

# **LSB Industries, Inc. (LXU) Q2 2024 Earnings Call Transcript**

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**Body**

LSB Industries, Inc. (LXU)

Q2 2024 Earnings Conference Call

August 01, 2024, 10:00 AM ET

Company Participants

Fred Buonocore - Vice President of Investor Relations

Mark Behrman - President and Chief Executive Officer

Damien Renwick - Executive Vice President and Chief Commercial Officer

Cheryl Maguire - Executive Vice President and Chief Financial Officer

Conference Call Participants

Lucas Beaumont - UBS

Daniel Rizzo - Jefferies

Andrew Wong - RBC Capital Markets

Robert McGuire - Granite Research

Charles Neivert - Piper Sandler

Presentation

Operator

Greetings and welcome to the LSB Industries Second Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Fred Buonocore, Vice President of Investor Relations. Thank you, sir. You may begin.

Fred Buonocore

Good morning, everyone. Joining me today are Mark Behrman, our Chief Executive Officer; Cheryl Maguire, our Chief Financial Officer; and Damien Renwick, our Chief Commercial Officer.

Please note that today's call includes forward-looking statements. These statements are based on the company's current intent, expectations and projections. They are not guarantees of future performance and a variety of factors could cause the actual results to differ materially.

On the call, we will reference non-GAAP results. Please see the press release in the Investors section of our website, lsbindustries.com for further information regarding forward-looking statements and reconciliations of non-GAAP results to GAAP results.

As a reminder, we have a stockholder rights plan to protect certain tax attributes. Please see the Investors section of our website at lsbindustries.com for further important details.

At this time, I'd like to go ahead and turn the call over to Mark.

Mark Behrman

Thank you, Fred. Turning to Page 4 of our presentation. We took a major step forward with our low-carbon product strategy in the second quarter. In May, we entered into a multiyear agreement with Freeport Minerals to supply low-carbon ammonium nitrate solution or ANS, for use in Freeport's copper mining operations.

We believe that this agreement is a first of its kind in our industry and we view it as a validation of our assertion that our industrial customers will value the low-carbon ammonia and derivative products we plan to produce in the coming years as a means of reducing their own CO2 emissions.

With respect to our second quarter operating results, I'm very pleased to say that we had no recordable incidents during the quarter, thanks to the strong safety focus of the teams at our facilities. In terms of financial performance, our adjusted EBITDA was in line with our expectations. Pricing was once again down year-over-year.

However, we believe we have seen our end market pricing stabilize. And in fact, the fertilizer summer fill pricing clearly supports that. During the second quarter, we generated solid free cash flow and that combined with our strong cash position allowed us to repurchase our stock and continue to reduce our debt.

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Lastly, on our low-carbon ammonia initiatives, our two projects remain on track, and I'll provide more color on both later in the call.

Now I'll turn over the call to Damien, who will discuss our new ANS contract and review the current market dynamics and pricing trends. Damien?

Damien Renwick

Thanks, Mark, and good morning, everyone. On Page 5, you'll find a summary of our low-carbon ammonium nitrate solution or ANS off-take agreement with Freeport Minerals. This is a five-year agreement for up to 150,000 short tons per year of low-carbon ANS that we'll be producing at our El Dorado facility.

Our offtake agreement with Freeport starts at the beginning of 2025, at which time we'll be providing them with conventional ANS. Then we will phase in the low-carbon product upon completion of our El Dorado carbon capture and sequestration project.

We expect that low-carbon production to come online in early 2026. We're excited about this agreement because not only does it move us closer towards attaining our vision of becoming a leader in the global energy transition, but it also advances our strategy to shift a greater portion of our sales mix towards more stable, predictable, contractual arrangements in our industrial end markets, further offsetting the volatility of spot pricing prevalent in our agricultural end market.

Page 6 provides some key dynamics at play in our industrial end markets. Overall demand remained steady in our industrial business, reflecting the continued strength of the US economy and the contractual nature of our customer relationships. Our nitric acid is a critical input into the production of polyurethane. Polyurethane, in turn, is a primary material in homebuilding and furnishings as well as auto manufacturing.

As depicted in the top two charts, trends in US homebuilding and auto production and furniture manufacturing, while having some movement up and down throughout the past year have been generally stable over the past two years.

However, a reduction in interest rates later this year could stimulate consumer demand in both markets, leading to production rate increases and greater demand for nitric acid in 2025. Additionally, we are seeing opportunities develop to support government efforts to increase semiconductor manufacturing in the US increased munitions production in the US is also supporting demand for some of our specialized assets.

Overall, we find the outlook for nitric acid very encouraging. With respect to the ammonium nitrate that we produce for the North American markets, we are significantly levered to the production of copper and aggregates. As the chart on the bottom right shows, copper production has increased significantly over the past year.

Additionally, copper prices have been strong and sit above multiyear average levels, driven in part by demand for electric vehicle production and the build-out of technology infrastructure. Aggregates production is strongly correlated to new housing starts, given the infrastructure required to support housing developments.

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As I mentioned, we believe that what is now appearing to be a likely reduction in interest rates possibly before the end of this year, could stimulate new home starts, thus raising demand for aggregates.

On Page 7 of our presentation, you'll find information pertaining to nitrogen product prices and natural gas input costs. Ammonia prices sit at healthy levels for this time of year due in part to a healthy summer fill program and natural gas supply issues in Trinidad and Egypt, which constrained global supply.

UAN prices have come down since earlier in the year as is seasonally typical. We saw an early but healthy summer fill campaign, which has positioned us well through to early fall. We believe that steady prices for urea, together with somewhat tight inventory levels due to a number of turnarounds taking place in the coming months, should keep UAN prices relatively stable through the balance of the year.

On the input cost side of the equation, the middle chart shows the natural gas price trend for the European TTF relative to the price for US Henry Hub. After rising through the spring, European gas prices retracted somewhat over the past month, but remain at elevated levels. These high European gas prices continue to underpin global ammonia and nitrogen prices and advantaged US producers.

On Page 8, we show pricing trends and forecasts for corn and other grain prices, which drive our agricultural business. US corn prices have fallen over the past two years as global demand, particularly from China, has declined. Exacerbating the weakness has been the USDA's forecast for 2024 acres planted of 91.5 million acres, down from last year, but still above the 10-year average, suggesting an increase in corn supply.

We believe this estimate could be higher due to wet weather in certain corn-growing regions. Additionally, ethanol production has moved back towards prepandemic levels, providing further support for corn prices. We believe that corn prices should rebound to a level that should motivate farmers to maximize yields through the application of nitrogen fertilizers.

Corn futures suggest this is the case with contract prices approaching around $4.50 per bushel by the middle of 2025. As we look to both sides of our business, we expect fundamentals for nitrogen producers to remain attractive and stable for the foreseeable future.

Now I'll turn the call over to Cheryl to discuss our second quarter financial results and our outlook. Cheryl?

Cheryl Maguire

Thanks, Damien, and good morning. On Page 9, you'll see a summary of our second quarter 2024 financial results. We generated adjusted EBITDA of $41 million and EPS of $0.13 for the second quarter. Page 10 bridges our second quarter 2023 adjusted EBITDA of $47 million to our second quarter 2024 adjusted EBITDA of $41 million.

Weaker selling prices relative to the prior year were once again a factor in the year-over-year change in EBITDA. However, the year-over-year decline in selling prices was much smaller in the second quarter than it has been for the previous several quarters. We view this as an indication of a stabilization in our markets, particularly in the ag market.

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Sales volumes of our products decreased in the second quarter of 2024 as compared to the same quarter of 2023 as a result of lower sales volumes of HCM. This was a result of wet weather in key markets for this product in late May and June.

Also impacting our sales volumes was the timing of agricultural ammonia demand, which was heavier than average in the first quarter of 2024, translating into lower orders during the second quarter.

The lower pricing and volumes were partially offset by materially lower natural gas costs as compared to last year. Page 11 provides a summary of our key balance sheet and cash flow metrics. We continue to use our strong cash position as an opportunity to further derisk our balance sheet. In the second quarter, we repurchased $64 million of our notes and year-to-date, we've repurchased $97 million of debt.

We also repurchased approximately 800,000 shares of our stock during the second quarter and approximately 1.5 million shares year-to-date. As we move through the second quarter of this year, our capital allocation will be squarely focused on our facilities.

As a reminder, we have turnaround scheduled at our Pryor and Cherokee facilities in the second half of this year. These turnarounds will be integral to our goal to improve plant reliability and efficiency, which we expect to lead to greater production volumes post turnaround.

Looking to the third quarter of 2024, Tampa Ammonia increased $60 per ton to $475 per metric ton for August, and NOLA UAN is currently around $205 per ton. We expect prices for both products to be higher than the same quarter last year as a result of relatively tight inventories and ongoing global supply constraints from the impact of turnarounds and unscheduled downtime at plants globally.

Additionally, we expect our profitability to benefit from lower natural gas costs, which averaged approximately $2.70 per MMBtu in July, well below last year and a trend we expect to continue. We expect our third quarter results to reflect the impact of the seasonal slowdown in demand on our sales volumes.

Additionally, we have a 30-day turnaround underway at our Pryor facility that will reduce our ammonia and UAN production by approximately 20,000 tons and 35,000 tons respectively. We expect to incur approximately $15 million in turnaround expense during the third quarter as we execute the Pryor turnaround and gear up for our Cherokee turnaround currently scheduled for the fourth quarter.

Despite the lower production during the third quarter resulting from our Pryor turnaround, we expect our third quarter EBITDA when adjusted to add back turnaround expense to be materially above our third quarter of 2023 as a result of higher selling prices combined with lower natural gas and other costs.

And now I'll turn it back over to Mark.

Mark Behrman

Thank, Cheryl. Pages 12 and 13 pertain to the two low-carbon ammonia projects that we currently have underway. Page 12 summarises the key information related to our project with Lapis Energy at our El Dorado facility. This project remains on track with the time line we discussed back in early May.

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We continue to discuss the value of low-carbon products with potential customers and are encouraged by the level of engagement we're experiencing. Page 13 summarises the key aspects of our Houston Ship Channel project that we currently have under development with several partners.

This is a world-scale ammonia plant that will produce approximately 1.1 million metric tons of low-carbon ammonia. We are working with Samsung Engineering and our partner INPEX, to complete our pre-FEED and we expect to receive preliminary results by the end of the third quarter, followed by a detailed review during the fourth quarter. It is anticipated that FEED will begin early in the first quarter of 2025 be completed by the end of next year with FID in the first quarter of 2026.

We are having ongoing conversations with potential customers to secure long-term off take for the anticipated ammonia production and remain encouraged with those conversations. While Asia remains a target region for off-takers, we've been pleased to find that Europe is emerging as an increasingly fertile market for low-carbon ammonia given the region's challenges in increasing clean energy generation as quickly as initially planned and the impending enactment of the EU's carbon border adjustment mechanism or CBAM.

We're very excited about the prospects for driving the growth of our top and bottom line through our participation in the developing low-carbon nitrogen products markets. Our vision is to become one of the leading suppliers of low-carbon ammonia and derivative products to the power generation, marine and other industries in the coming years and we believe we have the knowledge, expertise, assets and relationships to achieve this vision.

While our long-term vision is centered around low-carbon product opportunities. From a near-term perspective, we are more focused than ever on our opportunities to improve our current operations, which we expect will lead to higher production and sales volumes, enabling us to capitalize on the operating leverage inherent in our business and drive increased profitability and shareholder value.

Combining these enhancements to our core operations with our low-carbon activities, we believe we are well positioned to generate significant value for our shareholders. Before we open it up for questions, I'd like to mention that we will be participating in the following conferences in September, the Jefferies Industrial Conference in New York on September 4th. The UBS Materials Conference also in New York on September 5th and the RBC Industrials Conference in Las Vegas on September 24th. We look forward to speaking with some of you at those events.

That concludes our prepared remarks and we will now be happy to take your questions. Thank you.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Joshua Spector with UBS. Please proceed with your question.

Lucas Beaumont

Good morning. This is Lucas Beaumont on for Josh. I just wanted to start with the new agreement you signed with Freeport Minerals for the uptake. Do you guys -- did you get your premium there on the low-carbon products? Or is that sort of in line with sort of the current pricing for the gray product? And if sort of if you didn't, is there any mechanisms or adjust that kind of overtime as the market develops further? Or how are you kind of thinking about that now? Thank you.

Mark Behrman

Good morning, Lucas. How are you? So, yes, we feel like our customer realized the value of the low-carbon aspect of our product. And so we feel like we've got some premium to what we would consider to be the gray market today.

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Lucas Beaumont

Great. Thanks. And then just wanted to talk about the seasonality a little bit maybe on the gas cost side. So we've had some sort of abnormal seasonality this year with sort of low pricing and then pricing coming up. And you guys obviously saw the benefit of that in the second quarter with your realized costs coming in quite a bit below where the benchmarks were with the lag. So just wondering if you can kind of help frame how you think that dynamic is going to impact the third quarter for us. Thanks.

Cheryl Maguire

Yes. Good morning, Lucas. So, yes, so with the gas costs specifically, we did see a run-up in gas costs at the end of June, that's going to come through in July. And then gas costs heading into August is, I would say, $0.40 to $0.50 cheaper than the 270 that we realized in July. So we are seeing some additional benefit and pick up of lower gas costs here in the third quarter.

Mark Behrman

I think it actually -- we've talked about this previously about the change in strategy and really thought process when it comes to gas and not really purchasing forward too much other than for forward sales of products. So we are now able to realize the benefits because we're basically going month-to-month.

Lucas Beaumont

Great. Thank you.

Operator

Question comes from Laurence Alexander with Jefferies. Please proceed with your question.

Daniel Rizzo

Hi. This is Dan Rizzo on for Lawrence. With the new agreement, you mentioned up to 150,000 short tons. I was wondering and I'm sorry if this was said, but is there any minimum requirement they have to take each year?

Mark Behrman

Damien, why don't you answer that?

Damien Renwick

Yes. Good morning. Look, I can't go into the specifics, but there are sort of traditional mechanisms in the arrangement that -- where there's minimums and off-take tolerances, et cetera. So, yes, we've got a pretty clear line of sight as to what the offtake will be and what we'd expect going forward.

Mark Behrman

Would you say that it's got traditional take-or-pay terms?

Damien Renwick

Yes.

Daniel Rizzo

Okay. And then for my second question, just in regards to ag. I was just wondering what percentage of your sales is for post ag, sorry, post planting application? Like how important is August and September, if at all?

Damien Renwick

Look, I can't quote you an exact percentage, but the fall ammonia application season is relatively important. We've got a reasonable book going -- order book going forward coming out of the summer fill and some full prepay sales. But we've got our turnaround at Pryor at the moment. So our participation is probably a little lower than what it's typically been. But we're pretty comfortable with where we're sitting from an orders perspective.

Daniel Rizzo

Thank you very much.

Operator

Our next question comes from Andrew Wong with RBC Capital Markets. Please proceed with your question.

Andrew Wong

Hey, good morning. So ammonium nitrate prices have performed quite well. So could you just talk about what's happening there? Why the significant premium has come back? And what's your outlook on AN versus some of the other nitrogen products?

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Mark Behrman

Yes. Good morning, Andrew. Yes, look, the premium, we're pretty happy with that and the pricing that we're able to achieve. Look, really, it's probably just driven by typical supply demand. Demand was pretty reasonable. And at certain times of the year, that premium can push up relative to some of the other products. It can also go the other way, and we can see the premium narrow. And at this time of the year, we will see it narrow closer to the cents per pound for the other products. So and that again is really due to just the timing of the year and where we're at in the cycle.

Andrew Wong

Okay. And then maybe just switching to the pneumonia side of things. I was just curious regarding the Lapis partnership at El Dorado. What happened is due to the payments if there's a change to the 45Q credits either up or down? And do you see any risk of that happening if there's a new administration that comes in with a different view on the clean energy?

Damien Renwick

Good morning, Andrew. So it's a great question. We get that question all the time, everyone is really focused on the election and some implications of that. When you think about the IRA, I think, our view is -- there are definitely parts of the IRA that are more at risk than others. And so when you start thinking about the EV incentives and things around electric vehicles, I think, most people think that there's definitely some risk of rollback there. When it comes to 45Q, I think, the conventional thought and certainly our thoughts as well, 45Q has been around for a while, so it's not something that's new. What the IRA did is really two main things. It increased it for sequestration from $50 a ton to $85 a ton of CO2. And then it also changed the first five years of eligibility from a tax credit to cash pay. So I don't know that I see those really changing. If they really -- if the government really wants to incentivize and continue to support decarbonization even at $85 a ton of cash pay or tax credit certain volume -- below certain volumes are just not economical. And so now if you went down to $50 a ton, I think you'd see a number of projects. In fact I would venture to say most of the projects that are canceled. So I don't see that happening. Could they change cash pay in the first five years back to a tax credit, possibly, you could see that. The other thing to keep in mind is most of the activity, most of the new plants that have been announced and new plants equate to new jobs and lots of contractors coming in and lots of equipment being bought are all in the Gulf region. And so those are two Republican supported states. And the last thing I would say is the IRA in general, maybe there are certain parts of it that weren't bipartisan, but generally speaking, the IRA was pretty supported by both parties. So I think when you take a step back, I don't see 45Q having dramatic changes that would impact our project. I do think that there is some vulnerability on EV, as I said, and then 45V, which is for green hydrogen and green ammonia.

Andrew Wong

Okay. Great. Really good color. Thank you.

Operator

[Operator Instructions] Our next question comes from Robert McGuire with Granite Research. Please proceed with your question.

Robert McGuire

Good morning. Thank you for taking my questions.

Damien Renwick

Hey, Rob.

Cheryl Maguire

Good morning.

Robert McGuire

With regards to your five-year Freeport agreement, can you discuss your existing ANS capacity? Any investments that you might need in order to fill this upcoming agreement?

Mark Behrman

Good morning, Rob. We've had to make some investments, excuse me, to support this arrangement. We do have the capacity. The capacity already exists, but the investments have been around storage, rail and loading capacity. So we're making that at the moment and that will be ready and commissioned ahead of the start-up of the contract.

Robert McGuire

Thank you. And Damien does this supply agreement replace a gray nitrogen supply agreement or is this brand new business?

Damien Renwick

Well, it's probably both. I mean obviously it's a brand-new ammonium or AN solution business for us and we will move our product mix around to accommodate it. But, yes, we are transitioning gray product over to low-carbon when the carbon capture projects commissioned.

Robert McGuire

Great. Thank you. And then the EPA indicating a final decision next spring on the Class 6 application. Can you discuss what the final decision is relative to the permit being issued expected in the second half of this year?

Damien Renwick

Oh, are you asking me what it will take to get approval, Rob?

Robert McGuire

Yes. I'm trying to just define what are you looking at in terms of that final decision? I know you're looking for a permit being approved in the second half of this year. And I believe that's one of the next milestones, but can you just sort of lay out the milestones and explain that part.

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Mark Behrman

Yes. So I think what we're really looking for by November of this year is a sign-off on the technical review. So once we have that and EPA signed off on their technical review then it's actually drafting permits. There's a public comment period. So there's about 60 days of drafting the permit. There's another 45 days of public comment period. And then, of course, there's another 45 to 60 days of drafting final permitting. So what that permit would be in May would be a permit to construct. So that would allow us to drill and then, of course, they take core samples and as long as those core samples match the work that was done in a technical review the [indiscernible] would sign off and allow us to inject into the sequestration well.

Robert McGuire

No. I appreciate that. I think I got the permit to construct a little confused with the permit to inject. But is the permit to construct still coming in the second half of this year?

Mark Behrman

No. The technical review would happen in November. And then we're hoping and we'll see how the EPA's process works, but we're hoping to pull in kind of May permit to construct a little bit forward. We think that given Louisiana got primacy at the end of last year and a lot of the draft permits or the permit applications were in the class, the region 6 office of the EPA and then now moved to Louisiana and that was the bulk of the projects that given the now shrinking number of Class 6 permits at the EPA Dallas office, Region 6 office, that will help us out and hopefully speed up the timing a little bit.

Robert McGuire

Thanks, Mark. I appreciate that. And with regards to deleveraging and repurchasing shares. So, first off, nice job on that. Where does that leave your existing authorization from the Board with regards to repurchasing debt in the shares?

Mark Behrman

Well, from a debt standpoint, it's really not an authorization that's needed. We will talk to the Board and make a recommendation and the Board will approve it or not approve it. When it comes to the share buyback authorization.

Cheryl Maguire

North of $100 million remaining.

Mark Behrman

Yes. So we still have plenty of opportunity and plenty of room to buy back stock should that make sense for us?

Robert McGuire

Okay. I appreciate that. And then also maybe on capital allocation, just can you discuss the M&A environment? And with all your projects in place deleveraging, returning cash to shareholders, are potential acquisitions very high on the priority list at this point?

Mark Behrman

Well, I don't know about high on the list. I think we look at all opportunities to grow the company, whether that's our internal reliability program that we think adds a lot of value. So we're really focused on that. And then as you mentioned, the two projects and getting them up and running or getting certainly the carbon capture and sequestration project at El Dorado actually up and running and operating and then our other project, the inflection point for us ultimately will be FID. So looking at getting to that point. I do think we are still interested in M&A where we can find strategic assets that make sense for us and support our vision and strategy. So we absolutely will continue to look for those. Owning ammonia assets, we think, is really important. And we want to be a larger player within the industry, having scale, I think, would help us. So I guess, overall, we continue to look for opportunities to merge or combine and that makes a lot of sense for us.

Robert McGuire

That's helpful, Mark. Thank you. Just last question. With regards to your ammonia production rates trending higher over the long-term in your initiatives there, could there be a stair-step improvement coming out of the turnarounds this year? I know you're always going to bump up in terms of production coming out of turnaround. But can you just talk about what we might see in terms of improved reliability?

Mark Behrman

Yes. Look, I think that we're going to get a bump from going through our Pryor and Cherokee turnarounds this year. Any time -- when you go particularly at Cherokee when you go three years or stretching even to four years between turnarounds. You definitely trained into those turnarounds at some lower rates, particularly as catalyst starts to degrade and you get some lower rates. So I think that we should see absolutely a bump there. Stair-step, I'm probably a little trying to be a little cautious on whether it's going to be a stair-step or not. We expect this to be significantly improved. And we're doing a lot of work at both of those sites to really improve the reliability. I think the investment that we're making at Pryor is north of $30 million. So it's a large investment for us and we think it's got significant returns. Same thing down or at Cherokee later this year. We're making big investments in our ammonia plant. And we think that will actually run much more reliably. We've done a really good --the teams have done a really good job in keeping our plants running, so the onstream rate has improved dramatically. But the one thing that we need to focus on is getting every ton out of the plants. And so I think that's a lot of the turnaround that we're in now is really focused on that. And we're also -- we've run really well from an onstream standpoint at El Dorado, ammonia, but probably at a little bit lower rates due to the degradation of our catalyst there. And so we are taking a small planned outage to replace the catalyst to get back up to maximum rates. And so we're excited about that to see the improvements that we'll get out of that plant as well.

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Robert McGuire

That's really helpful. And just -- it seems like there's a little more time today, Mark, I wonder one more question. If you can elaborate on what you're seeing in terms of Europe and kind of shifting demand towards low-carbon and legislation that might help move that along.

Mark Behrman

Yes. So if you go back 24 months or maybe even as recent as 12 months, I think Europe was very focused on their energy transition being hydrocarbons to zero hydrocarbons, right, so Green. And I think the economics of Green just broadly don't really make sense today. I think the cost of equipment, of course, construction and contractor costs and then efficiencies put ammonia and hydrogen at a rate that makes it a bit cost prohibitive for people to be okay paying for. So I think what we've seen over the last 12 to 18 months is really a little bit of a shift in Europe where they are now focused on a true transition as opposed to, I'll call it, a revolution going from hydrocarbons to no hydrocarbons. And so Blue has become a lot more of top of mind in a lot of our conversations with European -- potential European offtakers. And so that's really exciting for us because now we've got a real market. A lot of that not just in from a cost perspective and creating a shift change, but also CBAM, which is their carbon border mechanism. And so that's a real tax that's coming into place starting in 2026. And so it will scale in over time from 26 to 30 and we've got a lot of folks that either use ammonia today or are thinking about ammonia as a fuel source to replace coal or even nat gas and looking at that tax and where is the inflection point? Like at some point, there needs to be a switch. So again I think much change in Europe in the way that they're thinking about it and we're waiting to see what the European regulation and incentive programs look like related to Blue versus Green.

Operator

Our next question comes from Charles Neivert with Piper Sandler. Please proceed with your question.

Charles Neivert

Good morning, guys. Just a quick question. In terms of the new contract and the deal with Freeport, et cetera, and the amount of product they're going to be taking, and I'm assuming overall that it's obviously that's a good thing. But is that going to take away from any other nitrogen product production because you're going to have to be sort of focused more on that -- on the AN side or that shouldn't be a problem at all. It won't affect ammonia production won't affect your urea or anything else? Is there sort of a trade-off, so to speak, in trying to ramp up production for that?

Mark Behrman

Good morning, Charles. Look, it certainly won't affect our ammonia production. But from an ammonium nitrate perspective, yes, there will be a shift in tons away from other products and into supporting the contract with Freeport.

Charles Neivert

Anything specific on which products get most affected by the ship?

Mark Behrman

No, nothing specific. We'll just manage it through the portfolio.

Charles Neivert

Okay.

Operator

We have now reached the end of our question-and-answer session. I would like to turn the floor back over to Mark Behrman for closing comments.

Mark Behrman

Well, thank you, everyone, for your interest in LSB Industries. I hope you can see that we continue to make progress quarter-to-quarter and also progressing really our long-range growth prospects for the company. So thanks for your support and we look forward to speaking to you next quarter.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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