

# LSB Industries Investor Presentation

(NYSE: LXU)

May 2021



# Safe Harbor Statement

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## Forward Looking Statements

- Statements in this presentation that are not historical are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance including the effects of the COVID-19 pandemic and anticipated performance based on our growth and other strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or actual achievements to differ materially from the results, level of activity, performance or anticipated achievements expressed or implied by the forward-looking statements. Significant risks and uncertainties may relate to, but are not limited to, business and market disruptions related to the COVID-19 pandemic, market conditions and price volatility for our products and feedstocks, as well as global and regional economic downturns, including as a result of the COVID-19 pandemic, that adversely affect the demand for our end-use products; disruptions in production at our manufacturing facilities; and other financial, economic, competitive, environmental, political, legal and regulatory factors. These and other risk factors are discussed in the Company's filings with the Securities and Exchange Commission (SEC).
- Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can management assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Unless otherwise required by applicable laws, we undertake no obligation to update or revise any forward-looking statements, whether because of new information or future developments.

## Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, including adjusted EBITDA and adjusted gross profit margin, which are provided to assist in an understanding of our business and its performance. These non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP. Non-GAAP financial measures should be read only in conjunction with consolidated financial statements and other financial information prepared in accordance with GAAP. Reconciliations of non-GAAP measures to the relevant GAAP measures are provided in the appendix of this presentation.

# Investment Highlights

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**Diversified Nitrogen Chemicals Business with differentiated end market positions**

**Operational improvements benefiting from over \$1 billion of investment and continued improvement in operating behavior**

**Increased production capacity to drive sales growth and margin improvement**

**Margin enhancement projects underway with expected increase in EBITDA of ~ \$7 million annually when fully complete**

**Opportunity to meaningfully reduce cost of capital in 2021**

**Renewable energy and carbon reduction play through the potential of blue/green ammonia production**



# WHO WE ARE

1968

- Founded by Jack Golsen in 1968 and grew as an industrial conglomerate focused on industrial products and climate control systems

1983

- Acquired El Dorado, AR manufacturing facility (“El Dorado”) from Monsanto

1999

- Acquired Cherokee, AL chemical manufacturing facility from La Roche Industries

2000

- Acquired Pryor, OK chemical manufacturing facility (“Pryor”) in a non-operating state

2010

- Re-started production out of Pryor to take advantage of low natural gas cost & high fertilizer selling prices

2013

- Completed offering of \$425 million of senior secured notes and commenced major expansion project at El Dorado

2015

- Completed structured finance transaction to provide funds to complete El Dorado expansion
- New nitric acid plants at El Dorado begin production

2016

- New ammonia plant at El Dorado begins production
- Climate Control Business divested for ~14X TTM EBITDA

2017

- Kicked off operational improvement and sales maximization initiatives

2019

- Current CEO and CFO assume their roles and advance operational improvement and sales maximization initiatives

2021

- Expect financial performance to benefit from strengthening end market trends and capital structure improvement



**MARK BEHRMAN**  
President & Chief Executive Officer

President and CEO of LSB Industries since 2018. He joined the company in 2014 and served as Executive Vice President and CFO from 2015-2018. Prior to LSB, Mr. Behrman had over 25 years of financial and investment banking experience in the industrial, transportation and energy sectors.



**CHERYL MAGUIRE**  
EVP & Chief Financial Officer

Joined LSB Industries in 2015 as the Vice President of Financial Planning and Accounting and was promoted to CFO in 2018. Ms. Maguire has over 20 years of experience in finance and accounting as it relates to the manufacturing and energy sectors.



**JOHN BURNS**  
EVP, Manufacturing

Joined LSB in 2020 as Executive Vice President, Manufacturing with over 30 years of operating experience in petroleum refining and chemical manufacturing sectors, including 8 years of experience with nitrogen-based fertilizers and industrial feedstocks.



**DAMIEN RENWICK**  
EVP, Chief Commercial Officer

Joined LSB in 2021 as Executive Vice President, Chief Commercial Officer with over 17 years of experience in the chemical industry, most recently with Houston-based Cyanco, the largest producer and distributor of sodium cyanide in the world.



**MICHAEL FOSTER**  
EVP, General Counsel & Secretary

Joined LSB as General Counsel in 2016 with more than 30 years of legal experience. Prior to LSB, he most recently served as Senior Vice President, General Counsel and Secretary for Tronox (NYSE: TROX).

# Strong Focus on Environmental, Social and Governance Issues



## Environmental

- Installed control equipment to reduce nitrous oxide (N<sub>2</sub>O, a greenhouse gas) emissions by 98% at our El Dorado Nitric Acid plant
- Capture and sell CO<sub>2</sub> byproducts for re-purpose, in lieu of releasing into the atmosphere
- Currently evaluating blue and green ammonia opportunities

## Social

- Generated significant positive results with “Goal Zero” Health and Safety initiatives in 2020:
  - 58% decrease in recordable safety incidents in 2020
  - No recordable injuries associated with the manufacturing process in 2020
  - Pryor facility has operated over 1 year without a recordable safety incident

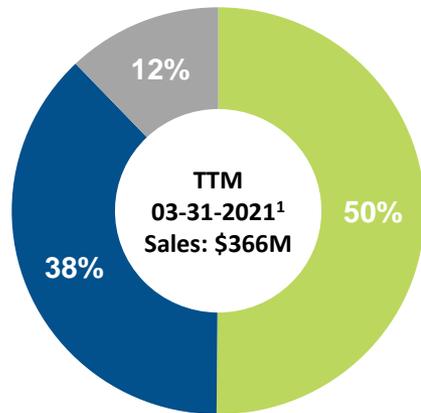
## Governance

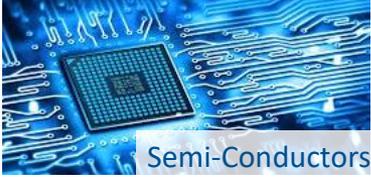
- Diverse and highly qualified Board of Directors and management team with compensation aligned with key stakeholders



# WHAT WE DO

# Diversified Nitrogen Chemicals Business with Differentiated End Market Positions

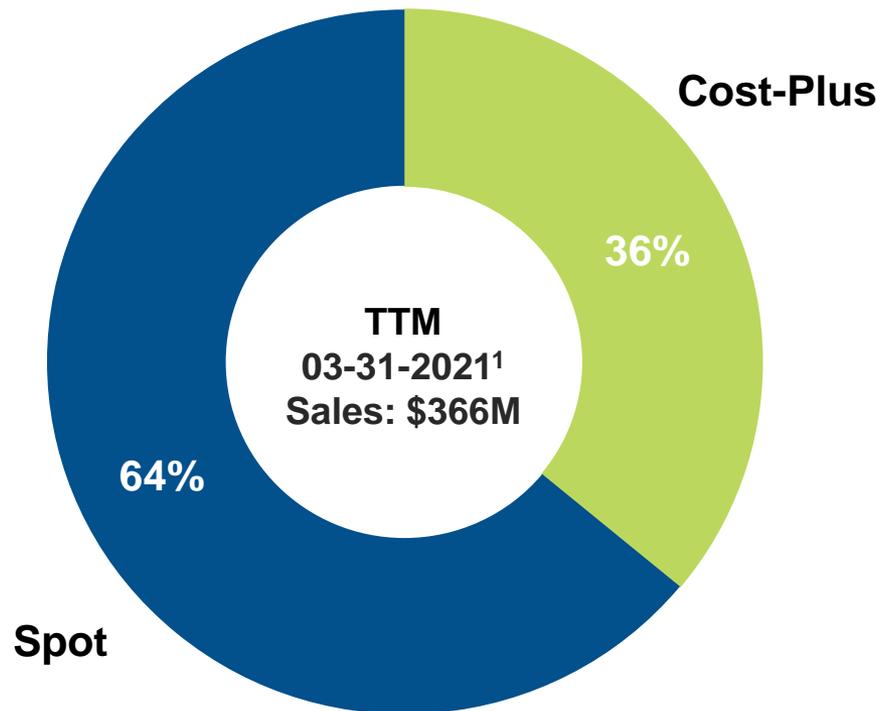


	Key Products	End Markets	Application
Agricultural	<ul style="list-style-type: none"> <li>Urea ammonium nitrate solutions (UAN)</li> <li>Ammonium nitrate (AN) – High density prills</li> <li>Ammonia</li> </ul>	<ul style="list-style-type: none"> <li>Fertilizer for corn and other crops</li> <li>Primary nitrogen component in nitrogen, phosphorus and potassium (NPK) fertilizer blends</li> <li>High nitrogen content fertilizer primarily used for corn</li> </ul>	 <p>Fertilizer</p>
Industrial	<ul style="list-style-type: none"> <li>Ammonia</li> <li>Nitric Acid</li> <li>Sulfuric Acid</li> <li>Diesel exhaust fuel (DEF)</li> <li>CO<sub>2</sub></li> </ul>	<ul style="list-style-type: none"> <li>Power plant emissions abatement, water treatments, refrigerants, metals processing</li> <li>Semi-conductor, nylon polyurethane intermediates, ammonium nitrate</li> <li>Pulp and paper, aluminum, water treatment, metals and vanadium processing</li> <li>Exhaust steam additive to reduce NO<sub>x</sub> emissions from diesel vehicles</li> <li>Food refrigeration / freezing, enhanced oil recovery</li> </ul>	 <p>Semi-Conductors</p>  <p>Power Plant Emissions</p>  <p>Water Treatment</p>
Mining	<ul style="list-style-type: none"> <li>Ammonium nitrate – low density prills and AN solutions</li> <li>Specialty E2 ammonium nitrate</li> </ul>	<ul style="list-style-type: none"> <li>Specialty emulsions for mining applications</li> <li>Surface mining, quarries, construction</li> </ul>	 <p>Mining</p>

1. See slide 26 for TTM revenue reconciliation

# Sales Mix Provides Stability and Visibility Into Contract Pricing

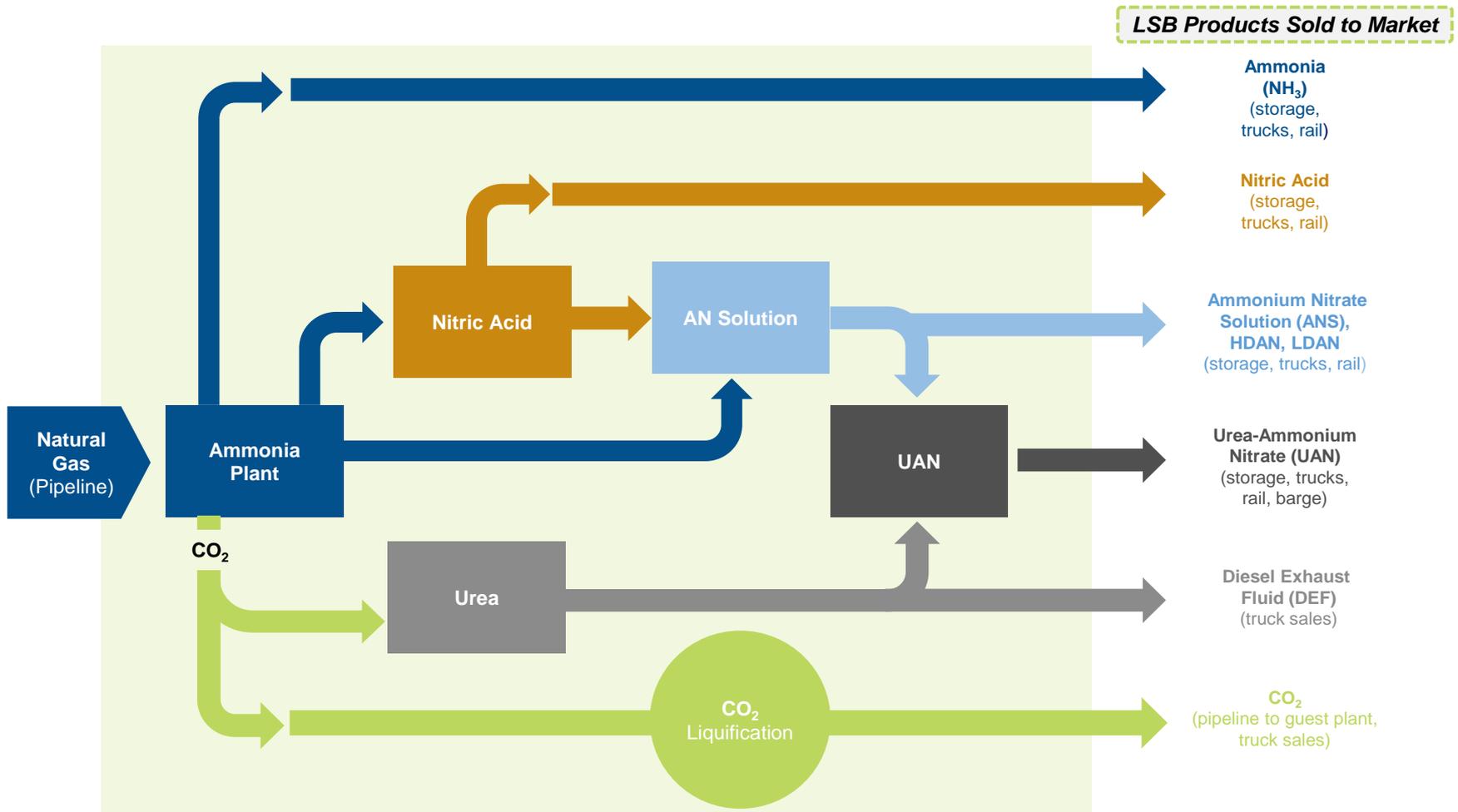
Q1-2021 TTM Sales by Pricing Method



- Approximately 36% of sales non-seasonal and priced pursuant to contract agreements
- Contributes to margin stability through pass-through of raw materials and other manufacturing costs
- Positioned to take advantage of cash flow stability and upside opportunities in commodity driven markets
- Approximately 40% of sales contracts tied to benchmark Ammonia pricing

1. See slide 26 for TTM revenue reconciliation

# Upgrading Low-Cost Feedstock to Margin Enhancing Chemicals



*Products are marketable at nearly every stage of the process, allowing for efficient adjustments to product mix to capture value opportunities*

# MARKET OUTLOOK

# Agricultural Market Overview

- Significant increase in commodity prices since Fall 2020
  - 2020 farmer income was 2nd highest ever
  - Significant increase in Chinese imports of all agricultural commodities
  - La Nina drought conditions in South America impacting yields
- U.S. ammonia production declined approximately 200,000 tons in February as a result of record cold temperatures and natural gas disruption
- 91 million acres of corn expected to be planted in U.S. in 2021
- Corn trading over \$6.90/bushel in late April, a 127% increase from 2020 lows; expected to remain at elevated levels throughout the year
- Price rally for most fertilizer products from summer lows

Sources: Yahoo! Finance, Food & Agricultural Policy Research Institute

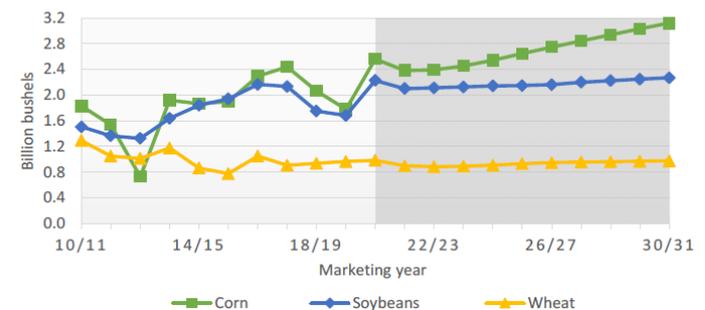
### 5 Year Corn Prices



### Net farm income rose with payments in 2020



### China demand increases U.S. exports in 2020/21



## Expecting significantly higher pricing vs. a year ago

	Q2 2021 Current/Expected Average Selling Prices	Q2 2020 Actual Average Selling Prices
Tampa Ammonia	\$545 / MT	\$234 / MT
UAN	\$250 / ST	\$149 / ST
HDAN	\$305 / ST	\$232 / ST
Natural Gas (\$/MMBtu)	\$2.75 / MMBtu	\$1.81 / MMBtu

# Industrial Market Overview

- Automotive industry temporarily halted production in the Spring of 2020, but production has since gained momentum. Seasonally adjusted annual rate (SAAR) for light vehicle sales continued its upward trajectory into the new year, and sales in March 2021 continue to be higher than expected.
- According to the U.S. Department of Housing and Urban Development, new privately-owned housing unit starts totaled 1.739 million in March, showing continued elevated levels and an 86% increase from pandemic-related lows in April 2020.

US Light Vehicle Sales – SAAR (thousands)



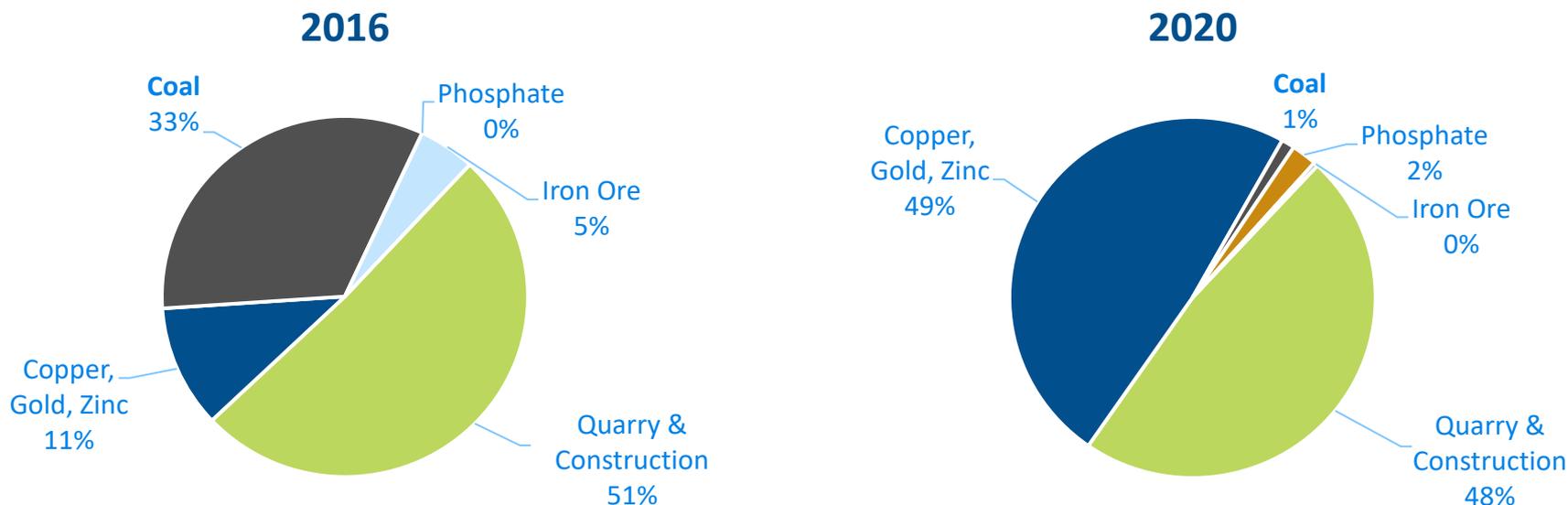
US Housing Starts (thousands)



# Mining Market Overview

- Copper prices rising, reaching \$4.30 per pound on February 24th, the highest price since August 2011, and hovering around \$4 per pound in April. This increase is driven by demand from EV companies.
- Quarry and construction business returning, with aggregates for residential construction a large driver.
- Diversification away from coal continues to be a focus (33% of LSB sales mining volumes in 2016 vs 1% of LSB mining sales volumes in 2020).

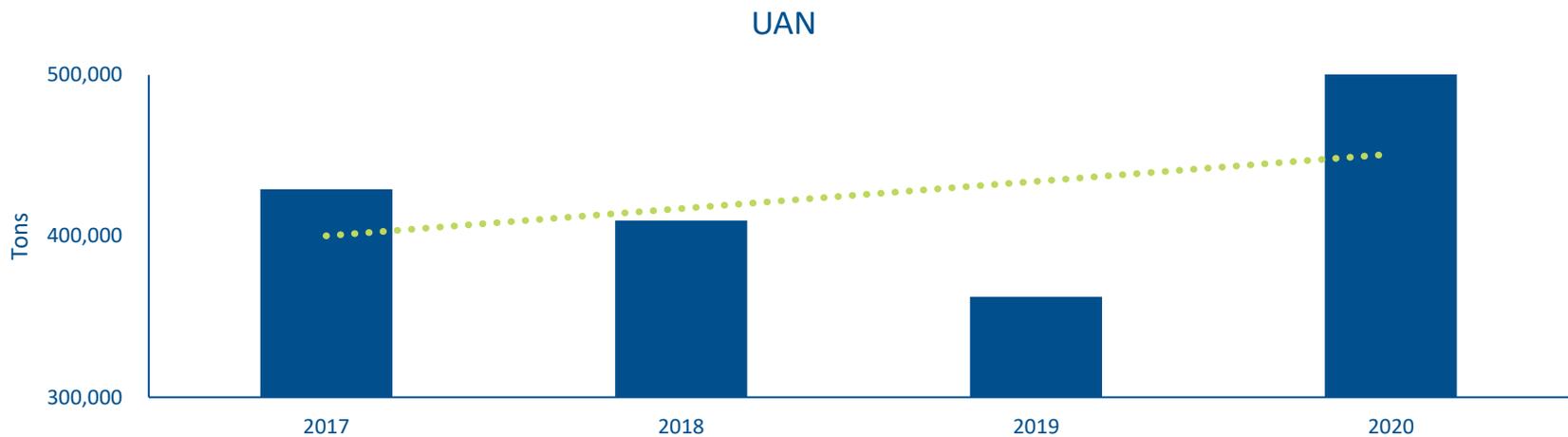
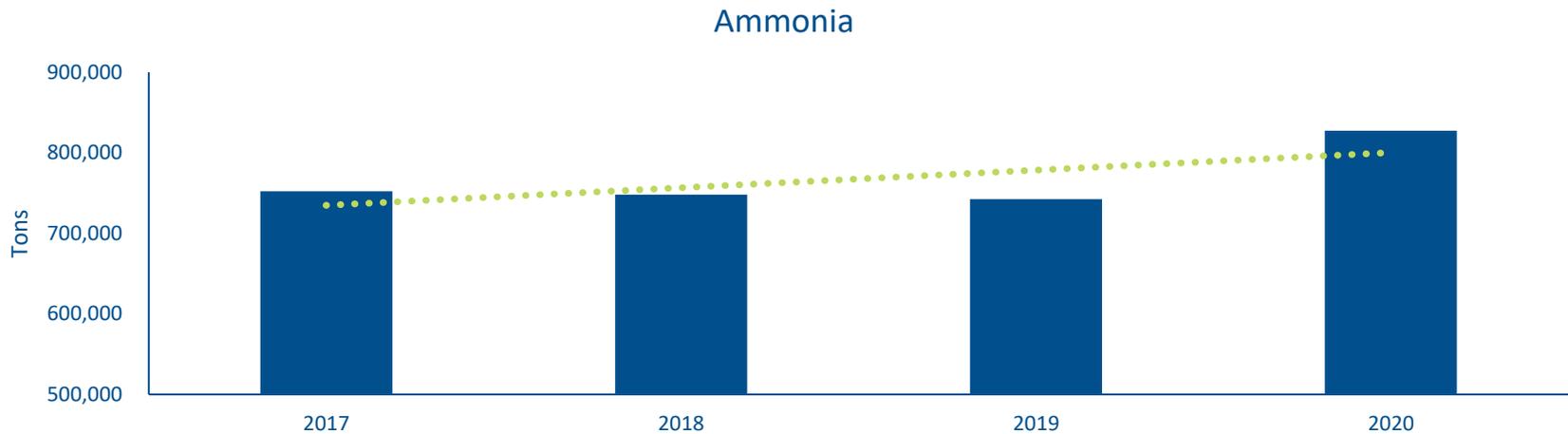
## LSB Industries Mining Product Sales by End-Market



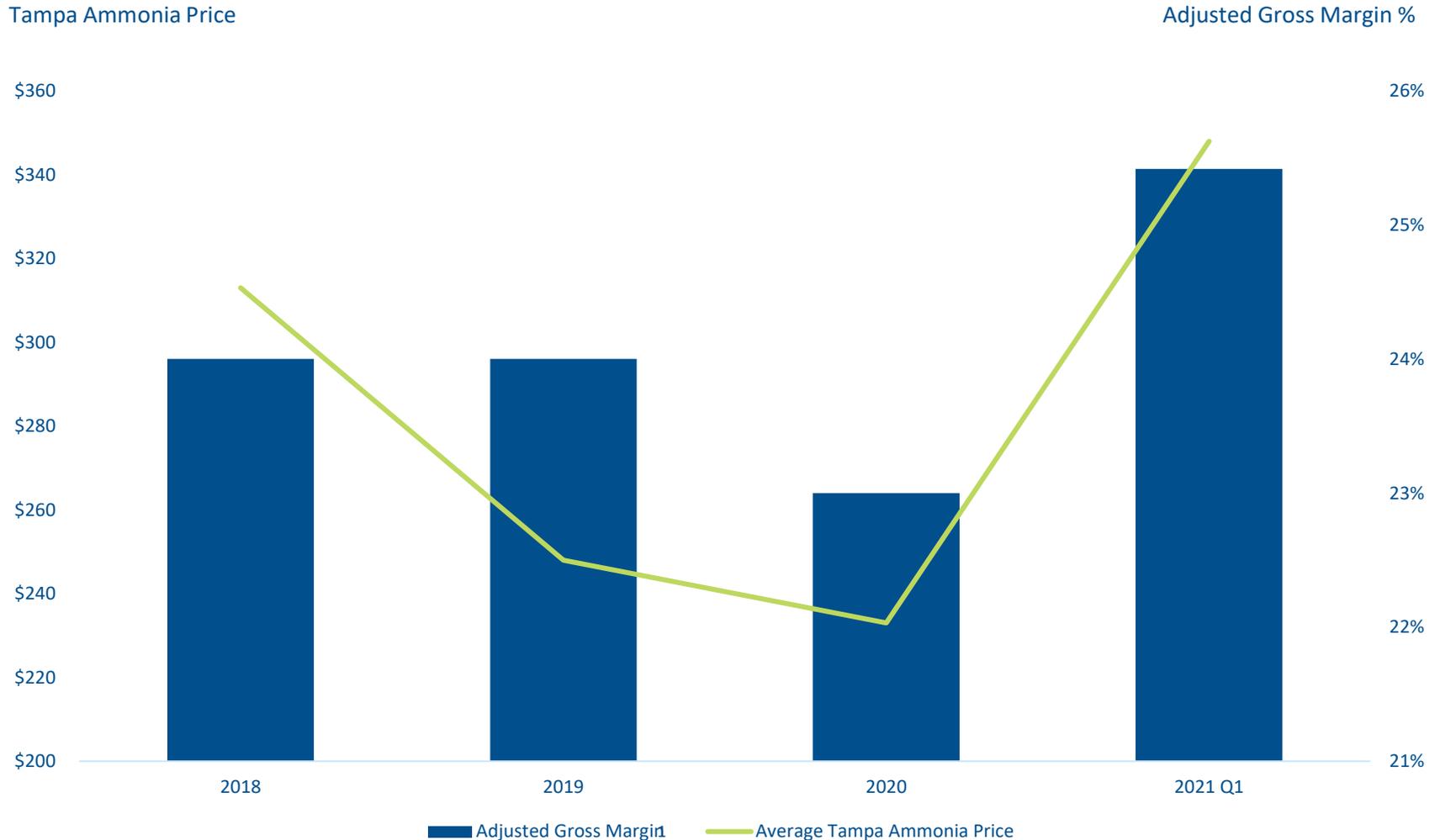


# **OPERATIONAL & FINANCIAL PERFORMANCE**

# Record Production of Ammonia and UAN in 2020; Strong Production Year Overall



# Solid Operating Performance Coupled with Improved Market Pricing Leads to Gross Margin Expansion



1. See slide 27 for adjusted gross margin reconciliation

# Pursuing Margin Enhancing Business Development Opportunities



## Continued broadening of our distribution through aggressive sales and marketing programs and expanded storage capacity

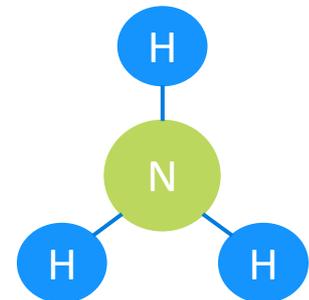
- New 7-year contract for annual sales of 70,000 – 100,000 tons of Nitric Acid kicked off in Q1 2021
- New contract awards in LDAN and sulfuric acid drive increased volumes
- Geographic expansion into markets outside the United States (Mexico and Canada)
- Added storage allows maximum production capacity utilization and positioning of product

# What is Green Ammonia?

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*“Green Ammonia is produced using renewable feedstock, specifically hydrogen from water electrolysis and nitrogen separated from the air, rather than natural gas or coal, resulting in a zero CO2 emission process.*

- Ammonia’s potential as an energy carrier raises demand for ammonia to multiple billion tons per year.<sup>1</sup>
- As an existing ammonia producer, LSB is well positioned to lever its assets and knowledge to capitalize on potential green ammonia opportunities.
- Applications
  - Zero-carbon fuel for maritime sector
  - Carbon-free fertilizer and food
  - Best-suited long distance hydrogen carrier
  - Preferred substitute for coal in countries with limited renewable energy sources
  - Industrial applications in automotive, construction, and food additives



# CAPITALIZATION

## Current Capital Structure

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### Senior Secured Notes

- \$435 million at 9.625%
- Due May 2023
- Call premium of 103 in May 2021
- No maintenance covenants

### Working Capital Revolver

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

### Redeemable Preferred Stock

- \$287.5 million at 14%
- Callable at par
- First put date October 2023

## Opportunities to Improve Capital Structure

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- Reviewing refinancing opportunities
  - Favorable fertilizer market trends and continued recovery of industrial demand exiting pandemic
  - Improving financial results
  - Issuer friendly credit market environment



# Contact Us

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# APPENDIX

# Trailing Twelve Month (TTM) Net Sales Reconciliation

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<b>Quarter Ended</b>	<b>Reported Net Sales (\$ in Thousands)</b>
June 30, 2020	\$105,033
September 30, 2020	\$73,969
December 31, 2020	\$88,903
March 31, 2021	\$98,116
<b>TTM 03/31/21</b>	<b>\$366,021</b>

# Gross Profit Reconciliation

<b>LSB Consolidated (\$ In Thousands)</b>	Three Months Ended		Twelve Months Ended		
	March 31,		December 31,		
	2021	2020	2020	2019	2018
<b>Net sales</b>					
Agricultural	\$44,913	\$41,458	\$180,036	\$187,641	\$187,164
Industrial and Mining	53,203	41,953	171,280	177,429	190,996
<b>Total net sales</b>	<b>\$98,116</b>	<b>\$83,411</b>	<b>\$351,316</b>	<b>\$365,070</b>	<b>\$378,160</b>
<b>Adjusted gross profit <sup>(1)</sup></b>	<b>24,939</b>	<b>20,128</b>	<b>80,960</b>	<b>86,458</b>	<b>90,868</b>
Depreciation and amortization <sup>(2)</sup>	(16,739)	(17,577)	(69,500)	(68,263)	(70,184)
Turnaround expense	(140)	-	(76)	(13,210)	(9,768)
Settlements	-	-	5,664	-	4,919
<b>Gross profit</b>	<b>\$8,060</b>	<b>\$2,551</b>	<b>\$17,048</b>	<b>\$4,985</b>	<b>\$15,835</b>
Adjusted gross profit margin <sup>(3)</sup>	25%	24%	23%	24%	24%
Gross profit margin <sup>(3)</sup>	8%	3%	5%	1%	4%

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

(2) Represents amount classified as cost of sales.

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