

# Albemarle Corporation Second Quarter 2013 Earnings

Conference Call/Webcast  
Thursday, July 18, 2013  
9:00am ET



# Forward-Looking Statements

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Some of the information presented in this presentation and discussions that follow, including, without limitation, statements with respect to product development, changes in productivity, market trends, price, volume and mix changes, expected growth and earnings, input costs, surcharges, tax rates, stock repurchases, dividends, 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. There can be no assurance that actual results will not differ materially.

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, 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, and our ability to pass through such increases; acquisitions and divestitures, and changes in performance of acquired companies; 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 claims or litigation; the occurrence of natural disasters; the inability to maintain current levels of product or premises liability insurance or the denial of such coverage; political unrest affecting the global economy, including adverse effects from terrorism or hostilities; 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 that may impact our ability to raise capital or increase our cost of funds, impact the performance of our pension fund investments and increase our pension expense and funding obligations; volatility and substantial uncertainties in the debt and equity markets; technology or intellectual property infringement, including cyber security breaches, and other innovation risks; decisions we may make in the future; 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 Quarterly Reports on Form 10-Q.

# Second Quarter 2013 Financial Results

	Q2 2013 (\$ in millions, except EPS)	Year-Over-Year	Sequential
Net Sales	\$ 634	(7%)	(1%)
Segment Income <sup>1</sup>	\$ 129	(28%)	(3%)
Net Income ex SI <sup>1,2</sup>	\$ 82	(29%)	(1%)
EBITDA ex SI <sup>1,3</sup>	\$ 137	(27%)	(1%)
EBITDA Margins ex SI <sup>1,3</sup>	22%	(570bps)	--
Diluted EPS ex SI <sup>1,2</sup>	\$ 0.97	(24%)	4%

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

<sup>2</sup>Reflects Net Income attributable to Albemarle Corporation, excluding special and non-operating pension and OPEB items

<sup>3</sup>Reflects EBITDA attributable to Albemarle Corporation, excluding special and non-operating pension and OPEB items

# Second Quarter Net Sales and Net Income<sup>1</sup>

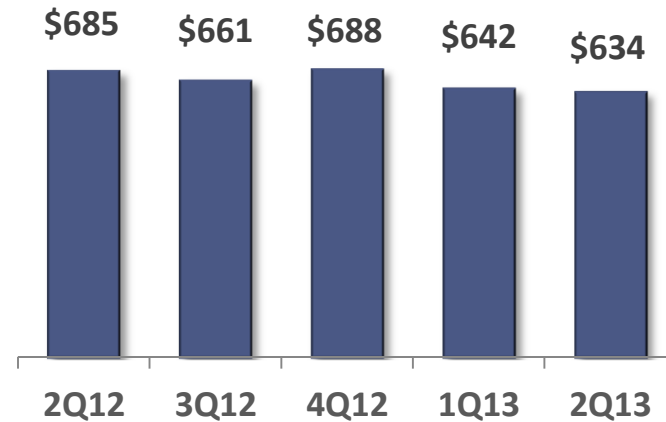
## Financial Highlights

- Q2 2013 net income<sup>1</sup> of \$82M; \$0.97 per share
- Q2 2013 EBITDA<sup>2</sup> of \$137M, EBITDA margin of 22%
- Repurchased 6.8 million shares under share repurchase program
- Catalysts results reflect the impact of lower metals pass-through, customer turnarounds, product mix and start-up costs for capital expansions in PCS
- Polymer Solutions faced sluggish electronics and construction demand trends as well as pricing pressure in certain segments
- Fine Chemistry higher sequentially on improved custom services results and strong completion fluids demand (albeit lower than record 1Q pace)

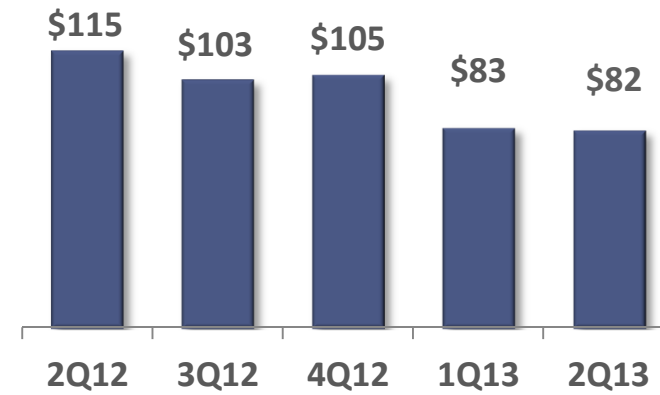
<sup>1</sup>Reflects Net Income attributable to Albemarle Corporation, excluding special and non-operating pension and OPEB items

<sup>2</sup>Reflects EBITDA attributable to Albemarle Corporation, excluding special and non-operating pension and OPEB items

Net Sales  
(\$ in millions)



Net Income  
(\$ in millions, ex SI)



# Fine Chemistry

## 2<sup>nd</sup> Qtr Performance

(\$ in millions)	2Q 2013	2Q 2012	△
<b>Net Sales</b>	\$176	\$209	(16%)
<b>Segment Income</b>	\$34	\$46	(25%)
<b>Segment Income Margin</b>	20%	22%	(245bps)

## Performance Drivers

- Fine Chemistry Services volume and profit levels down y/y on lower custom manufacturing volumes
- Lower Performance Chemicals y/y results despite strong clear completion fluid volumes, due to lower pricing and volumes in amines and HBr
- Continued pricing pressure in China and India on HBr and elemental bromine

## 2<sup>nd</sup> Qtr Y/Y Sales Comparison

<b>Sales Growth</b>	(16%)
<b>Volume / Mix</b>	(12%)
<b>Price</b>	(4%)
<b>Currency</b>	--

## Business Outlook

- Strong global offshore drilling activity expected to continue supporting completion fluid demand
- Custom Services expected to improve in 2H13 based on current customer forecasts

# Polymer Solutions

## 2<sup>nd</sup> Qtr Performance

(\$ in millions)	2Q 2013	2Q 2012	△
<b>Net Sales</b>	\$224	\$247	(9%)
<b>Segment Income</b>	\$44	\$66	(34%)
<b>Segment Income Margin</b>	20%	27%	(712bps)

## Performance Drivers

- BFR volumes improved modestly y/y and q/q, but sluggish demand trends continue within electronics and construction
- MFR results reflect continued weakness in commercial construction in Europe and lower pricing
- Varying degrees of pricing weakness evident in certain segments particularly HBCD

## 2<sup>nd</sup> Qtr Y/Y Sales Comparison

<b>Sales Growth</b>	<b>(9%)</b>
<b>Volume / Mix</b>	<b>4%</b>
<b>Price</b>	<b>(7%)</b>
<b>Phosphorus Business</b>	<b>(5%)</b>
<b>Currency</b>	<b>(1%)</b>

## Business Outlook

- Outlook for 2H13 similar to 1H13 with an electronics uptick unlikely, based on current order book and broader leading indicators
- Global TV panel inventory levels remain historically high; PC shipments projected to remain weak
- European demand outlook for commercial construction and auto markets remains weak

# Catalysts

## 2<sup>nd</sup> Qtr Performance

(\$ in millions)	2Q 2013	2Q 2012	△
<b>Net Sales</b>	\$234	\$229	2%
<b>Segment Income</b>	\$51	\$68	(25%)
<b>Segment Income Margin</b>	22%	30%	(794bps)

## Performance Drivers

- Higher y/y revenue growth driven by double-digit increase in refinery catalysts volumes, largely offset by lower metals surcharges
- Segment income and margins lower y/y due to (i) metals surcharges, (ii) negative impact to PCS due to polyolefin customers, especially in Europe, running at reduced rates and (iii) unfavorable impact of new plant start-up costs

## 2<sup>nd</sup> Qtr Y/Y Sales Comparison

<b>Sales Growth</b>	2%
<b>Volume / Mix</b>	17%
<b>Price</b>	(15%)
<b>Currency</b>	--

## Business Outlook

- Refinery catalysts 2H13 improvement driven by expected return to normal operating rates after 1H turnarounds, better volumes and product mix
- Costs during customer qualification phase for PCS investments in Korea and Saudi Arabia remain headwind

# Financial Performance

## Free Cash Flow

(\$ in millions)

### Six Months Ended June 30

	<u>2013</u>	<u>2012</u>
Net Income <sup>1</sup>	\$167	\$164
Restructuring and Other	0	71
Depreciation & Amortization	52	49
Change in Working Capital	(53)	(103)
Other <sup>2</sup>	13	4
<b>Net Cash from Operations</b>	<b>179</b>	<b>185</b>
Less: Capital Expenditures	(103)	(127)
Add Back: Pension Contributions	4	5

<b>Free Cash Flow</b>	<b>\$80</b>	<b>\$63</b>
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<sup>1</sup> Reflects Net Income attributable to Albemarle Corporation

<sup>2</sup> Includes pension contributions of \$4 for 2013 and \$5 for 2012

<sup>3</sup> Includes \$450 million paid under terms of accelerated share repurchase agreement

<sup>4</sup> Excluding special and non-operating pension and OPEB items

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

## Other Financial Highlights as of 6/30/2013

(\$ in millions)

- Net Working Capital: \$622
- Dividends Paid: \$39
- Dividends growth Y/Y: +20%
- Share Repurchases<sup>3</sup>: \$582
- Cash balance: \$315
- Effective Tax Rate<sup>4</sup>: 22.6%
- Net Debt<sup>5</sup>: \$749



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# APPENDIX

## Non-GAAP Reconciliations

# Segment Operating Profit & Segment Income

(\$ in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Total segment operating profit	\$ 127,711	\$ 170,481	\$ 256,604	\$ 346,032
Corporate & other <sup>1</sup>	(15,537)	(3,839)	(29,543)	(21,463)
Restructuring and other charges, net	—	(94,703)	—	(94,703)
<b>GAAP Operating profit</b>	<u>\$ 112,174</u>	<u>\$ 71,939</u>	<u>\$ 227,061</u>	<u>\$ 229,866</u>
Total segment income	\$ 129,031	\$ 179,710	\$ 262,656	\$ 359,473
Corporate & other	(15,537)	(3,862)	(29,543)	(21,483)
Restructuring and other charges, net	—	(94,703)	—	(94,703)
Interest and financing expenses	(7,608)	(8,486)	(12,839)	(17,220)
Other expenses, net	(1,697)	(688)	(5,906)	(806)
Income tax expense	(21,450)	(21,882)	(47,642)	(60,910)
<b>GAAP Net income attributable to Albemarle Corporation</b>	<u>\$ 82,739</u>	<u>\$ 50,089</u>	<u>\$ 166,726</u>	<u>\$ 164,351</u>

<sup>1</sup> Excludes corporate noncontrolling interest adjustments of \$(23) and \$(20) for the three-month and six-month periods ended June 30, 2012, respectively.

# Net Income and EBITDA

(\$ in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income attributable to Albemarle Corporation	\$ 82,739	\$ 50,089	\$ 166,726	\$ 164,351
Add back:				
Non-operating pension and OPEB items (net of tax)	(947)	(8,424)	(2,244)	(10,127)
Special items (net of tax)	—	73,590	—	73,590
Net income attributable to Albemarle Corporation excluding special and non-operating pension and OPEB items	\$ 81,792	\$ 115,255	\$ 164,482	\$ 227,814
Net income attributable to Albemarle Corporation	\$ 82,739	\$ 50,089	\$ 166,726	\$ 164,351
Add back:				
Interest and financing expenses	7,608	8,486	12,839	17,220
Income tax expense	21,450	21,882	47,642	60,910
Depreciation and amortization	26,573	25,214	51,817	49,449
<b>EBITDA</b>	138,370	105,671	279,024	291,930
Non-operating pension and OPEB items	(1,515)	(13,329)	(3,584)	(16,023)
Special items	—	94,703	—	94,703
<b>EBITDA excluding special and non-operating pension and OPEB items</b>	\$ 136,855	\$ 187,045	\$ 275,440	\$ 370,610
Net sales	\$ 634,197	\$ 684,894	\$ 1,275,822	\$ 1,396,598
EBITDA Margin	21.8%	15.4%	21.9%	20.9%
EBITDA Margin excluding special and non-operating pension and OPEB items	21.6%	27.3%	21.6%	26.5%

# Net Debt

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*(\$ in thousands)*

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Total-Long term debt	\$ 1,077,207	\$ 754,824
JV debt not guaranteed by Company (consolidated but guaranteed by others)	(13,103)	(19,355)
Less Cash and cash equivalents	<u>(314,659)</u>	<u>(461,751)</u>
<b>Net Debt</b>	<u>\$ 749,445</u>	<u>\$ 273,718</u>

# Diluted EPS

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	Three Months Ended	
	June 30,	
	2013	2012
Diluted earnings per share	\$ <u>0.98</u>	\$ <u>0.56</u>
Non-operating pension and OPEB items	(0.01)	(0.09)
Special items	<u>--</u>	<u>0.82</u>
Diluted earnings per share excluding special and non-operating pension and OPEB items <sup>1</sup>	\$ <u>0.97</u>	\$ <u>1.28</u>

<sup>1</sup>Totals may not add due to rounding

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