



2014 Second Quarter Review



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July 30, 2014

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

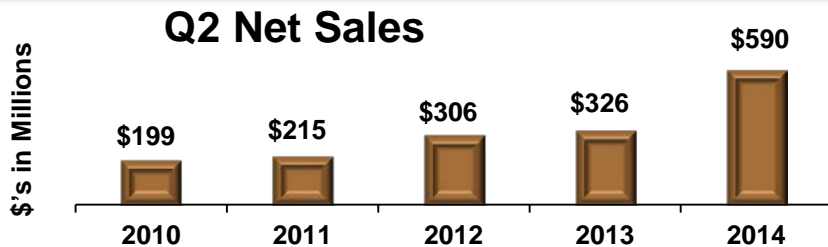
These forward-looking statements involve a number of risks and uncertainties. A list of the factors that could cause actual results to differ materially from those expressed in, or underlying, any forward-looking statements can be found in the Company's filings with the Securities and Exchange Commission, 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

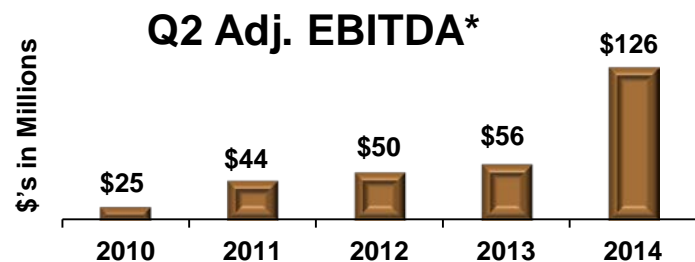
This presentation refers to non-U.S. GAAP financial information. A reconciliation of non-U.S. GAAP to U.S. GAAP financial measures is available on the company's website at KapStonepaper.com under Investors.

KapStone Crushes Previous All-Time Record Results

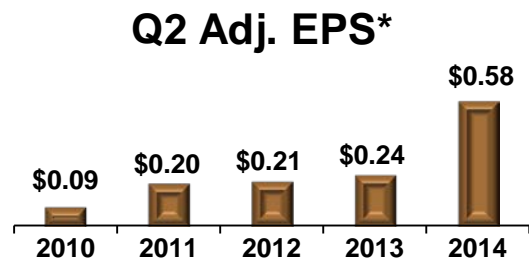
Record Q2 Quarters for Legacy KS and LV Operations



Up 81% YOY



Up 125% YOY



Up 142% YOY

*Adjusted to exclude non-cash stock compensation and acquisition related costs

Second Quarter Financial Results

(\$ in Millions, except per share)	<u>Q2 2014</u>	<u>Q2 2013</u>	<u>Inc/(Dec)</u> ⁽¹⁾	<u>Q1 2014</u>	<u>Inc/(Dec)</u> ⁽¹⁾
Net Sales	\$ 590	\$ 326	81%	\$ 549	7%
EBITDA	\$ 119	\$ 52	129%	\$ 91	31%
Adj. EBITDA ⁽²⁾	\$ 126	\$ 56	125%	\$ 96	31%
Net Income	\$ 51	\$ 21	143%	\$ 32	59%
Adj. Net Income ⁽³⁾	\$ 56	\$ 23	143%	\$ 35	60%
Diluted EPS	\$ 0.53	\$ 0.22	141%	\$ 0.33	61%
Adj. Diluted EPS ⁽³⁾	\$ 0.58	\$ 0.24	142%	\$ 0.36	61%

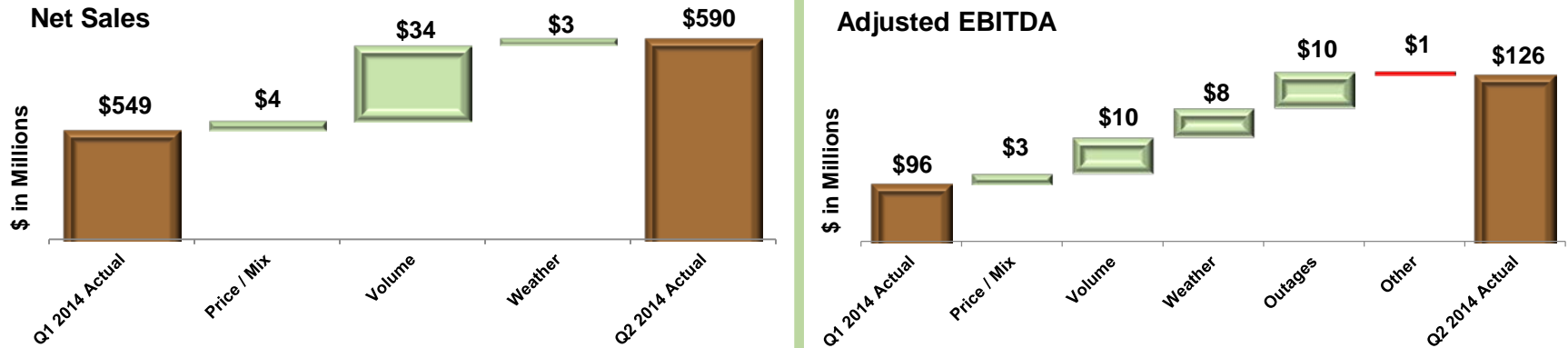
(1) Percentage change calculations made using unrounded source financials

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

(3) Adjusted to exclude items above net of related income taxes

Q2 2014 Compared to Q1 2014 Actual

Higher Volumes, Lower Outage Costs and Better Weather Drives Improvement



- Favorable prices reflect higher corrugated prices and partial realization of the 2014 kraft paper price increase
- Increased sales volumes reflects higher production volumes resulting from reduced planned outages, one additional mill day of production, and incremental gains from recent capital investments at Charleston and Longview
- Weather impact was limited to Q1 2014
- Lower planned outages of \$10 million reflects higher activity in Q1 mainly for CHS PM3 project offset by Longview PM10 upgrade in Q2

Q2 2014 Compared to Q2 2013 Actual

Longview is Key Driver YOY While Legacy Ops Achieve All-time Records

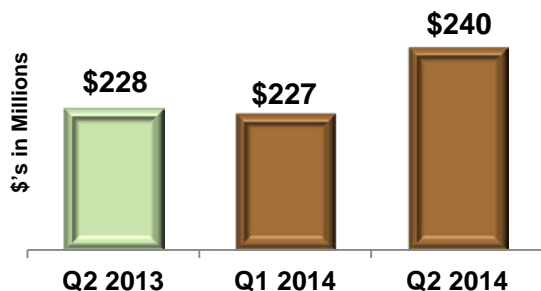


- Compared to Q2 2013, the Longview acquisition added \$240 million in sales and \$58 million of adjusted EBITDA
- Price/mix improvement reflects realization of 2013 containerboard and corrugated products price increases, the 2013 specialty paper price increases, and the 2014 kraft paper price increase increased sales and adjusted EBITDA
- Higher sales volume of 16,000 tons drives an incremental \$4 million in adjusted EBITDA
- Outage costs are \$8 million lower in 2014 for legacy KapStone due to CHS tri-annual outage in 2013
- Inflation compared to the prior year negatively impacts adjusted EBITDA by \$7 million
 - Fiber and freight expense are higher year over year

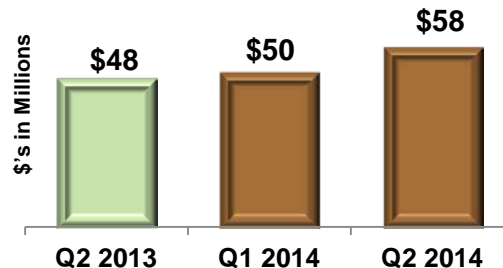
Longview Acquisition

Record Second Quarter ⁽¹⁾

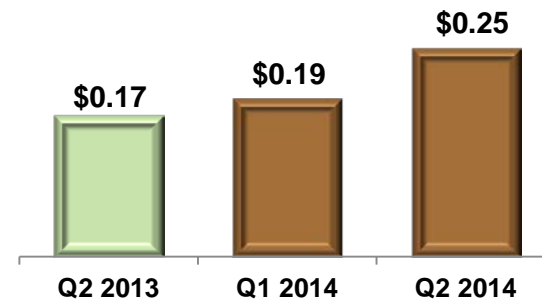
Net Sales



Adjusted EBITDA ⁽²⁾



Adjusted Diluted EPS ⁽³⁾



- Improved operations and benefits from synergies resulted in 2Q record adjusted EBITDA
 - Despite \$4 million of total planned outage cost in the quarter including \$2 million to upgrade a paper machine and loss of 4,100 tons of production
- Annualized synergies of \$16 million transacted on by June 30, 2014
 - Synergy target now \$21 million of annualized benefits to be transacted by late 2015
- Q2 2014's adjusted EBITDA as compared to Q1 2014 was positively impacted by:
 - \$5 million – improved operations
 - \$2 million – better weather
 - \$1 million – one more operating day compared to the prior quarter
- Seasonal inventory reduction in Q2 2014 of 5,000 tons to accommodate agricultural cycle

(1) Longview results for Q2 2013 are shown for reference as this period was prior to the July 2013 acquisition and are based on pro forma financial statements filed in October 2013

(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 - June, 30 2014
- Net debt at June 30, 2014 - \$1,175 million
 - Cash - \$49 million
 - \$755 million term loan A at 1.90%
 - \$469 million term loan A1 at 2.15%
 - 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 \$15 million to \$70 million
- Adjusted free cash flow was \$28 million for Q2 2014, down \$11 million over Q2 2013
 - \$0.29 per diluted share
- Capex for Q2 2014 was \$41 million. Completed spending on paper machine upgrades

(1) Calculated per bank agreement

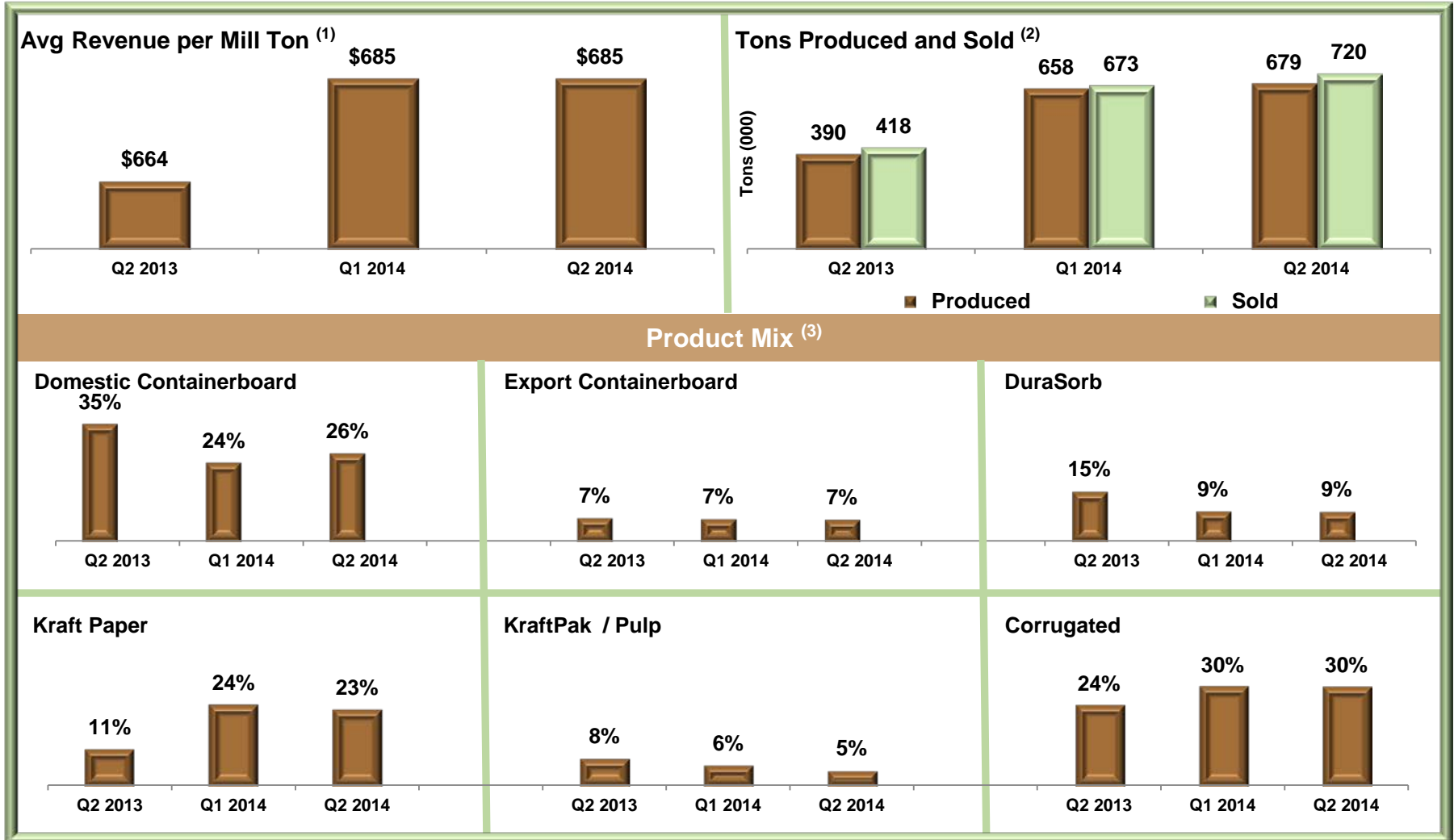
(2) Closing date of Longview acquisition

Summary of Key Assumptions for Q3 2014

- Kraft paper price increase of \$50 per ton
 - Full benefit expected by Q3 2014
 - Approximately \$30 million annualized benefit expected
- Continued seasonal improvement of product mix
- Production and shipping
 - One more mill production and corrugated products shipping day
 - Additional benefits from two major machine upgrades expected to be realized as the quarter progresses
- Planned outage maintenance expense of \$5 million consistent with Q2 2014 with no loss of production tons
- Relatively stable fiber costs from Q2 2014
- Voluntary separation initiatives should result in up to \$1-2 million of expense in Q3 and additional expense (up to \$1 million more) in Q4 2014
- CAPEX is expected to be \$120-\$125 million for the full year

Appendix

Components of Quarterly Net Sales

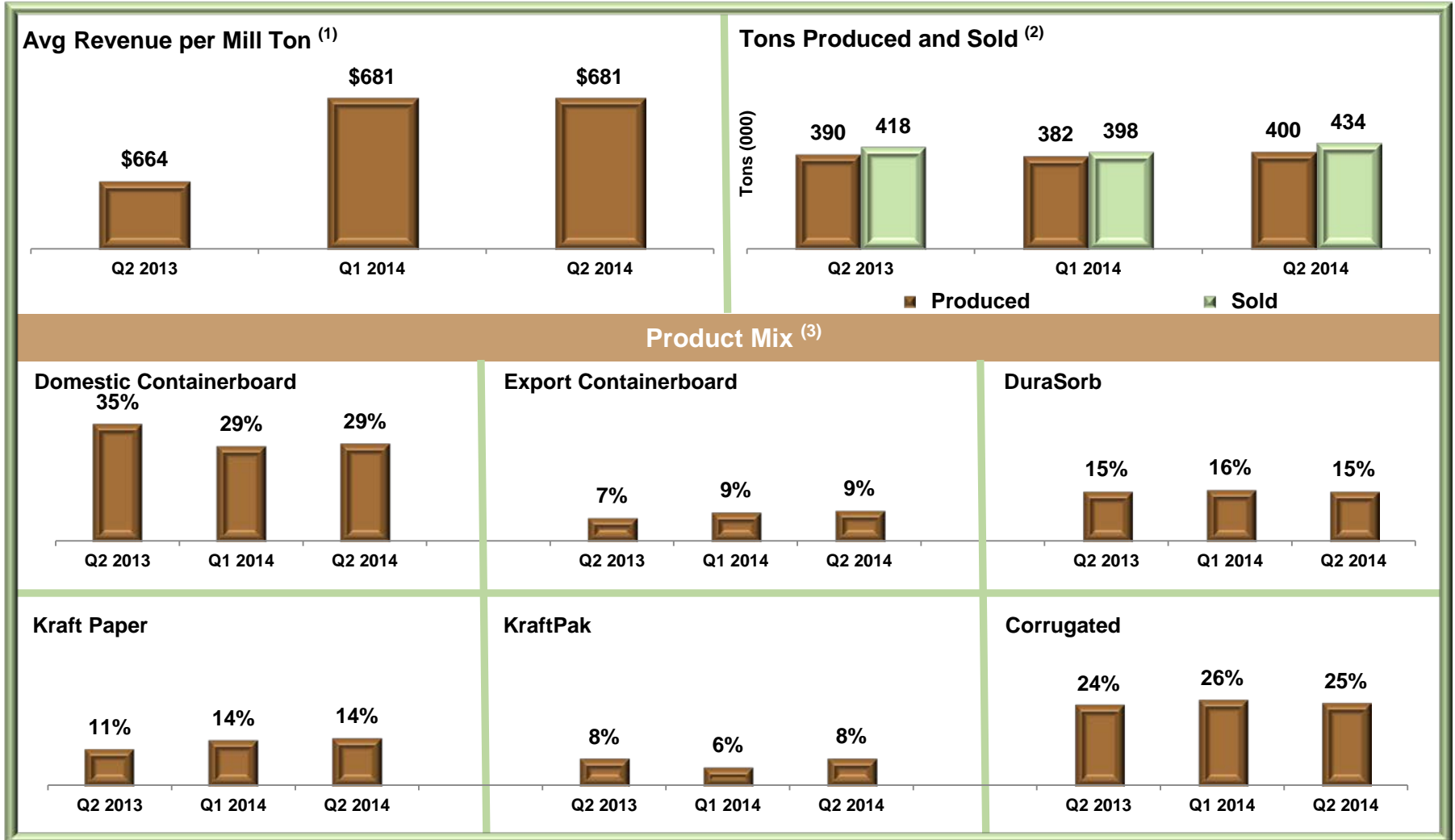


(1) Average price per external ton sold from mills – excludes corrugated sales

(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

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

2014 Actual/Expected	Q1A	Q2A	Q3E	Q4E
Financial Impact	\$ 14.8	\$ 5.2	\$5.5	\$ 13.9
Production Impact	14,300	5,400	-	12,500