

# First Quarter 2016 Earnings Call

## April 26, 2016

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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.

# Q1 Financial Highlights

- Q1 Adj. EPS increased \$0.03 to \$0.20
- Q1 Adj. EBITDA increased \$12.1 million to \$193.4 million
- Q1 Adj. EBITDA Margin increased 70 basis points to 18.7%
- Returned over \$60 million to shareholders through dividends and share repurchases

# Volumes and Demand: Overall Trends Remain Stable

- 5% increase in GPK volumes from ongoing business
  - Primarily driven by acquisitions
  - Legacy volumes up modestly -- strong beverage demand and international growth
- Q1 industry end-use market trends
  - Global beverage growth solid
    - Led by specialty drinks, craft beer and bottled water
    - CSD volume decline moderated
  - Continued softness in cereal, frozen pizza and facial tissue

# Q1 Operations: Strong Operating Performance

- Strong performance across mill and converting system
  - Drove \$16+ million of performance benefits
- Backlogs remain strong - consistent with year-ago levels
- West Monroe Cogen asset online in late January
  - Energy savings tracking to expectations

# Mill Investments to Drive Capacity & Lower Costs

- New press section and headbox in West Monroe
  - Q2 installation
  - \$35-\$40 million investment
  - Adds approximately 30k tons of incremental SUS capacity
  - Expect \$12 million annualized EBITDA
  
- New curtain coater in Macon in 2H'16
  - Approximately \$30 million investment
  - Expect \$10 million annualized EBITDA
  
- European growth and acquisitions support demand for additional paperboard

# Recent North America Acquisitions Provide Growth Opportunity in Key Geographies and Core End Use Markets



## RECENT ACQUISITIONS JAN 2015 – MAR 2016

- Combined Annual Sales ~\$450M
- Combined Annual EBITDA of \$54M
  - Run rate EBITDA of ~\$70-80M in 12-24 months
- Adds 11 folding carton facilities and a CRB mill
  - Increases U.S. East Coast presence
  - Extends reach in Western U.S., Canada and Mexico
  - Integrates additional tons
  - Better serves existing customers
  - Broadens customer base
  - Offers new and existing customers a wider range of products
- Gains outstanding leadership and a talented workforce

# 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)<sup>1</sup>
- FY15 EBITDA of ~A\$13M (\$9M USD)<sup>1</sup>
  - Expected to contribute \$5-6M 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 (Jan '16 FX rate)

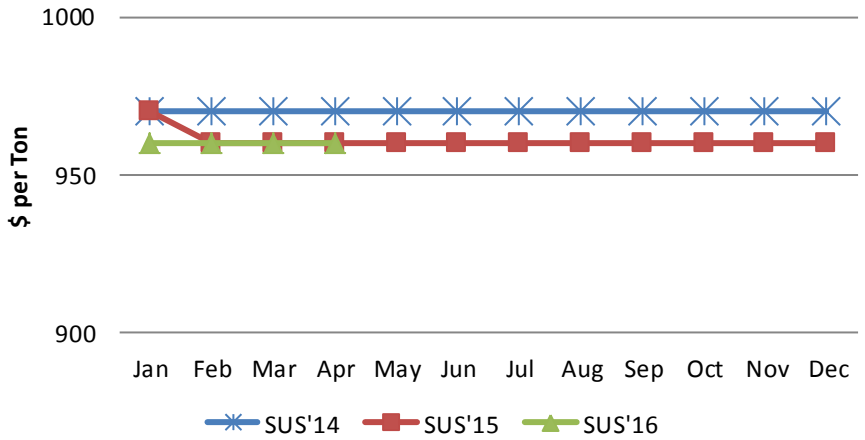
<sup>2</sup> FY15 represents the Colorpak fiscal year July '14 – June '15



# Pricing Offsets Commodity Inflation/Deflation Over Time

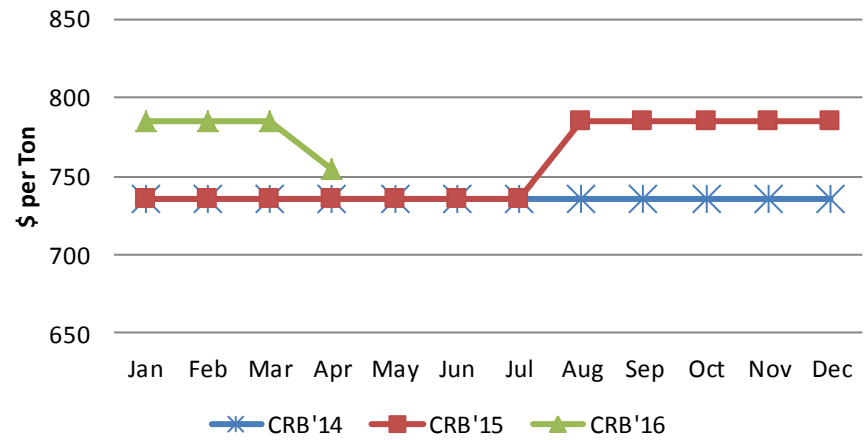
- Manufacture two primary grades of paperboard (SUS and CRB)
  - Over 80+% consumed internally through converting network
  - Also convert non-Graphic Packaging paperboard
    - Bleached paperboard globally
    - Recycled and SUS alternatives outside North America
- Carton contracts typically contain 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

<b>\$millions (except EPS)</b>	<b><u>Q1 2016</u></b>	<b><u>Q1 2015</u></b>	<b><u>Variance</u></b>
<b>Net Sales</b>	\$1,034.0	\$1,008.2	\$25.8
<b>Adjusted EBITDA</b>	\$193.4	\$181.3	\$12.1
<b>Adj. Net Income</b>	\$64.6	\$56.7	\$7.9
<b>Adj. EPS</b>	\$0.20	\$0.17	\$0.03

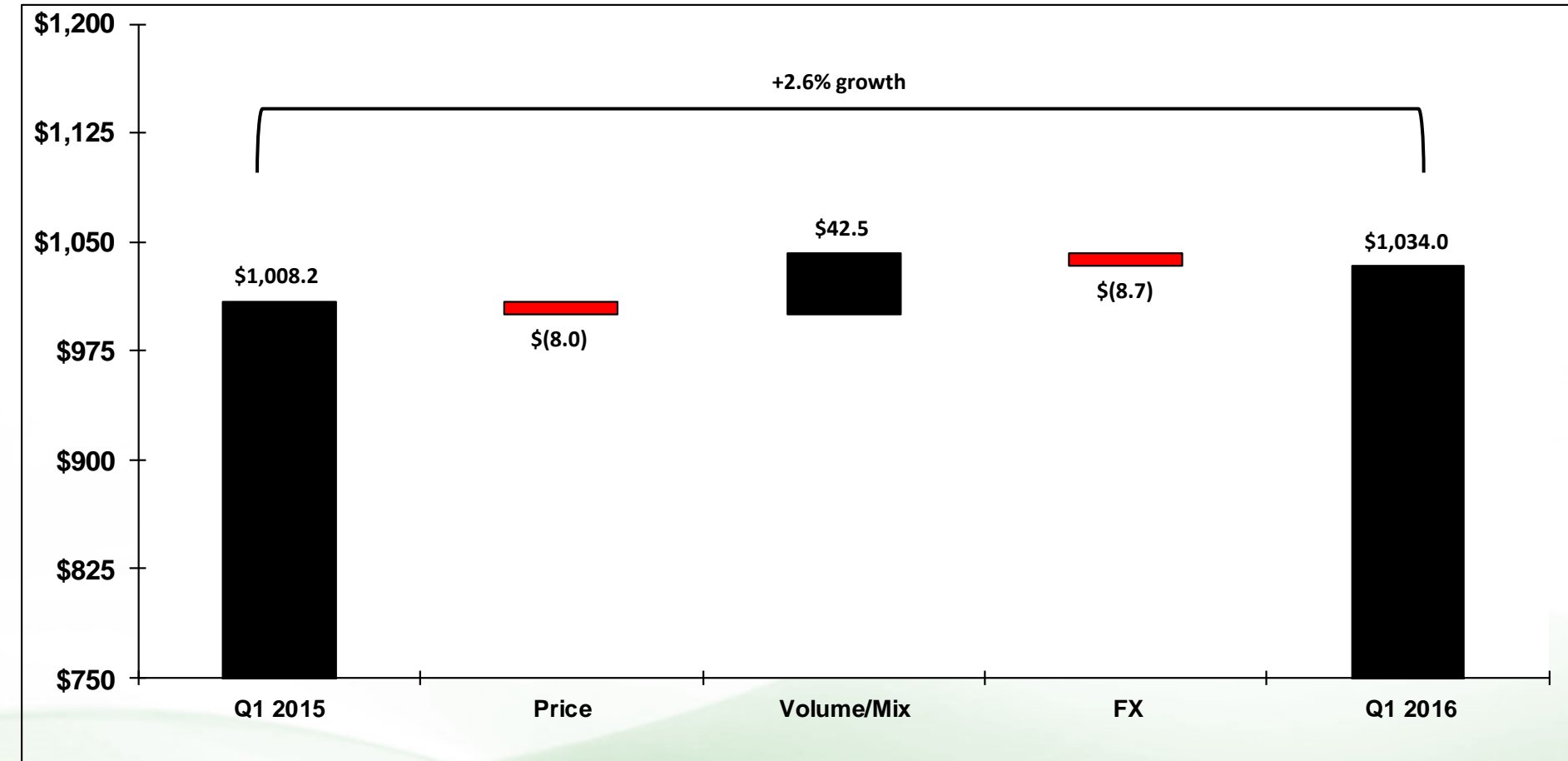


- Q1 Net Sales grew 2.6%
- Adj. EBITDA grew 6.7%
- Adj. EBITDA margin increased 70 bps to 18.7%
- Adj. EPS up 3 cents

# Y-o-Y Net Sales Comparison

\$ millions

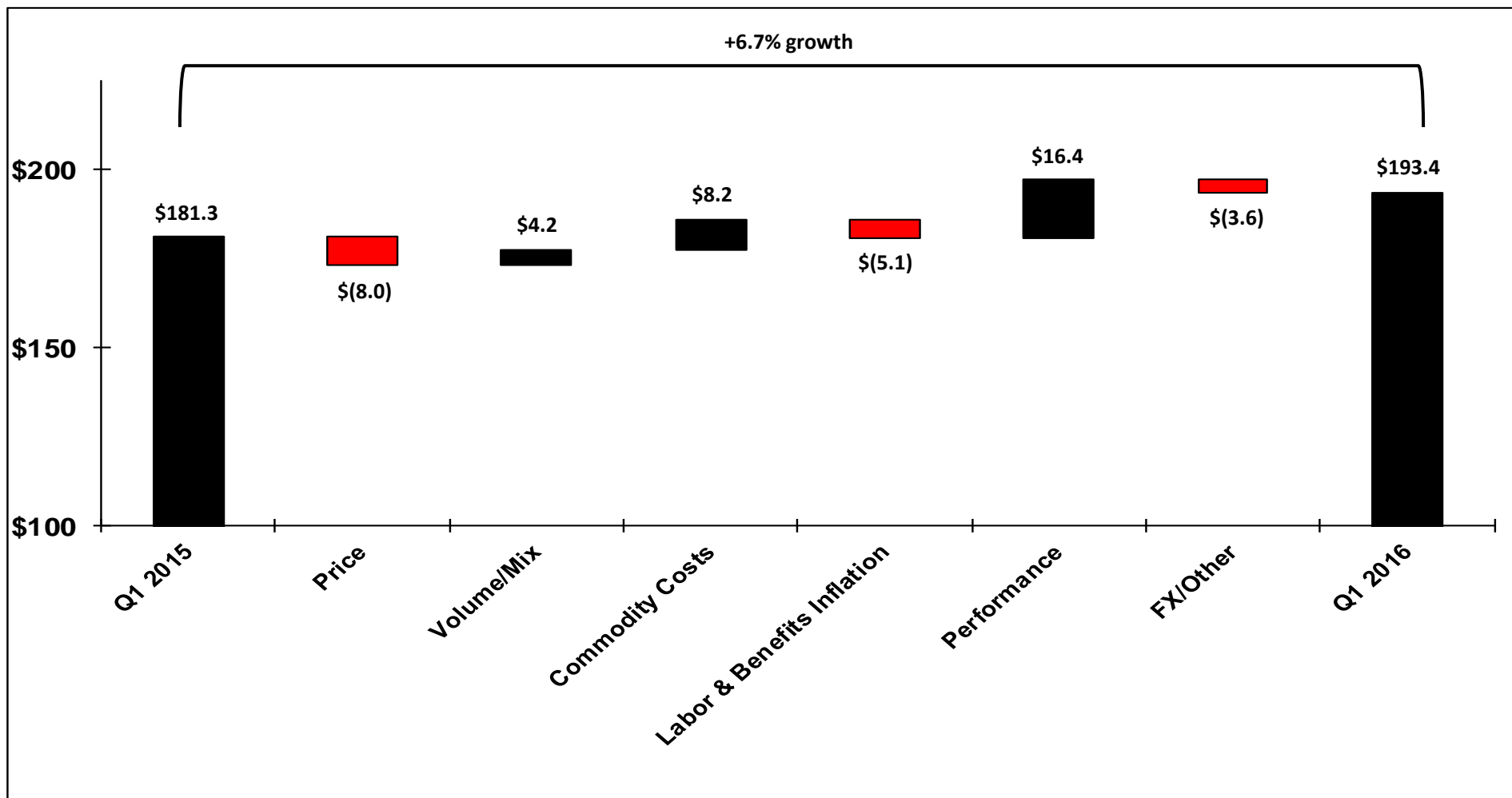
## Q1'16 over Q1'15



# Y-o-Y Adjusted EBITDA Comparison

\$ millions

## Q1'16 over Q1'15



# Q1'16 Cash Flow, Debt and Liquidity

- Net Debt increased \$404M to \$2.2B
  - Quarterly cash from operations of \$58 million
  - Pension contributions of \$10 million
  - Share repurchase and dividend activity of \$60 million
  - Acquisition related activities of ~\$290 million
- Net leverage ratio of 2.93x -- up from 2.44x at end of 2015
- Global liquidity > \$820M

# 2016 Guidance

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

\* Excludes impact of purchase accounting for acquired businesses.