



KP Tissue Inc.

## Q1 2018 FINANCIAL RESULTS

May 10, 2018



# Forward-looking and cautionary statements

**This Presentation on behalf of KP Tissue Inc. (the “Corporation” or “KPT”) does not constitute or form part of any offer for sale or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with, or act as any inducement to enter into, any contract or commitment whatsoever.**

The information contained in this Presentation does not purport to be all-inclusive. This Presentation is being supplied to you solely for your information and may not be reproduced, further distributed or published in whole or in part by any other person. Neither this Presentation nor any copy of it may be taken or transmitted into or distributed any other jurisdiction which prohibits the same except in compliance with applicable securities laws. Any failure to comply with this restriction may constitute a violation of securities law.

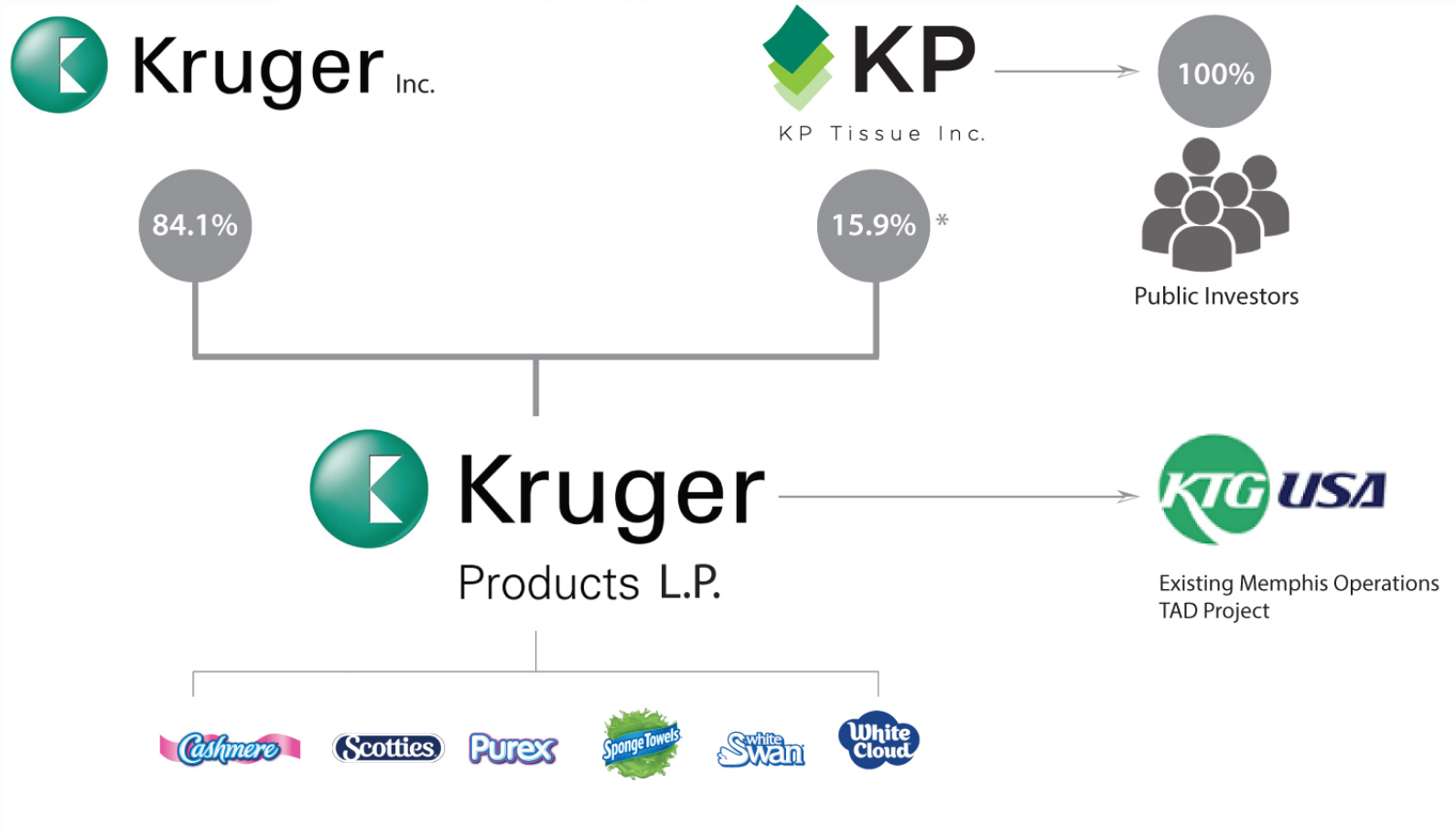
No representation or warranty, express or implied, is made or given by or on behalf of the Company or any of the directors, officers or employees of any such entities as to the accuracy, completeness or fairness of the information or opinions contained in this Presentation and no responsibility or liability is accepted by any person for such information or opinions. In furnishing this Presentation, the Company does not undertake or agree to any obligation to provide the attendees with access to any additional information or to update this Presentation or to correct any inaccuracies in, or omissions from, this Presentation that may become apparent. The information and opinions contained in this Presentation are provided as at the date of this Presentation. The contents of this Presentation are not to be construed as legal, financial or tax advice. Each person receiving this Presentation should contact his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.

Certain statements in this presentation about the Corporation and Kruger Products L.P. (“KPLP”) as it relates to their current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words “may”, “will”, “would”, “should”, “could”, “expects”, “plans”, “intends”, “trends”, “indications”, “anticipates”, “believes”, “estimates”, “predicts”, “likely” or “potential” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking information is based on certain key expectations and assumptions made by the Corporation or KPLP, including the potential installation of a second TAD paper machine; KPLP’s expansion efforts in U.S. premium private label; and KPLP’s future business strategy. The financial outlook that KPLP Management provides concerning the potential incremental Adjusted EBITDA generated by TAD products may be considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) limited incremental overhead relating to the operation of the TAD machine and distribution and sale of products, (ii) the TAD machine operating at near full capacity and products being sold at prices consistent with current market prices, adjusted for inflation, (iii) a cost of pulp and energy and a selling price of finished products based on recent prices, adjusted for inflation and (iv) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. The financial outlook provided in respect of Adjusted EBITDA may be considered forward-looking information and is based on additional key expectations and assumptions, including but not limited to (i) sales volumes consistent with management’s expectations, (ii) a cost of pulp and energy based on recent prices, and (iii) a foreign exchange rate between the Canadian and U.S. dollars approximating current levels. The purpose of the outlook is to provide the reader with an indication of management’s expectations, at the date of this conference call, regarding KPLP’s future financial performance. Readers are cautioned that this information may not be appropriate for other purposes. Although the Corporation and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that such expectations and assumptions will prove to be correct.

Unless otherwise stated, references in this presentation to market shares or KPT’s market leadership are based on Nielsen dollar market share data and management estimates.

**The following presentation is to review Kruger Products L.P.  
Q1 2018 financial results**

# Corporate Structure



\*As of April 1, 2018 (15.9% as of May 10, 2018)

# Kruger Products Overview

1

Canada's Leading  
Tissue Company

2

Strong Customer Relationships  
Reinforced by Compelling  
Retail Proposition

3

Efficient Manufacturing  
Infrastructure

4

Strong Balance Sheet  
Supported by Free Cash  
Flow Generation

5

Prudent Growth  
Strategy

6

Experienced Management  
Team with Demonstrated  
Track Record



# Q1 2018 Highlights

**\$323.7 M**

Revenue



**11.9%**

over 2017

Revenues increased in both geographic regions, and all segments



**+ 8.5%**

Canada



**+ 10.3%**

U.S.

**\$27.0 M**

Adjusted EBITDA<sup>1</sup>



**20.1%**

over 2017

- A decrease of \$6.8 million or 20.1%
- Primarily due to the continuous run-up in pulp prices and increase in freight costs

**\$1.6 M**

Net Income



over 2017

Net income of \$1.6 million compared to \$6.9 million last year.

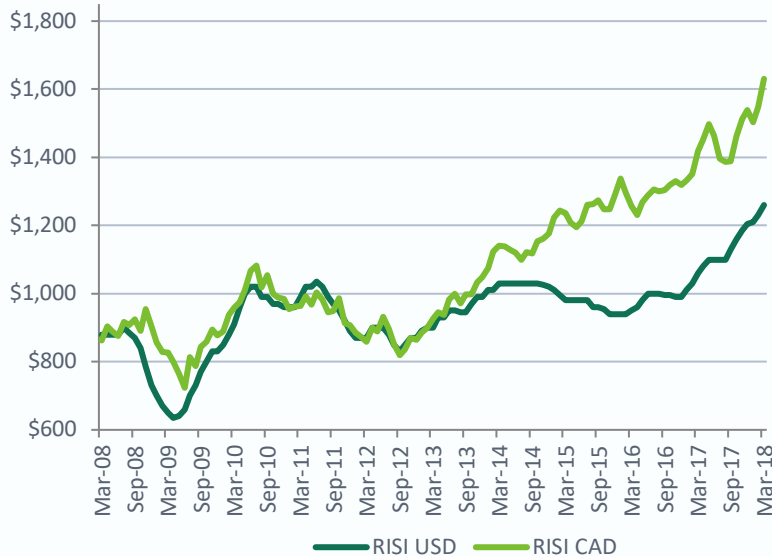
<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.

# Pulp Input Prices

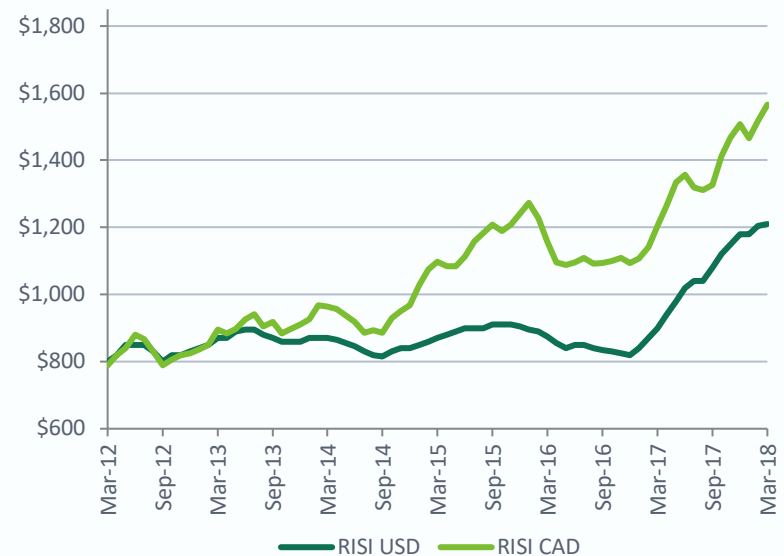
Q1 2018 market pulp prices rose sequentially compared to Q4 2017, and also year-over-year, in both USD and CAD.

Based on industry forecasts, pulp prices in USD are expected to remain high for the balance of 2018. The volatile CAD will create further fluctuations in pulp input costs.

**NBSK North American List Prices per MT  
(Q1 2018 +19% YOY in USD)**



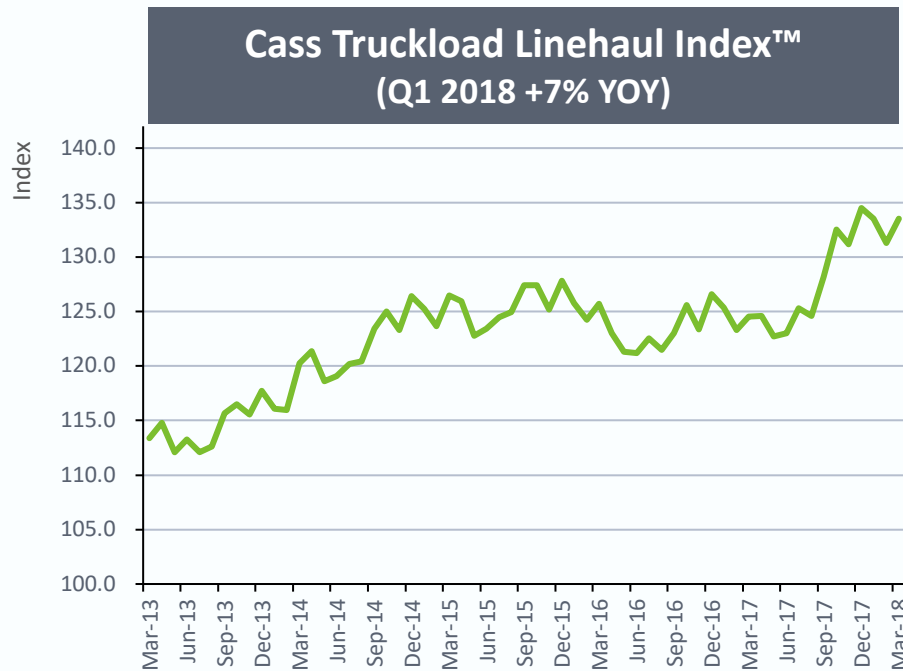
**BEK List Prices per MT  
(Q1 2018 +38% YOY in USD)**



(USD average 1.26 in Q1 2018 compared to 1.32 in Q1 2017)

# Freight Cost Index

Freight costs have risen significantly since the beginning of 2017 and reached an all-time high in Q4 2017. Management expects these costs to remain high for the balance of 2018.



The Cass Truckload Linehaul Index™ is an accurate, timely indicator of market fluctuations in per-mile truckload pricing. The index isolates the linehaul component of full truckload costs from other components (e.g. fuel and accessorials), providing an accurate reflection of trends in baseline truckload prices.

Data within this unique index is derived from actual freight invoices paid on behalf of Cass' clients. The index uses January 2005 as its base month.

Source: Cass Information Systems, Inc.

# Price Increase and Cost Reductions

## Selling price increase to Canadian retailers

Selling price increase implemented in Q4 2017, started to impact Q1 2018

As the market price leader, market share were impacted

During Q1, dollar value of paper tissue categories<sup>(1)</sup> increased between 3% to 5% greater than volume

Promotional activities have now returned to more normal levels

## Value creation program

Value added program to be much larger in scope and size compared to the past

Smart cost reduction program with no impact on quality aimed at:

- Content reduction
- Procurement savings
- Smart savings at facility level/reducing fix costs
- North American logistics optimization

(1) Nielsen market share data for the 12-week period ended March 31, 2018

# Quarterly Financial Summary

				% Change	
(Million CAD\$, unless otherwise noted)	Q1 2018	Q4 2017	Q1 2017	Y/Y	Q/Q
<i>Number of days in quarter</i>	91	98	85	7.1%	(7.1)%
<b>Revenue</b>	<b>323.7</b>	<b>340.0</b>	<b>289.3</b>	<b>11.9%</b>	<b>(4.8)%</b>
Cost of Sales	287.4	296.0	244.3		
Gross Profit	36.3	44.0	45.0	(19.3)%	(17.5)%
Gross Margin	11.2%	12.9%	15.6%		
<b>Adjusted EBITDA</b>	<b>27.0</b>	<b>33.7</b>	<b>33.8</b>	<b>(20.1)%</b>	<b>(19.9)%</b>
Adjusted EBITDA Margin	8.3%	9.9%	11.7%		
Net Income	1.6	(18.0)	6.9		
Net Income Margin	0.5%	(5.3)%	2.4%		



# Quarterly Segmented Results

				% Change	
(Million CAD\$, unless otherwise noted)	Q1 2018	Q4 2017	Q1 2017	Y/Y	Q/Q
<i>Number of days in quarter</i>	91	98	85	7.1%	(7.1)%
<b>Segmented Revenue</b>					
Consumer	267.7	276.4	238.9	12.1%	(3.1)%
AFH	53.5	62.2	48.7	9.9%	(14.0)%
Other	2.5	1.4	1.7		
<b>Total Segment Revenue</b>	<b>323.7</b>	<b>340.0</b>	<b>289.3</b>	<b>11.9%</b>	<b>(4.8)%</b>
<b>Segment Adjusted EBITDA</b>					
Consumer	29.9	32.2	33.0	(9.4)%	(7.1)%
AFH	(0.3)	1.4	0.7	(142.9)%	(121.4)%
Other	(2.6)	0.1	0.1		
<b>Total Segment Adjusted EBITDA</b>	<b>27.0</b>	<b>33.7</b>	<b>33.8</b>	<b>(20.1)%</b>	<b>(19.9)%</b>
<b>Segment Adjusted EBITDA Margin</b>					
Consumer	11.2%	11.6%	13.8%		
AFH	(0.6)%	2.3%	1.4%		
<b>Total Segment Adjusted EBITDA Margin</b>	<b>8.3%</b>	<b>9.9%</b>	<b>11.7%</b>		

# Q1 2018 Revenue Compared to Q1 2017

---

**\$34.4 M**

Q1 revenue increase



**11.9%**

over Q1 2017

---

## Impacted by a combination of:

- Additional 6 days of sales (or 7.1% of sales) in Q1 2018 versus Q1 2017
  - Favourable impact of increased sales volume
  - Consumer selling price increase implemented in Canada in Q4 2017
  - Partially offset by unfavourable impact of F/X fluctuations on U.S. sales (USD average 1.26 in Q1 2018 compared to 1.32 in Q1 2017)
- 

---

## Geographic revenue segmentation



**\$14.8 M**



**+ 8.5%**  
Canada



**\$10.8 M**



**+ 10.3%**  
U.S.

---

# Q1 2018 Adjusted EBITDA Compared to Q1 2017

**\$6.8 M**

Q1 Adjusted EBITDA decrease

 **20.1%**

over Q1 2017

## Primarily due to the following factors:

- Significantly higher pulp costs
- Increased freight costs
- Partially offset by increased sales volume, the Canadian selling price increase, net favourable impact of F/X fluctuations, and the benefits from cost reduction initiatives and capital projects

## Gross Margin

**11.2%**

Q1 2018

**15.6%**

Q1 2017

Gross margin decreased (11.2% in Q1 2018 versus 15.6% in Q1 2017) primarily due to the above mentioned factors

# Q1 2018 Revenue Compared to Q4 2017

---

**\$16.3 M**

Q1 revenue decrease

▼ **4.8%**

over Q4 2017

---

## Primarily due to the following factors:

- Q1 2018 consisting of 91 days and Q4 2017 consisting of 98 days
  - AFH segment revenue decreased by \$8.7 million or 14.0%
  - Consumer segment revenue decreased by \$8.7 million or 3.1%
  - Q1 usually a lower seasonal quarter
  - Selling price increase created market uncertainty, which affected volume for everyone
- 

---

## Geographic revenue segmentation

▼ **\$14.9 M**



**- 7.3%**  
Canada

▼ **\$4.6 M**



**- 3.8%**  
U.S.

---

# Q1 2018 Adjusted EBITDA Compared to Q4 2017

---

**\$6.7 M**

Q1 Adjusted EBITDA decrease

 **19.9%**

over Q4 2017

---

## Due to the combination of the following factors:

- Q1 2018 consisting of 91 days and Q4 2017 consisting of 98 days
  - Higher pulp cost
  - Increased freight costs
- 

## Gross Margin

**11.2%**

Q1 2018

**12.9%**

Q4 2017

Gross margin decreased (11.2% in Q1 2018 versus 12.9% in Q4 2017) primarily due to the above mentioned factors

---

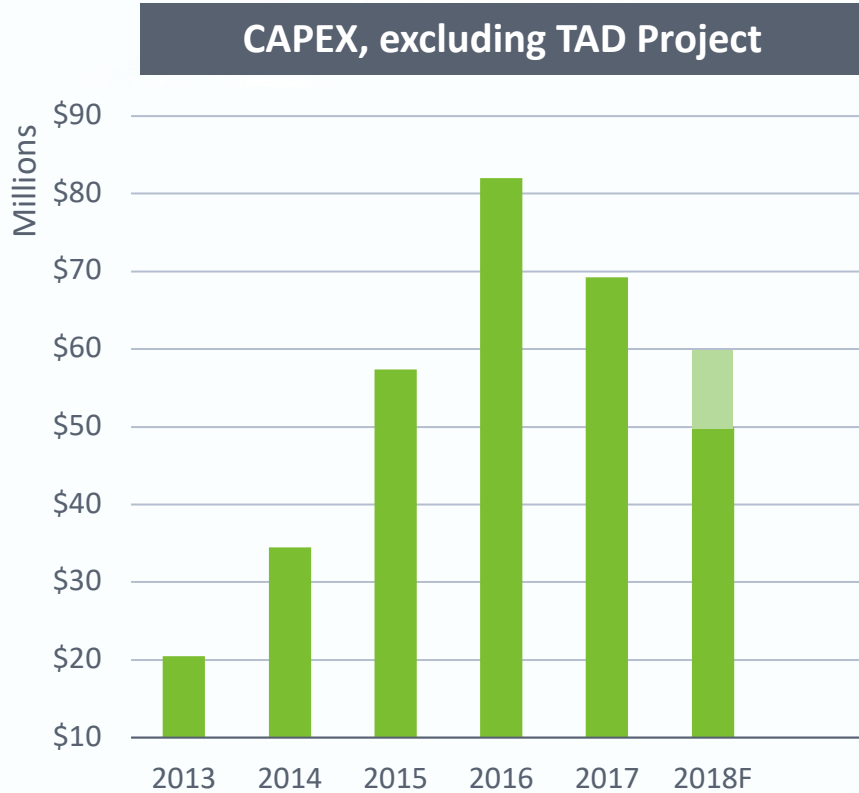


# Balance Sheet

(Million CAD\$, unless otherwise noted)	Q1 2018	Q4 2017
Cash and Bank Indebtedness	1.3	(0.2)
Current Portion of Long-term Debt	198.2	190.9
Long-term Debt	262.3	225.4
<b>Net Debt</b>	<b>459.2</b>	<b>416.5</b>
LTM Adjusted EBITDA	137.4	144.2
<b>Net Debt/LTM Adjusted EBITDA</b>	<b>3.3</b>	<b>2.9</b>

On April 24, 2018, Kruger Products issued CDN \$125 million principal amount of 6.00% Senior Unsecured Notes due April 24, 2025 by way of private placement. Interest on the Notes is payable semi-annually in arrears on April 24<sup>th</sup> and October 24<sup>th</sup> of each year, commencing on October 24, 2018. Kruger Products used the net proceeds of the financing to reduce the outstanding balance under its syndicated bank credit facility and to pay transaction costs associated with the Offering.

# CAPEX



Q1 2018 CAPEX of \$15.7 million, up from \$12.7 million in Q1 2017 due to project timing

2018 focus on high return CAPEX projects – total estimated at \$50 to \$60 million

Cost reduction and Capacity/Growth projects generally have 3 to 4 year paybacks

# TAD2 Project

Part of KPLP's long-term strategy is to increase premium paper capacity

---

Studying the potential for a second TAD paper machine with state-of-the-art converting capability ("TAD2")

- Potential sites in Canada and the U.S.
- 

The project would require approximately two years for construction and installation following board approval, followed by a ramp-up period for production and sales

A decision to proceed with the project is subject to a number of factors, including identification of an acceptable site and availability of financing on satisfactory terms

# AFH Segment

## Resetting the AFH business to create a more efficient manufacturing and logistics footprint:

- 
- In progress with a CAPEX program to improve manufacturing and logistics costs
- 
- Results are also affected by pulp prices and freight costs
- 
- Crabtree PM8 paper machine is now being partially used for the Consumer segment instead of AFH, reducing the beneficial impacts for AFH
- 
- Reset will allow AFH business to become more competitive
-

# Stable Underlying Demand for Consumer Tissue

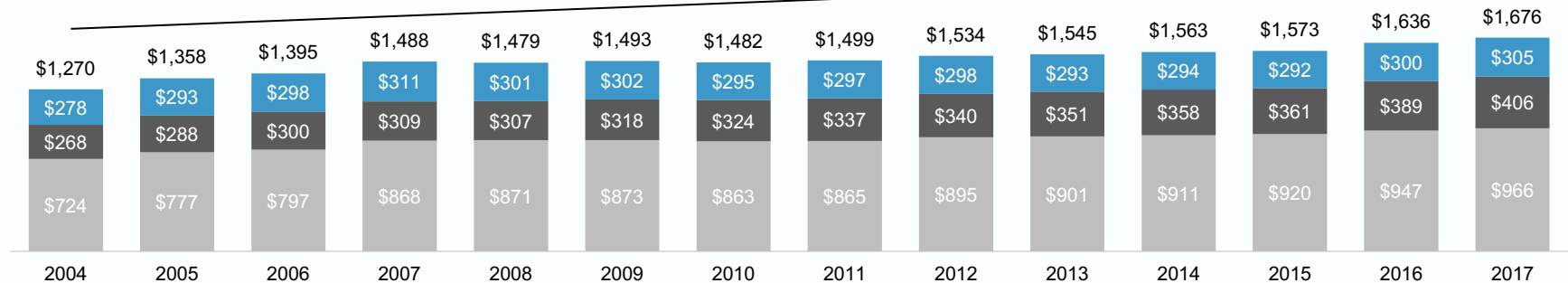
- Tissue demand has been relatively stable over time
- Demand typically supported by overall population growth and high household penetration rates

## Total Consumer Retail Sales in Canada

C\$ millions

■ Bathroom Tissue ■ Paper Towels ■ Facial Tissue

CAGR: 2.2%



Source: Nielsen



# U.S. Tissue Demand is Stable

**U.S. demand for tissue products has grown consistently at a CAGR of 1.4% from 2001 – 2016**

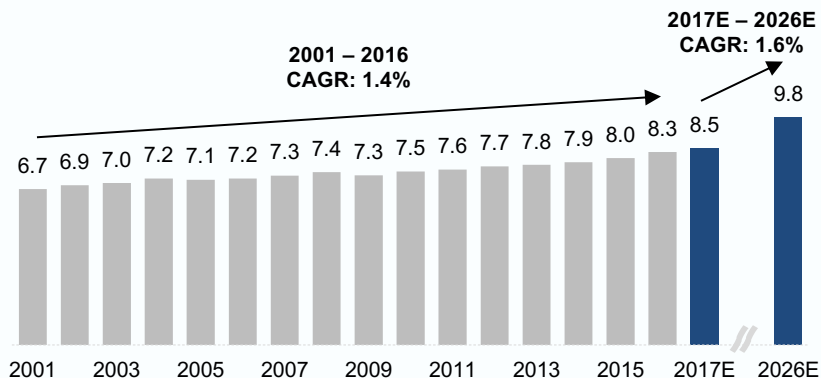
- CAGR of 1.6% expected from 2017E to 2026E
- Consumer represents ~67% of U.S. tissue demand
- AFH has shown similar growth to consumer segment; typically greater sensitivity to economic cycles

**Private label volume continues to gain share, rising from 18% in 2008 to over 28% by 2016**

- Greater acceptance since the economic downturn particularly in the towels and napkins segments
- Increasing emphasis on quality likely to support growth

## Total U.S. Tissue Demand

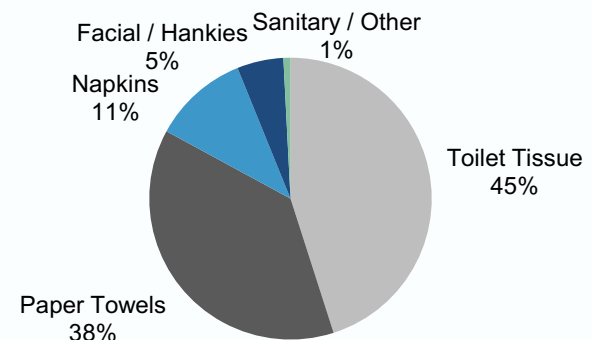
Volume (millions of mt) - 2001 to 2026E



Source: RISI

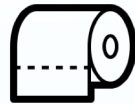
## U.S. Tissue Demand Segments by Volume

2016



Source: RISI

# Canada's Leading Tissue Company



## Bathroom Tissue

**#1**  
**35.3%**

18.8%

11.6%

3.2%



## Facial Tissue

**#1**  
**31.5%**

18.9%

0.7%

18.2%



## Paper Towel

**#2**  
**22.3%**

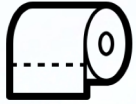
11.5%

33.2%

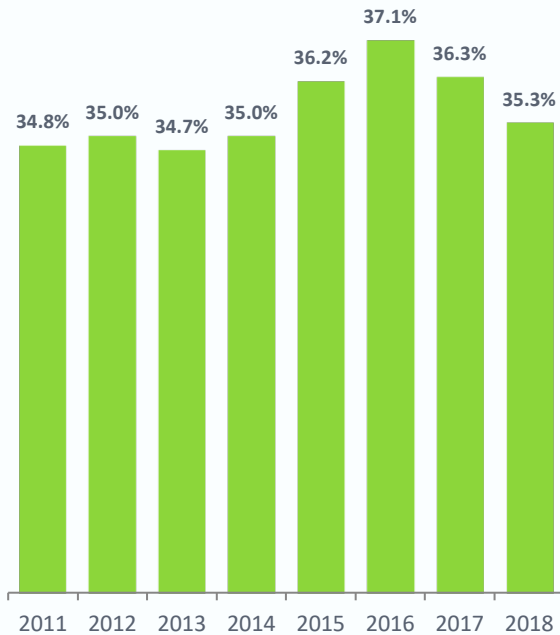
1.7%

Source: Nielsen; dollar market share for the 52-week period ended March 31, 2018.

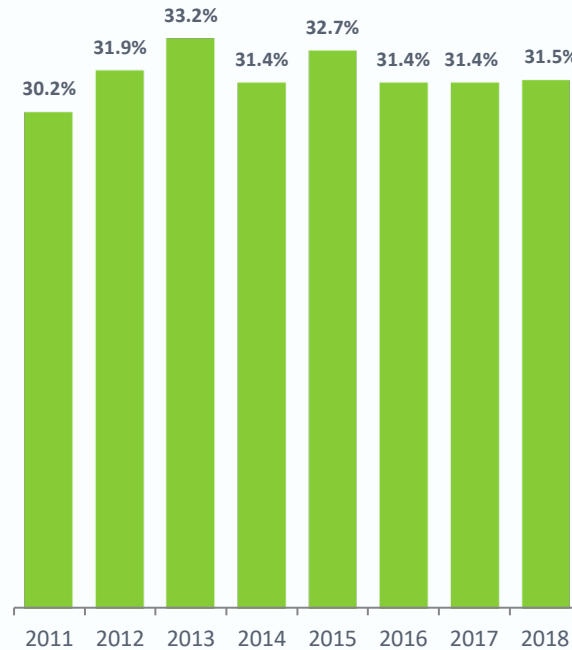
# Brand Leadership Position



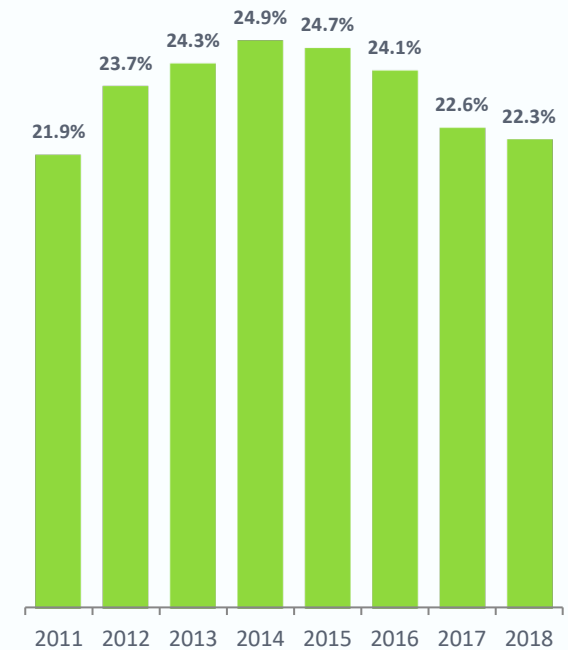
## #1 Bathroom Tissue



## #1 Facial Tissue



## #2 Paper Towel



Source: Nielsen Canadian dollar market share for 52-week period data. 2018 represents the latest 12 months ending March 31, 2018

# Business Strategy Focused on Building Great Brands and Products

## Build Consumer and Brand Leadership in Canada

- Drive marketing and sales excellence
- Strengthen our brands
- Increase innovation

## Drive Growth in U.S.

- Leverage TAD capabilities and focus on the high-end private label business
- Invest in technology to support “national brand equivalent”
- Strengthen position with current customers, penetrate select new strategic customers
- Build White Cloud brand

## Create a North American Efficient Supply Chain

- Leverage manufacturing technology to drive product superiority and cost savings
- Growth capital projects drive performance improvement with strong paybacks
- Utilize full supply chain footprint to drive efficiency

## Drive Sustainability (Sustainability 2020 Project)

- Reduce energy consumption by 15% from 2009 levels
- Reduce water consumption by 35% from 2009 levels
- Reduce greenhouse gas emissions by 27% from 2009 levels
- Improve employee safety by 50% from 2015 levels

# Conclusion

- Continue to build revenue, maintain market share leadership, secure our private label activities, and focus on opportunistic growth for AFH

---

- A price increase to Canadian retailers was implemented in Q4 2017 and was working through the system in Q1 2018

---

- Initiated an escalated value creation program to partially offset extraordinary short-term market conditions related to pulp and freight costs

---

- CAPEX in Fiscal 2018 will return to more normal levels after two years of increased investments

---

- Continue to leverage TAD products market potential and studying the potential for a second TAD machine

---

- Resetting the AFH business to create a more efficient manufacturing footprint

---

- In the U.S., continue to build the premium private label business and pursue White Cloud® customer diversification strategy

---

- KPLP continues to have strong long-term business fundamentals. However, Adjusted EBITDA is expected to decrease in Q2 2018 due to the significant run-up in pulp and freight costs

---





Thank You