


United States Lime & Minerals, Inc.



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Rocky Mountain Chapter

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My Objectives in Selecting a Company to Study

- 1) A small company
 - 100% of the RMC stock portfolio are mid-sized companies
 - Focus of RMC Model Club is on small and mid-sized companies as defined by BI
- 2) A company in a sector/industry not represented in our current portfolio
 - Found 3 that looked interesting, but 2 were in the technology industry or related to tech
 - 14% of our portfolio is in tech, so chose USLM

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US Lime & Minerals, Inc. Overview

- USLM Manufactures lime and limestone products in the US
- USLM Extracts high-quality limestone from open-pit quarries and underground mines and then processes it for sale as pulverized limestone, aggregate, quicklime, hydrated lime and lime slurry
 - 99% of revenues comes from the sale of these products
- Also owns royalty interests ranging from 15.4% to 20% in oil and gas produced from a lease on property in Cleburne, Texas, located in the Barnett Shale Formation
 - 1% of revenues comes from 33 producing wells

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US Lime & Minerals, Inc. Overview

Supplies lime and limestone products to the following industries:

- Construction: highway, road and building contractors
- Industrial: including paper and glass manufacturers
- Metals: steel producers
- Environmental: municipal sanitation and water treatment facilities and flue gas treatment processes
- Roof shingle manufacturers
- Agriculture: poultry producers
- Oil and gas services industries

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US Lime & Minerals, Inc. Overview

- 1950: Incorporated in Texas (f/k/a Scottish Heritable, Inc. until 1994)
- 1969: Began trading (Nasdaq) (54 years!)
 - Per Yahoo: USLM is older than 85.82% of listed US stocks tracked by Yahoo
- 5.7MM shares outstanding; preferred shares authorized, none outstanding
- One shareholder owns 62% of the outstanding stock
 - Chairman of the Board is the brother of the largest shareholder
- HQ in Dallas, TX
- 338 Employees
- No Debt

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US Lime & Minerals, Inc. Overview

- ~ 650 customers accounted for USLM's sales of lime and limestone products in FY 2022
 - No single customer accounted for more than 10% of such sales
- Customers are diversified within SW geographic region and by industry
- All of the Company's 2022 sales were made within the United States
 - Products are transported by truck and rail to customers generally within a radius of 400 miles of each of the Company's plants
- USLM mined approximately 4 million tons of limestone from its quarries and mines during the FY ended December 31, 2022

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Products

Pulverized limestone – used in

- Production of construction materials such as roof shingles and asphalt paving
- As an additive to agriculture feeds
- Production of glass
- As a soil enhancement
- In flue gas treatment for utilities and other industries requiring scrubbing of emissions for environmental purposes
- For mine safety dust in coal mining operations

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Products

Quicklime – used primarily in

- Metal processing
- Flue gas treatment
- Soil stabilization for highway, road and building construction, as well as for oilfield roads and drill sites
- Manufacturing of paper products
- In municipal sanitation and water treatment facilities

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Products

Hydrated lime – used primarily in

- Municipal sanitation and water treatment facilities
- Soil stabilization for highway, road and building construction
- Flue gas treatment
- In asphalt as an anti-stripping agent
- As a conditioning agent for oil and gas drilling mud
- In the production of chemicals

Lime slurry – used primarily in

- Soil stabilization for highway, road and building construction

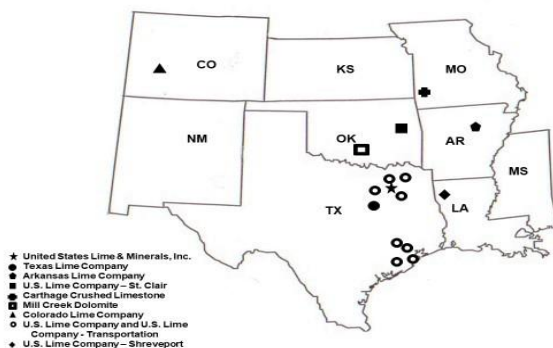
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Map of Operations

USLM operates lime and limestone plants and distribution facilities in Arkansas, Colorado, Louisiana, Missouri, Oklahoma and Texas through its wholly owned subsidiaries

U.S. Lime & Minerals, Inc. Lime and Limestone Operations



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Lime Industry Overview

- Highly regionalized and competitive
- Primary competitive factors:
 - Price
 - Quality
 - Ability to meet customer demands and specifications
 - Proximity to customers
 - Personal relationships
 - Timeliness of deliveries

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Lime Industry – High Barriers to Entry

- Lime producers tend to be concentrated on known high-quality limestone formations
- There is a scarcity of high-quality limestone deposits on which the required zoning and permitting for extraction can be obtained
- Lime plants and facilities need to be located close to markets, paved roads and railroad networks to enable cost-effective production and distribution

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Lime Industry – High Barriers to Entry

- Clean air and anti-pollution regulations, including those related to greenhouse gas emissions, make it more difficult to obtain permitting for new sources of emissions, such as lime kilns
- High capital cost of the plants and facilities
- All these considerations place a premium on operations having permitted, long-term, high-quality limestone resources and good locations and transportation relative to their markets

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Competition

- Competition takes place principally on a regional basis because lime producers tend to be concentrated on known high-quality limestone formations
- 4 other companies in US market:
 - Lhoist North America (Belgium) - USLM goes “head-to-head” with Lhoist in SW US
 - Carmuese (Belgium) – SE US
 - Graymont (Canada) – Northern US and Canada
 - Mississippi Lime (US) – SE US
- All are non-public companies – not possible to compare revenues, etc.

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Where Does Lime Come From?

- Limestone has existed for more than 3 billion years, since the Precambrian times
 - Shallow seas at 25-30C provided the ideal breeding ground for calcium carbonate
 - Begins under water as a result of an accumulated biological deposit (corals, algae and shells)
- Waters cannot be too deep to allow the organisms to benefit from sun light (tropical seas were best)
- As a consequence of continental drift, carbonate deposits of different ages are now found all around the globe

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Where Does Lime Come From?

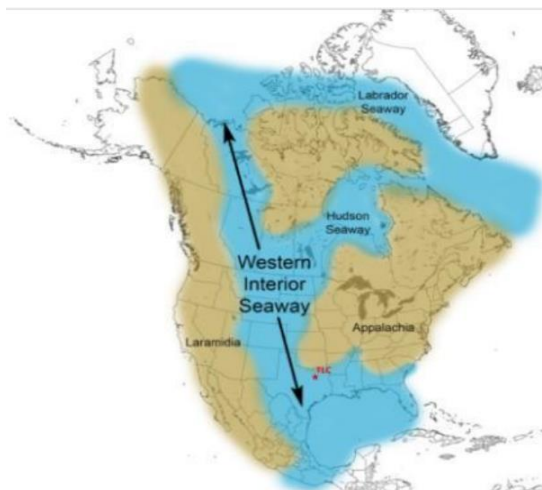


Fig. 6.1-2, Paleomap of Cretaceous Western Interior Seaway, the geologic environment responsible for producing the long-term conditions which the widespread Edwards reef developed. (<https://www.cretaceousatlas.org/geology/>)

Estimates of Mineral Resources and Reserves

Summary of Total Limestone Mineral Resources as of December 31, 2022

| Measured Resources (tons) | Cutoff Grade | Indicated Resources (tons) | Cutoff Grade | Measured + Indicated Resources (tons) | Cutoff Grade |
|---------------------------|----------------------------------|----------------------------|----------------------------------|---------------------------------------|----------------------------------|
| 281,539,000 | Above 96.0% (CaCO ₃) | 137,986,000 | Above 96.0% (CaCO ₃) | 419,525,000 | Above 96.0% (CaCO ₃) |

Summary of Total Limestone Mineral Reserves as of December 31, 2022

| Proven Reserves (tons) | Cutoff Grade | Probable Reserves (tons) | Cutoff Grade | Total Mineral Reserves (tons) | Cutoff Grade |
|------------------------|----------------------------------|--------------------------|----------------------------------|-------------------------------|----------------------------------|
| 161,071,000 | Above 96.0% (CaCO ₃) | 72,037,000 | Above 96.0% (CaCO ₃) | 233,108,000 | Above 96.0% (CaCO ₃) |

See 17 CFR § 229.1300 Definitions for definitions of the terms used in the Technical Reports of USLM's limestone operations.



FY 2022 Highlights

- Cash balance: \$133.4 million
- Paid \$4.5 million in dividends
- Made \$26.8 million of capital investments
- Acquired Mill Creek Dolomite for \$5.6 million
- Revenues increased 24.8% in 2022 compared to 2021
 - Included \$2.7 million from USLM's natural gas interests, compared to \$1.9 million in 2021
- Gross profit increased 18.7% in 2022 compared to 2021
- Net income in 2022 increased \$8.4 million, or 22.6%, to \$45.4 million, from \$37.0 million in 2021

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Selected Financial Data (5 years)

| | Years Ended December 31, | | | | |
|--|--|---------|---------|---------|---------|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| | (dollars in thousands, except per share amounts) | | | | |
| Operating results | | | | | |
| Lime and limestone revenues | \$ 233,421 | 187,365 | 159,707 | 156,981 | 141,922 |
| Other revenues | 2,729 | 1,890 | 997 | 1,296 | 2,513 |
| Total revenues | \$ 236,150 | 189,255 | 160,704 | 158,277 | 144,435 |
| Gross profit | \$ 70,342 | 59,260 | 47,587 | 41,676 | 30,486 |
| Operating profit ⁽¹⁾ | \$ 54,783 | 46,417 | 33,869 | 29,246 | 20,002 |
| Income before income tax expense | \$ 56,562 | 46,518 | 34,072 | 30,900 | 21,568 |
| Income tax expense | \$ 11,133 | 9,473 | 5,849 | 4,844 | 1,883 |
| Net income | \$ 45,429 | 37,045 | 28,223 | 26,056 | 19,685 |
| Net income per share of common stock: | | | | | |
| Basic | \$ 8.01 | 6.55 | 5.01 | 4.64 | 3.52 |
| Diluted | \$ 8.00 | 6.54 | 5.00 | 4.64 | 3.51 |
| Dividends per share of common stock ⁽²⁾ | \$ 0.80 | 0.64 | 0.64 | 5.89 | 0.54 |

(1) Operating profit for the years ended December 31, 2020 and 2019 was adversely impacted by impairment charges of \$1,550 and \$930 to adjust the carrying value of the long-lived assets related to the Company's natural gas interests.

(2) Dividends per share of common stock for 2019 included a special dividend of \$5.35 per share.

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Results of Operations (%) (3 years)

The following table sets forth certain financial information expressed as a percentage of revenues for the three years ended December 31, 2022:

| | Year Ended December 31, | | |
|--|-------------------------|---------------|---------------|
| | 2022 | 2021 | 2020 |
| Lime and limestone revenues | 98.8 % | 99.0 % | 99.4 % |
| Other revenues | 1.2 | 1.0 | 0.6 |
| Total revenues | 100.0 | 100.0 | 100.0 |
| Cost of revenues | | | |
| Labor and other operating expenses | (60.9) | (57.8) | (58.3) |
| Depreciation, depletion and amortization | (9.3) | (10.9) | (12.1) |
| Gross profit | 29.8 | 31.3 | 29.6 |
| Selling, general and administrative expenses | (6.6) | (6.8) | (7.6) |
| Impairment of long-lived assets | — | — | (1.0) |
| Operating profit | 23.2 | 24.5 | 21.1 |
| Other (expense) income: | | | |
| Interest expense | (0.1) | (0.1) | (0.2) |
| Interest and other income, net | 0.8 | 0.2 | 0.3 |
| Income tax expense | (4.7) | (5.0) | (3.6) |
| Net income | 19.2 % | 19.6 % | 17.6 % |

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SWOT - Strengths

- Long track record of earnings and stock growth
- Good management
 - Co Philosophy: Focus on managing the business and operations and the stock will take care of itself
 - Focused on the long term
- Large reserves of lime for future operations
- Increasing demand for limestone products
 - 10.6% average increase in prices for USLM's lime and limestone products in 2022 compared to 2021

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SWOT - Weaknesses

- Small number of publicly traded shares
 - Could make it difficult to get in and out of the stock if wanted to buy or sell a large number of shares
- The manufacturing of lime and hydrated lime requires significant volumes of water
 - USLM operates multiple groundwater wells to provide water to its plants

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SWOT - Opportunities

- Unlikely new competitors will arise due to high barriers to entry in lime industry (see Slides 13 & 14)
- USLM's processing equipment has been upgraded, modernized and expanded, and other projects developed, to improve operating efficiency and allow USLM to continue to remain competitive and position it for the future
- Strong funding in place for road construction projects in the pipeline for many years due to state funding
 - Most of USLM's construction business goes to highway construction
- On top of funding already in place, the 2021 Infrastructure Investment and Jobs Act added \$5B/year thru 2026 for Texas highways

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SWOT - Threats

- Primary variable cost is energy
 - Prices for coal, petroleum coke, diesel, natural gas, electricity, transportation and freight are volatile, and USLM's energy costs increased substantially in 2022
 - Freight costs, including the cost of diesel, to deliver USLM's products can be high
- Many government regulations:
 - Mine safety, reclamation and remediation, environmental regulations (including clean air and water)

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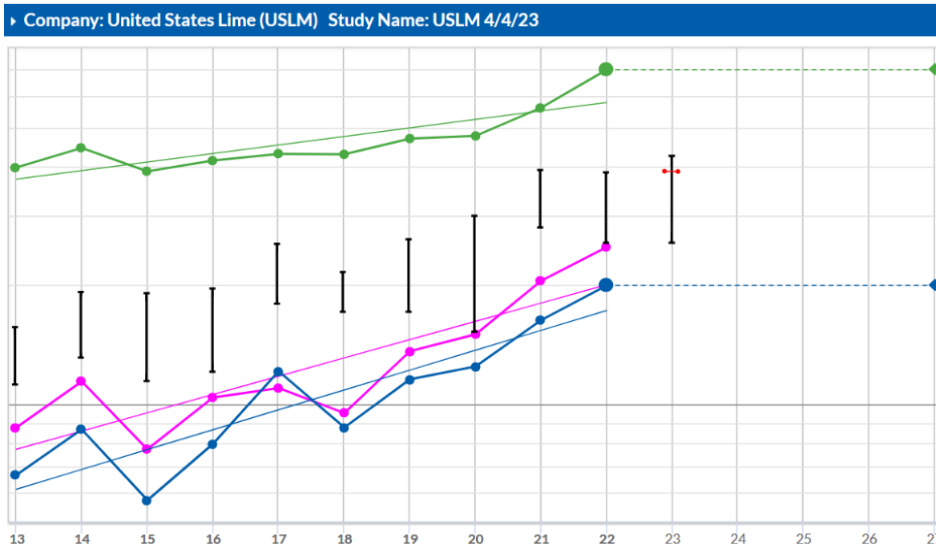
SWOT - Threats

- Climate change regulations
 - Production of CO₂ is inherent in the manufacture of lime through the calcination of limestone and combustion of fossil fuels
- Reduced demand from coal-fired utility plants
- Major rail disruptions could disrupt or diminish availability of sufficient solid fuels to run their plants
- Increases in diesel prices cause additional fuel surcharges from freight companies
 - Cannot pass on increased costs to USLM's customers that have been quoted a delivered price

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Let's Go to the SSG



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Sources:

- USLM Website: [United States Lime & Minerals, Inc. \(uslm.com\)](https://www.uslm.com)
- Form 10-K for the year ended December 31, 2022, Securities and Exchange Commission (See Exhibits 96.1-96.4) ([sec.gov](https://www.sec.gov))
- [Final Rule: Modernization of Property Disclosures for Mining Registrants \(sec.gov\)](https://www.sec.gov) (adding new subpart 229.1300 to Regulation S-K for registrants with mining operations)

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