



OPPORTUNITIES

UNIQUE SYSTEM OPTIMIZATION AND GROWTH OPPORTUNITY WITH VICTORY

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June 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 under Investors.

THE BUILDING OF KAPSTONE

Five Major Acquisitions Since 2007

IP's Kraft Paper Division

- Purchase Price \$204 MM
- 3.3 Xs TTM Adj. EBITDA

Jan. 2007

MWV's Kraft Paper Division

- Purchase Price \$466 MM
- 5.8 Xs TTM Adj. EBITDA

July 2008

US Corr. Inc.

- Purchase Price \$332 MM
- 6.4 Xs TTM Adj. EBITDA

Oct. 2011

Longview Fibre

- Purchase Price \$1.025 B
- 6.1 Xs TTM Adj. EBITDA

July 2013

Victory Packaging

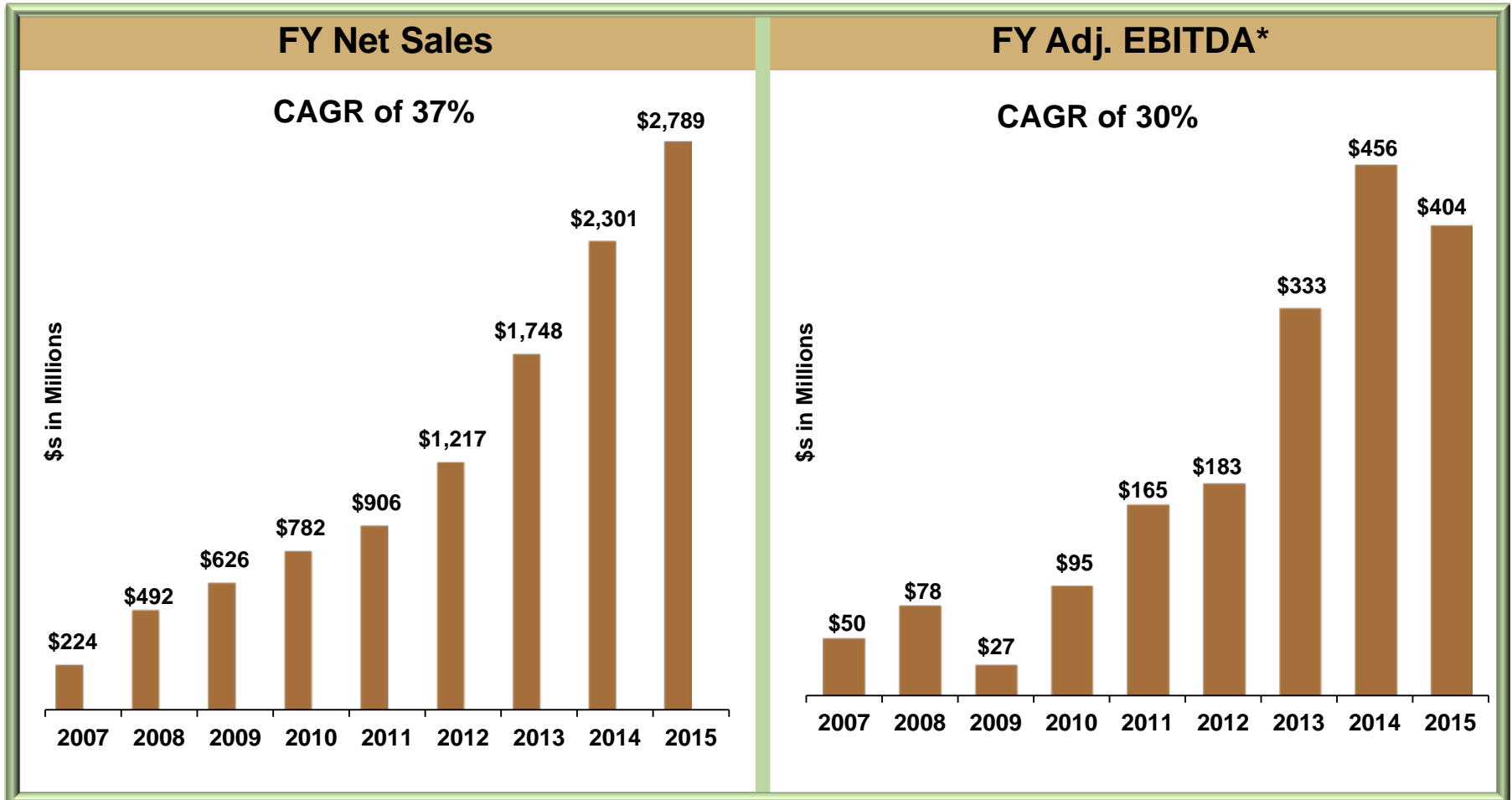
- Purchase Price \$615 MM*
- 6.1 Xs TTM Adj. EBITDA

June 2015

*\$515 MM after \$100 MM tax benefit



Strong Growth Record

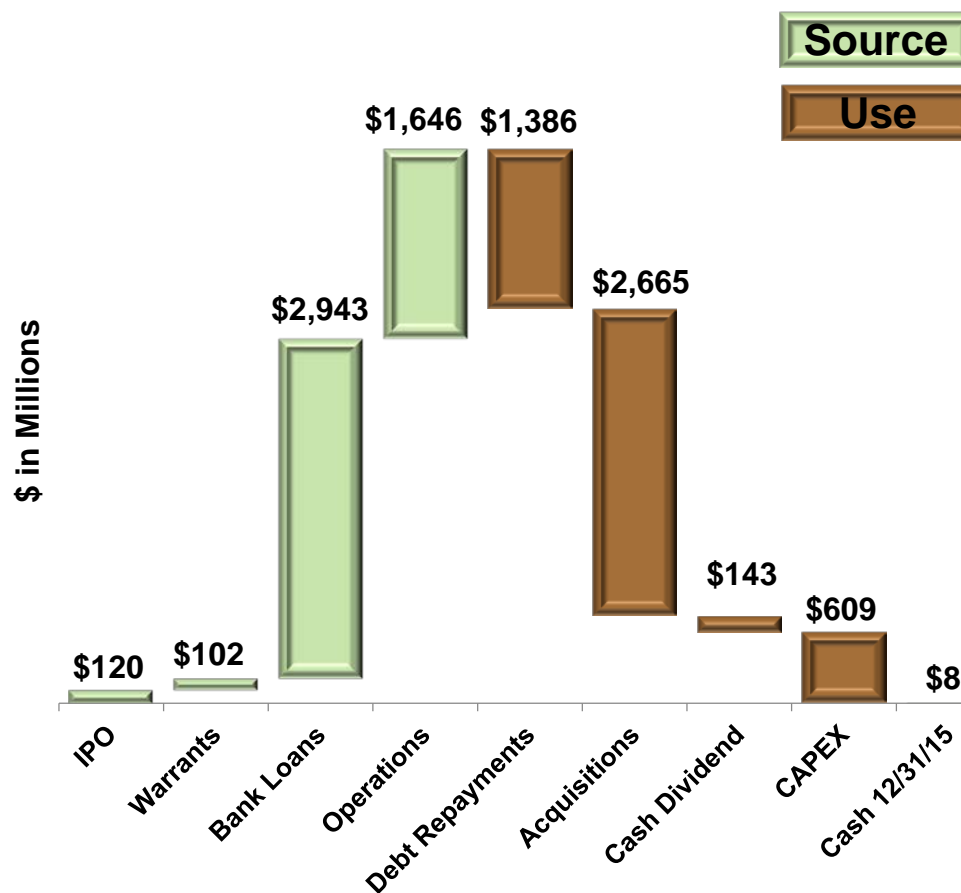


*Adjusted to exclude alternative fuel mixture credits, non-cash stock compensation, acquisition, strike costs, start up and other costs, and dunnage bag business sold in March 2009

Disciplined Capital Allocation

- Generated ~\$1.65 billion of cash from operations since inception
 - Voluntary debt prepayments since Victory acquisition in June 2015 total \$104 million
- Returned \$143 million to shareholders with dividends
- Invested over \$600 million in CAPEX for our operations
- At March 31, 2016:
 - Net debt was \$1.55 billion
 - Bank net debt to EBITDA was 3.7 times
 - Average weighted interest rate was 2.1%
 - Available revolver of \$473 million
- Maintain ability to grow
- No bank maturities until 4Q17

Source & Use of Funds Since Inception
(Inception – March 31, 2016)



2015 – A Year of Challenges

- Strengthening dollar significantly impacted results reducing revenues and margins
 - Approximately 20% of revenues at start of 2015 exposed to FX fluctuations
 - Export product revenues were down \$37 million reflecting fewer tons sold and a \$40 per ton decrease in average selling price

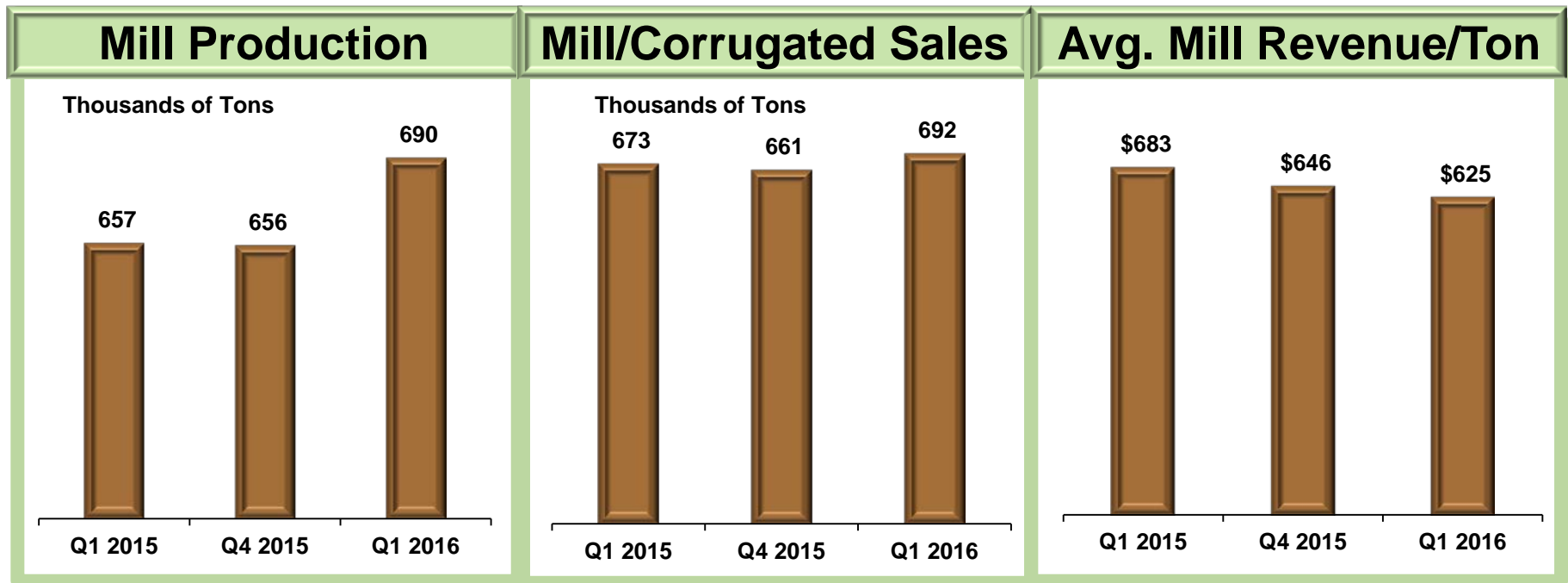
- Wood fiber prices in both southeast and northwest increased
 - Southeast hit by 1,000 year rainstorm in early October
 - Northwest chip supply decreased by reduced sawmill activity

- 1st strike in KapStone history

- West coast port slowdown early in year

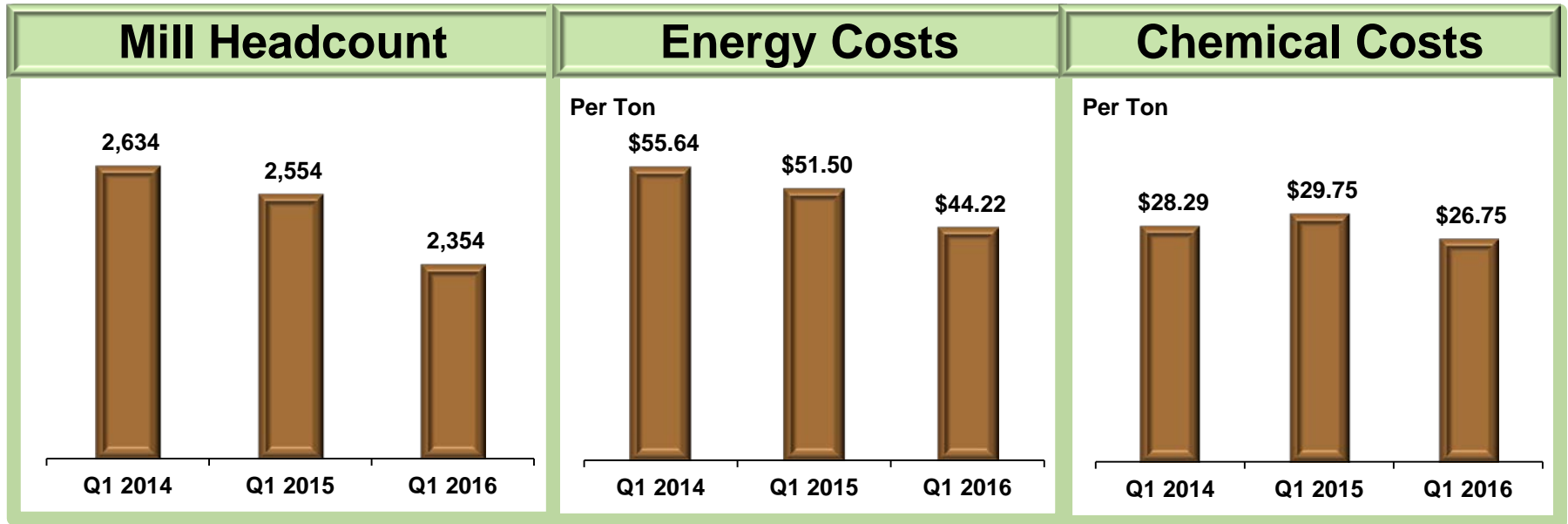
- Productivity - lower than expectations

Operations Overview



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

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

Opportunities and Priorities for 2016

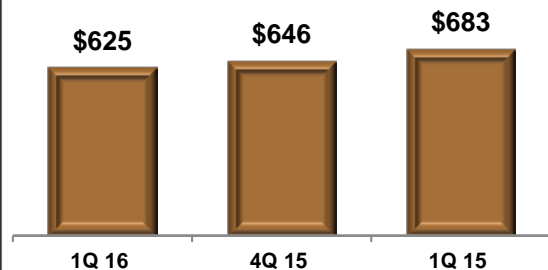
- Enhance cash flow generation
 - Q1 2016 free cash flow was \$55 million higher than Q1 2015
 - Closer scrutinization of expenses and CAPEX plans
 - Leverage historical CAPEX investments
 - Repay debt and strengthen balance sheet
- Full year of Victory Packaging
 - Provides unique system optimization and growth opportunity
 - Significant catalyst in reducing exposure to export markets
 - \$30 million synergy run rate to be realized by mid-2016
 - Ten months of Victory operations provided \$42 million of free cash flow
- Invest to reduce operational volatility
 - Increase consumption of mill production
 - Reduce exposure to markets with weak pricing/demand trends
- Regain and maintain operating excellence
 - Continue cost reduction programs such as headcount actions taken at end of Q1 (125 less positions lowering annualized costs by \$9 million)
 - Complete projects such as 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

Appendix

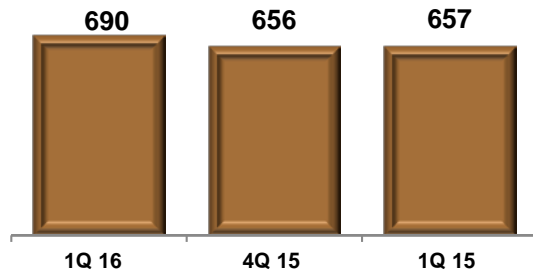
Quarterly Key Performance Indicators

Sales and Production

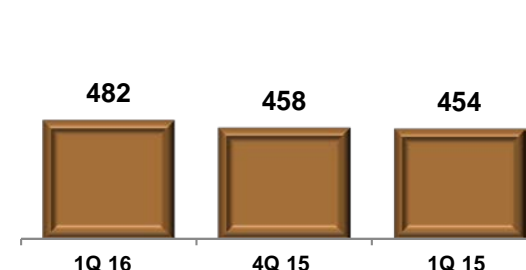
Avg Mill Revenue per Ton



Tons Produced (000)

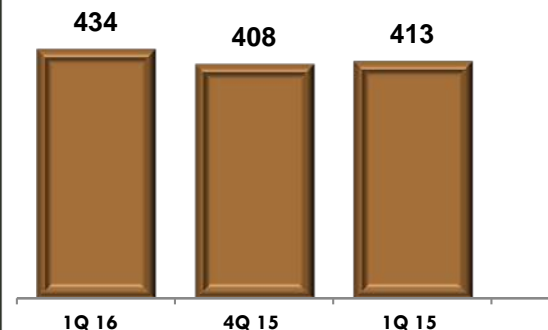


Mill External Shipments (000)

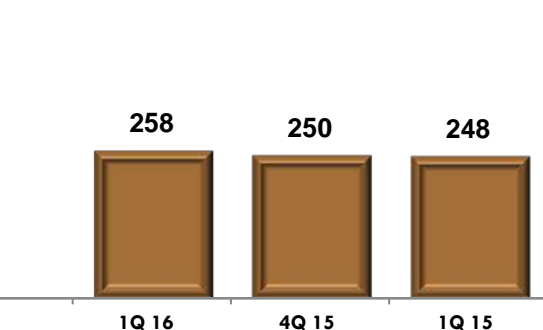


Paper and Packaging Product Mix (000 Tons)

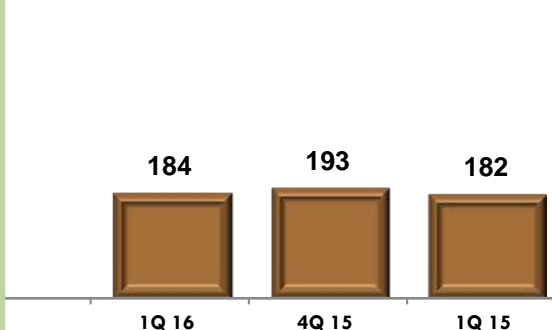
Containerboard and Corrugated products ⁽¹⁾



Specialty paper ⁽²⁾



Internal Consumption



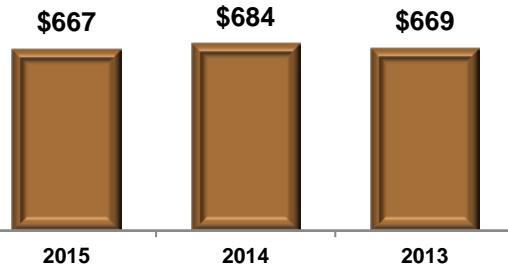
(1) Containerboard includes all domestic and export sales of linerboard and medium

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

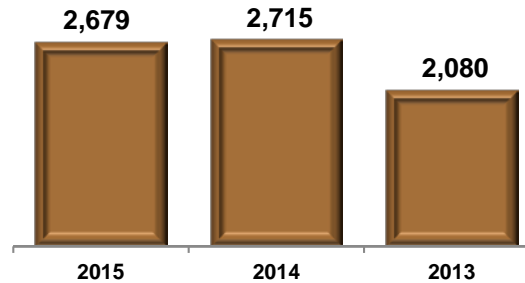
2015 Key Performance Indicators

Sales and Production

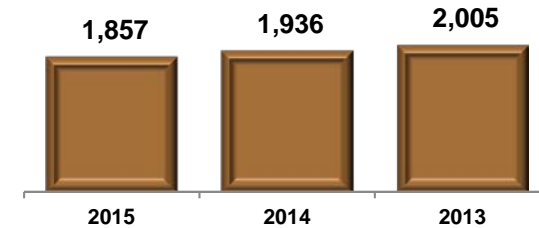
Avg Mill Revenue per Ton



Tons Produced (000)

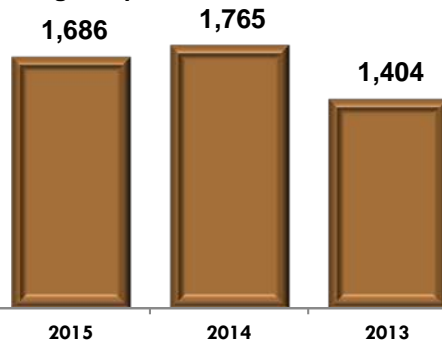


Mill External Shipments (000)

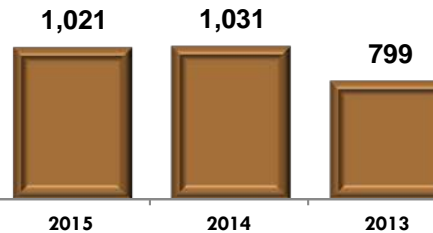


Paper and Packaging Product Mix (000 Tons)

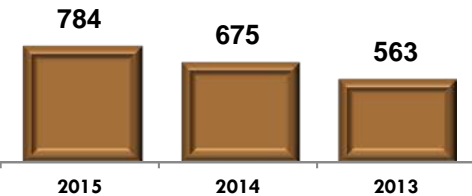
Containerboard and Corrugated products ⁽¹⁾



Specialty paper ⁽²⁾



Internal Consumption



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

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

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
- Effective income tax rate of 35 percent

Summary of Key Assumptions for 2016

- Full year of Victory Packaging results
- Price changes:
 - Full year of West coast medium and linerboard reductions of \$20 and \$10 per ton, respectively (reductions took effect on August 1 and October 1)
 - January 2016 index reductions of \$15 per ton for LB and \$20 for CM will have annualized impact of approximately \$11 million
- Production and shipping
 - One additional production day due to leap year
- Planned maintenance outage expense of \$38 million flat with prior year with 6,000 tons less lost production
- Fiber costs are trending down from year end 2015
- Lower pension income (about \$7 million)
- CAPEX is expected to be \$115 million for the full year excluding potential new box plant operations
- Depreciation and amortization will approximate \$190 million annually
 - Annual amortization of purchase accounting intangibles ~ \$150 million
- Effective income tax rate of 35 percent. Cash tax rate for 2016 should be about 28 percent

Maintenance Outage Expense & Production Impact

Financial Impact (\$ in Millions)	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Year</u>
2014 Actual	\$ 14.8	\$ 5.2	\$ 5.2	\$ 10.9	\$36.1
2015 Actual	\$ 8.6	\$ 11.1	\$ 4.4	\$ 13.3	\$37.4
2016 Forecast	\$ 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>
2014 Actual	14,300*	5,400	-	14,500	34,200
2015 Actual	2,000	10,400**	2,400	16,900***	31,700
2016 Forecast	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

Victory and Legacy KapStone's Facilities



Paper and Packaging

Flexible paper mill system – Total capacity of 2.9 million tons



Longview, WA mill

- 1.3 million ton annual capacity (excess pulping capacity 0.3 million tons)
- Targeted furnish mix – ~70% virgin and ~30% recycled, highly flexible mill
- Linerboard, kraft paper and medium

Charleston, SC and Roanoke Rapids, NC mills

- 1.35 million ton annual combined capacity
- 100% virgin in excellent wood basket
- Linerboard, kraft paper, DuraSorb® and Kraftpak®

Cowpens, SC mill

- 0.25 million ton annual capacity
- 100% recycled
- Medium and linerboard

22¹ converting plants located throughout the U.S.

- 18 bsf of capacity
- Corrugated boxes and sheets



¹ Includes one sheet plant that is in the Distribution segment