



# **Third Quarter 2017 Earnings Conference Call**

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November 2, 2017

# 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, 2016 and those described from time to time in our periodic and other reports filed with the Securities and Exchange Commission.

# **THIRD QUARTER 2017 FINANCIAL OVERVIEW & BUSINESS HIGHLIGHTS**

**DR. JEFF KRAMER  
CHIEF EXECUTIVE OFFICER**

# 3Q:17 Financial Highlights

<i>(\$ in millions, except per share amounts)</i>	<b>3Q:17</b>	<b>3Q:16</b>
<b>Net Sales</b>	<b>\$257.8</b>	<b>\$209.3</b>
<b>GAAP EPS<sup>(1)</sup></b>	<b>\$0.84</b>	<b>\$0.61</b>
<b>Adjusted EPS<sup>(1)</sup></b>	<b>\$1.00</b>	<b>\$0.74</b>
<b>Free Cash Flow<sup>(1)</sup> YTD / LTM</b>	<b>\$63.1 / \$98.3</b>	<b>\$63.9 / \$118.4</b>

## **3Q:17 Adjusted EPS of \$1.00 versus \$0.74 in 3Q:16**

- Q3 and YTD generally consistent with guidance assumptions for Adjusted EPS of \$3.15
- 4% organic sales growth in Advanced Materials & Structures (AMS)
- Solid performance in Engineered Papers (EP), high LIP growth
- Non-operating gain on asset sale of \$0.11 per share, excl. gain EPS still strong

## **YTD Free Cash Flow \$63 million, tracking toward the ≈\$100 million in 2016**

- Improved as expected from 1H:17
- Announced 2% dividend increase

(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 is a non-GAAP financial measure. See non-GAAP reconciliations and supplemental data in appendix. All financial measures presented relate to continuing operations.

## 3Q:17 Business Highlights

- Excluding acquisitions (“organic”) 4% sales growth
  - Double-digit growth in surface protection films (auto paint protection and glass lamination) into transportation end-market
  - Medical sales strong in finger bandage category, partially offsetting continued softness in Filtration
- Conwed delivering on target
  - Steady sales growth overall, in line with long-term 3%-4% expectation
  - 3Q led by strong sales increase in sediment control products as well as construction related products
  - Solid margin performance, accretive to AMS segment margins, achieving synergy milestones
- Continued margin expansion from organic growth, positive mix, and Conwed synergies
  - 3Q and YTD adjusted operating margin nearly 19%

## 2017 Priorities / Updates

- Integrate Conwed, achieve expected accretion, synergies
- Optimize across acquired businesses → scale and higher margins

## 3Q:17 Business Highlights

- Sales increased 4%, volume declined 3%
  - LIP volumes up double digit versus a low 3Q:16, also partly due to U.S. customer inventory build
  - RTL volume lower, down 10%+ YTD, consistent with expectation
  - HnB continues to ramp-up
  - Niche wrapper and binder recon products still growing, but at slower pace
  - Positive mix and currency offset lower RTL volume and LIP royalties
- Margin impact from lower RTL volumes and royalties

## 2017 Priorities / Updates

- Maintain/gain share in LIP using selective price concessions if necessary
- Manage capacity and costs
- Develop and monetize new paper and recon products (Heat-not-Burn)

# **THIRD QUARTER 2017 FINANCIAL RESULTS REVIEW**

**ALLISON ADEN  
CHIEF FINANCIAL OFFICER**

# Sales & Operating Profits

## 3Q:17

### AMS Segment

- Sales: up 60%, organic up 4%
- GAAP OP Margin: up 130 bps to 13.3%
- Adjusted OP Margin<sup>(1)</sup> up 280 bps to 18.9%
  - Margins up from sales growth, positive mix, Conwed acquisition
  - Resin costs remain a headwind
  - Adjusted items primarily include non-cash purchase accounting expenses

### EP Segment

- Sales: up 4%, flat excl. currency
- GAAP OP Margin down 60 bps to 22.8%
- Adjusted OP Margin<sup>(1)</sup> down 120 bps to 23.1%
  - Positive mix and currency offsetting lower RTL volumes and LIP royalties
  - Benefit from LIP inventory build, expected to reverse in 4Q
  - SG&A reductions helping

### Unallocated Expenses

- GAAP and Adjusted both down about 6%-7% versus prior year
  - Favorable timing of consulting services, e.g. tax, legal, versus last year
  - YTD flat

## Consolidated

- Sales: up 23%, organic up 4%, flat excl. Conwed and currency benefit
- GAAP OP Margin up 20 bps to 14.9%
- Adjusted OP Margin<sup>(1)</sup> up 80 bps to 17.6%

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



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

**3Q:17 GAAP EPS of \$0.84, up versus \$0.61 in 3Q:16**

**3Q:17 Adjusted EPS of \$1.00, up versus \$0.74 in 3Q:16**

- 3Q:17 benefitted \$0.11 per share from asset sale, excl. would be \$0.89 versus \$0.74
- Tax rate lower versus last year, favorable timing of discrete items, YTD flat versus last year
- Currency translation impact slightly positive

## **2017 Trends, Puts, and Takes**

- YTD EPS generally in line with guidance assumptions
- Should expect to resume seasonal earnings pattern of strong 2Q and 3Q relative to 1Q and 4Q
- Strong organic growth in AMS, better-than expected in surface protection, filtration still weak
- Pulp and resin costs moving higher, isolated industry supply issues
- Chinese RTL JV an EPS headwind year-to-date

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

# Cash Flow & Debt

## YTD Operating Cash Flow of \$93 million, Free Cash Flow<sup>(1)</sup> of \$63 million

- Capital spending/software: \$30 million
- Dividends: \$39

## LTM Operating Cash Flow of \$140 million, Free Cash Flow<sup>(1)</sup> of \$98 million

- Capital spending/software: \$42 million
- Dividends: \$52 million

\$ millions	3Q:17	4Q:16
<u>Balance Sheet</u>		
Total Debt	694.0	440.4
Less: Cash	<u>100.6</u>	<u>107.4</u>
<b>Net Debt</b>	<b>593.4</b>	<b>333.0</b>
<u>Leverage per Credit Agreement</u> <sup>(2)</sup>		
<b>Net Debt / Adjusted EBITDA</b>	<b>2.9x</b>	<b>2.0x</b>

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

(2) Credit agreement makes certain adjustments to EBITDA and net debt, including an adjustment to overseas cash balances.

# 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, tax valuation adjustments, and Brazilian accelerated tax depreciation. 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.

	FY 2014	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	FY 2017
<b>Adjusted Operating Profit from Continuing Operations:</b>											
Operating Profit from Continuing Operations	\$ 106.1	\$ 103.0	\$ 31.6	\$ 37.5	\$ 30.8	\$ 6.2	\$ 106.1	\$ 26.6	\$ 39.5	\$ 38.5	\$ 104.6
Plus: Restructuring and Impairment Expense	13.1	14.6	1.8	0.9	1.3	21.6	25.6	1.1	1.6	1.5	4.2
Plus: Purchase accounting adjustments	6.4	7.5	3.1	3.1	3.0	3.1	12.3	7.9	5.9	5.4	19.2
Plus: Brazil accelerated depreciation	1.2	-	-	-	-	-	-	-	-	-	-
<b>Adjusted Operating Profit from Continuing Operations</b>	<b>\$ 126.8</b>	<b>\$ 125.1</b>	<b>\$ 36.5</b>	<b>\$ 41.5</b>	<b>\$ 35.1</b>	<b>\$ 30.9</b>	<b>\$ 144.0</b>	<b>\$ 35.6</b>	<b>\$ 47.0</b>	<b>\$ 45.4</b>	<b>\$ 128.0</b>
<b>Adjusted Operating Margin from Continuing Operations</b>	<b>16.0%</b>	<b>16.4%</b>	<b>17.0%</b>	<b>19.1%</b>	<b>16.8%</b>	<b>15.6%</b>	<b>17.1%</b>	<b>15.3%</b>	<b>18.4%</b>	<b>17.6%</b>	<b>17.1%</b>
<b>Adjusted Net Income (Loss) from Continuing Operations:</b>											
Net income from continuing operations	\$ 89.7	\$ 90.5	\$ 21.1	\$ 26.0	\$ 18.7	\$ 17.0	\$ 82.8	\$ 13.7	\$ 22.3	\$ 25.7	\$ 61.7
Plus: Restructuring and impairment expense	13.1	14.6	1.8	0.9	1.3	21.6	25.6	1.1	1.6	1.5	4.2
Less: Tax impact of restructuring and impairment expense	(4.3)	(2.7)	(0.4)	(0.3)	(0.5)	(9.0)	(10.2)	(0.4)	(0.4)	(0.4)	(1.2)
Plus: Income tax valuation allowance adjustments	-	-	-	(0.4)	1.3	-	0.9	-	-	-	-
Plus: Purchase accounting adjustments	6.4	7.5	3.1	3.1	3.0	3.1	12.3	7.9	5.9	5.4	19.2
Less: Tax impact of purchase accounting adjustments	(2.3)	(2.8)	(1.2)	(1.2)	(1.0)	(1.1)	(4.5)	(2.5)	(1.9)	(1.5)	(5.9)
Less: Net deferred tax movements, one-time tax expense & income tax valuation allowance	-	-	-	-	-	(7.4)	(7.4)	-	-	-	-
<b>Adjusted Net Income from Continuing Operations</b>	<b>\$ 105.9</b>	<b>\$ 107.1</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>\$ 78.0</b>
<b>EBIT, Adjusted EBIT and Adjusted EBITDA from Continuing Operations:</b>											
Net income from Continuing Operations	\$ 89.7	\$ 90.5	\$ 21.1	\$ 26.0	\$ 18.7	\$ 17.0	\$ 82.8	\$ 13.7	\$ 22.3	\$ 25.7	\$ 61.7
Plus: Interest expense	7.2	9.7	4.6	4.1	3.9	4.0	16.6	5.8	6.8	7.4	20.0
Plus: Tax provision (benefit)	20.5	21.6	8.1	9.1	10.7	(12.5)	15.4	7.1	9.9	9.5	26.5
<b>EBIT from Continuing Operations</b>	<b>117.4</b>	<b>121.8</b>	<b>33.8</b>	<b>39.2</b>	<b>33.3</b>	<b>8.5</b>	<b>114.8</b>	<b>26.6</b>	<b>39.0</b>	<b>42.6</b>	<b>108.2</b>
Plus: Restructuring and impairment expense	13.1	14.6	1.8	0.9	1.3	21.6	25.6	1.1	1.6	1.5	4.2
<b>Adjusted EBIT from Continuing Operations</b>	<b>130.5</b>	<b>136.4</b>	<b>35.6</b>	<b>40.1</b>	<b>34.6</b>	<b>30.1</b>	<b>140.4</b>	<b>27.7</b>	<b>40.6</b>	<b>44.1</b>	<b>112.4</b>
Plus: Depreciation & amortization	45.1	41.0	10.8	11.3	11.2	9.5	42.8	16.2	14.8	15.0	46.0
<b>Adjusted EBITDA from Continuing Operations</b>	<b>\$ 177.7</b>	<b>\$ 177.4</b>	<b>\$ 46.4</b>	<b>\$ 51.4</b>	<b>\$ 45.8</b>	<b>\$ 39.6</b>	<b>\$ 183.2</b>	<b>\$ 43.9</b>	<b>\$ 55.4</b>	<b>\$ 59.1</b>	<b>\$ 158.4</b>

# Non-GAAP Reconciliations & Supplemental Data



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## Adjusted Earnings Per Share from Continuing Operations - Diluted

	FY 2014	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	FY 2017
Diluted net income per share from continuing operations	\$ 2.93	\$ 2.96	\$ 0.69	\$ 0.85	\$ 0.61	\$ 0.55	\$ 2.70	\$ 0.45	\$ 0.72	\$ 0.84	\$ 2.01
Plus: Income tax valuation allowance adjustments, per share	-	-	-	(0.01)	0.04	-	0.03	-	-	-	-
Plus: Purchase accounting adjustments, per share	0.21	0.25	0.10	0.10	0.10	0.10	0.40	0.26	0.19	0.18	0.63
Less: Tax impact of purchase accounting adjustments, per share	(0.08)	(0.09)	(0.04)	(0.03)	(0.04)	(0.04)	(0.15)	(0.08)	(0.07)	(0.04)	(0.19)
Plus: Restructuring and impairment expense, per share	0.43	0.48	0.06	0.03	0.04	0.71	0.84	0.04	0.05	0.04	0.13
Less: Tax impact of restructuring and impairment expense, per share	(0.14)	(0.09)	(0.01)	(0.02)	(0.01)	(0.29)	(0.33)	(0.01)	(0.01)	(0.02)	(0.04)
Less: Net deferred tax movements, one-time tax expense & income tax valuation allowance	-	-	-	-	-	(0.23)	(0.23)	-	-	-	-
<b>Adjusted Earnings Per Share from Continuing Operations - Diluted</b>	<b>\$ 3.46</b>	<b>\$ 3.51</b>	<b>\$ 0.80</b>	<b>\$ 0.92</b>	<b>\$ 0.74</b>	<b>\$ 0.80</b>	<b>\$ 3.26</b>	<b>\$ 0.66</b>	<b>\$ 0.88</b>	<b>\$ 1.00</b>	<b>\$ 2.54</b>

## Adjusted Diluted Earnings Per Share:

	FY 2014	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	FY 2017
Diluted net income, per share	\$ 2.93	\$ 2.94	\$ 0.69	\$ 0.85	\$ 0.61	\$ 0.55	\$ 2.70	\$ 0.45	\$ 0.72	\$ 0.84	\$ 2.01
Plus: Income tax valuation allowance adjustments, per share	-	-	-	(0.01)	0.04	-	0.03	-	-	-	-
Plus: Purchase accounting adjustments, per share	0.21	0.25	0.10	0.10	0.10	0.10	0.40	0.26	0.19	0.18	0.63
Less: Tax impact of purchase accounting adjustments, per share	(0.08)	(0.09)	(0.04)	(0.03)	(0.04)	(0.04)	(0.15)	(0.08)	(0.07)	(0.04)	(0.19)
Plus: Restructuring and impairment expense, per share - Continuing Operations	0.43	0.48	0.06	0.03	0.04	0.71	0.84	0.04	0.05	0.04	0.13
Less: Tax impact of restructuring and impairment expense, per share - Continuing Operations	(0.14)	(0.09)	(0.01)	(0.02)	(0.01)	(0.29)	(0.33)	(0.01)	(0.01)	(0.02)	(0.04)
Less: Net deferred tax movements, one-time tax expense & income tax valuation allowance	-	-	-	-	-	(0.23)	(0.23)	-	-	-	-
<b>Adjusted Earnings Per Share - Diluted</b>	<b>\$ 3.46</b>	<b>\$ 3.49</b>	<b>\$ 0.80</b>	<b>\$ 0.92</b>	<b>\$ 0.74</b>	<b>\$ 0.80</b>	<b>\$ 3.26</b>	<b>\$ 0.66</b>	<b>\$ 0.88</b>	<b>\$ 1.00</b>	<b>\$ 2.54</b>

## Free Cash Flow

	FY 2014	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	FY 2017
Cash provided by Operating Activities by Continuing Operations	\$ 166.4	\$ 144.6	\$ 17.7	\$ 34.6	\$ 30.8	\$ 46.6	\$ 129.7	\$ 12.9	\$ 31.9	\$ 48.4	\$ 93.2
Less: Capital spending	(35.1)	(24.2)	(4.5)	(5.2)	(7.8)	(10.3)	(27.8)	(11.1)	(8.2)	(8.2)	(27.5)
Less: Capitalized software expenditure	(1.0)	(0.9)	(0.2)	(0.7)	(0.8)	(1.1)	(2.8)	(0.8)	(0.8)	(1.0)	(2.6)
<b>Free Cash Flow</b>	<b>\$ 130.3</b>	<b>\$ 119.5</b>	<b>\$ 13.0</b>	<b>\$ 28.7</b>	<b>\$ 22.2</b>	<b>\$ 35.2</b>	<b>\$ 99.1</b>	<b>\$ 1.0</b>	<b>\$ 22.9</b>	<b>\$ 39.2</b>	<b>\$ 63.1</b>