



**KP**

KP Tissue Inc.

# INVESTING

**FOR THE LONG TERM**

**Q2 2021  
FINANCIAL RESULTS**

August 12, 2021



# Forward-Looking and Cautionary Statements

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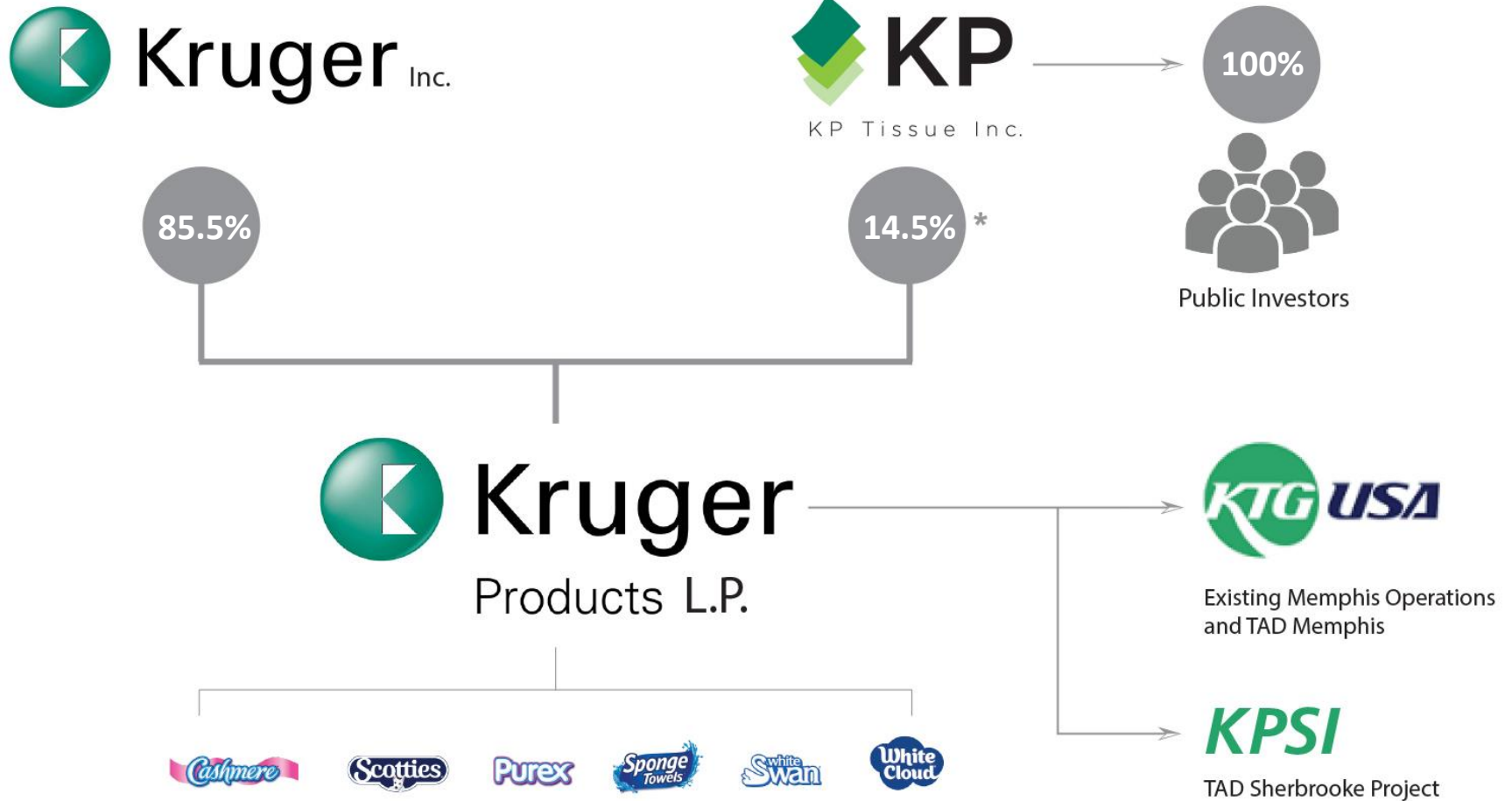
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Unless otherwise stated, references in this presentation to market shares or KPT’s market leadership are based on Nielsen dollar market share data and management estimates. Please refer to the Company’s MD&A for the complete Forward-looking and cautionary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

**The following presentation is to review Kruger Products L.P.  
Q2 2021 financial results**

# Corporate Structure



\*As of August 12, 2021 (14.6% as of June 30, 2021).

# Kruger Products Overview

1

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**Canada's Leading  
Tissue Company**

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**Strong Portfolio of Brands**

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3

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**Strong Customer  
Relationships**

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4

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**Broad Manufacturing  
Infrastructure**

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**Growth Focused**

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**Experienced  
Management Team**

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## Q2 2021 Highlights

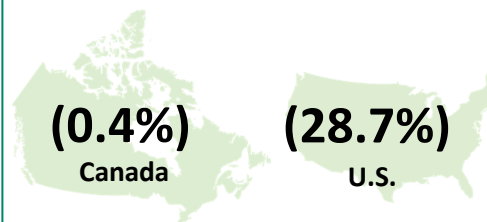
**\$339.3 M**

Revenue

**12.3%**

Over Q2 2020

Decline due to a sales volume decrease in the Consumer segment compared to prior year high COVID-19 buying and continued inventory de-loading in Q2, and also from unfavourable FX impact on U.S. sales with constant currency U.S. sales (-19.4%) and total KP (- 6.6%).



**\$37.3 M**

Adjusted EBITDA<sup>1</sup>

**42.1%**

over Q2 2020

The decrease was primarily due to the impact of lower sales volumes, higher pulp prices, higher freight rates and warehousing costs, partially offset by the favourable impact of foreign exchange fluctuations and lower SG&A expenses.

**\$2.2 M**

Net Income

**\$26.7M**

over Q2 2020

The decrease was primarily due to lower Adjusted EBITDA, higher depreciation expense, higher interest expense and a decrease in other income, partially offset by lower income taxes.

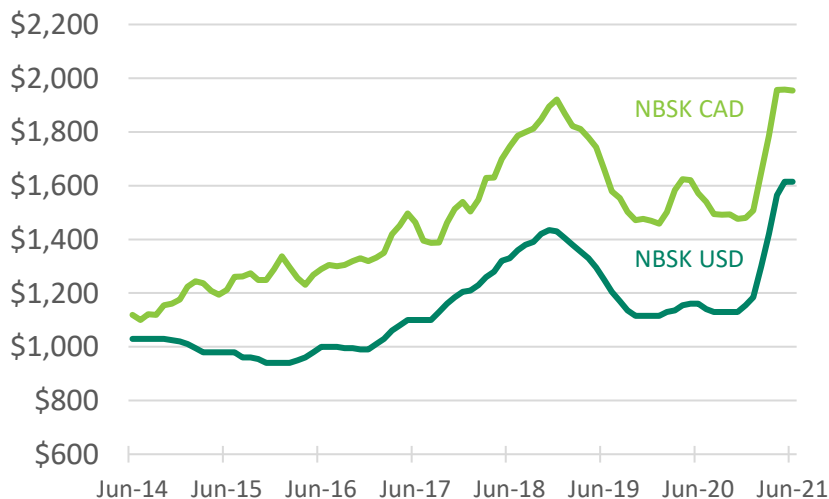
<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.

# Pulp Input Prices

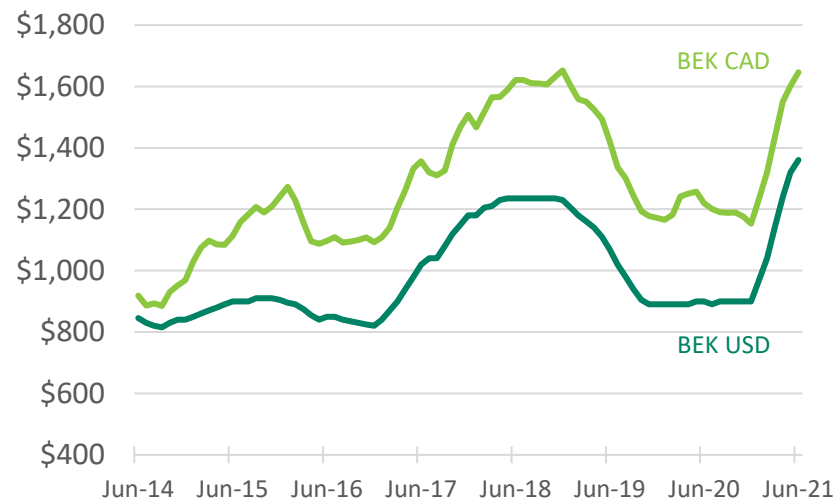
Q2 2021 NBSK average prices in CAD increased 18.7% and BEK average prices increased 20.2% compared to Q1 2021.

NBSK average prices in USD have increased 22.8% and BEK average prices increased 24.4% quarter-over-quarter in Q2 2021. Based on industry forecasts, both NBSK and BEK prices are expected to moderate but remain at historically high levels for the remainder of the year.

**NBSK North American List Prices per MT  
(Q2 2021 21.8% YOY in CAD)**



**BEK List Prices per MT  
(Q2 2021 28.6% YOY in CAD)**



**(USD average 1.23 in Q2 2021 compared to 1.39 in Q2 2020)**

# NETWORK MODERNIZATION

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## TAD Sherbrooke

- Paper machine and converting productivity well above plan
- \$25 million investment to leverage Artificial Intelligence to optimize entire supply chain

## Sherbrooke Expansion (\$240 million investment)

- Financing secured
  - Project scope being finalized
  - Engineering, environmental and geotechnical studies underway
  - Customer sell-in underway
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# NETWORK MODERNIZATION

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## New facial tissue line in Memphis

- Current assets at capacity
- Capable of producing both TAD and LDC products
- Made in USA products
- Provides opportunity for future growth in the U.S.
- Start-up expected in Q2 2022

## OpEx

- Many improvements initiated for waste reduction and equipment reliability at all sites
  - Training and coaching workforce on structured problem solving through Lean Six Sigma certifications
- 





# TRADEMARK

## Continued focus on investing and building our brands

- Continued to gain share for 52-week period
- Incremental marketing investment for full year 2021
- “Unapologetically Human” campaign continues to gain traction winning several awards including a Bronze Lions at the International Cannes Advertising Festival
- SpongeTowels Ultra Pro™ ahead of launch plan on revenue and share
- “Kruger Big Assist” a big success with consumers and hockey associations across Canada
- Strong “Made in Canada” promotion to help support local products
- New media campaigns for SpongeTowels™ and Scotties®
- Increased focus on digital, social and e-commerce activation

UNAPOLOGETICALLY HUMAN

1 lion  
3 shortlists

BROKEN HEART  
LOVE AFFAIR



Kruger  
Products



NEW

OUR STRONGEST,  
MOST ABSORBENT  
Paper Towel.\*



Strong  
and Durable



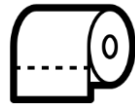
Clean  
Finish



Sponge-Like  
Absorbency



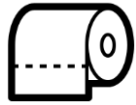
# Canada's Leading Tissue Company



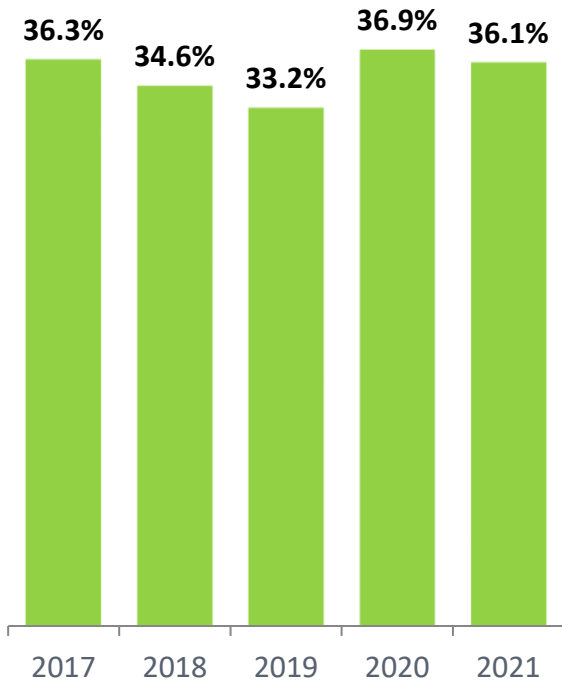
	Bathroom Tissue	Facial Tissue	Paper Towel
<b>Kruger</b>	<b>#1</b> <b>36.1%</b>	<b>#1</b> <b>34.0%</b>	<b>#2</b> <b>22.6%</b>
<b>IRVING</b>	18.2%	18.9%	13.1%
<b>P&amp;G</b>	10.7%	0.5%	34.7%
<b>Kimberly-Clark</b>	1.3%	17.1%	0.9%

Source: Nielsen; dollar market share for the 52-week period ended June 19, 2021

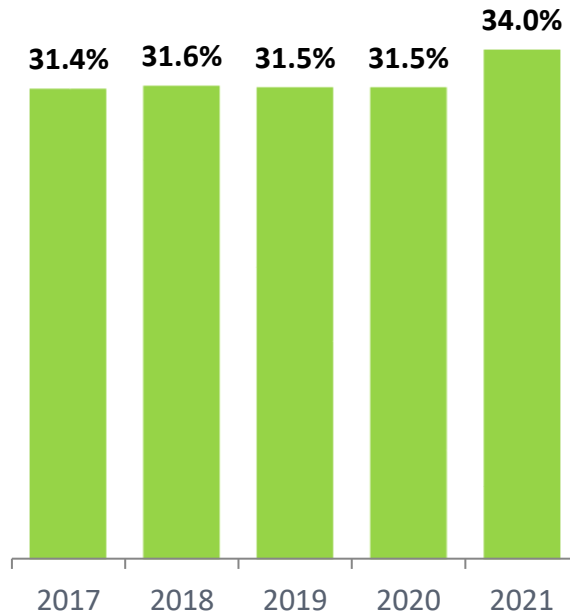
# Brand Leadership Position



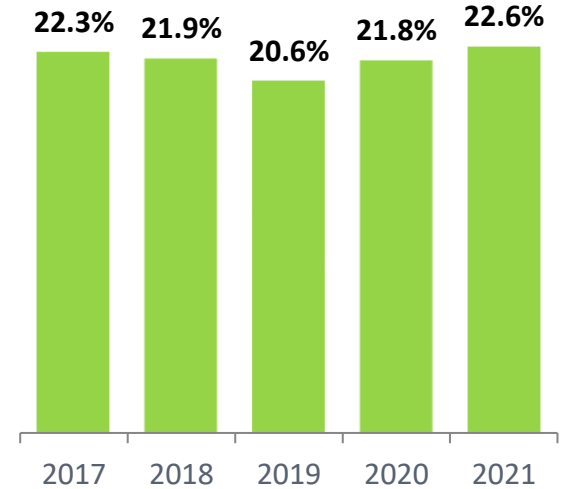
## #1 Bathroom Tissue



## #1 Facial Tissue



## #2 Paper Towel



Source: Nielsen Canadian dollar market share for 52-week period data. 2021 represents the latest 12 months ending June 19, 2021

# AFH SEGMENT

## Performance Tied to End-Market Recovery

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- In-sourcing of paper capacity in Q2 2021 lowered outsourcing costs
  - Volume continued to improve sequentially with easing COVID-19 restrictions. Total cases sold were flat compared to Q2 2020 but remained approximately 25% below pre-pandemic levels
  - Volume has steadily improved month-over-month during 2021. Canadian end-user market recovery lagging the U.S. by several months
  - Operations continues to perform well and the business is well prepared for ongoing recovery
  - Price increase negotiations underway and will flow to P&L with contract renewals
- 



# Quarterly Financial Summary

(Million CAD\$, unless otherwise noted)	Q2 2021	Q1 2021	Q2 2020	% Change	
				Y/Y	Q/Q
<b>Revenue</b>	<b>339.3</b>	<b>310.4</b>	<b>386.8</b>	<b>(12.3%)</b>	<b>9.3%</b>
Cost of Sales	295.0	263.3	310.0	(4.8%)	12.0%
Gross Profit	44.3	47.0	76.8	(42.3%)	(5.9%)
Gross Margin	13.1%	15.2%	19.8%		
<b>Adjusted EBITDA<sup>1</sup></b>	<b>37.3</b>	<b>37.5</b>	<b>64.4</b>	<b>(42.1%)</b>	<b>(0.4%)</b>
Adjusted EBITDA Margin <sup>1</sup>	11.0%	12.1%	16.7%		
Net Income	2.2	6.8	28.9		
Net Income Margin	0.7%	2.2%	7.5%		

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

# Quarterly Segmented Results

(Million CAD\$, unless otherwise noted)	Q2 2021	Q1 2021	Q2 2020	% Change	
				Y/Y	Q/Q
<b>Segmented Revenue</b>					
Consumer	292.3	271.4	338.2	(13.6%)	7.7%
AFH	47.0	39.0	48.5	(3.1%)	20.5%
<b>Total Segment Revenue</b>	<b>339.3</b>	<b>310.4</b>	<b>386.8</b>	<b>(12.3%)</b>	<b>9.3%</b>
<b>Segment Adjusted EBITDA<sup>1</sup></b>					
Consumer	40.3	44.2	69.6	(42.1%)	(8.8%)
AFH	(0.4)	(4.9)	(2.1)	80.1%	91.3%
Corporate and other costs	(2.6)	(1.8)	(3.0)		
<b>Total Segment Adjusted EBITDA<sup>1</sup></b>	<b>37.3</b>	<b>37.5</b>	<b>64.4</b>	<b>(42.1%)</b>	<b>(0.4%)</b>
<b>Segment Adjusted EBITDA Margin<sup>2</sup></b>					
Consumer	13.8%	16.3%	20.6%		
AFH	(0.9%)	(12.6%)	(4.4%)		
<b>Total Segment Adjusted EBITDA Margin<sup>1</sup></b>	<b>11.0%</b>	<b>12.1%</b>	<b>16.7%</b>		

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

# Q2 2021 Revenue Compared to Q2 2020

**\$47.5 M**

Q2 Revenue Decrease

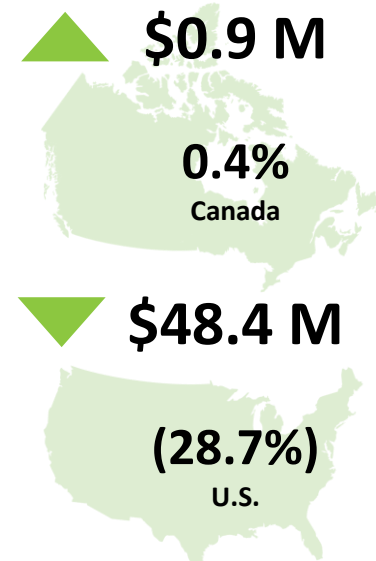


**12.3%**  
over Q2 2020

## Impacted due to a combination of:

- Sales volume decrease in the Consumer segment due to:
  - Comparison to high COVID-19 buying activity in Q2 2020
  - De-stocking of tissue inventories by retailers and consumers in Q2 2021
- Unfavourable FX on U.S. sales (in constant currency, total KP and U.S. revenue decreased by 6.6% and 19.4%)
- Sales volume in the AFH segment was flat to Q2 2020 with continued COVID-19 restrictions

## Geographic revenue segmentation



# Q2 2021 Adjusted EBITDA<sup>1</sup> Compared to Q2 2020

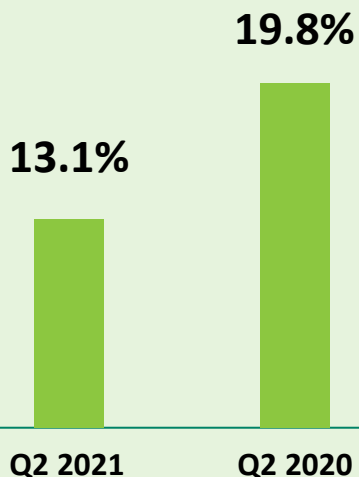
**\$27.1 M**

Q2 Adjusted EBITDA<sup>1</sup> decrease



**42.1%**  
over Q2 2020

## Gross Margin



### Primarily due to the following factors:

- Lower sales volume
- Unfavourable impact of higher pulp prices
- Increase in freight rates and warehousing costs

### Partially offset by:

- Favourable net impact of FX
- Lower SG&A expenses

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



# Q2 2021 Revenue Compared to Q1 2021

**\$28.9 M**  
Q2 Revenue increase

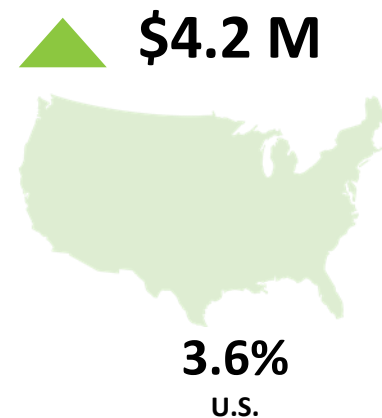
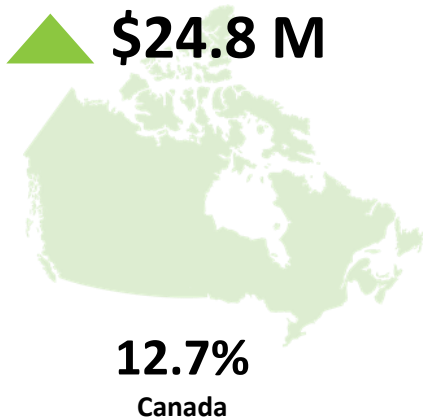
**9.3%**  
over Q1 2021

**Increase due to a combination of:**

- Higher Consumer and AFH sales volume
- **Offset somewhat by:** Negative FX impact on U.S. sales (in constant currency, total KP and U.S. revenue increased by 10.9% and 6.8%)



## Geographic revenue segmentation



# Q2 2021 Adjusted EBITDA<sup>1</sup> Compared to Q1 2021

**\$0.2 M**

Q2 Adjusted EBITDA<sup>1</sup> decrease



**0.5%**  
over Q1 2021

## Gross Margin

**13.1%**



Q2 2021

**15.2%**



Q1 2021

### Variance due to the following factors:

- Higher Consumer and AFH sales volume
- Higher AFH contribution
- Favourable F/X

### More than offset by:

- Lower Consumer contribution
- Higher pulp prices
- Increased freight and warehousing costs
- Higher advertising spending

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

# Balance Sheet

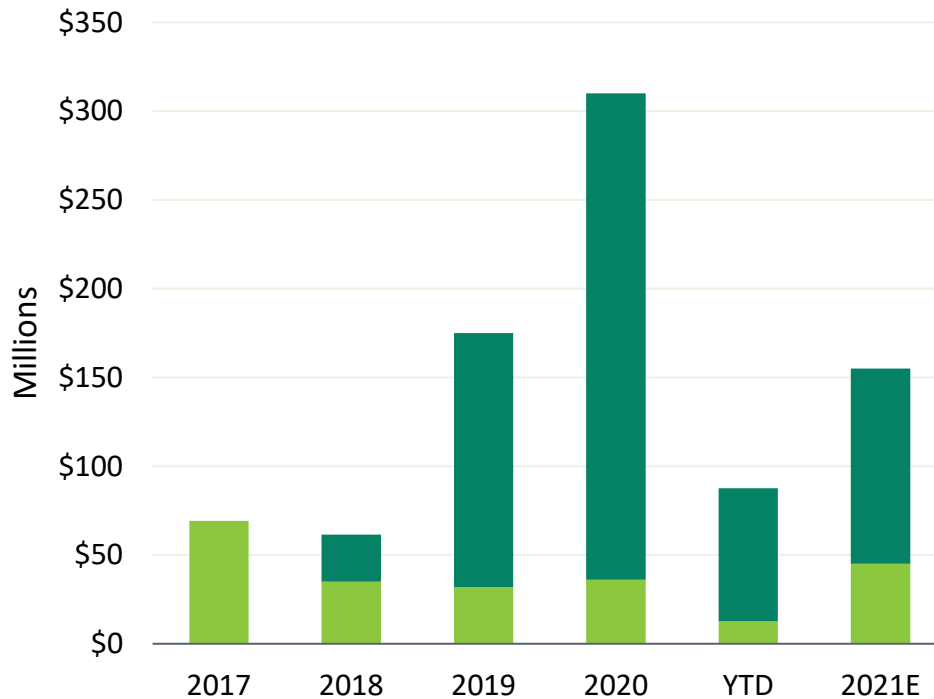
(Million CAD\$, unless otherwise noted)	Q2 2021	Q1 2021
Cash	129.7	57.6
Current Portion of Long-term Debt	22.1	9.9
Long-term Debt	935.2	842.8
<b>Net Debt</b>	<b>827.6</b>	<b>795.2</b>
LTM Adjusted EBITDA <sup>1</sup>	157.2	184.3
<b>Net Debt/LTM Adjusted EBITDA<sup>1</sup></b>	<b>5.3x</b>	<b>4.3x</b>

- In April, \$135 million of 8-Yr Senior Unsecured Notes were issued and the outstanding balance on the Senior Credit facility was reduced with part of the proceeds
- In May, the financing for the Sherbrooke Expansion was completed and \$27 million of convertible debentures were issued
- Total debt also increased related to the financing for Capital Investments in TAD Sherbrooke
- Net debt increased by approximately \$32 million overall including the impact of higher working capital
- Leverage increased due to the higher level of net debt and decreasing LTM Adjusted EBITDA


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

# CAPEX

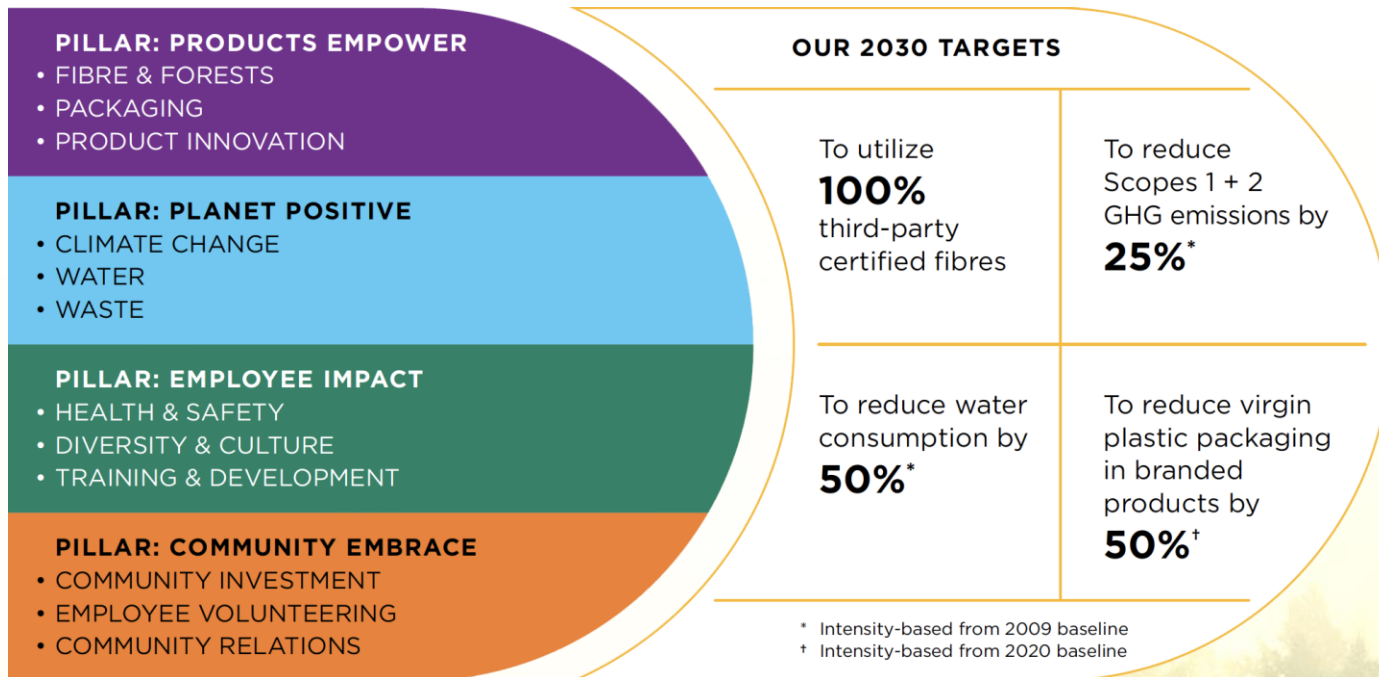
## CAPEX



- YTD 2021 TAD Sherbrooke CAPEX was \$75 million
- YTD 2021 CAPEX excluding TAD Sherbrooke was \$12.6 million
- 2021 TAD Sherbrooke CAPEX estimated at approximately \$110 million
- Total 2021 CAPEX of \$150-\$160 million

 TAD Sherbrooke and Sherbrooke Expansion starting in 2021

# Reimagine 2030 – The Next 10 Years of Sustainable Development



# Reinvesting in the business to build a strong future



## Our focus going forward will be on:

- Investing in our brands and innovation to build market share leadership in Canada while expanding White Cloud brand in the U.S.
- Pricing in place to counter exceptional rise in costs
- TAD Sherbrooke facility exceeding ramp-up curve and manufacturing new SpongeTowels Ultra Pro™
- OpEx program, Memphis FT expansion and Sherbrooke Expansion Project will increase capacity and optimize cost structure for the future
- Away-from-Home prepared for a recovery in end-user markets
- New long-term sustainability plan will spearhead transformative growth and sustainable innovation
- Developing our organizational capability and culture to drive growth for the future



UNLEASH THE **Scotties**



KP Tissue Inc.

THANK  
YOU

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