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Q3 2023 Olin Corp Earnings Call

EVENT DATE/TIME: OCTOBER 27, 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*
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 Joseph Sison *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst*
Roger Neil Spitz *BofA Securities, Research Division - Director & High Yield Research Analyst*
Stephen V. Byrne *BofA Securities, Research Division - MD of America Equity Research & Research Analyst*
Vincent Stephen Andrews *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Good morning and welcome to Olin Corporation's Third 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 this discussion, along with the associated slides and the question-and-answer session that follows, will include statements regarding estimates or expectations of future performance. Please note that these are forward-looking statements and that actual results could differ materially from those projected.

Some of the factors that could cause actual results to differ from our projections are described without limitations in the Risk Factors section of our most recent Form 10-K and in yesterday's third quarter earnings press release.

A copy of today's transcript and slides will be available on our website in the Investors section under Past Events. Our earnings press release and other financial data and information are available under Press Releases.

With me this morning are Scott Sutton, Olin's CEO; and Todd Slater, Olin's CFO.

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***

Thanks, Steve, and good morning to all. In the third quarter, the Olin team delivered what we promised, which was $315 million of adjusted EBITDA, no sequential reduction in chlorine pricing and a prioritization on share repurchases. Additionally, we complemented those confirmed deliveries with the acquisition of the White Flyer Clay Targets Business at forecasted returns substantially better than share repurchase returns.

Looking forward, Olin's strategy continues to be championed by our teammates and our Board of Directors. As such, in the fourth quarter, and potentially beyond the fourth quarter, we are taking a dramatic but necessary step to change the direction of declining ECU values. It is a challenging market, and we've already actioned this initiative to force a rebound of our ECU values, which involves idling significant chunks of our assets and slashing our participation in weak markets. This value accelerator initiative results in a $100 million incremental penalty to adjusted EBITDA in the fourth quarter relative to our previous expectation but delivers an anticipated improvement in 2024 adjusted EBITDA relative to 2023. We are confident of that improvement.

Even though we operate in an environment where bad news creates a negative recency bias, please never forget that in chlor alkali, we believe future demand growth exceeds future supply growth, and that growth may also be unbalanced across the ECU, all favorable for Olin. We are confident in that favorable outlook.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Aleksey Yefremov from KeyBanc Capital Markets.

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

Scott, I believe this is the first earnings call since the news came out. Can you address some of the concerns that are out there about Olin's strategy, whether -- what the Board and you decided reflect how successful or not the strategy is? And any other questions for me to it?

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

Okay. Alex, I think I understood the question. But look, I mean there's absolutely no change in the momentum that Olin has going forward. We absolutely all are pulling the same way in terms of our model, our strategy, how we lift people and our shareholder value allocation scheme as well. So there's absolutely no dispute in any of that. And we're running a process there.

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

Thanks, Scott. And then turning to your fourth quarter. Chlorovinyls segment earned about $280 million EBITDA in 3Q, and you're estimating about $100 million EBITDA impact from your idling actions in the fourth quarter. Just seems like a very large number relative to what the segment earns in total. So could you maybe talk about how you came up with $100 million and whether you view that number as something we could simply add back and assume that the real run rate is something like $300 million maybe in Q1 of next year or Q2?

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

Well, what I would say is, yes, it's certainly a big number, but this is a very big activation as well. And we've said probably through the previous 6 quarterly earnings calls that there could very well be a quarter where we have to take a significant action to make sure that our cash delivery over any longer period, say, 4 to 6 quarters is maximized.

And that's what this is intended to do, right? It consists of significant actions. We are idling major assets not participating in a lot of weak markets and additionally going out there and parlaying a bit and managing some of that liquidity to a more favorable place for Olin. So yes, it's significant.

Operator

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

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

Scott, having shut down St. Gabriel and I think, at least a large unit at Freeport, what are you looking for or what should we look for as outsiders to gauge whether or not you may restart those assets? And do you have a preliminary idea of how long the outage might take?

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

Yes. Kevin, look, I mean this is a fourth quarter activation, but it doesn't mean that it absolutely finishes in the fourth quarter. If we need to continue to get the desired result that we need to deliver the most shareholder value, then we're going to continue it, right?

I think it's going to be challenging for the outside world to see when we might change or reduce this value acceleration initiative. But we have many internal signs that we can see and we know when it's effective because we watch excess liquidity out there in the world. We watch if the strong side of the ECU is being chased by others at the detriment of both sides of the ECU.

We watch very carefully how much material is entering trade flows out of China. And there's already less material entering trade flows. We watch that increasing price that you see in caustic and the attempts to increase price in Europe and China. And those things are happening but may be fluttering.

Already, there are some requests for merchant chlorine volume that we can't supply. Already, there are some requests for EDC volumes that we can't supply. Already HCL price is increasing, and there are requests for volumes that we can't supply.

So those are the kind of things that we'll watch. Harder for the outside world to see that. Those indications will be more apparent in the first quarter, and they'll appear in our results more than likely in the second quarter.

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

That's very helpful. And then secondly, Scott, I'd welcome your view on the Epoxy market heading into the fourth quarter. Part of the reason I ask is one of your competitors has reportedly implemented some sales control related to a Shell force majeure declaration on phenol and acetone, as I understand it. Are you seeing any encouraging signs that Epoxy may begin to firm up at this juncture?

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

Yes. Well, I'll just say that we have already announced price increase in both North America and Europe, and we did that over the last week or so. Additionally, the other good sign that we see there is that the contribution from our systems business exceeds the contribution from our resins business. And really, that's the first time that has happened.

I'll just caution you a little bit. It's still really sloppy in those markets, no doubt about it. And we still have some inventory to clean up. And those impacts are still going to haunt us a little bit in the fourth quarter and even into the first quarter as well.

Operator

The next question comes from Jeff Zekauskas from JPMorgan.

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

Can you talk about the state of domestic chlorine demand? At what rate did it grow, say, in 2022? At what rate is it growing today and why?

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

Yes, Jeff. Yes, I mean, look, it's not good. I mean this is why we're running this value acceleration initiative because the chlorine side of the ECU has returned to being the weaker side. Those markets are very, very weak. And so we're not -- we're just not going to participate in those weak markets because it's a chase down into the mud, and that's not where we're going to play. And you can see that in our results in the third quarter as our merchant chlorine price did not decline like may have been published in some of the trade publications.

So no, it's not good, but it's not getting worse is what I would say. So we're timing this activation at a point where we can see a future inflection point. The inflection point that we saw was probably 3 quarters out at least. And this whole activation is about pulling that inflection point forward in terms of ECU values.

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

Okay. And of the $100 million penalty in the fourth quarter, is it best to understand that penalty as all volume? Or is there a certain component of a certain amount of money which has to do with the actual shutdown of the assets?

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

Yes. No, it's not associated with the asset shutdown. I mean it is 100% nearly just not participating in poor markets. That's it. So it's -- those volumes are out, out of our system for that quarter.

Operator

The next question comes from Josh Spector from UBS.

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

Just curious, as you take down your volumes more as you guys have been hedged on gas cost for most of this year, does this extend the roll-through of some of that higher cost? I guess, is that more of a volume-related hedge or time-related? And just any early thoughts on how that impacts '24?

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

Yes. Thanks for the question, Josh. This is Todd. We are hedged for the fourth quarter. We do expect to see sequential improvement in our cost structure just like we saw that in the third quarter sequentially from the second quarter because of our hedge positions.

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

Okay. And just as your volumes have pulled back, I mean, obviously, you're deselecting from a lot of different markets. How do you think about what you're selling into your Epoxy business? I guess, are you taking volumes down there in tandem? Or are you parlaying that kind of purchase to other regions?

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

Well, I would say our volumes in the Epoxy business are already quite low. I'll say the good -- again, the good news there is that sequentially in third quarter relative to second quarter, our volumes actually increased in that business. But look, our volumes are so low in Epoxy. That's not where the major adjustment is. The major adjustments are in merchant chlorine, EDC and caustic.

Operator

The next question comes from Hassan Ahmed from Alembic Global.

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

Scott, I wanted to dig a bit deeper into your comfort level around the implications of the value accelerator initiative. I mean you guys have been very specific in saying that you feel there's going to be a positive inflection in the second quarter of 2024. I mean I'm just trying to understand. I mean, clearly, it's an uncertain world. Industrial production seems to be all over the place. So obviously, that has an impact on caustic demand.

And obviously, there's housing weakness here, out in China and the like. I mean, of course, you guys are controlling supply. But I'm just trying to understand what gives you that level of comfort that you will indeed, with this uncertain sort of macro environment, see that Q2 positive inflection?

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

Yes. Well, you know, Hassan, things aren't necessarily getting worse, right? Asia has been slow for a while and has stayed there. Europe has been slow for a while and has stayed there, right? I mean new homes in the U.S., yes, there is some slowdown, but that still continues. Granted, we all know that new mortgage applications and sales of existing homes are really low, maybe the lowest in many years.

But the reason that we have a lot of confidence in this is, #1, we've been running this model for 3 years. And we've been through other mini cycles running that model over the course of those 3 years, and we've always been able to be successful at turning the value equation around when we need to turn it around.

Number two, we have a really seasoned and broad Olin team who's completely united on this. And I'd just ask you to remember, we are the absolute leader in these businesses, right? So when you pair those two things together, there's a lot of momentum to get this done.

And then I'll refer back to maybe it was the first question as well. There's already some signs that this has a good chance to succeed, right? When requests for EDC and merchant chlorine come in that maybe can't be fulfilled via another path, at least that's an indicator.

But look, it's really early, right? We just implemented this or started this at the very first of the fourth quarter, right? So we still have a lot of the quarter to go, clearly. And if necessary, we have time in the first quarter as well. So Hassan, I don't want to mislead you. We've got a long way to go, but there's a lot of positive momentum to get this done.

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

Understood. Understood. And as a follow-up, again, not to sort of keep harping on this, but in your prepared remarks, you guys talked about how 2024 from an earnings perspective will be better than 2023. Now our exit run rate coming out of Q4 based off of your guidance is $200 million in quarterly EBITDA. You annualize that, and that's $800 million.

And you earlier obviously talked about how in terms of the facilities that you guys are shutting down, it's TBD, whether you'll restart them imminently or not, right? So I'm just trying to understand in terms of that guidance that you gave of '24 earnings being better than '23, keeping in mind the exit run rate in Q4. I mean, can you just help me sort of understand the quantification behind that?

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

Yes. Absolutely. And I'll just start with the 2 smaller businesses, right? So Epoxy is ending the year adjusting its inventory, setting a bottom in, announcing price increase, and we have our 2 major initiatives that are going to help us much more in '24 relative to '23. We're going to have a full year of benefits from the restructuring work that we've done.

Our systems business has a lot of momentum. And like I said before, this recent quarter was the first one where the contribution profit in systems exceeded the contribution profit in resin. So those things are working. We're going to work to end this unfair trade that exists coming out of Asia as well. So that's why Epoxy will step up.

When you get to Winchester, there's tremendous momentum in the military piece of that business. And again, this most recent quarter, for the first time ever, military ammunition sales exceeded commercial sales. And we have a very long runway on military improvements, selling international ammunition NATO-base-type countries and then also the next-generation squad weapon program, which is a lift over the next 10 years. We've said we'll double that business in 2 years, and we are well on our way to doing that.

On top of that, the focus on and momentum in target shooting looks favorable. We just made the White Flyer acquisition, and while not a major -- a major one from a revenue standpoint, it's highly profitable when we merge that up with our sports shooting ammunition.

And then finally, you get to our chlor alkali powerhouse business. I mean we have this value accelerator initiative that we're running that is going to be favorable for next year. And again, the fundamentals underlying that business are good. Every product, demand growth bigger than supply growth.

Operator

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

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

So I just wanted to zero in on a couple of those comments on Slide 4. You note that you're taking some decisive action here. And I think that you've laid it out as maybe a $100 million impact. And then you've also commented on a better 2024. So when I think about the numbers and how those will evolve, it sounds like Q1 should be seasonally better than Q4 and also maybe less of that $100 million impact. And then Q2, you see the real inflection point from the actions you've taken. And so may be that's in the $350 million to $400 million range. And then you see maybe a little bit more improvement as well in Q3 and then seasonally softer in Q4. Is that right?

And maybe you can just relate that to the PCI, which, I guess, dropped to 211 in Q3. So maybe you go down into the mid-100s or high

100s in Q4 of '23, but then you really see that rebound into the maybe 250 level or above in Q2. Is that how you're thinking about how the value accelerator initiative kind of plays out?

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

Well, I would just say that, yes, later quarters in 2024 maybe are better than earlier ones. But just keep in mind, in Q1, we may still be running this initiative for part of the time, right? But no doubt, in order to make 2024 better than 2023, right, we have to have some quarters in the back -- in the middle to back half of the year that are substantially better than where we are right now. So you'll see an improvement in those.

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

And then just on capital allocation as a quick follow-up. You are doing the $600 million-or-so leverage free cash flow this year. So next year, I assume that that should be higher as well. Will that also be put mainly towards share repurchases or other activities we can expect?

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

Yes. Todd, do you want to answer that?

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

Yes. Thanks, Scott. Clearly, we will continue to target share repurchases. But as you saw this year, we were willing to deploy some of that cash towards the White Flyer acquisition. But only any type of acquisition will have to demonstrate the ability to be much better than buying shares. And today, it's an easy decision. We're targeting buying 10% of our outstanding shares this year.

Operator

The next question comes from Mike Sison from Wells Fargo.

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

So you're running your operating rates below 50% or so for chlor alkali. Where do you think the industry or the other major players will run in the fourth quarter? And just curious, if you ran at that level, would the -- would your impact be more than the $100 million that you're going to take for lowering your operating rates?

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

Mike, I don't know what anybody else is doing. But I can say that, yes, I mean, our whole system is running around that 50% number. And you may recall that we had predicted a certain trough level, and we said that trough level, assume that we could get our whole system down to 50% rates if we needed to.

The reality is we could run lower than that if we had to, to have a bigger activation. But that would come at a bigger penalty than that $100 million if we were doing that. We think this is the right place to go down to. It leaves us with one low number in the fourth quarter of roughly $200 million of EBITDA, which, by the way, at that level, we still have positive levered free cash flow. So yes, look, we have some room. I don't think we need to use it, but we have some room.

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

Okay. And then, I guess it sounds like in Q1, you may have to run at this level. In order for you to have EBITDA above '23 for '24, where would your operator need to improve to over time? 2Q, 3Q, 4Q? And can you remind us in your prior $1.5 billion to $2 billion EBITDA sort of recession case what your chlor alkali operating rates would need to be to sort of get back there?

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

Yes, yes. Well, I would just say we may or may not need to do this in Q1, just to be clear, right? But if we did need to do this in Q1, in the later parts of the year, we need to bring rates up. We can't run the whole year at 50% rates, right? And that's not our plan to do that.

In our previous recession case or trough case guidance, right, which if you go back 4 quarters ago, it was $1.5 billion of EBITDA as the low point. That number assumed roughly 50% rates at that same pricing level. So I hope I answered your question on that.

Operator

The next question comes from Matthew Blair from TPH.

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

Is it fair to think that the shutdowns at Freeport and St. Gabriel are going to take about 1 million tons of capacity out of the U.S. market that's around 14 million tons? And if those numbers are correct, is that enough to materially tighten up the market? Or would you count on other producers also shutting in some capacity too?

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

Well, I mean, this is an Olin activation, right? I can't comment on anybody else and it doesn't count on anybody else taking any kind of action that is similar to that. And I also won't comment on exactly what the capacity reduction is. I will just say it's significant, and it's significant enough to take our whole system, which we operate the largest system in the U.S. and the world by a long shot, all the way down to a utilization of 50% or below. So it's a big number.

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

Sounds good. And then, Scott, I think you mentioned that chlorine has now flipped to the weak side of the ECU. Is that just a seasonal dynamic? Or is that something structural? And what are the factors driving that?

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

Yes. No, it's not a seasonal dynamic, right? I mean there are some small seasonal things at play just like there's not as much demand going into water treatment as you head into the winter season relative to heading into the summer season.

But no, it's just the fact that businesses that are supported by merchant chlorine, the supply-demand situation around those relative to the supply-demand situation around the caustic world are worse off. It's a relative issue.

Operator

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

Stephen V. Byrne ***BofA Securities, Research Division - MD of America Equity Research & Research Analyst***

So just following on your answer there, Scott, chlorine demand being worse off and -- do you have a view as to how much of the lower demand that you're seeing now for chlorine and chlorine derivatives versus 2 years ago is due to just left end-market demand versus destocking? Do you have the ability to split that? And potentially, is there a third bucket that's driving this, and that is end markets that are shifting to different products, just product substitution that's not a chlorinated product? Do you have a view on those 3 buckets?

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

Yes. Sure. Thanks for the question. Yes, I mean product substitution is pretty much 0, I would say. There is no structural issue here. So then you get back to the other buckets, right? Taking inventory out of the channel, that's a nonissue today. I mean that was done some time ago and from month-to-month, that varies. That's a nonissue. This is all a temporary or transient issue around very weak demand. And that's what it is.

Stephen V. Byrne ***BofA Securities, Research Division - MD of America Equity Research & Research Analyst***

And is that also true for the Epoxy side, that it's none of this -- can you comment on how much of this lower demand is at least in part to low inventory levels in the channel? Is that an additional source of upside for you in 2024?

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

Yes. No, Epoxy is totally different than that. Epoxy, there's a structural issue, right? Over the last 18 to 24 months, China added about 20% to the world's productive capability for Epoxy. At the same time, their demand, along with Europe's, together, they constitute 75% of the world's demand, has really diminished. So you have both aspects going on in Epoxy. And that's why we've had to make some structural changes to our Epoxy business to be able to combat that for the long-term, and we're doing some things in the short-term as well. Epoxy is going to have a much longer road to recovery, but it's going to be a steady, methodical recovery.

Operator

The next question comes from Vincent Andrews from Morgan Stanley.

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

Just as I've been digesting this latest initiative and listening to all the Q&A on the call this morning, I guess, a conclusion I'm coming to, and please correct me if this is just completely wrong, is that for you to really be successful with this initiative, you will need to see an inflection in demand at some point in the middle of next year. And I just want to hear more about that and where you think it's going to come from.

And I ask it this way, we're kind of halfway through earnings season maybe. And I'm -- most of the companies that I'm listening to aren't really talking about an inflection in demand next year so much as it just seems like there's a rebase in demand that's taken place versus what we saw over the last couple of years. And well, maybe we're back to 2019 levels or lower, but it doesn't sound like there's going to be some big snapback coming. So any comments you have on that? And again, happy to be wrong.

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

Yes, yes. No. I mean, look, this does not count on a major inflection in demand, right? I mean, clearly, we're not assuming that things are as bad as they've been in the last 2 or 3 quarters for the next 6 quarters. That's not the assumption either. But what is -- you got to remember, again, this is a coproduction world. And what has happened over the last 4 quarters is so many companies and people have chased the strong side of the ECU that the value in the strong side certainly got minimized, and it was caustic for some period of time. But at the same time, the values on the weak side were absolutely destroyed because you're actually shoving more product into weaker and weaker markets.

So all of a sudden, the economics to run that game of chasing the strong side, in other words, chasing caustic, even if you have to pay customers to take away chlorine, which is what happened in China for quarters and quarters, chasing caustic even if you have to start dumping PVC into the export markets and diminishing price and value there, which is what happened for multiple quarters, those economics don't exist anymore. So that desire to go chase the strong side has disappeared regardless of demand out there. So that attribute is happening. At the same time, we're overlaying our value accelerator initiative. Just those 2 things together will lift values. If there is an inflection in demand, that's going to be a nice upside.

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

Okay. And if I could just ask on the CEO succession. Could you talk a little bit about the candidate you're looking for? And presumably, you want someone that can run the existing playbook. But what other attributes might that person bring to the role that might be new or additive for Olin?

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

Yes. I think that candidate is going to be somebody who can take Olin to the next level. In other words, their focus is going to be to take what the team has done here and build on it. So they'll endorse the value model, do a lot better with it, and they'll be very clever at capital allocation. So that's what we're looking for.

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

And if I can just add, clever on capital allocation means what beyond just doing share repurchases?

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

Well, it means finding opportunities that deliver even more value to shareholders than just share repurchases. Those may come through alliances. It may come through ventures. It's possible it could come through acquisitions just like the White Flyer acquisition that we did. It's all of those things.

Operator

The next question comes from Frank Mitsch from Fermium Research Company.

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

Congrats on a successful tenure at Olin and looking forward to the next -- your next opportunity. I wanted to come back with comments that you said early on in the call, where you went through a few products that your customers are getting -- are requesting chlorine, EDC, HCl. And you mentioned that you can't supply. I mean, obviously, you're shutting that capacity. Are the prices that they're willing to pay unattractive? Is that what's causing the disconnect between your inability to supply the product -- satisfy these requests from customers?

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

Well, it's not an inability to supply, right? We are running an initiative where we have cut back operations significantly and are not participating in those markets. So if we're not participating in a market, we're not participating. But the choice is to not participate.

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

Understood. And so the logical follow-on is that because the prices that they're willing to pay right now are not attractive for Olin and when you reflect that back to the customers, what sort of response are you getting? Or is it simply a matter of waiting out a few weeks a month or a quarter, and then they'll come back and offer the prices that you do find attractive?

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

Look, I can't speak for every customer. But what I can say is we're not participating. So our response is we're not participating.

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

Okay, okay. And among the third quarter highlights was your ability to hold chlorine price flat despite the broader indices going lower. What's your outlook on Olin's chlorine price?

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

Yes. Sure. I think in this fourth quarter period, right, because we shuttered some assets and we're not participating, it's very possible that our mix generates a lower chlorine price in the fourth quarter relative to the third quarter. But that's strictly a mix issue. Because going back to the prior line of questioning, we're choosing not to participate. And where we may have to choose not to participate maybe at higher pricing because it's more spot business than some committed contract business. So I think you'll see a mix issue appear in the fourth quarter. But in the first quarter, I'm quite sure that chlorine price will increase again.

Operator

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

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

Maybe you've been asked this in a different way, but typically, when chlorine price demand is -- falls, and caustic which is typically a lagging indicator of demand would become tight as prices spike when -- as you turn down your chlor alkali plants. Why hasn't that happened this time?

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

Can you repeat that? I'm sorry, I just don't understand the question.

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

Sure. In the Great Recession -- as you went into the Great Recession in 2007-'08, demand for housing collapsed. Everyone had to turn down their chlor alkali plants because chlorine demand was poor. And because caustic demand, at least in my view, lags chlorine demand by 2 or 3 quarters, chlorine got extremely tight as everyone turned down their chlor alkali plants. And U.S. caustic soda prices were extremely high. And caustic is counter-cyclical, chlorine is post-cyclical. That's typically how it happens, and you have a couple of quarters where things are great. And then after a while, I think everything goes bad. But for the first few quarters, everything okay.

Now here we are, we're coming up a period where caustic soda prices have been falling pretty hard. Suddenly, you're saying chlorine is now the weak side. So it sounds like -- and you are clearly turning down your chlor alkali plants. Why hasn't caustic demand tightened as chlorine has become very weak given some caustic pricing flexibility?

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

Okay. Got it. Yes. Thanks for clarifying that. Look, we just started this value accelerator initiative, right? You're not going to see an instantaneous result in the trade publications, which is what most people look at in a public format. It takes some time to generate that impact, but that impact could happen.

The other thing to remember is that it depends on a big way what the PVC producers do as well. And at least PVC hasn't come off yet near as much as things like the polyurethanes segment, like the ag chemicals segment. Even some things like titanium dioxide and bromine are likely a little bit weaker than PVC. So there's some work to do to get that impact to happen.

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

Got it. My second question is, just to be clear I understand how you run your chlor alkali, you're running at or slightly below 50% right now. Does that -- the way you do that, is that, that you've shut down whole trains or plants and then run what you have very high or near full? Or do you actually run trains within plants at far less than near full capacity?

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

Well, it's all of the above, right? But this time, because it's so significant, right, we've shut down complete sites and we've shut down complete units at larger sites.

Operator

The next question is a follow-up from Jeff Zekauskas from JPMorgan.

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

You talk about the shutdown of capacity as an initiative to, I think, attempt to tighten up the markets. But you also have a sort of a new trough EBITDA on an annual basis, which looks to me like it's maybe $1.3 billion, something like that. Does that new trough imply that your initiative will be successful or unsuccessful? Where does that trough estimation stand relative to the initiative that you're trying to execute?

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

Yes, yes. I mean, Jeff, I mean, yes -- I mean, I think you've got it right there that, yes, we're going to do roughly $1.3 billion this year. And that result -- that result incorporates a couple of quarters where conditions have been quite challenging and we've had to pay the price to run a very deep initiative.

So yes, you're right. I mean that's a trough, that $1.3 billion. And that trough, of course, just happens to be higher than the highest peak of any prior cycle before we started running this model, just FYI.

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

Yes. And then for my follow-up, the -- I think in the third quarter, the costs of the VCM plant not running were maybe about $50 million. And so in the fourth quarter, we're going to go -- well, from the third to the fourth, we're going to go from, call it, $300 million to $200 million. But with the VCM plant, wouldn't that be on the margin sort of a $50 million benefit? So where is the extra margin pressure coming from in the fourth quarter? That is, why isn't the fourth quarter EBITDA more like $250 million rather than $200 million?

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

Yes. Yes, I mean, you got it, Jeff. You're right. I mean we had an extra penalty during the third quarter of that $50 million that we don't have in the fourth quarter, right? But there's quite a number of other things at play across the business. And for example, because a big chunk of our caustic business is still priced on public trade indices, those public trade indices have dropped in fourth quarter relative to third quarter. So you've got that impact going on, on top of everything that we're doing, as one example.

Operator

And our next question is a follow-up from Aleksey Yefremov from KeyBanc Capital Markets.

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

Scott, I appreciate that you don't want to comment on actions with your competitors. But I guess your strategy kind of depends on them not filling the supply deficit or supply balance that you're trying to create as your strategy. Why wouldn't your competitors just fill the room that you're creating for them?

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

Look, I can't comment and don't need to comment on what competitors might do. Our strategy is totally not dependent on their actions. So I just can't -- I really just can't comment on that. Of course, when we pull back, those volumes might be filled in for a temporary period of time. But as they're filled in, it's a tightening of supply-demand, which gives us benefit.

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'd just say thanks a lot, Jason. Thanks to everyone for joining us today. We appreciate the questions. Thanks.

Operator

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