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PRESENTATION

Operator

Good morning, and welcome to Olin Corporation's Third Quarter 2020 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, MJ. 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 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; and Todd Slater, Olin's CFO. Scott will make 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***

Thanks, Steve, and good morning to everyone. The Olin team is all about delivering on opportunities. We have 2 major opportunities before us. I'll start with opportunity number one. We are experiencing recessionary conditions, and the opportunity is to show Olin will perform remarkably different than history may indicate. Over the next 4 quarters, we forecast delivering more than $1.1 billion of levered free cash flow.

This is remarkably different. Don't worry that we had to pull back from the EDC market, while prices cratered, creating a major PVC value morass. And don't worry that we had to optimize our Epoxy participation to support our advanced partners while Asia liquidity temporarily lured others. These necessary activities are respectful of our core theme to focus on value, set our market participation based on the weak side of the ECU and buy liquidity where necessary to lift the value of the ECU, which we did in the third quarter.

Similarly, Winchester did not participate in large replenishments to the channel load but instead, lifted the outlook of this storied brand by preserving value. The whole Olin team is poised to march our way through all these challenges and come out recession tested on the other side. We are the leader, and we demonstrate it every day.

Opportunity number two is to multiply the value of our recession-levered free cash flow. We have reduced our share count by 14% over the last 12 months and by 10% over the last 6 months. We continue to deploy our levered free cash flow towards share repurchases and have a runway of $1.9 billion left on our share repurchase authorization. A possible outcome is that our share count is reduced to 100 million in a couple of years. Our post-recession normalized levered free cash flow is expected to be more than $1.5 billion by then, the possible outcome being $15-plus per share of levered free cash flow. We have an excellent high-value capital allocation plan before us and we'll drive it every day.

Supporting these 2 opportunities is an investment-grade balance sheet, which we are committing to maintain. And more importantly, the best team in the business, 8,000 Olin employees united in a leadership value quest. I really can't thank them enough.

So with that, we'll take your questions now.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question today comes from Kevin McCarthy with Vertical Research Partners.

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

Scott, you put forth updated guidance for the fourth quarter, but also affirmed your EBITDA guidance range for a recession case scenario. As you see these markets develop and unfold here, what do you think are the biggest sources of variability either on the upside or the downside as we move through the cycle?

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

Well, you're right. Kevin, we have reaffirmed our recession case guidance, which we see happening over the next year already entering it now. There's going to be lots of ups and downs across the product portfolio. As you know, we run a contrarian model where we let our market participation be based on a weak market or the weak side of the ECU.

So you've seen EDC, for example, go from really high pricing to really low pricing and those kind of things are going to happen. But because we focus on the ECU, we're likely to be more balanced in totality.

What there could be some alarm about, Kevin, is that we may have to take a couple quarters down in order to support the shoulder quarters to be able to deliver more than $1 billion of levered free cash flow across the whole year. I mean, no market segment really has good fundamentals right now. So there's going to be some volatility.

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

And then I know you're throttling back on volumes in an effort to support the market. That effort appears to be succeeding. But nevertheless, can you talk about what your operating rates were in the quarter in chlor alkali and Epoxy and how you see that utilization progressing here in October?

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

Yes. Well, maybe instead of all of those operation rates, I'll at least share with you what we're doing in Epoxy. So if you were to think about the equivalent operating rates, of all of our resin production facilities, we're running below 50% there in order to preserve value.

And remember, our recession case said that we could move the whole company down to that level. And so I would just say we have plenty of room left across the rest of the company to make our recession prediction come true.

Operator

The next question comes from Hassan Ahmed with Alembic Global.

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

I just wanted to revisit the Q4 guidance, particularly in light of recessionary conditions and the like. I mean, look, I understand Q4 tends to be seasonally weak. You guys have consistently talked about certain sort of markets, be it EDC, be it Epoxy, conditions over there being even below trough conditions.

But if I were to annualize the lower end of your Q4 guidance, I still come up with, call it, $1.75 billion in EBITDA, which obviously, is kind of the midpoint of the $1.5 billion to $2 billion of the guidance range for a trough that you guys have given. So with the conditions evolving the way they are, I mean just wanted to sort of get your take on how comfortable you guys continue to be with that trough EBITDA guidance range.

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

Yes. Hassan, I mean, look, I mean, it's still our guidance range. And in fact, it's been our guidance range now for the last 3 quarters as we've really been preparing for this window to show that Olin delivers a different level of free cash flow than we did before.

I will say, of course, I understand annualizing the fourth quarter, and you're right, you get exactly to that conclusion, even though the fourth quarter has traditionally weak factors on top of all the extraordinary factors that are going on in the world right now. I will just again sort of caution that we may experience 1 or 2 quarters that are lower than that, in order to set the value equation right for the rest of the year, though.

I mean we're not going to hesitate to take the proper actions in advance to make sure that value doesn't decline. We're not having to do that yet, but it could certainly happen as the recession plays out.

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

So Scott, sort of following up on that, one of the pushbacks that I get is around sort of chlor alkali pricing, right? Obviously, pricing has been sort of firm to up both for caustic and chlorine. But one of the fears or investor concerns tends to be that, look, U.S. housing, weakening, PVC market, very weak, if we go into a recession, obviously, industrial production will affect caustic as well. So in that sort of an environment, I mean how comfortable are you that pricing for chlorine and caustic at the very least will not go down?

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

Yes. And that setup is exactly what's happening now, right? I mean PVC has become very weak. And unfortunately, you see the PVC players chase the strong side of the ECU. In other words, they're chasing caustic volume, and they're willing to destroy their central value theme and it's their central long-term value theme of being in the PVC business to sell just a little bit of incremental EDC or even VCM into the marketplace. It's exactly opposite to our model.

And of course, we take exactly the opposite tactic, right? We don't participate as much in the chlorine and derivative side under that case. So we don't participate as much in the vinyls side. And that tends to improve both sides of the ECU. And you see that materialize with both rising caustic prices and lifting chlorine prices.

I think the summary point underlying all of that is that it's not the biggest concern that demand drops on both sides of the ECU because we exploit the difference between the relative conditions on each side of the ECU.

So total demand can drop, yet the difference between the quality of those markets can actually widen, which is where we do well.

Operator

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

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

Scott, I'm sure you saw there were some sizable caustic increase nominations in Europe, $950 per ton or higher. And -- but we've also recently seen lower prices for power and natural gas in Europe. What's your outlook for this European caustic price in Q4? And how might that help Olin you think?

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

Yes. Well, I mean, the caustic pricing in Europe is likely to stay elevated. I think the factors on the other side of the equation are that there's a lot more material moving out of Asia and out of China trying to take advantage of that arbitrage gap. So we do see volumes moving that way. At the same time, costs have probably temporarily come back down.

But the reality is that as Asia demand may recover over the course of the next year, I'm not saying that's beginning now, but when it does recover, those trade flows tend to have pressure to go the other way. And at the same time, I think we all know that we have a long winter to go through in Europe and the conditions that drove the elevated energy pricing probably still persist. So net-net, through all that, you're likely to see Europe stay fairly elevated.

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

And going back to domestic caustic market, how has demand been in the last few months? How has third quarter and October perhaps trending on a year-over-year basis or relative to normalized demand?

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

Yes. Well, all of our volumes are down year-over-year. Caustic demand relative to supply has been fine. I mean, there are some weakening factors arising in those marketplaces. So it's not likely to get stronger. But again, Aleksey, I'd just go back to that doesn't necessarily matter in isolation. All that really matters is the relative quality of the markets on each side of the ECU. So it's the difference there. And again, that difference is where we make our value from.

Operator

The next question comes from Mike Sison with Wells Fargo.

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

Just curious in terms of your -- the volume declines in CAV and Epoxy down with 17%, 29%. What do you think the fundamental volume declines are? And I guess the one way to think about it, too, is if your volumes are flat and your ECU PCI did improve, would your EBITDA -- could that -- should that have been up year-over-year?

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

Yes. And so if you -- Mike, if you're asking about sort of what's the fundamental decline in the marketplace, it's likely to be less than the decline in Olin volumes. Because remember, Olin tends to eat those shortfalls in demand from a production standpoint. We may not completely eat it from a sales standpoint because we go out and buy liquidity out of the marketplace at that moment, to fill in that gap a little bit. So you're going to see our production down more than the decline in the marketplace. You'll still see our sales volume down more than the decline in the marketplace. But our sales volume declines aren't as big as our production volume declines.

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

Okay. And then -- right. When I look at the last -- the Great Recession, it looked like caustic did go up from '08 to parts of '09. And it seems like it's going to happen again potentially here. Can you maybe give us a little history lesson why it went up last time? And what you're seeing as maybe the potential to go up again over the next 6 to 9 months?

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

Yes. Well, I mean, when the demand declines dramatically on the chlorine and chlorine derivatives side, relative to that sort of global industrial demand for caustic, there's just not enough caustic to satisfy that demand, even though that demand has declined a good bit.

The PVC producers sort of run out of runway trying to find a home for either the vinyls intermediates or the PVC that supports that caustic production and it declines substantially. So yes, it's not impossible that we end up back in that same situation.

Operator

The next question comes from Frank Mitsch with Fermium Research.

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

Obviously, the buyback levels were very impressive in the third quarter after a very impressive second quarter. And you indicated Scott, that you could see the company at a 30% lower share count in a few years. I'm just curious as to -- given the fact that you've been very clear that we're entering into a recessionary environment, what investors might anticipate Olin's pace of buybacks in the year and midterm to be?

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

Yes. Yes. Sure. Frank, I mean, we're going to target most of our levered free cash flow toward share repurchases. I mean that's what we've done for most of this year. That's what we're looking at here in the fourth quarter. And that's what we're looking at next year as well. I mean our balance sheet is in great shape. We have a new expanded liquidity arrangement. Even though we're making a commitment to stay investment grade, we can keep -- we can hold those metrics through the recession. So it doesn't preclude any option. And so it certainly doesn't preclude us from buying as many shares as we can. So if you believe that $1.1 billion of levered free cash flow, most of that is going to go toward share repurchases.

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

Fantastic. Fantastic. And then also looking at that recessionary scenario of EBITDA, you indicated that in terms of cash flow, it could be $50 million of restructuring costs or restructuring actions. I'm curious. Is that something that you're looking at in the near term? And if so, what might that include?

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

Frank, this is Todd. That would include restructure. That $50 million includes restructuring costs as well as other costs such as some of the small investments that will be made in the joint ventures that we expect to start early next year. So that's all encompassed in that kind of number.

Operator

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

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

When you think about the level for 4Q EBITDA, looks around $450 million at the midpoint, how much of that decline, say, 15% to 20% sequentially, would you attribute to seasonality? And I guess as you look into Q1 or '23, would you consider kind of Q4 as a bottom level of profitability and maybe some improvement from Q1 or into Q1? Or how should we think about the next couple of quarters?

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

Arun, this is Todd. As you think about -- I'll start with Winchester. The Winchester operations, you typically see holiday seasonal shutdowns at our facilities. And you normally see Winchester, the weakest quarter is the fourth quarter. So that -- when you talk about seasonality, that -- the effect in the fourth quarter of Winchester is really seasonality. And you think about the Epoxy business, clearly, it's a value-over-volume strategy.

But in the fourth quarter, especially in the Northern Hemisphere, construction is lower and traditionally, you see a significant decline in epoxy demand. So there is a significant seasonal factor in Epoxy as well.

In the chlor-alkali space, typically other than some demand for bleach and those seasonal items that are more summer, you don't really see the level of seasonality out of chlor-alkali. That has much more to do around turnarounds.

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

Okay. And if I could just ask a follow-up. It appears that caustic soda, as you noted, continues to be relatively tight, mainly because of the supply side. Could you just elaborate that, I mean -- on that? I mean, are you still seeing kind of strength in Europe, just given the weaker industrial activity? And when you consider that you're already operating your Epoxy and other assets maybe at recessionary levels, are you doing the same in chlor alkali at this point? Are you say at that 50% operating rate? Or maybe you can just elaborate on the utilization in chlor-alkali.

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

Yes. Yes. I mean the first part of your question there, right? I mean demand is definitely down and declining in Europe. It's just that supply has declined more than demand. So that's the situation in Europe.

No. I mean we have a lot of room in our broad chlor-alkali assets to continue to withdraw from certain points of the market if we need to do that.

I mean, our expectation is that we do need to do that, right? With recessionary conditions only getting worse really from this unprecedented combination of events, right, you have the China long-term demand locked down; you've got Europe demand really crippled by the war; now the U.S. has got to do what it's got to do to smash inflation. We're likely to have to turn down some assets at certain point -- over certain points of the next 12 months.

Operator

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

Salvator Tiano ***BofA Securities, Research Division - Equity Analyst***

This is Salvator Tiano filling in for Steve. So firstly, I wanted to ask on Winchester. You had mentioned previously that the channel did grow to be a little bit overstocked, and you didn't participate a lot in volumes in Q3. But I see in your slides, you do have a price increase for Q4. So how should we think about -- I mean what is the rationale for raising prices? And should we actually, as the channel is restocking, think about potential competitive pricing pressures?

And can you refresh a little bit on the situation with Russian supplies and where things stand at the moment? And what's the impact of the supply-demand balance in North America?

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

Yes, sure. I would just go back to the first point you made, and maybe I would restate it differently, right? I mean the channel hasn't become overstocked or overfilled. It's just that the channel was starved for a very long time. And the channel has returned to closer to normal inventory levels. It's still not there yet.

And that happened principally in the third quarter, and we just didn't really participate as much as others in trying to get the channel stock back to a more normalized level. By the way, normalized demand in ammunition now is much higher than it was 2 years ago.

So we'll have some selective price increases there in Winchester on certain products. It's not necessarily across the board, but those have been communicated, and it's in undervalued items that have a high demand. So that logic still fits, and it's the same logic that's really applied to Winchester over the last couple years where we've had 6 or 7 broad price increases before.

The fundamentals are still excellent in that business because consumer demand's much higher than it was 2 years ago. Military and law enforcement demand, higher than it was a year ago. And then there's been changes in the import situation where Russia used to be the largest importer. That's still clearing out through the channel, but no more imports are happening of Russian ammunition.

Salvator Tiano ***BofA Securities, Research Division - Equity Analyst***

Okay. Perfect. And I also want to touch base a little bit on green hydrogen. There was this JV with Plug Power from St. Gabriel. And if I understand correctly, that way -- if you can confirm firstly that I think the hydrogen you're going to produce there and sell to Plug Power will not require incremental investment?

And can you also talk a little bit how do you see this business, as in the longer term as part of Olin's portfolio?

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

Yes, yes. And so this is our second arrangement with Plug Power. This joint venture in St. Gabriel will use hydrogen that's already being produced today and may be used in a less efficient way. So what that does is minimize the base investment to get the molecule. The joint venture still has to build and operate liquefaction facilities to be able to distribute the hydrogen to fuel cell uses. So there's still some investment. It's a pretty minor investment.

Next steps are very interesting. All -- those 2 existing arrangements we have are maybe 4% or 5%, of the hydrogen that we already produce today, so there's an opportunity to replicate this or even modify it at many different sites.

Operator

The next question is from Joshua Spector with UBS.

Christopher Silvio Perrella ***UBS Investment Bank, Research Division - Analyst***

It's Chris Perrella on for Josh. I was curious as to what you've done to hedge out natural gas costs into the fourth quarter and out into next year and at what level?

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

Yes. Chris, this is Todd. We are, as you know, an active hedger for natural gas as that's directionally about 70% of our fuel source for power. And a quarter out, we are very heavily hedged and generally have a rolling 4-quarter program. So you can imagine that we have a portion of 2023 already covered with active hedges.

Christopher Silvio Perrella ***UBS Investment Bank, Research Division - Analyst***

All right. And then to your earlier comments about flexing down the chlor alkali rate to protect value and cash flow on the shoulder seasons. Is the expectation for that to sort of hold the chlor alkali rate, your operating rate, steady into the first quarter, assuming EDC and Epoxy stays where they are now?

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

Well, look, without getting too specific, Chris, I would just say that there's going to be shifts and changes in our production rate relative to the liquidity that we buy out of the marketplace. And we've already said that we've limited our participation in the vinyls chain. And it's certainly not impossible that we choose to limit that participation even further as we enter 2023.

Operator

The next question is from Matthew Blair with TPH.

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

I had a question on the Epoxy feedstocks. It looks like propylene and benzene are coming down quite a bit in Q4. Would that be a feedstock benefit to Epoxy in Q4? Or do you have hedges and to really think about this as potentially flowing through into 2023?

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

Matthew, this is Todd. As we think about, especially in North America, the costs have come down from the third quarter. And therefore, that does lower our costs. But once you start around the globe on an international basis, those lower costs, really you'll see that benefit in Epoxy in the first quarter.

Operator

Next question is from Angel Castillo with Morgan Stanley.

Alyssa Becky Steinberg ***Morgan Stanley, Research Division - Research Associate***

This is Alyssa on for Angel. I guess you've mentioned that you're throttling back production to maintain value. But are you seeing your peers remain as disciplined here?

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

Yes. Alyssa, Scott here. I really wouldn't have that much to say about the peers. What I will say is that Olin is only participating where there's reasonable value in a marketplace. So we're having to -- we have to make pretty significant changes sometimes in our operating rate to do that. So I'll speak on Olin's behalf there.

Alyssa Becky Steinberg ***Morgan Stanley, Research Division - Research Associate***

Got it. And then we've talked about share repurchases, but I'm wondering what the overall appetite is for M&A and kind of the pipeline there.

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

Yes. I mean it's not out of the question that some M&A is possible. What I will say is that certainly in the near term, that most of that is low capital type activities. And as we consider M&A candidates and targets, and potentially even have discussions, a lot of that turns into near-term joint venture or alliance opportunities.

So we've announced a couple of joint ventures. We announced at least one alliance. We've completed other multiple unannounced alliances. And so I expect those kind of arrangements to continue to materialize over the next year. And it's unlikely that we move to complete any kind of large acquisition as right now, we've got a pretty shareholder-friendly policy of taking almost all of our levered free cash flow and directing it towards direct returns in the form of share repurchases and then maintaining our dividend.

Operator

The next question comes from John Roberts with Credit Suisse.

Matthew Stephen Skowronski ***Crédit Suisse AG, Research Division - Research Analyst***

It's Matt Skowronski on for John. On Slide 6, you indicate your ability to repurchase shares through an economic downturn. Given some speculation of a nearing recession and your potential cash flow generation during that time, and considering supply-demand projections and the time it takes to add capacity or debottleneck, is there a point where you would look to allocate capital towards growth instead of purchases?

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

Yes. Matt, yes, you're not going to see Olin expand its base production capability. In fact, over the last 2 years, we've taken out more than 1 million tons of ECU production capability. So we're not going to -- we don't have any need to direct capital toward that kind of base growth projects.

However, as our levered free cash flow does grow from sort of that trough level of $1.1 billion in a year, there's going to be opportunities to acquire existing assets, do joint ventures with existing assets, do additional alliances as well. And so that could be some pull on that capital. But all of that has to compete with the value of repurchasing shares. And really, none of it is competitive with the value of repurchasing shares in today's world.

Matthew Stephen Skowronski ***Crédit Suisse AG, Research Division - Research Analyst***

That's helpful. And then my follow-up is just on the epoxy market. Have you seen any change in behavior since the end of September, either in terms of buying dynamics or selling dynamics?

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

I would say the same principal trend stays in place. With the China demand shortfall, but yet still running at expanding assets there, we've seen traditional trade flows temporarily reversed. So a lot of that material is ending up either in the U.S. or Europe, or a lot of material that used to be produced in other countries in Asia and used to -- for import into China is coming to the U.S. and Europe. And that really hasn't changed.

I would say that the good news is there's been some moderation of the rate of change there. And so there's some stability there, and we've settled with a group of advanced customers that value the Olin solution and also value the fact that our epoxy resin carries a CO2 footprint that's probably 70% below the CO2 footprint of all that material that's making its way out of China. So there's some moderation there.

Operator

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

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

I just had a few follow-ups. Scott, we're hearing or reading more about low water levels on the Mississippi River. Are restrictions on barge movement having any meaningful impact on either Olin or the industry that we should be thinking about? Or is that really just immaterial?

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

Yes. Kevin, I mean it's not immaterial. So there is some impact. It's causing logistics chains to have to be rearranged a bit. For Olin, perhaps it's a little less impactful.

I think the thing to worry about actually is this rail strike. I mean if that rail strike really occurred, I would just say that it's equivalent to the mother of all hurricanes that we've ever, ever experienced. That disruption on top of this nagging barge issue going up the river system, would be a real concern to Olin and perhaps beyond

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

Interesting. Secondly, Scott, I think a few quarters ago, you had publicly discussed potential or at least exploration of a PVC resin partnership. Are those efforts active or dormant or extinct? How would you describe your discussions at this stage?

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

Yes. Well, I would just say that there are multiple active discussions around that. I would also say that for the moment, with the contemporary decline in PVC attractiveness, that something may not materialize for a little while there.

Interesting enough, through all that, there's more interested parties. It's just that we haven't found the right setup that delivers what we expect out of that, and we expect more than VCM or PVC. We expect an expansion of our ECU business through that.

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

And then last one, if I may, for Todd. I think your press release indicated a tax benefit of $36 million and change related to the release of deferred tax liabilities. Can you just elaborate on what transpired there?

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

Sure, Kevin. Thanks for the question. It did -- in the third quarter, we did realize just under -- a book benefit of just under $37 million related to a legal entity liquidation. It's a noncash tax benefit resulting from us liquidating an acquisition entity created over 10 years ago, and it was really no longer necessary. So from a book perspective, we're able to remove that liability and recognize the income.

Operator

The next question is from Eric Petrie with Citi.

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

In your bottom-up build that you provided $400 million from merchant chlorine pricing upgrade versus 2020, did that include or exclude the reset of chlorine into TiO2 next year?

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

Yes. So Eric, I mean it is inclusive of all of those items. And I think the good news here is that it's probably -- the total number is probably a little low compared to the actual result after we turn the calendar over here in 2023 from 2022.

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

Okay. And then, Scott, I was wondering if you could comment on your participation currently in caustic soda exports? And how does that compare to the industry? Or are you seeing better opportunity parlaying volume?

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

Well, without giving any specific numbers, of course, we always participate in the export market. We've also been a purchaser of liquidity in the export world. If you think about our blue water alliance joint venture that we've announced with Mitsui, the idea there is to become the largest manager of liquidity in the world. That means that we're -- we'll target being one day, the largest trader of chlor alkali molecules in the world. So I would just say it's a heavy point of focus for us, and we use it effectively to run our model.

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***

Right. Well, I would just say, look, thanks to everyone for joining the call, and we'll wrap it up with that.

Operator

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