



2014 First Quarter Review



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Forward Looking Statements

Forward-Looking Statements

The information in this presentation and statements made during this presentation may contain certain forward-looking statements within the meaning of federal securities laws. These statements reflect management's expectations regarding future events and operating performance.

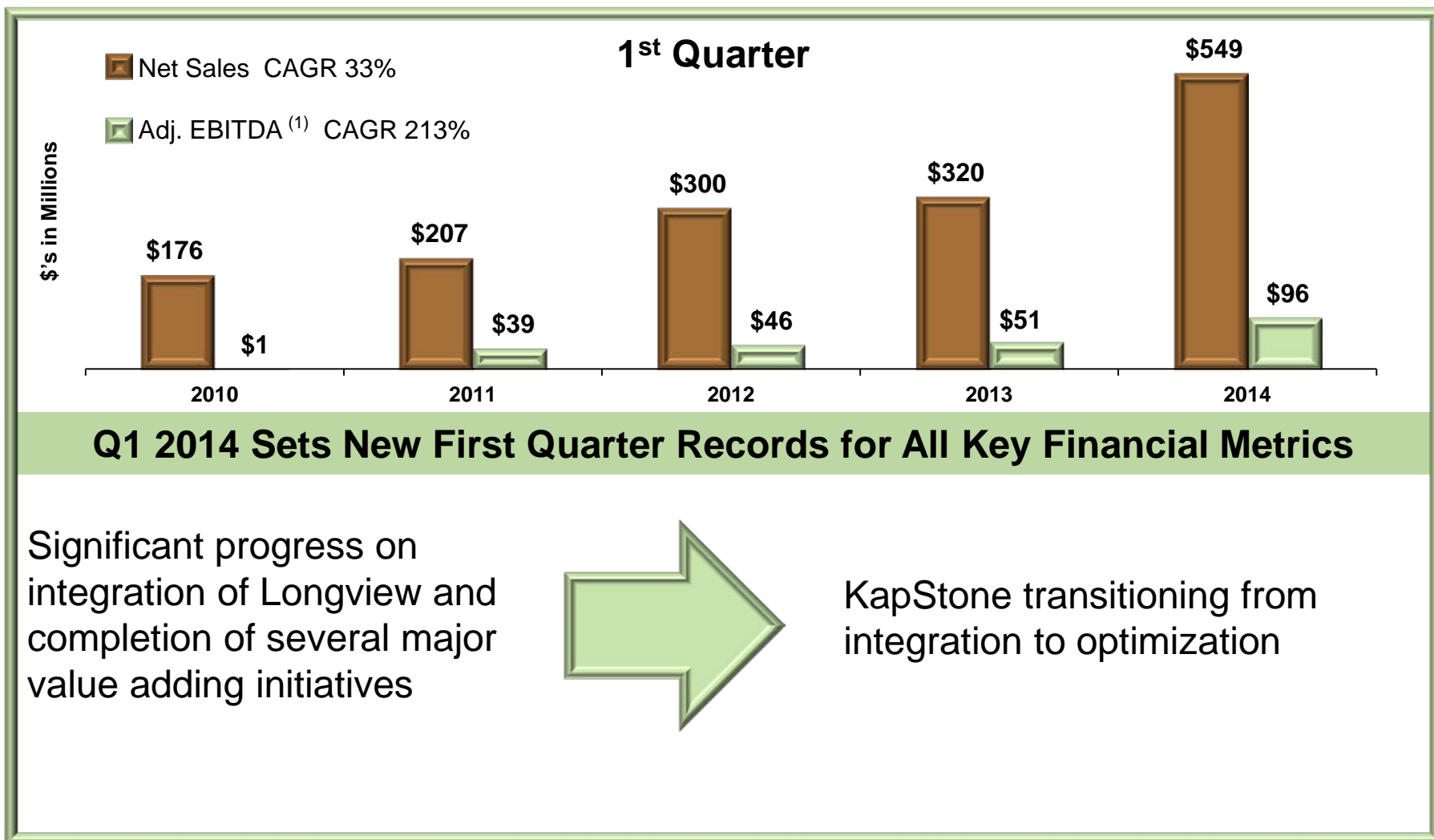
Risk Factors

These forward-looking statements involve a number of risks and uncertainties. A list of the factors that could cause actual results to differ materially from those expressed in, or underlying, any forward-looking statements can be found in the Company's filings with the Securities and Exchange Commission, such as its annual and quarterly reports. The Company disclaims any obligation to revise or update such statements to reflect the occurrence of events after the date of this presentation.

Non-GAAP Financial Measures

This presentation refers to non-U.S. GAAP financial information. A reconciliation of non-U.S. GAAP to U.S. GAAP financial measures is available on the company's website at KapStonepaper.com under Investors.

Record Q1: KapStone's Strengths Continue Building



(1) Adjusted to exclude non-cash stock compensation and acquisition, start up and other costs

First Quarter Financial Results

(\$ in Millions, except per share)	<u>Q1 2014</u>	<u>Q1 2013</u>	<u>Inc/(Dec) ⁽¹⁾</u>	<u>Q4 2013</u>	<u>Inc/(Dec) ⁽¹⁾</u>
Net Sales	\$ 549	\$ 320	72%	\$ 563	(3%)
EBITDA	\$ 91	\$ 48	90%	\$ 106	(15%)
Adj. EBITDA⁽²⁾	\$ 96	\$ 51	89%	\$ 110	(13%)
Net Income	\$ 32	\$ 18	74%	\$ 43	(26%)
Adj. Net Income⁽³⁾	\$ 35	\$ 20	72%	\$ 44	(19%)
Diluted EPS	\$ 0.33	\$ 0.19	74%	\$ 0.45	(27%)
Adj. Diluted EPS⁽³⁾	\$ 0.36	\$ 0.21	71%	\$ 0.45	(20%)

(1) Percentage change calculations made using unrounded source financials

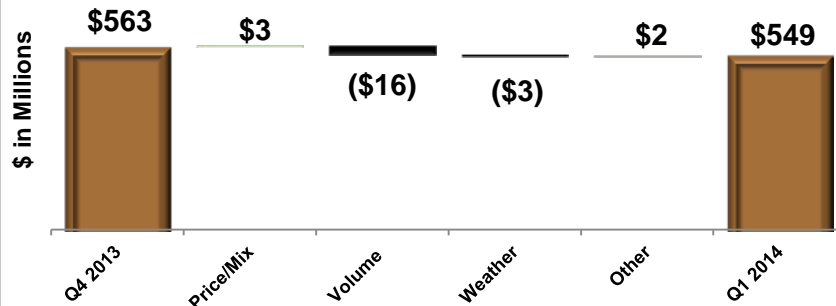
(2) Adjusted to exclude non-cash stock compensation and acquisition, start up and other costs

(3) Adjusted to exclude items above, realization of unrecognized tax benefit relating to the AFTC in 2013 and income tax adjustments

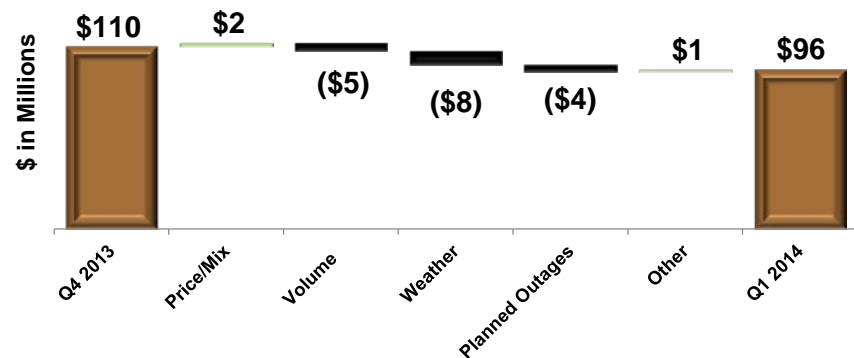
Q1 2014 Compared to Q4 2013

Severe Weather Impacts Quarter

Net Sales



Adjusted EBITDA⁽¹⁾



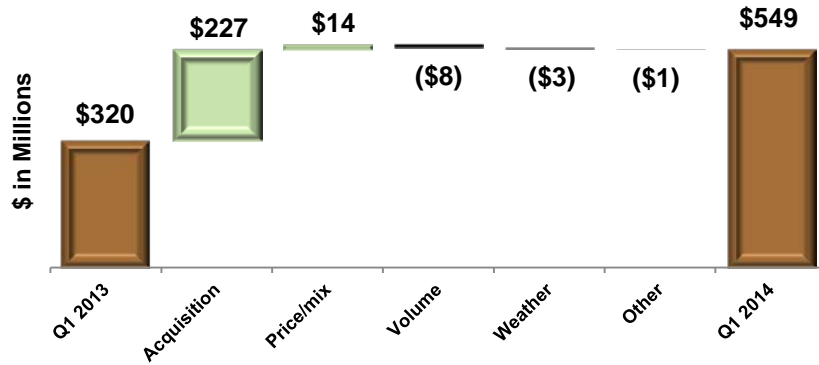
- Net sales were lower by \$14 million compared to the prior quarter
 - Q1 2014 had two fewer production days on a sequential basis
 - Lower production volume related primarily to the Charleston PM #3 upgrade
- Severe weather impacted both sales and production costs compared to the prior quarter
- The impact of planned outages in the first quarter was \$4 million higher than the prior quarter

(1) Adjusted to exclude non-cash stock compensation and acquisition, start up and other costs

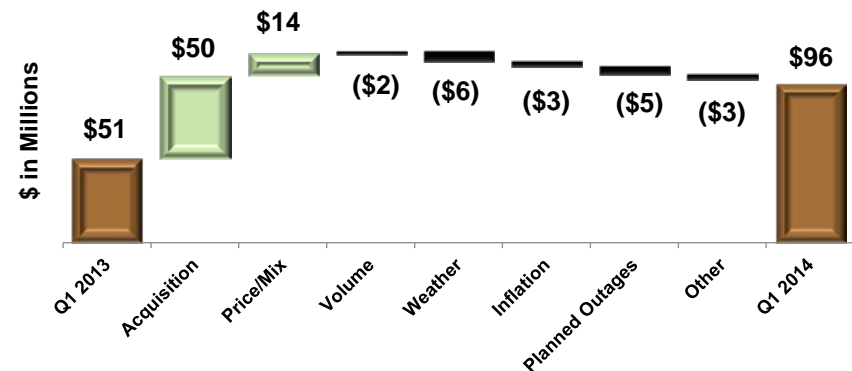
Q1 2014 Compared to Q1 2013

Acquisition is Primary Driver of Year Over Year Gains

Net Sales



Adjusted EBITDA⁽¹⁾



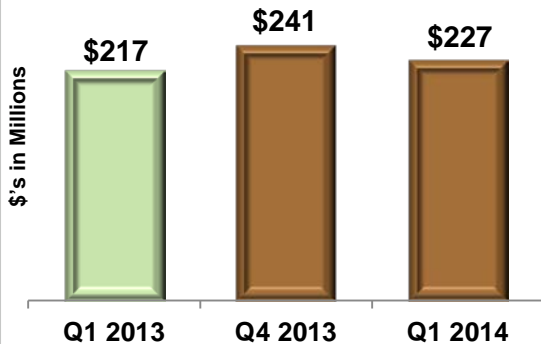
- Higher prices reflect average legacy mill revenue increase of \$32 on all product lines to \$685 per ton and higher corrugated prices
 - Primarily domestic and export containerboard price increases
- Volume was lower in the quarter primarily due to the planned machine outage at Charleston
- Severe weather negatively impacted adjusted EBITDA approximately \$6 million for legacy operations compared to the prior year quarter (\$2 million of additional weather impacts was included in Longview's results)
- Impact from planned mill outages was \$5 million higher in Q1 2014
- Inflation of \$3 million is mainly related to higher fiber costs

(1) Adjusted to exclude non-cash stock compensation and acquisition, start up and other costs

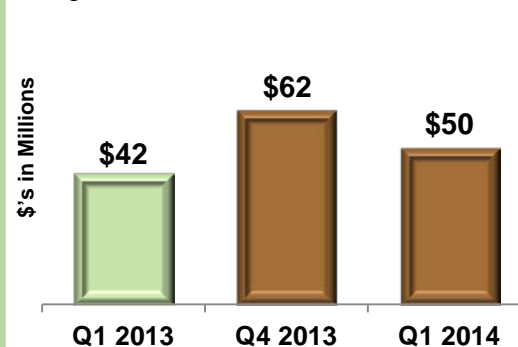
Longview Acquisition

Record First Quarter ⁽¹⁾

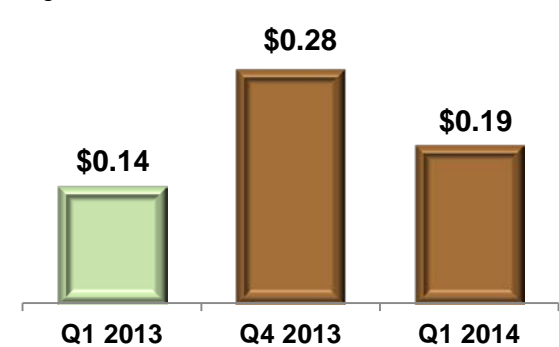
Net Sales



Adjusted EBITDA ⁽²⁾



Adjusted Diluted EPS ⁽³⁾



- Despite challenges in the quarter, legacy Longview generated record adjusted EBITDA
- Annualized synergies of \$13 million transacted on by March 31, 2014
 - Synergy target now \$20 million of annualized benefits to be transacted by late 2015
- Q1 2014 as compared to Q4 2013 was negatively impacted by:
 - \$5 million - planned maintenance activities
 - \$3 million - isolated operational issues which reduced total production
 - \$2 million - weather
 - \$2 million - two less operating days compared to the prior quarter
- Seasonal inventory build in Q1 2014 of 6,000 tons to accommodate agricultural cycle

(1) Longview results for Q1 2013 are shown for reference as this period was prior to the July 2013 acquisition

(2) Adjusted to exclude one time acquisition costs

(3) Adjusted to exclude one time acquisition costs and includes all related interest expense and amortization of financing fees

Cash Flows, Debt and Liquidity

De-Levering Debt and Reducing Interest Rate

- Debt to EBITDA leverage ratio ⁽¹⁾
 - 3.8 times - July 18, 2013 ⁽²⁾
 - 2.7 times - March, 31 2014
- Net debt at March 31, 2014 - \$1,203 million
 - Cash - \$24 million
 - \$755 million term loan A at 1.90%
 - \$469 million term loan A1 at 2.15%
 - Interest rates dropped 25 bps in March due to step down on loan pricing grid
 - Recently amended credit facility provided an additional reduction of 25 bps
- Available revolver balance is \$395 million in addition to \$300 million accordion
- Cash flow from operations up \$23 million to \$39 million
- Adjusted free cash flow was \$7 million for Q1 2014, up \$8 million over Q1 2013
 - \$0.07 per diluted share
- Capex for Q1 2014 was \$32 million including \$13 million for the machine upgrades at our Charleston and Longview mills

(1) Calculated per bank agreement

(2) Closing date of Longview acquisition

Transitioning From Integration to Optimization

Developed long-term discretionary CAPEX plan focused on fast-return projects



Completed projects:

- Charleston PM #3 – Completed in February \$29 million project
 - Estimated simple payback of less than two years
 - Capable of highly efficient production of virgin high performance ultra light-weight linerboard grades
- Longview PM #10 - Completed in April \$16 million project
 - Estimated simple payback of two years
 - Capable of highly efficient production of virgin high performance ultra light-weight linerboard grades

Implementation of non-capital plan



Voluntary separation program at southeast mill system

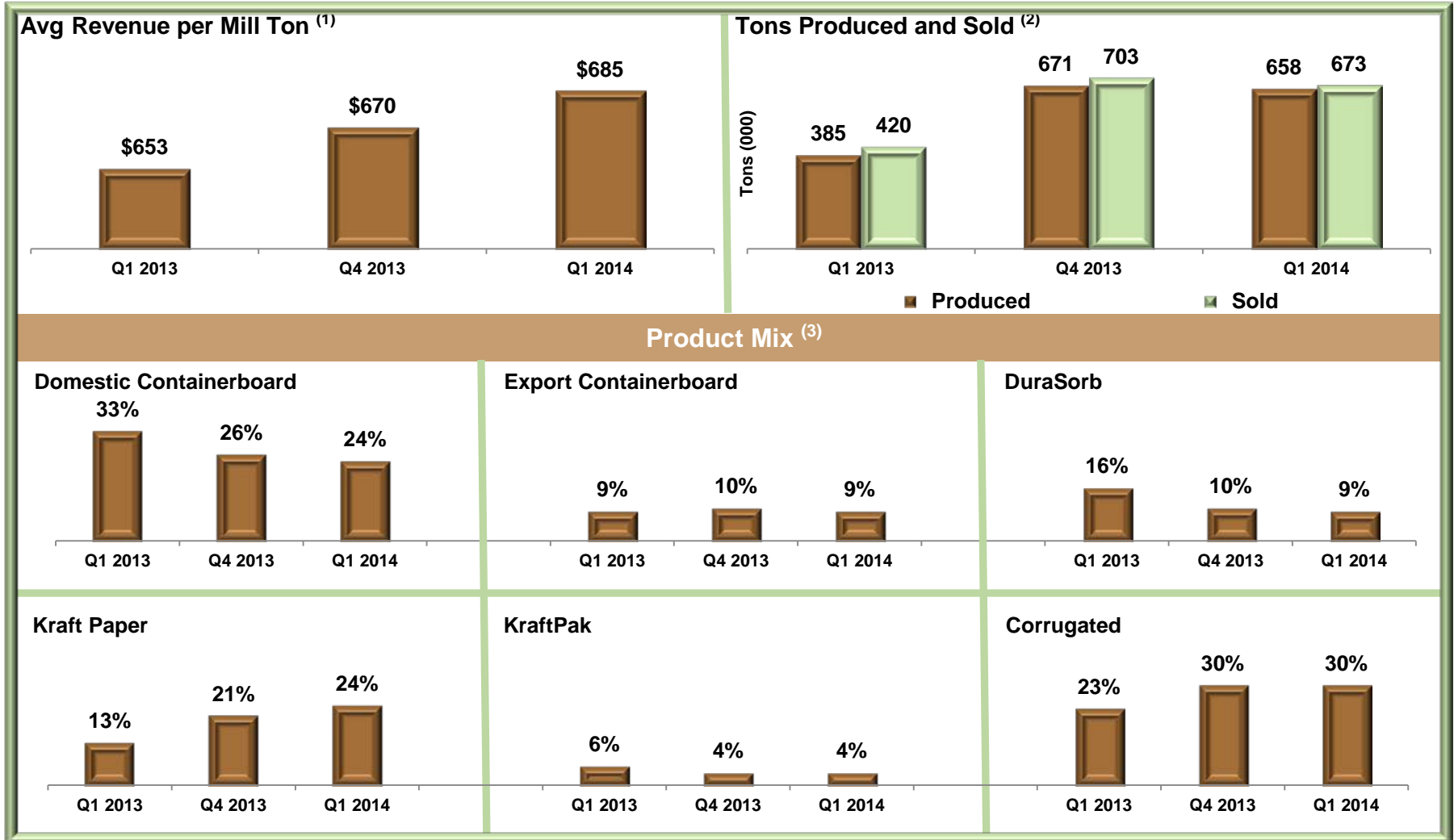
- Approximately 40 employees are expected to take advantage of the program starting in Q2 2014 and will be completed by year end
- Estimated benefits up to \$4 million annually with a simple payback of 1.7 years

Summary of Key Assumptions for Q2 2014

- Kraft paper price increase of \$50 per ton
 - Full benefit expected by Q3 2014
 - Approximately \$2 million benefit in Q2 2014
 - Up to \$30 million annualized benefit expected
- Continued seasonal improvement of product mix from Q1 2014
- Production and shipping
 - One more mill production calendar day partially offset by one less corrugated shipping day
 - Production in Q2 2014 should benefit from 6,900 more tons due to less planned production downtime than Q1 2014
 - Reduction of Longview's Q1 2014 seasonal inventory build
 - Additional benefits from two major machine upgrades expected to be realized as the quarter progresses
- Planned outage maintenance expense approximately \$10 million lower than Q1 2014
- Relatively stable fiber costs from Q1 2014
- Voluntary separation initiatives should result in up to \$5 million of expense in Q2 and additional expense (up to \$2 million more) over the remainder of 2014 as employees retire
- CAPEX is expected to be \$ 35 million for Q2 2014, and \$110-\$120 million for the full year

Appendix

Components of Quarterly Net Sales

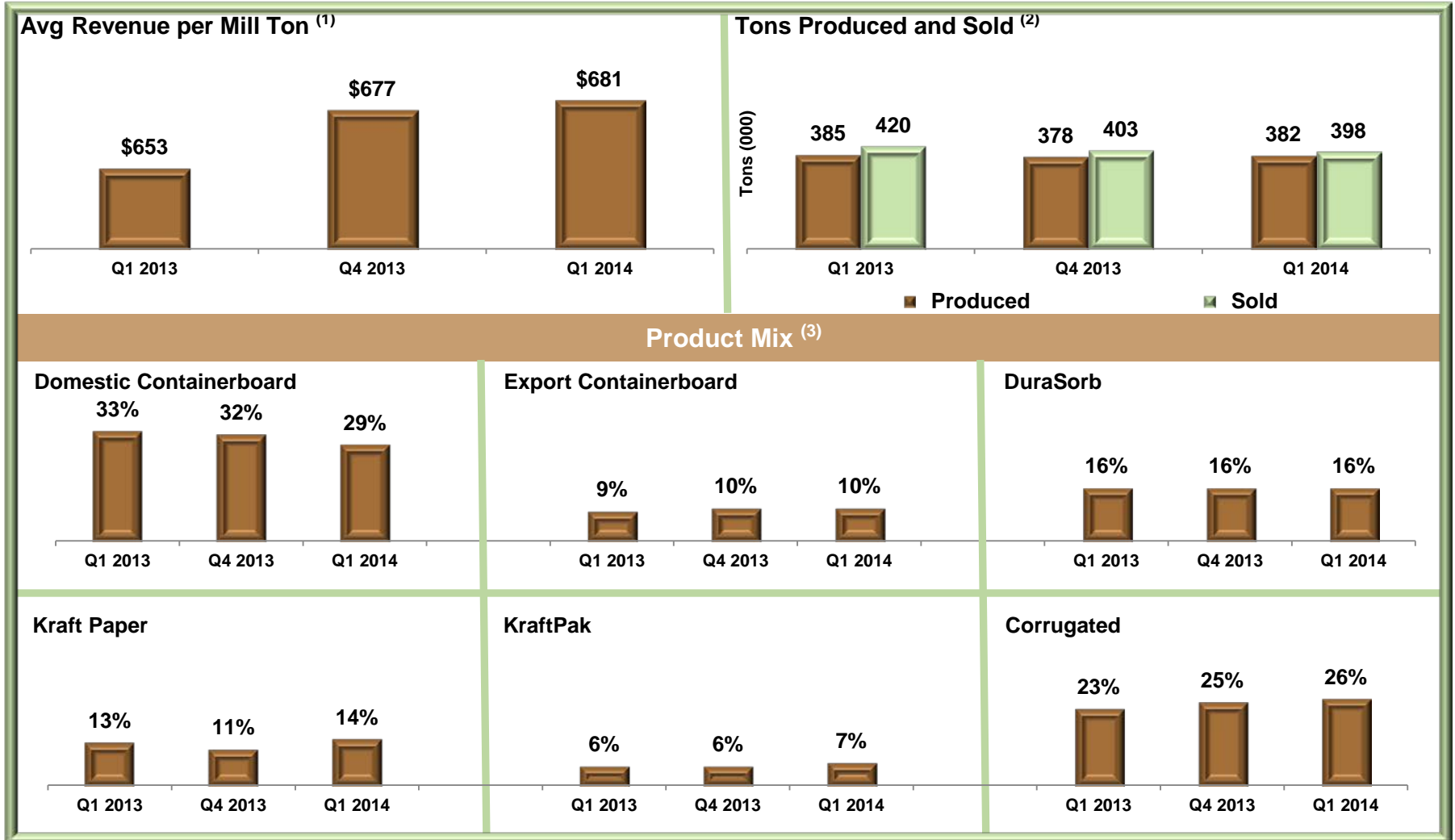


(1) Average price per external ton sold from mills – excludes corrugated sales

(2) Tons Produced represents saleable tons produced from four paper mills; Tons Sold is external sales from paper mills and corrugated container plants

(3) Mix is based on a percentage of total external tons sold from paper mills and corrugated container plants

Components of Quarterly Net Sales (Legacy KapStone)



(1) Average price per external ton sold from mills – excludes corrugated sales

(2) Tons Produced represents saleable tons produced from three legacy KapStone paper mills; Tons Sold is external sales from legacy KapStone paper mills and corrugated container plants

(3) Mix is based on a percentage of total external tons sold from paper mills and corrugated container plants

Maintenance Outage Expense & Production Impact

<u>2013 Actual</u>	Q1	Q2	Q3	Q4
Financial Impact	\$ 4.7	\$ 8.5	\$ 1.1	\$ 10.5
Production Impact	-	9,432	-	12,500

<u>2014 Actual/Expected</u>	Q1A	Q2E	Q3E	Q4E
Financial Impact	\$ 14.8	\$ 4.5	\$ 4.1	\$ 17.1
Production Impact	14,300	7,400	-	12,500