



# **BUILDING LONG-TERM VALUE**



**Q1 2019 FINANCIAL RESULTS**

May 10, 2019



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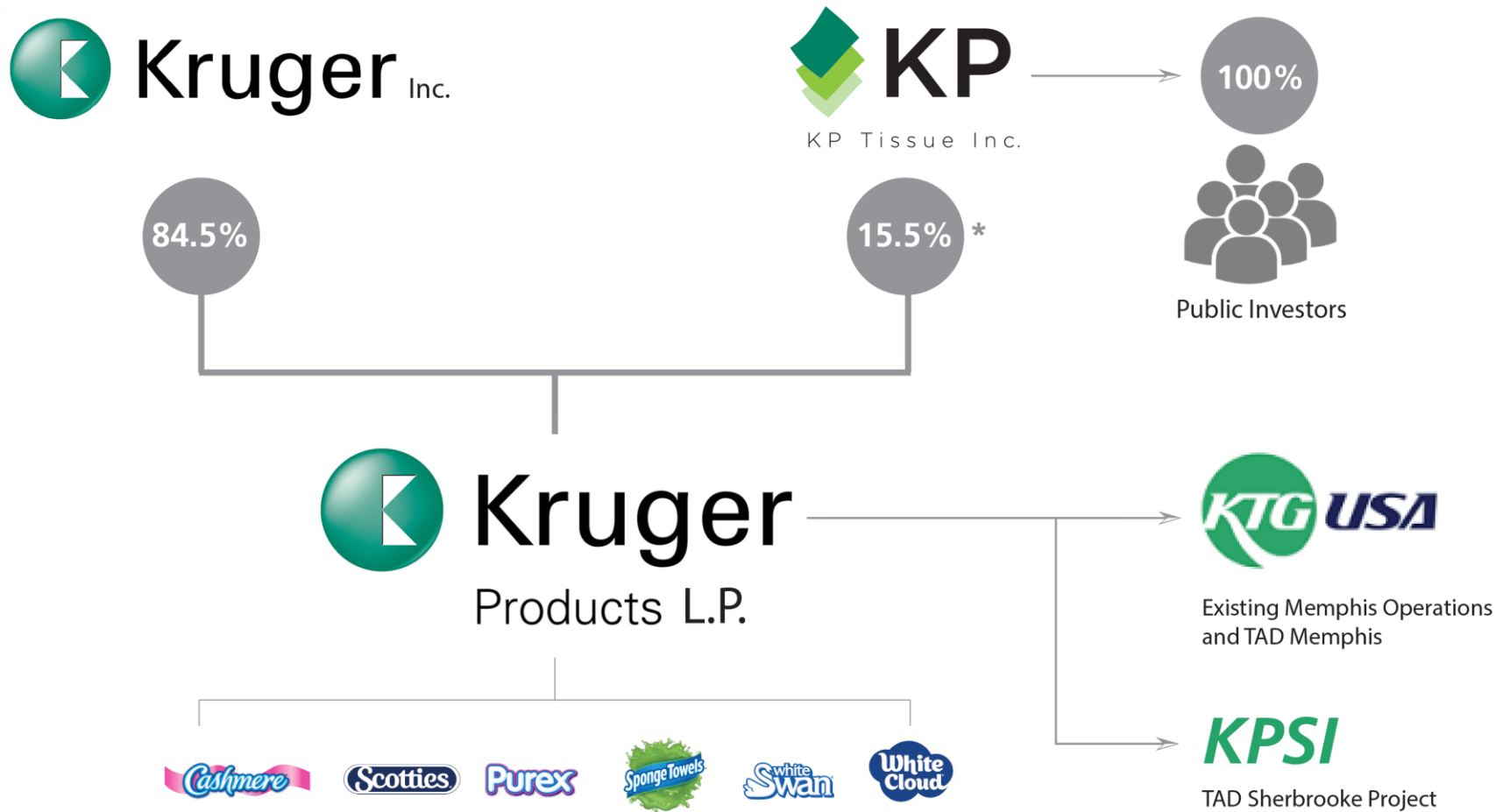
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Unless otherwise stated, references in this presentation to market shares or KPT's market leadership are based on Nielsen dollar market share data and management estimates.

**The following presentation is to review Kruger Products L.P.  
Q1 2019 financial results**

# Corporate Structure



\*As of May 10, 2019 (15.7% as of March 31, 2019).

# Kruger Products Overview

1

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**Canada's Leading  
Tissue Company**

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**Strong Customer  
Relationships**

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3

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**Broad Manufacturing  
Infrastructure**

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**Solid Cash Flow  
Generation**

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5

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**Prudent Growth  
Strategy**

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6

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**Experienced  
Management Team**

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# Q1 2019 Highlights

**\$351.0 M**

Revenue



**8.4%\***

over 2018

The increase in revenue was primarily due to the favourable impact of the Consumer Canada price increase implemented in Q4 2018 and higher sales volume



**+ 4.6%**



**+10.4%**

**\$23.6 M**

Adjusted EBITDA<sup>1</sup>



**23.2%**

over 2018

- Primarily due to significantly higher fibre costs, increased warehousing costs, outsourced manufacturing combined with unfavourable sales mix and foreign exchange
- Partially offset by the Q4 2018 Canada Consumer selling price increase, higher sales volume and lower SG&A

**(\$3.2) M**

Net Loss



**\$4.8 M**

over 2018

Net loss of \$3.2 million compared to net income of \$1.6 million a year ago, a decrease of \$4.8 million.

\* Includes 33.4% increase in revenues for Mexico to \$26.0 million, which is a low contribution business.

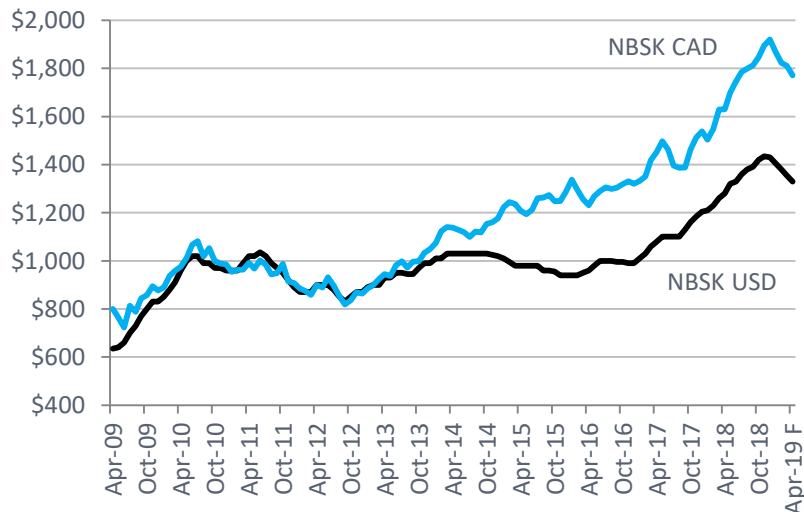
<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure. Q1 of Fiscal 2018 has been restated to reflect IFRS 16 Lease accounting. Refer to the Appendix and MD&A for more information.

# Pulp Input Prices

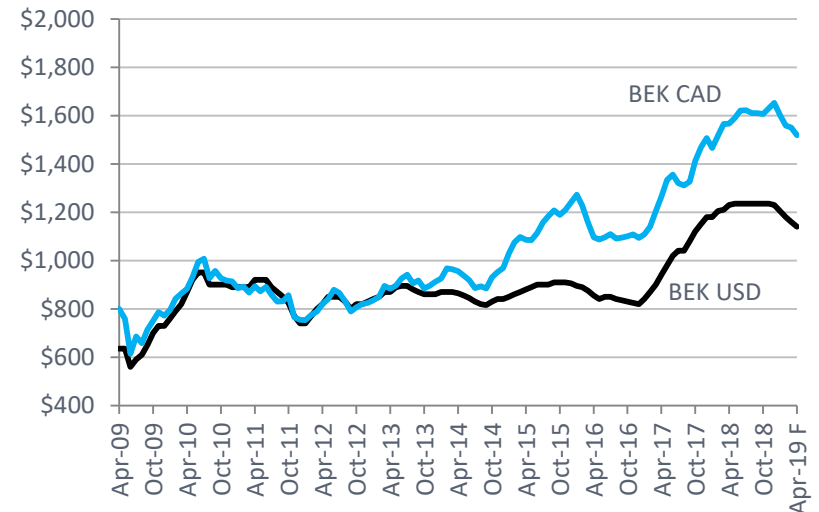
Q1 2019 market pulp prices rose year-over-year in CAD, but decreased sequentially (NBSK -3.0% and BEK -4.0% in CAD) compared to Q4 2018.

Pulp prices in USD have moderated in Q1 2019 and based on industry forecasts, are expected to remain in a similar range in 2019. The volatile CAD will create further fluctuations in pulp input costs.

**NBSK North American List Prices per MT  
(Q1 2019 +18% YOY in CAD)**



**BEK List Prices per MT  
(Q1 2019 +4% YOY in CAD)**

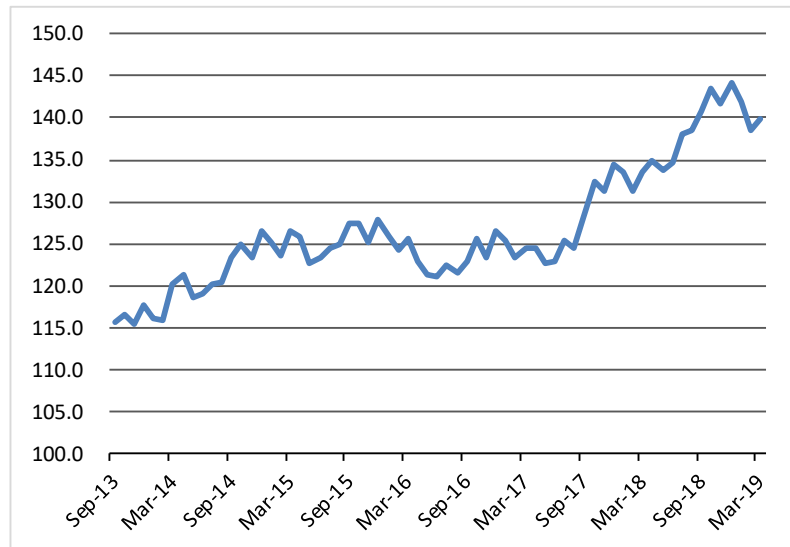


(USD average 1.33 in Q1 2019 compared to 1.26 in Q4 2018)

# Freight Cost Index

Freight costs have risen significantly since the beginning of 2017 and reached an all-time high in Q4 2018. Management expects these costs to remain high in 2019, however they softened somewhat in Q1 2019.

## Cass Truckload Linehaul Index™ (Q1 2019 +4.8% YOY)



Source: Cass Information Systems, Inc.

The Cass Truckload Linehaul Index™ is an accurate, timely indicator of market fluctuations in per-mile truckload pricing. The index isolates the linehaul component of full truckload costs from other components (e.g. fuel and accessorials), providing an accurate reflection of trends in baseline truckload prices.

Data within this unique index is derived from actual freight invoices paid on behalf of Cass' clients. The index uses January 2005 as its base month.



# Price Increases

## Consumer business

- New price increase announced in Canada consumer business in July 2018 took effect in Q4 2018, with full market impact in Q1 2019
- US consumer price increase announced in late Q4 will benefit 2019 and gain traction starting in Q2

## AFH business

- An additional price increase announced in AFH business, in Canada and in the US, effective May 1<sup>st</sup>, 2019. Considering contractual agreements with customers, the benefits will materialize over several quarters



# Network Savings

## 2019 – Continued new initiatives to improve margins

### Operational excellence initiative

- Currently implementing an Operational Excellence project with a 3<sup>rd</sup> party consultant
- Started in February 2019 with initial focus on two lead facilities. Also advancing AFH facilities timeline considering performance
- Starting to implement lean manufacturing practices. Improving lead indicators such as reduced unplanned downtime and waste, and increasing asset speed. Financial results will continue to build over time
- Also implementing a logistics project with another partner to drive down freight and warehousing costs
- Combined savings target of \$15 to \$20 million on a run-rate basis, by the end of 2020

# TAD Sherbrooke Project Update

- On time and on budget, progressing against our execution plan
- Governance structure in place
- Excavation started this spring
- Purchased or contracted for most of the assets required for the Project
- Starting selling process:
  - Strong interest from existing and new North American customers



**A Canadian flagship for innovation,  
clean manufacturing technology  
and sustainable products**

# Quarterly Financial Summary

(Million CAD\$, unless otherwise noted)	Q1 2019	Q4 2018 Restated	Q1 2018 Restated	% Change	
				Y/Y	Q/Q
<b>Revenue</b>	<b>351.0</b>	<b>359.5</b>	<b>323.7</b>	<b>8.4%</b>	<b>(2.4)%</b>
Cost of Sales	<b>320.1</b>	<b>327.3</b>	<b>286.0</b>		
Gross Profit	<b>30.9</b>	<b>32.2</b>	<b>37.7</b>	(18.0)%	9.6%
Gross Margin	<b>8.8%</b>	<b>9.0%</b>	<b>11.6%</b>		
<b>Adjusted EBITDA<sup>1</sup></b>	<b>23.6</b>	<b>24.5</b>	<b>30.7</b>	<b>(23.2)%</b>	<b>(3.7)%</b>
Adjusted EBITDA Margin <sup>1</sup>	<b>6.7%</b>	<b>6.8%</b>	<b>9.5%</b>		
Net Income (Loss)	<b>(3.2)</b>	<b>38.1</b>	<b>1.6</b>		
Net Income (Loss) Margin	(0.9)%	10.6%	0.5%		

<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure. Q1 and Q4 of Fiscal 2018 have been restated to reflect IFRS 16 Lease accounting.

# Quarterly Segmented Results

				% Change	
(Million CAD\$, unless otherwise noted)	Q1 2019	Q4 2018 Restated	Q1 2018 Restated	Y/Y	Q/Q
Segmented Revenue <sup>1</sup>					
Consumer	296.2	300.9	270.2	9.6%	(1.6%)
AFH	54.8	58.6	53.5	2.4%	(6.5%)
Total Segment Revenue	351.0	359.5	323.7	8.4%	(2.4)%
Segment Adjusted EBITDA <sup>2</sup>					
Consumer	30.1	29.6	31.1		
AFH	(6.6)	(3.8)	0.3		
Other	0.1	(1.3)	(0.7)		
Total Segment Adjusted EBITDA <sup>2</sup>	23.6	24.5	30.7	(23.2)%	(3.7)%
Segment Adjusted EBITDA Margin <sup>2</sup>					
Consumer	10.2%	9.8%	11.5%		
AFH	(12.0)%	(6.5)%	0.5%		
Total Segment Adjusted EBITDA Margin <sup>2</sup>	6.7%	6.8%	9.5%		

<sup>1</sup>The Other segment previously included revenue and profit (loss) associated with the sales of parent rolls and recycled fibre. Any profit (loss) is now included in Consumer or AFH segments as appropriate. The Other segment currently includes certain corporate costs and timing adjustments for certain manufacturing costs included in inventory.

<sup>2</sup>Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure. Q1 and Q4 of Fiscal 2018 have been restated to reflect IFRS 16 Lease accounting.

# Q1 2019 Revenue Compared to Q1 2018

**\$27.3 M**

Q1 revenue increase



**8.4%\***

over Q1 2018

## Impacted by a combination of:

- Favourable impact of increased sales volume
- Consumer selling price increase implemented in Canada in Q4 2018
- Favourable impact of F/X fluctuations on U.S. sales (USD average 1.33 in Q1 2019 compared to 1.26 in Q1 2018)

## Geographic revenue segmentation



**\$8.8 M**



**\$12.0 M**



**+ 4.6%**  
Canada



**+ 10.4%**  
U.S.

- Includes \$6.5 M or 33.4% increase in revenues for Mexico, which is a low contribution business.

# Q1 2019 Adjusted EBITDA<sup>1</sup> Compared to Q1 2018

**\$7.1 M**

Q1 Adjusted EBITDA<sup>1</sup> decrease

**▼ 23.2%**

over Q1 2018

## Gross Margin

**8.8%**

Q1 2019

**11.6%**

Q1 2018

## Primarily due to the following factors:

- Significantly higher fibre costs
- Higher warehousing costs
- Cost of outsourced manufacturing
- Unfavourable sales mix
- Net unfavourable impact of foreign exchange fluctuations
- Partially offset by the Q4 2018 Canadian Consumer selling price increase, higher sales volume, and lower SG&A expenses

<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.  
Q1 of Fiscal 2018 has been restated to reflect IFRS 16 Lease accounting.

# Q1 2019 Revenue Compared to Q4 2018

**\$8.5 M**

Q1 revenue Decrease

**2.4%\***  
over Q4 2018

## Primarily due to the following factors:

- Consumer segment was down \$4.7 million or 1.6%
- AFH segment revenue decreased by \$3.8 million or 6.5%
- Q1 typically has seasonally lower sales volume than Q4

## Geographic revenue segmentation

**\$9.5 M**



**- 4.6%**  
Canada

**\$0.8 M**



**- 0.6%**  
U.S.

- Includes \$1.8 M or 7.3% increase in revenues for Mexico, which is a low contribution business.



# Q1 2019 Adjusted EBITDA<sup>1</sup> Compared to Q4 2018

**\$0.9 M**

Q1 Adjusted EBITDA<sup>1</sup> decrease

 **3.7%**

over Q4 2018

## Gross Margin

**8.8%**

Q1 2019

**9.0%**

Q4 2018

## Due to the following factors:

- Lower sales volume typical of Q1
- Cost of outsourced manufacturing
- Unfavourable impact of foreign exchange fluctuations
- Offset partially by slightly lower pulp costs

<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure. Q1 and Q4 of Fiscal 2018 have been restated to reflect IFRS 16 Lease accounting.

# Balance Sheet

(Million CAD\$, unless otherwise noted)	Q1 2019	Q4 2018
Cash	142.1	169.9
Current Portion of Long-term Debt	13.8	13.9
Long-term Debt*	590.8	564.0
<b>Net Debt</b>	<b>462.5</b>	<b>408.0</b>
LTM Adjusted EBITDA <sup>1</sup>	111.3	118.4
<b>Net Debt/LTM Adjusted EBITDA<sup>1</sup></b>	<b>4.2</b>	<b>3.4</b>

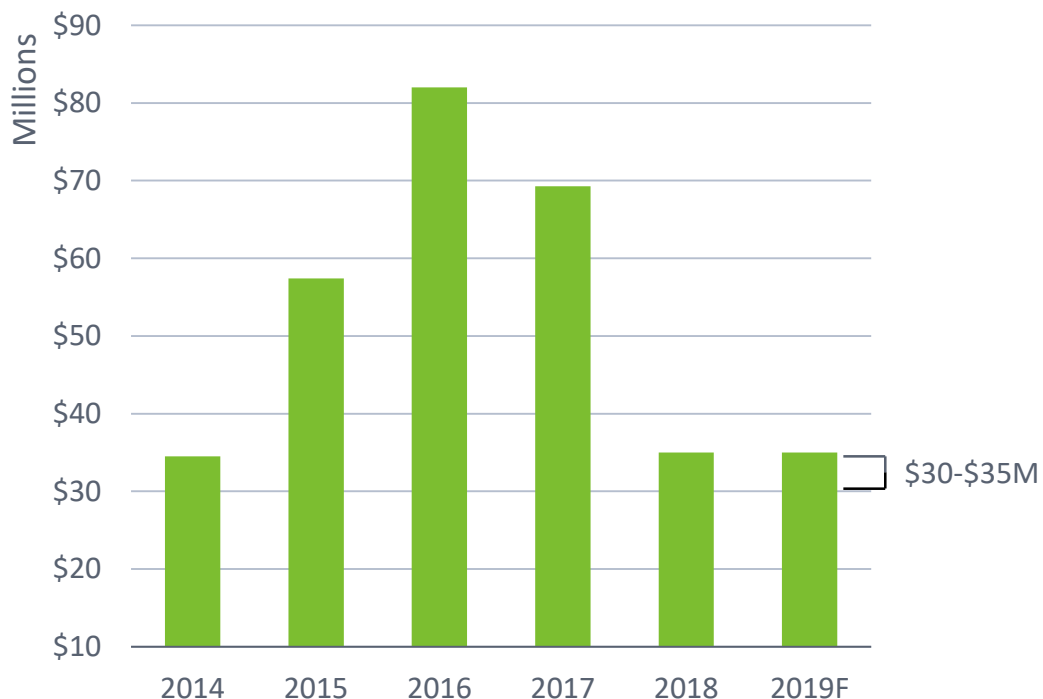
\* Long-term debt includes the TAD Sherbrooke Project financing related to the IQ debenture and Nordea 2 loan. Cash includes the proceeds from this financing net of spending to the end of Q1 on the TAD Sherbrooke Project, a cash balance of \$119.5 million.

<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.

# CAPEX

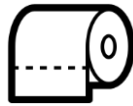


## CAPEX, excluding TAD Sherbrooke Project



- Q1 2019 CAPEX totalled \$18.5 million, including \$11.8 million related to the TAD Sherbrooke Project
- 2019 CAPEX, excluding TAD Sherbrooke, estimated at between \$30 and \$35 million
- 2019 TAD Sherbrooke CAPEX estimated at between \$250 and \$275 million

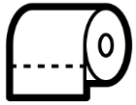
# Canada's Leading Tissue Company



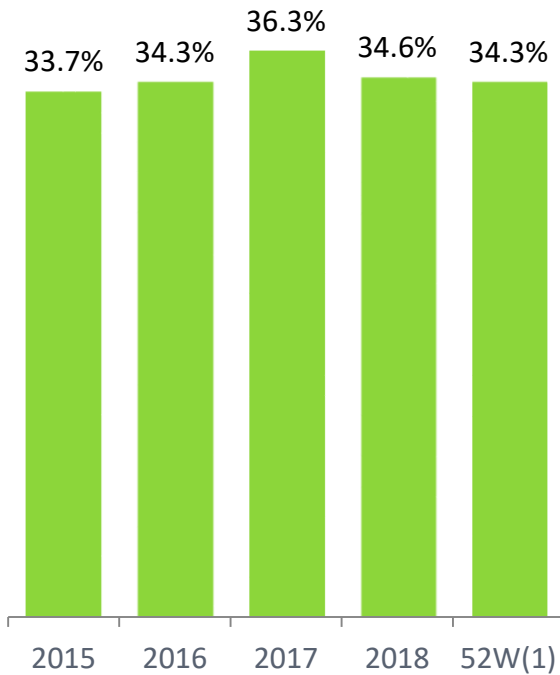
Bathroom Tissue	Facial Tissue	Paper Towel
<b>#1</b> <b>34.3%</b>	<b>#1</b> <b>31.9%</b>	<b>#2</b> <b>22.4%</b>
19.2%	18.8%	11.7%
10.4%	0.8%	33.0%
1.9%	18.0%	1.0%

Source: Nielsen; dollar market share for the 52-week period ended March 23 2019.

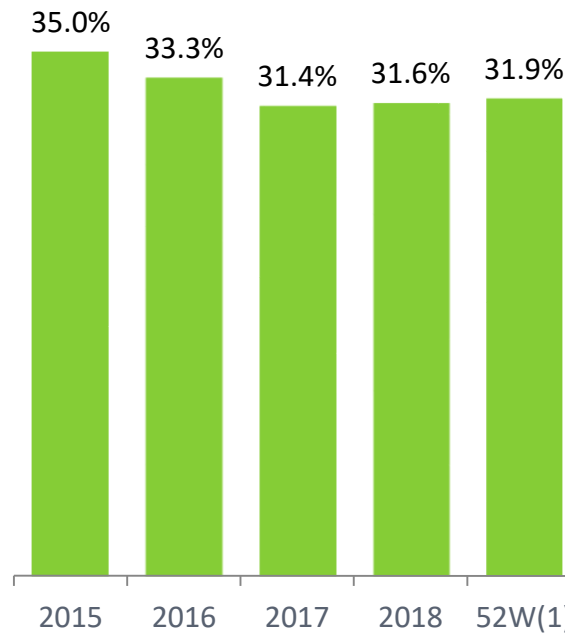
# Brand Leadership Position



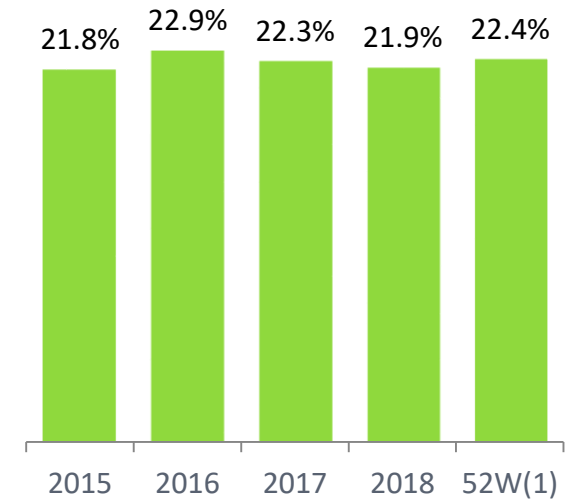
## #1 Bathroom Tissue



## #1 Facial Tissue



## #2 Paper Towel



Source: Nielsen Canadian dollar market share for 52-week period data.  
 (1) Represents the latest 12 months ending March 23, 2019.

## Resetting the AFH business to create a more efficient manufacturing and logistics footprint:

- Weak results were impacted by high pulp and freight costs, a competitive environment and outsourcing costs

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- Paper capacity constraints requires purchase of paper in open markets at higher costs. Variability of paper quality purchased has caused production and logistics inefficiencies. New paper suppliers should improve quality situation going forward

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- New price increase announced recently in Canada and the US effective May 1<sup>st</sup>, 2019. However, market remains very price competitive

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- Operational excellence project will benefit AFH facilities

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- Continued market and outsourcing costs will impact AFH in 2019 with improvements expected in second half of 2019

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# AN ALL-STAR LINEUP

Our exceptional team of premium Canadian-made products  
is now an official partner of the NHL®



OFFICIAL PARTNER

**We signed a multi-year  
partnership with the  
National Hockey League.**

This initiative will strengthen our  
Canadian roots with connection to  
hockey.



# Conclusion

**Despite on-going business challenges, solid performance of consumer segment continues and AFH performance being addressed**

- Continue to drive top line growth across all segments

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- Pricing all of our businesses to offset fibre costs and restore margins

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- Creating a more efficient and capable supply chain network. In the process of optimizing paper sourcing across the network

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- Taking focused short- and medium-term actions to improve AFH performance

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- Building ultra-premium capacity with our TAD Sherbrooke project

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- Investing to further strengthen our brands

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- Building our organizational capability and instilling the required culture to ensure we meet our needs going forward



Q&A

# Appendix

# TAD Sherbrooke Project

- Site location in Sherbrooke, Quebec in the Brompton area
- Total cost of C\$575 million
- Anticipate output of approximately 70,000 metric tonnes per annum
- Designed to allow paper towels to be manufactured at very high speeds
- Financial return of project driven by:
  - new volume
  - capitalizing on the expanded towel manufacturing capability
  - creating manufacturing efficiencies with TAD1 machine for the US market
- Ability to leverage the advantages created from the TAD1 project in Memphis
- Project will take 27 months from permitting through construction to start-up, which is expected in early 2021



<sup>1</sup> Please refer to MD&A for more information on TAD Sherbrooke Project in the Business Highlights section.

# TAD Sherbrooke Project Financing Overview<sup>1</sup>

- Financing structure is non-dilutive to KPT shareholders
- Newly-created, wholly-owned subsidiary of KPLP, Kruger Products Sherbrooke Inc. (KPSI)
- Financed by 60% debt (\$345 million) and 40% equity (\$230 million)
- 40% equity component is comprised of:
  - **\$125 million** from KPLP
    - ~\$63 million of long-term senior secured fixed debt
    - ~\$62 million from accounts receivable factoring and cash
  - **\$105 million** from convertible debenture with Investissement Québec with a capitalized fixed interest rate of 3% on a 10-year term
- Weighted average cost of capital for TAD Sherbrooke financing is expected to be in the 5-7% range
- Existing KTG has been refinanced with an 18 year term loan concurrently with the TAD Sherbrooke financing, with 7.3% maximum fixed interest rate

<sup>1</sup> Please refer to MD&A for more information on TAD Sherbrooke Project in the Business Highlights section.

# Restated Annual Segmented Results 2018

## IFRS 16 Lease Impact<sup>1</sup>

(Million CAD\$, unless otherwise noted)	2018	Restated 2018	\$ Change
<b>Segmented Revenue<sup>1</sup></b>			
Consumer	1,124.5	1,139.3	14.8
AFH	231.1	231.1	-
Other	14.8	-	(14.8)
<b>Total Segment Revenue</b>	<b>1,370.4</b>	<b>1,370.4</b>	<b>-</b>
<b>Segment Adjusted EBITDA<sup>2</sup></b>			
Consumer	119.6	132.3	12.7
AFH	(12.8)	(9.5)	3.3
Other	(4.5)	(4.5)	-
<b>Total Segment Adjusted EBITDA<sup>2</sup></b>	<b>102.3</b>	<b>118.3</b>	<b>16.0</b>
<b>Segment Adjusted EBITDA Margin<sup>2</sup></b>			
Consumer	10.6%	11.8%	
AFH	(5.5)%	(4.1)%	
<b>Total Segment Adjusted EBITDA Margin<sup>2</sup></b>	<b>7.5%</b>	<b>8.6%</b>	

<sup>1</sup> Restated 2018 for IFRS 16 Lease accounting. There was no impact on Revenue or Net Income. The impact shown above in Segmented Revenue is due to a change in the reporting of parent roll sales in the segmented information in Consumer rather than in Other.

<sup>2</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.



THANK YOU

