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PRESENTATION

Operator

Good morning, and welcome to the Olin Corporation's Fourth Quarter 2022 Earnings Conference Call. (Operator Instructions) Please note this 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, Anthony. Good morning, everyone, and thank you for joining us again 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 fourth quarter earnings press release.

A copy of today's transcript and slides will be available in 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 CEO; Damian Gumpel, President, Epoxy; Patrick Schumacher, President, Chlor Alkali; Brett Flaugher, President, Winchester; and Todd Slater, Olin CFO. The leadership team will make some brief remarks, after which we'll 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 everyone. In 2022, Olin generated $12 per share of levered free cash flow, repurchased more than 25 million shares and reduced our net debt by $200 million.

It was a massive team effort after generating $9 per share of levered free cash flow in 2021. As we head into 2023, our markets are not healthy, yet our focus on levered free cash flow remains the same and we expect to generate approximately $7 per share of levered free cash flow in this recession year.

From an EBITDA perspective, we worked in the $2.4 billion to the $2.5 billion range the last 2 years and we expect to generate at least 2/3 of that average in the trough that is 2023.

For Olin, the key features of early 2023 include continuing to idle our complete global epoxy resin business due to suspended demand in the largest consuming regions of China and Europe, rectifying a transient fat supply channel in commercial ammunition via lower Olin participation rate, kicking off the operation of the Blue Water...

Operator

Please hold as I try to connect with the main speaker line. Thank you.

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

I understand that we dropped. I won't repeat the first part of my comments, but I'll start where I think we dropped off. So for Olin, the key features of early 2023 include continuing to idle our complete global epoxy resin business due to suspended demand in the largest consuming regions of China and Europe, rectifying a transient fat supply channel in commercial ammunition via lower Olin participation rate, kicking off the operation of the Blue Water Alliance with Mitsui to manage much more the world's liquidity in chlor alkali and recognizing another solid pricing lift in our merchant chlorine business.

While some of these features of the first quarter of 2023 are already impactful in a slightly negative way, it is still possible that we may have to take more drastic action in a subsequent quarter to recoil further and preserve product values for the rebound toward the latter part of the year.

In 2023, expect us to hold our current net debt position, keep buying shares throughout the year, gain an investment-grade rating, complete our asset footprint adjustment decisions and prepare for a quality growth story in 2024.

We've also updated our 2022 ESG scorecard progress on Page 10 of the presentation. This is a growing theme for Olin, and we look forward to showing the results from our focus in this area. Now Damian, Patrick and Brett will each make a few brief comments on both the situation and our initiatives across all 3 businesses and then Todd will follow with additional commentary on our 2022 accomplishments and 2023 outlook.

Damian Gumpel ***Olin Corporation - VP and President of Epoxy & Corporate Strategy***

Thank you, Scott, and good morning. On Slide 4, Epoxy Q4 results are partly a reflection of seasonal demand, but principally our disciplined approach to weather the most challenging landscape in 14 years which led us to deeply pull back resin production that would have otherwise harmed the landscape.

While anticipating improvement in the back half of '23, we focus today on productivity, optimizing our asset base, enhancing our sustainability profile and positioning for value-based growth.

On this last point, we supercharged the business during Q4 of 2022. Putting our differentiated systems product portfolio under seasoned leadership in new product commercialization. I look forward to sharing on future calls the role Olin Epoxy plays in addressing global energy, mobility and infrastructure challenges in a sustainable way and how that translates into shareholder value growth. I'll now turn it over to Patrick Schumacher for Chlor Alkali.

Patrick Murphy Schumacher ***Olin Corporation - VP and President of Chlor Alkali Products & Vinyls***

Thanks, Damian. Even though 2022 was an all-time record year, the second half of 2022 brought significant challenges which we are likely to continue into the first half of 2023.

Pricing in the vinyls chain remains weak and continues to necessitate lower Olin operating rates. On the positive side, our merchant chlorine ratchet continues to turn only one way. Chlorine pricing is expected to step up through 2023 as legacy contracts end.

Bleach has been another success story and we expect both products to show substantial earnings growth again in 2023. Our Blue Water Alliance is now one of the world's largest traders of EDC and caustic and will be an important part of the Olin value creation for years to come. I'll now turn it over to Brett for an update on Winchester.

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

Thanks, Patrick. The Winchester team continued to maximize value throughout 2022. However, during the second half of the year, we started to experience a transition in our commercial ammunition business from refilling depleted inventories to filling inventories to the rate of our customer sales. And in some cases, especially small caliber rifle, inventories became high. So we decided to manufacture and sell less to preserve value for both Olin and our customers.

With nearly 15 million new participants entering the recreational shooting sports over the past few years, we believe demand for our leading Winchester ammunition products will remain stronger than historical levels.

We continue to see opportunities within our military segment with demand increases from current and new international military customers as well as increased government funding to modernize the Army Lake City facility. As we manage through this commercial ammunition transition, our focus will be on growing and preserving value for the #1 brand in the ammunition industry. I will turn it over to you, Todd.

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

Thanks, Brett. Throughout the last 2 years, Olin has generated $3.1 billion of levered free cash flow. Our capital allocation was initially focused on the balance sheet, whereby we reduced outstanding debt by $1.3 billion over the 2-year period.

With our investment-grade balance sheet set, we primarily deployed our remaining levered free cash flow towards share repurchases totaling $1.6 billion over the last 2 years. In fact, during 2022, we reduced our outstanding shares by approximately 16%, all from cash flow. In 2023, despite the challenging global economic conditions, we're forecasting to generate recessionary trough level levered free cash flow of approximately $1 billion which equates to about a 13% free cash flow yield.

Our 2023 cash flow includes a couple of unusual items. Our cash tax rate is expected to be higher than normal due to deferred international tax payments of approximately $80 million that are forecast to be paid this year. Also, we are expecting a peak payment level under a long-term energy supply contract of approximately $75 million.

Finally, our investment-grade balance sheet and cash flow should enable Olin to continue to deploy a substantial portion of our 2023 levered free cash flow towards share repurchases. That concludes our prepared remarks. And Anthony, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

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

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

Scott a question around the 2023 guidance you guys gave, obviously sort of in line with sort of the trough range that you guys have been talking about, the $1.5 billion to $2 billion.

So look, I mean I take a look at the Q4 adjusted EBITDA, $442 million. I annualized that, and I get to $1.77 billion, which is squarely sort of the midpoint of the trough and 2023 guidance that you guys have given. And you guys obviously achieved this sort of these -- Q4 EBITDA in the face of extreme adversity, right? I mean a massive destock, most of your end markets being as weak as they were, the epoxy business doing what it was doing. And on top of that, obviously, Q4 being a seasonally weak quarter. I guess the only tailwind you guys have had in the quarter and it seems on a go-forward basis is chlor alkali pricing, right?

So as I sort of sit there and talk to investors, some of the cynics may turn around and say, "hey, look, one of the things that has been propping up EBITDA and -- is chlor alkali pricing, and it just can't go on rising forever. So it may crack." Again, I'm not in that camp, but what could you tell us to sort of give us a little more confidence that even with the macro looking the way it's looking, you're not really going to see any cracks in chlor alkali price.

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

Yes. Thanks, Hassan. I mean that's a good summary. I mean, I would also urge you to think about what's the cause and effect here, right? I mean Olin is absolutely the leader here and is setting the value equation. It's no doubt that pricing in chlor alkali, especially in some of the derivatives can go up from here and they can go down from here as well. But we have some very solid footing there. And I'll ask Patrick to add a little color on Olin's footing.

Patrick Murphy Schumacher ***Olin Corporation - VP and President of Chlor Alkali Products & Vinyls***

Sure. Yes, Hassan. Thanks for the question. It's definitely possible, as Scott said, that you could see lower prices, maybe caustic goes down from records but other -- we're going to run to the weak side. We've baked in or locked in a lift in chlorine prices for this year over last year of at least $100 million, and vinyls prices have been very, very weak for at least half of the year. So there's been a recent uptick in prices there. So maybe those prices start to tick up. So we expect a mixture this coming year of maybe some higher prices and maybe some lower prices.

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

Fair enough. Fair enough. And as a follow-up, just sort of trying to get a lay of the land with regards to inventory. I mean you guys, obviously, on the chlor-vinyl side pointed towards certain end markets being sort of particularly weak, be it TiO2, be it the urethane side, be it the vinyl side. I mean as I'm sort of sitting there and looking at, call it, certain TiO2 producers, they're talking about volume declines as high as 30%, right? So I'm just trying to get a sense of if you could sort of give us a sense of where inventories are for you guys, for the industry? And if at all, there is a restock, how sort of impressive could that snapback in demand be?

Patrick Murphy Schumacher ***Olin Corporation - VP and President of Chlor Alkali Products & Vinyls***

Yes. Sure. 30%, I'll take your word for that. If you look at our chlorine business year-over-year, volumes are definitely down. But netbacks are definitely way up. Chlorine and -- the chlorine side of the ECU has been the weak side of the ECU as we've been talking to you guys for the last -- well, this would be the third quarter. So we're running to that weaker side, and we're managing rates for that weaker chlorine side of the ECU and that is lifting netbacks, which is offsetting those lower volumes.

Operator

Our next question will come from Mike Sison with Wells Fargo.

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

Just curious on your outlook for chlorine, particularly as we got in the second half of the year, there's been a couple -- one big paint company who sees the second half weaker in housing. So just your thoughts on how that would affect that part of the ECU.

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

Yes. Mike, it's Scott. Yes. I mean we see the same thing. I mean, the trend in U.S. housing isn't great. And it's not impossible that trends like that change which side of the ECU has the better fundamental conditions. And again, we'll set our market participation according to that weak side. But when you go all the way to merchant chlorine, just as Patrick said, Mike. I mean that's something that -- we've had contract resets. Patrick already mentioned $100 million a year. And even looking beyond 2023, we would expect additional resets as well. So chlorine has a very nice runway.

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

Got it. And then I guess when you think about your operating rates for the rest of the year, do they sort of stay at these levels for most of the year? Or is there an assumption that they would improve a little bit as the year unfolds?

Operator

Pardon me, a moment as I reconnect the main speaker line.

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

I guess my question was, where are your operating rates now? And do you think they will -- based on your guidance, stay similar through the rest of the year, given the outlook for demand?

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

Well, look, I would say overall, I mean, we're certainly running lower operating rates. I mean, the highlights of those lows really are that if you went all the way down into our epoxy resin, you'd find that we're running below 50% capacity. And that situation is certainly going to continue because we're just not going to sell too much volume into an undervalued marketplace.

In the fourth quarter, we had to adjust Winchester's rates quite a bit as well because the supply channel got a bit fat and that's trending the right way. And that's why we've said in the first quarter, that business will improve over the fourth quarter.

Operator

Our next question will come from Arun Viswanathan with RBC.

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

So first off, on that note of operating rates, it says you can run at 50% for 1 year. I think we've been at these low rates now for a little while. Are we -- how long does that year last? I mean, how much time do we have left in that? And then I had a couple of questions on Blue Water and hydrogen as well.

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

Yes. Sure. Arun, yes, I mean, that 50% rate was across effectively the whole company for a whole year. If we ran at the pricing levels established in the middle of last year, that would still deliver our recession case. So against that standard, there's still quite a bit of room left, Arun.

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

And on Blue Water, is there any way we can quantify the impact -- financial impact and benefit to you? I know that you noted that you'll control a greater amount of the industry supply or at least be in a position to manage it. So how does that translate to EBITDA benefit? And when do you start seeing that?

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

Yes. Sure. I mean keep in mind, that's a consolidated joint venture for Olin. So Todd will make a couple of comments on the direct impact that you'll see.

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

Yes. Thanks, Arun. It will be consolidated, our results will come up into the Chlor Alkali Products and Vinyls segment. In the first year, you should expect overall revenue to increase $500 million to $700 million. And as it is the first year, you should expect from that joint venture minimal EBITDA impact.

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

Got it. And then similarly for hydrogen with the third unit starting up, is that in commercial operation? And similarly, when do you expect to get any EBITDA benefit from your sustainable activities there? And how should we think about how that contribution flows into Olin?

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

Yes. I mean -- this is Scott. I mean, we only have one hydrogen arrangement into the fuel cell application operating today. The second one is our venture at Saint Gabriel and that one is under design and under construction, and it will take us to the end of this year to get that started up. And what the point we wanted to make that I think you saw in the slides is that we're starting discussions around a third venture as we try to get our hydrogen out into these new sectors. Even the first 2 are only about 5% of our hydrogen.

Operator

Our next question will come from Vincent Anderson with Stifel.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

I just wanted to clarify your comments on Epoxy, just so I had it clear. You said a global idling but naming just Europe and Asia markets is the reason. And I ask only because U.S. resin prices are still holding up fairly well. So is this really all Epoxy resin assets are going down in the first quarter?

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

Well, I would say we've been running those at a lower level, but I'll let Damian give a little more color on where we are right now.

Damian Gumpel ***Olin Corporation - VP and President of Epoxy & Corporate Strategy***

Sure. Thanks, Scott. Vincent, so on Epoxy, what we've said is that this is a globally challenged situation, the worst that we've seen in 14 years since the financial crisis. Most of epoxy consumption does take place in China and in Europe. And so that's where we've seen the greatest impact to the landscape.

Now as a result, we've been -- for over a year now, we've been adjusting our production, our market participation in order to preserve value, that's led us to continue to successfully challenge ourselves to operate at lower rates across our portfolio. We're going to continue to do that as long as it takes and frankly, we can still go further. And it's -- for us, it's a question of taking this opportunity to right-size our global Epoxy portfolio to focus on the assets that our customers value the most. And we've done a lot of that already, but we still have a lot more that we are going to do here under this challenging environment.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Okay. That's helpful. And then just kind of returning to Blue Ocean. So I always had kind of penciled Olin in as already the largest participant in the globally traded merchant markets for caustic and EDC. So is there any more detail you'd be willing to give around what that looks like now with Mitsui at the table?

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

Well, I would just say that we've expanded our capability there. Remember, the way that joint venture was formed was a merger of the 2 international businesses in caustic and EDC. So we've just enhanced our capability there further.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Okay. And then as I think about -- the market share expansion benefit is pretty self-explanatory. But if I think about partner not being a producer, the way you are. Can you talk about how that might change your approach to the international markets so that you're not caught in a position where you'd otherwise be looking -- having to run your assets even lighter than you would want to. Does that involve a more significant investment in storage capacity, dedicating balance sheet capital to inventory builds in the right situation. Can you just talk through that?

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

Well, I would just say that, look, it's not a market share gain there. If you think about what's going on, you're merging 2 existing businesses and then the merged business is essentially going out and expanding its trading capability. So while the joint venture will be managing more molecules in the future than it does today, those molecules are already produced and sold today. It's just that they end up under a different umbrella in the future.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Okay. All right. That's fine. I can work with that. And then just one quick one. Todd, you said $500 million to $700 million of revenue, minimal EBITDA impact in your one specifically. This isn't some kind of big fixed cost asset that we're ramping up into. So what turns that to EBITDA positive?

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

You should expect that this business as it continues to grow and gets more molecules under its umbrella, that revenue will continue to grow and then we would expect that EBITDA performance would improve.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Okay. All right. Well, best of luck on the rest of the year.

Operator

Our next question will come from Kevin McCarthy with Vertical Research Partners.

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

Scott, natural gas prices have plummeted perhaps 65% or 70% over the last 6 months in the U.S. Would you talk about the impact that you would expect that to have on your Chlor Alkali and Vinyls business or the overall company for that matter, taking into account any hedge positions that you may have?

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

Yes, sure. I mean, I would just say, look, I mean, the impact is a bit muted, right? We do hedge and we always have hedged. So we moderate that. We don't necessarily see the peaks. And because of that, we don't necessarily see the value -- I mean, the valleys either. So for us, it's really generally moderated.

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

Okay. And then for the Winchester business, what sort of volume trends would you anticipate in 2023 for commercial versus military?

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

Yes. Well, I mean, Brett is going to add a good bit of color because we have of actions there, particularly in the military business. We're going to start out slow in commercial as adjustments are taking place and military is off to a good start. Brett?

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

Sure. Scott is correct that we'll start off slow from a commercial standpoint. It probably will look a little bit better in the fourth -- in the first quarter versus the fourth quarter, but still slow. From a military standpoint, the one benefit that we have from the military, we get a long runway visibility on demand from the military, from our U.S. military customer, and we have that visibility and it's very consistent from what we've experienced in the past. The big change is that we are starting to see some of our international military customers inquire about some needs that they haven't had in a long time.

Operator

Our next question will come from Steve Byrne with Bank of America.

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

Yes. Just wanted to drill into the hydrogen project at Saint Gabriel, I assume that you'll have to consume more natural gas just because that hydrogen presumably was previously being used for power production. And just curious whether you can alter the operations of your ECU units to increase hydrogen production, i.e., from changing the brine concentration running into the units.

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

Yes. I mean, look, not all of that hydrogen is necessarily used for our own energy production. We have a lot of large offtake arrangements with the gas companies, and we're working our way out of those. We also just vented a lot as well. So absolutely no use. What's happening in Saint Gabriel, for the most part is we're taking hydrogen into a new application, and there's no real meaningful offset anywhere in our system. So this is -- CO_2 offsets without a corresponding penalty. That's generally the way these first projects are set up.

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

And maybe another question on Winchester, is it fair to assume that your EBITDA margins between military and commercial are significantly different. And you may have a volume shift more towards military, just given what's going on in the world, but it's not an EBITDA benefit. Is that fair?

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

Well, I think when you look at the overall position of the Winchester business, certainly, we gained something on the military side. There are some challenges on the commercial side right now. You may have may have noticed that we did improve overall pricing in that business in the fourth quarter relative to the third quarter. And in fact, we expect to do the same thing in the first quarter.

Operator

Please give me a moment as I reconnect the main speaker line.

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

Okay. Sorry, apologies to everybody. I mean, for some reason, our line keeps dropping. But I'll just repeat the answer to that last Winchester question on pricing. And we were able to lift overall pricing in the fourth quarter versus the third quarter, and we expect to do the same thing in the first quarter. Import ammunition pricing has always been low. But at the moment, we face the additional challenge that the major domestic brands are actually pricing lower than the imports. But still, Winchester is the leader there and our trend will continue.

Operator

Our next question will come from Josh Spector with UBS.

Joshua David Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

So just a follow-up on the chlorine pricing side of the equation. So when you talk about more pricing through this year, I mean how much of that has already been negotiated and it's going to flow through versus you need to renegotiate those contracts? And just as we look at your mix of portfolio today, how much of it still has room for renegotiation versus 1, 2 years ago?

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

Yes. I mean, Patrick will give the right answer here. He gave the summary, right? We've implemented a $100 million run rate more in 2023 versus 2022. What's the rest of it?

Patrick Murphy Schumacher ***Olin Corporation - VP and President of Chlor Alkali Products & Vinyls***

Yes. So that $100 million is locked in. So that's not a hope, that's locked in already negotiated lift and then there's going to be more to come this year. As Scott said, in his opening that will flow through in '24. Order of magnitude, probably I'm not going to peg it, but it's another substantial lift in '24 for new stuff to negotiate in '23.

Joshua David Spector ***UBS Investment Bank, Research Division - Equity Research Associate - Chemicals***

And just on cash deployment, I mean, given the step-up in interest in some of your variable rates, has any of the calculus changed on buybacks versus debt paydown?

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

Josh, thanks for the question. Our -- we would expect interest expense in 2023 to be between $150 million and $160 million. We do have -- 30% of our debt is variable rate. We will continue for our free cash flow to prioritize share repurchase.

Operator

Our next question will come from Frank Mitsch with Fermium Research.

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

I wanted to follow-up on Winchester. Obviously, Russia came out of the market as a supplier midyear. So I would have thought that the supply side wouldn't have been an issue, but you've obviously been making new adjustments there. What has been the impact of Russia coming out of the market that you've seen so far. And obviously, the expectation is they'll be out of the market for a while as well. So wouldn't that bode well down the line?

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

Frank, this is Brett. You're correct. It should. What we're seeing right now is, I think it's been since May of last year, that we saw any imports come into the country from Russia. However, we continue to see some inventory that's out in the marketplace across a couple of different calibers of ammunition. So we do anticipate that to sell through. It's taken a little bit longer than we expected, but we should benefit when that gets all the way sold through.

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

Got you. Got you. Okay. And then if -- a follow-up on Chlor Alkali. Obviously, it was impressive that you kept the fourth quarter relatively flat profitability-wise with the third quarter. There seems to be a bit of a disconnect in terms of profitability between the upstream doing pretty well and the downstream, not doing so well. So I was wondering if you could kind of walk through the third quarter to the fourth quarter in terms of upstream versus downstream profitability and what your near-term outlook is. If you could parse the Chlor Alkali segment in that fashion?

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

Yes. I mean -- this is Scott and Patrick may add to it. I mean we assume when you say upstream, you mean close to the ECU and downstream, you mean some of the derivative chains like chlorinated organics and vinyls. Is that right?

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

Correct, correct.

Patrick Murphy Schumacher ***Olin Corporation - VP and President of Chlor Alkali Products & Vinyls***

Okay. So when you asked the question, I was thinking you were talking about Epoxy as the downstream because we don't really use that terminology within our Chlor Alkali business. So can you just reframe your question, I'll have the -- now that I kind of know what direction you're heading.

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

I assume that there's some analysis of the profitability of caustic soda and the profitability of EDC and the profitability of chlorinated organics, profitability of merchant chlorine and so on that you're doing internally, although I do understand that you're probably moving molecules up and down. So can you speak to the strength? I -- my assumption is that the ECU, chlorine and caustic was the more stable and the bigger part of the profitability than the downstream. But I'm just curious as to how you would parse that.

Patrick Murphy Schumacher ***Olin Corporation - VP and President of Chlor Alkali Products & Vinyls***

Sure. Yes, as we've been talking about for, I think, 3 quarters now, that downstream chlorine chain, specifically through vinyls. EDC and VCM has been weak. That weaker downstream in that vinyls chain. And that has overall set -- caused us to set our run rates or operating rates to the chlorine side of the ECU because of weakness downstream in those PVC -- in that PVC chain. And we continue to do that today, and we're going to do that until things start to improve.

Upstream within chlorine. We've talked about elemental chlorine, and that ratchet goes one way and those prices remain very strong.

Operator

Our next question will come from Jeffrey Zekauskas with JPMorgan.

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

When you look at public data for caustic prices, maybe caustic prices were $950 a short ton in November. It's a little hard to see where they are today. Are they at $800? Or what's been the move in caustic prices from, say, November to today? And can you account for the reasons for the movement.

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

I mean -- this is Scott, Jeff. I mean in general, it's been fairly flat. But it's not impossible that you see some product lines like caustic drift-off in the future. But again, remember, we make value out of imbalances between the 2 sides of the ECU. So when you see that drifting, it's likely because of value coming somewhere else. Will it go down? I don't know. It almost doesn't matter whether it goes up or down, right? We have a position to take in either case.

In fact, I would sort of remind everybody that we actually delivered a higher level of quarterly EBITDA in our Chlor Alkali business, when caustic pricing was much lower than it is today.

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

And secondly, Scott, can you remind me when do the contracts with Dow expire? It's the beginning of '25 or the end of '25 and is that a big event for the company?

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

Yes. Jeff, we really weren't going to comment on any specific customer or supplier arrangements.

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

Okay. Well, then I'll ask a different question. With Winchester, is the oversupply in ammunition because demand was weaker than expected or because the competition just simply ramped up their volumes?

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

Yes. Brett, do you want to jump in?

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

We did see in the second half of the year, some lower demand, but yet much higher than what our historical outlook or preview has been. As I mentioned in my opening comments, we were actually shipping more to our customers than they were selling as we were putting -- filling up a pipeline. When that pipeline got full, we decided to pull back, reduce our run rates and not oversupply the market. As far as others, you'd have to take a look at what they're saying about their business. But as far as we're concerned, making those adjustments in the market going forward were necessary to preserve value.

Operator

Our next question will come from Mike Leithead with Barclays.

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

First question, can you just talk through your full year EBITDA guidance framework? It looks like we can basically annualize 1Q levels to get to the midpoint. So is that roughly what you're assuming that first quarter conditions hold for the year? Just flesh out how you're thinking about that.

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

Yes. No, I mean I would say that we're expecting slightly lower performance in the early part of 2023. And that's the way we've called it out for our chemicals business, a little bit better in Winchester. Look, I think when you look at a 12-month basis, that's our target. I would say that we really reserve the right to take any actions that we need to, to make sure that we keep that whole 12-month trough as high as possible. And that may mean that we need to have one quarter that's not as good as the one that we just printed. I don't know when that quarter might come, but it certainly could be in the next 12 months.

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

Got it. Makes sense. And then second for Todd, just 2 quick ones on cash flow. First, I think in the prepared remarks, it sounds like there's about $150 million or so of abnormal cash uses this year. Is that correct? And then second, on the $1 billion of free cash, I know it can be difficult to predict how or when some of these JV opportunities come through. But just how much of that $1 billion would you expect gets returned to shareholders this year?

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

Yes. Thanks for the question, Mike. Yes, you're right on the onetime items. There are basically $80 million of cash taxes that are inflating our -- the tax number on that slide. So more normalized is in that 25-ish percent range. And then there is a peak level of payments for some power supply contracts this year. So you're right on, on the one-timers.

When we think of those joint ventures, the investments during 2023 probably are less than $50 million. And so therefore, when you think about that cash flow, it can really be deployed for share repurchases.

Operator

Our next question will come from Matthew Blair with TPH.

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

Your EBITDA in Q4 was down by about $100 million. Do you have a breakout on just the moving parts here, like how much would you attribute to destocking, how much to seasonality and I think you had some turnaround activity, too. So was that material?

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

Well, I mean we've quit calling out a turnaround activity as we sort of leveled that across quarters. So it's really a nonissue and any variability of our earnings going forward.

I mean, look, most of that decline, you called it out well. It was a big decline. Most of that decline is from our own actions to make sure that we get set up to have the right shoulder coming out of this recession and make sure that we have the highest 12-month trough result that we can going forward. The other things that you mentioned are really just drivers of that. Yes, there's some level of destocking. But yes, demand still doesn't look great. In fact, there's really suspended demand still in China and still in Europe.

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

If you think about it, all 3 -- if you think about all 3 businesses year-over-year in the fourth quarter, volumes were down significantly. And on the press release...

Operator

One moments as I reconnect the speaker line.

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

Matthew, sorry, we got cut off again, maybe the fourth time will be the end of it. What I had said was if you look at all 3 businesses, volumes are down year-over-year in the fourth quarter, 29% Chlor Alkali, 36% Epoxy, clearly, Winchester was down. But offsetting that to a big extent as well, was improved pricing across the board in all 3 businesses.

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

Got it. And on caustic exports, so some spot prices in Asia for caustic have started to roll over. Is that filtering into your U.S. caustic export pricing yet? And just how would you characterize demand and volumes for your U.S. caustic exports?

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

Yes. I mean, this is Scott. I mean, look, I mean, there's going to be impacts from that, of course. I mean, I would characterize demand generally not great. But it's not isolated demand on caustic. What it is, is the relative demand strength between caustic and the chlorine side of the ECU. And I would say those imbalances keep in place and keep forming. So even though demand may come down, it's not necessarily an indicator that our direct results follow that.

Operator

Our next question will come from Angel Castillo with Morgan Stanley.

Angel Castillo ***Morgan Stanley, Research Division - Vice President***

Just wanted to get I guess level set, you used to give sensitivities for your key products in your slides. And as we think about how the world has evolved, both your chlorine ratchet pricing strategy as well as just your hedging strategy around natural gas. Could you just update us on what -- as we think about those key commodities, whether it's chlorine and caustic or inputs like natural gas. What are the key sensitivities for that from an EBITDA per kind of MMBtu or dollar per metric ton basis?

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

Angel, thanks for the question. This is Todd. I think historically, we've talked in the $1 per MMBtu in North America was worth about plus or minus $50 million through our annual P&L. I think directionally, that still is a good metric for you to think about. But as Scott mentioned earlier about gas, you know we're a hedger, so those high-priced numbers you saw during 2022, those sort of got pared off we didn't experience them. And maybe here in the very short run, because we're a hedger some of the dips in gas, you won't see that benefit running through immediately in our system.

Angel Castillo ***Morgan Stanley, Research Division - Vice President***

Got it. That's very helpful. What about caustic and chlorine and other kind of derivatives?

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

Yes. I mean that was -- our model really isn't dependent on cost or cost variability at all. So I wouldn't model any impact from gas, especially with the fact that we hedge.

Angel Castillo ***Morgan Stanley, Research Division - Vice President***

I'm sorry, I meant the pricing, for instance, like a $1 change in the price of caustic or...

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

Yes. No, I appreciate the question, but I don't think we're going to go through and probably exactly quantify what difference a certain change in price of a commodity and a public index might have on our bottom line.

First of all, we don't -- all of our business certainly doesn't follow the index. And second of all, normally when something is going down, we're getting the value somewhere else.

Angel Castillo ***Morgan Stanley, Research Division - Vice President***

Understood. No worries. And then my second question, just going back to some of the discussions around the macro and some of the demand picture of what you've been seeing. You noted, I think, in the slide, the vinyl troughing here in the first quarter and Epoxy improving in the second half. I was curious, one, as we think about the 2023 outlook, how much of this -- are you seeing anything in orders that gives you confidence in those rebounds? Is it more just destocking abating? Or anything that -- how do you get kind of comfortable with those factors? And then as you think about just overall kind of recovery in some of that, how much of it is macro versus your ability to pull levers and parlay?

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

I mean we'll start with Epoxy. I mean it's -- of course, it's very challenged right now as we've tried to lay out. But Damian, do you want to give a little guidance on back half?

Damian Gumpel ***Olin Corporation - VP and President of Epoxy & Corporate Strategy***

Sure. I mean when we look at some of the factors in the back half, we're seeing some improved demand. I think you see the news. China, as I said, being the largest consuming region of epoxy, it's looking like it's emerging from its almost year-long slumber.

But we also see other areas that are starting to pull epoxies as well. If we highlighted our growth platforms and our macro trends around wind, infrastructure, electrification, mobility. Those are all that -- we're already starting to see some of that, that demand profile improve with our valued customers. So it's a combination of what we see in the landscape, but more purposely, our participation in some of these growth platforms that are going to look to drive some improved demand recovery in the second half.

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

And because we're running out of time, I'll just shortchange the vinyls answer. And there has been some light improvement in EDC pricing there. So thanks.

Operator

Our next question will come from Eric Petrie with Citi.

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

What's embedded in your earnings outlook in terms of China and domestic consumption and at the end of last year, we saw a ramp-up of exports in epoxy as well as caustic soda. So any comments on those export levels into 2023 and impact on earnings?

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

Yes. No, what's embedded is still that demand stays fairly muted, suspended for the better part of the first half of the year and then recovers. Specifically in epoxy, right, trade flows actually reversed out of China. But even when China recovers, still the amount of imports going into China is likely to be less than it was before because there have been some structural capacity adds there. And what this has taught us knowing that we really didn't expect sort of the worst conditions in 15 years. But what it has taught us here is that we certainly have more trough minimization footprint work to do there. So we're working on that.

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

Helpful color. Secondly, on decarbonization, how are you thinking, Scott, about carbon sequestration versus buying renewable power? And does building out these hydrogen plants impact that decision tree? To maximize the IRA credit.

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

Yes. Yes. I mean, look, I mean, there could be some IRA credits for us with regard to hydrogen. I mean we are the largest electrolysis-grade hydrogen producer in the country today. So we'll see where that goes.

As far as other activities to minimize our CO2 footprint, most of them are centered around our own efficiency and productivity programs. It's not impossible that we get some RECs in the future. Will we do more CO2 sequestration like we called out in our slide, I think those opportunities are more limited for us.

Operator

Our next question will come from John Roberts with Credit Suisse.

Unidentified Analyst

This is [Matt Skowronski] on for John. Scott, while Epoxy has been down or operating at lower rates, have you made any structural changes such as operational or with your customer base? So when demand finally returns, Epoxy will look different than it has previously?

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

Yes. The answer is yes, but completely in process now. When I said we're going to do more trough minimization footprint work, that's something that we're analyzing right now. So when demand does return yes, that business is going to look a little different. It's going to be more focused on systems where we've had staying power even through these really sloppy recessionary conditions.

Unidentified Analyst

Got it. That's helpful. And Todd, in Winchester, can you describe what the impact to margins was from lower operating rates versus higher costs. The margins in the segment have just been a little bit volatile since Lake City contract started. So just trying to figure out what a normalized level would be?

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

Yes. Thanks for the question. I think that what you saw in the fourth quarter because of the significant pullback in volume to address, I'll say, the supply chain, the fatness in the supply chain as Scott would have said, you saw margins come in significantly compared to where they had been. Overall, we had a higher level of military sales in the fourth quarter compared to where we had been over the last 12 months. So that also will slightly affect the margin, a little bit lower our average margin there.

Operator

Our next question will come from Roger Spitz with Bank of America.

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

One is, can you comment on how much of your merchant or total chlorine was sold on below-market legacy contracts as of December 2022?

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

We won't give you a specific number, but I would say that that's turned into the minority share now. As Patrick said, we still have an uplift coming in 2024 that will essentially place almost 100% of our are chlorine on a different standard, likely the Olin chlorine index.

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

Got it. The second one was -- this may seem a little odd, but -- can you say how much, if any, of your ECU production you sell as cell liquor, meaning versus finished product?

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

I'm not exactly sure what you mean by that. But we have some site partners where we may not fully take the product to an end-state that would be sold in merchant transportation equipment, and we won't quantify that.

Operator

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

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

Yes. No, I would just say thanks to everybody for joining. Sorry, we had so many technical difficulties this time, but looking forward to the next call. Thanks.

Operator

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

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