



# Verso 4th Quarter and Full Year 2016 Results

## Earnings Conference Call and Webcast – March 15, 2017

# Forward Looking Statements and Non-GAAP Information

In this presentation, all statements that are not purely historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may be identified by the words "believe," "expect," "anticipate," "project," "plan," "estimate," "intend," “potential” and other similar expressions. Forward-looking statements are based on currently available business, economic, financial, and other information and reflect management's current beliefs, expectations, and views with respect to future developments and their potential effects on Verso. Actual results could vary materially depending on risks and uncertainties that may affect Verso and its business. Verso’s actual actions and results may differ materially from what is expressed or implied by these statements due to a variety of factors, including those risks and uncertainties listed from time to time in Verso’s filings with the Securities and Exchange Commission. Verso assumes no obligation to update any forward-looking statement made in this presentation to reflect subsequent events or circumstances or actual outcomes.

# Presentation of Predecessor and Successor Financial Results

Verso adopted fresh-start reporting as of July 15, 2016 (the "Effective Date"), the effective date of its First Modified Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code dated as of June 20, 2016 and the date that Verso emerged from its Chapter 11 cases. As a result of the application of fresh-start reporting, Verso's financial statements for periods prior to the Effective Date are not comparable to those for periods subsequent to the Effective Date. References in this presentation to "Successor" refer to Verso on or after the Effective Date. References to "Predecessor" refer to Verso prior to the Effective Date. Operating results for the Successor and Predecessor periods are not necessarily indicative of the results to be expected for a full fiscal year. References such as the "Company," "we," "our" and "us" refer to Verso Corporation and its consolidated subsidiaries, whether Predecessor and/or Successor, as appropriate.

# Business Overview

**B. Christopher DiSantis**

**Chief Executive Officer**

# CEO Introduction

- *Immersion in Verso 1st 45 days*
  - Listening and learning
  - People, processes, products, customers, competitors and end-markets
  - Historical download of events, strategies and tactics
  - Creating a catalogue of upside and risks (SWOT analysis)
- *Understanding the ecosystem*
  - Starts with facing reality
  - Assessing the external environment: our numbers, market data
  - Essential elements to strategy development
- *Evaluating paths to value creation*
  - Optimization: internal focus, restructuring, doing more with less
  - Capital Investment: transforming ourselves, investing cash flow, ROIC
  - Potential M&A: synergy / value assessments

# Macro Environment Assessment

- *Overall headwinds for printing papers consistently tough*
  - Imports continuing upward trend
  - Continuous, underestimated secular decline as a result of digitization
  - Cost pressures expanding (e.g., energy, latex and rail) driving "marginalization" phenomenon
  - Competitors vying for incremental tons and trying to move upstream

- *Specialty products (21% of Verso) have meaningful growth potential*
  - New volume targeted for certain mills
  - Opportunities in pressure sensitive markets, lighter basis weight portfolio options in labels and higher volume release liner
  - Leverage the strength of customer service and innovation in new products

| Q4 '16 Key Market Indicators (US) | Vs. Prior Year |
|---|---|
| Magazine Ad Pages | -12.8% |
| Catalog Mailings | -1.5% |
| CFS Apparent Consumption | -3.7% |
| CGW Apparent Consumption | -1.5% |
| CFS Imports (% of demand) | +4.1% |
| CGW Imports (% of demand) | +8.7% |

# **Macro Environment Assessment** *Continued*

- *Downward price pressure trends remain*
  - FX favors imports into North America on USD strength (Euro @ $1.06*)
  - Extreme competition in CGW and SC markets has negated realization of announced price increases
  - Import growth continues despite duties on international producers
  - Increasing industry-wide inventories problematic
  - Outlook for pulp pricing on third-party sales is positive
- *Reduced demand for tonnage creating operating rate issues*
  - Mills are purpose built for efficiency to run wide-open 24/7
  - Particular weakness in CFS
  - Likely will have to dial back rates more than demand to manage inventory

*Spot rate as of March 14, 2017

# Verso Response to Challenges

- *Wage war on cost and inefficiencies*
  - R-Gap / Center of Excellence is a highly effective, essential competitive tool with 640 in-process manufacturing initiatives targeting $54M improvement in 2017
  - Aggressive cost reductions planned shedding 10% of overhead: $18M savings run-rate expected entering 2018, including HQ consolidation
  - Continuation of OPEB (certain post-retirement benefit obligations) gains of $3M - $5M in 2017
  - Countermeasures against supplier price increases will be critical; favorable input cost trends likely to go away in 2017

- *Pull hard on the mix management lever*
  - Spending disproportionately on best lines and mills, expediting the migration
  - Accelerating growth of higher margin product lines
  - Aligning the operating structure along product lines sharpens our focus
  - Developing new products and customers for our Specialty business at several mills; might need additional capacity at Stevens Point and filling the A5 line

# Verso Response to Challenges *Continued*

- *Prudently allocate capital*
  - Applying an extraordinary level of scrutiny to capital expenditures and scope of outages; time and $'s are precious, scarce resources
  - Must use creativity and resourcefulness to score the highest returns possible
  - Absolutely no compromises with respect to health, safety and environmental
- *Continue to right-size the operations*
  - Idled A3 temporarily in Androscoggin taking approximately 170K tons of production out of the system (5.8% of tons sold in 2016)
  - Plan to roll mill outages (if necessary) to conform to 2017 market demand
  - Constantly evaluating future line / mill operating plans
  - Stemming the rising inventory tide with better supply chain management

# CEO Final Comments

- Develop leadership thinking as an operator AND an investor. More keen consideration of ROIC, cash flow and resultant value creation in decision-making.

- Plenty of opportunity to reduce costs and optimize systems, but the external environment is difficult creating a "Treadmill Effect."

- Fundamental question: "What will be the rate of change in Verso's end markets v. the rate of change in Verso's net operating improvements?"

- Bottom line: Focus tenaciously on what we can control – strategy, cost, capital allocation and…

***Challenge everything…***
***to redefine our path to a successful future!***

# Financial Overview

**Allen Campbell**

**SVP and Chief Financial Officer**

# Company Highlights

- Adjusted EBITDA exceeded guidance finishing the year at $203M (excluding an OPEB gain of $25M)
- Strong liquidity
  - Reduced term loan to $211M after paying $8.8M of amortization
  - $163M of total liquidity at year end
- Mill performance improved in Q4 and major maintenance spending favorably impacted results by $23M vs. Q3
- Unfunded pension/OPEB liability reduced by $184M since emergence
  - Remeasurement based on higher discount rate
  - Elimination of certain benefits for pre-2012 retirees
  - Normal pension contributions

# Q4 2016 Results of Operations

| (Dollars in millions) | Predecessor Q4-15 | Successor Q4-16 | Δ |
|---|---|---|---|
| **Net sales** | $ 756 | $ 646 | $(110) |
| **Costs and expenses:** | | | |
| Cost of products sold | 665 | 539 | (126) |
| Depreciation, amortization, and depletion | 127 | 69 | (58) |
| Selling, general, and administrative expenses | 53 | 26 | (27) |
| Restructuring charges | (29) | 9 | 38 |
| Other operating expense | 1 | 6 | 5 |
| **Operating loss** | (61) | (3) | 58 |
| Interest expense | 69 | 9 | (60) |
| **Loss before income taxes** | (130) | (12) | 118 |
| Income tax benefit | (1) | (20) | (19) |
| **Net (loss) income** | $ (129) | $ 8 | $ 137 |
| **EBITDA** | $ 66 | $ 66 | - |

Gross Margin

- Favorable OPEB
- Favorable raw material
- Improved operating cost

Depreciation

- Decreased due to accelerated depreciation of Androscoggin assets, Fresh Start accounting and revaluation, and the Wickliffe closure

# Q4 2016 Results of Operations – EBITDA to Adjusted EBITDA

| (Dollars in millions) | Q4-15 | Q4-16 | Δ |
|---|---|---|---|
| **EBITDA** | $ 66 | $ 66 | $ - |
| Pre- and post-Reorganization related charges | 10 | 6 | (4) |
| Fresh-start accounting adjustments | - | 2 | 2 |
| Restructuring charges | (24) | 9 | 33 |
| Loss (gain) on disposal of assets | 6 | 2 | (4) |
| NewPage acquisition/integration | 3 | - | (3) |
| Other items, net | - | 7 | 7 |
| **Adjusted EBITDA** | $ 61 | $ 92 | $ 31 |
| | | | |
| Adjusted EBITDA Margin % | 8.1% | 14.2% | 6.1% |
| Gross margin | $ 91 | $ 107 | $ 16 |
| Gross margin % | 12.0% | 16.6% | |

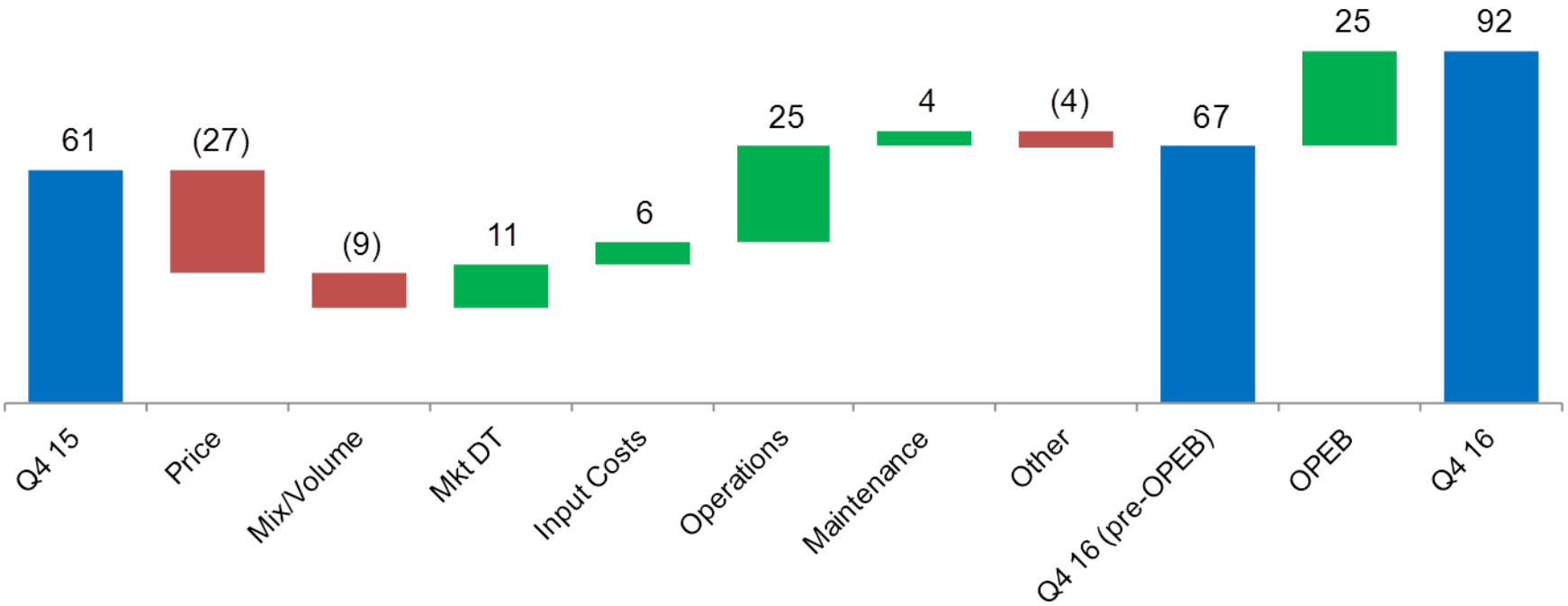
Q4-2015

- Restructuring consist of $34M reclass to depreciation and $10M of charges for Andro and Wickliffe

Q4-2016

- $7M of Other is primarily A3-related costs
- Restructuring costs primarily related to severance and Memphis HQ relocation costs

# 2015 Q4 to 2016 Q4 EBITDA Bridge




- Price down in all grades
- Mix improvement driven by Premium, Digital and Specialty grades
- Paper volume down 84K tons; pulp volume down 38K tons
- Market downtime reduced due to less paper machine downtime in 2016 and idling of Wickliffe in 2015
- Input costs driven by favorable wood and pulp partially offset by chemicals and energy
- Operations driven by strong improvement in R-Gap projects
- Other is driven by reduced SG&A, offset by incentive, pension and logistics
- OPEB related to the elimination of certain post-retirement benefits

# Key Metrics

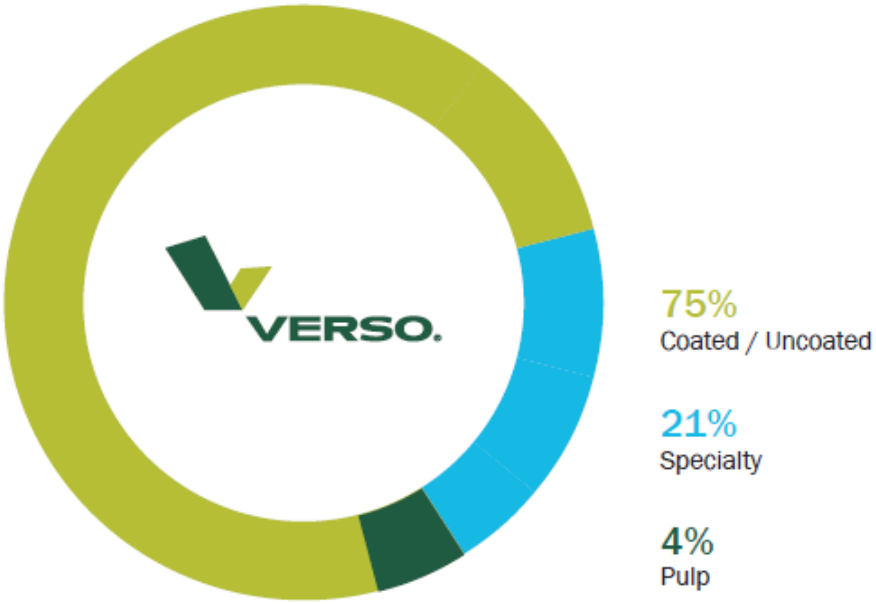
## Quarter 4 vs Prior Year

| | Q4-15 | Q4-16 | Δ | Δ % |
|---|---|---|---|---|
| Shipments | | | | |
| - Paper | 801 | 717 | (84) | (10)% |
| - Pulp | 94 | 55 | (38) | (41)% |
| Total | 895 | 772 | (122) | (14)% |
| NSP | | | | |
| - Paper | $880 | $858 | $(22) | (3)% |
| - Pulp | $525 | $479 | $(46) | (9)% |
| Paper Production | 761 | 773 | 12 | 2% |

## Year to Date vs Prior Year

| | YTD-15 | YTD-16 | Δ | Δ % |
|---|---|---|---|---|
| Shipments | | | | |
| - Paper | 3,278 | 2,915 | (363) | (11)% |
| - Pulp | 381 | 238 | (142) | (37)% |
| Total | 3,659 | 3,153 | (506) | (14)% |
| NSP | | | | |
| - Paper | $892 | $863 | $(28) | (3)% |
| - Pulp | $550 | $511 | $(40) | (7)% |
| Paper Production | 3,284 | 2,997 | (287) | (9)% |

## 2016 Revenue by Product Area



# 2016 Full Year – Results of Operations

| (Dollars in millions) | 2015 | Predecessor 1/1 to 7/14 | Successor 7/15 to 12/31 | Δ |
|---|---|---|---|---|
| **Net sales** | $ 3,122 | $ 1,417 | $ 1,224 | $ (481) |
| **Costs and expenses:** | | | | |
| Cost of products sold | 2,727 | 1,249 | 1,098 | (380) |
| Depreciation, amortization, and depletion | 308 | 100 | 93 | (115) |
| Selling, general, and administrative expenses | 187 | 95 | 49 | (43) |
| Restructuring charges | 54 | 151 | 11 | 108 |
| Other operating expense (income) | 1 | (57) | 8 | (50) |
| **Operating loss** | (155) | (121) | (35) | (1) |
| Interest expense | 270 | 39 | 17 | (214) |
| **Loss before reorganization items, net** | (425) | (160) | (52) | 213 |
| Reorganization items, net | - | (1,338) | - | (1,338) |
| **(Loss) income before income taxes** | (425) | 1,178 | (52) | 1,551 |
| Income tax benefit | (3) | - | (20) | (17) |
| **Net (loss) income** | $ (422) | $ 1,178 | $ (32) | $ 1,568 |
| **EBITDA** | $ 153 | $ 1,317 | $ 58 | $ 1,222 |

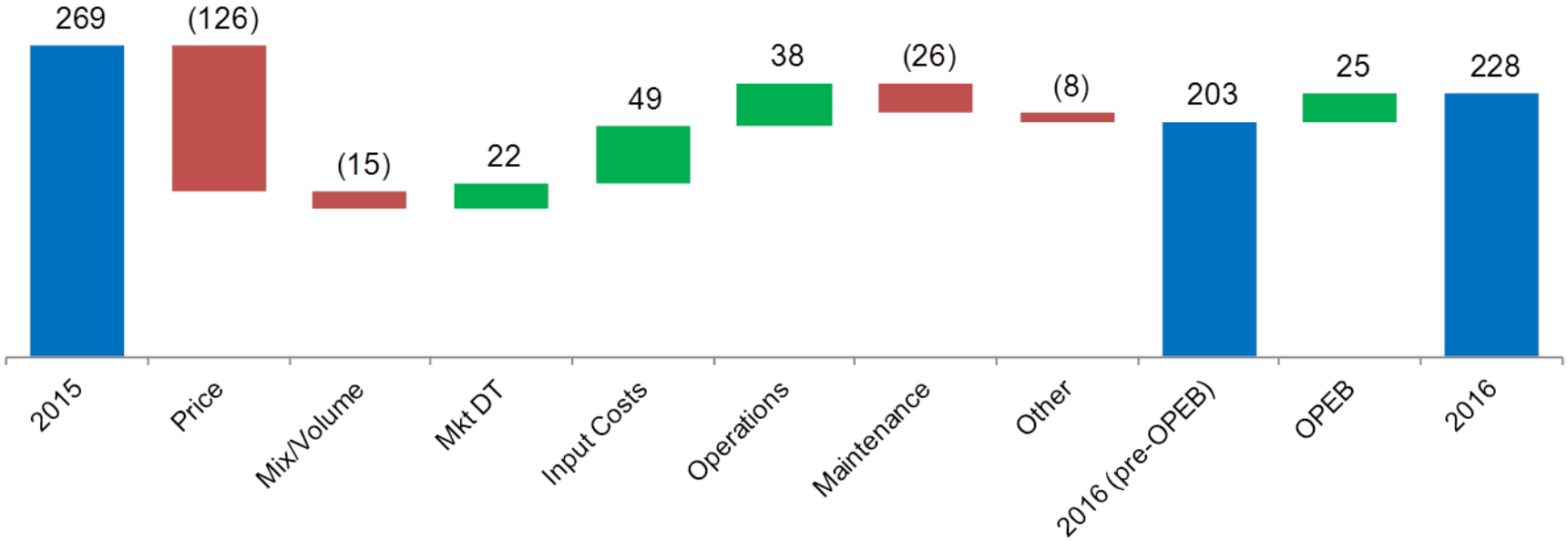
- Run rate for depreciation of Successor company was approximately $9M/month in 2016, excluding $43M of accelerated depreciation in Q4 related to A3 idling
- SG&A run rate declined from approximately $15M/month in first half of 2016 to approximately $10M/month at year end

# 2016 Full Year – Results of Operations, continued

| (Dollars in millions) | 2015 | Predecessor 1/1 to 7/14 | Successor 7/15 to 12/31 | Δ |
|---|---|---|---|---|
| **EBITDA** | $ 153 | $ 1,317 | $ 58 | $ 1,222 |
| Reorganization items, net | - | (1,338) | - | (1,338) |
| Pre- and post-Reorganization related charges | 10 | 6 | 8 | 4 |
| Fresh-start accounting adjustments | - | 3 | 46 | 49 |
| Restructuring charges | 59 | 151 | 11 | 103 |
| Loss (gain) on disposal of assets | 6 | (57) | 2 | (61) |
| NewPage acquisition/integration | 36 | - | - | (36) |
| Other items, net | 5 | 13 | 8 | 16 |
| **Adjusted EBITDA** | $ 269 | $ 95 | $ 133 | $ (41) |
| | | | | |
| Adjusted EBITDA Margin % | 8.6% | 6.7% | 10.9% | -0.1% |
| Gross margin | $ 395 | $ 168 | $ 126 | $ (101) |
| Gross margin % | 12.7% | 11.9% | 10.3% | |

- Fresh Start adjustments related primarily to inventory revaluation upon emergence
- 2015 restructuring costs primarily driven by capacity reductions at Androscoggin mill, NewPage acquisition costs and Bucksport closure costs
- 2016 restructuring costs relate primarily capacity reductions at Wickliffe mill

# 2015 to 2016 EBITDA Bridge




- Price down across all grades on a year-over-year basis
- Paper volume down 363K tons; Pulp down 142K tons - primarily related to the closure of Wickliffe and A2 machine at Androscoggin
- Mix improvement driven by Premium, Digital and Specialty grades increasing from 19.5% to 22.3% of volume and Uncoated, Tablet, Pulp (ex Quinn) and Seconds decreasing from 24.8% to 20.6% of volume
- Input costs driven by favorable energy and pulp, partially offset by higher chemicals
- Market downtime reduced due to less paper machine downtime in 2016 and idling of Wickliffe in 2015
- Operations –RGap driving substantial cost savings
- Maintenance driven by $18M non-repeat of ‘15 impact and $8M policy change related
- **Other includes SG&A spend reduction of $27M** offset by pension $(11)M, incentive $(11)M, logistics $(3)M and Wickliffe costs $(6)M

# Liquidity and Net Debt

| Liquidity $M | 9/30/2016 | 12/31/16 |
|---|---|---|
| Revolving Credit Facilities[1] | 368 | 347 |
| - Balance Drawn | 116 | 112 |
| - Letter of Credit | 82 | 78 |
| Remaining Capacity | 170 | 157 |
| Cash | 7 | 6 |
| **Total Liquidity** | **177** | **163** |

| Net Debt $M | 12/31/16 |
|---|---|
| Revolving Credit Facilities | 112 |
| Other Debt (Term Loan)[2] | 211 |
| Less: Cash | (6) |
| **Net Verso Corporation Debt** | **317** |

| Liquidity $M | |
|---|---|
| September 30, 2016 | 177 |
| Decrease in Balance Drawn | 4 |
| Decrease in Availability | (22) |
| Decrease in LOC | 4 |
| **December 31, 2016** | **163** |

Pro Forma 2016[3]

Free Cash Flow of $98M available for:

- Cash Interest
- Debt Amortization
- Pension Funding

[1] ABL availability limited

[2] Par value of Term Loan will decrease due to quarterly payments of $4.4 million

[3] Pro Forma Cash flow computation in appendix

**Debt Covenant and Excess Cash Flow for 4th quarter**

- Excess cash flow payment of $9.8M is required for year end 2016 and to be paid March 31, 2017
- Total leverage ratio at 1.4x compared to a covenant maximum of 2.5x
- Fixed charge coverage ratio at 2.2 to 1.0 compared to a covenant minimum of 1.0 to 1.0

# Pension and OPEB

- Unfunded pension and OPEB liabilities significantly reduced from emergence date

| Pension & OPEB (Dollars in millions) | Fresh Start July 15, 2016 | Unfunded Liability December 31, 2016 | Change |
|---|---|---|---|
| Pension | 647 | 491 | (156) |
| OPEB | 35 | 7 | (28) |
| Total Liability | 682 | 498 | (184) |
| Pension Discount Rate | 3.46% | 3.99% | 0.53% |

- Pension liability reduction the result of a discount rate reduction of 53 basis points, solid asset performance and normal contributions
- Elimination of post-retirement health care of pre-2012 retirees reduced OPEB obligation
- OPEB medical insurance liability should be eliminated by YE2017
- Projected 2017 pension expense is $6 million and cash funding is $32M - $36M

# Guidance

- 2017 Quarter 1
  - Sales of $600M - $625M
  - Price pressures will continue for the foreseeable future
  - Capex of $7M - $10M
  - Term loan expected to decline by $14M to $197M (face value) in Q1 with scheduled amortization and excess cash flow payment
- 2017 Full Year
  - Capex of $55M - $65M, down from $71M in ‘16
  - Cash pension funding of $32M - $36M
  - Cash taxes of $0 - $5M, primarily state income and franchise taxes
  - Maintenance expense to be weighted heavier in the second and third quarter of 2017
  - Industry headwinds will challenge 2017 EBITDA, expected to be lower than 2016 ($203M)

# Value Proposition

- Strong liquidity position; priority is to rapidly pay down the term loan and manage working capital to >$20M improvement
- Capitalize on our market leading position in coated paper and right-size when appropriate (e.g. A3 CGW idling)
- Growing, meaningful position in Specialty with broad product offering
- Robust mill cash flow and several low cost, highly efficient locations
- Committed to proactively managing cost; substantial cost savings achieved and more to come (R-Gap, HQ Consolidation, 10% OH Project)
- Focusing Verso to capitalize on commercial opportunities in digital, specialty and other product lines
- Will serve our customers better than any competitor can

# Finance Appendix

# Strong Combined Free Cash Flow of Predecessor and Successor

| (Dollars in millions) | YTD December 2015 | YTD December 2016 |
|---|---|---|
| Net loss | $(422) | $1,146 |
| Income tax benefit | (3) | (20) |
| Depreciation & amortization | 308 | 193 |
| Non-cash charges reorg and restructuring(1) | 25 | (1,269) |
| Other operating cash flow changes | (174) | (8) |
| **Net cash provided by (used in) operating activities** | **$(266)** | **$42** |
| Plus: One-time operating cash costs(2) | 65 | 97 |
| Plus: Cash interest paid(3) | 246 | 32 |
| **Pro Forma Cash Flows provided by Operations** | **45** | **171** |
| Less: Capital Expenditures | (64) | (73) |
| **Net Pro Forma Free Cash Flow** | **$(19)** | **$98** |

(1) Primarily relates to non-cash debt related reorganization gain and non-cash loss on fresh-start revaluation of $1,408M and non-cash restructuring charges of $139M related to the Wickliffe closure.

(2) In 2016, one-time operating cash costs include $53M of cash Reorganization expenses (professional fees), $23M of cash Restructuring ($17M Wickliffe, $4 million Androscoggin and $2M Corp HQ), $15M of cash pre- and post-reorganization expenses (professional fees), $6M of other non-recurring cash expenses. In 2015, one-time operating costs include $40M of cash Restructuring (Bucksport, NewPage Acquisition, Androscoggin and Wickliffe) and $25M of NewPage Acquisition costs including professional fees and integration costs.

(3) YTD December 2016 represents estimated cash interest based on year end 2016 capital structure.

# Adjusted EBITDA Definition

EBITDA consists of earnings before interest, taxes, depreciation, and amortization. Adjusted EBITDA reflects adjustments to EBITDA to eliminate the impact of certain items that we do not consider to be indicative of the performance. It is a financial term commonly used in our industry. We use Adjusted EBITDA as a way of evaluating our performance relative to that of our peers. We believe that Adjusted EBITDA is an operating performance measure that provides investors and analysts with a measure of ongoing operating results unaffected by differences in capital structures, capital investment cycles, and ages of related assets among otherwise comparable companies.

You are encouraged to evaluate each adjustment and to consider whether the adjustment is appropriate. In addition, in evaluating Adjusted EBITDA, you should be aware that in the future, we may incur expenses similar to the adjustments included in the presentation of Adjusted EBITDA. We believe that the supplemental adjustments applied in calculating Adjusted EBITDA are reasonable and appropriate to provide additional information to investors.

Because EBITDA and Adjusted EBITDA are not measurements determined in accordance with U.S. GAAP and are susceptible to varying calculations, EBITDA and Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies. You should consider our EBITDA and Adjusted EBITDA in addition to, and not as a substitute for, or superior to, our operating or net income or cash flows from operating activities, which are determined in accordance with GAAP.

# Consolidated Net Income/Loss to Adjusted EBITDA Reconciliation

| (Dollars in millions) | Predecessor | | | Successor | |
|---|---|---|---|---|---|
| | Three Months Ended December 31, 2015 | 12 Months Ended December 31, 2015 | January 1, 2016 Through July 14, 2016 | Three Months Ended December 31, 2016 | July 15, 2016 Through December 31, 2016 |
| **Net (loss) income** | $ (129) | $ (422) | $ 1,178 | $ 8 | $ (32) |
| Income tax benefit | (1) | (3) | - | (20) | (20) |
| Interest expense, net | 69 | 270 | 39 | 9 | 17 |
| Depreciation, amortization and depletion | 127 | 308 | 100 | 69 | 93 |
| **EBITDA** | $ 66 | $ 153 | $ 1,317 | $ 66 | $ 58 |
| Adjustments to EBITDA: | | | | | |
| Reorganization items, net (1) | - | - | (1,338) | - | - |
| Restructuring charges (2) | (24) | 59 | 151 | 9 | 11 |
| Fresh-start accounting adjustments (3) | - | - | 3 | 2 | 46 |
| Losses (gains) on disposal of assets (4) | 6 | 6 | (57) | 2 | 2 |
| Pre- and post-reorganization costs (5) | 10 | 10 | 6 | 6 | 8 |
| NewPage acquisition and integration-related costs/charges (6) | 3 | 36 | - | - | - |
| Other items, net (7) | - | 5 | 13 | 7 | 8 |
| **Adjusted EBITDA** | $ 61 | $ 269 | $ 95 | $ 92 | $ 133 |

(1) Net gains associated with the Chapter 11 Cases.
(2) For 2016, charges are primarily associated with the closure of the Wickliffe mill, of which $137 million is non-cash. For 2015, charges represent severance and employee related costs and other restructuring charges associated with the NewPage acquisition, and the closure of the Bucksport mill.
(3) Non-cash charges related to the one-time impacts of adopting fresh-start accounting.
(4) Realized (gains) and losses on the sale of assets, which are primarily attributable to the sale of hydroelectric facilities in January 2016.
(5) Costs incurred in connection with advisory and legal services related to planning for and emerging from the Chapter 11 Cases.
(6) Professional fees and other charges and integration costs incurred in connection with the NewPage acquisition, including one-time impacts of purchase accounting.
(7) Amortization of non-cash incentive compensation, unrealized losses (gains) on energy-related derivative contracts, Wickliffe operating costs while idled, and miscellaneous other non-recurring adjustments.