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Q3 2021 Olin Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Olin Corporation's Third 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, Tom. 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 the third 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 Vinyls; 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 hello to everybody. I'm pleased to report the Olin team has once again proved to be the most unique and agile in the industry in meeting the clear expectation of our shareholders. Again, I just have to say that the solid performance by the complete team sets me up to be able to focus on the items that drive our future, which are enhancing our contrarian value model, turning our ratchet on undervalued products, parlaying to grow, accretive capital allocation, building out our Interlinked Matrix of activation knobs,

growing shooting sports participation and lifting all Olin people. This is a company that is focused on continuing to grow adjusted EBITDA and coupling that with balanced capital management to deliver more than \$10 of earnings per share in the near future.

So I'll make some brief commentary on a few slides and get to the Q&A quickly. 2021 is expected to be a solid result for Olin for the reasons shown on Slide #3. While the longer-term fundamental of demand that grows faster than supply is starting to be exposed here in 2021, our leading actions to get a higher value for our scarce resources is proving to be successful.

Current highlights of that success are that we continue to exit business that was based on non-negotiated pricing. Align our product chain mix with the intended impact from purposeful settings of our Interlinked Matrix of activation nodes, start accelerating the value capture of epichlorohydrin and driving expansion in shooting sports participation with our Shoot United movement. While there may be some end of year holiday slowdowns, which are really supply-driven, not demand-driven, and some seasonality that result in a sequentially flattish fourth quarter result, we still expect 2022 to exceed 2021. The reason thematic for better results in 2022 is shown on Slide #4.

The minor reason in our thematic is that the previously mentioned demand growth versus supply growth dynamic just gets better and better across all our businesses. More people are enjoying shooting sports, demanding clean wind energy and expanding their homesteads. The major reason in our thematic is that all of Olin's activities are designed around a foundational, cultural principle of only selling into value. We know who we are.

In October, we took the decision to close some more undervalued assets and simultaneously used other existing global asset and product liquidity to grow Olin's value. As our own ECU assets are getting rightsized, we are a global buyer of ECUs to satisfy our higher-value products demand. Even though, we have grown earnings for 5 consecutive quarters and delivered a levered-free cash flow that is approaching 20%, we still must show that our performance will continue to improve. But maybe more importantly, we must demonstrate our ability to manage uncertainty and volatility.

Slide #5 is an illustration. Olin has 3 substantial businesses, each with a meaningful contribution to segment earnings. For reasons that we previously discussed, the Winchester, which is shown in red on the slide, consumer and defense business offers solid and sustainable growth. For reasons we will discuss in just a moment, the Epoxy, which is shown in green on the slide, engineered materials offer differentiated growth as we expand margins in that business. The Chlor Alkali Products and Vinyls industrial essentials are our largest organic and inorganic growth opportunity. We expect the Chlor Alkali segment results to be slightly volatile across a brief transitional window when we have a model profile shift between the relative strengths on the 2 sides of the ECU.

We think of the net company volatility as ripples on a deep ocean, not waves on a shallow lagoon. We should control our destiny here. Continuing with the theme of good fundamentals on Slide #6. Our perceived old-world chemistry has new world application and value. I won't read all these megatrend multipliers as I'm sure they're familiar to you, but instead jump to Slide #7 and hit on the differentiated growth profile of Epoxy.

Epoxy sets itself apart from other engineered materials by offering nearly non-substitutable performance. Almost every end-use category is growing faster than global GDP. Consider the outlook for more and larger wind turbines for clean energy, consider the outlook for electrical laminates for the new mobility trends and broad electrification trends, consider the outlook for infrastructure expansion and replacement and so on.

Even though, we recognize the value of this business in epoxy resin sales and in epoxy systems sales, the value driver is really epichlorohydrin. And we will be expounding on our globally leading epichlorohydrin position in future earnings calls. We expect it won't be long before our Epoxy business delivers greater than \$1 billion of EBITDA and carries the same enterprise value that all of Olin carries today, more representative of a highly engineered materials company.

Finally, I will close on Slide #8. We're going to start talking more about EPS in conjunction with EBITDA and segment earnings. We are advancing in our evolution and expect our activities in debt reduction, refinancing, share repurchases and M&A to be big contributors of forward value and that value shows in EPS.

No doubt that a majority of our forward discussion will center on leadership, our linchpin products, great supply-demand fundamentals, parlaying and Lifting Olin people. However, new ways to create shareholder returns are evolving for Olin and help us earn above \$10 of earnings per share.

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

QUESTIONS AND ANSWERS

Operator

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

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

Scott, I wanted to touch on some of these natural gas price escalations that we've seen, not just in the U.S. but globally as well. So on the U.S. side of it, if you could sort of talk through how you guys have dealt in what was a pretty tricky quarter and continues to be a tricky 4Q in terms of the hikes we've seen in natural gas prices? And if you could also talk about what you guys are seeing in terms of the cost curve impact with natural gas price escalation in Europe and the power curtailments we're seeing in China as well.

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean, sure. For us, we have a couple strategies to manage the local issue. I mean, one is we have a pretty strong hedging program, where we have some amount of it hedged out into the future, which helps protect us. The rest of it is absolutely 100% covered in product pricing. And every day, we get more ability to recover that on an instantaneous basis as we get out of some of these contracts that keep us in handcuffs.

I think the more important one is maybe your second one, I mean rising global energy costs it's actually a plus for Olin and that's because trade flows get more expensive and trade movements get more volatile. And that just fits right into our model of lifting the value of these Olin scarce resources.

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

Very helpful. And as a follow-up, Scott, obviously, now you're guiding to net debt to EBITDA being around 1x by the end of the year. And it was very helpful talking about \$10-plus in EPS, and you touched on sort of share buybacks and M&A and the like as being meaningful contributors. As we look at 2022, with the balance sheet now as clean as it is, how should we be thinking about capital allocation, particularly if you could dig a bit deeper into the thought process with regards to sort of meaningful share buybacks as well as M&A?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean, sure, look, I'll cover one element of it and then Todd will cover most of it, but a good bit of that is going to go toward our growth programs. And I suspect maybe there'll be some other questions through the call, and we're happy to talk about how we go out and grow the company. So that's certainly a part of it, Hassan. I mean Todd, do you want to cover the rest?

Todd A. Slater Olin Corporation - VP & CFO

Yes. You're right, Hassan, as we've delevered the balance sheet that does provide a lot of financial flexibility. To accomplish the structuring and parlaying that we've been talking about, as Scott just referenced. Going forward, we would expect to target in that 40% range of our levered free cash flow as shareholder rewards, that includes the dividends and opportunistic share buyback as we go forward.

Operator

The next question comes from Michael Sison with Wells Fargo.

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

Nice another great quarter. Scott, I'm just curious, it sort of feels like, given how well your results are coming in this year, you're sort of in the ninth inning of your transformation and -- but you sort of talked about a lot of things that can continue to improve. So just curious

where you think you are in -- you've only been here a year. It's been a good year. Just what else do you think could be done to continue to improve the company?

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

Yes. Mike, thanks. Yes. I mean, look, I would say that the team here at Olin has a long runway in front of it. I mean, all we've done so far has put a bit of a disruptive model in place, which is highly complementary to the fact that for the foreseeable future that demand growth actually grows faster than supply growth. There's a lot more to come beyond that. I would say, if you think about business by business, a little bit, here we are in Winchester about to embark on our Shoot United program to go out and grow the number of people doing sport shooting immensely, and Brett will get an opportunity to talk about that hopefully later in the call.

In Epoxy, some of the systems and some of the high-growth areas like mobility that we provide are starting to take off. Maybe more importantly, we've set ourselves to the point where we're a buyer of ECUs out there. And there is global product and asset liquidity available and we're just getting started on that program of accessing that to go out and grow our business. And then, of course, we'll complement that with inorganic acquisitions. So that's sort of how the runway shakes out.

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

Got it. And then as a follow-up, the first half, you're a little bit above \$500 million in EBITDA, second half your in the \$700 million range. When you think about the volatility or maybe just the kind of the delta between the quarters, is that \$500 million to \$700 million sort of a range that you can keep your EBITDA within? And is that sort of the potential for next year as we think about doing better?

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

Well, I think the reason, Mike, that you make -- you see those differences is because we're just getting good at practicing our model. And every day, we continue to get more knobs that are under our control, reference some of the remarks we made about getting some of our materials more open and freely negotiated as opposed to being a tied to trade indices.

So the reason that, that early volatility has been there, it's kind of been a one-way up volatility there is just because we're getting better at expanding our model. I think when you look out in the future, of course, we're saying that 2022 will be better than 2021, and there may be some time period where we have to shift which side of the ECU sets our market participation because today, the weak side is still caustic.

Operator

The next question comes from Alex Yefremov with KeyBanc.

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

Scott, you mentioned EPI renegotiations in the slides. Can you provide any details what percent of your merchant business is out for negotiations could also maybe size up the merchant EPI business as a percent of revenue or percent of your capacity?

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

Yes. So I think I heard your question. I mean, at least on the chlorine side, we continue to make progress getting that opened up. And we expect at least by 2023, that that's essentially opened up. But we'll have to see how discussions go over the next quarter for us. We haven't really shared just how big our EPI business is in relation to the rest of it because it's not that important, the size of the EPI business. What is important is that it is the linchpin that it sets value across our whole Epoxy chain. And Olin is focused every day on lifting the value of that scarce resource. Pat, would you have anything else to add about epichlorohydrin?

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

Yes. I think the other thing to keep in mind about EPI is we have a lot of flexibility between the merchant market and our captive production. We have multiple knobs on EPI that we can activate to bring more value to that whole Epoxy value chain.

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

Okay. Understood. Could you discuss parlaying activity for EDC as well. What is involved here? And how would you describe this opportunity?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Yes. I mean that Damian will make some comments on the parlay of EDC. Just on the broader topic, I would just say we're continuing to be successful developing that program. And if you think about many of our products, chlorine, caustic, bleach, EDC, Epoxy and epichlorohydrin. In the third quarter, we had success at parlaying activities around all those. Damian, do you want to talk about EDC?

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

Sure. Scott. From an EDC standpoint, Olin, we have a large presence in merchant EDC. Of course, we can touch -- reach customers all over the world with our positions in the U.S. Gulf. And we have expanded our parlay network there as well because we have customer demand now in Europe, Africa, obviously, India, Southeast Asia, Northeast Asia, Latin America. And our ability to complement our own supply with supply that happens to be available at certain opportunistic times in the world, just allows us to get -- bring that product closer to the customer and realize some value there from the ability to help them turn that material into their PVC end-use products that's serving their growing markets. So our ability to get closer to customers with our parlaying network, that is -- that translates into value for Olin here that we've realized going forward.

Operator

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

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Scott, you've talked about in Epoxy segment margin goal of 30% in the past and this morning, I think you threw out \$1 billion as an EBITDA goal for the segment. What do you need to do in that business to get there from here? What are the 2 or 3 sources of incremental improvement, recognizing that the business has already come a long way? What additional runway do you see in '22 and beyond for upside in Epoxy?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean we just need to keep the activities going that we've already started, but Pat can expand on those a little bit.

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

Yes. Kevin, Epoxy, I would say, is really, epoxy's at the right time, at the right place. And what I mean by that is that if you look at the megatrends and you look at the demand for Epoxy in these different segments, right place, right time, right? So you look at composites and light-weighting. Epoxy enables that. You look at wind, wind systems, decarbonization right place, right time, electrical laminates, e-mobility, adhesives that are used in e-batteries, Epoxy right place, right time.

So I think what you're seeing is we've got the infrastructure in place. We've got the commercial organization in place. And really, we can go across the whole globe around these applications, extracting value where we see value can best be extracted. But Kevin, I think we're in a great position to be able to complement what we have already been doing and to keep building value around a lot of these megatrends that play right in the wheelhouse of how Epoxy brings value to the market.

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Okay. So it sounds like it's less strategic and more just riding the sources of demand improvement that you outlined, Pat?

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

Well, I'd say strategically, make no mistake that epichlorohydrin and the scarcity of epichlorohydrin and the multiple knobs we have there is much more strategic going forward than it has been in the past. And I would say that we even have opportunities in aromatics in what we do in phenol and acetone and cumene to bring this contrarian model into play. So that could be very strategic to our future as well.

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Understood. And then secondly, if I may, Scott, I just wanted to ask about Slide 8. This is something you've talked about in the past, breaking the cycle pattern. Just was wondering if you could put a finer point on it, I appreciate the analogy you used the waves on lagoon and ripples on an ocean and so forth. But even specialty chemical companies sometimes suffer a down year. If you were to look out over

the medium term, 3 to 5 years, what would it take to cause a down year in your mind for Olin? Is it a shift from weaker side to stronger side of the ECU or an economic recession or something else that would precipitate a cyclical change for the company?

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

Yes. I mean even just going back to your first question where you had kind of said are you just riding the wave. I mean, I would make no mistake about it. I mean, we're heavily focus on value over volume. And if there's any wave, it's a wave that Olin is creating. So you're exactly right on Slide #8 there. We're trying to represent that this is no longer a cyclic business. It was a cyclic business because Olin made it a cyclic business, and we've completely changed how we're doing business now. This is structural work that is going on. And not only that, there are structural dynamics that have changed in the marketplace, we have a reasonable view out 5 years, right? And every single place we look, demand growth exceeds supply growth.

So could there be down quarters. That is not impossible, but I do want to reiterate that if we have to shift which side of the ECU is setting our market participation that's a relatively short-term item that you may or may not see. That is not a year-long type of shift. We've taken the business from being a little bit slower to being very nimble to go out and make sure that we do what we need to do, to make sure that we get significant value from Olin's scarce resources.

Operator

The next question comes from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch *Fermium Research, LLC - President*

Congratulations on another solid quarter. You made an announcement yesterday about shaving some capacity in Alabama. Could you just talk about the decisions behind that? And where you think this leaves the chlor alkali market in the supply and demand balance?

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

Yes. Thank you, Frank. And we won't comment on the market. The decision was strictly driven by the fact that we're still undervalued there. And we're just not going to sell into low-value markets. I mean, I can tell you where it leaves Olin's supply-demand balance. And that is in a place where we're positioned to go out and buy ECUs at the right time to support growth in our downstream derivatives and we'll likely be a smaller participant in the merchant market going forward, particularly in those places where we're going to be compelled to continue to supply through next year on trade indices that actually don't reflect the market value of the product.

Frank Joseph Mitsch *Fermium Research, LLC - President*

Okay. Got you. Got you. And as I look at Slide 12, the ECU profitability contribution index, that is an investment banker's dream. I mean, just an absolute hockey stick. Where do you see that going in 4Q and in 2022?

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

Well, every day, we're focused on lifting value, and that is the 1 measurement that ties everybody in the company together. So we're focused on continuing to move it up. Again, I want to reiterate that there may be a quarter or 2 where we have to draw a flat spot in it to make sure we're positioned right to continue to lift Olin's value. But yes, we'll continue to move it up. I mean, Damian, in your businesses, what do you think about fourth quarter here?

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

Yes. Sure. I mean, we certainly can see a continuation of the trend where the chlorine side remains relatively stronger. And of course, as Scott mentioned, as contracts have converted away, we highlighted in our first slide that we shifted more contracts away from index to freely negotiated. There is a step-up in value there that we're achieving as well. So we continue to see that momentum play through as chlorine remains strong.

The rest of the chlorine portfolio in my division and to complement Pat's point on the Epoxy side, continues to -- we continue to achieve value. And of course, yes, the caustic side has improved. There's certainly some increasing areas of tightness, and we spoke about the energy issues that are disrupting those trade flows. And -- so we're seeing caustic move up as well. But net-net, the ECU continues to move up as reflected in the PCI, and we expect that to continue. But chlorine certainly continues to drive the stronger side of the model.

Operator

The next question comes from Jeff Zekauskas with JPMorgan.

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

I was looking at your cost of goods sold, which I think was \$1.68 billion. And in the second quarter, it was \$1.71 billion, why did cost of goods sold go down sequentially? I would have thought your raw materials would have been higher. Did you simply ship lower volume? Is that the effect? Or can you explain that?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Jeff, yes, sure. I mean, look, at least in one of our businesses, we had some amount of lower volumes. If you remember in -- at the end of the third quarter, hurricanes, other logistics issues and so forth slowed down volumes a bit there. So that's probably the main driver, Todd, is that about, right?

Todd A. Slater Olin Corporation - VP & CFO

Yes. That's absolutely the case. I mean we commented in the deck, you did see chlor alkali products and vinyls volume was down sequentially. Really, that was a result of the big result was [our volume down] (corrected by company after the call). So that's why you saw lower cost of goods sold.

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

Great. And then in your -- I guess, in your third slide, you said you shifted another 10% of merchant chlorine to freely negotiated. And now less than 1/3 of volume remains under index. So if all of that -- the remaining volume that was under index is now at some market contract. What's the annual economic effect of that?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Jeff, I would just say, without trying to itemize product by product that the impact of getting more of our merchant chlorine out from index is important. The more important part is that it lifts our whole portfolio of chlorine derivatives. Now if we were to get the remaining third out from under index, it would have a fair economic impact to Olin. But I'll just say we don't expect to hold on to that complete 1/3 of volume that remains under index because some of those customer segments aren't going to be receiving chlorine from Olin because we're stuck with having to supply for 1 more year at some value that isn't representative of the market. So we'll lose some of that volume.

Operator

The next question comes from Josh Silverstein with Wolfe Search.

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

Just wanted to go back to the capital allocation discussion from before. Obviously, this year was a big year for debt reduction. Can you just talk about maybe the capacity for buybacks next year? What you're thinking about for a minimum amount of cash on hand versus debt reduction? And then what could be left over for potential M&A versus buybacks?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean, Todd will expand on this a little bit. I mean, what I would say to set the stage for his explanation is that right now, buying back stock represents an immediate return of about 20%. So you can expect this to be a significant part of our forward program. Todd?

Todd A. Slater Olin Corporation - VP & CFO

That's right. Really, if you think about 2021, our first priority has really been to pay down debt, and we're targeting \$1.1 billion of debt reduction this year. So far, it's about \$850 million through the first 3 quarters. We've taken a lot of that high-cost debt out of our system now, and we will plan to reduce debt further here in the fourth quarter. So that will get us down to the about 1x range.

Ultimately, we're probably targeting gross debt in the \$2.5 billion range. To answer part of your question, Josh, where we're really

targeting gross debt is in that \$2.5 billion range. And as we said earlier, we're going to focus on our financial flexibility to enable us to do structuring activities, which would include M&A as well as parlaying, and we're targeting 40% -- right in that 40% range of our levered free cash flow towards shareholder rewards, including the dividend and buybacks.

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

That's helpful. And then just on the \$2.5 billion EBITDA level. I mean this was previously suggested it could be done in a few years from now. Is that the new floor to think of? And where do you think, given the portfolio and asset base right now, what could that new number be to the upside?

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

Well, I mean, we'll keep working to move EBITDA up. I mean, this year, we'll get pretty close to that, pretty obvious, I think Next year, we've absolutely said that we'll lift EBITDA over this year. We're evolving to also setting targets based around EPS. And so we have a fairly short-term goal of \$10 a share, and we'll look at where we go from there.

Operator

The next question comes from John Roberts with UBS.

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

It seems like the Dow contract is still one of the largest opportunities going forward. Does that contract all open up at once? Or does it open up in phases over time? And if it's the latter, could you talk about how far out the longest part of that contract goes?

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

Well, I don't give too many specifics on arrangements with a particular supplier, customer. But what I will say, because it's in the public domain already, and it is a material item is that our major ECU supply that we're doing at cost ends in 2025. And so there'll be options and each and every option will be cash accretive to Olin.

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

Okay. And then Hassan earlier (technical difficulty).

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

Yes. I'm sorry, I missed the question. It just went quiet. I don't know if it's on our end or our end. Tom, can you hear us? Hey, Tom, can you hear us?

Operator

Yes, I can hear you. Would you like to go to the next question?

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

Yes. For some reason, we just lost it.

Operator

Yes, it sounds like his phone line disconnected. All right. The next question comes from Arun Viswanathan with RBC.

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

Congrats on the continued strong results here. So I just wanted to ask on your comments that '22 will be better than '21, your Slide 13 has positive price momentum in across all of your businesses pretty much. So assuming that continues, just given your comments that you continue to focus on value. Do you expect each of the segments to show higher EBITDA? Or how should we think about that comment in the context of the segments?

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

Yes. No, I think that's fair. Each and every segment should show better results in 2022 relative to 2021.

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

Great. And then just another question on the cost curve. You obviously moved up the values here on the ECU. How much of your capacity would you say is still kind of not up to your standards on value? And is there anything that you could do to change that? I mean, is there any debottlenecking I know you have the \$100 million in productivity, but anything that you'd focus on to think about changing that situation. And again, how much of your capacity would you say is still maybe could be ready for shutdown?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Yes. I mean if you think about it from a capacity standpoint, I will just start out in 2025, right? Clearly, 30% of our capacity gets 0 return today. So that's certainly a big chunk. If you take that out, we still have some work to do. It's not necessarily a cost issue, though. I mean, I think our manufacturing and supply chain teams have done just a great job driving productivity and flexibility in our assets. It's more still a market value issue. And while a lot of our derivatives are starting to get to the point of reinvestment economics, if you look at what we sell into the merchant market, so take the ECU elemental chlorine and caustic that go into the merchant market there's still some work to do there to lift those up to a point that we get somewhere close to reinvestment economics.

Operator

The next question comes from Eric Petrie with Citi.

Eric B Petrie Citigroup Inc. Exchange Research - Research Analyst

You closed roughly 850,000 tons of ECU capacity this year. Just a question on strategy. Do you expect to parlay the closure amount? Or how do you see that going forward?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I think I'll let maybe Damian answer this question.

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

Sure. I mean, from a parlay standpoint, we still see that it's about pulling that volume that's there in liquidity that's out in the market, and we believe there's still pools of that available globally that we can that we can leverage. Of course, as these trade flows do become disrupted, as costs impact other areas. We're going to capitalize on that with our cost position. But we also see, as we look at these megatrends and the demand that is clearly growing across that fully meets our ECUs and derivatives, parlaying ECUs are going to play a bigger and bigger role in our ability to bring those ECUs into our system, allow us to be more flexible with how we derivatize our chlorine across areas like epoxy, across our vinyls space, across our intermediate organics and even back to the elemental chlorine. So we have opportunities here to flex our own merchant chlorine and derivatize that and pull other ECUs into the system as well, all for the purpose of lifting and enhancing the value of the ECU into the customers that we serve.

Eric B Petrie Citigroup Inc. Exchange Research - Research Analyst

Helpful. And then on the 1/3 of volume in chlorine that remains under index, how much of that is related to TiO2 in the market? And how does that step change at the end of next year?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Well, I mean, I would just say part of it is -- goes into TiO2. And that's some part of the market we're not going to be serving out into 2023. And so part of the volumes that go down are related to this shutdown that we just announced in McIntosh, Alabama.

Operator

The next question comes from Steve Byrne with Bank of America Merrill Lynch.

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

Yes. You have this slide that illustrates the relative value between chlorine and caustic. And I appreciate the concept of that your business is still complex. It's clear that, that chlorine value is not a data point on here, but likely a very wide range. EPI, for example,

perhaps a year ago might have been at the bottom end of that range in value to you of chlorine. Is it fair to say that it is now among the highest value end markets for chlorine for you? The reason I ask is, is it getting to the point where you think there is risk of capacity expansions of EPI in the market, either competitors or customers back integrating?

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

Yes, thanks. I mean, look, yes, a lot of chlorine and chlorine derivatives have moved up. I would say, we have a long way to move EPI because it's certainly not at the high end of that range today. Could it move up to a point where it supports reinvestment economics, it's certainly not impossible. Do we expect to see expansions out in the future, whether it's in EPI or even on the ECU side of the business? Yes, we expect to see some things get announced because otherwise, the world's not going to have enough of those scarce products. Once those expansions are announced, I'd keep in mind that there's still likely a 4-year gap where demand continues to grow faster than supply. So the only way that changes is if there are just multiple announcements of multiple expansions that continue over the next 10 years.

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

And then when we look at pricing on some of these chlorine derivatives like PVC versus EDC, both of them have ripped, but you got about maybe at \$0.60 a pound difference between them. Is that fair to you that downstream PVC garners that much of a margin versus EDC? Or is that compelling to you to want to move in that direction?

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

No, I mean, we're, of course, the largest merchant supplier of EDC. And that's a material that we've moved up in value. I think the recent movements of PVC, so I'm going back maybe across a 6- to 9-month window, it went up looked like there was some risk of it coming down, where, by the way, we had a number of activations around EDC to make sure that at least Olin's portfolio did not go down. Then you saw PVC move back up. I would just say that I think we have some room there. Clearly, the fundamentals for PVC look good, longer term. And there's a margin lift that PVC gets over EDC. And I think we're positioned to take advantage of that.

Operator

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*

Congrats on the great results. I wanted to circle back to capital allocation. So based on your 2022 EBITDA guidance, it seems like you should be able to generate at least \$1.6 billion of free cash flow next year. And you mentioned 40% to shareholders that will be about \$600 million. That remaining \$1 billion, should we think of that is dry powder for M&A, either like transformational M&A or bolt-on M&A because it seems like a pretty significant amount?

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

Yes. I mean, look, your numbers certainly aren't that far off. So I mean, you're exactly right. I mean we'll have options for that. Part of it is in acquisitions. Part of it is also to support our parlaying activities. Where we go out and use global product and asset liquidity because we will have some needs for various logistics capabilities as we do that. That's really low capital. It's very light touch in terms of capital, but I just wanted to complete the picture.

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

Sounds good. And then previously, I think it was hard to either sell or spin Winchester just due to either like valuation or taxes or maybe a mix of both? In today's environment, it seems like ESG is just a bigger part of the picture. So has anything changed? And I guess, could you just provide an update of how you see Winchester fitting in the portfolio over the long term?

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

Yes. Well, I mean, this is a great business for us. It still has a lot of legs. And I'm going to ask Brett to speak here in just a moment about our Shoot United movement. But if you were to break the business down just a little bit, you've got 55 to 60 million people doing sports shooting now, and it's the fastest-growing youth sport really in the country now. So -- and now we've got this program that we're about to roll out to go out and increase the pie. Brett, do you want to talk about Shoot United?

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

Yes. And just to add a little bit to what Scott said. The 60 million people who participate now, really participate for the main reasons to be with family and friends. The addressable market is over 200 million people to all demographic and ages. What Shoot United™ is, is a sophisticated communication strategy to introduce all of those fun facts and great things about the recreational shooting sports to those 200-plus million people.

Operator

The next question comes from Roger Spitz with Bank of America.

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

Following yesterday's announcement, how much diaphragm capacity do you have left, in short ton ECUs?

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

Yes. Yes. I mean, we probably won't quote an exact number, but what I will say is almost half of our capacity used to be diaphragm based. And with that announcement, we've totally taken out about 885,000, something like that ECU tons. So we took out a good chunk of it, but we still have a lot.

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

Okay. And can you comment on chlorine value and volumes into bleach? Is it starting to fall versus other derivatives as we move out of the pandemic? Or is people still bleaching all surfaces they can touch?

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

This is Damian. Let me take that question, and thanks for it. Clearly, we have seen bleach values move up and in concert with the broader movement across the ECU. Bleach is also a scarce product, as the largest merchant bleach producer, we clearly have seen the dynamics play out. Chlorine and ECU values have moved up in bleach. But clearly, much more room as bleach's use into disinfectant and wastewater treatment areas continues to grow and be more value than needed. And so we're still poised to -- with a long runway in front of us to capture value for this specialty product beyond its properties into great markets.

Operator

(Operator Instructions) The next question comes from Michael Leithead with Barclays.

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

Great. I guess just first on the -- you touched on inorganic or acquisition opportunities. Can you maybe just flesh out what you're looking for there? Just help us with either in terms of size? Are you looking for geographic or new product expansion? Just give us a sense of kind of what you're going after there.

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

Yes, sure. I mean if I had to sum it up, I would say we're looking for assets that really complement our model. So I mean that opens up a lot of possibilities. You could imagine that we're able to acquire ECU capability, although, that may not be necessarily North American focused. There's a lot of opportunity for us to expand into other geographies. Another complement to our model would be derivatives, just like we have a chlorinated organic derivative chain, and we have an Epoxy chain, and we go part of the way down vinyls, there's other chains that certainly feed off elemental chlorine, and those would be great complements to our model, whereby we get a lot more knobs to turn across our matrix and get value back to ton 1 that we have today.

The other thing I would say, it's also not impossible that we discovered that some of those things that have a direct complement to our model that actually our commercial attitude might apply to other businesses as well that we might acquire. So we're thinking about all of those possibilities.

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

That's great. And then maybe just for a follow-up, just digging into the Epoxy strategy a bit. If I look at Slide 7, there's a lot of talk or discussion around engineered solutions. Is it fair to say that you're trying to kind of ultimately sell less of the -- more commodity liquid epoxies and try to push it more downstream into kind of hardeners, Epoxy dispersions, things like that? If you could just flesh out kind of where the strategy is for Epoxy, that would be great?

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

Yes. This is Pat. And when you look at the Epoxy value chain, we make money across that whole chain and it's very interlinked as to how we make our money there. So with our epichlorohydrin, like I say, we have multiple knobs on how we monetize that EPI, whether it's selling into the merchant market. If we get value, there or we back out of the merchant market and we take that EPI and convert it more to liquid epoxy resin to monetize it or we can take that liquid epoxy resin and further convert it to a solid epoxy resin or other converted resins or we can take that liquid epoxy resin and systematize it into things like wind systems or formulated products or blends. So Mike, we need that strategically, we need that whole chain to be able to have the maximum value over volume choices. That's really what we've been doing, and we'll continue to do in the future.

Operator

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

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

No, I would just say thanks a lot to everybody, for joining today. Appreciate it.

Operator

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

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