

# Second Quarter 2019 Earnings Call

July 23, 2019

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

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Executive Vice President and  
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Inspired Packaging. A World of Difference.

# Forward Looking Statements

Any statements of the Company's expectations in these slides, including but not limited to the closing of and expected EBITDA from the Artistic Carton Company acquisition, 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

- Q2 Adjusted EBITDA of \$267 million, up \$31 million y-o-y reflecting strong execution on pricing and performance; Adjusted EBITDA margin up 160 basis points y-o-y to 17.2%
- Q2 benefited from pricing of \$40 million, partially off by commodity input cost inflation of \$14 million driven by elevated wood costs
- Q2 pricing to commodity input cost relationship positive \$26 million in Q2 and \$41 million in 1H 2019
- Q2 performance of \$22 million driven by continued emphasis on cost efficiencies, benefits from capital projects, and realization of synergies
- Increasing 2019 Adjusted EBITDA guidance range by \$15 million to \$1.01 - \$1.03 billion reflecting more favorable pricing to commodity input cost relationship; maintain 2019 cash flow guidance of ~\$525 million

## Markets & Operations

- Q2 volume up 1.1% driven by acquisitions
  - Capturing benefits from consumer driven shift away from plastics into our innovative paperboard solutions
  - New customer wins position business for 100 basis points of organic volume growth in 2H 2019
- Continue to expect 2019 pricing of ~\$110 million
- Pricing lags reduced to 6-months compared to 8-months previously, following successful negotiations with our customers
- Paperboard mills and converting assets ran well throughout the quarter
- AF&PA reported the Q2 2019 operating rate for CRB of 97% and for SBS of 92%; our CUK operating rate was 95%+ in Q2
- Backlogs remain at 5+ weeks for CRB and CUK; ~3 weeks for SBS

## Capital Allocation

- Invested \$78 million in capital expenditures in Q2
  - Numerous capital projects to drive reduced consumption of raw materials, increase productivity, and improve quality
- Executing strategy 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 2020
- Returned \$47 million to stakeholders in Q2
  - \$18 million in share repurchases
  - \$22 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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# Q2 Volume and Pricing

## Q2 Volume up 1.1% driven by acquisitions

- Capturing benefits from consumer driven shift away from plastics into our innovative paperboard solutions
- New customer wins position business for 100 basis points of organic volume growth in the 2H 2019

## Q2 Pricing was a strong \$40 million

- Pricing to commodity input cost relationship \$26 million positive in Q2
- Pricing to commodity input cost relationship \$41 million positive in 1H 2019
- Continue to expect 2019 pricing of ~\$110 million
- Pricing lags reduced to 6-months compared to 8-months previously, following successful negotiations with our customers
- Reduction to a 6-month lag marks an important milestone as it provides the opportunity to adjust pricing two times per year, on average, to better reflect market conditions

# Operations

## Performance

- Paperboard mills and converting assets ran well throughout the quarter
- Augusta, GA SBS mill ran very well in Q2 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
- Planning an extensive outage at our Texarkana, Texas SBS mill in Q3
  - In addition to routine annual work, the bottom tube section of recovery boiler will be replaced to drive improved safety and reliability at the mill
- AF&PA reported the Q2 2019 operating rate for CRB of 97% and for SBS of 92%; our CUK operating rate was 95%+ in Q2
- Backlogs remain at 5+ weeks for CRB and CUK; ~3 weeks for SBS

## Invested \$78 million in capital expenditures in Q2

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

# Artistic Carton Acquisition Provides Compelling Optimization, Board Integration, and Growth Opportunities for Our Paperboard Mill and Converting Platform

## Company Overview

- Two converting manufacturing facilities **add needed capacity** in Indiana & Illinois and **growing markets** (Industrial)
- **CRB Mill (White Pigeon)** located in Michigan producing ~70k tons
- Converting product offerings: Retail Services, Packaged Foods, Packaging Distribution, Filtration/Industrial

## Strategic Rationale

- Converting **end-market diversification**
- Enhances converting platform (Illinois & Indiana)
- **Significant synergy opportunities** in CRB Integration, Mill & Converting Manufacturing Optimization and Supply Chain Optimization

## GEOGRAPHIC OVERVIEW



## Financials

- **LTM Sales of ~\$63 million**
- Expected to generate **~\$10 million of annualized EBITDA** including anticipated synergies over the **next 12-18 months**

# Prepared Foods Continue to Perform Well and Customers are Increasingly Choosing SBS Paperboard Trays Over Plastic

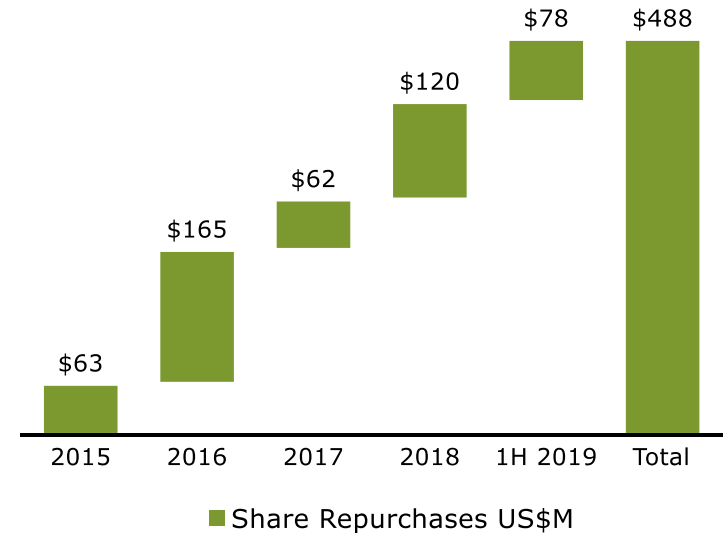
- **Prepared foods continue to perform well** according to recent Nielsen data and **customers are actively innovating** across the breakfast, entrée and meal categories
- **Customers increasingly choosing SBS paperboard trays** over plastic trays as paperboard solutions viewed as a more sustainable offering
- Customers incorporating Graphic Packaging's **proprietary microwave cooking solutions** for superior consumer experiences
- **Multiple new product launches** across our markets in the quarter



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

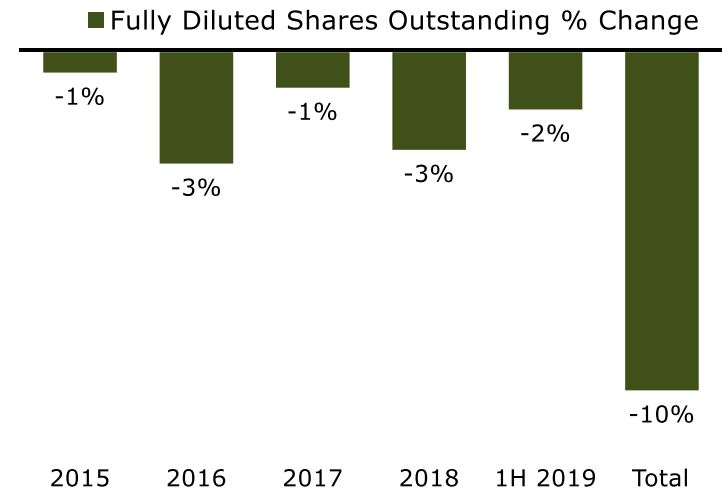
## Q4 2018 and 1H 2019 share repurchase activity

- Repurchased \$78 million of GPK shares in 1H 2019 at an average price of **\$12.04** per share
- Repurchased \$120 million of GPK shares in Q4 2018 at an average price of **\$11.35** per share
- Q4 2018 and 1H 2019 share repurchase activity of ~\$198 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 \$488 million of GPK shares at an average price of **\$12.41**
- 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

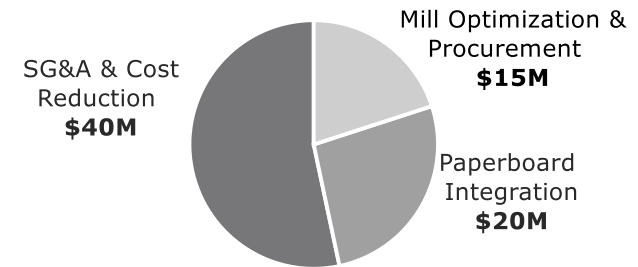


# Executing Strategy for Integrating SBS Mill and Foodservice Converting Assets

## 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

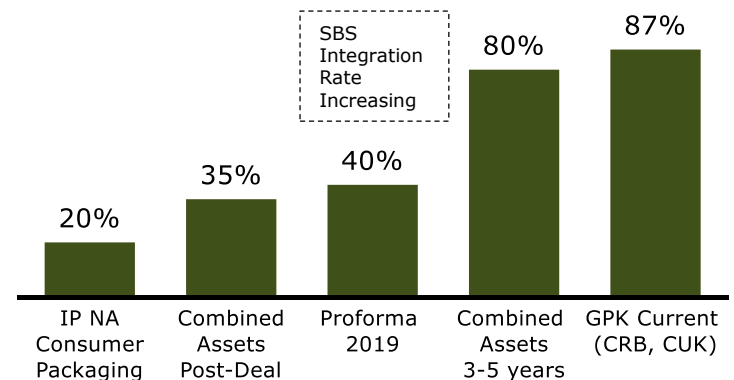
### On track to capture ~\$75M Synergies



## Performance, Integration

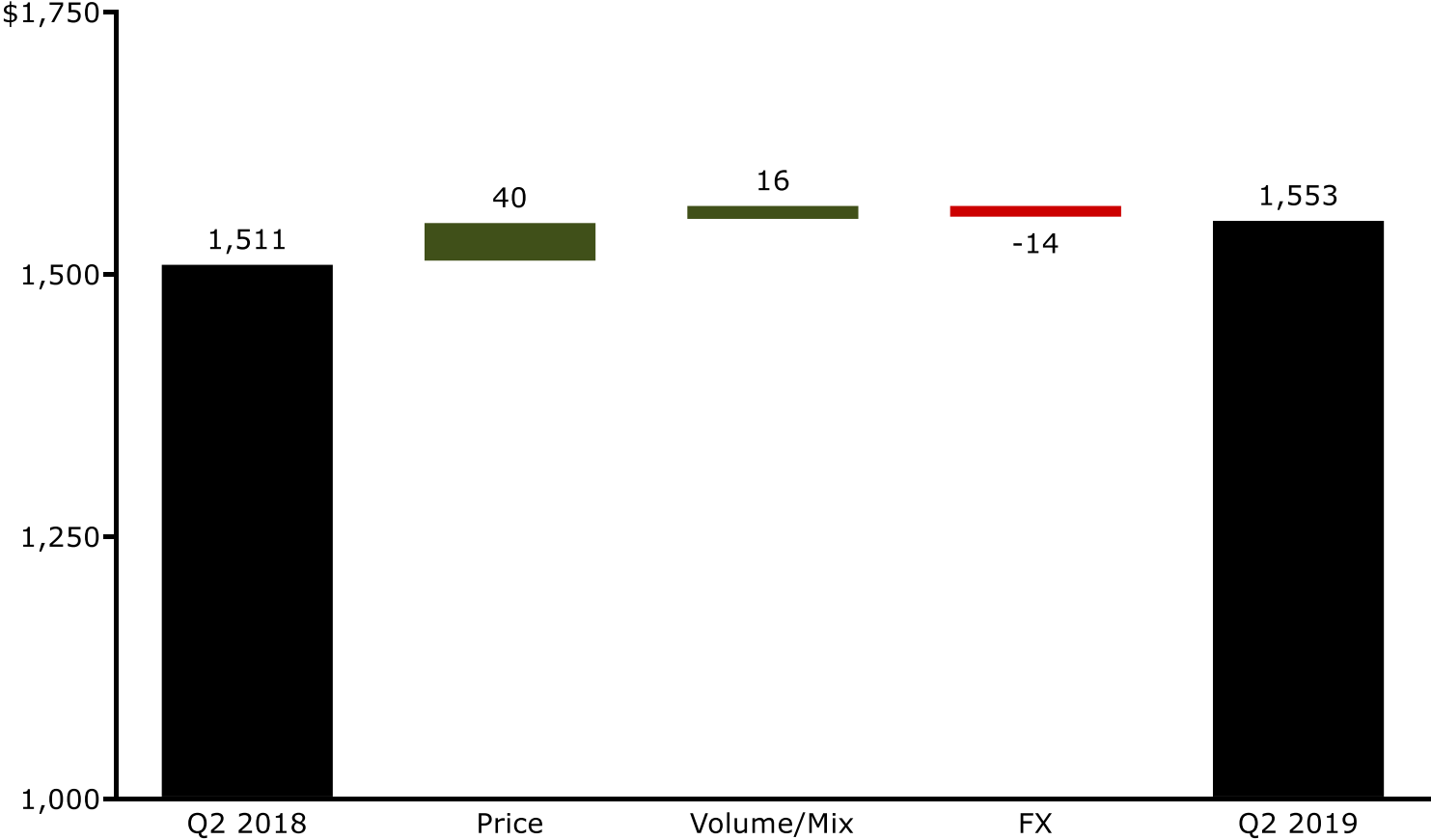
- Optimizing production across the CRB, CUK, and SBS paperboard mill systems
- Executing on growth opportunities tied to positive trends in foodservice and shift into innovative paperboard solutions
  - Shift away from plastic-based cups, trays, and clamshells into our innovative paperboard solutions
- Integration of Letica acquisition on track
- High confidence in achieving \$75 million synergies target by end of 2020

### Runway to increase SBS vertical integration rates



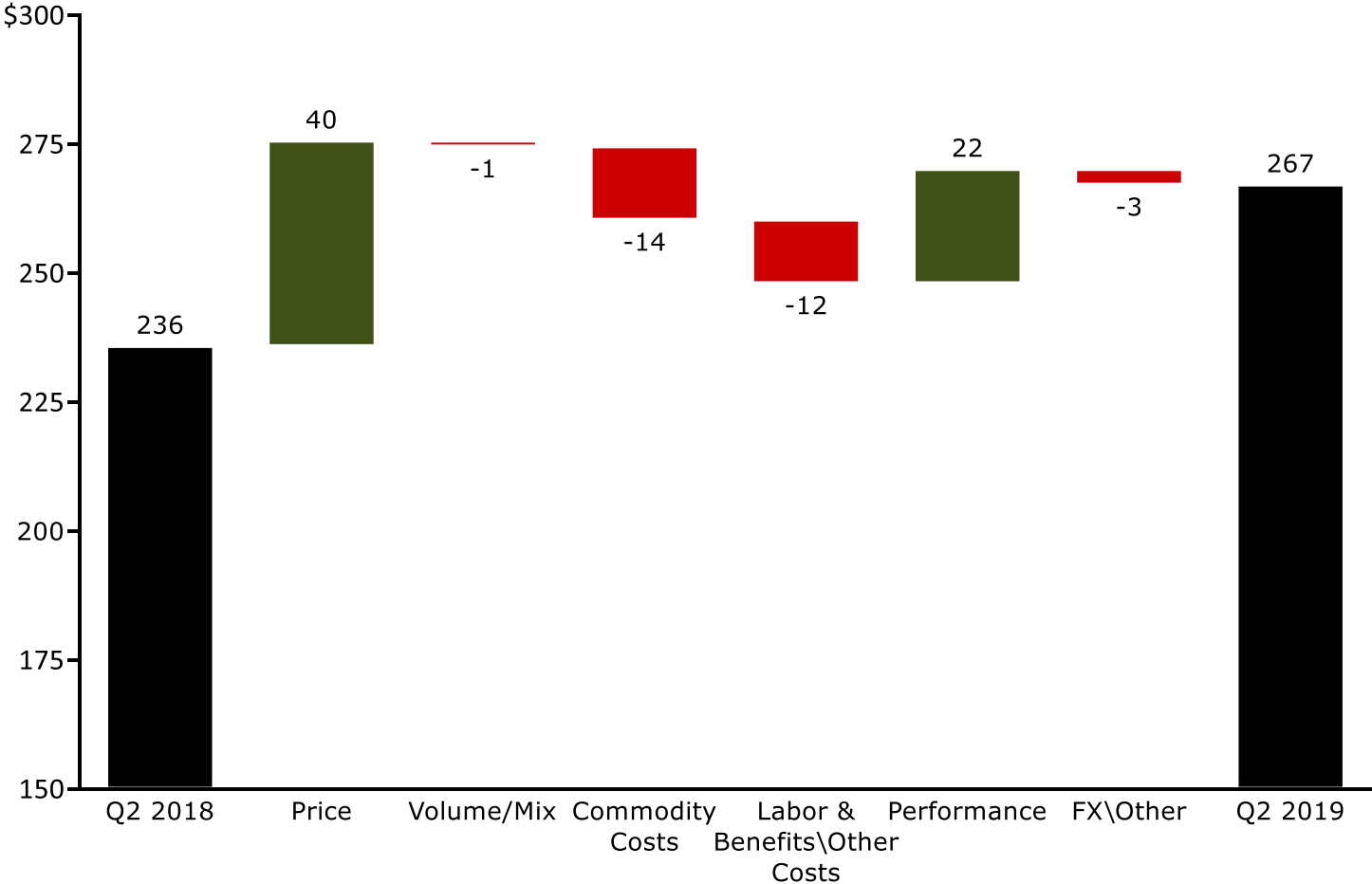
# Q2 2019 Net Sales Comparison YoY

US\$ Millions



# Q2 2019 Adjusted EBITDA Comparison YoY

US\$ Millions



# Q2 Cash Flow, Debt and Liquidity

## **Net Debt decreased \$121 million to \$3.0 billion in Q2 from Q1 2019**

- Q2 capital expenditures of \$78 million
- Returned \$47 million to stakeholders in Q2 through \$18 million in share repurchases, \$22 million in dividends, and \$6 million in distributions to the GPIIP Partner
- Global liquidity > \$1.45 billion at June 30, 2019

## **Pro forma Net leverage ratio of 2.91x, down from 3.13x at the end of Q1 2019**

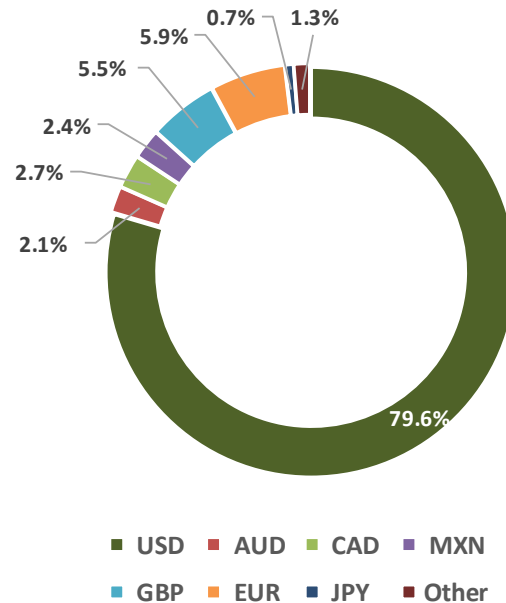
- Remain committed to our long-term net leverage target of 2.5 to 3 times
- Expect to be well into this range at year-end reflecting strong cash flow generation

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

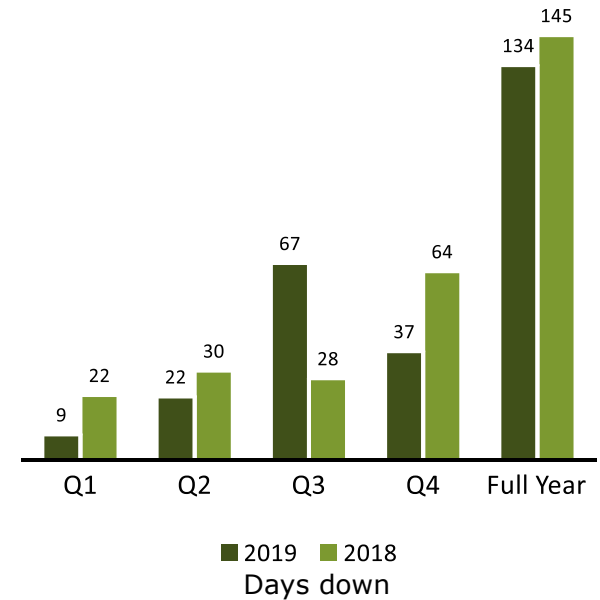
## Annual Commodity Consumption

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 – Q2 2019



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



- 1) Q3-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>April 2019 Guidance</b>	<b>July 2019 Guidance</b>
Cash Flow available for Net Debt Reduction, Dividends & Share Repurchase (before M&A/Capital Markets activity)	~\$525M	~\$525M
Capital Expenditures	\$320M	\$325M
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>	\$450M	\$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