

# Fourth Quarter 2019 Earnings Call



Graphic Packaging  
INTERNATIONAL

January 28, 2020

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

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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, including but not limited to the timing and terms for the acquisition of the facility from Quad/Graphics, Inc., as well as the start-up timing of the new paperboard machine in Kalamazoo, MI, expected increases in sales due to pricing and volume performance improvements, Adjusted EBITDA and cash flow, as well as expected capital spending, pension expense and settlement charges, timing for payment of U.S. federal taxes, depreciation and amortization, pension amortization, interest expense, effective tax rate, and net leverage, constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such statements 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.

# 2019 HIGHLIGHTS / TODAY'S ANNOUNCEMENTS



## 2019 Highlights

- **Introduced Vision 2025, Focused on Long-term Goals for the Company, Including a Shift to 100 to 200 Basis Points of Sustainability Supported Net Organic Volume Growth**
- **Fully Integrated the SBS Mill and Foodservice Assets; Achieved Run-rate Synergies of \$75M at Year-end**
- **Announced and Started Execution of a \$600M Transformational Investment in a New Coated Recycled Paperboard (CRB) Machine to Achieve Best-in-class Quality and Lowest Cost Production in the Industry**
- **Completed the Artistic Carton Company Acquisition for \$53M**
- **Returned \$242M to Stakeholders through Dividends, Distributions and Share Repurchases**

## Announcements

- **Acquiring Initial \$250M of International Paper's Minority Ownership Interest in Partnership**
- **Settling Approximately \$900M in Pension Obligations Related to Largest U.S. Pension Plan**
- **Acquiring Folding Carton Facility from Quad/Graphics, Inc. for \$40 Million**

# FULL YEAR 2019 FINANCIAL RESULTS

(US\$ M)	2019	2018	% Chg
Net Sales	\$6,160	\$6,029	+2%
Adj. EBITDA	\$1,030	\$971	+6%
Adj. EBITDA Margin	16.7%	16.1%	+60bps
Adj. EPS	\$0.87	\$0.81	+7%
Adj. Cash Flow	\$528	\$469	+13%
Global Liquidity	\$1,710	\$1,280	-----
Integration Rate <sup>(1)</sup>	68%	67%	+100bps

Adjusted figures represent non-GAAP measures. Please refer to earnings press release for reconciliations to equivalent GAAP measures.

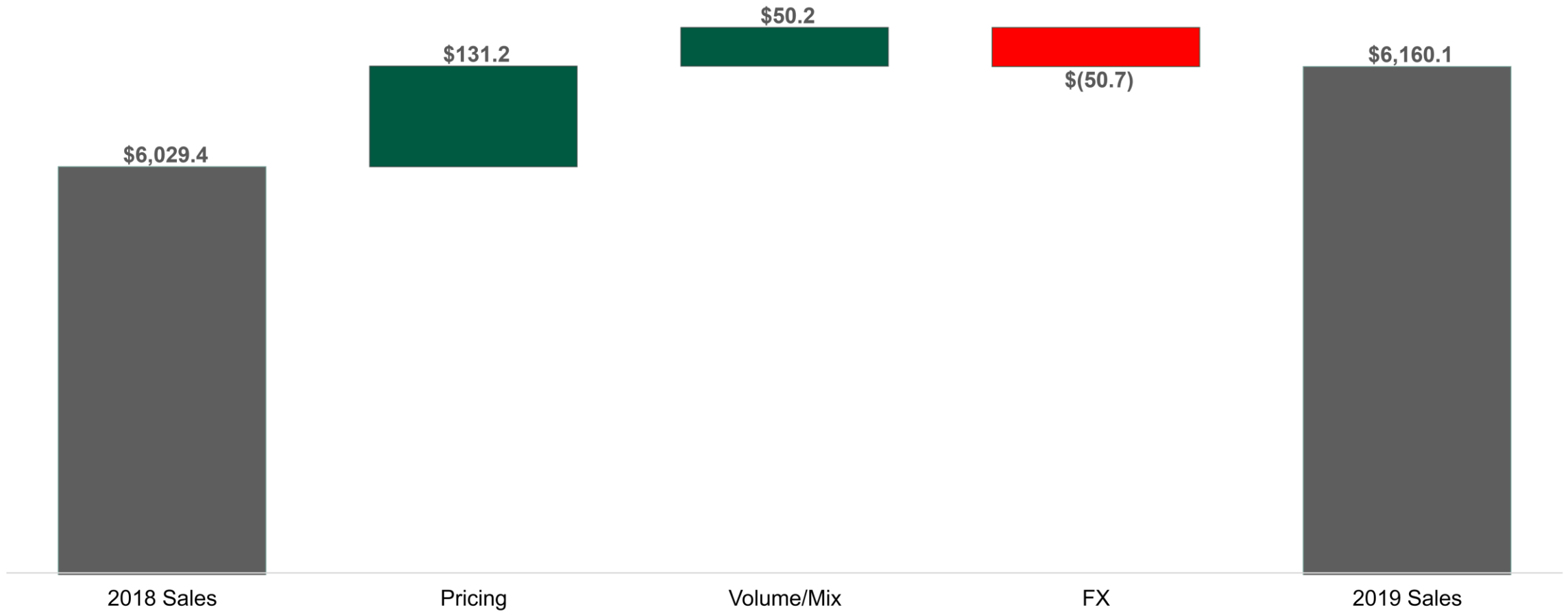
(1) Integration rate is defined as paperboard we produce which is converted in manufacturing facilities we operate.

## 2019 GROWTH & INVESTMENT

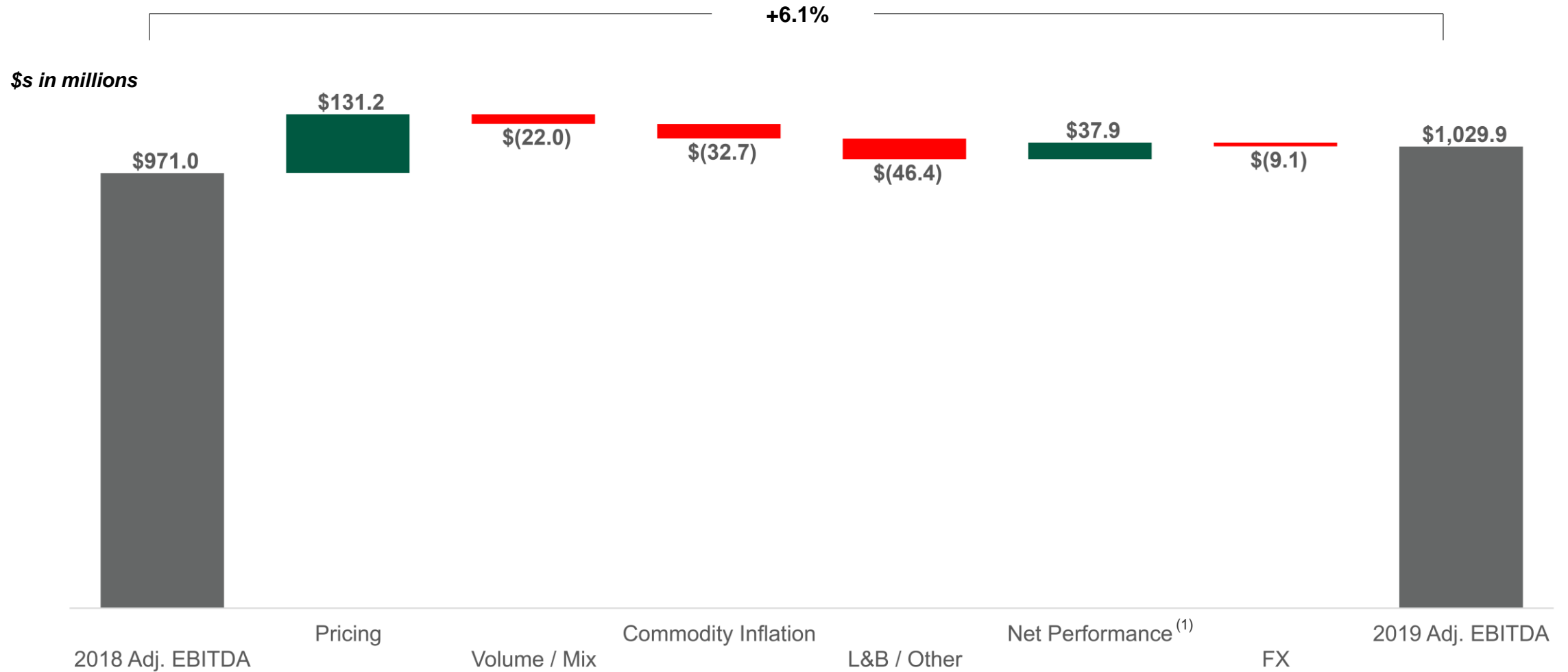
- Adj. EBITDA met upwardly revised target, growing +6% y/y
- Adj. EPS increased +7% y/y to \$0.87
- Volume driven by acquisitions & sustainability supported net organic growth
- Price to commodity input cost relationship improved \$98 million
- Capital investment back into business of \$353M including initial \$23M in transformational CRB investment
- \$1.7B in global liquidity
- Integration rate increased 100bps to 68%

# FULL YEAR NET SALES PERFORMANCE

*\$s in millions*



# FULL YEAR ADJUSTED EBITDA PERFORMANCE



(1) Includes \$36M in incremental year over year incentive and pension expense

# 2019 KEY HIGHLIGHTS

## FINANCIAL PERFORMANCE

- Q4 Net Sales of \$1.52B, up 0.7% y/y
- Q4 Adj. EBITDA of \$258.8M, up 4.3% y/y
- Q4 pricing of \$25.5M and net commodity deflation of \$5.7M; resulting in a \$31.2M positive relationship
- Full-Year Net Sales of \$6.16B, up 2.2% y/y
- Full-Year Adj. EBITDA of \$1.03B, up 6.1% y/y
- Full-Year pricing of \$131.2M and net commodity inflation of \$32.7M, resulting in \$98.5M positive relationship
- Full-Year Cash Flow of \$528M
- Year-end net leverage ratio of 2.6x

## MARKETS

- Q4 volume up 2.6%
  - Net organic volume growth of 20 basis points in Q4
  - Below targeted 100 basis points due to a one quarter delay in a significant customer product conversion to paperboard, conversion fully ramped at 12/31/19
- Continue to see 100 to 200 basis points of sustainability supported net organic volume growth in 2020 driven by known conversions to paperboard solutions
- AF&PA reported Q4 operating rates for CRB and SBS of 97% and 92%, respectively; GPK CUK operating rate remained 95%+ in Q4, global CUK volume up 2% y/y in 2019
- Backlogs remain at 5+ weeks for CUK; 3-4 weeks for CRB and SBS

## CAPITAL ALLOCATION

- Investing in capital and resources required to support 100 to 200 basis points of net organic volume growth
- \$600M transformational CRB investment underway and on track for early 2022 start-up
- Completed the Artistic Carton Company acquisition for \$53M
- Returned \$242M to stakeholders through dividends, distributions and share repurchases in 2019
- Acquiring initial \$250M of International Paper's minority ownership interest in partnership
- Settling approximately \$900M in pension obligations related to largest U.S. pension plan
- Acquiring folding carton facility from Quad/Graphics, Inc. for \$40M

# QUAD/GRAPHICS, INC. OMAHA, NE FOLDING CARTON FACILITY ACQUISITION

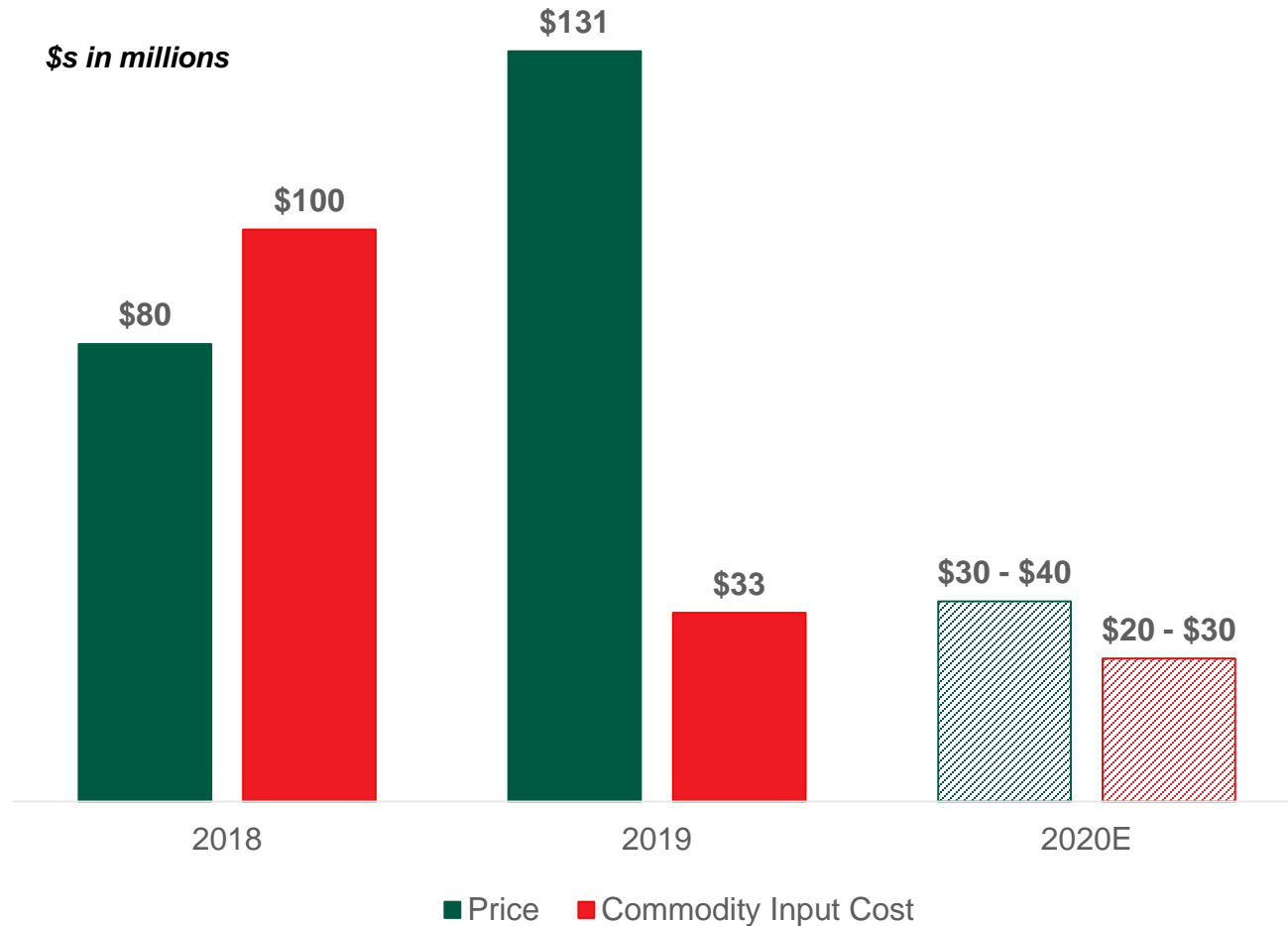


## ACQUISITION OVERVIEW

- \$40M purchase price; estimated \$7M of annualized EBITDA w/ synergies over 24 months
- Approximately 40K tons of paperboard consumed annually, predominately CRB
- >100 basis point increase in paperboard integration rate (68% to 69%) upon execution
- Facility strategically located close to many existing food, beverage and industrial customers
- Complementary food, beverage and industrial market participation
- Compelling post-synergy multiple and above cost of capital returns



# DISCIPLINED APPROACH TO PRICE / COMMODITY INPUT COST RECOVERY



## PRICE / COST RECOVERY

- \$125M+ price/commodity input cost dislocation from 2016-2018
- \$98M price/commodity input cost recovery in 2019
- Expect positive price/commodity input cost relationship in 2020
- Price timing lag reduced from 9 to 6 months
- Guiding to a modest ~1% commodity input cost inflation assumption in 2020

# 2020 EBITDA & CASH FLOW GUIDANCE COMPONENTS

**2020 Est. Adj EBITDA \$1,050M – \$1,100M**

## Components

Price	<b>\$30M – \$40M</b>
Volume <sup>(1)</sup>	<b>\$15M – \$25M</b>
Commodity Costs	<b>(\$20M – \$30M)</b>
Net Performance	<b>\$65M – \$75M</b>
L&B / Other <sup>(2)</sup>	<b>(\$50M – \$60M)</b>
FX	<b>\$0M</b>

**2020 Est. Cash Flow \$200M – \$275M**

## Components

Cap Ex	<b>(\$600M – \$625M)</b>
Interest <sup>(3)</sup>	<b>(\$140M – \$160M)</b>
Tax	<b>(\$30M – \$40M)</b>
Working Capital	<b>(\$10M – \$30M)</b>
Pension	<b>(\$10M – \$20M)</b>

## Year /Year Net Maintenance Outage Cost Impact (\$M)

<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
<b>\$0</b>	<b>(\$55)</b>	<b>+\$30</b>	<b>+\$25</b>

(1) Includes EBITDA from Quad folding carton facility acquisition

(2) Other primarily includes inflation associated with insurance and property taxes

(3) Cash interest range assumes Company executes two acquisitions of \$250M of minority interest in 2020

# ADDITIONAL 2020 GUIDANCE

	<b>2019 Actual</b>	<b>2020 Guidance</b>
Pension Expense/(Income) <sup>(1)</sup> <i>(includes pension amortization)</i>	\$16M	\$14M
Depreciation & Amortization <sup>(2)</sup> <i>(excluding pension amortization)</i>	\$447M	\$455M-\$465M
Pension Amortization	\$10M	\$5M
Effective Tax Rate (Normalized)	25.8%	24%-26%
Year End Net Leverage Ratio	2.6x	2.5-3.0x

(1) Pension expense for 2019 excludes \$39.2 million non-cash pension plan settlement charge. Pension expense guidance for 2020 excludes approximately \$150 million non-cash pension plan settlement charge.

(2) D&A 2019 actual includes \$4.7M of accelerated depreciation related to exit activities. D&A 2020 guidance range excludes approximately \$20M of accelerated depreciation related to exit activities.

# GPK/IP PARTNERSHIP

## INITIAL \$250M ACQUISITION RESULTS IN A 4% REDUCTION IN TOTAL PARTNERSHIP UNITS

GPK/IP Partnership Units	As of 12/31/19	% of Ownership Interest	As of 01/31/20	% of Ownership Interest
GPK Units	290.2	78.4%	290.2	81.7%
IP Units	79.9	21.6%	64.8	18.3%
Total	370.1	100.0%	355.0	100.0%

## TIMING AND LIQUIDITY

- Acquiring initial \$250M of minority ownership interest per the agreement
- 15.1M partnership units at a price of \$16.50
- To be funded from domestic revolving credit facility by 01/31/20
- Next potential \$250M transaction is July 2020 per the agreement
- Assuming IP continues to reduce the ownership interest per the agreement, GPK does not expect to be a material U.S. Federal cash taxpayer until 2024

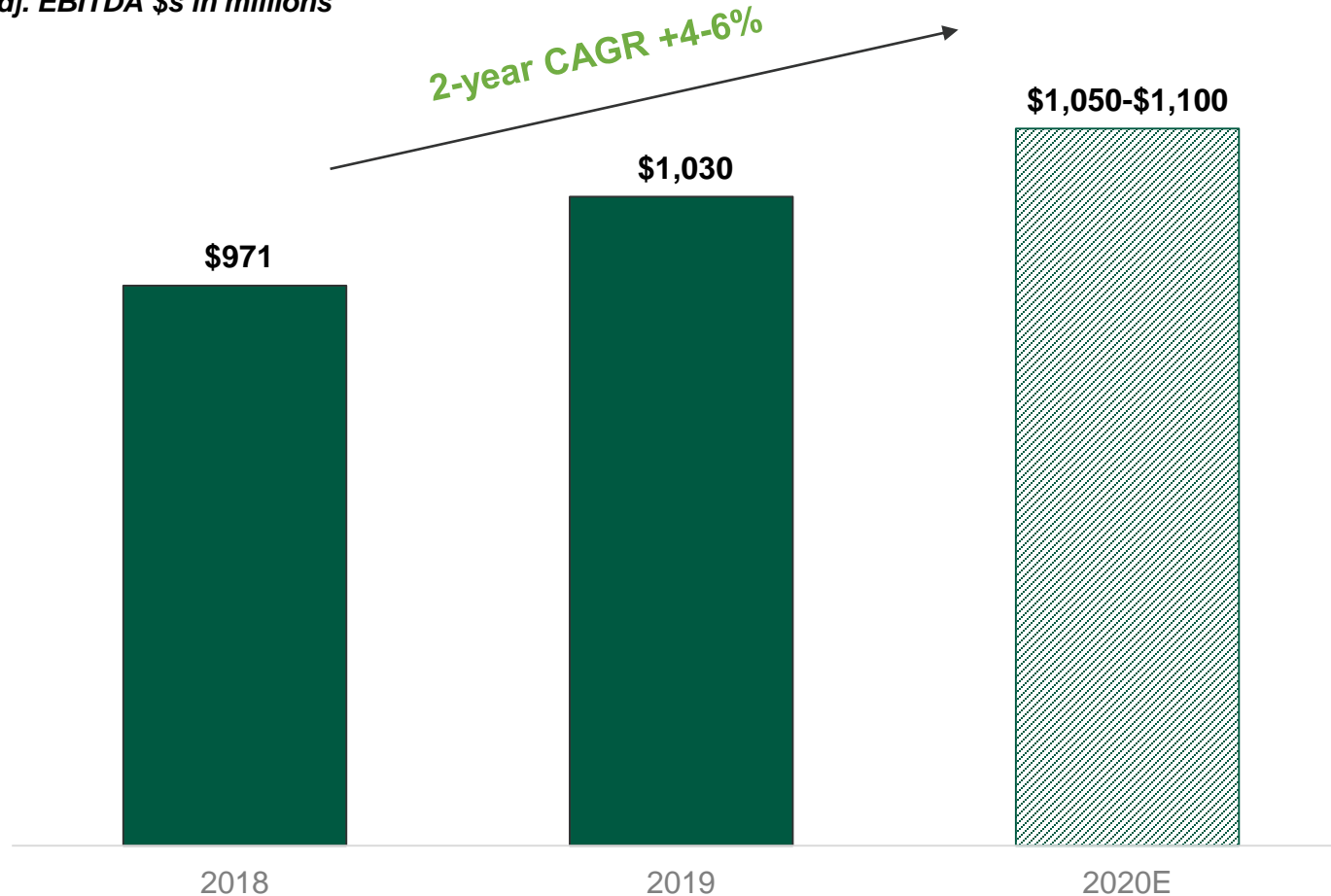
# U.S. PENSION PLAN SETTLEMENT

## MITIGATING EXPOSURE to MARKET and DEMOGRAPHIC CHANGES

- Settling approximately \$900M in pension obligations related to its largest U.S. pension plan
- Approximately \$150M in pension obligations settled through lump sum payments in Q4 2019
- Approximately \$750M in pension obligations to be transferred to annuity provider in Q1 2020
- Non-cash settlement charge of \$39M in Q4 2019 related to lump sum payments; anticipate a non-cash settlement charge of approximately \$150M in Q1 2020 related to the transfer of the liability to the annuity provider

# MULTIPLE EBITDA GROWTH DRIVERS – ANNUALIZED ADJ. EBITDA >\$1B

Adj. EBITDA \$s in millions



## EBITDA GROWTH DRIVERS

- Price/commodity input cost recovery
- 100 to 200 basis points of net organic volume growth
- Productivity greater than labor/benefits inflation
- Strategic capital investments in the business to drive significant cost reduction
- Strategic M&A to drive paperboard integration rates at returns above the cost of capital

# APPENDIX



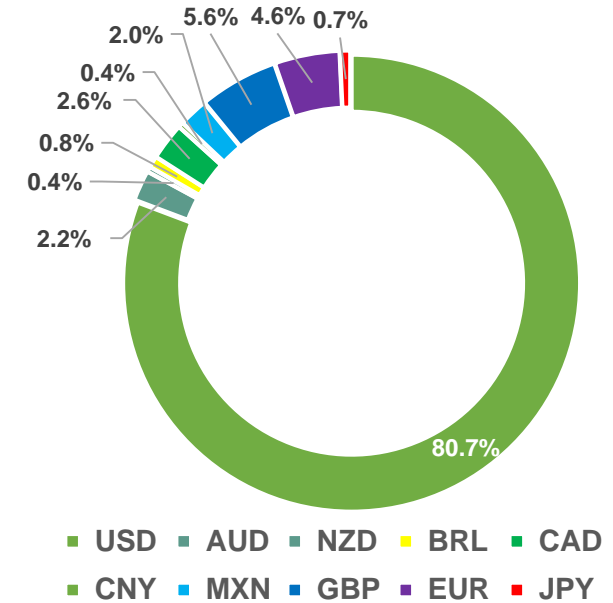
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# SUPPLEMENTAL INFORMATION

## COMMODITY ANNUAL CONSUMPTION

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

## 2019 REVENUE BY CURRENCY







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