about whether, to your specific question, about whether we would consider additional debt or incremental borrowings beyond what John mentioned, to refinance the remainder of that $1.2 billion. Clearly, your leverage ratio, if you borrow the $500 million, is much closer to 1:1 on a secured basis when that would occur, and our limitation is 3.5 times.

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

Got it. I can appreciate those. And there was some granularity there. I guess, maybe as a follow-up, just as we're looking through the slides, I think the message has changed a little bit as far as the interest cost savings. I think it's down to $30 million now from the $50 million to $70 million. And then I think later in the slide deck, you talk about $12 million of call premiums.

So just wondering, between those 2 numbers, can we extrapolate sort of what the implied portion of those -- the $1.2 billion of notes is coming out? Is that a safe way to sort of triangulate the amount that you're taking out? Or are there more considerations that we need to take into account?

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

As part of the restructuring of our debt, we reduced the amount of the delayed draw term loan from $1.2 billion to $500 million. We originally had expectations in a different environment. That we could use the delayed draw term loan to take out all of the callable bonds. Now we are saying, we're essentially going to call $500 million. That's what Todd said in his remarks. And all of that is what's now reflected in the slides. And I know we had something different reflected last year, early this year.

Operator

And our next question will come from Roger Spitz with Bank of America.

Roger Neil Spitz ***BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst***

This is in context to compare this recent event with the 2008/'09 recession and chlor-alkali. I mean, do you now export more EDC than you, or shall I say Dow Chemical did back in '08, '09?

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

This is Jim. To be honest with you, I wasn't in the business in '08, '09. So I can't make a comment about whether we're exporting more or less with that period of time. So I don't have that information for you.

Roger Neil Spitz ***BofA Merrill Lynch, Research Division - Director and High Yield Research Analyst***

Okay. All right. In that VCM contract, you were suggesting that the range and EBITDA benefit, it's now a different range because the customer might take lower volumes. If that were to occur, would you make that up by exporting VCM if you have that capability or perhaps more EDC to consume that chlorine capacity -- production?

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

Yes. We have flexibility in our assets. So the EDC capability that we have would provide an outlet for that should we fall short on the VCM contract.

Operator

And there are no further questions. This concludes the question-and-answer session. I'd like to turn the conference back over to John Fischer for any closing remarks.

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

Yes. I thank everybody for joining us today, and all and look forward to talking to you again in about 90 days. So thank you very much.

Operator

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