

LSB Industries, Inc. (NYSE: LXU)

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RESEARCH NOTE

INVESTOR DAY REINFORCES CONFIDENCE

This report should be read in conjunction with GVRC's initiation report, dated 7/31/2018 and LSB Industries, Inc.'s regulatory filings with the U.S. Securities and Exchange Commission.

LSB Industries, Inc. ("LSB") held an investor day at its facility in El Dorado, Arkansas on November 8, 2018. Global Value Research Company (GVRC) was in attendance and believes that the company's messaging affirmed the continued improvements in operations that have been evidenced by recent financial results.

The long-term value in LSB's asset-intensive chemical manufacturing business lies in the ability of its assets to consistently produce cash flow; CEO Dan Greenwell emphasized that the company believes that the best way to create value for shareholders is to operate its plants at consistently high on-stream rates. In order to accomplish this, plants need to operate efficiently and reliably. Historically two of, LSB's three owned chemical plants have not operated at an acceptable level: while the El Dorado Facility, Cherokee Facility, and Pryor Facility reported FQ3 2018 on-stream rates of 89%, 97%, and 98%, respectively, FQ2 2018 on-stream rates were 62%, 100%, and 65%, respectively. The Cherokee Facility has consistently operated at high on-stream rates, but the on-stream performance of the El Dorado Facility and the Pryor Facility has been inconsistent. GVRC believes recent changes and improvements will lead to significantly improved plant operations in the near future.

Between June 2015 and August 2016, LSB's executive management team was replaced. Dan Greenwell has served as CEO since September 2015 and has been a member of the Board of Directors since March 2014. Mark Behrman joined the company in March 2014 and has served as CFO since June 2015. John Diesch has served as Executive Vice President of Manufacturing since August 2016. These three executives have been instrumental in overhauling LSB's corporate and plant-level operations.

Plant-level management is crucial to ensuring that LSB's facilities operate well. Dale Reppond was hired as the ammonia plant manager at the El Dorado Facility in January 2015 and was promoted to general manager in May 2018. Steve Moore was hired as the general manager at the Pryor Facility in February 2018. Ben VanVeckhoven, who was hired at the Cherokee Facility in 2008 as co-general manager, became the general manager in 2015. Each has extensive industry experience. Other plant-level maintenance and operational personnel have been hired to further improve plant performance.

Significant changes at the corporate level have been made as well. Steve Bach was hired as Director of Procurement in February 2018; he will continue to centralize purchasing activities for LSB's three plants and oversee inventory management. John Fogarty was hired as Director of Logistics in August 2017; he will facilitate improved relationships and enhanced efficiencies with LSB's trucking and rail transportation partners. Andy Velo was hired as Vice President of Operational Reliability in October 2018; he will oversee the continued implementation of the maintenance management system, implementation of maintenance procedures, other procedural improvements, and enhanced personnel training.

LSB has engaged two external consultants to advise on changes the company is making to improve operational reliability. In FQ3 2017, PricewaterhouseCoopers was retained to assist in identifying critical pieces of equipment at all three facilities and working with each facility's management team to ensure that preventative maintenance programs existed

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for this equipment. In FQ3 2018, PeopleCore was retained to examine operating behavior and procedures and recommend changes. GVRC views the retention of these consultants as an acceleration of the implementation of these initiatives rather than an indication of a deficiency in internal expertise.

Finally, at all levels, management has sought to change LSB's culture. There has been a profound shift towards a culture of responsibility and accountability. In the company's efforts to enhance efficiency, a data-driven approach towards plant management has been emphasized. Detailed root cause analyses (RCAs) based on robust output data have and will continue to drive procedural improvements across all three plants. All three plant managers as well as Mr. Deisch emphasized how important RCAs and cross-plant collaboration are in improving operational consistency. GVRC believes this culture shift is of paramount importance to the company's operations and interprets recent personnel changes as the means by which the new culture is implemented.

Once LSB's operational issues have been largely resolved, the company will be well-positioned to benefit from improvements in its end markets and growth opportunities. Pricing for agricultural fertilizer products, which constitute only about half of LSB's revenue, has improved meaningfully in the past year; the balance between domestic supply and demand appears to be favorable for producers. LSB's industrial and mining businesses, which together constitute roughly half of LSB's revenue, are healthy. LSB has a robust industrial acids business that the company hopes to grow. Additionally, growing demand from western metal mining customers may lead to an increase in LSB's mining business. The company's commitment to continued plant upgrades will facilitate this growth.

CEO Greenwell has previously underscored the need for consolidation in the industry. GVRC agrees; a larger platform would allow LSB to compete more effectively. A sale or merger transaction involving a competitor of similar or larger size has seemed feasible for quite some time. However, given the invaluable experience that LSB's management has accumulated in the process of optimizing the operational reliability of the company's current portfolio, GVRC believes that LSB may consider acquiring single plants or a smaller competitor in the future. GVRC notes that such an acquisition would likely necessitate changes in the company's current capitalization, including access to less expensive debt.

In summary, GVRC believes that LSB's financial results will improve as its plants run more reliably and efficiently. The company stated that in the medium-to-long term, it intends to "focus on opportunities to realize synergies/operational flexibility while gaining scale and diversity across key product groups." Ensuring that experienced and capable employees occupy key positions is essential to realizing changes critical to improve operations. While the cultural and operational changes LSB has undertaken are seismic in scope and will take time to fully implement, the company's recent results suggest that this process is well underway.

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