



KAPSTONE

PAPER AND PACKAGING CORPORATION

**A Unique System Optimization
and Growth Opportunity
Acquisition of Victory Packaging**



**Victory
Packaging**

We are *Architects* of Packaging Solutions

May 5, 2015

Forward Looking Statements

Forward-Looking Statements

The information in this presentation and statements made during this presentation may contain certain forward-looking statements within the meaning of federal securities laws. These statements reflect management's expectations regarding future events and operating performance.

Risk Factors

These forward-looking statements involve a number of risks and uncertainties. A list of the factors that could cause actual results to differ materially from those expressed in, or underlying, any forward-looking statements can be found in the Company's filings with the Securities and Exchange Commission, such as its annual and quarterly reports. The Company disclaims any obligation to revise or update such statements to reflect the occurrence of events after the date of this presentation.

Non-GAAP Financial Measures

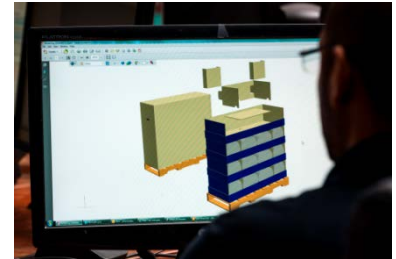
This presentation refers to certain non-U.S. GAAP financial information. A reconciliation of non-U.S. GAAP to U.S. GAAP financial measures is available in the attached appendix.

What Are We Buying? “Architects of Packaging Solutions”

- Victory Packaging (“Victory”) is a large, national distributor of all types of packaging specializing in providing unique solutions for its clients founded in 1976
- Often services customers that have complex needs that are not attractive to other integrated box manufacturers
- 65 distribution centers in the United States, Mexico and Canada
- Outstanding management team committed to continue current roles under KapStone ownership
- Strong sales and profit growth
 - Net sales increased to \$953 million in 2014 from \$557 million in 2010, a 14.3% 4 year CAGR
 - Adjusted EBITDA increased to \$55 million in 2014 from \$32 million in 2010, a 14.6% 4 year CAGR
- Invested heavily in future
- Victory purchases over 370,000 tons of corrugated products
- Long history between two companies
- Minimal capital required to sustain and grow the business

What Are We Buying? “Architects of Packaging Solutions”

- Distribution services/vendor managed inventory programs
 - Optimizing customer inventory
 - Warehousing for customer packaging requirements



- Engineering and design capabilities with 52 packaging engineers at 16 design labs

- Just-In-Time Programs
 - Frequent, multiple transactions to minimize working capital required and alleviate floor space requirements for inventory



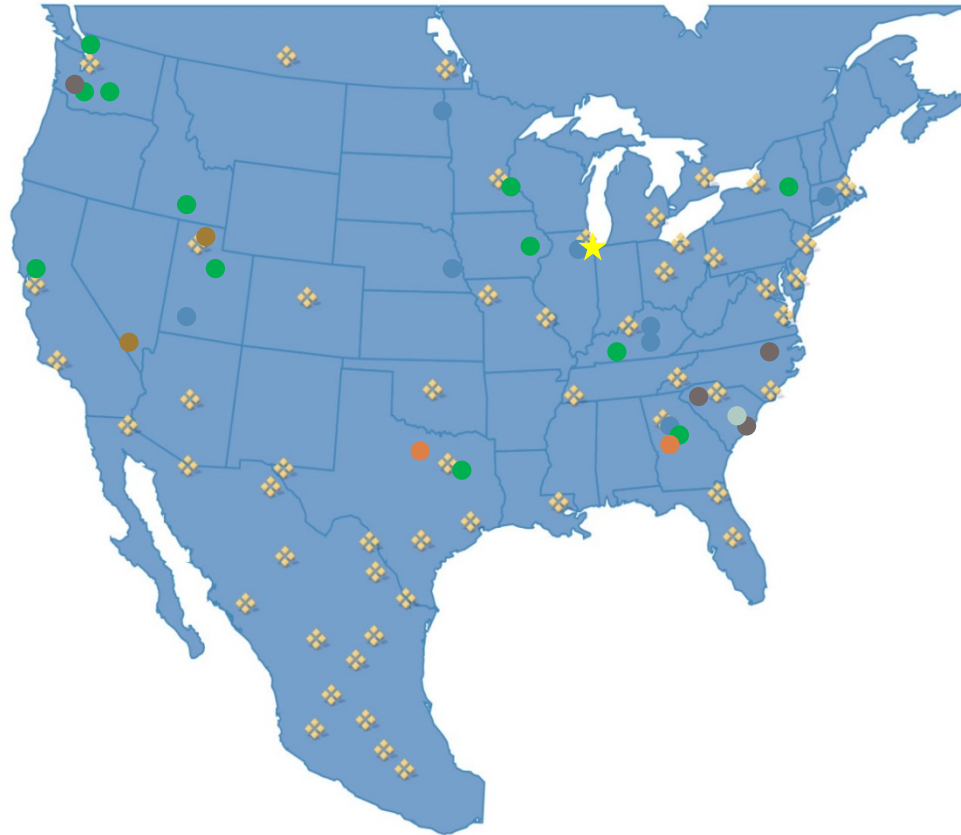
- Contract Packaging and Fulfillment
 - Outsourcing of entire packaging function from order to delivery
- One size does not fit all

Highly Diversified Services and Customers

- Highly diversified services lead to highly diversified customer base
 - Approximately 6,200 active customers in the following end markets: manufacturing, distribution, food and beverage, retail, transportation/moving and storage

- Top four customers comprise 37 percent of net sales. Each of these customers and the products and services they receive from Victory are very different
 - Major Logistics Operator – Customer since 2013
 - Provides logistics and fulfillment on shipping boxes, bags, and envelopes
 - Processes daily on average 70,000 – 75,000 orders and delivers to superregional distribution centers
 - Moving and Moving Supply - Customer since 1980
 - Supplies stores with most products for retail operations
 - More than 3,500 deliveries per week though out the U.S.
 - Auto Parts Manufacturer – Customer since 2003
 - Provides just-in-time delivery of packaging to operations in U.S. and Mexico and provides design services for the ever changing car designs
 - Large Department Store Chain – Customer since 2004
 - Provides logistical services for both retail stores and e-commerce sales by providing boxes, tissue and bags

Victory's Facilities



Victory locations
KapStone Box Plants
KapStone Sheet Plants
KapStone Sheet Feeders
KapStone Paper Mills
KapStone Lumber Mill
KapStone Warehouses

- More than 65 warehouses and distribution facilities in the United States, Canada and Mexico
- Sheet plant with 10,000 tons of capacity
- Great overlap with 10 of KapStone's converting operations
- Opportunity for future synergies in regions not currently serviced by Kapstone
- Workforce of 1,500 employees

Deal Metrics

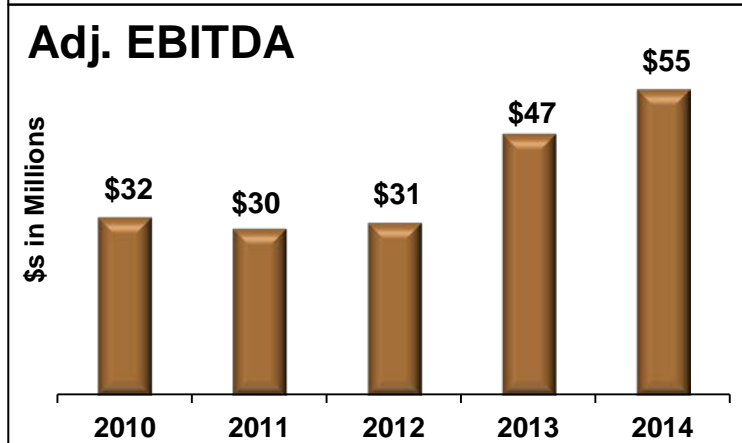
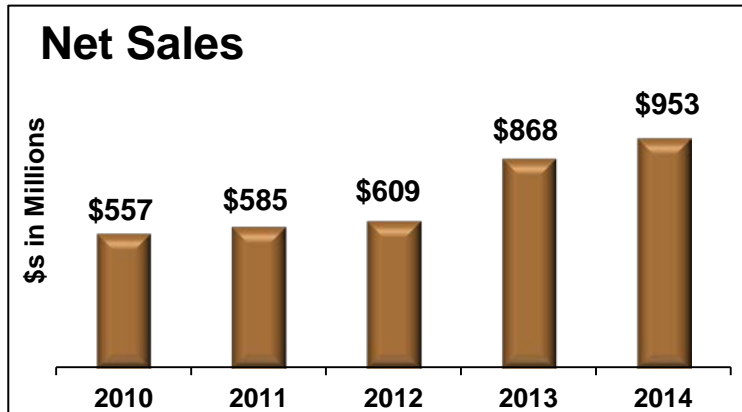
- KapStone will acquire Victory Packaging on a cash-free, debt-free basis for \$615 million
 - The structure of the transaction will enable Kapstone to realize a tax benefit that has an estimated net present value of approximately \$100 million
 - Taking this benefit into account, the net purchase price is about \$515 million
 - Additionally, two contingent earnouts
 - Shareholder earnout of \$25 million based on continued strong performance due in two and a half years
 - Management earnout of \$20 million contingent upon accelerated growth of earnings due in four years

- KapStone expects to realize a minimum of \$30 million in synergies within 24 months
 - In 2014, Victory directly purchased over 370,000 tons of corrugated products with only 6,200 tons sourced from KapStone

Significant Value Enhancing Synergies

- Unique strategic fit that could simultaneously “fill the converting assets” and “fill the mills” with an expected annual run rate for synergies of \$30 million
- “Fill the converting assets”
 - Opportunity to fully utilize KapStone converting assets by sourcing more of Victory’s corrugated box purchases of over 370,000 tons annually from KapStone’s converting facilities
 - KapStone could supply an incremental 115,000 tons to Victory while still relying heavily on Victory’s current supplier base
 - Current 5 year capital plan supports this growth at converting facilities
- “Fill the mills”
 - The mill vertical integration benefits are obtained by sourcing additional linerboard tons needed for increased converting operations from our mills and diverting those linerboard tons away from export
 - Provides additional opportunities for ultra high performance linerboard to improve economics and enhance sustainability
 - Ability to consume more medium, where KapStone has some mill capacity

Victory's Impressive Growth Record



Net Sales CAGR 14.3%

Adj. EBITDA CAGR 14.6%

- 2014 sales bolstered by approximately \$20 million from three small acquisitions
- Organic growth driven significantly by the win of major contract in 2013

Transaction Summary

\$'s in Millions	12 Months Ended December 31, 2014*	
Net Sales	\$ 953	<p>*Not included in analysis are two contingent earn out payments</p> <ul style="list-style-type: none"> ▪ First payment potentially due in two and a half years of \$25 million will be accounted for as purchase price ▪ Second payment potentially due in four years of \$20 million will be reflected as operating expense when appropriate
Adjusted EBITDA	\$ 55	
Purchase Price *	\$ 615	
Less: Tax step-up at present value	\$ 100	
Adjusted Purchase Price	\$ 515	
Purchase Price Multiple	9.4 X	
Adjustments to EBITDA		
Synergies to be Realized in 24 Months	\$ 30**	
Adjusted EBITDA	\$ 85	
Adj. EBITDA Purchase Price Multiple*	6.1 X	

*Not included in analysis are two contingent earn out payments

- First payment potentially due in two and a half years of \$25 million will be accounted for as purchase price
- Second payment potentially due in four years of \$20 million will be reflected as operating expense when appropriate

**Timing of synergy realization: \$5 million in 2015, \$22 million in 2016, full realization in 2017

Sources and Uses of Funds

\$'s in millions			
<u>Sources</u>		<u>Uses</u>	
Revolving Credit Facility	\$ 31	Purchase Price	\$ 615
Add-on term loan	600	Transaction Costs	16
		Cash at Closing	0
Total Sources	\$ 631	Total Uses	\$ 631

- Expect to have amended senior credit facility put in place by closing of Victory in 2Q 2015 including \$600 million add-on loan to current bank credit agreement
- Debt to Adjusted EBITDA ratio with synergies expected to be 3.3X
- Average blended cash interest rate expected to be 2 percent

Why – Transforms and Strengthens KapStone

- Creative growth allows KapStone to optimize synergies
 - Brings impressive, profitable growth track record
 - Helps de-risk KapStone's operations by providing higher level of integration
 - Enhances the use of ultra performance liners addressing sustainability and economic value through the supply chain
- Significant synergies of \$30 million expected in 24 months
 - Increases the utilization of the converting assets
 - Increases the utilization of the mills removing less valuable, more volatile sales
- Important first step towards expanding Longview mill and utilizing excess pulping capacity
- Additional opportunities for growth
 - Incremental converting expansion opportunities in strategic locations
 - Organic and M&A growth in packaging fulfillment
- Strengthens KapStone's design and packaging solutions capabilities
 - Triples field sales presence
 - Experienced, successful management team retained and incented with earn-out
- Victory and its management are well known to Matt Kaplan, a previous board member of Victory
- Accretive Day 1