

KP Tissue Inc.

# **BUILDING LONG-TERM VALUE**



**Q3 2019  
FINANCIAL RESULTS**

November 7, 2019



# Forward-looking and cautionary statements

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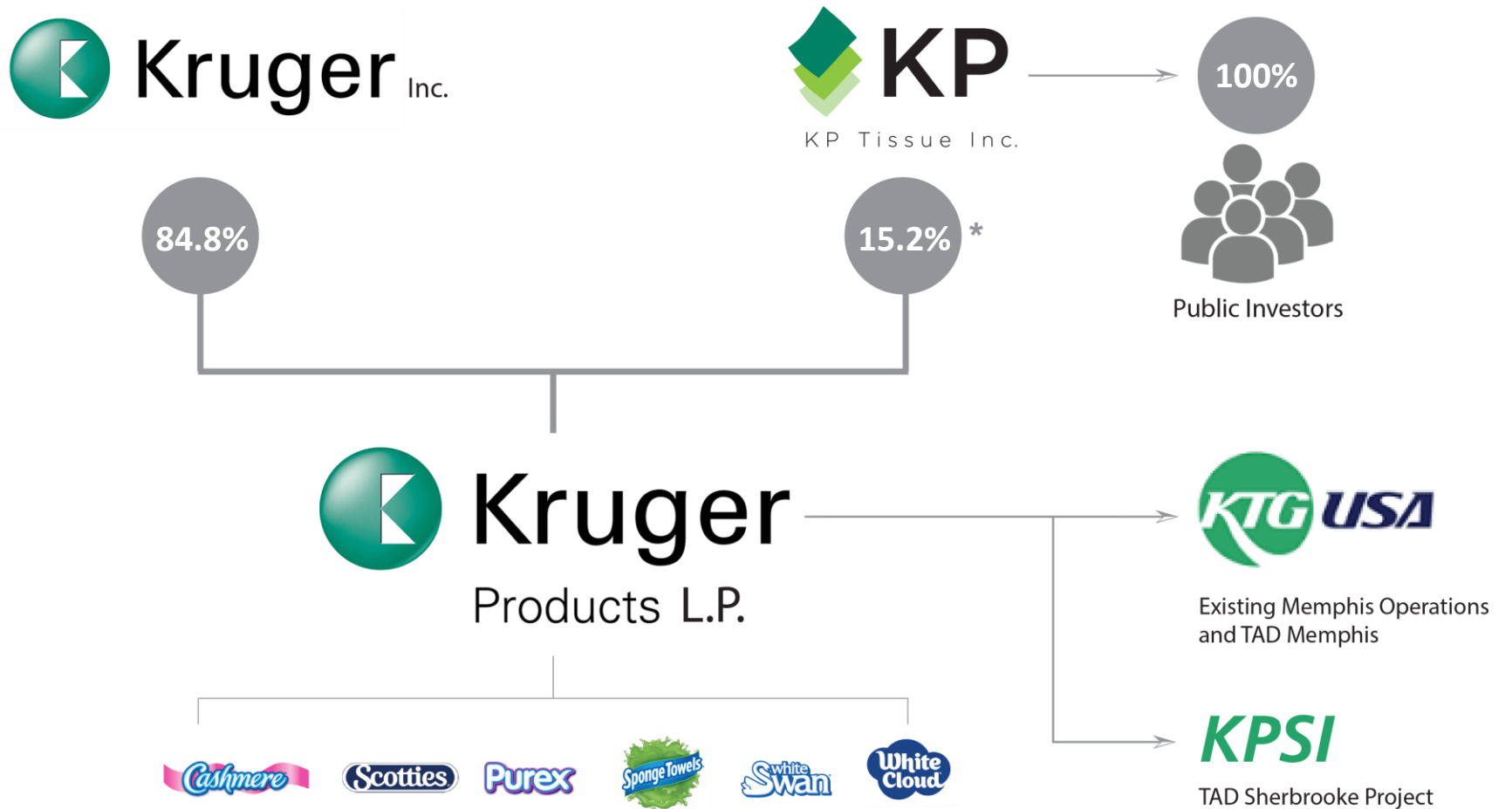
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Unless otherwise stated, references in this presentation to market shares or KPT's market leadership are based on Nielsen dollar market share data and management estimates.

**The following presentation is to review Kruger Products L.P.  
Q3 2019 financial results**

# Corporate Structure



\*As of November 6, 2019 (15.4% as of September 30, 2019).

# 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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6

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**Experienced  
Management Team**

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## Q3 2019 Highlights

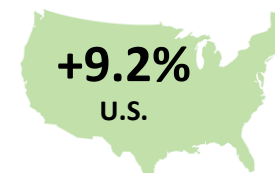
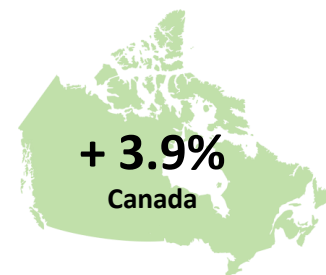
**\$369.4 M**

Revenue



**6.0%\***  
over 2018

Primarily due to the benefit of price increases across all business segments and higher sales volumes



**\$44.0 M**

Adjusted EBITDA<sup>1</sup>



**35.3%**  
over 2018

- Positive impact of price increases across all business segments, the favourable impact of lower fibre costs, higher sales volumes and the benefits of the OpEx program
- Partially offset by unfavourable sales mix, the cost of outsourced manufacturing, higher maintenance spending and higher SG&A costs

**\$10.5 M**

Net Income



**\$6.3 M**  
over 2018

- Net income of \$10.5 million compared to \$4.2 million a year ago, an increase of \$6.3 million.

\* Includes 7.6% increase in revenues for Mexico to \$25.4 million, which is a low contribution business.

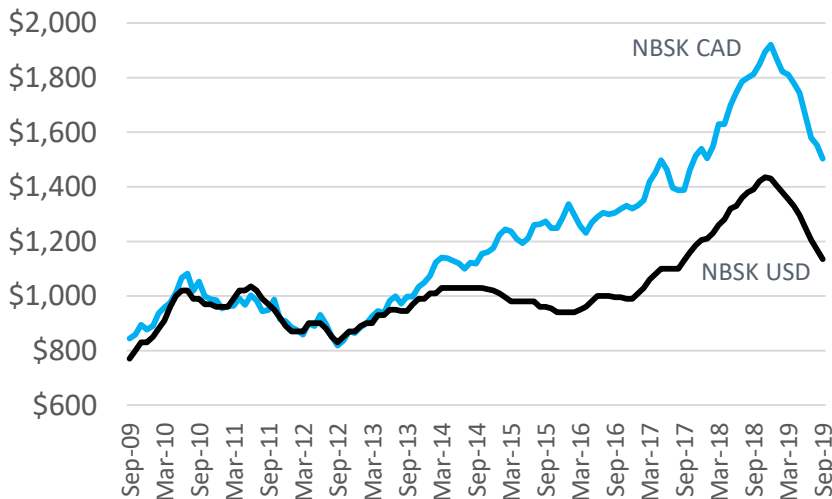
<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure. Q3 of Fiscal 2018 has been restated to reflect IFRS 16 Lease accounting. Refer to the Appendix and MD&A for more information.

# Pulp Input Prices

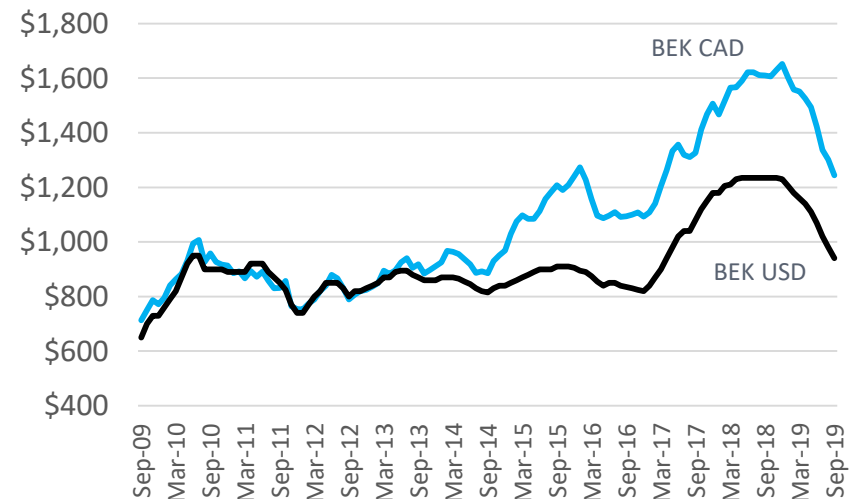
Q3 2019 NBSK prices and BEK prices decreased year-over-year in CAD, and both market pulp prices decreased sequentially (NBSK -10.6% and BEK -12.6% in CAD) compared to Q2 2019.

Pulp prices in USD have moderated in Q3 2019 and based on industry forecasts, are expected to remain in a similar range for the remainder of 2019. For 2020, pulp prices are anticipated to have an upward trend.

**NBSK North American List Prices per MT  
(Q3 2019 -14% YOY in CAD)**



**BEK List Prices per MT  
(Q3 2019 -20% YOY in CAD)**



(USD average 1.32 in Q3 2019 compared to 1.34 in Q2 2019)

# TAD SHERBROOKE

**Facility progressing on time  
and on budget**

- 
- Site is expected to be fully closed by winter
  - Starting to receive equipment and machinery
  - New mill leadership team is undergoing training in other facilities
  - Started recruitment process of hourly workers
  - Detailed brand plans continue to be developed to utilize output
  - Starting to review product specs with new and existing customers
- 





## Good early progress leading to sustainable benefits

- Now entering 9<sup>th</sup> month of Operational Excellence (“OpEx”) project. The program is progressing very well relative to the timeline and goals
- Initial focus was on two core facilities. Now being rolled out to other sites.
- Project focused on line efficiencies including capacity, productivity and waste reduction
- Also implementing a logistics project with another partner to drive down freight and warehousing costs
- Strengthen preventive maintenance approach
- Combined savings target of \$15 to \$20 million on a run-rate basis, by the end of 2020
- Key to support OpEx by building organizational capability and culture to drive program evolution and sustainability



# AFH SEGMENT

## Turnaround on track

- EBITDA continued sequential improvement of \$1.1 million over Q2
- OpEx program building momentum including reduced outsourcing
- Pricing increases starting to have positive impact on Adjusted EBITDA
- Demand continues to be very strong

# TRADEMARK

Long-term process to reinforce leadership position

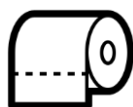
- Committed to enhancing leadership position in Canada
- Private label continues to make gains
- Continual marketing investments in key programs aligned with our partnerships with NHL/Toronto Maple Leafs and Made in Canada focus to drive our brands
- First class execution with retailers and in-store support to drive sales
- Launch consumer relevant innovations and improved quality
- Strengthen emotive CSR connections



Trusted **Quality**,  
Affordable **Price**.



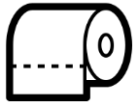
# Canada's Leading Tissue Company



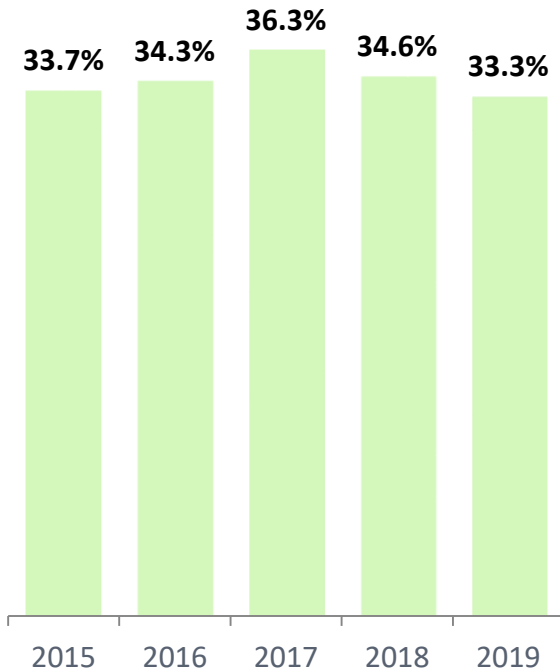
Bathroom Tissue	Facial Tissue	Paper Towel
<b>#1</b> <b>33.3%</b>	<b>#1</b> <b>31.3%</b>	<b>#2</b> <b>21.0%</b>
19.1%	19.1%	12.2%
10.4%	0.8%	33.1%
1.6%	18.1%	0.7%

Source: Nielsen; dollar market share for the 52-week period ended September 7, 2019.

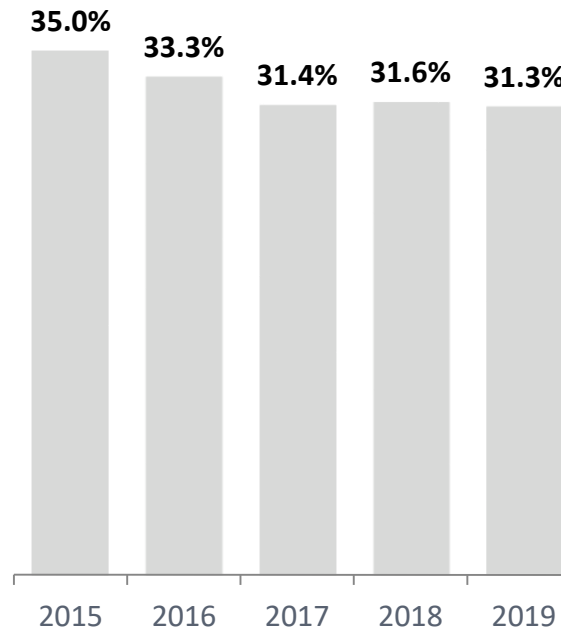
# Brand Leadership Position



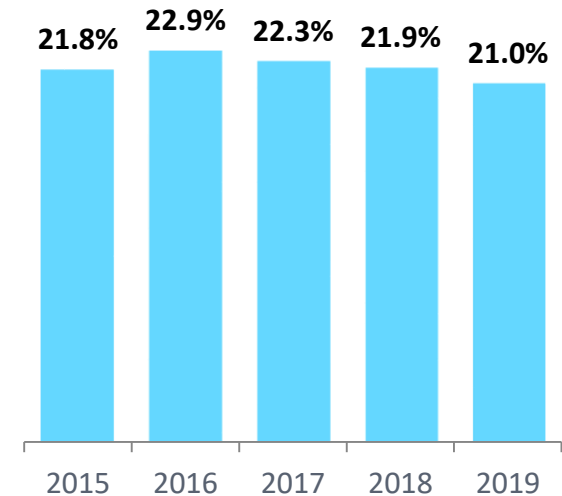
## #1 Bathroom Tissue



## #1 Facial Tissue



## #2 Paper Towel



Source: Nielsen Canadian dollar market share for 52-week period data. 2019 represents the latest 12 months ending September 7, 2019.

# Quarterly Financial Summary

				% Change	
(Million CAD\$, unless otherwise noted)	Q3 2019	Q2 2019	Q3 2018 Restated	Y/Y	Q/Q
<b>Revenue</b>	<b>369.4</b>	<b>365.7</b>	<b>348.6</b>	<b>6.0%</b>	<b>1.0%</b>
Cost of Sales	<b>317.0</b>	<b>325.8</b>	<b>311.4</b>		
Gross Profit	<b>52.4</b>	<b>39.9</b>	<b>37.2</b>	40.9%	31.3%
Gross Margin	<b>14.2%</b>	<b>10.9%</b>	<b>10.7%</b>		
<b>Adjusted EBITDA<sup>1</sup></b>	<b>44.0</b>	<b>31.5</b>	<b>32.5</b>	<b>35.3%</b>	<b>39.7%</b>
Adjusted EBITDA Margin <sup>1</sup>	<b>11.9%</b>	<b>8.6%</b>	<b>9.3%</b>		
Net Income (Loss)	<b>10.5</b>	<b>0.9</b>	<b>4.2</b>		
Net Income (Loss) Margin	0.3%	0.3%	1.2%		

<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure. Q3 of Fiscal 2018 have been restated to reflect IFRS 16 Lease accounting.

# Quarterly Segmented Results

(Million CAD\$, unless otherwise noted)	Q3 2019	Q2 2019	Q3 2018 Restated	% Change	
				Y/Y	Q/Q
<b>Segmented Revenue<sup>1</sup></b>					
Consumer	305.1	299.7	289.2	5.5%	1.8%
AFH	64.3	66.0	59.4	8.2%	(2.6%)
<b>Total Segment Revenue</b>	<b>369.4</b>	<b>365.7</b>	<b>348.6</b>	<b>6.0%</b>	<b>1.0%</b>
<b>Segment Adjusted EBITDA<sup>2</sup></b>					
Consumer	46.0	35.4	37.3		
AFH	(1.9)	(3.0)	(3.5)		
Other	(0.1)	(0.9)	(1.3)		
<b>Total Segment Adjusted EBITDA<sup>2</sup></b>	<b>44.0</b>	<b>31.5</b>	<b>32.5</b>	<b>35.3%</b>	<b>39.7%</b>
<b>Segment Adjusted EBITDA Margin<sup>2</sup></b>					
Consumer	15.1%	11.8%	12.9%		
AFH	(2.9)%	(4.6)%	(5.9)%		
<b>Total Segment Adjusted EBITDA Margin<sup>2</sup></b>	<b>11.9%</b>	<b>8.6%</b>	<b>9.3%</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> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure.  
Q3 of Fiscal 2018 have been restated to reflect IFRS 16 Lease accounting.

## Q3 2019 Revenue Compared to Q3 2018

**\$20.8 M**

Q3 Revenue increase



**6.0%\***

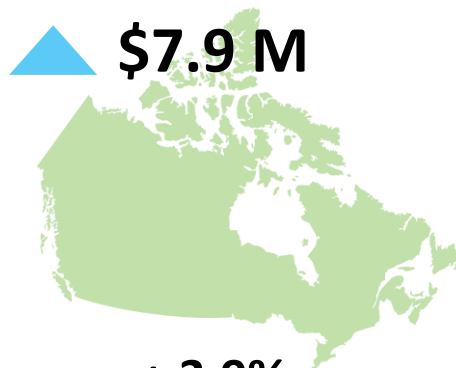
over Q3 2018

**Impacted due to a combination of:**

- Price increases across all business segments
- Higher sales volumes

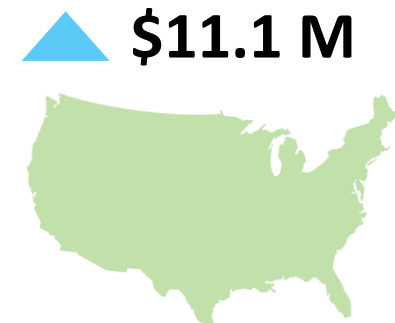


**Geographic revenue segmentation**



**\$7.9 M**

**+ 3.9%**  
Canada



**\$11.1 M**

**+ 9.2%**  
U.S.

\* Includes \$1.8 M or 7.6% increase in revenues for Mexico, which is a low contribution business.

## Q3 2019 Adjusted EBITDA<sup>1</sup> Compared to Q3 2018

**\$11.5 M**

Q3 Adjusted EBITDA<sup>1</sup> increase



**35.3%**

over Q3 2018

### Gross Margin

**10.7%**



**Q3 2018**

**14.2%**



**Q3 2019**

### Primarily due to the following factors:

- Price increases across all business segments
- Favourable impact of lower pulp costs
- Positive impact of higher sales volume
- Benefits from OpEx program

### Partially offset by:

- Unfavourable sales mix
- Cost of outsourced manufacturing
- Higher maintenance spending
- Higher SG&A costs

<sup>1</sup> Non-GAAP measure – see MD&A for the definition and reconciliation of the most comparable GAAP measure. Q3 of Fiscal 2018 has been restated to reflect IFRS 16 Lease accounting.

## Q3 2019 Revenue Compared to Q2 2019

**\$3.7 M**

Q3 Revenue increase



**1.0%\***

over Q2 2019

### Primarily due to the following factors:

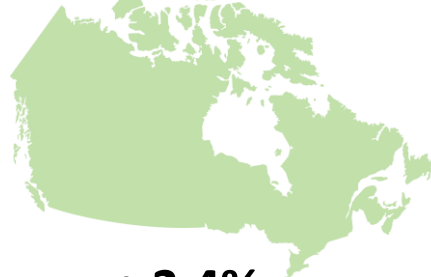
- Consumer segment was up \$5.4 million or 1.8%
- AFH segment revenue decreased by \$1.7 million or 2.6%



### Geographic revenue segmentation



**\$5.0 M**



**+ 2.4%**  
Canada



**(\$1.3 M)**



**(1.0%)**  
U.S.

\* Includes \$0.4 M or 0.1% decrease in revenues for Mexico, which is a low contribution business.

## Q3 2019 Adjusted EBITDA<sup>1</sup> Compared to Q2 2019

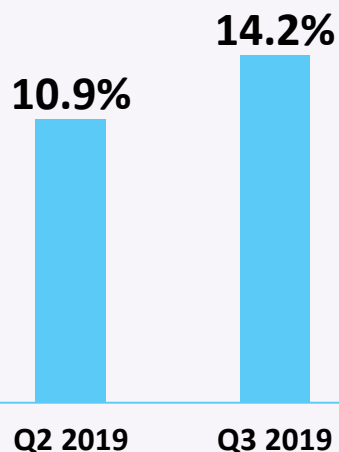
**\$12.5 M**

Q3 Adjusted EBITDA<sup>1</sup> increase



**39.7%**  
over Q2 2019

### Gross Margin



### Due to the following factors:

- Favourable fibre costs
- AFH price increases
- Higher consumer sales volume
- OpEx program cost improvements

<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)	Q3 2019	Q2 2019
Cash	82.4	115.4
Current Portion of Long-term Debt	9.3	9.3
Long-term Debt*	587.1	596.7
<b>Net Debt</b>	<b>514.0</b>	<b>490.5</b>
LTM Adjusted EBITDA <sup>1</sup>	123.6	112.2
<b>Net Debt/LTM Adjusted EBITDA<sup>1</sup></b>	<b>4.2</b>	<b>4.4</b>

On September 19, 2019, the Senior Credit Facility was increased to \$250.0 million from \$200.0 million and the covenants were amended to allow more flexibility.

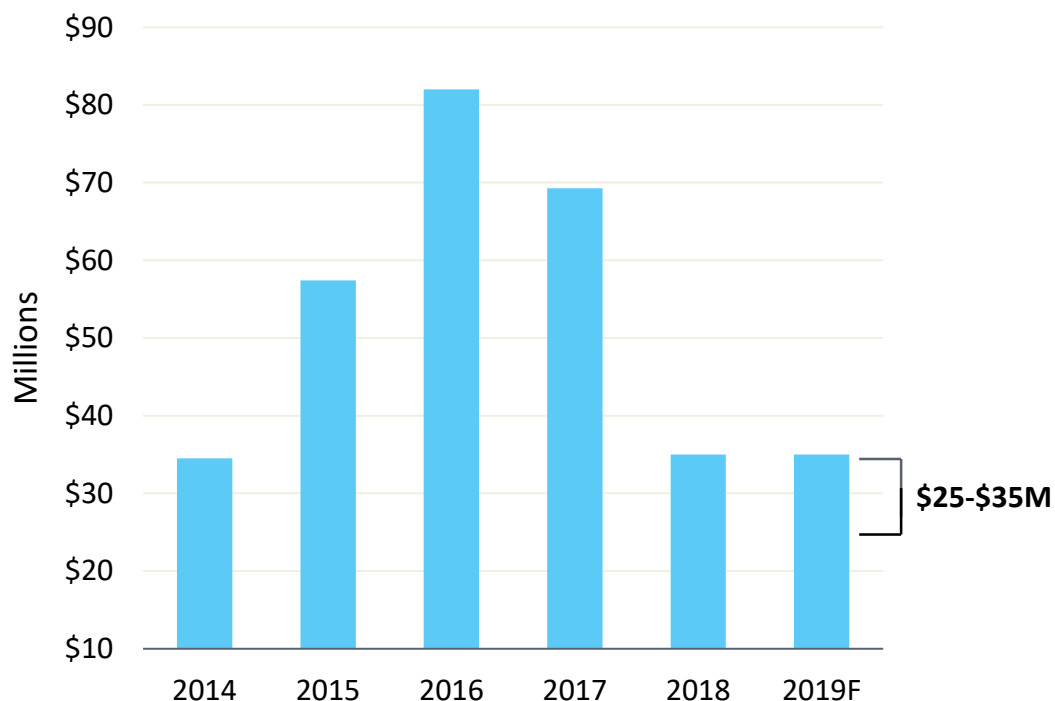
\* Long-term debt includes the TAD Sherbrooke Project financing related to the IQ debenture and Nordea 2 loan. Cash includes the proceeds from this financing net of spending to the end of Q2 on the TAD Sherbrooke Project, a cash balance of \$32.2 million.

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

# CAPEX



## CAPEX, excluding TAD Sherbrooke Facility



- YTD 2019 CAPEX totalled \$117.4 million, including \$96.7 million related to the TAD Sherbrooke facility
- 2019 CAPEX, excluding TAD Sherbrooke, estimated at between \$25 and \$35 million
- 2019 TAD Sherbrooke CAPEX estimated at between \$190 and \$200 million

# Strong quarter driven by focusing on business fundamentals and a more favourable cost environment



## Our focus going forward will be on:

- Continue to drive top line growth in all segments

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- Committed to build our leadership position in Canada by increasing brand investment

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- Managing our pricing in relation to fibre price changes

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- Creating a more efficient and capable supply chain 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 facility

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- Building our organizational capability and culture to drive growth for the future

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