

# **Fourth Quarter and Full Year 2015 Earnings Call**

## **February 9, 2016**

**Michael P. Doss**  
**President and Chief Executive Officer**

**Stephen R. Scherger**  
**Senior Vice President and Chief Financial Officer**



**Graphic  
Packaging**  
INTERNATIONAL, INC.

Inspired packaging. A world of difference.

# Forward Looking Statements

Statements of the Company's expectations in these slides constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such statements, including but not limited to, statements relating to pricing trends, synergies and board integration from acquisitions, cash available for net debt reduction, dividends and share repurchases, capital expenditures, cash pension contributions and pension expense, depreciation and amortization, interest expense, income tax rates, debt and leverage reduction, performance improvements and cost reduction initiatives, are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from the Company's present expectations. These risks include, but are not limited to, volatility in raw material and energy costs, cutbacks in consumer spending that reduce demand for the Company's products, continuing pressure for lower cost products, the Company's ability to implement its business strategies, including productivity initiatives and cost reduction plans, and the Company's debt. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date on which they are made and the Company undertakes no obligation to update such statements. Additional information regarding these and other risks is contained in the Company's periodic filings with the SEC.

# 2015 Financial Highlights

- Q4 Adj. EBITDA of \$180.7 million vs. \$171.8 million in Q4'14
- Q4 Adj. EBITDA Margin increased to 17.6% vs. 17.2% in Q4'14
- 2015 Adj. EBITDA of \$751.2 million vs. \$710.8 million YoY
- 2015 Adj. EBITDA margin increased to 18.1% vs. 16.8% YoY
- 2015 Adj. EPS increased \$0.03 to \$0.75 in 2015
- Returned \$112 million to shareholders in 2015 and \$36 million subsequent to year end through dividends and share repurchases

# 2015 Overview

- Generated \$345 million of free cash flow
- Ended year with net debt leverage ratio of 2.44x
- Strong Balance Sheet and financial flexibility
  - \$1.1 billion in liquidity
- Continuation of pure-play global transformation
  - Acquired Rose City Printing and Packaging (US)
  - Acquired Cascades' Norampac paperboard assets (Canada)
  - Acquired Carded Graphics (US)
  - January '16 acquired G-Box (Mexico)
  - January '16 proposed to acquire Colorpak (Australia)
  - January '16 agreed to acquire Walter G. Anderson (US)

# Strategic Priorities: Driving Growth & Shareholder Value

## 1. Invest in our Core Business

- Investments in our mill system
- Upgrades to converting network

## 2. Make Strategic Acquisitions

- Purchased 3 businesses in 2015 and 1 in 2016
- Announced 2 additional acquisitions in early 2016

## 3. Return Capital to Shareholders

- Dividends
- Share Repurchases

# Volumes and Demand: Overall Trends Remain Stable

- Graphic's global paperboard packaging volumes increased 4.6% in Q4
  - European expansion
  - Acquisitions
  
- Industry end market trends in Q4 similar to full-year
  - Global beverage continues to steadily improve
    - Led by Specialty Drinks and Craft Beer
    - Carbonated soft drink volume decline moderated
  - Food and Consumer markets
    - Remain mixed in Q4
    - Frozen pizza products up
    - Dry cereal, frozen foods and facial tissue down

# Acquisition Updates: Enhancing Growth & Expanding Channels

- Europe, Rose City and Cascades' Norampac integrations substantially complete
  - Met target of shipping nearly 150k tons to Europe in 2015; goal of 200k tons
  - Rose City and Cascades' Norampac will integrate 20k-25k tons of paperboard over first two years
- G-Box and Carded progressing in-line with expectations
  - Approximately \$15m EBITDA in 2016 growing to \$20-\$25m EBITDA in 2017
- Colorpak and Walter G. Anderson
  - Acquisitions announced in January of 2016
  - Continuation of acquisitions focused on core end markets that convert paperboard for food, beverage and consumer product markets

# Recently Announced Agreement to Acquire Colorpak

## Expands Supply Chain in Key Geographies and End Markets

### COLORPAK ACQUISITION

- Purchase price of A\$0.68 per share for 88.2M shares ~A\$60M
  - Enterprise Value of ~A\$91M (\$63M USD)<sup>1</sup>
- FY15<sup>2</sup> Sales of ~A\$160M (\$112M USD)
- FY15 EBITDA of ~A\$13M (\$9M USD)
  - Expected to contribute \$4-6M USD of EBITDA in 2016 assuming late Q2 close
- Run rate EBITDA of \$11-13M USD in 12-24 months
- **Colorpak adds three converting facilities**
  - Grows business in developed food and beverage end use markets
  - Allows further expansion of proven integrated supply chain
  - Better serves new and existing customers
  - Compliments existing Australian Beverage business



<sup>1</sup> Assumes an Exchange Rate of \$0.70 USD per \$1.00 AUD

<sup>2</sup> FY15 represents the Colorpak fiscal year July '14 – June '15



# Recently Announced Agreement to Acquire Walter G. Anderson Provides Growth Opportunity in Core End Use Markets



## WALTER G. ANDERSON ACQUISITION

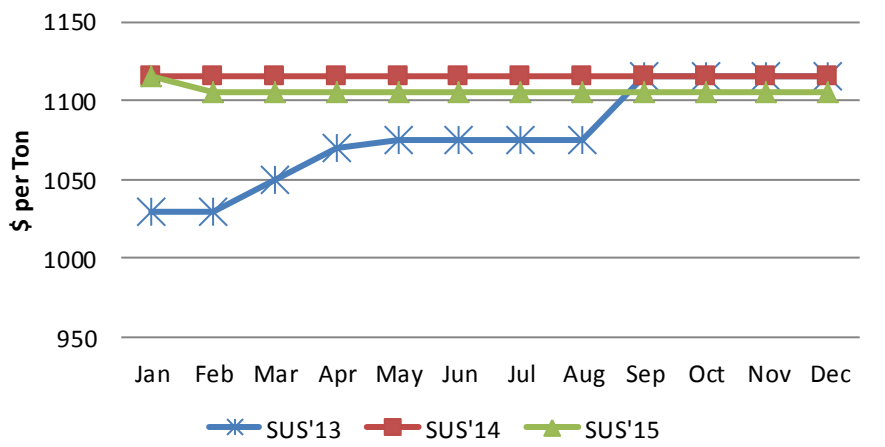
- Business Purchase Price ~\$150M<sup>1</sup>
- Annual Sales of ~\$120M
- Annual EBITDA of ~\$18M
  - Expected to contribute EBITDA of ~\$14M in 2016
- Run rate EBITDA of \$20-\$25M in 12-24 months
- **Walter G. Anderson provides world class folding carton facilities with latest technology**
  - Provides an opportunity to grow in core end use markets
  - Better serve new and existing customers
  - Leverage outstanding high service value proposition
  - Capital avoidance opportunity

<sup>1</sup> Real estate acquired in separate transaction

# Pricing: Graphic Packaging's Grades Remain Stable

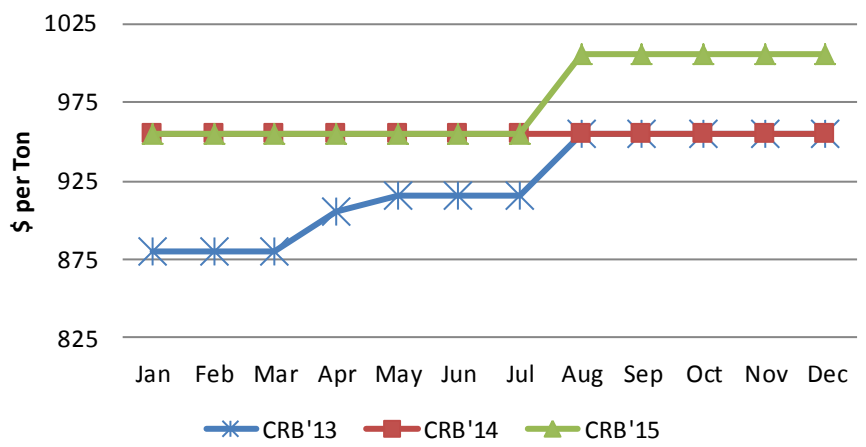
- Manufacture two primary grades of paperboard (SUS and CRB)
  - Over 80+% consumed internally through converting network
  - Also convert non-Graphic Packaging paperboard
    - Bleached paperboard globally
    - Recycled and SUS alternatives outside North America
- Carton contracts typically contain price resetting mechanisms including:
  - Basket of commodity inputs
  - Open market paperboard price

**SUS Pricing Trend**



Source: Pulp & Paper Weekly

**CRB Pricing Trend**



Source: Pulp & Paper Weekly

# Q4 Operations: Strong Manufacturing Performance

- Strong performance across mill system and converting network
  - Produced 18k more tons Q4 YoY
  - Produced 60k more tons 2015 YoY (excluding Canadian mills acquisition)
  - Result of commitment to both LEAN and Six Sigma principles and targeted high-return capital investments
  
- 4 to 5 week backlogs continue for CRB and SUS

# Mill Investments to Drive Capacity & Lower Costs

- European growth and 6 acquisitions announced since end of 2014 provide demand for additional paperboard
- Adding new press section and headbox in W. Monroe during Q2'16 annual maintenance outage
  - Adds ~30k tons of incremental SUS capacity
  - Requires incremental downtime (25 days vs. 10 for normal outage)
  - 20k tons of inventory built in Q4'15 to meet customer demand during downtime
- Adding new curtain coater and other improvements to Macon SUS paperboard machine in 2H'16
  - \$30m investment
  - \$10m in annualized EBITDA upon completion
- W. Monroe Cogen online in Jan '16 with expected \$10m annual energy savings

# Q4 and Full Year 2015 Financials<sup>1</sup>

<b>\$millions (except EPS)</b>	<b><u>Q4 2015</u></b>	<b><u>Q4 2014</u></b>	<b><u>Variance</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2014</u></b>	<b><u>Variance</u></b>
<b>Net Sales</b>	\$1,024.9	\$1,001.1	\$23.8	\$4,160.2	\$4,240.5	(\$80.3)
<b>Adjusted EBITDA</b>	\$180.7	\$171.8	\$8.9	\$751.2	\$710.8	\$40.4
<b>Adj. Net Income</b>	\$63.0	\$70.1	(\$7.1)	\$247.0	\$238.1	\$8.9
<b>Adj. EPS</b>	\$0.19	\$0.21	(\$0.02)	\$0.75	\$0.72	\$0.03



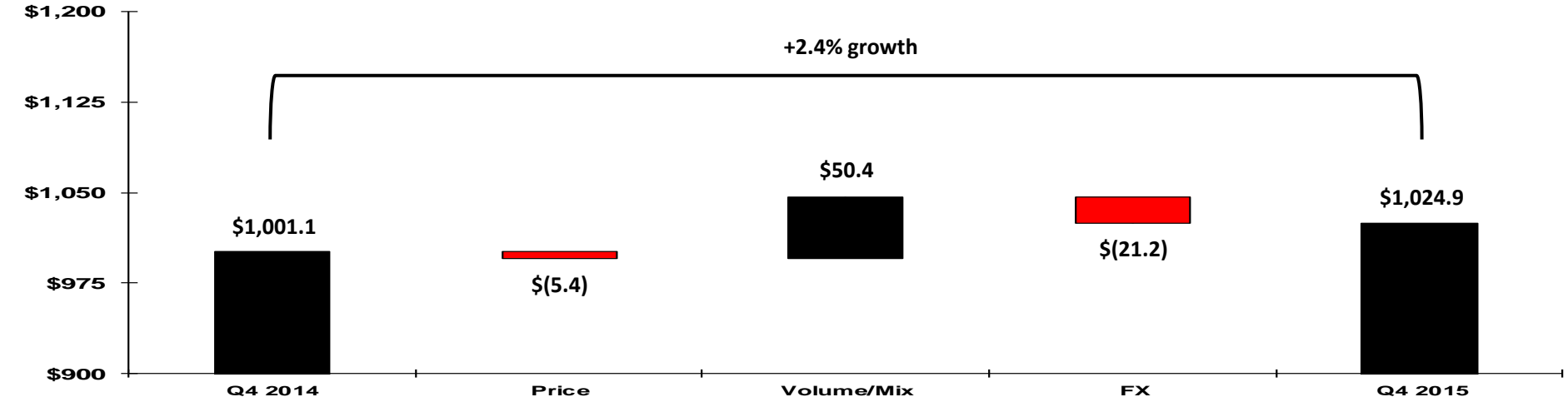
- Full Year Adj. EBITDA grew \$40.4 million or 5.7% to \$751.2 million
- Full Year Adj. EBITDA margin increased 130 bps to 18.1%
- Full Year Adj. EPS up 3 cents to \$0.75

<sup>1</sup> A reconciliation of non-GAAP financial measures can be found in the financial information attached to the earnings release for the quarter available on the Company's website under "Investors" at [www.graphicpkg.com](http://www.graphicpkg.com).

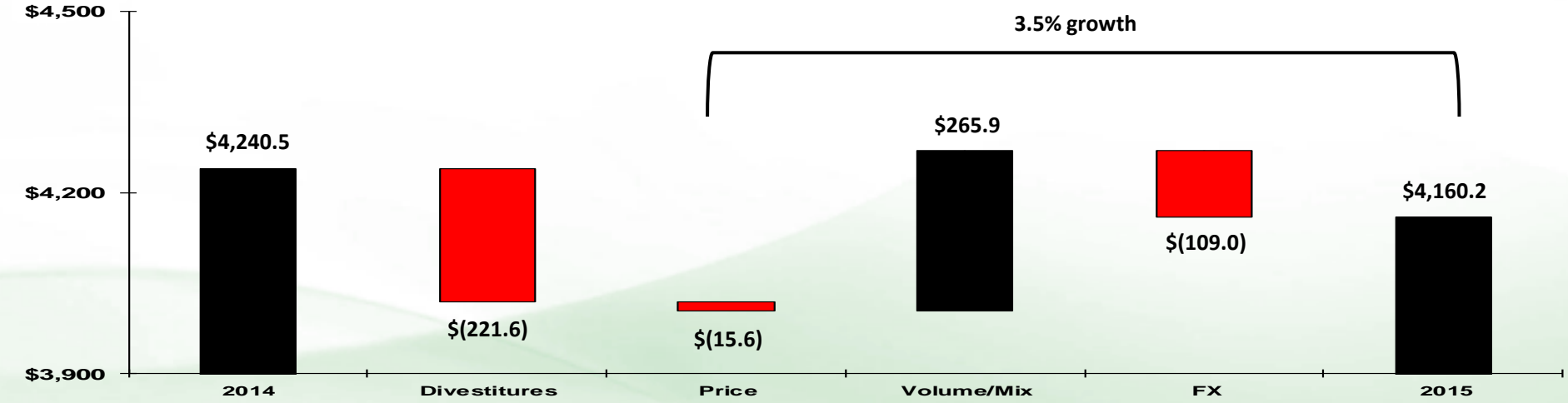
# Y-o-Y Net Sales Comparison

\$ millions

## Q4'15 over Q4'14



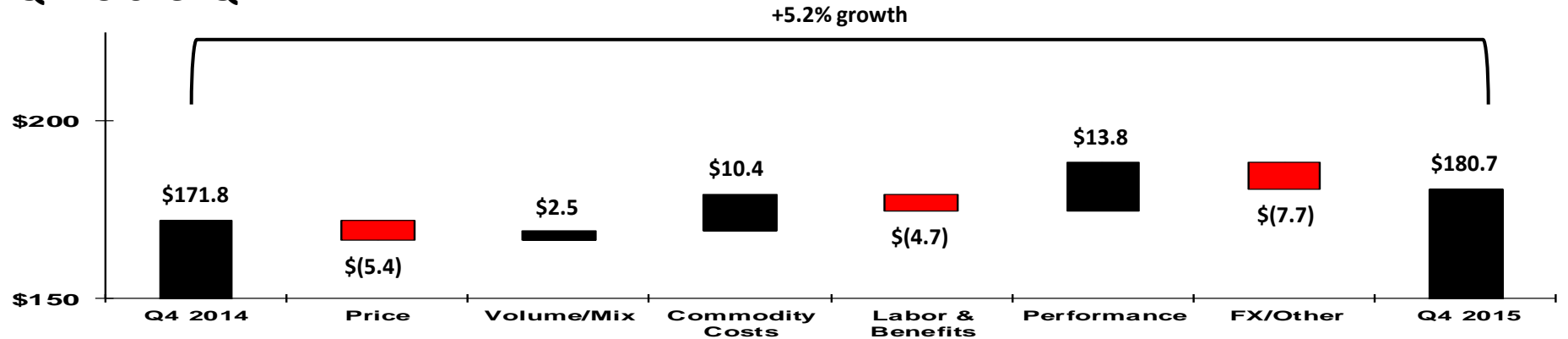
## 2015 over 2014



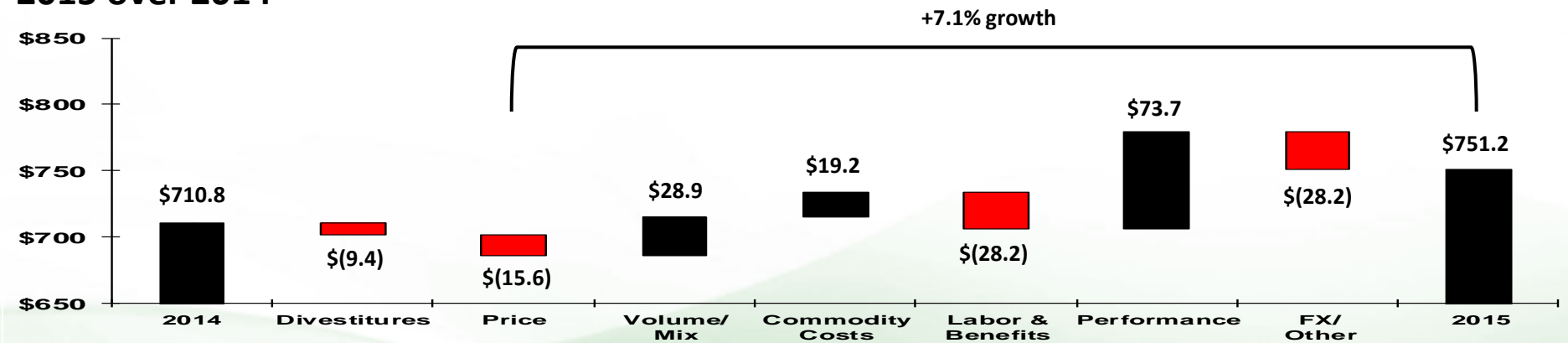
# Y-o-Y Adjusted EBITDA Comparison

\$ millions

## Q4'15 over Q4'14



## 2015 over 2014



A reconciliation of non-GAAP financial measures can be found in the financial information attached to the earnings release for the quarter available on the Company's website under "Investors" at [www.graphicpkg.com](http://www.graphicpkg.com).

# 2015 Cash Flow, Debt and Liquidity

- Generated \$589 million of operating cash flow
- Generated \$345 million of free cash (before M&A, Dividends and Share Repurchases)
- Net leverage ratio of 2.44x -- down from 2.66x at end of 2014
- Capital Allocation
  - Returned \$148 million to stockholders over the past 12 months
  - Declared over \$65 million of dividends
  - Repurchased \$63 million of shares (\$40 million in Q4)
    - Purchased additional \$20 million to date in 2016
- Global liquidity > \$1.1B



# 2016 Guidance

	<u>2015</u>	<u>2016</u>
– Cash available for Net Debt Reduction, Dividends & Share Repurchase (ex M&A/Capital Markets activity)	\$345M	\$360-\$380M
– Capital Expenditures	\$244M	\$270-\$280M
– Cash Pension Contributions	\$53M	\$40-\$60M
– Pension Expense (includes pension amortization)	\$16M	\$15M
– Cash Taxes	\$11M	\$20-\$25M
– Depreciation & Amortization (ex pension amortization)	\$281M	\$290-\$310M
– Pension Amortization	\$20M	\$20M
– Interest Expense	\$68M	\$75-\$85M
– Effective Tax Rate	36.3%	35-37%
– Year End Net Leverage Ratio	2.44x	2.5x-3.0x