

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

Q2 2023 Olin Corp Earnings Call

EVENT DATE/TIME: JULY 28, 2023 / 1:00PM GMT

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

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

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

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

**Patrick Duffy Fischer** *Goldman Sachs Group, Inc., Research Division - Research Analyst*

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

**Vincent Stephen Andrews** *Morgan Stanley, Research Division - MD*

## PRESENTATION

### Operator

Good morning, and welcome to Olin Corporation's Second Quarter 2023 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I'd 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, Keith. Good morning, everyone, and thank you for joining us today. Before we begin, let me remind you that this discussion, along with the associated slides and the question-and-answer session that follows, will include statements regarding estimates or expectations of future performance. Please note, these are forward-looking statements and that actual results could differ materially from those projected. Some of the factors that could cause actual results to differ from our projections are described without limitations in the Risk Factors section of our most recent Form 10-K and in yesterday's second quarter earnings press release.

A copy of today's transcript and slides will be available on our website under 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'll be happy to take your questions.

---

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

Thanks, Steve, and good morning, everybody. Global market conditions continue to be quite poor. Additionally, our performance in the second quarter was not up to expectations, partially due to the previously announced Freeport vinyl chloride monomer plant operating issues, but also due to excessive Asian epoxy resin exports and our associated epoxy asset right sizing activities. These factors will result in a lower trough expectation for 2023 adjusted EBITDA. The bright spot in the second quarter was our purchase of 2.5% of our outstanding shares while simultaneously reducing net debt compared to the first quarter. Since January 1, 2022, we have purchased 21% of our outstanding shares.

In the third quarter, we expect epoxy resins and system sales volumes to slightly improve relative to the second quarter. However, inventory reduction efforts will lead the business in negative EBITDA territory. While Winchester's performance is expected to slightly

improve in the third quarter, mainly due to international and domestic military growth, our chlor alkali and vinyls business is expected to be slightly down, mainly due to execution of our leadership model as we see bottoming of ECU values in some geographies likely a positive sign for 2024.

This is our time to be tested, and I am confident that the Olin team is up to that test. It should be clear from Slide #4 that Olin believes running a value strategy with lots of built-in free options, delivers more total cash for shareholders versus any alternative strategy. Looking forward, we are working on numerous initiatives to make sure both future peaks and troughs from that value strategy are higher than our previous results. Those initiatives are spelled out on Slide #5.

Keith, that concludes my opening remarks, and we can now proceed to questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And this morning's first question comes from Hassan Ahmed with Alembic Capital.

---

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

Question -- well, 2-part question. One on the implied sort of trough earnings number and the other one on sort of the peak number that you put up on your presentation. So first on the trough number. I mean, if I take a look at your implied Q4 2023 guidance, it's around \$300 million, right? And I annualize that, that's obviously \$1.2 billion. And obviously, you guys talked about the VCM Freeport, Texas facility being sort of one of the cause agents, Epoxy being call it, below trough being another cause agent of this sort of perceived below trough guidance. So is the delta between the \$1.5 billion to \$2 billion sort of trough range that you gave versus the annualized \$300 million Q4 '23 guidance that you gave, primarily because of the VCM side of things and the epoxy side of things?

---

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

Yes. Thanks, Hassan. Yes. Look, I mean, first of all, I would say that 2024 has a lot more positives than negatives. And we're calling a trough at \$1.4 billion, not \$1.2 billion. Now the difference between \$1.4 billion and what we've called out as our previous trough there. Yes, I mean we've got a \$100 million problem with VCM. But on top of that, it really is the mass of material that's come out of Asia, in epoxy. And you heard me say that we're going to run one quarter probably here at negative EBITDA territory.

I mean, Hassan, I would also add that we have had to run our model a little bit deeper. I mean, demand declined so fast relative to supply. That if you look at rates, we're way below 50% in epoxy, and we're not all that far above 50% across our CAPV portfolio right now. So it's those things that make up the difference.

---

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

Understood. And sorry, it's -- the peak side of it, I also wanted to sort of touch base on. You guys sort of flagged over \$3 billion in the next peak, right? And if I take a look at what you guys on a quarterly basis were run rating in Q1 '22 and Q2 '22, it was over \$850 million. And clearly, utilization rates weren't as tight as they potentially could be in the next peak, right? And you hadn't sort of restructured the Epoxy business as you are right now, right? So I mean, from the sounds of it, \$3 billion in the next peak actually sounds pretty bare-bone, is that fair?

---

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

Yes. I mean, Hassan, look, our outlook certainly says the structure of chlor alkali only gets better over time. And it's true that we've done some restructuring in our Epoxy business. But I will say that in order for epoxy to get back to the levels it was that's probably a couple of years out. So you're going to see the next peak in chlor alkali while epoxy is still recovering. And that's why we put the next peak at somewhere just about \$3 billion.

---

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

Understood. And one last one, if I may. On Dow's earnings call, they basically talked about how their contract with you was renewed through 2035. Is there any sort of commentary you can give about? I know historically, sort of Olin's talked about not really making any money on that contract. But is there any commentary you guys can give us about that renewed contract?

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

Yes. I would just agree that we did reach an agreement, and I think that's going to be good for everybody in the future.

**Operator**

And the next question comes from Steve Byrne, Bank of America.

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

Just continuing on this peak EBITDA discussion. Is it more driven by chlor alkali? And is your view on epoxy a little more measured than it used to be? And with the former chlor alkali and are you moving any further down the path of partnering on some downstream polymer capacity? Or is it a little too early for that?

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

Well, I would say, I mean, the big driver of it is certainly chlor alkali. There's no doubt epoxy will improve, but the structure of the epoxy industry, when you have a China that has probably added almost 20% to the world's supply capability in the last 18 months or so, it's going to take a little more time to recover. I mean I'd also call out our Winchester business as well. I mean that business has great fundamentals, particularly in the growth of international and domestic ammunition. So it's those things that will get us there.

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

And then a follow-up for you, Scott, on Winchester is, what is going on competitively that's leading to a challenging domestic commercial market? Is it underlying demand? Or is it increased imported product or competitive lack of discipline? What would you attribute it to?

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

Yes. Well, I would say -- just a reminder, even though it's challenging, it's certainly well above pre-COVID levels still. But what is driving the challenge is -- I would say, across outdoor sports. Inventory is just generally increasing. That's not just a comment only on ammunition, but we're subject to that. And that's why it's been challenging.

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

So there's destocking going on? Is that the issue?

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

Well, it's not necessarily destocking. I would say that, look, inventory in the channel has crept up and therefore, supply into the channel is slowing down, right? There may be some follow-on destocking that naturally would follow that, but that's the situation.

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

And some of that creep from Russian import that you've talked about in the past?

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

No, no. Russian imports have ended. If anything, imports into this country in terms of ammunition have gone down over the last 12 months, primarily to Russia, importing zero anymore.

**Operator**

And the next question comes from Mike Sison with Wells Fargo.

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

Look, I wanted to understand the \$300 million a little bit. So in the third quarter, what's the impact from the planned outages? Is it similar to the \$80 million in the second quarter? And then for the fourth quarter, \$300 million -- I mean, fourth quarter \$300 million, is there any impact from that extended into the fourth?

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

Yes. And let me clarify, Mike, the \$80 million first of all. Because in our earnings release, that is a year-over-year quarterly comparison. It includes the planned cost of the turnaround that we were going to have. The guidance that we gave or the early guidance we gave in the second quarter said, look, we have a \$50 million impact, and that was versus the expectation. I would say when you're looking at the third quarter, it's very probable that, that impact is the same. So what you have versus our earlier expectation is \$100 million essentially spread evenly over the second and third quarter.

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

Okay. Got it. So the fourth quarter doesn't have an impact. That's just kind of the run rate for where the ECU and everything is at, right?

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

Yes. I mean that's pretty much right, right? We've called out \$1.4 million. You kind of back into the numbers you're using for the fourth quarter. There's some natural slowdown in some of the businesses and there's still negative momentum in caustic.

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

Okay. And then just in terms of where your mid-cycle EBITDA could be? Is it sort of the delta between the peak and this year? Or is it a different number? And how long do you think it takes to sort of get to sort of a mid-cycle number?

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

Yes. Well, I would just say, Mike, that we expect 2024 to be better. There's good signs to that. I think even though they are slowly maturing signs and 2025 looks even better than that. So it's in that range.

**Operator**

And the next question comes from Kevin McCarthy, Vertical Research Partners.

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

Scott, with regard to caustic soda, how much was your average price down in 2Q versus 1Q? In chlorine, it seems like you had a quite divergent experience versus consulting marks, so to speak. I'm curious as to any color you can provide in caustic as to where your own experience is perhaps differing or similar to outsiders views?

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

Yes. And so I won't give a specific number on that. Our caustic was definitely down in second quarter versus first quarter. And we're saying it's going to go down in third. It's not that far off from what you see in the trade publications, perhaps a little bit favorable to that. Of course, we had, just like you said, a different experience in merchant chlorine, trade publications say flat to down, we were able to lift merchant chlorine pricing in the second quarter relative to first quarter, and will lift merchant chlorine pricing in the third quarter relative to second quarter as well.

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

Okay. Then secondly, a financial question for you. If I look at your balance sheet, Olin's inventory levels in the second quarter were up 14% year-over-year in dollar terms. My question is, how would you characterize your inventory in unit terms or tons? Are there product lines where you feel you have too much inventory and you need to draw it down or product lines where it might even be relatively lean? How would you characterize that?

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

Kevin, this is Todd. Thanks for the question. Yes, -- through the first half of the year, you have seen couple of hundred million dollar working capital build from Olin. Ultimately, as you see in our cash flow forecast for the year, we think working capital actually be favorable. So you should expect to see working capital decline and turn into a source of cash in the back half of the year. Also, I think during Scott's prepared comments, he commented about the expectation of reducing epoxy inventory during the third quarter.

**Operator**

And the next question comes from Michael Leithead with Barclays.

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

Great. First question on epoxy. When you look at Asian exports and the prices they're selling for in the market, is your sense that producers there are below cash breakeven levels? And if so, how, if at all, does that change your thinking about how Olin should approach, say, the epoxy value chain?

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

Yes. Thanks for the question. I would just say, yes. I mean you got to remember in China that they've been operating with favorability of negative chlorine values, right, and potentially negative hydrochloric acid values. So those key inputs, which is just one input, has gone into the epoxy chain with somebody paying the producers of epoxy to take it. That's totally different than any other geography, and it has nothing to do with covering any kind of level of fixed cost and certainly no return on capital.

So yes, I think that's a real issue. We're going to consider what we're going to do about proposing duties in certain geographies as well, because this really can't go on.

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

Fair enough. And then second, just when you look at your chemicals volumes overall, with the exception of the VCM impact, do you think the second quarter is the low point in your volumes? Or do you expect them to be stable or maybe lower in the back half?

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

I would say that for Olin, look, our volume challenge is effectively finishing here, right? We've taken it down enough to preserve values, run a leadership model. We were prepared to capitalize on the run out. So we've taken volumes down further enough to achieve that objective. Even in our Epoxy business in the third quarter, we do expect systems and resin volumes to grow some.

**Operator**

And the next question comes from Jeff Zekauskas with JPMorgan.

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

You've always spoken of negotiation of the Dow contract as a meaningful future benefit in 2025. Now it seems that Dow is going to take less chlorine and caustic because of what they're doing in propylene oxide. Is it still a meaningful jump for Olin in 2025? Or is that no longer the case?

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

Yes. I would say it's really a positive arrangement for Olin. And Jeff, I mean you're right that one PO unit, Dow has announced that they're closing that. So that volume goes away. But other volumes at that same site remain, and the site in Louisiana becomes the site of focus for the bigger volumes.

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

So we shouldn't expect some meaningful contractual -- some meaningful EBITDA benefit to you in 2025 because of the renegotiation of the contract. Is that correct?

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

No, I think it's positive, Jeff.

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

Okay. In terms of your chlorine prices, are you -- there's always a -- there are always contract resets that Olin benefits from because pricing in the old days was so poor. Is the positive momentum in prices in chlorine a function of the repricing of very old contracts? Or is it more an accurate picture of the current market today?

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

Well, I think a large part of the continual improvement in our average merchant chlorine pricing has to do with contracts maturing and being renegotiated. That's not the only part of it. The part that's on spot, we still continue to do well there. But the bigger part is the new contractual arrangements where we exit these remaining legacy deals.

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

Is there much more to go? Or are you now pretty much caught up?

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

Well, we have a little bit more to go.

**Operator**

And the next question comes from Duffy Fischer with Goldman Sachs.

**Patrick Duffy Fischer** *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Scott, I was hoping, can you just kind of summarize all the changes you've made to your epoxy footprint? And what does that do to the upside coming out? I mean how much capacity have we taken off when we get through this downturn? How much different is your footprint today?

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

Yes. I mean we've made and are in the process of making quite a number of changes. Upstream, I'll say that we exited a Cumene plant. We exited one of our BPA facilities. In the resin area, we reduced our capability, both in Freeport, Texas, and in Stade. And then at a few downstream plants, we reduced our capability in solid epoxy resin and then we shut down a facility in Korea. So -- yes, I mean, that has reduced our capability some. What I will say is that in epoxy, we had at least 2 of everything to begin with, and sometimes 3 or 4 of everything. So we've gotten rid of that overhang. We're much more efficient now and it's not going to take a massive amount of volume to put us closer to a higher capacity utilization. We're still working to get those costs down.

**Patrick Duffy Fischer** *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Fair enough. And then you often talk about managing one side or the other of the ECU. As you look out over the next year or so, which side do you think you're going to have to work hardest on to manage?

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

Well, we work both sides, of course. But I will say that right now, you see the rate of change of caustic pricing. And so we're just not participating in that market as much. In other words, we're setting our whole participation according to that dynamic. And doing that, of course, slows that rate of decline. And on the other side of the ECU, it certainly enhances where it's already a little bit tighter. So that's our positioning now. We'll stay in that positioning for a little while. I expect it to change. Maybe it will change twice over the next year.

**Operator**

And the next question comes from Arun Viswanathan of RBC Capital Markets.

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

I had a question about the PCI and your parlay volumes. So your parlay volumes looks like they hit high point in the second quarter as a percent of your sales and yet you're still able to maintain the PCI in the high 250s. So -- is that really the swing wheel you have, the flywheel you have to maintain that PCI is the parlay volumes. So when the market comes back and your utilization rates go higher in volume, you can service more of that volume from your own production? Or how should we think about how the parlay volumes would evolve in order to keep the PCI constant and maybe as your profitability improves?

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

Well, I would maybe start with -- let me redefine a little bit what these parlay volumes are. So when we're faced with weak market conditions, we may very well reduce our production as we have. It doesn't mean that we back out of the market according to that same production volume decrease. We go out into the market and buy volumes out of the market to satisfy that demand that we have. And when I said earlier, we've been having to run the model deeper. This is evidence that we're having to run the market -- I mean, run the model a lot deeper and go out and buy more volumes. Part of this volume right is working through our Blue Water Alliance joint venture, which is set up to go out and manage global liquidity as well. So all of those activities are just one contributing factor to keeping our profit contribution index up over time.

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

And then if I could just ask a follow-up. So on the potential peak EBITDA of \$3 billion, maybe if you annualize that, it would be somewhere in the range of \$700 million or so for Q1 and Q4 and maybe \$800 million to \$900 million for Q2, Q3. Could you potentially break down that by segment, especially given some of the changes you've made on the footprint for epoxy and CAV? What are those potentially contributing per quarter now under the new structure?

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

Yes. I would say epoxy is not going to be the contributor that it was in recent history where we were running \$700 million-plus annual EBITDA. Included in that \$3 billion is not epoxy at that level. It's somewhere between today and that level. So what is in there is a strong performance from chlor alkali as the outlook on structure looks good; demand outpaces supply. It's very likely that, in fact, caustic growth may outpace chorine growth due to all the things that are going on with minerals and batteries and everything else and that imbalance helps us in the future.

So in the chemical side, it's much more heavily weighted toward chlor alkali, and in Winchester is a contributor to that as well. And in fact, for the first time ever as evidence that we're going to move that way, for the first time ever in Q3, the consumer piece of the Winchester business is going to be less than 50% of that business, and the military plus other is the larger part of it.

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

And just so clear, you said there's a lot of drivers for '24, '25. So do you expect to maybe get closer to that peak by '25, '26? Or what's the timing on that?

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

Well, I don't have a specific time, but it's going to take a couple of years.

**Operator**

And the next question comes from Vincent Andrews with Morgan Stanley.

**Vincent Stephen Andrews Morgan Stanley, Research Division - MD**

Just continuing on the sort of peak cycle definition. Just thinking back to the last peak, obviously, a very unique period of time where you had lots of supply outages and supply chain issues and obviously, very strong demand and significant stocking that's obviously reversing now. I assume, Scott, you're looking for in the next peak cycle sort of a more traditional peak cycle where it's just tight utilization rates from supply and demand. But is that the case? Or are you sort of also assuming there'll be some exotica on the operational side?



And then where would your operating rates be in that scenario? Would you actually be running full out? Or would you still be managing the situation volumetrically in order to achieve that level of EBITDA?

---

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

Yes. I mean thanks for the question. Look, I would say that, okay, it's a bit more traditional there as global demand again outpaces global supply. I would say a situation like we had coming out of COVID that kind of volatility where demand is overstimulated for whatever the case is certainly on top of what we're showing as our peak cycle right now. I don't think that we should expect that everything will be smooth, right? I mean, traditionally, these supply chains have faced all kind of challenges and volatility, but you really haven't seen that over the last 18 months, at least not in a way that impacted supply-demand. As demand climbs back, as some mass comes out of the trade flows that's being injected into the trade flows today by Asia, driven by China. As that changes, you'll start to see some of those problems with the supply chain likely exposed again.

---

**Vincent Stephen Andrews** *Morgan Stanley, Research Division - MD*

Okay. And if I could just ask on the reduction in the cash flow, obviously, commensurate with the reduction in EBITDA. But in terms of use of that cash flow, I assume nothing is changing. We should assume a similar pace of share repurchases in the back half?

---

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

Yes. Good question. We levered free cash flow as we look forward. We continue to see the first best use of levered free cash flow is to continue to repurchase shares. And that's where you should see us continue to do.

---

**Operator**

And the next question comes from Alex Yefremov with KeyBanc Capital Markets.

---

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

VCM outage, is somewhat meaningful in terms of U.S. caustic soda supply, I believe. Are you seeing any improvement in caustic supply and demand since the outage? And as a follow-up to this question, is your goal for this outage to be over by the fourth quarter? Should we assume that at this point?

---

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

Yes. Aleksey, I mean, this outage is really an impact to 2Q and 3Q. And we haven't factored in any outage issue in the fourth quarter, nor do we anticipate that, okay? And so to some extent, this has impacted our upstream production. This isn't the only way that we liberate vinyls intermediates, which in turn, liberates caustic. But I would say that's really not a driver on U.S. caustic. What is the driver is going back to that mass of flows that's come out of Asia and that has impacted global trade flows and tends to back things up in the U.S. Gulf Coast, that's been more the driver of how caustic pricing has changed.

---

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

And coming back to your configuration with Dow, as you mentioned, Dow will shut some PO capacity at Freeport that will free up some of your chlor alkali capacity. Should we assume that that's not used in any way? Or is it more likely that you'll look for some other derivative opportunities either through joint ventures, other arrangements or even organic investments downstream of chlor alkali?

---

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

Well, I would just say it opens up possibilities, right? And those are sort of some of the free options that we have going forward. And we haven't made a decision about that.

---

**Operator**

The next question comes from Matthew Blair with TPH.

---

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

Scott and Todd, circling back to the Dow contracts, Scott, you mentioned it was a positive resolution there. Should we think about this as being more significant on the free cash flow side for you than the EBITDA side? Or can you give us any color on that?

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

So I would say it's probably favorable for both parties on both sides, because there's some real win-win elements of this, and that not only helps how we're both running our day-to-day operations, but it also prevents inefficient investments on both parties side, which drives free cash flow. So I would just say it's a positive for both parties on both those fronts.

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

Sounds good. And then do you have any more commentary on the epoxy side? In terms of demand, could you talk about how things are going in areas like electronics and wind and autos?

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

Yes. I mean, look, the demand in all of those areas -- well, at least in electronics was certainly sluggish. Automotive coatings at least in the U.S. has shown some recent recovery and you've seen some of that in the coatings company's earnings announcement here. There is a nice portfolio of wind projects, and that's one of the biggest outlets for our systems activities, but those projects go through stops and starts, and there's been some level of inventory adjustment in those supply chains. But I would say all 3 of those areas as we move into 2024 are positive.

**Operator**

And the next question comes from Frank Mitsch from Fermium Research.

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

If I could just point a clarification. The new terms on the Dow contract, did they take place when the old one was supposed to expire in October 2025, or is there a different effective date for the new terms?

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

Yes. I mean that's roughly right. I mean, Frank, I won't comment on all the different dates and all the different improvements, but I guess you can average it there.

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

All right. Awesome. And yes, I totally appreciate the difficulties in the Epoxy business, and obviously, you've been taking a number of steps to improve your own footprint. You've outlined some of them. And I know in the past, you've indicated that some of these actions should start to lead to a \$50 million annual EBITDA improvement starting in the fourth quarter. Given the degradation in the broad markets, how should we think about sort of these actions that Olin is proactively taking will start impacting your income statement?

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

Yes. I mean, principally, you'll see it more in 2024. It's actually being effective today and into the fourth quarter, Frank. But we're having to clean up our inventory on the balance sheet a bit. And that is offsetting some of that underlying improvement that will expose itself after a couple of quarters here.

**Operator**

And the next question comes from Josh Spector with UBS.

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

I'm just curious on EDC. Has your participation rate in that market changed at all? I mean I think it was pretty minimal before, I guess, with the VCM outage, has that pushed more material into there or not? And when do you think about when you would get more involved in that market in the future?

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

Well, yes, I mean, thanks for the question. I wouldn't say it's changed that much. But I mean, look, our participation in the global EDC merchant market, we've traditionally been the biggest player there. But recently, because of low values, we had reduced that. I think through this period, when we're having challenges in our VCM operation, still our participation hasn't changed all that much.

I think the interesting thing about PVC is U.S. inventories have declined. And you've seen the PVC players all nominate recent price increases. So eventually, the non-integrated PVC players, where our EDC ends up are going to get back in business. We've just got to make sure we get the right product values when that phenomenon happens.

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

I appreciate that. And I guess when you talk about some of the win-wins potentially with Dow, do we be contemplating any increase in the amount of ethylene you can get from them? And I guess, what's your desire for you to participate larger in whether EDC or VCM without a partner?

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

Well, I would say our ethylene arrangements are kind of good forever. It's not forever. I forget how many years is left, but it was a long-term agreement for more than 20 years, right? So we're set there. We do have the ability when it makes sense to partner with a vinyls player, because again, we have incremental capability there. We have the ECUs, the ethylene, the EDC capability, some level of VCM capability already. So we sit on a little gold mine there. The timing is just not right.

**Operator**

And the next question comes from John Roberts with Credit Suisse.

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

Just to confirm, nothing got renegotiated on the ethylene contract?

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

We -- that was a contract that we had in place some time ago, and it wasn't part of the discussion.

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

And then is any of the parlay activity in epoxies? Or is it all in chlor alkali vinyls?

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

Well, the majority of it is in chlor alkali. We've been successful at running that parlay strategy in epoxy until capacity utilization got so low. And so we've reduced that participation there. It just doesn't make sense to do it at the moment.

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

Do you have any longer-term targets for both total parlay and the balance between epoxy and chlor alkali?

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

Well, I wouldn't say there's a target for a balance between chlor alkali and epoxy. I would say that we're going to do the right amount of parlays so that we can keep a leadership strategy in place and keep our product values up even when our capacity utilization is low. So when our capacity utilization is very low, like it is now, you're going to see big percentages. When it goes up, you might see some smaller percentages. However, I will say that Blue Water is out there trading more caustic and more EDC across the oceans, and that trading activity will continue and grow no matter what our capacity utilization is.

**Operator**

And this concludes our question-and-answer session. I now would like to turn the floor to Scott Sutton for any closing comments.

---

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

Well, I would just say thanks a lot to everybody for joining. So I think, Keith, that closes the call.

---

**Operator**

Okay. And as mentioned, the conference has now concluded. Thank you for attending today's presentation, and you may now disconnect your lines.

---

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023 Refinitiv. All Rights Reserved.