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Q1 2023 Olin Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Olin Corporation's First Quarter 2023 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, Jason. 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 first 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. I'll now turn the call over to Scott Sutton to make some brief remarks, after which we will be happy to take your questions.

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

All right. Thank you, Steve, and good morning, everybody. The Olin team is deeply engaged in doing what we said we would do, which is to establish a new 12-month trough EBITDA level that is significantly higher than previous peaks and additionally supports a higher equity valuation. We are halfway through that demonstration after back-to-back quarters where our EBITDA delivery was $442 million in the fourth quarter and $434 million in the first quarter.

Market conditions are quite poor, and the forward outlook of those conditions is for more of the same. But Olin is busy adjusting our market participation across the ECU to support product values fixing our prior shortfall of not recession-proofing the Epoxy business while simultaneously growing Epoxy systems and correcting commercial ammunition channel loads and landing new military business in Winchester.

Referring to Slide #5 in our earnings presentation. The initial evolution of Olin to a higher level value state is also about halfway along.

Leadership behavior in all 3 of our businesses through this recessionary environment will lead to more value growth opportunities that, in turn, deliver more firepower for share repurchases. We are currently on a run rate to repurchase 10% of the company's outstanding equity this year after repurchasing 16% in 2022.

So Vincent, that concludes my opening remarks. Now let's go ahead and get to questions.

Steve A. Keenan ***Olin Corporation - Director of IR***

Jason, we'll take questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Kevin McCarthy from Vertical Research Partners.

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

Scott, you've taken a number of actions toward restructuring your Epoxy business. Can you talk through what you've done already and what lies ahead? I think there was a reference in your materials to some additional restructuring actions. It wasn't clear as to whether that was in addition to what you communicated several weeks ago or just additional implementations against that existing communication?

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

Yes. Sure. Thanks a lot. So we have taken some recent actions to really recession-proof the Epoxy business. And so in March, we announced that the Terneuzen Cumene plant and our solid epoxy resins facilities in Korea and Brazil are to be closed. And you see that we took a restructuring charge of almost $60 million in the first quarter to do that. We had additionally also closed one BPA facility in our Stade, Germany plant. And there's more to come.

We're going to have additional asset decisions to make. And then we're going to also change the way that we go to market in the Epoxy business as well. So that's going to happen through the course of this year.

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

Okay. And then secondly, perhaps for Todd. Can you speak to the inventory levels on your balance sheet? Optically, it looks like they're up 20% year-over-year. How much of that is underlying escalation of inventory versus other factors. I'm not sure if your Blue Water joint venture establishment affects any of those numbers?

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

Kevin, thanks for the question on inventory. We normally build inventory and working capital during the first part of the year and liquidate that late in the third and fourth quarter. The inventory levels are higher than that normal seasonal activity this year because of a major turnaround as planned that we built some inventory in advance of that turnaround. You should expect those levels to decline as the year unfolds with a step down you'll see in June.

Operator

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

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

Yes. You've switched back and forth between which is the the weaker side, caustic or chlorine, and now you're making another change there. And I'm just curious whether -- when you've operated in the past with caustic as the weaker side, has that given you maybe more collective pricing power for the ECU because you have so many end markets you can go into with chlorine?

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

Yes. Steve. And so that is the nature of our leadership model, right? we set our market participation according to the weaker side of the ECU. And we don't chase a strong market in this coproduction world because when you do that, you depress the strong market and you kill the weak market. So we have switched. And we've operated where caustic was the weaker side just like it is today.

When we did operate in that manner, that's when we also set the 4-quarter peak earnings of the company at $2.8 billion. So it certainly presents opportunities. But what I'll say is you have to take into account many factors. And when you have sort of a global recession going on, it doesn't necessarily mean that at this moment in time, we can repeat those levels of earnings, but it certainly will support higher merchant chlorine pricing and higher pricing and value in other chlorine derivatives as well.

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

And you made a comment in your slides about potential other inorganic opportunities. And I just wanted to drill into that a little bit. I mean, your downstream businesses are essentially tied back to chlorine, and they're numerous chemical pathways that have a very essential chlorine component in it, like whether it's polyurethane or polycarbonate and so forth. Can you highlight any other opportunities that you're looking at downstream?

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

Well, I would just say that as we look at inorganic opportunities, I mean, the best ones that create the biggest value for Olin are ones where we add to our ECU value model. So that could be more ECU capability or it could also be derivatives that use chlorine. I mean those opportunities are likely improving. But clearly, I mean, they're going to have to compete with the return that we get on share repurchase, and that's sort of the measuring stick for that.

Operator

The next question comes from Hassan Ahmed from Alembic Global.

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

Scott and Todd. First question, just around Q1 and the guidance that you guys gave. I mean you guys always talked about how there could be 1 quarter or 2 quarters where you could sort of trend at annualized below guided to sort of trough EBITDA, right? As you sort of rejig or readjust to the stronger side of the ECU.

So what we saw in Q1 and the guidance that you have given for Q2, is it fair to assume that these 2 quarters are those 2 quarters and things kind of trend higher thereon after?

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

Yes. Hassan. Look, I mean, it's certainly not impossible, right, that we make a significant adjustment in any 1 quarter to support that 4 quarter trough level around $1.7 billion. But what I will say is we're halfway through and we've essentially delivered the same EBITDA number in those first 2 quarters. And we've given guidance for the next quarter that is slightly below that. So hopefully, we can get through this without having to make such a deep correction in any 1 quarter.

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

Understood. Understood. And also wanted to revisit the question around inorganic opportunities. From the sounds of it, you guys obviously want to stick to the sort of area that you're comfortable with -- call it -- integration into the ECU and the like. So from the sounds of it, you're looking at downstream products. But could you also chart a bit about sort of what geographies are of interest to you? I mean, because back in the day, you did talk about maybe potentially being sort of replicating what you have in the U.S. out in Europe. Does that still sort of hold true?

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

Yes. Look, I think that's a real possibility. It's not completely impossible to do some things that are right down the center of the fairway in North America. However, it's also possible that we can add a new fairway in Europe. So that's a consideration.

Operator

Our next question comes from Jeff Zekauskas from JPMorgan.

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

Why is it that the contract caustic markets in the United States are so much more stable than the spot export caustic markets? And can you talk about where caustic contract prices have been, say, over the past 6 months?

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

Yes. Jeff, yes -- and so the domestic caustic markets, of course, are right where Olin plays and right where Olin leads and right where we implement our leadership model. So there's some impact from that. I think you have to remember how the world landscape moves around, right? You may start with a butterfly effect coming out of China. So there's a volume and a price indication there. And over time, that may impact international trade.

And then over time, that may impact the U.S. Gulf Coast. Over time, the U.S. Gulf Coast impacts the barge market in the U.S. Then over time, the barge market may impact the rest of the domestic market. But over all that time, Olin is looking far ahead and looking for the rate of change of each of those things and trying to take some kind of action that tends to support value.

So by the time you get all the way to the domestic market, we've supported the value of our business. And over the last 6 months, of course, that has stayed more stable, which is the back part of your question.

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

Okay. Maybe a question for Todd. What should the normal percentage of operating cash flow to EBITDA to adjusted EBITDA be for Olin? Is it 70% or 80% or 60% or 85%?

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

I think, Jeff, this year, in the recessionary trough period, that percentage is lower than would be typical and the expectation for Olin of that levered free cash flow because of a couple of one-time items that are occurring this year. The roughly $80 million international tax payment that we'll have to make later this year as well as a one-time item that we need to pay related to some power assets on -- in the Gulf Coast on a contract.

So when you factor those in, I think that percentage would go up significantly compared to what it seems like this year. But overall, that number is clearly in the upper quartile.

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

How big is the power asset payment?

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

Between $50 million and $100 million this year.

Operator

The next question comes from Vincent Anderson from Stifel.

Vincent Anderson ***Stifel Financial, Research Division - Director***

So I wanted to follow up on Kevin's question earlier, Scott. Have you settled on maybe a more permanent vision for what the optimal footprint looks like for the Epoxy business, particularly with regards to an appropriate level of vertical integration?

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

Yes. Yes, I mean, thanks for the question. And look, I mean, as we go through this restructuring, right? We're going to get to a footprint and a business presence that removes some element of the duplication that we have. We have 2 of every single kind of asset all across that vertically integrated chain. And we may or may not need all of those to have full capability. But what I will say when we get through this, Epoxy is still going to be the absolute global leader in that world, and it's still going to be the absolute most vertically integrated business in that world as well.

Epoxy has certainly been a challenge. If you go a little bit backwards in time, whenever Asia volumes became available, customers bought away. And then when those Asian volumes weren't available because of instability or demand in Asia, they came back to Olin for security of supply. More recently, we probably overpriced a bit for a bit too long. So now we're just moving to a point where we're going to partner with Epoxy customers for a bit longer run, and there's going to be a lot more cooperation in that forward world with Epoxy customers, especially as our business pivots more to value from systems, so you need to have a longer-term profile mix with customers.

Vincent Anderson ***Stifel Financial, Research Division - Director***

Okay. That's extremely helpful. And then a quick one, if you don't mind, on something you mentioned in your slides talking about the hydrochloric acid recycling opportunity. Do you have just a couple of comments on what that market structure looks like? I'm assuming it's coming from areas of HCl utilization where the customer's chlorine input is something other than HCl coming out the other end? And then maybe just early thoughts on build versus buy?

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

Yes, I mean -- sure. I mean, look, this is actually a business segment that Olin doesn't really participate in today. And we should be the leader. The reason that this business segment exists is many applications and many customers for merchant chlorine, and it's not just Olin's merchant chlorine, but any merchant chlorine that is used. A lot of that chlorine comes back out of the process, whether it's all or part of it because it's not utilized in the final product.

So it comes back out as HCl, or hydrochloric acid, and that material needs to be moved somewhere. Like a major application for that is downhole, cleaning of formations and so forth in oil and gas. But today, Olin just doesn't really participate there. And there's no reason that we shouldn't be the leader there. So we're entering that business.

So now you have 3 interesting nearly organic growth areas in our CAPV business, one of them is trading or parlaying which is partly our Blue Water Alliance joint venture. The other one is our hydrogen growth. And now you're going to have our growth in HCl, where we should be the leader, and we just haven't developed that business yet.

Operator

The next question comes from Mike Sison from Wells Fargo.

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

Guys. Just curious, so where do you think your operating rate -- what are you going to do with your operating rates for 2023? I guess, you've given you're still in a recession trough level sort of outlook, does it stay at first quarter levels for the rest of the year?

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

Yes. Mike, look, I mean, what I would say there's a lot more of the same coming for us to grind through, right? We will change those operating rates to anything that's necessary to support value for Olin. But you're right. I mean they're low. I think we put in our materials that our epoxy resin operating rate is around 40% or so. And there, the second quarter landscape is certainly not better than the first quarter landscape.

If you were to think about operating rates in our Chlor Alkali and Vinyls business, maybe we're running around 2/3 or so. These are not likely to change that much. But within there, we'll have some units that run higher and some or many that run lower than that, Mike.

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

Got it. Okay. And then there is a quick follow-up. Your ECU PCI calculation has held up significantly better than the consultants. And I understand it's yours. So when you think about the level you're at now versus last year and where your adjusted EBITDA was being down, is it simply the year-over-year decline in EBITDA just volume? And then if you can hold these ECU PCI levels and volumes come back, are you sort of back to your prior EBITDA levels from...

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

Yes. I mean that's a good question. And yes, I mean, the decline in EBITDA to these more trough levels in this recessionary time is certainly principally from volume. That ECU PCI, that's indicative of our value concept, right? We said we're going to be the value player and we're going to place value over volume, and that leads to the best outcome in a trough. And when you come out of that trough, you come out of it with a lot of earnings power.

So that has been set to a totally different level. Look, I do know this. It will move down some and it will move up some. But clearly, we're going to be the value player and that's the biggest indicator of it. And you're right, it's different than trade publications, for sure. I mean it's just like the chlorine index that is published in a trade indication actually went down just a little bit here recently, yet our chlorine index moved up, yet our chlorine price in the first quarter moved up over the fourth quarter and yet our chlorine price will move up in the second quarter versus the first quarter as well.

Operator

The next question comes from Mike Leithead from Barclays.

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

Guys. First on Epoxy. Scott, can you just maybe talk about where the Chinese export pressure currently stands today versus maybe a quarter ago? And just where you think that trends over, say, the next quarter or so?

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

Yes, sure. I mean, look, that export pressure, I'll say, in the second quarter is probably even more than in the first quarter. There's record epoxy exports coming out of Asia. And those exports out of Asia are being driven by the fact that China has added a lot of capacity. They've got their supply apparatus running hard, yet their demand apparatus has not turned back on.

So that sort of reversal in trade flows out of China has caused the rest of the volume in Asia to come towards Europe and North America. So that's the impact we're seeing, and we see extreme pressure continuing there.

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

Great. And then just real briefly, I wanted to follow up on the inorganic opportunities. I think, in your slide, you made a comment calling them potentially being more executable. So I was just curious if that's really just a comment about asking prices becoming more palatable and the discussions picking up or just more about Olin's ability to execute, given where it is in its evolution or financial position?

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

Yes. Well, I think Olin is able to execute almost anything we would want to, considering our financial position, right? That's really not an issue. But the reason that we use the words more executable is it's not impossible now to get deals done closer to Olin's current trading multiples. It doesn't mean it will be the same, but it certainly means that we'll get there really quickly with the batch of synergies that we would expect to be available in any acquisition.

Operator

Our next question comes from Arun Viswanathan from RBC Capital Markets.

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

Just kind of a question on the cadence of the year. So it looks like the guidance now has been tightened up to $1.6 billion to $1.9 billion, which would put you $1.75 billion for the full year. It's very possible that you do 8.65 maybe in the first half and another 8.65 or more or slightly more in the second half. Is that the right way to think about it that the halves will be kind of equally split?

And then if that is the case, when you look into next year, is it mainly volume that would drive you back up to the upper end of that $1.9 billion range, $2 billion range and above? And what would put you at the upper end of the range this year itself?

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

Well, I wouldn't assume that first half and the second half are sort of perfectly balanced, right? I mean we will do whatever we need to do to put this 4-quarter trough in around that $1.7 billion. But clearly, we said for the calendar year we have a range of $1.6 billion to $1.9 billion. The way you would end up at a $1.9 billion is that maybe there's a little better condition in the second half than what we're forecasting.

The way you end up at the $1.6 billion is that we keep having to make heavy adjustments and things actually get worse, particularly in Asia demand versus where they are today. And that's why we've kept this range. When we sort of get out of this slow demand, recessionary conditions, right? We'll have a number of earnings levers. Yes, one of them will be natural volume. It won't be volume from share gains, but it will be just natural volume coming back in on the shoulders of a recovery.

We'll also have our Epoxy systems business being more effective, and it's already made a lot of great, great progress there. Some of the discussion we just went through entering the HCl business, that's something that we can do pretty rapidly. And maybe some of the best conditions actually exist in our Winchester ammunition business.

The international military piece of that business is growing rapidly in addition to that, so is the preparations for the Next Generation Squad Weapon. In fact, if you were to think about our military ammunition business, we expect to double that in roughly 2 years from where we were about 6 months ago.

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

And then on the cash flow side, so it sounds like your levered free cash flow is going to eclipse the $1 billion? And should I -- should we assume that maybe that leaves about $800 million for buybacks? And how are you thinking about that opportunity as you move forward? We continue to be prioritizing share buybacks or are there other uses for the capital?

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

Yes. Thanks, Arun. Yes, I think our current forecast for levered free cash flow for 2023 is $965 million range. Obviously, that includes roughly $150 million of one-timers that I mentioned earlier. As we look at that levered free cash flow, we would say the first and best use of that excess cash flow relates to share repurchase, and you should see us continue on that pathway.

Operator

The next question comes from Josh Spector from UBS.

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

Just a follow up on your market participation and kind of how you address the weaker side. I mean your response over the last year, at least within the CAV segment, has been generally lower utilization rates. I guess, is there anything different now that that's shifted back to chlorine being strong, caustic being weaker that would require a different playbook for you to maintain that EBITDA over the next 6 months or so?

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

Josh, thanks for the question. I mean, not really, right? Not in totality, we don't expect necessarily lower overall operating rates, right? I think the dilemma is that -- I mean market conditions are really poor, and we certainly expect more of the same. But that's one element that ends up setting our operating rates. What you have to remember about Olin, we make value when there's a level of imbalance between the two sides of the ECU.

So you can actually have a declining overall global market, but yet there's some kind of imbalance between the 2 totally different kinds of market outlets on the chlorine side of the ECU versus the caustic side of the ECU. And when we have that imbalance or can help create that imbalance, that's when we're able to hold value.

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

Okay. I guess -- maybe you can correct me if I'm wrong, but I would think -- I mean, you have more options, I'd say, on the chlorine side of where you can do that and maybe go to a stronger market. I mean, conversely, I'd say maybe there's less option on the caustic side. I guess, where would I be wrong in that?

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

Well, I mean, it's true that, look, I mean, we have a lot of business on the chlorine side of the ECU and are forward integrated into vinyls, epoxies, chlorinated organics, a number of inorganics there, so we have options. But also, the caustic market is, it's not just one fungible product either, right?

If you kind of go back to the discussion we were just having about going from China export all the way to international trade, Gulf Coast, the impact on other regions into the barge market and in the domestic market. So there's a lot of service options there. And there's also options to package up ECUs for customers that use a full ECU. And on top of that, we're able to use our Blue Water joint venture to make sure that there's all kinds of complex options on that 3D chess board to get the best value that we can.

Operator

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

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

Scott, inorganic opportunities, can you tell us how you're thinking about potential size of a deal here, bolt-ons or something larger, more transformational in nature?

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

Yes. I mean, look, there's, of course, a number of options. I mean what we need to do and would prefer to do is something that's right down the fairway that we can get a high level of synergies quickly and pay off any kind of financing that we might do in order to do that acquisition. And all of that has to add up to a picture that gives us much better return to our shareholders than doing share repurchases. So we -- I think there's options there. Of course, we would prefer to do something initially that's measured, down the fairway and a slam dunk.

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

Very helpful. Your annual guidance range, especially at the lower ends, are you assuming any meaningful decline in caustic soda price and by meaningful, I mean, say, $100 or more drop or price declines in any other important commodity? Or is the range variability mostly due to volumes going up and down?

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

Well, I would say caustic pricing is moving down globally. And that's why it's become the weaker side of the ECU. And that's why we adjusted our participation to dampen the rate of that decline. So we've taken our outlook there into account in our forecast, and that's included in that range of $1.6 billion to $1.9 billion.

Operator

The next question comes from Matthew Blair from Tudor Pickering.

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

Scott, just wanted to follow up on your comment a few questions ago when you talked about -- you can make value when there's a level of imbalance between the two sides of the ECU. Should we assume -- or can we assume that, that level of imbalance was actually pretty tight in Q1, given the caustic flip to the weak side? And I guess, how is that trending in Q2? And what are your expectations? Do you think that level of imbalance will widen as we progress throughout the rest of the year?

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

Yes. I mean, thanks for the question. I mean I think, as the global landscape changes, there's likely to be more imbalance as opposed to less imbalance, right? I mean where the landscape is weaker, at least for Olin's outlook, is when there's balance between the two sides. So at the first part of the quarter, it looked like PVC and vinyls were actually going to get a little stronger, but that was a bit false and maybe that trend has moderated some.

And now you see the global demand for caustic sort of softening a bit. So things are changing. When things are changing, there's likely to be some imbalances, and we have the ability to go out and manage some global liquidity, do some parlaying to accelerate or decelerate the timing of where those imbalances happen.

So I don't know that it will necessarily be a lot more. But as things change, there'll be opportunities. It's been pretty stable, I would say, if you look back over the last 6 to 9 months, more stable than maybe it's been in a very long time.

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

Okay. Sounds good. And then I had a question on Slide 9. You showed the Parlay volumes at what I think is a record 16%. It's just I thought that happened when caustic prices in your system were moving down, but that same slide shows caustic prices moving up quarter-over-quarter in Q1. So could you help us just understand what's going on there?

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

Yes, sure. I mean, in January, our Blue Water Alliance joint venture started operation. And remember, the point of that joint venture is to go out and do more trading, more parlaying, more management of global liquidity that is to the partners' benefit. So as a percent of our total volumes, much more of it came from trading and parlaying. And that's why it jumped up to 16% of our total sales volume.

Operator

The next question comes from John Roberts from Crédit Suisse.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

On Slide 9, the ECU PCI declined sequentially from 287 down to 262. But almost all the chlorine caustic products went up sequentially. So epoxies was big enough and declined enough that it offset all the gains in the other products sequentially.

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

Yes. I mean, John, Epoxy was a big driver of that because per ECU, there was less delivery of contribution profit. So in Epoxy, not only do you have price declines, but you have volume declines as well. So you get the impact of volume and price coming through there. Even within Chlor Alkali, a lot of it has to do with the mix of products as well. So for all those reasons, that's why it came down.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

But that's a variable contribution that volume shouldn't play into there, right?

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

No, it will. I mean because here's what it is. It's the total contribution profit that this company delivers divided by the total number of ECUs that we sell. So the ratio of volumes between different products can impact that a lot.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

All right. And then are you surprised given the housing market weakness that caustic has actually flipped to the weak side here?

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

Well, I think caustic is actually flipping to the weak side. I mean housing is certainly off, but you also have movements in the caustic demand market as well.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

Okay. And just historically, more housing would have driven, which is strong week versus general industrial I think, but...

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

But John, maybe I misunderstood your question. You asked me if I was surprised that caustic hasn't become weak.

John Ezekiel E. Roberts ***Crédit Suisse AG, Research Division - Research Analyst***

No, that it flipped to the weak side that's there. Usually, with a weaker housing market here, we'd have caustic as the strong side, which is what we've had until recently.

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

Yes, yes. Well, look, I mean, you've got to remember, caustic is also globally traded, right? And if PVC demand goes down even more, our actions to flip our approach to the market, along with maybe a shortfall in caustic supply, could redirect that. It's not impossible. I mean to your point, traditionally, that's the way it would go.

So we've taken actions to support our caustic pricing. And then there could be market impacts that return to traditional ways such that it may be another force that's lifting caustic pricing.

Operator

The next question comes from Angel Castillo from Morgan Stanley.

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

Scott, I just wanted to maybe dig a little bit deeper on the second quarter. I think the commentary has just generally indicated extremely weak markets. And I think last night, we also saw trade sources settled April for caustic down more than expected and lowered their estimates for 2Q and 3Q for both caustic and the ECU margins.

So just curious, in the past, you've given for some of these quarters a range of what your expectation is of a percentage of EBITDA decline. Curious if you could give the same just a way of kind of clarifying what's slightly lower than 1Q means? And in essence, giving kind of a guardrail for what the downside or upside risk is versus your expectations.

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

Yes. Angel, I mean, I would just say slightly lower means a little bit lower is the reality. And we have taken into account the current negative momentum in caustic pricing. And in fact, we readjusted our market positioning to dampen that some and likely strengthen the other side of the ECU. So we've just taken all that into account. I would just say, remember, when we were in the fourth quarter, we said the first quarter might be slightly down, too, if you need some guidance for the second quarter.

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

I guess as I think about it for as we kind of move through the second quarter, it sounds like you are kind of accounting for some of this weakness. Just curious, as these plants that have been under turnaround, it seems like there's a pretty large amount in terms of maintenance activity in the current market.

So it's surprising, I guess, that the caustic market is so weak, given the degree of turnarounds. So just curious, as those plants come back online, it sounds like you are kind of, I guess, enforcing your parlaying activity a little bit more. Curious do you see enough flexibility to offset that, I think, as those plants kind of returning to the market and how do you kind of see the degree of kind of downside risk, but slightly lower doesn't necessarily feel like there's -- but you feel like there's a lot of risk that as plants restart and given the current demand that things can move materially lower. So curious what gives you confidence in that?

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

Well, I mean, we feel okay about slightly lower. But I don't think anyone should be surprised that caustic pricing has started coming down, right? I mean PVC was chased hard for a while. In China, caustic exports have been pretty extensive, much more than normal. And that certainly didn't help the caustic world. I think if there's one piece of good news, it's that those export prices of caustic out of China have sort of flattened.

And the reason that they're flattening now is that the China ECU producers right were -- not getting value for chlorine. In fact, they were paying customers to take chlorine. So that was to be able to chase things. But when they chase them, market pricing eventually came down on caustic and all of a sudden, to be in an ECU business, you have to be willing to attach $100 bills to every shipment that's going out of China. And so even if they're not willing to do that, so finally, you see that moderate and perhaps that means something different in the future.

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

Got it. So maybe ask in a different way. You raised the low end of your 2023 guidance from $1.5 billion to $1.6 billion. And just given this backdrop that you've kind of described, what is kind of the step change that gives you confidence that we won't see something closer with $1.5 billion rather than a $1.6 billion? Like what's kind of changed in this past quarter to get you there?

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

Well, I think what gives us confidence there is we just printed 1 quarter, and we just gave a forecast for the second quarter that is just slightly lower.

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, I would just say thanks a lot to everybody for joining the call. Thanks.

Operator

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