

# Second Quarter 2020 Earnings Call



Graphic Packaging  
INTERNATIONAL

July 21, 2020

**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

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Any statements of the Company's expectations in these slides, including but not limited to expectations regarding 2020 Adjusted EBITDA and cashflow (including expectations for certain components thereof), timing and commercialization of PaperSeal™, reductions in costs due to CRB mill consolidation, the cost impact of mill market and maintenance downtime, pension expense, depreciation and amortization, pension amortization, 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, the effects of the COVID-19 pandemic on the Company's operations and business, 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.

## NON-GAAP FINANCIAL MEASURES

This presentation includes certain financial measures that exclude or adjust for charges or income associated with business combinations, facility shutdowns, extended mill outages, sales of assets and other special charges or income. The Company's management believes that the presentation of these financial measures provides useful information to investors because these measures are regularly used by management in assessing the Company's performance. These financial measures are not calculated in accordance with generally accepted accounting principles in the United States ("GAAP") and should be considered in addition to results prepared in accordance with GAAP, but should not be considered substitutes for or superior to GAAP results. In addition, these non-GAAP financial measures may not be comparable to similarly-titled measures utilized by other companies, since such other companies may not calculate such measure in the same manner as we do. A reconciliation of these measures to the most relevant GAAP measure is available in our latest earnings press release which can be found in the Investors section on the Graphic Packaging website at [www.graphicpkg.com](http://www.graphicpkg.com).

## Q2 2020 HIGHLIGHTS



- Solid Financial Performance Driven by Acquisitions, 1.5% Net Organic Sales Growth and Strong Operational Execution in Challenging COVID-19 Environment
- Agility, Preparedness and Focus on Employee Safety Resulted in Best-in-Class Customer Service and Continuity of Supply
- Paperboard Integration Rate Improved 200 Basis Points from 68% in 2019 to 70% YTD 2020
- Delivered Positive Net Productivity of \$15 Million before Incurring \$25 Million Net Negative Impact from Planned Increased Maintenance Outages Compared to Q2 2019
- Critical Investments and Strategic Actions Remain On Track
  - Kalamazoo CRB Investment On Time and On Budget
  - White Pigeon CRB Mill Closed & PM1 Containerboard Machine Shut Down
- Maintained Significant Balance Sheet Strength and Flexibility with \$1.4 Billion of Global Liquidity
- Reinstating Guidance: Adj. EBITDA \$1.05 to \$1.09 Billion; Adj. Cash Flow \$200 to \$275 Million

# COVID-19 HEALTH AND SAFETY STANDARDS

## EMPLOYEES

- Following all CDC guidelines
- Paid \$5M in one-time payments to front-line production employees in Q2
- Plexiglass barriers installed on production lines
- Temperature scanners in place
- Face masks provided to all production employees
- Breakrooms reconfigured for greater separation
- Employees monitoring temperature / staying home if sick

## CUSTOMERS

- Delivering industry best customer service levels
- Strengthening long-term partnerships
- Collaborating with customers to modify paperboard substrates to meet increased demand levels
- Successfully executing virtual qualification trials where needed
- 97% OTIF (On Time & In Full); delivering supply chain continuity across the Food, Beverage, Consumer and Foodservice markets

## COMMUNITIES

- Adhering to local, state and regional government guidelines
- Completed \$500K in contributions to local food banks in every community with GPK manufacturing operations
- Working with government administrations and industry associations on safety executive orders
- Organizing volunteer opportunities with local and national philanthropies to support communities with GPK operations

# Q2 2020 FINANCIAL RESULTS

(US\$ M)	Q2 2020	Q2 2019	% Chg
Net Sales	\$1,611	\$1,553	+4%
Adj. EBITDA	\$260	\$267	-3%
Adj. EBITDA Margin	16.1%	17.2%	-110bps
Adj. EPS	\$0.26	\$0.24	+8%
Global Liquidity	\$1,413	\$1,459	

## STRONG FINANCIAL PERFORMANCE

- Net Sales up 4% y/y
  - Net Organic Sales up 1.5% y/y
- Adj. EBITDA \$260M
  - Positive price, commodity input cost deflation, and productivity offset by net \$25M y/y in increased planned maintenance outages and labor and benefits inflation
- Adj. EBITDA Margin 16.1%
- Adj. EPS \$0.26 up 8% y/y
- \$1.4B in Global Liquidity

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

# Q2 2020 SUMMARY

## FINANCIAL PERFORMANCE

- Q2 net sales \$1.6B, up 4% y/y
  - Food, Beverage & Consumer sales up 13% y/y (up 6% before acquisitions)
  - Foodservice sales down 20% y/y
- Q2 pricing of \$5M and net commodity input cost deflation of \$10M; \$46M positive price/cost relationship YTD
- Q2 net productivity of \$15 million driven by cost efficiencies, benefits from capital projects and synergies, offset by net \$25M in planned increased maintenance outages
- Q2 Adj. EBITDA \$260M
- Q2 Adj. EPS \$0.26, up 8% y/y
- Q2 net leverage ratio of 3.3x
- Reinstating 2020 Adjusted EBITDA and Cash Flow guidance of \$1.05-\$1.09B and \$200-275M, respectively

## MARKETS & OPERATIONS

- Q2 net organic (integrated) sales up 1.5% y/y
  - 150 basis points of sales growth consistent with the 100-200 basis point goal established with Vision 2025
  - YTD 2020, net organic sales up 3% y/y
  - Q2 net organic sales growth driven by at-home food / beverage consumption and new product development more than offsetting foodservice declines
- AF&PA Q2 operating rates for both CRB and SBS of 97%, GPK Q2 CUK operating rate 95%+
- Backlogs at 5+ weeks for CUK and CRB, and 4 weeks for SBS

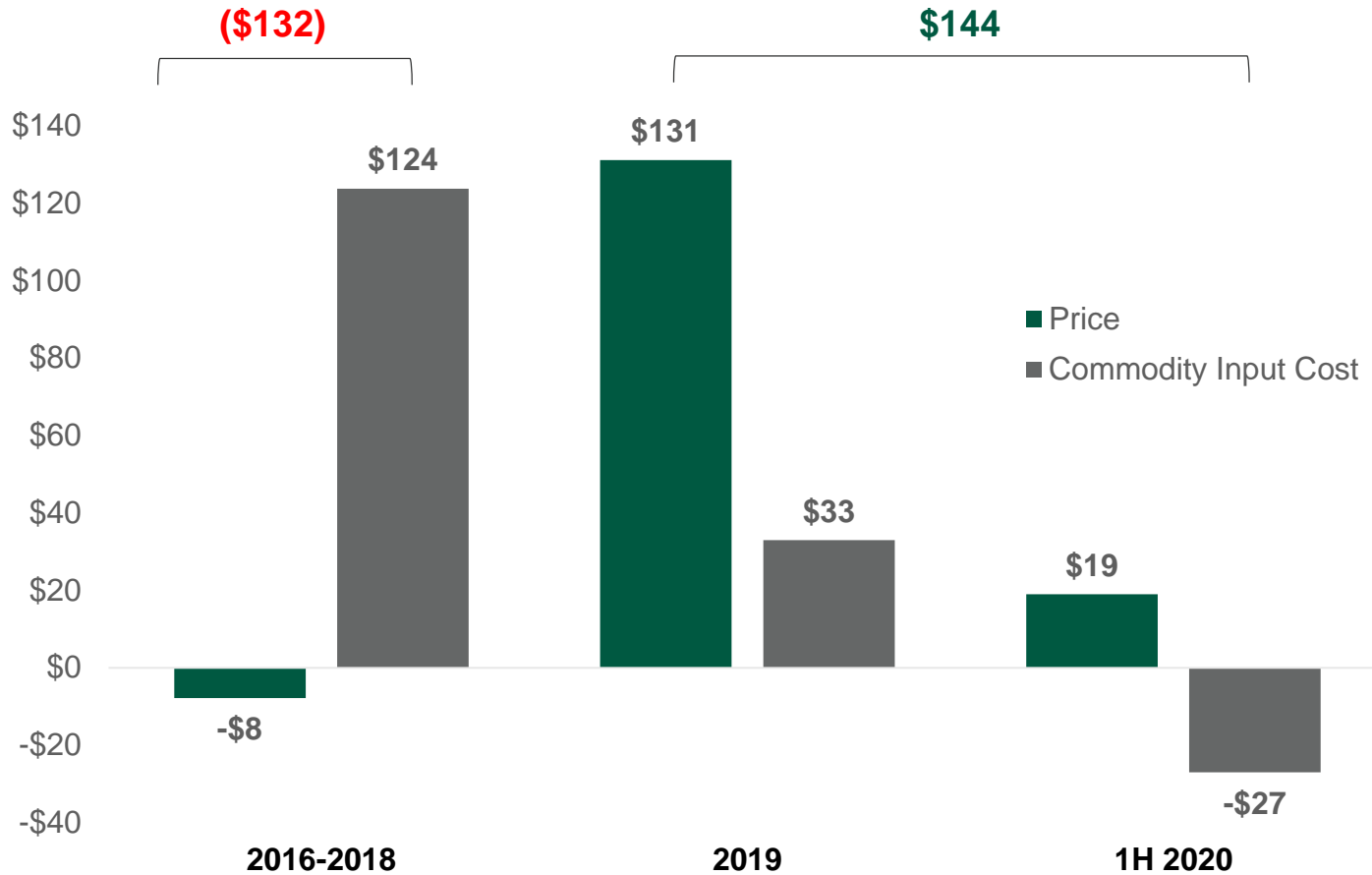
## CAPITAL ALLOCATION

- Invested \$154 million in capital expenditures in Q2, including ongoing investment in Kalamazoo supporting \$600M strategic CRB platform investment
- Integration of acquisitions continue on plan; rationalizing 2 converting facilities in North Carolina and California, and moving production to lower cost facilities
- Repurchased \$38M in shares during Q2; returned \$65M total to stakeholders through share repurchases, dividends and partnership distributions
- Significant liquidity and balance sheet flexibility



# COMMITTED TO PRICE OFFSETTING COMMODITY INPUT COST INFLATION; FULLY RECOVERED 2016-2018 PRICE/COMMODITY INPUT COST DISLOCATION

\$s in millions



## PRICE / COST RECOVERY

- \$132M price / commodity input cost dislocation from 2016-2018
- \$144M price / commodity input cost recovery in 2019-2020 YTD
- Contractual pricing lags reduced from 9 months to 6 months

# DEMAND FOR SUSTAINABLE PACKAGING CONTINUES NEW MARKETS / NEW PRODUCT DEVELOPMENT



## PaperSeal™

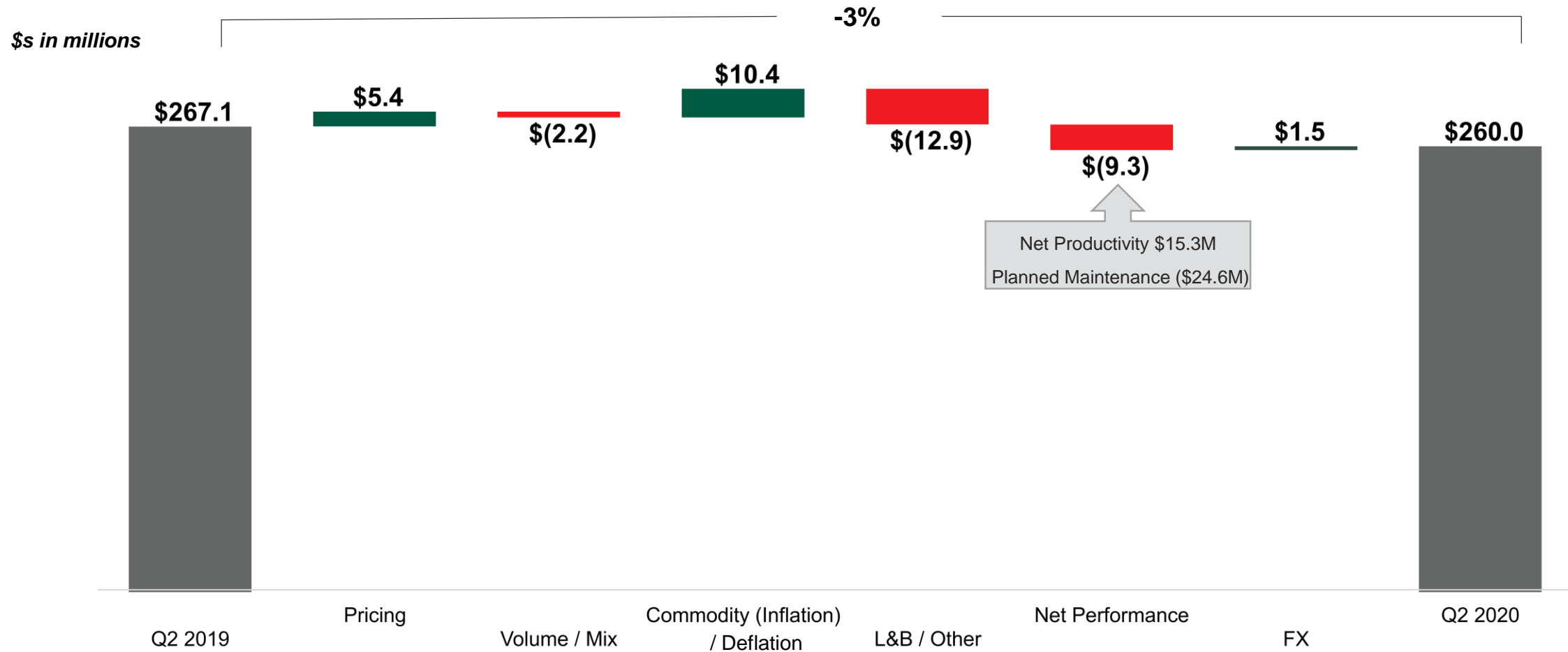
- PaperSeal offers brands and retailers a new barrier-lined paperboard alternative, increasing food tray recyclability
- Customer programs underway with positive results
- Europe & Australia commercialized; expect to be commercialized in North America in 2021
- Large \$1B total market opportunity
- Range of applications including proteins, cheeses, frozen foods, snacks, salads and fruits



# Q2 2020 NET SALES PERFORMANCE

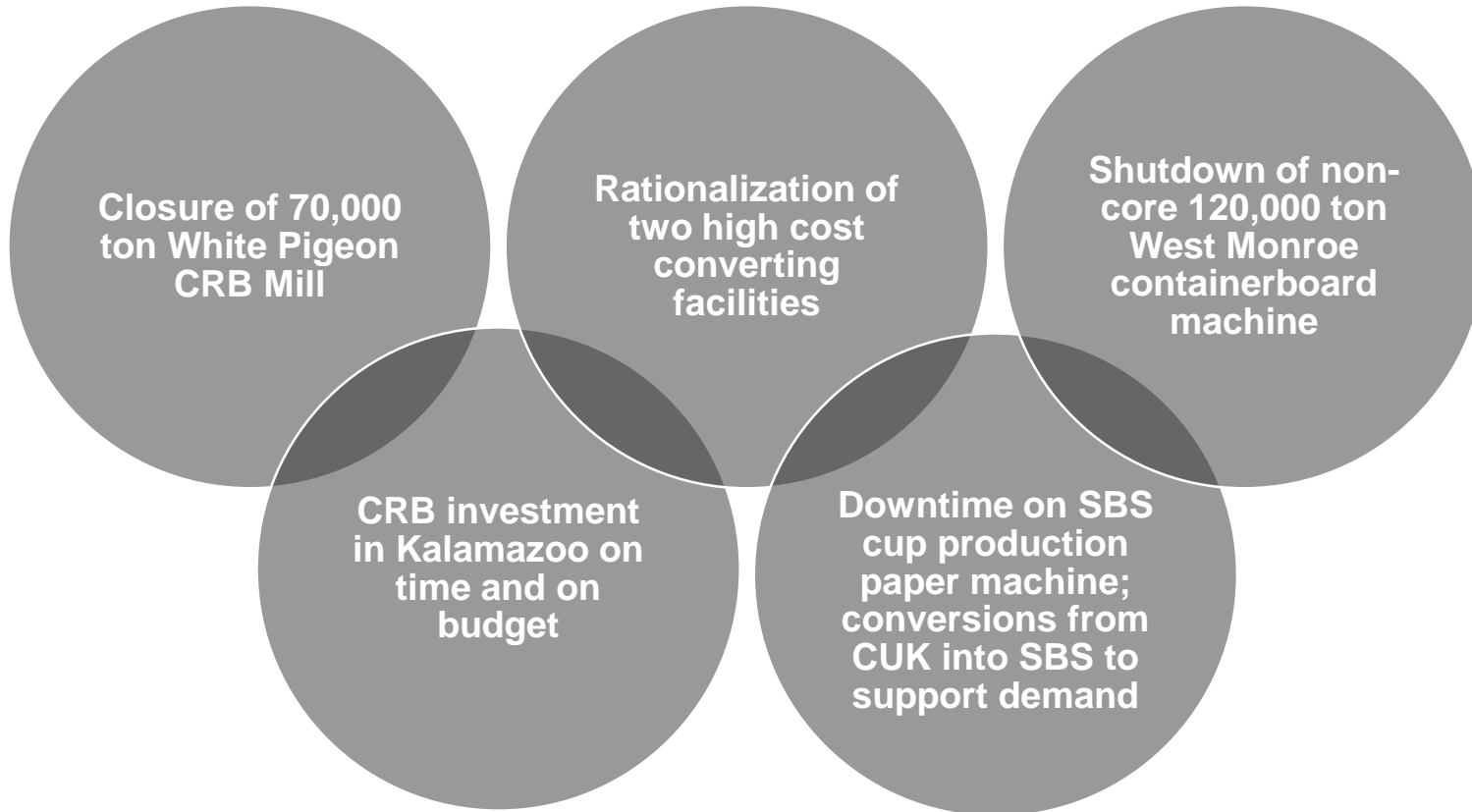


# Q2 2020 ADJUSTED EBITDA PERFORMANCE



# ACCELERATING STRATEGIC ACTIONS

## CONSOLIDATION / OPTIMIZATION



## FINANCIAL & BUSINESS IMPACT

- Working capital improvements in 2H as inventory is worked out of the system
- Long-term operating leverage through ongoing cost reduction, facility rationalization, and maximizing volume in lower cost facilities
- Matching our paperboard supply with demand / taking market downtime where needed
- CRB mill consolidation expected to yield \$100M reduction in annual fixed and variable costs in 2022 / 2023

# INTERNATIONAL PAPER PARTNERSHIP MONETIZATION ILLUSTRATION: \$250M TRANSACTION FOR GPK SHARES OR DEBT

## OPTIONALITY IN PARTNERSHIP MONETIZATION

	Actual 2019 Results (Before \$250M Conversion)	\$250M Conversion Utilizing GPK Shares / Hypothetical Impact on 2019 Results	\$250M Conversion Utilizing Debt / Hypothetical Impact on 2019 Results
Adj. EBITDA	\$1,030M	\$1,030M	\$1,030M
Net Debt - 12/31/19	\$2,720M	\$2,720M	\$2,970M
Net Leverage Ratio - 12/31/19	2.64x	2.64x	2.88x
Adj. Net Income	\$345M	\$345M	\$342M
Adj. Net Income Attributable to GPHC	\$256M	\$270M	\$266M
Adj. EPS	\$0.87	\$0.87	\$0.90
GPK Shares Issued & Outstanding – 12/31/19	290.2	305.3	290.2
IP Partnership Units	<u>79.9</u>	<u>64.8</u>	<u>64.8</u>
Total GPK Shares/IP Units	370.1M	370.1M	355.0M
IP Ownership	21.6%	17.5%	18.3%

# REINSTATING 2020 ADJUSTED EBITDA AND CASH FLOW GUIDANCE

## Adjusted EBITDA \$1,050M - \$1,090M

### EBITDA Components

Price	\$0M – \$20M
Volume	\$0M – \$20M
Commodity Input Costs <sup>(1)</sup>	\$10M – \$30M
Net Performance	\$60M – \$80M
L&B / Other <sup>(2)</sup>	(\$50M – \$60M)
FX <sup>(3)</sup>	(\$10M – \$15M)

## Cash Flow \$200M - \$275M

### Cash Flow Components

Cap Ex	(~\$625M)
Interest	(\$125M – \$135M)
Tax	(\$30M – \$40M)
Working Capital	\$0 – \$50M
Pension	(\$10M – \$20M)

(1) Represents input cost deflation

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

(3) FX range at current rates

# APPENDIX



Graphic  
Packaging



# 2020 OUTAGE COST IMPACT AND SUPPLEMENTAL INFORMATION

## Net Outage Cost Impact Y/Y

**Changes (\$M) : SBS Mill Market Downtime in Q3;  
Macon Maintenance Outage Moved to Q4**

	Q1	Q2	Q3	Q4
Last Schedule	\$0	(\$28)	\$0	+\$25
Maintenance Timing			+\$12	(\$14)
Market Downtime			(\$12)	
Current Schedule	\$0	(\$25)	\$0	+\$11

	2019 Actual	2020 Guidance
Pension Expense/(Income) <sup>(1)</sup> (includes pension amortization)	\$16M	\$14M
Depreciation & Amortization <sup>(2)</sup> (excluding pension amortization)	\$447M	\$460M
Pension Amortization	\$10M	\$6M
Effective Tax Rate (Normalized)	25.8%	24%-26%

(1) Pension expense for 2019 excludes \$39.2 million non-cash pension plan settlement charge. Pension expense guidance for 2020 excludes \$152.5M non-cash pension plan settlement charge.

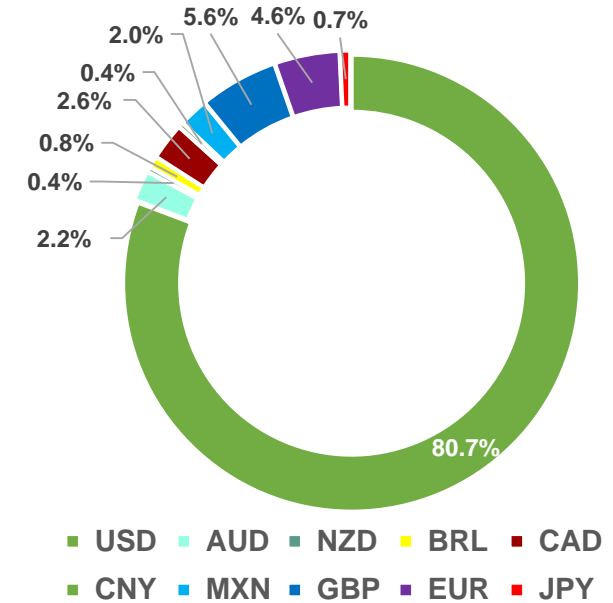
(2) D&A 2019 actual includes \$4.7M of accelerated depreciation related to exit activities. D&A 2020 guidance range excludes approximately \$26M of accelerated depreciation related to exit activities.

# SUPPLEMENTAL INFORMATION

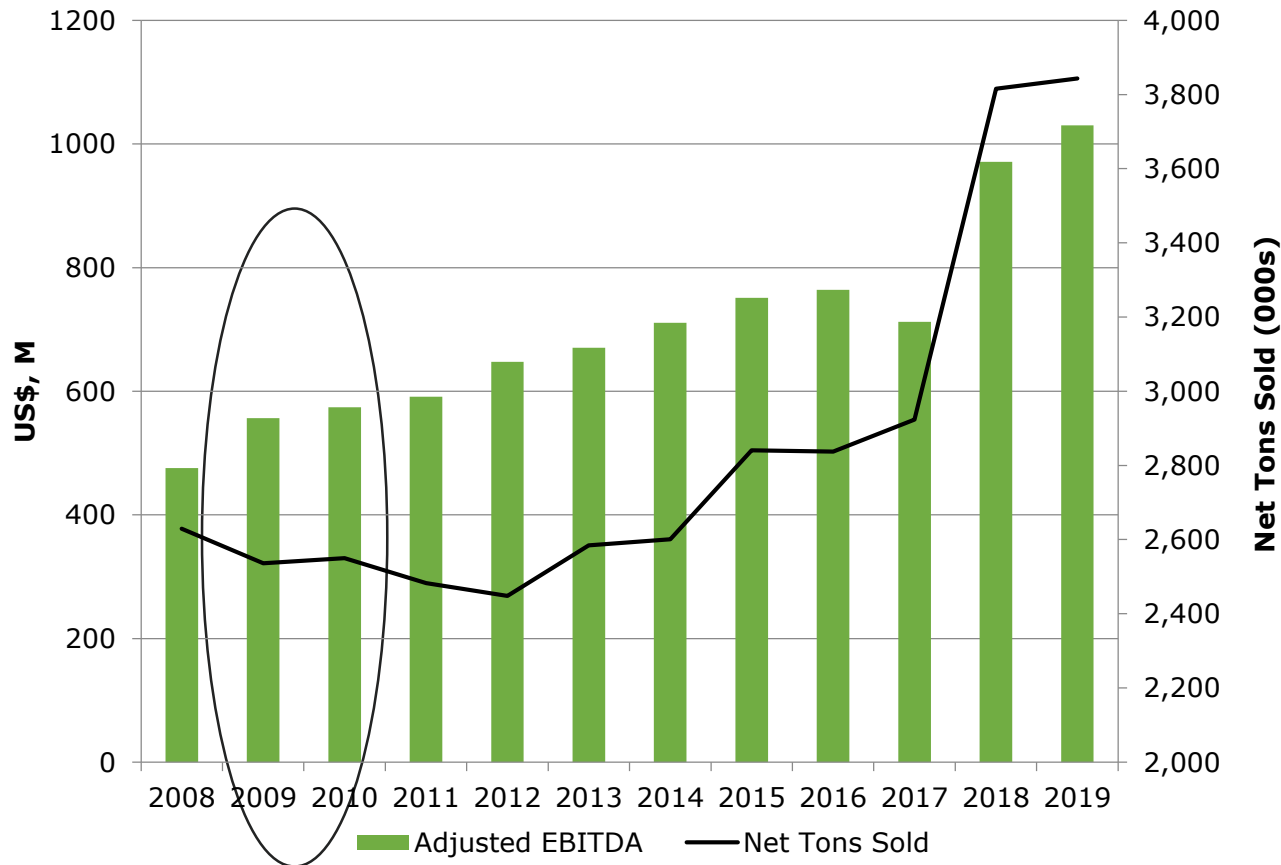
## COMMODITY ANNUAL CONSUMPTION

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



# RECESSION RESISTANT MODEL HISTORICALLY



## Last Recession - What happened in 2009?

Core folding carton volume declined 3.6%

Adj. EBITDA improved \$81M y/y to \$556 million or 14%

- \$54M increase in Adj. EBITDA y/y driven by positive price/cost relationship, productivity, synergy realization
- \$27M increase in acquired Adj. EBITDA

SBS industry demand down mid-to-high single digits in 2009, largely recovered in 2010<sup>(1)</sup>

(1) As reported by AF&PA; GPK did not own SBS assets until January 2018



Graphic  
Packaging