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PRESENTATION

Operator

Good morning, and welcome to Olin Corporation's First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

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

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

Thank you, Sarah. 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 and in yesterday's first 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 and 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 & Chairman***

Yes. Thanks, Steve, and hello to everyone. Look, I'm super proud of the Olin team for their passion, results and for their optimism for our future. Because of their optimism and success, I have the opportunity to pull forward our value creation formula story.

First of all, Olin is on track to deliver more than $1.8 billion of adjusted EBITDA this year. One proof point to that track is that second quarter adjusted EBITDA is expected to exceed first quarter adjusted EBITDA, excluding Uri onetime impacts, even though we have significant turnarounds in the second quarter. The third quarter adjusted EBITDA should also exceed the second quarter.

So it is time to start projecting toward a higher adjusted EBITDA of $2.5 billion and above in future years, the emphasis really being on the above. For clarity, 2022 is expected to be a positive stepping stone toward that direction. Some key activities to bridge that gap to $2.5 billion are shown on Slide #4. But maybe Slide #5 tells a more comprehensive story to that $2.5 billion and above.

Olin is quickly moving through 4 phases of evolution. We have already discussed the first 2 with you on prior earnings calls, and we are currently in Phase 2, the leading phase, as we enhance our unique model of optimizing value first across the whole ECU. Think of leading as solving the ECU coproduction conundrum by setting our participation to the weak side of the ECU, anticipating potential value inflection points and then activating to achieve a desired response.

Shortly, we'll be looking to take our innovative model and apply it across multiple millions of tons of similar molecules and parlay the model into a much larger business. All kinds of commercial strategies will be employed in this Phase 3 of parlaying, including bartering, sophisticated trading and differentiated alliances to better serve customers.

Simultaneously, Olin will be preparing for Phase 4, structuring, as we look to take proceeds from our cash flow machine and invest them in a smart way to expand our beneficial footprint. Please don't miss our internal equity price target in the lower corner of that slide.

Okay. Let me pull back to today a bit and fill in some key activities and results. Slide #6 shows that in the first quarter, we matched our market participation to the weak side of the ECU. In other words, we sold less caustic, which not only allowed us to hold up caustic value relative to the fourth quarter, but more importantly, allowed us to significantly expand value throughout our chlorine and chlorine derivatives chain. I think the lift in the ECU PCI shown on Slide #7 clearly shows the positive results. That value impact was also significantly expanded by the innovative actions taken by our Epoxy team, as shown on Slide #8. Olin is the world's leader in Epoxy and our wins continue to stack up as we place our offering with key customers and into key applications.

Look, I would also like to highlight the updates made to our Olin ESG scorecard in the appendix slides. We are generally delivering to many of the commitments made in our sustainability report, but we still have a lot of work to get fully on track here. Again, this demonstrates the team's comprehensive passion for Olin's broader contribution.

So before opening this call up to Q&A, let me wrap it all up into contemporary value on Slide #9. Our team's shared success in leading and running toward parlaying is forecasted to generate roughly $1.1 billion of levered free cash flow this year, which at the current stock price represents a yield of roughly 16%, really attractive, considering we're just in the early stages of our push for shareholder value delivery.

Okay. I mean that concludes my opening comments. And operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Hassan Ahmed with Alembic Global.

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

Great numbers, very good guidance, but particularly I like the sort of accelerated debt paydown side of things. Now as sort of you guys mentioned that you should be sort of approaching less than 2x net debt to adjusted EBITDA by year-end. And you also sort of called out the Phase 4 side of the evolution at Olin. Just wanted to sort of dig a bit deeper into what exactly Phase 4 may look like in terms of deployment of capital. How should we be thinking about M&A? Would it be upstream or downstream? And how should we be thinking about share buybacks?

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

Yes. Thanks a lot, Hassan. I mean, yes, you're right. I mean towards the end of this year, we end up somewhere at debt-to-EBITDA ratio between 1 and 2 actually. And that's why we're introducing this Phase 4 publicly now is that we're pulling those activities forward. And I do think M&A can be a part of that. On the other hand, there are some investments that we can make in this Phase 3 of parlaying, too, as we get into differentiated alliances and actually invest in things like working capital to be able to expand the presence of our model.

So we have all those things. We are absolutely focused right now on rightsizing our balance sheet and really right conditioning our balance sheet. But Hassan, there'll be a lot more to come on Phase 4. We just haven't fully introduced it yet, and that will be the subject of some future calls.

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

Understood. Understood. And as a follow-up, again, one of the things that you talked about was ending the cycle pattern, as you guys called it. So we understand what you're doing. And obviously, going out, selling into the stronger market, sort of avoiding certain weakened markets and the like. I just wanted to get a sense of what you're seeing on the competitor side of things. I understand it's an oligopoly. But is the market continuing to be disciplined? How should we be thinking about that? Because obviously, one of the risks that arises is that you guys may be doing everything right, but there could be some market share gains, there could be some price cutting gains. I mean could you just give us a better sense of beyond Olin, what you guys are seeing in terms of the landscape.

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

Hassan, of course, it'd be hard for me to comment on competitors and so forth. It's easy for me to comment on what Olin is doing as we've really worked ourselves through solving this ECU conundrum, where our market participation is really set by the weak side. And so in doing that, we just don't cross downward inflection points. We only cross upward inflection points on our value curve. And so what that takes you to, Hassan, if you think about it, I know there's lots of publications out there and you see the quotes that somehow our capacity utilization is around 80%. But when you're talking about having to run a coproduction scenario, basically serving 2 or more different needs with one production rate, that 80% has the effect of a 90%.

And in fact, you're not going to see us be able to run above 90% because these are challenged assets to run as well. So I just submit that our actions are meaning 80% to be closer to 100%. So maybe not a direct answer to your question, but I will say, our discussions have evolved more towards value with customers than anything else.

Operator

Our next question comes from Alex Yefremov from with KeyBanc.

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

Scott, you were talking about epoxy margins moving towards 30% in the medium to long term. If margins are this high, I assume part of this equation is the price. How do you think competitors and industry, in general, would respond to this? What level of reinvestment economics are we in this position? And do you just see more capacity announced?

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

Yes. Alex, thanks for the question. And I'll turn it over to Pat here in just a moment. We probably won't go into the competitor action there. But I would just start Pat's comments for him by saying that we actually have a long way to go to get to that 30% adjusted EBITDA, but it's totally within our scope and range. So Pat?

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

Alex, I would say why not 30%, because I think if you look at the performance properties of epoxy and the fact that there's really not any clear substitutes for epoxy in terms of this performance and the value that it brings to customers. It should be able to command these kind of returns.

I think also, you look at our leadership position and the space that we occupy, vis-a-vis competitors, that's more of an upstream, midstream space and the way we can monetize our epichlorohydrin in the form of liquid epoxy resin. I think those leadership positions are very strong. I think, also, we have a number of opportunities to parlay that you see on Slide 8, that upstream position into opportunities that, quite frankly, are already in motion, whether we have the option to toll produce, the option to make versus buy, the option to produce more if we can get the value for that. I think we have a lot of optionality there. So that's the way we look at it. And we're really working to accelerate those parlaying activities as we move early into the game here towards that 30%.

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

And just as a follow-up, Scott, you mentioned, you expect third quarter EBITDA to continue improving sequentially. We had a lot of disruptions in the U.S. Gulf Coast, as you well know. How do you expect PCI -- ECU PCI to behave in the back half? Do you think it will start coming down at some point in the third or fourth quarter from Q2 level?

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

Well, I mean, I would say our improved EBITDA performance is going to be a reflection of an improved ECU PCI as well. But what I would say, there are going to be points in our future that, perhaps, we exist through a quarter where we have to make some adjustments in how we're set up as we're running our model and that can lead to potential declines in the ECU PCI. But they're going to be short lived because what they do is position us for the next phase of growth that we have in that ECU PCI and in our EBITDA.

Operator

Our next question comes from Mike Sison with Wells Fargo.

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

A really nice start to the year. I guess, Scott, when you think about 2022 and the sustainability of the earnings that you're seeing here in '21, and I know it's a little bit early to give specific guidance, but it does sound like there is potential that '22 EBITDA could continue to go up from '21. Can you maybe walk through some of the things that you will do under your control to do that? And what needs to happen to keep that progress?

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

Yes. Mike, thanks. And so we have given fairly narrow guidance for 2021, considering where we sit right now, and that's at $1.8 billion to $2.1 billion. And what I said was, look, 2022, it's going to be a positive stepping stone going above that. So we haven't given specifics on that. But some of the items that will help us, right, we've listed out on that Slide 4. But I would add to that, Mike, and I would just say that when you think about supply demand fundamentals looking out a year from now, especially around the ECU, they only improve. And at the same time, we continue to improve and enhance our unique model. And I think when you put those 2 things together, they underpin all of those activities that we've listed out on Slide #4.

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

Understood. And then just a quick follow-up. I think you mentioned that the ECU PCI will get to about 200 in 2Q? Is there any way to help us understand how much of the improvement from whatever, let's say, the 100 in the third and fourth quarter is kind of your new business model? And how much was the tightness in normal -- in supply and demand?

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

Yes, sure. Just for clarification, Mike, because that index really represents the variable margin of 75% of our company, right. Movements in that ECU PCI make a very big difference in our profitability. And so what we've said is we've got to move that index up close to 200 to get in the range of $2.5 billion of EBITDA. So while I wish it would happen in the second quarter, it's not going to get to that level. So that's kind of where that item sits.

Operator

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

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

Scott, as I listen to the commentary and having read the slides, it seems to me that when we hear about alliances, tolling agreements, bartering, et cetera, that you're going to be looking for what I would call capital-light solutions to growth as opposed to building, let's say, new greenfield or brownfield capacity. Is that correct? Or am I over reading into the signals here?

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

Yes. Thanks a lot, Kevin. I mean, no. I mean, that's correct. I mean we do have a next path to growth that is capital light. And in fact, we are already engaging in those activities, right? You heard when Pat had answered an earlier question that we're doing things like tolling some of our scarce upstream materials into liquid epoxy resin, for example, so that we can service our customer base. And there's just a lot of opportunities to do that across our complete portfolio. So those are the things that we can pull forward the fastest to support growth, right? There's other things we can do beyond that. I don't really see greenfield expansion as part of our future. There could be limited brownfield expansion dependent on the alliance opportunity that we might have, but yes, it's a low capital, near-term growth strategy that will complement with that Phase IV structure.

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

Okay, that's very helpful. And then secondly, I'd be interested to hear your updated thoughts on international trade. Normally, when prices rise in a parabolic fashion, what would happen is we'd see imports to exploit a physical arbitrage opportunity. In today's market, we've got all kinds of chaos and friction in global supply chains. Are you more insulated from trade threats today? And what -- if so, what do you think that means for Olin's profitability?

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

Well, I'll start this, and then I'll ask Damian to add a little bit to it. But our winning model is a very active model. And so we participate in global trade at the right moment with the right products. So we're an active participant in that instead of just being subject to reactions that may develop from that. But Damian can probably do a better job with that than I did.

Damian Gumpel ***Olin Corporation - VP of Olin and President of Chlor Alkali Products & Vinyls***

Kevin, just to dovetail on the comment. I would tell you that the way our model is really set up right now is regardless of the stimulus that is put on us, where there's some changes in trade flow, demand flow end-use flow, we just adjust to it and not have to mitigate from it. And so as we saw -- just to give you a brief list of examples, we saw, globally, on the vinyl side, a lot of strong demand, a lot of people running for that stronger side, and we're running towards our weaker side of caustic. It didn't mean that we pulled back our participation of caustic, but we look, globally, at where there were pools of available material. And we have done some things in purchasing products from regions that we -- in our prior models, our prior paradigms, we haven't done before. And so by doing that, we were able to effect the participation strategy on our ECUs that we wanted to do, but we still met some desires, customer growth and reactions to be able to serve them and their demands ramped up, and we did that in a very fluid and efficient way. So that's just one brief example of kind of the way we adjust to really any curveball or fast ball that comes our way.

Operator

Our next question comes from Frank Mitsch with Fermium Research.

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

Nice results. I just wanted to drill down a little bit more on to the chlor alkali side of things. On Slide 5, you mentioned that the model fits across millions of additional pounds. And yet you took the decision to shutter 50% of the McIntosh diaphragm capacity. Can you talk through the decision behind doing that?

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

Yes, yes, sure. I mean, this is Scott. I'll start. Frank, yes, by the way, just for clarification, our model fits across millions of additional tons of material, not just millions of additional pounds of material. Just a -- I mean, we do business, we're selling roughly 14 million tons a year. So it's maybe not that far-fetched to think that we can grow at that kind of level.

And yes, I mean, look, when you think about the capacity announcements that we've had in terms of shutting down, they were underutilized assets, right? And the reason that they've been underutilized assets has been because of the way we run our model. We said we're not going to participate in poor-quality markets. So therefore, as one example, not participating in a poor-quality caustic market means we don't have need for that asset anymore, so we're going to rightsize our balance sheet to be much more nimble in the future. And that's what it's about. It's not an indicator that demand is weak or weakening. In fact, it's just the opposite.

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

Understood. And listen, I mean, obviously, the Winchester EBITDA really jumped off the page, and much of that is Lake City is humming along. I mean, when you originally bought that, the indication was that you had about $50 million of EBITDA per year, but it looks like it's heading that per quarter. Can you talk through what you're seeing with your Lake City business? And have we repealed seasonality in ammunition because, obviously, an incredibly strong 1Q result.

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

Yes, yes, thanks. I mean I would say, actually, Lake City is doing as we intended and as we said, maybe just a little bit more. You've got to remember that we integrated it very fast, right? And not only has it become part of our military business but also part of our commercial business. So the performance improvement that you're seeing is across the whole business, okay, after we made the acquisition. And the team did some fantastic work to really go out and optimize our whole supply chain and our whole approach to the market there. And I mean, demand stays strong, and it's really a result of the fact that the sport of target shooting is growing quite a lot, and it continues to do that, and you see us or you will see us start to use the Winchester brand to grow that sport of target shooting. And we're doing things like. We just had supported the Winchester sporting clays Ladies Cup. Ladies' participation in target shooting is one of the fastest-growing areas, and we're going to be a big player in that.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan.

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

In the light of your EBITDA ambitions, is the pattern of your capital expenditures over the next several years different? That is, is it higher than $200 million a year? And you spoke of buying various assets to fill in, I don't know, tactical or strategic gaps. How much might that cost, roughly?

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

Well, yes, Jeff, I mean, I would say, in general, for the next few years, we're in that $200 million a year range for capital. But what I would also complement that statement with is the fact that some good opportunities are going to come out of our activities as we move into Phase 3 of parlaying and potentially Phase 4, structuring. I know you get the Phase 4 structuring piece of it if we did do some targeted M&A. But even in Phase 3, we may have the opportunity to invest in a different way and, therefore, we might use some of our levered free cash flow to do some of that. But in general, it's going to be $200 million a year, at that level, for the next few years. Maybe Jim, who's next to me, wants to comment on why we can stay at that kind of level in the base business.

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

Yes. We're looking very hard at our asset base on a continual basis. A lot of it is about productivity and what we need to run and what we don't need to run. And you've seen the progress that we've made on productivity, some of the asset closures and so forth. That actually reduces the amount of capital that we have to spend, maintenance dollars, fixed costs and so forth. And also the fact that we're now running to the weak side of the ECU. So we look at things a little bit differently than we used to in the past. So at $200 million, we feel like we've made heavy investments in the early part of the building phase, and now we're reaping the benefits of those investments, and so our capital requirements are going to be in that $200 million range for the next few years.

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

Okay. And then for my follow-up, how much were your caustic soda volumes up or down sequentially and year-over-year in the quarter?

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

Well, I'll pass this to Damian. Again, I'll just preface it a little bit with the movement of volumes relative to a prior time period in one product are almost inconsequential to our results, right? It's how we use all of those activations to deliver the best value across the whole ECU and all of our derivatives that utilize parts of the ECU. Damian can give you something that's probably a little more specific.

Damian Gumpel ***Olin Corporation - VP of Olin and President of Chlor Alkali Products & Vinyls***

Jeff, I'll probably end up saying just another layer to the onion that Scott just peeled, in that it really doesn't matter what -- well, the answer is they're lower than they were to any relevant period, but that's a result of our model.

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

Right. How much lower?

Damian Gumpel ***Olin Corporation - VP of Olin and President of Chlor Alkali Products & Vinyls***

Lower.

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

We weren't going to specify those.

Damian Gumpel ***Olin Corporation - VP of Olin and President of Chlor Alkali Products & Vinyls***

They were purposely -- it was purposely lower. We pulled out of low -- pools of low-value liquidity, wherever they are in the world. So we pulled out of -- in the past, we've said we were at a certain level of participation on the export market, and if the export markets are weaker and you see where the pricing has been in the globally traded market, that's clearly an area that one can pull back from. And there were others as well. So lower, lower by decision, lower purposely. And it's an area that we still look at managing. We're going to always take a fresh look at what is the relative strength of one side of the ECU towards the other. The ECU is not a zero-sum teeter-totter. We completely break away from that paradigm. And we just played -- we're just going to keep playing to the lower side and the lower side is still caustic soda relative to everything else on the chlorine side.

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

Lower by 10%. Is it as much as that?

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

Jeff, I mean, what I would tell you is that it actually takes a lot less volume movement than you might be anticipating to keep from moving across a pricing inflection point. And I'll just sort of refer you back to Slide 6.

Operator

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

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

Congratulations on the great results here. So first off, I guess I just wanted to understand what you're seeing in the market right now. It looks like you are seeing some uplift in caustic soda pricing as well. What do you expect for caustic soda pricing over the next, say, 2 quarters or through the rest of this year?

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

Damian, you want to grab that one?

Damian Gumpel ***Olin Corporation - VP of Olin and President of Chlor Alkali Products & Vinyls***

Sure. I mean the short answer right now is, well, if you look at -- at a high level, the historical trends in association is that caustic trends, where the economy, economies are opening up and so forth. But again, to us, it's a simple equation that goes right back to the ECU. And caustic soda remains the weaker side of the ECU regardless of any upward trend that can be seen with the aforementioned economic recovery, and we still look to manage our participation based on which side is relatively weaker than the other.

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

Okay. Great. And then could you also elaborate on some of your plans moving forward? Would you potentially consider opportunities to move more downstream and to, say, PVC? Or could you also comment on your participation in EDC?

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

Yes, sure. This is Scott. I mean, look, we're not -- we're certainly not looking to move downstream. There's so much opportunity in where we participate today that you're likely to see us do things that complement our existing business. Yes, we already go into EDC. Actually, we're the world's largest merchant marketer of EDC as well.

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

And then if I could just ask you to comment on overall supply/demand trends. Do you think demand has structurally improved in this market? Or -- and do you feel a little bit more optimistic about the next several years on demand? Or is it still relatively going to follow industrial production for ECU?

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

Yes. I would just say it's starting to get better, right? It's not super great today. But every month, every quarter seems to generally get a little bit better. And that's been our outlook, anyway, is that demand continues to improve. And certainly, relative to supply, that gap continues to widen.

Operator

Our next question comes from Matthew Blair with TPH.

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

Congrats on the great results. So it's been reported that one of your competitors will be restarting some chlor alkali capacity after shuttering it for about a year. Obviously, a different approach than what you've been taking. But Scott, I was hoping that you could just kind of address that. And how do you think about this as the potential risk to the industry that capacity growth might be a little bit more than expected?

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

Well, Matthew, thanks. Yes, I mean, of course, I won't comment on specific competitors and their actions. But what I would say is that factored into our plans, right, is a view that, yes, there will be some supply added over time. It's just that all of that announced supply is likely to be a lot smaller than the growth in demand. And when you marry that up with the fact that there's still a lot of poor quality markets out there and, certainly, there's a lot of value left to lift in the ECU, which informs us about how we're going to run Olin and what assets we're going to have in our future portfolio, then I only see the overall outlook as positive. So the simple answer is, look, we certainly expect there to be some supply expansions out there.

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

Sounds good. And then I was hoping you could share any more details on just other chlorine derivatives that were especially strong in the quarter, other than EDC, which has some pretty transparent pricing. On our sources, it looks like HCL pricing was up more than 100% quarter-over-quarter. But could you just offer any more commentary on what you're seeing on that chlorine envelope?

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

Yes. Well, I mean that chlorine envelope is most of our company. So I'm going to let Damian probably make comment or 2 on something, and then Pat might want to add on to his epoxy comments, being a key chlorine derivative for us.

Damian Gumpel ***Olin Corporation - VP of Olin and President of Chlor Alkali Products & Vinyls***

Yes. Matthew, I'll refer you to a couple of slides. I'll refer you to Slide 17, the appendix showing our heat map, and then refer you to a slide also at the back, Slide 21. And both of those, when you put those together, you see pretty widespread interest in Olin chlorine and chlorine derivatives for a very broad spectrum of end uses. You see continued momentum of -- and request from customers for Olin's ability to supply. I'll go back to Hassan's comments or questions at the beginning. He asked about are we seeing things -- a question around maybe market share. I will just tell you that our customer forecasts are still for volumes throughout the rest of the year that are higher than our forecasted ability to supply them. So that should give you an indication as to the robustness of the chlorine side, which, of course, is going -- to my earlier comments, is still relatively stronger than the caustic side, so we'll continue to manage the ECU around that. But across GCO, HCL, bleach, merchant chlorine, it's all those green lights in the heat map, and I'll pass it over to you, Pat.

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

Yes, Damian. I mean, I'd say from an epoxy standpoint, we do sell some of our upstream products into wastewater treatment and municipalities for water treatment. And we've seen that really continue to improve on demand. And from an epoxy resin standpoint, you look at civil engineering, construction, automotive. Even though there's been the semi chip shortage, we've seen improvement coming back there. Appliances, electronics, we're starting to see maybe a little bit of life again in oil and gas, which uses fusion bonded epoxy for pipelines and areas like that, machinery. A lot of machinery is coated with epoxy. So I think it's back to what Scott said, we've seen good month-over-month improvements. But we think we're still very much in the early innings of this demand recovery. We think there's more coming based on some of these end-use markets I just mentioned.

Operator

Next question comes from Eric Petrie with Citi.

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

Just looking at your chlor alkali sales exposure by region. Over the last couple of years, it's gone from 65% U.S. based to 75%. Is that part of the strategy due to the higher netbacks? Or how do you see that over time going forward?

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

Well, look, I mean, we -- there's lots of opportunities to flex that there. It's just that, certainly, the activities that we've had globally enhanced our business in North America. Look, it's a high-level statement, but I think in the future, you'll see us do more business even outside of North America as we really expand and parlay our model.

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

Okay. And then maybe a question for Pat. How much epoxy goes into higher-value versus the low-margin end markets? Where do you want to get that down to? And then is there a difference in profitability between regions currently?

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

Yes, Eric, I think if you look on Slide 8, we talked about where we're increasing our supply and the high-margin performance coatings. I mentioned civil engineering earlier, formulated-type systems. And certainly, that value over volume orientation that we have is putting more into those types of areas and applications. And there's places where you have low margins in industrial coatings. Wind energy has been an area that's been growing, but we've pulled back from some of the low end of that business. And then some of our upstream feedstocks, we're definitely doing less business there because the value is not there. I think geographically speaking, one of our leadership advantages that we have is we have a lot of flexibility as to how we flex product between the regions. And that's a pretty dynamic process that we use all the time around our activations.

So I wouldn't say any one geography. I don't pay attention to that so much strategically as I do where the opportunities come up to create more value and to juice up our return to the ECU.

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

Okay. And then lastly, Scott, maybe to help us track the progress of the value-first equation and then moving away from indices and higher activations. How much of your 14 million tons that you sell have undergone this change, the strategic change?

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

Well, I would just say, if you think about that sort of roughly 14 million tons, I mean, we're left with a very minority part that is still attached to an index directly. And we've still got some hurdles to get off indexes or at least some of indexes by the year-end, and we'll still have some that will continue into next year, particularly in some areas like merchant chlorine, where it's really completely nonfunctional. But after that, we're completely away from many of the indexes.

Operator

Our next question comes from Mike Leithead with Barclays.

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

I guess, Scott, a question on the long-term EBITDA outlook. I think last quarter on the call, you talked about $1.5 billion being a target level, maybe 2 years out or so. Obviously, the hurricane and market tightness is helping you get there this year. But it seemed like $1.5 billion was roughly where you thought the earnings power of this business could get to over time. And now 3 months later, you're telling us that it's maybe $1 billion higher than that. So I'm just trying to better understand maybe what's changed over that time, whether it's better confidence in the pricing power, the commercial success you're having? Just why has the long-term earnings power of the business moved so much higher over the past 3 months?

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

Yes, thanks. Yes, I would just say, look, the fundamental factor of good early performance is that the whole company and the whole team is being really successful at running our model. And there's lots of momentum there, and there's lots of runway left there. Fundamentally, that's what's going on. I would say that, look, we've talked about other numbers, of course, $1.5 billion, $2 billion, $2.5 billion. I mean these are all just points along an upward curve. There's no cap on this business, right? I'm sort of unwilling to say that we get to a cap or we see any kind of near-term limitation. And so there's just a long runway here. One day, we'll be talking about different numbers as well, but I thought it would be sort of too scary to put up [$3 billion] today.

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

Got it. No, that makes sense. And then maybe just a follow-up question on capital spending, tangential to Jeff's earlier question. But I think you're guiding CapEx the next few years to $200 million. And your D&A runs around $600 million, which is a much lower ratio than most companies. So can you just talk about how you're able to sustainably achieve that? Or would we expect D&A to start to move lower towards that CapEx number over time?

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

Yes. I'll tell you what, I mean, Todd is going to explain why we have such a discrepancy there. Go ahead, Todd.

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

Yes. One thing to remember, Mike, is a big portion of our depreciation and amortization is amortization. And included in that amortization are those upfront ethylene payments for 20 years of cost-based ethylene. So amortization is well over $100-plus million a year on those agreements. And so when you look at D&A, that's part of the difference when you may compare us to other people, is those large ethylene investments we made all the way back starting in '15 and were completed in the summer of last year.

Operator

Our next question comes from John Roberts with UBS.

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

Did you sell any electricity or ethylene during the quarter instead of using it internally?

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

Well, yes, John. We did have a gain, right? We called it out as a onetime gain. And that gain is essentially associated with the fact that we buy energy in advance. And I think you're very aware of our gas hedging program. So during the [Winter Storm Uri] (corrected by company after the call), because we were ordered to shut down, we had no way to utilize what we had already bought. So we just sold it back.

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

So you didn't make electricity there. You just sold the gas back?

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

That's part of it. Yes, we're not itemizing everything that goes into that $99 million gain because there's a lot of puts and takes there. But yes, that is part of it.

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

Okay. And then has the pricing dynamics in the ammo industry changed since we now have a duopoly after the breakup of Remington?

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

Well, look, I mean the Remington event happened some time ago. There's quite a lot of producers of ammunition out there. We happen to be the largest and demand continues to grow. And that has been the fundamental change in the pricing dynamic is that this has just become such a large wholesome family sport, where 55 million of us are out there doing sport target shooting, and that's the biggest change.

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

How much was price up year-over-year in Winchester?

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

Yes. We didn't give a percent on that, but volume has a lot to do with our growth year-over-year, primarily because of Lake City. And then pricing is at least as much as that volume growth.

Operator

Our next question comes from Steve Byrne with Bank of America.

Steve Byrne ***BofA Securities, Research Division - Director of Equity Research***

Yes. With respect to this 30% EBITDA target in epoxy and the shift more downstream and less of the upstream commodity sales. Do you have the commercial relationships in those downstream resins and/or the production capacity to move more of the feedstock material into those downstream products? Or will this require some acquisitions?

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

Yes. Steve, this is Pat. First of all, let me just course correct you here a little bit. Really, our sweet spot is in the up and the midstream part of the epoxy value chain. We don't go nearly as far down in that chain as to say the questions that you were asking. We certainly have all the right channels to market in place today, to monetize and to really exert our leadership in that up and midstream. So I would just say just a little correction in how we view that chain and where our strengths are.

Steve Byrne ***BofA Securities, Research Division - Director of Equity Research***

So you can get to 30% EBITDA margins by selling EPI and cumene and BPA and so forth and not move downstream?

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

No, Steve, that's -- again, part of the equation, is the strength in the upstream. But that midstream, we have many channels as to how we monetize the epichlorohydrin and the bisphenol A. So that's where we have a lot of channels, a lot of optionality, a lot of optionality to parlay. So that's pretty broad reaching as you move down into that midstream.

Steve Byrne ***BofA Securities, Research Division - Director of Equity Research***

And then just curious about the margin on EPI. If you look about your broad platform of chlorine-containing derivatives, where would you put EPI in the ranking of all of those chlorine-containing products? I mean if you look at the margin difference between your 2 segments, I'm just curious where that EPI would fall in the ranking.

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

Yes. I don't think we're going to get into the rankings of EPI versus derivatives of where we put that EPI. EPI, make no mistake, is a strategic pillar to our upstream, and it's a strategic pillar as to how we parlay down through the midstream into those various end-use markets where we're prioritizing our value, right, over volume. I think the other thing to keep in mind, Steve, is when we had our investors presentation back in February 19, One of the headlines on my slides were in that EPI and LER supply-demand projected to be tight by

2021. And so we're just entering this phase of what we've been saying for the last 2 years of what we saw coming in this sweet spot of ours around this up and the midstream and parlaying these things that we talked about on Slide 8. So I think those kind of fundamentals bode well for our ability to get to this 30% EBITDA in Epoxy.

Steve Byrne ***BofA Securities, Research Division - Director of Equity Research***

And then, Scott, just one quick one on your sustainability slide. Kudos for you for putting out your Scope 1 and Scope 2 emissions. We understand you also have an emissions reduction target for 2030, just curious as to whether you have a strategy to get that 10% reduction, whether you're already well on your way, or do you anticipate some CapEx-intensive projects to achieve that goal?

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

Yes. Thanks a lot for recognizing that. And you're right. I mean we did have that target by 2030, and we're way ahead of that target right now. In fact, that was referenced from our baseline year of 2018. We have already achieved an 8.4% reduction in their carbon emissions intensity. In other words, how much is -- is associated with every ton that we sell. So we're well on our way to exceeding that target.

Operator

Our next question comes from Angel Castillo with Morgan Stanley.

Angel Octavio Castillo Malpica ***Morgan Stanley, Research Division - Research Associate***

So just one last one on price within the chlor alkali. Just thoughts as to how much of it was actually driven by all of the outages that we've seen globally, whether it's both in chlor alkali and epoxy versus your own kind of self-help initiatives and the pricing initiatives. And yes, if you could just break that down, that would be helpful.

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

Yes. I mean most of it is our self-health initiatives. There may have been some acceleration, but this really goes hand-in-hand with our actions and our contract strategy. Damian, why don't you go in.

Damian Gumpel ***Olin Corporation - VP of Olin and President of Chlor Alkali Products & Vinyls***

Sure thing, Angel. So I would tell you that regardless of the outside market condition, our self-help just takes a different form. So as we look at a kind of, going forward with -- as we continue to deploy this model, it's going to be less and less dependent on outside factors. Those just kind of drive again how we want to manage our ECU participation, play to the weaker side. And as we pivot and kind of think going forward here, all that just means is that we'll just want to keep, as we talked before, controlling our own destiny. That just means more flexibility for us. We may certainly engage in a different approach on contracts, with more selectivity on the number of contracts we choose to enter. We certainly want to partner with winners. But within that, there'll be a lot more selectivity and optionality for us in terms of the -- how many contracts we enter into, their duration, their volumes, definitely more dynamic pricing because that will now play into the next level of sophistication with this model that we have really good traction on.

Angel Octavio Castillo Malpica ***Morgan Stanley, Research Division - Research Associate***

That's very helpful. And then on the epoxy margins, you noted that you expect them to improve sequentially in the second quarter. I was just curious, does that contemplate, I guess, the meaningful pickup in benzene prices and/or as you think about where raw materials are moving, how should we think about that within your guidance?

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

Yes. Angel, listen, we feel very confident in the fact that we've had good pricing momentum. We've seen that pricing momentum continue here in April. There's publicly announced increases out there for May that are also getting good traction. So we feel very good about the sequential improvement in our margins and the sequential improvement in improved returns to the ECU.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Scott Sutton for any closing comments.

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

Yes. Thanks a lot. I mean I guess in closing, I'd just like to repeat what I said in the fourth quarter earnings call. I mean Olin is going to continue to win our way to a different valuation, which means we've got to continue to lift Olin people high. So thanks a lot for joining us today.

Operator

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