



## LSB Industries, Inc. (LXU)

**3Q:20 Sales And EBITDA Came In Better Than We Expected; Continue To Forecast Significant Improvement In Cash Profits in 4Q:20 And 2021; Maintain \$5 Price Target**

	2018		2019		2020E		2021E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	(\$0.49)	(\$0.70)		(\$0.89)A		(\$0.44)		
June	(0.73)	(0.05)		(0.34)A		(0.32)		
Sep.	(1.23)	(1.04)		(1.07)	(1.07)A	(0.67)		
Dec.	(0.67)	(0.97)		(0.68)	(0.83)	(0.28)		
EPS	(\$3.12)	(\$2.77)		(\$2.99)	(\$3.13)	(\$1.71)		
P/E					NM	NM		
FCF per share	(\$0.46)	(\$1.23)		\$0.06	\$0.11	\$1.28	\$1.30	
P / FCF					17.6x		1.5x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. EPS/losses per share exclude net nonrecurring income of \$0.62 in 2018. Sum of quarterly EPS/losses per share may not equal full-year total due to rounding and/or changes in share count. LXU is in the Russell 2000 Index. NC=Not covered by Sidoti & Company, LLC.

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Rev.(Mil.)	\$759.0	\$679.3	\$732.5	\$691.2	\$441.2	\$427.5	\$378.2	\$365.1	\$356.4	\$437.7
GAAP EPS	\$2.50	\$2.44	\$0.81	(\$1.67)	\$1.30	(\$2.18)	(\$3.73)	(\$3.46)	(\$3.25)	(\$1.71)

Description: LSB Industries, Inc. (www.lsb-okc.com) produces various nitrogen-based chemicals for agriculture (chiefly UAN, HDAN and ammonia), industrial, and mining markets. Domestic sales make up 100% of revenue. Headquarters are in Oklahoma City, OK.

- **LSB reported 3Q:20 sales of \$74 million (down 2% year over year) and EBITDA of \$8.7 million (up 187%), which compare to our estimates of \$71 million and \$3.4 million.**
- **Management provided 4Q:20 EBITDA guidance of 40%-50% year over year growth, implying about \$11-\$12 million, compared to our prior estimate of \$17 million.**
- **Although ammonia prices will be down an estimated 30% in 2020, we project EBITDA will be up 36% to \$63 million (adjusted slightly from \$64 million); this is primarily a reflection of the significant improvement LSB has made to plant operating efficiencies.**
- **We continue to forecast EBITDA of \$112 million in 2021, a 77% improvement. We think fundamentals related to pricing, volume demand and efficiency improvements all set up for significantly higher profits in 2021.**
- **At the end of 3Q:20, the company finished with a net debt balance of \$444 million. We think a potential refinance of the debt will be a catalyst next year.**
- **Our unchanged \$5 price target is based on about 4x our 2021 FCF per share estimate of \$1.30; this equates to 7.5x our 2021 EBITDA estimate of \$112 million or 77% of the current tangible book value.**

**LSB reports better than expected 3Q:20 sales and EBITDA.** The company reported sales of \$74 million (down 2% year over year) and EBITDA of \$8.7 million (up 187%), which compare to our estimates of \$71 million and \$3.4 million. After-tax income per share losses of \$1.07 was in line with our estimate. Agriculture sales (43% of total sales) were down 10%, industrial sales (44%) were up 6% and mining sales (13%) were up 2%. The growth in EBITDA was mainly driven by improved plant on-stream rates and lack of planned turnarounds, largely offset by a decline of 20%-28% in pricing of its chemicals. In the press release, management stated that if pricing was consistent with the year ago period, EBITDA would have been up 70% year over year; this is a reflection of how much improvement the company has made with its three major plants.

**Management provided 4Q:20 guidance, suggesting strong year-over-year growth.** On the conference call this morning, management guided for 4Q:20 adjusted EBITDA to increase

**NR**

Price Target: \$5

Price: \$1.94

Risk Rating: H

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### Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$60
Enterprise Value	\$793
52-Week Range (NYSE)	5-1
5-Year EPS CAGR	NM
Avg. Daily Trading Volume	453,000
Shares Out (Mil)	29.317
Float Shares (Mil)	24.857
Insider Ownership	29%
Institutional Holdings	65%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2021E)	\$1.30
FCF Yield (2021E)	67.0%
Net Cash Per Share (2021E)	(\$24.94)
Price to Book Value	0.3x
Return on Equity (2021E)	NM
Total Debt to Capital	53%
Interest Coverage Ratio	-0.6x
Short Interest %	3.3%
Short Interest Days To Cover	2.5
Russell 2000	1,662
Russell 2000 – Last 12 Months	3.8%
LXU – Last 12 Months	-50.7%

03-Nov-2017 to 05-Nov-2020 (Daily)



40%-50% from 4Q:19. Excluding turnaround costs, legal fees related to the Leidos legal trial as well as various other charges that will not reoccur, the company generated adjusted EBITDA of about \$8 million in 4Q:19. Based on this guidance and the 3Q:20 actual results, we reduce our 4Q:20 and 2020 EBITDA estimates to \$12 million (from \$17 million) and \$63 million (from \$64 million), respectively.

**We continue to forecast strong growth and robust free cash flow in 2021.** Following last night's report and this morning's conference call, we now forecast EBITDA will grow 36% to \$63 million (from \$64 million) in 2020 and 77% to \$112 million (in line with prior estimate) in 2021. We estimate free cash flow per share of \$0.15 in 2020 and \$1.30 in 2021, compared to an outflow of \$1.23 in 2018. We foresee one primary factor driving the improved profits in 2021 and two secondary factors. Number one, we think there is upside in the spot market of LSB's agriculture chemical market. Currently, pricing is at multi-year lows. However, we project there will be a rebound in pricing due to several factors, which we discuss below. Secondly, related to demand factors that will help pricing, we expect volumes will be up next year, also discussed below. Lastly, the company is working on several capital projects that should result in cost savings.

**As the global economy recovers, we expect LSB's profits to improve.** The biggest factor we look for is as the global economy accelerates the energy cost curve will steepen. This generally results in less imports as it becomes too costly for overseas producers to ship the product; it also leads to more exports out of the U.S. market. In the end, this should all result of higher prices of LSB's ammonia and UAN chemicals.

**Corn prices above \$4/bushel for the first time since August 2019 are a positive.** When LSB reported its 2Q:20 results at the end of July, corn was trading near a 15-year low—the low \$3's/bushel. Since then, prices have risen 27% to a level seen only four times in the last six years. Seemingly, global supply levels are becoming a greater concern. Although the USDA estimates ending 2020 stocks of corn up 9% year over year, it is the global market that is driving corn prices higher. Ending stocks outside the U.S. are estimated to decline 3% this year; and even including the U.S., ending stocks for the entire world are estimated to be down 1%. This follows 2019, 2018 and 2017, when ending stocks fell 5%, 6% and 3% year over year, respectively. With global consumption estimated to grow 2.7% this year, and annually at about 3%, the drop in supply is significant. Stock-to-use ratio of corn (the ratio of supply versus demand) is estimated at 26% this year; this would mark the fourth straight annual decline in the ratio to its lowest since 2013. Given these supply/demand dynamics, we think corn could trade around \$4/bushel over the medium term. This is highly significant because fertilizer prices generally correlate to the crop as higher corn prices translate into higher farm income, which in turn, translates to larger fertilizer purchases. We think there is a good chance that prices of ammonia and UAN rebound next year as the global cost curve steepens and fertilizer demand rises.

**LSB continues to improve its cost structure.** Over the last 18 months, LSB has been looking at ways to reduce its cost structure. The company has several capital projects underway that should help reduce its annual cost structure by \$10-\$15 million by 2022. These capital projects include building a storage facility, creating new nitric acid contracts, selling off CO<sub>2</sub> exhaust and lowering its SG&A costs.

**While the balance sheet remains the biggest risk, we think that risk is diminishing.** LSB holds \$435 million of senior secured notes at 9.625% and \$269 million of nonconvertible preferred equity at 14% on the balance sheet. The notes are currently callable at a premium of \$107 until May 2021 at which time they will be callable at \$104; the preferred stock is redeemable at any time. We think ongoing improvement in operational reliability should give banks the confidence to allow the company to refinance the notes, creating a catalyst for the stock. In our view, we think it is most likely that a refinance will happen sometime after May 2021 when the callable price declines and the industrial markets are trending better. At the end of 3Q:20, the company had accessible liquidity of \$78 million (\$42 million cash and \$36 million of borrowing capacity on a working capital revolver), up from \$69 million (\$57 million cash and \$12 million of borrowing capacity on a working capital revolver) at the end of 2Q:20.

<b>Valuation</b>	<b>We maintain a \$5 price target.</b> LXU shares trade at 6.9x our 2021 EBITDA estimate versus the peer average of 8.0x. Comparable EBITDA multiples for the chemical peers are: 9.1x for CF Industries (NYSE: CF, NC), 8.8x for Nutrien (Canada), 6.3x for the Mosaic Company (NYSE: MOS, NC) and 5.5x for Yara International (foreign). We note that LSB's plant turnaround costs are expensed, lowering EBITDA, while most competitors capitalize such outlays. LSB will not have further plant turnaround costs until 2021, as the plants are now set up to operate efficiently without requiring turnaround for two-three years. We also highlight that the company's tangible book value (TBV) at the end of 2Q:20 was \$7.54 per share; this puts the stock currently trading at 29% of TBV. Our \$5 price target is based on about 4x our 2021 FCF per share estimate of \$1.30; this equates to 7.5x our 2021 EBITDA estimate of \$112 million or 77% of the current TBV. Previously, our target reflected our prior 2021 FCF per share estimate of \$1.28; this equated to 7.4x our prior 2021 EBITDA estimate of \$115 million.		
<b>Key Risks</b>	Fertilizer prices	Unplanned plant downtime	Balance sheet

<b>Exhibit 1: LXU 3Q:20 Variance Analysis (\$ in thousands, except per share data)</b>						
	<u>3Q:20 Actual</u>	<u>3Q:20 Estimate</u>	<u>Variance (\$)</u>	<u>Variance (%)</u>	<u>3Q:19 Actual</u>	<u>% Change</u>
<b>Revenue</b>	<b>\$73,969</b>	<b>\$70,547</b>	<b>\$3,422</b>	<b>5%</b>	<b>\$75,495</b>	<b>-2.0%</b>
<b>Gross profit</b>	<b>(1,059)</b>	<b>(7,163)</b>	<b>6,104</b>	<b>-85%</b>	<b>(9,733)</b>	<b>-89.1%</b>
<i>Gross margin</i>	<i>-1.4%</i>	<i>-10.2%</i>			<i>-12.9%</i>	
<b>Adjusted operating income</b>	<b>(9,002)</b>	<b>(14,217)</b>	<b>5,215</b>	<b>-37%</b>	<b>(14,631)</b>	<b>-38.5%</b>
<i>Operating margin</i>	<i>-12.2%</i>	<i>-20.2%</i>			<i>-19.4%</i>	
<b>Adjusted EBITDA</b>	<b>8,698</b>	<b>3,375</b>	<b>5,323</b>	<b>158%</b>	<b>3,034</b>	<b>186.7%</b>
<i>EBITDA margin</i>	<i>11.8%</i>	<i>4.8%</i>			<i>4.0%</i>	
<b>Net income</b>	<b>(\$29,874)</b>	<b>(\$30,026)</b>	<b>\$152</b>	<b>NM</b>	<b>(\$28,880)</b>	<b>NM</b>
<i>Net profit margin</i>	<i>-40.4%</i>	<i>-42.6%</i>			<i>-38.3%</i>	
<b>Diluted EPS</b>	<b>(\$1.07)</b>	<b>(\$1.07)</b>	<b>\$0.01</b>	<b>NM</b>	<b>(\$1.04)</b>	<b>NM</b>

Source: Company reports and Sidoti & Company, LLC estimates

LSB INDUSTRIES, INC.

**Table 1. LSB Industries, Inc. Income Statement**  
(in thousands, except where noted)

	2018	Mar	Jun	Sep	Dec	2019	MarA	JunA	SepA	DecE	2020E	MarE	JunE	SepE	DecE	2021E
Net sales	\$ 378,160	\$ 94,152	\$ 121,527	\$ 75,495	\$ 73,896	\$ 365,070	\$ 83,411	\$ 105,033	\$ 73,969	\$ 94,033	\$ 356,446	\$ 110,480	\$ 121,111	\$ 88,366	\$ 117,776	\$ 437,732
Cost of goods sold	362,325	86,834	101,850	85,228	86,173	360,085	80,860	86,012	75,028	91,732	333,632	93,659	99,712	78,072	94,402	365,844
<b>Gross profit</b>	<b>15,835</b>	<b>7,318</b>	<b>19,677</b>	<b>(9,733)</b>	<b>(12,277)</b>	<b>4,985</b>	<b>2,551</b>	<b>19,021</b>	<b>(1,059)</b>	<b>2,301</b>	<b>22,814</b>	<b>16,821</b>	<b>21,399</b>	<b>10,294</b>	<b>23,374</b>	<b>71,888</b>
Selling, general and administrative expenses	40,811	7,224	8,366	9,115	9,467	34,172	10,006	8,504	7,068	7,523	33,101	7,734	7,267	8,837	7,067	30,903
Other expense		23	-		9,532	9,555	(468)	(167)	875							
Other income			34	383		417										
<b>Operating profit</b>	<b>(23,025)</b>	<b>71</b>	<b>11,345</b>	<b>(19,231)</b>	<b>(31,276)</b>	<b>(39,091)</b>	<b>(6,987)</b>	<b>10,684</b>	<b>(9,002)</b>	<b>(5,222)</b>	<b>(10,527)</b>	<b>9,088</b>	<b>14,133</b>	<b>1,457</b>	<b>16,307</b>	<b>40,985</b>
<b>Operating profit (excluding one-time items)</b>	<b>(17,325)</b>	<b>(229)</b>	<b>11,345</b>	<b>(14,631)</b>	<b>(19,595)</b>	<b>(23,110)</b>	<b>(3,457)</b>	<b>10,684</b>	<b>(9,002)</b>	<b>(5,222)</b>	<b>(6,997)</b>	<b>9,088</b>	<b>14,133</b>	<b>1,457</b>	<b>16,307</b>	<b>40,985</b>
<b>EBITDA (excluding one-time items)</b>	<b>52,941</b>	<b>16,597</b>	<b>28,429</b>	<b>3,034</b>	<b>(1,596)</b>	<b>46,464</b>	<b>14,135</b>	<b>27,979</b>	<b>8,698</b>	<b>12,478</b>	<b>63,290</b>	<b>26,788</b>	<b>31,833</b>	<b>19,157</b>	<b>34,007</b>	<b>111,785</b>
Interest expense	43,064	10,987	11,315	12,007	12,080	46,389	13,479	12,476	12,554	12,392	50,901	12,392	13,479	12,635	12,878	50,539
Loss on extinguishment of debt	5,951	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-operating other expense (income)	(1,554)	224	(868)	39	(534)	(1,139)	(675)	(128)	216							
<b>Earnings before income taxes</b>	<b>(58,584)</b>	<b>(11,140)</b>	<b>898</b>	<b>(31,277)</b>	<b>(42,822)</b>	<b>(84,341)</b>	<b>(19,791)</b>	<b>(1,664)</b>	<b>(21,772)</b>	<b>(17,614)</b>	<b>(61,428)</b>	<b>(3,304)</b>	<b>1,498</b>	<b>(11,178)</b>	<b>3,430</b>	<b>(9,555)</b>
Income taxes	1,740	400	(5,733)	(483)	(15,108)	(20,924)	(339)	(1,299)	(1,370)	(4,051)	(7,059)	(760)	344	(2,571)	789	(2,198)
<b>Net income</b>	<b>(60,324)</b>	<b>(11,540)</b>	<b>6,631</b>	<b>(30,794)</b>	<b>(27,714)</b>	<b>(63,417)</b>	<b>(19,452)</b>	<b>(365)</b>	<b>(20,402)</b>	<b>(13,563)</b>	<b>(54,369)</b>	<b>(2,544)</b>	<b>1,153</b>	<b>(8,607)</b>	<b>2,641</b>	<b>(7,357)</b>
<b>Net income (excluding one-time items)</b>	<b>(53,704)</b>	<b>(11,540)</b>	<b>6,631</b>	<b>(20,541)</b>	<b>(20,154)</b>	<b>(45,604)</b>	<b>(15,982)</b>	<b>(365)</b>	<b>(20,402)</b>	<b>(13,563)</b>	<b>(50,312)</b>	<b>(2,544)</b>	<b>1,153</b>	<b>(8,607)</b>	<b>2,641</b>	<b>(7,357)</b>
Net loss (income) from discontinued operations																
<b>Net income attributable to common stock</b>	<b>(60,324)</b>	<b>(11,540)</b>	<b>6,631</b>	<b>(30,794)</b>	<b>(27,714)</b>	<b>(63,417)</b>	<b>(19,452)</b>	<b>(365)</b>	<b>(20,402)</b>	<b>(13,563)</b>	<b>(54,369)</b>	<b>(2,544)</b>	<b>1,153</b>	<b>(8,607)</b>	<b>2,641</b>	<b>(7,357)</b>
Preferred stock dividends	26,840	7,256	7,589	7,764	8,120	30,729	8,307	8,689	8,889	9,094	34,979	9,304	9,519	9,739	9,964	38,527
<b>Net income</b>	<b>(102,741)</b>	<b>(19,367)</b>	<b>(1,530)</b>	<b>(39,133)</b>	<b>(36,411)</b>	<b>(96,441)</b>	<b>(28,338)</b>	<b>(9,634)</b>	<b>(29,874)</b>	<b>(23,242)</b>	<b>(91,088)</b>	<b>(12,437)</b>	<b>(8,957)</b>	<b>(18,939)</b>	<b>(7,919)</b>	<b>(48,251)</b>
<b>Net income (excluding one-time items)</b>	<b>(84,219)</b>	<b>(19,367)</b>	<b>(1,530)</b>	<b>(28,880)</b>	<b>(28,851)</b>	<b>(78,628)</b>	<b>(24,868)</b>	<b>(9,634)</b>	<b>(29,874)</b>	<b>(23,242)</b>	<b>(87,619)</b>	<b>(12,437)</b>	<b>(8,957)</b>	<b>(18,939)</b>	<b>(7,919)</b>	<b>(48,251)</b>
<b>EPS from continuing operations</b>																
GAAP diluted earnings per share	\$ (3.73)	\$ (0.70)	\$ (0.05)	\$ (1.39)	\$ (1.31)	\$ (3.46)	\$ (1.01)	\$ (0.34)	\$ (1.07)	\$ (0.83)	\$ (3.25)	\$ (0.44)	\$ (0.32)	\$ (0.67)	\$ (0.28)	\$ (1.71)
<b>Diluted earnings per share (excluding one-time items)</b>	<b>\$ (3.06)</b>	<b>\$ (0.70)</b>	<b>\$ (0.05)</b>	<b>\$ (1.04)</b>	<b>\$ (1.04)</b>	<b>\$ (2.84)</b>	<b>\$ (0.89)</b>	<b>\$ (0.34)</b>	<b>\$ (1.07)</b>	<b>\$ (0.83)</b>	<b>\$ (3.13)</b>	<b>\$ (0.44)</b>	<b>\$ (0.32)</b>	<b>\$ (0.67)</b>	<b>\$ (0.28)</b>	<b>\$ (1.71)</b>
Diluted shares outstanding	27,521	27,546	27,601	27,656	27,711	27,628	27,822	27,934	28,045	28,157	27,990	28,214	28,270	28,327	28,383	28,299

**YOY Growth:**

Revenue	-11.5%	-6.3%	17.8%	-5.4%	-22.0%	-3.5%	-11.4%	-13.6%	-2.0%	27.3%	-2.4%	32.5%	15.3%	19.5%	25.2%	22.8%
Cost of goods sold	-14.1%	-3.9%	1.7%	-4.8%	4.7%	-0.6%	-6.9%	-15.6%	-12.0%	6.5%	-7.3%	15.8%	15.9%	4.1%	2.9%	9.7%
Product development, selling, administrative and miscellaneous expenses	16.6%	-13.0%	-0.4%	0.4%	-37.0%	-16.3%	38.5%	1.6%	-22.5%	-20.5%	-3.1%	-22.7%	-14.6%	25.0%	-6.1%	-6.6%
<b>Gross profit</b>	<b>189.7%</b>	<b>-27.5%</b>	<b>540.3%</b>	<b>NM</b>	<b>-198.9%</b>	<b>-68.5%</b>	<b>-65.1%</b>	<b>-3.3%</b>	<b>NM</b>	<b>-118.7%</b>	<b>357.6%</b>	<b>559.4%</b>	<b>12.5%</b>	<b>NM</b>	<b>915.9%</b>	<b>215.1%</b>
Operating profit	NM	NM	-293.3%	NM	1159.6%	69.8%	NM	-5.8%	NM	-83.3%	-73.1%	NM	32.3%	NM	-412.3%	-489.3%
<b>Operating profit (excluding one-time items)</b>	<b>NM</b>	<b>NM</b>	<b>-293.3%</b>	<b>NM</b>	<b>-1178.4%</b>	<b>33.4%</b>	<b>NM</b>	<b>-5.8%</b>	<b>NM</b>	<b>-73.4%</b>	<b>-69.7%</b>	<b>NM</b>	<b>32.3%</b>	<b>NM</b>	<b>-412.3%</b>	<b>-685.8%</b>
Net income	NM	NM	NM	NM	112.4%	NM	NM	NM	NM	-51.1%	NM	NM	NM	NM	-119.5%	NM
<b>Net income (excluding one-time items)</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>56.8%</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>-19.4%</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>-65.9%</b>	<b>NM</b>
GAAP EPS	NM	NM	NM	NM	74.5%	NM	NM	NM	NM	-37.2%	NM	NM	NM	NM	-66.2%	NM
Diluted EPS	NM	NM	NM	NM	55.6%	NM	NM	NM	NM	-20.7%	NM	NM	NM	NM	-66.2%	NM

**Margins:**

COGS/sales	95.8%	92.2%	83.8%	112.9%	116.6%	98.6%	96.9%	81.9%	101.4%	97.6%	93.6%	84.8%	82.3%	88.4%	80.2%	83.6%
SG&A/sales	10.8%	7.7%	6.9%	12.1%	12.8%	9.4%	12.0%	8.1%	9.6%	8.0%	9.3%	7.0%	6.0%	10.0%	6.0%	7.1%
Gross profit	4.2%	7.8%	16.2%	NM	-16.6%	1.4%	3.1%	18.1%	-1.4%	2.4%	6.4%	15.2%	17.7%	11.6%	19.8%	16.4%
Operating profit	-6.1%	0.1%	9.3%	NM	-42.3%	-10.7%	-8.4%	10.2%	-12.2%	-5.6%	-3.0%	8.2%	11.7%	1.6%	13.8%	9.4%
<b>Operating profit (excluding one-time items)</b>	<b>-4.6%</b>	<b>-0.2%</b>	<b>9.3%</b>	<b>NM</b>	<b>-26.5%</b>	<b>-6.3%</b>	<b>-4.1%</b>	<b>10.2%</b>	<b>-12.2%</b>	<b>-5.6%</b>	<b>-2.0%</b>	<b>8.2%</b>	<b>11.7%</b>	<b>1.6%</b>	<b>13.8%</b>	<b>9.4%</b>
Net income	-16.0%	-12.3%	5.5%	NM	-37.5%	-17.4%	-23.3%	-0.3%	-27.6%	-14.4%	-15.3%	-2.3%	1.0%	-9.7%	2.2%	-1.7%
<b>Net income (excluding one-time items)</b>	<b>-22.3%</b>	<b>-20.6%</b>	<b>-1.3%</b>	<b>NM</b>	<b>-39.0%</b>	<b>-21.5%</b>	<b>-29.8%</b>	<b>-9.2%</b>	<b>-40.4%</b>	<b>-24.7%</b>	<b>-24.6%</b>	<b>-11.3%</b>	<b>-7.4%</b>	<b>-21.4%</b>	<b>-6.7%</b>	<b>-11.0%</b>
Tax rate	-3.0%	-3.6%	NM	1.5%	35.3%	24.8%	1.7%	78.1%	6.3%	23.0%	11.5%	23.0%	23.0%	23.0%	23.0%	23.0%

Sources: Company reports and Sidoti & Company, LLC estimates

LSB INDUSTRIES, INC.

**Table 2. LSB Industries, Inc. Cash Flow Statement**

(in thousands, except where noted)

	2018	Mar	JunE	SepE	Dec	2019	MarA	JunA	SepE	2020E	2021E
<b>Cash Flows From Operating Activities:</b>											
Net income	\$ (72,226)	\$ (11,540)	\$ 6,631	\$ (30,794)	\$ (27,714)	\$ (63,417)	\$ (19,452)	\$ (9,634)	\$ (29,874)	\$ (82,202)	\$ (48,251)
Depreciation and amortization	70,266	16,826	17,084	17,665	17,999	69,574	17,592	17,295	17,700	70,287	70,800
Deferred income taxes	1,825									-	-
Changes in assets and liabilities	(3,987)	1,320	(4,086)	32,204	(22,881)	6,557	1,241	14,725	(3,726)	9,090	(1,489)
Other operating cash flow	21,744	455	(6,429)	1,636	(13,577)	(17,915)	(1,559)	11,569	11,772	33,762	48,419
<b>Total cash flows used in (provided by) operating activities</b>	<b>17,622</b>	<b>7,061</b>	<b>13,200</b>	<b>20,711</b>	<b>(38,873)</b>	<b>2,099</b>	<b>(2,178)</b>	<b>33,955</b>	<b>(4,128)</b>	<b>30,937</b>	<b>69,479</b>
<b>Cash Flows From Investing Activities:</b>											
Capital expenditures	(37,050)	(7,115)	(5,751)	(7,589)	(15,626)	(36,081)	(10,737)	(2,000)	(4,000)	(27,737)	(32,800)
Proceeds from sale of property, plant and equipment	6,660			61	-	61				-	-
Other	4,650	9	53	(26)	59	95	179			179	-
<b>Total cash flows used in (provided by) investing activities</b>	<b>(25,740)</b>	<b>(7,106)</b>	<b>(5,698)</b>	<b>(7,554)</b>	<b>(15,567)</b>	<b>(35,925)</b>	<b>(10,558)</b>	<b>(2,000)</b>	<b>(4,000)</b>	<b>(27,558)</b>	<b>(32,800)</b>
<b>Cash Flows From Financing Activities:</b>											
Principal payments on long-term debt	(395,042)	(1,610)	(23,473)	(1,982)	(12,836)	(39,901)	(5,078)			(5,078)	-
Proceeds from long-term debt	411,338	795	55,086	1,035	15,568	72,484	32,570			32,570	-
Dividends paid on preferred stock	-					-				-	-
Proceeds from issuance of preferred stock	-					-				-	-
Other financing cash flow	(15,749)	(3,483)	(2,849)	(3,398)	7,716	(2,014)	(64)			(64)	-
<b>Total cash provided by (used in) financing activities</b>	<b>547</b>	<b>(4,298)</b>	<b>28,764</b>	<b>(4,345)</b>	<b>10,448</b>	<b>30,569</b>	<b>27,428</b>	<b>-</b>	<b>-</b>	<b>27,428</b>	<b>-</b>
Cash flow from discontinued operations	-										
Net increase in cash and cash equivalents	(7,571)	(4,343)	36,266	8,812	(43,992)	(3,257)	14,692	31,955	(8,128)	30,807	36,679
Cash and cash equivalents at beginning of period	33,619	26,048	21,705	57,971	66,783	26,048	22,791	37,483	69,438	22,791	53,598
<b>Cash and cash equivalents at end of period</b>	<b>\$ 26,048</b>	<b>\$ 21,705</b>	<b>\$ 57,971</b>	<b>\$ 66,783</b>	<b>\$ 22,791</b>	<b>\$ 22,791</b>	<b>\$ 37,483</b>	<b>\$ 69,438</b>	<b>\$ 61,310</b>	<b>\$ 53,598</b>	<b>\$ 90,277</b>
<b>Free cash flow</b>	<b>\$ (12,768)</b>	<b>\$ (54)</b>	<b>\$ 7,449</b>	<b>\$ 13,183</b>	<b>\$ (54,499)</b>	<b>\$ (33,921)</b>	<b>\$ (12,915)</b>	<b>\$ 31,955</b>	<b>\$ (8,128)</b>	<b>\$ 3,200</b>	<b>\$ 36,679</b>
<b>Free cash flow per share</b>	<b>\$ (0.46)</b>	<b>\$ (0.00)</b>	<b>\$ 0.27</b>	<b>\$ 0.48</b>	<b>\$ (1.97)</b>	<b>\$ (1.23)</b>	<b>\$ (0.46)</b>	<b>\$ 1.14</b>	<b>\$ (0.29)</b>	<b>\$ 0.11</b>	<b>\$ 1.30</b>

Sources: Company reports and Sidoti & Company, LLC estimates

LSB INDUSTRIES, INC.

**Table 3. LSB Industries, Inc. Balance Sheet**  
(in thousands, except where noted)

	MarA	JunA	SepA	2018	Mar	Jun	Sep	2019	MarA	JunA	SepA	DecE	2020E	2021E
<b>ASSETS</b>														
<b>CURRENT ASSETS:</b>														
Cash and cash equivalents	\$ 28,667	\$ 47,216	\$ 42,746	\$ 26,048	\$ 21,705	\$ 57,971	\$ 66,783	\$ 22,791	\$ 37,483	\$ 56,513	\$ 42,094	\$ 65,403	\$ 65,403	\$ 90,277
Receivables	62,634	39,208	58,298	67,043	46,524	52,214	33,001	39,942	51,060	42,569	39,553	49,613	49,613	61,235
Inventory	20,894	14,879	17,935	29,209	32,540	19,586	20,635	23,311	26,303	14,332	19,202	29,295	29,295	35,462
Supplies, prepaid items and other	46,630	42,568	39,038	44,113	40,736	39,246	36,761	44,829	42,389	39,361	37,180	37,180	37,180	37,180
<b>Total current assets</b>	<b>158,825</b>	<b>143,871</b>	<b>158,017</b>	<b>166,413</b>	<b>141,505</b>	<b>169,017</b>	<b>157,180</b>	<b>130,873</b>	<b>157,235</b>	<b>152,775</b>	<b>138,029</b>	<b>181,490</b>	<b>181,490</b>	<b>224,153</b>
<b>OTHER ASSETS:</b>														
Property, plant and equipment	998,366	986,737	980,625	974,248	962,538	951,546	950,175	936,474	928,393	913,441	899,613	892,913	892,913	854,913
Other assets	10,958	9,728	8,952	7,672	22,426	20,711	22,426	21,142	24,523	28,449	32,283	32,283	32,283	32,283
<b>Total other assets</b>	<b>1,009,324</b>	<b>996,465</b>	<b>989,577</b>	<b>981,920</b>	<b>984,964</b>	<b>972,257</b>	<b>972,601</b>	<b>957,616</b>	<b>952,916</b>	<b>941,890</b>	<b>931,896</b>	<b>925,196</b>	<b>925,196</b>	<b>887,196</b>
<b>Total assets</b>	<b>\$ 1,168,149</b>	<b>\$ 1,140,336</b>	<b>\$ 1,147,594</b>	<b>\$ 1,148,333</b>	<b>\$ 1,126,469</b>	<b>\$ 1,141,274</b>	<b>\$ 1,129,781</b>	<b>\$ 1,088,489</b>	<b>\$ 1,110,151</b>	<b>\$ 1,094,665</b>	<b>\$ 1,069,925</b>	<b>\$ 1,106,686</b>	<b>\$ 1,106,686</b>	<b>\$ 1,111,349</b>
<b>LIABILITIES AND COMMON SHAREHOLDERS' EQUITY</b>														
<b>CURRENT LIABILITIES:</b>														
Accounts payable and accrued expenses	\$ 49,047	\$ 51,278	\$ 55,647	\$ 62,589	\$ 49,898	\$ 43,849	\$ 54,088	\$ 58,477	\$ 54,010	\$ 45,245	\$ 41,192	\$ 70,000	\$ 70,000	\$ 86,300
Short-term financing	6,137	2,480	324	324	5,863	3,222	607	607	6,893	3,834	751	751	751	751
Accrued and other liabilities	30,590	21,387	53,796	42,129	37,671	29,786	39,309	25,484	40,544	27,768	40,957	40,957	40,957	40,957
Current maturities of long-term debt	9,065	12,899	12,698	12,518	12,275	8,672	9,090	9,410	9,665	11,492	15,203	15,203	15,203	15,203
<b>Total current liabilities</b>	<b>94,839</b>	<b>88,044</b>	<b>122,465</b>	<b>117,560</b>	<b>105,707</b>	<b>85,529</b>	<b>103,094</b>	<b>93,978</b>	<b>111,112</b>	<b>88,339</b>	<b>98,103</b>	<b>126,911</b>	<b>126,911</b>	<b>143,211</b>
<b>LONG-TERM LIABILITIES:</b>														
Accrued and other liabilities	11,173	10,656	11,247	8,861	18,044	16,194	18,442	17,618	19,660	21,200	24,845	24,845	24,845	24,845
Deferred income taxes	53,877	58,229	55,802	56,612	57,057	51,322	50,815	35,717	35,343	34,056	32,663	34,056	34,056	34,056
Long-term debt, less current maturities	399,416	403,464	402,975	412,681	412,913	448,164	447,663	449,634	480,837	487,552	470,751	470,751	470,751	470,751
<b>Total liabilities</b>	<b>559,305</b>	<b>560,393</b>	<b>592,489</b>	<b>595,714</b>	<b>593,721</b>	<b>601,209</b>	<b>620,014</b>	<b>596,947</b>	<b>646,952</b>	<b>631,147</b>	<b>626,362</b>	<b>656,563</b>	<b>656,563</b>	<b>672,863</b>
Redeemable preferred stock	182,896	187,421	194,584	202,169	209,921	218,007	226,271	234,893	243,704	252,898	262,295	271,900	271,900	312,494
<b>Total shareholders' equity</b>	<b>425,948</b>	<b>392,522</b>	<b>360,521</b>	<b>342,197</b>	<b>322,827</b>	<b>322,058</b>	<b>283,496</b>	<b>247,327</b>	<b>219,495</b>	<b>210,620</b>	<b>181,268</b>	<b>178,224</b>	<b>178,224</b>	<b>125,992</b>
<b>Total liabilities and common shareholders' equity</b>	<b>\$ 1,168,149</b>	<b>\$ 1,140,336</b>	<b>\$ 1,147,594</b>	<b>\$ 1,140,080</b>	<b>\$ 1,126,469</b>	<b>\$ 1,141,274</b>	<b>\$ 1,129,781</b>	<b>\$ 1,079,167</b>	<b>\$ 1,110,151</b>	<b>\$ 1,094,665</b>	<b>\$ 1,069,925</b>	<b>\$ 1,106,686</b>	<b>\$ 1,106,686</b>	<b>\$ 1,111,349</b>
<b>Key Ratios:</b>														
Current ratio	1.7	1.6	1.3	1.4	1.3	2.0	1.5	1.4	1.4	1.7	1.4	1.4	1.4	1.6
Quick ratio	1.0	1.0	0.8	0.8	0.6	1.3	1.0	0.7	0.8	1.1	0.8	0.9	0.9	1.1
Receivables turnover	5.8	9.2	6.2	6.0	6.9	10.6	6.6	6.8	6.8	5.7	6.7	8.4	8.0	7.9
Average receivables collection period	63	40	59	61	53	34	55	53	53	64	54	43	46	46
Inventory turnover	17.2	24.9	17.9	14.2	13.0	23.6	17.7	13.7	11.0	12.0	13.0	14.3	12.7	11.3
Average inventory processing period	21	15	20	26	28	15	21	27	33	30	28	26	29	32
Payables turnover	7.1	8.0	6.8	6.1	7.0	8.6	6.2	5.9	6.2	7.7	6.3	5.7	5.2	4.7
Average payables payment period	52	46	53	60	52	43	59	61	59	47	58	64	70	78
Cash conversion cycle	16.0	26.1	17.3	14.1	12.9	25.7	18.1	14.6	11.6	10.0	13.4	17.0	15.5	14.5
Net debt per share	\$20.87	\$20.32	\$20.59	\$21.89	\$22.48	\$22.47	\$22.30	\$24.24	\$25.29	\$25.03	\$25.21	\$24.62	\$24.62	\$24.98
Net debt/EBITDA(TTM)	9.6	11.1	10.8	7.5	8.2	6.2	6.0	9.4	10.3	10.2	9.0	6.6	6.6	3.5
Book value per share	\$ 15.48	\$ 14.24	\$ 13.11	\$ 12.43	\$ 11.72	\$ 11.67	\$ 10.25	\$ 8.95	\$ 7.89	\$ 7.54	\$ 6.46	\$ 6.33	\$ 6.37	\$ 4.45
Return on total assets	NM	NM	NM	NM	NM	NM	NM	NM	-8.9%	-3.4%	-10.9%	0.0%	NM	NM
Return on total capital	NM	NM	NM	NM	NM	NM	NM	NM	-13.6%	-5.2%	-17.0%	0.0%	NM	NM
Return on total equity	NM	NM	NM	NM	NM	NM	NM	NM	-36.7%	-14.5%	-51.4%	0.0%	NM	NM
Debt-to-equity	95.9%	106.1%	115.3%	124.3%	131.7%	141.8%	161.1%	185.6%	223.5%	236.9%	268.1%	272.7%	272.7%	385.7%
Total debt-to-total capital	49.0%	51.5%	53.6%	55.4%	56.8%	58.7%	61.7%	65.0%	69.1%	70.3%	72.8%	73.2%	73.2%	79.4%
Long-term debt-to-total capital	47.9%	49.9%	51.9%	53.8%	55.2%	57.5%	60.5%	63.7%	67.7%	68.7%	70.6%	70.9%	70.9%	76.9%

Sources: Company reports and Sidoti & Company, LLC estimates

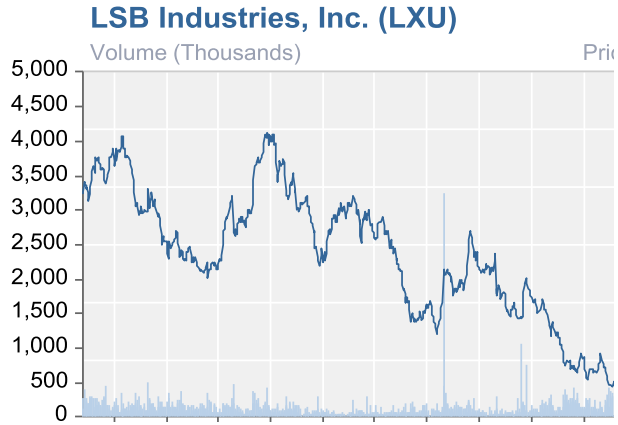
**Appendix**  
Required Disclosures

**Required Disclosures**

**LSB Industries, Inc. (LXU-\$1.94) NR Price Target: \$5 Risk Rating: H**

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Rating	2/22/18	0	Deleted	14	
Initiation	2/22/18	7.2	NR	14	H
PT	4/29/19	6		9	
PT	6/19/19	3.7		7	
PT	7/30/19	4		9	
PT	7/17/20	1.2		5	



<b>Valuation</b>	We maintain a \$5 price target. LXU shares trade at 6.9x our 2021 EBITDA estimate versus the peer average of 8.0x. Comparable EBITDA multiples for the chemical peers are: 9.1x for CF Industries (NYSE: CF, NC), 8.8x for Nutrien (Canada), 6.3x for the Mosaic Company (NYSE: MOS, NC) and 5.5x for Yara International (foreign). We note that LSB's plant turnaround costs are expensed, lowering EBITDA, while most competitors capitalize such outlays. LSB will not have further plant turnaround costs until 2021, as the plants are now set up to operate efficiently without requiring turnaround for two-three years. We also highlight that the company's tangible book value (TBV) at the end of 2Q:20 was \$7.54 per share; this puts the stock currently trading at 29% of TBV. Our \$5 price target is based on about 4x our 2021 FCF per share estimate of \$1.30; this equates to 7.5x our 2021 EBITDA estimate of \$112 million or 77% of the current TBV. Previously, our target reflected our prior 2021 FCF per share estimate of \$1.28; this equated to 7.4x our prior 2021 EBITDA estimate of \$115 million.		
<b>Key Risks</b>	Fertilizer prices	Unplanned plant downtime	Balance sheet

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