



## 2015 Second 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](http://KapStonepaper.com) under Investors.

# Second Quarter Financial Results

(\$ in Millions, except per share)	<u>Q2 2015</u>	<u>Q2 2014</u>	<u>Inc/(Dec)</u> <sup>(1)</sup>	<u>Q1 2015</u>	<u>Inc/(Dec)</u> <sup>(1)</sup>
<b>Net Sales</b>	\$ 671	\$ 590	14%	\$ 546	23%
<b>EBITDA</b>	\$ 98	\$ 119	(18%)	\$ 82	21%
<b>Adj. EBITDA</b> <sup>(2)</sup>	\$ 110	\$ 126	(13%)	\$ 87	27%
<b>Net Income</b>	\$ 34	\$ 51	(33%)	\$ 26	31%
<b>Adj. Net Income</b> <sup>(3)(4)</sup>	\$ 42	\$ 56	(24%)	\$ 29	45%
<b>Diluted EPS</b>	\$ 0.35	\$ 0.53	(34%)	\$ 0.27	30%
<b>Adj. Diluted EPS</b> <sup>(3)(4)</sup>	\$ 0.44	\$ 0.58	(24%)	\$ 0.30	47%

(1) Percentage change calculations made using unrounded source financials

(2) Adjusted to exclude non-cash stock compensation and acquisition, integration, and severance

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

(4) Includes negative \$0.01 impact from amortization of intangibles for Victory purchase accounting

# Victory is Now Delivering for KapStone



**Victory  
Packaging**

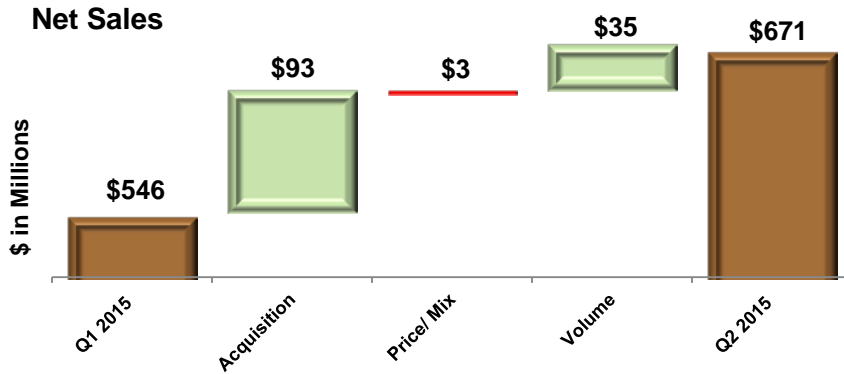
We are *Architects* of Packaging Solutions

- Completed acquisition June 1
- KapStone's 2<sup>nd</sup> quarter includes Victory's June results
  - \$93 million revenue
  - \$7 million adjusted EBITDA
- Now expect synergies to be at \$30 million annual run-rate by mid-2016 versus previous expectations of 24 months
  - As price gap between domestic and export containerboard sales has widened, it is becoming increasingly more important to lessen dependence on export markets

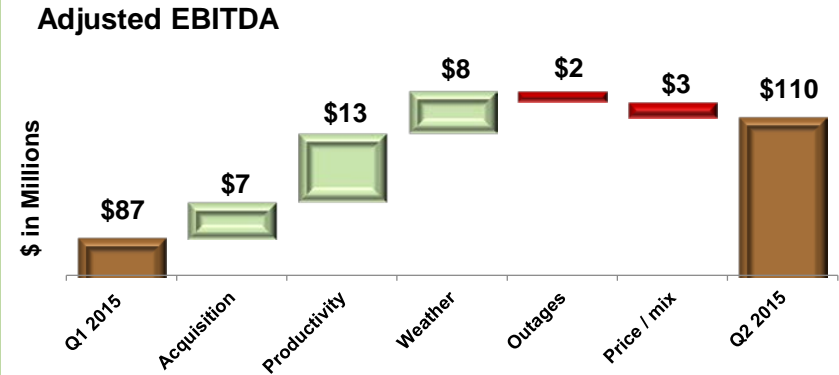
# Q2 2015 Compared to Q1 2015 Actual

## Acquisition, Productivity and Better Weather Drives Improvement

### Net Sales



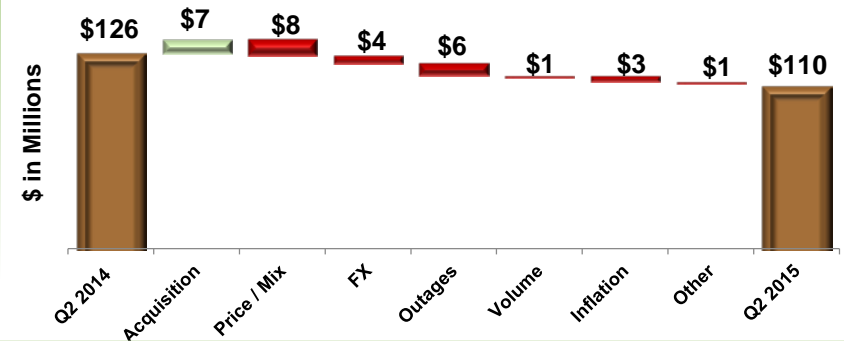
### Adjusted EBITDA



- Victory Packaging acquisition added \$93 million of sales and \$7 million of adjusted EBITDA
- Productivity reflects 28,000 tons of higher mill production despite 10,400 tons being lost from planned maintenance outage
- Year-to-date, corrugated products volume grew at 4 percent on an average weekly basis
- Weather impact was limited to Q1 2015
- Higher planned outages of \$2 million reflects \$10 million for RR outage (occurred in Q4 in previous years) offset by other planned outages in Q1
- Unfavorable price/mix mainly reflects impact from the stronger dollar on export kraft paper, saturating kraft, and containerboard sales

# Q2 2015 Compared to Q2 2014 Actual

## Acquisition is Key Driver YOY While Legacy Ops Rebound from Q1



- Victory Packaging acquisition added \$93 million in sales and \$7 million of adjusted EBITDA
- Collectively, unfavorable price/mix and FX drove mill selling prices \$18 per ton lower
  - Strong dollar negatively impacted export containerboard prices
  - FX loss on saturating kraft sales due to lower Euro
  - Less favorable product mix due to higher export containerboard tons and less extensible grade kraft paper (primarily export) due to lingering sales weakness triggered by West Coast port issues
  - Higher domestic kraft paper prices partially offset declines
- The annual RR outage was moved to April (occurred in Q4 in previous years) reducing production by 10,400 tons and increasing outage costs \$6 million
- Corrugated products volume grew at 3 percent on an average weekly basis
- Inflation negatively impacted adjusted EBITDA by \$3 million
  - Compensation and benefit increases
  - Fiber costs higher mainly in the Pacific Northwest partially offset by lower OCC

# Cash Flows, Debt and Liquidity

## Solid Capital Foundation and Low Interest Rates

- Net debt to EBITDA leverage ratio <sup>(1)</sup>
  - 2.7 times - December 31, 2014
  - 3.4 times - June 30, 2015
- Net debt at June 30, 2015 - \$1,671 million
  - \$29 million in cash
  - \$15 million revolver at 1.93%
  - \$940 million term loan A1 at 1.94%
  - \$475 million term loan A2 at 2.06%
  - \$266 million receivables securitization at 0.94%
  - Resulting in a weighted average interest rate of 1.82%
- Available revolver balance is \$466 million
- Cash flow from operations \$76 million up \$4 million compared to Q2 2014
- Adjusted free cash flow was \$42 million for Q2 2015, up \$13 million over Q2 2014 and up \$74 million over Q1 2015
  - \$0.43 per diluted share
- Capex for Q2 2015 was \$35 million. \$135 million expected for the year

(1) Calculated per bank agreement

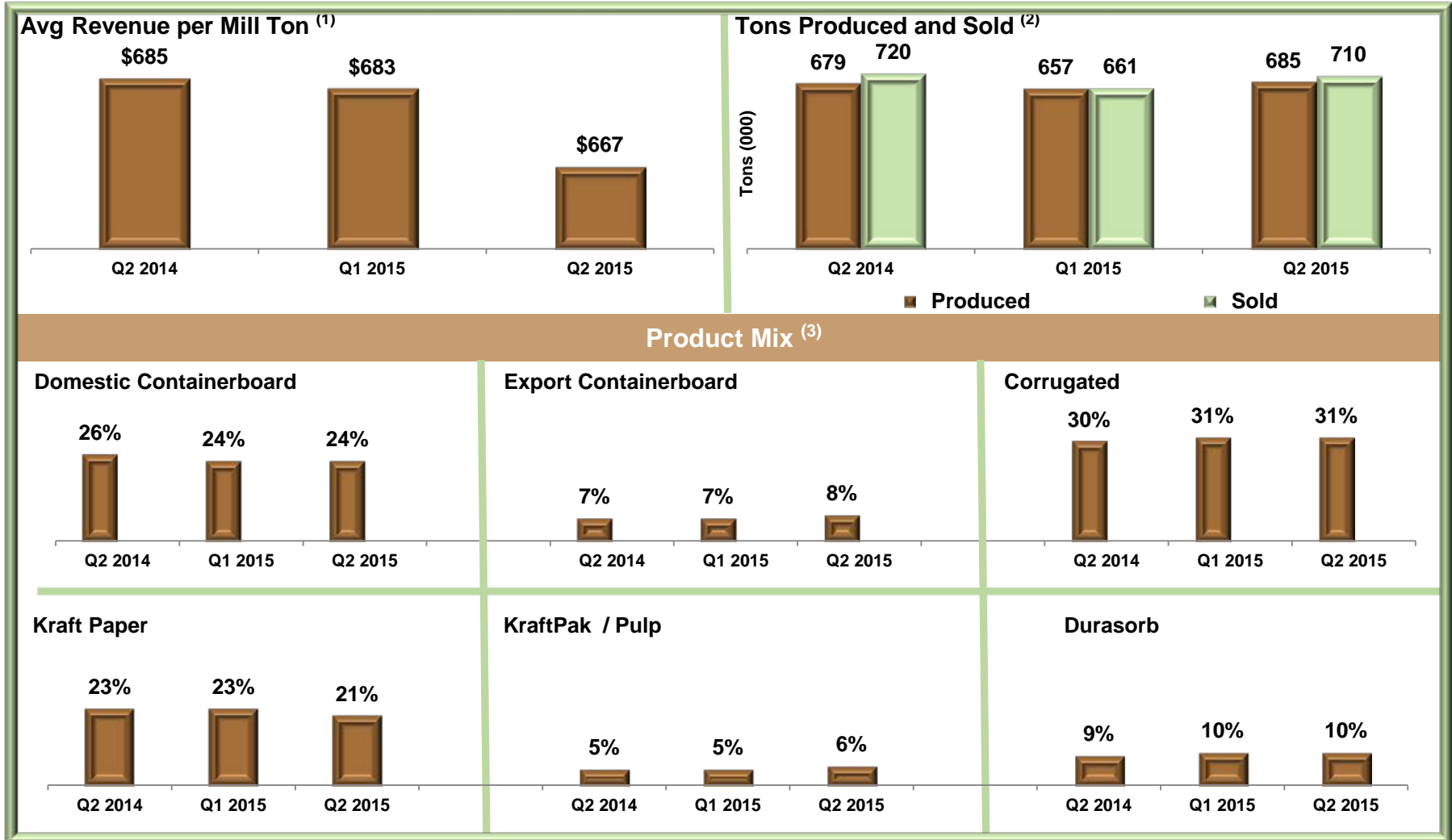
# Summary of Key Assumptions for Q3 2015

- Full quarter of Victory Packaging results compared to one month in Q2
- West coast medium and linerboard reductions of \$20 and \$10 per ton, respectively, effective August 1
  - Expected annual impact once fully realized should be approximately \$3 million
- Production and shipping
  - One additional mill production and corrugated products shipping day
- Planned outage maintenance expense of \$10 million. 10,300 production tons lost of which 7,200 tons is due to an 8 day outage to rebuild CHS paper machine 1
- Relatively stable fiber costs from Q2 2015, but \$3 million, or about 4 percent higher than Q3 2014
- CAPEX is expected to be \$135 million for the full year
- Amortization of intangibles for Victory expected to be \$20 million per year
  - Impact on Q2 for one month was approximately 1 cent
- Effective income tax rate of 35%. Cash tax rate about the same



# Appendix

# Components of Quarterly Net Sales (Excluding Victory)



(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

# Maintenance Outage Expense & Production Impact

Financial Impact (\$ in Millions)	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Year</u>
<b>2014 Actual</b>	\$ 14.8	\$ 5.2	\$ 5.2	\$ 10.9	\$36.1
<b>2015 Expected</b>	\$ 8.6	\$ 11.1	\$ 10.4	\$ 4.0	\$34.1

Lost Production Impact (Tons)	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Year</u>
<b>2014 Actual</b>	14,300*	5,400	-	14,500	34,200
<b>2015 Expected</b>	1,700	10,400**	10,300***	1,700	24,100

\* The 14,300 ton impact is due to the paper machine #3 upgrade in Charleston

\*\* The 10,400 ton impact is due to the Roanoke Rapids mill annual outage. In 2014 this outage occurred in Q4

\*\*\* The 10,300 ton impact is due to the Charleston PM 1 outage (7,300 tons) and Longview PM 10 outage (3,000 tons)