

# LSB Industries, Inc.

**2012 Results**

**February 28, 2013**

Jack E. Golsen, Board Chairman and CEO

Barry H. Golsen, President and COO

Tony M. Shelby, Executive Vice President and CFO

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# Safe Harbor Statement

This presentation and the comments being made today contain certain forward-looking statements. All statements other than statements of historical fact are forward-looking statements within the meaning of the Federal securities law. Statements that include the words expect, intend, plan, believe, project, anticipate, estimate and similar statements of a future or forward-looking statement nature, identify forward-looking statements, including, but not limited to all statements about or any references to the Architectural Billings Index or any McGraw-Hill forecasts including those pertaining to commercial, institutional and residential building increases, green construction trends or industry growth.

The forward-looking statements include but are not limited to the following statements: We believe that many of these initiatives will help us take our Chemical business to a new level of reliability and overall profitability; we expect that construction of the new acid plant at the El Dorado Facility will be completed in 2015; industrial and mining sales are expected to be a lower percentage until the new acid plant is rebuilt at El Dorado; the major heat exchanger is not expected to be delivered to the Cherokee plant site until April; we expect Cherokee to resume production in May; we expect Pryor to resume production during March; implementation of these programs will contribute to improved reliability and more consistent operations of these facilities in the future. We should expect to have less unplanned downtime and an improvement in our overall production output as these programs take effect; we anticipate improved results and resumption of the growth pattern for our Chemical Business; we plan to continue to invest in this business to increase capacity, improve its reliability and reduce costs. Until the facilities are returned to normal at various points in 2013, production, sales and operating income will continue to be lower than otherwise would be expected; all statements regarding the estimate of the monthly adverse impact on our 2013 operating income; we anticipate that we will receive additional business interruption insurance proceeds, in future quarters to recover a substantial portion of the El Dorado and Cherokee losses related to these incidents; it is likely that we will undertake a debt financing in 2013. We have committed capital expenditures for 2013 and 2014 of approximately \$200 million; we are planning to construct an ammonia plant at the El Dorado Facility; for an estimated cost of \$250-300 million; the outlook for AN this season is more or less the same as UAN. We expect stable selling prices at about the current level; we will continue to expand our industrial business; continue to enhance our agricultural distribution channel. We will work on several projects aimed at optimizing production rates at all of our plants that are currently on-line. If this future growth occurs, it should benefit our residential geothermal business although we believe this is also influenced by the cost of energy; increases in green construction should benefit the sale of our highly energy-efficient products. We will continue to develop and introduce new products in 2013 and future years. All items listed as strategies and major initiatives and planned initiatives.

You should not rely on forward-looking statements because actual events or results may differ materially from those indicated by these forward-looking statements as a result of a number of important factors. We incorporate the risks and uncertainties being discussed under the heading “special note regarding forward-looking statements” in our Annual Report, Form 10-K for the fiscal year ended December 31, 2012. We undertake no duty to update the information contained in this conference call.

The term EBITDA as used in this presentation is net income plus interest expense, depreciation, amortization, income taxes and certain non-cash charges, unless otherwise described. EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to GAAP measurements. We will post on our website reconciliation to GAAP of any EBITDA numbers discussed during this conference call.

# Overview

- Second best year in LSB's history. Consolidated net sales for 2012 were \$759.0 million, 6% below the \$805.3 million reported in 2011, with a \$34.0 million decline in our Chemical Business and a \$15.4 million decline in our Climate Control Business.
- Operating income for 2012 was \$95.7 million, \$40.7 million less than 2011, and reflects the lower sales volume, production interruptions and downtime at several of our Chemical Business facilities, and product mix changes at our Climate Control Business operations.
- All operations at El Dorado have returned to service with the exception of the DSN plant, which will be replaced by a new regular 65% nitric acid plant and a concentrator.
- Cherokee is expected to restart by May.
- Pryor ammonia converter installed. Re-starting production during March.
- Intensified plant reliability programs underway.
- Planning new ammonia plant for EDC, subject to certain conditions.
- The outlook for the Chemical Business indicates positive supply and demand fundamentals for the types of nitrogen fertilizers we produce.
- Generally, the outlook for our Climate Control Business is for moderate sales growth although several markets we serve have shown continuing softness.

# LSB Consolidated Financial Results

## Fourth Quarter Highlights

<i>\$ in millions except per share amounts</i>	Three Months Ended December 31,		
	2011	2012	Change
Net Sales	\$215.4	\$177.1	-\$38.2
Operating Income	\$41.6	\$18.4	-\$23.3
% of net sales	19.3%	10.4%	-9.0%
Net Income	\$28.0	\$11.6	-\$16.4
% of net sales	13.0%	6.5%	-6.5%
Diluted EPS	\$1.19	\$0.49	-\$0.70
Cash Flow Provided by Operations	\$37.4	\$26.1	-\$11.3
EBITDA	\$46.7	\$24.4	-\$22.3

# LSB Consolidated Financial Results

## Full Year Highlights

<i>\$ in millions except per share amounts</i>	Twelve Months Ended December 31,		
	2011	2012	Change
Net Sales	\$805.3	\$759.0	-\$46.3
Operating Income	\$136.4	\$95.7	-\$40.8
% of net sales	16.9%	12.6%	-4.3%
Net Income	\$83.8	\$58.6	-\$25.2
% of net sales	10.4%	7.7%	-2.7%
Diluted EPS	\$3.58	\$2.49	-\$1.09
Effective Tax Rate	36%	36%	
Cash Flow Provided by Operations	\$90.0	\$99.5	\$9.5
EBITDA	\$155.7	\$117.3	-\$38.3
Cash, Restricted Cash and Short-Term Investments as of 12-31,	\$135.0	\$98.0	-\$37.0

# Chemical Business

## Fourth Quarter & Full Year Highlights

<i>\$ in millions</i>	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2011	2012	Change	2011	2012	Change
Net Sales	\$142.0	\$105.3	-\$36.7	\$511.9	\$477.8	-\$34.1
Gross Profit	\$40.9	\$18.9	-\$22.0	\$130.7	\$97.7	-\$33.0
% of net sales	28.8%	18.0%	-10.8%	25.5%	20.4%	-5.1%
Operating Income	\$37.6	\$15.1	-\$22.5	\$116.5	\$82.1	-\$34.4
% of net sales	26.5%	14.3%	-12.2%	22.8%	17.2%	-5.6%
EBITDA	\$41.5	\$19.8	-\$21.7	\$131.2	\$98.5	-\$32.7
Capital Expenditures – Cash Basis	\$11.9	\$31.3	\$19.4	\$35.8	\$79.7	\$43.9

- Lower sales, gross profits, operating income and EBITDA were due to downtime at our El Dorado, Cherokee and Pryor facilities.

# Climate Control Business

## Fourth Quarter & Full Year Highlights

<i>\$ in millions</i>	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2011	2012	Change	2011	2012	Change
Net Sales	\$68.9	\$67.9	-\$1.0	\$281.6	\$266.2	-\$15.4
Gross Profit	\$20.5	\$20.1	-\$0.4	\$88.2	\$81.0	-\$7.2
% of net sales	29.7%	29.6%	-0.2%	31.3%	30.4%	-0.9%
Operating Income	\$6.4	\$5.8	-\$0.6	\$32.8	\$25.8	-\$6.9
% of net sales	9.3%	8.6%	-0.7%	11.6%	9.7%	-1.9%
EBITDA	\$7.1	\$6.7	-\$0.4	\$35.5	\$29.0	-\$6.5
Capital Expenditures – Cash Basis	\$1.7	\$1.3	-\$0.4	\$6.0	\$5.1	-\$0.9

- Sales of our heat pump products were down in 2012, whereas sales of fan coil and large custom air handlers increased.
- The declines in gross profit, margin, operating income and EBITDA are primarily due to the overall lower sales volume, product mix (including lower residential product content) and unabsorbed overhead.

# Solid Financial Position

## Strong Balance Sheet

<i>\$ in millions</i>	December 31, 2011	December 31, 2012
Cash (including restricted cash and short term investments)	\$135.0	\$98.1
Total Debt (interest bearing)	\$79.5	\$72.4 (A)
Cash in Excess of Debt	\$55.5	\$25.6
Stockholders' Equity	\$293.3	\$354.5
Total Capitalization	\$372.8	\$426.9
Interest Coverage Ratio	23.2x	27.7x

(A) As of December 31, 2012, total debt consisted of a \$68.4 million secured term loan due in March 2016 and \$4.0 million of equipment loans and capital leases. Our availability under the \$50.0 million working capital revolver loan is \$48.4 million.



# Where Our Products Go

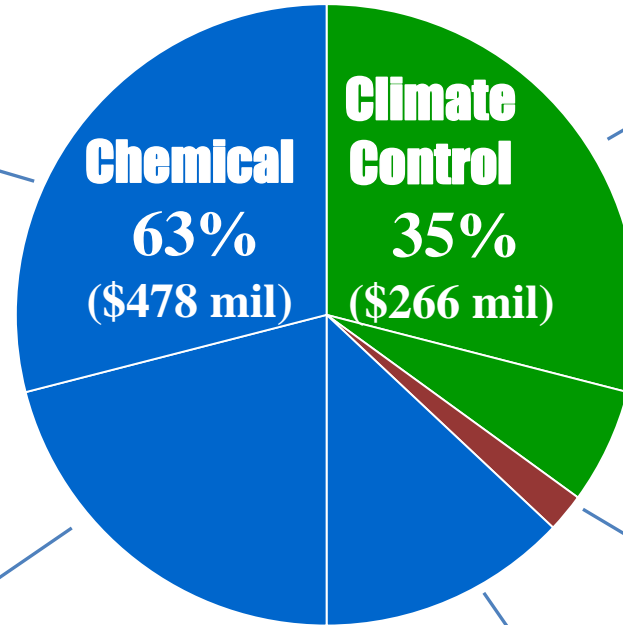
## 2012 Full Year Sales Mix



**29% Agriculture**



**21% Industrial  
Acids & Ammonia**



**13%  
Mining**



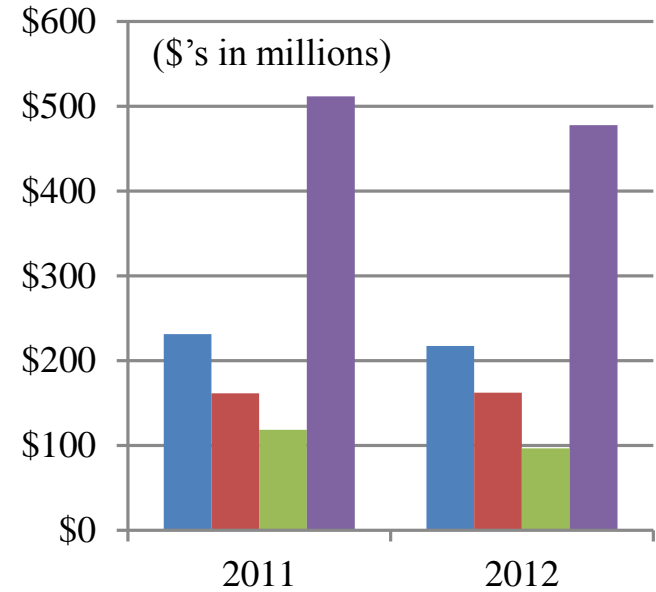
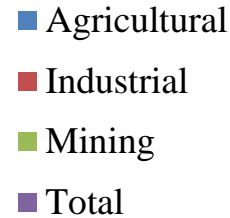
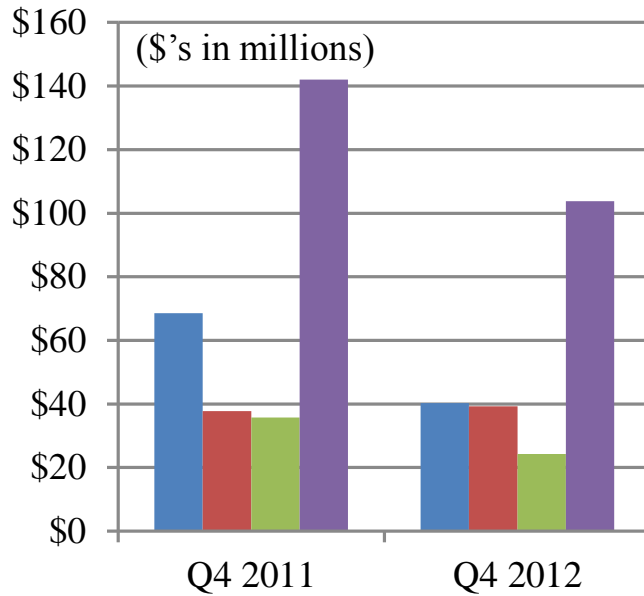
**29% Commercial  
& Institutional  
Buildings**



**6% Single-family  
Residential**

**Engineered Products  
& Other 2%**

# Chemical Sales

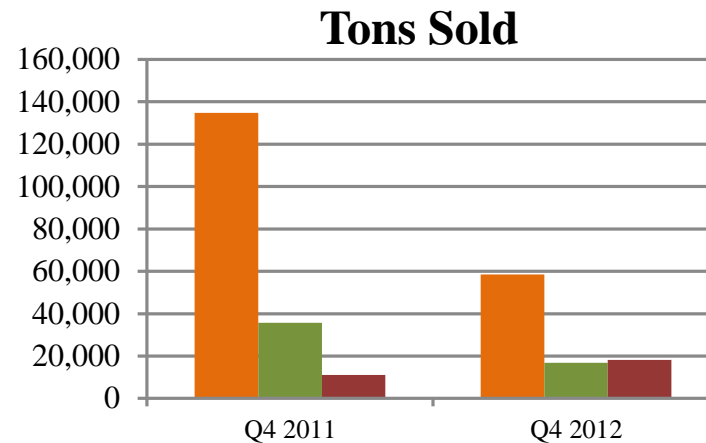
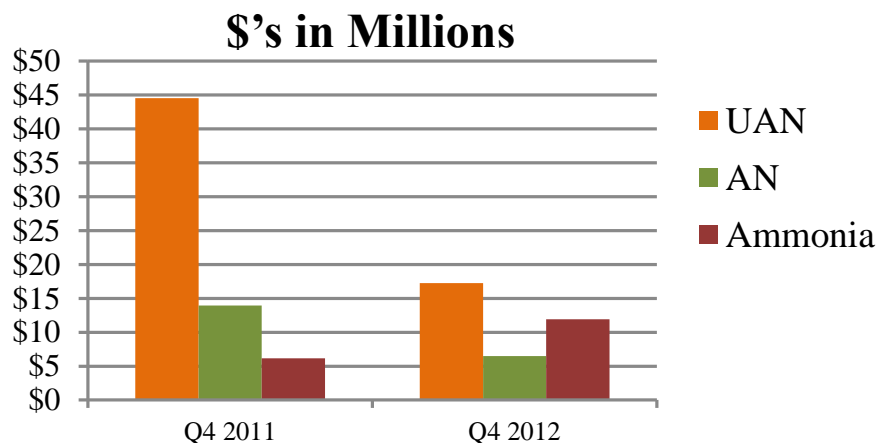


Changes from 2011 to 2012	Agricultural Products	Industrial Acids	Mining Products	Total
Fourth Quarter	-41%	4%	-32%	-26%
Full Year	-6%	0%	-19%	-7%

- Sales were down for most chemical products due to downtime at our facilities.

# Chemical Key Product Sales

## Agricultural

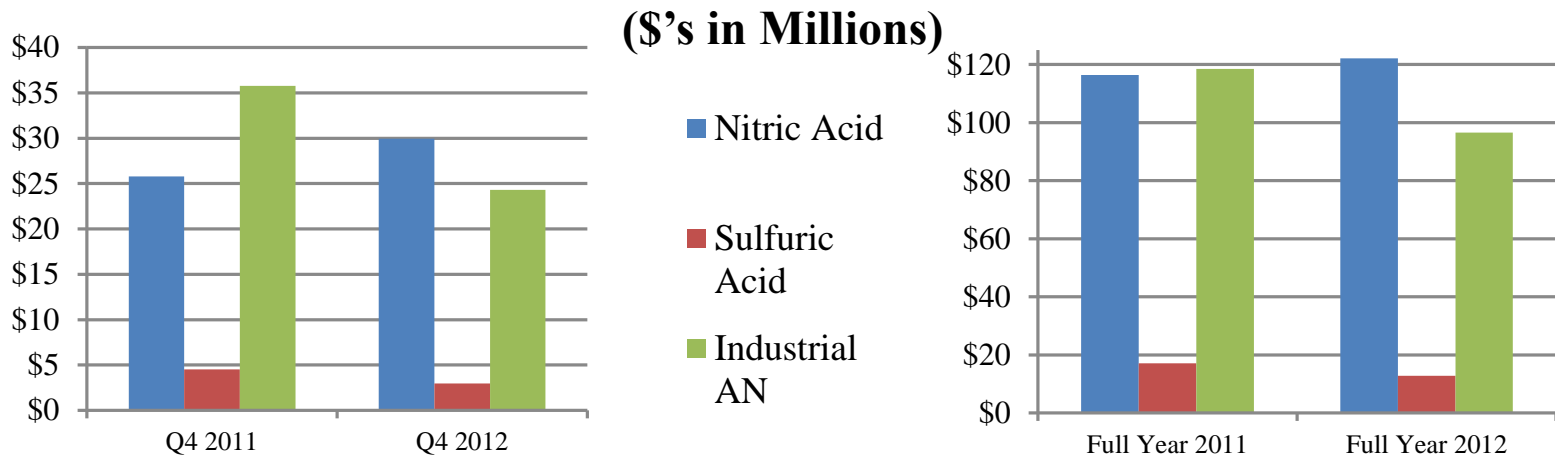


Changes from 2011 to 2012	UAN		AN		Ammonia	
	\$'s	Tons	\$'s	Tons	\$'s	Tons
Fourth Quarter	-61%	-57%	-54%	-53%	93%	65%
Full Year	-39%	-38%	13%	1%	84%	72%

- UAN tons sold decreased in Q4 2012 vs. Q4 2011 as a result of downtime at Cherokee and Pryor.
- AN sales decreased in Q4 2012 vs. Q4 2011 due to decreased tons shipped.
- Ammonia sales increased due to tons shipped and increased sales prices per ton.

# Chemical Key Product Sales

## Industrial Acids & Mining

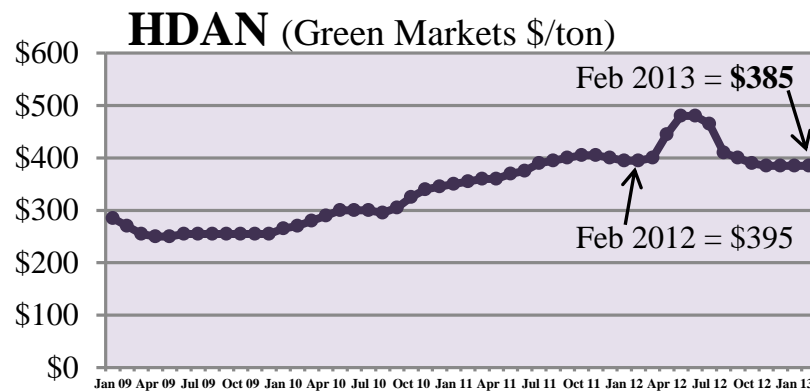
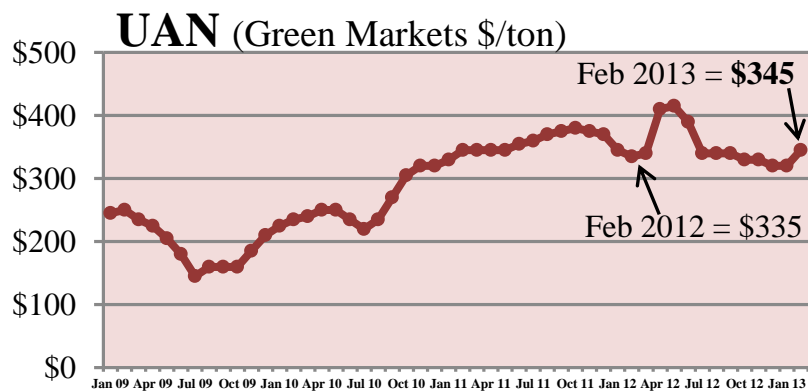
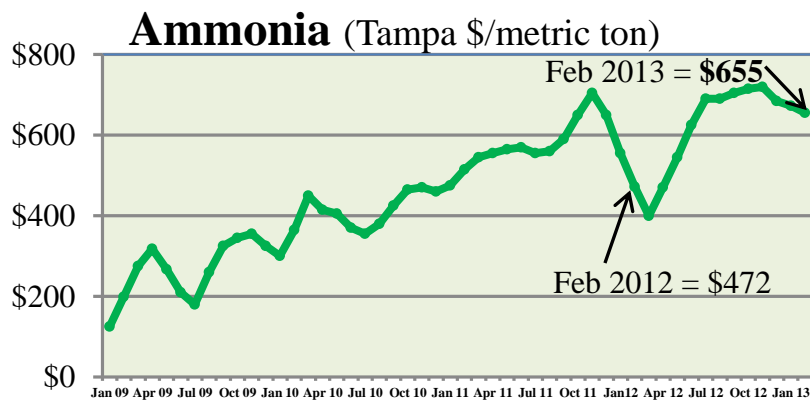
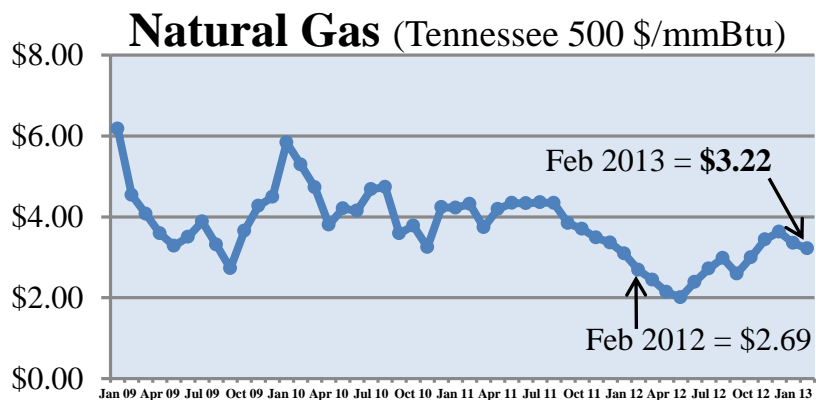


Changes from 2011 to 2012	Nitric Acid		Sulfuric Acid		Industrial AN	
	\$'s	Tons	\$'s	Tons	\$'s	Tons
Fourth Quarter	16%	15%	-35%	-24%	-32%	-40%
Full Year	5%	5%	-25%	-24%	-19%	-22%

- Nitric acid increased due to higher acid demand.
- Sales of sulfuric acid was lower as a result of unplanned downtime at our El Dorado Facility.
- Industrial AN decreased as a result of downtime and lower customer demand.

# Chemical Commodity Prices

## Feedstocks & End Products



# Chemical Market Outlook

## Agricultural

### Favorable Indicators:

- ✓ Grain stock-to-use ratios low

(Source: USDA WASDE report, 02-08-13 for crop year 2012/13)

- US Corn = 6.1%
- World Corn = 13.6%
- World Wheat = 26.2%

- ✓ Planting levels high
- ✓ Crop prices high
- ✓ Fertilizer demand up
- ✓ Natural gas feedstock cost low

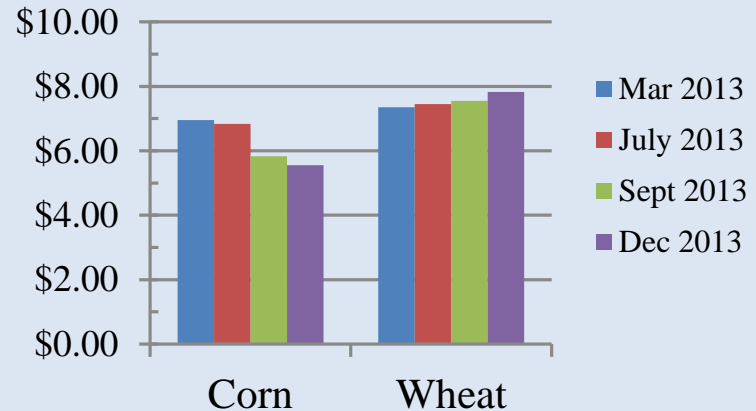
### Fertilizer Prices:

- ✓ Outlook stable

### Wild Cards:

- Weather conditions
- Ethanol production

### Forward Crop Prices / Bushel



#### Sources:

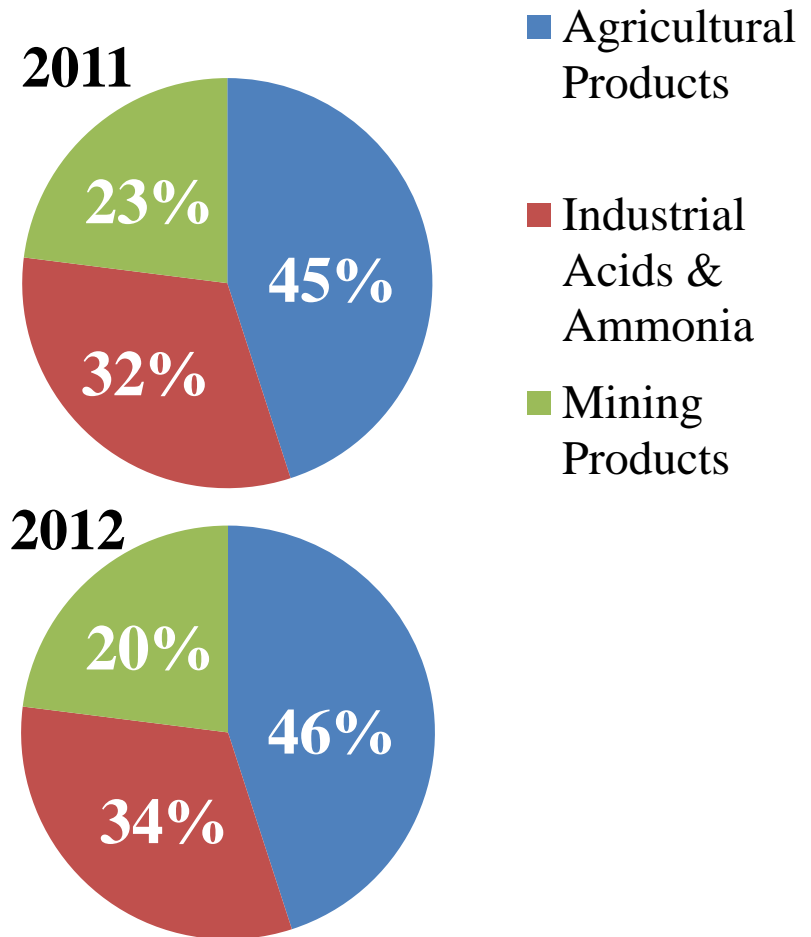
Mar., July & Sept.: Fertecon Ammonia Report 02-14-13  
Dec. Corn: Chicago Board of Trade 02-26-13 close  
Dec. Wheat: Kansas City Board of Trade 02-26-13 close

# Chemical Market Outlook

## Industrial & Mining

- 54% of our Chemical Sales during 2012 were industrial and mining products used in North America.
- Most industrial and mining sales are contractual with *cost plus* and/or *minimum take* provisions.
- Industrial and mining sales are expected to be a lower percentage going forward until the new acid plant is rebuilt in El Dorado.

## Sales By Sector

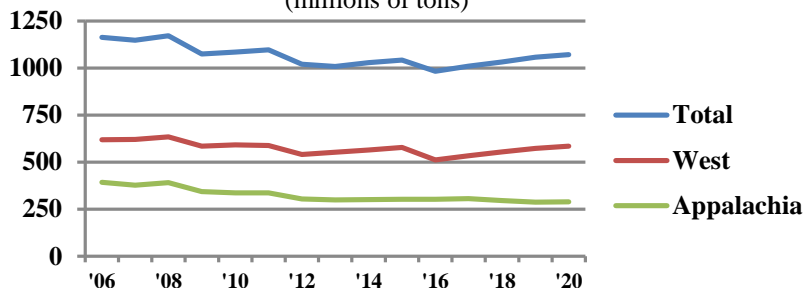


# Chemical Market Outlook: Industrial & Mining

## Coal Production Projections

Source: Dept. of Energy – Energy Information Agcy.

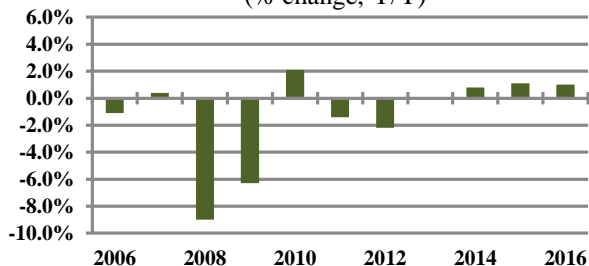
2013 Annual Energy Outlook Early Release & Short-Term Energy Outlook  
(millions of tons)



**Coal** – AN and AN solution is used for surface mining. Ammonia is used for NOx abatement. In 2011, coal accounted for 42% of electricity generation.

## U.S. Paper Production

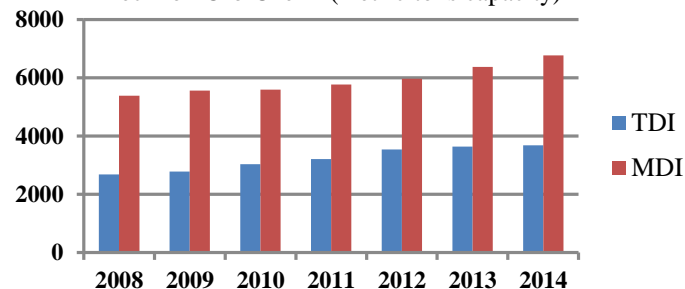
Source: American Chemistry Council  
Year End 2012 Situation & Outlook  
(% change, Y/Y)



**Paper Products** – Sulfuric acid is used for paper bleaching and water treatment. LSB's sulfuric acid markets are regionalized, and a balanced North American market has benefited us, with steady demand.

## Polyurethane Intermediates Global Production Capacity Growth Trend

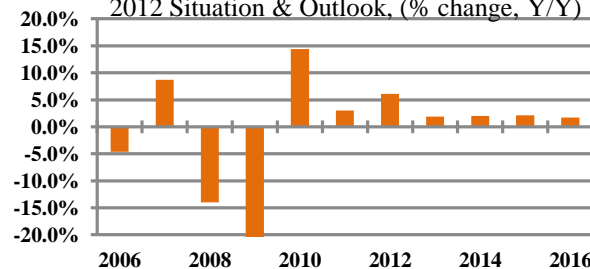
Source: Transparency Market Research \*  
Technon OrbiChem (metric tons capacity)



**Polyurethane** - Baytown produces nitric acid used to make *polyurethane intermediates*. TDI is used for flexible foams and MDI for rigid foams. MDI & TDI global volume growth is expected to be 5.5% and 4.8% per year through, respectively, through 2016.

## Basic Chemicals: Inorganics

Source: American Chemistry Council, Year End  
2012 Situation & Outlook, (% change, Y/Y)



**Basic Chemicals: Inorganics** – These industry statistics provide a good overall indicator of LSB's industrial chemical business. After a strong recovery in 2010 and a good year in 2012, the sector is expected to grow 1.5% to 2% per year.



# Chemical

## Strategies & Major Initiatives

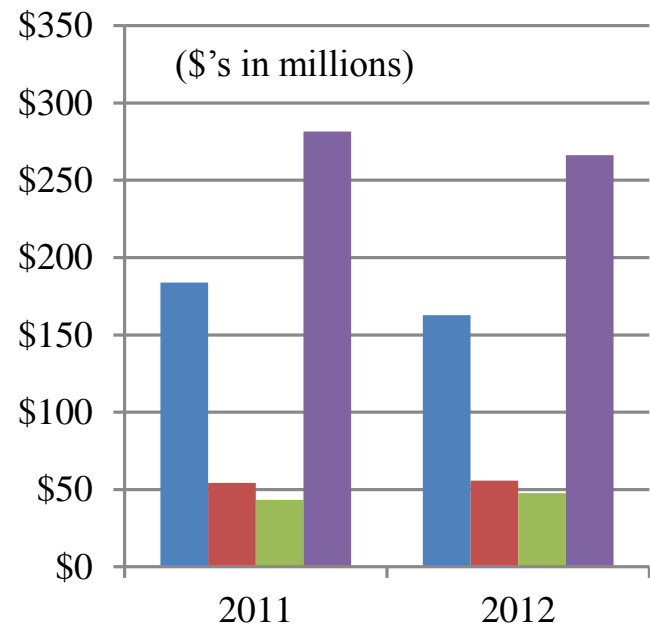
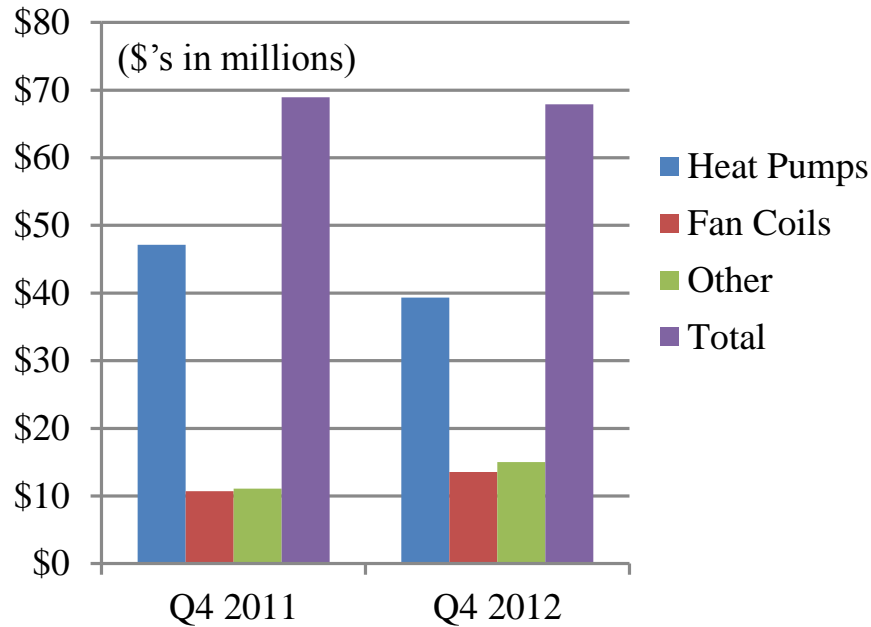
### Strategies

- Increased emphasis on operational excellence and facility reliability: enhanced process safety management (PSM), increased capacity, and plant efficiency.
- Continued emphasis on safety and environmental responsibility.
- Further development of large industrial customers and products.
- Continued emphasis on a balance of sales volume between industrial and agricultural sectors.
- Expand agricultural distribution in new geographic territories where justified.

### Planned Initiatives

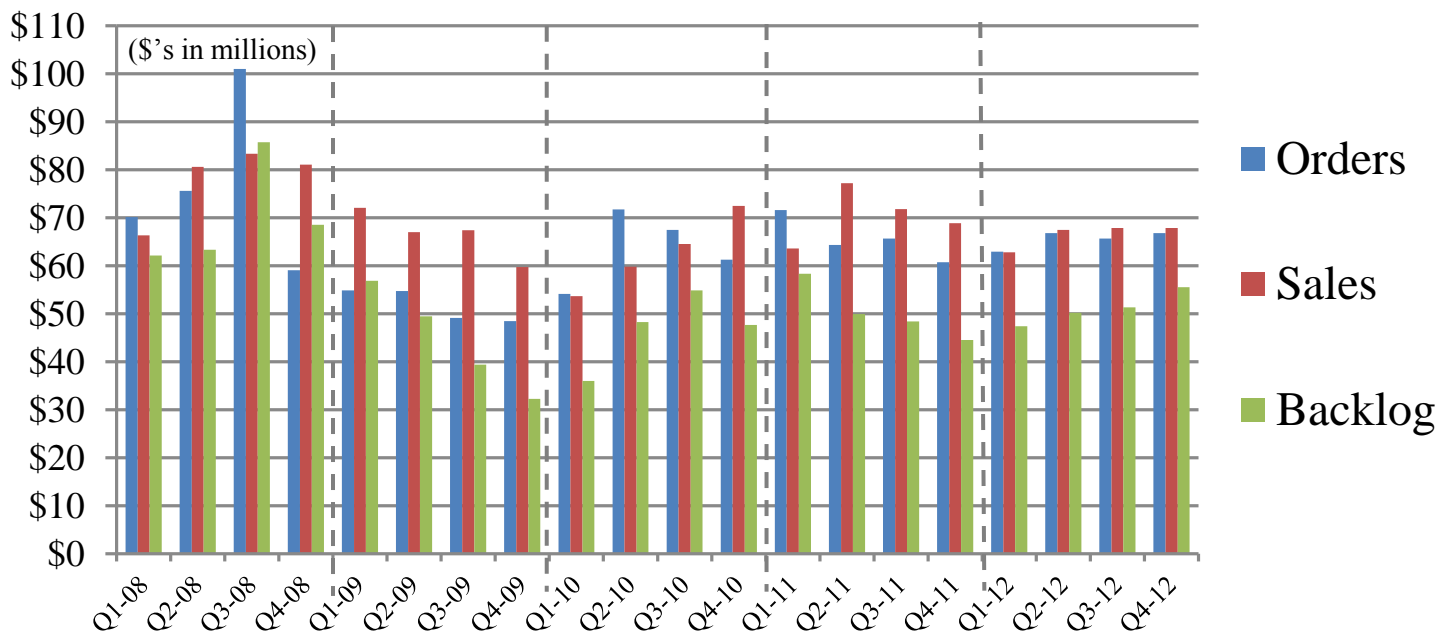
- Enhanced PSM programs.
- Optimize all facility production rates of plants currently on-line.
- Complete expansion of Pryor facility.
- New nitric acid plant at El Dorado.
- Planned addition of ammonia plant at El Dorado facility.
- Other major capital projects (other than maintenance projects): El Dorado pipeline; El Dorado NOX abatement; Cherokee and Pryor electrical, control system and equipment safety upgrades.

# Climate Control 2012 Sales



Changes from 2011 to 2012	Heat Pumps	Fan Coils	Other	Total
Fourth Quarter	-17%	27%	35%	-2%
Full Year	-11%	3%	10%	-5%

# Climate Control Orders, Sales & Backlog

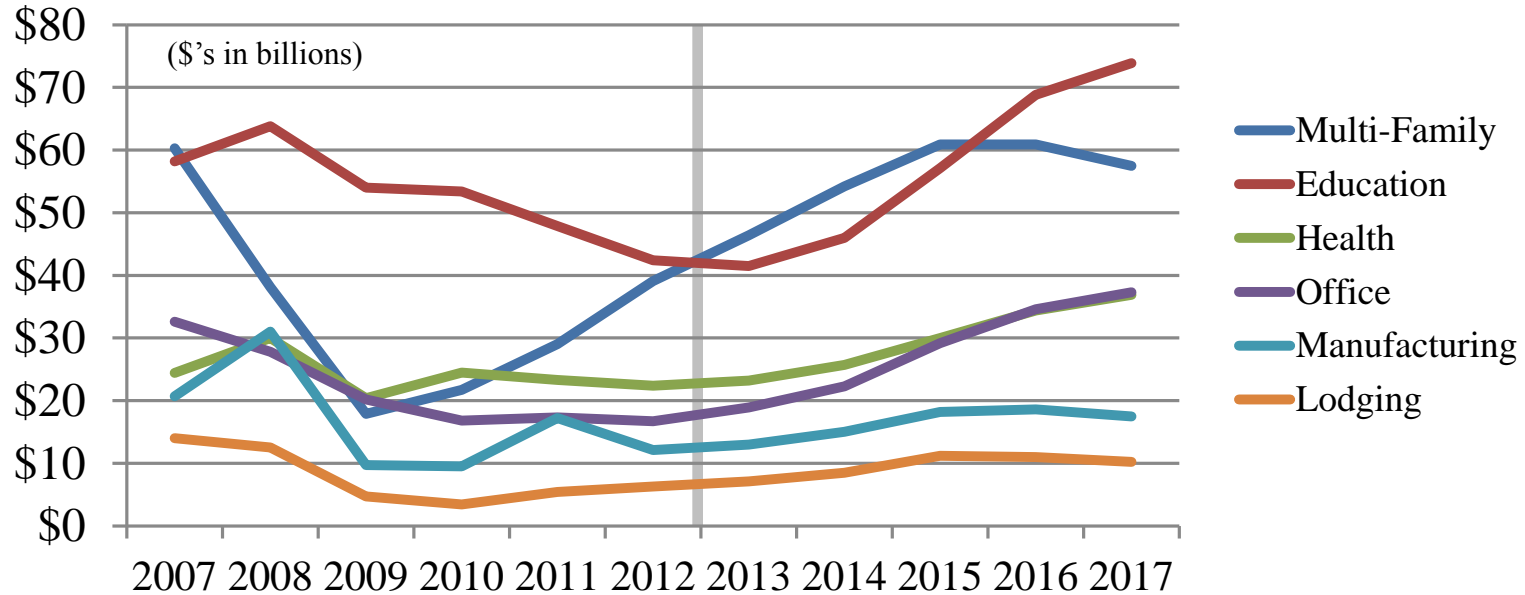


Changes from 2011 to 2012	Commercial & Institutional	Single Family Residential	Total
Q4 New Orders	24%	-27%	10%
Q4 Sales	9%	-33%	-2%
Twelve Months Orders	6%	-21%	-%
Twelve Months Sales	-1%	-21%	-5%
Ending Backlog at 12-31	28%	-6%	25%

# Climate Control Market Outlook

## Commercial & Institutional Construction Awards

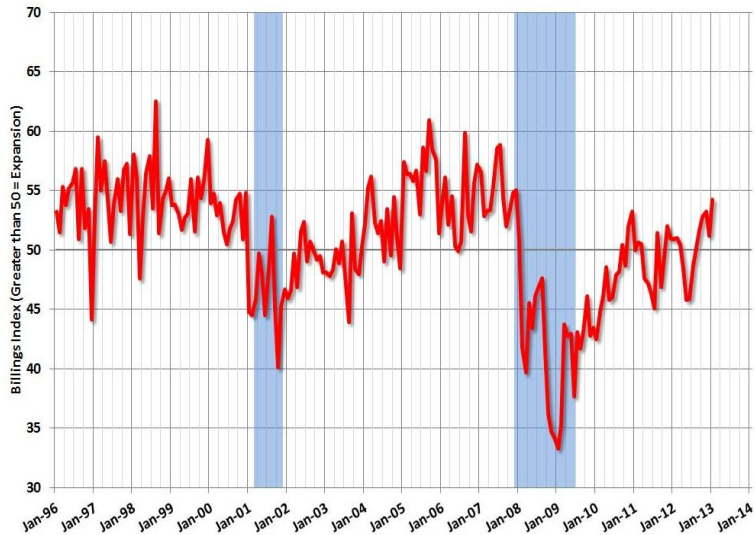
Building Contract Activity Source: McGraw-Hill Construction Market Forecasting Service, Q1 2013



- In 2012 these combined markets accounted for approx. 63% of total Climate Control sales and 77% of sales of commercial and institutional products.
- Aggregate increase forecast by 2017 is 68%.

# Climate Control Market Outlook

## January 2013 Architectural Billings Index = **54.2**



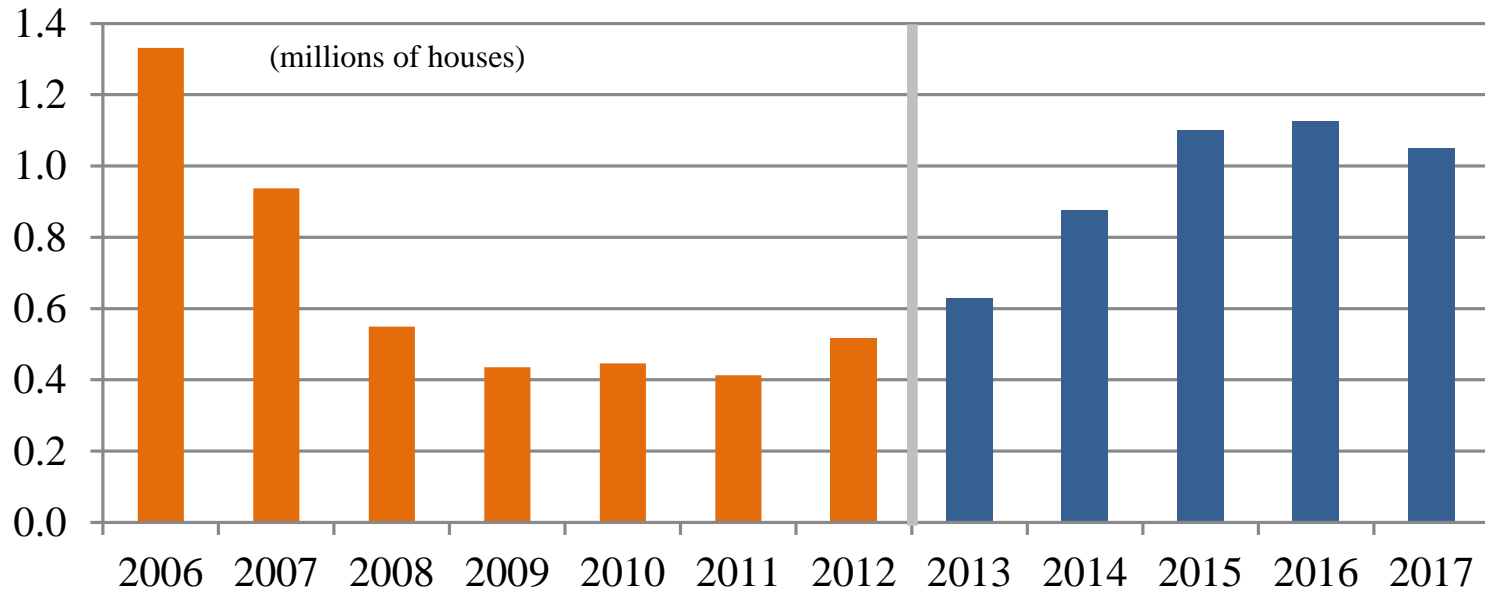
The Architectural Billings Index (ABI), produced by the American Institute of Architects (AIA) Economics & Market Research Group, is the leading economic indicator for non-residential construction spending nine to twelve months in the future. Scores above 50 indicate an aggregate increase in billings and scores below 50 indicate a decline.

- The January ABI reflected the strongest growth since November 2007.
- “We have been pointing in this direction for the last several months, but this is **the strongest indication that there will be an upturn in construction activity in the coming months**,” said AIA Chief Economist, Kermit Baker. “But as we continue to hear about overall improving economic conditions and that there are more inquiries for new design projects in the marketplace, a continued reservation by lending institutions to supply financing for construction projects is preventing a more widespread recovery in the industry.”
- Every building sector and all U.S. regions are now expanding and new project inquiries are strongly positive. Note: This includes commercial and industrial facilities like hotels and office buildings, multi-family residential, as well as schools, hospitals and other institutions.

# Climate Control Market Outlook

## Single Family Residential Construction Starts

Building Contract Activity Source: McGraw-Hill Construction Market Forecasting Service, Q1 2013



- Single family residential, all geothermal heat pumps, accounted for approximately 18% of all Climate Control sales during 2012.
- From 2012 through 2017 this market is forecast to increase 103%.
- 30% Federal tax credits should positively impact sales of geothermal products.

# Climate Control

## Strategies & Major Initiatives

### Strategies

- Focus on product niches: maintain, upgrade and expand current product offerings.
- Continue to develop the market for geothermal products.
- Continue to develop and/or offer products targeted to green construction.
- Develop and/or offer products targeted to new construction, renovation and retrofit construction, and replacement applications.
- Continued focus on operational excellence: LEAN initiatives, customer service, product and service quality, cost reduction.
- Consider selected strategic acquisition opportunities.

### Planned Initiatives

- Introduce new products in all categories, with emphasis on product efficiencies and improved digital control systems.
- Major capital projects: complete expansion of air coil manufacturing facility; complete expansion of fan coil new product test lab facility.
- LEAN initiatives underway for waste reduction, cost savings, quality and process improvements.

# EBITDA Reconciliations (in millions)

**Reconciliation of Consolidated Net Income and Segment Operating Income to Non-GAAP measurement EBITDA.** Management uses operating income by business segment for purposes of making decisions that include resource allocations and performance evaluations. Operating income by business segment represents gross profit by business segment less selling, general and administrative expenses incurred by each business segment plus other income and other expense earned/incurred by each business segment before general corporate expenses and other business operations, net.

LSB Industries, Inc. Consolidated	Three months ended 12-31		Twelve months ended 12-31	
	2011	2012	2011	2012
Net income	\$ 28.0	\$ 11.6	\$ 83.8	\$ 58.6
Plus:				
Interest expense	1.2	0.4	6.7	4.2
Depreciation and amortization	4.9	5.8	18.8	20.7
Provisions for income taxes	12.6	6.5	46.2	33.6
Loss from discontinued operations	0.0	0.0	0.1	0.2
<b>EBITDA per conference call</b>	<b>\$ 46.7</b>	<b>\$ 24.3</b>	<b>\$ 155.6</b>	<b>\$ 117.3</b>

## Climate Control Business

Operating income	\$ 6.4	\$ 5.8	\$ 32.8	\$ 25.8
Plus:				
Equity in earnings of affiliate	0.2	0.2	0.5	0.7
Depreciation and amortization	0.5	0.7	2.2	2.5
<b>EBITDA per conference call</b>	<b>\$ 7.1</b>	<b>\$ 6.7</b>	<b>\$ 35.5</b>	<b>\$ 29.0</b>

## Chemical Business

Operating income	\$ 37.5	\$ 15.1	\$ 116.5	\$ 82.1
Plus:				
Depreciation and amortization	3.9	4.7	14.6	16.3
<b>EBITDA per conference call</b>	<b>\$ 41.4</b>	<b>\$ 19.8</b>	<b>\$ 131.1</b>	<b>\$ 98.4</b>

Note: Please refer to the Company's Form 10-K for the year ended December 31, 2012 for discussions concerning significant items that impacted the periods shown above.





LSB Industries, Inc. is headquartered in Oklahoma City and does business through its subsidiaries, with seven HVAC manufacturing and distribution facilities in Oklahoma City, chemical plants in Texas, Arkansas, Alabama and Oklahoma and an engineered products distribution center in Oklahoma City. Approximately 1,900 total employees.

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NYSE ticker symbol LXU

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