



# LSB Industries, Inc.

NYSE: LXU



Sidoti & Company

Small- Cap Equity Conference

March 16, 2015

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# Safe Harbor Statement

The information contained in the presentation materials contain certain forward-looking statements. All these statements, other than statements of historical fact, are forward-looking statements.

Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “anticipate,” “estimate” and similar statements of the future or of a forward-looking nature identify forward-looking statements, including but not limited to, all statements about or in references to the Architectural Building Index, Dodge Construction Green Outlook, or any McGraw Hill forecast, any references to future natural gas costs, ammonia costs, grain or corn demand or production, construction trends and demand, and the outlook for the chemical or climate control business.

The forward-looking statements include but are not limited to the following statements: major investments to reduce costs and increase facility reliability; positioned to benefit from strong agricultural market and economic recovery; product balance options; production capacity; impact of capital expansion projects; estimated completion and start up dates for new chemical facilities and their cost and production capacity; planned capital spending; outlook for Chemical and Climate Control; turnaround at Cherokee; future maintenance activities; Pryor facility reliability; Climate Control’s product sales; sales growth Q4 2014 and 2015; LEAN impact; future outlook.

You should not rely on the forward-looking statements because actual events or results may differ materially from those indicated by these forward-looking statements as a result of a number of important factors. We incorporate the risks and uncertainties discussed under the headings “Risk Factors” and “A Special Note Regarding Forward-looking Statements” in our Form 10-K for the fiscal year ended December 31, 2014, which contain a discussion of a variety of factors which could cause the future outcome to differ materially from the forward-looking statements discussed in this investor presentation. We undertake no duty to update the information contained in this investor presentation.

The term EBITDA, as used in this presentation, is net income plus interest expense, depreciation, amortization, income taxes, and certain non-cash charges, unless otherwise described. EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to GAAP measurement. The Company believes that certain investors consider EBITDA a useful means of measuring our ability to meet our debt service obligations and evaluating our financial performance. 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 cash flow data prepared in accordance with EBITDA. The reconciliation of GAAP and any EBITDA numbers discussed in this investor presentation are included in the appendix of this presentation.

# Why LSB? Executing on strategic plan to drive growth and enhance shareholder value

**1 Operates well-diversified business with differentiated market positions across two distinct business segments**

**2 Well-positioned in end markets with attractive industry fundamentals**

**3 Implementing operating and capital improvement plan to enhance plant performance and reliability**

**4 Strong financial position**

**5 Focused on creating and delivering value to shareholders**

# Company overview

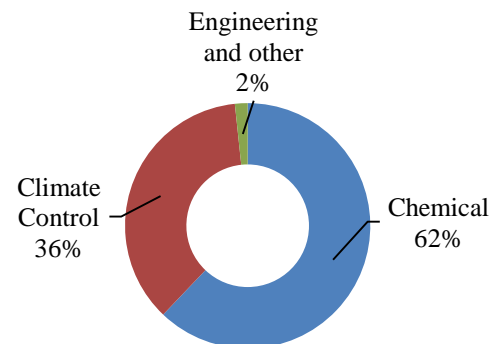
LSB operates a well-diversified business with differentiated market positions across two distinct business segments

# Business overview

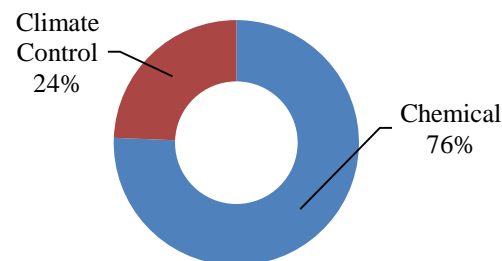
## Business overview

- Diversified industrial manufacturer of chemicals and HVAC products sold into a wide range of end markets
- Founded in 1968 and headquartered in Oklahoma City, OK; publicly traded (NYSE: LXU)
- Chemical business operates 4 production facilities
  - El Dorado Chemical Company (“EDC”) (Arkansas)
  - Cherokee Nitrogen LLC (Alabama)
  - Pryor Chemical Company (Oklahoma)
  - El Dorado Nitric LLC (“Baytown”) (Texas)
- Climate Control business operates 7 facilities located in Oklahoma City (over 1 million square feet)
- Financial snapshot:
  - 2014 net sales of \$732.5 million
  - 2014 EBITDA of \$89.8 million<sup>(1)</sup>

## Net sales by business segment (2014)



## EBITDA by business segment (2014)



Note: Excludes unallocated corporate expenses.

**LSB operates a well-diversified business with differentiated market positions across two distinct business segments**

(1) Includes insurance proceeds of \$28.0 million

# One of LSB's two core businesses – Chemical

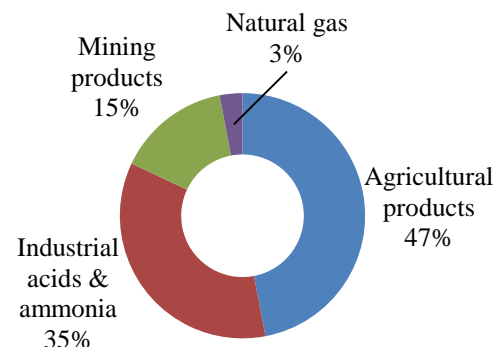
## Business overview

- Provides nitrogen based agricultural, mining and industrial chemicals to North American market
- Leading merchant marketer of nitric acid in the U.S.
- Major investments underway to reduce costs and increase facility reliability and capacity
- Positioned to benefit from strong agricultural market with favorable margins

## Select customers



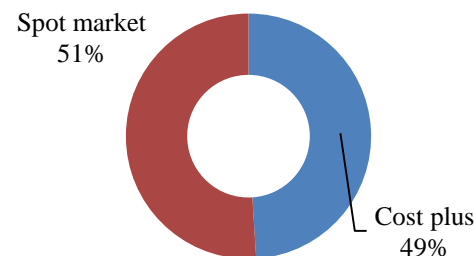
## Sales mix



2014 sales: \$455 million

*A key strategy is to optimize sales mix: industrial vs. agricultural*

## Cost-plus agreements versus spot market sales



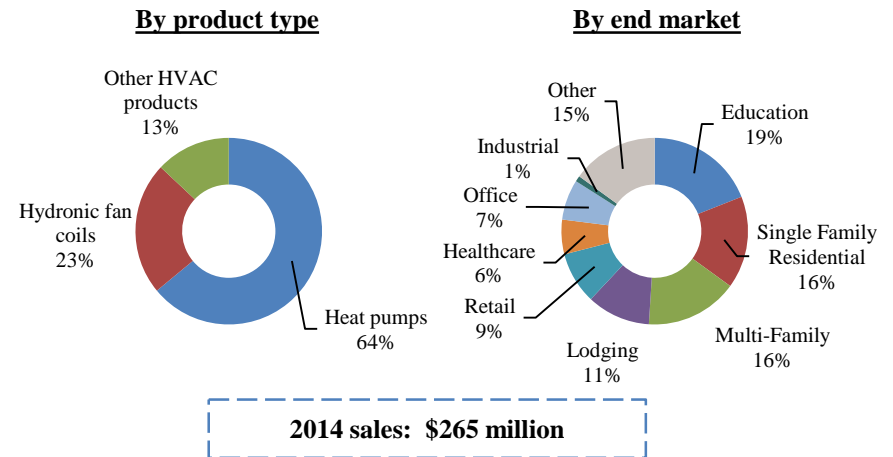
*Approximately half our sales are non-seasonal and priced pursuant to cost-plus agreements*

# One of LSB's two core businesses – Climate Control

## Business overview

- Provides specialty HVAC products to commercial, institutional and residential new construction, renovation and replacement markets, emphasis on green products
- Market and technology leader for water source and geothermal heat pumps, and hydronic fan coils
- Poised to benefit from the economic recovery, long-term trend toward green construction, and growth of emerging products

## Sales mix



## Significant installed base of Climate Control products



World Financial Center, NYC



Chicago Hilton and Towers



Wynn Resort, Las Vegas



Disney's Grand Floridian, Orlando



Atlantis, Bahamas



Millennium Towers, NYC



Bellagio, Las Vegas



MGM Grand, Las Vegas



Statue of Liberty



Trump Tower, NYC

# Market overview

LSB is well-positioned in end markets with attractive industry fundamentals



# Chemical Business – Diverse products with broad application

	Products	Uses	Competitors
<b>Agro-Chemicals</b> (47% of sales)	■ Urea ammonium nitrate solutions (UAN)	■ Fertilizer for corn and other crops	■ CF Industries, PCS, Koch Industries, Rentec, CVR Partners, imports
	■ Ammonium nitrate – high density prills (AN)	■ Primary nitrogen component in NPK fertilizer blends	■ CF Industries, imports
	■ Ammonia	■ High nitrogen content fertilizer primarily used for corn	■ Various
<b>Industrial Acids, Ammonia &amp; DEF</b> (35% of sales)	■ Nitric acid	■ Semi-conductor, nylon, polyurethane intermediates, ammonium nitrate	■ CF Industries, PCS
	■ Sulfuric acid	■ Pulp and paper, alum, water treatment, metals and vanadium processing	■ Cytec, Chemtrade Logistics
	■ Ammonia	■ Power plant emissions abatement, water treatment, refrigerants, metals processing	■ Various
	■ Diesel exhaust fluid (DEF)	■ Exhaust stream additive to reduce NO <sub>x</sub> emissions from diesel vehicles	■ Various
<b>Mining Products</b> (15% of sales)	■ Ammonium nitrate – low density prills (AN) and AN solutions	■ Specialty emulsions for mining applications	■ CF Industries, PCS, Dyno Nobel America
	■ Specialty E2 ammonium nitrate	■ Surface mining, quarries, construction	■ Imports

# Agro Chemicals – attractive industry fundamentals

## World situation

- Growing populations
- Developing economies
- Changing dietary habits (from grain to meat)

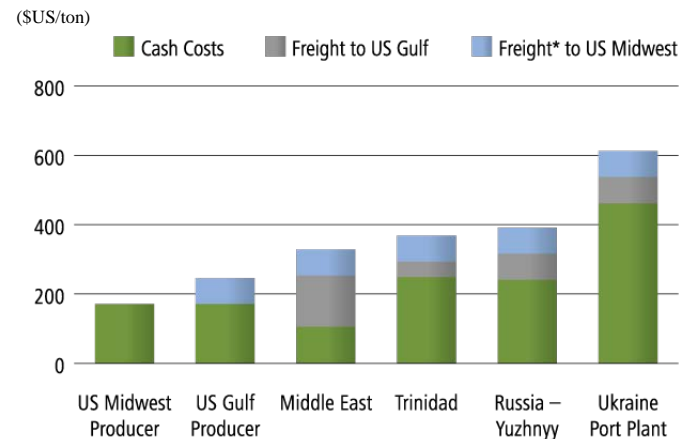
## North American situation

- World grain shortages positively impact grain requirements in the U.S.
- Despite lower grain prices, the USDA is projecting less than a 2% drop in corn acres planted in 2015 versus 2014.
- Additional nitrogen application expected for spring 2015 to make up for 2014's delayed and shortened application season.
- U.S. grain stocks are at 12-year highs leading to lower current and expected corn prices.

## North America is low cost producer of nitrogen fertilizers

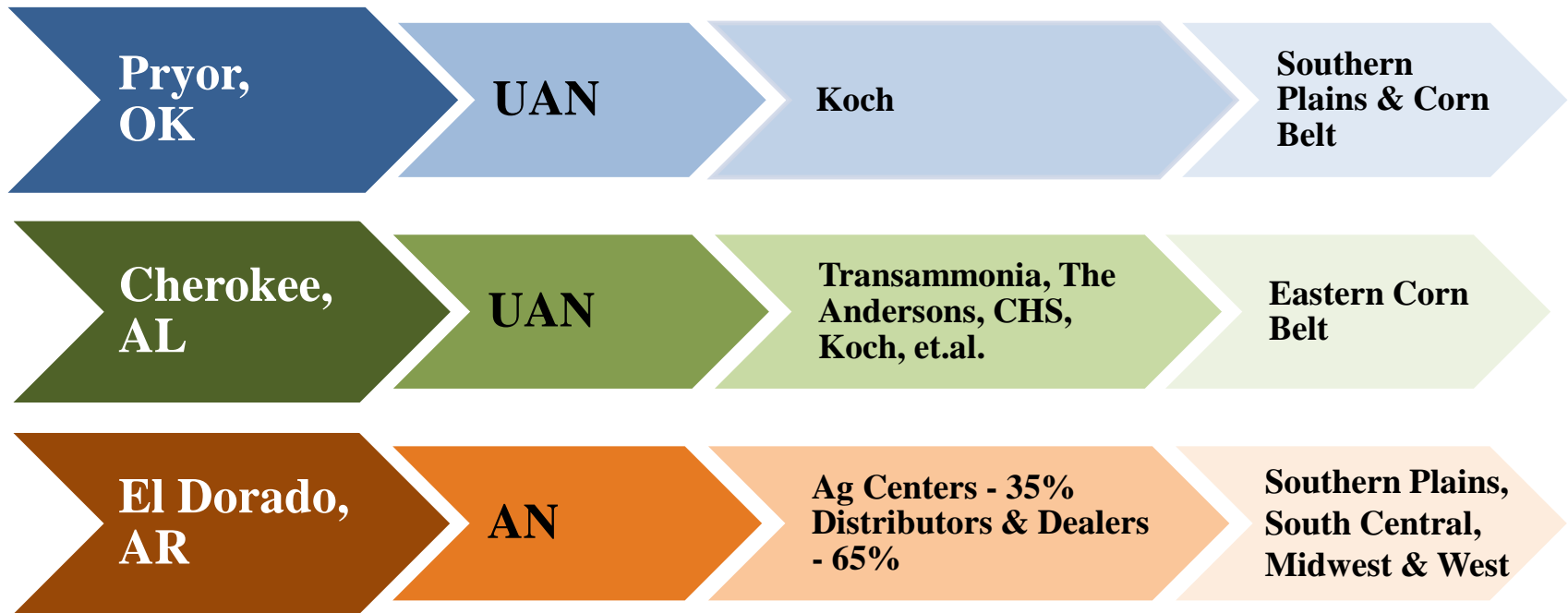
- Natural gas is the primary feedstock for ammonia and all nitrogen fertilizers.
- Due to large shale gas reserves, U.S. has relatively low natural gas prices vs. most places worldwide.
- Natural gas is expected to average approximately \$3.00 per MMBtu for 2015.

## U.S. Midwest delivered ammonia cost forecast



Source: Fertecon, PotashCorp (2014)

# Chemical Business – LSB's agricultural distribution



- ✓ Multiple distribution channels
- ✓ Diverse geographic coverage
- ✓ Longstanding customer relationships
- ✓ Direct rail linkage to corn belt



# Chemical facilities

Facility		El Dorado Chemical Company	Cherokee Nitrogen LLC	Pryor Chemical Company	El Dorado Nitric LLC
Location		El Dorado, AR	Cherokee, AL	Pryor, OK	Baytown, TX
Year Acquired/Built		1983	1999	2000	2000
Ammonia Design		Kellogg	Kellogg	Pritchard	-
Plant Area (acres)		150	160	47	2
Site Area (acres)		1,400	1,300	104	Bayer site
Feedstock		ammonia	natural gas	natural gas	ammonia
Agricultural Products	UAN		X	X	
	High Density AN	X			
	Ammonia		X	X	
	Urea		X	X	
Industrial & Mining Products	Nitric Acid	X	X	X	X
	Concentrated Nitric Acid	X			
	Sulfuric Acid	X			
	Mixed Acid	X			
	Carbon Dioxide		X	X	
	Ammonia		X	X	
	DEF		X		
	Low Density AN	X			
	AN solutions	X	X		
Transportation to Market		truck, rail	truck, rail, pipeline	truck, rail	truck, pipeline

El Dorado Chemical Co.



Cherokee Nitrogen LLC



Pryor Chemical Co.



El Dorado Nitric LLC



# Annual production capacity of products available for sale

(Tons in thousands)







Facility		El Dorado Chemical Company	Cherokee Nitrogen LLC	Pryor Chemical Company	El Dorado Nitric LLC	Total
Feedstock		ammonia / natural gas	natural gas	natural gas	ammonia	
Ammonia Production Capacity		220 <sup>(1)</sup> /375	175	215	-	610/765
Products Available for Sale						
Agricultural Products	UAN		215	300		515
	High Density AN <sup>(2)</sup>	110/300				110/300
	Ammonia	125	30	85		115/240
Industrial & Mining Products	Nitric Acid	45/200	30		410	485/640
	DEF		15			15
	Low Density AN <sup>(2)</sup>	220/220				220
	AN solutions		85			85
Transportation to Market		truck, rail	truck, rail, pipeline, barge	truck, rail	truck, pipeline	

**Red Font** = production capacities after the completion of the ammonia and nitric acid expansion projects at El Dorado

(1) Represents amount of ammonia currently purchased

(2) Combined annual low density and high density AN production capacity is limited to 330,000/TPY due to the loss in 2012 of 90,000/TPY of nitric acid production capacity

# Climate Control – Serving the industrial and commercial sectors

Products	Uses	
<b>Water Source &amp; Geothermal Heat Pumps</b> (64% of sales)	<ul style="list-style-type: none"> <li>■ Water Source Heat Pumps               <ul style="list-style-type: none"> <li>■ Heating and cooling                   <ul style="list-style-type: none"> <li>– Commercial / Institutional</li> </ul> </li> </ul> </li> <li>■ Geothermal Heat Pumps               <ul style="list-style-type: none"> <li>– Single family residential including new construction, renovation and replacements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Leading share in water source and geothermal heat pumps</li> </ul> 
<b>Hydronic Fan Coils</b> (23% of sales)	<ul style="list-style-type: none"> <li>■ Hydronic Fan Coils               <ul style="list-style-type: none"> <li>■ Heating and cooling                   <ul style="list-style-type: none"> <li>– Commercial / Institutional</li> <li>– Single family residential including new construction, renovation and replacements</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Leading share in hydronic fan coils</li> </ul> 
<b>Other HVAC Products</b> (13% of sales)	<ul style="list-style-type: none"> <li>■ Large Custom Air Handlers</li> <li>■ Modular Chillers</li> <li>■ Make-up Air Units</li> <li>■ Large Custom Air Handlers</li> </ul>	<ul style="list-style-type: none"> <li>■ Commercial</li> <li>■ Institutional</li> <li>■ Industrial</li> </ul>    

# LSB's strategic plan

LSB is implementing operating and capital improvement plan that is expected to drive shareholder returns



# Executing on strategic plan to drive growth and enhance shareholder value

## Comprehensive upgrade of Chemical facilities

- Improve plant on-stream rates
- Reduce risks of unplanned downtime
- Improving safety and plant reliability

## Pryor facility reliability improvements

- New senior management
- Additional engineering support
- Extensive monitoring and control equipment
- Remanufacture or replacement of certain key pieces of equipment
- Use of industry expert consultants

## Expansion projects at El Dorado

- Cost reduction
- Capacity expansion
- Product balance capability enhancement

## Positioning the Climate Control business to generate significant margins

- Growth in Climate Control business as construction cycle recovers
- LEAN / operational initiatives in our Climate Control business
- Increased profits through operating leverage
- New management at ClimateMaster



# Chemical Business – El Dorado expansion expected to improve operations / reliability and capacity

## El Dorado ammonia plant

### Overview and benefits

- Capital investments of \$275–\$300 million
- Reduces costs significantly (versus purchased ammonia)
- Enhanced product balance opportunities
- New production capacity
  - Currently purchase ~220,000 tons per year (“TPY”)
  - New ammonia plant capacity of ~375,000 TPY

### Progress to date

- \$128 million spent through 12/31/14
- Front-end engineering design completed
- Foundations and plant infrastructure well in place
- Commenced staffing and training in preparation for plant start-up beginning Q1 2016

### 2015 outlook

- \$147-\$172 million to be spent to complete project
- Complete aboveground piping, instrumentation and electrical and staffing and training
- Mechanical completion of plant
- Complete commissioning in Q4 2015 and start-up beginning in Q1 2016

## El Dorado nitric acid plant and concentrator

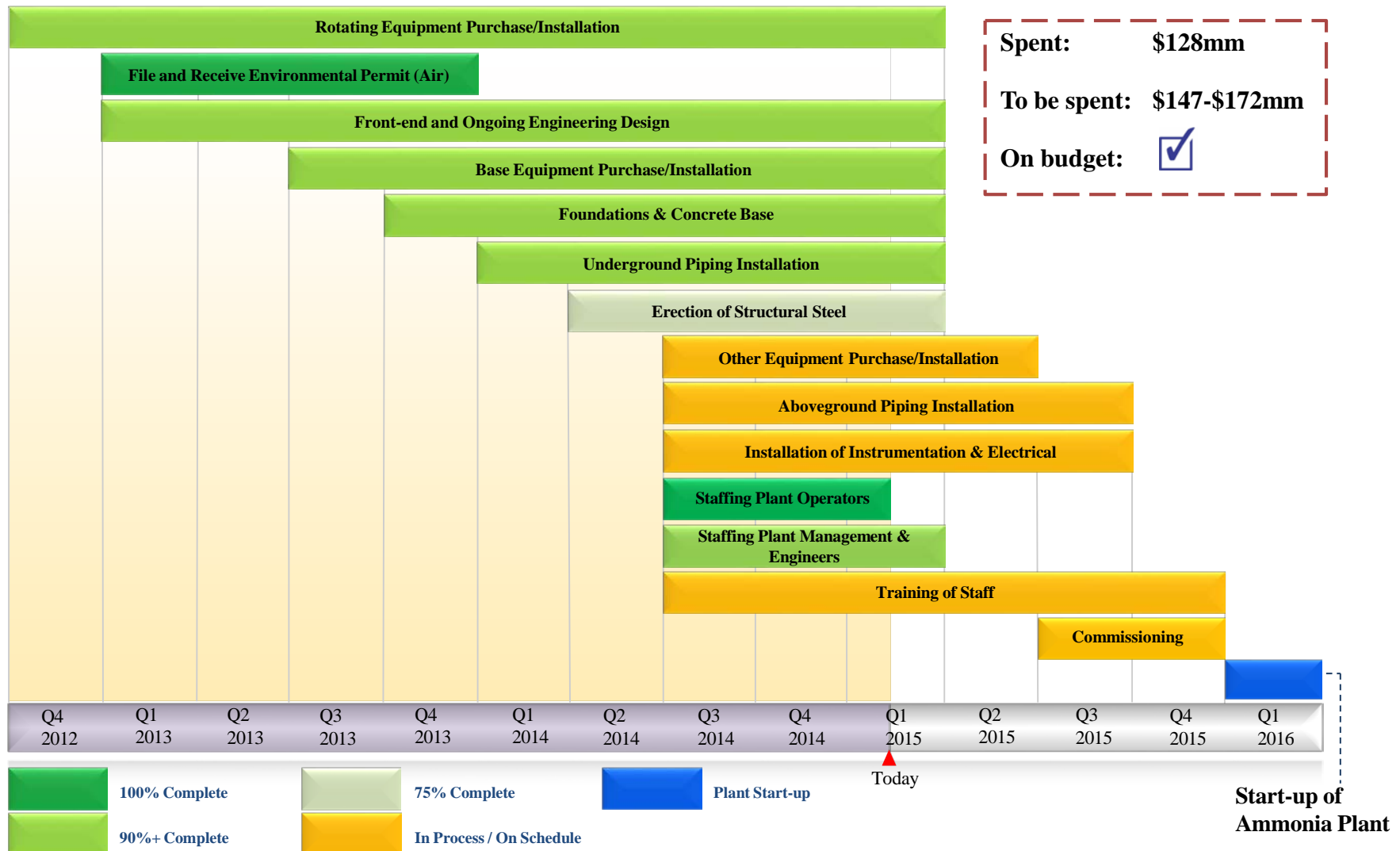
- Capital investments of \$125–\$130 million
- Improves operating characteristics
- Enhanced product balance opportunities
- Replaces acid capacity and adds additional capacity for a total of 370,000 TPY

- \$96 million spent through 12/31/14
- Detailed engineering completed to allow for project cost and schedule control
- Foundations, structural steel and underground piping completed
- Commenced staffing and training in preparation for start-up in Q3 2015

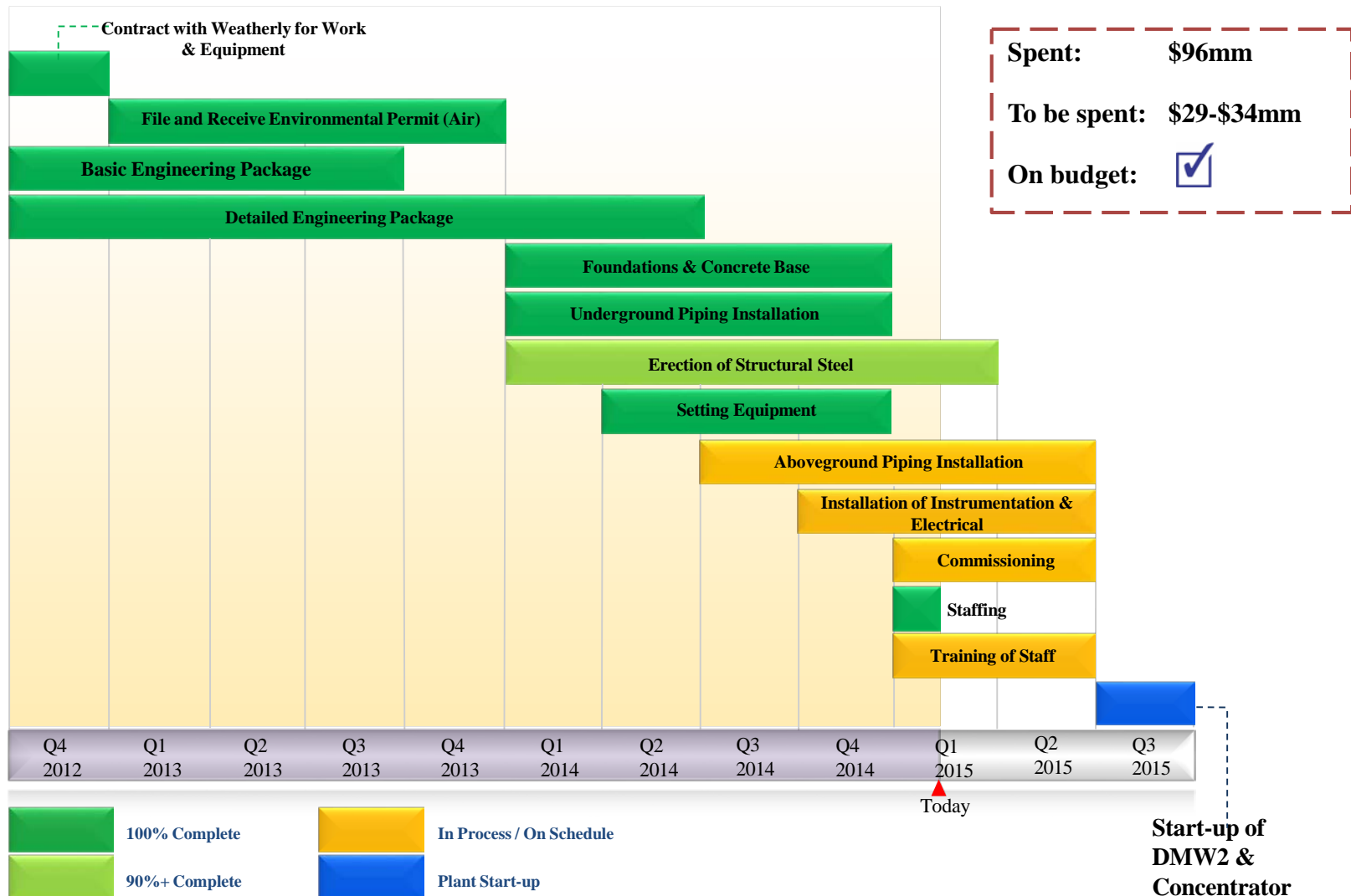
- \$29-34 million to be spent to complete project
- Complete above ground piping and instrumentation and electrical in Q1/Q2 2015
- Complete commissioning, staffing and training in Q2 2015
- Start-up of both plants in Q3 2015

*Completion of El Dorado projects expected by Q1 2016, on budget and on schedule with contemplated plan*

# El Dorado ammonia plant project on time and on budget



# Nitric Acid plant & concentrator project timeline

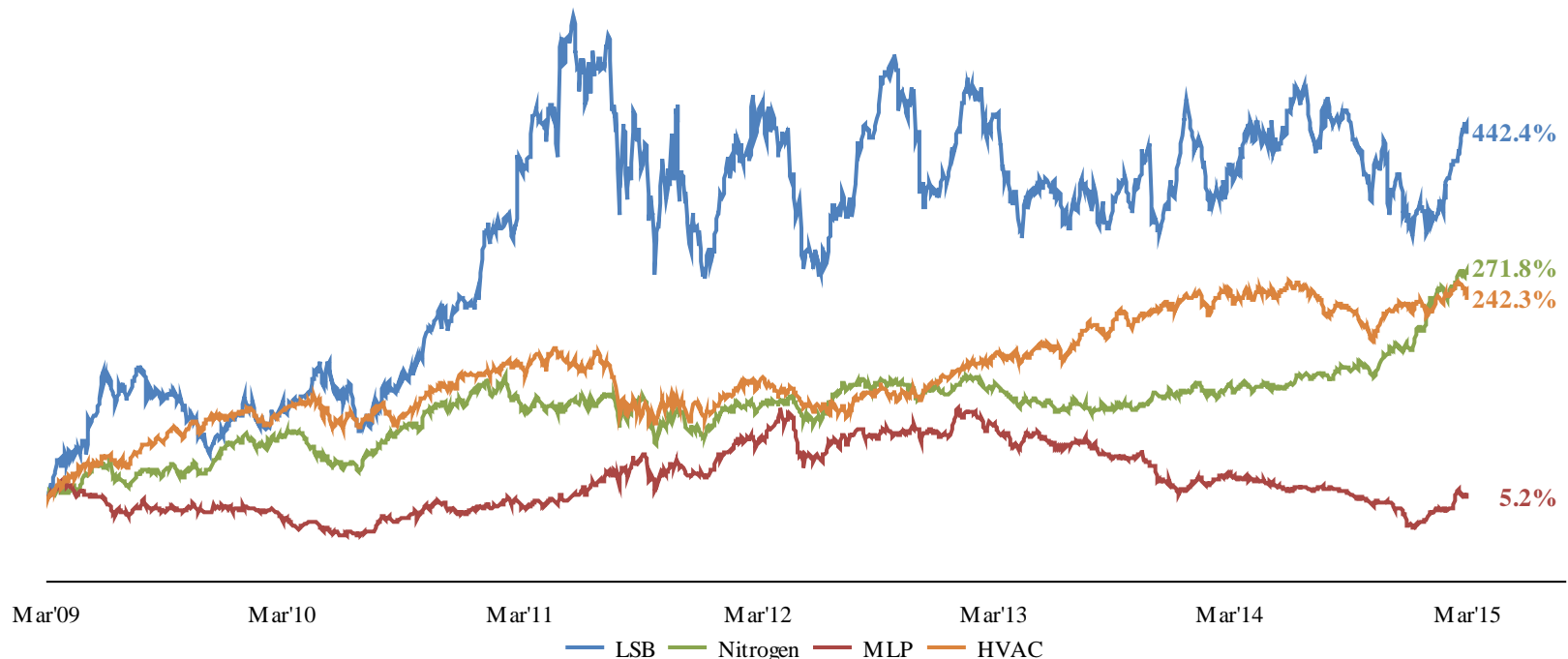


# Financial overview

LSB has a strong financial position

# The Company has delivered value to shareholders, having outperformed its peer group coming out of the financial crisis

## Indexed share price performance – last 6 years



**LSB's Board and management have a track-record of delivering shareholder value**

Notes: Nitrogen: Acron, Agrium, CF Industries, Incitec Pivot and Yara International  
MLP: CVR Partners, Rentech Nitrogen Partners and Terra Nitrogen Company  
HVAC: A.O Smith, AAON, Generac, Ingersoll-Rand, Johnson Controls, Lennox, Nortek, Schneider Electric and United Technologies

# Segment summary statement of income

## *Chemical Business*

<i>\$ in millions</i>	Calendar Year Ended Dec. 31,				
	2010	2011	2012	2013	2014
Sales	\$351.1	\$511.9	\$477.8	\$380.7	\$454.9
Gross Profit	49.3	130.7	97.7	46.2	66.6
Gross Profit %	14.0%	25.5%	20.4%	12.1%	14.6%
Operating Income	31.9	116.5	82.1	87.8	51.3
Segment EBITDA	\$45.0	\$131.2	\$98.5	\$111.4	\$82.2
Adjusted EBITDA <sup>(1)</sup>	\$37.7	\$122.6	\$91.2	\$16.8	\$56.3

## *Climate Control Business*

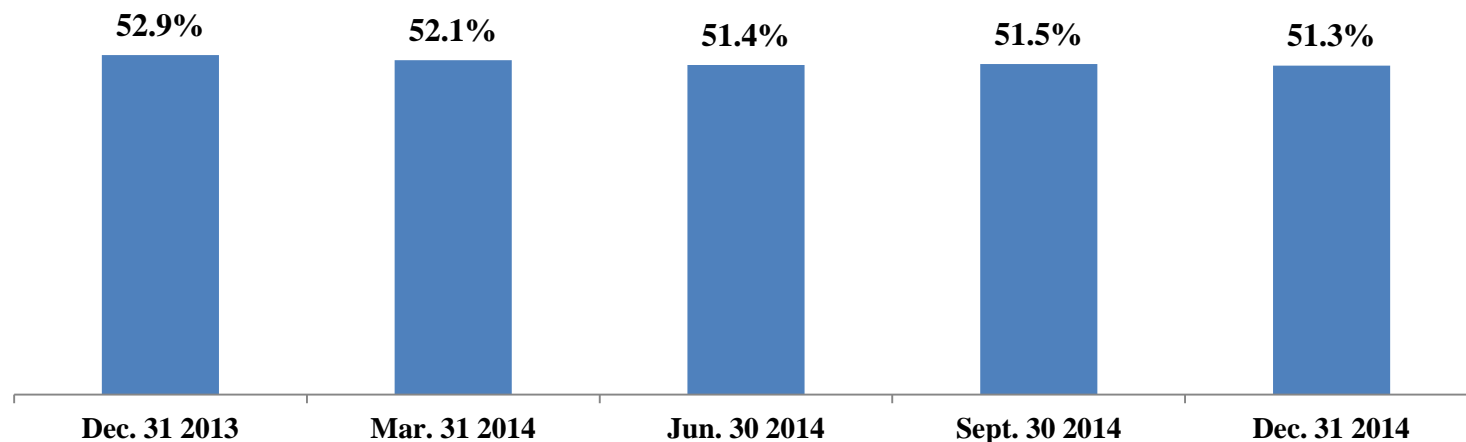
<i>\$ in millions</i>	Calendar Year Ended Dec. 31,				
	2010	2011	2012	2013	2014
Sales	\$250.5	\$281.6	\$266.2	\$285.0	\$265.4
Gross Profit	86.4	88.2	81.0	92.9	82.4
Gross Profit %	34.5%	31.3%	30.4%	32.6%	31.0%
Operating Income	35.3	32.8	25.8	30.4	21.7
Segment EBITDA	\$38.8	\$35.5	\$29.0	\$33.6	\$26.5

(1) Adjusted EBITDA excludes insurance recoveries of the following amounts: \$7.5mm in 2010, \$8.6mm in 2011, \$7.3mm in 2012, \$94.6mm in 2013, and \$28.0mm in 2014. Adjusted EBITDA for 2014 also excludes unrealized loss on forward natural gas purchase commitments of \$2.1mm. See reconciliation on slide 43 of the appendix.

# Solid financial position – strong balance sheet

<i>(\$ in millions)</i>	<b>Dec. 31, 2014</b>	<b>Dec. 31, 2013</b>
Cash and Investments (including non-current)	\$272.6	\$434.7
Total Debt <sup>(1)</sup>	457.3	463.0
Stockholders' Equity	434.0	411.7
Total Capitalization	891.3	874.7

## Debt to capital



(1) As of December 31, 2014, total debt consisted of \$425 million 7.75% Senior Secured Notes due in 2019; a \$22.8 million Secured Promissory Note due in February 2016 and \$9.5 million of equipment loans and capital leases. Our availability under the \$100 million working capital revolver loan was \$71.1 million at December 31, 2014

# Capital structure

## As of December 31, 2014

Cash and Investments	\$	(272.6)
Senior Secured Notes (7.75%)		425.0
Other Debt		<u>32.3</u>
<b>Total Net Debt</b>	<b>\$</b>	<b><u>184.7</u></b>
EBITDA for FY 2014	\$	89.8
<b>Net Leverage Ratio</b>		<b>2.1x</b>
<b>EBITDA / Interest Expense</b>		<b>2.5x</b>

## Overview of Outstanding Debt

### Senior Secured Notes

- \$425 million
- 7.75%
- Due August 2019

### Working Capital Revolver

- \$100 million (L + 150)
- \$71.1 million availability
- Expires April 2018

Ratings	Moody's	S&P
Corporate	Ba3	B+
First Lien	Ba3	B+
Outlook	Stable	Positive



# 2017 targets by segment

## Chemical Business

### Financial Metrics:

2014-2017 Revenue Growth:	12%+ CAGR
2017 EBITDA Margin:	30%+
2017 Operating Margin:	20%+

### Annual Production (tons):

Gross Ammonia	<u>750,000</u> – <u>800,000</u>
Net Ammonia	220,000 – 250,000
UAN	475,000 – 525,000
AN and AN Solutions	650,000 – 700,000
Nitric Acid <sup>(1)</sup>	80,000 – 100,000

### On-Stream Rates<sup>(2)</sup>:

Ammonia plants	95%+
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## Climate Control Business

### Financial Metrics:

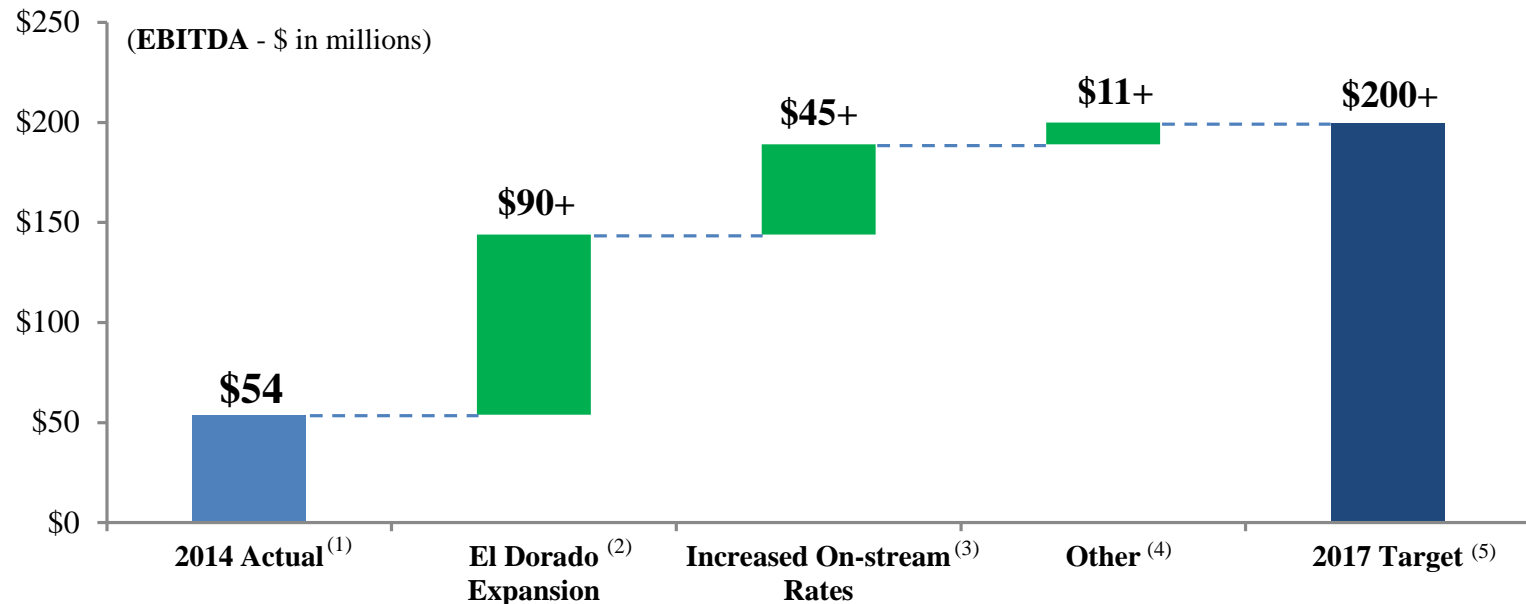
2014-2017 Revenue Growth:	10%+ CAGR
2017 EBITDA Margin:	15%+
2017 Operating Margin:	14%+

- Operating leverage on incremental sales of 20%+
- Lean/OpEx initiatives create additional 250+ basis points of margin
- Minimal working capital and capex requirements lead to strong segment FCF generation
- Selected bolt-on acquisitions could potentially enhance revenue growth

(1) Does not include Baytown facility's production

(2) Weighted average based on average daily production rates at EDC, Pryor, and Cherokee and assuming normal turnaround schedules

# Chemical Business target earnings power – 2017



## Chemical Business Drivers

- Improved on-stream rates
- Expanded capacity
- Higher average daily production
- Lower feedstock costs at El Dorado
- Improved reliability
- Higher annual production

- (1) 2014 actual excludes \$28 million of insurance proceeds and does not normalize for unplanned downtime during the year
- (2) EDC expansion represents the projected EBITDA resulting from the operation of the new ammonia and nitric acid plants assuming \$500 per ton ammonia prices and \$5.00 per MMBtu natural gas prices
- (3) Assumes ammonia plants (Pryor and Cherokee) have an average on-stream rate of 95%+ for 2017
- (4) Turnaround expenses (Cherokee turnaround moved from annual to bi-annual turnaround)
- (5) Targeted segment EBITDA does not include unallocated corporate expenses

# Chemical EBITDA - sensitivity analysis for 2017

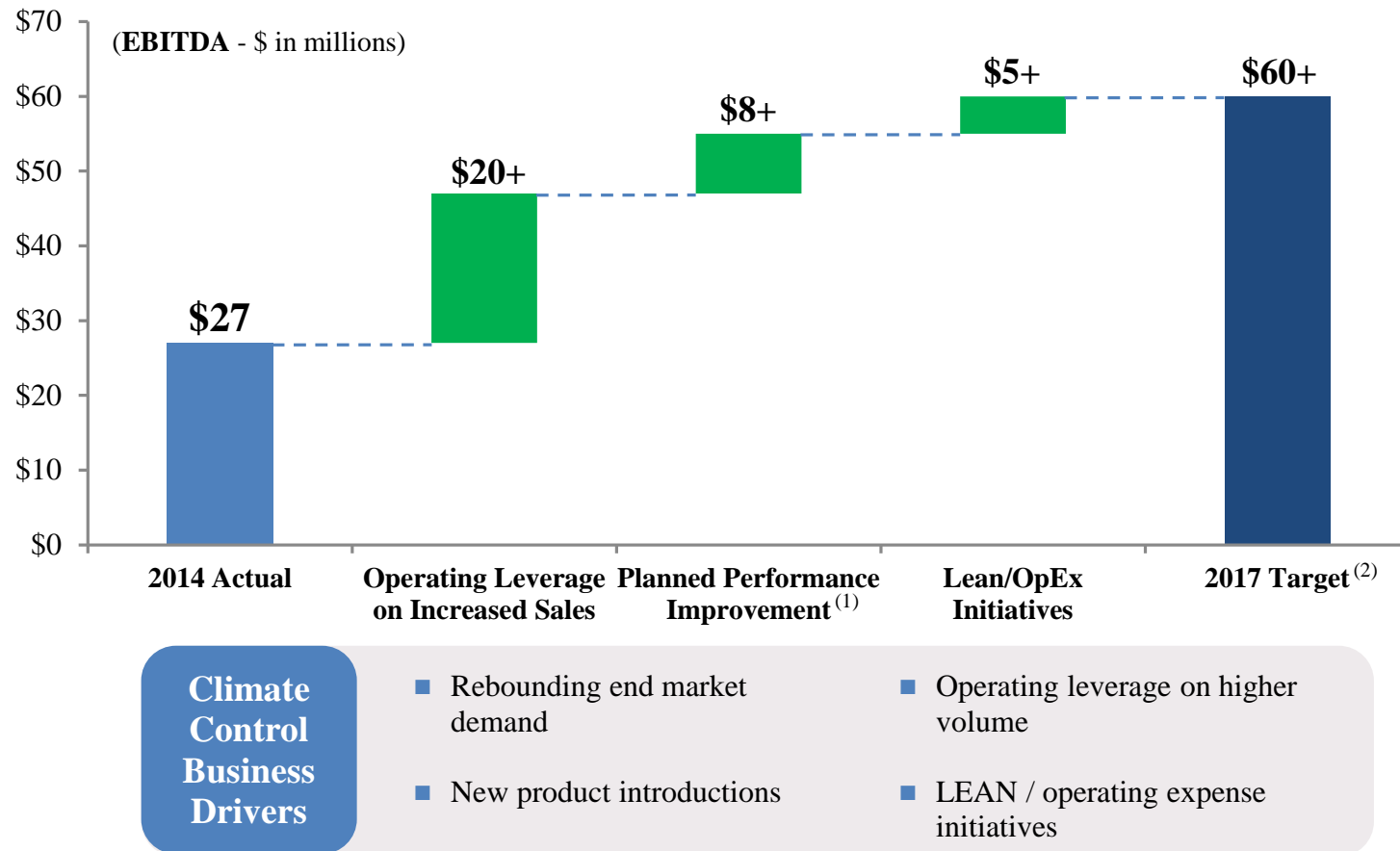
(EBITDA - \$ in millions)

		Natural Gas per Mmbtu				
		\$5.00	\$4.50	\$4.00	\$3.50	\$3.00
Ammonia per ton	\$600	\$ 265	\$ 273	\$ 282	\$ 290	\$ 299
	\$550	\$ 238	\$ 246	\$ 255	\$ 263	\$ 272
	\$500	\$ 211	\$ 219	\$ 228	\$ 236	\$ 245
	\$450	\$ 184	\$ 192	\$ 201	\$ 209	\$ 218
	\$400	\$ 157	\$ 165	\$ 174	\$ 182	\$ 191

## Key factors in model above:

- Average ammonia plants on-stream rate of 95%+
- Average daily production rates are maintained
- Mining sales volumes replaced at El Dorado
- EDC ammonia plant and nitric acid plant are up and producing for the entire year
- Assumes that a \$50 per ton change in ammonia price is equivalent to a \$21 per ton change in UAN price and a \$23 per ton change in AN price

# Climate Control Business target earnings power - 2017



(1) Planned performance improvement at our custom air handler, modular chiller and construction services businesses through increased sales and margins  
 (2) Targeted segment EBITDA does not include unallocated corporate expenses

# Strategic committee results

LSB believes there is merit to pursuing value creating alternatives once the operating and capital plan for the chemical business is implemented

# Summary of strategic committee review

## **Independent, highly qualified committee of shareholder representatives**

- Strategic Committee established in accordance with April 2014 settlement agreement with Starboard Value LP (“Starboard”)
- Comprised of four independent directors: Webster (“Lance”) Benham, Charles Burtch, Daniel Greenwell and William Murdy
- Messrs. Greenwell and Murdy appointed to the Board in connection with the Starboard settlement
- 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

## **Mandate included a thorough evaluation of potential strategic alternatives**

- Sale of the Climate Control business completed as soon as realistically practicable – (9/30/2015) or once the business has regained strong momentum – (12/31/2016)
- Spin of the Climate Control business completed as soon as realistically practicable – (12/31/2015)
- MLP of the Chemical assets completed as soon as realistically practicable – (12/31/2015) or once the expansion at EDC is complete and the asset has a track record – (12/31/2016)
- Continuing to execute the Company’s strategic plan

# Robust strategic committee process

## **Process included holding numerous meetings over 8 months**

- Received independent financial, legal and tax advice, including discussions with outside legal counsel experienced in the formation of MLPs
- Met with Starboard, reviewed materials prepared by Starboard and carefully considered Starboard's input

## **Thoughtful analysis of financial implications of each alternative**

- Evaluated breakage costs associated with restructuring long-term debt
- Tax consequences (as applicable) for each option considered
- Estimated transaction fees and incremental corporate costs
- Estimated refinancing benefits derived from breaking existing bonds
- Evaluated near-term liquidity and leverage impacts to LSB implied by each alternative

# Determination: Execute strategic plan at this time

**Execution of Company's existing strategic plan to drive profitable growth and create sustainable shareholder value is in best interests of all shareholders at this time and preserves optionality for pursuit of an MLP going forward**

**Timing is a core consideration for each alternative**

- Near-term spin of Climate Control Business would substantially increase leverage of LSB at a time when the Company most needs to preserve liquidity and maximize free cash flow
- Sale of Climate Control Business now would fail to generate proceeds that reflect the potential of the business, given investments LSB is making to improve both sales volume and margins
- MLP not appropriate at this time given recent market conditions / unique profile of an LSB MLP formed by the Chemical Business assets
  - Optionality for establishment of an MLP in the future should be preserved and the Company should take the appropriate steps to enable the efficient establishment of an MLP should that make sense post EDC expansion

**Strategic Committee will continue to evaluate all alternatives as current company initiatives underway are implemented and as market conditions warrant**

- Near-term focus on providing oversight / additional recommendations to LSB management team to assist in execution of the Company's plan

**Potential spin or sale of Climate Control assets from Chemical Business may be step for consideration once expansion projects at chemical facilities are complete**

- Implementing actions to lower production costs, improve manufacturing efficiency, drive sales growth and enhance profitability of the Chemical Business facilities
- Implementing actions to grow the Climate Control Business and generate significant margin improvement in that business over the next several years



# Spin-off would reduce liquidity and increase leverage on LSB at a critical time for the company

- At this point in time, the Committee believes the current operating conditions and business leverage render a near-term spin-off of the Climate Control business impractical

## Bonds

- ~ \$33M bond breakage costs if bonds taken out at 12/31/15
- Potentially challenging market conditions for a new issue to refinance existing bonds

## Liquidity

- Results in insufficient cash position to complete EDC expansion projects

## Costs

- Large amount of transaction fees and expenses at time when liquidity is scarce and cash is needed to complete key growth projects
- Opportunity cost of focusing on spin of business versus executing business plan

## Leverage

- Unacceptably high leverage for Chemicals business following the transaction
- While theoretically supported by cash flow, will not be supported in capital markets or will not receive attractive terms from investors

# Seeking to access equity markets in near term will dilute long-term upside potential for Isb shareholders

- While an MLP of the Chemical Business may be an appropriate strategy at a point in time post EDC expansion, now is not the right time to focus Management resources on executing an MLP given the state of the markets and the growth projects on time and on budget

## Yield

- Relatively small MLP in size, absent the revenue benefit of the completed EDC expansion
  - As a result, post-IPO trading volumes would likely be low
  - This would impact liquidity and potentially result in an incremental discount by investors

## Capex / Free cash flow

- Need to complete EDC plant expansion projects limits near term cash flow available for distribution
- MLP investors seek less volatile cash flows and more fully developed assets

## Valuation

- Nitrogen MLPs are significantly more volatile over time than Nitrogen C-Corporations
- Potential valuation discount given lack of scale
- Investors will not place premium value on unproven assets given the lack of track record of consistent production at Pryor at the time of an IPO

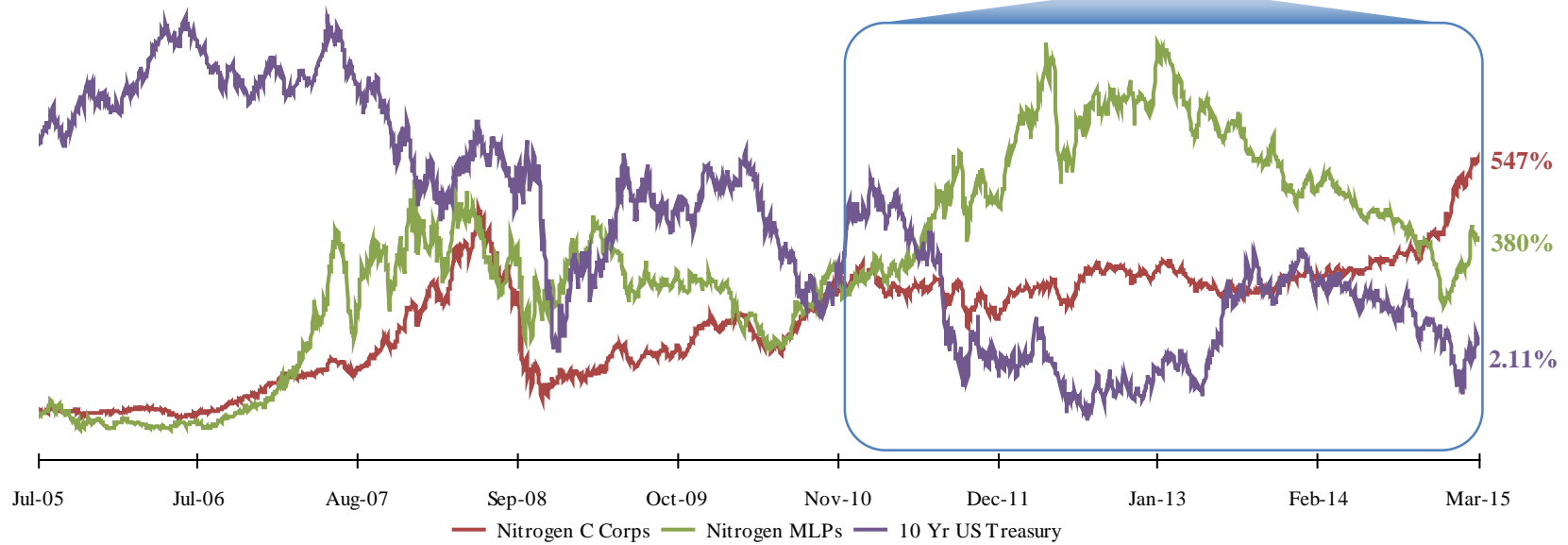
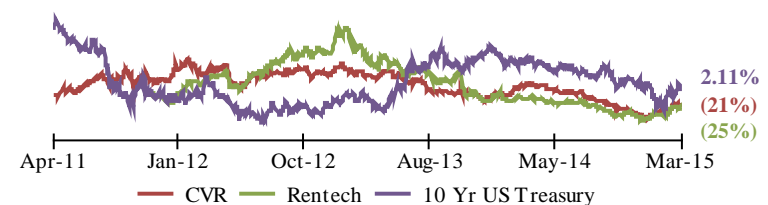
# An MLP would not obtain optimal value given current market conditions

- Sharp decline in MLP performance over past three years
- Rising rate environment makes investment in MLP vehicles less attractive

Share / unit performance over the previous:

	1 year	2 years	3 years	Since July 2005
Nitrogen C Corps	60%	56%	79%	547%
Nitrogen MLPs	(21%)	(41%)	(34%)	380%
10 Yr Treasury (average)	2.38%	2.44%	2.22%	3.25%

Performance since IPO – CVR and Rentech



Notes: Nitrogen C Corps include Yara International, Agrium, CF Industries, Incitec Pivot and Acron  
 Nitrogen MLPs include Terra Nitrogen, CVR Partners (IPO in April 2011) and Rentech Nitrogen Partners (IPO in November 2011)

# Why LSB? Executing on strategic plan to drive growth and enhance shareholder value

**1 Operates well-diversified business with differentiated market positions across two distinct business segments**

**2 Well-positioned in end markets with attractive industry fundamentals**

**3 Implementing operating and capital improvement plan to enhance plant performance and reliability**

**4 Strong financial position**

**5 Focused on creating and delivering value to shareholders**

# Appendix

# Board with knowledge and expertise critical to the Company's success

## **Independent Board with new perspective**

- 8 of 10 members are independent
- 5 directors have been added in the last 24 months – two of whom were designated by Starboard

## **Highly experienced relevant background in Climate and Chemical businesses**

- Significant public company board experience
- Relevant backgrounds in chemical and climate control businesses, accounting and corporate
- Deep governance and financial expertise

## **Board and management interest closely aligned with LSB shareholders**

- Board and management hold an ownership of approximately 20% and our interests are closely aligned with LSB shareholders
- Board and management remain focused on shareholder returns

# Management's experience and past accomplishments will guide the successful execution of its current initiatives

## Key initiatives

---

- Building EDC ammonia plant to materially reduce future costs and add incremental ammonia capacity and product for sale
- Comprehensive upgrade of Chemical Business safety and plant reliability systems to improve plant up-time and reduce unplanned downtime
- Pryor facility reliability improvements
  - Including new senior management, additional engineering support, extensive monitoring and control equipment, remanufacture of certain key pieces of equipment, and use of industry expert consultants
- LEAN / Operational Excellence initiatives in Climate Control Business to facilitate improved operational metrics and reduce costs
- Launched search process for a President of the Chemical Business who has significant experience in multi-plant operations, sales/marketing and overall P&L responsibility

## Key accomplishments

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### **CEO Barry Golsen has a track record of successfully leading change and driving improvements at LSB**

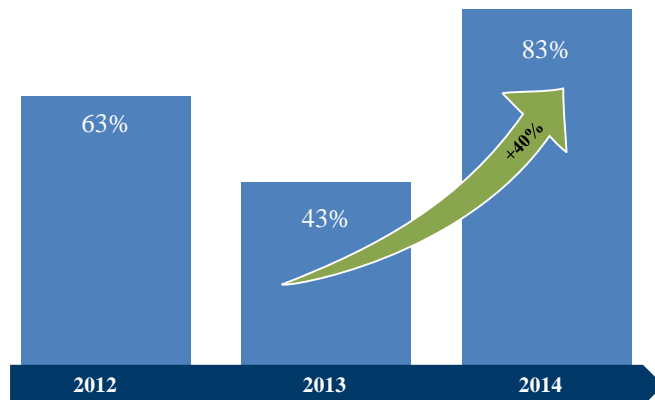
- Grew the Climate Control business from \$10 million in revenues and breakeven EBITDA to peak revenues of \$311 million and EBITDA of \$44 million while creating leading market positions in the Company's core products
- Diversified the Group's business from a single product to multiple products while increasing the Company's addressable market
- Spearheaded the start-up of the Group's heat pump business and the subsequent acquisition of its major competitor (\$31 million in revenues) that was used as a base to attain leading shares in North America for water source and geothermal heat pumps
- Since taking over leadership of the Chemical business in 2013, Barry has already driven major operational and plant management improvements including several management changes within the business
- Led the \$425 million debt financing that is being used to fund the Expansion Projects at El Dorado

# Significant progress has been made to improve reliability at Pryor

Key initiatives undertaken to-date

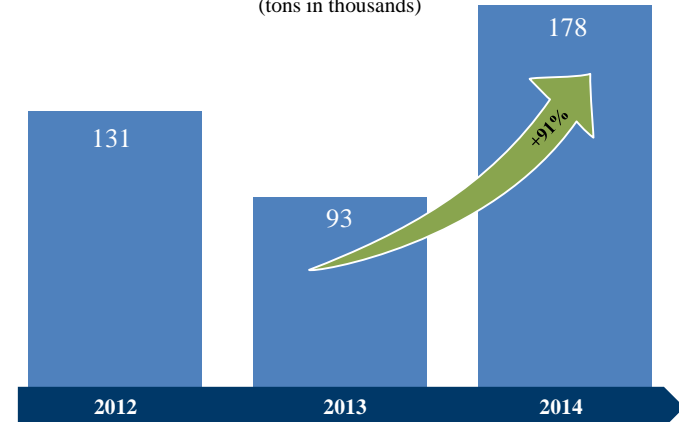
- New senior management team
- Additional engineering staffing
- Extensive monitoring and control equipment installed
- Remanufacture or replacement of certain key pieces of equipment
- Use of industry expert consultants

Ammonia On-Stream Rate



Ammonia Tons Produced

(tons in thousands)





# Cherokee is well-positioned to be highly profitable

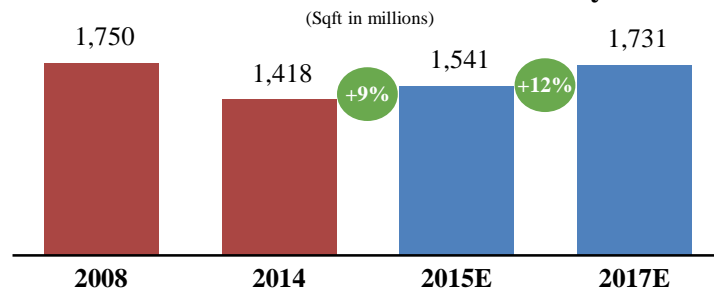
- On-stream rate for ammonia increased from 67% in 2013 to 81% in 2014 with continued improvement to 95%+ in 2017
  - Expected 50-day production improvement
- Extended turnaround performed in 2014 to change out certain end-of-life parts and move plant to a two-year turnaround cycle
  - Adds 14 days of additional production every 2 years
- Implemented improved safety and reliability programs aimed at reducing plant downtime
- Task force formed to define and implement specific initiatives to additionally enhance reliability
- Committing to purchase a portion of our expected natural gas usage allows us to lock in primary feedstock costs at attractive rates

# Climate continues to rebound from end-market recovery and internal initiatives

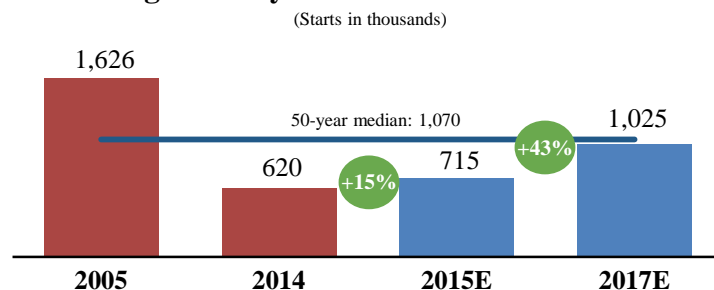
## Construction markets are poised for a recovery to pre-recession levels...

- Significant upside as industry drivers return to levels at / near historical norms
  - Driven by high energy efficiency

### Commercial / Institutional / Multi-Family Starts



### Single Family Residential Construction



## ...and Climate Control has further benefited from internal initiatives

- 1 LEAN Operational Excellence Initiatives
- 2 Strategic use of the current manufacturing footprint creates operating leverage on increased sales
- 3 Introduction / commercialization of new products to further grow market share
- 4 New marketing approach to gain additional sales
- 5 Replacement of management at ClimateMaster, the Company's largest Climate Control business in order to capture the significant growth potential

# EBITDA reconciliations

Reconciliation of Consolidated Net Income and Segment Operating Income to Non-GAAP measurement EBITDA. Management uses operating income by business segment for purposes of making decisions that include resource allocations and performance evaluations. Operating income by business segment represents gross profit by business segment less selling, general and administrative expenses incurred by each business segment plus other income and other expense earned/incurred by each business segment before general corporate expenses.

The term EBITDA, as used in this presentation, is net income plus interest expense, depreciation, amortization, income taxes, and certain non-cash charges, unless otherwise described. EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to GAAP measurement.

(\$ in millions)

	Twelve months ended 12-31				
	2010	2011	2012	2013	2014
<b><u>LSB Industries, Inc. Consolidated</u></b>					
Net income (loss)	\$ 29.6	\$ 83.8	\$ 58.6	\$ 55.0	\$ 19.6
Plus:					
Interest expense	7.4	6.7	4.2	14.0	21.6
Depreciation and amortization	17.4	18.8	20.7	28.4	36.1
Provisions for income taxes	19.8	46.2	33.6	35.3	12.4
Loss from discontinued operations	0.1	0.2	0.2	0.2	0.1
<b>EBITDA</b>	<b>\$ 74.3</b>	<b>\$ 155.7</b>	<b>\$ 117.3</b>	<b>\$ 132.9</b>	<b>\$ 89.8</b>
<b><u>Climate Control Business</u></b>					
Operating income (loss)	\$ 35.3	\$ 32.8	\$ 25.8	\$ 30.4	\$ 21.7
Plus:					
Equity in earnings of affiliate	1.0	0.5	0.7	0.4	0.1
Depreciation and amortization	2.5	2.2	2.5	2.8	4.7
<b>EBITDA</b>	<b>\$ 38.8</b>	<b>\$ 35.5</b>	<b>\$ 29.0</b>	<b>\$ 33.6</b>	<b>\$ 26.5</b>
<b><u>Chemical Business</u></b>					
Operating income (loss)	\$ 31.9	\$ 116.5	\$ 82.1	\$ 87.8	\$ 51.3
Plus:					
Non-operating income	-	-	-	-	0.3
Depreciation and amortization	13.1	14.7	16.4	23.6	30.6
<b>EBITDA</b>	<b>\$ 45.0</b>	<b>\$ 131.2</b>	<b>\$ 98.5</b>	<b>\$ 111.4</b>	<b>\$ 82.2</b>

# Other Non-GAAP Reconciliations

Reconciliation of Chemical EBITDA. We believe that the inclusion of supplementary adjustments to EBITDA are appropriate to provide additional information to investors about certain unusual items. The following tables provide reconciliations of EBITDA excluding the impact of the insurance recoveries and unrealized loss on forward natural gas purchase commitments.

(\$ in millions)

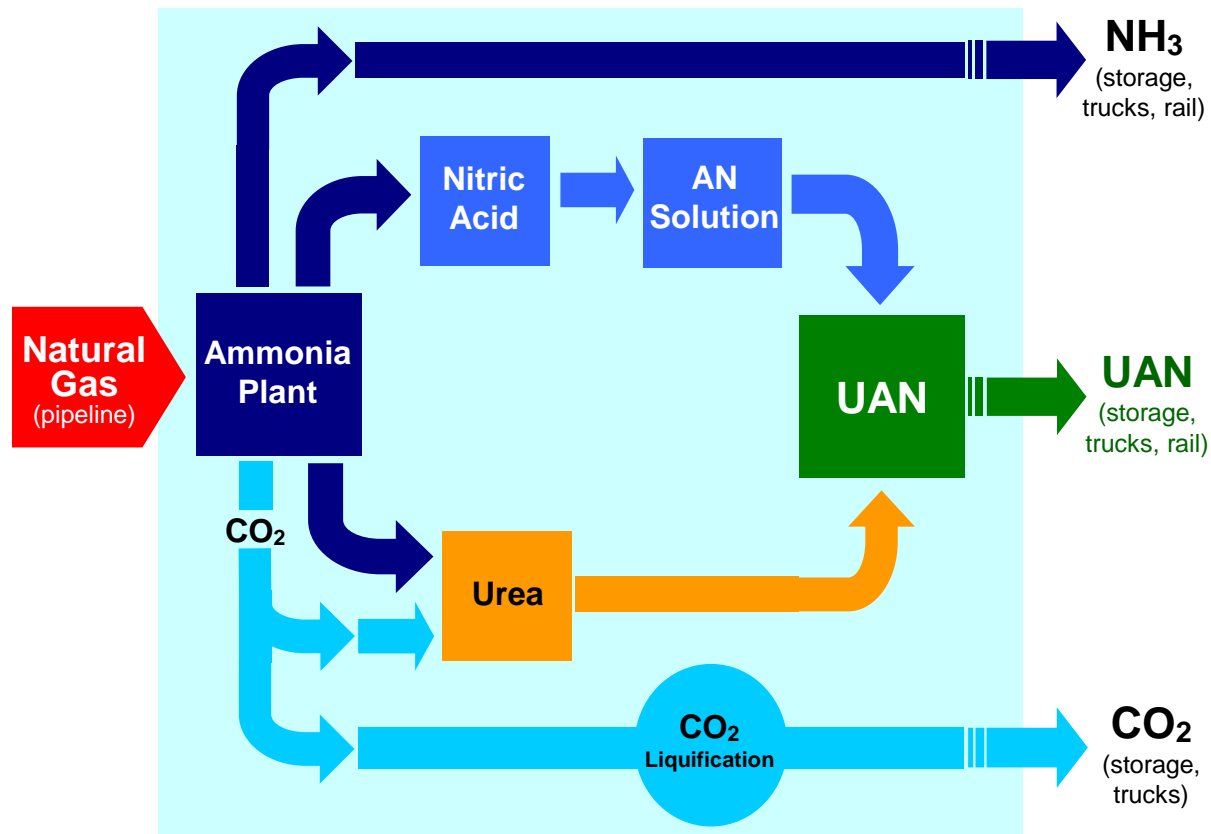
## Chemical Business

	Twelve Months Ended 12-31				
	2010	2011	2012	2013	2014
<b>EBITDA</b>	<b>\$ 45.0</b>	<b>\$ 131.2</b>	<b>\$ 98.5</b>	<b>\$ 111.4</b>	<b>\$ 82.2</b>
Less:					
Insurance recoveries	7.3	8.6	7.3	94.6	28.0
Unrealized loss on forward natural gas purchase commitments	-	-	-	-	(2.1)
<b>Adjusted EBITDA</b>	<b>\$ 37.7</b>	<b>\$ 122.6</b>	<b>\$ 91.2</b>	<b>\$ 16.8</b>	<b>\$ 56.3</b>

# What our chemical products are used for:

Agrochemical Products	Uses
<b>Urea Ammonium Nitrate Solutions (UAN) 28-32% N</b> Manufactured nitrogen content fertilizer	High nitrogen content fertilizer for corn and other crops with high nitrogen demand (wheat, milo, cotton)
<b>E2 Ammonium Nitrate Prill (solid) 34% N</b> High nitrogen content fertilizer	Nitrogen consuming crops, forage areas and citrus. The primary nitrogen component in NPK (nitrogen, phosphorus, potassium) fertilizer blends
<b>Fertilizer Blends</b> Custom blends with purchased phosphates, potassium, sulfur, micronutrients with produced ammonium nitrate	Special application for agri-business products to supply growers balanced fertility
<b>Anhydrous Ammonia 82% N</b> Gas injected application	High nitrogen content fertilizer with highest percentage use for corn.
Industrial Acids, Ammonia, DEF	Uses:
<b>Concentrated Nitric Acid</b> Aqueous solution up to 99% concentration	Production of specialty fibers, nitrocellulose, gaskets, crop chemicals, mining products, metal treatment, nitric acid commercial blends
<b>Nitric Acid Commercial Blends</b> Aqueous solution up to 89% concentration	Semi-conductor industry, manufacture of nylon and polyurethane intermediates, potassium nitrate compounds, ammonium nitrate production
<b>Anhydrous Ammonia</b> Commercial grade and high purity refrigeration, metallurgical grade	Air emission abatement in power plants, water treatment, refrigerants, metals processing, and a wide variety of industrial uses
<b>Mixed Acids</b> Blends of concentrated nitric acid and sulfuric acid/oleum	Diesel fuel additives, ordnance, herbicides and pharmaceutical grade nitroglycerine
<b>Sulfuric Acid</b> 98% and 93% concentrations, standard and low-iron grades	Pulp and paper manufacturing, alum, water treatment, metals processing, vanadium processing, other industrial uses
<b>DEF (diesel exhaust fluid)</b>	Exhaust stream additive to reduce NO <sub>x</sub> emissions from diesel vehicles
Industrial Mining Products	Uses:
<b>Ammonium Nitrate Solutions</b> 54% and 83% concentrations	Specialty emulsions for mining applications, other miscellaneous uses
<b>Low Density Ammonium Nitrate Prills (solids)</b> Solid pellets with good porosity and flowability	Surface mining, quarries, construction

# Typical facility process flow (Pryor)

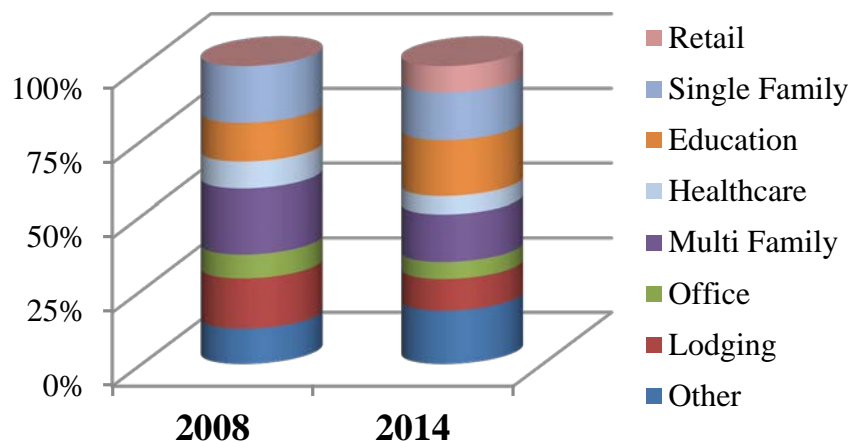


- Products are marketable at every intermediate and final stage of production.
- Pryor facility process flow is typical of plants with natural gas feedstock.
- Pryor and Cherokee use natural gas feedstock. El Dorado and Baytown use ammonia feedstock.

# Climate control sales & marketing data

## December 31, 2014 Sales Mix Data

### By end market



### By distribution channel

#### Commercial:

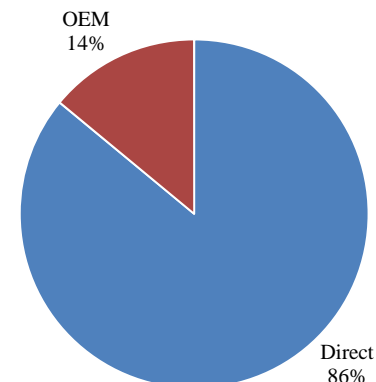
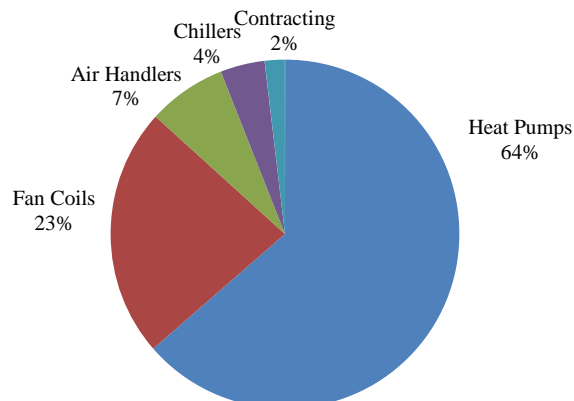
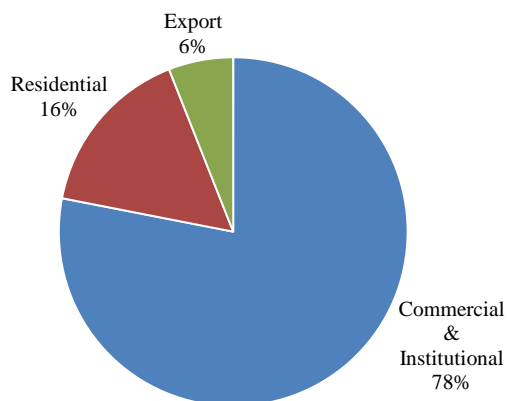
- 220 Commercial representative firms with 347 locations
- 1,900+ Sales Engineers

#### Residential (Geothermal):

- 600 Residential distributor locations (approx.)
- 4,000 Residential contractor-dealers (approx.)

#### Plus: OEM distribution channels

### Product & market sales mix – various perspectives

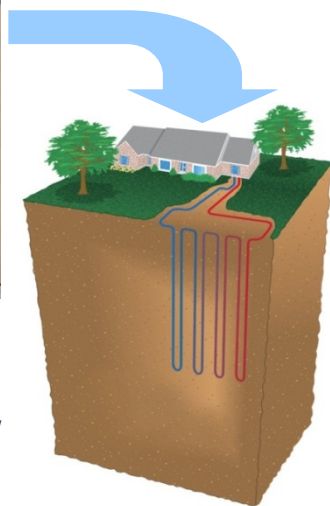


# Focus on geothermal heat pumps

## How does a GHP system work?



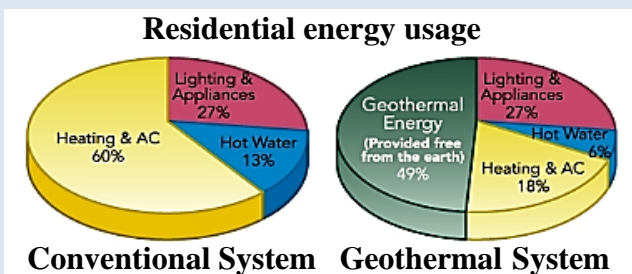
*Typical  
Residential  
Geothermal  
System*



- **The Earth absorbs approximately 50% of all solar energy** and remains at nearly a constant temperature year round (below a few feet deep).
- A **GHP system** uses a ❶ sealed in-ground heat exchanger (loop) filled with fluid and a ❷ GHP unit to exchange energy between the house or building and the earth.
- **In winter**, fluid in the loop absorbs energy from the earth and carries it to the GHP where it is converted (compressed) to a higher temperature and sent as warm air into the house or building.
- **In summer**, the system reverses, transferring heat from the house or building into the earth.
- **GHP systems work year round**, in all climates, in both individual residences and large commercial buildings, providing both conditioned air and **domestic hot water** (as a “free” by-product).

## Geothermal benefits:

- **Energy cost reduction & positive cash flow** – the most energy efficient HVAC technology available – up to **80%** more efficient than conventional systems.



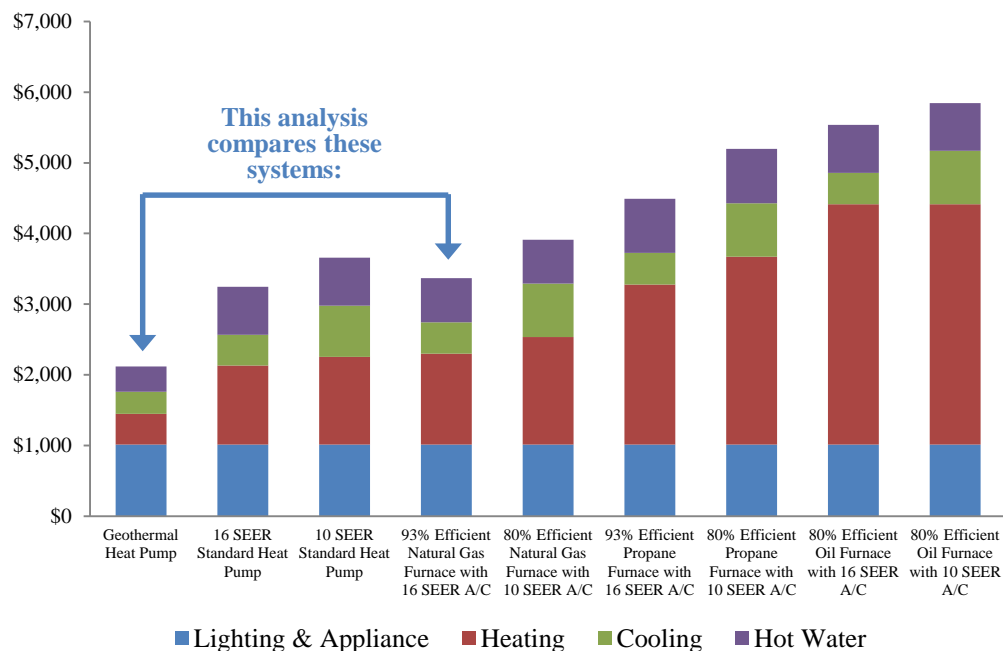
- **Fed Tax Credits** - 30% residential & 10% business + accelerated depreciation, + state/utility incentives
- **GHP's are an alternative form of renewable energy**
- **Green refrigerants** - non-ozone depleting
- **“Free” domestic hot water**
- **Noise free operation** – no noisy condensing unit
- **Extremely long lived** vs. conventional systems (50 year loops)



# Typical GHP costs and savings

For a GHP System in a 2,500 sq. ft. new house in St. Louis, MO (typical middle America)  
 Installed Cost of a 4 ton GHP System = \$6,000 per ton (12,000 Btu/ton).

## System Operating Cost Comparison GHP vs. Conventional Systems



### Payback (GHP vs. Hi-Eff Gas Furn+AC)

Installed cost of GHP	\$24,000
Less: 30% Fed tax credit	(7,200)
GHP cost after credit	16,800
Cost for Hi-Eff Gas + AC	(12,000)
GHP premium cost	4,800
<b>Annual Energy Savings</b>	<b>\$1,248</b>
<b>Payback in Years</b>	<b>3.8</b>

### Positive Cash Flow

Annual Energy Savings	\$1,248
Annual P&I on GHP Premium (6% int. – 10 yrs.)	(636)
<b>Annual Cash Savings</b>	<b>\$612</b>

Note: System installed costs are different throughout the U.S due to varying local conditions and labor costs. Savings vary due to weather conditions, user preferences, and local utility rates. Costs and savings in St. Louis are estimates and subject to change

The Company will present its recommendation with respect to the election of directors in its proxy statement to be filed with the Securities and Exchange Commission. The date of the 2015 Annual Meeting of Shareholders has not yet been scheduled.

## This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



LSB Industries, Inc. is headquartered in Oklahoma City and does business through its subsidiaries, with seven HVAC manufacturing and distribution facilities in Oklahoma City, chemical plants in Texas, Arkansas, Alabama and Oklahoma and an engineered products distribution center in Oklahoma City. Approximately 1,900 total employees.

### **Investor Relations:**

#### **Company Contact:**

Mark Behrman  
Phone: 405-235-4546  
Email: mbehrman@lsbindustries.com

#### **The Equity Group, Inc.**

Fred Buonocore  
Phone: 212-836-9607  
Email: fbuonocore@equityny.com

Linda Latman

Phone: 212-836-9609  
Email: llatman@equityny.com  
Fax: 212-421-1278

### **Corporate Offices:**

16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma USA  
Phone: 405-235-4546  
Fax: 405-235-5067  
Email: info@lsbindustries.com

### **Common Stock:**

NYSE ticker symbol LXU

### **Auditor:**

Ernst & Young LLP

**Website: [www.lsbindustries.com](http://www.lsbindustries.com)**