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PRESENTATION

Operator

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

Steve A. Keenan ***Olin Corporation - Director of IR***

Thank you, Jason. Good morning, everyone, and thank you for joining us today. Before we begin, let me remind you that this discussion, along with the associated slides and the question-and-answer session that follows, will include statements regarding estimates or expectations 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 third quarter 2020 Form 10-Q and in yesterday's fourth quarter earnings press release.

A copy of today's transcript and slides will be available on our website in the Investors section under Past Events. Our earnings press release and other financial data and information are available under Press Releases.

With me this morning are Scott Sutton, Olin's CEO; Pat Dawson, President, Epoxy & International; Damian Gumpel, President, Chlor Alkali Products and Vinyls; Jim Varilek, Olin's COO; and Todd Slater, Olin's CFO.

Scott will begin with some brief remarks, and thereafter, we will be happy to take your questions. I'll now turn the call over to Scott Sutton.

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Thanks, Steve, and hello to everyone. Look, I'll kick off my comments by saying just how proud I am of our entire Olin team for bucking traditional stale paradigms.

Our fourth quarter results demonstrate the team's resolve and leadership. Olin people are masters of the ECU, and we are prioritizing value first above all else across the entire ECU, not just in 1 or 2 products. That means we don't sell excessive volumes into poor quality markets. Instead, we withdraw supply, and we generate purposeful activations on both sides of the ECU, up and down our derivative chains, resulting in margin improvements on both sides of the ECU.

Slide #12 in the appendix demonstrates this activity and effect. In fact, maybe the most important slide we have ever published is Slide #12. Our model also rejects the notion that this business must be deeply cyclical and will always have its coproducts moving in opposite value directions, thus generating mediocre ECU returns over the cycle. It is not cyclical, and it's quite steady when Olin does not push excess volume and chase the poor quality side of the ECU down across an inflection point on Slide #12 into an oversupplied swamp of poor pricing.

Now turning your attention to Slide #3, Olin's quarterly ECU Profit Contribution Index chart. Even though the global chlor alkali market configuration is in the poorest state for Olin, in other words, when strong back-integrated PVC production, which Olin does not directly participate in, pushes out lots of coproduced caustic into a weak caustic demand environment, really the emphasis being on the weak caustic demand point here, we still sequentially lifted our ECU PCI by lifting margins across chlorine, EDC and virtually every chlorine derivative, while simultaneously not allowing Olin caustic to decline in price as much as industry indices would have anticipated.

The ECU PCI shows our commitment to quality, and our adjusted EBITDA improvement shows the result of that commitment. I will also comment here that our fourth quarter adjusted EBITDA result is pure as there are no nonrecurring items included.

And speaking of quality and moving to Slides 4 and 5, Winchester delivered the best quarterly performance in the business' 155-year history with even better quarters expected throughout 2021. The Olin Winchester team relishes its commitment to support both the U.S. war fighter and the more than 55 million of us who enjoy shooting sports. These themes are woven into the fabric of America, and we expect that elevated shooting sport participation is here to stay. U.S. military modernization initiatives are expected to create additional opportunities for Winchester as well.

So wrapping up my opening comments with Slide #6. Our first half quarterly average EBITDA should be better than the fourth quarter of 2020 across every business. Note that we do have a number of turnarounds in the second quarter to contend with. And we expect a 10% improvement in the ECU PCI across the first half.

Here are some key points, specifically for the first quarter. Point number one. Epoxy will be the star of the show and is expected to surpass our prior quarterly EBITDA record as the team lifts the permanent earnings foundation of that business to match the value of our product offerings.

Point number two. Our merchant chlorine netbacks go to a multiyear high, following our fourth quarter activations, which included shifting an additional 30% of our ongoing business away from arbitrary external trade indices.

Point number three. Our broad productivity gains start to show up as our fourth quarter project pipeline grew by 20%. We start 2021 with 633 active projects. Please see Slide #15 in the appendix for some more detail on that.

Point number four. The early redemption of $120 million of the high-cost acquisition bonds this month was funded 100% with cash from operations, as was the additional $100 million of bonds repaid last October. Through a combination of improved adjusted EBITDA, disciplined capital spending and debt reduction, we expect our net debt to adjusted EBITDA ratio to improve to roughly 3x within the next 12 months.

So looking out just a bit beyond 2021, we have the team, the skills, the operating model and the assets we need to achieve at least $1.5 billion in EBITDA. Additionally, we have adjusted down our forward annual capital spend requirements to around $200 million, reflecting a better match of our physical plant assets to our model.

This adjustment, in turn, enhances our levered free cash flow, and that cash flow inflection point should be clearly evident in 2021. At the same time we reach $1.5 billion of EBITDA, global ECU supply-demand fundamentals are likely to be improved, and Olin will expand our strategy to incorporate fixed asset-light structural moves to take us to the next higher EBITDA level as more molecules move through our sphere of influence. Those moves are likely to be just as disruptive to conventional paradigms as is our current model.

We will look forward to speaking with you in the future about the next EBITDA tranche above $1.5 billion and those supporting activities.

So that concludes my opening comments. And so operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Mike Leithead from Barclays.

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

Scott, you've talked a bit about your new value-first selling strategy for the past few quarters here. I was hoping you could maybe give us an update on how your customers have broadly responded to this as well as perhaps any reactions you've seen in the market from your competitors in response to this?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Okay. Yes. I mean -- thanks a lot, Mike. Look, I mean we won't comment on competitor reactions, okay? But what I would say about customers is, I mean, clearly, this is challenging for them, and we certainly understand that. However, at the end of the day, they recognize that we're a critical part of their future growth, and they want us to be successful as well. And that means we really do need to lift these materials up to reinvestment economics. So yes, it's been challenging, but it's been progressive.

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

Got it. Yes, that's fair. And then I appreciate a lot of your focus and comments are focused on kind of Olin's specific actions. But curious if you could just kind of walk through what you're seeing in your key product markets in terms of kind of demand recovery? And maybe if you look across your portfolio, where you think the greatest pricing opportunity is today?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. I mean I would just comment generally, and then I'll ask Damian and Pat to make some comments here. But I would say that general industrial demand has still been fairly weak, and that's going to play itself out to our favor in the future. In specific areas, though, it's been quite good.

So with that, let me ask Pat from Epoxy to make a few comments, and then we'll ask Damian to do the same thing about CAPV.

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

Yes, Mike. This is Pat. I think on Epoxy, when you start out and you look at the demand side of things, we've seen sequential improvement in our demand since June month-on-month and certainly quarter-on-quarter. So the demand, quite frankly, where we sit today, and you got to remember, demand has really driven a lot around industrial coatings, automotive, electronics, wind energy. Quite frankly, we're back in a lot of those segments to pre-COVID demand levels.

So we're sitting here almost in February and demand looks good. The other thing that has been encouraging on demand is the fact that China has been very robust. And I think the demand of Epoxy in China is probably as good as we've seen it for a while. But Mike, going back less than 24 months ago when we had our Investors Day, we were showing then that the overall industry supply-demand fundamentals for epichlorohydrin, which is a major raw material going into making epoxy resin, along with epoxy resins, we're already in the mid-80-type industry operating rates.

So this is nothing new. It's just simply been the industry getting tighter. And now coming out of COVID, we see things very tight. It's given us pricing traction that started, quite frankly, back in September, October and has only built in momentum through the end of the year.

And we see that momentum continuing here in the new year and right through the first quarter. So there's increases out there. There's public in the public domain that have been announced. We're seeing good traction on that, and we see the fundamentals very good.

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Damian?

Damian Gumpel

Yes, Mike, thank you for the question. When we look across the board, across the CAPV portfolio, I'd tell you that as we look here in '21, we have a good upward momentum here on -- across the board in all our product groups. Obviously, caustic is a big one that we look at. Economies starting to open up again, manufacturing activity increase, pulp and paper activity increasing some more. Alumina, aluminum by any external indicators is poised to have a rebound in '21 over '20. So clearly, caustic is -- we see signs of caustic improving over the course of the year.

You look on our merchant chlorine business, you look at titanium dioxide and isocyanate demand, the polyurethanes and other areas. We continue to see what we -- what -- exactly what Pat saw on his side. We see demand starting to -- really starting to come back in the second half, and we continue to see that well into '21. We see our chlorinated organics business also showing rebounds with applications into pharma, water treatment, refrigerants, also firing back on those cylinders.

And then lastly, we see our bleach business continue at elevated levels For use into disinfectants, but then you start getting into second quarter and the seasonal demand. So really, in summary, I can tell you that our view right now is that looking ahead, the demand looks very good for both sides of the ECU for our portfolio.

Operator

The next question is from Kevin McCarthy from Vertical Research Partners.

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

A couple of questions on Winchester. What is your expected contribution from the various price increases that are flowing through your business in 2021?

And then secondly, if we look at history, oftentimes, the year following an election is such that demand sort of softens relative to the election year itself, where there's a lot of strength. And based on your commentary, it sounds like your outlook is very positive. So I was wondering if you could address each of those 2 things and help us to put it into context with regard to your outlook?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. I mean, sure, Kevin. I mean just the general statement is that Winchester results are going to continue to improve and continue to improve throughout 2021. The pricing, right, without an absolute number, we've put pricing and achieved basically 100% of that pricing on at least 4 occasions over the last 6 months or so.

So in terms of the profit improvement that you see in that business, it's probably the leading driving factor. And then the fact that we also have Lake City as part of our portfolio is also another leading driving factor.

In terms of election and looking out, I mean, really, the fundamentals have shifted for that business, which is different than it's ever been before. I mean shooting participation is way up, and we expect that to continue as a long-term trend. So my point here is this is not just a 2021 phenomena. We expect that business to do much better throughout a number of future years.

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

Okay. That's helpful, Scott. And then a second question, if I may, on Epoxy. Clearly, there's a tremendous amount of pricing strength in recent months. And I was wondering if you could help us understand how much of that is due to Olin's change in strategy around the ECU Profit Contribution Index relative to exogenous market dynamics such as various competitor outages in Asia? Any color around that would be really appreciated.

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. I think Pat will provide some color here. I mean I would just preface it by saying in our Epoxy business, it certainly is part of our strategy to first and foremost lift value across the whole ECU first, and Epoxy is a significant part of that. But then Epoxy has its own landscape fundamentals that Pat is exercising a lot of activities around. So Pat?

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

Yes, Kevin, I would say, first of all, we are very active around upgrading where we decide to place epoxy resin into our targeted applications and customers around the globe to drive the best returns to the ECU. But as you know, I think a little bit of a different mindset change is that I've got to compete and make sure that I can get enough chlorine to put into the epoxy chain.

And so if I'm not improving my returns to the ECUs here internally, Damian will take that ECU and place it somewhere else. So that's a different -- it puts a different perspective and a different color on our sense of urgency and the sharpness of which we evaluate where we're going to place that epoxy, like I say, into our targeted applications.

Also, Kevin, we've talked a number of times about the fundamentals of Epoxy and the fundamentals of epichlorohydrin, which is a key raw material. And since the reinvestment, economics haven't been there in the industry for epi or a lot of the base liquid epoxy type resin business. There hasn't been any capacity added. So if you work off of this discussion we had less than 24 months ago at the investors presentation, I think you're just seeing the normal occurrence of a market that hasn't been invested in from an additional capacity standpoint.

And I think the other thing, Kevin, that you're seeing, a little bit more color around China. If you recall, a few years ago, they were really cracking down hard on environmental regulations, enforcing those regulations, which I think was great. I mean I think it was good for the industry, it's good for China. But I think that took some capacity out that may have not been so transparent. And that's why you had probably the longest-running arbitrage we've ever seen on the price of LER in China versus LER outside of China. But that gives maybe a little color of what's going on here.

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

Congrats on being the star of the show.

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

Yes. It feels great, Kevin. Appreciate that.

Operator

The next question is from Hassan Ahmed from Alembic Global.

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

Scott, as I take a look at some of the commentary near-term wise that you've given and sort of compare and contrast that with the full year 2021 guidance that you'd given, call it, in early November, it seems that things have certainly improved a fair bit since then.

And as I take a look at the guidance you gave, it was $860 million on the low end, $1.06 billion on the high end. And we're already at a run rate of $1 billion annualized in EBITDA. So I was just wondering whether you'd sort of update that guidance in light of some of these sort of improvements that we've seen through the course of Q4 and some of the early indications that we are seeing of a certain degree of strength in 2021?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Thanks a lot, Hassan. I mean I would say we really are updating that guidance here, and we tried to be really clear that first quarter, the average of first half continues to do better and certainly the full year. I mean the reason that we're updating that guidance some is because our model, and just to restate it, principally, it says that, look, our market participation is set by the weak side of the ECU. Translation is that we don't sell into poor quality markets, we do activations up and down our chain on both sides of the ECU. And if you ever get a chance to look at that Slide #12, it just says we move our business from the green points to the blue points by running in that way.

So I guess my point is, we're having success in doing that. And there's still a lot of things that we can do to take off some of the handcuffs that we have, and we see ourselves being more successful at doing that throughout 2021. So that's the reason that we've updated our guidance.

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

Very helpful. And as a follow-up, really appreciate Slide 15, where, obviously, you're talking about sort of over 600 active projects that you guys have started in 2021. And as I was going sort of down the list of projects that you guys mentioned, a series of sort of capacity closures and the like. But as sort of you're thinking about all of these projects, how are you thinking about sort of potentially certain asset sales as well?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

I would say in terms of asset sales, right, that's not necessarily part of our near-term agenda. We're more concerned with immediate productivity and better cost performance that we can get from actually closing some assets that are underutilized.

But I do think Jim could probably provide some good color on the overall productivity program and how that is evolving.

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

Sure. Hassan, one of the things that we -- an important pillar, obviously, of our success here is productivity. We're talking about $50 million to $100 million of net savings for 2021. I think this is the epitome of controlling our own destiny. This is something that we absolutely control, is our own costs and our own productivity. So we've been very active, and we stepped up our activity in the fourth quarter where we increased our project portfolio by 20% during the fourth quarter. We completed a large number of products, over 900 projects for the year, that actually worked into our baseline cost for 2021.

And then, of course, we're being aggressive with over 600 projects as we start the first quarter of this year. And so we're really making a concerted effort to control what we control on the cost side and help open up the margins as we're successful on the commercial side. And you can see the variety of projects. This is a broad based -- this is a very broad-based program. It's virtually in every aspect of our company, whether it be structural with asset closures that -- like you see on the list or whether it's raw materials or railcar management or sales tax or association costs, every single element of the company, every person in the company is responsible for productivity, and that's really what we're stepping up.

And on the structural side, with some of these closures, you see the VDC and Novolac closure and our ECU plant closure that's going to happen in the second quarter that we're moving forward with, are just some of the things that we're doing on the structural side. And of course, we're going to continue to look at our capacity, the ECU capacity that's underutilized, and we're going to continue to scrutinize that. And as you can see, we've made decisions in the past, and we'll make decisions here in the future.

Operator

The next question is from Alex Yefremov from KeyBanc.

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

Scott, you mentioned 10% improvement in PCI in the first half, if I understood it correctly. How should we think about margins on that? Should we just take essentially sales in Chlor Alkali and Epoxy segments and assume a 10% margin on that?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Hey, Alex, thanks. I mean that's a good question, right? I mean we've said this ECU PCI is not only the #1 indicator of our success but our commitment to our plan. So if you think back to what I said on the third quarter earnings call, I said that, that ECU PCI represents about 75% of the business that this company does.

So it's really only excluding our Winchester business and excluding our aromatics business, right? So you could imagine, just as a rule of thumb, without having an exact math formula, that you can take 75% of our revenue and then think about what our contribution margins or our variable margins might be, and then you get to a 10% improvement in the ECU PCI over the first half. So it averages some amount, a little less than 10%. And that should be a significant chunk of improvement that happens to our profitability through the first half of this year.

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

And that is relative to what basis, to fourth quarter or back half of '20?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

No. I'm saying there will be a 10% improvement in it from where we finished the fourth quarter at.

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

Understood. And then you also mentioned a $1.5 billion EBITDA level. Is that something that you see as sort of near-term target but not 2021? Or something that you are thinking could be achieved in 2021 already?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

That wasn't our 2021 target, but that comes along really not too far after that. And therefore, that was some of my comments around, we're really looking forward to talking about what happens beyond that as well. But it's a little bit after 2021.

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

And last question, if I may? Shintech has announced expansion. And it looks like it includes VCM capacity growth in excess of their PVC growth. You have a contract with them selling VCM to this company. How protected are you within your contract? Is Shintech obligated to buy volumes from you and for how long?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. And so I probably won't comment directly on the very specifics of that. But what I would say, in general, is, expansions like this, particularly this one, they're really expected and needed, especially in this time frame, right, 3 years away. So -- that's because of demand growing on both sides of the ECU. And we certainly don't expect any negative impacts out of that and all of that is planned for.

Operator

The next question is from Mike Sison from Wells Fargo.

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

Really good, nice results there. Scott, just out of curiosity, when you think about the third quarter ECU, 99.6 and then the 106.2, how much of that was really you guys making the changes? And then obviously, when you look at the consultants' indexes, the ECU went up. So I'm just trying to understand how much of that or maybe all of it potentially was what you've done so far?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Thanks a lot, Mike. Thanks for the question. And yes, I mean, we're all very focused on controlling our own destiny. And if you think about the way we're operating, it may certainly be disruptive compared to what has happened in the past. So certainly, we've driven our own results to this point. And when you're acting in that manner, I think opportunities present themselves that otherwise may not have come up. In other words, those happenings before that we didn't turn into opportunities get turned into opportunities.

And the way to think about this business, because there are so many different markets, it's coproduction, we have derivative chains, is that there's opportunities that come up every day regardless of whether in one product area demand characteristics are improving or declining. And now we're positioned to take advantage of those on the way up and on the way down.

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

Got it. And then just a follow-up on Winchester. When I've been to Cabela's or such, you can't really find Winchester's ammo or anybody's ammo for what it's worth. So are you looking to expand capacity? And then when you look at the pricing at these retail stores, it's 3x November, maybe 4x in some cases. Are you locked in those type of prices for this year? And maybe just a quick reminder, how much is commercial and law enforcement that we sort of understand the mix there?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Yes, sure. I mean, Mike, I kind of just start at the back end of that. If you think about the mix of the business, it's not that far from being a 50% military, 50% commercial with some law enforcement mixed into that. Those are really, really rough, rough numbers. So -- in terms of capacity, I mean, we've just, of course, acquired a lot of capacity with the Lake City operation, but we continue to run that hard. And instead of expanding capacity, what we are doing is looking to optimize that capacity so that we do the right things for unit margin.

In terms of whether we're locked into a lot of things, our government business or our military business is more steady, but commercially, even over the last 6 months, there's been certainly 3 or 4 price increases. And so we have the ability to change price as we need to change price. In fact, we have a February price increase that's on the table right now that really impacts nearly all of our commercial business or a lot of it anyway.

Operator

The next question is from Frank Mitsch from Fermium Research.

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

Nice end to the year. And if I could translate Mike's question, he was really asking you guys to ship him a couple of boxes. So I think that's what the genesis was for his question.

But if I could stay on Winchester, obviously, very impressive, $45 million of EBITDA. How do we think about the contribution from Lake City versus heritage Winchester? We would have modeled in something like, I don't know, $12 million to maybe $15 million at most for Lake City in the quarter. So I was just trying to understand how that played out? And how do you think that's going to continue to play out?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Sure. Frank, yes. Look, I mean, our improvement was due principally to 2 things. And you're right, one of them is Lake City. And the other one was certainly better commercial performance and productivity performance across Winchester. So you can sort of think of those 2 things as sharing that improvement to get to that $45 million number. And we're going to continue to build on both of those. Lake City will be better than we said, but it will really be because of our team's actions once we have Lake City. And so that $45 million that you referenced really becomes the low quarter in the next 5 quarters.

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

Wow. Very helpful. And if I could just ask a question on the Chlor Alkali side? Given the fact that you're not selling into poor quality markets and indicated in the release that your volumes in Chlor Alkali were lower year-over-year. I was wondering if you might be able to quantify, was it low single digits, mid-single digits, down double digits, either sequentially or year-over-year, however you want to handle it? Just so we have an appreciation for how much is -- that business is benefiting from the PCI versus the volume side of the equation there?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Sure. Maybe Damian will answer this question.

Damian Gumpel

Yes. Sure. Frank, good to talk to you. I would say that when we look at -- if you look at our performance over the back half of the year, the contribution from a PCI more than outweighed any headwinds from lower volumes or cost. So as I sit next to Pat and Jim here, we're working very closely together. The productivity gains that Jim has done and has led the way really creates a lot of air cover for the commercial organizations to go out and put value over volume at risk knowing that we're constantly and deliberately working our costs down. And then as we look at our activations, as Scott mentioned, let me just give you a few data points here. And we purposely in Q4 against the weak caustic market, we placed less caustic soda than we otherwise maybe had the ability to do.

And so we purposely kept caustic soda off of our participation. We did the same thing with EDC as well. We make EDC in conjunction, liberating caustic soda. Well if caustic soda is weak, that means that we're going to play to that weak side. That also means we're going to limit our EDC. And we see that our demand for EDC than for -- more than outweighed our desire to supply, and we were purposeful in activating around that and looking to achieve ever-increasing values on EDC.

Same goes for our bleach business where we announced several off-season price increases in bleach in Q4, and we achieved those, and we've negotiated higher value contracts for us for the totality of 2021. We did that in our GCO business where we announced price increases in Q4 against strong volume, purposely held some volume back as well there to activate around that. And in cases when we were the only ones with a price increase on the table, we achieved the price increase and got the volumes.

So a very purposeful set of working through our cost, but being very much in charge of our own destiny as it relates to being willing to put the value over the volume. I think our fourth quarter results show that, that model has some very good and positive returns.

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

Frank, Frank, Frank, you should think of that price is at least 3 or 4x depending on what comparison you want the penalty associated with volume. Again, it is much more about margin enhancement than the issue on volume. That well outweighs it.

Operator

The next question is from Vincent Anderson from Stifel.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

So you talked about epoxy having to compete for chlorine internally, which is interesting. I don't normally think of those as an asset-light business. And so without seeing anything specific to epoxy highlighted on Slide 15, I was just interested in getting some color in terms of how much more fixed costs do you feel like you can get out of those to facilitate the kind of flexibility you're talking about?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. I mean -- thanks a lot. I'll just take a quick shot at this. I mean, look, we have room out of the company to take fixed cost, and that's pretty widespread. What we haven't really tried to do at least for external purposes is to narrow that down to business by business. I would just sort of close that point by saying, look, we're going to get the $150 million to $200 million of gross productivity, which translates into that net $50 million to $100 million. And there's opportunities across all the businesses to do that.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Okay. That's helpful. And Scott, you teased out some asset-light moves. I think you called them that -- if I'm interpreting it correctly, it could shift the portfolio a little bit. With the improvement in base free cash flow going forward really starting now, are there any areas in chlorine derivatives or maybe some small acquisitions could have an outsized impact on ECU optimization?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Yes. The answer is yes. I mean it's not impossible. Of course, our principal strategy when we get above $1.5 billion of EBITDA will be to get more molecules underneath our umbrella. And what that might mean, just sort of as a teaser to the future a little bit, right, it will -- it won't be just trading activities, it won't be just production activities either, and it won't be just marketing activities either.

It's going to be more than any of those put together, and it's probably going to be something the industry has never seen before and may be disruptive, just like our model is disruptive to conventional thinking right now.

Operator

The next question is from Neel Kumar from Morgan Stanley.

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

In terms of the $1.5 billion of EBITDA, I know you mentioned it's not a 2021 target. But can you just provide how many years out that could be a potentially attainable goal? And can you just talk about what are some of the underlying assumptions needed to get there? And how much of the increase is under your control versus perhaps being more market driven?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Yes. Thanks a lot, Neel. Yes, I mean, it is 2 or 3 years out, right? We haven't put a specific time line on that. But I think the more interesting answer to your question is that we have everything that we need to get to that number. So it really is all about executing this differentiated model across the company. So we don't need anything else. And that's also why we could run $200 million of capital for many years, in fact, to be able to support our business model.

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

Great, that's very helpful. And then just for chlorine, I think there's been up to $200 per ton out there in terms of the price increases. Can you just give us a sense of how much of the chlorine portfolio has seen that price increase? And then it seems that IHS has only recognized a portion of those increases. Why do you think that's not all been recognized so far by IHS?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Well, I would just say that I probably can't answer why IHS didn't see. Probably a good question for them, actually. For us, we are still unwrapping ourselves from certain commitments that we have to follow-through on. So in terms of merchant chlorine, we still have maybe the minority, but a minority growing share that we can instantly change price on, and we're working to improve that.

Operator

The next question is from Matthew Blair from Tudor, Pickering, Holt.

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

I had a few questions on Epoxy. So we've seen propylene and benzene costs move up quite a bit in January. Of course, LER price has also soared about $0.27. Could you just walk through the moving parts here? And all things equal, would you expect to see unit margin profitability increase in Epoxy in Q4 versus -- or sorry, Q1 versus Q4?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. So I think Pat will give you a little color on that. He'll probably just sort of cut to the chase and get to the answer on that without too many moving parts.

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

Yes. Yes. Matthew, the short answer is yes, we are going to expand margin, Q1 versus Q4. And yes, that's the short answer.

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

Sounds good. And then, Pat, you previously touched on strong demand end markets in Epoxy, like wind and autos. I think the price gains are just pretty remarkable given that aerospace is likely still a big drag. So could you talk about how much of a headwind is aerospace today? And I guess how much upside down the road it would present if aerospace normalized?

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

Well, Matthew, I think you have to also throw oil and gas into that aerospace as well. So while we've seen the recovery that I talked about in our demand, I mentioned earlier, which we're pretty much back to where we were last year at this time without aerospace, to your point, and without oil and gas and also without the full recovery in a lot of industrial coatings. And so you guys cover all the big coating houses. And so I think there's more upside here to the demand.

The other point I didn't mention is that we really saw a lot of customers and their customers' customers take inventories down really to low levels at the end of last year, which is not uncommon. But we think inventories are at pretty low levels here going into the new year as well. I think that bodes well for ongoing traction that we have seen late last year and that we're seeing here in Q1.

Operator

The next question is from Eric Petrie from Citi.

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

Appreciate the comment on the 30% of merchant chlorine transitioning away from indexes. Could you quantify at all for the rest of the portfolio, including caustic soda, how that traction has made progress in the year-end?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Damian, do you want to comment on that?

Damian Gumpel

Yes. So Eric, we continue on a very deliberate approach here that in terms of looking for contract openers, canceling evergreen contracts, pulling contract renegotiations forward, both across chlorine and caustic soda to move away from these arbitrary, sometimes opaque third-party indices and move towards something that puts our -- the control in our own destiny.

And so we fully expect to continue to move along that. We achieved -- every new contract moves us closer and closer to that goal that Scott has outlined. And we have achieved that. Everything that we open -- we were able to open and negotiate in contracts here in the second half of the year across all of our molecules, we achieved that. So much more to come here, but we're very active on that front.

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

Okay. And for my follow-up, U.S. Gulf Coast EDC prices have doubled to $600 per ton. Is Olin running full out or not because of lower caustic netbacks? And then are there any other chlorine derivatives that are right for debottlenecking capacity?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Yes. And so Eric, this is Scott. I mean what I would say is that you have to think about how we're running our model. And we said we're not going to sell into poor quality markets. And therefore, we're not selling so much into the caustic world right now. Because these things are coproduced, we go back and look at chlorine. And basically, that says we're not selling as much chlorine into certain markets, and that means every derivative has to compete.

Clearly, EDC is becoming more competitive for that chlorine. But I just don't want to walk away from this Q&A and people think that we're running assets hard for where we are, because we're not at the moment. Those are running more than maybe some other derivative assets might be. It's all connected together.

Operator

The next question is from Jeff Zekauskas from JPMorgan.

Jeffrey John Zekauskas ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Your operating cash flow in the quarter seemed pressured. And your -- you really lifted your accounts payable, which assisted things. Can you talk about some of your operating cash flow dynamics?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Todd, do you want to take it?

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

Yes. Jeff, consistent with what we had said throughout the year and in our call in early November, we said we were ultimately going to reduce working capital by around $150 million, that being $141 million. It's hard to predict the exact timing of tax refunds, otherwise, we'd hit it. Remember, that does include funding $67 million of working capital for Lake City. So we had purposeful activations on our entire working capital front. And what -- the achievement occurred was what we expected.

Operator

The next question is from Steve Byrne from Bank of America.

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

You've mentioned you have underutilized ECU capacity and that it's under review. I'm concerned -- my question is really about what are the options you're considering? Is it likely that you'll shutter capacity and keep it, so to speak, warm until demand warrants bringing it back on stream? Or have you looked at the technical feasibility of retrofitting electrolyzers to instead of using a salt brine, use freshwater and produce hydrogen? Or to use a lithium chloride brine and produce lithium chloride and chlorine? Have you looked at those options as an alternative?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. No, the option we're looking at, and I think highly likely is a permanent shutdown of some ECU production capability, just like the other shutdowns that we're doing are all permanent shutdowns. And with regard to your other questions, I mean, we just have so much more value to deliver and lift in terms of our current businesses that the answer to your question is no, we're not looking at any kind of changes in chemistry at the moment.

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

Okay. I don't know, $10 a kilo for hydrogen seems like a pretty high-value option. But I did want to drill into your productivity initiatives. Is this a program that you've modified since coming on board, Scott? I mean -- and can you comment on these 600 projects that you have underway? How would you characterize how much of that -- this is kind of top-down versus bottom-up? And if it's coming from broadly within the employee base, what is your approach to incentivizing all Olin employees to contribute to this pool of productivity ideas?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Well, look, I would just say that, no, it's not me, it's the team doing this. As far as how the team is doing that, Jim is going to answer in just a minute. I think the answer to the question of why the employees would be incentivized to do this is basically because they love Olin and want to see Olin be really successful in the future. And like I said in my opening, I mean, I'm just so proud of this broader team for really jumping in and originating things. Jim, do you want to add anything?

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

Yes. What I'll add is that what we've really done is we've broadened out the program and intensified the program. So we've had productivity in the past, but now it's -- we're literally driving it down to every employee. So on a weekly basis, for instance, at the end of a particular week or a shift, some of the -- the folks that are actually operating the plants will get together and say, what did we learn this week? And what do we think that we can do better? So -- and lower costs. And then they take those ideas and we actually follow-up on those.

So that's an example of the kind of thing that even every operator of a plant on the shift or what we're doing, it doesn't matter whether we're closing the books or any place else in the company, we evaluate on a regular basis what isn't being done well, what did we see that could be done better or save money? And then we actually put it into a project and we follow-up on it.

So it's a grassroots, all employees based type of program and then we elevate them up and we follow through on the projects.

Operator

The next question is from John Roberts from UBS.

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

Scott, Olin acquired KA Steel a long time ago as a way to get control of more caustic molecules. Would that be an example of the type of things that you're thinking about? I know you're thinking about other things in addition to that. Or that's not the kind of thing you're thinking about in terms of controlling more molecules?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Yes. Thanks, John. Right. I mean I would just say that, that could be an example, right? It would be one tool of that. I think there's a lot of ways to have more molecules flowing through our sphere of influence than doing complete acquisitions though that probably this industry hasn't seen them added together, right? They're seeing one by one. But in terms of uniqueness being set up around a model where we go out and do that, which will drive growth for many years to come for Olin, it will probably be a bit more sophisticated than one by one steps.

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

And then secondly, sequentially from third quarter to fourth quarter, your ECU index moved up about 6% and your EBITDA on relatively stable volumes moved up about 13% for the segment. Is that about the right leverage that we should think about, kind of a 2:1 move in EBITDA versus the index?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. I mean it's probably -- for the level we're at right now, it's probably okay, I mean, as a rule of thumb. Clearly, there's a lot of other things at play in terms of productivity and turnarounds and all those things, but it's certainly indicative.

Operator

The next question is from Arun Viswanathan from RBC Capital Markets.

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

Congratulations on all the progress here. I guess I just wanted to ask the progress question a little differently. So last quarter, you laid out a $50 million to $200 million bucket for optimizing the ECU value. Are you -- do you feel like you've achieved maybe the midpoint of that on a quarterly run rate basis at this point? Or are you leaning towards the upper end?

And then secondly, when you think about the move from $250 million to $375 million, say, on a quarterly run rate basis of EBITDA, where do you feel like you achieved that $375 million? Is it maybe exiting Q4 '21? I know that you're not achieving the full $1.5 billion in '21, but do you think you can get to the run rate of that maybe in late '21 or early '22?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Well, I think the -- Arun, the answer to the first part of the question is, that's a little bit of why we're showing a bias to increase what we're forecasting for next year, is that we are leaning beyond the midpoint of that bucket that you referred to.

So can you restate, you used the number $375 million. I'm not sure what that number is. I kind of missed it. Can you restate what you were asking?

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

Well, I was just implying that if you say $1.5 billion on an annual run rate EBITDA basis, maybe that's $375 million a quarter or slightly above that, that's what I was referring to.

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Yes. Okay. Yes. I mean that, of course, is probably 2 to 3 years out where we get to that kind of run rate consistently. I mean are we going to have to reach a point where we touch in the 300s to demonstrate that we have the capability sooner than that? I think we will.

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

Okay. Great. And then just lastly, on leverage. There's a target to get to 3-or-so by the end of next year. What -- beyond that, I mean, do you feel like that's the right level for you guys to remain at? Or would you see you going even lower? And if you remain there, how do you see priorities of cash use?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Todd, do you want to answer that?

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

Yes. Sure. Arun, we're targeting to be in that 3x range within the next 12 months. Clearly, from the -- from a levered free cash flow of $2.50 to $3.50 a share, we've talked about. That will help us -- we're going to use that cash to continue to pay the dividend and to reduce debt.

We just paid $120 million this January. The next targeted debt that we have is the $500 million of the 10% bonds that is due in 2025. We're targeting to try to pay those off fully in 2021. So that's where we're headed. And as we move beyond 2021, clearly, we would like to see debt come down a little bit. And then we have opportunities for cash as we continue to generate.

Operator

The next question is from Travis Edwards from Goldman Sachs.

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

I appreciate the color on the business. Maybe a follow-up on the capital allocation side and I guess, maybe at the risk of coming across superb record from last quarter. But just on those 2025's, I think you've been clear and have proven that with the free cash flow you are allocating towards debt reduction, taking out those 23's, I was just wondering, is there anything as far as sort of market environment, kind of market support that would, I guess, change how you're thinking about allocating that cash flow not necessarily towards the debt reduction, but maybe coming to market instead with your debt trading in the 4% range and those -- the coupon on those being 10%? Anything that could -- I guess, is there anything in the environment that could change that would help you rethink or lead you to rethink how you would address that debt?

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

Yes. We obviously always look for opportunities to be mindful of ways to reduce our interest costs. However, we also balance that with the amount of free cash flow that Olin generates, and we need prepayable debt. So clearly, we are targeting -- prepaying that $500 million of 10% bonds, if possible, this year.

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. And so -- and just to add on that, Todd is exactly right. I mean we're going to go after that $500 million this year. A large part of that certainly comes from our operating cash flow, and then we'll do some clever things to get the rest of it.

Operator

The next question is from Roger Spitz from Bank of America.

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

For 2021 working capital, unless you said this earlier, do you expect that to be a source or use of cash and to what extent?

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. I'll just quickly answer it. I mean we're going to use a little bit of cash for some working capital, and that's all factored into it. When we say we're going to get levered free cash flow at $2.50 a share to $3.50 a share, that's all factored into it. It will be a slight use of cash in 2021.

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

Perfect. And I'm wondering, back on Epoxy's, with the Hexion furnace force majeure in Europe, how much is that driving the spike in this at the LER versus, say, perhaps less Chinese import pressure into Europe because of stronger demand in China and stronger demand overall?

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

Yes, Roger, this is Pat. I would say that, that force majeure that you referenced is more of the minor issue compared to the bigger issue I mentioned earlier around overall demand and demand out of China.

Operator

As there are no further questions, this concludes our question-and-answer session. I'd like to turn the conference back over to Scott Sutton for closing comments.

Scott McDougald Sutton ***Olin Corporation - President, CEO & Director***

Yes. Yes, thanks. I mean I just in closing, I'd just like to say that Olin is going to continue to win our way to a different valuation, which means we really have to lift Olin people high. And you might be interested to know that we also host internal progress calls each quarter facing our own internal analyst, and it's slightly off-cycle with this call, but we call them something different. We call them lifting calls. And we had 3 lifting business units, and the leaders of those business units report on our engagement, our drive, our initiatives and progress similar to what I do here on earnings calls. So we'll look forward to discussing that topic more with you on future calls as well. So thanks a lot for joining us today.

Operator

Thank you for attending today's presentation. You may now disconnect.