

Albemarle Corporation Third Quarter 2015 Earnings

Conference Call/Webcast
Thursday, November 5, 2015
9:00am ET



Forward-Looking Statements

Some of the information presented in this presentation and the conference call and discussions that follow, including, without limitation, statements with respect to the transaction with Rockwood and the anticipated consequences and benefits of the transaction, 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. 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 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 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; 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 operate and integrate Rockwood's operations 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 the joint proxy statement / prospectus we filed in connection with the transaction with Rockwood, and 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

It should be noted that adjusted net income attributable to Albemarle Corporation (“adjusted earnings”), adjusted diluted earnings per share, adjusted effective income tax rates, segment operating profit, segment income, EBITDA, adjusted EBITDA, adjusted EBITDA by operating segment, EBITDA margin and adjusted EBITDA margin 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.

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 herein.

APPENDIX

Non-GAAP Reconciliations

Net Income and EBITDA

(\$ in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income attributable to Albemarle Corporation	\$ 65,392	\$ 72,794	\$ 160,654	\$ 151,824
Add back:				
Non-operating pension and OPEB items (net of tax)	(524)	927	(3,613)	9,016
Special items (net of tax)	36,064	9,066	166,187	25,401
Loss from discontinued operations (net of tax)	—	6,679	—	68,473
Adjusted net income attributable to Albemarle Corporation	\$ 100,932	\$ 89,466	\$ 323,228	\$ 254,714
Net income attributable to Albemarle Corporation	\$ 65,392	\$ 72,794	\$ 160,654	\$ 151,824
Add back:				
Interest and financing expenses	32,058	8,749	100,986	26,255
Income tax expense (from continuing and discontinued operations)	16,892	10,664	48,171	24,734
Depreciation and amortization	68,903	25,630	200,372	78,344
EBITDA	183,245	117,837	510,183	281,157
Non-operating pension and OPEB items	(1,077)	1,440	(5,900)	14,141
Special items (excluding special items associated with interest expense)	52,828	17,575	226,422	42,750
Loss from discontinued operations	—	7,752	—	90,439
Less depreciation and amortization from discontinued operations	—	—	—	(3,165)
Adjusted EBITDA	\$ 234,996	\$ 144,604	\$ 730,705	\$ 425,322
Net sales	\$ 905,093	\$ 642,418	\$ 2,720,982	\$ 1,846,982
EBITDA margin	20.2%	18.3%	18.7%	15.2%
Adjusted EBITDA margin	26.0%	22.5%	26.9%	23.0%

See above for a reconciliation of adjusted net income attributable to Albemarle Corporation (“adjusted earnings”), EBITDA and adjusted EBITDA, the non-GAAP financial measures, to Net income attributable to Albemarle Corporation, the most directly comparable financial measure calculated and reported in accordance with GAAP. Adjusted net income attributable to Albemarle Corporation is defined as Net income attributable to Albemarle Corporation before discontinued operations and the special and non-operating pension and OPEB items as listed above. EBITDA is defined as Net income attributable to Albemarle Corporation before interest and financing expenses, income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before discontinued operations and the special and non-operating pension and OPEB items as listed below.

EBITDA supplemental

(\$ in thousands)

	Performance Chemicals	Refining Solutions	Chemetail Surface Treatment	All Other	Corporate	Consolidated Total
Three months ended September 30, 2015 (Actual):						
Net income (loss) attributable to Albemarle Corporation	\$ 87,893	\$ 45,713	\$ 33,638	\$ 617	\$ (102,469)	\$ 65,392
Depreciation and amortization	31,482	8,804	20,260	5,645	2,712	68,903
Special items	16,834	—	—	—	35,994	52,828
Interest and financing expenses	—	—	—	—	32,058	32,058
Income tax expense	—	—	—	—	16,892	16,892
Non-operating pension and OPEB items	—	—	—	—	(1,077)	(1,077)
Adjusted EBITDA	\$ 136,209	\$ 54,517	\$ 53,898	\$ 6,262	\$ (15,890)	\$ 234,996
Three months ended September 30, 2014 (Actual):						
Net income (loss) attributable to Albemarle Corporation	\$ 69,736	\$ 52,851	\$ —	\$ 17,479	\$ (67,272)	\$ 72,794
Depreciation and amortization	12,593	8,823	—	3,492	722	25,630
Special items	—	—	—	—	17,575	17,575
Interest and financing expenses	—	—	—	—	8,749	8,749
Income tax expense	—	—	—	—	11,737	11,737
Loss from discontinued operations (net of tax)	—	—	—	—	6,679	6,679
Non-operating pension and OPEB items	—	—	—	—	1,440	1,440
Adjusted EBITDA	\$ 82,329	\$ 61,674	\$ —	\$ 20,971	\$ (20,370)	\$ 144,604

See above for a reconciliation of adjusted EBITDA on a segment basis, the non-GAAP financial measure, to net income attributable to Albemarle Corporation ("earnings"), the most directly comparable financial measure calculated and reporting in accordance with GAAP. Adjusted earnings on a segment basis is defined as earnings before discontinued operations and the special and non-operating pension and OPEB items as listed above. EBITDA is defined as earnings before interest and financing expenses, income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA before discontinued operations and the special and non-operating pension and OPEB items as listed above.

EBITDA supplemental

(\$ in thousands)

	<u>Performance Chemicals</u>	<u>Refining Solutions</u>	<u>Chemetail Surface Treatment</u>	<u>All Other</u>	<u>Corporate</u>	<u>Consolidated Total</u>
Three months ended September 30, 2014 (Pro forma):						
Net income (loss) attributable to Albemarle Corporation	\$ 104,553	\$ 52,851	\$ 43,557	\$ 23,107	\$ (65,466)	\$ 158,602
Depreciation and amortization	23,678	8,823	7,897	4,314	5,579	50,291
Special items	—	—	—	—	(22,750)	(22,750)
Interest and financing expenses	—	—	—	—	22,249	22,249
Income tax expense	—	—	—	—	51,137	51,137
Loss from discontinued operations (net of tax)	—	—	—	—	(24,821)	(24,821)
Non-operating pension and OPEB items	—	—	—	—	1,495	1,495
Adjusted EBITDA	<u>\$ 128,231</u>	<u>\$ 61,674</u>	<u>\$ 51,454</u>	<u>\$ 27,421</u>	<u>\$ (32,577)</u>	<u>\$ 236,203</u>

See above for a reconciliation of adjusted EBITDA on a segment basis, the non-GAAP financial measure, to net income attributable to Albemarle Corporation (“earnings”), the most directly comparable financial measure calculated and reporting in accordance with GAAP. Adjusted earnings on a segment basis is defined as earnings before discontinued operations and the special and non-operating pension and OPEB items as listed above. EBITDA is defined as earnings before interest and financing expenses, income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA before discontinued operations and the special and non-operating pension and OPEB items as listed above.

EBITDA supplemental

(\$ in thousands)

	<u>Performance Chemicals</u>	<u>Refining Solutions</u>	<u>Chemetail Surface Treatment</u>	<u>All Other</u>	<u>Corporate</u>	<u>Consolidated Total</u>
Nine months ended September 30, 2015 (Actual):						
Net income (loss) attributable to Albemarle Corporation	\$ 242,572	\$ 119,513	\$ 70,747	\$ 9,644	\$ (281,822)	\$ 160,654
Depreciation and amortization	93,608	25,397	57,567	16,867	6,933	200,372
Special items (excluding special items associated with interest expense)	79,239	—	20,030	3,029	124,124	226,422
Interest and financing expenses	—	—	—	—	100,986	100,986
Income tax expense	—	—	—	—	48,171	48,171
Non-operating pension and OPEB items	—	—	—	—	(5,900)	(5,900)
Adjusted EBITDA	\$ 415,419	\$ 144,910	\$ 148,344	\$ 29,540	\$ (7,508)	\$ 730,705
Nine months ended September 30, 2014 (Actual):						
Net income (loss) attributable to Albemarle Corporation	\$ 194,926	\$ 163,908	\$ —	\$ 53,203	\$ (260,213)	\$ 151,824
Depreciation and amortization	37,742	25,351	—	10,279	1,807	75,179
Special items	—	—	—	—	42,750	42,750
Interest and financing expenses	—	—	—	—	26,255	26,255
Income tax expense	—	—	—	—	46,700	46,700
Loss from discontinued operations (net of tax)	—	—	—	—	68,473	68,473
Non-operating pension and OPEB items	—	—	—	—	14,141	14,141
Adjusted EBITDA	\$ 232,668	\$ 189,259	\$ —	\$ 63,482	\$ (60,087)	\$ 425,322

See above for a reconciliation of adjusted EBITDA on a segment basis, the non-GAAP financial measure, to net income attributable to Albemarle Corporation (“earnings”), the most directly comparable financial measure calculated and reporting in accordance with GAAP. Adjusted earnings on a segment basis is defined as earnings before discontinued operations and the special and non-operating pension and OPEB items as listed above. EBITDA is defined as earnings before interest and financing expenses, income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA before discontinued operations and the special and non-operating pension and OPEB items as listed above.

EBITDA supplemental

(\$ in thousands)

	<u>Performance Chemicals</u>	<u>Refining Solutions</u>	<u>Chemetail Surface Treatment</u>	<u>All Other</u>	<u>Corporate</u>	<u>Consolidated Total</u>
Nine months ended September 30, 2014 (Pro forma):						
Net income (loss) attributable to Albemarle Corporation	\$ 290,460	\$ 163,908	\$ 123,474	\$ 70,664	\$ (384,983)	\$ 263,523
Depreciation and amortization	72,410	25,351	23,496	12,995	16,647	150,899
Special items	—	—	—	—	8,627	8,627
Interest and financing expenses	—	—	—	—	67,555	67,555
Income tax expense	—	—	—	—	111,200	111,200
Loss from discontinued operations (net of tax)	—	—	—	—	66,873	66,873
Non-operating pension and OPEB items	—	—	—	—	14,228	14,228
Adjusted EBITDA	<u>\$ 362,870</u>	<u>\$ 189,259</u>	<u>\$ 146,970</u>	<u>\$ 83,659</u>	<u>\$ (99,853)</u>	<u>\$ 682,905</u>

See above for a reconciliation of adjusted EBITDA on a segment basis, the non-GAAP financial measure, to net income attributable to Albemarle Corporation (“earnings”), the most directly comparable financial measure calculated and reporting in accordance with GAAP. Adjusted earnings on a segment basis is defined as earnings before discontinued operations and the special and non-operating pension and OPEB items as listed above. EBITDA is defined as earnings before interest and financing expenses, income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA before discontinued operations and the special and non-operating pension and OPEB items as listed above.

EBITDA supplemental

(\$ in thousands)

	Bromine	Lithium	PCS	Total Performance Chemicals
Three months ended September 30, 2015 (Actual):				
Net income (loss) attributable to Albemarle Corporation	\$ 49,395	\$ 16,507	\$ 21,991	\$ 87,893
Depreciation and amortization	9,406	18,769	3,307	31,482
Special items	—	16,834	—	16,834
Adjusted EBITDA	\$ 58,801	\$ 52,110	\$ 25,298	\$ 136,209
Three months ended September 30, 2014 (Actual):				
Net income (loss) attributable to Albemarle Corporation	\$ 53,044	\$ —	\$ 16,692	\$ 69,736
Depreciation and amortization	9,222	—	3,371	12,593
Adjusted EBITDA	\$ 62,266	\$ —	\$ 20,063	\$ 82,329
Three months ended September 30, 2014 (Pro Forma):				
Net income (loss) attributable to Albemarle Corporation	\$ 53,044	\$ 34,817	\$ 16,692	\$ 104,553
Depreciation and amortization	9,222	11,085	3,371	23,678
Adjusted EBITDA	\$ 62,266	\$ 45,902	\$ 20,063	\$ 128,231

See above for a reconciliation of adjusted EBITDA on a segment basis, the non-GAAP financial measure, to net income attributable to Albemarle Corporation (“earnings”), the most directly comparable financial measure calculated and reporting in accordance with GAAP. Adjusted earnings on a segment basis is defined as earnings before discontinued operations and the special and non-operating pension and OPEB items as listed above. EBITDA is defined as earnings before interest and financing expenses, income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA before discontinued operations and the special and non-operating pension and OPEB items as listed above.

EBITDA supplemental

(\$ in thousands)

	Bromine	Lithium	PCS	Total Performance Chemicals
Nine months ended September 30, 2015 (Actual):				
Net income attributable to Albemarle Corporation	\$ 154,353	\$ 20,222	\$ 67,997	\$ 242,572
Depreciation and amortization	26,078	56,872	10,658	93,608
Special items	—	79,239	—	79,239
Adjusted EBITDA	\$ 180,431	\$ 156,333	\$ 78,655	\$ 415,419
Nine months ended September 30, 2014 (Actual):				
Net income attributable to Albemarle Corporation	\$ 144,701	\$ —	\$ 50,225	\$ 194,926
Depreciation and amortization	26,812	—	10,930	37,742
Adjusted EBITDA	\$ 171,513	\$ —	\$ 61,155	\$ 232,668
Nine months ended September 30, 2014 (Pro Forma):				
Net income attributable to Albemarle Corporation	\$ 144,701	\$ 95,534	\$ 50,225	\$ 290,460
Depreciation and amortization	26,812	34,668	10,930	72,410
Adjusted EBITDA	\$ 171,513	\$ 130,202	\$ 61,155	\$ 362,870

See above for a reconciliation of adjusted EBITDA on a segment basis, the non-GAAP financial measure, to net income attributable to Albemarle Corporation (“earnings”), the most directly comparable financial measure calculated and reporting in accordance with GAAP. Adjusted earnings on a segment basis is defined as earnings before discontinued operations and the special and non-operating pension and OPEB items as listed above. EBITDA is defined as earnings before interest and financing expenses, income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA before discontinued operations and the special and non-operating pension and OPEB items as listed above.

EBITDA supplemental

	Twelve Months Ended	Three Months Ended			
	Sep 30, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014
Adjusted EBITDA	\$ 956,205	\$ 234,996	\$ 230,081	\$ 265,628	\$ 225,500
Net income attributable to to noncontrolling interests	21,193	5,480	7,219	4,034	4,460
Equity in net income of unconsolidated investments (net of tax)	(64,765)	(15,150)	(15,794)	(18,244)	(15,577)
Dividends received from unconsolidated investments	96,477	11,623	42,478	3,048	39,328
Runrate synergies adjustment	9,925	9,925	-	-	-
Consolidated EBITDA	\$ 1,019,035	\$ 246,874	\$ 263,984	\$ 254,466	\$ 253,711
Total Long Term Debt	\$ 3,843,332				
Off balance sheet obligations and other	52,860				
Attributable principal amount of capital leases and synthetic leases	21,373				
Consolidated Funded Debt	3,917,565				
Less Cash	234,490				
Consolidated Funded Net Debt	\$ 3,683,075				
Consolidated Funded Net Debt to Consolidated EBITDA Ratio	3.6				

¹This supplemental is for net-debt-to-adjusted EBITDA ratio based on the bank covenant definition.

Diluted EPS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Diluted earnings per share	\$ 0.58	\$ 0.93	\$ 1.44	\$ 1.91
Non-operating pension and OPEB items	—	0.01	(0.03)	0.11
Special items				
Utilization of inventory markup	0.12	—	0.70	—
Restructuring and other, net	(0.04)	—	(0.04)	0.17
Acquisition and integration related costs	0.24	0.09	0.77	0.12
Interest and financing expenses related to Rockwood acquisition	—	—	0.01	—
Financing fees related to Rockwood acquisition	—	0.06	0.03	0.06
Discrete tax items	—	(0.03)	0.02	(0.03)
Discontinued operations	—	0.08	—	0.87
Adjusted diluted earnings per share	<u>\$ 0.90</u>	<u>\$ 1.14</u>	<u>\$ 2.91</u>	<u>\$ 3.21</u>

¹Totals may not add due to rounding

Equity Income and Minority Interest

	Three Months Ended Sep 30, 2015		Nine Months Ended Sep 30, 2015	
	Equity Income	Minority Interest	Equity Income	Minority Interest
Performance Chemicals*	\$ (591)	\$ (5,480)	\$ 550	\$ (16,733)
Refining Solutions	4,053	-	12,723	-
Chemetall	281	-	2,222	-
All Other	2,307	-	6,741	-
Corporate	-	-	-	-
Total Company	<u>\$ 6,050</u>	<u>\$ (5,480)</u>	<u>\$ 22,236</u>	<u>\$ (16,733)</u>
* Includes Inventory Step-Up				
PC - As Reported Equity Income	\$ (591)		\$ 550	
Inventory Step-Up	9,082		26,933	
PC - As Adjusted Equity Income	<u>\$ 8,491</u>		<u>\$ 27,483</u>	
As Reported Equity Income	\$ 6,050		\$ 22,236	
Inventory Step-Up	9,082		26,933	
As Adjusted Equity Income	<u>\$ 15,132</u>		<u>\$ 49,169</u>	

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