

## LSB Industries, Inc. (NYSE: LXU)

Price Target: \$10.15  
Rating: Buy

## Research Note

May 11, 2021

### Stock Information

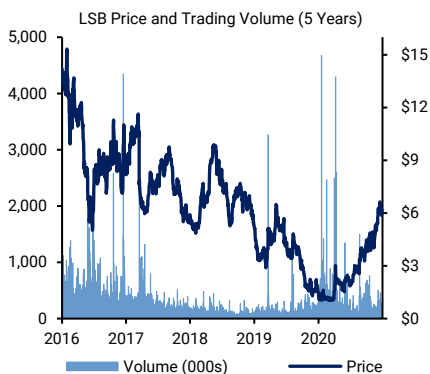
Current Price: \$6.18  
52-Week Range: \$1.00 - \$6.69  
Avg Daily Volume: 239,455  
Dividend Yield: -  
Shares Out (MM): 32.2  
Float %: 82.8%

Market Cap (MM): \$182.9  
Preferred Stock\* (MM): \$287.5  
Total Debt (MM): \$481.8  
Cash (MM): \$14.2  
Enterprise Value (MM): \$938.0

### Financial Metrics

TTM Revenue (MM): \$366.0  
TTM Adj. EBITDA (MM): \$67.1  
EV/EBITDA: 14.0x  
Tangible BV/Share: \$3.66  
P/TBV: 1.7x

\*Preferred stock is listed at liquidation value.



## It's All About How Long Pricing Can Remain Strong

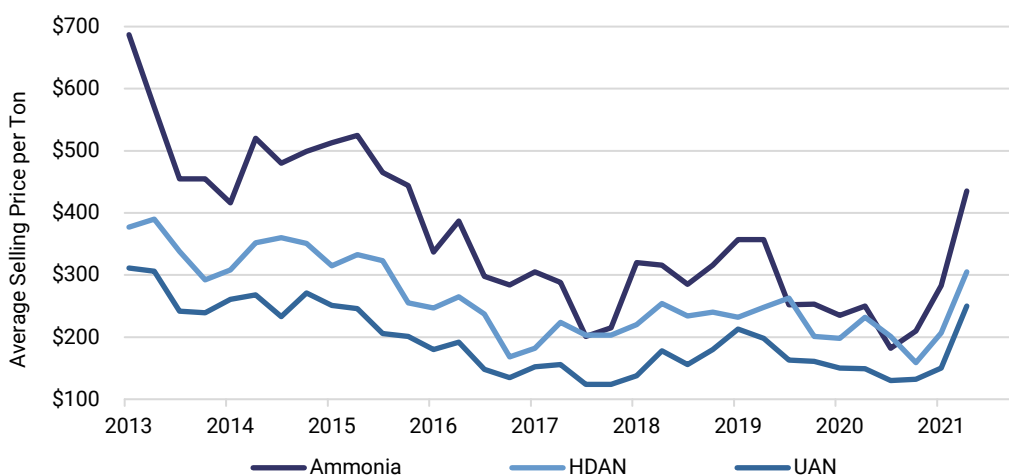
**FQ1 2021 revenues came in at \$98.1 million, lower than our estimate of \$108.2 million, primarily reflecting lower volumes caused by the "February Freeze" and lower price realization than expected.** In February, unusually cold weather caused multiple U.S. producers to temporarily shut down production as natural gas became unavailable, and prices spiked from under \$3 per MMBtu to as high as \$1,000 per MMBtu. Already low inventories were further depleted as LSB worked to meet customer delivery commitments. The February Freeze curtailed U.S. ammonia production by approximately 200,000 tons, which we estimate to represent approximately 15% of average U.S. monthly demand.

**FQ1 2021 adjusted EBITDA came in at \$17.3 million, versus our estimate of \$28.0 million.** We underappreciated the amount of agricultural product that was presold in FQ4 2020 and early FQ1 2021 at lower prices than were observed throughout the quarter. Lower revenue and EBITDA resulting from the February Freeze was largely offset by cash proceeds from the sale of natural gas forward contracts, for a net EBITDA impact of -\$1.1 million. We are raising our FQ2 2021 EBITDA estimate from \$47.1 million to \$50.9 million, reflecting strong-than-anticipated expected selling prices, which consider FQ2 2021 presales conducted in FQ1 2021.

**We reduce our 2021 EBITDA estimates from \$120.0 million to \$107.6 million to reflect foregone production in FQ1 2021 and lower FQ1 2021 price realization, partially offset by expectations for improved prices realization in FQ2 2021 versus our previous estimates.** Pricing in the second half of FY 2021 remains a significant unknown and could cause second half EBITDA to differ materially from our estimates, although we believe this difference would likely be to the upside.

**Chart 1 (on the following page) shows LSB's quarterly average selling prices for its fertilizer products, which nearly doubled from F4Q 2020 to F2Q 2021, with the preponderance of the upward move occurring in February and March.** Management's FQ2 2021 guidance for average selling prices is \$545 per metric ton for Tampa Ammonia, \$250 per short ton for UAN, and \$305 per short ton of HDAN, up from F4Q 2020 of average selling prices of \$239, \$132, and \$159, respectively. The chart below incorporates this guidance, although we have adjusted our expected average price for agricultural ammonia based on a discount to Tampa Ammonia. Pricing has remained strong since the conclusion of FQ1 2021. We expect a lag between sales and revenue recognition of about 60 days, so management should have good visibility on pricing for F2Q 2021.

Chart 1: Commodity Prices Have Returned to and Exceeded Normalized Levels



Source: LSB Industries, Granite Research

**Now that pricing has returned to and exceeded normalized historical levels, LSB has a more immediate path to re-finance the balance sheet, including addressing the Series E Preferred.** We estimate the Series E Preferred (14.5% dividend) will have a liquidation preference of \$299.1 million by the end of F2Q 2021 and \$309.4 million by the end of FQ3 2021. As of May 1, 2021, the 9.625% Senior Secured notes are callable at 103.609%, which equates to \$450.7 million for the retirement of the entire issuance. On the company's April 29, 2021 earnings call, management suggested that a re-financing transaction may be announced by the end of FQ3 2021. We continue to view credit markets as favorable for issuers, and a ratings upgrade could further improve terms. Our base case scenario, which incorporates prices of \$300, \$170, and \$250 for ammonia, UAN, and HDAN, respectively, is modestly free-cash-flow positive. Considering that current prices exceed these levels, we expect excess free cash flow to further improve LSB's balance sheet.

**Product pricing could remain elevated for a prolonged period, based on previous cycles.** Tampa Ammonia prices moved from below \$200 per metric ton in 2009 to above \$450 in the second half for 2010, and generally remained between \$400 and \$700 between mid-2010 and late 2015. We note that current economic dynamics are favorable for fertilizer producers as corn inventories are low, demand for corn is elevated, and the agricultural fertilizer supply chain has normalized after several tumultuous years.

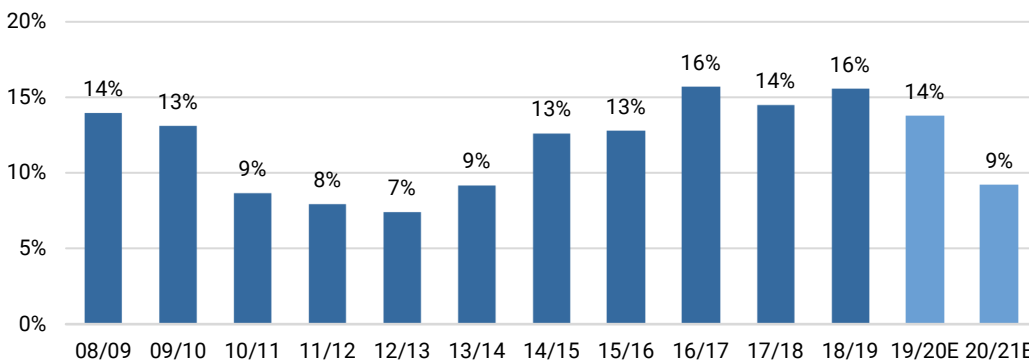
**Demand for fertilizer appears to be strong as the price per bushel of corn has risen to a seven-year high (\$7.62 as of May 7, 2021), while corn inventories have declined and demand has accelerated.** Estimated corn stocks-to-use (inventory) has tightened from 10.3% in January to 9.2% in April, down from 15.5% in the 2018/2019 crop year and 13.7% in the 2019/2020 crop year. Recent expectations for lower corn stocks are partially attributable to drought conditions in South America, emerging drought conditions in North America, and severe weather in 2020 that destroyed nearly 10 million acres of corn in Iowa (representing about 11% of last year's crop). In terms of demand, corn is the largest crop grown in the U.S., and fertilizer demand tends to correlate with planted acreage. The USDA's April 9, 2021 WADSE report estimates 90.8 million acres of corn will be planted in the U.S. in the 2020/2021 crop year, a four-year high and up from 89.7 million acres in the 2019/2020 crop year.

Chart 2: U.S. Corn Prices are at a Seven-Year High



Source: FactSet, Granite Research

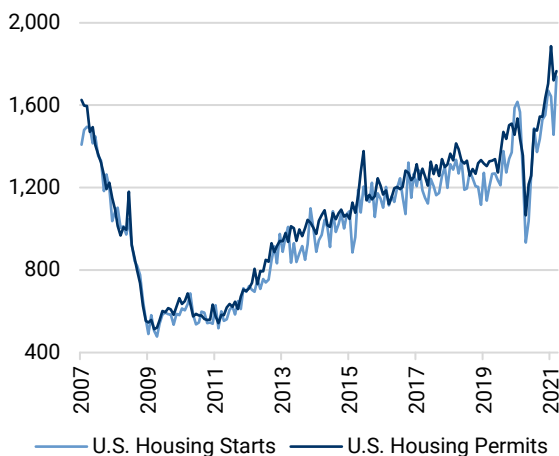
Chart 3: Corn Stocks-to-Use are Inversely Correlated to Corn Prices



Source: U.S. Department of Agriculture, Granite Research

**Industrial end markets are strong as housing starts and new building permits have risen to among the highest levels in a decade.** Likewise, domestic light vehicle sales have rebounded and are above pre-COVID levels.

Chart 4: U.S. Housing Starts and Permits are Above Pre-COVID-19 Levels



Source: Granite Research, U.S. Census Bureau

Chart 5: Light Weight Vehicle Sales



Source: Bureau of Economic Analysis, Granite Research

**Mining end markets are strong as well as several metals – notably copper – have experienced strong pricing.** We expect strengthening long-term secular demand for metals such as copper, especially as battery and electronics technologies improve for products such as electric vehicles.

Chart 6: Global Price of Copper



Source: International Monetary Fund, Granite Research

**By waiting until FQ2 2021 earnings are announced to refinance, LSB will provide investors with good visibility for both pricing and adjusted EBITDA in the second half of FY 2021.** While higher product pricing has characterized the first half of the year, prices tend to reset lower in the second half of the year. By mid-summer, orders for fall fertilizer applications begin to be placed, which will provide visibility for product pricing. The strength of these orders could provide potential bond investors and ratings agencies with additional comfort.

Ratings agencies are hesitant to rerate LSB until the company determines how to address the Series E Preferred. We see this as the primary sticking point in a balance sheet refinancing. While sustained high product pricing or a favorable settlement of LSB's litigation against Leidos would certainly catalyze this determination, both are uncertain as of today. We believe that an upsized debt issuance will provide additional capital to pay down a portion of the Series E Preferred, but sustained positive free cash flow, a discrete cash benefit, or a partial conversion of the Series E Preferred to common equity will likely be required to fully retire the Series E Preferred.

We now estimate that a rating upgrade could reduce LSB's cost of borrowing by 75bps to 100bps, versus our previous expectation of 25bps to 50bps.

**LSB took the next step towards the long-term plan to produce blue-green ammonia by hiring Hector Miravete as Director of Clean Energy**, effective May 3, 2021. Mr. Miravete is a chemical engineer with more than 20 years of experience in the petrochemical industry and a strong commercial, supply chain, and process engineering background in nitrogen-based technologies. Prior to LSB, Mr. Miravete worked for KBR, Inc. (2014 to 2021), Grupo Kaltex (2012 to 2014), and Dow, Inc. (1998 to 2012). LSB has tasked Mr. Miravete with determining the best partners and strategy to produce, sell, and distribute blue-green ammonia. Management has aimed to define a strategy by year-end for implementation over two to three years.

**Valuation:** We reduce our target price slightly from \$12.30 to \$10.15, representing a 9.0x EV/EBITDA multiple applied to our base case EBITDA of \$121.3 million (decreased from \$127.7 million previously). The downward revision of our price target was also affected by slight revisions to certain balance sheet account assumptions and a higher fully diluted share count. LSB's peers trade at 11.6x, and we argue that 8.0x to 10.0x represents a fair EV/EBITDA multiple for LSB given improvements in operational reliability over the past few years and the materialization of strategic growth plans, offset by its high balance sheet leverage. Deleveraging the balance sheet appears to be the primary concern among investors, and management remains focused on lowering the company's cost of capital and improving balance sheet health. We believe that fertilizer prices remaining at or above normalized historical levels represent the most obvious path a refinancing transaction and further deleveraging, which will be a significant catalyst to the realization of our price target.

**Income Statement and Summary Statement of Cash Flows**

	2017	2018	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020	Q1 2021	Q2 2021 E	Q3 2021 E	Q4 2021 E	2021 E	Bear Case	Base Case	Bull Case
<b>Product Volumes (Tons Sold)</b>																
<b>Agriculture</b>																
Ammonia	94,210	82,586	83,924	20,510	28,383	20,181	28,293	97,367	22,054	18,482	10,982	18,482	70,000	70,000	80,000	90,000
UAN	488,794	400,054	359,905	114,689	111,860	140,524	131,665	498,738	109,243	116,586	125,585	128,586	480,000	480,000	490,000	500,000
HDAN	279,789	284,433	277,820	65,874	128,018	27,800	70,987	292,679	76,162	117,946	27,945	57,947	280,000	280,000	290,000	300,000
Other	25,664	23,422	19,655	2,946	9,257	2,824	2,997	18,024	2,750	10,000	2,750	2,750	18,250	18,000	18,000	18,000
<b>Industrial</b>																
Ammonia	228,849	238,519	275,253	70,528	62,108	68,366	68,483	269,485								
Nitric Acid	100,628	110,975	99,544	25,823	19,048	20,254	29,270	94,395								
Other	29,171	32,109	35,107	10,888	9,587	13,031	14,369	47,875								
<b>Mining</b>																
LDAN/HDAN/AN Solution	148,845	163,309	151,935	30,723	44,354	41,469	44,970	161,516								
<b>Industrial, Mining, and Other Ammonia</b>																
AN Nitric Acid, and Other Sulfuric Acid								269,485	43,193	70,603	55,601	70,603	240,000	240,000	250,000	260,000
								303,786	116,165	94,612	94,612	94,612	400,000	400,000	410,000	420,000
								146,000		38,750	38,750	38,750	155,000	145,000	155,000	165,000
<b>Product Pricing</b>																
<b>Agriculture</b>																
Ammonia - Gross (10-Q)				\$ 245	\$ 255	\$ 192	\$ 230	\$ 288	\$ 435	\$ 350	\$ 350	\$ 350	\$ 260	\$ 285	\$ 310	\$ 310
Ammonia - Net (8-K)				\$ 235	\$ 250	\$ 182	\$ 210	\$ 283	\$ 425	\$ 340	\$ 340	\$ 340	\$ 250	\$ 275	\$ 300	\$ 300
UAN - Gross (10-Q)				\$ 161	\$ 163	\$ 138	\$ 150	\$ 161	\$ 250	\$ 165	\$ 175	\$ 165	\$ 160	\$ 170	\$ 180	\$ 180
UAN - Net (8-K)				\$ 150	\$ 149	\$ 130	\$ 132	\$ 150	\$ 243	\$ 158	\$ 168	\$ 168	\$ 153	\$ 163	\$ 173	\$ 173
HDAN - Gross (10-Q)				\$ 236	\$ 261	\$ 232	\$ 237	\$ 237	\$ 305	\$ 260	\$ 260	\$ 260	\$ 235	\$ 250	\$ 265	\$ 265
HDAN - Net (8-K)				\$ 198	\$ 232	\$ 201	\$ 159	\$ 207	\$ 305	\$ 230	\$ 230	\$ 230	\$ 205	\$ 220	\$ 235	\$ 235
Tampa Ammonia (MT Converted to ST)				\$ 250	\$ 234	\$ 207	\$ 239	\$ 348	\$ 494	\$ 408	\$ 408	\$ 408	\$ 275	\$ 300	\$ 325	\$ 325
<b>Natural Gas Info</b>																
MMBTUs Purchased				7.7	7.4	7.4	7.6		6.9							
Price/MMBTU				\$ 2.09	\$ 1.81	\$ 1.98	\$ 2.46	\$ 3.15								
Cost				\$ 16.09	\$ 13.39	\$ 14.65	\$ 18.70	\$ 21.74								
% of Cost of Sales				19.90%	15.57%	19.53%	20.24%	24.13%								
Agriculture Revenue	\$ 184.10	\$ 187.16	\$ 187.64	\$ 41.46	\$ 65.00	\$ 41.60	\$ 41.60	\$ 180.04	\$ 44.91	\$ 74.65	\$ 32.82	\$ 45.40	\$ 197.78	\$ 172.90	\$ 190.00	\$ 207.79
Industrial Revenue	\$ 130.70	\$ 148.60	\$ 139.64	\$ 35.21	\$ 29.56	\$ 32.37	\$ 35.89	\$ 133.02	\$ 40.28							
Mining Revenue	\$ 18.70	\$ 42.40	\$ 37.79	\$ 6.75	\$ 10.48	\$ 9.61	\$ 11.42	\$ 12.93								
Industrial, Mining, and Other Revenue									\$ 74.21	\$ 56.29	\$ 61.68	\$ 245.38	\$ 246.16	\$ 266.03	\$ 284.53	\$ 284.53
Total Revenue	\$ 353.70	\$ 378.16	\$ 365.07	\$ 83.41	\$ 105.03	\$ 73.97	\$ 89.90	\$ 351.32	\$ 98.12	\$ 148.86	\$ 89.10	\$ 107.08	\$ 443.16	\$ 419.07	\$ 456.03	\$ 492.31
<b>Fixed Expenses</b>																
Salary, Wages, Operational Initiatives									\$ 25.00	\$ 25.00	\$ 25.00		\$ 95.00	\$ 100.00	\$ 105.00	\$ 105.00
Logistics/Rail Car Lease									\$ 3.13	\$ 3.13	\$ 3.13		\$ 10.00	\$ 12.50	\$ 15.00	\$ 15.00
<b>Variable Expenses</b>																
Natural Gas (MMBTU)									10.58	6.33	7.61		30.00	31.50	33.00	33.00
Cost/MMBTU									\$ 2.90	\$ 3.13	\$ 3.17		\$ 3.00	\$ 2.90	\$ 2.80	\$ 2.80
Natural Gas Cost									\$ 30.49	\$ 19.82	\$ 24.13		\$ 90.00	\$ 91.35	\$ 92.40	\$ 92.40
Electricity									\$ 8.93	\$ 5.35	\$ 6.42		\$ 25.14	\$ 27.36	\$ 29.54	\$ 29.54
Catalyst Expense									\$ 2.23	\$ 1.34	\$ 1.61		\$ 6.29	\$ 6.84	\$ 7.38	\$ 7.38
Freight									\$ 14.89	\$ 8.91	\$ 10.71		\$ 41.91	\$ 45.60	\$ 49.23	\$ 49.23
Other Purchased Products									\$ 4.47	\$ 2.67	\$ 3.21		\$ 12.57	\$ 13.68	\$ 14.77	\$ 14.77
Other Expenses									\$ 2.23	\$ 1.34	\$ 1.61		\$ 6.29	\$ 6.84	\$ 7.38	\$ 7.38
Depreciation									\$ 18.13	\$ 18.13	\$ 18.13		\$ 70.00	\$ 70.00	\$ 70.00	\$ 70.00
Turnaround Expense									\$ -	\$ 10.00	\$ -		\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Cost of Sales	\$ (422.04)	\$ (362.33)	\$ (360.09)	\$ (80.86)	\$ (86.01)	\$ (75.03)	\$ (92.37)	\$ (334.27)	\$ (90.06)	\$ (109.68)	\$ (95.68)	\$ (93.93)	\$ (389.35)	\$ (367.19)	\$ (384.18)	\$ (400.71)
Cost of Sales as a % of Revenue	119.32%	95.81%	98.63%	96.94%	81.89%	101.43%	103.90%	95.15%	91.79%	73.68%	87.73%	87.86%	87.62%	84.24%	81.39%	81.39%
Gross Profit	\$ 5.47	\$ 15.84	\$ 4.99	\$ 2.55	\$ 19.02	\$ (1.06)	\$ (3.47)	\$ 17.05	\$ 8.06	\$ 39.18	\$ (6.57)	\$ 13.14	\$ 53.81	\$ 51.87	\$ 71.85	\$ 91.61
Gross Margin	1.55%	4.19%	1.37%	3.06%	18.11%	-1.43%	-3.90%	4.85%	8.21%	26.32%	-7.38%	12.27%	12.14%	12.38%	15.76%	18.61%
+ Depreciation Included in Cost of Sales		\$ 70.18	\$ 68.26	\$ 17.58	\$ 16.96	\$ 17.36	\$ 17.60	\$ 69.50	\$ 16.74	\$ 18.13	\$ 18.13	\$ 18.13	\$ 71.11	\$ 70.00	\$ 70.00	\$ 70.00
+ Turnaround Expense		\$ 9.77	\$ 13.21	\$ -	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.08	\$ 0.14	\$ -	\$ 10.00	\$ -	\$ 10.14	\$ 10.00	\$ 10.00	\$ 10.00
- Recovery from Certain Vendors		\$ -	\$ -	\$ -	\$ (5.66)	\$ -	\$ -	\$ (5.66)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted Gross Profit	\$ 95.79	\$ 86.46	\$ 20.13	\$ 30.33	\$ 16.34	\$ 14.17	\$ 80.96	\$ 24.94	\$ 57.30	\$ 21.55	\$ 31.27	\$ 135.06	\$ 131.87	\$ 151.85	\$ 171.61	\$ 171.61
Adjusted Gross Margin	25.33%	23.68%	24.13%	28.67%	22.09%	15.94%	23.04%	25.42%	38.49%	24.19%	29.20%	30.48%	31.47%	33.30%	34.86%	34.86%
Selling, General, and Administrative Expenses	\$ (34.99)	\$ (40.81)	\$ (34.17)	\$ (10.01)	\$ (8.50)	\$ (7.07)	\$ (6.51)	\$ (32.08)	\$ (8.79)	\$ (9.50)	\$ (7.50)	\$ (34.29)	\$ (30.00)	\$ (32.50)	\$ (35.00)	\$ (35.00)
Other Income (Expense), Net	\$ (4.57)	\$ 1.95	\$ (9.90)	\$ 0.47	\$ (0.88)	\$ (0.26)	\$ (0.50)	\$ 0.26	\$ -	\$ -	\$ -	\$ 0.26	\$ -	\$ -	\$ -	\$ -
Operating Income (EBIT)	\$ (34.09)	\$ (23.03)	\$ (39.09)	\$ (6.99)	\$ 10.68	\$ (9.00)	\$ (10.23)	\$ (15.54)	\$ (0.47)	\$ 30.68	\$ (16.07)	\$ 5.64	\$ 19.78	\$ 21.87	\$ 39.35	\$ 56.61
Interest Expense, Net	\$ (37.27)	\$ (43.06)	\$ (46.39)	\$ (13.48)	\$ (12.48)	\$ (12.55)	\$ (12.61)	\$ (51.12)	\$ (12.37)	\$ (12.31)	\$ (12.28)	\$ (12.25)	\$ (49.21)	\$ (48.67)	\$ (48.67)	\$ (48.67)
Gain (Loss) on Extinction of Debt		\$ (5.95)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10.10	\$ -	\$ -	\$ -	\$ 10.10	\$ -	\$ -	\$ -
Non-Operating and Other Income (Expense), Net	\$ 0.31	\$ 1.55	\$ 1.14	\$ 0.68	\$ 0.13	\$ (0.22)	\$ (0.60)	\$ (0.01)	\$ (0.40)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Earnings Before Taxes (EBT)	\$ (71.05)	\$ (70.49)	\$ (84.34)	\$ (19.79)	\$ (1.66)	\$ (21.77)	\$ (23.43)	\$ (66.66)	\$ (13.24)	\$ 28.47	\$ (28.35)	\$ (6.60)	\$ (19.72)	\$ (26.80)	\$ (9.32)	\$ 7.93
Effective Tax Rate				-1.71%	-78.06%	-6.29%	-7.43%	0.32%	23.00%	23.00%	23.00%		23.00%	23.00%	23.00%	23.00%
Provision for (Benefit from) Income Tax	\$ (40.76)	\$ 1.74	\$ (20.92)	\$ (0.34)	\$ (1.30)	\$ (1.37)	\$ (1.74)	\$ (4.75)	\$ 0.04	\$ 6.55	\$ (6.52)	\$ (1.52)	\$ (1.45)	\$ (6.16)	\$ (2.14)	\$ 1.82
Earnings of Discontinued Operations	\$ 1.08	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income (Loss)	\$ (29.22)	\$ (72.23)	\$ (63.42)	\$ (19.45)	\$ (0.37)	\$ (20.40)	\$ (21.69)	\$ (61.91)	\$ (13.28)	\$ 21.92	\$ (21.83)	\$ (5.08)	\$ (18.27)	\$ (20.64)	\$ (7.18)	\$ 6.11
Series E Dividend	\$ (26.84)	\$ (30.73)	\$ (8.31)	\$ (8.69)	\$ (8.89)	\$ (9.30)	\$ (35.18)	\$ (9.51)	\$ (9.87)	\$ (10.24)	\$ (10.61)	\$ (40.24)	\$ (46.48)	\$ (46.48)	\$ (46.48)	\$ (46.48)
Series B Dividend	\$ (0.24)	\$ (0.24)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.24)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.24)	\$ (0.24)	\$ (0.24)	\$ (0.24)	
Series D Dividend	\$ (0.06)	\$ (0.06)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.06)	
Series E Accretion	\$ (3.38)	\$ (2.00)	\$ (0.50)	\$ (0.51)	\$ (0.51)	\$ (0.51)	\$ (2.03)	\$ (0.51)	\$ (0.51)	\$ (0.49)	\$ (0.49)	\$ (2.01)	\$ (1.97)	\$ (1.97)	\$ (1.97)	
Dividends on Preferred Stock	\$ (30.52)	\$ (33.02)	\$ (8.89)	\$ (9.27)	\$ (9.47)	\$ (9.88)	\$ (37.51)	\$ (10.10)	\$ (10.46)	\$ (10.80)	\$ (11.18)	\$ (42.54)	\$ (48.74)	\$ (48.74)	\$ (48.74)	\$ (48.74)
Net Income Attributable to Participating Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income Available to Common Shareholders	\$ (29.22)	\$ (102.74)	\$ (66.44)	\$ (28.34)	\$ (9.63)	\$ (29.87)	\$ (31.57)	\$ (99.42)	\$ (23.38)	\$ 11.46	\$ (32.63)	\$ (16.26)	\$ (60.81)	\$ (69.38)	\$ (55.92)	\$ (42.64)
<b>EBITDA Calculation</b>																
Net Income (Loss)	\$ (29.22)	\$ (72.23)	\$ (63.42)	\$ (19.45)	\$ (0.37)	\$ (20.40)	\$ (21.69)	\$ (61.91)	\$ (13.28)	\$ 21.92	\$ (21.83)	\$ (5.08)	\$ (18.27)	\$ (20.64)	\$ (7.18)	\$ 6.11
+ Interest Expense	\$ 37.27	\$ 43.06	\$ 46.39	\$ 13.48	\$ 12.48	\$ 12.55	\$ 12.61	\$ 51.12	\$ 12.37	\$ 12.31	\$ 12.28	\$ 12.25	\$ 49.21	\$ 48.67	\$ 48.67	\$ 48.67
+ Depreciation and Amortization	\$ 69.14	\$ 72.63	\$ 69.57	\$ 17.99												

## Balance Sheet

	Q4 2017	Q4 2018	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021 E	Q3 2021 E	Q4 2021 E
Cash and Cash Equivalents	\$ 33.62	\$ 26.05	\$ 22.79	\$ 37.48	\$ 56.51	\$ 42.09	\$ 16.26	\$ 14.23	\$ 15.51	\$ 51.15	\$ 36.88
Accounts Receivable	\$ 59.87	\$ 67.04	\$ 40.20	\$ 51.06	\$ 42.57	\$ 39.95	\$ 42.93	\$ 60.50			
Allowance for Doubtful Accounts	\$ (0.30)	\$ (0.35)	\$ (0.26)	\$ (0.33)	\$ (0.40)	\$ (0.39)	\$ (0.38)	\$ (0.38)			
Accounts Receivable, Net	\$ 59.57	\$ 66.69	\$ 39.94	\$ 50.73	\$ 42.17	\$ 39.55	\$ 42.55	\$ 60.13	\$ 70.74	\$ 27.17	\$ 66.96
Raw Material	\$ 1.44	\$ 1.48	\$ 1.57	\$ 1.67	\$ 1.36	\$ 1.57	\$ 1.80	\$ 1.57			
Finished Goods	\$ 20.42	\$ 27.73	\$ 21.74	\$ 24.63	\$ 12.97	\$ 17.64	\$ 17.78	\$ 17.65			
Inventory Allowance Reserve	\$ (0.93)	\$ (0.28)									
Inventories	\$ 21.86	\$ 29.21	\$ 23.31	\$ 26.30	\$ 14.33	\$ 19.20	\$ 19.57	\$ 19.22	\$ 29.00	\$ 13.06	\$ 28.23
Supplies	\$ 27.73	\$ 24.58	\$ 24.69	\$ 25.16	\$ 25.22	\$ 25.17	\$ 25.29	\$ 25.41	\$ 25.00	\$ 25.00	\$ 25.00
Precious Metals	\$ 7.41	\$ -	\$ -	\$ -	\$ 7.68	\$ 7.18	\$ 6.79	\$ 6.67	\$ -	\$ -	\$ -
Pre-Paid Insurance	\$ 10.54	\$ 10.92	\$ 11.84	\$ 8.72	\$ 5.20	\$ 1.48	\$ 12.32	\$ 10.05	\$ 6.16	\$ 3.08	\$ 12.93
Prepaid/Refundable Income Taxes	\$ 1.74	\$ 0.66	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Current Assets	\$ 1.28	\$ 8.30	\$ 8.30	\$ 8.83	\$ 1.66	\$ 3.35	\$ 6.80	\$ 3.26	\$ 4.00	\$ 4.00	\$ 4.00
Total Current Assets	\$ 163.74	\$ 166.41	\$ 130.87	\$ 157.24	\$ 152.78	\$ 138.03	\$ 129.58	\$ 138.96	\$ 150.40	\$ 123.46	\$ 174.00
Machinery, Equipment, and Automotive	\$ 1,163.53	\$ 1,189.44	\$ 1,204.70				\$ 1,213.36				
Proved Natural Gas Properties	\$ -	\$ -	\$ -				\$ -				
Buildings and Improvements	\$ 42.89	\$ 39.03	\$ 38.81				\$ 44.12				
Furniture, Fixtures, and Store Equipment	\$ 1.47	\$ 1.12	\$ 1.12				\$ 1.08				
Land Improvements	\$ 8.11	\$ 8.08	\$ 8.22				\$ 8.22				
Construction in Progress	\$ 27.97	\$ 28.75	\$ 31.58				\$ 18.39				
Capital Spare Parts	\$ 29.84	\$ 28.95	\$ 24.25				\$ 26.89				
Land	\$ 7.76	\$ 4.58	\$ 4.58				\$ 4.57				
Less Accumulated Depreciation, Depletion and Am	\$ (267.53)	\$ (325.70)	\$ (376.77)				\$ (425.44)				
Net Property, Plant, and Equipment	\$ 1,014.04	\$ 974.25	\$ 936.47	\$ 928.39	\$ 913.44	\$ 899.61	\$ 891.20	\$ 882.82	\$ 872.19	\$ 861.57	\$ 850.94
Operating Lease Assets			\$ 15.33	\$ 19.15	\$ 20.90	\$ 25.36	\$ 26.40	\$ 27.67	\$ 26.33	\$ 24.99	\$ 23.65
Intangibles and Other Assets	\$ 11.40	\$ 7.67	\$ 5.81	\$ 5.37	\$ 7.55	\$ 6.93	\$ 6.12	\$ 5.55	\$ 5.23	\$ 4.92	\$ 4.60
Total Assets	\$ 1,189.18	\$ 1,148.33	\$ 1,088.49	\$ 1,110.15	\$ 1,094.67	\$ 1,069.93	\$ 1,053.30	\$ 1,055.00	\$ 1,054.15	\$ 1,014.93	\$ 1,053.20
Accounts Payable	\$ 55.99	\$ 62.59	\$ 58.48	\$ 54.01	\$ 45.25	\$ 41.19	\$ 46.55	\$ 57.36	\$ 67.99	\$ 41.35	\$ 82.52
Accrued and Other Liabilities	\$ 35.57	\$ 42.13	\$ 25.48	\$ 40.54	\$ 27.77	\$ 40.96	\$ 30.37	\$ 40.72	\$ 27.77	\$ 40.96	\$ 30.37
Short-Term Financing	\$ 8.59	\$ 8.58	\$ 9.93	\$ 6.89	\$ 3.83	\$ 0.75	\$ 13.58	\$ 8.16	\$ 4.03	\$ 0.79	\$ 14.25
Current Portion of Long-Term Debt	\$ 9.15	\$ 12.52	\$ 9.41	\$ 9.67	\$ 11.49	\$ 15.20	\$ 16.80	\$ 18.08	\$ 15.20	\$ 15.20	\$ 15.20
Total Current Liabilities	\$ 109.30	\$ 125.81	\$ 103.30	\$ 111.11	\$ 88.34	\$ 98.10	\$ 107.30	\$ 124.32	\$ 114.99	\$ 98.30	\$ 142.34
Long-Term Debt	\$ 400.25	\$ 412.68	\$ 449.63	\$ 480.84	\$ 487.55	\$ 470.75	\$ 467.39	\$ 463.67	\$ 455.60	\$ 455.05	\$ 454.50
Non-Current Operating Lease Liabilities			\$ 11.40	\$ 14.51	\$ 15.96	\$ 19.25	\$ 19.85	\$ 20.24	\$ 19.64	\$ 19.04	\$ 18.44
Net Deferred Income Taxes	\$ 54.79	\$ 56.61	\$ 35.72	\$ 35.34	\$ 34.06	\$ 32.66	\$ 30.94	\$ 31.27	\$ 31.27	\$ 31.27	\$ 31.27
Non-Current Accrued and Other Liabilities	\$ 11.69	\$ 8.86	\$ 6.21	\$ 5.15	\$ 5.24	\$ 5.60	\$ 6.09	\$ 6.33	\$ 5.00	\$ 5.00	\$ 5.00
Redeemable Preferred Stock	\$ 174.96	\$ 202.17	\$ 234.89	\$ 243.70	\$ 252.90	\$ 262.30	\$ 272.10	\$ 282.12	\$ 292.51	\$ 303.24	\$ 314.34
Total Liabilities	\$ 750.99	\$ 806.14	\$ 841.16	\$ 890.66	\$ 884.05	\$ 888.66	\$ 903.66	\$ 927.96	\$ 919.01	\$ 911.90	\$ 965.90
Common Stock, Par Value	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13	\$ 3.13
Additional Paid in Capital	\$ 193.96	\$ 198.48	\$ 196.83	\$ 196.97	\$ 197.57	\$ 198.01	\$ 198.22	\$ 193.62	\$ 194.30	\$ 194.75	\$ 195.20
Treasury Stock	\$ (18.10)	\$ (16.19)	\$ (13.27)	\$ (12.97)	\$ (12.88)	\$ (12.88)	\$ (13.21)	\$ (7.92)	\$ (7.92)	\$ (7.92)	\$ (7.92)
Retained Earnings (Accumulated Deficit)	\$ 256.21	\$ 153.77	\$ 57.63	\$ 39.37	\$ 19.81	\$ 9.99	\$ (41.49)	\$ (64.79)	\$ (57.36)	\$ (89.92)	\$ (106.11)
Series B 12% Cumulative, Convertible Preferred Sto	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Series D 6% Cumulative, Convertible Preferred Sto	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Convertible Preferred Stock	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
Total Shareholders' Equity	\$ 438.20	\$ 342.20	\$ 247.33	\$ 219.50	\$ 210.62	\$ 181.27	\$ 149.64	\$ 127.04	\$ 135.15	\$ 103.04	\$ 87.30
Total Liabilities and Shareholders' Equity	\$ 1,189.18	\$ 1,148.33	\$ 1,088.49	\$ 1,110.15	\$ 1,094.67	\$ 1,069.93	\$ 1,053.30	\$ 1,055.00	\$ 1,054.15	\$ 1,014.93	\$ 1,053.20
Current Ratio	1.50x	1.32x	1.27x	1.42x	1.73x	1.41x	1.21x	1.12x	1.31x	1.26x	1.22x
Days Sales Outstanding (DSO)	65.76	60.03	44.91	49.46	40.25	50.27	42.02	47.61	40.00	50.00	40.00
Days Inventory Outstanding (DIO)	20.13	26.06	23.20	27.92	21.50	20.34	19.10	19.60	20.00	20.00	20.00
Days Payables Outstanding (DPO)	48.20	65.35	59.44	63.30	52.51	52.42	43.22	52.50	52.00	52.00	60.00
Working Capital	\$ 54.44	\$ 40.60	\$ 27.57	\$ 46.12	\$ 64.44	\$ 39.93	\$ 22.29	\$ 14.64	\$ 35.41	\$ 25.16	\$ 31.66
Working Capital Turnover	6.50x	9.31x	13.24x				8.13x				16.59x



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## Analyst Biographies

### *JP Geygan*

Mr. Geygan is a generalist responsible for analytical coverage of companies across all sectors for Granite Research. In addition, Mr. Geygan is COO and Senior Vice President Global Value Investment Corp., where he serves on the Investment Committee and oversees all investment research, ensuring quality and rigor of analysis. Mr. Geygan joined Global Value Investment Corp., the parent company of Granite Research predecessor firm Global Value Research Company, in 2017. He was instrumental in establishing Global Value Research Company's company-sponsored research and served as its first research analyst. Prior to joining Global Value Investment Corp., Mr. Geygan was employed by Wells Fargo Bank, N.A. in both banking and investment product sales roles. Mr. Geygan received a Bachelor of Science in political science from the University of Wisconsin-Madison.

### *Rob McGuire*

Mr. McGuire is a generalist responsible for analytical coverage of companies across all sectors for Granite Research. He is a 25+ year Wall Street veteran and has established himself as an analyst-salesman, working with institutional investors covering industrials, materials, technology, consumer, healthcare, REITs, energy, and utilities. Nineteen years of Mr. McGuire's tenure was spent at Keybank Equity Capital Markets, a division of Keybank, a top-20 bank in the United States based in Cleveland, OH. While at Keybank, Mr. McGuire was a member of the Equity Capital Markets management team, ran a team of six people, and led the buildout of the firm's West Coast institutional sales effort. He developed the Morning Call Summary for the firm, which he and his team produced daily for use by salespeople throughout the country. Mr. McGuire also has a strong history of authoring in-depth investment theses and delivering idea flow to equity fund managers. His experience also includes working for Vertical Research Partners, LLC, the premier boutique independent research firm focusing on industrials and basic materials. Prior to working on Wall Street, Mr. McGuire worked for Emery Worldwide, the nation's largest heavyweight air freight carrier. Mr. McGuire received a Masters in Business Administration in finance and a Bachelor of Arts in international business from Loyola Marymount University.

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