

# Second Quarter 2016 Earnings Call

## July 26, 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 profitability improvements, expected cash flow, performance improvements, assessment regarding the use of the Company's NOLs and payments of U.S. Federal Income Taxes, 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 positions 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.

# Q2 Financial Highlights and Full Year Outlook

## Q2 Highlights

- Q2 Adj. EPS of \$0.19, unchanged versus prior year period
- Q2 Adj. EBITDA increased \$3.1 million to \$195.2 million
- Returned over \$53 million to shareholders through dividends (\$16 million) and share repurchases (\$37 million)

## Maintain Full Year Outlook

- EBITDA to increase 4-7% versus 2015
- Cash flow of \$360-\$380 million

# Q2 Volumes and Demand

- Volumes from ongoing business increased 3.5%
  - Primarily driven by acquisitions
  - Legacy volumes down slightly in the quarter, flat year-to-date
- U.S. Food and Consumer
  - GPK U.S. food business down slightly -- consistent with the Market
- Global Beverage
  - A.C. Nielsen reported strength in U.S. Beverage
  - GPK global beverage business was solid
    - Low-single digit increase driven by U.S. Beer, Specialty Drinks and CSD

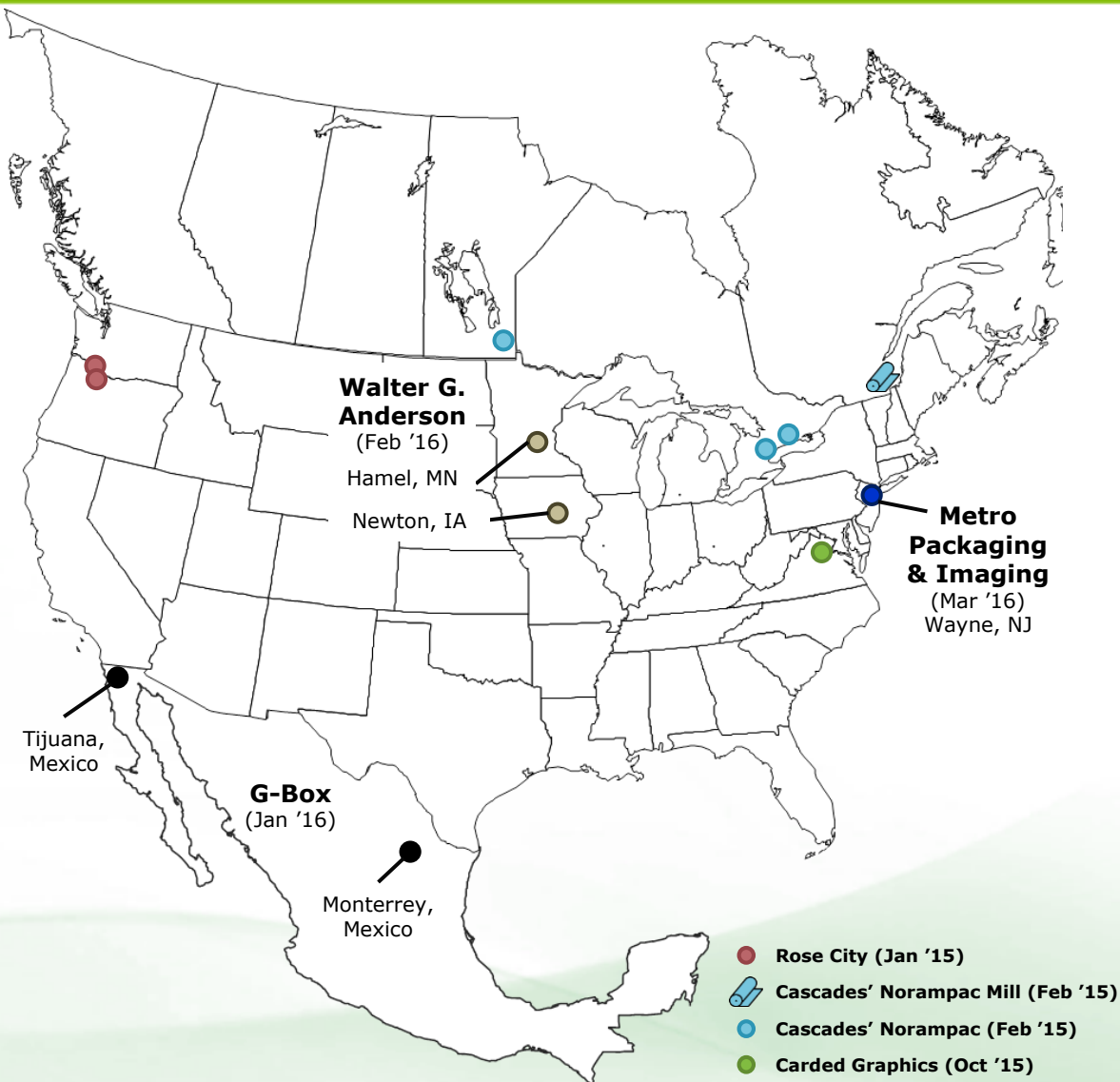
# Q2 Operations

- Strong performance across manufacturing operations
  - Drove \$21 million of performance benefits
    - Net of \$15 million cost related to planned West Monroe machine upgrade
- Backlogs remain solid (5 weeks for SUS and 4 weeks for CRB)
- Installed new press section and headbox at West Monroe mill
  - Resulted in significant planned downtime
    - Impacted volume by 20k tons and EBITDA by \$15M
  - \$40 million capital investment
  - Adds 30,000 tons of annual SUS capacity
  - Financial benefit of \$12 million annually

# Paperboard Mill Investments Drive Capacity & Lower Costs

- Continued emphasis on improvement initiatives
  - Macon curtain coater and other improvements
    - Scheduled to be completed Q3'16
    - ~\$30 million investment
    - ~\$10 million EBITDA beginning 2017
- Legacy growth and acquisitions support demand for additional SUS paperboard

# Recent North American 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
- Enabled closure of 3 higher cost, legacy facilities

# Colorpak Acquisition Expands Supply Chain in Key Geographies and End Markets

## COLORPAK ACQUISITION



- Enterprise Value of ~A\$90M (\$68M USD)<sup>1</sup>
- FY15<sup>2</sup> Sales of ~A\$160M (\$122M USD)<sup>1</sup>
- FY15 EBITDA of ~A\$13M (\$10M USD)<sup>1</sup>
  - Expected to contribute \$5-6M USD of EBITDA in 2016
- 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 \$0.76 USD per \$1.00 AUD (Apr '16 FX rate)

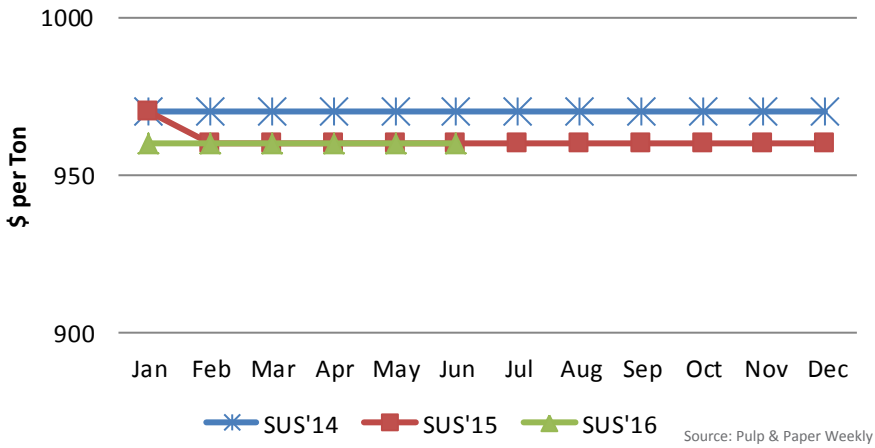
<sup>2</sup> FY15 represents the Colorpak fiscal year July '14 – June '15



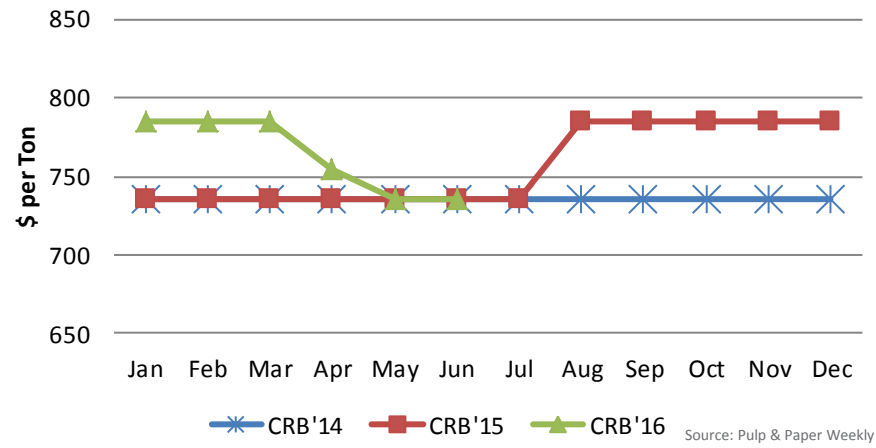
# Pricing Offsets Commodity Inflation/Deflation Over Time

- 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
- Customer folding carton contracts typically contain price resetting mechanisms including:
  - Basket of commodity input costs
  - Paperboard price indices

**SUS Pricing Trend**



**CRB Pricing Trend**



# Q2 Financials<sup>1</sup>

<b>\$millions (except EPS)</b>	<b><u>Q2 2016</u></b>	<b><u>Q2 2015</u></b>	<b><u>Variance</u></b>
<b>Net Sales</b>	\$1,103.2	\$1,057.1	\$46.1
<b>Adjusted EBITDA</b>	\$195.2	\$192.1	\$3.1
<b>Adj. Net Income</b>	\$60.1	\$61.3	(\$1.2)
<b>Adj. EPS</b>	\$0.19	\$0.19	\$0.00



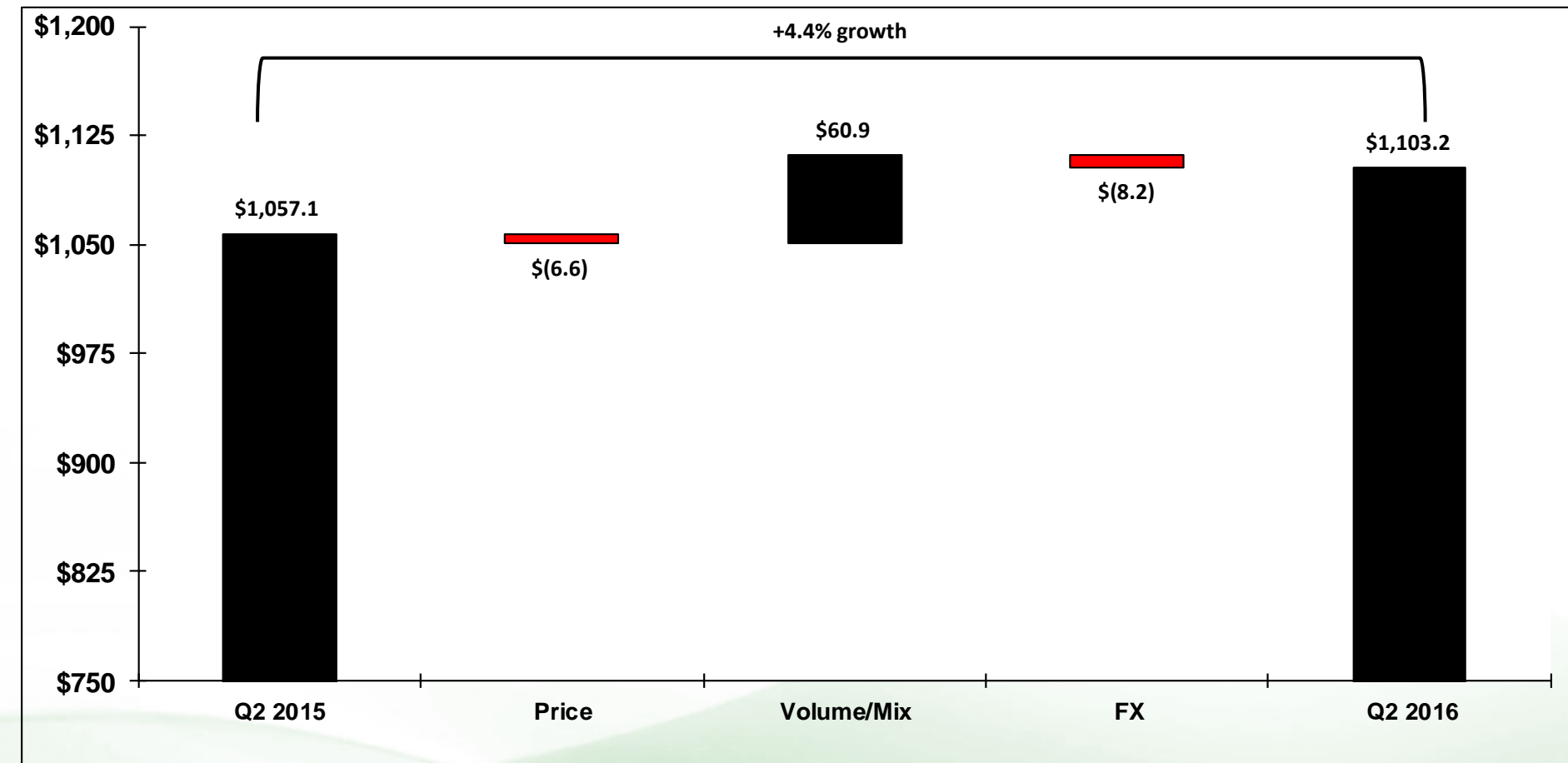
- Q1 Net Sales grew 4.4%
- Adj. EBITDA grew 1.6% to \$195 million, despite negative \$15M impact from planned machine upgrade at West Monroe
- Adj. EPS flat of \$0.19, unchanged versus prior year period

<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

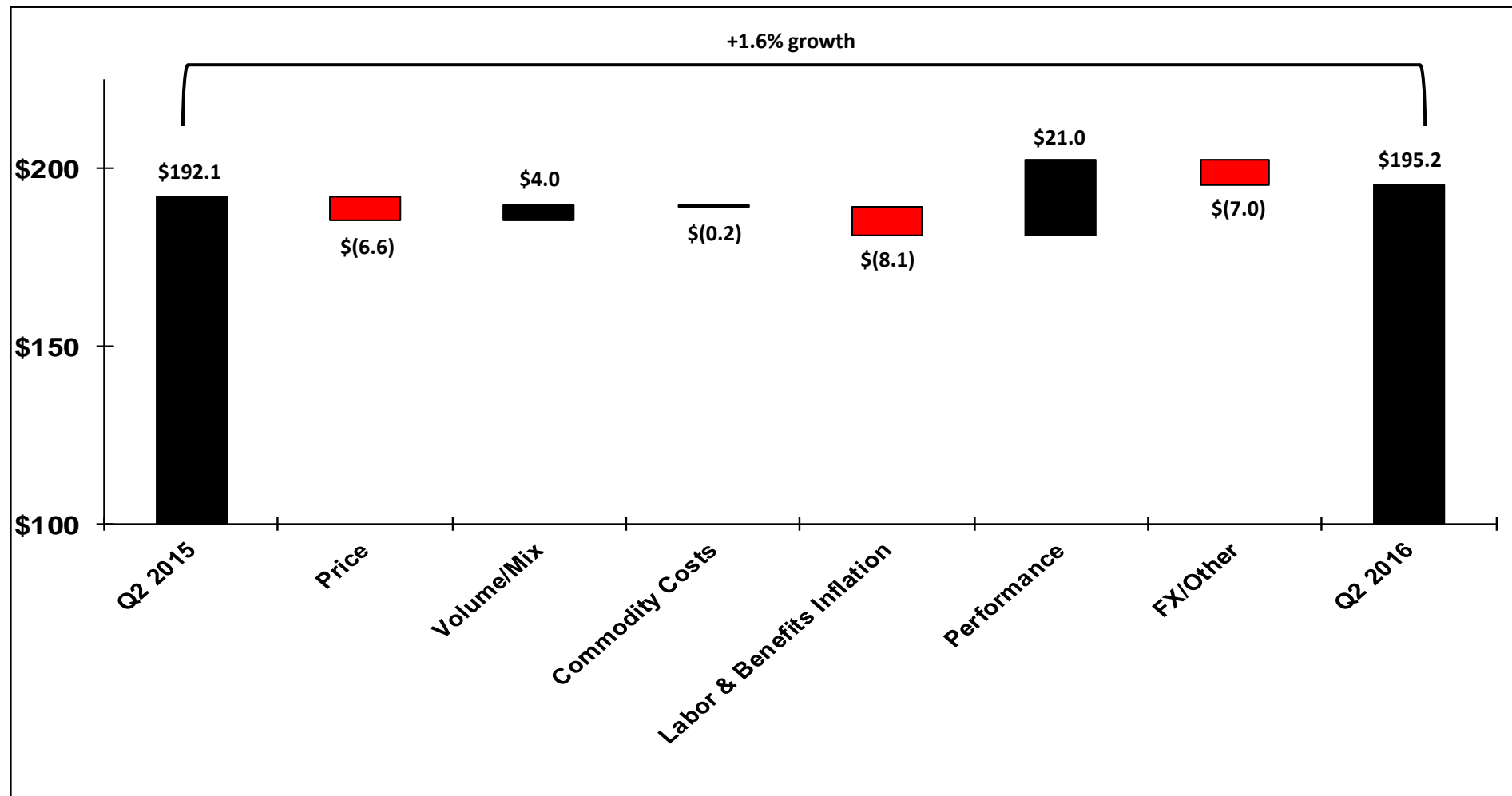
## Q2'16 over Q2'15



# Y-o-Y Adjusted EBITDA Comparison

\$ millions

## Q2'16 over Q2'15



# Q2'16 Cash Flow, Debt and Liquidity

- Net Debt increased \$10M to \$2.25B
  - Quarterly capital expenditures of \$89 million
  - Share repurchase and dividend activity of \$53 million
  - Acquisition related activities of \$71 million
- Net leverage ratio of 2.93x -- unchanged from Q1'16
- Global liquidity > \$830M
- Recognized \$22 million discrete tax benefit
  - Benefits NOL balance
  - Increased confidence we will not be a U.S. federal cash tax payer until 2019

# 2016 Guidance

	<u>Q1 Call</u>	<u>Q2 Call</u>
– Cash Flow available for Net Debt Reduction, Dividends & Share Repurchase (ex M&A/Capital Markets activity)	\$360-\$380M	\$360-\$380M
– Capital Expenditures	\$270-\$280M	\$280-\$290M
– Cash Pension Contributions	\$40-\$60M	\$40-\$60M
– Pension Expense (includes pension amortization)	\$15M	\$22M
– Cash Taxes	\$20-\$25M	\$20-\$25M
– Depreciation & Amortization (ex pension amortization)	\$290-\$310M	\$290-\$310M
– Pension Amortization	\$20M	\$28M
– Interest Expense	\$75-\$85M	\$70-\$80M
– Effective Tax Rate (Normalized)	35-37%	35-37%
– Year End Net Leverage Ratio	2.5x-3.0x	2.5x-3.0x