

# Albemarle Corporation Second Quarter 2017 Earnings

Conference Call/Webcast

Tuesday, August 8<sup>th</sup>, 2017

9:00am ET



# Forward-Looking Statements

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Some of the information presented in this presentation, the conference call and discussions that follow, including, without limitation, statements with respect to product development, changes in productivity, market trends, price, expected growth and earnings, input costs, surcharges, tax rates, stock repurchases, dividends, cash flow generation, costs and cost synergies, portfolio diversification, economic trends, outlook and all other information relating to matters that are not historical facts may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from the views expressed.

Factors that could cause actual results to differ materially include, without limitation: changes in economic and business conditions; changes in financial and operating performance of our major customers and industries and markets served by us; the timing of orders received from customers; the gain or loss of significant customers; competition from other manufacturers; changes in the demand for our products; limitations or prohibitions on the manufacture and sale of our products; availability of raw materials; changes in the cost of raw materials and energy; changes in our markets in general; fluctuations in foreign currencies; changes in laws and government regulation impacting our operations or our products; the occurrence of regulatory proceedings, claims or litigation; the occurrence of cyber security breaches, terrorist attacks, industrial accidents, natural disasters, or climate change; the inability to maintain current levels of product or premises liability insurance or the denial of such coverage; political unrest affecting the global economy; political instability affecting our manufacturing operations or joint ventures; changes in accounting standards; the inability to achieve results from our global manufacturing cost reduction initiatives as well as our ongoing continuous improvement and rationalization programs; changes in the jurisdictional mix of our earnings and changes in tax laws and rates; changes in monetary policies, inflation or interest rates; volatility and substantial uncertainties in the debt and equity markets; technology or intellectual property infringement; decisions we may make in the future; the ability to successfully execute, operate and integrate acquisitions and divestitures, and realize estimated synergies; and the other factors detailed from time to time in the reports we file with the SEC, including those described under "Risk Factors" in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q. These forward-looking statements speak only as of the date of this presentation. We assume no obligation to provide any revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

# Non-GAAP Financial Measures

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It should be noted that Adjusted net income attributable to Albemarle Corporation (“Adjusted earnings”), Adjusted net income from continuing operations, Adjusted diluted earnings per share attributable to Albemarle Corporation, Adjusted diluted earnings per share from continuing operations, Adjusted effective income tax rates, segment operating profit, segment income, pro-forma net sales, net sales excluding the impact of foreign exchange translation (“ex FX”), EBITDA, Adjusted EBITDA, Adjusted EBITDA by operating segment, EBITDA margin, Adjusted EBITDA margin, pro-forma Adjusted EBITDA, pro-forma Adjusted EBITDA margin, Adjusted EBITDA excluding the impact of foreign exchange translation (“ex FX”), Adjusted EBITDA margin excluding the impact of foreign exchange translation (“ex FX”), net debt to Adjusted EBITDA, gross debt to Adjusted EBITDA, free cash flow, and Adjusted free cash flow are financial measures that are not required by, or presented in accordance with, accounting principles generally accepted in the United States, or GAAP. These measures are presented here to provide additional useful measurements to review our operations, provide transparency to investors and enable period-to-period comparability of financial performance. The Company’s chief operating decision maker uses these measures to assess the ongoing performance of the Company and its segments, as well as for business and enterprise planning purposes.

A description of these and other non-GAAP financial measures that we use to evaluate our operations and financial performance, and reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and reported in accordance with GAAP, can be found in the Appendix to this presentation, which is posted in the Investors section of our website at [www.albemarle.com](http://www.albemarle.com), under “Non-GAAP Reconciliations” under “Financials.” The Company does not provide a reconciliation of forward looking non-GAAP financial measures to the most directly comparable financial measures calculated and reported in accordance with GAAP, as the Company is unable to estimate significant non-recurring or unusual items without unreasonable effort. The amounts and timing of these items are uncertain and could be material to the Company’s results calculated in accordance with GAAP.

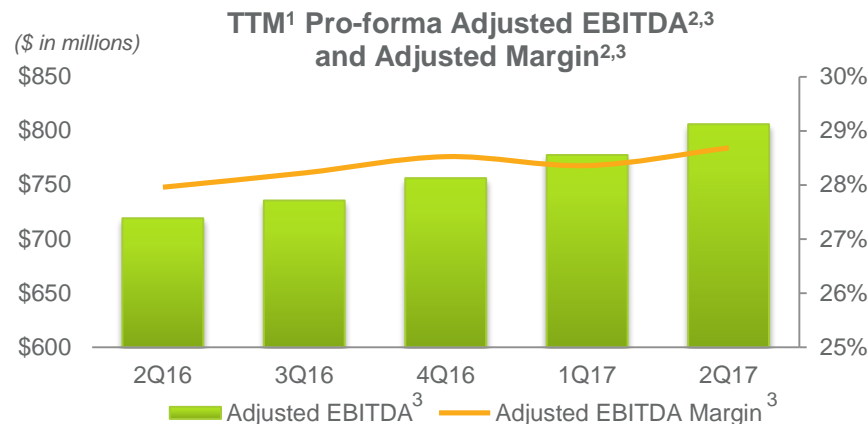
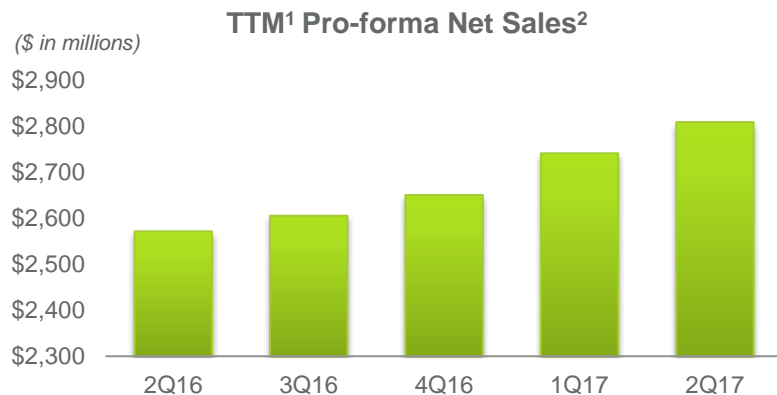
# Second Quarter 2017 Financial Highlights

	2Q 2017 Results Continuing Operations	vs Prior Year Pro-forma <sup>1</sup>
Net Sales	\$737 million	+12%
Adjusted EBITDA <sup>2</sup>	\$219 million	+15%
Adjusted Diluted EPS <sup>2</sup>	\$1.13	+22%

<sup>1</sup> Year-over-year calculated against pro-forma 2Q 2016, excludes net impact of divested business (Minerals).

<sup>2</sup> Non-GAAP measure. See Non-GAAP reconciliations in Appendix.

# Financial Highlights



## Core Business Performance - Second Quarter 2017

**Lithium & Advanced Materials** – \$133M Adjusted EBITDA<sup>3</sup>, up 60% YoY; 42% Adjusted EBITDA<sup>3</sup> margin

**Bromine** – \$62M Adjusted EBITDA<sup>3</sup>; 30% Adjusted EBITDA<sup>3</sup> margin

**Refining Solutions** – \$50M Adjusted EBITDA<sup>3</sup>; 27% Adjusted EBITDA<sup>3</sup> margin

## Corporate Update

Completed \$250 million share buyback program – 2.3 million shares

<sup>1</sup> Trailing Twelve Months

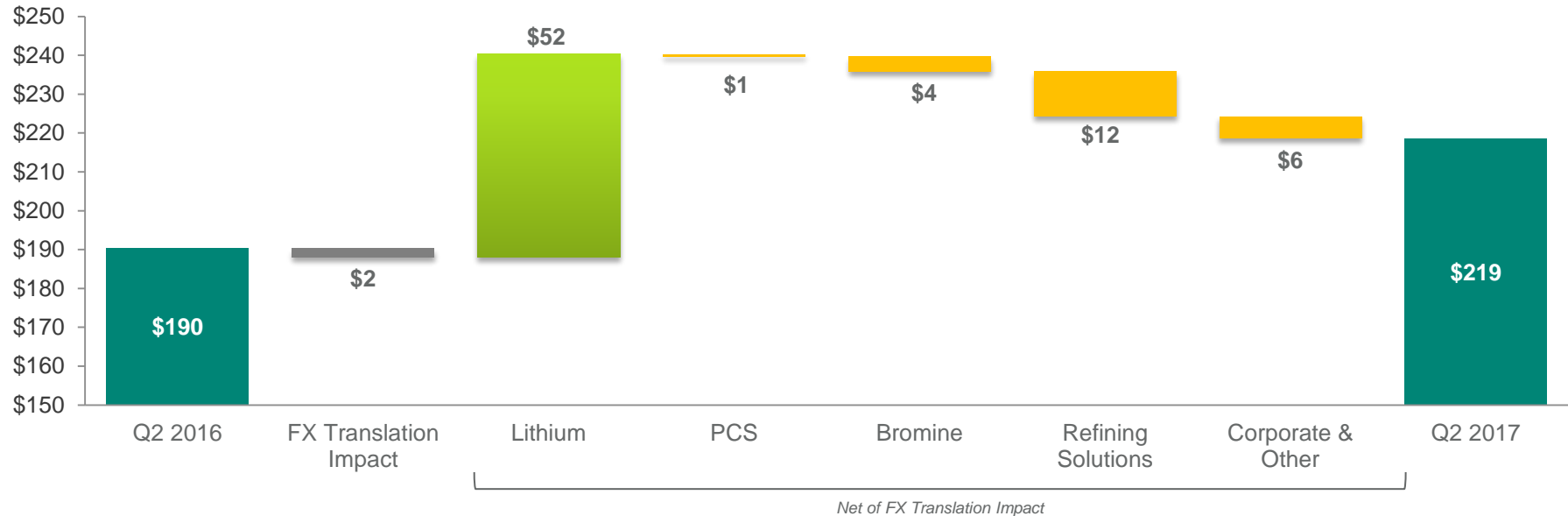
<sup>2</sup> Excludes net impact of divested businesses (Minerals, Metal Sulfides), discontinued operations (Chemetall®). See pro-forma reconciliations in Appendix.

<sup>3</sup> Non-GAAP measure. See Non-GAAP reconciliations in Appendix.

# Adjusted EBITDA<sup>1</sup> Bridge - Continuing Operations

Second Quarter 2017: Adjusted EBITDA<sup>1</sup> growth of \$29M, 15%<sup>2</sup>

(\$ in millions)



<sup>1</sup> Non-GAAP measure. See Non-GAAP reconciliations in Appendix. Bridge numbers may not reconcile due to rounding.

<sup>2</sup> Year-over-year growth calculated against pro-forma 2Q 2016.

# Second Quarter 2017 Financial Results<sup>1</sup>

	2Q 2017 (\$ in millions, except EPS)	2Q 2016 (\$ in millions, except EPS)	Pro-forma 2Q 2016 <sup>2</sup> (\$ in millions, except EPS)	2Q 2017 YoY (vs Pro-forma 2Q 2016)
Net Sales	\$ 737	\$ 669	\$ 656	12%
Net Sales ex F/X	\$ 741			13%
Adjusted EBITDA <sup>3,5</sup>	\$ 219	\$ 190	\$ 190	15%
Adj. EBITDA ex F/X <sup>5</sup>	\$ 219			15%
Adjusted EBITDA Margin <sup>3,5</sup>	30%	28%	29%	77 bps
Adjusted Net Income <sup>3,4</sup>	\$ 126	\$ 105	\$ 104	21%
Adjusted Diluted EPS <sup>3,4</sup>	\$ 1.13	\$ 0.93	\$ 0.92	22%

<sup>1</sup>All measures reflect continuing operations only.

<sup>2</sup>Excludes net impact of divested business (Minerals).

<sup>3</sup>Non-GAAP measure. See Non-GAAP reconciliations in Appendix.

<sup>4</sup>Reflects Net Income attributable to Albemarle Corporation, before discontinued operations and the special and non-operating pension and OPEB items.

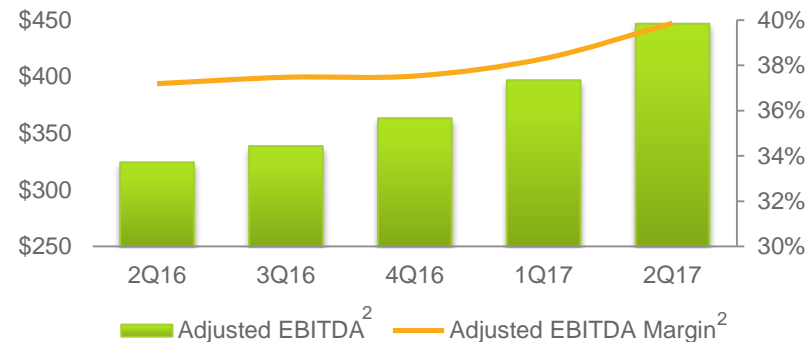
<sup>5</sup>Reflects EBITDA attributable to Albemarle Corporation, before discontinued operations and the special and non-operating pension and OPEB items.

# Lithium and Advanced Materials

## 2nd Qtr Performance

(\$ in millions)	2Q 2017	2Q 2016	△
<b>Net Sales</b>	<b>\$318</b>	<b>\$233</b>	<b>36%</b>
<i>Net Sales ex FX<sup>1</sup></i>	\$320		37%
<b>Adj. EBITDA<sup>2</sup></b>	<b>\$133</b>	<b>\$83</b>	<b>60%</b>
<i>Adj. EBITDA ex FX<sup>1</sup></i>	\$134		63%
<b>Adj. EBITDA Margin<sup>2</sup></b>	<b>42%</b>	<b>35%</b>	<b>627 bps</b>
<i>Adj. EBITDA Margin ex FX<sup>1</sup></i>	42%		660 bps

## Historical Trend (TTM)



## Performance Drivers

- Lithium net sales growth (56%) driven by battery grade volume (25%) and pricing (31%) and good operational performance
- Macro trends continue to be favorable as noted by recent Automotive OEM and government EV growth announcements
- Strong lithium margins in second quarter driven by customer and product mix as well as low exploration expenses
- PCS performed as expected

<sup>1</sup> Non-GAAP measure. Unfavorable FX impact on 2Q17 Net Sales and Adj. EBITDA of (\$2M) and (\$2M), respectively.

<sup>2</sup> Non-GAAP measure. See Non-GAAP reconciliations in Appendix.



# Lithium and Adv. Materials – Lithium and PCS detail

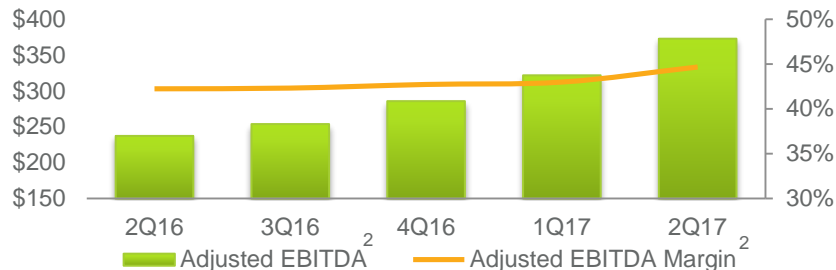
## Lithium – 2nd Qtr Performance

(\$ in millions)	2Q 2017	2Q 2016	△
<b>Net Sales</b>	<b>\$244</b>	<b>\$158</b>	<b>55%</b>
Net Sales ex FX <sup>1</sup>	\$246		56%
<b>Adj. EBITDA<sup>2</sup></b>	<b>\$115</b>	<b>\$64</b>	<b>80%</b>
Adj. EBITDA ex FX <sup>1</sup>	\$117		82%
<b>Adj. EBITDA Margin<sup>2</sup></b>	<b>47%</b>	<b>41%</b>	<b>658 bps</b>
Adj. EBITDA Margin ex FX <sup>1</sup>	48%		694 bps

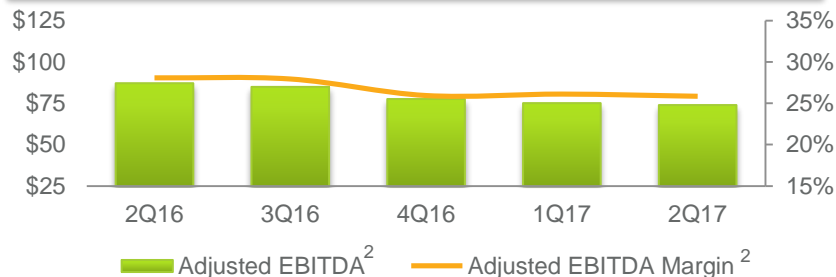
## PCS – 2nd Qtr Performance

(\$ in millions)	2Q 2017	2Q 2016	△
<b>Net Sales</b>	<b>\$74</b>	<b>\$76</b>	<b>(2%)</b>
Net Sales ex FX <sup>3</sup>	\$74		(2%)
<b>Adj. EBITDA<sup>2</sup></b>	<b>\$17</b>	<b>\$19</b>	<b>(6%)</b>
Adj. EBITDA ex FX <sup>3</sup>	\$17		(6%)
<b>Adj. EBITDA Margin<sup>2</sup></b>	<b>23%</b>	<b>24%</b>	<b>(105 bps)</b>
Adj. EBITDA Margin ex FX <sup>3</sup>	24%		(95 bps)

## Lithium Historical Trends (TTM)



## PCS Historical Trends (TTM)



<sup>1</sup>Unfavorable FX impact on Net Sales and Adj. EBITDA of (\$2M) and (\$2M), respectively.

<sup>2</sup>Non-GAAP measure. See Non-GAAP reconciliations in Appendix.

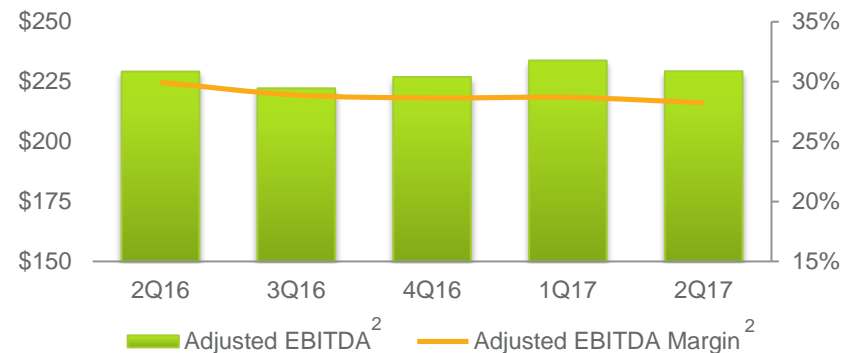
<sup>3</sup>Unfavorable FX impact on Net Sales and Adj. EBITDA of <(\$1M) and <(\$1M), respectively.

# Bromine Specialties

## 2nd Qtr Performance

(\$ in millions)	2Q 2017	2Q 2016	△
<b>Net Sales</b>	<b>\$204</b>	<b>\$207</b>	<b>(1%)</b>
<i>Net Sales ex FX<sup>1</sup></i>	\$205		(1%)
<b>Adj. EBITDA<sup>2</sup></b>	<b>\$62</b>	<b>\$67</b>	<b>(7%)</b>
<i>Adj. EBITDA ex FX<sup>1</sup></i>	\$63		(6%)
<b>Adj. EBITDA Margin<sup>2</sup></b>	<b>30%</b>	<b>32%</b>	<b>(174 bps)</b>
<i>Adj. EBITDA Margin ex FX<sup>1</sup></i>	31%		(154 bps)

## Historical Trend (TTM)



## Performance Drivers

- Excellent performance against difficult comparison in 2016. The second quarter 2016 had exceptionally high demand for clear brine fluids.
- Continue to see healthy demand in Flame Retardants
- China bromine supply remains constrained by brine quality and production issues related to high rainfall

<sup>1</sup>Unfavorable FX impact on Net Sales and Adj. EBITDA of (\$1M) and (\$1M), respectively.

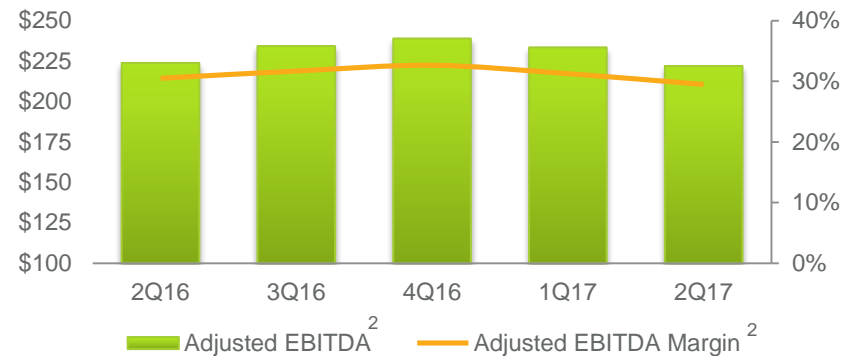
<sup>2</sup>Non-GAAP measure. See Non-GAAP reconciliations in Appendix.

# Refining Solutions

## 2nd Qtr Performance

(\$ in millions)	2Q 2017	2Q 2016	△
<b>Net Sales</b>	<b>\$184</b>	<b>\$178</b>	<b>3%</b>
<i>Net Sales ex FX<sup>1</sup></i>	\$186		4%
<b>Adj. EBITDA<sup>2</sup></b>	<b>\$50</b>	<b>\$62</b>	<b>(19%)</b>
<i>Adj. EBITDA ex FX</i>	\$50		(19%)
<b>Adj. EBITDA Margin<sup>2</sup></b>	<b>27%</b>	<b>35%</b>	<b>(741 bps)</b>
<i>Adj. EBITDA Margin ex FX<sup>1</sup></i>	27%		(762 bps)

## Historical Trend (TTM)



## Performance Drivers

- Business performed as expected in second quarter 2016
- Margins impacted by product mix in both Clean Fuel Technology (CFT) and competitive trials and turnarounds in Fluid Catalytic Cracking (FCC) catalysts
- Expect rebound in second half driven primarily by a strong fourth quarter

<sup>1</sup>Unfavorable FX impact on Net Sales of (\$1M).

<sup>2</sup>Non-GAAP measure. See Non-GAAP reconciliations in Appendix.

# Financial Performance

## Six Months Ended June 30

(\$ in millions)

	<u>2017</u>	<u>2016</u>
<b>Net Cash from Operations</b>	<b>(\$54)</b>	<b>\$253</b>
Less: Capital Expenditures	(98)	(100)
Add Back: Pension Contributions <sup>1</sup>	8	10
<b>Free Cash Flow<sup>2</sup></b>	<b>(\$144)</b>	<b>\$163</b>
Acquisition, integration, restructuring costs	59	55
Cash taxes on repatriation/Chemetal® sale	255	20
<b>Adjusted Free Cash Flow<sup>2</sup></b>	<b>\$170</b>	<b>\$238</b>

## Selected Financial Metrics

(\$ in millions)

(as of 06/30/2017)

<b>Dividends Paid:</b>	<b>\$70</b>
<b>Dividend Growth (Y/Y)<sup>3</sup>:</b>	<b>5%</b>
<b>Cash Balance:</b>	<b>\$1,007</b>
<b>Gross Debt<sup>4</sup>:</b>	<b>\$1,728</b>
<b>Net Debt to Adjusted EBITDA<sup>5</sup>:</b>	<b>0.9x</b>

## Net Debt to Adjusted EBITDA<sup>5</sup>



<sup>1</sup> 2017 amount includes \$2 million related to company employees in the German multiemployer plan and \$6 million related to U.S. defined benefit and other postretirement plans.

<sup>2</sup> Non-GAAP measures. Adjusted Free Cash Flow excludes a one time tax payment related to the sale of Chemetal® business of approximately \$255 million.






<sup>3</sup> Free Cash Flow and Adjusted Free Cash Flow may not equal the sum of their components as shown due to rounding.

<sup>4</sup> Represents annual increase in dividend per share.

<sup>5</sup> Excludes JV debt not guaranteed by Company.

<sup>5</sup> Gross Debt to Adjusted EBITDA and Net Debt to Adjusted EBITDA ratios are based on the bank covenant definition. See appendix for reconciliations.

# Full Year 2017 Business Guidance vs 2016

GBU	Division	Outlook	Business Environment
Lithium and Advanced Materials	Lithium		<ul style="list-style-type: none"> <li>Lithium Adjusted EBITDA expected to increase by greater than 35% compared to 2016. Outlook driven by strong volume and price improvements, primarily in battery grade product portfolio.</li> <li>Focused on executing 'Wave 1' expansion projects and actively working to evaluate and develop 'Wave 2' lithium resources (startups beyond FY2021)</li> <li>Lithium Adjusted EBITDA margins expected to remain above 40% despite additional \$60-70M of costs from royalty and community payments in Chile and expenses related to 'Wave 2' resource evaluation</li> <li>Increased exploration costs during the second half of the year expected to somewhat reduce margin rates vs the first half</li> </ul>
	PCS / Curatives		<ul style="list-style-type: none"> <li>Adjusted EBITDA expected to be relatively flat vs 2016</li> <li>Competitive pressure in organometallics continues to be greatest challenge partially offset by focused cost and productivity improvements</li> </ul>
Bromine Specialties	Bromine Specialties		<ul style="list-style-type: none"> <li>Full-year Adjusted EBITDA expected to increase by mid to high single digits on a percentage basis vs prior year</li> <li>Elevated demand in flame retardants, elemental bromine, and specialty bromine derivatives, and productivity improvements partially offset by uncertain demand for clear brine fluids and cost pressures in certain raw materials</li> </ul>
Refining Solutions	Fluid Catalytic Catalysts		<ul style="list-style-type: none"> <li>Sustained demand for FCC catalysts continues into 2017 offset by unfavorable product mix</li> <li>Negative impact in first half 2017 from increased customer turnarounds and competitive trials</li> </ul>
	Clean Fuel Technologies		<ul style="list-style-type: none"> <li>Strong Resid volumes driving higher revenue and lower margins</li> <li>Customer buying patterns remain consistent despite current oil price levels</li> <li>Improvements expected in second half 2017, specifically in fourth quarter due to order timing and product mix</li> </ul>

 Better than 2016     Similar to 2016

# Full Year 2017 Guidance

	Previous FY 2017 Guidance		Updated FY 2017 Guidance
Net Sales	\$2.90 – 3.05B	=	\$2.90 – 3.05B
Adjusted EBITDA <sup>1,2</sup>	\$835 – 875M	=	\$835 – 875M
Adjusted EBITDA Margin <sup>1,2</sup>	28 - 29%	=	28 - 29%
Adjusted Diluted EPS <sup>1,3</sup>	\$4.20 – 4.40	=	\$4.20 – 4.40
D&A	\$175 – 195M	=	\$175 – 195M
Net Cash from Operations <sup>4,5</sup>	\$225 – 325M	=	\$225 – 325M
Capital Expenditures	\$350 – 400M	▼	\$325 – 375M
Adjusted Free Cash Flow <sup>4,5</sup>	\$200 – 300M	▲	\$225 – 325M

<sup>1</sup> Non-GAAP measure. See Appendix for Non-GAAP reconciliations.

<sup>2</sup> Reflects EBITDA attributable to Albemarle Corporation, before discontinued operations and the special and non-operating pension and OPEB items.

<sup>3</sup> Reflects Net Income attributable to Albemarle Corporation, before discontinued operations and the special and non-operating pension and OPEB items.

<sup>4</sup> Free Cash Flow is a non-GAAP measure defined as Net Cash from Operations, add back pension and post-retirement contributions and subtract capital expenditures.

<sup>5</sup> FY 2017 Net Cash from Operations guidance includes \$325-375M of expected one-time cash expenses and taxes, including premiums paid to extinguish debt, integration related cash expenses (*Jiangxi Jiangli*) and cash taxes on the sale of Chemetall® that are excluded from Adjusted Free Cash Flow guidance.

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