



LSB Industries, Inc. (LXU)

Raise Price Target To \$12 (From \$10) As LSB Completes Refinancing At Lower Interest Than Our Projection And We Increase Fertilizer Volume Estimates For Next Two Quarters

| | 2019 | 2020 | | 2021E | 2022E |
|--------------|----------|----------|-----|-----------|---------|
| | | OLD | NEW | OLD | NEW |
| Mar. | (\$0.70) | (\$0.89) | | (\$0.82)A | \$0.09 |
| June | (0.05) | (0.34) | | 0.25A | 0.21 |
| Sep. | (1.04) | (1.07) | | (0.28) | 0.01 |
| Dec. | (0.97) | (1.03) | | 0.06 | 0.09 |
| EPS | (\$2.77) | (\$3.34) | | (\$0.79) | \$0.41 |
| P/E | | | | NM | 25.5x |
| EBITDA (mil) | \$46.5 | \$61.5 | | \$120.0 | \$152.1 |
| EV / EBITDA | | | | 11.9x | 9.7x |

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. EPS/losses per share exclude net nonrecurring income of \$0.20 in 2020 and 0.20 in 2021. 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 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E |
|------------|---------|---------|----------|---------|----------|----------|----------|----------|----------|---------|
| Rev.(Mil.) | \$679.3 | \$732.5 | \$691.2 | \$441.2 | \$427.5 | \$378.2 | \$365.1 | \$351.3 | \$507.8 | \$520.0 |
| GAAP EPS | \$2.44 | \$0.81 | (\$1.67) | \$1.30 | (\$2.18) | (\$3.73) | (\$3.46) | (\$3.54) | (\$0.54) | \$0.46 |

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.

- We raise our price target to \$12 (from \$10) as we increase our EPS estimates following completion of the debt refinancing at 6.25% (we previously modeled 7.25%).
- We also expect higher sales in 4Q:21 and 1Q:22 on increased non-seasonal demand given lack of industrywide supply due to Gulf Coast outages and increased turnaround activity, as well as rising ammonia prices.
- As a result, we narrow our 2021 loss per share estimate to \$0.74 (from \$0.79), increase our 2022 EPS estimate to \$0.46 (from \$0.41) and 2022 free cash flow per share estimate to \$0.97 (from \$0.87).
- In the span of a few weeks, LSB has transformed its once challenging capital structure by completing the exchange of the Series E and F preferred shares for common stock following shareholder approval and refinancing its debt at a lower level (previously 9.625%).
- Demand remains healthy, with benchmark Tampa ammonia rising in October and more than 200% above year-ago levels, continuing at multi-year highs, driven by elevated corn prices and supply issues due to outages.
- We also note the pending court date (likely in 2022) as the company seeks more than \$100 million in damages from its former EPC contactor involved in the El Dorado expansion.
- The company now has greater financial flexibility to explore organic growth opportunities or pursue strategic acquisitions; we estimate net leverage to decline to 2.3x by year-end 2023.
- Our revised \$12 price target (formerly \$10) is based on 12x our updated 2022 free cash flow per share estimate of \$0.97 (previously \$0.87), which is in line with 3-year average multiples for other nitrogen-based chemicals providers. The target implies a 9x multiple to our 2022 EBITDA estimate of \$155 million (plus \$15 million in turnaround costs), a slight premium to the peer group.

We raise our price target to \$12 (from \$10) on lower interest expense following debt refinancing and stronger projected volumes in 4Q:21 and 1Q:22. Last week, the company redeemed its \$435 million in 9.625% notes and issued \$500 million of 6.25% notes

NR

Price Target: \$12

Price: \$11.73

Risk Rating: M

Steve Ferazani, CFA

(212) 894-3326

(sferazani@sidoti.com)

Key Statistics

| | |
|-------------------------------|----------|
| Analysts Covering | 1 |
| Market Cap (Mil) | \$1,045 |
| Enterprise Value | \$1,495 |
| 52-Week Range (NYSE) | 12-2 |
| 5-Year EPS CAGR | NM |
| Avg. Daily Trading Volume | 294,000 |
| Shares Out (Mil) | 30.301 |
| Float Shares (Mil) | 25.113 |
| Insider Ownership | 29% |
| Institutional Holdings | 65% |
| Annualized Dividend | Nil |
| Dividend Yield | N/A |
| FCF Per Share (2022E) | \$0.97 |
| FCF Yield (2022E) | 8.3% |
| Net Cash Per Share (2022E) | (\$4.03) |
| Price to Book Value | 2.2x |
| Return on Equity (2022E) | 9.1% |
| Total Debt to Capital | 54% |
| Interest Coverage Ratio | 2.2x |
| Short Interest % | 2.8% |
| Short Interest Days To Cover | 6.7 |
| Russell 2000 | 2,242 |
| Russell 2000 – Last 12 Months | 46.2% |
| LXU – Last 12 Months | 530.2% |



Source: FactSet Prices

due 2028. The notes were callable at 103.6% of the principal amount. A portion of the proceeds will be used for the redemption and transaction fees. This follows the completion of the exchange of \$310 million in Series E and Series F preferred notes for common shares. The transaction results in Eldridge Industries owning about 61% of the 89 million shares outstanding. Shareholders received a special dividend of 0.3 shares for each share owned. We suggest the conversion of the preferreds increases LSB's financial flexibility providing the opportunity to pursue acquisitions or organic growth opportunities, including in blue or green ammonia or additional industrial contracts that may require further plant investments. We also expect stronger sales in 4Q:21 and 1Q:22 due to reduced industrywide ammonia availability as a result of Gulf Coast outages and increased turnaround activity (following a slower turnaround season in 2020 due to COVID). With benchmark Tampa ammonia remaining above \$600 per ton, after rising \$50 for October shipments, more than 200% above year-ago levels. We also expect LSB to continue to benefit from the mix. In 2Q:21, industrial/mining sales accounted for 53% of total revenue, up from 38% in the year-earlier quarter. We narrow our 2021 loss per share estimate to \$0.74 (from \$0.79) while widening our EPS estimate in 2022 to \$0.46 (from \$0.41) and free cash flow per share to \$0.97 (from \$0.87).

LSB has the financial flexibility to pursue additional opportunities. We note that the company's 70,000-100,000 annual nitric acid supply contract, which extends for seven years, is still ramping up while its CO2 contract commences in 4Q. LSB has discussed potential investments in blue and green ammonia. For reference, blue ammonia uses captured carbon dioxide while green ammonia is produced using renewable energy rather than natural gas. In addition, LSB is seeking more than \$100 million in damages from its former EPC contractor involved in the El Dorado plant expansion. The case, which was originally slated to begin last spring, was pushed back due to COVID, and now is likely to reach court in 2022.

Our Moderately Risky rating reflects the improved capital structure and likelihood of debt refinancing. The preferred exchange reduced net leverage (including preferreds) to around 4.5x, by our model, at the end of 3Q:21 (from more than 11x at the end of 1Q:21) and greatly enhances the company's ability to pursue clean energy or other growth opportunities. We model net leverage declining to 2.3x by year-end 2023 on rising EBITDA. We expect a portion of cash flow will be used to pay down debt.

| | | | |
|------------------|--|--------------------------|---------------|
| Valuation | We raise our price target to \$12 (formerly \$10), based on 12x our updated 2022 free cash flow per share estimate of \$0.97 (previously \$0.87). The multiple is in line with the three-year average forward multiples for other nitrogen-based chemicals suppliers, including CF Industries (NYSE: CF, NC), Nutrien Ltd. (NYSE: NTR, NC) and Yara International (YAR-NO, NC). The target implies a 9x multiple to our 2022 EBITDA estimate of \$155 million (plus \$15 million in turnaround expenses), a modest premium to the peer group. Given the greater financial flexibility accorded LXU following the preferred exchange and refinancing, we expect it may be agile enough to build out its capabilities in faster growth markets. | | |
| Key Risks | Fertilizer prices | Unplanned plant downtime | Balance sheet |

LSB INDUSTRIES, INC.

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

| | 2019 | Mar | Jun | Sep | Dec | 2020 | MarA | JunA | SepE | DecE | 2021E | MarE | JunE | SepE | DecE | 2022E |
|---|-------------|-------------|------------|-------------|-------------|-------------|-------------|------------|-------------|------------|-------------|------------|------------|------------|------------|------------|
| Net sales | \$ 365,070 | \$ 83,411 | \$ 105,033 | \$ 73,969 | \$ 88,903 | \$ 351,316 | \$ 98,116 | \$ 140,696 | \$ 131,860 | \$ 137,136 | \$ 507,808 | \$ 141,234 | \$ 148,508 | \$ 102,800 | \$ 127,460 | \$ 520,002 |
| Cost of goods sold | 360,085 | 80,860 | 86,012 | 75,028 | 92,368 | 334,268 | 90,056 | 105,688 | 110,408 | 103,286 | 409,438 | 104,082 | 103,130 | 89,511 | 96,145 | 392,868 |
| Gross profit | 4,985 | 2,551 | 19,021 | (1,059) | (3,465) | 17,048 | 8,060 | 35,008 | 21,452 | 33,850 | 98,370 | 37,152 | 45,378 | 13,289 | 31,315 | 127,134 |
| SG&A | 34,172 | 10,006 | 8,504 | 7,068 | 6,506 | 32,084 | 8,793 | 8,545 | 11,817 | 12,290 | 41,445 | 11,864 | 8,910 | 9,355 | 10,197 | 40,326 |
| Other expense | 9,555 | (468) | (167) | 875 | 259 | | (263) | 6 | | | | | | | | |
| Other income | 417 | | | | | | | | | | | | | | | |
| Operating profit | (39,091) | (6,987) | 10,684 | (9,002) | (10,230) | (15,036) | (470) | 26,457 | 9,635 | 21,560 | 56,925 | 25,289 | 36,467 | 3,934 | 21,118 | 86,809 |
| Operating profit (excluding one-time items) | (23,110) | (3,457) | 10,684 | (9,002) | (7,603) | (9,378) | (270) | 26,457 | 9,635 | 21,560 | 57,382 | 25,289 | 36,467 | 3,934 | 21,118 | 86,809 |
| EBITDA (excluding one-time items) | 46,464 | 14,450 | 27,980 | 8,698 | 10,446 | 61,463 | 16,412 | 44,237 | 26,598 | 38,523 | 125,662 | 42,252 | 53,430 | 20,897 | 38,081 | 154,661 |
| Interest expense | 46,389 | 13,479 | 12,476 | 12,554 | 12,606 | 51,115 | 12,372 | 12,290 | 12,233 | 7,763 | 44,659 | 7,763 | 7,598 | 7,208 | 7,048 | 29,618 |
| Loss on extinguishment of debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Non-operating other expense (income) | (1,139) | (675) | (128) | 216 | 597 | | 395 | (9,255) | | | | | | | | |
| Earnings before income taxes | (84,341) | (19,791) | (1,664) | (21,772) | (23,433) | (66,151) | (13,237) | 23,422 | (2,598) | 13,797 | 12,267 | 17,525 | 28,869 | (3,274) | 14,070 | 57,191 |
| Minority interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Income taxes | (20,924) | (339) | (1,299) | (1,370) | (1,741) | (4,749) | 42 | (248) | (598) | 3,173 | 2,370 | 4,031 | 6,640 | (753) | 3,236 | 13,154 |
| Net income | \$ (63,417) | \$ (19,452) | \$ (365) | \$ (20,402) | \$ (21,692) | \$ (61,402) | \$ (13,279) | \$ 23,670 | \$ (2,001) | \$ 10,623 | \$ 9,897 | \$ 13,495 | \$ 22,229 | \$ (2,521) | \$ 10,834 | \$ 44,037 |
| Net income (excluding one-time items) | \$ (45,604) | \$ (15,982) | \$ (365) | \$ (20,402) | \$ (19,260) | \$ (56,010) | \$ (13,078) | \$ 18,035 | \$ (2,001) | \$ 10,623 | \$ 13,579 | \$ 13,495 | \$ 22,229 | \$ (2,521) | \$ 10,834 | \$ 44,037 |
| Net loss (income) from discontinued operations | | | | | | | | | | | | | | | | |
| Net income attributable to common stock | \$ (63,417) | \$ (19,452) | \$ (365) | \$ (20,402) | \$ (21,692) | \$ (61,402) | \$ (13,279) | \$ 23,670 | \$ (2,001) | \$ 10,623 | \$ 9,897 | \$ 13,495 | \$ 22,229 | \$ (2,521) | \$ 10,834 | \$ 44,037 |
| Preferred stock dividends | 30,729 | 8,307 | 8,689 | 8,889 | 9,297 | 35,182 | 9,511 | 10,436 | 10,677 | 750 | 31,374 | 750 | 750 | 750 | 750 | 3,000 |
| Net income | \$ (96,441) | \$ (28,338) | \$ (9,634) | \$ (29,874) | \$ (31,573) | \$ (99,419) | \$ (23,376) | \$ 12,646 | \$ (13,268) | \$ 9,873 | \$ (14,125) | \$ 12,745 | \$ 21,479 | \$ (3,271) | \$ 10,084 | \$ 41,037 |
| Net income (excluding one-time items) | \$ (78,628) | \$ (24,868) | \$ (9,634) | \$ (29,874) | \$ (29,141) | \$ (93,518) | \$ (23,175) | \$ 7,011 | \$ (13,268) | \$ 9,873 | \$ (19,559) | \$ 12,745 | \$ 21,479 | \$ (3,271) | \$ 10,084 | \$ 41,037 |
| EPS from continuing operations | | | | | | | | | | | | | | | | |
| GAAP diluted earnings per share | \$ (3.46) | \$ (1.01) | \$ (0.34) | \$ (1.07) | \$ (1.12) | \$ (3.54) | \$ (0.82) | \$ 0.44 | \$ (0.28) | \$ 0.11 | \$ (0.54) | \$ 0.14 | \$ 0.24 | \$ (0.04) | \$ 0.11 | \$ 0.46 |
| Diluted earnings per share (excluding one-time items) | \$ (2.84) | \$ (0.89) | \$ (0.34) | \$ (1.07) | \$ (1.03) | \$ (3.34) | \$ (0.82) | \$ 0.25 | \$ (0.28) | \$ 0.11 | \$ (0.74) | \$ 0.14 | \$ 0.24 | \$ (0.04) | \$ 0.11 | \$ 0.46 |
| Diluted shares outstanding | 27,628 | 27,822 | 27,934 | 28,045 | 28,190 | 27,998 | 28,396 | 28,453 | 47,824 | 88,547 | 48,305 | 88,724 | 88,902 | 89,079 | 89,258 | 88,991 |
| YOY Growth: | | | | | | | | | | | | | | | | |
| Revenue | -3.5% | -11.4% | -13.6% | -2.0% | 20.3% | -3.8% | 17.6% | 34.0% | 78.3% | 54.3% | 44.5% | 43.9% | 5.6% | -22.0% | -7.1% | 2.4% |
| Gross profit | -68.5% | -65.1% | -3.3% | NM | -71.8% | 242.0% | 216.0% | 84.0% | NM | NM | 477.0% | 360.9% | 29.6% | NM | -7.5% | 29.2% |
| Operating profit | 69.8% | NM | -5.8% | NM | -67.3% | -61.5% | NM | 147.6% | NM | NM | -478.6% | NM | 37.8% | NM | -2.0% | 52.5% |
| Operating profit (excluding one-time items) | 33.4% | NM | -5.8% | NM | -61.2% | -59.4% | NM | 147.6% | NM | NM | -711.9% | NM | 37.8% | NM | -2.0% | 51.3% |
| Net income | NM | NM | NM | NM | -21.7% | NM | NM | NM | NM | -149.0% | NM | NM | NM | NM | 2.0% | NM |
| Net income (excluding one-time items) | NM | NM | NM | NM | 1.0% | NM | NM | NM | NM | -133.9% | NM | NM | NM | NM | 2.1% | NM |
| GAAP EPS | NM | NM | NM | NM | -14.8% | NM | NM | NM | NM | -110.0% | NM | NM | NM | NM | 1.3% | NM |
| Diluted EPS | NM | NM | NM | NM | -0.7% | NM | NM | NM | NM | -110.8% | NM | NM | NM | NM | 1.3% | NM |
| Margins: | | | | | | | | | | | | | | | | |
| COGS/sales | 98.6% | 96.9% | 81.9% | 101.4% | 103.9% | 95.1% | 91.8% | 75.1% | 83.7% | 75.3% | 80.6% | 73.7% | 69.4% | 87.1% | 75.4% | 75.6% |
| SG&A/sales | 9.4% | 12.0% | 8.1% | 9.6% | 7.3% | 9.1% | 9.0% | 6.1% | 9.0% | 9.0% | 8.2% | 8.4% | 6.0% | 9.1% | 8.0% | 7.8% |
| Gross profit | 1.4% | 3.1% | 18.1% | -1.4% | -3.9% | 4.9% | 8.2% | 24.9% | 16.3% | 24.7% | 19.4% | 26.3% | 30.6% | 12.9% | 24.6% | 24.4% |
| Operating profit | -10.7% | -8.4% | 10.2% | -12.2% | -11.5% | -4.3% | -0.5% | 18.8% | 7.3% | 15.7% | 11.2% | 17.9% | 24.6% | 3.8% | 16.6% | 16.7% |
| Operating profit (excluding one-time items) | -6.3% | -4.1% | 10.2% | -12.2% | -8.6% | -2.7% | -0.3% | 18.8% | 7.3% | 15.7% | 11.3% | 17.9% | 24.6% | 3.8% | 16.6% | 16.7% |
| Net income | -17.4% | -23.3% | -0.3% | -27.6% | -24.4% | -17.5% | -13.5% | 16.8% | -1.5% | 7.7% | 1.9% | 9.6% | 15.0% | -2.5% | 8.5% | 8.5% |
| Net income (excluding one-time items) | -21.5% | -29.8% | -9.2% | -40.4% | -32.8% | -26.6% | -23.6% | 5.0% | -10.1% | 7.2% | -3.9% | 9.0% | 14.5% | -3.2% | 7.9% | 7.9% |

Sources: Company reports and Sidoti & Company, LLC estimates

LSB INDUSTRIES, INC.

Table 2. LSB Industries, Inc. Cash Flow Statement

(in thousands, except where noted)

| | Mar | Jun | Sep | Dec | 2019 | Mar | Jun | Sep | Dec | 2020 | MarA | JunA | SepE | 2021E | 2022E |
|--|------------------|------------------|------------------|--------------------|--------------------|--------------------|------------------|------------------|--------------------|--------------------|------------------|------------------|------------------|------------------|------------------|
| Cash Flows From Operating Activities: | | | | | | | | | | | | | | | |
| Net income | \$ (11,540) | \$ 6,631 | \$ (30,794) | \$ (27,714) | \$ (63,417) | \$ (19,452) | \$ (365) | \$ (20,402) | \$ (21,692) | \$ (61,911) | \$ (13,279) | \$ 23,670 | \$ (2,001) | \$ 19,014 | \$ 44,037 |
| Depreciation and amortization | 16,826 | 17,084 | 17,665 | 17,999 | 69,574 | 17,592 | 16,980 | 17,385 | 17,624 | 69,581 | 16,762 | 16,963 | 16,963 | 67,651 | 67,852 |
| Amortization of intangibles and other assets | | | | | | 315 | 316 | 315 | 314 | 1,260 | 315 | 314 | | 629 | |
| Net loss (income) from discontinued operations | | | | | - | | | | | - | | | | - | - |
| Deferred income taxes | | | | | | | | | | - | 327 | (71) | | 256 | - |
| Changes in assets and liabilities | 1,320 | (4,086) | 32,204 | (22,881) | 6,557 | (1,632) | 4,091 | 7,370 | (24,585) | (14,756) | 9,644 | (15,813) | 14,327 | (7,054) | 7,345 |
| Other operating cash flow | 455 | (6,429) | 1,636 | (13,577) | (17,915) | 999 | 532 | 671 | 1,111 | 3,313 | (1,058) | (7,193) | - | (8,251) | - |
| Total cash flows used in (provided by) operating activities | 7,061 | 13,200 | 20,711 | (38,873) | 2,099 | (2,178) | 21,554 | 5,339 | (27,228) | (2,513) | 12,711 | 17,870 | 29,289 | 72,245 | 119,234 |
| Cash Flows From Investing Activities: | | | | | | | | | | | | | | | |
| Capital expenditures | (7,115) | (5,751) | (7,589) | (15,626) | (36,081) | (10,737) | (7,216) | (4,277) | (8,241) | (30,471) | (6,133) | (8,716) | (9,000) | (32,849) | (32,800) |
| Proceeds from sale of property, plant and equipment | | | 61 | - | 61 | | | | | - | | | | - | - |
| Other | 9 | 53 | (26) | 59 | 95 | 179 | 120 | 1,712 | 34 | 2,045 | 198 | 102 | | 300 | - |
| Total cash flows used in (provided by) investing activities | (7,106) | (5,698) | (7,554) | (15,567) | (35,925) | (10,558) | (7,096) | (2,565) | (8,207) | (28,426) | (5,935) | (8,614) | (9,000) | (32,549) | (32,800) |
| Cash Flows From Financing Activities: | | | | | | | | | | | | | | | |
| Principal payments on long-term debt | (1,610) | (23,473) | (1,982) | (12,836) | (39,901) | (5,078) | (5,428) | (47,193) | (4,598) | (62,297) | (8,772) | (5,808) | | (14,580) | (30,000) |
| Proceeds from long-term debt | 795 | 55,086 | 1,035 | 15,568 | 72,484 | 32,570 | 10,000 | 30,000 | 14,589 | 87,159 | | | | - | - |
| Dividends paid on preferred stock | | | | | - | | | | | - | | | | - | - |
| Proceeds from issuance of preferred stock | | | | | - | | | | | - | | | | - | - |
| Other financing cash flow | (3,483) | (2,849) | (3,398) | 7,716 | (2,014) | (64) | | | (386) | (450) | (36) | (55) | (12,000) | (12,091) | - |
| Total cash provided by (used in) financing activities | (4,298) | 28,764 | (4,345) | 10,448 | 30,569 | 27,428 | 4,572 | (17,193) | 9,605 | 24,412 | (8,808) | (5,863) | (12,000) | (26,671) | (30,000) |
| Cash flow from discontinued operations | | | | | | | | | | | | | | | |
| Net increase in cash and cash equivalents | (4,343) | 36,266 | 8,812 | (43,992) | (3,257) | 14,692 | 19,030 | (14,419) | (25,830) | (6,527) | (2,032) | 3,393 | 8,289 | 13,025 | 56,434 |
| Cash and cash equivalents at beginning of period | 26,048 | 21,705 | 57,971 | 66,783 | 26,048 | 22,791 | 37,483 | 56,513 | 42,094 | 22,791 | 16,264 | 14,232 | 17,625 | 16,264 | 29,289 |
| Cash and cash equivalents at end of period | \$ 21,705 | \$ 57,971 | \$ 66,783 | \$ 22,791 | \$ 22,791 | \$ 37,483 | \$ 56,513 | \$ 42,094 | \$ 16,264 | \$ 16,264 | \$ 14,232 | \$ 17,625 | \$ 25,914 | \$ 29,289 | \$ 85,722 |
| Free cash flow | \$ (54) | \$ 7,449 | \$ 13,183 | \$ (54,499) | \$ (33,921) | \$ (12,915) | \$ 14,338 | \$ 1,062 | \$ (35,469) | \$ (32,984) | \$ 6,578 | \$ 9,154 | \$ 20,289 | \$ 39,396 | \$ 86,434 |
| Free cash flow per share | \$ (0.00) | \$ 0.27 | \$ 0.48 | \$ (1.97) | \$ (1.23) | \$ (0.46) | \$ 0.51 | \$ 0.04 | \$ (1.26) | \$ (1.18) | \$ 0.23 | \$ 0.32 | \$ 0.42 | \$ 0.82 | \$ 0.97 |

Sources: Company reports and Sidoti & Company, LLC estimates

LSB INDUSTRIES, INC.

Table 3. LSB Industries, Inc. Balance Sheet

(in thousands, except where noted)

| | Mar | Jun | Sep | 2019 | Mar | Jun | Sep | 2020 | MarA | JunA | SepE | 2021E | 2022E |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| ASSETS | | | | | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 21,705 | \$ 57,971 | \$ 66,783 | \$ 22,791 | \$ 37,483 | \$ 56,513 | \$ 42,094 | \$ 16,264 | \$ 14,232 | \$ 17,625 | \$ 25,914 | \$ 29,289 | \$ 85,722 |
| Receivables | 46,524 | 52,214 | 33,001 | 39,942 | 51,060 | 42,569 | 39,553 | 42,551 | 60,125 | 67,054 | 63,293 | 71,311 | 61,181 |
| Inventory | 32,540 | 19,586 | 20,635 | 23,311 | 26,303 | 14,332 | 19,202 | 19,573 | 19,218 | 14,302 | 13,249 | 16,526 | 15,383 |
| Supplies, prepaid items and other | 40,736 | 39,246 | 36,761 | 44,829 | 42,389 | 39,361 | 37,180 | 51,192 | 45,389 | 44,118 | 44,118 | 44,118 | 44,118 |
| Total current assets | 141,505 | 169,017 | 157,180 | 130,873 | 157,235 | 152,775 | 138,029 | 129,580 | 138,964 | 143,099 | 146,574 | 161,243 | 206,404 |
| OTHER ASSETS: | | | | | | | | | | | | | |
| Property, plant and equipment | 962,538 | 951,546 | 950,175 | 936,474 | 928,393 | 913,441 | 899,613 | 891,198 | 882,816 | 871,780 | 863,817 | 855,854 | 820,802 |
| Other assets | 22,426 | 20,711 | 22,426 | 21,142 | 24,523 | 28,449 | 32,283 | 32,524 | 33,217 | 34,606 | 34,606 | 34,606 | 34,606 |
| Total other assets | 984,964 | 972,257 | 972,601 | 957,616 | 952,916 | 941,890 | 931,896 | 923,722 | 916,033 | 906,386 | 898,423 | 890,460 | 855,408 |
| Total assets | \$ 1,126,469 | \$ 1,141,274 | \$ 1,129,781 | \$ 1,088,489 | \$ 1,110,151 | \$ 1,094,665 | \$ 1,069,925 | \$ 1,053,302 | \$ 1,054,997 | \$ 1,049,485 | \$ 1,044,997 | \$ 1,051,703 | \$ 1,061,812 |
| LIABILITIES AND COMMON SHAREHOLDERS' EQUITY | | | | | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 49,898 | \$ 43,849 | \$ 54,088 | \$ 58,477 | \$ 54,010 | \$ 45,245 | \$ 41,192 | \$ 46,551 | \$ 57,360 | \$ 51,212 | \$ 60,724 | \$ 56,807 | \$ 52,880 |
| Short-term financing | 5,863 | 3,222 | 607 | 607 | 6,893 | 3,834 | 751 | 13,576 | 8,157 | 4,516 | 4,516 | 4,516 | 4,516 |
| Accrued and other liabilities | 37,671 | 29,786 | 39,309 | 25,484 | 40,544 | 27,768 | 40,957 | 30,367 | 40,722 | 30,541 | 30,541 | 30,541 | 30,541 |
| Current maturities of long-term debt | 12,275 | 8,672 | 9,090 | 9,410 | 9,665 | 11,492 | 15,203 | 16,801 | 18,082 | 9,049 | 9,049 | 9,049 | 9,049 |
| Total current liabilities | 105,707 | 85,529 | 103,094 | 93,978 | 111,112 | 88,339 | 98,103 | 107,295 | 124,321 | 95,318 | 104,830 | 100,913 | 96,986 |
| LONG-TERM LIABILITIES: | | | | | | | | | | | | | |
| Accrued and other liabilities | 18,044 | 16,194 | 18,442 | 17,618 | 19,660 | 21,200 | 24,845 | 25,935 | 26,577 | 27,649 | 27,649 | 27,649 | 27,649 |
| Deferred income taxes | 57,057 | 51,322 | 50,815 | 35,717 | 35,343 | 34,056 | 32,663 | 30,939 | 31,266 | 31,195 | 31,266 | 31,195 | 31,195 |
| Long-term debt, less current maturities | 412,913 | 448,164 | 447,663 | 449,634 | 480,837 | 487,552 | 470,751 | 467,389 | 463,673 | 461,459 | 461,459 | 461,459 | 431,459 |
| Total liabilities | 593,721 | 601,209 | 620,014 | 596,947 | 646,952 | 631,147 | 626,362 | 631,558 | 645,837 | 615,621 | 625,204 | 621,216 | 587,289 |
| Redeemable preferred stock | 209,921 | 218,007 | 226,271 | 234,893 | 243,704 | 252,898 | 262,295 | 272,101 | 282,123 | 292,849 | | | |
| Total shareholders' equity | 322,827 | 322,058 | 283,496 | 247,327 | 219,495 | 210,620 | 181,268 | 149,643 | 127,037 | 141,015 | 419,792 | 430,487 | 474,524 |
| Total liabilities and common shareholders' equity | \$ 1,126,469 | \$ 1,141,274 | \$ 1,129,781 | \$ 1,079,167 | \$ 1,110,151 | \$ 1,094,665 | \$ 1,069,925 | \$ 1,053,302 | \$ 1,054,997 | \$ 1,049,485 | \$ 1,044,997 | \$ 1,051,703 | \$ 1,061,812 |
| Key Ratios: | | | | | | | | | | | | | |
| Current ratio | 1.3 | 2.0 | 1.5 | 1.4 | 1.4 | 1.7 | 1.4 | 1.2 | 1.1 | 1.5 | 1.4 | 1.6 | 2.1 |
| Net debt per share | \$22.48 | \$22.47 | \$22.30 | \$24.24 | \$25.29 | \$25.03 | \$25.21 | \$26.73 | \$26.69 | \$26.37 | \$9.39 | \$5.03 | \$4.03 |
| Net debt | 619,267 | 620,094 | 616,848 | 671,753 | 703,616 | 699,263 | 706,906 | 753,603 | 757,803 | 750,248 | 449,110 | 445,735 | 359,302 |
| Net debt plus preferreds/EBITDA (TTM) | | | | 12.2 | 13.2 | 13.3 | 12.1 | 12.2 | 11.9 | 9.4 | 4.6 | 3.5 | 2.3 |
| Net debt/EBITDA(TTM) | 8.2 | 6.2 | 6.0 | 9.4 | 10.2 | 10.1 | 9.0 | 7.6 | 7.3 | 5.7 | 4.6 | 3.5 | 2.3 |
| Book value per share | \$ 11.72 | \$ 11.67 | \$ 10.25 | \$ 8.95 | \$ 7.89 | \$ 7.54 | \$ 6.46 | \$ 5.34 | \$ 4.47 | \$ 4.96 | \$ 8.78 | \$ 8.91 | \$ 5.33 |
| Return on total assets | NM | NM | NM | NM | -8.9% | -3.4% | -10.9% | NM | -8.6% | 2.6% | -5.0% | NM | 3.9% |
| Return on total capital | NM | NM | NM | NM | -13.6% | -5.2% | -17.0% | NM | -14.1% | 4.2% | -6.8% | NM | 4.5% |
| Return on total equity | NM | NM | NM | NM | -36.7% | -14.5% | -51.4% | NM | -53.5% | 16.0% | -17.7% | NM | 9.1% |
| Debt-to-equity | 131.7% | 141.8% | 161.1% | 185.6% | 223.5% | 236.9% | 268.1% | 323.6% | 379.2% | 333.7% | 112.1% | 109.3% | 92.8% |
| Total debt-to-total capital | 56.8% | 58.7% | 61.7% | 65.0% | 69.1% | 70.3% | 72.8% | 76.4% | 79.1% | 76.9% | 52.8% | 52.2% | 48.1% |
| Long-term debt-to-total capital | 55.2% | 57.5% | 60.5% | 63.7% | 67.7% | 68.7% | 70.6% | 73.7% | 76.2% | 75.5% | 51.8% | 51.2% | 47.2% |

Sources: Company reports and Sidoti & Company, LLC estimates

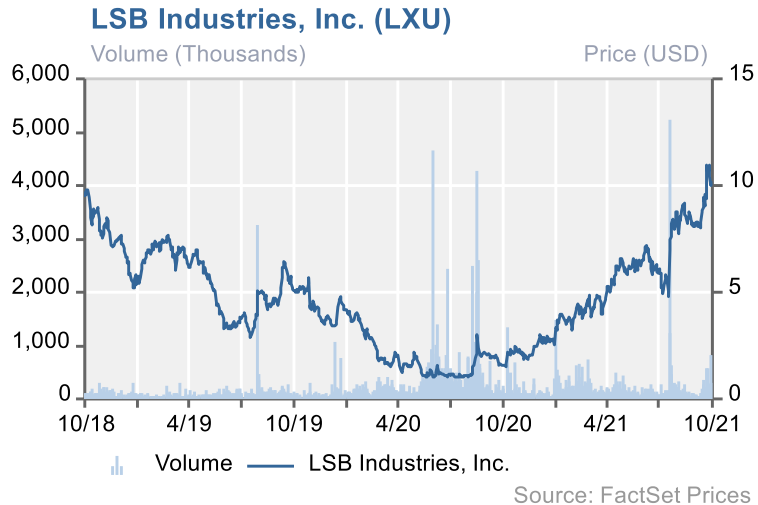
Appendix Required Disclosures

Required Disclosures

LSB Industries, Inc. (LXU-\$11.73) NR Price Target: \$12 Risk Rating: M

Rating and Price Target History Table

| Action | Date | Px | Rating | PT | Risk Rating |
|-------------|---------|-----|--------|----|-------------|
| 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 | |
| ACHG | 11/6/20 | 1.9 | NR | 5 | |
| PT | 1/6/21 | 3.7 | | 5 | |
| PT | 2/17/21 | 4.2 | | 5 | |
| PT | 2/26/21 | 4.7 | | 6 | |
| PT | 4/5/21 | 5.3 | | 6 | |
| PT | 4/21/21 | 6.2 | | 7 | |
| PT | 4/30/21 | 6.4 | | 7 | |
| PT | 6/9/21 | 7.2 | | 8 | |
| PT | 7/19/21 | 5.1 | | 8 | |
| Risk Rating | 7/20/21 | 6.4 | | | M |
| PT | 7/20/21 | 6.4 | | 8 | |
| PT | 7/30/21 | 8.3 | | 9 | |
| PT | 9/1/21 | 8.2 | | 9 | |
| PT | 9/23/21 | 9.4 | | 10 | |



| | | | |
|------------------|---|--------------------------|---------------|
| Valuation | We raise our price target to \$12 (formerly \$10), based on 12x our updated 2022 free cash flow per share estimate of \$0.97 (previously \$0.87). The multiple is in line with the three-year average forward multiples for other nitrogen-based chemicals suppliers, including CF Industries (NYSE: CF, NC), Nutrien Ltd. (NYSE: NTR, NC) and Yara International (YAR-NO, NC). The target implies a 9x multiple to our 2022 EBITDA estimate of \$155 million (plus \$15 million in turnaround expenses), a modest premium to the peer group. Given the greater financial flexibility accorded LXU following the preferred exchange and refinancing, we expect it may be agile enough to build out its capabilities in faster growth markets. | | |
| Key Risks | Fertilizer prices | Unplanned plant downtime | Balance sheet |

Sidoti & Company. Sidoti & Company, LLC is a licensed broker/dealer, and publishes research reports about some of the securities it follows. All research published by Sidoti & Company, LLC is based on public information, or on information from the company discussed in the report that that company is required to promptly make public. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only one factor in making their investment decisions. This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. This research report is not a substitute for the exercise of your independent judgment. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. The stock rating on this report reflects the analyst's recommendation based on a 12-month period. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication.

Sidoti does NOT own securities of the issuers described herein, and Sidoti does not make a market in any securities. Sidoti does not engage in, or receive compensation from, any investment banking or corporate finance-related activities with the company discussed in the report. Sidoti's contracts with issuers protect Sidoti's full editorial control of all research, timing of release of reports, and release from liability for negative reports. To ensure further independence, the company discussed in the report has agreed to a minimum coverage term of one Initiation Report and three Update Reports, which that company cannot unilaterally terminate earlier. Sidoti & Company, LLC takes steps to ensure analyst independence including setting fees in advance and utilizing analysts who must abide by the CFA Institute Code of Ethics and Standards of Professional Conduct. Each Sidoti & Company, LLC analyst has full discretion on the rating and revenue target based on his or her own due diligence. Analysts are paid in part based on overall profitability of Sidoti & Company, LLC. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Sidoti & Company, LLC for services described below. No part of analyst compensation was, or will be, directly or indirectly, related to the specific recommendations or views expressed in any

report or article. All issuers to be considered for research obtain the approval of a stock selection committee comprised of the Director of Research, the Chief Compliance Officer, and an independent outside person for screening applicants.

Sidoti Company Sponsored Research Rating System The Sidoti & Company, LLC *Company Sponsored Research* rating system consists of “Moderately Risky” (M) and “Highly Risky” (H) ratings. “Moderately Risky” suggests companies, that while still subject to relatively high price volatility, are characterized by more stable and predictable cash flow, a more established operating history, and an operating environment that is somewhat less competitive with a potential for loss of principal. “Highly Risky” suggests high risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal. As of 10/04/21 and immediately prior to the publication of this report, Company Sponsored Research provides research on 30 companies, of which 25 (83.3%) are rated Moderately Risky and 5 (16.7%) are rated Highly Risky. *Earnings* targets and opinions concerning the composition of market sectors included in this report reflect analyst judgments as of this date and are subject to change without notice. A risk to our *earnings* targets is that the analyst’s estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such differences include, but are not limited to, those discussed in the “Risk Factors” section in the issuer’s SEC filings available in electronic format through SEC Edgar filings at www.sec.gov.

Every company in the Microcap sector bears certain inherent risks and Sidoti & Company, LLC will not provide any company subject to those risks with a rating below moderate because stock in the Microcap segment of the market have many risks that are not as prevalent in Large-Cap, Blue Chips, or even Small-Cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the Microcap segment of the market.

Sidoti & Company policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.

Sidoti & Company Research does not provide individually tailored investment advice. Sidoti & Company Research has been prepared without regard to the circumstances and objectives of those who receive it. Sidoti & Company recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor’s circumstances and objectives. The securities, instruments, or strategies discussed in Sidoti & Company Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Sidoti & Company Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company’s securities/instruments.

These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations. The trademarks and service marks contained in Sidoti & Company Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data.

Investors should consider Sidoti & Company Research as only a single factor in making their investment decision. For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 212-453-7000. Alternatively you may contact your investment representative or Sidoti & Company Research at 1177 Avenue of the Americas 5th Floor, (Attention: Director of Research), New York, NY 10036 USA.

Compensation. Sidoti & Company, LLC receives a flat fee of \$40,000, renewable annually from the company discussed in Company Sponsored Research reports for the creation and dissemination of an Initiation Report and three Update Reports. The purpose of the fee is to subsidize the high costs of research and monitoring. Sidoti holds multiple conferences a year and charges a fee of \$3,500 to \$5,500 per conference to presenting companies depending on the event. Sidoti does not currently have a current investment banking services relationship with companies discussed in Company Sponsored Research Reports, or contemporaneously with any other companies discussed in other (Sidoti) Company Sponsored Research reports. Investment banking services, as defined under FINRA Rule 2241, include, among other things, acting as an underwriter in, or as a member of the selling group in, a securities underwriting. Sidoti’s role in any issuer’s investment banking transaction can be viewed in that issuer’s filings at www.sec.gov.

Sidoti has non-research employees who will seek compensation for brokerage commission revenue in connection with market trading the securities of this company. Sidoti & Company, LLC has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Sidoti & Company, LLC analysts. These non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Sidoti & Company, LLC. LXU has paid a fee to Sidoti & Company, LLC to participate at the May 2021 Microcap Virtual Conference.

Sidoti Analysts. Sidoti policy does not allow an analyst or a member of their household (i) to own, trade, or have any beneficial interest in any securities of any company that analyst covers, or (ii) serve as an officer or director of a covered company. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking and brokerage activities, but compensation is not directly related to investment banking or brokerage revenues.

Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Sidoti research analysts seek to have management of their covered companies meet with investors during non-deal road shows. Analysts' compensation may be related to their success in scheduling non-deal road shows. This approach could be viewed as presenting potential conflicts of interest.

Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request. For any further questions, please contact the Chief Compliance Officer at Sidoti.

Analyst Certification. Steve Ferazani certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be, directly or indirectly, related to the analyst's specific recommendations or views contained in this research report.

Source

Key Statistics data is sourced from FactSet Research Systems