

# Packaging Corporation of America

## 2017 Citi Basic Materials Conference

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November 28 - 29, 2017



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Chairman & CEO

**Certain statements in this presentation are forward-looking statements. Forward-looking statements include statements about our future financial condition, our industry and our business strategy. Statements that contain words such as “anticipate”, “believe”, “expect”, “intend”, “estimate”, “hope” or similar expressions, are forward-looking statements. These forward-looking statements are based on the current expectations of PCA.**

**Because forward-looking statements involve inherent risks and uncertainties, the plans, actions and actual results of PCA could differ materially. Among the factors that could cause plans, actions and results to differ materially from PCA’s current expectations are those identified under the caption “Risk Factors” in PCA’s Form 10K filed with the Securities and Exchange Commission and available at the SEC’s website at “[www.sec.gov](http://www.sec.gov)”.**

**Non-GAAP financial measures are reconciled to the most comparable GAAP measure in the Appendix.**

# PCA Operations



## Containerboard Mills

- 6 manufacturing facilities
- 3.9 MM tons of capacity
- 4<sup>th</sup> largest producer in the U.S.
- Low-cost virgin fiber production
- Highest vertical integration level in the industry (95%)

## Corrugated Products Plants

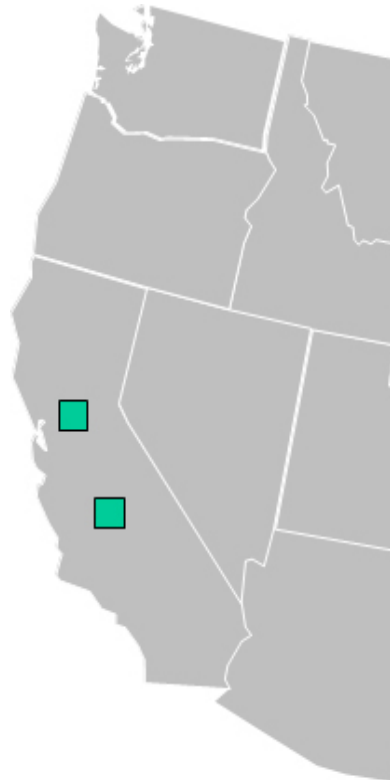
- 94 plants in 30 states
- 51.3 BSF shipped in 2016
- Value and margin driven

## White Paper Mills

- 3 manufacturing facilities
- 1.1 MM tons of capacity
- 3<sup>rd</sup> largest producer of uncoated freesheet in the U.S.



# TimBar, Columbus Container and Sacramento Container Operations

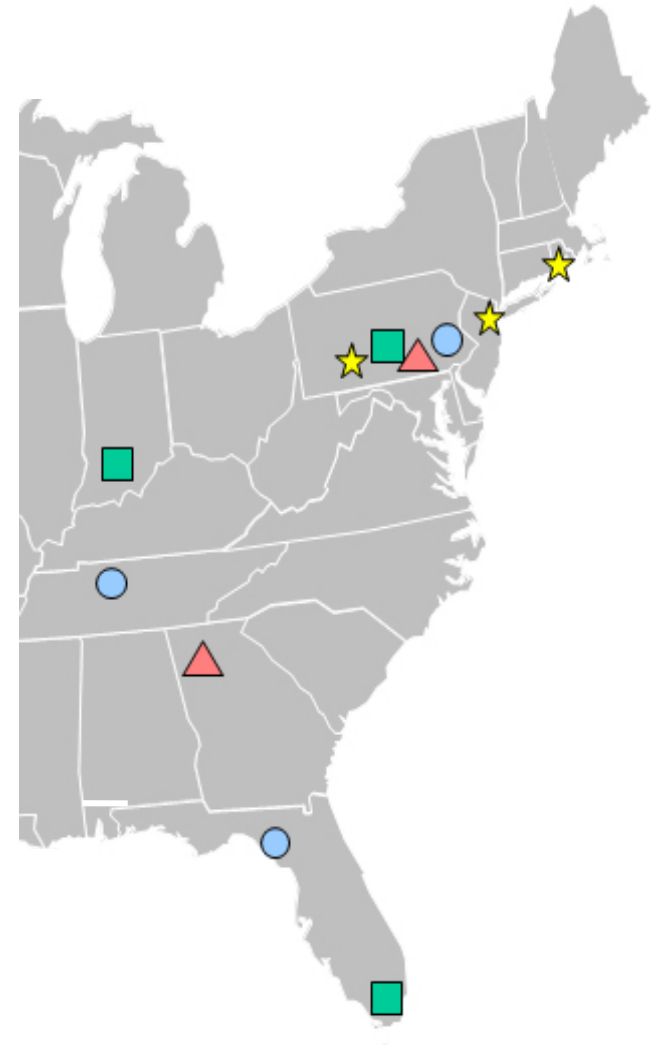


**■ Corrugator Plants**  
New Oxford, PA  
Miami, FL  
Columbus, IN  
Sacramento, CA  
Kingsburg, CA

**● Sheet Plants**  
Collegeville, PA  
Tampa, FL  
Gallatin, TN

**★ Design Centers**  
New Oxford, PA  
Fair Lawn, NJ  
Providence, RI

**▲ Fulfillment Centers**  
Hanover, PA  
Atlanta, GA



- **Right Product – Corrugated Containers (~ 90% of Adj. EBITDA)**
  - Corrugated has established its place in society
  - Good industry dynamics, supply/demand balance, consolidation
  - PCA is positioned for growth, limited export exposure
  - Operational and fiber flexibility
- **White Papers (~ 10% of Adj. EBITDA)**
  - Good assets
  - 16% average EBITDA margin over last three years
  - Low cap-ex, solid cash flow

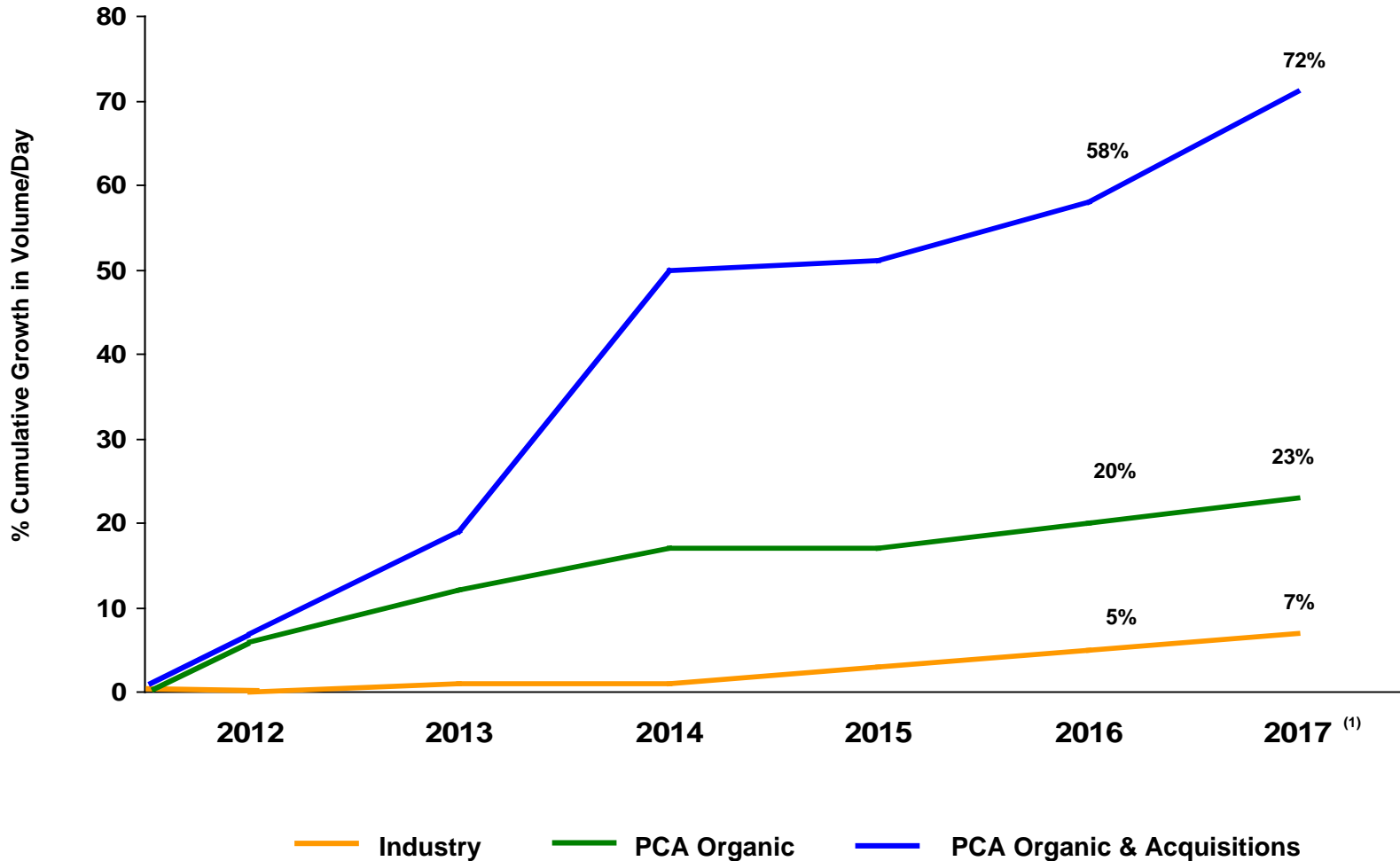
- **Proven and Unique Corrugated Products Strategy**
  - **We have developed considerable capabilities and expertise in performing the hard-to-do things that provide our customers the best value**
  - **Boxes are not a commodity; PCA's focus is on revenue growth in our box plants to drive profitability**
  - **Focus on providing the best value and being easy to do business with**
  - **Our strategy is very difficult to replicate because of the know-how and resources required**

- **Best Performing Company Over an Extended Period of Time**
  - **Best volume growth, margins and ROIC in the industry**
  - **Strong customer base, 2/3 local accounts**
  - **Low-cost virgin mills**
  - **Lowest OCC usage in the industry**
  - **Highest vertical integration in the industry**
  - **Limited currency risk**
  - **Lowest leverage among industry peers**
  - **Strong management / track record**

- **Focus and History of Returning Value to Shareholders Through Balanced Allocation Strategy**
  - **Capital spending discipline**
  - **Opportunistic share repurchases**
  - **Strong, sustainable approach to dividends**
  - **Value-creating acquisitions**
  - **Maintain strong balance sheet through prudent debt paydown**



# Significant Corrugated Products Growth Over Last Five Years

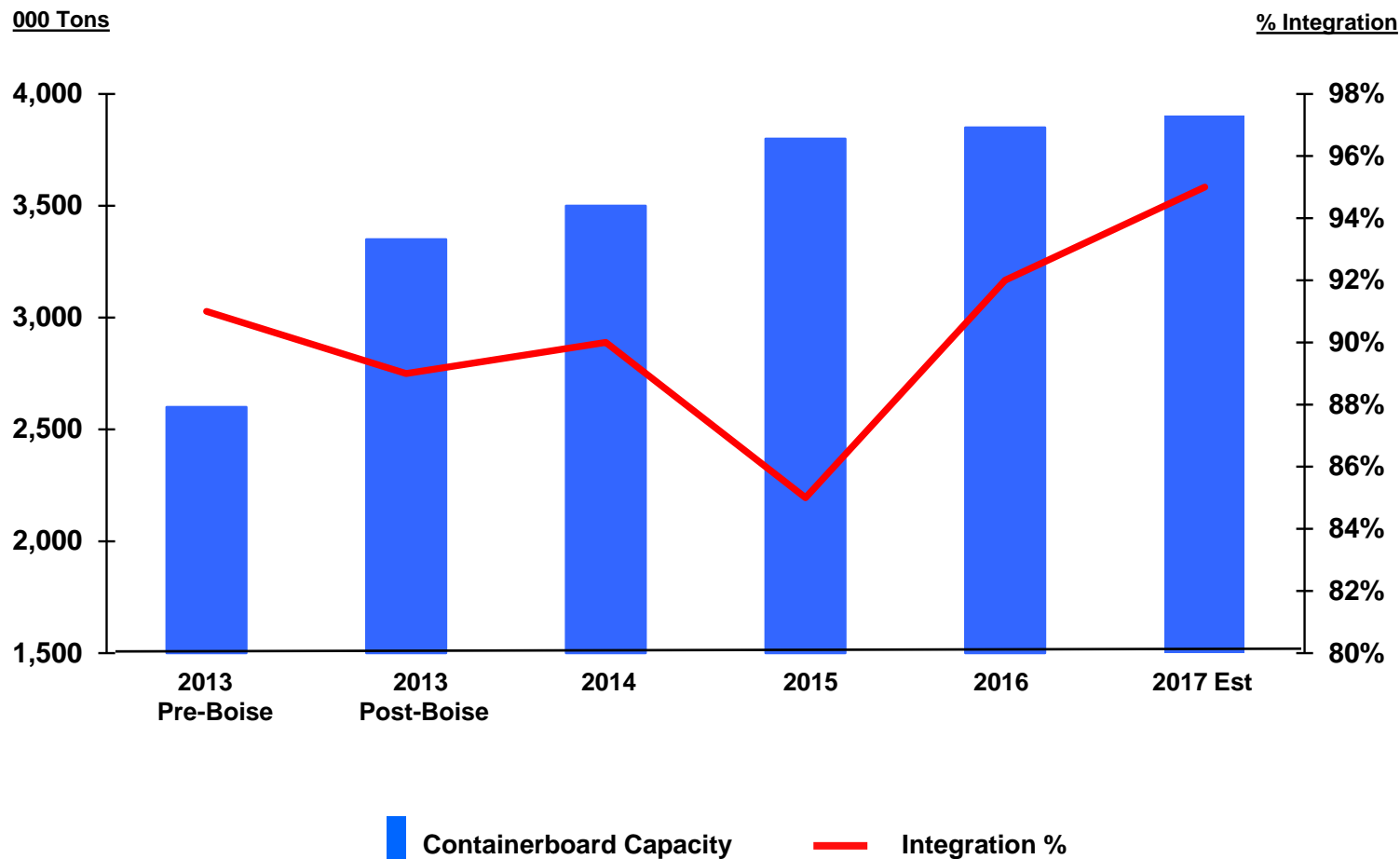


(1) Assumes 2% growth for PCA and the industry in 2017

# High Level of Integration Supports Industry-Leading Margins



HIGHEST VERTICAL INTEGRATION AMONG INDUSTRY PEERS

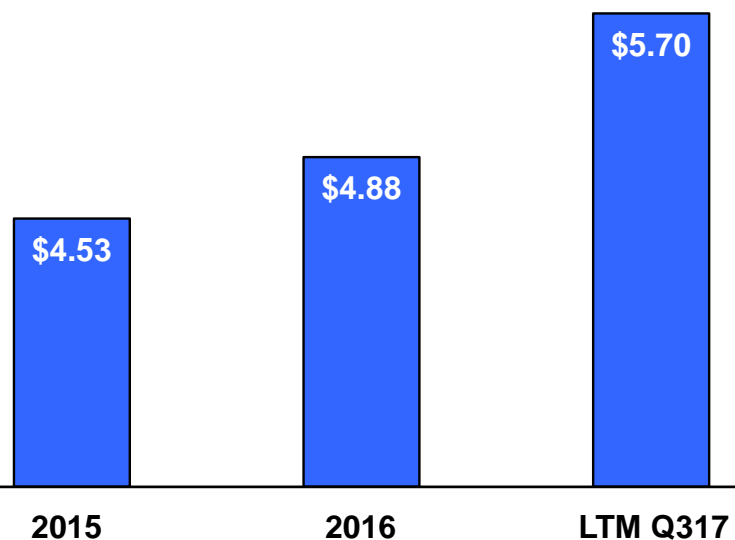


# Solid and Consistent Financial Results

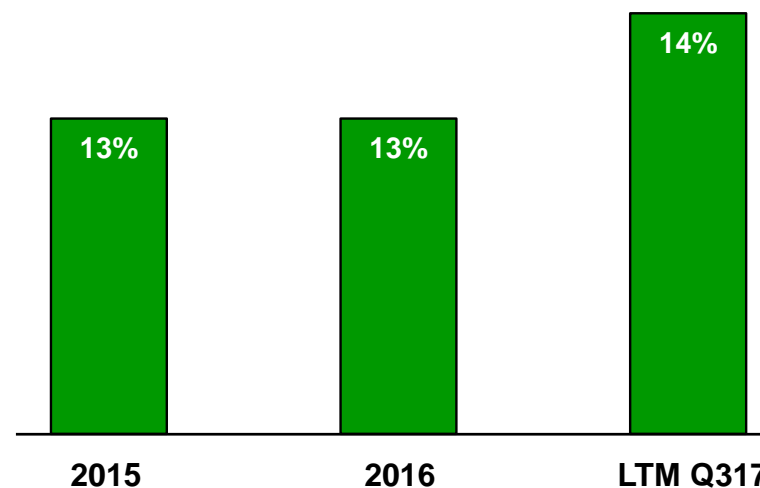


**Earnings Per Share CAGR of 25% Over Last Five Years**

## Earnings Per Share



## ROIC

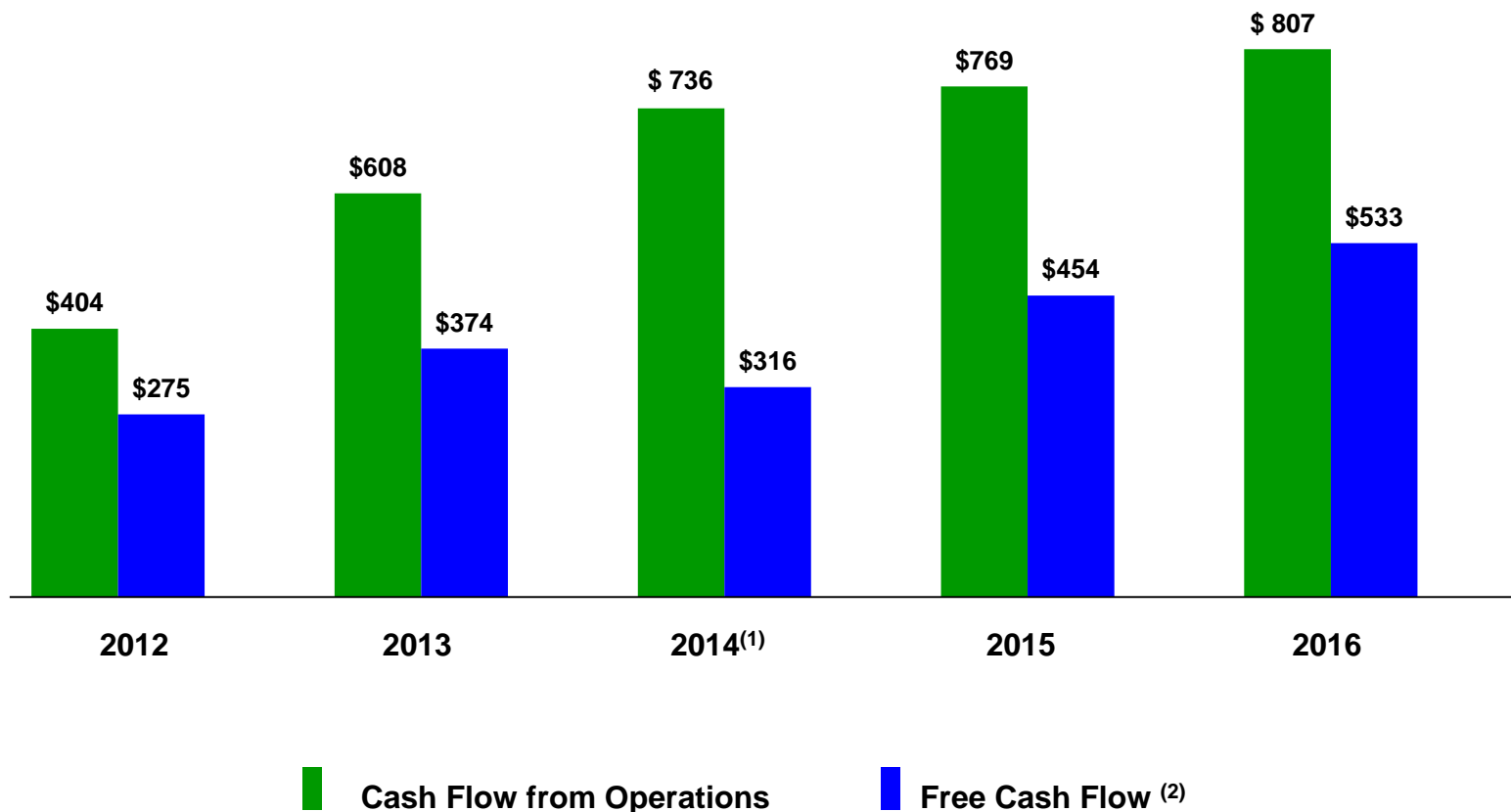


**Packaging Segment EBITDA Margins > 22% Each of Last Three Years**

# Steadily Growing Cash Flow Allows Continuous Value-Creating Opportunities



\$ Millions



(1) Includes major capital projects of D3 conversion, D1 improvements, and Boiler MACT.

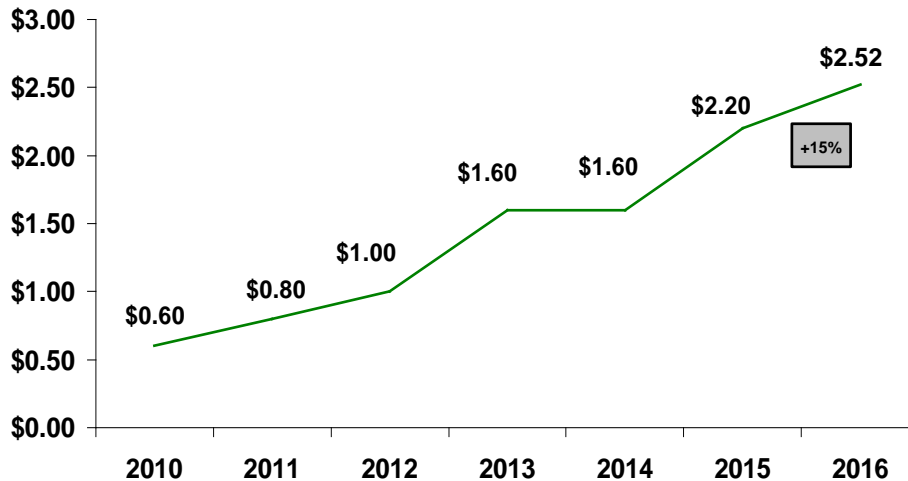
(2) See Appendix for calculation of free cash flow.

# Strong Commitment of Returning Cash to Shareholders



## DIVIDENDS

Per Share  
Annualized



## SHARE REPURCHASES

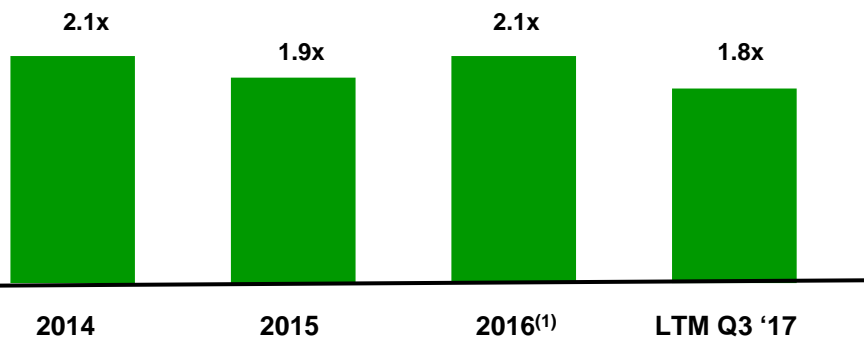
- Repurchased 2.3 million shares in 2015
- Repurchased 2.0 million shares at average price of \$50.49/share in 2016
- \$200 million share buy-back authorization approved in February 2016

# Strong Balance Sheet Provides for Financial Flexibility

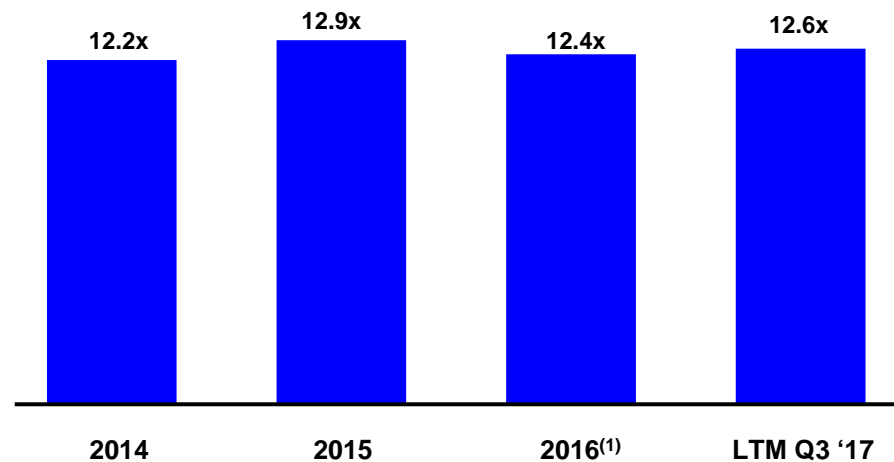


LOWEST LEVERAGE AMONG INDUSTRY PEERS

Leverage Ratio



Interest Coverage



(1) Includes new \$385 term loan for TimBar acquisition.

# Strategic Focus Areas

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- **Continued Operational Excellence in Manufacturing and Sales**
- **Continue Containerboard / Corrugated System Optimization with TimBar, Columbus and Sacramento Container Acquisitions and Wallula Linerboard Conversion**
- **Enhance Revenue thru Profitable Organic Box Volume Growth and Strategic Box Plant Acquisitions**
- **Balanced and Disciplined Capital Allocation**
- **Maintain Financial Flexibility with Strong Balance Sheet**

**PCA**



# Appendix



	<u>2015</u>	<u>2016</u>	<u>LTM 9/30/17</u>
Earnings per share, as reported	\$ 4.47	\$ 4.75	\$ 5.40
Wallula mill restructuring <sup>(1)</sup>	-	0.02	0.18
Internal legal entity consolidation <sup>(2)</sup>	-	-	0.04
Facilities closure and other costs <sup>(3)</sup>	-	0.08	0.04
DeRidder mill incident <sup>(4)</sup>	-	-	0.03
Acquisition and integration related costs <sup>(5)</sup>	0.10	0.03	0.02
Hexacomb working capital adjustment <sup>(6)</sup>	-	-	(0.01)
Sale of St. Helens paper mill site <sup>(7)</sup>	(0.05)	-	-
DeRidder restructuring <sup>(8)</sup>	<u>0.01</u>	<u>-</u>	<u>-</u>
<b>Adjusted earnings per share</b>	<b>\$ 4.53</b>	<b>\$ 4.88</b>	<b>\$5.70</b>

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Cash flow from operations</b>	\$ 404	\$ 608	\$ 736	\$ 769	\$ 807
<b>Less: additions to PP&amp;E</b>	<u>(129)</u>	<u>(234)</u>	<u>(420)</u>	<u>(315)</u>	<u>(274)</u>
<b>Free cash flow</b>	<b>\$ 275</b>	<b>\$ 374</b>	<b>\$ 316</b>	<b>\$ 454</b>	<b>\$ 533</b>

(1) Represents costs related to ceased production of softwood market pulp and the permanent shutdown of the No. 1 machine in Q4 2016, and the announced Q2 2018 discontinuation of UFS and coated one-side grades associated with the machine conversion at our Wallula, WA mill.

(2) Represents tax expense related to an internal legal entity consolidation.

(3) Represents facility closure costs and costs related to withdrawals from multi-employer pension plans.

(4) Represents costs related to the property damage and business interruption insurance deductible corresponding to the February 2017 explosion at our DeRidder, LA mill.

(5) Represents costs related to the acquisition of TimBar, Columbus Container, Inc and Sacramento Container.

(6) Represents income related to a working capital adjustment from the April 2015 sale of our Hexacomb operations in Europe and Mexico.

(7) Represents the gain on the sale of the St. Helens paper mill site.

(8) Represents charges related to the restructuring of our DeRidder, LA mill.

# Appendix



	2014				2015				2016			
	Packaging	Paper	Corporate	Total	Packaging	Paper	Corporate	Total	Packaging	Paper	Corporate	Total
Net income, as reported				\$ 393				\$ 437				\$ 450
Interest expense, net				88				86				92
Provision for income taxes				<u>222</u>				<u>228</u>				<u>239</u>
Income from operations	663	\$ 135	\$ (95)	\$ 703	\$ 715	\$ 113	\$ (77)	\$ 751	\$ 711	\$ 138	\$ (68)	\$ 781
DD&A	<u>323</u>	<u>51</u>	<u>7</u>	<u>381</u>	<u>297</u>	<u>55</u>	<u>4</u>	<u>356</u>	<u>293</u>	<u>60</u>	<u>5</u>	<u>358</u>
EBITDA	<b>\$ 986</b>	<b>\$ 186</b>	<b>\$ (88)</b>	<b>\$ 1,084</b>	<b>\$ 1,012</b>	<b>\$ 168</b>	<b>\$ (73)</b>	<b>\$ 1,107</b>	<b>\$ 1,004</b>	<b>\$ 198</b>	<b>\$ (63)</b>	<b>\$ 1,139</b>
<b>Special items:</b>												
Multiemployer pension withdrawal <sup>(1)</sup>	-	-	-	-	-	-	-	-	1	-	-	1
Facilities closure costs <sup>(2)</sup>	-	-	-	-	-	-	-	-	9	1	-	10
Acquisition related costs <sup>(3)</sup>	-	-	-	-	-	-	-	-	4	-	-	4
Wallula mill restructuring <sup>(4)</sup>	-	-	-	-	-	-	-	-	-	1	-	1
DeRidder restructuring <sup>(5)</sup>	24	-	-	24	(7)	-	-	(7)	-	-	-	-
Integration-related costs <sup>(6)</sup>	5	-	13	18	4	-	9	13	-	-	-	-
Sale of St. Helens paper mill site <sup>(7)</sup>	-	-	-	-	-	(7)	-	(7)	-	-	-	-
Class action lawsuit settlement <sup>(8)</sup>	-	-	18	18	-	-	-	-	-	-	-	-
Adjusted EBITDA	<u><b>\$ 1,015</b></u>	<u><b>\$ 186</b></u>	<u><b>\$ (57)</b></u>	<u><b>\$ 1,144</b></u>	<u><b>\$ 1,009</b></u>	<u><b>\$ 161</b></u>	<u><b>\$ (64)</b></u>	<u><b>\$ 1,106</b></u>	<u><b>\$ 1,018</b></u>	<u><b>\$ 200</b></u>	<u><b>\$ (63)</b></u>	<u><b>\$ 1,155</b></u>
Net sales, as reported	<b>\$ 4,540</b>	<b>\$ 1,202</b>	<b>\$ 111</b>	<b>\$ 5,853</b>	<b>\$ 4,477</b>	<b>\$ 1,143</b>	<b>\$ 122</b>	<b>\$ 5,742</b>	<b>\$ 4,585</b>	<b>\$ 1,094</b>	<b>\$ 100</b>	<b>\$ 5,779</b>
Adjusted EBITDA margin	<b>22.4%</b>	<b>15.5%</b>	<b>N/A</b>	<b>19.5%</b>	<b>22.5%</b>	<b>14.1%</b>	<b>N/A</b>	<b>19.3%</b>	<b>22.2%</b>	<b>18.3%</b>	<b>N/A</b>	<b>20.0%</b>

(1) Represents costs related to a withdrawal from a multiemployer pension plan.

(2) Represents closure costs related to corrugated products facilities and a paper products facility.

(3) Represents costs related to the acquisition of TimBar and Columbus Container, Inc.

(4) Represents costs related to ceased production of softwood market pulp at our Wallula, Washington mill and the permanent shutdown of the No. 1 machine

(5) Represents charges related to the restructuring of the DeRidder mill.

(6) Represents costs related primarily to the integration of Boise.

(7) Represents the gain on the sale of the St. Helens paper mill site.

(8) Represents costs related to the settlement of the Kleen Products LLC v Packaging Corp of America et al lawsuit.