



Second Quarter 2016 GAAP to Non-GAAP Reconciliations

July 27, 2016



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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income (GAAP) to EBITDA (Non-GAAP) to Adjusted EBITDA (Non-GAAP):				
Net income (GAAP)	\$ 20,722	\$ 34,256	\$ 36,896	\$ 60,356
Interest expense, net	10,006	8,515	19,817	14,928
Provision for income taxes	11,913	18,585	20,425	32,536
Depreciation and amortization	46,035	36,996	90,574	72,117
EBITDA (Non-GAAP)	\$ 88,676	\$ 98,352	\$ 167,712	\$ 179,937
Victory Packaging acquisition expenses	262	5,919	525	6,002
Integration, casualty and other expenses	1,050	724	2,016	1,209
Change in fair value of contingent consideration liability	1,526	553	3,052	553
Severance expenses	3,116	2,025	6,164	2,664
Stock-based compensation expense	1,941	2,757	5,362	6,537
Adjusted EBITDA (Non-GAAP)	\$ 96,571	\$ 110,330	\$ 184,831	\$ 196,902
Net Income (GAAP) to Adjusted Net Income (Non-GAAP):				
Net income (GAAP)	\$ 20,722	\$ 34,256	\$ 36,896	\$ 60,356
Victory Packaging acquisition expenses	262	5,919	525	6,002
Integration, casualty and other expenses	1,050	724	2,016	1,209
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Severance expenses	3,116	2,025	6,164	2,664
Stock-based compensation expense	1,941	2,757	5,362	6,537
Accumulated tax adjustments*	(2,597)	(3,747)	(5,760)	(5,472)
Adjusted Net Income (Non-GAAP)	\$ 26,020	\$ 42,487	\$ 48,255	\$ 71,849
Diluted EPS (GAAP) to Adjusted Diluted EPS (Non-GAAP):				
Diluted earnings per share (GAAP)	\$ 0.21	\$ 0.35	\$ 0.38	\$ 0.62
Victory Packaging acquisition expenses	-	0.06	0.01	0.06
Integration, casualty and other expenses	0.01	0.01	0.02	0.01
Change in fair value of contingent consideration liability	0.02	0.01	0.03	0.01
Severance expenses	0.03	0.02	0.06	0.03
Stock-based compensation expense	0.02	0.03	0.05	0.07
Accumulated tax adjustments	(0.02)	(0.04)	(0.06)	(0.06)
Adjusted Diluted EPS (Non-GAAP)	\$ 0.27	\$ 0.44	\$ 0.49	\$ 0.74

Accumulated tax adjustments in 2016 reflect EBITDA adjustments tax affected at 37.5 percent, the Company's marginal income tax rate offset by an unfavorable state tax examination adjustment

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

	<u>Net Sales</u>			<u>Operating Income (Loss)</u>	<u>Depreciation and Amortization</u>	<u>Capital Expenditures</u>	<u>Total Assets at June 30, 2016</u>
	<u>Trade</u>	<u>Inter- segment</u>	<u>Total</u>				
Three Months Ended June 30, 2016							
Paper and Packaging	\$ 532,571	\$ 20,524	\$ 553,095	\$ 41,082	\$ 38,163	\$ 34,265	\$ 2,507,161
Distribution (a)	252,340	-	252,340	12,336	5,702	932	686,997
Corporate	-	-	-	(9,905)	2,170	1,013	42,292
Intersegment eliminations	-	(20,524)	(20,524)	-	-	-	-
	<u>\$ 784,911</u>	<u>\$ -</u>	<u>\$ 784,911</u>	<u>\$ 43,513</u>	<u>\$ 46,035</u>	<u>\$ 36,210</u>	<u>\$ 3,236,450</u>

	<u>Net Sales</u>			<u>Operating Income (Loss)</u>	<u>Depreciation and Amortization</u>	<u>Capital Expenditures</u>	<u>Total Assets at June 30, 2015</u>
	<u>Trade</u>	<u>Inter- segment</u>	<u>Total</u>				
Three Months Ended June 30, 2015							
Paper and Packaging	\$ 577,857	\$ 788	\$ 578,645	\$ 71,844	\$ 34,187	\$ 30,256	\$ 2,553,708
Distribution (a)	93,398	-	93,398	1,720	1,945	243	527,704
Corporate (b)	-	-	-	(12,155)	864	4,450	223,792
Intersegment eliminations	-	(788)	(788)	-	-	-	-
	<u>\$ 671,255</u>	<u>\$ -</u>	<u>\$ 671,255</u>	<u>\$ 61,409</u>	<u>\$ 36,996</u>	<u>\$ 34,949</u>	<u>\$ 3,305,204</u>

	<u>Net Sales</u>			<u>Operating Income (Loss)</u>	<u>Depreciation and Amortization</u>	<u>Capital Expenditures</u>
	<u>Trade</u>	<u>Inter- segment</u>	<u>Total</u>			
Six Months Ended June 30, 2016						
Paper and Packaging	\$ 1,052,611	\$ 36,993	\$ 1,089,604	\$ 87,323	\$ 75,299	\$ 66,620
Distribution (a)	470,515	-	470,515	13,717	11,363	2,998
Corporate	-	-	-	(22,927)	3,912	2,755
Intersegment eliminations	-	(36,993)	(36,993)	-	-	-
	<u>\$ 1,523,126</u>	<u>\$ -</u>	<u>\$ 1,523,126</u>	<u>\$ 78,113</u>	<u>\$ 90,574</u>	<u>\$ 72,373</u>

	<u>Net Sales</u>			<u>Operating Income (Loss)</u>	<u>Depreciation and Amortization</u>	<u>Capital Expenditures</u>
	<u>Trade</u>	<u>Inter- segment</u>	<u>Total</u>			
Six Months Ended June 30, 2015						
Paper and Packaging	\$ 1,124,146	\$ 788	\$ 1,124,934	\$ 130,136	\$ 68,664	\$ 56,506
Distribution (a)	93,398	-	93,398	1,720	1,945	243
Corporate	-	-	-	(23,098)	1,508	6,962
Intersegment eliminations	-	(788)	(788)	-	-	-
	<u>\$ 1,217,544</u>	<u>\$ -</u>	<u>\$ 1,217,544</u>	<u>\$ 108,758</u>	<u>\$ 72,117</u>	<u>\$ 63,711</u>

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

(b) Goodwill related to the Victory Packaging acquisition was included in Corporate as of June 30, 2015 and was subsequently allocated to the Distribution segment in the quarter ended September 30, 2015

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

	<u>Quarter Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Paper and Packaging				
Segment income	\$ 41,082	\$ 71,844	\$ 87,323	\$ 130,136
Foreign exchange (loss) / gain	(288)	146	-	(739)
Depreciation and amortization	38,163	34,187	75,299	68,664
EBITDA	78,957	106,177	162,622	198,061
Victory Packaging acquisition expenses	-	-	-	-
Integration, casualty and other expenses	935	724	1,819	1,209
Severance expenses	3,035	2,025	5,297	2,664
Adjusted EBITDA	<u>\$ 82,927</u>	<u>\$ 108,926</u>	<u>\$ 169,738</u>	<u>\$ 201,934</u>
Adjusted EBITDA margin	15.6%	18.8%	16.1%	18.0%

	<u>Quarter Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Distribution				
Segment income	\$ 12,336	\$ 1,720	\$ 13,717	\$ 1,720
Foreign exchange (loss) / gain	(584)	(199)	(975)	(199)
Depreciation and amortization	5,702	1,945	11,363	1,945
EBITDA	17,454	3,466	24,105	3,466
Victory Packaging acquisition expenses	262	3,870	525	3,870
Integration, casualty and other expenses	-	-	-	-
Severance expenses	89	-	480	-
Adjusted EBITDA	<u>\$ 17,805</u>	<u>\$ 7,336</u>	<u>\$ 25,110</u>	<u>\$ 7,336</u>
Adjusted EBITDA margin	7.1%	7.9%	5.3%	7.9%

	<u>Quarter Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Corporate				
Segment (loss)	\$ (9,905)	\$ (12,155)	\$ (22,927)	\$ (23,098)
Foreign exchange loss / (gain)	-	-	-	-
Depreciation and amortization	2,170	864	3,912	1,508
EBITDA	(7,735)	(11,291)	(19,015)	(21,590)
Victory Packaging acquisition expenses	-	2,049	-	2,132
Integration, casualty and other expenses	115	-	197	-
Change in fair value of contingent consideration liability	1,526	553	3,052	553
Severance expenses	(8)	-	387	-
Stock-based compensation	1,941	2,757	5,362	6,537
Adjusted EBITDA	<u>\$ (4,161)</u>	<u>\$ (5,932)</u>	<u>\$ (10,017)</u>	<u>\$ (12,368)</u>

	<u>Quarter Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Consolidated				
Segment income	\$ 43,513	\$ 61,409	\$ 78,113	\$ 108,758
Foreign exchange (loss) / gain	(872)	(53)	(975)	(938)
Depreciation and amortization	46,035	36,996	90,574	72,117
EBITDA	88,676	98,352	167,712	179,937
Victory Packaging acquisition expenses	262	5,919	525	6,002
Integration, casualty and other expenses	1,050	724	2,016	1,209
Severance expenses	3,116	2,025	6,164	2,664
Change in fair value of contingent consideration liability	1,526	553	3,052	553
Stock-based compensation	1,941	2,757	5,362	6,537
Adjusted EBITDA	<u>\$ 96,571</u>	<u>\$ 110,330</u>	<u>\$ 184,831</u>	<u>\$ 196,902</u>

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

Calculation of Net Debt

	Quarter Ended				
	<u>6/30/2016</u>	<u>3/31/2016</u>	<u>12/31/2015</u>	<u>9/30/2015</u>	<u>6/30/2015</u>
Current portion of LT debt	\$ -	\$ -	\$ -	\$ -	\$ 51,750
Short-term borrowings	16,000	10,000	6,400	2,000	15,000
Other borrowings	-	-	-	2,214	4,420
Long term debt, net	1,537,028	1,523,961	1,543,748	1,589,670	1,604,967
Unamortized debt issuance costs	21,072	22,185	20,429	22,155	24,057
	<u>1,574,100</u>	<u>1,556,146</u>	<u>1,570,577</u>	<u>1,616,039</u>	<u>1,700,194</u>
Less cash and cash equivalents	<u>(7,890)</u>	<u>(7,084)</u>	<u>(6,821)</u>	<u>(7,767)</u>	<u>(28,737)</u>
Total Net Debt (non GAAP)	<u>\$ 1,566,210</u>	<u>\$ 1,549,062</u>	<u>\$ 1,563,756</u>	<u>\$ 1,608,272</u>	<u>\$ 1,671,457</u>
Decrease (increase) during the quarter	<u>\$ (17,148)</u>	<u>\$ 14,694</u>	<u>\$ 44,516</u>	<u>\$ 63,185</u>	<u>\$ (595,150)</u>
<u>Net Debt to Capital ratio calculation</u>					
Net debt	\$ 1,566,210	\$ 1,549,062	\$ 1,563,756	\$ 1,608,272	\$ 1,671,457
Capital (Equity plus Long term debt, net)	\$ 2,406,134	\$ 2,379,482	\$ 2,389,028	\$ 2,442,756	\$ 2,431,319
Ratio	<u>65.1%</u>	<u>65.1%</u>	<u>65.5%</u>	<u>65.8%</u>	<u>68.7%</u>

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

	Quarter Ended				
	<u>6/30/2016</u>	<u>3/31/2016</u>	<u>12/31/2015</u>	<u>9/30/2015</u>	<u>6/30/2015</u>
Cash flow from operations (GAAP)	\$ 31,020	\$ 58,605	\$ 85,809	\$ 104,061	\$ 76,499
Less capital expenditures	<u>(36,210)</u>	<u>(36,163)</u>	<u>(31,861)</u>	<u>(31,184)</u>	<u>(34,949)</u>
Free cash flow (Non-GAAP)	<u>\$ (5,190)</u>	<u>\$ 22,442</u>	<u>\$ 53,948</u>	<u>\$ 72,877</u>	<u>\$ 41,550</u>
Average diluted shares outstanding	97,629,786	97,509,528	97,663,654	97,629,641	97,664,781
Free cash flow per share	<u>\$ (0.05)</u>	<u>\$ 0.23</u>	<u>\$ 0.55</u>	<u>\$ 0.75</u>	<u>\$ 0.43</u>