

# Second Quarter 2018 Earnings Call July 24, 2018

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

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



Inspired packaging. A world of difference.

# Forward Looking Statements

Any 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, expected increases in Adjusted EBITDA and cash flow, as well as expected capital spending, pension expense, cash taxes, depreciation and amortization, pension amortization, interest expense, effective tax rate, and net leverage, 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 and uncertainties include, but are not limited to, inflation of and 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, cost reduction plans, and integration activities, as well as currency movements and other risks of conducting business internationally, and the impact of regulatory and litigation matters, including the continued availability of the Company's net operating loss offset to taxable income, and those that impact the Company's ability to protect and use its intellectual property. 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 except as required by law. Additional information regarding these and other risks is contained in the Company's periodic filings with the SEC.

# Q2 2018 Overview

## Financial Performance

- Q2 Adjusted EBITDA of \$236 million, up \$65 million y-o-y
- Augusta, GA, SBS mill experienced significant unplanned outages in late June (\$6 million negative impact) due to power interruption at the facility
- Before the impact of the unplanned outages, Q2 Adjusted EBITDA was above the mid-point of our Q2 guidance of \$235-\$245 million
- SBS mill and foodservice converting assets generated solid Adjusted EBITDA of \$55 million, despite unplanned outages
- CRB and CUK mill and global converting assets Adjusted EBITDA up \$11 million y-o-y
- Freight, chemical, external paper, pulp substitutes input costs continue to inflate, only partially offset by lower OCC
- Full-year 2018 EBITDA and cash flow outlook of at least \$1 billion and \$475 million maintained

## Markets & Operations

- Q2 volumes up 3.4% driven primarily by acquisitions
  - Q2 organic volume flat, despite big beer weakness
  - Q2 global beverage organic volume flat – international growth offsetting big beer weakness
- Successfully implemented 2<sup>nd</sup> open market \$50 per ton CRB price increase this year; announced 2<sup>nd</sup> 2018 open market \$50 per ton CUK price increase in July
- Expect the pricing to commodity input cost inflation relationship to turn positive in Q3
- CRB and CUK mills ran well in the quarter
- Backlogs strong at 5+ weeks for CRB, CUK, and SBS
- AF&PA reported operating rates at 95%+ for all three paperboard grades

## Capital Allocation

- Invested \$81 million in capital expenditures in Q2
  - Numerous capital projects to drive reduced consumption of raw materials, increase productivity, and improve quality
- Completed PFP acquisition
  - Expands our leading position in the growing paperboard-based air filter frame market, which we entered with the acquisition of Carton Craft in July 2017
  - Synergies to be driven by the integration of additional 15k CUK paperboard tons and cost efficiencies
  - Expected post-synergy EV/EBITDA multiple below 6.0X
- Returned \$23 million to shareholders in Q2 via dividends

\*\*\* 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).

# Experiencing Incremental Commodity Input Cost Inflation, Offsetting with Incremental Pricing

## Previous 2018 guidance on earnings calls

- Q4 2017 earnings call – a neutral pricing to commodity input cost relationship as \$20 million from pricing to be offset by commodity input cost inflation
- Q1 2018 call – \$40 million of potential upside to Q4 2017 outlook from realized pricing in Q1 2018 and lower OCC input costs; no change to original guidance

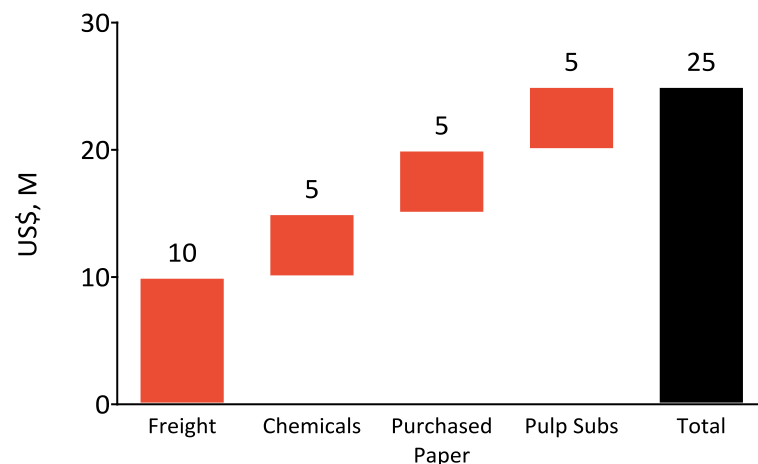
## Experiencing incremental cost inflation

- Freight, chemicals, purchased external paper, and pulp substitutes rolling up to an incremental \$25 million of commodity input cost inflation for balance of 2018, largely offsetting the potential upside noted in Q1 2018 earnings call

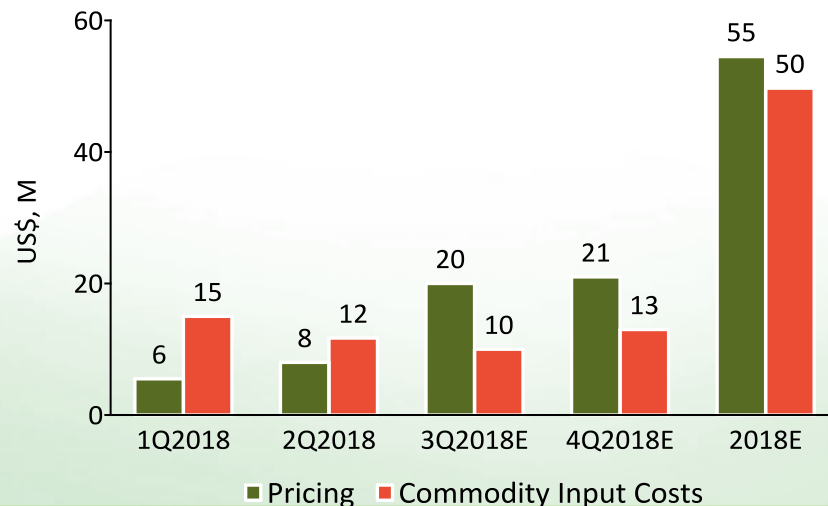
## Implemented/announced additional pricing; pricing to more than offset inflation in 2018

- Implemented 2<sup>nd</sup> CRB \$50 per ton open market price increase this year in June/July timeframe; announced 2<sup>nd</sup> 2018 CUK \$50 per ton price increase in July
- Expect pricing to accelerate in Q3 2018 reflecting the benefits of realized pricing in 2017 and in Q1 2018
- Pricing to commodity input cost inflation relationship will turn positive starting in Q3 2018

Expected Incremental Commodity Input Cost Inflation by Category in the 2H of 2018



Core Business (Excludes SBS Mill and Foodservice Assets) Pricing to Commodity Input Cost Inflation Relationship



# Q2 2018 Volumes and Demand

## Q2 Volumes up 3.4% driven primarily by acquisitions

- Q2 organic volume flat as modestly improved demand for the frozen and dry foods categories was offset by weakness for big beer brands in North America

## U.S. Food and Consumer

- Organic converting volume trend continues to outperform reported A.C. Nielsen U.S. Food and Consumer market volumes, which declined low single digits for the majority of our categories in Q2

## Beverage

- Global beverage organic volume was flat in Q2, despite continued pressure on big beer brands in North America
- Growth coming in craft beer and flavored / sparkling waters in North America and international beer markets

## Foodservice

- SBS foodservice organic volume up 2.4%, consistent with Q1 2018

## Q2 performance

- Drove \$19 million of performance benefits in Q2
- CRB and CUK mills ran well
- Augusta, GA, SBS mill experienced unplanned outages in late June (\$6 million negative impact) related to power disruption to the facility
  - Experienced two separate power system failures causing two extended unplanned outages
  - The planned Q4 2018 recovery boiler rebuild will address the issues which occurred during the quarter, increasing reliability and decreasing recovery time
- Backlogs strong at 5+ weeks for CRB, CUK, and SBS
- AF&PA reported operating rates at 95%+ for all three paperboard grades

## Invested \$81 million in capital expenditures in Q2

- Numerous capital projects to drive reduced consumption of raw materials, increase productivity, and improve quality

# SBS Paperboard Pressed Bowl Replacement for CPET Plastics Trays

## SBS Paperboard Pressed Bowl Opportunity

- In Q2, commercialized pressed bowl technology with ConAgra, and closely working with several other large consumer packaged goods companies
- Main application is the frozen and microwavable food categories - CPET plastic tray is currently the most common solution
- Pressed paperboard bowl solution is made from renewable and sustainable SFI® certified SBS paperboard
- The technology enables traditional oven baked quality to be achieved in a microwave, while maintaining reduced microwave cooking time
- Significant runway to grow pressed bowl offering over the coming years

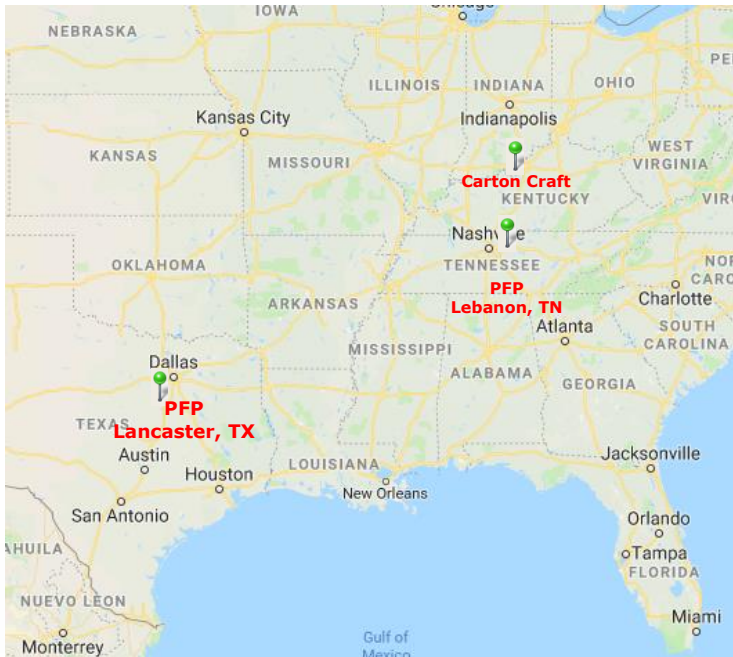




# PFP Acquisition Extends Leading Position in Paperboard-Based Air Filter Frame Market

## PFP ACQUISITION

- **Manufacturing facilities in Lebanon, Tennessee and Lancaster, Texas**
  - Expands our leading position in the growing paperboard-based air filter frame market, which we entered with the acquisition of Carton Craft in July 2017
  - Increases (15k CUK tons) our mill to converting plant integration into growing markets
  - Provides runway for further margin improvement





# Integration of the SBS Mill and Foodservice Converting Assets Remains on Track, High Confidence in \$75 Million Synergy Capture and Potential for Consistent Organic Growth Driven by Conversions to Paper Based Cups

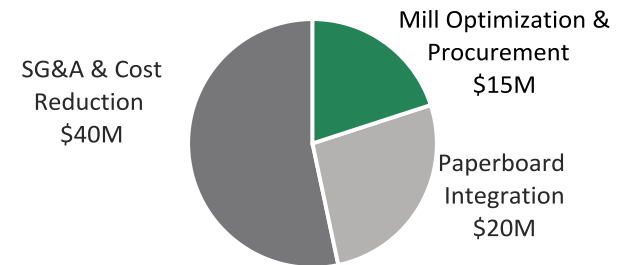
## Combination

- Expands leading boxboard mill production footprint to include scaled SBS assets
- Significantly expands converting footprint in growing foodservice market
- Targeting \$75 million in synergies by end of year three
- Creates platform to increase SBS mill to converting integration via organic and non-organic growth

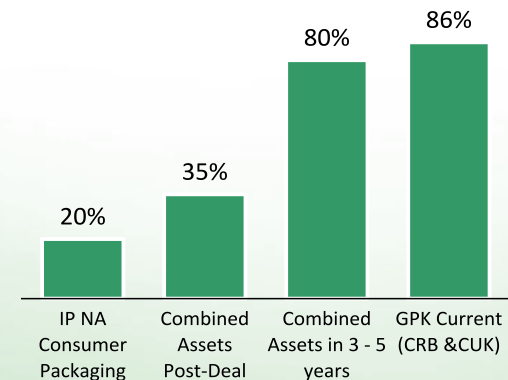
## Q2 Performance, Integration

- Q2 EBITDA of \$55 million
- Despite the \$6 million related to the unexpected outage, continue to expect \$235 million of full-year EBITDA, including first year of synergies
- Q2 Foodservice organic volume up 2.4%
- Implementing \$50 per ton open market SBS cup stock and \$30 per ton SBS folding carton increases
- Executing on targeted synergies, specifically SG&A reductions and paperboard integration
- Actively looking at acquisitions in N.A. and Europe to drive SBS mill integration rates higher

## On Track to Capture Synergies ~\$75 million by End of Year Three

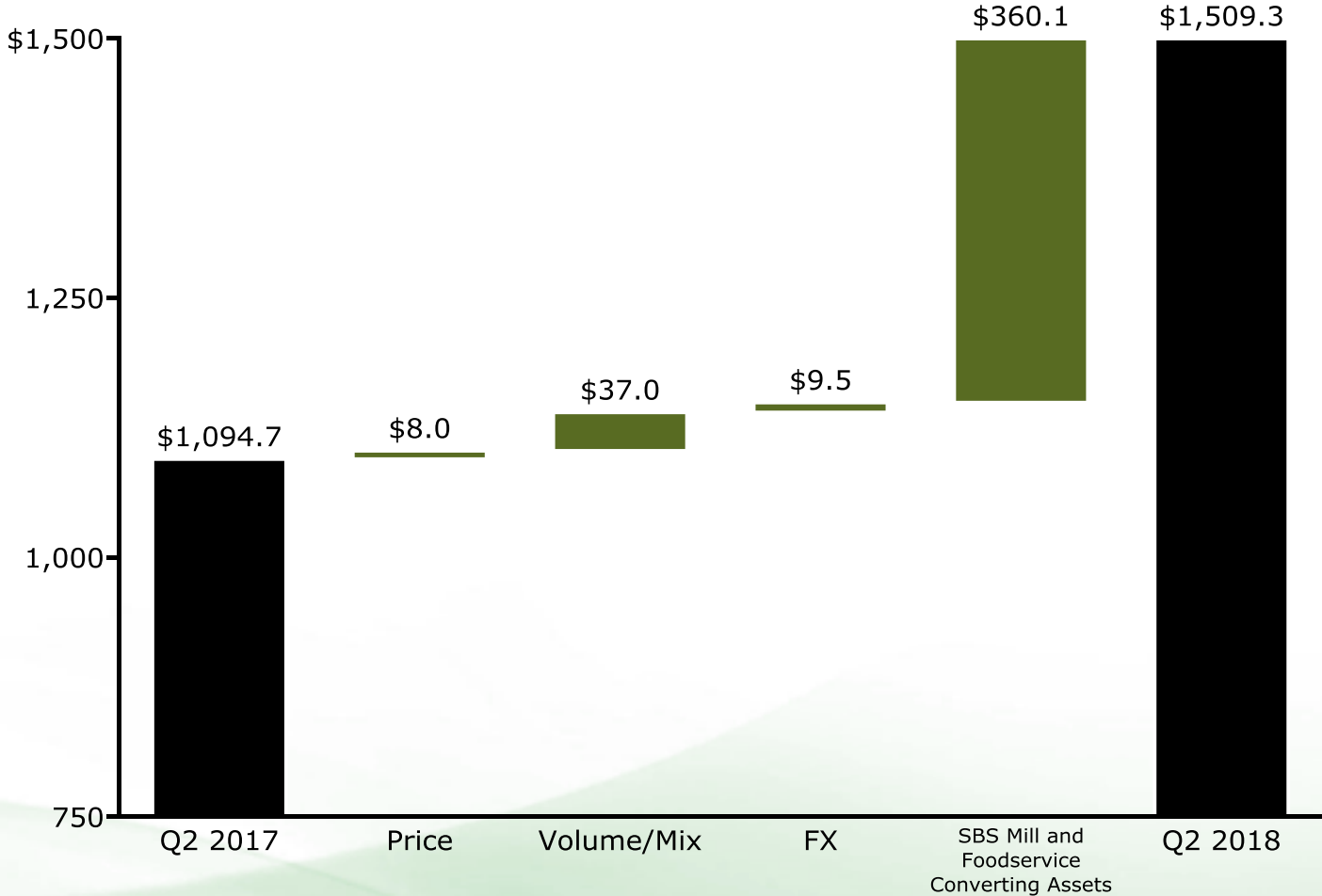


## Provides Runway to Increase SBS Vertical Integration Rates



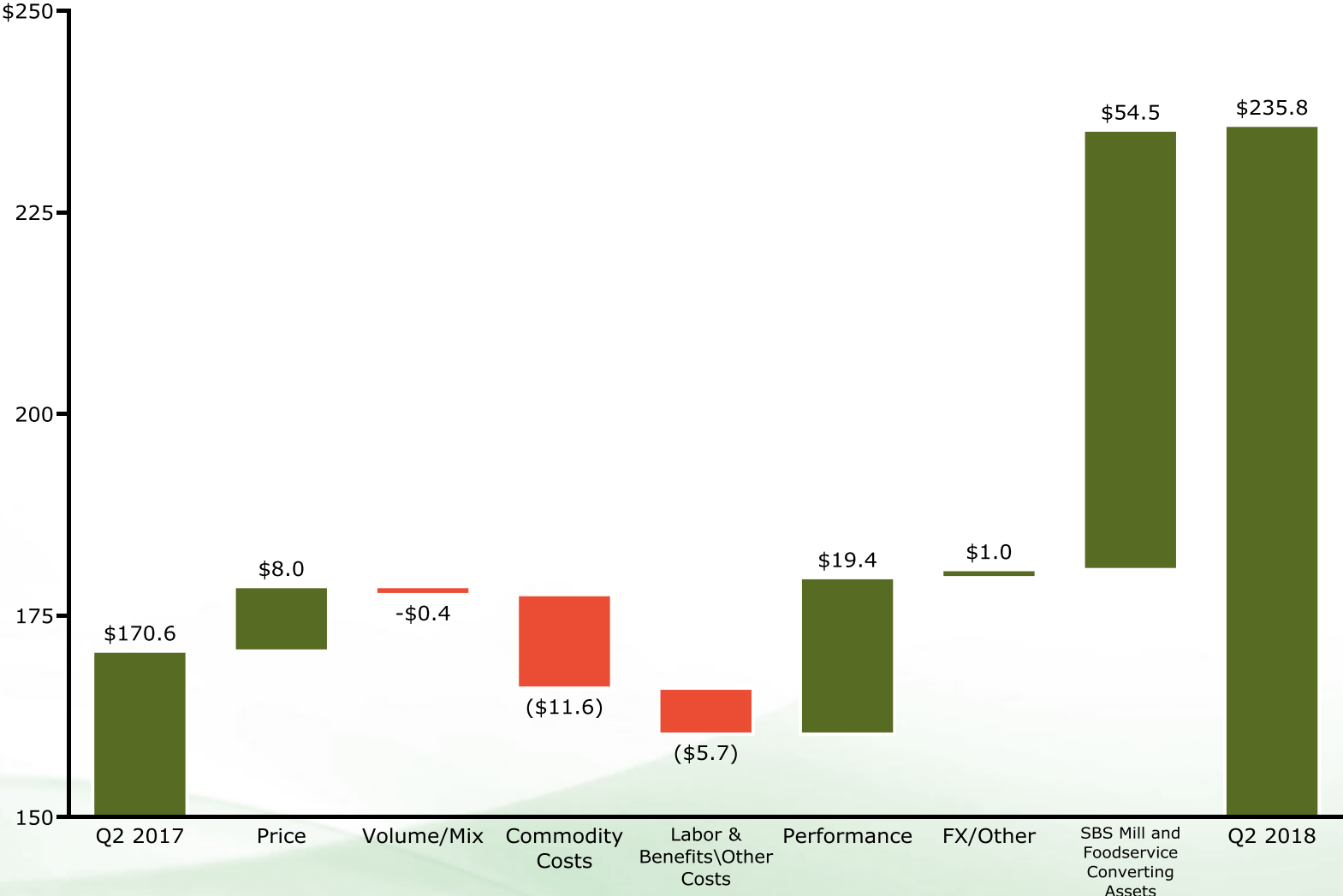
# Q2 2018 Net Sales Comparison YoY

In US\$ millions



# Q2 2018 EBITDA Comparison YoY

In US\$ millions



## Q2 2018 Cash Flow, Debt and Liquidity

### **Net Debt decreased \$122 million to \$2.9 billion in Q2 from Q1**

- Net Cash Used in Operating Activities was \$300.2 million YTD; Adjusted Net Cash Provided by Operating Activities was \$206.5 million YTD
- Adjusted Net Cash Provided by Operating Activities was \$226 million in Q2
- Q2 capital expenditures of \$81 million
- Global liquidity > \$1 billion at June 30, 2018

### **Pro forma Net leverage ratio of 3.0x, down from 3.3x at the end of Q1**

- Remain committed to long-term net leverage target of 2.5 to 3 times
- Expect to be in target range by year-end reflecting ongoing strong cash flow generation

# 2018 Full Year Guidance

	<u>2018 Guidance</u>
– Cash Flow available for Net Debt Reduction, Dividends & Share Repurchase (before M&A/Capital Markets activity)	~\$475M
– Capital Expenditures	\$380M
– Cash Pension Contributions	\$5-\$10M
– Pension Expense/(Income) (includes pension amortization)	\$3M
– Cash Taxes	\$20-\$30M
– Depreciation & Amortization (excluding pension amortization)	\$430-\$450M
– Pension Amortization	\$6M
– Interest Expense	\$125-\$135M
– Effective Tax Rate (Normalized)	24-27%
– Year End Net Leverage Ratio	2.5x-3.0x