



## Q2 2017 FINANCIAL RESULTS

### August 9, 2017

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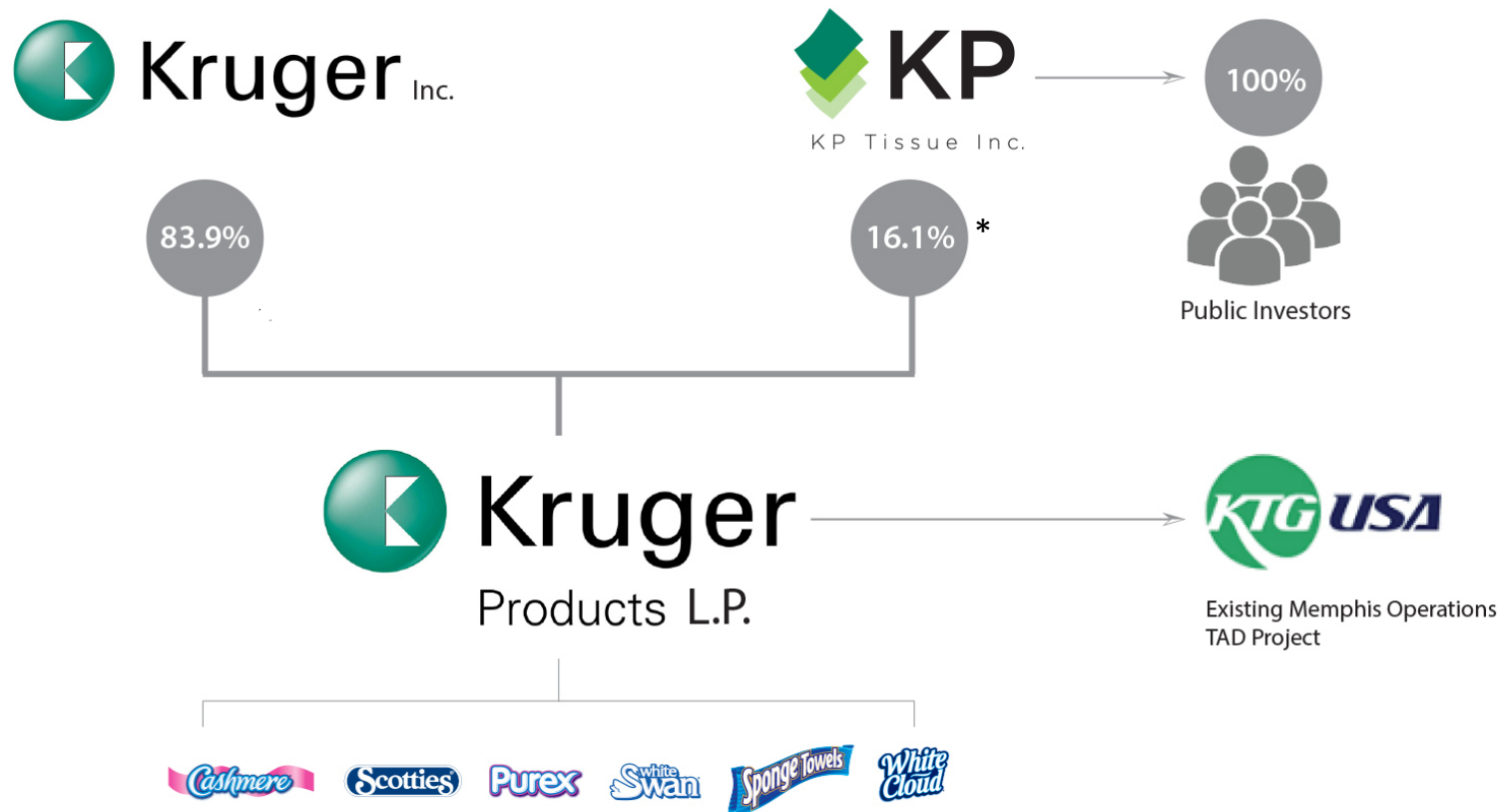
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Unless otherwise stated, references in this presentation to market shares or KPT’s market leadership are based on Nielsen dollar market share data and management estimates.

**The following presentation is to review Kruger Products L.P.  
Q2 2017 financial results**

# CORPORATE STRUCTURE



**Kruger Products L.P.** is the operating company.

**KP Tissue Inc.** is the publicly traded entity.

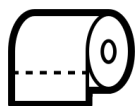
\*As of June 25, 2017 (16.0% as of August 8, 2017)

# Q2 2017 HIGHLIGHTS

- Q2 2017 revenue of \$314.4 million, up 6.3% over Q2 2016
- Revenues increased in Canada (+4.2%) and the U.S. (+12.0%)
- Adjusted EBITDA<sup>1</sup> of \$37.3 million, up 3.9% over Q2 2016
- TAD products continued to meet our goals, supported by new customers and higher manufacturing efficiency
- Solid AFH performance with Adjusted EBITDA improvement of \$0.5 million (+27.8%)
- Net income of \$9.9 million compared to \$12.0 million in Q2 2016

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

# CANADA'S LEADING TISSUE COMPANY



## Bathroom Tissue

## Facial Tissue

## Paper Towel



**#1**  
**36.7%**

**#1**  
**31.8%**

**#2**  
**23.5%**



20.0%

20.9%

11.2%



10.9%

0.7%

31.4%



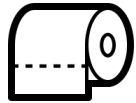
3.9%

17.6%

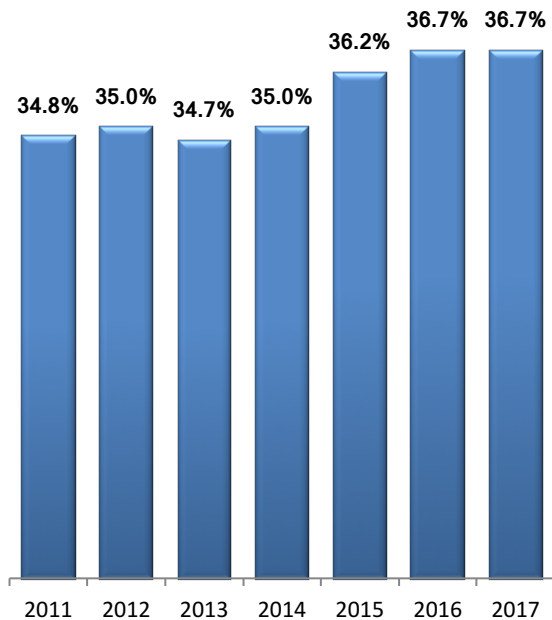
2.7%

Source: Nielsen; dollar market share for the 52-week period ended June 24, 2017.

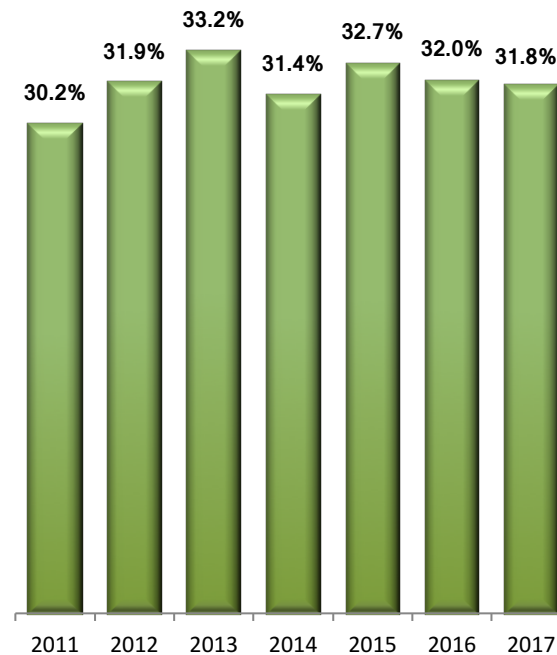
# BRAND LEADERSHIP POSITION



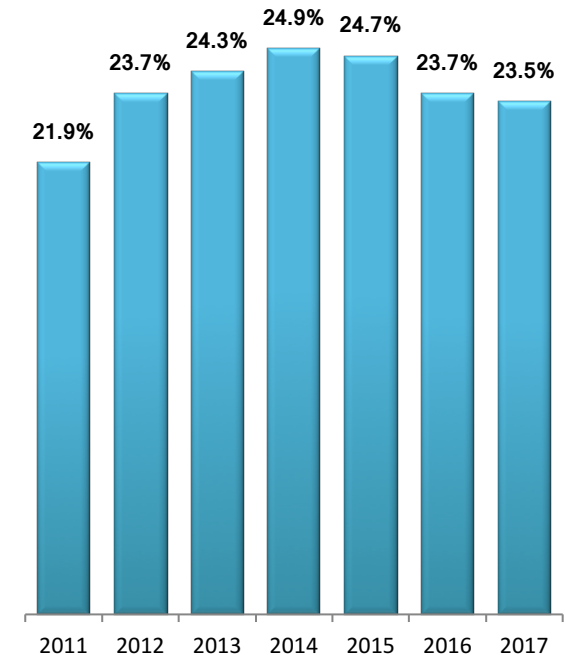
## #1 Bathroom Tissue



## #1 Facial Tissue



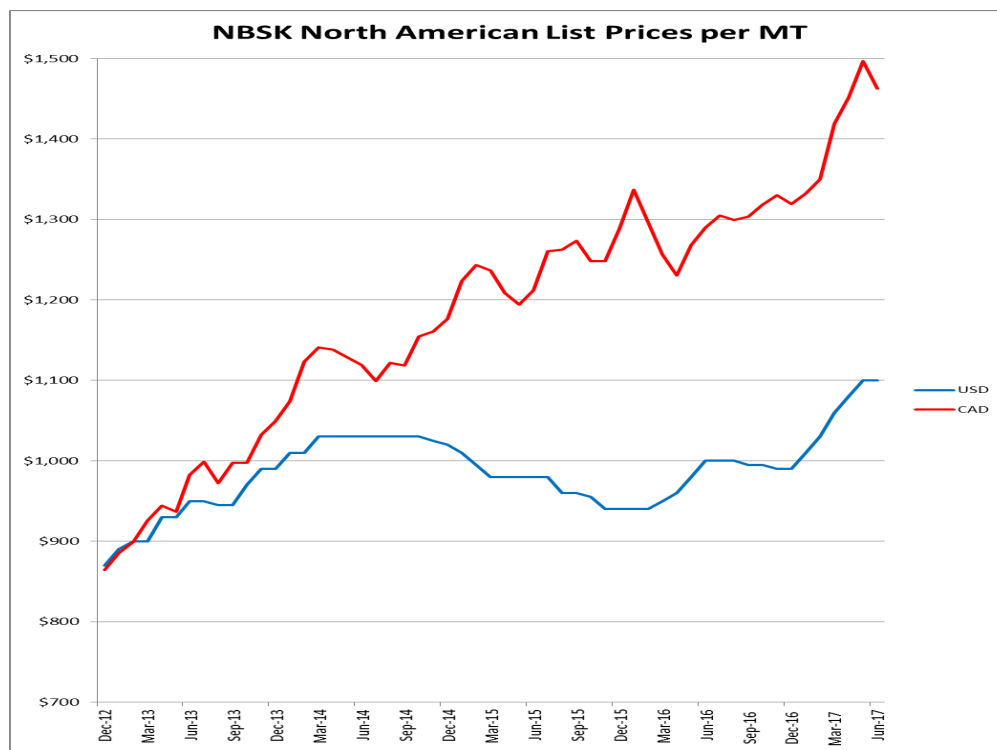
## #2 Paper Towel



Source: Nielsen Canadian dollar market share for 52-week period data. 2017 and 2016 represent the latest 12 months ending June 24, 2017 and June 25, 2016 respectively

# PULP INPUT PRICES

- Q2 pulp prices rose sequentially compared to Q1 2017, and also year-over-year, in both USD and CAD. Overall higher pulp prices will have further impact in 2017.
- Based on industry information, management expects pulp prices in USD to remain in the same range in the near term. The volatile CAD will create further fluctuations in pulp input costs during 2017.



**(USD average 1.35 in Q2 2017  
compared to 1.29 in Q2 2016)**

# QUARTERLY FINANCIAL SUMMARY

<i>(C\$ millions, unless otherwise noted)</i>	Q2 2017	Q1 2017	Q2 2016	% Change	
				Y/Y	Q/Q
<i># of days in Qtr</i>	91	85	91	0.0%	7.1%
<b>Revenue</b>	314.4	289.3	295.8	6.3%	8.7%
<b>Cost of Sales</b>	267.1	244.3	249.9		
<b>Gross Profit</b>	47.3	45.0	45.9	3.1%	5.1%
<i>Gross Margin</i>	15.0%	15.6%	15.5%		
<b>Adjusted EBITDA</b>	37.3	33.8	35.9	3.9%	10.4%
<i>Adjusted EBITDA Margin</i>	11.9%	11.7%	12.1%		
<b>Net Income</b>	9.9	6.9	12.0		
<i>Net Income Margin</i>	3.1%	2.4%	4.1%		



# QUARTERLY SEGMENTED RESULTS

<i>(C\$ millions, unless otherwise noted)</i>	Q2 2017	Q1 2017	Q2 2016	% Change	
				Y/Y	Q/Q
<i># of days in Qtr</i>	91	85	91	0.0%	7.1%
<b>Segmented Revenue</b>					
Consumer	252.2	238.9	231.9	8.8%	5.6%
AFH	59.9	48.7	59.1	1.4%	23.0%
Other	2.3	1.7	4.8		
<b>Total segment revenue</b>	<b>314.4</b>	<b>289.3</b>	<b>295.8</b>	<b>6.3%</b>	<b>8.7%</b>
<b>Segment Adjusted EBITDA</b>					
Consumer	34.9	33.0	33.7	3.6%	5.8%
AFH	2.3	0.7	1.8	27.8%	228.6%
Other	0.1	0.1	0.4		
<b>Total segment Adjusted EBITDA</b>	<b>37.3</b>	<b>33.8</b>	<b>35.9</b>	<b>3.9%</b>	<b>10.4%</b>
<b>Segment Adjusted EBITDA Margin</b>					
Consumer	13.8%	13.8%	14.5%		
AFH	3.8%	1.4%	3.0%		
<b>Total segment Adjusted EBITDA Margin</b>	<b>11.9%</b>	<b>11.7%</b>	<b>12.1%</b>		

# Q2 2017 REVENUE COMPARED TO Q2 2016

- Q2 2017 revenue increased by \$18.6 million or 6.3% over Q2 2016 primarily due to the following factors:
  - Consumer segment revenue increased \$20.3 million or 8.8% driven by sales volume growth in Canada and the U.S., and favourable F/X on U.S. sales
  - AFH revenue was up slightly

## From a geographic perspective:

- Revenue in the U.S. increased by \$12.3 million or 12.0%, primarily due to higher sales volume in the Consumer segment and the benefits of higher F/X on U.S. sales
- Revenue increased in Canada by \$7.5 million or 4.2%, primarily due to higher sales volume in the Consumer segment

# Q2 2017 ADJUSTED EBITDA COMPARED TO Q2 2016

- Q2 2017 Adjusted EBITDA increased by \$1.4 million or 3.9% to \$37.3 million primarily due to the following factors:
  - Higher sales volume in the Consumer segment and contribution from AFH
  - Cost reduction initiatives
  - Benefit of capital projects
  - Offset somewhat by:
    - Net negative F/X impact
    - Higher commodity costs for pulp, SOW and natural gas
    - Higher freight, warehousing and SG&A costs
- Gross margin decreased (15.0% in Q2 2017 versus 15.5% in Q2 2016) primarily due to the above factors

# Q2 2017 REVENUE COMPARED TO Q1 2017

- Q2 2017 revenue increased by \$25.1 million or 8.7% over Q1 2017, primarily due to 6 more sales days in Q2 2017 (impact of 7.1%):
  - Consumer segment revenue increased by \$13.3 million or 5.6%
  - AFH segment revenue increased by \$11.2 million or 23.0%, reflecting seasonally higher sales volume in Q2 2017

## From a geographic perspective

- Revenue increased in:
  - Canada by \$13.9 million or 8.0%
  - U.S. by \$10.3 million or 9.8%

# Q2 2017 ADJUSTED EBITDA COMPARED TO Q1 2017

- Q2 2017 Adjusted EBITDA increased by \$3.5 million over Q1 2017 due to the combination of the following factors:
  - Higher sales volumes, due primarily to 6 more sales days in Q2 2017
  - Lower advertising and promotional spending
  - Partially offset by:
    - Higher pulp prices
    - Increase in SG&A costs
- Gross margin decreased (15.0% in Q2 2017 versus 15.6% in Q1 2017) primarily due to higher pulp prices

# BALANCE SHEET

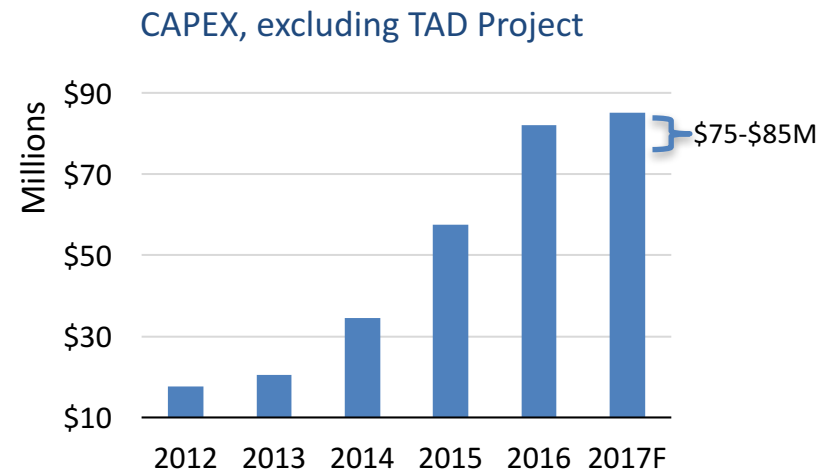
*(C\$ millions, unless otherwise noted)*

	Q2 2017	Q1 2017
Cash & bank indebtedness	24.6	34.8
Current portion of long-term debt	8.8	8.8
Long-term debt	441.2	443.5
<b>Net Debt</b>	<b>425.4</b>	<b>417.5</b>
LTM Adjusted EBITDA	159.6	158.2
Net Debt/LTM Adjusted EBITDA	2.7	2.6

# CAPEX

- Q2 2017 CAPEX of \$25.5 million, up slightly from \$22.5 million in Q2 2016, spending mainly on PM8 in Crabtree
- 2017 focus on high return CAPEX projects – total estimated at approximately \$75-\$85 million

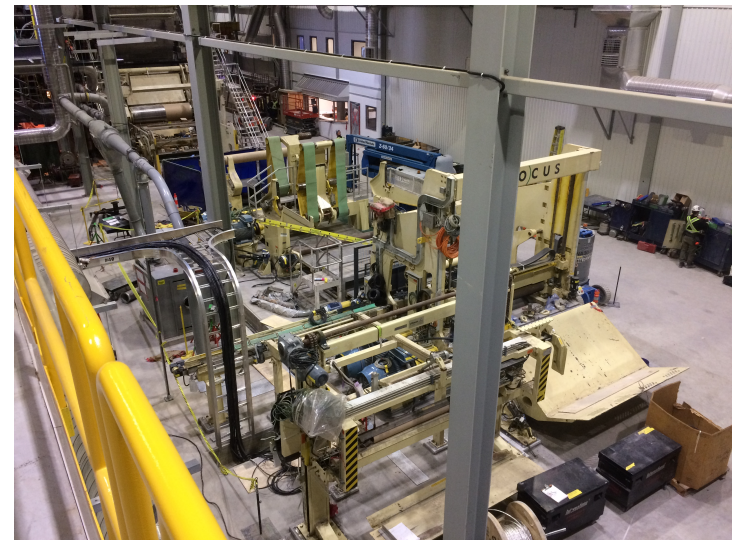
CAPEX COMPONENTS	Target
Capacity/Growth	50%
Cost reductions	25%
Maintenance	25%
Total	100%



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

# NEW CRABTREE PAPER MACHINE (PM8)

- Total project CAPEX of \$55 million with approximately \$12 million of CAPEX remaining as of the end of Q2 2017
- Project on time and on budget
- PM8 Timeline:
  - Q3 2017**
    - Commissioning/initial start-up costs
  - Q4 2017**
    - Commercial/neutral contribution
  - Q1 2018**
    - Commercial ramp-up/positive contribution





# CONCLUSION

- Maintain market share leadership in the Canadian consumer segment in the context of a competitive and price sensitive environment
- Price increases to Canadian retailers were announced in late July 2017 and will take effect in the fourth quarter. The price increases will partially offset the continued rise of raw material prices in Canadian dollars
- Continued benefits of cost reduction program and capital projects
- Pursue White Cloud® customer diversification strategy in the U.S.
- Continue to leverage TAD product market potential
- AFH segment – new production line projects starting to improve manufacturing costs

# CONCLUSION

- Paper machine in Crabtree will start commissioning in Q3 2017 and incur start-up costs. Positive contribution expected in Q1 2018
- Above normal CAPEX in fiscal 2017 dedicated to improve profitability and manufacturing efficiencies, both in the Consumer and AFH segments – estimated at \$75-\$85 million. Positive impact on Adjusted EBITDA will start primarily in fiscal 2018
- Adjusted EBITDA for Q3 2017 is expected to decrease over Q3 2016, due to higher pulp prices, but increase sequentially over Q2 2017 due to higher promotional activity in Q3

