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Q2 2021 Olin Corp Earnings Call

EVENT DATE/TIME: JULY 28, 2021 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to Olin Corporation's Second 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, Chad. 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 second quarter earnings press release. A copy of today's transcript and slides will be available on our website in the Investors section under past events. 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; Damian Gumpel, President, Chlor Alkali Products and Vinyl; Brett Flaugher, President, Winchester; Jim Varilek, Olin's COO; and Todd Slater, Olin's CFO. Scott will begin with some brief remarks, after which 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 hi, everybody. Look, I mean, the most important data to know today is our own employees are accelerating our success. So we're going to use this earnings call to forecast just a bit further down the runway as well and keep up with our team's momentum.

As previously forecasted, the second quarter adjusted EBITDA did exceed the first quarter adjusted EBITDA by $119 million or 27% excluding the onetime benefit from Winter Storm Uri in the first quarter. We also forecast that the third quarter adjusted EBITDA will exceed the second quarter as well, and we expect our full year adjusted EBITDA result to be at least $2.1 billion.

So opening up with Slide #3 in the presentation, 2022 is a positive stepping stone for Olin, principally because we will grow the number of knobs in our hands via expansion of our interlinked matrix of activation nodes. The various combinations of activations across the interlinked matrix are what lifts Olin's value. Generally, the first order of effect of a singular activation is unseen. However, the second or third order effect from multiple activations is what lifts the whole Olin tide. Fundamental to that rising value tide are our 3 linchpin products: elemental chlorine, epichlorohydrin and ammunition primers. Our pricing in those products is a ratchet. Our pricing only turns one way and does not reverse. If necessary, we will sell zero volume into the freely negotiated market to preserve our ratchet principle and the value of our broad downstream chains based on those linchpin products.

Across all our businesses, supply chains are closer to empty than full. And in 2022, we expect demand growth to outpace supply growth.

Continuing to Slide #4. In 2022, we should gain traction in our next phase of parlaying and potentially surface some acquisition opportunities to complement our differentiated model. And in doing so, use the funds from the Olin cash flow machine to deliver more value to our shareholders.

On Slide #5, that parlaying activity is new in 2021, but we do have some accomplishments to catch up on and report beginning here in the second quarter, which reached an annual run rate of about 500,000 tons of molecules made on somebody else's assets but now running through our matrix. We will share a tracking mechanism to report on our progress in this important area as we move into 2022 and beyond.

In my opening comment, I said we would forecast just a bit further down the runway. So on Slide #6, we are calling out a few discrete upsides beyond 2022. I will just note that we have a lot of elemental chlorine, a linchpin product moving into the titanium dioxide space. We won't be supplying large parts of that industry in 2023 as we move that chlorine volume into higher-margin end uses or completely take it out of our system.

In 2024, we expect Winchester's participation in a next-generation squad weapon program to become significant. And we have Brett Flaugher, our Winchester President, with us today, if you have some questions about that or about our expectations to continue growing the recreational shooting pie as well.

And finally, in 2025, the 10-year cost-based sales contract term representing 30% of our ECUs is completed as well, and all options are accretive for Olin. Some options substantially reduce our carbon footprint as well as we evolve our ESG scorecard targets.

Pulling back to today a bit, please see Slide #7 and #8. As our mastery of the ECU conundrum solution continues to improve, we matched our market participation to the weaker side of the ECU, caustic, and pricing on both sides of the ECU improved versus the first quarter, the first time that pricing on both sides of the ECU moved in the same direction since we have articulated this contrarian model. Not surprisingly, the Olin ECU Profit Contribution Index lifted again.

Moving to Slide #9. I hope you noted that Winchester's second quarter adjusted EBITDA improved to $115 million, so in addition to our future participation in the Army's next-generation squad weapon, we are embarking on a plan to reach some of the 175 million adults and part of the 45 million youths who don't participate in target shooting today by using the Winchester brand to grow the overall pie.

So before opening the call up to Q&A, let me call out a few key elements at play in the third quarter on Slide #10. First of all, fundamentals are good. We started off the third quarter with our model positioned to participate less in the weaker side of the ECU, caustic. But as we move through the rest of the third quarter, we will adjust our configuration depending on which side of the ECU is weaker relative to the other side. We relish that opportunity to add another proof point to our model and demonstrate that we deserve a higher valuation. Epoxy continues its upward adjusted EBITDA margin march as it is now at 22%. And Winchester improves its value equation even though we expect commodities cost to be sequentially higher in the third quarter.

That concludes my opening comments. And operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question today will be from Mike Sison with Wells Fargo.

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

Scott, just curious, when you think about the ECU PCI improvement in Q2 to 192 versus the 147.6, how much of that do you think was sort of the strategy versus kind of industry pricing just going up?

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

Well, I think our strategy is to move Olin's pricing up as we run our model. So I mean, those things are just intimately connected. I mean we're taking very specific actions and trying to telegraph those actions in advance so that the world understands that this is a purposeful activity.

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

Got it. And then you had mentioned in the opening remarks, acquisitions. Anything in particular you think would make sense for Olin as you look at those opportunities down the road?

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

Mike, I mean, we still have some work to do in this area, clearly, as we move toward that phase 4 structuring. But what I would say about potential acquisitions, we'll be looking for something that essentially adds another layer or a box around our matrix. And when we were able to improve the value of that acquisition, it's significant enough to impact our performance all the way back to the fundamental ECU. So that will sort of be our main criteria to go after acquisitions.

Operator

And the next question will come from Hassan Ahmed with Alembic.

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

Scott, a question on chlor alkali products. Sequential sort of margins over there, sequential EBITDA over there, Q1 to Q2. I mean adjusting or scraping away the Uri sort of favorable impact, if I took a look at the margins, the margins were relatively flat quarter-on-quarter. EBITDA was up, call it, around $17 million. And this is despite you guys calling out higher ECU contribution sequentially. And if I took a look at the slides and heard your comments properly, you talked about sort of lower volumes. So the question really is despite these favorable pricing trends, margins were relatively flat, EBITDA was up slightly. I'm just trying to understand the sort of negative volume impact properly. How much of that was you guys actually sort of taking out volumes from the system? Versus I keep hearing about supply chain disruption impacts, logistical sort of issues and the like in the quarter. So if you could just parse those out as they relate to the volumes.

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

Yes. I mean, thanks a lot. I mean the way we would answer that question basically is that, look, we're -- I mean we're running our model, which is focused on value over volume. So what you saw happen in the second quarter is, of course, our pricing went up, our ECU PCI improved. But the reason that you sort of see the margin issue there in CAPV is we did have some fixed cost issues that won't repeat themselves in the third quarter, so we've addressed that item. Absolute profit up, margins kind of flat, understood to be because of the fixed cost and that doesn't continue, Hassan.

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

Understood. Understood. And as a follow-up, on the raw material side of things, obviously, we've seen higher natural gas prices as it relates to the Epoxy segment. We've seen sort of higher benzene and propylene prices. So as you have given your guidance for the second half of the year, how are you guys thinking about sort of raws? How you're managing those sort of higher prices? And as you've given your guidance, if raws do come down, could that be the source of a tailwind above and beyond what you guys have guided to?

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

Yes. I mean, some of those things you mentioned really impact our Epoxy segment quite a lot. So I'll ask Pat to answer it.

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

Yes. Hassan, I think, first of all, raw material costs, the hydrocarbon costs have really never had a big impact on the Epoxy business. We deal with those pretty easily through our value chain. So I wouldn't really -- I'm really not concerned about what happens with hydrocarbons given our ability to pass those costs along and to manage those costs within our system. And of course, we do have options to make versus buy in our key raw materials around things like BPA, phenol and even epichlorohydrin.

Operator

The next question will come from Jeff Zekauskas with JPMorgan.

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

How do you see changes in global epoxy supply and demand now that prices have elevated? Do you think that it will invite new competitors in? Or some of your competitors may extend capacity? Or you think it will take quite a long time?

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

Thanks, Jeff. I mean I'll just start it out and then Pat will give a little bit of color on maybe some specific areas of demand. But generally, Jeff, I mean, demand is superb and improving across multiple segments that epoxy goes into. Pat, do you want to give a little color?

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

Yes, Jeff. I think if you look at some of the major markets, we have a variety of markets that we sell into, the biggest markets being around industrial and performance coatings. But we also -- electronics is very important to us. Automotive and, of course, between automotive and electronics, they get intertwined with electrical vehicles and a lot more printed circuit boards being put into electric vehicles and that plays to our strength with what we do in electrical laminates in Asia. Appliances, very strong. Oil and gas, we're seeing oil and gas improving. There's more demand coming in oil and gas for our fusion-bonded epoxy resins.

And then, I don't know, Jeff, if you caught this or not, but the marine coatings have been very pretty much, pardon the pun, dead in the water for the last, I'd say, 5 years. In shipbuilding, container ships or orders for new container ships in the first 5 months of this year were nearly double the orders for all of both 2019 and '20. So this is demand for epoxy that is yet to be realized but will come in 2022 and 2023.

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

I guess for my follow-up, there have been so many outages in the United States because of weather in chlorine and caustic, which has tightened supply/demand balances. If we don't have outages to come and the industry gets back up to normal rates of production, do you think the supply/demand balance in chlorine will change in 2022?

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

Yes. I mean, Jeff, this is Scott. I mean, I guess 2 points. Number one, we're running our model. And so we control supply/demand characteristics of our business. That's point one. But even if you fast forward to 2022, ECU demand growth outstrips ECU supply growth. Same exact thing in epoxy and epichlorohydrin, right? Demand growth far outstrips supply growth. And if you take that to our small caliber ammunition business, Winchester, you see exactly the same phenomena as well.

Operator

And the next question is from John Roberts with UBS.

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

What's the range of your chlorine realized prices? And is it fair to say that including the TiO2 and the Dow contract, about half your volume in chlorine is locked into these lower-priced contracts?

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

Yes. I mean we have a -- yes, thanks for the question. I'll ask Damian just to comment a little bit. At a high level, we have a really broad range with a lot of opportunities. Damian, you want to give some color?

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

Yes. Sure thing. John, good morning. Yes, we've talked about in the past that aside from the 30% of the ECUs that are on this long-term cost-based arrangement, the remainder of our merchant chlorine, we've said that we've moved a significant portion off of indices and put them within our own destiny. And we still have a ways to go, but even within this quarter, we achieved moving another significant chunk of this volume off of the rearview mirror, arbitrary indices and stepped up the value of that chlorine into its true reflection of its market value in our system. So still have a ways to go, but this second quarter through everything we've done in running our model, we've achieved yet another milestone step for us on our way to put more of our ECUs back into our own -- chart our own destiny with them as we prepare for 2022 and beyond.

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

And then I guess I don't understand the primer market that well in the Winchester business. How big is primers as a percent of Winchester or however you want to characterize it? And what's going on with pricing on primers? Because that's something we don't observe in the market.

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

Go ahead, Brett.

Brett A. Flaugher ***Olin Corporation - VP & President of Winchester***

Sure. There's really 2 manufacturers of primers in the U.S. right now, Winchester is the largest. One of the things that we've taken a strong look at is our past practices and the complicated nature of building primers and the high start-up costs of getting into the primer business. And we're exploring strategies that will help us get full value out of our primer manufacturing capabilities.

Operator

And the next question will be from Frank Mitsch with Fermium.

Frank Joseph Mitsch ***Fermium Research, LLC - President***

Congrats. As I look at your epoxy results in the second quarter and the guidance for a higher third quarter in that business, I mean, we're starting to talk about an $800 million EBITDA run rate. I mean, is that the sort of neighborhood that we should start thinking about for the Epoxy business?

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

Yes. Thanks a lot, Frank. I mean, this is Scott. Look, what I will say is we're just not up to our target yet. And so we have some work to do in that business, right? We put a target out there of 30%, which maybe, at the end of the day, gets exceeded, but we still have some work to do, so gets you to a range.

Frank Joseph Mitsch ***Fermium Research, LLC - President***

Okay. Got you. And then if I think about the ratchet principle, that almost implies a continued upward PCI. You're getting close to that 200 level on the ECU PCI that we've talked about in the past as necessary for a $2.5 billion EBITDA. Is something like that nearer term than perhaps we thought before? What are your current thoughts about getting to that kind of that midterm target?

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

Well, I mean, Frank, I mean, that's what we're working toward. What I will say is the ECU PCI has moved up, and we're going to continue to work on moving it up. Most of the growth of that has been from the derivative businesses we have. And if you think about the linchpin products that I talked about, so the 2 that go into that ECU PCI, our elemental chlorine and epichlorohydrin, I'll just say right now that neither one of them sell in the merchant market anywhere close to reinvestment economics, so we have some room to move there. But we've also got some period of time to work our way out of certain handcuffs that we have today. As Damian said, we're making some progress on that.

Operator

The next question comes from Aleksey Yefremov with KeyBanc.

Paul Christian Staudinger ***KeyBanc Capital Markets Inc., Research Division - Research Analyst***

This is Paul Staudinger on for Aleksey. Is it possible that you may look at extending the 10-year supply agreement of 30% of your ECUs earlier than 2025? And then just a follow-up, could you discuss the size of the squad weapon opportunity?

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

Yes. Yes. Thanks a lot, Paul. Look, I mean I would just say, for those 30% of our ECUs, that ends in 2025 and any option is accretive for us. And what I'll do, I'll ask Brett to answer the second part of that.

Brett A. Flaugher ***Olin Corporation - VP & President of Winchester***

Sure. Thanks for the question, Aleksey. Since we've taken over Lake City, we've been highly involved in the next-generation squad weapon program. It's hard to define the scale of it right now, but it's large. It's more than just making ammunition at Lake City. We have to support the Army in building out a whole new infrastructure. We're active in that today. We do believe by about 2024 that, that will ramp up extensively and really go throughout the whole contract period for us at Lake City. So it's a big program for the Army, and we're highly involved in that right now.

Operator

And the next question will be from Kevin McCarthy of Vertical Research.

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

Scott, I appreciate you're a lot more focused on value versus volume. Nevertheless, the volume side has been quite volatile lately really across the industry. And so if I think about the third quarter versus the second quarter, what kind of volume uplift might we see in chlor alkali and vinyls? And what kind of benefit would you anticipate relative to superior fixed cost absorption, for example? Maybe you could just kind of talk through some of the force majeure declarations and operating rate changes that are kind of running through your business right now.

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

Yes. Thanks a lot, Kevin. I mean, you're right. Of course, we're focused on value over volume. I don't think in the third quarter that our volumes would be lower than they are in the second quarter. But what I will add on to that is the fact that we're getting traction in our Phase III of parlaying, so essentially applying our model to molecules that aren't necessarily made on our assets but flow through our business and run through our matrix. So there's likely to be some additional growth in that. So what we're trying to do, Kevin, is we're really matching up. We're going to drive for value, yet we have a thematic to be able to still grow the company without having to build new assets. That's where we are.

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

Okay. And then secondly, with regard to Winchester, it looks like your sales were up, I guess, 110% in the second quarter on a year-over-year basis. Can you help us with how much of that uplift would have been attributable to price versus volume? And then on the pricing side, are there additional price benefits that you would anticipate in the third quarter sequentially versus the second quarter?

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

On the Winchester revenue being up, I mean, it's a mix of both, right? It's price across our complete business, including the new business at Lake City. But it's also that volume that comes from Lake City and being able to utilize that some. If you look at our pricing chart in the back of the presentation, you'll see that we have announced another price increase in Winchester for the third quarter on some products. So that will be partially effective through the third quarter.

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

Kevin, it's about half and half of the change.

Operator

And the next question is from Josh Silverstein with Wolfe Research.

Joshua Ian Silverstein ***Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production***

We're just looking at the EBITDA guidance for next year to be at least up year-over-year. Can you talk about the different business units? What you're expecting there? I imagine epoxy is probably moving higher with the margins. But anything that you can kind of break down by the different business units would be helpful.

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

Yes. I mean we didn't give -- I appreciate the question, but we didn't give a breakout by business of what's expected there. But the reality is, I can indirectly answer your question by saying that in each business, fundamentals did better. And in each business, we have a specific set of actions that are likely to add value as well. You've heard -- just to give examples of it, you've heard the team speak to some of those, right? We release our self from more contractual restrictions in CAPV. We work the upstream linchpin product more in Epoxy and we're going after more recreational shooters in our Winchester business by growing the pie, not taking share as well. So you might have a view that it's broad-based.

Joshua Ian Silverstein ***Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production***

Got you. That's helpful for that. And then just as far as free cash flow deployment for next year, you guys are doing the $1 billion of debt reduction this year. Is there more balance sheet cleanup for next year? Or can you start to think about stepping up the return on capital profile using cash flow for M&A? How are you guys thinking about that $1 billion potentially for next year?

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

Yes. No, we have a number of options we're thinking about. Todd, do you want to give a little bit on that, yes?

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

Yes. No problem. I mean if you think about it, where we sit in 2021 today, we're generating $1.3 billion of free -- levered free cash flow. That's a cash flow yield of around 18% based on our current stock price. Clearly, we're going to use about $1 billion of that to reduce debt. And by reducing debt today, that really frees the balance sheet up to provide flexibility going forward to accomplish those structuring activities, including M&A and parlaying activities as we are. But parlaying activities are obviously much more capital light.

Joshua Ian Silverstein ***Wolfe Research, LLC - MD and Senior Analyst of Oil and Gas Exploration & Production***

Is there any necessary, I guess, balance sheet cleanup for next year? Or can you really just redeploy all that $1 billion for those other activities?

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

Yes. I'll jump in, Todd. And so this is Scott. I mean part of it will go toward structuring activities, assuming we're successful at finding some targets that complement our model there. We'll be exploring some other options as well. There's not a lot more debt that we necessarily intend to take down, but we will be exploring other ways to get value for shareholders. Look, I mean, at the end of the day, this phenomena of multiple compression keeps happening in our stock price, our equity becomes the best return for us. It sits at an 18% return right now.

Operator

And our next question is from Arun Viswanathan with RBC.

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

Congrats on the results. So yes, I guess, first question, just real simply, could you just reiterate or describe the impact of natural gas on your business? There has been some inflation there recently. Is there any hedging that we should be aware of? Or what's the impact there?

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

Yes. Hey, Arun, thanks a lot. I mean, yes, we do hedge. I mean, Todd, do you want to give a little more?

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

Sure. Arun, in the near term, we are very heavily hedged. So as you've heard from us before, about a quarter out, we are fairly heavily hedged. So we have a high degree of cost certainty in sort of a rolling 4-quarter basis. So your comment about natural gas, natural gas clearly is coming up lately. You really won't see -- unless that is sustained, you will see that in our results over the next year as our hedges start to roll off. And back in the deck, we said the dollar change in gas is worth $50 million of cost.

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

Great. And then this is a follow-up. So I guess what I'm hearing from you is the primary market is a little bit of a bottleneck within Winchester that potentially could be a value creation mechanism for you guys. Is that the right way to think about it? And if you could maybe, how would you characterize the bottleneck in chlor alkali vinyls and epoxy? What are the kind of the linchpins there?

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

Yes, sure. I mean the primer -- our primer business is certainly a linchpin for us. And like Brett said, there's limited suppliers of that and we haven't fully exercised that yet. But as our business grows, certainly, we're going to use that to support our business. In the other -- in the chemicals business, epichlorohydrin is the key upstream material for liquid epoxy resin. There's only one producer of that in all of the Americas, and we're also the leading producer in Europe as well. So by driving value of that key upstream intermediate, we can drive value across our whole downstream portfolio in epoxy and so you get a large value boost.

The same sort of thing applies to elemental chlorine. If there's one key to this company that lifts more value than anything else, it is that continuing value lift of elemental chlorine and using that elemental chlorine according to the best return to the ECU across our broad downstream derivative portfolio, not just in our CAPV business but also in our Epoxy business as well.

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

Great. And if I could just ask one more quick one. Have you had any impact from the container shortages globally? Is that something that's a pressure point now? Or do you see that not as an issue for you?

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

Yes, sure. I mean from a supply chain, there's been some impact that we've been able to deal with. But the neatest impact is the future impact in Pat's business of Epoxy, where new ships are being built. Many new containers to be utilized on these ships, all those things are coated inside and out with epoxy. So it's actually a forward positive impact.

Operator

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

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

I wanted to ask about your comment on chlorine supply in the TiO2 industry. What are the pros and cons? And are these producers that securing other supply or just not -- or just resistant to paying higher price for chlorine?

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

Well, no, I would say that whole industry gets chlorine from Olin that is far undervalued, and we have commercial arrangements today that keep that chlorine far undervalued relative to any other opportunity that we have for that chlorine including, in many cases, just not selling it at all. So there's a value uplift opportunity there. And I guess what we're saying is we're just not going to be in the business of that supply in a big way in 2023 because we're going to -- if we have to continue supplying according to the terms that we have today, it essentially means that we're going to match that supply up to a future decision around the capability to supply, so that's what we're doing.

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

Helpful. And then as a follow-up, I think seasonality in 2018, 2019 third quarter and the fourth quarter resulted in EBITDA lower by $100 million. What are you seeing this year based on your order books and inventory supply?

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

Yes. Well, like we say, third quarter is expected to be better than second quarter. You might compute from our guidance of at least $2.1 billion in the full year that it's possible that we face a few challenges there in the fourth quarter that had to do with some seasonality. But I'll say, supply chains are empty, so we've still got a lot of work to do there to see the final story.

Operator

The next question is from Angel Castillo with Morgan Stanley.

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

Congrats on the quarter. I just wanted to, I guess, expand a little bit more on the net productivity. Your slide showed $100 million for 2021, and I believe the range was previously $50 million to $100 million, so you continue to do very well here and a lot of initiatives underway. So curious, one, can you expand on the comments of the additional underutilized capacity under review? And then just how should we think about net productivity for the remainder of the year and going into 2022?

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

Sure, I'll turn that question to Jim.

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

Yes. Thanks for the question. You're absolutely right. We have been successful with our program. We've got a very broad-based program. We've got over 1,200 different active projects across every geography, every division, every function. So we've got the whole company involved in productivity, so that's a positive. We did remove the bottom end of the range as we made progress against the program. So we have a $100 million target out there right now. And as far as capacity, you can see on the slide that a lot of the projects and a lot of the productivity projects are related to capacity. And looking at scrutinizing capacity for high investment, high costs, underutilized, and we're not going away from that. So even though we've made some progress up to this point, we're going to continue to evaluate all of our assets for the value they're delivering, the investment that they require, and we'll make decisions as we go forward.

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

That's very helpful. And then just I wanted to follow up a little bit more on the, I guess, that last question around the fourth quarter. It sounds like it's -- is the right way to read that, that there's just conservatism kind of embedded in that fourth quarter, just given the visibility into the market heading into, I guess, the next couple -- next few months? Or is there anything else, I guess, to consider there as we look at the overall guidance? Because I guess the way I'm looking at the guidance, it implies the continued step-up of EBITDA from the $559 million this quarter. So just looking at it from that perspective, it would seem to suggest that 2021 could be $2.2 billion or higher, if you kind of continue the steady improvement, which puts 2022 even higher. So just, I guess, a little bit more color would be helpful around how to contextualize that.

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

Yes. Yes. Thanks. I mean, look, our guidance is at least $2.1 billion for the year. I don't know -- I wouldn't say it's conservatism when we think about the fourth quarter, but we are heading into a fourth quarter where market dynamics and market fundamentals are different than maybe many years in the past. In fact, they're slightly better than many years in the past. So that sort of normal seasonality or downturn that you get, we're working hard to mitigate that. The only reason you may sense some conservatism is we just don't want there to be a mistake. If we run into a little gully on the way up the mountain to adjust our model in a time of a little bit of seasonality that the external world sees that as us heading down a trough, which absolutely isn't the case as we've said about 2022.

Operator

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

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

Scott, Asia caustic soda prices have been improving in July. They're currently about $60 a ton above the Q2 average. Do you have any more color here? And does this provide support for U.S. caustic price increases?

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

Yes, sure. Thanks for the question. I mean in general, of course, we don't overly focus on one product. We're always focused on improving the whole ECU. But let me see if Damian can give us a little bit of color about what's going on there.

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

Sure thing. Matthew, caustic soda in the second quarter, we did see demand starting to pick up as it tracks general economy pickup, particularly in North America, and we did see some activity pick up in Europe as well. But generally speaking, while supply/demand fundamentals of caustic soda did improve, and we have seen prices starting to reflect that, clearly, that supply/demand situation in caustic is still relatively weaker than the supply/demand configuration we see in chlorine. So albeit, sequentially, caustic fundamentals on their own are showing improvement and even through third quarter as seen by some recent price increase announcements, caustic soda still remains the weaker side of the ECU, and we continue to run our model against that weaker side.

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

Got it. And then on Slide 6, where you mentioned that you're completing the 10-year contract term for 30% of your ECUs. So that 30% applies to your volumes, right? Can you give us a general idea of what kind of EBITDA you're getting off that 30%? Would it be like less than 15% of your EBITDA?

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

Yes. I would just answer that by saying that's essentially cash value destructive today.

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

Okay. Maybe even lower. Okay.

Operator

The next question is from Mike Leithead with Barclays.

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

First question, I think on your longer-term outlook in 2025, you mentioned some options, including redirecting the contracted ECUs to significantly lowering your carbon footprint. So I was hoping you could flesh out a bit more what you meant by that comment.

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

Yes. I guess what I said is that that's a lot of volume. You just heard me say it's cash value destructive. It ends in 2025. If we're not producing that volume. Certainly, our carbon footprint goes down and it also turns out being accretive to us from a financial standpoint as well. So it's like a win-win.

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

Got it. Okay. That makes sense. And then second question, I think diluted share count is up about 4% year-to-date. Where should we expect that number to finish the year? And relatedly, you've highlighted M&A opportunities, but you've also made pretty clear in your slides, you think your shares are more than 50% undervalued. So once debt paydown is complete, how should we think about accelerating buybacks versus M&A?

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

Yes. Well, Todd will make a comment on that first part of the question. Maybe I'll comment on the second part.

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

Yes. Yes. Our outstanding shares have increased this year, a little over 2 million shares. As you can see through the cash flow statement, we've had some option exercises this year and that generated about $50 million of cash flow for Olin this year. When you look at our absolute level of share count, we are still well below where the share count was post the shares that were issued back in 2015 for the Dow acquisition.

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

And on the second point, I mean, clearly, any acquisition we do, it's going to be more than, of course, going out and buying EBITDA. There's got to be quite a lot of synergy value. But the direct synergies would be just a smaller part of that. The larger synergies would come from the fact that we expand this interlinked matrix where we're able to execute multiple activations on any given day and get a response somewhere else in the matrix that maybe no one expected that is able to lift Olin's value. So we'd have to be able to get significant uplift. What that will compete with right now, of course, is our levered free cash flow return per share, which again, is 18% or 20%, whatever it is today. So that's a hurdle right now to put the money in growth acquisitions.

Operator

And the next question is from Steve Byrne with Bank of America.

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

Scott, you mentioned pricing on both sides of the ECU have improved. My question for you is how has mix shift driven that? You have these numerous buckets that you move the chlorine atoms into -- and how have you -- how has that changed to drive up that value? And more importantly, how much more could it change? You mentioned the merchant sales on TiO2 is just one piece, but are you able to move significantly more in various buckets than you have so far?

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

Yes. I mean, thanks a lot for the question. I mean, the answer to both of those is sort of the same. How much has it contributed? How much can it contribute in the future? And the answer is a lot to both. This is our model. We're moving things around every day and letting the weaker side of the ECU guide our market participation in looking at our complete derivative change about which one is delivering the most value on any given day. We only expect to be able to expand our capability to do that in the future, not only through our activities today, but through our parlaying activities and through our structuring activities as well.

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

And then maybe a similar question on the Epoxy business. Have you shifted volumes either more downstream or more upstream? And how does that shift get reflected in your PCI algorithm? I mean, you're moving some portion of your -- of the chlorine side of the ECU into that business, and that business is generating more profit. Is that reflected in your PCI?

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

Yes. I mean, Pat, do you want to give a little color?

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

Yes, Steve. I think, first of all, we've got a lot of flexibility in this prioritization of value over volume within the epoxy value chain, right? So -- and we have a lot of flexibility. Obviously, we've got a lot of flexibility on our pricing as demonstrated here over the last 3 months, 6 months or a year. So we have a lot of flexibility to do that. And I think on mix, we look across that whole portfolio of epoxy from upstream epi and even converting that phenol into BPA. We've got options there that we're discovering. And then we have a lot of optionality of where we place that epi molecule. And we monetize it in the form of liquid epoxy resin, converted resins. We systematize that LER into things like laminates, wind energy. So a lot of flexibility. And then the last part of that mix flexibility is around merchant versus captive. So that's kind of the way we think of it. It's a pretty dynamic grid of where we can extract the best value across that whole chain.

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

And do your decisions get reflected in that PCI?

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

Yes.

Operator

The next question is from Travis Edwards with Goldman Sachs.

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

I wanted to follow up on Josh's question earlier around capital allocation. If you had 1.5x leverage this year and EBITDA is in the same ballpark next year or better, presumably, leverage improves further. But I'm curious, when you talk about freeing up the balance sheet to engage in M&A opportunities or shareholder remuneration, is there a sort of range of leverage you plan to manage to as you consider these opportunities, specifically when commodity conditions may not be as favorable?

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

Todd, do you want to comment?

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

Yes. Travis, we think about the absolute level of debt. And you heard the comments earlier, with the actions we're doing in 2021, that really gets us in the range of where we're looking for maybe a little bit more next year, but it's -- we're down to the absolute level of debt, not necessarily a leverage target.

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

Got it. That's helpful. And then a separate question, but I guess somewhat related is -- look, a potential path to an investment-grade rating has been occasionally brought up in our conversations around Olin. But regardless of your desire or the probability of that happening, I'm curious, are there even specific quantifiable benefits to business fundamentals, again, separate from the general, more favorable issuance costs? But are there specific benefits to actual business fundamentals, renegotiating terms, et cetera, if you have an IG rating?

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

Well, we generally, and we've said this before, is we target to operate our business with investment-grade metrics. And I think we're well on that pathway as we continue to repay debt this year. And so we -- it's our view that the business fundamentals within Olin and how we want to operate, operating with investment-grade metrics is critical for us as we move forward.

Operator

And the next question is from Roger Spitz with Bank of America.

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

I have two. The first is can you articulate your latest view on your desire to achieve IG ratings from the agencies rather than just operating with IG metrics?

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

Todd, do you want to continue on that?

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

Roger, this is Todd. We want to operate with investment-grade metrics. We have never stated that, that was a -- publicly that, that is a goal of the company to become investment grade. We want to operate with investment-grade metrics, and we think that what we're doing with the balance sheet to delever gives us the flexibility as we move forward.

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

And my second one is you're clearly changing the chlorine caustic LER pricing paradigm in a very significant way. What has changed for you to be successful? I mean, clearly, it's your will and drive, but is there any other change in the industry dynamic that is allowing you to turn this paradigm on its head in an extraordinarily positive way?

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

Well, I mean, I wouldn't say it's industry dynamic. I would just say that Olin is controlling its own destiny and changing its own outcome. In other words, we're the leader in elemental chlorine. We have a contrarian model that we are focused on every day to go get the value. We have a list of clear actions, and we've identified elemental chlorine as the #1 driver of this company's overall value evolution. And it is a ratchet and a linchpin because of that, and that's how we treat it. And when you focus on it that much, you're going to liberate a lot of value.

Operator

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

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

Yes. Okay. Yes. Thanks a lot. I mean I guess what I would say in closing is that Olin is really focused on 2 main activities right now. And the first one is lifting up all our Olin teammates who are doing just a great job. And the second one is that we're continuing to print wins and demonstrate success so that we can, in turn, demonstrate that we deserve a higher valuation. So with that, thanks a lot for joining us today.

Operator

Thank you, sir, and thank you for attending today's presentation. You may now disconnect your lines.