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EDITED TRANSCRIPT

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- **Patrick Cunningham** *Citi Infrastructure Investments LLC - Analyst*
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PRESENTATION

Operator

Good morning, and welcome to the Olin Corporation's second-quarter 2025 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 Keenan Olin Corp - Director of Investor Relations

Thank you, operator. Good morning, everyone. We truly appreciate you joining us today to review Olin's second-quarter results. Please keep in mind that today's discussion, together 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 Olin's 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 in the Investors section under Past Events. Our earnings press release and related financial data and information are available under Press Releases.

With me this morning are Ken Lane, Olin's President and CEO; and Todd Slater, Olin's CFO. We'll start with some prepared remarks, then we'll look forward to taking your questions. In order to give everyone an opportunity, we will limit participants to one question with no follow-ups.

I'll now turn the call over to Olin's President and CEO, Ken Lane. Ken?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Thank you, Steve, and thanks to everyone for joining us today. I'll start with slide 3 and our second-quarter highlights.

Second-quarter 2025 provided another proof point for our value-first commercial approach, as we continue to preserve value across our integrated ECU products, despite this being the seventh quarter in a row of trough demand conditions.

In the face of this lengthy downturn, North American chlorine index values remained stable and higher than any prior trough. Epoxy resins faced ongoing strong import competition, partially offset by our growing Formulated Solutions business.

The second-quarter outlook we provided anticipated our Chemicals businesses will deliver flat sequential results, overcoming a \$32 million sequential headwind from planned turnarounds. However, unplanned operating events limited our results to the lower end of our second-quarter outlook.

Winchester continued to see strength in the defense business, while headwinds from customer destocking, lower commercial pricing, and higher raw material costs, negatively impacted our commercial business results in line with what we had expected.

Despite the chemical operational headwinds, our teams executed well, generating operating cash flow of more than \$212 million, easily funding Winchester's second-quarter acquisition of our new Manitowoc, Wisconsin, ammunition facility, paying down \$39 million of debt and buying back \$10 million of Olin shares.

Now let's turn to slide 4 and review our Chlor Alkali Products and Vinyls results. Caustic soda remains the strong side of the ECU. Global demand for caustic soda into alumina remains robust, with continued expansion of Latin American pulp and paper capacity more than offsetting reductions to US capacity. Domestic caustic soda demand remained stable as seasonal water treatment, mining, and agricultural demand strengthens.

We expected second-quarter EDC values to present a small headwind, but the price decline was much steeper than expected. Olin's cost-advantaged North American ethylene and EDC positions provide some insulation during these trough conditions, allowing us to continue operating profitably on an integrated basis.

As I mentioned earlier, during the quarter, we experienced several unplanned operating events that caused earnings to be at the low end of our expectations. One of our core values is to operate our facilities safely and reliably. And we are taking actions to significantly improve in both areas, as you'll hear about shortly.

We continue to view tariff impacts as generally neutral to our Chlor Alkali business. This balance may shift if we see an increase in retaliatory tariffs especially across South America, a key destination for our caustic soda and EDC exports.

Our PVC tolling initiative continues to develop as we successfully broaden our product and customer portfolio. We're committed to finding the highest value, most capital-efficient long-term option for our PVC market participation, leveraging our fully integrated VCM asset.

Now let's turn to slide 5 for a brief look at our Epoxy results. Our Formulated Solutions business sequentially grew both in volume and margin. Lower resin material costs in the second quarter were partially offset by sequentially higher operating costs. Epoxy faces second-quarter adjusted EBITDA headwind of approximately \$7 million for the Stade maintenance turnaround.

Building and construction, automotive, and consumer electronics remain weak in both the US and Europe. In spite of that, Olin's second-quarter epoxy resin volume improved year over year, as customers shifted more of their requirements back to Olin, focusing on the reliability and security of supply that we offer as the last remaining fully integrated epoxy producer in North America and Europe.

As a reminder, an important next milestone in our Epoxy self-help strategy will be the initiation of the Stade, Germany, key supplier contract, delivering more than half of our \$80 million 2028 of Epoxy structural cost reduction target starting on January 1, 2026.

Slide 6 provides an update on our Winchester business. Winchester's defense business continues to grow based upon strong domestic military ammunition demand, international military ammunition shipments, and our Lake City government-funded Next Generation Squad Weapon project. However, our commercial ammunition business remains challenged.

Costs have increased, retail channel inventories remain high, and consumer demand is being impacted by weak discretionary spending. All of these factors contribute to a highly competitive environment, resulting in lower commercial pricing and margin weakness. None of these challenges are structural. But the confluence of the three create an unprecedented perfect storm of our commercial ammunition business.

Turning to our recent Manitowoc, Wisconsin, ammunition plant acquisition, we expect this acquisition to generate \$5 million of incremental adjusted EBITDA during the second half of 2025; and after our first three months of ownership, have strengthened our confidence in delivering \$40 million of EBITDA by year three.

Let's turn to slide 7 for a deeper look into our Beyond250 cost savings project. As I mentioned earlier, the foremost value for Olin is our commitment to safe and reliable operations, cornerstone of our strategy to create long-term value. Overall, we anticipate our efforts will result in 2025 year-end run rate cost savings of \$70 million to \$90 million.

As part of our Optimize the Core strategic pillar, Beyond250 includes rightsizing our CAPV and Epoxy manufacturing facilities, accelerating a performance-driven culture, and leveraging continuous improvement and operational excellence initiatives. Through all of this, we will identify and implement best practices throughout our operations in both Chemicals and Winchester.

To accelerate our objectives, we've enlisted industry-leading specialists with the necessary talent and expertise. Our Freeport, Texas, site is piloting this transformation, taking the lead for our Chemicals businesses. This effort was launched during the second quarter.

Beyond250 will strip away various remnant costs left behind by our earlier asset closures. We anticipate this effort to be a significant driver of value. As a result, our manufacturing footprint will be more flexible, fit for purpose, and standardized across all Olin sites, yielding lower costs and increased reliability.

Our teams are already gaining momentum as we began to streamline our maintenance practices, reduce our contractor reliance, and ultimately, achieve a performance-driven culture. Also contributing to the cost savings, Winchester has implemented a parallel efficiency program and is on track to deliver on their commitments made during our Investor Day.

I'll now turn the call over to Todd Slater to walk us through some financial highlights.

Todd Slater Olin Corp - Chief Financial Officer, Senior Vice President

Thanks, Ken. I'll start with slide 8 for a review of our sequential quarterly adjusted EBITDA bridge. Second-quarter adjusted EBITDA declined by 5% compared to the first quarter of 2025, primarily due to a headwind of \$32 million of planned maintenance turnaround costs in our Chemicals businesses.

Seasonal demand improvement in our Chlor Alkali Products and Vinyls business, as well as higher volumes and margins in Formulated Solutions within our Epoxy business, partially offset these increased turnaround costs.

The Winchester second-quarter segment results were comparable with those in the first quarter. Higher domestic and international military sales, along with greater revenue from military projects, were mostly offset by lower commercial ammunition pricing and higher commodity metal costs resulting from tariffs and threats of tariffs.

Now let's turn to slide 9 for a look at our cash flow and liquidity. With the continued challenging market conditions and uncertainty related to tariffs, we remain focused on maximizing cash generation, supported by our strong financial foundation.

During the second quarter, we generated \$212 million in operating cash flow. We were able to fund from cash flow the \$56 million Winchester acquisition of the ammunition manufacturing assets in Manitowoc, Wisconsin. Additionally, in the quarter, we reduced debt by \$39 million and continued share repurchases totaling \$10 million.

During the second quarter, our teams accelerated their efforts on generating cash from reducing working capital. As a result, we generated \$182 million from working capital, excluding tax payment timing. Through June 30, working capital, excluding the timing effects of tax payments, was a source of approximately \$12 million in cash.

For 2025, we expect working capital to be a source of at least \$100 million of cash, excluding the timing effects of tax payments. Consistent with what we had discussed last quarter, by year-end 2025, we expect net debt to be flat with year-end 2024.

We remain committed to our disciplined capital allocation approach, and our priorities are clear: first and foremost, maintain our investment-grade balance sheet; second, fund our sustaining capital spending to maintain the safe and reliable operation of our assets; third, we are committed to maintaining our quarterly dividend; and then fourth, any available free cash flow was returned to our shareholders via either highly accretive growth opportunities, such as the second-quarter ammunition acquisition, or share buybacks.

Our teams continue to focus on cash generation, maintaining cost discipline and supporting our Beyond250 cost savings initiative. Our strong financial foundation enables Olin to continue executing our value-first commercial approach while adhering to our capital allocation priorities and a prudent capital structure with a strong balance sheet and cash flow.

Now I'll hand the call back to you, Ken.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Thanks, Todd. Let's turn to slide 10 and our outlook for the third quarter. In the third quarter, we expect to see seasonal demand strength across Olin's businesses.

Our expectations for third-quarter Chemical earnings include seasonally stronger demand for caustic soda and bleach, EDC pricing that stabilizes around where we exited the second quarter, continued Formulated Solutions volume growth, and a benefit from lower turnaround expenses.

Winchester sales are expected to be seasonally stronger in the third quarter, although the typical seasonal peak will be below normal levels. Earnings are expected to improve slightly in the third quarter despite significantly higher commodity and metals costs. To mitigate these higher costs, Winchester will be issuing a third-quarter commercial price increase.

Given the ongoing macroeconomic and tariff uncertainty, we expect Olin's third-quarter 2025 adjusted EBITDA to be in a range of \$170 million to \$210 million. Operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Begleiter, Deutsche Bank.

David Begleiter Deutsche Bank AG - Analyst

Thank you. Good morning. Ken, I know you announced a caustic soda price increase back in June of \$30 per ton. How is that price increase progressing?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Good morning, Dave. Thank you for joining us. We appreciate that. Listen, we continue to see strength in our system around caustic in terms of supply and demand. Like we talked about at the first-quarter earnings call, the tightness in the market is really driven more by supply and stable demand. So the developments that we see in the demand are continuing to be consistent across quarters.

There is some noise in the system right now, particularly around the tariff situation that, hopefully, we get some clarity around here in the next few days, but I think that's causing a little bit of backup in the system because what we're seeing is less material being exported to Latin America just because of the threat of the tariffs that are there, and I think that's causing some headwind in the caustic market in the short term, and we expect that to get worked through. That's why we highlighted the uncertainty in our prepared remarks. It's just to make sure we flag that. But once we get past the uncertainty, we still see continued strong demand -- relatively strong demand in the trough for caustic. So the expectation is that we're going to see some stability there.

Operator

Patrick Cunningham, Citi.

Patrick Cunningham Citi Infrastructure Investments LLC - Analyst

Hi, good morning. Thanks for taking my question. On EDC pricing, it's down more than 50% year-to-date, took a significant step down 2Q versus 1Q, and pretty close to record lows for this time in the season.

I think last call, you seemed to indicate a floor in EDC pricing that didn't play out. I mean, have you seen any signs of potential -- any potential support here, whether it's rationalization of assets in Asia at these prices, or what gives you confidence that we have a floor here?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Good morning, Patrick. Yeah, great question. We did see prices dip lower than we expected during the second quarter. A lot of that -- if you go back to where we were when we were talking about this after the first quarter or during the first-quarter earnings call, the oil price has come down.

So we've seen some softness in the oil price, and that gave a little bit of a lifeline to some of the higher-cost Asian producers and allowed them to continue to participate in the market even at lower price levels than what we thought. So I do think that we're at a floor now, relatively speaking.

We've seen, again, some stability here in the oil price. So as long as we see that, with our advantaged position that we have going back to the shale ethane advantage that we've got here in North America, we're the lowest-cost producer. So we're going to be able to continue to operate.

We are seeing some curtailments already in Asia because they've reached their limits. And that's encouraging that we're starting to see that. But we're really not going to see a recovery in the EDC market until we see a recovery in demand, and until you see housing come back and investments in real estate, frankly, around the world to start to absorb some of that capacity, we're going to continue to see challenges in the EDC market. So that's why we have said for the third quarter, we would expect to see EDC pricing staying in the similar level to where it was at the end of the quarter for the third quarter.

Operator

Duffy Fischer, Goldman Sachs.

Duffy Fischer Goldman Sachs Group Inc - Analyst

Yeah, good morning. A couple of questions around Winchester, particularly on the commercial side. So roughly, what is price down? And is that price down to you, the supplier, or is that price down all the way through the retailer to the consumer?

And then on the cost side, you mentioned metal, but are propellants still a year-over-year headwind on the cost side?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Hi, Duffy. Thanks for joining us. Appreciate your question. To answer that, when we look at the commercial business for Winchester, especially year over year, and you look at the decline, about half of that is really driven by volume.

And then what's left is split pretty evenly between higher costs and lower pricing. And that's our pricing to our customers. So, as you know, our customers continue to destock. That destocking is taking longer than what we thought at the beginning of the year. Again, that's related to just weaker consumer demand, out-the-door sales at our customers, but to put a more specific answer on your question around propellants, yes, that continues to be a headwind versus prior year. That and metals are really the two things that are driving the higher costs, and that 25% or so of the lower margin that we're realizing today as part of the commercial business.

But like I said, we have got to start to get some price back. Margins have dropped to a level now that, frankly, are just -- they're just not acceptable. And we've got to start pushing price and get some recovery here.

Operator

Josh Spector, UBS.

Joshua Spector UBS AG - Equity Analyst

Yeah. Hi, good morning. I was wondering if you could talk a little bit more about your cost savings program you talked about. So that \$70 million to \$90 million, how much do you achieve in fourth quarter versus goes into 2026?

And then assuming a lot of this is related with Freeport, how does the Dow and the Diamond Infrastructure Solutions kind of set up change your ability to get costs? Is that better or a worse situation for Olin? Thanks.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Thank you, Josh. So I'm going to start, and then I'm going to hand it over to Todd and let him answer that as well. The cost reductions that we're looking at are not all at Freeport. There's -- the majority of it is at Freeport.

But we are doing some other things at other sites like our McIntosh site, where we're rightsizing some of the infrastructure because, there, we took half of the capacity out, and we're rightsizing some of the infrastructure that supports what's left to make sure that we're not carrying higher-cost assets than we need to for the production that we've got at that site.

Generally, when we look at what we're doing as a company, we've got some very good operations, but I would say that we've gone a little bit too far when you think about using outside contractors, which is a great thing to do when you're trying to streamline and maybe bring in some expertise that outside contractors may have, and you do get a short-term kind of benefit in your cost structure, but if you do too much of that over time, you do start to find dis-synergies with that approach, and so now we've got to go back a little bit more to where we're controlling things and we're able to then get some costs out that have crept in because of some of the inefficiencies that have come as a result of that, but I'm going to let Todd talk a little bit more about the cost savings there.

Todd Slater Olin Corp - Chief Financial Officer, Senior Vice President

Yeah. As we had talked in our last call, we would expect for the full year of 2025 that we will realize cost savings of between \$50 million and \$70 million from the structural cost and productivity initiatives that we have ongoing during the year.

As we exit the year, we do expect this Beyond250 initiative to improve that realization late in the year, and let us move into next year with a better tailwind. Also, don't forget, as we enter into 2026, we do have structural cost reductions coming in our Epoxy business that will lower our cost structure, in particular, in our Stade, Germany, facility, and we have commented on that before that it will be over half of our expected cost reductions for Epoxy, and we -- that number was over half of the \$80 million of cost saved for Epoxy.

Thanks for your question, Josh.

Operator

Aleksey Yefremov, KeyBanc Capital Markets.

Aleksey Yefremov KeyBanc Capital Markets Inc - Analyst

Thanks. Good morning, everyone. Just wanted to ask you about just general feel for Winchester. Is there a risk that things could actually get worse from here in the second half or in the next 12 months?

And on the cost side in Winchester, are your costs continue to ramp in the second half because of metals and because of sort of inventory cycle, that's just a part of the Winchester outlook?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Yeah. Thank you for your question, Aleksey. Listen, it really is hard to see things getting worse. We're seeing margin levels that we've never seen before.

I had said on the prepared remarks that this is a perfect storm, and that's not an overstatement. We're not trying to be dramatic with that. We're really seeing things that we've not seen before, all happening at the same time in terms of destocking, higher cost, consumer spending being lower.

Those things are not going to last forever. This is not structural. I don't see things getting worse with Winchester, but of course, there are always things that could happen. We didn't anticipate the situation around tariffs on copper pricing, and those are things that we just can't anticipate and are completely out of our control. And we're going to do everything we can to offset those, but I just don't really see that being a real case here.

I think, as we said, you're going to see a little bit of an improvement in the third quarter. We've got to get some pricing back through the chain. That's just something we've got to get because we've seen so many costs pressures. Some of that's going to have to start to go through in pricing. And so we're going to push very hard on that.

Todd, do you want to add anything to that?

Todd Slater Olin Corp - Chief Financial Officer, Senior Vice President

Yeah. Aleksey, as you know, we do hedge some of our raw materials, in particular copper. So copper has moved up during the second quarter and here early in the third quarter with the threats of tariffs. Originally, the threat was 25%, and now it's a 50% threat of tariff on copper, and as a result, you've seen copper, relatively speaking, was around \$4 a ton, and now it's well over \$5.5. Those costs will seed into our system as we start here into the back half of the year and on into next year, but we are a hedger, so you'll see that move in a little slower than if we were just a general spot buyer. That's why when we talk about needing to raise price in -- here in the third quarter, that is necessary to offset this higher -- if copper stays up, this higher commodity cost structure that's coming for Winchester.

Operator

Hassan Ahmed, Alembic Global.

Hassan Ahmed Alembic Global Advisors - Analyst

Morning, Ken and Todd. Guys, I am just trying to bridge the Q3 guidance range of \$170 million to \$210 million in EBITDA you guys have given with the \$176 million you reported in Q2. I mean, as I sort of read through the guidance commentary, in CAPV, you guys won't have the unplanned events. In Epoxy, you'll have lower maintenance costs. It seems Winchester, things will be seasonally better in Q3. And I understand maybe costs play a certain role there, but along even product lines, you guys are talking about higher sort of bleach volumes and caustic volumes and at the very least, pricing to be stable. So as I sort of connect all of these dots, I mean, from the sounds of it, it seems the number for Q3 could be at the higher end of that guidance range, particularly keeping in mind the \$176 million you guys reported in Q2.

So what am I missing over here?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Hi, Hassan. Thanks for joining. Listen, we -- obviously, we want to be at the high end of the range. There's no doubt about it, but I'll tell you, just like we talked about on the first-quarter earnings call, we put a broader range out there, so you look at \$170 million to \$210 million, the reason why it's so broad is because of the amount of uncertainty that we see, and hopefully, we start to get some more stability here in the back half of the year. So yes, there are some things that are going to improve. We're going to see sequentially some lower turnaround costs. Obviously, the plan is for us to be able to operate our assets more reliably.

That's something -- we're not planning to return to that, but there will continue to be some headwinds. So the higher raw material costs that we talked about around Winchester, that is going to happen, and frankly, we've got to see some of the price improvement. Now let's see what happens with that, but the other thing is the EDC pricing. As we went through the quarter, in the second quarter, it really dropped quite a bit, and what we're now projecting in the third quarter is that we're going to be stable at that lower level, and we're the biggest exporter of EDC from the US market. That's a pretty painful part of the equation here.

So when we look at all of that on balance, we think that the first quarter -- sorry, the third quarter can look pretty similar to the second quarter in terms of results, but obviously, we're going to be working really hard to be at the high end of that range. We're going to continue to be very focused on generating as much cash flow as we can.

That is something that I can promise you the organization knows. We're not getting a lot of help from the market, so we've got to help ourselves in terms of our costs and our cash generation. Those are things that we're going to continue to prioritize.

Operator

Matthew DeYoe, Bank of America.

Matthew DeYoe Bank of America - Analyst

Hi, everyone. I guess, stay with me here a little bit because this is going to be a little bit -- a long one, but if I look at your ECI chart, I think the index score is 186 in 2Q of '25. And if I look at the average for 2021, it was 200. But back then, you did \$2.1 billion of EBITDA in [CAPV] and Epoxy. And in 2022, you did a similar \$2.1 billion, but that score was 274, and I'm looking at 2025 EBITDA, and I don't know, maybe it comes in a little over \$100 million better than 2020, maybe a little bit more than that, but you're 70 to 80 points higher than this 2020 index score. So like what do I make of all this? Is this really the best way to be telling a story of value creation, and like, where is the negative operating leverage coming in here into this index and your profits that maybe wasn't there two years ago?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Hi, Matt. Thanks for the question. Listen, I think if you look at what we're trying to portray here with this index is to give people some confidence in our commercial model, where we're focusing on value, and what you see being delivered with our portfolio is stability in the ECU values, and we talked about that at the Investor Day that that is going to be our focus, especially here at the trough level. So there's definitely a volume element to this. We are at trough demand levels, and if you look just at the stability in that line since the -- really the third quarter -- fourth quarter of 2023, that average is going to still be below the average of 2021 if you just take the numbers.

So you saw quite a steep ramp-up there at the back end of 2021. I hope we see that at the back end of 2025. Unfortunately, I think in the market that we're in, that's very unlikely that we're going to see something like that.

So we're focused on being disciplined. We're focused on being able to maintain stability with our portfolio and generate as much value as we can at the trough conditions that we're in. That's how we see things playing out for the remainder of the year.

Operator

Matthew Blair, TPH.

Matthew Blair Tudor Pickering Holt & Co Securities LLC - Analyst

Thank you, and good morning. You mentioned lower EDC prices in your Q3 guide. Could you talk about where Olin's utilization rates are for EDC these days, and I think at one point, every \$0.01 per pound in EDC was worth about \$20 million in EBITDA for Olin. I think that number is probably lower today. Do you think that sensitivity of maybe \$10 million to \$15 million EBITDA for every \$0.01 EDC is appropriate? Thanks.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Hi, Matthew. Thanks for the question. Look, we continue to see the headwinds in the EDC market just in terms of supply and demand. There's not a lot of relief that we see in the short term there, but going back to what I said earlier, in terms of the cost structure, we're the most advantaged, so we're going to continue to operate our assets at a point that we can create the most value from the position that we have.

In the second quarter, utilization rates were down a little bit. We had some turnaround activity. So that impacted the second-quarter utilization rates, but we're going to continue to operate where we think we can generate the highest value of the asset that we've got, so utilization rates in Q3, you would expect them to come up just because we don't have the turnaround, but it's not something where we're going to be focusing on utilization rate. We're going to be focusing on value.

Operator

Frank Mitsch, Fermium Research.

Frank Mitsch Fermium Research LLC - Analyst

Thank you, and good morning. So much of the uncertainty appears to be around tariffs and potential retaliatory actions by Brazil, so I'm just curious if you could talk through order of magnitude, how important is Brazil for Olin's caustic soda export sales?

And obviously, caustic is a pretty fungible product. So assuming that Brazil comes back with heavy retaliatory tariffs on caustic, how would you -- can you talk to the various scenarios of how the trade flows would move and how long it would take to normalize? Because, again, it is a pretty fungible product. Thank you.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Yeah. Thank you, Frank. You're exactly right; it is. It's a global market. It's an important one for us. You can -- you've seen the data. North America is a big exporter of caustic to South America, and as I have mentioned before, I do think that some of the noise that we're seeing just around caustic availability on the Gulf Coast and pricing, some of that is related to people not knowing where to move their product because they don't want to take the risk. They're going to put something on the water and then have a 50% tariff, right? That would be the worst-case scenario.

It won't take that long to kind of rewire where things are being shipped around. So I would say there's probably a month or two months of noise that if there were to be some big retaliatory tariff put in place, it's going to take a month or two months to get things worked back out, where you start to see products flow into Latin America maybe from Europe or from Asia. And then you're going to see product going into those regions out of North America.

Things will get reestablished and settle in a new trade flow. Hopefully, that doesn't happen. It's been a little bit encouraging to me that we've not heard a whole lot coming out of Brazil since the initial announcement about tariffs, around retaliatory tariffs. So I hope that this is going to get resolved and we can put this behind us, but it's too early to say.

Operator

Kevin McCarthy, Vertical Research Partners.

Kevin McCarthy Vertical Research Partners LLC - Analyst

Yes. Thank you, and good morning. Ken, just to follow up on the prior question, what impact, if any, do you think the tariff-related and trade flow-related uncertainties will have on Olin's Chlor Alkali operating rates in the third quarter, and related to that, maybe you could also weave in a comment on the operational challenges that you experienced. I'm not sure what exactly the impact of that was in the quarter, for example, and whether or not it's confined to the second quarter, or there might be any spillover into the third quarter? Thank you very much.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Thank you, Kevin. So listen, just in terms of tariffs, like we had discussed in the prepared comments, right now, we think that it's net neutral for CAPV. The real headwind would come in the case where there are significant retaliatory tariffs put on by Brazil.

Now again, we don't have visibility to that. August 1 is right around the corner, so we'll know something relatively soon, but even then, things can change pretty rapidly, as we've seen, so it's really more about that in terms of CAPV and the impact around tariffs than anything else.

I think once we get past that, if we can get some certainty there, then I think things are going to kind of get in a state of equilibrium, and we're going to get back to a new normal, whatever that might look like, but that's the real threat around tariffs that I see.

Now in terms of the operating issues that we had down at Freeport, we did have the chlorine leak there. It was very unfortunate. That is behind us now. We have restarted all of the assets. We did take some downtime in the second quarter, but everything is running, and we've got everything corrected.

We do have an investigation that's ongoing. Once that's finalized, of course, there'll be more that comes out about that, but we are still in the middle of the formal investigation, and we'll share more once we have that, but fortunately, we didn't have any injuries as a result of that.

We've been very focused on making sure that we've got corrective actions in place to make sure that it doesn't happen again, and that includes engaging with the community and making sure that everyone is safe working at our sites and living around our sites.

Operator

Bhavesh Lodaya, BMO Capital Markets.

Bhavesh Lodaya BMO Capital Markets - Analyst

Good morning. Maybe one more on the tariff landscape. Things are obviously moving quite quickly there. Have you seen signs of the customers raising their inventories ahead of any potential negative announcements and if that turns into a headwind if tariffs are actually eventually resolved? Or if not, then maybe just a reminder on where customer inventories stand across our CAPV business today?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Yeah. Bhavesh, you broke up there for a second. I think your question was around customer inventory levels and CAPV. This goes back to even, gosh, probably late '23, early 2024, where we were seeing in the chain, people were destocking.

We have not seen people really begin to restock or take positions in terms of inventory other than maybe a little bit of seasonality since then. And I don't think that you're going to see any kind of a restocking happen in the CAPV chains until you start to see recovery in the markets and some price improvement so people are doing what they should do. They're focusing on their balance sheet, and they're focusing on making sure that they create cash and generate cash in this environment, and we haven't seen any change in that behavior among our customers in the CAPV business.

Operator

Mike Sison, Wells Fargo.

Michael Sison Wells Fargo Securities LLC - Senior Analyst

Hey, good morning, guys. For Winchester, where do you think EBITDA margins or just EBITDA on an annualized basis can get back to, given where are we at now?

And then just a quick follow-up on Chlor Alkali. If the housing market remains sluggish, which some have said could happen into the second half and maybe in the first half, what do you think the industry needs to do to maybe shore up profitability from here, and would you consider doing anything major in kind of improving the profitability there?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Hi, Mike. Thank you for your question. Listen, yeah, we certainly believe that Winchester margins are going to recover. This is the perfect storm in terms of costs being higher, consumer spending being lower. All of those things are going to work through the system.

Whether it takes six months or a year, I don't know. It's going to take more time, though, that the destocking, as we had commented earlier, is definitely going to go through 2025. We still see inventory levels that are elevated. They have come down, but still elevated, and then when we look at what we see in the chemical market, I do see some signs of encouragement and, frankly, some things that you would normally see at the bottom of a cycle, which is you start to see rationalization of assets, and you look at even what China is talking about doing. The China involution is something that I am optimistic is going to have some impact. It will take time. This is not the first time China has talked about rationalizing either government-controlled, state-owned entities that are older, higher costs, more polluting. They've talked about this for years, but I do think that you're getting to a tipping point where the amount of capacity and the squeeze on margins -- because whether you look at Epoxy, whether you look at Chlor Alkali, PVC, a lot of these businesses, they are losing money. They're losing cash. They're not just on a P&L basis negative; they're cash negative, and they can only carry that for so long.

So there is going to be rationalization in the market. It's going to take time; it always does, but I am encouraged by some of the signs that we see and the strength that we have as a company, the financial foundation that we've got, the strength of our balance sheet -- you saw what we were able to do with our cash generation in the second quarter. Those are the things that are going to carry us through to where we start to come out of this trough, and I am very optimistic about the future, and I feel very good about the position that Olin is in, where we're at today, and how our team has been able to manage the performance around cash generation

and the focus on value. It has really been great to see.

Operator

John Roberts, Mizuho Securities.

John Roberts Mizuho Securities USA LLC - Analyst

Thank you. Could you scope for us at all what the September quarter headwind might be if we had a 50% tariff on US caustic soda into Brazil? You talked about a couple of months of turmoil.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Hi, John. Thank you for the question. Listen, it is difficult to put a number on that because we don't really have an idea what the retaliatory tariff would be, if there is any at all. So when I think about it, there's a direct impact and then there's an indirect impact, and probably, the short-term indirect impacts are going to be worse than anything else because it's going to take you a month or two for all the trade flows to get rewired here because you can imagine, we're certainly not going to be paying a 50% tariff going into Brazil, if that were the case, so we're going to be moving products into different regions, and we've got -- it takes a little bit of time to do that. That will create noise just around spot pricing that you'll probably see on the Gulf Coast. I think we're already starting to see some of that today. So we really need to get this behind us to get more stability and to get things established to whatever region we're going to be exporting product to, but I want to go back to the other point that I made earlier. Demand is still stable. We are not seeing any deterioration in demand globally around caustic. I'm not saying that it's gangbuster, but we are seeing robust demand, and it's just a matter now of being able for the market to react to these tariffs and let that get digested by supply chains.

Operator

Jeff Zekauskas, JPMorgan.

Jeffrey Zekauskas JPMorgan Chase & Co - Analyst

Thanks very much. I think the Brazilian tariff on caustic these days is about 7%. In general, do you pay that, or do you sell caustic to a trader who pays that?

And exclusive of retaliatory tariffs, hasn't the Brazil Chemical Association wanted to or has petitioned the government to increase tariffs to 18% because their domestic industry is losing share, and what do you think the normal timeframe for an adjudication of that issue is?

And then for Todd, you said that the working capital benefit would be about \$100 million, but there would be an \$80 million offset from a tax payment. Your deferred taxes for the first half of the year are a little bit more than \$50 million.

Does that mean that the deferred tax burden is \$80 million in total? Or is it a higher number and this \$80 million hasn't been paid yet? Can you balance the deferred tax number with the working capital number?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Good morning, Jeff. Thank you for joining us. Listen, I think the key difference here around the tariffs that you just mentioned is retaliatory tariffs specifically against the United States are different than a general tariff for all imports.

When there's a general tariff for all imports, what we've seen, at least in commodity chemicals, is you will see the domestic price rise to reflect that tariff because everybody faces the same tariff. We are seeing that even in the Mexican market today with the tariff that they have, so a general tariff for everyone doesn't concern me as a US producer like a retaliatory tariff potentially of 50%. Now we don't know where that's going to be, but if there's a 50% tariff just against the US, that is a different animal entirely than a general

tariff, which everybody is going to have to absorb and pass on to the market, which is typically what we see happening. So, Todd, do you want to take the question around the working capital tax?

Todd Slater Olin Corp - Chief Financial Officer, Senior Vice President

Sure. No, thanks for the question, Jeff. Overall, on cash taxes for '20 -- for cash taxes for 2025, we expect the full year, we expect to pay around \$175 million. Through the end of the second quarter, we've paid \$144 million, so in the back half of the year, we would obviously think we're going to spend another \$30 million in cash taxes in the last part of the year. I think that probably gets at your ultimate deferred tax question. When we look at our overall tax position, that's what we think.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews Morgan Stanley - Analyst

Thanks, and good morning, everyone. Just a question again on Winchester and the pricing, I just want to make sure I understand the cadence of what's happened. It seems like in the second quarter, there was some competitive pricing activity, and maybe you could help us understand whether those were list price declines or whether they were buy one get one or whatever the structure of that was, but going to 3Q because of inflation, you're looking to raise prices, and I'm wondering whether the competitors have matched those price increases, or maybe that's not clear yet one way or the other, but if they don't, are you baking into the forecast of potential volume erosion if you're sort of widening price gaps into a negative-volume market?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Hi, Vincent. Thanks for joining us. Listen, we've seen -- since the end of the year last year, what we've seen is a combination of price -- just general price erosion, rebates that have been granted. That's predominantly what we have seen in the marketplace.

Now I don't want to get into commenting on what retailers are doing because there's a pretty broad portfolio of products that you can't draw -- you can't paint everything with the same brush. But there are some promotions that you see flowing through even into retail. Just in general, we have seen that, and we see that at the same time that costs are exploding. That has to change for us as Winchester. I'm not going to comment on what others are doing. They can do what they want to do, but we've got to find a way to improve our margins in the face of really historic cost increases and destocking implications here, so that is something that we're looking to do in the third quarter. Like I had said in the prepared remarks, we expect to see some improvement in Winchester. Some of that is going to be seasonal. Some of that will be a little bit of margin, but I hope we can get even more, to be honest with you,

but right now, it's a tough market, and our teams are going to be focused on getting the best that they can in terms of value. We're going to have the same value approach and mindset that we have with Winchester that we've got in Chemicals. It's not just for Chemicals that we're thinking about that, but we've got to get more in terms of margin out of that business.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan Rbc Capital Markets - Analyst

Great. Thanks for taking my question. I hope you guys are well. So a little bit of a two-part question. So first off, you guys had mentioned that the value-over-the-volume strategy is still kind of your preferred operating strategy. Just wanted to confirm that's still the case?

We've heard some, I guess, thoughts that maybe you guys are running a little bit fuller, and maybe just give us your thoughts there, and then just on the guide, assuming that you do hit the midpoint of your Q3 guide 190, usually, your Q4 is lower, so we should assume a little bit of a drop-off there maybe in Q4, correct me if I'm wrong, and then -- but that kind of puts you in the low 700s for the year. Is that kind of the run rate that you'll be exiting the year at? Is there any unusual items that we should add back when we think about '26? I'm sure there are on the barrel and other side, so if you could just help with your operating strategy and then maybe some of the unusual items that would help you bridge into a higher '26, that would be great. Thanks.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Absolutely. Thank you, Arun. The focus on value is not changing, and our volume will be adjusted based on how we think we can get the most value from the assets that we have in the market that we're participating in, so there are going to be times where we're going to want to run our assets harder in certain product lines, and there are going to be times where we're going to pull back. That's the nature of our model. We're going to continue to do that as a leader in the industry, and nothing has changed in that respect.

I think people have to remember, some of our markets are very local, very regional, some of them are global, and we will strategically and commercially play in those markets in the way that we think gives us the greatest advantage in terms of being able to extract the most value and generate the highest amount of cash for our shareholders. That is our focus, full stop.

Now in terms of Q4, when we look out, yes, normally, Q4 is the weakest quarter for us in the year. We've got some other things that you saw in the slides that we sent out as part of the earnings call. We do have -- in the second half of the year, we've got higher turnaround costs as well. Especially for Q4 in Epoxy, you'll see that there's a pretty significant turnaround that we've got then, so Q4, we expect the pattern to be the same. Q3 is going to be similar to Q2 this year, as we put out in our guidance, and then Q4, we expect to see a weaker quarter, not any different than what we've seen in the past, so as I said and as Todd had mentioned, we're going to focus on pulling as much working capital down and generating cash in that timeframe, and I expect we will be able to do that because when we have turnarounds, we're able to pull inventory, and that's what we're going to be doing between now and the end of the year to generate that cash.

Operator

Pete Osterland, Truist Securities.

Pete Osterland Truist Securities - Analyst

Hey, good morning. Thanks for taking the questions. I wanted to ask one on the competitive dynamics in Epoxy, particularly in Europe. You have a competitor that recently announced they're shutting down some capacity in the region, and then antidumping duties in the EU were finalized earlier this week, so all else equal, how do you see competitive activity there impacting Olin? I mean, do you expect that these developments could meaningfully impact volumes or profitability for that business going forward?

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Good morning, Pete. Listen, it's -- let me start by saying I was very discouraged by what we saw by the European Commission related to antidumping duties, particularly for South Korea. I watch what's happening in Europe, and I see them coming out and talking about this Chemicals Action Plan, and they've got lots of great things that they're talking about. It's too little, too late, I believe. They're moving very slowly.

They had an opportunity to protect a vital industry for a lot of what they want to do in terms of onshoring manufacturing. They're talking about developing their defense industry. Well, you need epoxy for all of that, and they chose not to put antidumping duties on one of the worst offenders for dumping in Europe, so that was very disappointing for me.

Now having said that, we are the last integrated supplier of epoxy resin in Europe, and that is something that we will need to take advantage of, and going back to what I said just a minute ago, around value over volume and what's our commercial strategy, we watch what's happening in the market, and when we see things happening in the market, we're going to adjust our model to get the highest value based on what we see.

We're the last integrated player. We see the local customers, who need critical supply and reliability of supply coming to us, so we're going to be focused on getting the volume that we should as the last integrated player, and that is going to help us generate more value as we go into the new year and start to realize this new agreement that we have for the supply situation at Stade.

So all of that is going to be built into our commercial strategy, and we're going to have to respond accordingly and go get the share of the market that we believe we're entitled to under the conditions that we currently see, which are not great, but at the end of the day, we've got to be competitive.

Operator

Roger Spitz, Bank of America.

Roger Spitz Bofa Merrill Lynch Asset Holdings Inc - Analyst

Thank you very much. Can you please update us on your plan to test the US PVC market with VCM you tolled to PVC through Kem One? Thank you.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Good morning, Roger. Thanks for the question. Yeah. So listen, I still continue to be very impressed with what our team has done from the beginning of the year until now, so we've got a handful of customers. We've got a handful of products that we're actively marketing today. We've got another of long list, frankly, of customers that we're also qualifying with, so I'm very encouraged with what I see. PVC is a weak market. We're not doing this because of the short-term market that we see. We're doing this because, really, this is getting us in front of customers, and understanding the landscape and learning more about the dynamics around PVC, and where we're going to go in the longer term, so we've got time. We've got until the end of 2030. My expectation is there's going to be a lot of things happen in the next 18 to 24 months before we've got to make any final decision on what we're going to do, but our goal is to make sure that we find the most capital-efficient way to continue to participate in the Vinyls market with our fully integrated VCM asset, create the highest value for our shareholders, and allocate the least amount of capital to be able to do that. That really is what we're trying to accomplish here, and so we're looking at all kinds of things. We're looking at commercial agreements. We're looking at potential joint ventures and partnerships, and all of those things are on the table, but it's still very early, but commercially, what I see our team doing, I've been very impressed with.

Operator

As there are no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Ken Lane for closing comments.

Kenneth Lane Olin Corp - President, Chief Executive Officer, Director

Well, good morning again to everyone. I just want to say thank you for joining us. We appreciate your interest in Olin, and we certainly look forward to the next call.

We wish you all a great week. Be safe.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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