



Kraton Performance Polymers, Inc.

First Quarter 2015 Earnings Conference Call

April 30, 2015

## Forward Looking Statement Disclaimer

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This presentation includes forward-looking statements that reflect our plans, beliefs, expectations and current views with respect to, among other things, future events and financial performance. Forward-looking statements are often characterized by the use of words such as “outlook,” “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans” or “anticipates,” or by discussions of strategy, plans or intentions, including the matters described under the caption “Selected 2015 Estimates.”

All forward-looking statements in this presentation are made based on management's current expectations and estimates, which involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in forward-looking statements. These risks and uncertainties are more fully described in our latest Annual Report on Form 10-K, including but not limited to “Part I, Item 1A. Risk Factors” and “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” therein, and in our other filings with the Securities and Exchange Commission, and include, but are not limited to, risks related to: conditions in the global economy and capital markets; declines in raw material costs; our reliance on LyondellBasell Industries for the provision of significant operating and other services; the failure of our raw materials suppliers to perform their obligations under long-term supply agreements, or our inability to replace or renew these agreements when they expire; limitations in the availability of raw materials we need to produce our products in the amounts or at the prices necessary for us to effectively and profitably operate our business; competition from other producers of SBCs and from producers of products that can be substituted for our products; our ability to produce and commercialize technological innovations; our ability to protect our intellectual property, on which our business is substantially dependent; hazards inherent to the chemical manufacturing business; other risks, factors and uncertainties described in this presentation and our other reports and documents; and other factors of which we are currently unaware or deem immaterial. Readers are cautioned not to place undue reliance on our forward-looking statements. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update such information in light of new information or future events.

# GAAP Disclaimer

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This presentation includes the use of both GAAP and non-GAAP financial measures. The non-GAAP financial measures are EBITDA, Adjusted EBITDA, Adjusted Gross Profit and Adjusted Net Income attributable to Kraton (or earnings per share). Tables included in this presentation and our earnings release reconcile each of these non-GAAP financial measures with the most directly comparable GAAP financial measure. For additional information on the impact of the spread between the FIFO basis of accounting and estimated current replacement cost (“ECRC”), see Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

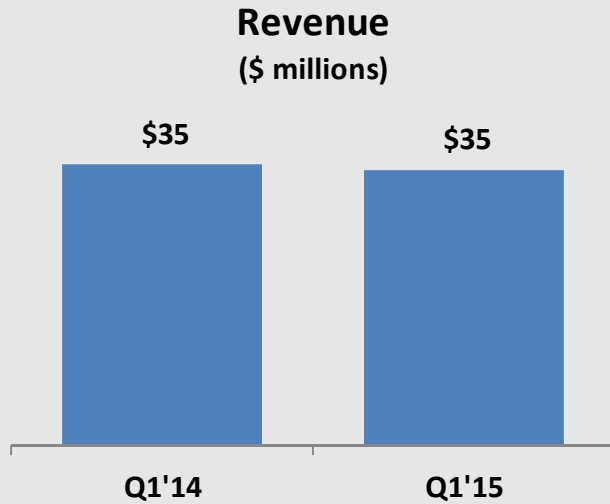
We consider these non-GAAP financial measures to be important supplemental measures of our performance and believe they are frequently used by investors, securities analysts and other interested parties in the evaluation of our performance including period-to-period comparisons and/or that of other companies in our industry. Further, management uses these measures to evaluate operating performance, and our incentive compensation plan bases incentive compensation payments on our Adjusted EBITDA performance, along with other factors. These non-GAAP financial measures have limitations as analytical tools and in some cases can vary substantially from other measures of our performance. You should not consider them in isolation, or as a substitute for analysis of our results under GAAP in the United States. For EBITDA, these limitations include: EBITDA does not reflect the significant interest expense on our debt; EBITDA does not reflect the significant depreciation and amortization expense associated with our long-lived assets; EBITDA included herein should not be used for purposes of assessing compliance or non-compliance with financial covenants under our debt agreements. The calculation of EBITDA in our debt agreements includes adjustments, such as extraordinary, non-recurring or one-time charges, proforma cost savings, certain non-cash items, turnaround costs, and other items included in the definition of EBITDA in our debt agreements; and other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure. As an analytical tool, Adjusted EBITDA is subject to all the limitations applicable to EBITDA. We prepare Adjusted EBITDA by eliminating from EBITDA the impact of a number of items we do not consider indicative of our on-going performance, including the spread between FIFO and ECRC, but you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. In addition, due to volatility in raw material prices, Adjusted EBITDA may, and often does, vary substantially from EBITDA and other performance measures, including net income calculated in accordance with U.S. GAAP; and Adjusted EBITDA may, and often will, vary significantly from EBITDA calculations under the terms of our debt agreements and should not be used for assessing compliance or non-compliance with financial covenants under our debt agreements. Because of these and other limitations, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. As a measure of our performance, Adjusted Gross Profit is limited because it often will vary substantially from gross profit calculated in accordance with U.S. GAAP due to volatility in raw material prices. Finally, we prepare Adjusted Net Income attributable to Kraton by eliminating from net income the impact of a number of items we do not consider indicative of our on-going performance, including the spread between FIFO and ECRC. Our presentation of non-GAAP financial measures and the adjustments made therein should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items, and in the future we may incur expenses or charges similar to the adjustments made in the presentation of our non-GAAP financial measures.

## First Quarter 2015 Highlights

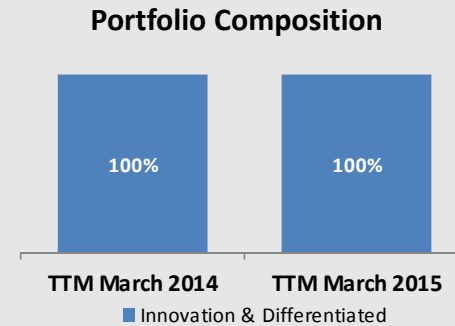
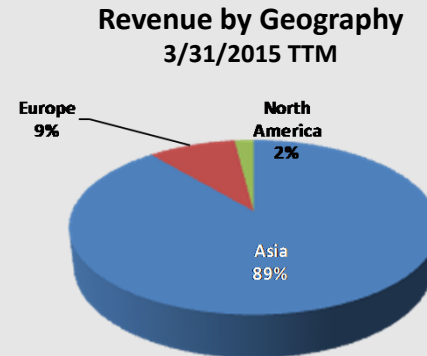
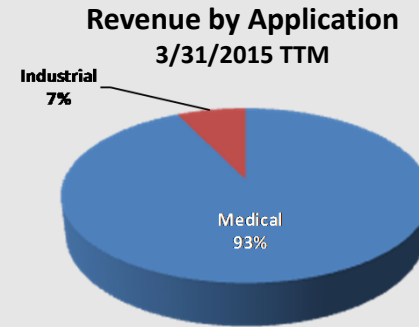
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- Record first quarter adjusted earnings (non-GAAP):
  - Adjusted EBITDA of \$49.2 million, up 31% from Q1 2014
  - Adjusted EPS of \$0.76 per share, more than 2x the \$0.33 per share in Q1 2014
  - Currency negatively impacted Adjusted EBITDA by \$2.5 million and Adjusted EPS by \$0.07 per share
- Sales volume of 74 kilotons, in line with Q1 2014
- Revenue of \$261.4 million, down \$50.2 million compared to Q1 2014 primarily due to changes in foreign currency and lower raw material costs
- Adjusted gross profit (non-GAAP) of \$1,075 per ton
- Since inception of the share repurchase program in Q4 2014 through March 31, 2015, 1.7 million shares repurchased, representing a decline in share count of 5%

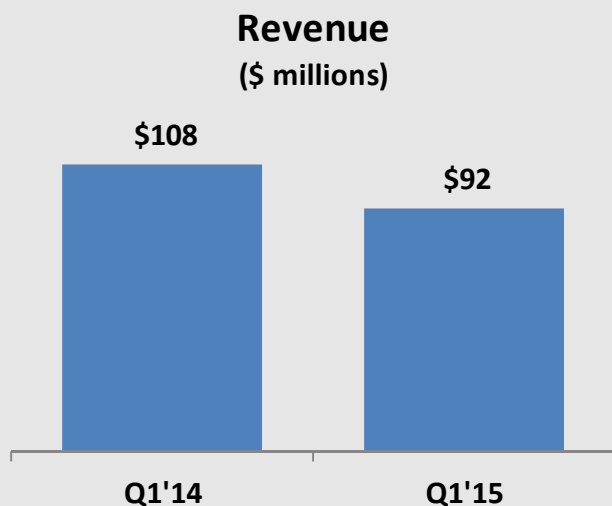
See the appendix for a reconciliation of GAAP to non-GAAP financial measures.



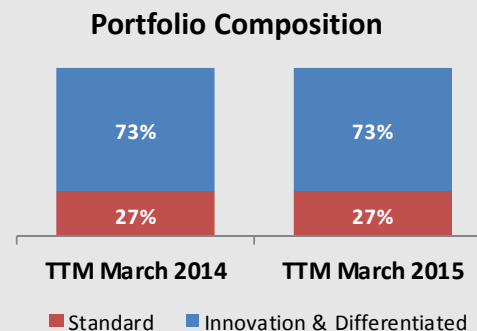
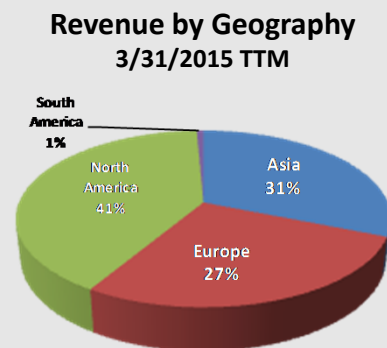
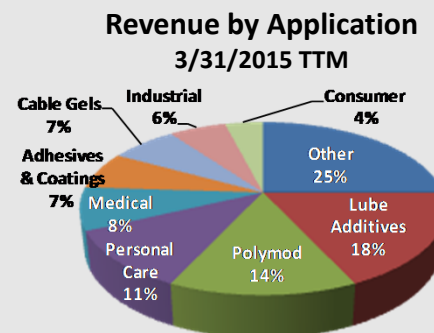
- Sales volume increased 3.6% on higher sales into industrial and medical glove applications
- Excluding the effect of currency, revenue growth of 4.3% despite lower raw material costs
- Cariflex represents 12% of 3/31/2015 TTM revenue compared to 10% for the TTM period ended 3/31/2014



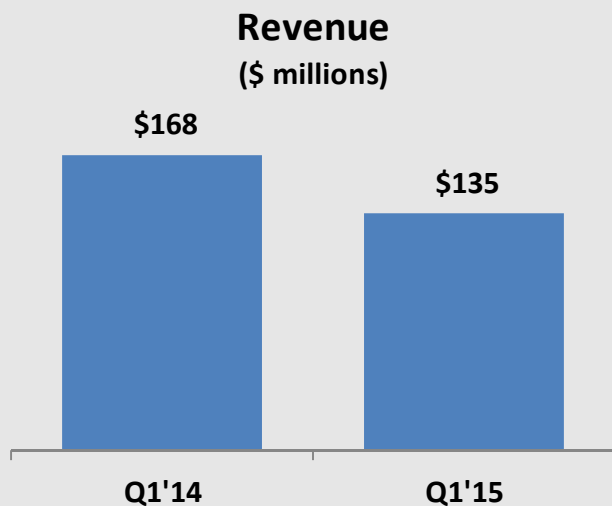
# Specialty Polymers



- Sales volume decreased 4.8% with gains in protective film, medical and cable gel applications more than offset by lower volume into lubricant additive and personal care volume applications
- Revenue decrease reflects lower average selling prices associated with lower raw material costs
- Currency movements adversely impacted revenue by \$5.5 million

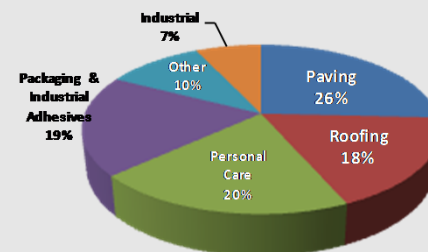


# Performance Products

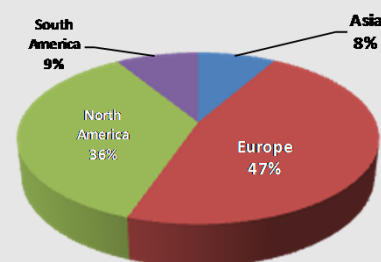


- Sales volume increased 1.5% on higher sales into personal care applications in Europe and paving applications in North America, partially offset by lower sales into paving applications in South America
- Revenue decrease reflects lower average selling prices associated with lower raw material costs
- Currency movements adversely impacted revenue by \$15.1 million

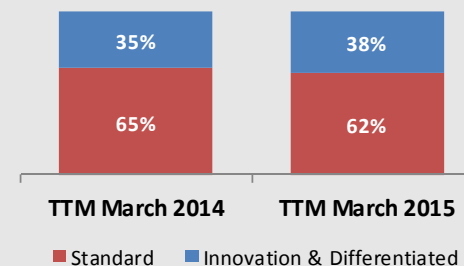
Revenue by Application  
3/31/2015 TTM



Revenue by Geography  
3/31/2015 TTM

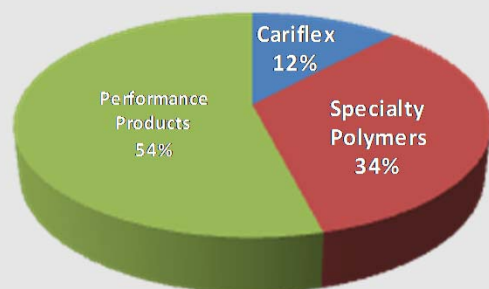


Portfolio Composition

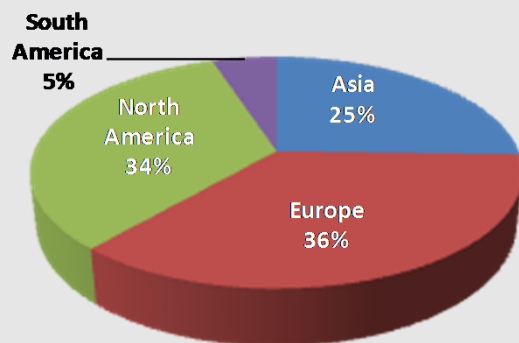


# Kraton Portfolio Overview

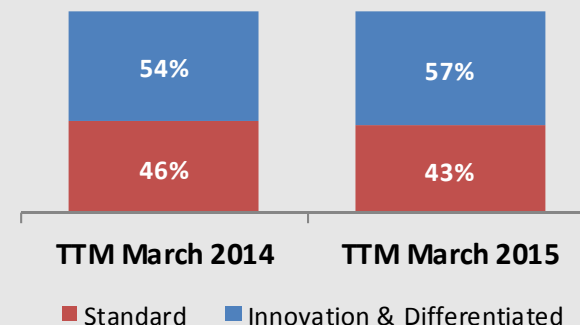
**Revenue by Product Group**  
3/31/2015 TTM



**Revenue by Geography**  
3/31/2015 TTM



**Portfolio Composition**

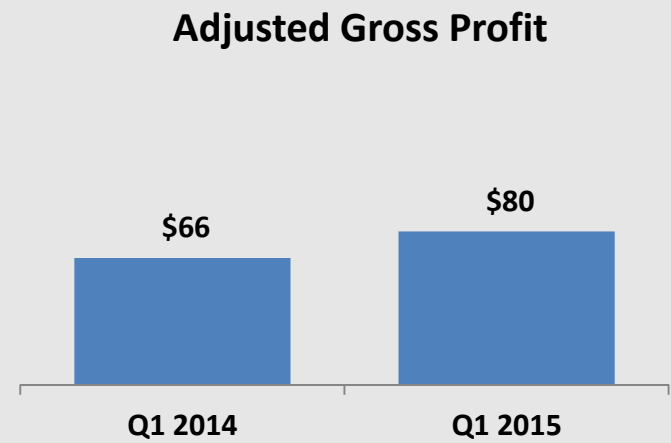
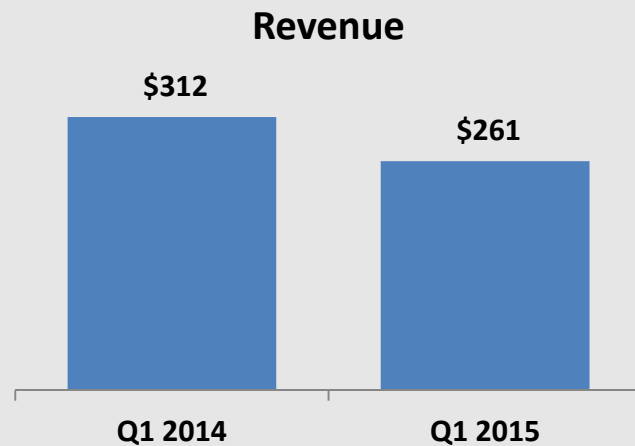


- Innovation and differentiated product grades represent 57% of TTM revenue at March 31, 2015, up from 54% for the TTM period ended March 31, 2014
- The increase in revenue contribution from innovation and differentiated grades reflects:
  - Continued growth in Cariflex
  - Growth in protective films, medical and cable gel applications in Specialty Polymers
  - Growth in personal care and flexible printing plates applications within Performance Products



# First Quarter Revenue and Adjusted Gross Profit

(\$ in millions)



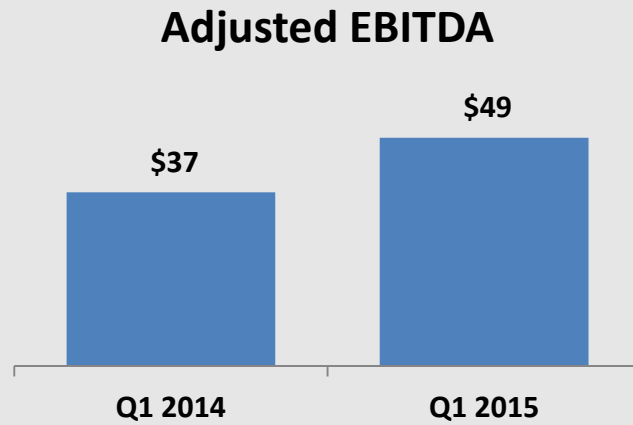
- 74.4 kilotons of sales volume in Q1 2015 and Q1 2014
- Currency movements adversely impacted revenue by \$22.6 million
- Revenue decrease also reflects the effect of lower raw material costs on average selling prices

- Record first quarter Adjusted Gross Profit and Adjusted Gross Profit per ton in 2015
- Increase in unit margins resulted in Adjusted Gross Profit of \$1,075 per ton in Q1 2015
- Overcame currency headwind of \$3.9 million, or \$52/ton

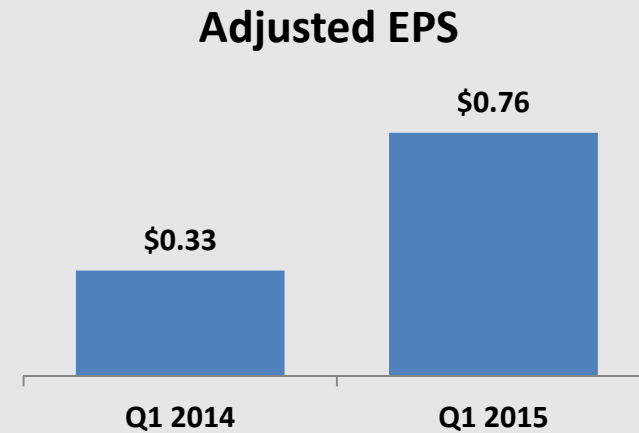
See the appendix for a reconciliation of GAAP to non-GAAP financial measures.

# First Quarter Adjusted EBITDA and Adjusted EPS

(\$ in millions)






- Record first quarter 2015 Adjusted EBITDA of \$49.2 million
- Adjusted EBITDA margin of 18.8% in Q1'15 vs. 12.0% in Q1'14
- Currency headwind of \$2.5 million
- Variable compensation, consulting and turnaround costs up an aggregate of \$4.7 million compared Q1'14



- Weighted average share count down 1.1 million shares, reflecting impact of the share repurchase program
- Currency negatively impacted Adjusted EPS by \$0.07 per share

See the appendix for a reconciliation of GAAP to non-GAAP financial measures.

## On Track To Deliver \$18 Million In 2015 Cost Reductions

	2015 Target	Status
Manufacturing cost reductions	\$12 million	
SAR cost reductions	\$6 million	
Total 2015 cost reduction target	\$18 million	

*Approximately \$2.5 million realized in Q1 2015*

## Cash Flow and Other Financial Highlights

(\$ in millions)	3 months ended March 31, 2015		
	<u>Kraton</u>	<u>KFPC</u>	<u>Consolidated</u>
Operating cash flow	\$ (5)	\$ (2)	\$ (7)
Investing activities	(15)	(16)	\$ (31)
Financing activities	7	20	27
Currency impact on cash	(4)	1	(3)
Beginning cash	<u>46</u>	<u>8</u>	<u>54</u>
Ending cash	29	11	40
Gross debt	<u>373</u>	<u>20</u>	<u>393</u>
Net debt	\$344	\$9	\$353

- Operating cash flow exceeded Q1 2014 by \$47.2 million
- \$12.9 million used to repurchase 662,543 additional shares in Q1 2015
- KRA ABL availability at March 31, 2015 of \$155.5 million and KRA total liquidity (defined as ABL availability plus KRA cash) of \$184.3 million
- Consolidated net debt to TTM Adjusted EBITDA of 2.2x at March 31, 2015
  - KFPC debt is 50% guaranteed by Kraton Polymer, LLC and 50% guaranteed by Formosa Petrochemical Corporation

## Selected 2015 Estimates

(\$ in millions)	
SG&A (non-GAAP) <i>Excludes non-cash compensation costs and other items</i>	\$87
R&D (non-GAAP) <i>Excludes non-cash compensation costs and other items</i>	\$31
Non-cash compensation expense	\$8
Depreciation and amortization	\$63
Turnarounds costs <i>Q2 2015 expected to be \$7 million, an increase of \$6 million compared to Q2 2014 Full-year 2014 full-year turnaround costs were \$10 million</i>	\$12
Interest expense	\$25
Income tax expense	\$7
Full-year negative effect on Adjusted EBITDA due to currency	\$15
Full-year Adjusted Gross Profit per ton	\$900 - \$925
Q2 2015 negative spread between FIFO and ECRC	\$10 - 15
Capex <i>Excludes KFPC capex of \$130 - \$140 million Excludes capitalized interest of \$4 million</i>	\$60 - \$65

Non-cash compensation expense is excluded in determining Adjusted EBITDA and included in determining Adjusted EPS. See the appendix for a reconciliation of GAAP to non-GAAP financial measures.

## 2015 Investor Day

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**Kraton Performance Polymers, Inc.  
2015 Investor Day**

**June 16, 2015  
8:00 am to 12:30 pm  
Marriott East Side  
525 Lexington Avenue at 49th Street  
New York, NY 10017**

**Additional details to follow**

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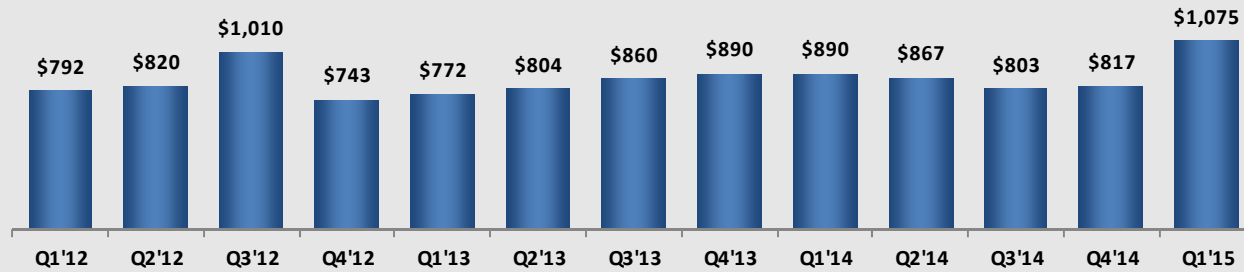
# Appendix

April 30, 2015

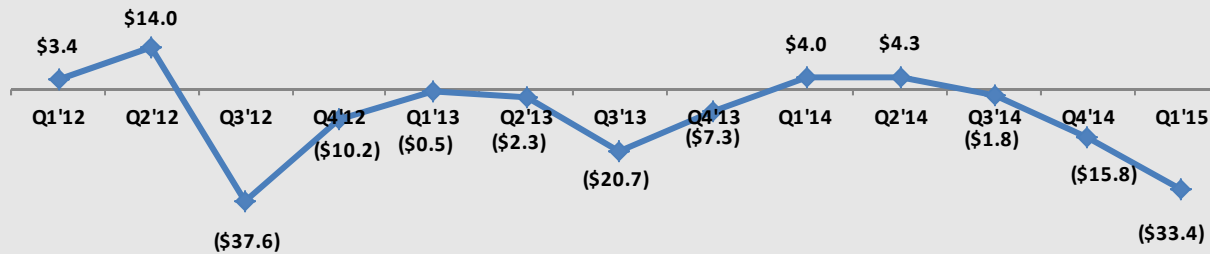
# Monomer Volatility

(\$ in millions, except per ton information)

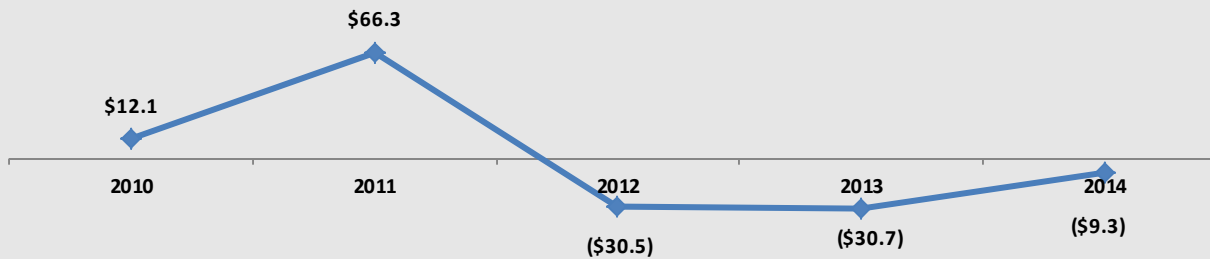
Adjusted Gross Profit per Ton



Quarterly Difference Between Inventory Valuation at FIFO and at ECRC



Annual Difference Between Inventory Valuation at FIFO and at ECRC





# Reconciliation of Gross Profit to Adjusted Gross Profit

(\$ in millions)

	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15
Gross Profit @ FIFO	\$75.5	\$73.5	\$42.8	\$39.7	\$59.9	\$59.9	\$47.5	\$58.6	\$57.1	\$72.1	\$63.8	\$44.1	\$46.6
FIFO to ECRC	(\$3.4)	(\$14.0)	\$37.6	\$10.2	\$0.5	\$2.3	\$20.7	\$7.3	(\$4.0)	(\$4.3)	\$1.8	\$15.8	\$33.4
Restructuring and other charges	-	\$1.0	-	-	-	-	\$0.1	\$0.1	\$0.5	\$0.1	-	\$ 0.1	\$ 0.0
Production downtime	-	-	-	-	-	-	\$3.5	-	\$12.4	-	\$(1.0)	\$(1.5)	\$(0.2)
Impairment of spare parts inventory	-	-	-	-	-	-	-	-	-	-	-	\$0.4	-
Storm related charges	-	\$2.8	(\$0.3)	-	-	-	-	-	-	-	-	-	-
Property tax dispute	\$5.6	-	-	-	-	-	-	-	-	-	-	-	-
Settlement gain (loss)	(\$6.8)	-	-	-	-	-	-	-	-	-	-	-	-
Non-cash compensation expense	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.1	\$0.1	\$0.2
Adjusted Gross Profit	\$71.0	\$63.3	\$80.1	\$49.9	\$60.4	\$62.3	\$71.8	\$66.1	\$66.2	\$68.0	\$64.8	\$59.0	\$80.0
Sales Volume (Kilotons)	89.6	77.2	79.3	67.2	78.2	77.5	83.5	74.3	74.4	78.4	80.7	72.2	74.4
Adjusted Gross Profit per ton	\$792	\$820	\$1,010	\$743	\$772	\$804	\$860	\$890	\$890	\$867	\$803	\$817	1,075

Columns may not foot due to rounding.

# GAAP and Non-GAAP Statement of Operations – Q1 2015

(\$ in thousands, except per share amounts)

	Three months ended March 31, 2015			
	As Reported	Other Adjustments	FIFO to ECRC Adjustment	Adjusted
Revenue	\$ 261,429	\$ -	\$ -	\$ 261,429
Cost of goods sold	214,868	128 (a)	(33,408)	181,588
Gross profit	46,561	(128)	33,408	79,841
Operating expenses:				
Research and Development	7,947	-	-	7,947
Selling, general and administrative	26,949	(1,619) (b)	-	25,330
Depreciation and amortization	15,296	-	-	15,296
Total operating expenses	50,192	(1,619)	-	48,573
Earnings of unconsolidated joint venture	76	-	-	76
Interest expenses, net	6,120	-	-	6,120
Income (loss) before income taxes	(9,675)	1,491	33,408	25,224
Income tax expense	66	107 (c)	984	1,157
Consolidated net income (loss)	(9,741)	1,384	32,424	24,067
Net income (loss) attributable to noncontrolling interest	(285)	188 (d)	-	(97)
Net income (loss) attributable to Kraton	\$ (9,456)	\$ 1,196	\$ 32,424	\$ 24,164
Earnings (loss) per common share:				
Basic	\$ (0.30)	\$ 0.04	\$ 1.03	\$ 0.76
Diluted	\$ (0.30)	\$ 0.04	\$ 1.02	\$ 0.76
Weighted average common shares outstanding:				
Basic	31,067	31,067	31,067	31,067
Diluted	31,067	31,371	31,371	31,371

- a) \$0.1 million reduction of production downtime costs related to an insurance recovery.  
b) \$0.8 million of restructuring and other charges, \$0.3 million of transaction related costs, and \$0.5 million of KFPC startup costs.  
c) Tax effect of other adjustments.  
d) KFPC startup costs.

## GAAP and Non-GAAP Statement of Operations – Q1 2014

(\$ in thousands, except per share amounts)

	Three months ended March 31, 2014			
	As Reported	Other Adjustments	FIFO to ECRC Adjustment	Adjusted
Revenue	\$ 311,656	\$ -	\$ -	\$ 311,656
Cost of goods sold	254,583	(12,904) (a)	4,024	245,703
Gross profit	57,073	12,904	(4,024)	65,953
Operating expenses:				
Research and Development	8,297	-	-	8,297
Selling, general and administrative	34,218	(10,325) (b)	-	23,893
Depreciation and amortization	16,409	-	-	16,409
Total operating expenses	58,924	(10,325)	-	48,599
Earnings of unconsolidated joint venture	117	-	-	117
Interest expenses, net	6,338	-	-	6,338
Income (loss) before income taxes	(8,072)	23,229	(4,024)	11,133
Income tax expense (benefit)	122	178 (c)	(33)	267
Consolidated net income (loss)	(8,194)	23,051	(3,991)	10,866
Net income (loss) attributable to noncontrolling interest	(285)	190	-	(95)
Net income (loss) attributable to Kraton	\$ (7,909)	\$ 22,861	\$ (3,991)	\$ 10,961
Earnings (loss) per common share:				
Basic	\$ (0.24)	\$ 0.70	\$ (0.12)	\$ 0.34
Diluted	\$ (0.24)	\$ 0.69	\$ (0.12)	\$ 0.33
Weighted average common shares outstanding:				
Basic	32,162	32,162	32,162	32,162
Diluted	32,162	32,501	32,501	32,501

- a) \$12.4 million of production downtime and \$0.5 million of restructuring and other charges.  
b) \$9.2 million of transaction related costs, \$0.6 million of production downtime, and \$0.5 million of KFPC startup costs.  
c) Tax effect of other adjustments.  
d) KFPC startup costs.

# Reconciliation of Net Income and EPS to Adjusted Net Income and EPS

(\$ in thousands, except per share amounts)

	Three months ended March 31, 2015				Three months ended March 31, 2014			
	Income (Loss) Before Income Tax	Income Taxes	Noncontrolling Interest	Diluted EPS	Income (Loss) Before Income Tax	Income Taxes	Noncontrolling Interest	Diluted EPS
GAAP Earnings (Loss)	\$ (9,675)	\$ 66	\$ (285)	\$ (0.30)	\$ (8,072)	\$ 122	\$ (285)	\$ (0.24)
Restructuring and other charges <sup>(a)</sup>	819	26	-	0.02	521	99	-	0.01
Transaction and acquisition related costs <sup>(b)</sup>	328	7	-	0.01	9,236	-	-	0.28
Production downtime <sup>(c)</sup>	(108)	(2)	-	0.00	13,013	-	-	0.39
KFPC startup costs <sup>(d)</sup>	452	76	188	0.01	459	79	190	0.01
Spread between FIFO and ECRC	33,408	984	-	1.02	(4,024)	(33)	-	(0.12)
Adjusted Earnings (Loss)	<u>\$ 25,224</u>	<u>\$ 1,157</u>	<u>\$ (97)</u>	<u>\$ 0.76</u>	<u>\$ 11,133</u>	<u>\$ 267</u>	<u>\$ (95)</u>	<u>\$ 0.33</u>

- a) Severance expenses, professional fees and other restructuring related charges which are primarily recorded in selling, general and administrative expenses in 2015 and primarily in cost of goods sold in 2014. In 2014, primarily professional fees related to the terminated Combination Agreement with LCY, which are recorded in selling, general and administrative expenses.
- b) Primarily professional fees related to the terminated Combination Agreement with LCY, which are recorded in selling, general and administrative expenses.
- c) Weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility. In 2014, \$12.4 million is recorded in cost of goods sold and \$0.6 million is recorded in selling, general and administrative expenses. In 2015, the reduction in costs is related to an additional insurance recovery related to the Belpre production downtime, which is recorded in cost of goods sold.
- d) Startup costs related to the joint venture company, KFPC, which are recorded in selling, general and administrative expenses.

# Reconciliation of Net Income to EBITDA and Adjusted EBITDA

(\$ in thousands)

	Three months ended 3/31/2015	Three months ended 3/31/2014
Net loss attributable to Kraton	\$ (9,456)	\$ (7,909)
Net loss attributable to noncontrolling interest	(285)	(285)
Consolidated net loss	(9,741)	(8,194)
Add:		
Interest expense, net	6,120	6,338
Income tax expense	66	122
Depreciation and amortization expenses	15,296	16,409
<b>EBITDA</b>	<b>11,741</b>	<b>14,675</b>
Add (deduct):		
Restructuring and other charges <sup>(a)</sup>	819	521
Transaction and acquisition related costs <sup>(b)</sup>	328	9,236
Production downtime <sup>(c)</sup>	(108)	13,013
KFPC startup costs <sup>(d)</sup>	452	459
Non-cash compensation expense <sup>(e)</sup>	2,609	3,614
Spread between FIFO and ECRC	33,408	(4,024)
<b>Adjusted EBITDA</b>	<b>\$ 49,249</b>	<b>\$ 37,494</b>

a) Severance expenses, professional fees and other restructuring related charges which are primarily recorded in selling, general and administrative expenses in 2015 and primarily in cost of goods sold in 2014.

b) Primarily professional fees related to the terminated Combination Agreement with LCY, which are recorded in selling, general and administrative expenses.

c) Weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility. In 2014, \$12.4 million is recorded in cost of goods sold and \$0.6 million is recorded in selling, general and administrative expenses. In 2015, the reduction in costs is related to an additional insurance recovery related to the Belpre production downtime, which is recorded in cost of goods sold.

d) Startup costs related to the joint venture company, KFPC, which are recorded in selling, general and administrative expenses.

e) In 2015, \$2.2 million, \$0.2 million, and \$0.2 million and in 2014, \$3.1 million, \$0.3 million, and \$0.2 million is recorded in selling, general and administrative expenses, research and development expenses, and cost of goods sold, respectively.

# Historical Revenue by Product Group

(\$ in thousands)

	Q1 2015
Performance Products	\$ 134,768
Specialty Polymers	91,674
Cariflex	34,837
Other	150
Total	<u>\$ 261,429</u>

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014
Performance Products	\$ 167,852	\$ 183,974	\$ 180,122	\$ 146,982	\$ 678,930
Specialty Polymers	108,346	110,463	98,742	94,884	412,435
Cariflex	35,363	29,242	39,959	34,032	138,596
Other	95	88	148	141	472
Total	<u>\$ 311,656</u>	<u>\$ 323,767</u>	<u>\$ 318,971</u>	<u>\$ 276,039</u>	<u>\$ 1,230,433</u>

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013
Performance Products	\$ 199,484	\$ 194,951	\$ 195,533	\$ 172,971	\$ 762,939
Specialty Polymers	113,287	110,073	102,940	85,709	412,009
Cariflex	27,029	29,244	28,231	31,499	116,003
Other	307	275	405	183	1,170
Total	<u>\$ 340,107</u>	<u>\$ 334,543</u>	<u>\$ 327,109</u>	<u>\$ 290,362</u>	<u>\$ 1,292,121</u>

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2012
Performance Products	\$ 245,636	\$ 221,131	\$ 210,624	\$ 173,371	\$ 850,762
Specialty Polymers	138,380	124,588	107,580	93,712	464,260
Cariflex	22,645	29,805	24,193	29,255	105,898
Other	1,652	232	238	80	2,202
Total	<u>\$ 408,313</u>	<u>\$ 375,756</u>	<u>\$ 342,635</u>	<u>\$ 296,418</u>	<u>\$ 1,423,122</u>



Kraton Performance Polymers, Inc.

First Quarter 2015 Earnings Conference Call

April 30, 2015