

KP Tissue Inc.

# **BUILDING LONG-TERM VALUE**



**Q1 2020  
FINANCIAL RESULTS**

May 8, 2020



# Forward-looking and cautionary statements

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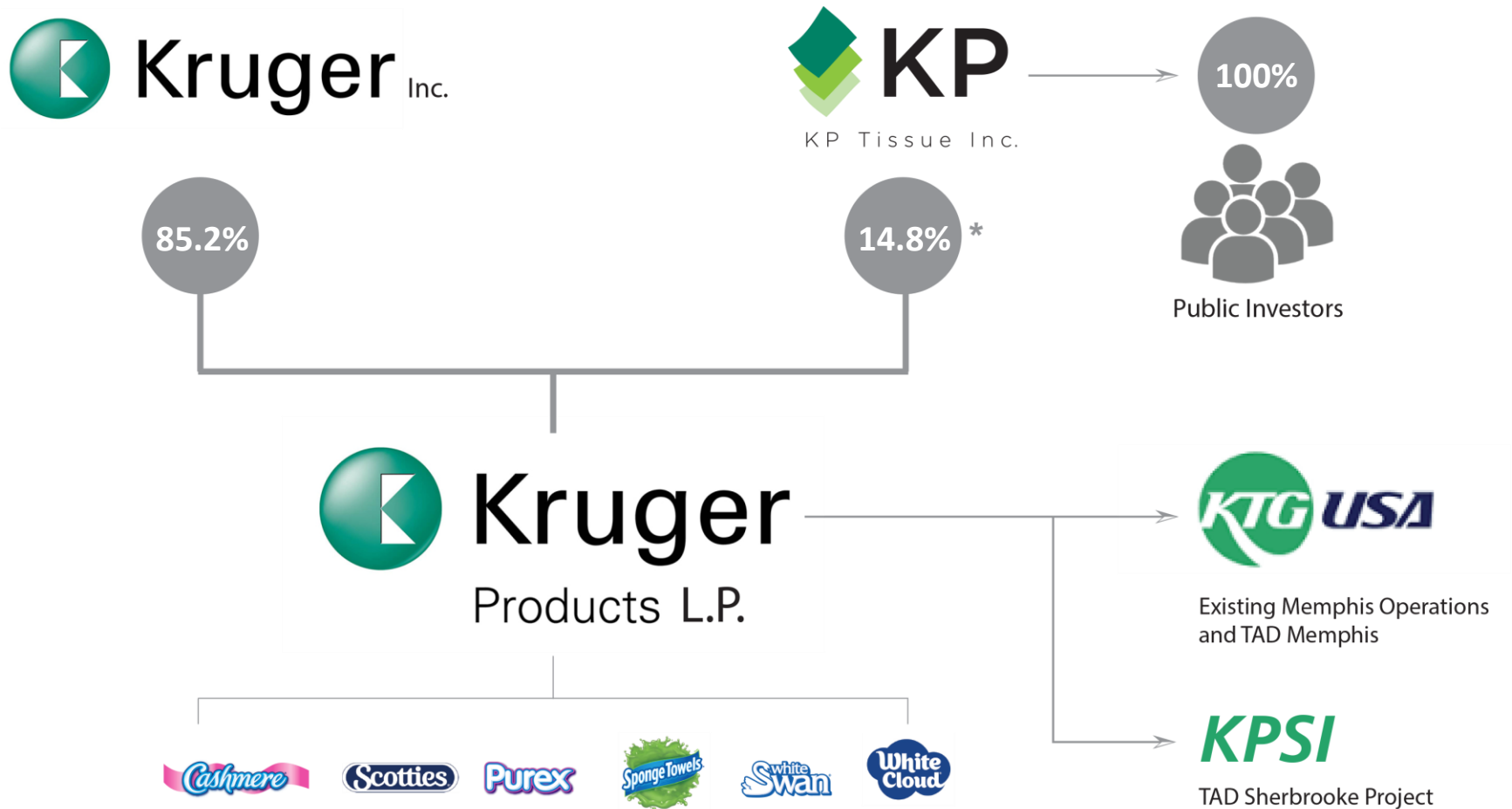
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Unless otherwise stated, references in this presentation to market shares or KPT's market leadership are based on Nielsen dollar market share data and management estimates. Please refer to the Company's MD&A for the complete Forward-looking and cautionary statements.

**The following presentation is to review Kruger Products L.P.  
Q1 2020 financial results**

# Corporate Structure



\*As of May 8, 2020 (15.0% as of March 31, 2020).

# Kruger Products Overview

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**Canada's Leading  
Tissue Company**

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**Strong Portfolio of Brands**

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**Strong Customer  
Relationships**

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**Broad Manufacturing  
Infrastructure**

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**Growth Focused**

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**Experienced  
Management Team**

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# Q1 2020 Highlights

**\$375.1 M**

Revenue

**6.9%\***

Over Q1 2019



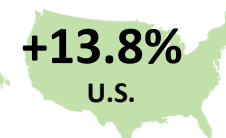
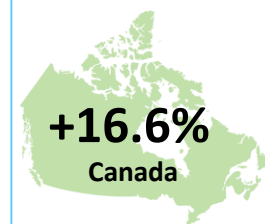
Excluding Mexico

**15.5%\***

over Q1 2019



Higher revenue due to volume increases and favourable sales mix, partially offset by lower consumer prices



**\$51.0 M**

Adjusted EBITDA<sup>1</sup>

**116.4%**

over Q1 2019



The increase was primarily due to higher sales volume and favourable sales mix, and the favourable impact of lower pulp prices and lower outsourced manufacturing, partially offset by higher maintenance, freight, warehousing and SG&A costs

**\$8.4 M**

Net Income

**\$11.6 M**

over Q1 2019



The increase was primarily due to higher Adjusted EBITDA, partially offset by an increase in other expense, consulting costs and depreciation expense

\* The Mexico business was divested in September 2019. In Q1 2019, Mexico represented revenue of \$26.1 million

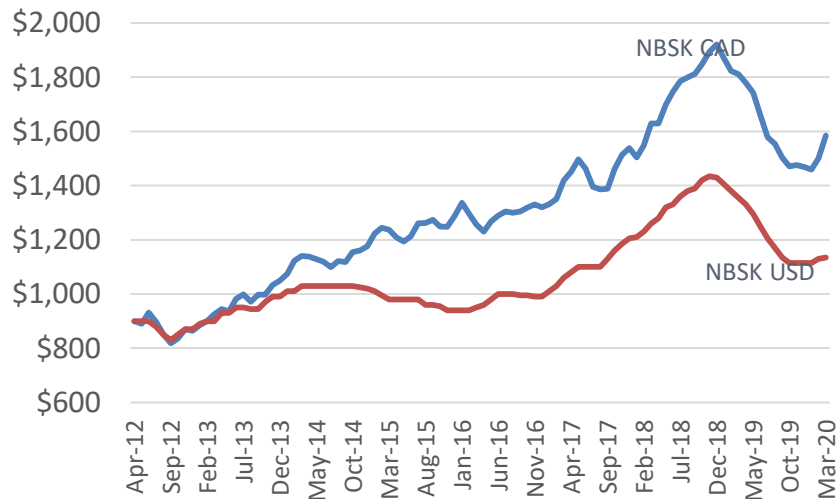
<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.

# Pulp Input Prices

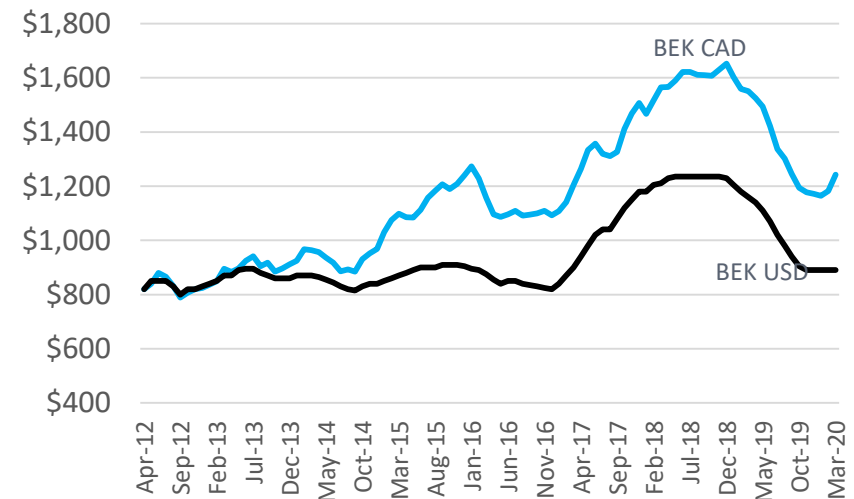
Q1 2020 NBSK prices in CAD increased 2.9% and BEK prices increased 1.3% compared to Q4 2019.

NBSK prices in USD have slightly increased during Q1 2020, while BEK prices remained the same. For the remainder of 2020 and based on industry forecasts, NBSK and BEK prices in USD are expected to have a moderate upward trend.

**NBSK North American List Prices per MT  
(Q1 2020 -17% YOY in CAD)**



**BEK List Prices per MT  
(Q1 2020 -24% YOY in CAD)**



(USD average 1.34 in Q1 2020 compared to 1.33 in Q1 2019)



# COVID-19 – Safety and Business Continuity



## SAFETY AND BUSINESS CONTINUITY

- Priority focus on keeping our people safe while maintaining Business Continuity
- Activated Pandemic Response and Business continuity teams and protocols in late February

## SAFETY PROCEDURES

- Work from home for office staff
- Restricted visitors to our facilities
- Increased daily screening, cleaning and use of PPE

## BUSINESS CONTINUITY PROCEDURES

- Extending purchase of Raw Materials
- Segregation of specialized personnel
- Contingency planning on critical assets

# COVID-19 – Demand Impacts



**KRUGER PRODUCTS GETS #ROLLINGITFORWARD TO SUPPORT HEALTHCARE WORKERS**

**Lend a hand.  
Make a difference.**

**#RollingItForward**



- Increased Tissue demand in March driven by pantry loading and increased usage in consumer products driven by work from home mandates
- Paper towel and Facial increase driven by above and increased usage due to personal hygiene practices
- Demand expected to slowdown due to high personal inventories and relaxation of work from home protocols
- AFH end market closures will create future headwinds
- Significant corporate giving to Food Banks and Frontline Healthcare workers
- #RollingItForward



# TAD SHERBROOKE

## No material change expected on budget and timeline

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- Construction halted March 23<sup>rd</sup> and resumed in late April
    - Implemented social distancing, screening, incremental hygiene and segregated workspace measures
    - Worked closely with unions and contractors to update construction protocols
    - Started with critical crew and will increase each week
  - Received most of the major equipment with no disruption
  - Most of the operators hired to start converting line in July
  - Continuing to hire with new employees trained virtually
  - Amended credit facility to provide more flexibility
  - Continued progress on commercialization plan
  - Pandemic heightened strategic importance of TAD Sherbrooke facility and new capacity it adds
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## Building momentum into 2020

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- OpEx program now rolled out to all sites
  - Expanded focus to include waste reduction
  - Plants operating very well in Q1 and achieving improved performances month-after-month
  - SKU consolidation helped run more efficiently and increased output
  - Lower outsourced manufacturing activity YoY
  - Logistics excellence program also yielding strong savings
  - Combined savings on target to deliver \$15 to \$20 million on a run-rate basis, by the end of 2020
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# AFH SEGMENT

## Doing the right things to rebuild the business

- Good Q1 sales results supported by order backlog and some cross-over to consumer segment
- More challenging market conditions starting in Q2 due to severe impact of COVID-19 on end user markets
- Increased costs expected due to scarcity of sorted office wastepaper
- Pursing opportunities for cross-over in consumer segment
- With OpEx program success and progress, future performance mainly driven by market demand



# TRADEMARK

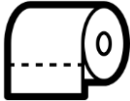


## Continued focus on building our brands

- Share performance improving in Q1
- Short term marketing focus on connecting with consumers and those in need during COVID-19
- Full year marketing investment being replanned given significant change to our promotion properties
- Key innovations and quality improvements on plan
- New TAD product portfolio progressing well
- Opportunistically building distribution on White Cloud



# Canada's Leading Tissue Company

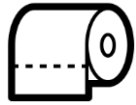


			
	Bathroom Tissue	Facial Tissue	Paper Towel
	#1 33.8%	#1 30.9%	#2 20.5%
IRVING	18.7%	19.7%	12.0%
P&G	10.7%	0.8%	34.4%
Kimberly-Clark	1.5%	18.4%	0.6%

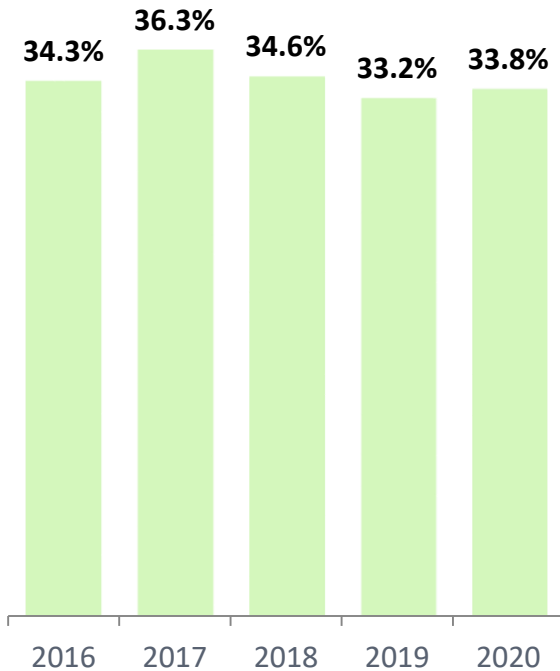
Source: Nielsen; dollar market share for the 52-week period ended March 21, 2020.



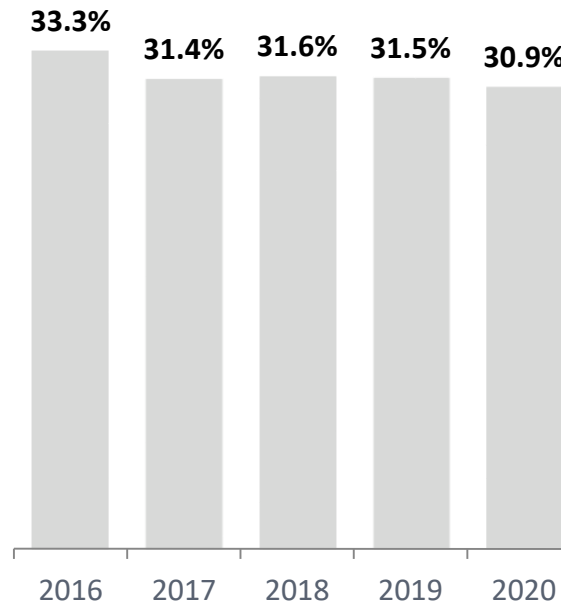
# Brand Leadership Position



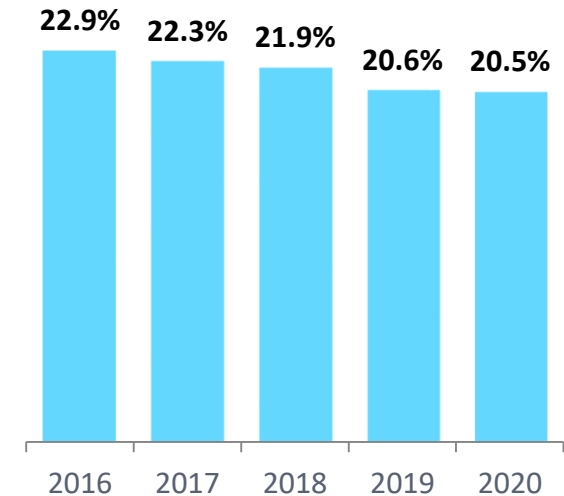
## #1 Bathroom Tissue



## #1 Facial Tissue



## #2 Paper Towel



Source: Nielsen Canadian dollar market share for 52-week period data. 2020 represents the latest 12 months ending March 21, 2020.

# Quarterly Financial Summary

	% Change				
(Million CAD\$, unless otherwise noted)	Q1 2020	Q4 2019	Q1 2019	Y/Y	Q/Q
Revenue	375.1	348.1	351.1	6.9%	7.8%
Revenue, excluding Mexico <sup>1</sup>	375.1	348.1	324.9	15.5%	7.8%
Cost of Sales	314.5	294.1	320.2	(1.8)%	6.9%
Gross Profit	60.6	54.0	30.9	96.4%	12.3%
Gross Margin	16.2%	15.5%	8.8%		
Adjusted EBITDA <sup>2</sup>	51.0	46.0	23.6	116.4%	10.8%
Adjusted EBITDA Margin <sup>2</sup>	13.6%	13.2%	6.7%		
Net Income	8.4	(6.1)	(3.2)		
Net Income Margin	2.2%	(1.8)%	(0.9)%		

<sup>1</sup> The Mexico business was divested in September 2019. In Q1 2019, Mexico represented revenue of \$26.1 million

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

# Quarterly Segmented Results

	% Change				
(Million CAD\$, unless otherwise noted)	Q1 2020	Q4 2019	Q1 2019	Y/Y	Q/Q
<b>Segmented Revenue<sup>1</sup></b>					
Consumer	313.3	285.6	296.2	5.8%	9.7%
Consumer, excluding Mexico <sup>2</sup>	313.3	285.6	270.1	16.0%	9.7%
AFH	61.9	62.5	54.8	12.9%	(1.1%)
<b>Total Segment Revenue</b>	<b>375.1</b>	<b>348.1</b>	<b>351.0</b>	<b>6.9%</b>	<b>7.8%</b>
<b>Total Segment Revenue, excluding Mexico</b>	<b>375.1</b>	<b>348.1</b>	<b>324.9</b>	<b>15.5%</b>	<b>7.8%</b>
<b>Segment Adjusted EBITDA<sup>3</sup></b>					
Consumer	54.3	47.4	30.1		
AFH	(1.0)	(1.1)	(6.6)		
Other <sup>(1)</sup>	(2.4)	(0.3)	0.0		
<b>Total Segment Adjusted EBITDA<sup>3</sup></b>	<b>51.0</b>	<b>46.0</b>	<b>23.6</b>	<b>116.4%</b>	<b>10.8%</b>
<b>Segment Adjusted EBITDA Margin<sup>3</sup></b>					
Consumer	17.3%	16.6%	10.2%		
AFH	(1.7%)	(1.8%)	(12.0%)		
<b>Total Segment Adjusted EBITDA Margin<sup>3</sup></b>	<b>13.6%</b>	<b>13.2%</b>	<b>6.7%</b>		

<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> The Mexico business was divested in September 2019. In Q1 2019, Mexico represented revenue of \$26.1 million

<sup>3</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.

# Q1 2020 Revenue Compared to Q1 2019

**\$24.1 M**

Q1 Revenue increase

**6.9%**

over Q1 2019

Excluding Mexico

**\$50.2 M**

Revenue

**15.5%\***

over Q1 2019

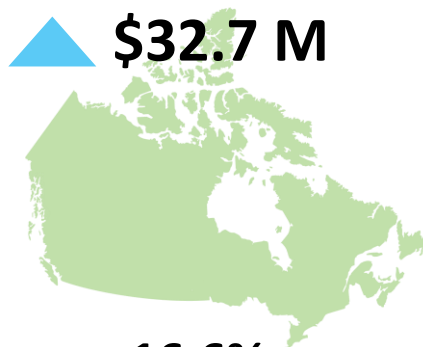
**Impacted due to a combination of:**

- Volume increases in Canada and the U.S. primarily related to COVID-19 demand
- Favourable sales mix
- **Partially offset by:** lower prices in the Consumer segment



## Geographic revenue segmentation

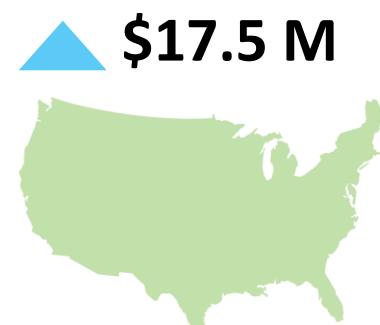
**\$32.7 M**



**+16.6%**

Canada

**\$17.5 M**



**+13.8%**

U.S.

\* The Mexico business was divested in September 2019. In Q1 2019, Mexico represented revenue of \$26.1 million

# Q1 2020 Adjusted EBITDA<sup>1</sup> Compared to Q1 2019

**\$27.4 M**

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



**116.4%**

over Q1 2019

## Gross Margin

**16.2%**



Q1 2020

**8.8%**



Q1 2019

## Primarily due to the following factors:

- Significantly higher sales volume
- Favourable sales mix
- Lower pulp prices
- Benefits of the OpEx program resulting in lower outsourced manufacturing

## Partially offset by:

- Higher maintenance spending
- Higher freight and warehousing costs
- Increased SG&A costs

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



# Q1 2020 Revenue Compared to Q4 2019

**\$27.0 M**

Q1 Revenue increase



**7.8%**

over Q4 2019

**Impacted due to a combination of:**

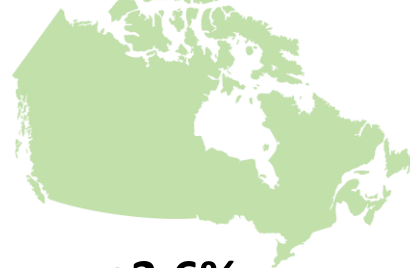
- Higher volume in consumer segment primarily related to COVID-19 demand
- More favourable sales mix
- Slightly favourable FX rate on U.S. sales



**Geographic revenue segmentation**



**\$8.0 M**

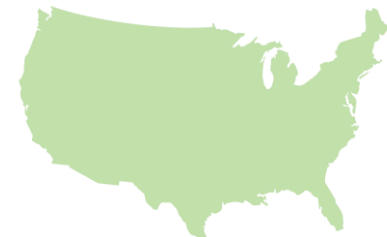


**+3.6%**

Canada



**\$19.0 M**



**+15.2%**

U.S.

## Q1 2020 Adjusted EBITDA<sup>1</sup> Compared to Q4 2019

**\$5.0 M**

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



**10.8%**  
over Q4 2019

### Gross Margin

**16.2%**



**Q1 2020**

**15.5%**



**Q4 2019**

### Due to the following factors:

- Increased sales volume in Consumer segment
- Favourable sales mix

### Partially offset by:

- Increased freight and warehousing costs
- Higher SG&A expenses

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

# Balance Sheet

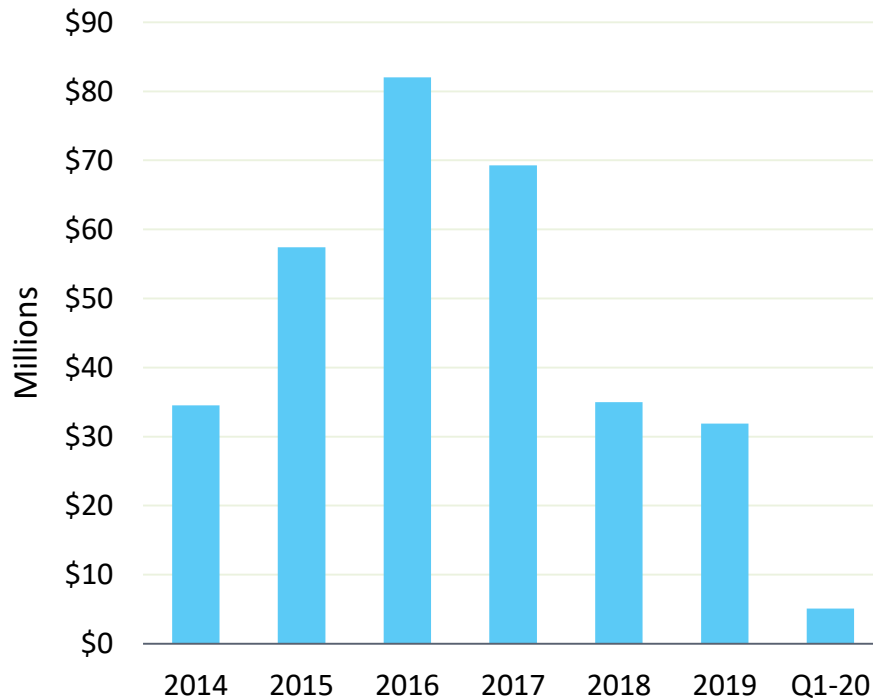
(Million CAD\$, unless otherwise noted)	Q1 2020	Q4 2019
Cash	144.6	93.1
Current Portion of Long-term Debt	4.9	11.9
Long-term Debt	718.5	579.1
<b>Net Debt</b>	<b>578.8</b>	<b>497.9</b>
LTM Adjusted EBITDA <sup>1</sup>	172.5	145.0
<b>Net Debt/LTM Adjusted EBITDA<sup>1</sup></b>	<b>3.4</b>	<b>3.4</b>

- Leverage remained stable due to significantly higher LTM adjusted EBITDA
- In response to the uncertainty resulting from the COVID-19 pandemic, KPLP entered into discussions with the TAD Sherbrooke Borrowing Group lenders to amend certain terms of the agreement to provide greater flexibility for the project. As a result, the first amendment to the credit agreement was completed and closed on April 20, 2020 with an effective date of March 23, 2020

<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 Facility



- Q1 2020 TAD Sherbrooke CAPEX was \$66.8 million.
- Q1 2020 CAPEX excluding TAD Sherbrooke was \$5.1 million
- 2020 TAD Sherbrooke CAPEX estimated at between \$340 and \$365 million
- 2020 regular CAPEX estimated in \$25-\$35 million range
- Total 2020 CAPEX of \$365-\$400 million

# Strong Quarter Driven by Exceptional Volume and Favourable Cost Environment



## Our focus going forward will be on:

- Continuing to drive top line growth

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- Building our leadership position in Canada with market share momentum of past two quarters

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- Creating a more efficient and capable supply chain network with benefits and progress of OpEx program

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- Doing the right things to improve AFH performance considering strong headwinds in end-user markets

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- Completing the TAD Sherbrooke facility with its elevated strategic importance considering the new capacity it provides

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- Developing our organizational capability and culture of continuous improvement to drive growth for the future

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