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# EDITED TRANSCRIPT

LXU - Q4 2019 LSB Industries Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 25, 2020 / 3:00PM GMT



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## PRESENTATION

### Operator

Greetings, and welcome to the LSB Industries Fourth Quarter 2019 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Kristy Carver, Senior Vice President and Treasurer for LSB Industries. Thank you. You may begin.

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### Kristy Carver - LSB Industries, Inc. - Senior VP & Treasurer

Thank you, Melissa, and good morning to everyone. Joining me on the call today are Mark Behrman, our Chief Executive Officer; and Cheryl Maguire, our Chief Financial Officer.

Please note that today's call will include forward-looking statements, and because these statements are based on the company's current intent, expectations and projections, they are not guarantees of future performance, and a variety of factors could cause actual results to differ materially. As this call will include references to non-GAAP results, please refer to the press release in the Investors section of our website, [lsbindustries.com](http://lsbindustries.com), for further information regarding forward-looking statements and reconciliations of non-GAAP results to GAAP results.

At this time, I'd like to go ahead and turn the call over to Mark for opening remarks.

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### Mark T. Behrman - LSB Industries, Inc. - President, CEO & Director

Thank you, Kristy, and good morning, everyone. We're glad that you could participate in our call this morning and appreciate your interest in LSB Industries.

We concluded 2019 having made great progress throughout the year and put ourselves in position to deliver stronger EBITDA and cash flow in 2020 and the years beyond. I am pleased that despite the unplanned downtime we experienced in the fourth quarter, we increased the operating rates of our ammonia plants for the third consecutive year, an indication that the measures we've taken to improve plant reliability have been yielding results. We also had a significant focus on increasing our sales volumes to match our full production capacities, which included a review of our product balance with the goal of shifting our production and sales mix towards the products that carry the most attractive margins.



Our marketing and sales teams did a good job throughout the year to both increase volumes and put us in a position to further grow and shift product balance to improve our margins. To that point, we recently agreed to provide one of our existing mining customers additional significant low-density ammonium nitrate volume annually for 3 years to support a new contract award they received. This new volume is included in our outlook on Slide 11. Sales under this agreement are expected to begin next month. Additionally, we are in the final stages of contract negotiation on some significant new industrial business beginning in 2021, and we will provide further details in the coming months.

To further emphasize the improvement in our ammonia onstream rates, please turn to Slide 4. For 2019, we improved our average ammonia onstream rate across our 3 facilities by an additional 2 percentage points over 2018 to 91%. Relative to 2016, this represents a more than 10 percentage point improvement, which we view as a significant accomplishment. As the bar in the far right of this chart indicates, we expect further progress in the current year and expect to meet our targeted mid-90s ammonia onstream rate for the full year of 2020.

As I've said on past earnings calls, our goal is to be a best-in-class chemical manufacturer, one that operates with a leading environmental health and safety culture and with a strong safety performance record and consistent plant operating performance. Every day, our employees show a commitment to that goal, particularly those at the plant level. And I want to thank them all once again for their dedication and their efforts.

Relative to our best-in-class goal, I'd like to take this opportunity to welcome John Burns who recently took over the role as Executive Vice President of Manufacturing for LSB. John has extensive experience in driving operational excellence particularly at nitrogen chemical manufacturing plants. And we are pleased to have the opportunity to work with him as we make our push towards attaining our targeted safety and operational goals on a stand basis. At the same time, I'd like to thank John Diesch, who served as our Executive Vice President of Manufacturing since mid-2016, during which time he drove our efforts to achieve our significant improvement in plant onstream rates. We wish John Diesch well in his retirement.

Operationally, during the fourth quarter, we completed the turnaround at our Pryor facility that began in September. This turnaround was the most extensive turnaround at Pryor in its history. We now feel that we have materially improved our ability to run our Pryor facility at consistently higher operating rates, allowing us to generate more product with reduced production costs. As part of the turnaround at Pryor, we installed a new urea reactor, which will significantly increase the reliability of that plant and boost production, allowing us to increase production of UAN by approximately 30,000 tons per year when fully optimized and allow us to take advantage of regionally low natural gas prices.

We also made the decision to take down the ammonia plant at our El Dorado facility in November in order to perform upgrades that enhanced ammonia production volume. In addition, we completed the installation and start-up of a new sulfuric acid converter in our El Dorado sulfuric acid plant, which will not only significantly improve the reliability of that plant but also provide us with incremental sulfuric acid production capacity of about 20,000 tons per year, which we expect to sell beginning this year.

Importantly, we have no scheduled turnarounds at any of our facilities for 2020. With the extensive work we completed at our Pryor facility during the third and fourth quarter of 2019, this facility's next turnaround is scheduled for 2021. Further, our Cherokee and El Dorado facilities are on 3-year turnaround cycles, with the next turnaround scheduled in 2021 and 2022, respectively. This positions us very well to increase our overall production volumes this year and achieve our highest levels relative to any other year in LSB's history. We believe that the investments we've made in our plants and the investments that we continue to make in our people and processes will allow us to operate more reliably and efficiently this year and going forward.

With respect to our fourth quarter 2019 financial results, in addition to the fewer production days we've had as a result of our extended turnaround at our Pryor facility and the work we did at our El Dorado facility, our sales and adjusted EBITDA for the period also reflect weaker selling prices for essentially all of our products relative to a year ago. These headwinds were partially offset by lower natural gas feedstock costs, but overall, our fourth quarter was a challenging one due in large part to market conditions. Cheryl will talk about that more momentarily, and I'll come back later to talk about our outlook.

Before I turn the call over to Cheryl, I just wanted to give a quick update on the litigation we brought against Leidos, the general contractor of our El Dorado ammonia plant expansion project that spanned from 2013 to 2016, in which we incurred substantial cost overruns. As I mentioned on our third quarter call, we are seeking more than \$100 million in damages as compensation for Leidos' wrongdoing, which involve breach of contract,



fraud, gross negligence, professional negligence and negligence. The trial is scheduled to begin next month. While we can't guarantee any outcome in litigation, we are vigorously pursuing this matter and will provide updates as appropriate.

Now Cheryl will go over in more detail about our Q4 financial results. Cheryl?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Thanks, Mark, and good morning. Page 5 of the presentation provides a consolidated summary statement of operations for the fourth quarter of 2019 as compared to the fourth quarter of 2018. In reviewing our operations for the fourth quarter, total net sales in Q4 2019 decreased 22% to \$73.9 million from \$94.7 million in Q4 2018. Gross profit declined by \$24.7 million from a profit of \$12.4 million in the fourth quarter of 2018 to a loss of \$12.3 million in the fourth quarter of 2019 on lower overall selling prices, particularly for ammonia, following a delayed corn harvest leading to an overall fall ammonia application season that fell short of our expectations. In addition, lower ammonia operating rates due to the extended turnaround at Pryor and downtime at El Dorado as well as higher turnaround costs and higher legal costs relating to our lawsuit against Leidos, contributed to the year-over-year variance. Additionally, in the fourth quarter of 2018, we received a \$4.4 million favorable settlement with a subcontractor responsible for past faulty work at our Pryor facility.

During the fourth quarter of 2019, we recognized a noncash write-down of noncore assets of \$9.7 million. This equipment was determined to be obsolete after completion of the extensive updates and upgrades we've made to our facilities, combined with a review of our strategic direction moving forward. This noncash charge is reflected in other expense on our income statement.

Adjusted EBITDA for the fourth quarter of 2019, excluding the noncash write-down, was lower than last year. And I will bridge EBITDA for you on the next slide. As mentioned on previous calls, with respect to legal costs related to our case against Leidos, given the significance of the costs and our expectation of ongoing similar costs as we prepare for trial, we have adjusted EBITDA to reflect the add-back of these onetime costs, which we believe is a truer reflection of ongoing operations. Please refer to our reconciliation of non-GAAP measures beginning on Slide 14 for further information on noncash and onetime costs incurred during the period.

Page 6 bridges our consolidated adjusted EBITDA for Q4 2018 of \$25.1 million to adjusted EBITDA for Q4 2019 of \$7.2 million. Excluding the \$4.4 million contractor settlement, the fourth quarter 2018 EBITDA was \$20.7 million as compared to \$7.2 million in the fourth quarter of 2019. The year-over-year decline is a result of lower selling prices due in large part to a decline in the Tampa ammonia benchmark price as the Tampa price declined approximately \$90 per metric ton year-over-year from an approximate price of \$345 per metric ton in the fourth quarter of 2018 to approximately \$255 a metric ton in the fourth quarter of 2019. Furthermore, the extended Pryor turnaround and additional maintenance at our El Dorado facility resulted in lower sales volumes year-over-year. On a positive note, natural gas costs were approximately 29% lower than the fourth quarter of last year.

Turning to Page 7. We have outlined the gross -- the full year gross profit margins for each of our market segments. This presentation excludes depreciation, amortization and turnaround expenses and therefore should represent the true underlying cash margins of each of our businesses. We have reconciled this back to gross profit, as presented on the financial statements on Slides 15 and 16. Our ag business gross profit margins increased from 3% for full year 2017 to 15% for full year 2019 despite ammonia oversupply in our end markets and increased competition from imports on UAN and HDAN.

Gross profit margins are -- in our industrial and mining markets remain robust despite continued price pressure on the Tampa ammonia benchmark price, which averaged \$248 per metric ton in 2019 as compared to \$313 per metric ton and \$277 per metric ton in 2018 and 2017, respectively. This shows the resiliency of that business. In both of our markets, we continue to optimize our production and pull costs out of the business. Our cost per ton will continue to decrease, helping to support or improve our margins.

Moving to Page 8, we outline our free cash flow. Cash provided from operations for the 12 months of 2019 was approximately \$2.1 million compared to \$17.6 million in 2018 due to the aforementioned factors affecting adjusted EBITDA.



Capital expenditures predominantly related to reliability and maintenance investments were approximately \$36.1 million for the full year of 2019, reflecting the 2 turnarounds that were performed in 2019.

Page 9 outlines our capital structure at the end of Q4 2019. We ended the quarter with approximately \$23 million in cash and over \$42 million of availability on our revolving credit facility, giving us total liquidity of approximately \$65 million. Total outstanding debt at quarter end was approximately \$459 million. We also ended the quarter with outstanding preferred stock of approximately \$243 million, including accrued and unpaid dividends.

With respect to the pricing environment for the first quarter of 2020, please turn to Page 10. This page illustrates the average Tampa ammonia price, our average realized net selling prices for UAN and HDAN and our average cost of natural gas for the first quarter of 2019 and compares that to the current Tampa ammonia price and average selling prices based on forward sales of product or current spot market sales prices and the current average natural gas prices we are paying or have hedged. As you can see from this slide, we are facing some headwinds with respect to pricing, reflecting a combination of factors, including the continued oversupply of ammonia in our primary end markets and increased imports of our downstream products. As a result, UAN pricing is averaging around \$150 per ton in the first quarter of 2020 as compared to approximately \$215 per metric ton in the first quarter of 2019. And Tampa ammonia pricing so far in the first quarter of 2020 has averaged \$250 per metric ton, which is approximately \$30 a metric ton lower than the same period last year. On a positive note, we have approximately 60% of our gas needs locked in for Q1 at \$215 (sic) [\$2.15] per MMBtu, which is approximately \$0.75 below the first quarter of 2019.

Additionally, as Mark mentioned, we are expecting material volume growth over the course of 2020 from a combination of improving ammonia onstream rates, improved reliability of our downstream production and no planned turnarounds this year. However, when thinking about the first quarter of 2020, we expect adjusted EBITDA to be approximately 10% to 15% lower than the first quarter of 2019 as the lower gas and higher volumes cannot offset the current pricing headwinds we are currently seeing in the market.

Looking forward to the full year of 2020. The metrics on Pages 11 and 12 are meant to serve as points of reference for how we currently think about our targets for the year. While we expect lower pricing to persist through the first half of 2020, we are excited about the parts of the business that we can control. We have worked hard on continuously improving our business, and 2020 will show that.

Product sales volumes for the full year of 2020 are presented at the top half of Page 11. We expect material growth in the sales of most of our products as a result of our expectation that we will achieve average ammonia onstream time of 94% across our facilities, coupled with our ability to sell additional upgraded product by utilizing excess production capacity and taking advantage of the improved production from the new urea reactor at our Pryor facility and the new sulphuric acid converter we installed at our El Dorado facility. Additionally, we have no planned turnarounds in 2020, which we expect to lead to significantly more production days in 2020 as compared to 2019. Also, as Mark mentioned, we have several new sales contract awards that will add volume growth to 2020.

Page 12 covers a range of variable and fixed plant expenses as well as SG&A. One important thing to note is that SG&A includes approximately \$5 million of legal fees expected in the first half of 2020 leading up to our trial against Leidos. Additionally, we have planned CapEx of approximately \$25 million to \$30 million, representing approximately \$20 million in maintenance CapEx and between \$5 million to \$10 million for margin enhancement projects.

Now I'll turn it back over to Mark to wrap up.

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Thank you, Cheryl. 2019 was a difficult year for farmers and as a result demand for fertilizers. The root cause of the challenges was weather, which was very cold and wet throughout much of the major U.S. farming regions beginning in the fourth quarter of 2018 and persisting through much of 2019. And weather-related issues culminated with heavy rains and early snows in this past fourth quarter, which delayed the already late corn harvest and prevented farmers from having a meaningful fall ammonia application season.

As it relates to our outlook, this past year plus period of weather issues provides us with a tailwind/headwind situation for 2020 with respect to the agricultural market. The tailwind is, with all the wet weather and the absence of a meaningful fall ammonia application season, the soil in the major corn farming regions is depleted of nutrients relative to what would be considered ideal soil conditions heading into the spring planting season. Additionally, with the weak corn harvest, which reflects the USDA's estimates of approximately 89 million planted acres, current stocks are at multiyear lows. That, combined with the current soybean-to-corn futures ratio, all support an increase in planted corn acres for 2020, with various industry sources projecting as many as 96 million acres planted.

While the demand picture looks good, the headwind is that the current supply situation isn't ideal from a pricing perspective. More specifically, due to the reduced amount of fertilizer that was consumed in 2019 because of the poor planting conditions, inventories of various agricultural products, particularly ammonia and UAN, are high, which has selling prices currently back to or below 2017 levels. Exacerbating the pressure on ammonia selling prices in our Southern Plains market is the closure of the Magellan ammonia pipeline, which several of our competitors had used to transport product to other regions to either store or sell on a spot basis. The closure has forced them to distribute their product primarily via truck to customers, elevating supply in the markets in closer proximity to their facilities, pressuring selling prices and increasing logistics costs as a result of increased trucking demand. With a robust spring ammonia application season and the improving sales of the phosphate sector in the U.S., we believe we will see an increase in demand and that will help rebalance among inventories.

With respect to UAN, while we have indications that farmer and retailer storage levels are currently very low as they both appear to be delaying their purchases for spring in hopes of getting better selling prices, which, coupled with the increase in imports as trade flows adjust to the impact of the European Union tariffs, has depressed UAN prices to levels not seen since 2017. The good news for this product is we believe that there will be a meaningful growth in demand in 2020 and there is a municipal price differential with urea, helping to improve farmer economics and the anticipated growth in planted corn acres. The increased demand might not be truly realized until mid-Q2.

While we are currently seeing pressure on nitrogen selling prices, we believe that the global demand for nitrogen over the next 3 to 4 years will outpace net capacity additions and help to increase overall selling prices.

As it relates to our industrial products, as we have stated on the past several earnings calls, due to the elevated inventories of ammonia, resulting from the weak agricultural demand over the past year, coupled with the additional ammonia production in the Gulf region coming from producer plant expansions in recent years, the Tampa ammonia price is depressed. This translates into weaker pricing for industrial ammonia sales out of our El Dorado and Cherokee facilities since industrial ammonia pricing in their markets is indexed to the Tampa index price. Pricing for the balance of our industrial products, such as nitric acid; and all of our mining products such as low-density ammonium nitrate, are linked to natural gas prices. Since the vast majority of these contracts are cost-plus arrangements, our margins for these products remain stable regardless of the change in feedstock costs.

Fortunately, while market dynamics such as weather and pricing are out of our control, we view our ability to deliver a growth year in 2020 as very much in our control. As I stated in my remarks earlier in the call, we anticipate further improvements to our operating rates this year, which, when combined with our expanded production capacities for urea and sulfuric acid and the absence of any scheduled turnarounds at our facilities, positions us very well to drive increased production and sales volumes in 2020.

As I stated earlier in the call, to capitalize on higher production volumes, we've been ramping up our sales and marketing efforts in recent quarters and have already secured and are continuously pursuing new business opportunities for our industrial and mining products, including the 2 that I previously mentioned. Additionally, with more reliable and greater UAN production, we expect increased sales of that agricultural product.

Finally, as Cheryl indicated earlier, prices for natural gas, the primary feedstock for all of our products, continue to trend lower and appears unlikely to rise meaningfully for the foreseeable future, which bodes well for our production costs. Collectively, these factors make us confident in our ability to deliver significant year-over-year growth in adjusted EBITDA and free cash flow in 2020.

Before I pass the call back to the operator to begin the Q&A session, I'd like to mention that I will be attending the luncheon in New York on March 16, hosted by Bank of America, that is targeted to high-yield investors, and Cheryl will be participating in the Sidoti & Company Spring Conference in New York on March 26. We hope to see some of you there.



That concludes our prepared remarks, and we will now be happy to take your questions. Thanks.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Joe Mondillo with Sidoti & Company.

### Joseph Logan Mondillo - Sidoti & Company, LLC - Research Analyst

So Mark, I was wondering just regarding the oversupply that we're seeing in the channels, how abnormally high is the supply there? And what is your sort of sense of how long -- I think demand has been a little light to start the year. But as we -- -- certainly, as we get closer to the planting season, demand should pick up for multiple different factors that you actually pointed out. How quickly -- relative to the high supply that you see, how quickly does that sort of resolve? And do we start to see maybe pricing start to improve given the changing of supply and demand?

### Mark T. Behrman - LSB Industries, Inc. - President, CEO & Director

Well, I think you've got to look at different products, Joe. When you think about UAN, I do think it's been slow so far for the start of this year. And I think, as I mentioned, there's a standoff a little bit between buyers and sellers, the producers. I think pricing has tended to trend down in UAN as there have been more imports from Russia, Trinidad particularly into the United States due to the European tariffs. So you're seeing some extra supply. You're seeing pricing move down. And I think retailers, distributors, farmer himself are really holding off on buying. No one wants to, say, buy and see the price go lower.

But I think the good news is they will be buying. As I mentioned, retailer and distributor storage is unusually low for this time of the year. We are expecting more corn acres planted. And I think there's a real -- as I mentioned, a noticeable price differential with urea. So urea is continuing to increase in price. Actually, March barge is trading over \$250 a ton. So Gulf UAN has now started to move up a bit. We've seen a recent \$10 per ton increase in Gulf UAN pricing.

So I think what'll happen is, as we get closer to the season, there'll be a frenzy for buying. And you'll see a first round of buying and then could -- should see a second and third round of buying. And I think logistics will come into play there. I mean there'll be a lot of just-in-time buying. So if you position your product properly to the end user, whether that's ultimately selling to the distributor, the retailer or the farmer himself, I think you'll see prices rise and you'll be able to take advantage of that.

And on the ammonia side, I think if we have a heavy spring application season, I say heavy because we had less-than-normalized fall application season, plus the additional corn acres planted, and as I mentioned, phosphate markets -- phosphate producers are a big user of ammonia, and those markets are improving, I think you'll see demand really pick up, and you could see and should see ammonia prices start to move up throughout the spring. How much? I can't really say at this point.

I think the other thing on ammonia is costs from ammonia being produced in Trinidad have gotten a little bit more expensive as there's higher freight as a result of higher bunker prices this year. So again, those costs are moving up, and they're going to want to see a certain profitability, and that allows the market to move up here in the United States.

### Joseph Logan Mondillo - Sidoti & Company, LLC - Research Analyst

And when does the preplanting ammonia application period start? I would think it's probably starting maybe now, but what's your sense of that preplanting application, how that's trending so far and, I guess, as we move into March?





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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Yes, it's been a little slow going. I mean you've had a lot of wet weather and particularly in certain regions of the Western corn belt, but we've also seen a lot of wet weather in the Eastern corn belt. So I think you're going to have to see that stop for ammonia to go down. We have seen some areas that have started to apply ammonia, but it's a little bit slow going right now.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. And then regarding the contracts that you mentioned in terms of your mining and industrial customers, could you give us an idea of how that -- how significant that is relative to profit for the company? I know you're contracted more on a cost-plus basis at that end of the business. Any way you can give a sense of, I don't know, how impactful that is?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Well, I think if you go back to Page 11 in the presentation, we look at our mining business as a low-density ammonium nitrate, AN, solution and then actually high-density in some applications and where we did 171,000 tons combined in 2019. We're really looking for a range at 205,000 to 225,000. And so in the midpoint of that, that's 26% increase, about 40,000 tons increase. So you could say that most of that's attributable to a new contract award.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. And then the industrial, I think you might have mentioned that you have potentially an upcoming industrial contract that you may be awarded. Is that included into this Page 11 guidance?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

No, those volumes wouldn't start. It would be a significant award, and it wouldn't start until 2021.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

And then this is probably nitpicking, but I know your goal has been sort of 95%-plus onstream rates, and you have a goal for 2020 at 94%. I don't know if that's -- if I'm just nitpicking there. But with what -- the work that you did at Pryor and El Dorado at the end of last year, is -- are you positioned right now to potentially hit 95% plus?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Well, I think we're realistic in that we're slowly inching up. So I'd love to tell you that 95% is the target for this year, but I think we're slightly below that with 2021 being at 95%. So we're not quite there yet. Could we hit it? Sure. I mean it's possible, but that's not really what our expectations are.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. And regarding, I guess, more so Pryor, but I guess El Dorado, too. Where are we in regard to -- I mean I guess to your answer to that Pryor question, I guess we need to do some more work on the facilities. Could you just update us on future plans in terms of what you need to do to get to 95% plus or how much?





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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

I think it's just a progression. I mean I don't know that it's any major equipment or anything like that. I think we're certainly -- the expectation at El Dorado is certainly to be above 95%. At Cherokee, we've run really well at or around 95%. I don't think there'll be any difference there. And then -- so we're talking about Pryor and, as I said, not a lot of equipment. We will -- it's more processes, procedures, proactiveness, things like that, that we've been working on over the last few years and will continue to develop.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. Regarding the cash flow and the balance sheet, in terms of cash flow, do you anticipate any change in your uses of cash for working capital this year?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

I will let Cheryl answer that.

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Yes. Joe, I'm sorry, we didn't hear you. You were breaking up. Can you go -- can you say that again?

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Yes, I'm sorry. I was just wondering, do you anticipate any uses of cash for working capital, whether it's inventory in the beginning of the year or what?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

No, Joe, I mean nothing outside the ordinary. We've guided to interest, \$45 million to \$50 million and CapEx, \$25 million to \$30 million. So really nothing outside of the normal business.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. And what was the CapEx that you did in 2019?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

\$36 million, running a bit higher in '19 related to the 2 turnarounds that we had plus, I'd point out, also includes the sulfuric acid converter down at El Dorado, which was financed.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. And that's regarding the noncash factor of the CapEx?

**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Yes.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. And so the cash CapEx for 2020 will be \$25 million to \$30 million?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Yes.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. And then just regarding the balance sheet, just could you update us on what your thoughts are on the liquidity? I think you said \$65 million if you count the cash and your revolver. How you're thinking about that and then, probably more importantly, what your updated thoughts are on opportunity of refinancing the balance sheet, including the preferreds?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Sure. So with respect to liquidity, we're in a lower price environment. So if we think about Tampa sitting around \$250 today, I mean although we don't expect it to be the case, let's assume it stays there for the full year. Gas has been running lower. And so -- and looking at various industry sources, most forecast gas next year to be in the \$2.50 range or lower. So we -- I'll point you to our grid in the back of our earnings presentation. So at \$2.50 gas and \$250 Tampa, we're around \$100 million in EBITDA. Now that assumes 97% at EDC and 95% at Cherokee and 95% at Pryor. So as Mark mentioned -- and not sure we'll get all the way there in 2020, so let's say \$90 million to \$100 million. So given no planned turnarounds in 2020, and we'd also assume the lower maintenance CapEx because it's a nonturnaround year, so let's say \$90 million to \$100 million and \$45 million to \$50 million of interest and \$25 million to \$30 million of CapEx, we would expect to generate some positive free cash flow even in a downside case.

Now with respect to refinancing the balance sheet, as you know, the first call date is in May of 2020. And I think what we've normally -- how we think about that is it becomes a math exercise, what's the call premium versus the reduction in rate that we think we could get. And some of that is going to depend on pricing and the overall ag environment as well. So we'll be evaluating that through the year.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Okay. Great. And then last question that I have was just the loss on the sale of property in the quarter. Could you explain what that was?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Sure. So as you probably have heard us talk about, we've been making some significant investments in the business and some updates and some upgrades. And so there's a couple -- some assets that we've basically determined that will no longer be needed given the work that we've done to date and where our strategy is going forward. So some noncore assets that we just didn't feel were needed going forward.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

Is this like totally random assets that go back years and years with the founding family? Or is this equipment or stuff that's on the facility, properties that you don't necessarily need anymore?



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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

I would say a combination of both, Joe. I mean we put in a new -- some new nitric acid plants down at El Dorado back in 2015. These were some other nitric acid plants that we had on the balance sheet, which we decided that we weren't going to need going forward. And some of it is some older carried assets that we -- that have been around for a while, and we just decided were not needed going forward.

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**Operator**

Our next question comes from the line of JP Geygan with Global Value Investment Corp.

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**James Philip Geygan** - *Global Value Investment Corp - VP Advisory*

Congratulations on the sales wins you announced today. That's great news. I'm wondering if you might elaborate on the statement you make on Slide 13 of your deck about your sales and marketing programs, how this might represent a shift in your process, if at all, if you can quantify the additional opportunity or, if not, procure that relative to your production capacity and then talk about any additional investments that you might foresee making?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Sure. Well, I think as I said on previous calls, I mean one of the goals is certainly to run our plants at higher production or onstream levels, so that's going to give you some more production capacity, but also to work with our sales and marketing teams to figure out how we can actually utilize all the production capacity that we have and what's the right product mix. And I think that's been a key throughout 2019. It's really working as a team on product balance and where do we have the best margins. With a lot of these facilities, you've got the ability to switch product production based on market pricing. And so we certainly look at that closely every day.

The other thing I think that we've really done a good job at is we are the largest merchant marketer of nitric acid in North America. We're known for that. It's not a sideline product for us. And so the team, the industrial sales and marketing team, have done a really great job in focusing on finding opportunities for us to increase sales of that product.

So I think it's an ongoing exercise. I don't think it's something that is unique. I think it's something that we're taking just a more aggressive approach on, on how we think about the business.

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**James Philip Geygan** - *Global Value Investment Corp - VP Advisory*

Okay. You mentioned in your prepared remarks that your cost per ton has continued or will continue to decrease. Can you provide some more color around that statement especially given that you've previously talked about taking costs out of the business and if you can provide the magnitude of how you see your cost per ton decreasing?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Well, I mean I can talk to you generally about that. We don't publish a cost per ton metric, but we have continued to pull costs out of the business. We're always looking for opportunities. We've got a much more focused effort on, I'll call it, procurement and really pooling our procurement and looking at opportunities where we think we can reduce cost.



So cost per ton really is focused on 2 things, right? It's reducing costs and increasing production tons. So in combination, we're able to continue to lower our cost. We're certainly not at a point where we think we've pulled all the costs out of the business nor are we at a point where we think we've maximized our production.

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**James Philip Geygan** - *Global Value Investment Corp - VP Advisory*

Okay. You borrowed an additional \$35 million during 2019 for some margin enhancement projects. You've talked about some of those on Slide 13 of your presentation, including additional storage capacity and loading capacity. Can you provide an update on progress on some of your margin enhancement projects and what we might look for in 2020 and the effect of those projects on the business?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Sure. So we've actually completed one project up at our Pryor facility. And we're in the process of working to fine-tune some additional equipment that we've put in, which would actually lower our costs. Second project would -- is to build a new 20,000 ton storage dome for high-density ammonium nitrate. We're in the final stages of that. And within a few weeks, I think we should be completed with that project and really loading product into that facility, which will allow us to increase overall production of that product from our facility and also position product to sell at more advantageous times of the year.

There is a -- there are a couple of other projects where we've done engineering, and we're waiting for finalization of agreements. I think I refer to those as some newer industrial contracts. So once those contracts are signed and are greenlighted, we'll actually start doing the work. And that would include loading and additional storage for some product down at our El Dorado facility.

So I think we're making progress on those, and we should see some results of that this year, probably later on this year and then some of the full results starting in 2021.

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**Operator**

Our next question comes from the line of Travis Edwards with Goldman Sachs.

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**Travis Edwards** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Just high level, as we are thinking about the earnings power of the business, and you always provide the helpful matrix with ammonia-nat gas prices, which you pointed out earlier, I just wanted to check if I'm thinking about this correctly. Should we assume that those baseline or illustrative numbers should start to go up now that you've got some incremental production that you've got some new contract wins, storage capacity, et cetera? Or each of these initiatives is just helping to target sort of the ideal onstream rates of the 97%, 95%, 95%?

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Yes. I would say, I mean, the onstream rates that we portray on that slide, 97%, 95% and 95%, we're working up towards that. So any additional production capacity would be captured in this grid. As far as storage or reduction of costs or even some of the margin enhancement projects, they should be somewhat additive to this, but new contract awards would be included in this grid as well, right? We're just selling the added production capacity that we have.



**Travis Edwards** - Goldman Sachs Group Inc., Research Division - Research Analyst

I appreciate that clarification. And then real quick on the margin enhancement projects, I think you mentioned in the past, of kind of a \$6 million to \$7 million EBITDA boost. Is that still consistent with how you're thinking?

**Mark T. Behrman** - LSB Industries, Inc. - President, CEO & Director

Yes.

**Travis Edwards** - Goldman Sachs Group Inc., Research Division - Research Analyst

Okay. Great. And lastly, if I may, I appreciate that you're maybe not willing to share. But on the math exercise with the refinancing, again, we can estimate what new rates might be. But have you -- are you willing to share any sort of target as far as what the -- like the ideal payback period would be for you to engage in a transaction, a refinancing transaction?

**Mark T. Behrman** - LSB Industries, Inc. - President, CEO & Director

No, I mean I think it's a little early for that. As Cheryl mentioned, I mean I think one of the things we really need to take a look at is where are we in the ag cycle. I mean I'd like to see that firm up a bit so that we and potential investors are comfortable with certainly the ag markets and where they are. But I don't I don't think that this is a complicated exercise for it. I mean we're going to sit down, we're going to figure out, we certainly know what the call premium is. And then we'll have to see what the reduction in rate is and is that for 5 years, 7 years and what are the terms of the new financing. So we're in the process of starting to look at that since our first call date is not until May.

**Operator**

Our next question comes from the line of Brian DiRubbio with Baird.

**Brian Vincent DiRubbio** - Robert W. Baird & Co. Incorporated, Research Division - Research Analyst

Just as we think about the cadence of results for this year, I know you -- if my notes are correct, you said you're going to be down about 10% or 15% in EBITDA for the first quarter. Do you expect similar drag on results in the second quarter?

**Mark T. Behrman** - LSB Industries, Inc. - President, CEO & Director

I think if I knew what pricing would look like, I could answer that, how much tariff would be. Yes, I'm not trying to be funny about it. I just -- I think it's too early for us to tell what the second quarter pricing is going to look like.

**Brian Vincent DiRubbio** - Robert W. Baird & Co. Incorporated, Research Division - Research Analyst

Okay. I guess what I'm driving at is that you're really looking for a hockey stick sort of rebound in the second half, particularly in the fourth quarter of this year in order to meet that goal of exceeding your adjusted EBITDA number?

**Mark T. Behrman** - LSB Industries, Inc. - President, CEO & Director

Yes, I think in the second half is probably a good characterization. I mean we had turnarounds that started in the third quarter -- or started or completed or just started in the third quarter of 2019. And then of course, we had the extended turnaround at Pryor and took the plant down at



El Dorado -- the ammonia plant down at El Dorado in the fourth quarter. So I would tell you that the second half of 2020 should be significantly better than the second half of 2019.

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**Brian Vincent DiRubbio** - *Robert W. Baird & Co. Incorporated, Research Division - Research Analyst*

Okay. And as we think about sort of -- adjusted EBITDA is one thing, but cash EBITDA has been slightly different the last couple of years. What expenses are going to run through cash flow, if you will, that's not going to be part of your adjusted EBITDA as we can try to fine-tune our models on what cash is going to look like? I know there's \$5 million of legal for the Leidos litigation.

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Yes. Cheryl, you want to answer that?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Yes. No, that's what I was thinking as well. It's really just the \$5 million of the Leidos fees. There's no other turnaround expenses or anything this year. So that about covers it.

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**Brian Vincent DiRubbio** - *Robert W. Baird & Co. Incorporated, Research Division - Research Analyst*

Okay. And then we're looking at somewhere between cash interest and CapEx of around \$75 million?

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**Cheryl Maguire** - *LSB Industries, Inc. - Executive VP & CFO*

Yes.

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**Operator**

(Operator Instructions) Our next question is a follow-up from the line of Joe Mondillo with Sidoti & Company.

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**Joseph Logan Mondillo** - *Sidoti & Company, LLC - Research Analyst*

I just wanted to ask what your expectation of the time line or how long the Leidos trial will last, if you have any idea.

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**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Well, I think it's scheduled for 3 to 4 weeks.

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**Operator**

Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to management for any final comments.

**Mark T. Behrman** - *LSB Industries, Inc. - President, CEO & Director*

Well, I'd like to thank everyone for listening in on the call and participating and, of course, all your interest. As I mentioned, both Cheryl and I will be in New York, and we'd love to see some of you there. And thank you so much.

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**Operator**

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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