



LSB Industries, Inc. (LXU)

Raise Estimates On Strong 3Q:21 Pricing And Positive Outlook Due To Healthy Fertilizer Demand And Limited Supply; Maintain \$12 Price Target And Note Improved Financial Flexibility

| | 2020 | | 2021E | | 2022E | | 2023E | |
|--------------|----------|-----------|----------|---------|---------|---------|---------|--|
| | | OLD | NEW | OLD | NEW | OLD | NEW | |
| Mar. | (\$0.89) | (\$0.82)A | | \$0.14 | \$0.32 | \$0.11 | \$0.10 | |
| June | (0.34) | 0.25A | | 0.24 | 0.29 | 0.21 | 0.25 | |
| Sep. | (1.07) | (0.28) | (0.16)A | (0.04) | (0.13) | 0.09 | 0.07 | |
| Dec. | (1.03) | 0.11 | 0.37 | 0.11 | 0.11 | 0.03 | 0.09 | |
| EPS | (\$3.34) | (\$0.74) | (\$0.36) | \$0.46 | \$0.59 | \$0.44 | \$0.51 | |
| P/E | | | | | 14.7x | | 17.0x | |
| EBITDA (mil) | \$61.5 | \$125.6 | \$153.9 | \$154.7 | \$173.9 | \$150.9 | \$159.3 | |
| EV / EBITDA | | | | | 7.1x | | 7.8x | |

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. EPS/losses per share exclude net nonrecurring income and charges 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. *EPS include amortization expense.

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|------------|---------|----------|---------|----------|----------|----------|----------|----------|---------|---------|
| Rev.(Mil.) | \$732.5 | \$691.2 | \$441.2 | \$427.5 | \$378.2 | \$365.1 | \$351.3 | \$546.1 | \$539.2 | \$503.7 |
| GAAP EPS | \$0.81 | (\$1.67) | \$1.30 | (\$2.18) | (\$3.73) | (\$3.46) | (\$3.54) | (\$6.40) | \$0.59 | \$0.51 |

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 2021-2023 EBITDA projections to \$154 million, \$174 million and \$159 million (from \$126 million, \$155 million and \$151 million), respectively, following a positive outlook from management amid increasing ammonia and fertilizer pricing. (Note these estimates do not exclude turnaround costs.)
- EBITDA modestly exceeded our estimate in 3Q:21 on higher fertilizer pricing and exceeded year-ago results by more than 200% despite an extensive turnaround at Cherokee.
- Management offered a positive outlook given still increasing ammonia prices driven by healthy demand and limited supply, guiding for \$70 million in EBITDA in 4Q:21 compared to our previous estimate of \$38 million.
- Benchmark Tampa ammonia rose to \$825/ton for November shipments, up \$160 from October, and more than 200% above average 4Q:20 pricing of \$239.
- Higher natural gas prices are limiting global production while heavier turnaround activity and Hurricane Ida have pressured available supply, which should continue to be an issue into spring planting season.
- We narrow our 2021 loss per share estimate to \$0.36 (from \$0.74) and raise our 2022-2023 EPS estimates to \$0.59 and \$0.51 (from \$0.46 and \$0.44), respectively.
- LSB continues to seek more than \$100 million in damages from its former EPC contractor involved in the El Dorado expansion with a court date likely in 2022.
- The completion of the preferred exchange for common shares and debt refinancing completed during 3Q provide the company with greater financial flexibility to pursue growth opportunities including blue and green ammonia.
- We maintain our Moderately Risky rating as we expect net leverage to decline to 2.0x by year-end 2022 (from 4.5x currently).
- Our \$12 price target is based on 12x our raised 2022 free cash flow per share estimate of \$1.04 (previously \$0.97), which is in line with three-year average multiples for other nitrogen-based chemicals providers. The target implies an 8x multiple of our 2022 EBITDA estimate of \$174 million (plus \$16 million in turnaround costs), also in line with peers.

NR

Price Target: \$12

Price: \$8.69

Risk Rating: M

Steve Ferzani, CFA
 (212) 894-3326
 (sferzani@sidoti.com)

Key Statistics

| | |
|-------------------------------|----------|
| Analysts Covering | 2 |
| Market Cap (Mil) | \$770 |
| Enterprise Value | \$1,235 |
| 52-Week Range (NYSE) | 11-1 |
| 5-Year EPS CAGR | NM |
| Avg. Daily Trading Volume | 292,000 |
| Shares Out (Mil) | 88.600 |
| Float Shares (Mil) | 31.291 |
| Insider Ownership | 29% |
| Institutional Holdings | 65% |
| Annualized Dividend | Nil |
| Dividend Yield | N/A |
| FCF Per Share (2023E) | \$1.24 |
| FCF Yield (2023E) | 14.3% |
| Net Cash Per Share (2023E) | (\$2.52) |
| Price to Book Value | 2.5x |
| Return on Equity (2023E) | 8.6% |
| Total Debt to Capital | 54% |
| Interest Coverage Ratio | 0.5x |
| Short Interest % | 2.6% |
| Short Interest Days To Cover | 1.5 |
| Russell 2000 | 2,362 |
| Russell 2000 – Last 12 Months | 50.6% |
| LXU – Last 12 Months | 425.4% |



Source: FactSet Prices

We lift our 2021-2023 EBITDA estimates on stronger pricing and a positive outlook from management. Benchmark Tampa ammonia rose \$160 to \$825/ton for November shipments, well ahead of average 4Q:20 pricing of \$239, benefiting from higher natural gas prices limiting production outside the U.S. and heavier turnaround activity and hurricane impacts within the U.S. We expected limited excess supply into spring planting season helping to drive prices through at least 1H:22. Higher crop prices have supported increased farmer income, driven in part by China corn imports as well as weather issues in South America. We expect another healthy planting season will also help fertilizer demand in 2022. During yesterday's 3Q earnings call, management guided for 4Q:21 EBITDA of \$70 million, well ahead of our previous 4Q estimate of \$38 million. As a result, we increase our 2021-2023 EBITDA estimates to \$154 million, \$174 million and \$159 million, respectively (from \$126 million, \$155 million and \$151 million), respectively. (Note we do not exclude turnaround costs from our EBITDA estimates.)

LSB modestly exceeds our EBITDA estimate in 3Q:21. Revenue expanded 72% year over year to \$127 million despite an extensive turnaround during the quarter at the Cherokee facility. Revenue was modestly below our projection on the length of the turnaround (We note LSB's strong recent safety and operating performance as it focuses on maintenance.) but EBITDA (excluding turnaround costs) of \$35 million topped our estimate by 3% on higher realized UAN and HDAN prices and modestly lower natural gas costs. Adjusted loss per share of \$0.16 (excluding costs related to the preferred exchange) narrowed from the year-earlier \$1.07 loss on stronger pricing given limited supplies and increasing demand, particularly driven by China corn imports. The company is also benefiting from long-term industrial agreements, which are generally priced based on benchmark Tampa ammonia and typically provide greater volume and cash flow certainty and reduce seasonality. Industrial and mining accounted for 60% of revenue in 3Q:21 compared to the year-ago 57% in part due to the long-term nitric acid contract that commenced in early 2021.

LSB increased its flexibility to pursue growth opportunities including blue and green ammonia. LSB redeemed its \$435 million in 9.625% notes and issued \$500 million of 6.25% notes due 2028 in 3Q:21. This follows the completion of the exchange of \$310 million in Series E and Series F preferred notes for common shares. We note that the company has invested in its plants to expand industrial exposure. Its 70,000-100,000 annual nitric acid supply contract, which launched at the beginning of 2021 and extends for seven years, is still ramping up while its CO₂ contract commences in 4Q. The company has also discussed potential investments in blue and green ammonia. 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, originally slated to begin last spring but pushed back due to COVID, is likely to reach court in 2022.

Our Moderately Risky rating reflects the improved capital structure and completed debt refinancing. The preferred exchange reduced net leverage (including preferreds) to 4.5x at the end of 3Q:21 (from more than 11x at the end of 1Q:21) and greatly enhanced the company's ability to pursue clean energy or other growth opportunities. We model net leverage declining to 2.0x by year-end 2022 on rising EBITDA. We expect LXU to use a portion of cash flow to pay down debt.

| Exhibit 1: LSB Industries Quarterly Variance Table (\$ in thousands, except per share data) | | | | | | | |
|---|-----------------|-----------------|---------------|--------------|-----------------|---------------|-----------|
| | 3Q:21 Actual | 3Q:21 Estimate | Variance (\$) | Variance (%) | 3Q:20 Actual | Change | % Change |
| Revenue | \$127,199 | \$131,860 | (\$4,661) | -3.5% | \$73,969 | \$53,230 | 72.0% |
| Adjusted EBITDA | 27,133 | 26,548 | 585 | 2.2% | 9,744 | 17,389 | NM |
| EBITDA margin | 21.3% | 20.1% | | | 13.2% | | |
| Adjusted EBITDA excl. turnaround costs | 35,109 | 34,048 | 1,061 | 3.1% | 9,778 | 25,331 | NM |
| Net income | (\$14,651) | (\$13,307) | (\$1,344) | 10.1% | (\$29,874) | 15,223 | NM |
| Net profit margin | -11.5% | -10.1% | | | -40.4% | | |
| Adjusted EPS | (\$0.16) | (\$0.28) | \$0.11 | NM | (\$1.07) | \$0.90 | NM |

Source: Company reports and Sidoti & Company, LLC estimates

| | | | |
|------------------|--|--------------------------|---------------|
| Valuation | Our \$12 price target is based on 12x our raised 2022 free cash flow per share estimate of \$1.04 (previously \$0.97). The multiple is in line with the three-year average forward 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 an 8x multiple to our 2022 EBITDA estimate of \$174 million (plus \$16 million in turnaround expenses), also in line with 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)

| | 2020 | MarA | JunA | SepA | DecE | 2021E | MarE | JunE | SepE | DecE | 2022E | MarE | JunE | SepE | DecE | 2023E |
|--|------------|------------|-----------|-------------|-----------|-------------|-----------|-----------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net sales | \$351,316 | \$98,116 | \$140,696 | \$127,199 | \$180,100 | \$546,111 | \$169,336 | \$157,589 | \$75,060 | \$137,250 | \$539,235 | \$130,447 | \$142,654 | \$113,250 | \$117,395 | \$503,746 |
| Cost of goods sold | 334,268 | 90,056 | 105,688 | 109,752 | 118,232 | 423,728 | 114,017 | 105,874 | 75,643 | 106,023 | 401,557 | 100,229 | 97,323 | 88,099 | 91,284 | 376,935 |
| Gross profit | 17,048 | 8,060 | 35,008 | 17,447 | 61,868 | 122,383 | 55,319 | 51,715 | (583) | 31,227 | 137,678 | 30,218 | 45,331 | 25,151 | 26,111 | 126,810 |
| SG&A | 32,084 | 8,793 | 8,545 | 11,600 | 9,545 | 38,483 | 8,975 | 9,455 | 5,630 | 10,294 | 34,353 | 10,827 | 8,131 | 9,740 | 9,392 | 38,089 |
| Other expense | | (263) | 6 | 474 | | | | | | | | | | | | |
| Other income | | | | | | | | | | | | | | | | |
| Operating profit | (15,036) | (470) | 26,457 | 5,373 | 52,322 | 83,899 | 46,344 | 42,259 | (6,212) | 20,933 | 103,325 | 19,391 | 37,199 | 15,411 | 16,719 | 88,721 |
| Operating profit (excluding one-time items) | (9,378) | (270) | 26,457 | 5,373 | 52,322 | 83,882 | 46,344 | 42,259 | (6,212) | 20,933 | 103,325 | 19,391 | 37,199 | 15,411 | 16,719 | 88,721 |
| EBITDA (excluding one-time items) | 61,463 | 16,412 | 44,237 | 27,133 | 69,977 | 153,861 | 63,999 | 59,914 | 11,443 | 38,588 | 173,945 | 37,046 | 54,854 | 33,066 | 34,374 | 159,341 |
| EBITDA (excluding one-time items and turnaround costs) | 61,508 | 16,412 | 44,237 | 35,109 | 69,977 | 161,837 | 63,999 | 59,914 | 27,443 | 38,588 | 189,945 | 37,046 | 54,854 | 33,066 | 34,374 | 159,341 |
| Interest expense | 51,115 | 12,372 | 12,290 | 12,956 | 8,223 | 45,841 | 8,223 | 7,588 | 7,423 | 7,258 | 30,492 | 6,928 | 6,433 | 5,938 | 5,443 | 24,742 |
| Loss on extinguishment of debt | | | | | | | | | | | | | | | | |
| Non-operating other expense (income) | | 395 | (9,255) | 1,326 | | | | | | | | | | | | |
| Earnings before income taxes | (66,151) | (13,237) | 23,422 | (8,909) | 44,099 | 38,058 | 38,121 | 34,671 | (13,635) | 13,675 | 72,832 | 12,463 | 30,766 | 9,473 | 11,276 | 63,978 |
| Minority interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Income taxes | (4,749) | 42 | (248) | 19 | 10,143 | 9,956 | 8,768 | 7,974 | (3,136) | 3,145 | 16,751 | 2,866 | 7,076 | 2,179 | 2,594 | 14,715 |
| Net income attributable to common stock | (\$61,402) | (\$13,279) | \$23,670 | (\$8,928) | \$33,956 | \$28,102 | \$29,353 | \$26,697 | (\$10,499) | \$10,530 | \$56,081 | \$9,597 | \$23,690 | \$7,294 | \$8,683 | \$49,263 |
| Preferred stock dividends | 35,182 | 9,511 | 10,436 | 10,190 | 750 | 30,887 | 750 | 750 | 750 | 750 | 3,000 | 750 | 750 | 750 | 750 | 3,000 |
| Net income | (\$99,419) | (\$23,376) | \$12,646 | \$(251,504) | \$33,206 | (\$229,028) | \$28,603 | \$25,947 | (\$11,249) | \$9,780 | \$53,081 | \$8,847 | \$22,940 | \$6,544 | \$7,933 | \$46,263 |
| Net income (excluding one-time items) | (\$93,518) | (\$23,175) | \$7,011 | (14,651) | \$33,206 | \$2,391 | \$28,603 | \$25,947 | (\$11,249) | \$9,780 | \$53,081 | \$8,847 | \$22,940 | \$6,544 | \$7,933 | \$46,263 |
| EPS from continuing operations | | | | | | | | | | | | | | | | |
| GAAP diluted earnings per share | (\$3.54) | (\$0.82) | \$0.44 | (\$6.39) | \$0.37 | (\$6.40) | \$0.32 | \$0.29 | (\$0.13) | \$0.11 | \$0.59 | \$0.10 | \$0.25 | \$0.07 | \$0.09 | \$0.51 |
| Diluted earnings per share (excluding one-time items) | (\$3.34) | (\$0.82) | \$0.25 | (\$0.16) | \$0.37 | (\$0.36) | \$0.32 | \$0.29 | (\$0.13) | \$0.11 | \$0.59 | \$0.10 | \$0.25 | \$0.07 | \$0.09 | \$0.51 |
| Diluted shares outstanding | 27,998 | 28,396 | 28,453 | 88,824 | 89,002 | 58,669 | 89,180 | 89,358 | 89,537 | 89,716 | 89,448 | 89,896 | 90,076 | 90,256 | 90,436 | 90,166 |
| | | | | 39,351 | | | | | | | | | | | | |
| YOY Growth: | | | | | | | | | | | | | | | | |
| Revenue | -3.8% | 17.6% | 34.0% | 72.0% | 102.6% | 55.4% | 72.6% | 12.0% | -41.0% | -23.8% | -1.3% | -23.0% | -9.5% | 50.9% | -14.5% | -6.6% |
| Gross profit | 242.0% | 216.0% | 84.0% | NM | NM | 617.9% | 586.3% | 47.7% | NM | -49.5% | 12.5% | -45.4% | -12.3% | NM | -16.4% | -7.9% |
| Operating profit | -61.5% | NM | 147.6% | NM | NM | -658.0% | NM | 59.7% | NM | -60.0% | 23.2% | NM | -12.0% | NM | -20.1% | -14.1% |
| Operating profit (excluding one-time items) | -59.4% | NM | 147.6% | NM | NM | -994.5% | NM | 59.7% | NM | -60.0% | 23.2% | NM | -12.0% | NM | -20.1% | -14.1% |
| Net income | NM | NM | NM | NM | -256.5% | NM | NM | NM | NM | -69.0% | NM | NM | NM | NM | -17.5% | NM |
| Net income (excluding one-time items) | NM | NM | NM | NM | -214.0% | NM | NM | NM | NM | -70.5% | NM | NM | NM | NM | -18.9% | NM |
| GAAP EPS | NM | NM | NM | NM | -133.3% | NM | NM | NM | NM | -70.8% | NM | NM | NM | NM | -19.5% | NM |
| Diluted EPS | NM | NM | NM | NM | -136.1% | NM | NM | NM | NM | -70.8% | NM | NM | NM | NM | -19.5% | NM |
| Margins: | | | | | | | | | | | | | | | | |
| COGS/sales | 95.1% | 91.8% | 75.1% | 86.3% | 65.6% | 77.6% | 67.3% | 67.2% | 100.8% | 77.2% | 74.5% | 76.8% | 68.2% | 77.8% | 77.8% | 74.8% |
| SG&A/sales | 9.1% | 9.0% | 6.1% | 9.1% | 5.3% | 7.0% | 5.3% | 6.0% | 7.5% | 7.5% | 6.4% | 8.3% | 5.7% | 8.6% | 8.0% | 7.6% |
| Gross profit | 4.9% | 8.2% | 24.9% | 13.7% | 34.4% | 22.4% | 32.7% | 32.8% | -0.8% | 22.8% | 25.5% | 23.2% | 31.8% | 22.2% | 22.2% | 25.2% |
| Operating profit | -4.3% | -0.5% | 18.8% | 4.2% | 29.1% | 15.4% | 27.4% | 26.8% | -8.3% | 15.3% | 19.2% | 14.9% | 26.1% | 13.6% | 14.2% | 17.6% |
| Operating profit (excluding one-time items) | -2.7% | -0.3% | 18.8% | 4.2% | 29.1% | 15.4% | 27.4% | 26.8% | -8.3% | 15.3% | 19.2% | 14.9% | 26.1% | 13.6% | 14.2% | 17.6% |
| Net income | -17.5% | -13.5% | 16.8% | -7.0% | 18.9% | 5.1% | 17.3% | 16.9% | -14.0% | 7.7% | 10.4% | 7.4% | 16.6% | 6.4% | 7.4% | 9.8% |
| Net income (excluding one-time items) | -26.6% | -23.6% | 5.0% | -11.5% | 18.4% | 0.4% | 16.9% | 16.5% | -15.0% | 7.1% | 9.8% | 6.8% | 16.1% | 5.8% | 6.8% | 9.2% |

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 | 2020 | MarA | JunA | SepA | DecE | 2021E | 2022E | 2023E |
|--|--------------------|------------------|------------------|--------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Cash Flows From Operating Activities: | | | | | | | | | | | | |
| Net income | \$ (19,452) | \$ (365) | \$ (20,402) | \$ (21,692) | \$ (61,911) | \$ (13,279) | \$ 23,670 | \$ (8,928) | \$ 33,956 | \$ 35,419 | \$ 56,081 | \$ 49,263 |
| Depreciation and amortization | 17,592 | 16,980 | 17,385 | 17,624 | 69,581 | 16,762 | 16,963 | 17,655 | 17,655 | 69,035 | 70,620 | 70,620 |
| Amortization of intangibles and other assets | 315 | 316 | 315 | 314 | 1,260 | 315 | 314 | 315 | | 944 | | |
| Net loss (income) from discontinued operations | | | | | - | | | | | - | - | - |
| Deferred income taxes | | | | | - | 327 | (71) | 138 | | 394 | - | - |
| Changes in working capital | (1,632) | 4,091 | 7,370 | (24,585) | (14,756) | 9,644 | (15,813) | 19,947 | (37,288) | (23,510) | 2,299 | 24,493 |
| Other operating cash flow | 999 | 532 | 671 | 1,111 | 3,313 | (1,058) | (7,193) | 5,763 | - | (2,488) | - | - |
| Total cash flows used in (provided by) operating activities | (2,178) | 21,554 | 5,339 | (27,228) | (2,513) | 12,711 | 17,870 | 34,890 | 14,323 | 79,794 | 129,000 | 144,377 |
| Cash Flows From Investing Activities: | | | | | | | | | | | | |
| Capital expenditures | (10,737) | (7,216) | (4,277) | (8,241) | (30,471) | (6,133) | (8,716) | (11,252) | (9,000) | (35,101) | (36,000) | (32,800) |
| Proceeds from sale of property, plant and equipment | | | | | - | | | | | - | - | - |
| Other | 179 | 120 | 1,712 | 34 | 2,045 | 198 | 102 | 82 | | 382 | - | - |
| Total cash flows used in (provided by) investing activities | (10,558) | (7,096) | (2,565) | (8,207) | (28,426) | (5,935) | (8,614) | (11,170) | (9,000) | (34,719) | (36,000) | (32,800) |
| Cash Flows From Financing Activities: | | | | | | | | | | | | |
| Principal payments on long-term debt | (5,078) | (5,428) | (47,193) | (4,598) | (62,297) | (8,772) | (5,808) | (6,250) | | (20,830) | (50,000) | (90,000) |
| Proceeds from long-term debt | 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 | (64) | | | (386) | (450) | (36) | (55) | (2,240) | | (2,331) | - | - |
| Total cash provided by (used in) financing activities | 27,428 | 4,572 | (17,193) | 9,605 | 24,412 | (8,808) | (5,863) | (8,490) | - | (23,161) | (50,000) | (90,000) |
| Cash flow from discontinued operations | | | | | | | | | | | | |
| Net increase in cash and cash equivalents | 14,692 | 19,030 | (14,419) | (25,830) | (6,527) | (2,032) | 3,393 | 15,230 | 5,323 | 21,914 | 43,000 | 21,577 |
| Cash and cash equivalents at beginning of period | 22,791 | 37,483 | 56,513 | 42,094 | 22,791 | 16,264 | 14,232 | 17,625 | 32,855 | 16,264 | 38,178 | 81,178 |
| Cash and cash equivalents at end of period | \$ 37,483 | \$ 56,513 | \$ 42,094 | \$ 16,264 | \$ 16,264 | \$ 14,232 | \$ 17,625 | \$ 32,855 | \$ 38,178 | \$ 38,178 | \$ 81,178 | \$ 102,755 |
| Free cash flow | \$ (12,915) | \$ 14,338 | \$ 1,062 | \$ (35,469) | \$ (32,984) | \$ 6,578 | \$ 9,154 | \$ 23,638 | \$ 5,323 | \$ 44,693 | \$ 93,000 | \$ 111,577 |
| Free cash flow per share | \$ (0.46) | \$ 0.51 | \$ 0.04 | \$ (1.26) | \$ (1.18) | \$ 0.23 | \$ 0.32 | \$ 0.27 | \$ 0.06 | \$ 0.76 | \$ 1.04 | \$ 1.24 |

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 | 2020 | MarA | JunA | SepA | 2021E | 2022E | 2023E |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| ASSETS | | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | | |
| Cash and cash equivalents | \$ 37,483 | \$ 56,513 | \$ 42,094 | \$ 16,264 | \$ 14,232 | \$ 17,625 | \$ 32,855 | \$ 38,178 | \$ 81,178 | \$ 102,755 |
| Receivables | 51,060 | 42,569 | 39,553 | 42,551 | 60,125 | 67,054 | 65,705 | 93,652 | 82,350 | 56,350 |
| Inventory | 26,303 | 14,332 | 19,202 | 19,573 | 19,218 | 14,302 | 18,206 | 18,917 | 21,205 | 14,605 |
| Supplies, prepaid items and other | 42,389 | 39,361 | 37,180 | 51,192 | 45,389 | 44,118 | 46,189 | 46,189 | 46,189 | 46,189 |
| Total current assets | 157,235 | 152,775 | 138,029 | 129,580 | 138,964 | 143,099 | 162,955 | 196,936 | 230,922 | 219,899 |
| OTHER ASSETS: | | | | | | | | | | |
| Property, plant and equipment | 928,393 | 913,441 | 899,613 | 891,198 | 882,816 | 871,780 | 869,497 | 860,842 | 826,222 | 788,402 |
| Other assets | 24,523 | 28,449 | 32,283 | 32,524 | 33,217 | 34,606 | 42,092 | 42,092 | 42,092 | 42,092 |
| Total other assets | 952,916 | 941,890 | 931,896 | 923,722 | 916,033 | 906,386 | 911,589 | 902,934 | 868,314 | 830,494 |
| Total assets | \$ 1,110,151 | \$ 1,094,665 | \$ 1,069,925 | \$ 1,053,302 | \$ 1,054,997 | \$ 1,049,485 | \$ 1,074,544 | \$ 1,099,870 | \$ 1,099,236 | \$ 1,050,393 |
| LIABILITIES AND COMMON SHAREHOLDERS' EQUITY | | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 54,010 | \$ 45,245 | \$ 41,192 | \$ 46,551 | \$ 57,360 | \$ 51,212 | \$ 73,658 | \$ 65,028 | \$ 58,313 | \$ 50,206 |
| Short-term financing | 6,893 | 3,834 | 751 | 13,576 | 8,157 | 4,516 | 1,083 | 1,083 | 1,083 | 1,083 |
| Accrued and other liabilities | 40,544 | 27,768 | 40,957 | 30,367 | 40,722 | 30,541 | 50,772 | 50,772 | 50,772 | 50,772 |
| Current maturities of long-term debt | 9,665 | 11,492 | 15,203 | 16,801 | 18,082 | 9,049 | 9,249 | 9,249 | 9,249 | 9,249 |
| Total current liabilities | 111,112 | 88,339 | 98,103 | 107,295 | 124,321 | 95,318 | 134,762 | 126,132 | 119,417 | 111,310 |
| LONG-TERM LIABILITIES: | | | | | | | | | | |
| Accrued and other liabilities | 19,660 | 21,200 | 24,845 | 25,935 | 26,577 | 27,649 | 24,744 | 24,744 | 24,744 | 24,744 |
| Deferred income taxes | 35,343 | 34,056 | 32,663 | 30,939 | 31,266 | 31,195 | 31,333 | 31,195 | 31,195 | 31,195 |
| Long-term debt, less current maturities | 480,837 | 487,552 | 470,751 | 467,389 | 463,673 | 461,459 | 460,637 | 460,637 | 410,637 | 320,637 |
| Total liabilities | 646,952 | 631,147 | 626,362 | 631,558 | 645,837 | 615,621 | 651,476 | 642,708 | 585,993 | 487,886 |
| COMMON SHAREHOLDERS' EQUITY: | | | | | | | | | | |
| Redeemable preferred stock | 243,704 | 252,898 | 262,295 | 272,101 | 282,123 | 292,849 | | | | |
| Total shareholders' equity | 219,495 | 210,620 | 181,268 | 149,643 | 127,037 | 141,015 | 423,068 | 457,162 | 513,243 | 562,507 |
| Total liabilities and common shareholders' equity | \$ 1,110,151 | \$ 1,094,665 | \$ 1,069,925 | \$ 1,053,302 | \$ 1,054,997 | \$ 1,049,485 | \$ 1,074,544 | \$ 1,099,870 | \$ 1,099,236 | \$ 1,050,393 |
| Key Ratios: | | | | | | | | | | |
| Current ratio | 1.4 | 1.7 | 1.4 | 1.2 | 1.1 | 1.5 | 1.2 | 1.6 | 1.9 | 2.0 |
| Net debt per share | \$25.29 | \$25.03 | \$25.21 | \$26.73 | \$26.69 | \$26.37 | \$4.93 | \$4.86 | \$3.79 | \$2.52 |
| Net debt | 703,616 | 699,263 | 706,906 | 753,603 | 757,803 | 750,248 | 438,114 | 432,791 | 339,791 | 228,214 |
| Net debt plus preferreds/EBITDA (TTM) | 13.2 | 13.3 | 11.9 | 12.0 | 11.7 | 9.3 | 4.5 | 2.7 | 2.0 | 1.4 |
| Net debt/EBITDA(TTM) | 10.2 | 10.1 | 9.0 | 7.6 | 7.3 | 5.7 | 4.5 | 2.7 | 2.0 | 1.4 |
| Book value per share | \$ 7.89 | \$ 7.54 | \$ 6.46 | \$ 5.34 | \$ 4.47 | \$ 4.96 | \$ 4.76 | \$ 7.79 | \$ 5.74 | \$ 6.24 |
| Return on total assets | -8.9% | -3.4% | -10.9% | NM | -8.6% | 2.6% | -5.5% | NM | 4.8% | 4.3% |
| Return on total capital | -13.6% | -5.2% | -17.0% | NM | -14.1% | 4.2% | -7.5% | NM | 5.7% | 5.1% |
| Return on total equity | -36.7% | -14.5% | -51.4% | NM | -53.5% | 16.0% | -19.4% | NM | 10.9% | 8.6% |
| Debt-to-equity | 223.5% | 236.9% | 268.1% | 323.6% | 379.2% | 333.7% | 111.1% | 102.8% | 81.8% | 58.6% |
| Total debt-to-total capital | 69.1% | 70.3% | 72.8% | 76.4% | 79.1% | 76.9% | 52.6% | 50.7% | 45.0% | 37.0% |
| Long-term debt-to-total capital | 67.7% | 68.7% | 70.6% | 73.7% | 76.2% | 75.5% | 51.6% | 49.7% | 44.0% | 35.9% |

Sources: Company reports and Sidoti & Company, LLC estimates

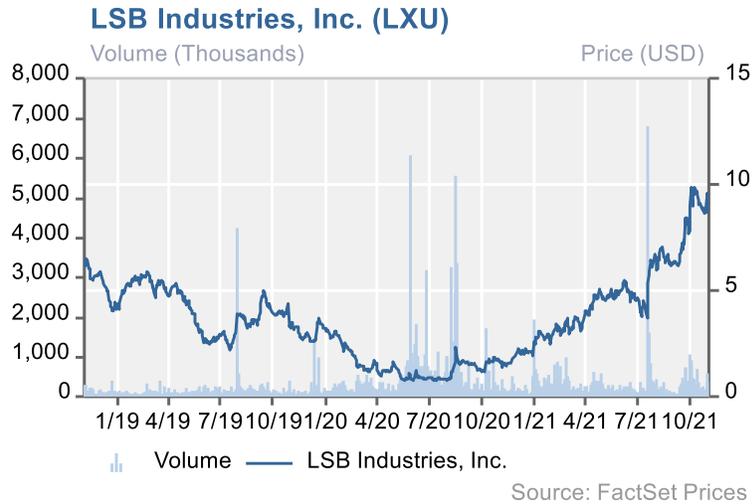
Appendix
Required Disclosures

Required Disclosures

LSB Industries, Inc. (LXU-\$8.69) 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 | |
| PT | 10/4/21 | 11.7 | | 12 | |
| PT | 10/25/21 | 8.9 | | 12 | |



| | | | |
|------------------|---|--------------------------|---------------|
| Valuation | Our \$12 price target is based on 12x our raised 2022 free cash flow per share estimate of \$1.04 (previously \$0.97). The multiple is in line with the three-year average forward 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 an 8x multiple to our 2022 EBITDA estimate of \$174 million (plus \$16 million in turnaround expenses), also in line with 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 11/03/21 and immediately prior to the publication of this report, Company Sponsored Research provides research on 28 companies, of which 24 (85.7%) are rated Moderately Risky and 4 (14.3%) 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