



# **Fourth Quarter and Full Year 2018 Overview**

***March 7, 2019***

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# Disclaimers: Non-GAAP Measures

## Use of Non-GAAP Measures

This presentation includes the use of both U.S. generally accepted accounting principles ("GAAP") and non-GAAP financial measures. Trecora believes certain financial measures, such as EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income (Loss) and Adjusted Diluted Earnings Per Share, which are non-GAAP measures, provide users of Trecora's financial statements with supplemental information that may be useful in evaluating its operating performance. Trecora believes that such non-GAAP measures, when read in conjunction with its operating results presented under GAAP, can be used to better assess Trecora's performance from period to period and relative to performance of other companies in its industry, without regard to financing methods, historical cost basis or capital structure. These measures are not measures of financial performance or liquidity under GAAP and should be considered in addition to, not as a substitute for, analysis of Trecora's results under GAAP. Tables included in this presentation reconcile each of these Non-GAAP measures to their most directly comparable GAAP measure.

**EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin:** Trecora defines EBITDA as net income (loss) plus interest expense (benefit) including derivative gains and losses, income taxes, depreciation and amortization. Trecora defines Adjusted EBITDA as EBITDA plus share-based compensation, plus restructuring and severance expenses, plus losses on extinguished debt, plus or minus equity in AMAK's earnings and losses or gains from equity issuances, and plus or minus restructuring gains or losses on acquisitions. Trecora defines Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of consolidated revenue.

**Adjusted Net Income (Loss):** Trecora defines Adjusted Net Income (Loss) as net income (loss) plus or minus tax effected equity in AMAK's earnings and losses, minus tax effected restructuring and severance expenses, and adjustments for tax law changes in 2017.

**Adjusted Diluted Earnings Per Share:** Trecora defines Adjusted Diluted Earnings Per Share (or Adjusted EPS) as Diluted Earnings Per Share (or Diluted EPS) excluding the impact of a number of non-recurring items that Trecora does not consider indicative of its on-going performance.

# Trecora Overview

## ➤ Financial Highlights

- Net loss for Q4 2018 was \$5.3 million and a loss of \$2.3 million for the year
- Specialty Petrochemicals
  - Prime products sales volume of 69 million gallons, up 9.9% sequentially and 8.5% y-o-y
  - Financial results impacted by significant losses on byproduct sales and exit of custom processing relationship
- Specialty Waxes
  - Wax sales volumes of 37 million pounds, up 5.3% as compared to 2017
  - Secured sufficient wax feed supply
- \$5.3 mm cash from AMAK's partial repurchase of outstanding shares

## ➤ Operational Highlights

- Injury free since fourth quarter 2018
- December reorganization providing estimated \$2.5 million ongoing cost savings
- Advanced Reformer reliably operating since January restart

## ➤ Leadership Changes

- Dick Townsend named Chief Manufacturing Officer 2Q18
- Pat Quarles named President and CEO 4Q18, joined Board in 3Q18
- Karen Twitchell named Board Chair 1Q19 (Director since 2015)
- Joe Tanner to join as SVP, Commercial 1Q19

# Financial Summary - 2018

|                                | 4Q18      | 3Q18      | 2Q18     | 1Q18     | 4Q17    | 2018      | 2017    |
|--------------------------------|-----------|-----------|----------|----------|---------|-----------|---------|
| Diluted EPS                    | (\$ 0.22) | (\$ 0.06) | \$ 0.09  | \$ 0.09  | \$ 0.56 | (\$ 0.10) | \$ 0.72 |
| Adjusted EPS <sup>1</sup>      | (\$ 0.13) | (\$ 0.03) | \$ 0.08  | \$ 0.08  | \$ 0.12 | \$ 0.00   | \$ 0.44 |
| Net Income (Loss)              | (\$ 5.3)  | (\$ 1.6)  | \$ 2.2   | \$ 2.4   | \$ 14.0 | (\$ 2.3)  | \$ 18.0 |
| Adjusted EBITDA <sup>1</sup>   | \$ 2.0    | \$ 4.9    | \$ 6.2   | \$ 7.2   | \$ 8.5  | \$ 20.3   | \$ 31.7 |
| Adj EBITDA Margin <sup>1</sup> | 2.6%      | 6.7%      | 9.1%     | 10.0%    | 12.8%   | 7.1%      | 12.9%   |
| Cap Ex                         | \$ 6.2    | \$ 3.7    | \$ 4.4   | \$ 11.0  | \$ 12.3 | \$ 25.3   | \$ 51.6 |
| Debt <sup>2</sup>              | \$ 103.3  | \$ 106.4  | \$ 105.4 | \$ 107.5 | \$ 99.6 | \$ 103.3  | \$ 99.6 |

(1) See non-GAAP reconciliations included in the accompanying financial tables for the reconciliation of each non-GAAP measure to its more directly comparable GAAP measure.

(2) Includes debt issuance costs

- Adjusted EBITDA was \$2.0 million for 4Q18 compared to \$4.9 million in the third quarter 2018
- Capex of \$6.2 million for the fourth quarter of 2018
- Debt at December 31, 2018 of \$103.3 million including revolver balance of \$18.0 million, with availability of \$19.7 million

# Specialty Petrochemicals Update

|                       | Petrochemical Sales Volumes |      |      |      |      |
|-----------------------|-----------------------------|------|------|------|------|
|                       | 4Q18                        | 3Q18 | 2Q18 | 1Q18 | 4Q17 |
|                       | (million gallons)           |      |      |      |      |
| <b>All Products</b>   | 25.1                        | 21.6 | 19.7 | 23.3 | 22.8 |
| <b>Prime Products</b> | 18.7                        | 17.0 | 16.1 | 17.7 | 17.1 |
| <b>Byproducts</b>     | 6.4                         | 4.6  | 3.6  | 5.6  | 5.7  |
| <b>Deferred Sales</b> | 2.9                         | 2.3  | 2.0  | 2.2  | 2.3  |

## ➤ Overview

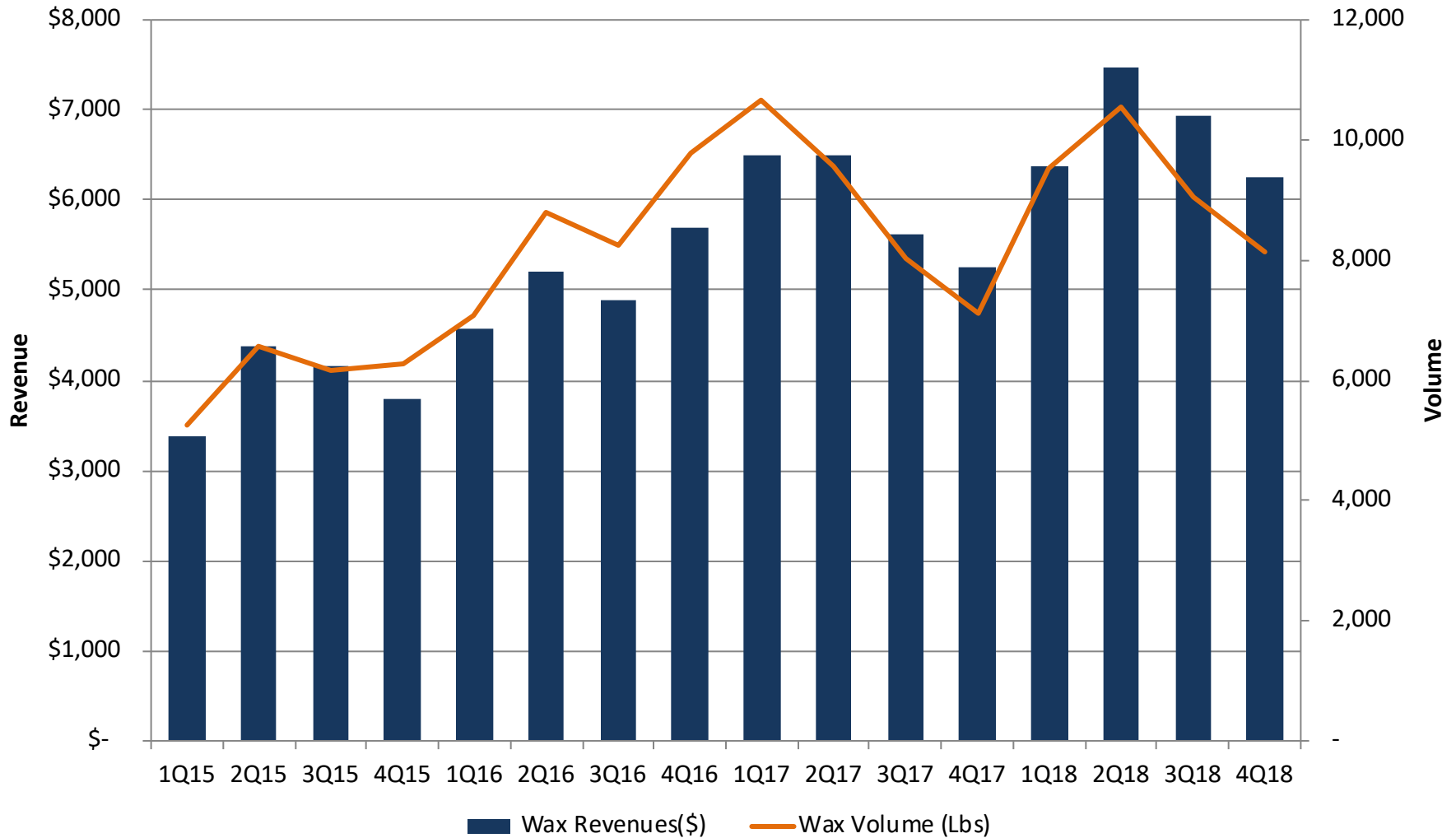
- Prime products sales volumes increased 9.9% sequentially and 8.5% y-o-y
- Byproduct volumes sold at negative margins due to the Advanced Reformer catalyst replacement outage
- Restarted Advanced Reformer in January 2019, operating reliably since
- Increase in average selling price of 10.9%
- Higher operating costs in 4Q18 mostly related to the catalyst replacement for the Advanced Reformer and termination of a custom processing relationship
- Estimated annual cost savings of \$2.5 mm going forward stemming from December reorganization
- Initiatives to reduce freight/logistics costs

# Specialty Waxes Update

- **Quarterly:** Revenue was \$8.6 million, a 7.7% increase from the fourth quarter of 2017; 4Q18 EBITDA of (\$0.1) million compared to (\$1.2) million in 4Q17
- **Full Year:** Revenue was \$38.3 million, up 10.0% from \$34.8 million in 2017; fiscal year EBITDA of \$1.8 million compared to (\$0.3) million for 2017
- **Wax**
  - 2018 sales volume up 5.3% year-over-year
  - Pricing up by 9% y-o-y due to improved sales mix
  - Secured sufficient wax feed supply
- **Custom Processing**
  - Growth in custom processing revenue in 2018 was hampered by operational and reliability issues especially related to the hydrogenation/distillation unit and improvements are being implemented
- **Site turnaround** in Q1 2019 – estimated cost \$0.5 - \$0.6 million

# Specialty Wax Volume and Revenue

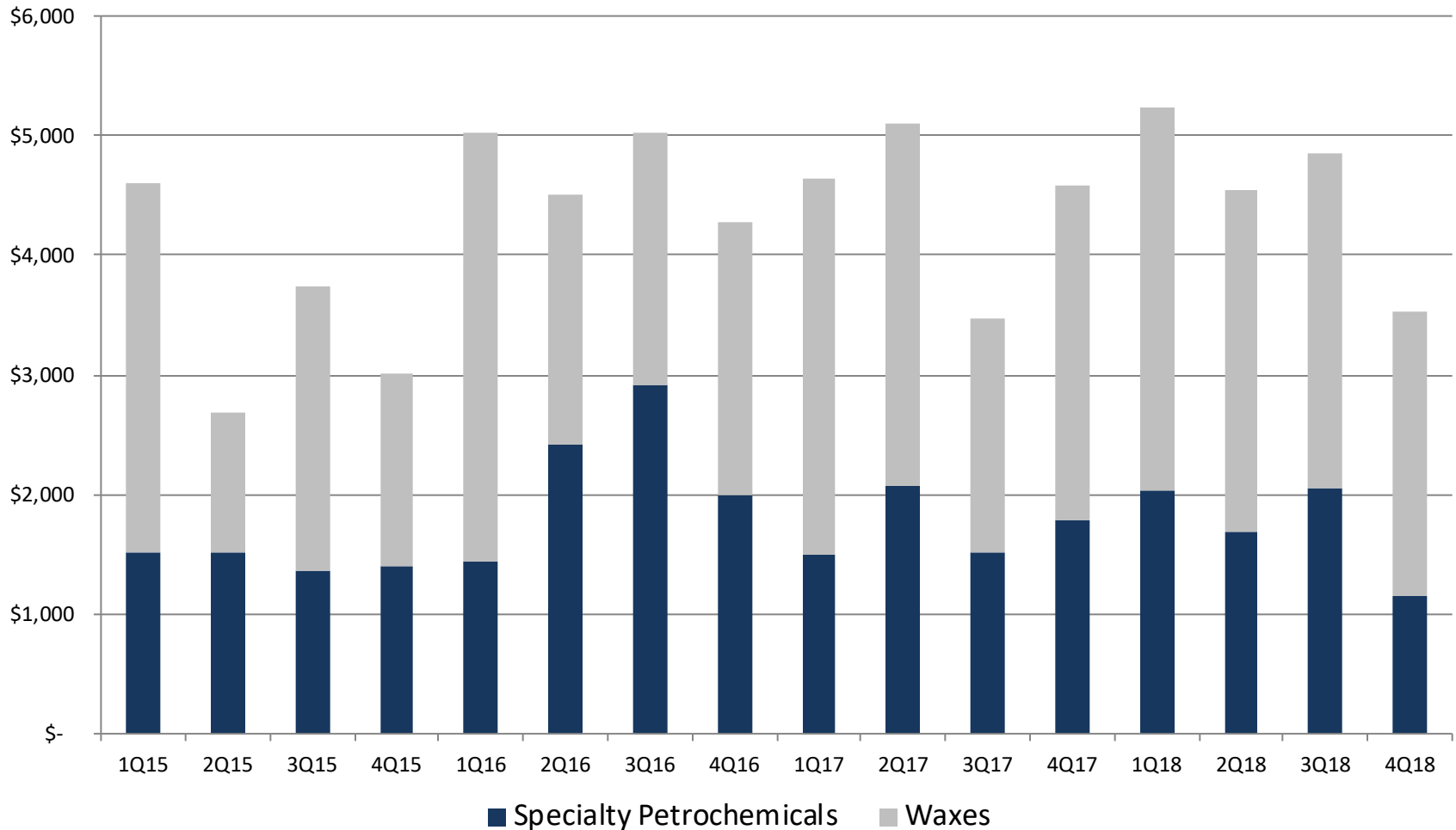
(in thousands)





# Specialty Petrochemical & Wax Custom Processing Revenue

(in thousands)



# Focus for the Future

## ➤ Summary

- Prioritizing safe and reliable operations while providing quality products to our customers
  - Injury free since October 2018
- Transparency, accountability and execution paramount to future success
- Implementing measures to make meaningful improvements
  - December reorganization providing estimated \$2.5 million ongoing cost savings
  - Advanced Reformer operating reliably since January 2019
  - Hired Senior Vice President of Commercial

## ➤ Outlook

- Advanced Reformer is performing according to design
- U.S. Gulf Coast chemical investments continue; U.S. economy is strong
- Demand into oil sands market remains volatile
- In discussions with a leading investment bank for AMAK monetization

# Q&A

## Thank You

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[www.trecora.com](http://www.trecora.com)

# Appendix

## RECONCILIATION OF SELECTED GAAP MEASURES TO NON-GAAP MEASURES

|   | Three months ended |                  |                  |                  | Twelve months ended |                   |                   |
|---|--------------------|------------------|------------------|------------------|---------------------|-------------------|-------------------|
|   | <u>12/31/2018</u>  | <u>9/30/2018</u> | <u>6/30/2018</u> | <u>3/31/2018</u> | <u>12/31/2017</u>   | <u>12/31/2018</u> | <u>12/31/2017</u> |
| NET INCOME  | \$ (5,290)         | \$ (1,609)       | \$ 2,215         | \$ 2,352         | \$ 13,972           | \$ (2,332)        | \$ 18,009         |
| Restructuring & Severance Expenses                          | (2,347)            | -                | -                | -                | -                   | (2,347)           | -                 |
| Equity in earnings (losses) of AMAK/Gain on equity issuance | (229)              | (1,130)          | 228              | 230              | 900                 | (901)             | (4,261)           |
| Taxes at statutory rate                                     | <u>541</u>         | <u>237</u>       | <u>(48)</u>      | <u>(48)</u>      | <u>(189)</u>        | <u>682</u>        | <u>895</u>        |
| Tax effected adjustments                                    | (2,035)            | (893)            | 180              | 182              | 711                 | (2,566)           | (3,366)           |
| Tax rate change benefit                                     |                    |                  |                  |                  | \$10,307            |                   | \$10,307          |
| Diluted weighted average number of shares                   | 24,545             | 25,175           | 25,014           | 25,231           | 25,202              | 24,438            | 25,129            |
| Estimated effect on diluted EPS                             | (\$0.08)           | (\$0.04)         | \$0.01           | \$0.01           | \$0.44              | (\$0.10)          | \$0.28            |
| Diluted EPS   | (\$0.22)           | (\$0.06)         | \$0.09           | \$0.09           | \$0.55              | (\$0.10)          | \$0.72            |
| Adjusted EPS  | (\$0.13)           | (\$0.03)         | \$0.08           | \$0.08           | \$0.12              | \$0.01            | \$0.44            |

|  | Three months ended |                  |                  |                  | Twelve months ended |                   |                   |
|--|--------------------|------------------|------------------|------------------|---------------------|-------------------|-------------------|
|  | <u>12/31/2018</u>  | <u>9/30/2018</u> | <u>6/30/2018</u> | <u>3/31/2018</u> | <u>12/31/2017</u>   | <u>12/31/2018</u> | <u>12/31/2017</u> |
| NET INCOME (LOSS)                              | \$ (5,290)         | \$ (1,609)       | \$ 2,215         | \$ 2,352         | \$ 13,972           | \$ (2,332)        | \$ 18,009         |
| Interest                                       | 1,483              | 924              | 815              | 878              | 822                 | 4,100             | 2,931             |
| Taxes  | (1,520)            | (473)            | 596              | 590              | (9,129)             | (807)             | (7,159)           |
| Depreciation and amortization                  | 148                | 205              | 191              | 196              | 217                 | 740               | 872               |
| Depreciation and amortization in cost of sales | <u>4,138</u>       | <u>3,813</u>     | <u>2,837</u>     | <u>2,829</u>     | <u>2,778</u>        | <u>13,618</u>     | <u>10,089</u>     |
| EBITDA   | (1,041)            | 2,860            | 6,654            | 6,845            | 8,660               | 15,319            | 24,742            |
| Share based compensation                       | 420                | 630              | (220)            | 592              | 702                 | 1,422             | 2,707             |
| Restructuring & Severance Expenses             | 2,347              | -                | -                | -                | -                   | 2,347             | -                 |
| Loss on extinguishment of debt                 | -                  | 315              | -                | -                | -                   | 315               | -                 |
| Gain from additional equity issuance by AMAK   | -                  | -                | -                | -                | -                   | -                 | -                 |
| Equity in losses of AMAK                       | <u>229</u>         | <u>1,130</u>     | <u>(228)</u>     | <u>(230)</u>     | <u>(900)</u>        | <u>901</u>        | <u>4,261</u>      |
| Adjusted EBITDA                                | <u>\$ 1,955</u>    | <u>\$ 4,935</u>  | <u>\$ 6,206</u>  | <u>\$ 7,208</u>  | <u>\$ 8,462</u>     | <u>\$ 20,304</u>  | <u>\$ 31,710</u>  |
| Revenue  | 74,669             | 73,416           | 68,106           | 71,741           | 65,978              | 287,932           | 245,143           |
| Adjusted EBITDA Margin                         | 2.6%               | 6.7%             | 9.1%             | 10.0%            | 12.8%               | 7.1%              | 12.9%             |