



# First Quarter 2020 Update

May 7, 2020

# Agenda

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## Overview

- Mark Behrman, President and Chief Executive Officer

## Financial Review

- Cheryl Maguire, Executive Vice President and Chief Financial Officer

## Q&A

### Forward-Looking Statements

- This presentation contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally are identifiable by use of the words “may,” “believe,” “expect,” “intend,” “plan to,” “estimate,” “project” or similar expressions, and include but are not limited to: financial performance improvement; view on sales to mining customers; estimates of consolidated depreciation and amortization and future turnaround expenses; our expectation of production consistency and enhanced reliability at our Facilities; our projections of trends in the fertilizer market; improvement of our financial and operational performance; our planned capital expenditures for 2020; reduction of SG&A expenses; volume outlook and our ability to complete plant repairs as anticipated.
- Investors are cautioned that such forward-looking statements are not guarantees of future performance and involve risk and uncertainties. Though we believe that expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectation will prove to be correct. Actual results may differ materially from the forward-looking statements as a result of various factors. These and other risk factors are discussed in the Company’s filings with the Securities and Exchange Commission (SEC), including those set forth under “Risk Factors” and “Special Note Regarding Forward-Looking Statements” in our Form 10-K for the year ended December 31, 2019 and, if applicable, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. All forward-looking statements included in this press release are expressly qualified in their entirety by such cautionary statements. We expressly disclaim any obligation to update, amend or clarify any forward-looking statement to reflect events, new information or circumstances occurring after the date of this press release except as required by applicable law.

# COVID-19 Update

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## Coronavirus guidance for America:

- The Department of Homeland Security designated the fertilizer industry and the chemical industry as “critical infrastructure”
- LSB considered an “essential” company and all our facilities remain fully operational
- We continue to work with our essential suppliers, contractors and logistics providers which enables them to also remain open for business
- We continue to monitor state-by-state re-opening protocols and have teams in place to update internal procedures; **OUR TOP PRIORITY IS THE SAFETY OF ALL EMPLOYEES, CUSTOMERS, VENDORS AND CONTRACTORS**

## Preparedness planning:

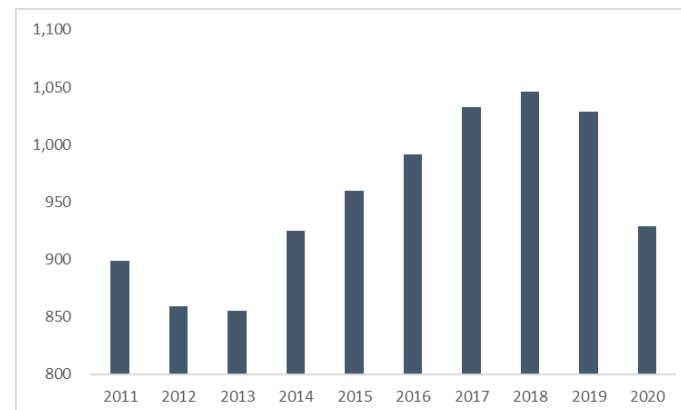
- Pandemic Preparedness plans in place; updated daily as conditions change
- Multiple plant distancing and operating protocols, disinfecting and cleaning, and plant personnel health monitoring
- Special protocols for truck and delivery drivers to protect our employees and the drivers
- Work at home protocols currently in place for all staff where possible; LSB teams working on “return to work” guidelines. We will take our time to ensure the proper procedures are in place.
- Stopped business travel and have strongly encouraged a halt on personal travel; we are currently reviewing relaxed guidelines for travel in-line with federal guidelines for re-opening the country
- Personal travel by plane or to “Hot Spots” currently requires mandatory 14-day quarantine for employees

# COVID-19 Sales and Marketing Update

## Agricultural

- Market fundamentals remain strong
- USDA increased 2020 forecast for total corn acres planted to 97 million, up from an expected 94 million acres, and 2019 plantings of 89 million acres
- USDA's May 4<sup>th</sup> Crop Progress Report shows corn made huge jumps week-over-week and is currently 51% planted which is pacing ahead of the five-year average of 39%
- However, there are challenging ethanol headwinds given gasoline consumption is projected to be down ~ 40-50% in the near term; impacting corn prices and without any Federal Gov't support this would raise uncertainty around 2021 planting intentions.

US Ethanol Production (thousand barrels per day)



Source: EIA

## Industrial and Mining

Housing Starts and Vehicle sales (in millions)



Source: Redburn

- Automotive industry halted production mid-March but is expected to reopen May 18th
- Housing starts down 22% in March and further declines expected in April
  - Housing starts are expected to fall to 1.08 million in 2020 before edging to a higher 1.19 million pace in 2021
- Due to the sector's highly globalized nature, largely depended on global commodity prices, mining is expected to be the hardest-hit sector in the U.S. economy as commodity prices fall globally
  - However, as investors flock to safe-haven assets such as gold and silver to insulate their portfolios from volatile financial markets, gold prices have reached seven-year highs benefiting operators within the gold and silver ore mining subsector

# April Business Trends

- ✓ All three ammonia plants operated at 100% ammonia on-stream rate for the month
- ✓ Record Ammonia production volume for the month of April
- ✓ Record UAN production at Pryor as a result of improved reliability from the new Urea reactor

## Sales Volume Trends

- Record Month for HDAN shipments
- Strong UAN and Ammonia sales volumes
- Covid-19 has had an impact on our expected volume growth vs. our previously issued outlook

## Selling Price Trends

- Tampa ammonia down to \$235/MT in May from \$250/MT in April as ammonia inventories remain elevated
- UAN and HDAN pricing trending higher than March 2020 but lagging 2019

Product Tons Sold	April 2020	April 2019	% Change
<b><u>Agricultural</u></b>			
UAN	39,700	33,500	19%
HDAN	54,400	54,100	1%
Ammonia	17,900	16,700	7%
<b>Total Agricultural</b>	<b>112,000</b>	<b>104,300</b>	<b>7%</b>
<b><u>Industrial and Mining</u></b>			
Ammonia	23,300	19,900	17%
Nitric acid, excluding Baytown	7,300	7,500	-3%
Sulfuric Acid	10,000	10,900	-8%
LDAN/HDAN/AN Solution	15,400	16,500	-7%
<b>Total Industrial and Mining</b>	<b>56,000</b>	<b>54,800</b>	<b>2%</b>

(\$/ton)	April 2019	March 2020	April 2020
UAN	\$ 217	\$ 142	\$ 156
HDAN	\$ 253	\$ 198	\$ 225
Ag Ammonia	\$ 382	\$ 255	\$ 278
Tampa Ammonia	\$ 255	\$ 250	\$ 250

# LSB Consolidated Financial Highlights

First Quarter 2020

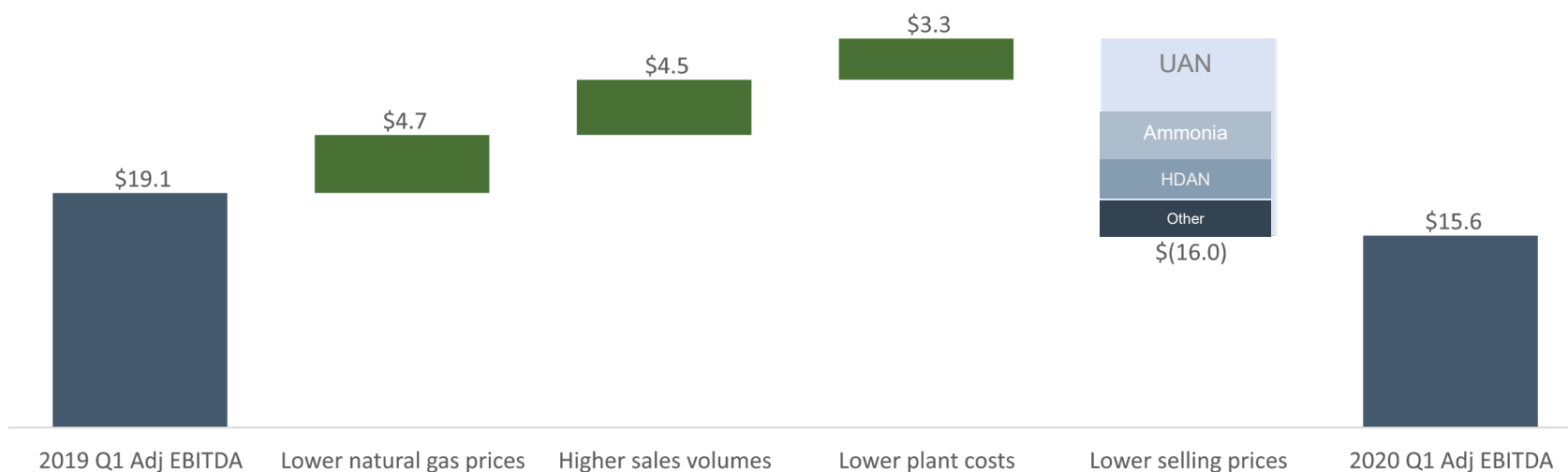


(\$ In Millions, Except EPS)	Three Months Ended		
	March 31,		Change
	2020	2019	
<b>Net sales</b>	\$ 83,411	\$ 94,152	\$ (10,741)
<b>Gross profit</b>	\$ 2,551	\$ 7,318	\$ (4,767)
<i>% of net sales</i>	3.1%	7.8%	-4.7%
<b>Selling, general and administrative expense</b>	\$ 10,006	\$ 7,224	\$ 2,782
<i>% of net sales</i>	12.0%	7.7%	4.3%
<b>Other expense (income), net</b>	\$ (468)	\$ 23	
<b>Operating income (loss)</b>	\$ (6,987)	\$ 71	\$ (7,058)
<i>% of net sales</i>	-8.4%	0.1%	-8.5%
<b>Interest expense, net</b>	13,479	10,987	2,492
<b>Non-operating other income, net</b>	(675)	224	(899)
<b>Loss before income taxes</b>	\$ (19,791)	\$ (11,140)	\$ (8,651)
<b>Provision (benefit) for income taxes</b>	(339)	400	(739)
<b>Net loss</b>	\$ (19,452)	\$ (11,540)	\$ (7,912)
<i>% of net sales</i>	-23.3%	-12.3%	-11.0%
<b>Diluted EPS</b>	\$ (1.01)	\$ (0.69)	\$ (0.32)
<b>EBITDA <sup>(1)</sup></b>	\$ 11,595	\$ 16,986	\$ (5,391)
<b>Adjusted EBITDA <sup>(1)</sup></b>	\$ 15,620	\$ 19,064	\$ (3,444)

(1) Refer to Appendix for reconciliation of EBITDA and Adjusted EBITDA.

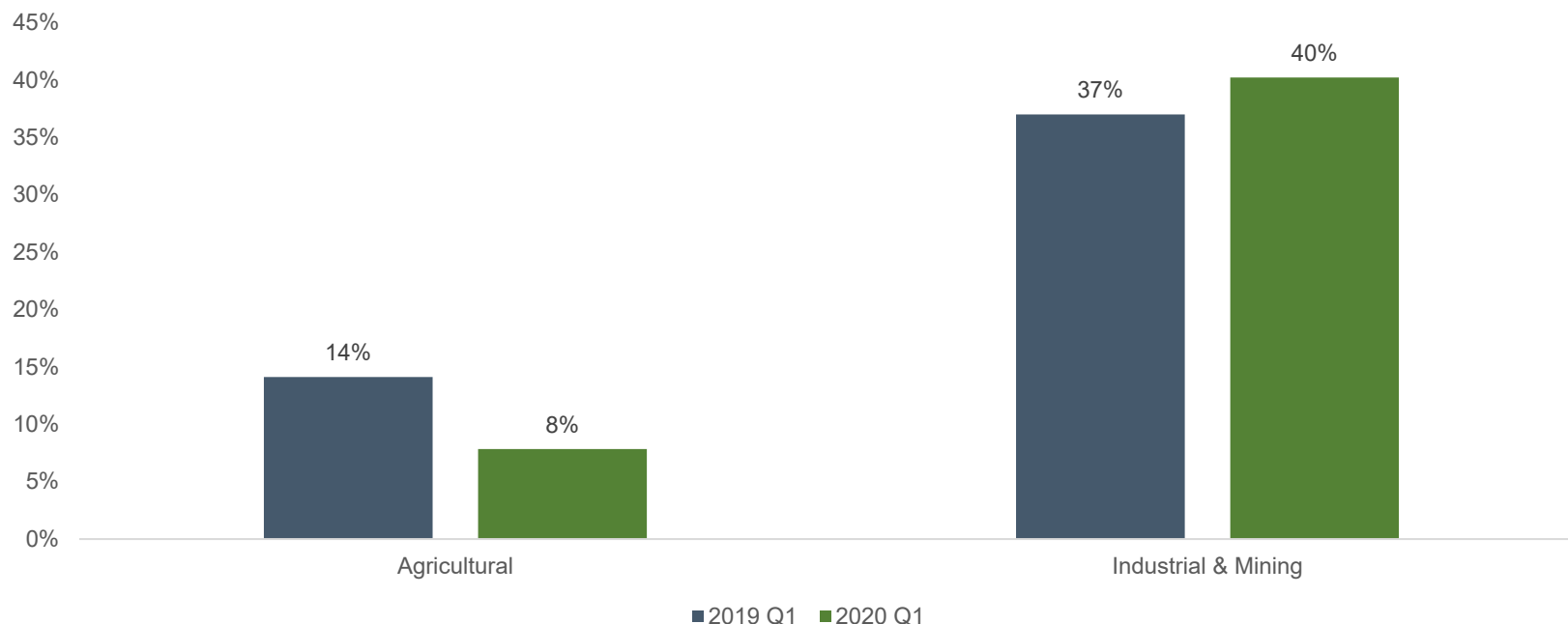
# First Quarter 2020 – Overview

- Natural gas costs 28% lower than Q1 2019 utilizing active gas management program
- 8% increase in overall sales volume
  - 30% improvement in production volume and 21% higher sales of UAN driven by improved reliability of the new Urea reactor installed at Pryor during the 4th quarter of 2019
  - El Dorado facility achieves record ammonia production for the quarter
- Continued focus on cost discipline
- Overall lower selling prices as compared to the first quarter of 2019:
  - Agricultural UAN, HDAN and ammonia pricing lower by 30%, 15% and 34% respectively
  - Industrial pricing lower driven by 11% decline in Tampa ammonia benchmark (\$250/MT in Q1, 2020 as compared to \$280/MT in Q1, 2019).



# Market Margin Summary

## Gross Profit Margin by Market (1)



- *Agricultural margins impacted by lower selling prices, partially offset by higher sales volumes*
- *Industrial & Mining margins benefitted from leverage of higher production volumes*

(1) Gross profit margin excludes turnaround, depreciation, and amortization expenses. This is a non-GAAP measure. Refer to the Gross Profit Reconciliation page within this presentation for reconciliation of adjusted gross profit to reported gross profit.



# Actions Taken to Preserve Liquidity

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## **Given the uncertainty around COVID-19, we continue to prudently manage our cash flow**

- Preemptively drew on revolving credit facility to ensure access to liquidity given uncertainty surrounding COVID-19
- Suspension of all non-essential spend until further notice; including contractor costs, training, hiring for open positions, outside consultants
- Approximately \$5-6 million of capital investments deferred to later in the year
- Heightened focus on managing working capital
- Received \$10 million in cash proceeds under the stimulus package/CARES Act in April
- Pursuing sale of non-core assets which could generate additional cash on the balance sheet of \$20-25 million

# Capital Structure

\$ In Millions	3/31/20
Cash	<u>\$ 37.5</u>
Senior Secured Notes	435.0
Working Capital Revolver (\$20.5 mm of availability at 3/31/20)	30.0
Other Debt	36.8
Unamortized Discount and Debt Issuance Costs	<u>(11.3)</u>
Total Long-Term Debt, Including Current Portion, net	<u>\$ 490.5</u>
Series E and F Redeemable Preferred Stock (\$251.1 million aggregate liquidation preference including accrued dividends)	<u>243.7</u>
Total Stockholders' Equity	<u>\$ 219.5</u>
Total Liquidity (Cash plus ABL availability)	<b>\$ 58.0</b>

## Key Information:

### Senior Secured Notes

- \$435 million at 9.625%
- Due May 2023
- No maintenance covenants

### Working Capital Revolver

- \$65 million (Prime + 50 bps)
- Expires February 2024
- Springing maintenance covenant when borrowing exceeds 90% of availability; no trigger point has occurred

### Redeemable Preferred Stock

- \$251.1 million at 14%
- Callable at par
- First put date October 2023

# Illustrative EBITDA Impact Associated with Changes in Product & Feedstock Pricing



(Based on 2020 Volumes)

	Selling Price Comparison		Change in Selling Price Impact on EBITDA		
	Q2 2019 Actual Average Selling Prices	Q2 2020 Current/Expected Average Selling Prices	Change		Annual EBITDA Impact
UAN <sup>1</sup>	\$198 / ST	\$160 / ST	\$10.00	+/-	\$4.8mm
HDAN <sup>1</sup>	\$248 / ST	\$245 / ST	\$10.00	+/-	\$3.0mm
Tampa Ammonia <sup>1</sup>	\$237 / MT	\$240 / MT	\$10.00	+/-	\$4.0 mm
<b>Illustrative Impact from \$10/ton change</b>				+/-	<b>~\$11.8mm</b>
Natural Gas (\$/MMBtu)	\$2.42 / MMBtu	\$1.90 / MMBtu	\$0.10	+/-	\$3.1mm

Based on management estimates. Actual pricing impacts may vary based on a number of factors, including many that are beyond the Company's control. For illustrative purposes only.

<sup>1</sup> Sensitivity calculated on products available for sale based on annual producing capacity.

# Positioned for Growth and Improved Financial Performance in 2020



## **Expected return from completed maintenance and upgrades in 2019**

- Completion of extensive ammonia turnaround at Pryor
- New urea reactor installed at Pryor
- New sulfuric acid converter installed at El Dorado
- 94% ammonia on-stream rate target for 2020



## **Continued broadening of our distribution through aggressive sales and marketing programs**

- New contract awards with existing customers
- Geographic expansion into markets outside the United States
- Continued focus on upgrading margins
- Added additional storage capacity



## **Executing on key margin enhancement projects**

- Key storage project completed allowing us to better position product and increase production
- Engineering completed on several key projects
- Enhanced loading and additional storage awaiting final contract award

# EBITDA Reconciliation

<u>LSB Consolidated (\$ In Thousands)</u>	<u>Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
<b>Net loss</b>	<b>(\$19,452)</b>	<b>(\$11,540)</b>
Plus:		
Interest expense	13,479	10,987
Depreciation and amortization	17,907	17,139
Provision (benefit) for income taxes	(339)	400
<b>EBITDA <sup>(1)</sup></b>	<b>\$11,595</b>	<b>\$16,986</b>
Stock-based compensation	495	612
Unrealized loss on commodity contracts	527	-
Legal fees (Leidos)	3,287	932
Loss (gain) on sale of other property and equipment	(223)	228
Fair market value adjustment on preferred stock embedded derivatives	(637)	201
Consulting costs associated with reliability and purchasing initiatives	576	105
<b>Adjusted EBITDA <sup>(2)</sup></b>	<b>\$15,620</b>	<b>\$19,064</b>

(1) EBITDA is defined as net income (loss) plus interest expense, plus loss on extinguishment of debt, plus depreciation and amortization (D&A) (which includes D&A of property, plant and equipment and amortization of intangible and other assets), plus provision (or less benefit) for income taxes. We believe 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 income or cash flow data prepared in accordance with GAAP. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to a similarly titled measure of other companies. The above table provides a reconciliation of net income (loss) to EBITDA for the periods indicated.

(2) Adjusted EBITDA is reported to show the impact of one time/non-cash or non-operating items-such as, loss (gain) on sale of a business and other property and equipment, one-time income or fees, certain fair market value adjustments, non-cash stock-based compensation, and consulting costs associated with our reliability and purchasing initiatives. We historically have performed Turnaround activities on an annual basis, however we are moving towards extending Turnarounds to a two or three-year cycle. Rather than being capitalized and amortized over the period of benefit, our accounting policy is to recognize the costs as incurred. Given these Turnarounds are essentially investments that provide benefits over multiple years, they are not reflective of our operating performance in a given year. As a result, we believe it is more meaningful for investors to exclude them from our calculation of adjusted EBITDA used to assess our performance. We believe that the inclusion of supplementary adjustments to EBITDA is appropriate to provide additional information to investors about certain items. The above table provides reconciliations of EBITDA excluding the impact of the supplementary adjustments. Our policy is to adjust for non-cash, non-recurring, non-operating items that are greater than \$0.5 million quarterly or cumulatively.

# Gross Profit Reconciliation

LSB Consolidated (\$ In Thousands)	Three Months Ended	
	March 31,	
	2020	2019
<b>Net sales</b>		
Agricultural	\$41,458	\$46,820
Industrial and Mining	41,953	47,331
<b>Total net sales</b>	<b>\$83,411</b>	<b>\$94,152</b>
<b>Gross Profit</b>		
Agricultural <sup>(1)</sup>	3,254	6,453
Industrial and Mining <sup>(1)</sup>	16,874	17,676
<b>Adjusted gross profit by market <sup>(1)</sup></b>	<b>\$20,128</b>	<b>\$24,129</b>
Depreciation and amortization <sup>(2)</sup>	(17,577)	(16,811)
Turnaround expense	0	0
<b>Total gross profit</b>	<b>\$2,551</b>	<b>\$7,318</b>
<b>Gross Profit Margin</b>		
Agricultural <sup>(3)</sup>	8%	14%
Industrial and Mining <sup>(3)</sup>	40%	37%
<b>Adjusted gross profit by market <sup>(3)</sup></b>	<b>24%</b>	<b>26%</b>
<b>Total gross profit margin <sup>(3)</sup></b>	<b>3%</b>	<b>8%</b>

(1) Represents a non-GAAP measure since the amount excludes depreciation, amortization, and Turnaround expenses.

(2) Represents amount classified as cost of sales.

(3) As a percentage of the respective net sales.

# Consolidated EBITDA

## Sensitivity Analysis (\$ In Millions)



### Significant Earnings Power at Optimal Operating Rates

		Average Natural Gas Price Per MMBTU For A Year				
		\$2.50	\$3.00	\$3.50	\$4.00	\$4.50
Average Tampa Ammonia Price/MT For A Year	\$450	\$226	\$214	\$202	\$190	\$178
	\$400	\$194	\$182	\$170	\$158	\$146
	\$350	\$162	\$150	\$138	\$126	\$114
	\$300	\$130	\$118	\$106	\$ 94	\$ 82
	\$250	\$ 98	\$ 86	\$ 74	\$ 62	\$ 50
	\$200	\$ 66	\$ 54	\$ 42	\$ 30	\$ 17

Note: The model above is only intended to illustrate the relationship between variables. It is not an estimate of operating results for any future period.

**Key factors in model above:**

- Assumes no turnaround at any facility and related impact from lost production/sales and expenses. Note: Company is on a three-year turnaround cycle, which will include turnarounds in the current fiscal year.
- Tampa Ammonia price assumes average over the full year
- Average ammonia plant on-stream rate of 97%, 95% and 95% at El Dorado, Cherokee and Pryor, respectively (excluding turnaround)
- Assumes that a \$50/MT change in ammonia price is equivalent to a \$21 per short ton change in UAN price and a \$23 per short ton change in AN price
- Minimal growth of mining sales
- No incremental cost savings over previously announced savings

Actual results may vary based on a number of factors, including many that are beyond the control of the Company. For illustration purpose only. [lsbindustries.com](http://lsbindustries.com)

# Chemical Commodities Feedstock & End Products 5-year Price Trend

