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Q4 2023 Olin Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Olin Corporation's Fourth 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 A. Keenan *Olin Corporation - Director of IR*

Thank you, Andrea. Good morning, everyone, and thank you for joining us today. Before we begin, let me remind you that this discussion, along with the associated slides and the question-and-answer session that follows, will include statements regarding estimates or expectations of future performance. Please note that these are forward-looking statements and that actual results could differ materially from those projected.

Some of the factors that could cause actual results to differ from our projections are described without limitations in the Risk Factors section of our most recent Form 10-K and in yesterday's fourth 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'll be happy to take your questions.

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

Thanks, Steve, and good morning to all. In the fourth quarter, the Olin team delivered the 4 items that were promised, which were \$210 million of adjusted EBITDA, overcoming a negative \$100 million EBITDA impact from our purposeful value accelerator initiative; stopping the decline of ECU values as a result of our value accelerator initiative; completing the remaining purchase of 10% of our outstanding equity in 2023; and setting the company up for a 2024 that is better than 2023. We start that setup by making the first quarter of the new year better than the fourth quarter of the past year.

We are also very pleased that outside of the minor purchase price for the White Flyer acquisition, Olin's net debt at the end of 2023 was

essentially the same as the net debt at the beginning of 2023.

Since this could well be my last Olin earnings call, I wanted to remind everyone that Olin has a very unique value creation equation of lifting people to a higher level of fulfillment, delivering value on a contemporary basis through a novel idea pipeline and practicing absolute leadership in commerce. This unique value equation opens a long runway to a very positive future, and our leadership team will take Olin there. The earnings and cash flow power of Olin is huge.

So Andrea, that concludes my opening remarks. And now we can proceed to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Arun Viswanathan of RBC Capital Markets.

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

Great. So I guess I just wanted to ask first on the guidance. So it looks like you're expecting some growth in '24. How do you see that proceeding? It looks like your Q1 guidance is a little bit below where we were expecting.

So I know that you're implementing the value accelerator initiative. So maybe you can just kind of walk us through some of the growth you expect as you move through the quarters of '24.

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes, yes. Happy to do that. I mean we're really forecasting some profit growth, right? And if you just walk through the 3 businesses, and I'll just start with Winchester. I mean we are right in the middle of doubling our military business. And that is on track, both domestically and internationally.

In the commercial side of that business, demand stays rather high. And on top of that, we have the White Flyer acquisition for a full year. And on top of that, there's going to be a shortage of propellant across the industry this year, and Winchester is well positioned to take advantage of that. So we feel really good about the profit growth in Winchester.

Look, in Epoxy, it's much more a self-help story. We're not necessarily anticipating demand growth. But clearly, the restructuring work that we did is applicable for a whole year.

Our focus on systems is working. We don't have to clean up inventory as much as we did in 2023, and we're going to work on the illegal flow of products coming from Asia as well.

So there, Arun, you really get to the biggest business, CAPV, which I'll just remind you has super fundamentals as you look out in the future. But it's all about turning around the value of the ECU, and that's the initiative we're running now. We have a Slide #4 that gives some indications that we're having some success.

I would say even on top of that, there's less volume entering global trade flows today. Some customers are restarting assets that have been down. So even in that business, we expect Q1 to be larger than Q4, and we expect Q2 to be better than Q1 as well.

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

And then if I could just ask, is there any update on the search for a new CEO?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Yes, sure. Look, Arun, I mean, I really don't have an update on that. And I'm really sorry for that because, look, our shareholders and our Olin women and men who have really built this value for those shareholders, they deserve a lot better than that from me.

But I'm out of the process. That process is 100% run by our independent Board members only. What I can say is, to the best of my knowledge, I'm not aware of any offer being extended out there yet to any candidate.

Operator

The next question comes from Hassan Ahmed of Alembic Global.

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

Question, just wanted to sort of go back to the value accelerator initiative. I mean you were very specific in talking about limiting your market participation till February 2024. What gives you the confidence with regards to that sort of a timeline that you'll start sort of potentially seeing a positive inflection thereon after, particularly keeping in mind the macro, the housing the way it is and the like?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Yes, sure. Look, we think that's about the right time to make sure that this gets substantially turned around. I mean already, and again, I'm kind of referring back to Slide #4, right? We've seen the indicators of success.

Certainly, in our business, we are having caustic price increases effective January 1 and even a bit before that. Already EDC export pricing has lifted significantly. But for the -- some of the public trade indices, that's still just projection, though it's their projection, not our projection now. But we do need to make sure that materializes.

So look, I mean, this is a real game of momentum and third derivatives and second derivatives. And we're just going to make sure that we deliver a bit more ink behind that momentum. And that's why we're extending it a bit into the first quarter.

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

Got it. And just wanted to get a bit more sort of quantitatively specific about the 2024 guidance that you gave. I mean you're sort of alluding to north of \$1.3 billion in EBITDA in 2024. And if I were to just use sort of Q4 as a starting point, you did \$210 million in EBITDA in Q4. So I annualize that, and you're at \$840 million, right? And to get to north of \$1.3 billion, you need an incremental, call it, \$460 million in EBITDA, right?

So I'm just trying to understand where that increment really comes from. I mean I know that in the slides that you guys presented, you referred to the sort of -- the value sort of enhancement initiative being, call it, \$100 million a quarter worth of a penalty. So is it primarily you guys sort of stopping to partake in that initiative, both February and most of that EBITDA coming from there? Or are you sort of looking for some margin help from the market as well?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Yes, I mean, sure. I mean, hopefully, you'll give us a little bit on Winchester and the fact that we won't repeat Epoxy being a zero. So I get your question, for sure.

I would also think a little bit about sort of the math even behind this. We took our operating rate down to roughly 50% from around 60% in the fourth quarter, and that was \$100 million penalty. So you might -- could imagine that as those rates very slowly creep up to match customers coming back online that, that's sort of an equation for where you might see \$100 million penalty for 1 quarter to change the rates from 50% to 60%.

If everyone is paying attention, they'll understand the math on our operating leverage exactly. It doesn't take very much there to add \$100 million or a couple of hundred million or even \$1 billion as things get better maybe in 2025.

Operator

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

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

Scott, you talked about January 1 caustic soda price increases. Can you discuss them? Were those mostly monthly customers or quarterly contracts or maybe spot? And what is your outlook for caustic the next few months?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Yes. Yes, I mean, look, I would say it's some of all of that. In fact, even though we put January 1, some of that success happened early, earlier than that. And while it's across a number of customers, I mean, please understand that we still have a lot of work to do there.

And caustic is a business that is still heavily tied to a trade index. And that trade index in the fourth quarter relative to the third quarter showed a decline. So our pricing in the first quarter is going to change by the difference between those prior 2 quarters.

So we still have to get by that hurdle. That's why in the last quarterly earnings call, we said you're really going to see this start to materialize in a bigger way in our second quarter results.

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

And on the chlorine side, I mean, there's a consultant's view of decline for the year. What is your outlook and level of confidence in the outlook for the next few quarters as well?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes, yes. Well, I mean, the chlorine and chlorine derivatives sides are still the weaker side of the ECU. But what I will say is that Olin's average chlorine pricing in the first quarter relative to the fourth quarter absolutely goes up.

Some of that is because we've been able to renegotiate pricing in some contracts that expired at the end of the year. Some of that is because we ran this value accelerator initiative. And the only way to pull out of the market was actually to pull out of some of our higher-priced business because it was more spot in nature.

But at least on our base business that continues without a contract change, that pricing doesn't go down either. Nothing is getting worse in terms of chlorine pricing.

Operator

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

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

Scott, I was curious about this prolonged trough in PVC demand. Is that representing a bit of a challenge for you to negotiate maybe a partnering opportunity downstream post the end of the Dow agreement in another year?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean, look, I do think it's extended it some, right? But of course, with the change in our relationship with Dow at Freeport in 2025, we get a lot of excess capability coming back in our hands, and we'll have to decide what to do there. And everyone already knows that, that's quite accretive for us, for sure, no matter what we do. So that comes available.

I would say in addition to that, we have a tremendous amount of VCM that's going through a pipeline to one customer. And all of that ends in 2030 as well. So we're getting close to being able to match up with a different PVC operator.

So instead of spending \$6 billion on a completely integrated world-scale facility, someone has the ability to spend 20% of that to get in business in a world-scale PVC plant. So I think the timing is okay. We wish it was a bit faster, but you're right. I mean the situation in the world right now has just slowed down some of those activities.

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

And then just given this uncertainty about the new CEO, Scott, are you opposed to staying there in that seat or staying longer depending on the -- on this transition?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

No, I'm not.

Operator

The next question comes from Joshua Spector of UBS.

Christopher Silvio Perrella UBS Investment Bank, Research Division - Analyst

It's Chris Perrella on for Josh. Question on the follow-up. I saw that the share repurchases slowed in the fourth quarter. What's the outlook for share repurchases for 2024?

Todd A. Slater Olin Corporation - SVP & CFO

Yes. Chris, this is Todd. Thanks for the question. We committed to repurchase approximately 10% of our outstanding shares in 2023, and that was consistent with what we achieved. We were a relatively steady buyer through the year. We bought a little less in the fourth quarter but consistent with the guidance that we had provided.

As you look at our levered free cash flow for 2024, you should expect us to primarily deploy that cash towards share repurchases. Our strong, investment-grade balance sheet and cash flow enable Olin to continue to deploy our cash towards repurchasing our shares.

Christopher Silvio Perrella UBS Investment Bank, Research Division - Analyst

All right, and then a follow-up. As you take the brake off the value accelerator initiative, and you raise operating rates starting in March with -- as the current plan, I thought there'd be a larger step-up in EBITDA earnings for the chlor alkali business. And I'm just curious, given the puts and takes there, it seems like it's not up much, and that \$100 million penalty should be coming back a bit faster. Can you just kind of walk through how that penalty lifts?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean, Chris, look, it's a really good observation. I mean I would just keep two things in mind. I mean, number one, we're continuing to run that initiative for up to 2/3 of the first quarter.

But also on top of that, it goes back to that caustic pricing phenomenon that I talked about, whereby the first quarter pricing that we print is determined by the difference between the fourth quarter and the third quarter, and that's already known to be a drop. So we have to overcome that as well.

Christopher Silvio Perrella UBS Investment Bank, Research Division - Analyst

All right. So it's just a lag in the contract pricing going through.

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Exactly. Exactly, yes. You said it better than me.

Operator

The next question comes from Frank Mitsch of Fermium Research.

Frank Joseph Mitsch Fermium Research, LLC - President

Interesting on the parlay chart, reaching a high of 25% in the fourth quarter. Obviously, part of that is the initiative to ramp back your own operating rates. Where does that stand now here in January? And what are your expectations for that metric through the quarter?

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

Yes, yes. Yes, I mean, you're right. I mean I think it's very interesting that for 25% of our volumes we're out there selling, we were buying those from third parties. And it might just tell you about the strength of Olin that we can do that, we can go run our assets at 50% utilization. We can take care of all those items and still have positive levered free cash flow even in the fourth quarter.

So I mean, thanks for the observation on that or the hint of the of the observation. I mean I would say that, look, we're still doing a lot of that because we're still running that initiative.

I do think through the year, as we very slowly and incrementally may lift rates a little bit, you might see that percentage decline back some. We're unlikely to be at a 25% purchase of all of our volumes from other parties over a long period of time. It will probably settle at something lower than that.

Frank Joseph Mitsch *Fermium Research, LLC - President*

Okay. Great. Great. And then as you assess the underlying market demand by region, you had indicated the last time that things were rather slow and so forth. How is it standing here in January? And what are your expectations? What is actually embedded in terms of underlying demand as you think about '24 being better than '23 overall?

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

Yes, yes. Well, I mean, look, in Winchester, there's a demand increase in military just to sort of put that one to bed. We haven't planned on any demand increase in Epoxy, right? That's a self-help type of work. Even in chlor alkali, very limited demand recovery.

But I will just say that sentiment is a little bit better here at the start of the year. Customers are restarting. Two of our larger customers that have large offtakes have been down for many weeks, and in fact, they're restarting. There's some light confidence, I'd say, in homebuilders where at least maybe that doesn't go the wrong way. So there's just not a lot of strength in demand built into our outlook, Frank.

Frank Joseph Mitsch *Fermium Research, LLC - President*

Okay. Very helpful. And if this is the last time we speak as you being part of Olin, I'm looking forward to your next adventure. Thanks so much.

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

Yes. Thanks, Frank.

Operator

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

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

Scott, I'd welcome your updated thoughts on the shape of the Epoxy cycle. If I look at Slide 8, it appears as though your prices eroded in 4Q versus 3Q. How do you think that will trend in the first quarter?

And then I'm also interested to hear your thoughts on epoxies in Europe. We're reading about disruptions in trade routes relative to the Red Sea, and purchasing managers seem to want to kind of get ahead of those longer lead times and increased tensions and friction and so forth. How do you see the next quarter or two shaping up for Epoxy?

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

Yes, sure. Kevin, good question. Yes. Look, I mean, we've announced price increase. And we're getting some price increase. And in fact, if you really looked at what's happened over the last few months, it's been more of a washtub bottom.

It really hasn't declined further. In fact, even the trade publications now are saying that this is a bottom. Believe me, we absolutely say that this is a bottom.

And the disruptions for trade routes, that is starting to have an impact, particularly in Europe. So, there's a lot of momentum for the start of lifting prices again through Epoxy.

It's going to be slow, though. I think what you'll end up seeing us do is sort of take that washtub and prop it up a little bit. I wouldn't expect something really, really fast there, but we're going to change the slope of that curve.

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Okay. That's helpful. And then curious on EDC. We've seen those prices percolate higher, notwithstanding weakness in downstream PVC resin. How much headroom is there before you kind of run into that PVC ceiling, so to speak?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Well, look, I mean, particularly the export PVC pricing is not good, and you've seen EDC lift. But there's still a substantial gap left even when PVC is this low. And that's one of the focuses we've had and one of the initiatives we've had is to try to close that gap. And we were never really successful at closing that gap. So there's still room there to move it some more relative to PVC.

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Great. Well, that's helpful. And if it is the last call, Scott, congrats on all that you've been able to do with the company in less than three years, and look forward to keeping in touch.

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. No, thanks a lot. It's really not me, though. It's this team and this employee group. So thanks.

Operator

The next question comes from David Begleiter of Deutsche Bank.

David L. Begleiter Deutsche Bank AG, Research Division - MD and Senior Research Analyst

Scott, just on the Blue Water Alliance, can you update us on how it performed last year? And what's the expected EBITDA contribution in 2024?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I mean, look, I probably won't give a forecast of the EBITDA contribution. But I mean, clearly, that does appear indirectly in our financials. And it wasn't a positive contributor in 2023, which was actually the expectation, right? It's sort of the first year. There's a lot of purposes for Blue Water. We don't intend for it to be a wild direct contributor of profit.

But the value to ton 1 and the value in the overall product levels of Olin is there. I mean part of our parlay work that we're doing now, and we just had that discussion being 25% of our business, is associated with Blue Water. So, it will likely improve this year, but it's not going to be a major direct contributor relative to the size of the rest of our business.

David L. Begleiter Deutsche Bank AG, Research Division - MD and Senior Research Analyst

Very good. And just again on Epoxy, what's the path back to mid-cycle earnings, given the amount of oversupply in the marketplace today?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Well, I guess it depends on what you call mid-cycle in that business. But I'll just say it's a multiyear path is -- and maybe leave it at that.

Operator

The next question comes from Mike Leithead of Barclays.

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

First question on Winchester. You've obviously talked a lot this call, Scott, about the earnings improvement likely this year. Could you first remind us just how big military is relative to your overall kind of sales mix in this business?

Second, it is an election year. Does that normally change commercial order patterns? Or do you see that impacting at all commercial sales volumes?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes, and the military side of that business now has become about as big in rough terms as the commercial side of that business. In fact, in the third quarter of 2023, it was actually bigger than the commercial business for the first time in history. So I think a good way to think of it is it's sort of half and half from a sales perspective. It's not quite as profitable as the commercial business, but that's roughly the sizing of it. Yes. What was the second part of the question, Todd?

Todd A. Slater Olin Corporation - SVP & CFO

Presidential election.

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Oh, yes. Yes, thank you. Yes. Yes, I mean, that kind of uncertainty along with other things that are out there in the marketplace, and I mentioned this challenge on propellant supply to the whole industry. Those two things coming together are likely to cause a run on ammunition.

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

Got it. Okay. And then second question, I wanted to parse apart one of the comments or bullets that you have in the slide deck, Slide 4, where I think you said customer requests for merchant chlorine has increased. Should we interpret that, that customers are coming to you asking for more product but not at the price or economics you're willing to sell at? Or can you maybe expand upon that a bit?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. I think the way to interpret that is that when we pull back from the market some just because we're running our initiative, we're not going to participate in a poor quality market. After we did that, that caused some customers, some not even the same customers that we may have pulled back from, to come ask for more volume.

Again, it's just an indication that we can have an impact by taking that kind of action. And it's an indication that we have the opportunity to turn back on some of these assets, though at a very, very incremental amount only and do some additional business.

Operator

The next question comes from Mike Sison of Wells Fargo.

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

Scott, it's been great working with you over the last several years. I guess just to clarify, if you -- you would need to get your operating rates in CAV between 60% and 70% at some point, maybe the second quarter and beyond, to get to your guidance of \$1.3 billion or better. And I mean, is demand there to do that, I guess, is the follow-up question. Or do you need demand to get better to do that?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Well, I don't know that we need to get back to the levels that you spoke of. I mean, remember, Winchester and Epoxy are going to do better. And we expect CAPV to do incrementally better as well.

I think adding anything back to our rates, maybe below the numbers that you spoke of, gets us there when you take that in combination with the fact that, look, we don't have another \$100 million penalty from not being able to run our VCM unit for a whole quarter, for example. So when you put those two things together, I don't think we need to get there. By 2025, I think we need to be in the 60s.

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

Got it. And then what -- and just curious, what would prevent you from moving your operating rates up? I mean I know the consultants have -- they have ECU margins kind of down sequentially. They might not necessarily be right. But what are you looking -- what would prompt you not to be able to raise your operating rates heading into 2Q?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes. Well, if we weren't having success moving product values, then we would keep running this initiative. But we're having success changing the direction of our product pricing.

Operator

The next question comes from Jeff Zekauskas of JPMorgan.

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

Earlier in the call, you spoke of a large contract that can end in 2030. Did that customer indicate that they didn't wish to renew?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

What I would say is that's the natural expiration of that contract, and we're currently in a dispute with a very significant value lift opportunity. So, we'll just have to see where that goes by 2030.

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

Okay. And then secondly, can you just compare general demand conditions in the caustic chain to the chlorine chain? And in your curtailment of production, are you making a larger difference to the chlorine side or to the caustic side and why?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes, yes. Well, I mean right now, Jeff, the chlorine and chlorine derivative side is weaker for us. So we generally set our participation according to that weaker side, and so we're having an impact. But more than likely, the bigger part of the impact will be on the stronger side because you end up really shorting that demand profile more.

Operator

The next question comes from Vincent Anderson of Stifel.

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

So maybe you have a different view, but it looks like China is probably still planning a fair amount of capacity up and down the Epoxy value chain over the next few years. So to me, at least, it would appear that trade protections might be necessary even if we did see some amount of demand recovery.

So I guess to turn that into a question, are you still considering trade cases in Epoxy? And how important is sort of your renewed focus on fleshing out your derivative portfolio as a balance to the operating leverage on the base resin assets?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Yes, yes. Yes, sure. I mean, no, we're absolutely doing more than considering that, right? I mean, look, effectively, this is illegal product trade flows coming into both Europe and the U.S. And this has to be stopped. And for some of the reasons that you said, it's likely to continue. So we're absolutely going to pursue that.

I think in terms of getting rates up, we've reduced our on-the-ground capacity quite a bit. And we're using our systems portfolio to get some operating leverage back across our base resin. I think that was the second part of your question.

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

Yes, it was. It was and very helpful. If I could ask one other one, maybe too early on this, but we're reading about the Chinese ramping up capacity of sodium-ion battery production. I'm curious if you've seen any meaningful change in their sodium markets, whether that's

coming from the caustic side or maybe they're using soda ash, but just anything you can shed a light on because it's still a bit of a black box on our end.

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

Yes, yes. And I probably can't help that much on that specific of an item, right? But what I can say is the ramp-up of battery production and battery recycling is probably the largest growth item we have across our chlor alkali portfolio.

There's a demand for more caustic in many of those applications. There's also an additional demand for hydrochloric acid in those as well. So it's probably the premier growth item over the next 10 years in this business.

Operator

The next question comes from Matthew Blair of TPH.

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

So Slide 8 shows caustic holding as the strong side of the ECU again this quarter. I think in the past, you said you like it when that gap is pretty wide. Could you talk about what you're seeing in the market now? And is that gap widening out? Or is it narrowing?

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

Look, give me a little clarification. I missed the gap between what 2 things.

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

The gap between chlorine and caustic in the ECU and which is the strong side and which is the weak side.

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

Yes. Sorry, sorry. Yes, appreciate that. And I mean, first of all, Olin does do better when there is a difference in the supply-demand profile on the chlorine side of the ECU versus the caustic side of the ECU because -- just because we can act on one versus the other.

The only challenge that we really have is when both are bad, and they're equal. That's the hardest profile for Olin to act on. So we don't have a problem with one being weak and one being stronger. That's the way we're set up now. Caustic is stronger, chlorine is weak, but overlaying that is just general weakness. And that's why our earnings are down.

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

Got it. And then I thought it was interesting, you mentioned that in general, Winchester is the bright spot and talked about military being a big opportunity. I think the slides mentioned that military demand was actually down a little bit in the fourth quarter, quarter-over-quarter, even given this period of global instability. What are you seeing in Q1? Is that starting to rebound?

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

Yes. And I understand your comment. That was just a sequential issue, and it's really only order pattern-related and delivery-related. A lot of those deliveries into the military application are very large, and they're very discrete. So that's only an order pattern issue. Again, I would just compare year-on-year-on-year, and there's substantial lifts year-on-year-on-year.

Operator

The next question comes from Vincent Andrews of Morgan Stanley.

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

On the cash taxes, my recollection is that those -- that increase was also supposed be the case last year, and I think you managed to defer into this year. So is this year, that increase, I think it's \$80 million, is that definitive for 2024? Or is there some chance to further defer those?

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

Thanks for the question, Vincent. And I wish I could sound very optimistic and say there is a chance to defer. I don't believe that will be the case, and we would expect that, that \$80 million will be paid out roughly during the middle of this year.

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

Okay. And then also on that same Slide 9 and the primary uses for cash flow, the third one being the alliance and JV opportunities. Is there sort of a rough amount you could suggest that could go towards those this year or a max amount?

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

They would be -- Vincent, thank you for the question on that. At this point, they would be very small. We do have a hydrogen joint venture that we do have a little bit more that will be paid during this year. So that is a small number relative to any of those cash flow numbers.

Operator

The next question comes from John Roberts of Mizuho.

John Ezekiel E. Roberts *Mizuho Financial Group, Inc. - MD & Senior Equity Research Analyst of Mizuho Americas*

Best wishes as well, Scott. I think acetone prices spiked during the quarter. Is that just the normal coproduct dynamics with the weak BPA market for epoxies? Or is there something else going on there?

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

Yes. I mean, principally, that's it. You're right. I mean phenol-acetone coproduction, a little bit like chlorine, caustic. And we sort of transferred some of our model that we run in the ECU world into our phenol-acetone production and marketing scheme. And so you've seen us take advantage of that and get some value out of acetone.

John Ezekiel E. Roberts *Mizuho Financial Group, Inc. - MD & Senior Equity Research Analyst of Mizuho Americas*

And then at Lake City, do you think there are any political risk to being able to use the excess capacity for commercial production? The New York Times had a pretty high-profile article during the quarter.

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

No. I don't think there's any risk there at all. I mean what I will say is that, look, I mean, there's always this sort of backdoor play to try to go after the Second Amendment of the Constitution in the U.S., and that's what that is. And those kind of things are not likely to be very successful.

I'd just go back to the fact that probably in this country, there's 26,000 gun laws on the books. Still sport shooting is the largest participant sport in the country just below exercise, okay? And coming after ammunition, there's probably an unsuccessful road that some might follow there.

Operator

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

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

I'm assuming you've idled some of your electrolyzers or perhaps full trains to get to the 50% operating rates. Will there be material restart costs as you move your operating rates up? I guess membranes can be finicky. Or are you mainly idling just your asbestos diaphragm electrolyzers?

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

Yes, yes. Thanks for the question. No, there's no incremental cost. We can move those up and down rather quickly. And in fact, just a smaller point for you that's pretty interesting is the diaphragm systems relative to the membrane systems are very easy to go up and down. That's an advantage of asbestos diaphragms or other kinds of diaphragms relative to membrane system, very easy to turn on and off.

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

Got it. And secondly, historically, ammunition sales, commercial ammunition sales have been higher when the Democrats are -- have the administration versus Republicans. How -- do you have any view of how much EBITDA is in Winchester attributed to the fact that we currently have a Democratic administration?

Scott McDougald Sutton Olin Corporation - President, CEO & Chairman

Well, I would say not really. I would say it's more attributed to the fact that there's at least 15 million new participants doing sport shooting in this country. And every month, I forget how many, maybe someone will tell me how many months in a row that the NICS background checks have been above 1 million guns a month, but it's like 40 or 50, maybe even more. I just can't remember the number, and that trend continues. And that's driven a lot more participation in the sport.

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

Well, I would just say thanks very much to everybody for attending today. Thank you.

Operator

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

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