ContextLogic (UPDATE)
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Corporate Speakers:

- Raja Bobbili; ContextLogic; Chairman
- Mark Ward; ContextLogic; President
- Frank Roederer; gChem (Gaylord Chemical Company); Chief Executive Officer

PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's call announcing the acquisition of gChem – Gaylord Chemical Company – by ContextLogic. (Operator Instructions)

There will not be a question-and-answer session at the conclusion of today's call. However, a transcript will be made available online and management will make themselves available to the investor community over the coming days and weeks.

Before we begin, I would like to note that during this call we will be referring to a slide deck that is available on ContextLogic's investor relations website at www.contextlogic.com.

Please note that today's call contains forward-looking statements regarding future events and future performance of ContextLogic, gChem, and the combined company, which are subject to risk and uncertainties. These forward-looking statements are based upon information available today and actual results could differ materially from those contemplated by these forward-looking statements.

Today's call also includes reference to non-GAAP financial measures that are not prepared in accordance with GAAP, including free cash flow and projected long-term free cash flow growth, and that may be different from non-GAAP financial measures used by other companies. The non-GAAP financial measures presented should not be considered as an alternative to the financial measures required by GAAP and should not be considered measures of liquidity.

Please refer to Slides 2 and 3 for important disclaimers and cautionary statements regarding forward-looking information and the use of non-GAAP financial measures.

The information in today's call does not constitute or form part of and should not be construed as an offer or invitation to purchase, vote, approve, subscribe for, underwrite, or otherwise acquire any securities of ContextLogic or any other person, nor should it or any part of it form the basis of or be relied on in connection with any contract to purchase or subscribe for any securities of ContextLogic or any other person, or in connection with any other contract or commitment whatsoever, nor shall there be any sale of these securities in any state or jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

Today's call will proceed in three parts, as shown on Slide 4. First, a brief refresher on ContextLogic's strategy; second, an overview of gChem; third, a walkthrough of the transaction itself.

I will now turn the call over to the host for today's call, Raja Bobbili, Chairman of ContextLogic; Frank Roederer, CEO of GChem; and Mark Ward, President of ContextLogic.

Raja Bobbili, Chairman of ContextLogic

Thank you and good morning, everyone.

Eight months ago, when we announced our acquisition of US Salt, we laid out our ambition for ContextLogic. To build a collection of niche, competitively advantaged, long-duration businesses, each run by exceptional managers and owned with a long-time horizon. That is what we meant by a string of pearls. Each operating company should be able to stand on its own, and each management team should have the authority and accountability to run its business.

Autonomy only works when incentives are aligned. So we hardwire them. Operators only win when owners do. ContextLogic's role is to supply capital, judgment, governance, and occasionally a great deal of patience, not layers of cost or instructions from people farthest from the customer.

The goal is not to collect a large number of average businesses. It is to selectively add one special business after another and to give each the space to operate, to grow, and to compound.

We intend to run the enterprise with a degree of shareholder alignment that is rare in the public markets. Every design choice, from governance and incentives to capital allocation and cost structure, is made with one objective: compounding long-term value per share.

The larger opportunity lies in what happens when those pieces begin to reinforce one another. Wonderful businesses grow organically and generate cash. That cash is then reinvested intelligently within the existing companies and into the next exceptional business.

A lean structure preserves more of the economics. Aligned incentives keep owners and operators pulling in the same direction. Our tax assets allow more of every dollar earned to be reinvested.

Assembled patiently over many years, we believe this is a genuinely valuable franchise in the public markets. Thoughtful serial acquirers around the world have demonstrated the power of that formula. Strong businesses generate cash and disciplined owners redeploy it intelligently.

In many of the best examples, a family or committed long-term shareholder provides patient stewardship, allowing the company to think in decades, resist the short-term pressures of Wall

Street, and avoid letting debates over conglomerate discounts, or sum-of-the-parts valuations drive strategy.

Over time, the businesses compound, the capital allocation compounds, and the reputation of the platform itself becomes an advantage in attracting the next great business and the next great management team.

That is the picture we're working towards. We're still at the very beginning, and we will have to earn it one acquisition and one year at a time.

We closed the US Salt transaction in February. Today we're announcing the second pearl, gChem.

Before we talk about gChem, let me offer a quick refresher on what we look for. First, we look for niche markets large enough to support durable growth but specialized enough to reward incumbents with focus and expertise. A smaller addressable market is a feature not a bug in our model. Often it is an important part of the moat.

Second, obvious competitive advantages. Not theoretical advantages, not potential advantages, real durable competitive advantages you can point to and understand. Third, we look for long-duration assets. Businesses that have a clear reason to exist and to earn good returns for many years to come. We know that in our time horizon, it's inevitable that there will be ups and downs. We're asking whether we would be happy to own a business through many different environments.

And our financial model hasn't changed either. Our North Star remains free cash flow per share. We target 5% to 10% organic growth, another 5% to 10% from acquisitions, less 1% to 2% of incentive dilution. Dilution that is only triggered when our management teams deliver. Netted out, we're targeting 9% to 18% free cash flow per share growth on a sustained basis. Hopefully we can do better.

We will not land neatly inside that range every year, and we do not intend to manage the company to a quarterly formula, but it is the framework against which we will evaluate ourselves. We do not want acquisitions that make the company larger while making each share less valuable.

I'll add one thing. The measure of this model is not whether it sounds good on a slide, it's whether each successive transaction actually grows free cash flow per share. Keep that test in mind as Mark walks you through the numbers later in the call. This transaction moves the needle decisively.

With that, let me introduce gChem. gChem is a specialty chemicals business founded in 1962. It pioneered the commercial production of dimethyl sulfoxide, or DMSO, a specialty solvent, and more than 60 years later remains at the pinnacle of that space. gChem is one of three companies in the world that produce DMSO at scale and the only one in the Western Hemisphere.

If US Salt was a gem that looked ordinary at the outside and extraordinary once you understand it, gChem is cut from the same cloth. It's a business most people have never heard of in a space most people have never thought about, and that is precisely the point. The space is tiny by any industrial standards but big enough for gChem to grow in for a long time.

The products are typically a small share of a customer's cost but critical to the final product, and they're often qualified and specified into customers' products or operations through lengthy regulatory and technical processes that have taken decades to build and master. The result is what we look for everywhere: durable earnings, decades-long customer relationships, competitive differentiation, high returns on capital, and clear reasons to sustain those returns for a long time.

And it comes with a management team that fits our model perfectly. Frank Roederer joined as CEO in 2019, and under Frank's leadership, profit has tripled through product innovation, improved mix, value-based pricing, and operational execution. Frank has signed a new five-year employment agreement with us along with the rest of his team, structured to incentivize sustained organic growth in profit. He's also making a meaningful investment into ContextLogic. Frank is exactly the owner-operator this platform was built for.

We could not be more pleased to welcome gChem as our second operating business.

With that, let me hand the call to Frank, who will tell you more about his company.

Frank Roederer, Chief Executive Officer of gChem

Thank you, Raja. Good morning everyone. I'm Frank Roederer, CEO of gChem, and I'm honored to introduce you to our company. gChem was founded in 1962 and was the first company to commercialize DMSO.

Today we are a vertically integrated producer of specialty chemicals. DMSO and its pharmaceutical-grade extension, Procipient, along with dimethyl sulfide and nitrogen tetroxide, the two key inputs produced on a fully integrated basis on-site. Those products are produced within our highly automated Tuscaloosa manufacturing complex.

Our products serve a diversified set of end markets, including pharmaceuticals, agroscience, semiconductors, performance chemicals, and aerospace. The Americas and Europe represent the large majority of our revenue. And many of our products are qualified or specified and designed for our customers' formulations and manufacturing processes.

The important point is not that gChem is large. It is that the company occupies a very specialized position in markets where quality, purity, documentation, technical support, and reliable supply matter far more than simple tonnage. We're a small, nimble, innovation-focused business with a strong financial profile.

Let me briefly introduce the team. I joined as CEO in 2019 after executive roles at A. Schulman, Sabic, Dow, and WR Grace. I'm supported by an unusually strong team for a company our size. It's commercially minded, technically deep, and highly experienced in small and specialized industry.

We have also built a culture in which our scientists, manufacturing teams, regulatory experts, and salespeople work directly with customers to solve problems.

As a true specialty chemicals company, technology and innovation sit at the heart of our business. Approximately one in five employees work on the technology and innovation team led by Dr. Artie McKim, who has been with the company for more than 25 years. Artie holds a PhD in synthetic organic chemistry and has been central to the customer-driven product development that has expanded the DMSO market over time.

Guillaume Schmitt leads Europe and Asia. He has a deep -- he is a deep DMSO specialist, holds numerous patents, and brings decades of technical and commercial expertise. Chris Masters leads sales in the Americas and has nearly two decades of experience in chemicals and strategic accounts. Jennifer Priola joined as CFO in 2023 and brings substantial chemical industry finance experience.

John Davidson leads manufacturing and supply chain and brings more than 27 years of global operating experience in the life science space, where we generate the majority of our income. All members of our senior leadership team have signed new five-year employment agreements with ContextLogic, and I'm personally making a significant investment in ContextLogic. We're excited to join an owner that gives us the freedom to keep innovating and building this special business for the long run.

Now, what's DMSO and why does it matter?

DMSO is a specialty solvent. At its simplest, a solvent is a liquid that allows other substances to dissolve, mix, react, be carried, or be cleaned away. DMSO is unusual because it combines several properties that are rarely found together.

It dissolves an unusually wide range of substances, and it mixes freely with water and most organic compounds. At the same time, it has an outstanding toxicity and biodegradability profile relative to many other solvents in its class. For chemists, DMSO is a highly polar aprotic solvent.

For everyone else, the practical point is simpler. When an ordinary solvent cannot provide the required combination of solvency, purity, safety, and consistency, DMSO often can. Because of those properties, DMSO does work where ordinary solvents fail.

In pharmaceuticals, it dissolves and delivers active drug ingredients and preserves living cells in cell and gene therapy. In semiconductors, it strips and cleans silicon wafers. In agriculture, it carries active ingredients in crop protection formulations.

In most of these applications, DMSO is a small share of the customer's cost, but critical to the final product. Four things make this space distinctive. First, DMSO gets specified in our customers' product and manufacturing processes. Qualifying a new supplier takes time and getting it wrong is costly. Many of our customer relationships are decades long.

Second, regulation is encouraging a gradual move away from toxic legacy solvents such as NMP and DMF toward safer alternatives. The chart on the right shows DMSO's favorable position on both toxicity and sustainability.

Third, demand is growing from secular drivers including cell and gene therapy, semiconductor investment including capacity that's associated with AI, and the broader shift towards greener chemistry.

And fourth, the DMSO industry includes a small number of global producers. Now put simply, DMSO serves a very specialized and demanding slice of the solvent market where customers value quality, consistency, and reliability over other factors.

This slide shows where our products are used. The applications differ, but the purchasing logic is remarkably consistent. Our product is critical to the quality, yield, safety, or regulatory status of the finished product.

In pharmaceutical drug delivery, our excipient-grade DMSO is used as, as an excipient, an active ingredient in selected products, and as a cryoprotectant that helps preserve living cells during freezing and thawing. These applications require pharmaceutical-grade material manufactured under rigorous quality systems.

Procipient is supported by the only active Type 2 Drug Master File for DMSO with the FDA. That allows customers to reference gChem's confidential manufacturing and quality information in their FDA Drug Master File submissions. It is Procipient that is referenced. Regular DMSO cannot be used in drug delivery.

In pharmaceutical synthesis, DMSO acts as the reaction medium in which complex molecules, including peptides, are made. It generally does not remain in the finished medicine, but ultra-high purity, batch traceability, documentation, and reliable supply are essential because small impurities can reduce yield or cause expensive batches to fail.

In semiconductors, DMSO is used to strip photoresist and clean silicon wafers during and after the fabrication process. In this market, impurities measured in parts per billion can affect the yield of a very expensive wafer.

So, consistency and contamination control matter much more than the solvent bill.

In agroscience, DMSO is used as a carrier or stabilizing solvent in crop nutrition and crop protection formulations. It combines strong solvency with a favorable safety profile and helps active ingredients remain stable and perform as intended. In performance chemicals, DMSO, DMS, and NTO are used in carbon fiber, polymers, performance textiles, paint stripping, and the long tail of industrial application where customers value quality technical service and dependable supply.

In aerospace and defense, NTO is used as an oxidizer for upper-stage rocket propulsion and steering, satellites, lunar landing vehicles, and deep space exploration. This is a small part of our revenue today, but it is an area where our secure domestic supply and exacting quality standards create an attractive opportunity. Across all these end markets, our strategy is to keep moving the portfolio forward towards applications where our technical capability and quality systems matter most.

Our competitive differentiation is not the result of one patent or one customer contract. It reflects numerous competitive strengths. First, DMSO production is highly specialized. Making DMSO means first making DMS, then NTO, then DMSO. Three distinct on-site processes. In effect, we run three chemical plants stacked on top of each other. We're the only on-purpose producer of DMS and NTO in North America.

Our hydrogen sulfide feedstock comes under a long contract with a co-located refinery at our own plant in Tuscaloosa. That closed-loop configuration secures supply, supports consistent quality, and avoids moving hazardous intermediate over long distances. The manufacturing know-how required to produce pharmaceutical and semiconductor grades has been developed over decades through investment and innovation and is tightly guarded.

Second, the feedstocks require careful handling and transport. H2S is toxic and flammable. TMS is volatile and highly flammable. NTO is toxic and corrosive. Producing them on one integrated site is a meaningful advantage.

Finished DMSO travels more easily, but it freezes at approximately 64 degrees Fahrenheit, and it requires careful handling. Suppliers serving Western customers from Asia, navigate additional logistics considerations including longer lead times, more inventory, freight and tariff costs, contamination risk, and more opportunity for disruption. Furthermore, our sustainability profile is unmatched.

Third, DMSO is hard to replace. In many applications, it is a single-digit percentage of the customer's cost, but it's essential to the finished product. Customers therefore buy on purity, supply reliability, technical support, regulatory compliance, and consistency.

Qualification can take years, and much of our DMSO revenue is covered by multi-year agreements. Put those pieces together, and you can see why gChem has built a durable position through operational excellence, technical expertise, regulatory qualification, vertical integration, and long-standing customer relationships built on shared innovation over many decades.

Let me make this concrete with two case studies. Procipient is our pharmaceutical-grade DMSO manufactured to USP and European Pharmacopeia standards under ICH Q7 good manufacturing processes at our FDA-inspected facility. This regulatory position is especially important. Procipient is supported by the only active Type 2 Drug Master File for DMSO with the U.S. Food and Drug Administration, together with comparable filings in Europe and Canada.

The Drug Master File is worth pausing on, because it demonstrates the tie-in with our customers' regulatory filings. When a drugmaker wins FDA approval for a drug formulated with Procipient, they can simply get a letter of access from us which simplifies their regulatory process and references recipients' Drug Master File in their submission.

Changing suppliers isn't just a procurement decision. It involves a regulatory process. The customer may need to qualify a new supplier, amend its regulatory filings, repeat stability work, and in some cases conduct additional clinical studies product by product and jurisdiction by jurisdiction.

Today Procipient is designed into more than 50 FDA-approved drug products. Everything you see on the right side of this slide, from CAR-T cancer treatments to gene therapy for sickle cell anemia, each one is a regulatory and a technical relationship with gChem. That installed base is a durable asset, but it also creates a continuing obligation.

We must earn our position every day through quality documentation, regulatory compliance, and supply reliability.

Pharmaceutical synthesis is a different use case. Here, DMSO is the reaction medium in which the drug is manufactured. It dissolves the starting materials so they can react efficiently, and it is generally removed before the finished medicine reaches the patient.

Even though DMSO is not in the final drug, quality still matters enormously. In a multi-step synthesis, trace impurities can compound into lower yield or failed batches. Customers therefore require tight impurity control, batch-level traceability, regulatory-ready documentation, and dependable supply.

This is also a technical sale. Our scientists work directly with customer scientists on storage, handling, ingredient selection, troubleshooting, validation, and the documentation required for regulatory audits and process validation. The case study on this slide involves a major global pharmaceutical company.

Our DMSO is used in the synthesis of every injectable GLP-1 therapy produced by that customer. We have supported that relationship for many years, and the newly signed global supply agreement could bring substantial additional volume across its manufacturing network as GLP-1 capacity expands.

This slide shows the result of the strategy we have pursued since 2019. Reported profits have tripled since 2019. The important point is the way that the growth was achieved.

We did not simply sell more tons. In fact, we deliberately exited lower volume, lower value commodity-grade volume, including opportunistic spot business that did not benefit from durable customer protections.

We redirected capacity toward the most demanding applications, launched new grades and new end uses, expanded our pharmaceutical franchise, and priced the product for the innovation and value we deliver. The business became more specialized, not less.

Now, growth will not be perfectly linear and there will be years in which end market demand or customer timing creates variability. But the engine -- better applications, value-based pricing, product and service quality, and disciplined use of our capacity is one we believe can continue for many years to come.

Looking forward, our growth playbook has four levers.

First, demand growth. We serve end markets with durable, long-term tailwinds. Peptide production for Type 2 diabetes and weight loss drugs, cell and gene therapy, semiconductor spend, and we benefit directly as customers migrate away from toxic legacy solvents, a shift reinforced by tightening regulation.

Second, enhancing value. We will continue to price for the value we provide in a space where customers prioritize quality, reliability, product innovation, and regulatory support. The majority of our DMSO revenue sits under multi-year contracts with built-in pricing escalators.

Third, new markets and new products. We're scaling up an aerospace-grade NTO for public and private satellite and space propulsion applications. We're extending our pharma franchise with Procipient Sterile, targeting cell and gene therapy, where more than 30 distinct customer engagements are underway.

And fourth, operational efficiency. Significant recent capital investments have unlocked capacity, and incremental volume comes through at high operating margins, with likely no material growth capital required for at least the next five years.

We believe these levers comfortably support ContextLogic's model of 5% to 10% annual organic profit growth. And as I've emphasized, however that growth will not be linear.

Now, every business has risks, and we take ours seriously. The first is that we operate one integrated manufacturing site. The Tuscaloosa facility has achieved approximately 96 to 99% uptime in recent years. Supported by automation, preventive maintenance, significant capital investment, and a strong history of third-party inspection.

Its inland location is also favorable. Still, a single-site business must plan carefully for continuity, and our integration with a co-located refinery is both an advantage and a dependency that we actively manage today and plan to mitigate in the future.

The second risk is pricing. In the high-value segments where primarily -- where we primarily operate, pricing reflects the qualification requirements, and the importance customers place on quality, supply reliability, and technical support. The industrial DMSO space, particularly in Asia, can be more volatile when supply and demand move out of balance. We participate in that space only selectively and opportunistically.

The third risk is competition. The global DMSO space includes three scaled producers, and there are smaller entrants, especially in Asia.

Our competitors are capable companies. We cannot assume that our position is permanent simply because it has been durable. We must continue to lead on quality, technical service, domestic supply, innovation, and regulatory support.

We also face normal risks of a specialized chemical manufacturer: safety, environmental and regulatory compliance, dependence on key team members, and protection of technical know-how. Those are core operating responsibilities, not just footnotes.

We believe gChem is well-positioned because the company has spent more than 60 years building the systems, relationships, and capabilities that address these risks. We're proud of our business and we're excited that ContextLogic's permanent ownership model will allow us to continue investing, innovating, and growing with a long-term horizon.

With that, I will turn it over to Mark Ward.

Mark Ward, President of ContextLogic

Thank you, Frank. Good morning, everyone. I also want to extend my warm welcome to Frank and his team. We're excited to have you at ContextLogic.

I will walk through the transaction, the financial impact on ContextLogic, how we intend to report our operating businesses going forward, and the mechanics of the proposed rights offering. ContextLogic is acquiring gChem for a purchase price of $850 million, subject to customary adjustments. The consideration is 100% cash except for the portion related to management rollover.

Total sources are $900 million, expected to consist of a $650 million backstopped -- fully backstopped rights offering and $250 million of new debt.

On the uses side, approximately $424 million funds the purchase of equity, approximately $426 million repays gChem's existing net debt. $35 million provides cash to the balance sheet, and approximately $15 million covers estimated transaction and financing fees.

We have committed financing led by Blackstone Credit and Insurance, a $250 million term loan and $25 million revolving credit facility. The term loan is priced at SOFR plus 450 basis points at opening with significant covenant flexibility and capacity to support growth. The terms are broadly in line with our U.S. SALT credit agreement, and we are comfortable with the leverage given gChem's strong cash generation and modest capital requirements.

We are targeting closing in the fourth quarter of 2026, subject to customary regulatory approvals, and other standard closing conditions.

Now to the measure we care most about: free cash flow per unit. For the full year of 2027, the first full year with both U.S. Salt and GChem, we expect the combined business to generate approximately $95 to $105 million of free cash flow against approximately 174 million units outstanding at Holdings LLC on a pro forma basis. This transaction represents a meaningful step up in free cash flow per unit, which is exactly the test Raja described at the start of the call.

Consistent with our practice, we do not plan to issue ongoing guidance. When we announce a large transaction, however, we intend to help investors understand the earnings power of the combined business, and that is the spirit in which we are providing this disclosure. We do not intend to update it for ordinary quarterly variations, and we encourage investors to evaluate the business over a multi-year horizon.

gChem is an important validation of the model we are building. It shows that exceptional businesses and management teams see ContextLogic as an attractive long-term home. And advances our central objective: growing free cash flow per unit without diluting the quality of our portfolio.

Now that we are adding a second operating business, let me address disclosure going forward. At the segment level, we will report U.S. Salt and GChem on a GAAP basis. At the consolidated ContextLogic level, we will report full GAAP financial statements, supplement them where useful with clearly defined non-GAAP measures such as adjusted EBITDA, free cash flow, and adjusted free cash flow, together with appropriate definitions and reconciliations.

Speaking of disclosures, we filed an 8-K this morning setting out the principal terms of the transaction. That filing also includes a preliminary look at U.S. Salt's second quarter revenue and gross profit along with one additional item of disclosure relating to U.S. Salt.

We will report full second quarter results next week, but we felt it was important to give a complete picture now for shareholders who may be weighing this transaction and whether to participate in the proposed rights offering.

Let me explain how we expect the rights offering will work. For that, I'd point you to Slide 24 in the appendix, which shows our current capital structure.

As a reminder, equity is held at two levels: ContextLogic Holdings, Inc., the public company, and ContextLogic Holdings, LLC, beneath it. There are approximately 46 million shares outstanding at the public company today.

We intend to conduct a $650 million rights offering at the public company subject to a registration statement being declared effective by the SEC, and eligible shareholders will receive the first opportunity to participate.

We expect to distribute rights to holders of record in proportion to their ownership of the approximately 46 million outstanding public company shares. In simple terms, if you own 1% of the outstanding public company shares on the record date, you will receive the right to subscribe for 1% of the shares offered, subject to the final terms of the offering. Simple as that.

Abrams Capital owns 40% of the public company ContextLogic Holdings, Inc., and it has stated that it intends to exercise its pro rata share of the rights offering in full. The rights offering is fully backstopped by a consortium led by Abrams Capital and BC Partners at $9.00 per unit. That group includes our Board member, Paul Levy. Any amount that is not subscribed at the public company will be issued at the LLC level at the same price.

I want to underscore one point. The backstop parties will receive no fee for their commitments. The public shareholders have the first opportunity to participate pro rata, and the backstop parties will fund whatever remains.

The backstop is behind the shareholders, not in front of them. This is what we mean by being a shareholder-oriented company. Existing shareholders receive a full opportunity to participate while the backstop parties provide certainty to the seller that the transaction can be funded without a backstop fee.

On the record date, the record date, subscription ratio, and other terms will be described in a registration statement and prospectus to be filed with the SEC, and we encourage shareholders to read those documents carefully when they become available. The information contained herein does not constitute or form part of and should not be construed as an offer or invitation to purchase any securities of the company. Such an offering will only be made pursuant to a registration statement. Once such registration statement has been declared effective or pursuant to an exemption from the Securities Act.

One last item, the listing. We have said that pursuing a listing on a national security exchange was a priority. We are actively pursuing that listing and have submitted an application to that effect. We are hopeful that a listing can be completed in early 2027, subject to satisfying applicable listing requirements and exchange approval.

With that, I will turn the call back to the operator.

Operator

Ladies and gentlemen, this concludes today's conference call. A transcript of the call together with the investor presentation will be available on the company's investor relations website at www.contextlogic.com.

Thank you very much for joining us today. You may now disconnect.