



# **Third Quarter 2018 Earnings Conference Call**

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November 8, 2018

# Safe Harbor Statement

This presentation may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws that are subject to the safe harbor created by such laws and other legal protections. Caution should be taken not to place undue reliance on any such forward-looking statements because actual results may differ materially from the results suggested by these statements. These forward-looking statements are made only as of the date of this presentation. We undertake no obligation, except as may be required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Part I, “Item 1A. Risk Factors” and elsewhere in our Annual Report on Form 10-K for the period ended December 31, 2017, in part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the period ended September 30, 2018, and those described from time to time in our periodic and other reports filed with the Securities and Exchange Commission.

# **THIRD QUARTER 2018 FINANCIAL OVERVIEW & BUSINESS HIGHLIGHTS**

**DR. JEFF KRAMER  
CHIEF EXECUTIVE OFFICER**

# 3Q:18 Financial Highlights

<i>(\$ in millions, except per share amounts)</i>	<b>3Q:18</b>	<b>3Q:17</b>
<b>Net Sales</b>	<b>\$260.3</b>	<b>\$257.8</b>
<b>GAAP EPS<sup>(1)</sup></b>	<b>\$1.33</b>	<b>\$0.84</b>
<b>Adjusted EPS<sup>(1)</sup></b>	<b>\$0.77</b>	<b>\$1.00</b>
<b>Free Cash Flow<sup>(1)</sup> YTD / LTM</b>	<b>\$72.1 / \$99.3</b>	<b>\$63.1 / \$98.3</b>

## **3Q:18 Adjusted EPS of \$0.77 versus \$1.00 in 3Q:17**

- Top-line growth offset by rising raw materials, final site closure expenses
- 4% organic sales growth in AMS
- Completed debt refinancing/bond issuance, increased balance sheet flexibility
- Despite significant raw material cost inflation, driving offsets throughout the business for EPS delivery
- Note: 3Q:18 had \$0.02 per share of refinancing expenses, 3Q:17 had \$0.11 per share asset sale gain

(1) Throughout this presentation, the term GAAP EPS will be used to represent GAAP Diluted EPS, and Adjusted EPS will be used to represent Adjusted Diluted EPS. Adjusted Diluted EPS and Free Cash Flow are non-GAAP financial measures. See non-GAAP reconciliations and supplemental data in appendix. All financial measures presented relate to continuing operations.

## 3Q:18 Business Highlights

- 4% sales growth (no acquisition benefit)
  - Strong growth in filtration – water up double digits, other sub-segments also positive
  - Infrastructure & Construction accelerating after slow start to year, erosion control products led portfolio
  - Medical and Transportation up modestly
- Adjusted OP down from input costs and site closure impacts, offsets expected to materialize in 4Q
  - 3Q Adjusted OP margin % down 440 basis points
  - Majority due to higher resin material costs; price increases enacted for 4Q
  - Higher expenses from plant rationalization; fixed cost reduction synergies to be realized in 4Q

## 2018 Priorities / Updates

- Accelerated organic sales growth
- Conwed synergy execution, continued segment-wide optimization
- Strategic projects: new Chinese facility, new international film line

## 3Q:18 Business Highlights

- Sales decreased 1%
  - Strong price/mix of +5% nearly offset volume decline of 6%
  - Most product lines had lower volume
  - Favorable price mix driven by wrapper & binder products and non-tobacco papers
  - Heat-not-Burn down, new development volumes typically lumpy, still strong growth YTD
- Adjusted OP down due to input costs
  - Adjusted OP margin % down 400 basis points
  - Significantly higher wood pulp costs

## 2018 Priorities / Updates

- Maintain/gain share in LIP
- Focus on efficiencies
- Support customers in HnB innovation and commercialization

# **THIRD QUARTER 2018 FINANCIAL RESULTS REVIEW**

**ANDREW WAMSER  
CHIEF FINANCIAL OFFICER**

# Sales & Operating Profits

## 3Q:18

### AMS Segment

- Sales: up 4%
- Adjusted OP Margin<sup>(1)</sup> down 440 bps to 14.5%
  - Comparison to high 19% margin in 3Q:17
  - Margins down from higher resin costs and expenses related to site closure
  - Site closure and price increases in 4Q expected to provide margin lift

### EP Segment

- Sales: down 1%
  - Price/mix up 5%, volume down 6%
- Adjusted OP Margin<sup>(1)</sup> down 400 bps to 19.7%
  - Higher pulp costs with limited pricing offsets due to timing lag

### Unallocated Expenses

- Adjusted down 11%
  - Adjusted expenses declined 40 bps as % of total sales to 3.2%
  - Favorable G&A expenses; YTD adjusted unallocated down 1%

## Consolidated

- Sales up 1%, minimal currency effect and no acquisition benefits
- Adjusted OP<sup>(1)</sup> down 21% to \$36.7 million; adjusted OP margin down 380 bps to 14.1%
- Adjusted EBITDA<sup>(1)</sup> down 17% to \$46.5 million; Adjusted EBITDA margin down 370 bps to 17.9%

(1) Adjusted Operating Profit and Adjusted EBITDA, are non-GAAP measures. See non-GAAP reconciliations and supplemental data in appendix.



# GAAP & Adjusted EPS<sup>(1)</sup>

## **3Q:18 GAAP EPS of \$1.33, up versus \$0.84 in 3Q:17**

- Significant non-recurring GAAP items (excluded from Adjusted EPS) included \$0.43 benefit from tax adjustment related to US tax reform, \$0.25 gain from contingent liability revaluation

## **3Q:18 Adjusted EPS of \$0.77, down versus \$1.00 in 3Q:17**

- 3Q:18 had \$0.02 of refinancing expenses
- 3Q:17 had \$0.11 one-time gain from asset sale
- Tax rate lower versus last year

## **2018 Trends, Puts, and Takes**

- Overall solid sales
- Elevated pulp and resin costs a significant headwind
- Favorable tax rate
- Favorable Euro in 1H:18, but now minimal impact

**Expect to finish 2018 at lower end of original adjusted EPS guidance range of \$3.30 to \$3.45 due to higher raw material costs, excluding financing activities impact of negative \$0.05**

(1) Adjusted EPS is a non-GAAP financial measure. See non-GAAP reconciliations and supplemental data in appendix.

# Cash Flow & Debt

## Year-to-Date Operating Cash Flow of \$93 million, Free Cash Flow<sup>(1)</sup> of \$72 million

- Capital spending/software: \$21 million
- Dividends: \$40 million

## LTM Operating Cash Flow of \$131 million, Free Cash Flow<sup>(1)</sup> of \$99 million

- Capital spending/software: \$31 million
- Dividends: \$52 million

## Increased quarterly dividend 2% to \$0.44 per share

\$ millions	3Q:18	4Q:17
<u>Balance Sheet</u>		
Total Debt	640.8	684.2
Less: Cash	<u>90.5</u>	<u>106.9</u>
<b>Net Debt</b>	<b>550.3</b>	<b>577.3</b>
<u>Leverage per Credit Agreement<sup>(2)</sup></u>		
<b>Net Debt / Adjusted EBITDA</b>	<b>2.6x</b>	<b>3.0x</b>

(1) See non-GAAP reconciliations and supplemental data in appendix.

(2) Credit agreement makes certain adjustments to EBITDA.

# 3Q:18 Debt Refinancing

## Late 3Q bond issuance and refinance/extension of credit facility

- Increased financial flexibility, introduced unsecured debt into capital structure, accessed new capital source
- \$350 million unsecured notes, Ba3/BB- corporate rating, 6.875% coupon
- Leverage neutral transaction; bond proceeds used to pay down prior credit facility

Debt Structure	Interest rate	Maturity	Outstanding at 3Q:18
\$500mm Revolving Credit Facility <sup>(1)</sup>	LIBOR + 175	2023	\$94.5
Term Loan	LIBOR + 200	2025	\$200.0
Senior Unsecured Notes	6.875% coupon	2026	\$350.0 <sup>(2)</sup>

**2018 Adjusted EPS impact of \$0.05 (\$0.02 of expenses in 3Q:18 and \$0.03 of higher interest expense in 4Q:18)**

**Currently effective blended interest rate of approximately 5%**

(1) Includes \$400 million accordion option

(2) Excludes capitalized issuance costs and Original Issue Discount; see 9/30/18 10Q Note 11. Debt

# QUESTIONS?

# Non-GAAP Reconciliations & Supplemental Data

# Non-GAAP Reconciliations & Supplemental Data



Certain financial measures and comments contained in this presentation are “non-GAAP” financial measures, specifically measures which exclude one or more of the following: restructuring and impairment expenses, depreciation and amortization, interest expense, tax provision (benefit), capital spending, capitalized software expenditures, purchase accounting adjustments, and tax adjustments. We believe that investors’ understanding is enhanced by disclosing these non-GAAP financial measures as a reasonable basis for comparison of our ongoing results of operations.

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	FY 2018
<b>Adjusted Operating Profit from Continuing Operations:</b>														
Operating Profit from Continuing Operations	\$ 32.5	\$ 38.5	\$ 31.8	\$ 7.2	\$ 110.0	\$ 27.6	\$ 40.3	\$ 39.3	\$ 21.1	\$ 128.3	\$ 35.0	\$ 42.1	\$ 31.1	\$ 108.2
Plus: Restructuring and Impairment Expense	1.8	0.9	1.3	21.6	25.6	1.1	1.6	1.5	3.9	8.1	0.4	0.6	0.4	1.4
Plus: Purchase accounting adjustments	3.1	3.1	3.0	3.1	12.3	7.9	5.9	5.4	5.4	24.6	5.2	5.2	5.2	15.6
<b>Adjusted Operating Profit from Continuing Operations</b>	<b>\$ 37.4</b>	<b>\$ 42.5</b>	<b>\$ 36.1</b>	<b>\$ 31.9</b>	<b>\$ 147.9</b>	<b>\$ 36.6</b>	<b>\$ 47.8</b>	<b>\$ 46.2</b>	<b>\$ 30.4</b>	<b>\$ 161.0</b>	<b>\$ 40.6</b>	<b>\$ 47.9</b>	<b>\$ 36.7</b>	<b>\$ 125.2</b>
<b>Adjusted Operating Margin from Continuing Operations</b>	<b>17.4%</b>	<b>19.6%</b>	<b>17.2%</b>	<b>16.1%</b>	<b>17.6%</b>	<b>15.7%</b>	<b>18.7%</b>	<b>17.9%</b>	<b>12.9%</b>	<b>16.4%</b>	<b>15.5%</b>	<b>17.7%</b>	<b>14.1%</b>	<b>15.8%</b>
<b>Adjusted Net Income (Loss) from Continuing Operations:</b>														
Net income from continuing operations	\$ 21.1	\$ 26.0	\$ 18.7	\$ 17.0	\$ 82.8	\$ 13.7	\$ 22.3	\$ 25.7	\$ (27.3)	\$ 34.4	\$ 20.9	\$ 25.8	\$ 40.9	\$ 87.6
Plus: Restructuring and impairment expense	1.8	0.9	1.3	21.6	25.6	1.1	1.6	1.5	3.9	8.1	0.4	0.6	0.4	1.4
Less: Tax impact of restructuring and impairment expense	(0.4)	(0.3)	(0.5)	(9.0)	(10.2)	(0.4)	(0.4)	(0.4)	(0.2)	(1.4)	(0.1)	(0.2)	(0.1)	(0.4)
Plus: Purchase accounting adjustments	3.1	3.1	3.0	3.1	12.3	7.9	5.9	5.4	5.4	24.6	5.4	5.5	5.4	16.3
Less: Tax impact of purchase accounting adjustments	(1.2)	(1.2)	(1.0)	(1.1)	(4.5)	(2.5)	(1.9)	(1.5)	(1.9)	(7.8)	(1.3)	(1.4)	(1.4)	(4.1)
Plus: Transitional tax adjustment	-	-	-	-	-	-	-	-	48.7	48.7	-	-	(13.0)	(13.0)
Plus: Write off of contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	(10.2)	(10.2)
Less: Tax impact of write off of contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	2.5	2.5
Less: Net deferred tax movements, one-time tax expense & income tax valuation allowance	-	(0.4)	1.3	(7.4)	(6.5)	-	-	-	(9.1)	(9.1)	-	-	-	-
<b>Adjusted Net Income from Continuing Operations</b>	<b>\$ 24.4</b>	<b>\$ 28.1</b>	<b>\$ 22.8</b>	<b>\$ 24.2</b>	<b>\$ 99.5</b>	<b>\$ 19.8</b>	<b>\$ 27.5</b>	<b>\$ 30.7</b>	<b>\$ 19.5</b>	<b>\$ 97.5</b>	<b>\$ 25.3</b>	<b>\$ 30.3</b>	<b>\$ 24.5</b>	<b>\$ 80.1</b>
<b>Adjusted EBITDA from Continuing Operations:</b>														
Net Income	\$ 21.1	\$ 26.0	\$ 18.7	\$ 17.0	\$ 82.8	\$ 13.7	\$ 22.3	\$ 25.8	\$ (27.3)	\$ 34.5	\$ 20.5	\$ 25.8	\$ 41.0	\$ 87.3
Plus: Loss (income) from discontinued operations	-	-	-	-	-	-	-	(0.1)	-	(0.1)	0.4	-	(0.1)	0.3
Income from continuing operations	21.1	26.0	18.7	17.0	82.8	13.7	22.3	25.7	(27.3)	34.4	20.9	25.8	40.9	87.6
Plus: Interest expense	4.6	4.1	3.9	4.0	16.6	5.8	6.8	7.4	6.9	26.9	6.2	6.6	7.3	20.1
Plus: Provision for income taxes	8.1	9.1	10.7	(12.5)	15.4	7.1	9.9	9.5	43.1	69.6	7.3	8.7	(5.6)	10.4
Plus: Depreciation & amortization	10.8	11.3	11.2	9.5	42.8	16.2	14.8	15.0	15.5	61.5	15.3	15.2	15.0	45.5
Plus: Restructuring and impairment expense	1.8	0.9	1.3	21.6	25.6	1.1	1.6	1.5	3.9	8.1	0.4	0.6	0.4	1.4
Plus: (Income) loss from equity affiliates	0.1	(0.7)	(1.8)	(2.4)	(4.8)	(0.1)	(0.3)	-	(2.1)	(2.5)	0.3	0.5	(0.3)	0.5
Plus: Other (income) expense, net	(1.4)	-	0.3	1.1	-	1.1	1.6	(3.3)	0.5	(0.1)	0.3	0.5	(11.2)	(10.4)
<b>Adjusted EBITDA from continuing operations</b>	<b>\$ 45.1</b>	<b>\$ 50.7</b>	<b>\$ 44.3</b>	<b>\$ 38.3</b>	<b>\$ 178.4</b>	<b>\$ 44.9</b>	<b>\$ 56.7</b>	<b>\$ 55.8</b>	<b>\$ 40.5</b>	<b>\$ 197.9</b>	<b>\$ 50.7</b>	<b>\$ 57.9</b>	<b>\$ 46.5</b>	<b>\$ 155.1</b>

# Non-GAAP Reconciliations & Supplemental Data



Certain financial measures and comments contained in this presentation are “non-GAAP” financial measures, specifically measures which exclude one or more of the following: restructuring and impairment expenses, depreciation and amortization, interest expense, tax provision (benefit), capital spending, capitalized software expenditures, purchase accounting adjustments, and tax adjustments. We believe that investors’ understanding is enhanced by disclosing these non-GAAP financial measures as a reasonable basis for comparison of our ongoing results of operations.

## Adjusted Earnings Per Share from Continuing Operations - Diluted

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	FY 2018
Diluted net income per share from continuing operations	\$ 0.69	\$ 0.85	\$ 0.61	\$ 0.55	\$ 2.70	\$ 0.45	\$ 0.72	\$ 0.84	\$ (0.89)	\$ 1.12	\$ 0.68	\$ 0.83	\$ 1.33	\$ 2.84
Plus: Purchase accounting adjustments, per share	0.10	0.10	0.10	0.10	0.40	0.26	0.19	0.18	0.18	0.81	0.18	0.18	0.17	0.53
Less: Tax impact of purchase accounting adjustments, per share	(0.04)	(0.03)	(0.04)	(0.04)	(0.15)	(0.08)	(0.07)	(0.04)	(0.06)	(0.25)	(0.05)	(0.03)	(0.06)	(0.14)
Plus: Restructuring and impairment expense, per share	0.06	0.03	0.04	0.71	0.84	0.04	0.05	0.04	0.13	0.26	0.01	0.02	0.01	0.04
Less: Tax impact of restructuring and impairment expense, per share	(0.01)	(0.02)	(0.01)	(0.29)	(0.33)	(0.01)	(0.01)	(0.02)	(0.01)	(0.05)	-	(0.01)	-	(0.01)
Plus: Transitional tax adjustment	-	-	-	-	-	-	-	-	1.59	1.59	-	-	(0.43)	(0.43)
Plus: Write off of contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	(0.33)	(0.33)
Less: Tax impact of write off of contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	0.08	0.08
Less: Net deferred tax movements, one-time tax expense & income tax valuation allow ance	-	(0.01)	0.04	(0.23)	(0.20)	-	-	-	(0.30)	(0.30)	-	-	-	-

## Adjusted Earnings Per Share from Continuing Operations - Diluted

	<u>\$ 0.80</u>	<u>\$ 0.92</u>	<u>\$ 0.74</u>	<u>\$ 0.80</u>	<u>\$ 3.26</u>	<u>\$ 0.66</u>	<u>\$ 0.88</u>	<u>\$ 1.00</u>	<u>\$ 0.64</u>	<u>\$ 3.18</u>	<u>\$ 0.82</u>	<u>\$ 0.99</u>	<u>\$ 0.77</u>	<u>\$ 2.58</u>
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## Adjusted Diluted Earnings Per Share:

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	FY 2018
Diluted net income, per share	\$ 0.69	\$ 0.85	\$ 0.61	\$ 0.55	\$ 2.70	\$ 0.45	\$ 0.72	\$ 0.84	\$ (0.89)	\$ 1.12	\$ 0.67	\$ 0.83	\$ 1.33	\$ 2.83
Plus: Purchase accounting adjustments, per share	0.10	0.10	0.10	0.10	0.40	0.26	0.19	0.18	0.18	0.81	0.18	0.18	0.17	0.53
Less: Tax impact of purchase accounting adjustments, per share	(0.04)	(0.03)	(0.04)	(0.04)	(0.15)	(0.08)	(0.07)	(0.04)	(0.06)	(0.25)	(0.05)	(0.03)	(0.06)	(0.14)
Plus: Restructuring and impairment expense, per share - Continuing Operations	0.06	0.03	0.04	0.71	0.84	0.04	0.05	0.04	0.13	0.26	0.01	0.02	0.01	0.04
Less: Tax impact of restructuring and impairment expense, per share - Continuing Operations	(0.01)	(0.02)	(0.01)	(0.29)	(0.33)	(0.01)	(0.01)	(0.02)	(0.01)	(0.05)	-	(0.01)	-	(0.01)
Plus: Transitional tax adjustment	-	-	-	-	-	-	-	-	1.59	1.59	-	-	(0.43)	(0.43)
Plus: Write off of contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	(0.33)	(0.33)
Less: Tax impact of write off of contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-	0.08	0.08
Less: Net deferred tax movements, one-time tax expense & income tax valuation allow ance	-	(0.01)	0.04	(0.23)	(0.20)	-	-	-	(0.30)	(0.30)	-	-	-	-

## Adjusted Earnings Per Share - Diluted

	<u>\$ 0.80</u>	<u>\$ 0.92</u>	<u>\$ 0.74</u>	<u>\$ 0.80</u>	<u>\$ 3.26</u>	<u>\$ 0.66</u>	<u>\$ 0.88</u>	<u>\$ 1.00</u>	<u>\$ 0.64</u>	<u>\$ 3.18</u>	<u>\$ 0.81</u>	<u>\$ 0.99</u>	<u>\$ 0.77</u>	<u>\$ 2.57</u>
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## Free Cash Flow

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	FY 2018
Cash provided by Operating Activities by Continuing Operations	\$ 17.7	\$ 34.6	\$ 30.8	\$ 46.6	\$ 129.7	\$ 12.9	\$ 31.9	\$ 48.4	\$ 37.7	\$ 130.9	\$ 22.0	\$ 33.9	\$ 37.1	\$ 93.0
Less: Capital spending	(4.5)	(5.2)	(7.8)	(10.3)	(27.8)	(11.1)	(8.2)	(8.2)	(9.7)	(37.2)	(6.0)	(7.7)	(6.1)	(19.8)
Less: Capitalized software expenditure	(0.2)	(0.7)	(0.8)	(1.1)	(2.8)	(0.8)	(0.8)	(1.0)	(0.9)	(3.5)	(0.4)	(0.2)	(0.5)	(1.1)
<b>Free Cash Flow</b>	<u>\$ 13.0</u>	<u>\$ 28.7</u>	<u>\$ 22.2</u>	<u>\$ 35.2</u>	<u>\$ 99.1</u>	<u>\$ 1.0</u>	<u>\$ 22.9</u>	<u>\$ 39.2</u>	<u>\$ 27.1</u>	<u>\$ 90.2</u>	<u>\$ 15.6</u>	<u>\$ 26.0</u>	<u>\$ 30.5</u>	<u>\$ 72.1</u>