

FINAL TRANSCRIPT

KP Tissue Inc.

Fourth Quarter Results

Event Date/Time: March 27, 2013 8:30 a.m. E.T.

Length: 29 minutes

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PRESENTATION**Operator**

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the KP Tissue 2012 fourth quarter results conference call.

At this time all participants are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press * followed by 0 for operator assistance at any time.

Before turning the meeting over to management, please be advised that this conference will contain statements that are forward looking and subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated.

I would also like to remind everyone that this conference call is being recorded on Wednesday, March 27th, 2013.

I will now turn the conference over to Mr. Mike Baldesarra. Please go ahead.

Mike Baldesarra – Director, Investor Relations, KP Tissue Inc. and Kruger Products LP

Great. Thank you. Thank you, Operator, and good morning, ladies and gentlemen. My name is Mike Baldesarra and I'm the Director of Investor Relations at KP Tissue.

The purpose of this conference call is to review the financial results of the fourth quarter and fiscal 2012 of Kruger Products LP, which we will refer to as KP LP going forward.

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With me this morning is Mario Gosselin, the Chief Executive Officer of KP Tissue and Kruger Products LP; and Mark Holbrook, the Chief Financial Officer of KP Tissue and Kruger Products LP.

The following discussions and responses to questions contain forward-looking statements concerning the company's activities. Forward-looking statements involve known and unknown risks and uncertainties which could cause the company's actual results to differ materially from those in the forward-looking statements. Investors are cautioned not to rely on these forward-looking statements. The company does not undertake to update these forward-looking statements except if required by applicable law.

There is a page at the beginning of the written presentation which contains the usual legal cautions, including as to the forward-looking information, which you should be aware of.

I would like to point out that all the figures expressed in today's call are in Canadian dollars unless otherwise stated.

The press release reporting our Q4 and fiscal year 2012 results were published this morning and can be accessed from our website at www.KPTissueInc.com. Please be aware that our MD&A will be posted on our website and will also be available on SEDAR.

Finally, I would like to ask you during the call to refer to the presentation we have provided to accompany these discussions, which is also available on our website. We would also appreciate that during the Q&A period for you to limit your questions to two.

Thank you for your cooperation.

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Ladies and gentlemen, I will now turn the call over to Mario Gosselin, our CEO. Mario?

Mario Gosselin – Chief Executive Officer, KP Tissue Inc. and Kruger Products LP

Thank you, Mike. Good morning, everyone. I'm very pleased to welcome you to our first conference call. I would like to take this opportunity to provide you with some of the highlights and most significant achievements of the fourth quarter of 2012 and the fiscal year. Please now refer to page 6 of the presentation we have provided to you.

First, I'm pleased to report that the TAD Project progressed as planned in 2012. As we recently announced, the construction phase has been completed on time and on budget. The TAD Project is a critical component of our growth strategy in the private label segment in the U.S. Considering the scale and complexity of this project, we really view the completion of this construction phase as a very important milestone for our organization. You will see later in the presentation it will... and I will provide more details.

Second, in 2012 we also embarked on a significant rationalization project aimed primarily at exiting the business of selling parent rolls with total recurring annual savings of \$12 million. This project generated \$6.4 million in 2012, and will result in additional savings of \$5.5 million in 2013.

Third, on the private label side of the business we made really solid progress in the U.S. We're pleased by the results achieved in the second half of 2012 with the White Cloud brand, which is exclusive to Walmart stores. We're also very proud that a leading U.S. consumer magazine ranked our White Cloud Ultra as the number one bathroom tissue in the U.S.

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Finally, our brand continues to gain market share in Canada, as detailed on page 7 of our presentation. In early 2013 our market share in the bathroom tissue segment stood at 35 per cent, well ahead of the next closest competitor. Moreover, in the facial tissue and paper towel segment our market share were 31.9 per cent and 23.7 per cent respectively.

I will now like to briefly review some of our 2012 numbers, and then I will turn the call over to Mark who will provide you with more details.

Revenue for the year reached \$923 million, an increase of 3.4 per cent over last year. In the consumer and away from home segments, revenue increased by 5.7 per cent and 3.5 per cent respectively. Revenue in what we call our other segment was negatively impacted by our decision to cease production of parent rolls for sale last year.

EBITDA for the year reached \$111 million, a substantial increase of 36 per cent over 2011. I would like to point out that as we expected, direct and incremental costs associated with the TAD Project had a negative impact on our EBITDA of \$3.6 million for the year.

I'm really pleased by the company performance in fiscal 2012, and anticipate further advance in 2013.

I will now pass the call to Mark for a review of the fourth quarter results. Mark?

Mark Holbrook – Chief Financial Officer, KP Tissue Inc. and Kruger Products LP

Thank you, Mario, and good morning, ladies and gentlemen.

I would now like to refer you to the table on page 10 of the presentation. Here we provide adjusted EBITDA, which is \$126.3 million. This table is an update to the one presented in our prospectus. I would note that this is as of December 31st, 2012, and therefore it does not necessarily represent our EBITDA going forward as in 2012 we did benefit from the lower fibre and energy costs.

Since September 2012 pulp prices for NBSK and eucalyptus have increased by over 8 per cent and 6 per cent respectively. To date we have absorbed these price increases. Also, the start-up costs for the TAD Project will have an impact on results in the first half of 2013.

On page 11 for the fourth quarter of fiscal 2012 we reported revenue of \$242.9 million, which represents an increase of 0.8 per cent over the same period last year, and 4.5 per cent increase over the third quarter of 2012. On a quarterly basis, as detailed on page 13 and 14 of the presentation, a number of factors had an impact on the variation in revenue in Q4 of 2012 compared to Q3 2012 and Q4 2011.

First, revenue benefited from the positive impact of higher volume and changes in product mix. Second, the fourth quarter of 2012 revenue was impacted as we ceased production of parent rolls for sale in our New Westminster plant as part of the business rationalization project. This exit represents a revenue reduction of approximately \$20 million on an annual basis. Third, our average selling prices declined as a result of lower pulp prices. And finally, when compared to Q3 2012, the fourth quarter of 2012 benefited from one extra week of sales, 14 weeks compared to 13 weeks.

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Now I'll turn to EBITDA on page 15. EBITDA was \$22.9 million for the fourth quarter of 2012 compared to \$24.3 million for the same period last year, and \$31.4 million in the third quarter of 2012. When compared to last year, fourth quarter EBITDA in 2012 declined by \$1.3 million compared to the... due to the combination of the following factors: gross margin increased to 29 per cent from 27 per cent, primarily due to the benefits of lower fibre and energy costs, partially offset by higher plant maintenance expenses; operating expenses were \$59.8 million, an increase primarily due to higher sales and marketing expenses, freight and warehousing costs from higher sales; costs associated with transitioning to a public company; TAD Project start-up costs; and unfavourable foreign exchange impact.

When compared to the third quarter of 2012, EBITDA in Q4 declined by \$8.5 million due to the combination of the following factors – see page 16 for all details: the first, the gross margin declined to 29 per cent in the fourth quarter from 30.9 per cent in the third quarter. This is primarily due to higher plant maintenance and operational expenditures, and is partially offset by the contribution from higher revenue. Second, the operating expenses increased to \$59.8 million from \$44.7 million in the third quarter of 2012. The extra week in the fourth quarter explains part of the difference.

In addition, during the fourth quarter sales and marketing expenses increased significantly because of the timing of our advertising campaign. Other factors responsible for the increase include costs associated with transitioning to a public entity, TAD Project start-up costs, and

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unfavourable foreign exchange rates. Please refer to page 17 of the presentation for the details of direct and incremental costs of the TAD Project.

Moving on to our debt and cash balance, as set forth on page 18, as of December 31st, 2012 we had a healthy cash balance of \$121.5 million and net debt stood at \$206 million. At the end of 2012 our net debt-to-EBITDA ratio remained healthy and stood at 1.85 times.

For 2012 capex was \$185 million of which \$167.3 million was related to the TAD Project. With the focus on the TAD Project, our maintenance capex in 2012 was \$17.7 million, which is slightly below normal levels.

Finally, I would like to note that KP Tissue declared its first dividend of \$0.217 per share, consisting of \$0.18 per share pertaining to the first quarter of 2013 and \$0.037 per share for the period from December 13th, 2012 to December 31st, 2012.

I'll now turn over the call to Mario. Mario?

Mario Gosselin

Thank you, Mark.

In the current fiscal year we're continuing to deliver on our corporate objectives. Let me ask you now to refer to page 20 of the presentation.

In February and March of this year we made our first customer delivery of the TAD products. To date we're very pleased with the interest generated by these products with both new and existing customers. As planned, the start-up costs of the TAD Project will have a negative impact

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on our EBITDA in the first half of 2013, as I mentioned previously. For the full year, however, we expect a modest positive contribution to EBITDA of a few million dollars in the low-single digits. We remain committed to realizing an EBITDA contribution from the TAD Project of \$60 million by 2017.

As you know, our strategy is to target the high-end of the private label segment, and this more selective approach explains the required ramp-up period of our project.

In the U.S. our growth opportunities are mainly associated with our TAD Project, as detailed on page 21 of the presentation. Strong demand in the high-end private label segment will represent an important growth vector for our company over the next few years. One objective we plan to achieve is to diversify our customer base in the U.S. with large North American retailers.

Now for our business in Canada, there are a number of key growth drivers. Please refer to page 22 of the presentation now. Our objective here is to maintain and fortify our brand leadership while improving our margins. As is the case with the TAD Project, we will continue to place significant emphasis on innovation and manufacturing efficiency. This is really one of the principal values of our corporate Kruger culture. To assist with this objective, we have identified several high-return capex projects that we will be rolling out over the next few years.

Looking ahead, the proceeds from the IPO have provided us with a strong balance sheet that will give us the flexibility to fund growth opportunities. In the U.S. we are now fully focused on the ramp up phase of the TAD Project. In 2013 we will realize additional benefits from the

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rationalization program initiated in 2012. We are very much looking forward to the challenges and opportunities that lie ahead.

Thank you very much for your attention. Mark and I now will be pleased to answer any questions you may have.

Q&A

Operator

Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press * followed by 1 on your touchtone phone. Please ensure you lift the handset if you are using a speakerphone before pressing any keys.

One moment, please, for your first question.

Your first question comes from the line of George Doumet from Scotiabank. Your line is open.

George Doumet – Analyst, Scotiabank

Yeah, good morning, gentlemen.

Mario Gosselin

Good morning.

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Mark Holbrook

Good morning, George.

George Doumet

Two quick ones if I may. Can you maybe comment a bit on the competitive landscape and kind of relating to the legacy business? We've seen a bit... you mentioned some decline average selling prices and some higher advertising expenses. Maybe, are these factors expected to continue into Q1?

Mario Gosselin

The Canadian market is always competitive, as you know. We're pleased with our market share that's getting up, and we've got no significant price impact. Regarding advertising, in this business in the fourth quarter the fall TVs... the fall season TV is quite important and significant. So that explains the high advertising cost in the fourth quarter.

George Doumet

Okay. So with respect to seasonality you guys aren't necessarily stepping up the campaigning at all?

Mario Gosselin

Yeah. That's seasonal really regarding the fall season. It's always heavy in the last quarter because it's TV fall season.

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George Doumet

And we're expected to see, I guess, a reversion in the average selling prices. If they don't (inaudible), they're going to decline, right?

Mario Gosselin

What?

Mark Holbrook

Can you repeat that question?

George Doumet

Yeah, sure. You guys mentioned like a decline in average selling prices for the quarter. I mean, is it fair to assume that they're going to be flat; we're not going to see continued declines?

Mario Gosselin

No, we do not see any future declines.

George Doumet

Okay, great. Relating to the TAD, can you maybe give us a bit of colour on the quarter? You guys commenced operations there. Maybe a bit of sense of the quality of the output and what retail markets you guys are selling into.

Mario Gosselin

So right now we're starting to ship to customers. We're quite happy with our learning curve... with our start-up curve. So for sure it impacts our EBITDA negative for the first six months of

the year, but overall we're happy with the project. We're on time; we're on cost; and from a quality point of view we have achieved... we have... and duplicate we have... what we have achieved in our pilot machine in Sweden in the last three years. So we're pleased with our quality also.

George Doumet

Right. Thank you.

Operator

Your next question comes from the line of Graham Meagher from TD Securities. Your line is open.

Graham Meagher – Analyst, TD Securities

Good morning. It's Graham Meagher from TD Securities. Thanks for taking my call.

I guess the first one for Mario, just going back to the TAD Project, can you give a little bit of guidance on how you see the ramp up of the production going through 2013 and into 2014?

Mario Gosselin

But I have already provided information regarding 2013. I'm not planning to make any comments on 2014, but the ramp up so far we're on track with our original estimate and we're pleased with it. So it's a tough... It's a difficult project in terms of complexity, and we're right on track with our forecast.

Graham Meagher

Okay. And then I guess on the sales process, and you mentioned going into existing and some new customers. Can you give a little bit of colour on... are you finding it a little more or less competitive than you had expected, and are you seeing the product from the other TAD machines that have started up recently in these same sales channels?

Mario Gosselin

As our original plan, we're targeting the high end of the market, the high end of the private label market, and we really achieved these qualities in our paper machines. So we're quite happy. Our customers are also quite happy with our quality so far.

Unfortunately, I cannot talk about and name customers for now because product will be only available on the shelf in April. But it will be a pleasure for me to discuss our customer base on the next conference call.

Graham Meagher

Okay, great. And then I guess just on the pricing, in the presentation you had mentioned some weakness due to lower pulp prices. Just wanted to understand how that showed up. Is that showing up more through, you know, higher promotional spending, as you mentioned on one of the prior questions, or is that something that has flowed through right to the retail shelf?

Mark Holbrook

Graham, it's Mark. The average selling price is declined, but that's tied to our lower cost of pulp. So the two move in sequence over time, as we've talked about in the past.

Graham Meagher

So that is something that does flow through to the shelf?

Mark Holbrook

In terms of promotional activity that's where you'd see it the most.

Graham Meagher

Okay. All right. Thanks very much.

Operator

Your next question comes from the line of Hamir Patel from RBC Capital Markets. Your line is open.

Hamir Patel – Analyst, RBC Capital Markets

Good morning, guys.

Mario Gosselin

Good morning.

Hamir Patel

Just following up on... I guess on Graham's question with regard to the ramp up. I get you don't want to talk about 2014 yet, but do you have any comments on how we should think about

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your TAD ramp up versus, you know, the ramp up of one of your competitors got a TAD and another Atmos (ph) machine is starting up? Because they've given guidance, you know, I'd say it's a lot more accelerated than maybe what you guys are implying.

Mario Gosselin

I'm not planning to comment on my competitors' activities, but I can tell you that we're targeting a different segment of the marketplace with the high end. And I think that we spent a lot of money in R&D to prove and to make a plan that was realistic, and we're right on our plan so far, so we're quite happy with our results. It's a slow... it's a slow ramp up, but I think it's really realistic. And I think that we're in a good position to achieving it so far, so we're right on track on our plan that we presented to our bankers.

Hamir Patel

And you know, I guess just wondering in terms of – it looks like the machine came on on time and on budget. So has there been any change in view internally in terms of how you're thinking about the timing of the second TAD, and any idea of what that cost might be?

Mario Gosselin

But for now it means that we're happy to be on time and on cost. Our focus for now... my main focus is to have a success of this TAD, so for now we're not... I'm not ready to comment on a second machine, but it means that our main focus is to make this machine a success.

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Hamir Patel

Right. And just the final question I have is what's... so what's the capex budget for 2013, and how much of that is on the TAD machine?

Mario Gosselin

The overall capex for... Mark, maybe you can...

Mark Holbrook

Sure, Hamir. The budget for 2013 – let's think about it in two pieces – \$110 million in total of which \$40 million would be for the existing business and the new TAD project would draw another 70 million... up to \$70 million. And so that would total \$110.

Hamir Patel

Right. That's all I had. Thanks, guys.

Operator

Ladies and gentlemen, if there are any additional follow-up questions at this time, please press * followed by 1.

Your next question comes from the line of Leon Aghazarian from National Bank Financial.

Your line is open.

Leon Aghazarian – Analyst, National Bank Financial

Yeah, thanks. Just we notice here that there's a \$3.9 million expense related to the IPO cost on your organization on TAD Project. Can you... can you just break that up for us so we can get the breakdown on that?

Mark Holbrook

Certainly. In terms of the IPO costs, what we have included in there is... is the cost of going public, and we also have the cost of reorganizing the business to remove the wind farms from our structure. So in total that's \$3.9 million, and that splits out. The majority of that would be related to the IPO.

Leon Aghazarian

Okay. So basically not much of that was providing the TAD Project. We should see the big bulk of that into Q1 if I understand correctly, right?

Mark Holbrook

It depends which quarter you're comparing against. In terms of Q4 versus Q3, obviously we had a significant amount of start-up costs compared to Q3. And certainly in comparison to Q4 '12 versus Q4 '11 it's about \$0.7 million on TAD project start up.

Leon Aghazarian

Okay.

Mark Holbrook

I believe the numbers are fairly well defined on page 17 of our presentation, if you want to take a look there. You can see the split out as to where that lands on our income statement.

Leon Aghazarian

Sure. I will do. Yeah. You also mentioned on a previous question right now regarding the capex being about \$70 million budgeted for the TAD specifically. Can we assume that that's going to be more in the first half of the year? And if so, what do you expect for Q1?

Mark Holbrook

We haven't provided a specific split on that, but it is definitely part of the ramp up, which... which the start-up costs and the capex related to that would pretty well be in the first half of the year.

Leon Aghazarian

Okay.

Mark Holbrook

And again, that's... that's a maximum level that we would expect to spend.

Leon Aghazarian

Okay. And if I can, just one last question on the Away from Home, we saw a negative EBITDA in the quarter. Can you maybe explain to us, give us some more colour then on that? If there was one-times in there or if there anything happening there?

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Mark Holbrook

Well, I think the fourth quarter for Away from Home was... was really affected by lower selling prices. Margins were a bit lower. And the effect of the higher operating expenses for the business as a whole, and the Away from Home business absorbs a significant part of those total overhead costs, so that really affected the quarter. But historically this business has been... this segment has been quite stable, and we expect that profitability to return in the first quarter.

Leon Aghazarian

Thank you. Those were helpful.

Operator

Your next question comes from the line of Graham Meagher from TD Securities. Your line is open.

Graham Meagher

Thanks for taking my follow-up. Just maybe a couple of quick ones on the quarter. I understand you don't disclose the absolute sales volumes. Can you give a little bit of context on the volume changes, either from the prior quarter or the prior year if we ignore or normalize for the extra week of sales in Q4?

Mark Holbrook

Yeah. Graham, I think the best approach there would be to refer to the MD&A. We've put a lot of detail in on volume changes, and we also talk about the segments there. But generally

speaking, we had a strong Q4 relative to Q4 last year in terms of volume, and similarly, Q4 over Q3 of '12 volume was up.

Graham Meagher

Okay. And then on the... the higher plant maintenance this... in the current quarter, in Q4, are you able to... to quantify that or... or maybe give a little bit of guidance as to how that might change quarter to quarter? Is it a more seasonal thing that shows up each Q4?

Mario Gosselin

Q4 is always... it's a little bit seasonal because in Q4, as you know, you've got Christmas and New Year shutdown in our paper-making environment. So it's a big shutdown. So we're making a lot of repairs on our equipment in these two major shutdowns. So that's... the Q4 is always a little bit heavy in terms of major repairs.

Graham Meagher

Okay. Great. And then maybe just a last one on the TAD Project, on the start-up costs you mentioned for Q1. Are you able to quantify that or give sort of a relative to... to the costs that were in Q4?

Mario Gosselin

But as you know, the start-up... start-up started really in February and March, would mean that it will be a little bit heavier, but it will... still our EBITDA should be also a little bit better than Q4, but it means that we'll be impacted for sure with the start-up costs.

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Mark Holbrook

Now Graham, I'd just add to that, on page 17 you can see that we have \$1.8 million of TAD Project costs in Q4 of '12.

Graham Meagher

Um-hmm.

Mark Holbrook

We would expect that to be higher in Q1 of '13 because of the start-up of the paper machine. So you can factor that in.

Graham Meagher

Okay. All right. Thank you.

Operator

And Mr. Baldesarra, there are no further questions at this time.

Mike Baldesarra

Great. Thank you.

Mario Gosselin

So let me... I would like to thank you again for joining us here today and look forward to speaking with you again following the release of our first quarter results in May.

Thank you very much everybody.

Mark Holbrook

Thank you.

Mike Baldesarra

Thank you.

Operator

And ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.

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