



## Q4 2018 FINANCIAL RESULTS

March 7, 2019



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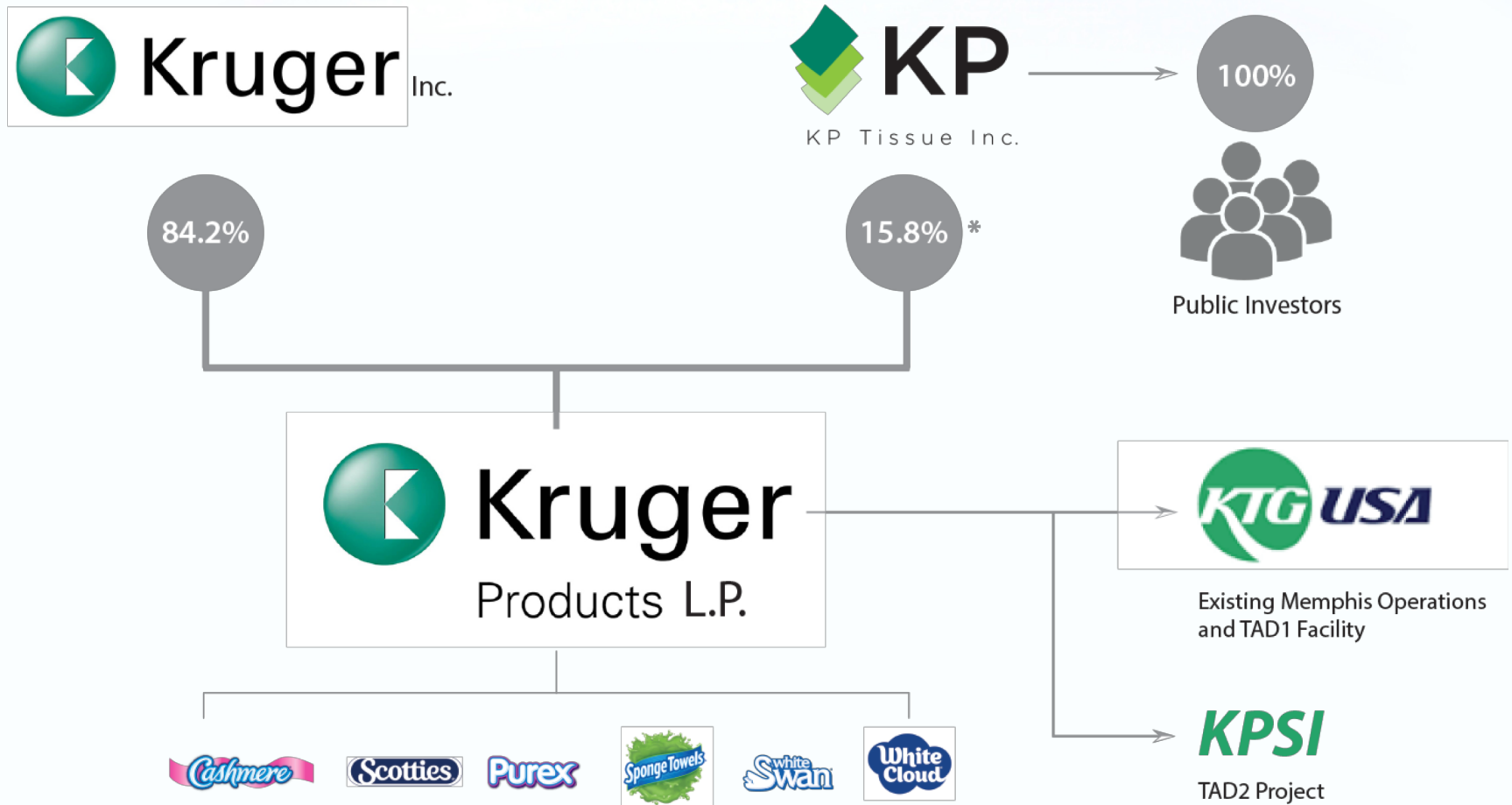
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Unless otherwise stated, references in this presentation to market shares or KPT's market leadership are based on Nielsen dollar market share data and management estimates.

**The following presentation is to review Kruger Products L.P.  
Q4 2018 financial results**

# Corporate Structure



\*As of December 31, 2018 (15.7% as of March 6, 2019)

# Kruger Products Overview

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**Canada's Leading  
Tissue Company**

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**Strong Customer  
Relationships**

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**Broad Manufacturing  
Infrastructure**

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**Solid Cash Flow  
Generation**

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**Prudent Growth  
Strategy**

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**Experienced  
Management Team**

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# 2018 Key Milestones

- ✓ Revenues increased to a record \$1.37 billion, up 7.1% from 2017

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- ✓ Closed strategic \$575 million financing to start TAD2 project

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- ✓ Increased prices in our Consumer and AFH business to offset higher pulp and freight costs

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- ✓ Escalated our cost reduction efforts to mitigate market cost impacts

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- ✓ Engaged a 3rd party consultant to drive operational efficiency and reduce waste

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- ✓ Continuing to build brand leadership with the signing of a multi-year partnership with the NHL

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# Q4 2018 Highlights

**\$359.5 M**

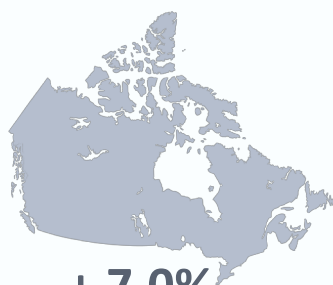
Revenue



**5.7%\***

over 2017

**Revenue increased in Canada and Mexico, partially offset by a decrease in sales in the U.S.**



**+ 7.0%**

Canada



**-2.4%**

U.S.

\* Includes 48.9% increase in revenues for Mexico to \$24.3 million, which is a low contribution business.

**\$20.3 M**

Adjusted EBITDA<sup>1</sup>



**39.8%**

over 2017

- Primarily due to significantly higher pulp and freight costs, 6 fewer days of sales in Q4 2018 than Q4 2017, the cost of outsourced manufacturing, unfavourable sales mix and F/X
- Partially offset by the Q4 2018 Canada Consumer selling price increase.

**\$38.0 M**

Net Income



**over 2017**

Net income of \$38.0 million compared to net loss of \$18.0 million last year.

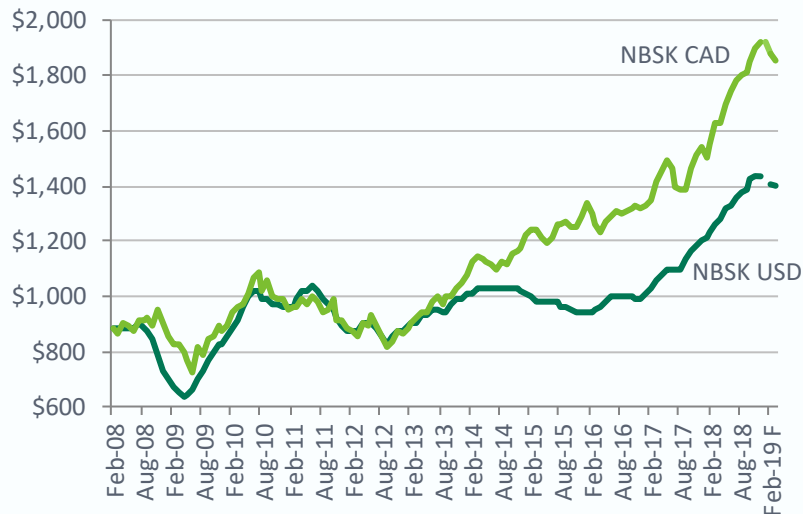
<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.

# Pulp Input Prices

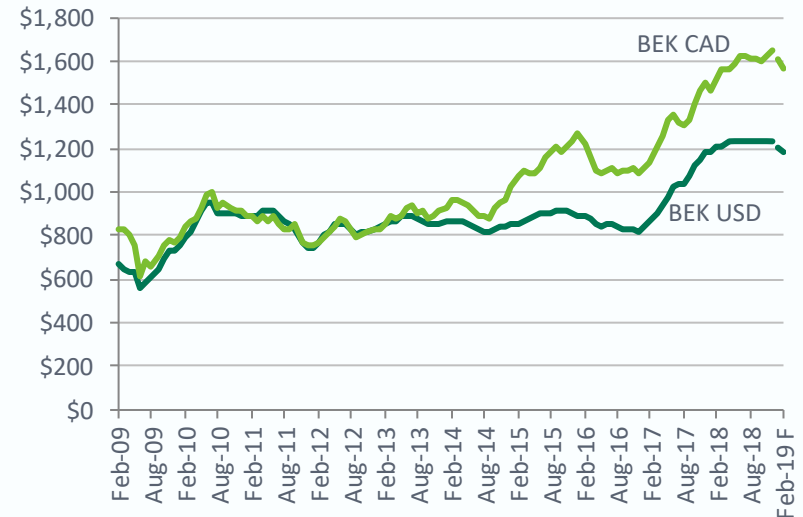
Q4 2018 market pulp prices rose sequentially (NBSK +4.9% and BEK +0.9% in CAD) compared to Q3 2018, and also year-over-year, in both USD and CAD.

Pulp prices in USD have moderated in Q1 2019 and based on industry forecasts, are expected to remain in a similar range in 2019. The volatile CAD will create further fluctuations in pulp input costs.

**NBSK North American List Prices per MT  
(Q4 2018 +25% YOY in CAD)**



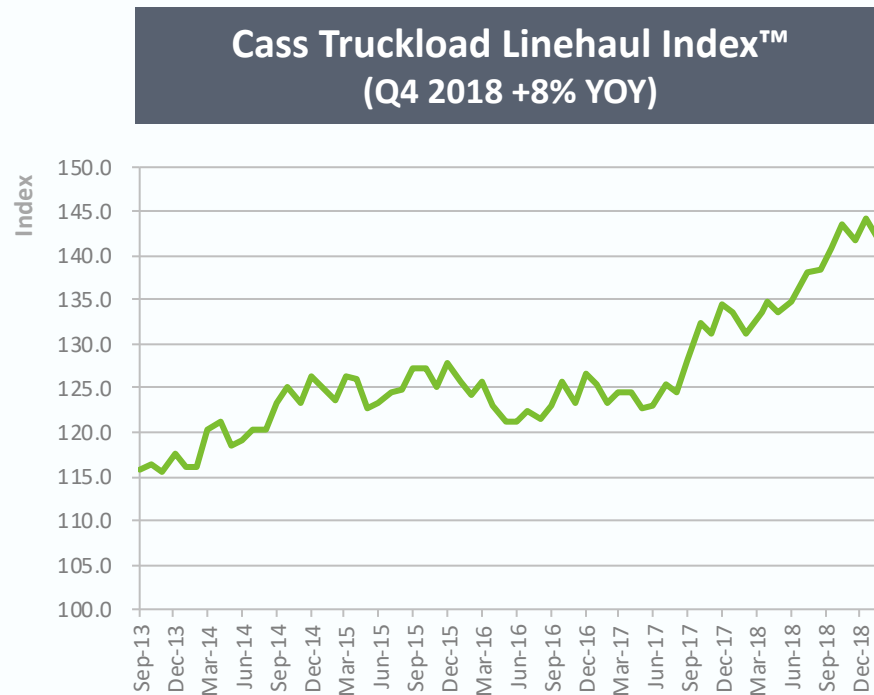
**BEK List Prices per MT  
(Q4 2018 +11% YOY in CAD)**



(USD average 1.32 in Q4 2018 compared to 1.27 in Q4 2017)

# Freight Cost Index

Freight costs have risen significantly since the beginning of 2017 and reached an all-time high in Q4 2018. Management expects these costs to remain high in 2019.



Source: Cass Information Systems, Inc.

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.

# Price Increases

## Consumer business

- New price increase announced in Canada consumer business in July 2018 took effect in Q4
- Sell-in complete with full market impact expected in Q1 2019
- US consumer price increase announced in late Q4 will benefit 2019

## AFH business

- An additional price increase announced in AFH business, in Canada and in the US, effective May 1<sup>st</sup>, 2019



# Network Savings

## Value creation program

- Annual productivity project aimed at reducing our costs and offsetting inflation
- 2018 saw 2.0x escalation in savings to partially offset higher pulp and freight

## Operational excellence initiative

- Implementing an Operational Excellence project with a 3<sup>rd</sup> party consultant
- Focus is to drive operating efficiency, waste reduction and productivity
- Also implementing a logistics project with another partner to drive down freight and warehousing costs
- Combined savings target of \$15 to \$20 million on a run-rate basis, by the end of 2020

# TAD2 Project Update

- On time and on budget, progressing against our execution plan
- Governance structure in place
- Anticipating shovels in the ground this spring
- Starting selling process:
  - Strong interest from existing and new North American customers



**A Canadian flagship for innovation,  
clean manufacturing technology  
and sustainable products**

# Quarterly Financial Summary

				% Change	
(Million CAD\$, unless otherwise noted)	Q4 2018	Q3 2018	Q4 2017	Y/Y	Q/Q
<i>Number of days in quarter</i>	92	91	98	(6.1)%	1.1%
<b>Revenue</b>	<b>359.5</b>	<b>348.4</b>	<b>340.0</b>	<b>5.7%</b>	<b>3.2%</b>
Cost of Sales	328.5	312.6	296.0		
Gross Profit	31.0	35.8	44.0	(29.5)%	(13.4)%
Gross Margin	8.6%	10.3%	12.9%		
<b>Adjusted EBITDA<sup>1</sup></b>	<b>20.3</b>	<b>28.3</b>	<b>33.7</b>	<b>(39.8)%</b>	<b>(28.3)%</b>
Adjusted EBITDA Margin <sup>1</sup>	5.6%	8.1%	9.9%		
Net Income (Loss)	38.0	4.2	(18.0)		
Net Income (Loss) Margin	10.6%	1.2%	(5.3)%		

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

# Quarterly Segmented Results

				% Change	
(Million CAD\$, unless otherwise noted)	Q4 2018	Q3 2018	Q4 2017	Y/Y	Q/Q
<i>Number of days in quarter</i>	92	91	98	(6.1)%	1.1%
<b>Segmented Revenue</b>					
Consumer	295.8	287.1	276.4	7.0%	3.0%
AFH	58.6	59.4	62.2	(5.8)%	(1.3)%
Other	5.1	1.9	1.4		
<b>Total Segment Revenue</b>	<b>359.5</b>	<b>348.4</b>	<b>340.0</b>	<b>5.7%</b>	<b>3.2%</b>
<b>Segment Adjusted EBITDA<sup>1</sup></b>					
Consumer	26.4	35.3	32.2		
AFH	(4.8)	(4.8)	1.4		
Other	(1.3)	(2.2)	0.1		
<b>Total Segment Adjusted EBITDA<sup>1</sup></b>	<b>20.3</b>	<b>28.3</b>	<b>33.7</b>	<b>(39.8)%</b>	<b>(28.3)%</b>
<b>Segment Adjusted EBITDA Margin<sup>1</sup></b>					
Consumer	8.9%	12.3%	11.6%		
AFH	(8.2)%	(8.1)%	2.3%		
<b>Total Segment Adjusted EBITDA Margin<sup>1</sup></b>	<b>5.6%</b>	<b>8.1%</b>	<b>9.9%</b>		

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

# Q4 2018 Revenue Compared to Q4 2017

**\$19.5 M**

Q4 revenue increase



**5.7%\***

over Q4 2017

## Impacted by a combination of:

- Favourable impact of increased sales volume in all geographic regions
- Consumer selling price increase implemented in Canada in Q4 2018
- Favourable impact of F/X fluctuations on U.S. sales (USD average 1.32 in Q4 2018 compared to 1.27 in Q4 2017)
- Partially offset by 6 fewer days of sales in Q4 2018 than in Q4 2017

## Geographic revenue segmentation



**\$3.9 M**



**+ 1.9%**  
Canada



**\$7.6 M**



**+ 6.3%**  
U.S.

- Includes \$8.0 M or 48.9% increase in revenues for Mexico, which is a low contribution business.



# Q4 2018 Adjusted EBITDA<sup>1</sup> Compared to Q4 2017

**\$13.4 M**

Q4 Adjusted EBITDA<sup>1</sup> decrease

 **39.8%**

over Q4 2017

## Gross Margin

**8.6%**

Q4 2018

**12.9%**

Q4 2017

### Primarily due to the following factors:

- Significantly higher pulp and freight costs
- 6 fewer days of sales in Q4 2018 than Q4 2017
- Cost of outsourced manufacturing
- Unfavourable sales mix
- Net unfavourable impact of foreign exchange fluctuations
- Partially offset by the Q4 2018 Canadian Consumer selling price increase

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

# Q4 2018 Revenue Compared to Q3 2018

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**\$11.1 M**

Q4 revenue increase



**3.2%\***

over Q3 2018

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**Primarily due to the following factors:**

- Consumer segment revenue increased by \$8.7 million or 3.0%
  - AFH segment revenue decreased by \$0.8 million or 1.3%
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**Geographic revenue segmentation**



**\$2.4 M**



**+ 1.2%**  
Canada



**\$8.0 M**



**+ 8.0%**  
U.S.

- 
- Includes \$0.7 M or 2.8% increase in revenues for Mexico, which is a low contribution business.

# Q4 2018 Adjusted EBITDA<sup>1</sup> Compared to Q3 2018

**\$8.0 M**

Q4 Adjusted EBITDA<sup>1</sup> decrease

 **28.3%**

over Q3 2018

## Gross Margin

**8.6%**

Q4 2018

**10.3%**

Q3 2018

## Due to the following factors:

- Higher fibre and freight costs
- Cost of outsourced manufacturing
- Seasonally higher maintenance costs

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

# Balance Sheet

(Million CAD\$, unless otherwise noted)	Q4 2018	Q3 2018
Cash*	169.9	26.9
Current Portion of Long-term Debt**	13.9	202.6
Long-term Debt***	564.0	286.7
<b>Net Debt</b>	<b>408.0</b>	<b>462.4</b>
LTM Adjusted EBITDA <sup>1</sup>	102.3	115.7
<b>Net Debt/LTM Adjusted EBITDA<sup>1</sup></b>	<b>4.0</b>	<b>4.0</b>

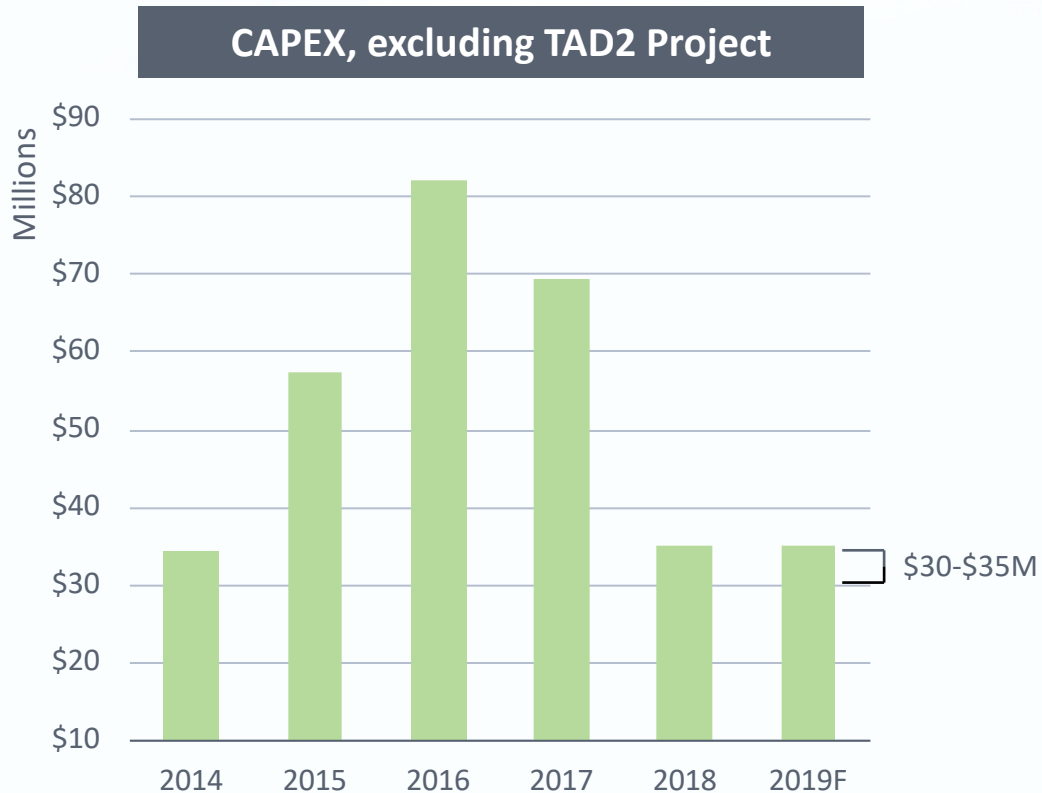
\* Cash for Q4 2018 now includes the cash related to the TAD2 Project.

\*\* The current portion of long-term debt in Q3 2018 included the KTG debt which was refinanced and is now reflected in long-term debt in Q4 2018.

\*\*\* Long-term debt in Q4 2018 includes the TAD2 Project financing related to the IQ debenture and Nordea 2 loan.

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

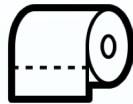
# CAPEX



- 2018 CAPEX totalled \$62 million, including \$27 million related to TAD2 Project
- 2019 CAPEX, excluding TAD2, estimated at between \$30 and \$35 million
- 2019 TAD2 CAPEX estimated at between \$250 and \$275 million



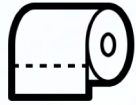
# Canada's Leading Tissue Company



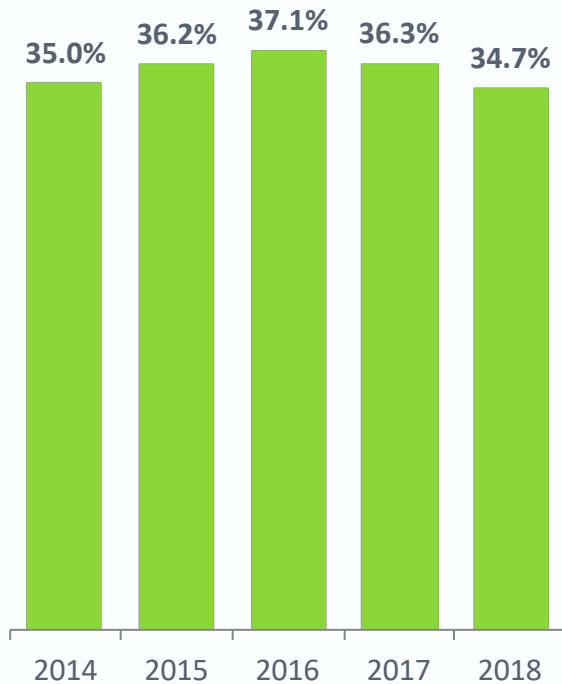
Bathroom Tissue	Facial Tissue	Paper Towel
#1 34.7%	#1 31.7%	#2 22.2%
18.7%	19.3%	11.3%
10.8%	0.8%	34.0%
2.5%	17.9%	1.1%

Source: Nielsen; dollar market share for the 52-week period ended January 5, 2019.

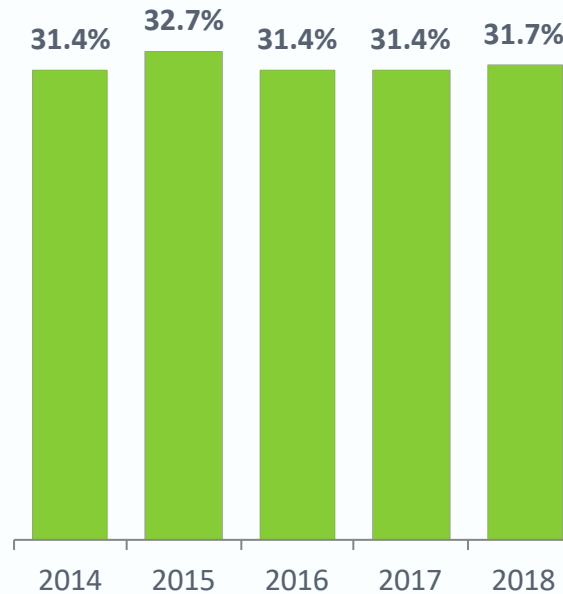
# Brand Leadership Position



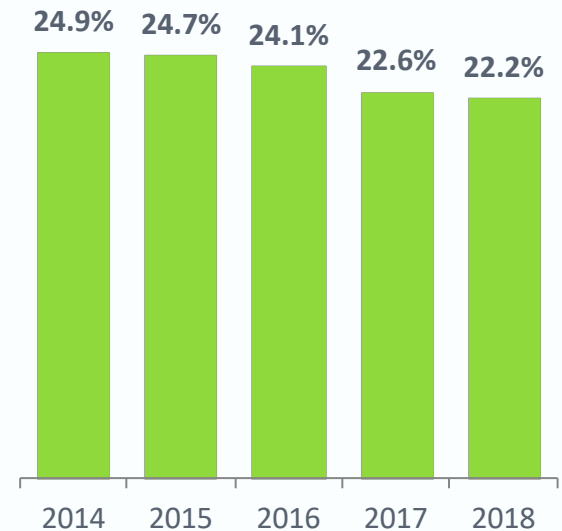
## #1 Bathroom Tissue



## #1 Facial Tissue



## #2 Paper Towel



Source: Nielsen Canadian dollar market share for 52-week period data. 2018 represents the latest 12 months ending January 5, 2019.

# AFH Segment

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

- Weak results were impacted by high pulp and freight costs, a competitive environment and outsourcing costs

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- New price increase announced recently in Canada and the US effective May 1<sup>st</sup>, 2019. However, market remains very price competitive

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- Absorbs an important amount of fixed costs

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- In progress with a multi-year CAPEX program to improve manufacturing and logistics costs. Reset will allow AFH business to become more competitive and flexible

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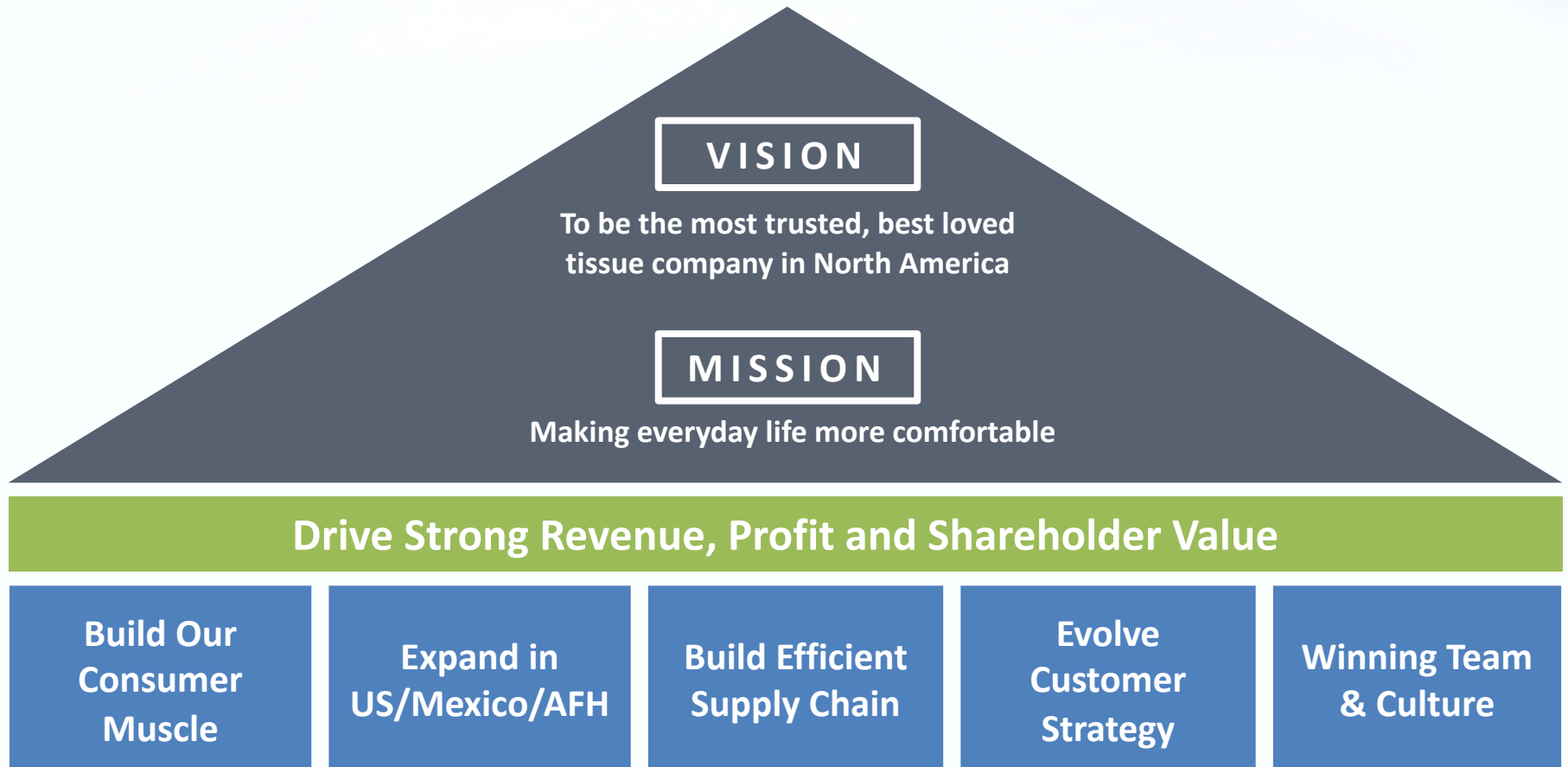
- Company-wide operational excellence project will benefit AFH facilities

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- Continued market and outsourcing costs will impact AFH in 2019

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# Strategic Plan



# Conclusion

**Despite current headwinds we are setting up our business for sustainable long term growth.**

- Continue to drive top line growth across all segments

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- Pricing our business to restore our margin structure

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- Reducing our network cost structure

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- Building capacity and quality with TAD2

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- Investing in our brands

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- Building our organizational capabilities

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# Appendix

# TAD2 Project

- Site location in Sherbrooke, Quebec in the Brompton area
- Total cost of C\$575 million
- Anticipate output of approximately 70,000 metric tonnes per annum
- Designed to allow paper towels to be manufactured at very high speeds
- Financial return of project driven by:
  - new volume
  - capitalizing on the expanded towel manufacturing capability
  - creating manufacturing efficiencies with TAD1 machine for the US market
- Ability to leverage the advantages created from the TAD1 project in Memphis
- Project will take 27 months from permitting through construction to start-up, which is expected in early 2021



<sup>1</sup> Please refer to MD&A for more information on TAD2 Project in the Business Highlights section.

# TAD2 Project Financing Overview<sup>1</sup>

- Financing structure is non-dilutive to KPT shareholders
- Newly-created, wholly-owned subsidiary of KPLP, Kruger Products Sherbrooke Inc. (KPSI)
- Financed by 60% debt (\$345 million) and 40% equity (\$230 million)
- 40% equity component is comprised of:
  - **\$125 million** from KPLP
    - ~\$63 million of long-term senior secured fixed debt
    - ~\$62 million from accounts receivable factoring and cash
  - **\$105 million** from convertible debenture with Investissement Québec with a capitalized fixed interest rate of 3% on a 10-year term
- Weighted average cost of capital for TAD2 financing is expected to be in the 5-7% range
- Existing KTG has been refinanced with an 18 year term loan concurrently with the TAD2 financing, with 7.3% maximum fixed interest rate

<sup>1</sup> Please refer to MD&A for more information on TAD2 Project in the Business Highlights section.

# Annual Financial Summary

(Million CAD\$, unless otherwise noted)	2018	2017	% Change
<b>Revenue</b>	<b>1,370.4</b>	<b>1,280.0</b>	<b>7.1%</b>
Cost of Sales	1,233.4	1,098.1	
Gross Profit	137.0	181.9	
Gross Margin	10.0%	14.2%	
<b>Adjusted EBITDA<sup>1</sup></b>	<b>102.3</b>	<b>144.2</b>	<b>(29.1)%</b>
Adjusted EBITDA Margin <sup>1</sup>	7.5%	11.3%	
Operating Income (EBIT)	49.5	92.1	
EBIT Margin	3.6%	7.2%	
Net Income	45.4	15.3	
Net Income Margin	3.3%	1.2%	

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

# Annual Segmented Results

(Million CAD\$, unless otherwise noted)	2018	2017	% Change
<b>Segmented Revenue</b>			
Consumer	1,124.5	1,040.4	
AFH	231.1	233.3	
Other	14.8	6.3	
<b>Total Segment Revenue</b>	<b>1,370.4</b>	<b>1,280.0</b>	<b>7.1%</b>
<b>Segment Adjusted EBITDA<sup>1</sup></b>			
Consumer	119.6	138.2	
AFH	(12.8)	6.2	
Other	(4.5)	(0.2)	
<b>Total Segment Adjusted EBITDA<sup>1</sup></b>	<b>102.3</b>	<b>144.2</b>	<b>(29.1)%</b>
<b>Segment Adjusted EBITDA Margin<sup>1</sup></b>			
Consumer	10.6%	13.3%	
AFH	(5.5)%	2.7%	
<b>Total Segment Adjusted EBITDA Margin<sup>1</sup></b>	<b>7.5%</b>	<b>11.3%</b>	

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



Thank You