



# **Fourth Quarter and Full Year 2016**

## **GAAP to Non-GAAP Reconciliations**

**February 8, 2017**



**KapStone Paper and Packaging Corporation**  
**Supplemental Information**  
**GAAP to Non-GAAP Reconciliations**  
(\$ in thousands, except share and per share amounts)  
(unaudited)

	Quarter Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
<b>Net Income (GAAP) to EBITDA (Non-GAAP) to Adjusted EBITDA (Non-GAAP):</b>				
Net income (GAAP)	\$ 18,338	\$ 11,824	\$ 86,252	\$ 106,386
Interest expense, net	10,113	9,303	40,078	33,759
Provision for income taxes	8,885	6,244	41,930	55,248
Depreciation and amortization	46,685	47,562	182,213	162,179
<b>EBITDA (Non-GAAP)</b>	<b>\$ 84,021</b>	<b>\$ 74,933</b>	<b>\$ 350,473</b>	<b>\$ 357,572</b>
Victory Packaging inventory step-up expense	–	–	–	5,800
Acquisition, casualty, impairment and other expenses	2,123	1,989	8,608	6,082
Change in fair value of contingent consideration liability	(2,979)	1,647	1,600	3,700
Severance expenses	533	102	7,560	5,076
Longview work stoppage	–	673	–	15,137
Loss on debt extinguishment	–	590	679	1,218
Multiemployer pension plan withdrawal expense	6,376	–	6,376	–
Stock-based compensation expense	1,750	1,713	8,938	9,835
Accumulated EBITDA adjustments	7,803	6,714	33,761	46,848
<b>Adjusted EBITDA (Non-GAAP)</b>	<b>\$ 91,824</b>	<b>\$ 81,647</b>	<b>\$ 384,234</b>	<b>\$ 404,420</b>
<b>Net Income (GAAP) to Adjusted Net Income (Non-GAAP):</b>				
Net income (GAAP)	\$ 18,338	\$ 11,824	\$ 86,252	\$ 106,386
Accumulated EBITDA adjustments	7,803	6,714	33,761	46,848
Accumulated tax adjustments*	(2,926)	(2,323)	(12,660)	(15,806)
<b>Adjusted Net Income (Non-GAAP)</b>	<b>\$ 23,215</b>	<b>\$ 16,215</b>	<b>\$ 107,353</b>	<b>\$ 137,424</b>
<b>Diluted EPS (GAAP) to Adjusted Diluted EPS (Non-GAAP):</b>				
Diluted earnings per share (GAAP)	\$ 0.19	\$ 0.12	\$ 0.88	\$ 1.09
Accumulated EBITDA adjustments	0.08	0.07	0.35	0.48
Accumulated tax adjustments	( 0.03)	( 0.02)	( 0.13)	( 0.16)
<b>Adjusted Diluted EPS (Non-GAAP)</b>	<b>\$ 0.24</b>	<b>\$ 0.17</b>	<b>\$ 1.10</b>	<b>\$ 1.41</b>

\* Accumulated tax adjustments in Q4 and YTD 2016 reflect Accumulated EBITDA adjustments tax affected at 37.5 percent  
Accumulated tax adjustments in Q4 and YTD 2015 reflect Accumulated EBITDA adjustments tax affected at 34.6 percent and 33.7 percent, respectively

**KapStone Paper and Packaging Corporation**  
**Operating Segment Information**  
(In thousands)  
(Preliminary and Unaudited)

Net Sales							
Three Months Ended December 31, 2016	Trade	Inter-segment	Total	Segment Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures	Total Assets at December 31, 2016
Paper and Packaging	\$ 541,047	\$ 16,422	\$ 557,469	\$ 36,103	\$ 38,716	\$ 24,502	\$ 2,541,634
Distribution	236,448	-	236,448	7,349	5,869	415	658,208
Corporate	-	-	-	(5,927)	2,100	2,702	56,033
Intersegment eliminations	-	(16,422)	(16,422)	-	-	-	-
	<u>\$ 777,495</u>	<u>\$ -</u>	<u>\$ 777,495</u>	<u>\$ 37,525</u>	<u>\$ 46,685</u>	<u>\$ 27,619</u>	<u>\$ 3,255,875</u>

Net Sales							
Three Months Ended December 31, 2015	Trade	Inter-segment	Total	Segment Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures	Total Assets at December 31, 2015
Paper and Packaging	\$ 522,815	\$ 13,864	\$ 536,679	\$ 33,691	\$ 40,640	\$ 26,627	\$ 2,489,683
Distribution	241,423	-	241,423	7,860	5,641	1,664	675,204
Corporate	-	-	-	(12,738)	1,281	3,570	57,223
Intersegment eliminations	-	(13,864)	(13,864)	-	-	-	-
	<u>\$ 764,238</u>	<u>\$ -</u>	<u>\$ 764,238</u>	<u>\$ 28,813</u>	<u>\$ 47,562</u>	<u>\$ 31,861</u>	<u>\$ 3,222,110</u>

Net Sales						
Year Ended December 31, 2016	Trade	Inter-segment	Total	Segment Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures
Paper and Packaging	\$ 2,127,220	\$ 72,089	\$ 2,199,309	\$ 181,157	\$ 151,506	\$ 116,022
Distribution	950,037	-	950,037	29,296	23,027	4,349
Corporate	-	-	-	(39,807)	7,680	6,494
Intersegment eliminations	-	(72,089)	(72,089)	-	-	-
	<u>\$ 3,077,257</u>	<u>\$ -</u>	<u>\$ 3,077,257</u>	<u>\$ 170,646</u>	<u>\$ 182,213</u>	<u>\$ 126,865</u>

Net Sales						
Year Ended December 31, 2015	Trade	Inter-segment	Total	Segment Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures
Paper and Packaging	\$ 2,206,396	\$ 22,280	\$ 2,228,676	\$ 224,012	\$ 145,363	\$ 108,599
Distribution (a)	582,949	-	582,949	20,719	13,108	3,190
Corporate	-	-	-	(45,564)	3,708	14,967
Intersegment eliminations	-	(22,280)	(22,280)	-	-	-
	<u>\$ 2,789,345</u>	<u>\$ -</u>	<u>\$ 2,789,345</u>	<u>\$ 199,167</u>	<u>\$ 162,179</u>	<u>\$ 126,756</u>

(a) Reflects results of Victory Packaging which KapStone acquired on June 1, 2015

**KapStone Paper and Packaging Corporation**  
**Operating Segment EBITDA and Adjusted EBITDA**  
(In thousands)  
(Preliminary and Unaudited)

	Quarter Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
<b>Paper and Packaging</b>				
<b>Segment operating income</b>	\$ 36,103	\$ 33,691	\$ 181,157	\$ 224,012
Equity method investments income	548	-	548	-
Foreign exchange loss	(479)	(466)	(461)	(1,168)
Depreciation and amortization	38,716	40,640	151,506	145,363
<b>EBITDA</b>	74,888	73,865	332,750	368,207
Victory Packaging inventory step-up expense	-	-	-	-
Acquisition, casualty, impairment and other expenses	(550)	423	2,979	1,450
Longview work stoppage	-	673	-	15,137
Multiemployer pension plan withdrawal expense	6,376	-	6,376	-
Severance expenses	(448)	37	5,550	4,908
<b>Adjusted EBITDA</b>	\$ 80,266	\$ 74,998	\$ 347,655	\$ 389,702
Adjusted EBITDA margin	14.8%	14.3%	16.3%	17.7%

	Quarter Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
<b>Distribution</b>				
<b>Segment operating income</b>	\$ 7,349	\$ 7,860	\$ 29,296	\$ 20,719
Foreign exchange loss	(258)	(386)	(1,794)	(1,388)
Depreciation and amortization	5,869	5,641	23,027	13,108
<b>EBITDA</b>	12,960	13,115	50,529	32,439
Victory Packaging inventory step-up expense	-	-	-	5,800
Acquisition, casualty, impairment and other expenses	2,126	620	3,780	620
Severance expenses	981	65	1,614	168
<b>Adjusted EBITDA</b>	\$ 16,067	\$ 13,800	\$ 55,923	\$ 39,027
Adjusted EBITDA margin	6.8%	5.7%	5.9%	6.7%

	Quarter Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
<b>Corporate</b>				
<b>Segment operating (loss)</b>	\$ (5,927)	\$ (12,738)	\$ (39,807)	\$ (45,564)
Loss on debt extinguishment	-	(590)	(679)	(1,218)
Depreciation and amortization	2,100	1,281	7,680	3,708
<b>EBITDA</b>	(3,827)	(12,047)	(32,806)	(43,074)
Victory Packaging inventory step-up expense	-	-	-	-
Acquisition, casualty, impairment and other expenses	547	946	1,849	4,012
Change in fair value of contingent consideration liability	(2,979)	1,647	1,600	3,700
Severance expenses	-	-	396	-
Stock-based compensation	1,750	1,713	8,938	9,835
Loss on debt extinguishment	-	590	679	1,218
<b>Adjusted EBITDA</b>	\$ (4,509)	\$ (7,151)	\$ (19,344)	\$ (24,309)

	Quarter Ended December 31,		Year Ended December 31,	
	2016	2015	2016	2015
<b>Consolidated</b>				
<b>Operating income</b>	\$ 37,525	\$ 28,813	\$ 170,646	\$ 199,167
Loss on debt extinguishment	-	(590)	(679)	(1,218)
Foreign exchange loss	(737)	(852)	(2,255)	(2,556)
Equity method investments income	548	-	548	-
Depreciation and amortization	46,685	47,562	182,213	162,179
<b>EBITDA</b>	84,021	74,933	350,473	357,572
Victory Packaging inventory step-up expense	-	-	-	5,800
Acquisition, casualty, impairment and other expenses	2,123	1,989	8,608	6,082
Longview work stoppage	-	673	-	15,137
Severance expenses	533	102	7,560	5,076
Change in fair value of contingent consideration liability	(2,979)	1,647	1,600	3,700
Stock-based compensation	1,750	1,713	8,938	9,835
Multiemployer pension plan withdrawal expense	6,376	-	6,376	-
Loss on debt extinguishment	-	590	679	1,218
<b>Adjusted EBITDA</b>	\$ 91,824	\$ 81,647	\$ 384,234	\$ 404,420

**KapStone Paper and Packaging Corporation**  
**Supplemental Information**  
**Net Debt and Debt to Equity Ratio**  
(In thousands)  
(Unaudited)

**Calculation of Net Debt**

	<b>Quarter Ended</b>				
	<b><u>12/31/2016</u></b>	<b><u>9/30/2016</u></b>	<b><u>6/30/2016</u></b>	<b><u>3/31/2016</u></b>	<b><u>12/31/2015</u></b>
Current portion of LT debt	\$ -	\$ -	\$ -	\$ -	\$ -
Short-term borrowings	-	11,500	16,000	10,000	6,400
Other borrowings	-	-	-	-	-
Long term debt, net	1,485,323	1,484,373	1,537,028	1,523,961	1,543,748
Unamortized debt issuance costs	17,826	19,005	21,072	22,185	20,429
	1,503,149	1,514,878	1,574,100	1,556,146	1,570,577
Less cash and cash equivalents	(29,385)	(9,449)	(7,890)	(7,084)	(6,821)
<b>Total Net Debt (non GAAP)</b>	<b><u>\$ 1,473,764</u></b>	<b><u>\$ 1,505,429</u></b>	<b><u>\$ 1,566,210</u></b>	<b><u>\$ 1,549,062</u></b>	<b><u>\$ 1,563,756</u></b>
<b>Decrease (increase) during the quarter</b>	<b><u>\$ 31,665</u></b>	<b><u>\$ 60,781</u></b>	<b><u>\$ (17,148)</u></b>	<b><u>\$ 14,694</u></b>	<b><u>\$ 44,516</u></b>

**Net Debt to Capital ratio calculation**

Net debt	\$ 1,473,764	\$ 1,505,429	\$ 1,566,210	\$ 1,549,062	\$ 1,563,756
Capital (Equity plus Long term debt, net)	\$ 2,389,653	\$ 2,377,913	\$ 2,406,134	\$ 2,379,482	\$ 2,389,028
<b>Ratio</b>	<b><u>61.7%</u></b>	<b><u>63.3%</u></b>	<b><u>65.1%</u></b>	<b><u>65.1%</u></b>	<b><u>65.5%</u></b>

**KapStone Paper and Packaging Corporation**  
**Supplemental Information**  
**Cash Flow From Operations and Free Cash Flow Reconciliation**  
(In thousands)  
(Unaudited)

	Quarter Ended				
	<u>12/31/2016</u>	<u>9/30/2016</u>	<u>6/30/2016</u>	<u>3/31/2016</u>	<u>12/31/2015</u>
<b>Cash flow from operations (GAAP)</b>	\$ 69,533	\$ 122,762	\$ 31,020	\$ 58,605	\$ 85,809
Less capital expenditures	<u>(27,619)</u>	<u>(26,873)</u>	<u>(36,210)</u>	<u>(36,163)</u>	<u>(31,861)</u>
<b>Free cash flow (Non-GAAP)</b>	<u>\$ 41,914</u>	<u>\$ 95,889</u>	<u>\$ (5,190)</u>	<u>\$ 22,442</u>	<u>\$ 53,948</u>
Average diluted shares outstanding	98,257,232	97,888,469	97,629,786	97,509,528	97,663,654
<b>Free cash flow per share</b>	<u>\$ 0.43</u>	<u>\$ 0.98</u>	<u>\$ (0.05)</u>	<u>\$ 0.23</u>	<u>\$ 0.55</u>