LSB Industries, Inc. (NYSE: LXU)

June 19, 2019

Senior Analyst: JP Geygan (jp.geygan@gvi-corp.com)
Associate Analyst: Satendar Singh (satendar.singh@gvi-corp.com)
Direct: (262) 478-0643 Toll Free: (866) 452-0640

GLOBAL
VALUE RESEARCH COMPANY
A Division Of Global Value Investment Corp

RESEARCH NOTE

PRICE DETERIORATION NOT SUPPORTED BY FUNDAMENTALS

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.

After trading between $6.00 and $7.00 for the better part of 2019, the stock price of LSB Industries, Inc. ("LSB") sank to a low of $3.12 on June 12, 2019. This decline is likely driven by expectations for a weaker-than-expected domestic corn crop after reports of delayed corn planting as wet weather conditions persist throughout much of the Midwest Corn Belt. However, for reasons enumerated below, Global Value Research Company's (GVRC) previous price target of $12.70 remains intact.

The following table presents data from the USDA's Crop Progress reports for the past three weeks.

State	Week Ending June 2, 2019	Week Ending June 9, 2019	Week Ending June 16, 2019	2014-2018 Average (as of week ending June 16)
Illinois	45%	73%	88%	100%
Indiana	31%	67%	84%	100%
Iowa	80%	93%	98%	100%
Kansas	79%	89%	96%	99%
Kentucky	87%	94%	97%	99%
Michigan	42%	63%	84%	98%
Minnesota	76%	92%	99%	99%
Missouri	69%	81%	89%	99%
Nebraska	88%	94%	98%	100%
North Dakota	81%	93%	98%	99%
Ohio	33%	50%	68%	100%
South Dakota	44%	64%	78%	100%
Tennessee	95%	99%	100%	100%
Texas	96%	100%	100%	100%
Wisconsin	58%	78%	87%	99%

As is evident, crop progress lags significantly in certain areas, particularly Illinois, Indiana, Michigan, Missouri, Ohio, South Dakota, and Wisconsin. Fewer acres of corn planted demand less agricultural fertilizer. Furthermore, when corn is planted later in the spring planting season, urea ammonium nitrate (UAN) is typically the agricultural fertilizer of choice, as opposed to anhydrous ammonia, which is applied earlier in the planting season.

LSB distributes anhydrous ammonia for agricultural fertilizer use within about 200 miles of its three production facilities, which are located in El Dorado, Arkansas, Cherokee, Alabama, and Pryor, Oklahoma. UAN and high-density ammonium nitrate (HDAN) are distributed further, depending on demand and the location of the manufacturing facility. The Cherokee facility generally sells agricultural products into the Eastern Corn Belt, while the Pryor facility generally sells agricultural products into the Southern Plains area; the El Dorado facility manufactures HDAN and industrial and mining products that are widely distributed. Due to weak demand resulting from unfavorable planting conditions, a general

PLEASE SEE ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ON PAGE 3.

domestic oversupply of agricultural fertilizers (particularly anhydrous ammonia and UAN) has negatively impacted product pricing. Congestion in rail and river transportation networks stemming from flooding has further exacerbated product pricing distortions. While some of the states most severely affected by recent adverse weather patterns lie outside of LSB's primary distribution areas, GVRC anticipates that weak demand, oversupply, and distribution disruptions for agricultural fertilizers will be a headwind to LSB's FQ2 2019 financial results.

A reduction in the number of acres of corn planted and harvested in the US could easily lead to a significant draw on corn stocks, which according to the USDA's June 11, 2019 World Agricultural Supply and Demand report, are currently expected to grow by 55 million bushels this year. Expectations have driven corn spot prices notably higher: corn spot pricing has increased roughly 25% year-to-date. The price effects of a weak corn harvest could last for years, as higher corn prices will cause a future increase in acres planted and demand for agricultural fertilizers.

As GVRC has pointed out in past research reports, roughly half of LSB's revenue is derived from its industrial and mining segments. Industrial and mining products are often sold under cost-plus arrangements, with pricing tied to an index such as the Tampa ammonia benchmark. While historical fluctuations in pricing indices have caused modest changes in segment revenue, industrial and mining segment revenue is significantly less variable than agriculture segment revenue. GVRC believes LSB's industrial and mining segments will continue to grow.

LSB's three owned production facilities continue to operate at or near targeted on-stream rates, which GVRC believes is a key leading indicator of financial results. Significant resources have been invested into both physical plant infrastructure and operating and maintenance procedures. Enhanced operational reliability has enabled LSB to increase facility throughput, driving revenue and margins.

On LSB's FQ1 2019 conference call, CFO Cheryl Maguire forecasted FQ2 2019 EBITDA of 50% to 70% above FQ1 2019 EBITDA. Given the state of agricultural fertilizer markets, this range may be optimistic. However, GVRC believes that meaningful sequential EBITDA growth remains achievable; anticipated weakness in the agriculture segment should be partially offset by revenue growth from increased operational reliability and buoyed by predictable revenue from the industrial and mining segments. CFO Maguire also confirmed LSB's year-end liquidity target of approximately $60 million, which remains reasonable.

On June 18, 2019, LSB announced that it intends to offer $35 million of its 9.625% Senior Secured Notes due 2023, a further issuance to $400 million of notes offered in April 2018. Of the proceeds, $20 million is earmarked for growth capital expenditures that should be accretive to EBITDA and free cash flow. Several obvious avenues to growth exist, including investing in facilities to further upgrade products (which is typically accretive to margins), capturing additional income streams through on-site guest plants, or strategically increasing storage capacity. GVRC believes there are meaningful opportunities for LSB to grow its position as the leading merchant marketer of nitric acid in North America, as well as to grow distribution of other industrial products.

As of March 31, 2019, LSB's capital structure included Series E 14% cumulative, redeemable preferred stock with an aggregate liquidation preference of $219.3 million. LSB is permitted to use liquidity in excess of $65 million to redeem its Senior Secured Notes due 2023 and its Series E preferred stock. If liquidity of $61.8 million as of March 31, 2019 is expanded by $15 million (proceeds from the recent note offering that are not earmarked for expansion), GVRC anticipates excess liquidity may be used to retire Series E preferred in the near term.

In summary, while a cold and wet spring planting season across many key corn-producing regions has stunted expectations for the 2019 corn crop and put significant downward pressuring on the prices of ammonia-base agricultural fertilizers, the idiosyncratic effect of these dynamics on LSB may not be as significant as the deterioration of the stock price suggests. LSB's industrial and mining segments, which constitute about half of the company's revenue, remain strong. Sequential EBITDA growth – which could approach 50% – is expected, and the company's liquidity outlook is unchanged. Looking ahead, incremental investments funded by additional capital should lead to further EBITDA growth. Overall, GVRC believes the current price of LSB's common stock of $3.67, which represents a 41% decline compared to the FQ1 2019 closing price of $6.24, is not reflective of strong fundamental data and the long-term earnings potential of the enterprise.

About Global Value Research Company

Global Value Research Company is the investment research division of Global Value Investment Corp, a research and advisory firm serving individual and institutional clients. Founded in 2007 in Milwaukee, Wisconsin, the firm currently operates additional offices in Boston, Massachusetts; Charleston, South Carolina; and Hyderabad, India. Global Value Research Company espouses the value investing principles pioneered by Ben Graham and David Dodd, providing comprehensive fundamental analysis of publicly traded companies around the world. Our research process focuses on diligently examining company financial statements, understanding competitive positioning, assessing industry and macroeconomic trends, and speaking with company senior management on an ongoing basis. Further information about Global Value Research Company's services can be obtained by contacting the firm directly.

Global Value Investment Corp, through its subsidiaries, beneficially owns less than 5% of the common stock outstanding of LSB Industries, Inc.

Analyst Certification

The research analyst responsible for this research report hereby certifies that the views expressed in the research report accurately reflect his or her personal views about the subject securities and issuers, and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclosures

This report is published by Global Value Research Company (GVRC), a division of Global Value Investment Corp (GVIC), and is primarily disseminated electronically and available to all recipients simultaneously. GVIC is a registered investment adviser and does not, has never, and has no future plans to, provide investment banking services. All statements or opinions contained in this report are solely the responsibility of GVRC. All information, including facts and opinions, contained in this report were based solely on publicly available information and were obtained from sources believed to be reliable, but are in no way guaranteed to be complete or accurate. This report is for informational purposes only, and does not constitute a guarantee of any company's future value, an offer or solicitation to buy or sell any security, or an agreement, explicit or implied, to provide any service.

Employees of GVRC and GVIC may have minority, non-controlling positions in the securities issued by the company discussed in this report (the "Company"). GVRC retains ownership of this report and, other than confirming the accuracy of certain facts presented prior to publication, the Company has no control over its contents. Investments in the securities referenced in this report involve risks and uncertainties that could cause actual results to differ from the analysis and opinions provided by GVRC and may not be suitable for all investors. Past performance of the Company should not be taken as an indication or guarantee of future results. Additional information about GVRC, GVIC, and the services provided by each is available upon request.

Compensation

GVRC receives an annual non-contingent flat fee ranging from $25,000 to $75,000 from the Company for the publication of an initial report covering the Company, three quarterly updates, and any interim reports deemed necessary by GVRC. To mitigate the conflict of interest created by the Company compensating GVRC preparing the reports, GVRC requires its fee to be fully paid in advance of the publication of its initial report. GVRC has implemented policies and procedures to promote the objectivity of its analysts. GVRC does not rely on revenues from any single company, including the Company, engaging the firm for its research services. GVRC also prohibits companies from compensating it with stock-based or other forms of variable compensation and only accepts cash (or cash equivalents) for its services. Although GVRC and GVIC employees may own positions in the securities of companies covered by the firm, GVIC has implemented strict procedures that prohibit employees from trading securities, including options, directly related to the subjects of its reports within ten days before and three days after their publication.