LSB Strategic Committee and Board of Directors Unanimously Determine That Continued Execution of Company's Existing Strategic Plan is in Best Interests of LSB Shareholders at This Time

March 2, 2015

Company to Reevaluate Value Creating Alternatives Over Next 12 to 18 Months, as LSB's Operating and Capital Plan for the Chemical Business is Implemented

OKLAHOMA CITY--(BUSINESS WIRE)--Mar. 2, 2015-- LSB Industries, Inc. (NYSE:LXU) ("LSB or the Company"), a manufacturer of chemical products for the agricultural, mining and industrial markets and a leading manufacturer of commercial and residential climate control products, today announced that the LSB Board's Strategic Committee (the "Strategic Committee") and the Board of Directors have unanimously determined that the continued execution of the Company's existing strategic plan is in the best interests of LSB and its shareholders at this time. The Board noted that its decision was made following the unanimous recommendation of the Board's Strategic Committee.

The Strategic Committee will continue to evaluate all strategic alternatives as the current company initiatives underway are implemented and as market conditions warrant. Specifically, once the expansion project at El Dorado is completed and Pryor and Cherokee demonstrate improved consistency of operations, the Committee intends to reassess the ability to enhance shareholder returns through placing some or all of the Company's Chemical Business into a Master Limited Partnership ("MLP") structure under market conditions at that time. In addition, as end markets accelerate for the Climate Control Business, and the business growth initiatives and other changes drive enhanced performance, LSB will also reassess the viability of alternatives to separate the business.

As previously disclosed, the Strategic Committee was established in accordance with the Company's April 2014 settlement agreement with Starboard Value LP ("Starboard"). The Strategic Committee's mandate included a thorough evaluation of potential strategic alternatives for the Company with the assistance of financial, legal and tax advisors. In particular, the Strategic Committee considered separating the Climate Control Business through a spin-off, selling the Climate Control Business, placing some or all of the Company's Chemical Business into an MLP structure and continuing to execute the Company's strategic plan.

The Strategic Committee is comprised of four independent directors: Webster ("Lance") Benham, Charles Burtch, Daniel Greenwell and William Murdy. Messrs. Greenwell and Murdy were appointed to the Board at the 2014 Annual Meeting in connection with the settlement agreement with Starboard. Collectively, Messrs. Benham, Burtch, Greenwell and Murdy possess extensive operational and financial expertise, as well as executive leadership experience in the climate control and chemicals industries.

Lance Benham, Chairman of the Strategic Committee, said, "Over the past eight months, the Strategic Committee, in consultation with independent advisors, has conducted a thorough analysis of strategic, structural and operational alternatives to enhance value for LSB shareholders. Having carefully reviewed a range of alternatives, the Strategic Committee believes that the continued execution of the Company's strategy to drive profitable growth and create sustainable shareholder value is in the best interests of LSB and its shareholders at this time. The Strategic Committee believes that a potential spin or sale of its Climate Control assets from the Chemical Business and pursuing an MLP of the Chemical Business may be a step for consideration once the expansion projects at its chemical facilities are complete, and the Strategic Committee will continue to reevaluate this alternative over the next 12 to 18 months."

Daniel Greenwell, an independent Director on the Strategic Committee who was elected to LSB's Board pursuant to an agreement with Starboard, added, "The Strategic Committee will now focus its near-term attention on providing oversight and additional recommendations, as appropriate, to the LSB management team to assist in the execution of the Company's plan to lower production costs, improve manufacturing efficiency, drive sales growth and enhance profitability, with a particular emphasis on completing the expansion projects at the El Dorado facility."

Strategic Committee Process

In arriving at its recommendation to the Board, the members of the Strategic Committee engaged in a robust process, including holding numerous in person and telephonic meetings over the course of eight months. In conducting its review, the Strategic Committee received independent financial, legal and tax advice and held multiple discussions with outside legal counsel experienced in the formation of MLPs.

In analyzing the various alternatives, the Strategic Committee evaluated the breakage costs associated with restructuring long term debt, tax consequences (as applicable) for each option considered, estimated transaction fees and incremental corporate costs that accrue to the remaining companies (dis-synergies). Refinancing benefits that could be derived as a result of breaking the existing bonds were also estimated. Significantly, the Strategic Committee evaluated the near-term liquidity and leverage impacts to LSB implied by each of the alternatives. The Strategic Committee also carefully considered the current market conditions and likely receptiveness to the alternatives, as well as the assumptions underlying the financial plan for the Company and the impact of the alternatives on those assumptions. Further, the Strategic Committee and the Company's independent financial advisors met with Starboard, reviewed materials prepared by Starboard and carefully considered Starboard's input.

Chemical Business Considerations

The Strategic Committee noted that LSB's management has been taking actions that the Strategic Committee believes should enhance the long-term reliability and performance of its Chemical Business, including investments to upgrade LSB's facilities at Pryor, Oklahoma, El Dorado, Arkansas and Cherokee, Alabama. The Strategic Committee believes that the El Dorado expansion projects are on schedule and within budget, and once complete, should deliver substantial value to shareholders. In making its recommendation to the Board, the Strategic Committee considered:

- Pryor is operating in the best condition since the Company brought the facility online, with full year 2014 ammonia production approximately double that of 2013. Facility reliability improvements at Pryor include new senior management, additional engineering support, extensive monitoring and control equipment, remanufacture or replacement of certain key pieces of equipment and use of industry expert consultants. The combination of these improvements is intended to improve plant on-stream rates by reducing the risk of unplanned downtime.

- The construction of an ammonia plant and a nitric acid plant and concentrator at the El Dorado facility is on schedule and on budget, with the ammonia plant expected to be complete and producing in the first quarter of 2016 and the nitric acid plant and concentrator expected to be complete and producing in the third quarter of 2015. The Company expects the significant expansion projects underway at El Dorado to reduce costs, improve profitability, increase capacity and enhance product balance capabilities upon completion.
- The Company is continuing to take steps to improve reliability at its Cherokee Facility. Management has formed a task force to define and implement specific initiatives to enhance the reliability of the Cherokee Facility. In addition, the recent transition of this facility to a two-year turnaround cycle is expected to result in increased production, translating into stronger operating profit and cash flow for the Chemical Business.
- Management's operating and capital plan for the Chemical Business anticipates full year 2017 gross ammonia production of 750,000 to 800,000 tons, as compared to full year 2014 gross ammonia production of approximately 320,000 tons, assuming an annual on-stream rate for their ammonia plants of approximately 95 percent. In addition, the capital investments in the El Dorado facility, once complete, are expected to contribute approximately $90 to $100 million of incremental annual EBITDA, based on anticipated market conditions. Given this, the Company believes it is well positioned to achieve a compounded annual revenue growth rate through 2017 of approximately 12% and an operating margin of approximately 20% in the Chemical Business in 2017. This could translate into an EBITDA margin of approximately 30% in 2017.[1]

The Strategic Committee also took into consideration a number of substantial risks to LSB shareholders associated with attempting to form a nitrogen MLP at this time that would contain only a limited portion of LSB's fertilizer producing Chemical assets. These considerations included the El Dorado expansion, the difficulty of financing a small MLP with residual assets to be added later, as well as exposure to fluctuations in feedstock costs, including natural gas and ammonia and the seasonal and cyclical demand for fertilizer. The Strategic Committee considered the volatility of the performance and market pricing of nitrogen MLP peers and that the market values of comparable nitrogen MLPs have declined by an average of 36.5% since 2012 and some have dramatically reduced quarterly distributions in that same timeframe.

In addition, the Strategic Committee also considered that the distributable cash flow of an LSB Chemical MLP would not be optimized until the Company completes its capital investment program. Therefore, the Strategic Committee believes that pursuing the formation of an MLP today would present unacceptable risks to LSB's shareholders as the MLP would be unlikely to attract a level of investor interest that would achieve acceptable value at this time.

Mr. Greenwell said, "While MLPs have traditionally provided investors with predictability in cash flow, given recent market conditions and the unique profile of an LSB MLP formed by the Chemical Business assets, we believe an MLP is not appropriate at this time. The Strategic Committee believes that optionality for pursuit of an MLP going forward should be preserved."

Climate Control Business Considerations

The Strategic Committee in making its recommendation to the Board determined that management's plan to grow the Climate Control Business and generate margin improvement is preferable for delivering superior shareholder value over an attempted sale or spin-off of the business, at this time. The Strategic Committee considered:

- Order levels are improving and the business has its highest backlog since 2008. In addition, leading indicators point to strong growth in commercial and institutional construction, the business' primary market, over the next three years.
- New management has been put in place at ClimateMaster, LSB's largest HVAC business, where there is significant opportunity for growth.
- LSB plans to drive growth including focusing on product niches and upgrading and expanding the current product offerings by introducing new products in many categories with an emphasis on product efficiencies and improved digital control systems. LSB is continuing to develop products for green and energy-efficient construction and retrofit applications including geothermal products.
- The Company estimates that over the next two to three years, its various LEAN / OpEx investment initiatives will be able to improve margins in its Climate Control business by approximately 250 to 300 basis points. In addition, LSB expects to realize improved operating leverage on the projected increase in sales as the industry recovers. Given this, the Company anticipates a compounded annual revenue growth rate through 2017 of approximately 10% and an operating margin of approximately 14% in 2017. This could translate into an EBITDA margin of approximately 15% in the Climate Control Business in 2017.

William Murdy, an independent Director on the Strategic Committee who was elected to LSB's Board pursuant to an agreement with Starboard, added, "Timing is the core consideration relative to each of the alternatives the Strategic Committee evaluated. A near term spin of the Climate Control Business would substantially increase the leverage of LSB at a time when the Company is in most need of the Climate Control Business' earnings and free cash flow. A sale of the Climate Control Business now, in the Strategic Committee's opinion, would fail to generate proceeds that reflect the potential of the business, given the investments LSB has made, and is making, to improve both sales volume and margins."

Jack E. Golsen, Executive Chairman of the Board of Directors, said, "The LSB Board of Directors and management team remain committed to acting in the best interests of the Company and all LSB shareholders, and we appreciate the Strategic Committee's ongoing work in that regard.

“LSB’s strategy has consistently been to invest in projects and initiatives that generate the best returns for shareholders in the long term, taking into consideration the risk and return on each investment. It is imperative that the Company, led by the management team, continue to focus on achieving successful execution given the scale and importance of the projects underway. We believe the improvements we are making will increase operating performance and earnings growth, enhance profitability and allow us to capitalize on the favorable market dynamics emerging in both our Climate Control and Chemical businesses.”

LSB noted that its Board of Directors is comprised of 10 highly qualified and experienced directors, eight of whom are independent and five of whom were appointed in the last 24 months. LSB’s Board members possess a diverse range of skills and experience critical to overseeing LSB’s business, including financial, manufacturing, marketing and engineering expertise. The LSB Board and management team remain committed to the successful execution of the Company’s growth plan and to driving shareholder value.

Advisors

Credit Suisse is serving as financial adviser to LSB and Wachtell, Lipton, Rosen & Katz and Conner & Winters, LLP are acting as legal advisors.

About LSB Industries, Inc.

LSB is a manufacturing and marketing company. LSB’s principal business activities consist of the manufacture and sale of chemical products for the agricultural, mining, and industrial markets, and the manufacture and sale of commercial and residential climate control products, such as water source and geothermal heat pumps, hydronic fan coils, modular chillers, large custom air handlers and make-up air units.

This press release includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally are identified by use of the words “believes”, “expects”, “intends”, “anticipates”, “plans to”, “estimates”, “projects”, or similar expressions, including, without limitation, Committee reassess strategic alternatives; improvements increase performance and financial results; the actions taken by LSB should enhance long-term reliability and performance of its Chemical Business and deliver substantial value to shareholders; improvements intended to improve plant performance and reduce unplanned downtime; benefits due to transition of Cherokee Facility to a two-year turnaround; chemical projects are on schedule to be completed in 2015 and 2016 and within budget; operating and capital plan for the Chemical Business; additions at the Chemical Business expected to contribute a substantial amount to EBITDA; ammonia production; cash flows for an MLP; investors for an MLP; new products within the Climate Control Business; improve margins and increase in EBITDA within the Climate Control Business; expansion projects reduce cost, increase capacity and enhance product balance capacity; translates into greater operating profit and cash flow; growth in the Climate Control Business; enhance shareholder value; expand current product offering in the Climate Control Business; LEAN/OpEx investments improve margins in the Climate Control Business; Company’s growth in revenue and EBITDA in 2017; and reevaluating the potential separation in 12 to 18 months. Actual results may differ materially from the forward-looking statements as a result of various future events, including without limitation, general economic conditions; weather conditions; increase competitive pressure, domestic and foreign; changes to federal regulations or adverse regulations; price increases for raw materials; loss of significant customers; receipt and installation of production equipment in a timely manner; problems with production equipment; and the various factors described in the “Special Note Regarding Forward-Looking Statements,” and the “Risk Factors” contained in our most recent 10-K for the year ended December 31, 2014. These forward looking statements speak only as of the date of this press release, and LSB expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in LSB’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

[1] EBITDA is defined as net income plus interest expense, depreciation, depletion and amortization of property plant and equipment, amortization of other assets, less interest included in amortization, plus provision for income taxes plus loss from discontinued operations. The Company believes that certain investors consider EBITDA a useful means of measuring our ability to meet the Company’s debt service obligations and evaluating the Company’s financial performance. However, EBITDA has limitations and should not be considered in isolation or as a substitute for net income, operating income, cash flow from operations or other consolidated income or cash flow data prepared in accordance with EBITDA. The use of this non-GAAP financial measure has certain limitations as it does not reflect all items of income, or cash flows that affect the Company’s financial performance under GAAP.

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