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PRESENTATION

Operator

Good morning, and welcome to Olin Corporation's Second Quarter 2022 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, Andrew. 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 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; 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 good morning to everybody. The Olin team did a great delivering the highest quarterly EBITDA in our history, and delivering the fourth quarter in a row where EBITDA was \$700 million, plus or minus, even though global economic conditions declined. We did what we said we would do. We ran our model of leadership and accelerated our reduction of Olin share count without adding debt to our investment-grade balance sheet. Still many imagine us all the way down in the earnings and free cash flow gutter in the imminent recession. So I will solely focus my remarks on what Olin looks like in a recession, and then on why Olin is a good investment in any event.

So let's go back and revisit the recession, EBITDA and free cash flow slide from our first quarter earnings call shown here as Slide #4. Starting on the left-hand side of the slide, from our \$2.8 billion EBITDA 12-month run rate, it is certainly not impossible that the CAPV business experiences lower, longer-term operating rate reductions as we focus on maintaining the value of our products through a

recession. The associated percent drop in CAPV EBITDA could be like what our Epoxy business is experiencing. The combination of the 2 business performance reductions resulting in a \$1 billion EBITDA drop.

The right-hand side of the slide seems to be more interesting to most Olin followers. Starting from the 2020 EBITDA result of \$636 million, the 3 line items that we don't expect to repeat in a recession under the new model are low chlorine pricing, selling cash-negative EDC and Winchester operating in a significantly smaller demand structure. All 3 line items seem to be well accepted. The fourth upside line item called other structural change, needs some clarification though. Included in that upside line item are the materialized fixed cost reductions for the closure of 865,000 ECU tons of chlor alkali production, an updated epichlorohydrin positioning, maintaining part of the improved epoxy pricing under our new model of value, an improved VCM contract arrangement and gains from multiple alliances. In this recession scenario, Olin still generates \$7 per share or more of levered free cash flow. In fact, we welcome the opportunity to further reduce our share count right through the middle of a recession.

Obviously, we're bullish on Olin. Slide #5 shows why. We're the leader in every one of our businesses, and we run a model that looks around corners so we can position for the future today. So said differently, we take difficult actions early in the cycle. Part of that positioning is to temporarily reduce participation in markets with poor future quality indicators. Our curtailments in Epoxy and associated upstreams at Freeport and Brazil as well as in EDC at Freeport continue today. Both Epoxy and EDC represent weakness on the chlorine side of the ECU. Accordingly, we match our market participation to the weak side of the ECU. This is a fundamental change to our positioning from prior periods. Additionally, we expect to curtail Epoxy and associated upstreams again in Stade Germany late in the third quarter, in part due to the European energy situation. Our complete company strategy change from heavy volume to nimble value along with the currently understated equity valuation positions us to buy up to 20% of our outstanding shares in a year even in a weak economic cycle. Our new \$2 billion share repurchase program reflects our Board's confidence in Olin's future earnings and cash flow generation.

With our solid balance sheet and strong cash flow, the company is well positioned to execute on this attractive opportunity to invest in Olin. So that concludes my opening remarks. And Andrew, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

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

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

Very helpful slides, obviously, particularly you brought it up in Q1, and again in Q2 on the recession side of things. Look, as I take a look at your Q3 guidance and what's implied for Q4. The Q4 sort of implied guidance range seems to be an EBITDA of \$420 million to \$620 million, right? And if I take the lower end of that guidance range for Q4, again, \$420 million, I annualize that that's slightly north of \$1.6 billion, which kind of falls on the lower end of your trough guidance range of \$1.5 billion to \$2 billion. So my question really is, what are you guys seeing in your order books to, I guess, imply that sort of guidance for Q4? I mean are you seeing some sort of imminent recession? Or is that you guys being conservative as it pertains to the last quarter of the year?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Thanks, Hassan. Yes. I mean, look, Q4 is a bit different than some of the other quarters. We traditionally face some slowdowns, and then we do some purposeful things like really close down Winchester for a couple of weeks at the end of the year. So naturally, Q4 is really one of our lower quarters. I will just say that I know maybe the essence of that question is trying to get to 2023, and the outlook there. And I'll just say we're taking a cautionary approach there. And we are basing our outlook and our plans on some sort of a recession that seems to be materializing. And we're seeing some weaker demand, particularly in the vinyls chain, and continuing in Epoxy.

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

Very helpful, Scott. And as a follow-up, could you just give us an update on the progress of some of the growth vectors that you guys identified earlier. In particular, on the sort of PVC joint venture side of things, companies like Orbia have come out, talked about potentially sort of considering sort of joint venturing in the PVC domain. So any updates on that would be helpful.

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

Yes, sure. I mean I would say the one that is furthest along, and we're moving into the phase of regulatory approval is our blue water joint venture with Mitsui, where we become basically the largest manager of liquidity in the world. So we need another 6 months or so probably to get that operational. In terms of the vinyls venture. We continue to work on that, Hassan, and we're making progress. We probably need a couple of quarters before we get to something that we can announce there.

Operator

The next question comes from Jeffrey Zekauskas with JPMorgan.

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

Can you talk about the state of the Epoxy market? And what your Epoxy volumes were like in the second quarter relative to the first?

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

Yes. Yes, Jeff. Yes. I mean in Epoxy, our volumes in the second quarter actually declined from the first quarter. In fact, we ran the lowest volume quarter in the history of the business. The big driver there, Jeff, is China. I mean China is at least 50% of the world's consumption of epoxy, consumption has declined much more than supply declined. And essentially, China has flipped its trade flows, has effectively become a net exporter of epoxy and epichlorohydrin and a lot of that material is moving into Asia. And consequently, all of that material that is already produced in other parts of Asia, is moving into Europe and into North America. Now we all know this is a temporary situation but it is incredibly dramatic. And effectively, we're running that business. You can think of it 50% sort of asset utilization. And we're taking those difficult choices and making those asset and market moves to make sure we preserve value through this time. It just really doesn't get much worse than this. This is sort of beyond what you would expect out of a recession when you combine the European situation as well.

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

Okay. Good. And can you talk a little bit about caustic demand, and whether -- it seems to be holding up, and sort of the differences between caustic prices or tightness in the United States and caustic prices or tightness in Asia.

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

Yes. I think demand is okay, Jeff. I mean I think the more interesting part of that whole discussion goes all the way back through the ECU and back to the vinyls chain. What's happening with PVC pricing declining, perhaps PVC demand declining. The key PVC producers, they're sort of in this betwixt and between world right now where caustic values are very good, in part to Olin's actions. And so they are sort of running their businesses to take advantage of that and putting even more vinyls into the marketplace, which is further driving down price. That can't hold very long. Pretty soon, that will flip to where vinyl's production is reduced and then caustic supply-demand fundamentals get even better than they are today, and that's our expectation.

Operator

The next question comes from Aleksey Yefremov with KeyBanc Capital Markets.

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

Scott, can you just talk about volumes for I guess, the chloro vinyls business in the third quarter versus second. What's the ballpark? How much is it going to be down -- if at all?

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

Yes. Yes, Aleksey. And so you've seen the announcement that we made, of course, where we said we were going to curtail our EDC production, and of course, that has an upstream impact on our ECU production as well at our Freeport, Texas facility. And so our production is going to be significantly reduced. Our market participation doesn't necessarily reduce as much as our production decline because we do go out and access liquidity that's available in the marketplace. So we're taking 2 steps there at the same time. One, we're reducing our production. Two, we're accessing liquidity that is available in the marketplace, still our participation is lower than it was in first quarter and fourth quarter of last year. And we're doing that in order to support the value of our EDC. So it's down some. That's the 1 item on our chlor alkali chain, where we're working to preserve value as much as we can, but still prices declined.

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

Okay. The \$2 billion buyback program, how are you thinking about the timing of something between 12 or 24 months? And also, would you consider increasing leverage to kind of hit that buyback number or this is entirely from available free cash flow?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean -- Aleksey, I'll start with the back of that question first. And look, our intention is to buy shares out of our levered free cash flow. So we take as much of that as we can and repurchase shares. So knowing that, that is generally our intention. If you think about the first half of this year, we probably bought back about 8% of our outstanding shares, and you should expect us to do something similar to that in the back half this year. And then we'll continue on into 2023. So that's the kind of run rate you might see.

Operator

The next question comes from Arun Viswanathan with RBC.

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

Great. So you also mentioned, I guess, in the release that you'd likely see a reduction in rates at Stade as well. And so does that mean that you kind of flip back and increase the rates at Freeport? Could you just update on how you're thinking about managing through this higher energy cost environment and some of those demand trends that you're seeing there?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Sure. I mean when and if we take that action later here in the third quarter, I mean, we'll balance some of that with ramping up production at our other sites. But still, in this time period, this third quarter and moving into fourth quarter, I mean you're going to see us run our overall system in Epoxy still at very, very low rates as we reduce our participation. Lots of areas of that market are still pretty poor quality.

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

And As a quick follow up. You mentioned that China has flipped their trade flows in epoxy, I think. And just curious, if you're concerned at all about that as it relates to caustic or other chlorine products just because -- if your outlook does call for potentially increased caustic margins, or ECU margins, because of reductions in operating rates due to chlorine weakness, what -- do you expect more exports to wind up on the West Coast or the East Coast here because the returns are so great? And -- or is that unlikely? And then, I guess, just on that note, are you satisfied, I guess, with the 865,000 tons of closures. Does that kind of take care of all of your high-cost capacity? Or would you expect to take more action on that side?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Sure. I mean, look, what you described has already been happening. I mean with the slowdown generally in China demand relative to production, we've already seen additional caustic exports out of China, just like there's been a lot of extra PVC exports as well. So that has been going on. And our model is already adapted to offset that exposure. And we've seen those flows come in, and we're working around those flows. And still, we go out in certain cases and purchase some liquidity out of the global market space and maybe move it to a different area.

I mean, look, with regard to the 865,000 ECU tons -- and just as a reminder, that 865,000 ECU tons included shutting down the remaining 200,000 tons of ECU capacity that is diaphragm based in McIntosh, Alabama. And we have already accomplished that. In fact, we pulled it forward so all of the diaphragm capacity is down in McIntosh, Alabama. We'll have to see we're satisfied with that. I mean certainly, that's made a difference in our ability to be nimble and drive for value. But that number has taken us to a reasonable point for now. There's always other options.

Operator

The next question comes from Mike Sison with Wells Fargo.

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

So in terms of the third quarter, if you got the volume that you're willing to walk away from, would your EBITDA be higher or lower or about the same?

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

Mike, this is Scott. So let me make sure I understand your question. You're saying, if we were to get the volume that we are instead making proactive decisions to walk away from what would be the outcome on EBITDA relative to what we forecasted?

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

Yes.

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

Yes. Yes. Well, look, I mean we're purposely not participating for a reason, right? So if we were to go out and grab that volume, it would be exactly counter to what we're trying to achieve. It's not impossible that we could accomplish that and have significantly higher EBITDA in the quarter, but it wouldn't be the right thing to do for 2023 at the back half of this year.

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

Got it. Got it. Okay. And then I guess when I take a look at your -- ECU PCI continues to go up, does that reverse? And where do you think it goes in the second half of the year?

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

Yes. I mean, look, I'll let Todd kind of comment on this in just a minute. There's clearly some things we have, there is opportunity for pricing to move down. However, fundamentally, I would say that most of our prices are going to move up so that if you saw a change in that, it likely be predominantly from mix or the impacts of our vinyls chain. Todd, help me on that.

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

No. That's right, Scott.

Operator

The next question comes from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch *Fermium Research, LLC - President*

I was curious on Winchester. I saw that you're guiding 3Q to be down due to higher costs. Typically, Winchester has its best quarter in the third quarter. So does that imply that you've basically been running flat out here in the second quarter. And so there's not much more that you can get from a volume perspective, and it's really just a function of the higher input costs. Is that how we think about it?

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

Frank, it's Todd. Yes, we would expect that volumes in Q3 will be similar to Q2. As you get in the demand environment we're in, I think that's how you should expect Winchester to operate. Again, it's -- that's where Winchester is. We have a high degree of confidence, as you know, where we hedge a lot of our commodities. And so we have a high degree of confidence, our commodity costs in the third quarter will be higher than it was in the second quarter. So that's the headwind that we're facing here in the very near term.

Frank Joseph Mitsch *Fermium Research, LLC - President*

Helpful. And coming back to Slide 4, just I want to make sure I understand fully. The comment about relative to today, if you were to run your assets at 50% -- chemical assets at 50% for an entire year, we should be thinking about EBITDA in the \$1.5 billion? Is that how we read that?

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

Yes. I would say in the \$1.5 billion to \$2 billion range. I mean if we're -- if the imminent recession became so bad and lasted that long, and we had to turn down everything to that low a level that we would end up somewhere in the \$1.5 billion to \$2 billion. I mean if that

occurred, we'd be taking a lot of other actions to try to push us upward in that range. But that's the impact that a dramatic move and dramatic actions like that could have on Olin.

Operator

The next question comes from Kevin McCarthy from Vertical Research.

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Scott, if Germany went to Phase 3 of their energy contingency program. How do you think that would impact supply demand in the markets where you compete, and by extension Olin?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean there'd be a direct impact on Olin, and then there'd be indirect and tertiary impacts likely. So I mean, look, the direct impact would be somewhat of a negative hit just because of our assets there. But as we've shown recently, we certainly have the ability to curtail those and still be okay. When you get to the secondary impacts, it's more than likely to increase product values and trade flows that move into Europe, and any increase in the product value of those trade flows is a positive for Olin.

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Okay. I appreciate that. Then secondly, I wanted to ask you about caustic soda pricing. I think in early July you proposed an increase? And then if some of the consultant notes are to be believed, you doubled the amount of the increase a couple of -- or a week or 2 later in mid-July. Is that accurate? And if so, why did you do that? Maybe you can elaborate on what you're seeing in that market today?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Sure. Yes. I mean I would say that's generally accurate that we did take that step because that product has more value in today's environment. But what's really behind that and driving that is that with the weakness of chlorine derivatives -- and again, you can think of epoxy, you can think of polyurethanes, you can think of PVC and the supporting vinyl intermediates there. With that evolving weakness, it essentially changed the side of the ECU that is weaker than the other side. So for many, many months, the caustic side has been the weaker side relative to chlorine and derivatives. Now chlorine derivatives are the weaker side of the ECU. So we have flip-flopped our model just over the recent course of history, and we've set our market participation on a first order based on that weaker side of the ECU being chlorine and derivatives. So basically, concurrently with that, we expect an increase in the value of the caustic side, and so we've moved our pricing up.

Operator

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

Stephen V. Byrne BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst

Just a couple questions regarding the statement about you're running -- you could run your assets at 50% rates for a year. Where would you estimate your operating rates are likely to be in the third quarter? And can you comment on the significance of the 1-year phrase? Is that -- is there something implicit in running at that rate that is really unsustainable beyond just the financial impacts?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Sure. I mean the only business that we really provided indications on where we're running is our Epoxy business. And we've said we're running that business pretty close to 50% operating rates. I would just say in our CAPV business that we're well above that level, and have plenty of room there. The only significance in the 1 year is we were trying to demonstrate what is the lowest full year EBITDA that Olin might have in its future. So we picked a pretty long recession scenario.

In other words, 1 year where the global economy declined so much that we had to run at that rate every day for a full year. We're trying to be a bit conservative here because clearly, Olin's equity value is driven by the view that under that kind of scenario, our EBITDA must be much lower than where we believe it is. So we're just trying to present a compelling case that says we are good in a recession. And in fact, we can create value via really good capital allocation right through the middle of that recession. So that's the idea that's behind that 12-month window.

Stephen V. Byrne *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

And I also wanted to ask you just whether or not you're getting any collective criticisms from the municipal water treatment authorities on the price of chlorine. Anything going on there that's kind of unusual?

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

No. I wouldn't say that there's anything unusual. I think the real issue is that chlorine has only been moved up to, call it, \$0.50 a pound. And for the value it provides and the importance of the material, that we directionally in that market got to move it toward dollar a pound. So that's the only criticism we have is our own, that it's undervalued.

Operator

The next question comes from Josh Spector with UBS.

James Patrick Cannon *UBS Investment Bank, Research Division - Research Analyst*

This is James Cannon on for Josh. Do you aim further to lower your utilization and shut plants down. Would there be a significant working capital release?

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

Well, look, I mean the working capital release, should one occur, would likely be at the face or the initial point of a slowdown. That's when you would see it. It's not necessarily associated with a curtailment or a shutdown. Those are generally not related.

Operator

The next question comes from Matthew Blair with TPH.

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

Scott, how are you thinking about the global cost curve for ECU in the back half of the year? We've seen a big increase in European natural gas prices so far in July. Does that provide some price support for caustic and chlorine -- or do you expect these demand factors to outweigh that?

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

Yes. Thanks for the question. I mean, generally, I just don't think about it at all, to tell you the truth. I mean, we're focused on the value of ECUs for what they deliver in the marketplace and in the world. But I mean, your point is relevant that as the energy complex and other cost and inflation in the world that may be different between the regions. So you're right, we can sort of point at Europe here. As that moves up, it certainly helps put what I'll call a psychological margin bottom or a floor on where the value of ECUs might be. So it's -- the trends that are happening are generally only favorable there.

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

Makes sense. And then could we circle back to the Winchester guide for Q3? I guess we're seeing copper and lead prices that are actually cheaper in July versus the Q2 average. So could you walk through exactly what commodity costs are causing the headwinds in Q3?

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

Matthew, this is Todd. As you know, we do hedge our commodity costs, not just natural gas, but copper and zinc for Winchester for brass. And so a quarter out, we are very heavily hedged. We have a rolling 4-quarter program. So because of our hedge positions -- I mean you just can't look at the, I'll say, the current month or the spot prices in the market and assume that will be the value that runs through our P&L. So we -- again, we do have a high degree of confidence based on our hedges, our commodity costs and other material costs are going to be higher in the third quarter than the second.

Operator

The next question comes from Angel Castillo with Morgan Stanley.

Alyssa Becky Steinberg Morgan Stanley, Research Division - Research Associate

This is Alyssa on for Angel. I'm just wondering if bolt-on M&A is still in the mix? And if so, what kind of opportunities are you looking at there? And how are valuations trending in this weak macro?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean it's definitely part of the mix. I mean when we do think about our capital allocation program, I mean, we're going to -- we take care of our dividend. There's a very limited amount of bonds that we'd like to pay by the end of the year, but that's capped at roughly \$200 million. Most of that is going to go to share repurchase. There is some opportunistic small bolt-on M&A available. I'm doubtful that there's a high chance that a lot of that would happen in the back half of this year. 2023 is not impossible. What is more likely is that we continue to make progress on some of these alliances and joint ventures, which are very low capital endeavors.

Todd A. Slater Olin Corporation - SVP & CFO

And maybe just to add a comment, Scott, as we look at bolt-on or M&A activities, those investments truly need to compete with investing in Olin stock and buying Olin shares back with directionally a 20% free cash flow yield. So the lens of M&A has to compete with that. And today, even though maybe multiples have come in a little bit, it's still a pretty high hurdle for that to compete with the Olin stock price.

Operator

The next question comes from Eric Petrie with Citi.

Eric B Petrie Citigroup Inc. Exchange Research - Research Analyst

I was wondering if you could comment a little bit your thoughts on the EPA's proposal to ban the asbestos cell-based production. And in terms of Olin, would you take that as an opportunity to keep capacity flat, or expand or reduce capacity?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Yes, sure. I mean there's a proposed -- it's a proposed rule right now and the proposed rule has a 2-year phase out of all diaphragm asbestos-based chlorine production. So roughly 30% to 40% of this country's ECU production and chlorine production is based on asbestos diaphragms. So if the EPA was to be able to finalize that in its current form, you'd probably cripple the country. That's not going to happen. We've been engaged in this activity for quite a while and have pushed back on it. I think you're not likely to see a final rule come out that is as proposed. If that rule came out like that, there'd be no choice but to shut down immense amounts of capacity, and you would see ECUs turned into gold if that happened.

Eric B Petrie Citigroup Inc. Exchange Research - Research Analyst

Helpful. And then for my follow-up question, you're guiding third quarter EBITDA down 15% quarter-over-quarter. How would you bucket that roughly between volume, price and higher costs.

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Well, I think you see some elements of all of that. And like Todd commented where we have hedge positions and other things in cost, some of that is well, well known. Because of the steps that we've announced to curtail some of our production, there's an element of that, that is volume, which is offset by the material that we purchase and resell and pricing across more products than not are likely to increase a bit, offsetting some of that as well. So it's kind of a balance.

Operator

The next question comes from Mike Leithead with Barclays.

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

First question, I just wanted to follow up on a comment Todd made, but just given all the energy volatility, can you just remind us your hedging position or just philosophy around locking in natural gas or electricity costs.

Todd A. Slater Olin Corporation - SVP & CFO

Yes, thanks, Mike. We -- for -- if you think of energy directionally, 70% of our North American power is natural gas-based and we are a very heavy hedger of gas, as a proxy for energy consumption. So a quarter out we are very heavily hedged. So we have a significant hedge position already locked in for the third quarter. And it's really a rolling four-quarter position that has a sliding scale with the remaining quarters. So as gas stays up, you'll see it roll through our P&L as higher energy costs. When gas comes down, that gives us an opportunity to lock in to lower prices. So that's -- we're confident that we will have higher costs in our chemical businesses for power in the third quarter.

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

Got it. Makes sense. And then maybe just a second, I want to circle back to, I think, your answer to Jeff's question about Epoxy and China turning to a net exporter. And just -- when you look at other chemical products or cycles, when you see that happen, things do tend to get a bit sloppy for a bit of time. So can you just walk through your comfort that that's not the case for Epoxy or EPI right now and it's temporary as you say?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Well, no, I would just say that it is already the case for EPI and Epoxy. There is so much material that used to be imported into China that now because of the mismatch of China's internal consumption versus their production. Now that material that used to move into China does not anymore. Most of that material came from other Asian countries. Consequently, those other Asian countries have been exporting that material to North America and to Europe. And that's been going on for a number of months. And that is why our epoxy earnings came down. We've elected not to participate in that, have our value remain where it is. And when that reverses, which it will reverse, we're left where our volumes return, but they return at the pricing level that we had notched it up to.

Operator

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

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

Can we have an update on your desire to actually achieve IG ratings and perhaps your share repurchase program announced suggests that you're not really chasing that.

Todd A. Slater Olin Corporation - SVP & CFO

Roger, it's Todd. Obviously, in the past, Olin has been an investment-grade credit. We've been operating with investment-grade metrics since late last year. And as you can see from the recession scenario that we laid out on Slide 4. Frankly, we can continue to operate with investment-grade metrics during a recession, given the strong balance sheet, earnings and cash flows of the business. So to your question about the share repurchase, I don't think that we are sacrificing any of our credit metrics on our share repurchase program. We understand the question about investment grade, and we're going to continue to evaluate whether investment grade really should be an objective for Olin, given that the view is we can operate with those metrics in a recession as well as without.

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

Great. And secondly, a number of the European chlor alkali producers have been able to expand their spreads in the face of extraordinarily high electrical power costs. I wonder if you could speak to your chlor alkali on a non-forward integrated basis, how your spreads have looked here in North America?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I would just say that they've been constantly expanding. And if you kind of refer to a chart we have in the appendix, it's the ECU PCI. It basically shows the expanding contribution margin there. So that is our variable margin, and it's been ever expanding over nearly the last couple of years.

Todd A. Slater Olin Corporation - SVP & CFO

And that's Slide 9 in the deck, Roger.

Operator

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. No, thanks a lot. I would just thank everyone for joining us today, and we appreciate the questions. Thanks a lot.

Operator

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

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