



## 2016 First Quarter Financial Review



**Roger W. Stone, Chairman and Chief Executive Officer**

**Matt Kaplan, President and Chief Operating Officer**

**Andrea K. Tarbox, Vice President and Chief Financial Officer**

**April 27, 2016**

# 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.

# First Quarter Financial Results

(\$ in Millions, except per share)	<u>Q1 2016</u>	<u>Q1 2015</u>	<u>Inc/(Dec)</u> <sup>(1)</sup>	<u>Q4 2015</u>	<u>Inc/(Dec)</u> <sup>(1)</sup>
<b>Net Sales</b>	\$ 738	\$ 546	35%	\$ 764	(3%)
<b>EBITDA</b>	\$ 79	\$ 82	(3%)	\$ 75	5%
<b>Adj. EBITDA</b> <sup>(2)</sup>	\$ 88	\$ 87	2%	\$ 82	8%
<b>Net Income</b> <sup>(3)</sup>	\$ 16	\$ 26	(38%)	\$ 12	37%
<b>Adj. Net Income</b> <sup>(2)</sup>	\$ 22	\$ 29	(24%)	\$ 16	37%
<b>Diluted EPS</b> <sup>(4)</sup>	\$ 0.17	\$ 0.27	(37%)	\$ 0.12	42%
<b>Adj. Diluted EPS</b> <sup>(3)(4)</sup>	\$ 0.23	\$ 0.30	(23%)	\$ 0.17	35%

(1) Percentage change calculations made using unrounded source financials

(2) Adjusted to exclude non-cash stock compensation and acquisition, integration and severance expenses and loss on debt extinguishment in Q4 2015. Net of income taxes for Adjusted Net Income

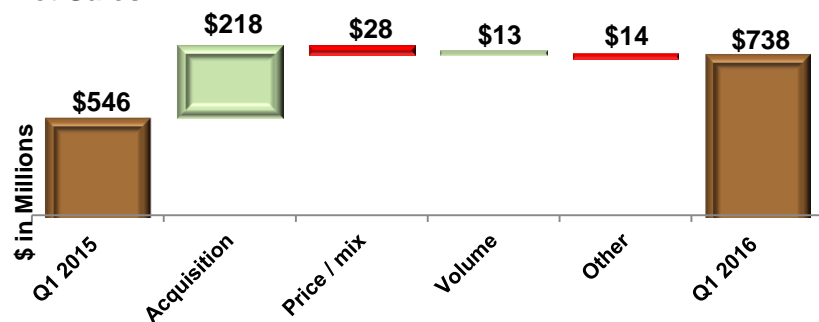
(3) Includes \$3 million net of tax and \$0.03 per share impact in Q1 2016 and Q4 2015 from amortization of intangibles for Victory purchase accounting

(4) EPS lower in Q1 2016 versus Q1 2015 primarily due to amortization of intangibles resulting from acquisitions. Amortization of purchase accounting intangibles was approximately \$9 million in Q1 2016 versus \$3 million in Q1 2015, or about \$0.04 per share

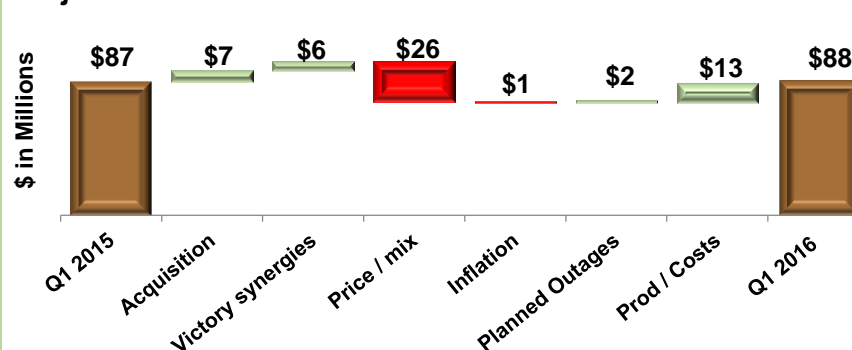
# Q1 2016 Compared to Q1 2015

## Victory Benefits and Productivity Improvements Offset Price/Mix Declines

Net Sales



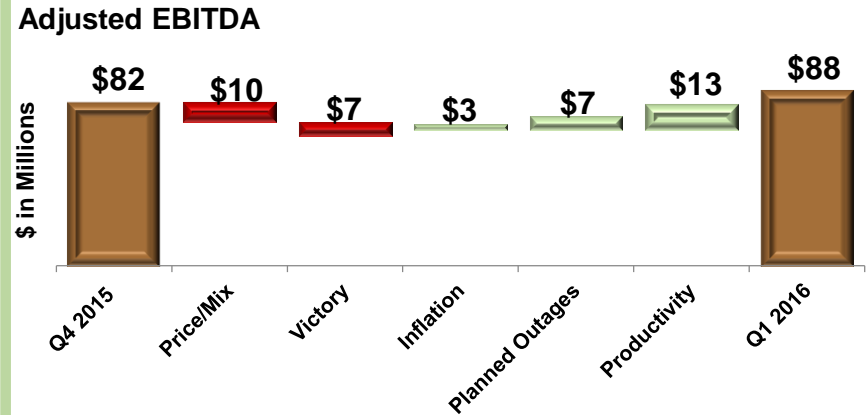
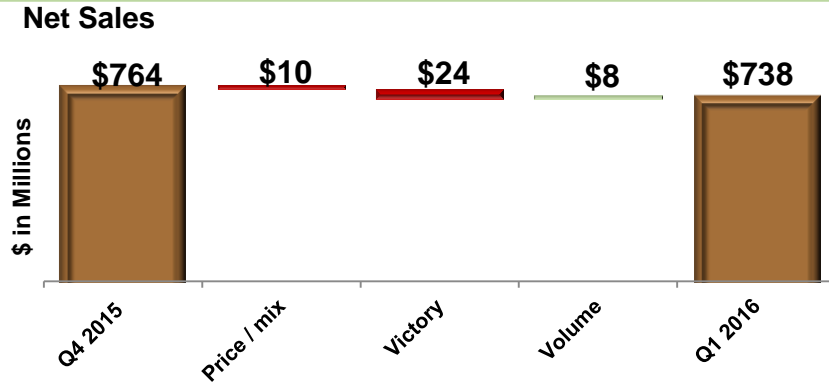
Adjusted EBITDA



- Acquisition reflects three months of Victory Packaging revenues and earnings
- Average mill selling prices dropped \$58 per ton reflecting:
  - Lower prices of \$18 million due to index driven lower domestic containerboard prices, lower export containerboard and export kraft paper prices
  - Unfavorable mix of \$10 million due to lower Durasorb sales and higher export containerboard
- Inflation unfavorable by \$1 million due to higher compensation and benefit costs, partially offset by lower fuel
- Other sales includes \$16 million for elimination of container shipments to Victory
- Productivity and cost savings include 33,000 tons of higher mill production, lower management incentives, partially offset by \$2 million of lower pension income

# Q1 2016 Compared to Q4 2015

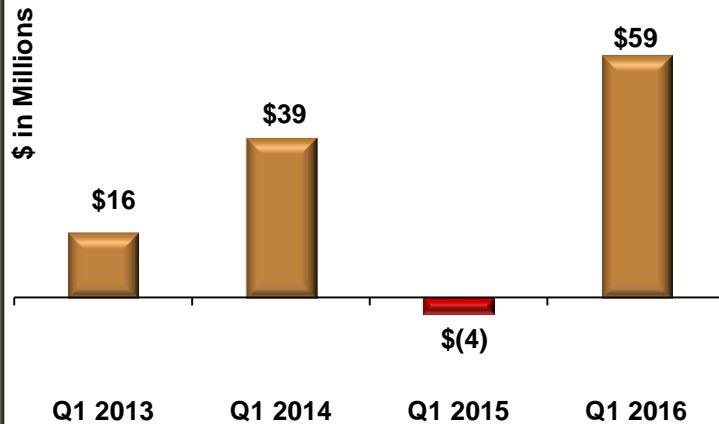
## Productivity and Cost Savings Improve Results Compared to Q4 2015



- Price and mix includes:
  - Lower domestic and export containerboard and kraft paper export prices
  - Less favorable mix due to higher percentage of export containerboard and roll pulp shipments
- Victory sales and earnings decline due to seasonality
- Inflation favorable by \$3 million due to lower fiber and energy costs
- Planned outages lower in 2016 compared to 2015's outage expenses, mainly due to timing at Charleston
- Productivity includes higher mill production (+33,000 tons) and cost savings due to lower management incentives, partially offset by lower pension income

# Powerful Cash Flow Generator

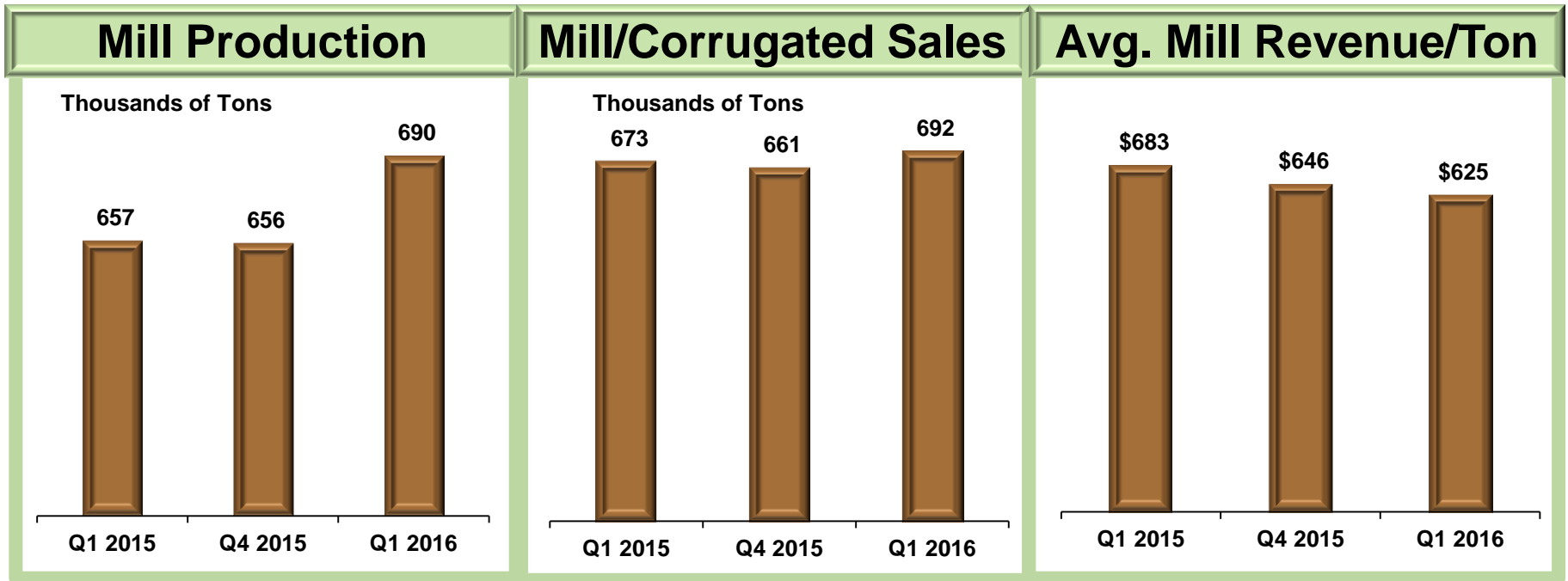
## Q1 Operating Cash Flows



- Q1 2016 operating cash flow improved by \$63 million YOY primarily on:
  - Lower cash tax payments
  - Contributions from Victory
  - Other improved working capital items
- Q1 2016 FCF of \$22 million provided, or \$0.23 per share, up \$0.56 per share compared to Q1 2015

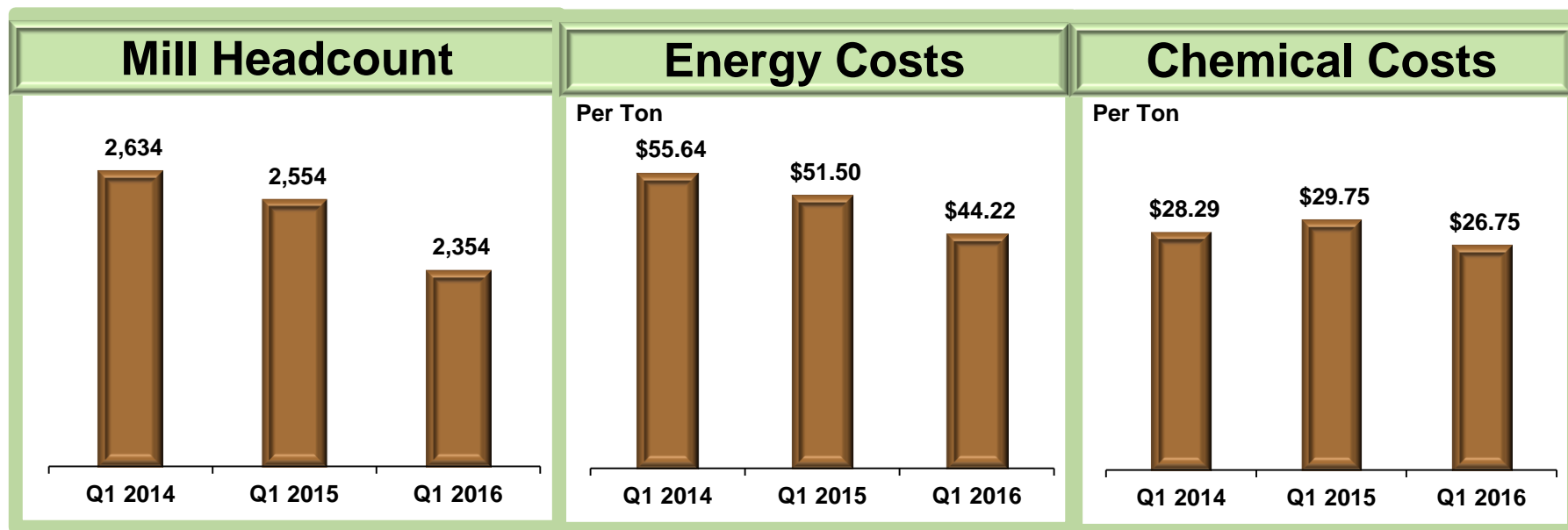
- Debt to EBITDA leverage ratio (per credit agreement)
  - 3.6 times - December 31, 2015
  - 3.7 times - March 31, 2016
- Net debt at March 31, 2016 - \$1,549 million
- Capex for Q1 2016 was \$36 million. Full year estimate is \$115 million
- Cash tax rate for the year expected to be 28 percent

# Operations Overview



- During Q1 2016, achieved record tons per day mill production
- Year-over-year price erosion of \$58 per ton resulted in \$28 million Q1 2016 revenue decline

# Significant Improvements in Lowering Mill Costs



- In early 2014, we identified substantial cost savings opportunities and developed plans to achieve goals
- Making progress due to process improvements and benefits of capital spending
- Further benefits expected in future



# Market Summary

---

- Continues to be challenging
- Domestic markets
  - Exhibiting good demand and pricing stability
- Export markets
  - Solid demand and firming but overall weak pricing
- Specialty grades
  - Static, some weakness in Durasorb demand

# Important Initiatives

---

- Capital opportunities-Roanoke Rapids and Charleston chip yards
  - Third party provides equipment upgrades for these projects resulting in no significant capital outlay for Kapstone
  - 2017 EBITDA benefit of approximately \$10 million per year
  
- Headcount reductions
  - At the end of Q1 2016, headcount was reduced by 125 positions lowering annualized costs by approximately \$9 million
  - Q1 one-time expense of \$3 million

# Victory Update

---

## ➤ Financial results

- Net sales \$218 million
- Q1 adjusted EBITDA - \$7 million (pre-synergies)
- Q1 free cash flow - \$6 million (pre-synergies)
- Q1 seasonally weakest quarter
- On track to meet or exceed 2016 expectations

## ➤ Integration update

- Q1 2016 Container Division cut-up of approximately 20,000 tons
- Expect to achieve 115,000 ton annualized run-rate by end of Q2 2016

## ➤ Future integration opportunities

- Expand container plant footprint
- Add converting capacity to existing plants
- Containerboard sales to existing Victory non-integrated suppliers

# Summary of Key Assumptions for Q2 2016

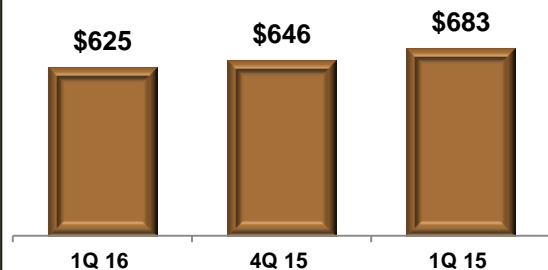
- Full impact of January 2016 price index reductions of \$15 per ton for linerboard and \$20 per ton for medium and partial realization of February 2016 medium price index reduction of \$10 per ton
- Continued seasonal improvement of product mix from Q1 2016, including lower containerboard exports
- Victory will be entering seasonally stronger season
- Planned outage maintenance expense approximately \$13 million higher than Q1 2016 due to Roanoke Rapids mill annual outage. Loss of 12,600 production tons
- Average fiber costs trending down
  - Q2 2016 fiber costs should be approximately \$4 million to \$5 million lower
- Benefit of headcount reduction of approximately \$2 million per quarter
- CAPEX is expected to be \$ 32 million for Q2 2016, and \$115 million for the full year
- Income tax rate of 35 percent

# Appendix

# Quarterly Key Performance Indicators

## Sales and Production

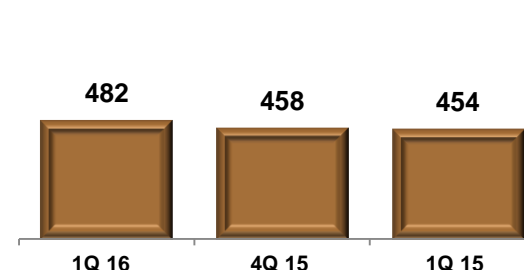
Avg Mill Revenue per Ton



Tons Produced (000)

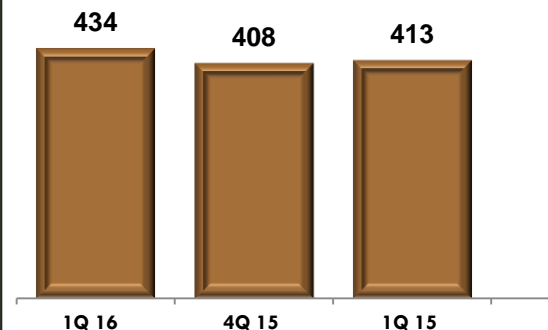


Mill External Shipments (000)

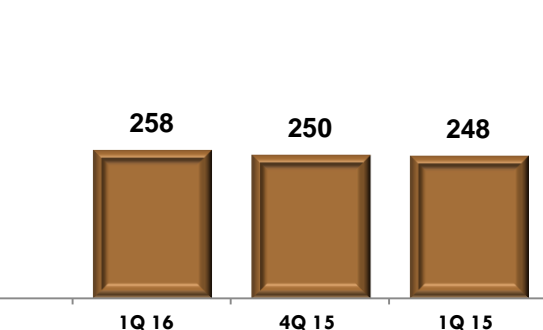


## Paper and Packaging Product Mix (000 Tons)

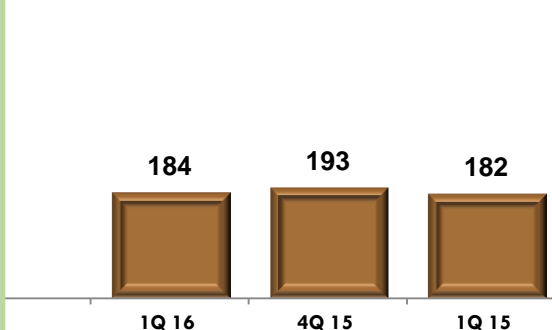
Containerboard and Corrugated products <sup>(1)</sup>



Specialty paper <sup>(2)</sup>



Internal Consumption



(1) Containerboard includes all domestic and export sales of linerboard and medium

(2) Specialty paper includes Kraftpak, Durasorb, Kraft paper and roll pulp

# 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 Actual</b>	\$ 8.6	\$ 11.1	\$ 4.4	\$ 13.3	\$37.4
<b>2016 Forecast</b>	\$ 6.6	\$ 19.2	\$ 4.3	\$ 7.5	\$37.6
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 Actual</b>	2,000	10,400**	2,400	16,900***	31,700
<b>2016 Forecast</b>	4,800	14,400**	2,500	3,600	25,300

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

\*\* The 2016 and 2015 ton impact is due to the Roanoke Rapids mill annual outage. In 2014 this outage occurred in Q4 with 11,200 tons lost

\*\*\* The 16,900 ton impact includes 12,200 tons for paper machine #1 upgrade at Charleston