



**Third Quarter 2016
GAAP to Non-GAAP
Reconciliations**

November 1, 2016

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

| | <u>Quarter Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|--|------------------------------------|--------------------------|--|--------------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Net Income (GAAP) to EBITDA (Non-GAAP) to Adjusted EBITDA (Non-GAAP): | | | | |
| Net income (GAAP) | \$ 31,018 | \$ 34,206 | \$ 67,914 | \$ 94,562 |
| Interest expense, net | 10,148 | 9,528 | 29,965 | 24,456 |
| Provision for income taxes | 12,620 | 16,468 | 33,045 | 49,004 |
| Depreciation and amortization | 44,954 | 42,500 | 135,528 | 114,617 |
| EBITDA (Non-GAAP) | <u>\$ 98,740</u> | <u>\$ 102,702</u> | <u>\$ 266,452</u> | <u>\$ 282,639</u> |
| Victory Packaging inventory step-up expense | – | 1,930 | – | 5,800 |
| Acquisition, casualty, impairment and other expenses | 3,944 | 752 | 6,485 | 4,093 |
| Change in fair value of contingent consideration liability | 1,527 | 1,500 | 4,579 | 2,053 |
| Severance expenses | 863 | 2,310 | 7,027 | 4,974 |
| Longview work stoppage | – | 14,464 | – | 14,464 |
| Loss on debt extinguishment | 679 | 628 | 679 | 628 |
| Stock-based compensation expense | 1,826 | 1,585 | 7,188 | 8,122 |
| Accumulated EBITDA adjustments | 8,839 | 23,169 | 25,958 | 40,134 |
| Adjusted EBITDA (Non-GAAP) | <u>\$ 107,579</u> | <u>\$ 125,871</u> | <u>\$ 292,410</u> | <u>\$ 322,773</u> |
| Net Income (GAAP) to Adjusted Net Income (Non-GAAP): | | | | |
| Net income (GAAP) | \$ 31,018 | \$ 34,206 | \$ 67,914 | \$ 94,562 |
| Accumulated EBITDA adjustments | 8,839 | 23,169 | 25,958 | 40,134 |
| Accumulated tax adjustments* | (3,315) | (8,016) | (12,035) | (13,489) |
| Adjusted Net Income (Non-GAAP) | <u>\$ 36,542</u> | <u>\$ 49,359</u> | <u>\$ 81,837</u> | <u>\$ 121,207</u> |
| Diluted EPS (GAAP) to Adjusted Diluted EPS (Non-GAAP): | | | | |
| Diluted earnings per share (GAAP) | \$ 0.32 | \$ 0.35 | \$ 0.70 | \$ 0.97 |
| Accumulated EBITDA adjustments | 0.09 | 0.24 | 0.27 | 0.41 |
| Accumulated tax adjustments | (0.04) | (0.08) | (0.13) | (0.14) |
| Adjusted Diluted EPS (Non-GAAP) | <u>\$ 0.37</u> | <u>\$ 0.51</u> | <u>\$ 0.84</u> | <u>\$ 1.24</u> |

* Accumulated tax adjustments in 2016 reflect Accumulated EBITDA adjustments tax affected at 37.5 percent, the Company's marginal income tax rate offset by an unfavorable \$0.6 million state tax examination adjustment in Q2 2016. 2015 Accumulated EBITDA adjustments were tax affected at 34.5 percent.

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

| | <u>Net Sales</u> | | | Operating Income (Loss) | Depreciation and Amortization | Capital Expenditures | Total Assets at Sept. 30, 2016 |
|--|-------------------|---------------------------|-------------------|--|--|---------------------------------|---|
| | Trade | Inter- segment | Total | | | | |
| Three Months Ended September 30, 2016 | | | | | | | |
| Paper and Packaging | \$ 533,562 | \$ 18,674 | \$ 552,236 | \$ 57,731 | \$ 37,491 | \$ 24,900 | \$ 2,526,342 |
| Distribution | 243,074 | - | 243,074 | 8,230 | 5,795 | 936 | 676,350 |
| Corporate | - | - | - | (10,953) | 1,668 | 1,037 | 41,376 |
| Intersegment eliminations | - | (18,674) | (18,674) | - | - | - | - |
| | <u>\$ 776,636</u> | <u>\$ -</u> | <u>\$ 776,636</u> | <u>\$ 55,008</u> | <u>\$ 44,954</u> | <u>\$ 26,873</u> | <u>\$ 3,244,068</u> |

| | <u>Net Sales</u> | | | Operating Income (Loss) | Depreciation and Amortization | Capital Expenditures | Total Assets at Sept. 30, 2015 |
|--|-------------------|---------------------------|-------------------|--|--|---------------------------------|---|
| | Trade | Inter- segment | Total | | | | |
| Three Months Ended September 30, 2015 | | | | | | | |
| Paper and Packaging | \$ 559,435 | \$ 7,628 | \$ 567,063 | \$ 60,185 | \$ 36,059 | \$ 25,448 | \$ 2,524,562 |
| Distribution | 248,128 | - | 248,128 | 11,139 | 5,522 | 1,283 | 683,555 |
| Corporate | - | - | - | (9,728) | 919 | 4,453 | 41,818 |
| Intersegment eliminations | - | (7,628) | (7,628) | - | - | - | - |
| | <u>\$ 807,563</u> | <u>\$ -</u> | <u>\$ 807,563</u> | <u>\$ 61,596</u> | <u>\$ 42,500</u> | <u>\$ 31,184</u> | <u>\$ 3,249,935</u> |

| | <u>Net Sales</u> | | | Operating Income (Loss) | Depreciation and Amortization | Capital Expenditures |
|---|---------------------|---------------------------|---------------------|--|--|---------------------------------|
| | Trade | Inter- segment | Total | | | |
| Nine Months Ended September 30, 2016 | | | | | | |
| Paper and Packaging | \$ 1,586,173 | \$ 55,667 | \$ 1,641,840 | \$ 145,054 | \$ 112,790 | \$ 91,520 |
| Distribution (a) | 713,589 | - | 713,589 | 21,947 | 17,158 | 3,934 |
| Corporate | - | - | - | (33,880) | 5,580 | 3,792 |
| Intersegment eliminations | - | (55,667) | (55,667) | - | - | - |
| | <u>\$ 2,299,762</u> | <u>\$ -</u> | <u>\$ 2,299,762</u> | <u>\$ 133,121</u> | <u>\$ 135,528</u> | <u>\$ 99,246</u> |

| | <u>Net Sales</u> | | | Operating Income (Loss) | Depreciation and Amortization | Capital Expenditures |
|---|---------------------|---------------------------|---------------------|--|--|---------------------------------|
| | Trade | Inter- segment | Total | | | |
| Nine Months Ended September 30, 2015 | | | | | | |
| Paper and Packaging | \$ 1,683,581 | \$ 8,416 | \$ 1,691,997 | \$ 190,321 | \$ 104,723 | \$ 81,954 |
| Distribution (a) | 341,526 | - | 341,526 | 12,859 | 7,467 | 1,526 |
| Corporate | - | - | - | (32,826) | 2,427 | 11,415 |
| Intersegment eliminations | - | (8,416) | (8,416) | - | - | - |
| | <u>\$ 2,025,107</u> | <u>\$ -</u> | <u>\$ 2,025,107</u> | <u>\$ 170,354</u> | <u>\$ 114,617</u> | <u>\$ 94,895</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)
(Unaudited)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|-----------------------------|------------|---------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Paper and Packaging | | | | |
| Segment income | \$ 57,731 | \$ 60,185 | \$ 145,054 | \$ 190,321 |
| Foreign exchange (loss) / gain | 18 | 37 | 18 | (702) |
| Depreciation and amortization | 37,491 | 36,059 | 112,790 | 104,723 |
| EBITDA | 95,240 | 96,281 | 257,862 | 294,342 |
| Victory Packaging inventory step-up expense | - | - | - | - |
| Acquisition, casualty, impairment and other expenses | 1,710 | 177 | 3,529 | 1,027 |
| Longview work stoppage | - | 14,464 | - | 14,464 |
| Severance expenses | 701 | 2,207 | 5,998 | 4,871 |
| Adjusted EBITDA | \$ 97,651 | \$ 113,129 | \$ 267,389 | \$ 314,704 |
| Adjusted EBITDA margin | 18.3% | 20.2% | 16.9% | 18.7% |

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|-----------------------------|-----------|---------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Distribution | | | | |
| Segment income | \$ 8,230 | \$ 11,139 | \$ 21,947 | \$ 12,859 |
| Foreign exchange (loss) / gain | (561) | (803) | (1,536) | (1,002) |
| Depreciation and amortization | 5,795 | 5,522 | 17,158 | 7,467 |
| EBITDA | 13,464 | 15,858 | 37,569 | 19,324 |
| Victory Packaging inventory step-up expense | - | 1,930 | - | 5,800 |
| Acquisition, casualty, impairment and other expenses | 1,129 | - | 1,654 | - |
| Severance expenses | 153 | 103 | 633 | 103 |
| Adjusted EBITDA | \$ 14,746 | \$ 17,891 | \$ 39,856 | \$ 25,227 |
| Adjusted EBITDA margin | 6.1% | 7.2% | 5.6% | 7.4% |

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|-----------------------------|------------|---------------------------------|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Corporate | | | | |
| Segment (loss) | \$ (10,953) | \$ (9,728) | \$ (33,880) | \$ (32,826) |
| Loss on debt extinguishment | (679) | (628) | (679) | (628) |
| Depreciation and amortization | 1,668 | 919 | 5,580 | 2,427 |
| EBITDA | (9,964) | (9,437) | (28,979) | (31,027) |
| Victory Packaging inventory step-up expense | - | - | - | - |
| Acquisition, casualty, impairment and other expenses | 1,105 | 575 | 1,302 | 3,066 |
| Change in fair value of contingent consideration liability | 1,527 | 1,500 | 4,579 | 2,053 |
| Severance expenses | 9 | - | 396 | - |
| Stock-based compensation | 1,826 | 1,585 | 7,188 | 8,122 |
| Loss on debt extinguishment | 679 | 628 | 679 | 628 |
| Adjusted EBITDA | \$ (4,818) | \$ (5,149) | \$ (14,835) | \$ (17,158) |

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|-----------------------------|------------|---------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Consolidated | | | | |
| Operating income | \$ 55,008 | \$ 61,596 | \$ 133,121 | \$ 170,354 |
| Loss on debt extinguishment | (679) | (628) | (679) | (628) |
| Foreign exchange (loss) / gain | (543) | (766) | (1,518) | (1,704) |
| Depreciation and amortization | 44,954 | 42,500 | 135,528 | 114,617 |
| EBITDA | 98,740 | 102,702 | 266,452 | 282,639 |
| Victory Packaging inventory step-up expense | - | 1,930 | - | 5,800 |
| Acquisition, casualty, impairment and other expenses | 3,944 | 752 | 6,485 | 4,093 |
| Longview work stoppage | - | 14,464 | - | 14,464 |
| Severance expenses | 863 | 2,310 | 7,027 | 4,974 |
| Change in fair value of contingent consideration liability | 1,527 | 1,500 | 4,579 | 2,053 |
| Stock-based compensation | 1,826 | 1,585 | 7,188 | 8,122 |
| Loss on debt extinguishment | 679 | 628 | 679 | 628 |
| Adjusted EBITDA | \$ 107,579 | \$ 125,871 | \$ 292,410 | \$ 322,773 |

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

| <u>Calculation of Net Debt</u> | <u>Quarter Ended</u> | | | | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>9/30/2016</u> | <u>6/30/2016</u> | <u>3/31/2016</u> | <u>12/31/2015</u> | <u>9/30/2015</u> |
| Current portion of LT debt | \$ - | \$ - | \$ - | \$ - | \$ - |
| Short-term borrowings | 11,500 | 16,000 | 10,000 | 6,400 | 2,000 |
| Other borrowings | - | - | - | - | 2,214 |
| Long term debt, net | 1,484,373 | 1,537,028 | 1,523,961 | 1,543,748 | 1,589,670 |
| Unamortized debt issuance costs | 19,005 | 21,072 | 22,185 | 20,429 | 22,155 |
| | 1,514,878 | 1,574,100 | 1,556,146 | 1,570,577 | 1,616,039 |
| Less cash and cash equivalents | (9,449) | (7,890) | (7,084) | (6,821) | (7,767) |
| Total Net Debt (non GAAP) | <u>\$ 1,505,429</u> | <u>\$ 1,566,210</u> | <u>\$ 1,549,062</u> | <u>\$ 1,563,756</u> | <u>\$ 1,608,272</u> |
| Decrease (increase) during the quarter | <u>\$ 60,781</u> | <u>\$ (17,148)</u> | <u>\$ 14,694</u> | <u>\$ 44,516</u> | <u>\$ 63,185</u> |
| <u>Net Debt to Capital ratio calculation</u> | | | | | |
| Net debt | \$ 1,505,429 | \$ 1,566,210 | \$ 1,549,062 | \$ 1,563,756 | \$ 1,608,272 |
| Capital (Equity plus Long term debt, net) | \$ 2,377,913 | \$ 2,406,134 | \$ 2,379,482 | \$ 2,389,028 | \$ 2,442,756 |
| Ratio | <u>63.3%</u> | <u>65.1%</u> | <u>65.1%</u> | <u>65.5%</u> | <u>65.8%</u> |

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

| | Quarter Ended | | | | |
|---|-------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| | <u>9/30/2016</u> | <u>6/30/2016</u> | <u>3/31/2016</u> | <u>12/31/2015</u> | <u>9/30/2015</u> |
| Cash flow from operations (GAAP) | \$ 122,762 | \$ 31,020 | \$ 58,605 | \$ 85,809 | \$ 104,061 |
| Less capital expenditures | <u>(26,873)</u> | <u>(36,210)</u> | <u>(36,163)</u> | <u>(31,861)</u> | <u>(31,184)</u> |
| Free cash flow (Non-GAAP) | <u>\$ 95,889</u> | <u>\$ (5,190)</u> | <u>\$ 22,442</u> | <u>\$ 53,948</u> | <u>\$ 72,877</u> |
| Average diluted shares outstanding | 97,888,469 | 97,629,786 | 97,509,528 | 97,663,654 | 97,629,641 |
| Free cash flow per share | <u>\$ 0.98</u> | <u>\$ (0.05)</u> | <u>\$ 0.23</u> | <u>\$ 0.55</u> | <u>\$ 0.75</u> |