

# First Quarter 2019 Earnings Call

April 23, 2019

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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 sales due to pricing and volume, 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.

# Highly Integrated Packaging Company Delivering Profitable Growth in all Three Paperboard Substrates

## Financial Performance

- Q1 Adjusted EBITDA of \$260 million, up \$29 million y-o-y reflecting strong execution on pricing and performance; Adjusted EBITDA margins up 160 basis points y-o-y to 17.2%
- Q1 benefited from pricing of \$32 million – \$16 million positive pricing to commodity input cost relationship
- Q1 performance was a solid \$31 million driven by continued emphasis on cost efficiencies, benefits from capital projects, and realization of synergies
- Commodity input cost inflation of \$17 million driven by elevated wood fiber costs
- Maintain 2019 Adjusted EBITDA range of \$995 million to \$1.015 billion; expect cash flow to be ~\$525 million compared to previous ~\$500 million, reflecting expectation for cash flow benefit from inventory reduction

## Markets & Operations

- Q1 volume up 1.1% driven by acquisitions
  - Starting to see benefits from shift away from plastics into our innovative paperboard solutions; European sales strong
  - New customer wins position business for volume growth in the 2H 2019
- Paperboard mills and converting assets ran well throughout the quarter
- Successfully implemented open market \$50 per ton CUK price increase
- AF&PA reported operating rates at 95%+ for all three paperboard grades
- Backlogs remain at 5+ weeks for CRB and CUK; ~4 weeks for SBS

## Capital Allocation

- Invested \$80 million in capital expenditures in Q1
  - Numerous capital projects to drive reduced consumption of raw materials, increase productivity, and improve quality
- Executing strategic vision for integrating SBS mill and foodservice converting assets
  - Optimizing production across the CRB, CUK, and SBS paperboard mill system
  - Executing on growth opportunities in foodservice and shift into innovative paperboard solutions
  - High confidence in achieving targeted \$75 million synergy target by end of year three
- Returned \$89 million to stakeholders in Q1
  - \$60 million in share repurchases
  - \$23 million in dividends
  - \$6 million in distributions to the GPI Partner

\*\*\* 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).

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# Q1 Volume and Demand

## **Q1 Volume up 1.1% driven by acquisitions**

- Starting to see benefits from shift away from plastics into our innovative paperboard solutions; European sales and customer activity strong
- New customer wins position business for improved volume in the 2H 2019

## **Q1 Pricing was a strong \$32 million**

- Pricing to commodity input cost relationship \$16 million positive in Q1
- Successfully implemented open market \$50 per ton CUK paperboard price increase in February
- Open market SBS paperboard folding carton prices declined \$20 per ton in February
- Continue to expect 2019 pricing of ~\$110 million
- The impact of the February 2019 paperboard price changes neutral to our 2019 pricing outlook, and a modest positive on an annualized basis

# Q1 Operations

## Q1 Performance

- Paperboard mills and converting assets ran well throughout the quarter
- Augusta, GA (SBS) mill ran very well in Q1 and is benefitting from the extensive re-build of the recovery boiler and significant upgrade to the mill's mechanical and electrical systems completed in Q4 2018
- AF&PA reported operating rates at 95%+ for all three paperboard grades
- Backlogs remain at 5+ weeks for CRB and CUK; ~4 weeks for SBS

## Invested \$80 million in capital expenditures in Q1

- Numerous capital projects to drive reduced consumption of raw materials, increase productivity, and improve quality
- Nearing completion of new Monroe, LA folding carton facility

# European Sales Strong Driven by Market Growth, Corrugated Replacement, and Shift into Paperboard Solutions

## Europe (10%+ of total revenue) sales tracking up mid-single digits in Q1

- Growth driven by continued penetration of multi-pack beverages in Europe, targeted conversions from corrugated to CUK paperboard, and shift from plastics into paperboard solutions
- Continued traction shifting CPET plastic trays into paperboard pressed bowl solutions
- Migrating customers from plastic and shrink wrap into paperboard solutions

## KeelClip™ – new solution for plastic replacement

- Developed KeelClip™ – proprietary and highly efficient solution for plastic rings and shrink wrap replacement
- Significant interest from multi-national beverage customers – two machines ordered by key customer – supply to commence in Q1 2020
- Anticipate significant run-way for further growth as we expect plastic replacement opportunities to accelerate into 2020 in Europe and around the globe

## Plastic and Shrink Replacement



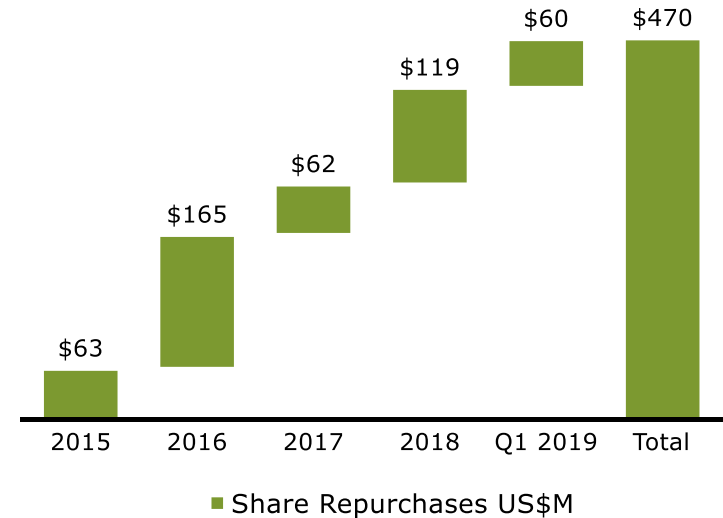
## KeelClip™



# Solid Track Record of Share Repurchases and Reducing Fully Diluted Shares Outstanding

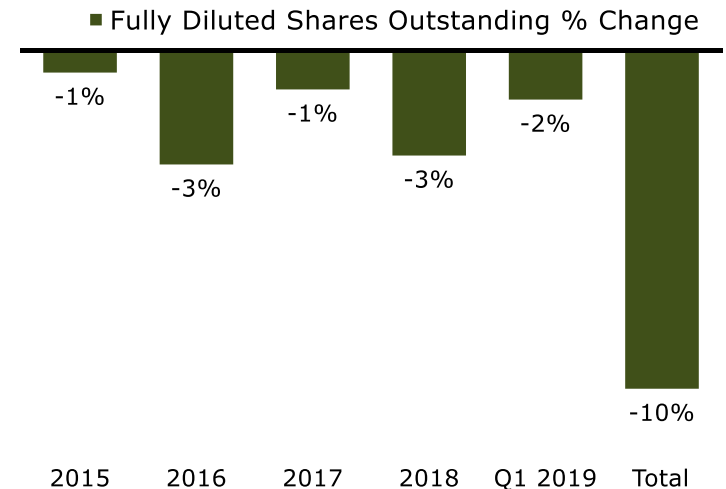
## Q4 2018 and Q1 2019 share repurchase activity

- Repurchased \$60 million in GPK shares in Q1 2019 at an average price of **\$11.82** per share
- Repurchased \$119 million in GPK shares in Q4 2018 at an average price of **\$11.35** per share
- Q4 2018 and Q1 2019 share repurchase activity of ~\$180 million reduced share count by 5%
- Repurchases executed at prices below our estimate of intrinsic value of GPK shares



## Share repurchase activity since start of authorization in February 2015

- Repurchased \$470 million in GPK shares at an average price of **\$12.39**
- Share repurchase activity since February 2015 has reduced share count by ~10%



## Share repurchase philosophy

- Repurchase shares opportunistically
- When shares are trading below our estimate of intrinsic value and the returns of share repurchases compare favorably to tuck-under acquisitions and organic investments

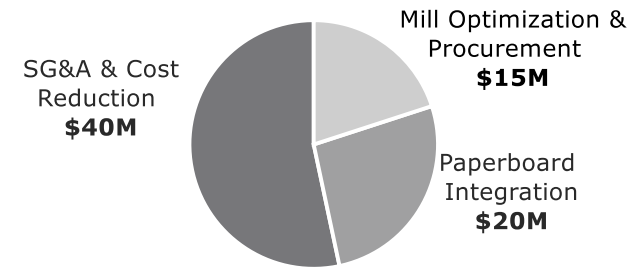


# Executing Strategic Vision for Integrating SBS mill and Foodservice Converting Assets

## Combination

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

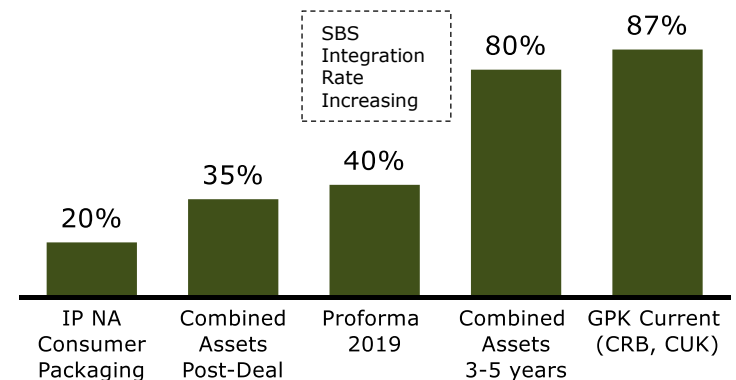
### On track to capture ~\$75M Synergies



## Performance, Integration

- Optimizing production across the CRB, CUK, and SBS paperboard mill systems
- Executing on growth opportunities tied to positive trends in foodservice and shift into innovative paperboard solutions
  - Shift away from plastic-based cups, trays, and clamshells into our innovative paperboard solutions
- Integration of Letica acquisition on track
- High confidence in achieving \$75 million synergies target by end of year three

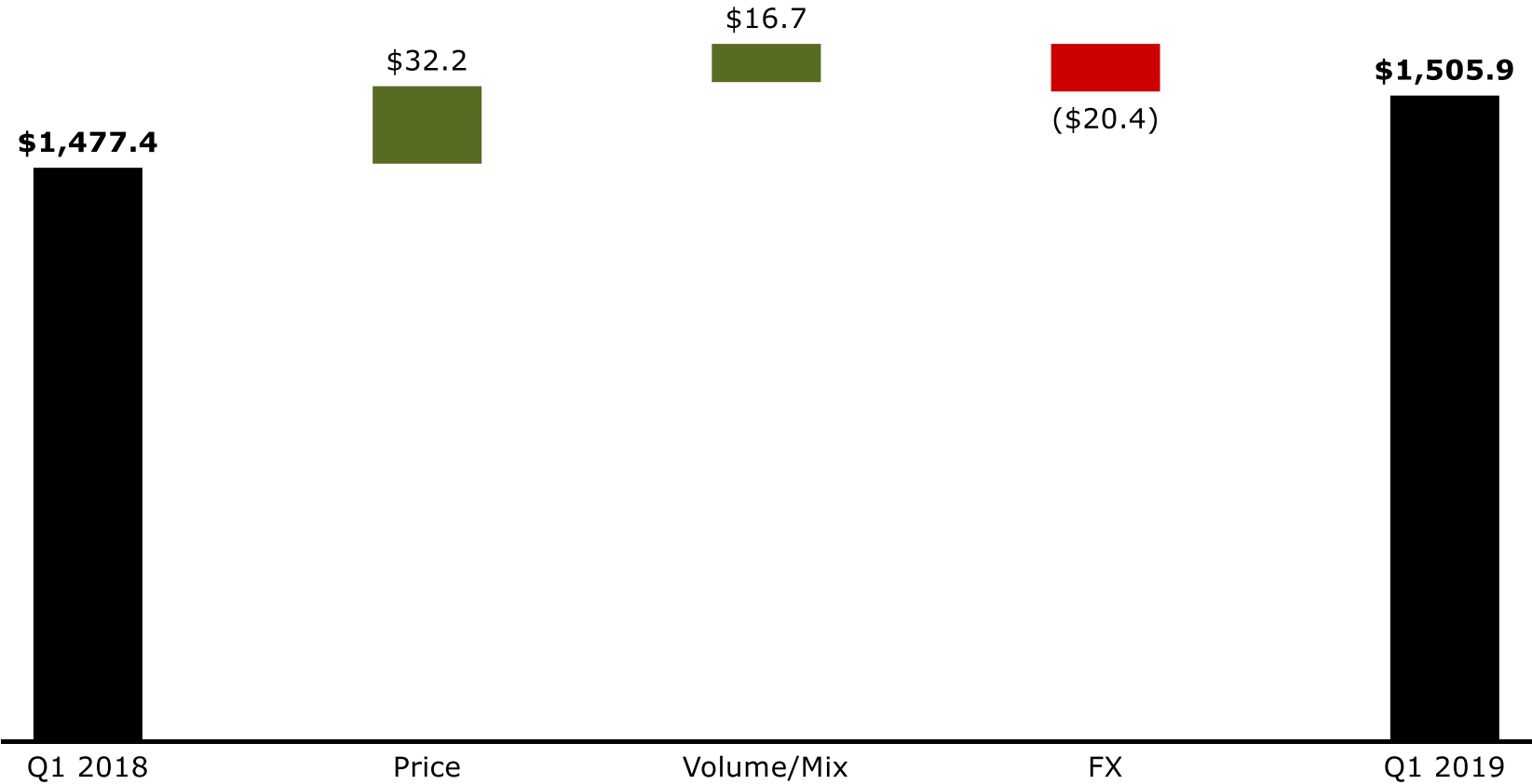
### Runway to increase SBS vertical integration rates





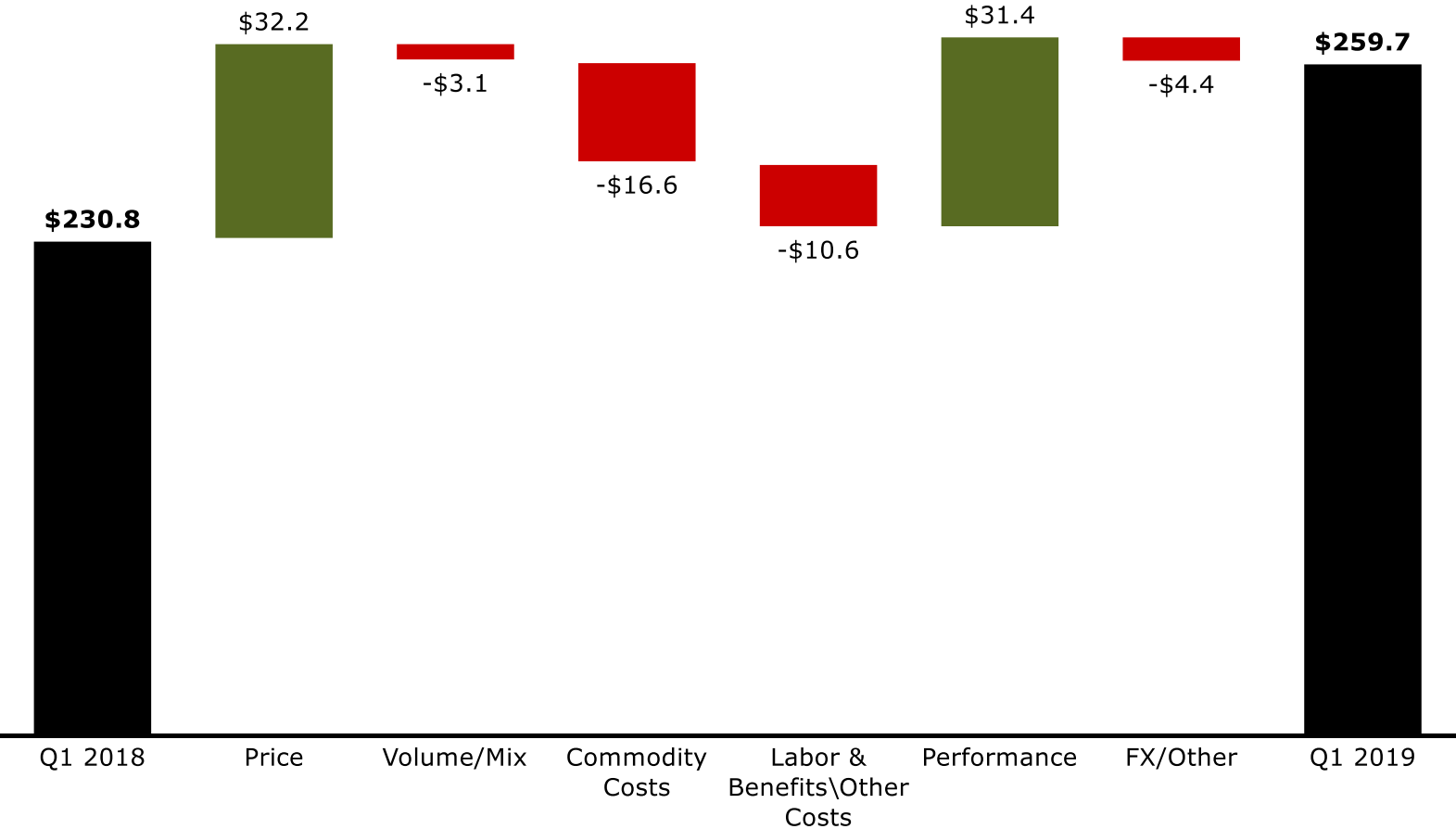
# Q1 2019 Net Sales Comparison YoY

US\$ Millions



# Q1 2019 Adjusted EBITDA Comparison YoY

US\$ Millions



# Q1 Cash Flow, Debt and Liquidity

## **Net Debt increased \$229 million to \$3.1 billion in Q1 from year-end 2018**

- Q1 capital expenditures of \$80 million
- Returned \$89 million to stakeholders in Q1 through \$60 million in share repurchases, \$23 million in dividends, and \$6 million in distributions to the GPIP Partner
- Global liquidity > \$1 billion at March 31, 2019

## **Pro forma Net leverage ratio of 3.13x, up from 2.98x at the year-end 2018**

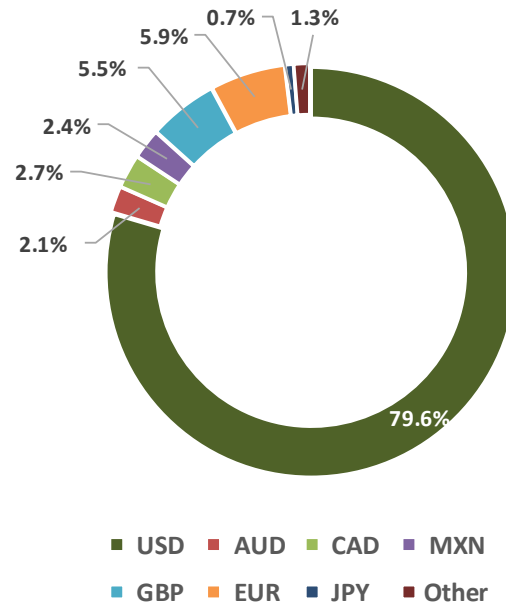
- Remain committed to our long-term net leverage target of 2.5 to 3 times
- Expect to be well into this range by year-end reflecting strong cash flow generation

# Key Commodity Annual Consumption Figures, Revenue by Currency, and Mill Maintenance Schedule

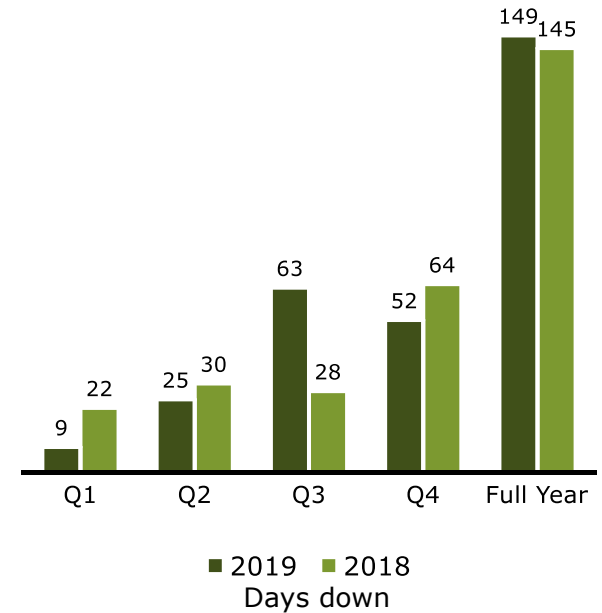
## Annual Commodity Consumption

Key Categories	Units
Wood (Million tons)	10
Recycled Fiber (Million tons)	1
Natural Gas (MMBTU)	22
Caustic Soda (000, tons)	40
Starch (Million lbs.)	150
TiO2 (Million lbs.)	25
Polyethylene (Million lbs.)	105

## Revenue by Currency Exposure – Q1 2019



## Mill Maintenance Schedule<sup>1, 2</sup>



- 1) Q2-Q4 2019 figures are forecasts
- 2) Excludes days related to maintenance outage for boiler rebuild in Augusta, GA SBS mill in Q4 2018

# 2019 Guidance

	<b>February 2019 Guidance</b>	<b>April 2019 Guidance</b>
Cash Flow available for Net Debt Reduction, Dividends & Share Repurchase (before M&A/Capital Markets activity)	~\$500M	~\$525M
Capital Expenditures	\$320M	\$320M
Cash Pension Contributions	\$10M	\$10M
Pension Expense/(Income) <i>(includes pension amortization)</i>	\$15M	\$15M
Cash Taxes	\$35M	\$35M
Depreciation & Amortization <i>(excluding pension amortization)</i>	\$435M	\$450M
Pension Amortization	\$10M	\$10M
Interest Expense	\$140M	\$140M
Effective Tax Rate (Normalized)	25%	25%
Year End Net Leverage Ratio	2.5x-3.0x	2.5x-3.0x