



Verso First Quarter 2017 Results

Earnings Conference Call and Webcast – May 18, 2017



Forward Looking Statements and Non-GAAP Information

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Business Overview



B. Christopher DiSantis
Chief Executive Officer

Macro Level Update

- *Headwinds, treadmill effect accelerating for Graphic papers.*
 - YTD net sales down 10.7% vs. Q1 2016.
 - Digitization, rise of e-commerce driving fundamental changes.
 - Retail crisis with est. 8,600 2017 store closures.
 - Particular weakness in CFS, excess inventory industry-wide, impact of A3 idling.
 - Competitors vying for marginal tons and moving upstream.
 - Maintaining leading position, initiatives target incremental growth in digital and other areas.

- *Downward price pressure vectors persist.*
 - Pressure continues with Graphic papers off 3% YOY.
 - Imports largest threat, but Euro to \$1.11* headed in the right direction.
 - Outlook for Pulp pricing on third-party sales is positive with successive price increases.

Q1 '17 Key Market Indicators (US)	vs. Prior Year
Magazine Ad Pages	-15.3%
Catalog Mailings	-4.2%
Commercial Printing	-0.9%
CFS Apparent Consumption	-5.4%
CGW Apparent Consumption	-4.4%
CFS Imports (% of demand)	+1.7%
CGW Imports (% of demand)	+1.6%

*As of 05/17/17

- *Specialty products (23% of Verso) maintain meaningful growth potential.*
 - Specialty products (principally Stevens Point and Androscoggin) up from 21% in 2016.
 - Particular strength in MG products.
 - Launch of Natural Kraft grades during Q1 2017.
 - Expect significant gains at A5 in Androscoggin by end of 2017.
 - New product and customer pipeline accelerating for A5: 70 samples requested, 46 different customers quoted, 147 product combinations bid, many trial rolls provided and several customer scale-ups are imminent.
 - Mix dynamics driving improvement of average selling price up 2% per ton vs. Q1 2016.
 - Androscoggin Mill is being evaluated for additional capital investment opportunities to continue upward growth trajectory.

Verso Tactical Response

- *Focusing on controllables and aggressively chasing out cost.*
 - A highly detailed, action-oriented tactical plan for 2017 is complete.
 - Embraced by the reinvigorated leadership team.
- *Realizable Gap (R-Gap) / Center of Excellence is a proven, highly effective countermeasure.*
 - 662 in-process manufacturing initiatives.
 - Targeting \$55M in net 2017 improvement.
 - Fresh tactics with only 13% carry-over from prior year.
- *Cost reductions will exceed announced 10% SG&A / OH reduction goal for the full year.*
 - \$25M savings expected to be realized in 2017.
 - Changes to headcount and reporting structures being implemented.
 - No stone unturned; every cost category you can think of is being challenged.

- *Ambitiously managing the balance sheet.*
 - Inventory: considerable upside in reduction, expect \$20M+ by year end. Plan to take mills down to synchronize supply with demand. Brought in outside APICS expert to run a formal project.
 - Payables: working with suppliers to extend terms; will conform or be phased out.
- *Scrutinizing conversion opportunities for smart capital investments.*
 - Low \$ conversion opportunities evaluation in process, could impact planned CapEx.
 - Using outside advisors who have successfully converted in the past.
 - High scrutiny applied for ROIC.
 - Will enable us to sell products Verso has never sold before and reposition Verso to thrive in a changing marketplace.

- *Continuation of OPEB gains.*
 - \$25M one-time gain behind us, expect \$3.5M of upside in 2017.
- *Fighting back on input cost inflation.*
 - \$24M of net inflation forecasted primarily in Latex, TiO₂, other chemicals, raw materials, energy and logistics. Favorable in wood and other categories.
 - Just saying “no” and qualifying other sources for those that won’t compromise.
 - Expect to maintain long-term partnerships with those that work with us.
- *Information Technology costs a real challenge.*
 - Will announce a new IT leader in next 2-3 weeks.
 - Large cost category to tackle with fresh perspective.
 - Expect significant reductions in outsourcing cost over time.
 - Need to define a flexible, cost-efficient future state.

CEO Closing Comments

- The “Treadmill Effect” of Graphic erosion is accelerating. This heightens our sense of urgency to reduce cost, restructure the organization, and find sources of cash from the balance sheet. Fortunately, opportunities abound.
- Tactical plan for 2017 is cemented in place. Now we put our sights on 2018, 2019 and beyond to define a strategy for the future.
- Verso will continue to exploit the efficiency of our extensive, low-cost mill system and capitalize on the marketplace receptivity to our Specialty, Digital and Pulp products.
- We will be decisive, make bold moves and be tenacious in our efforts. If I can leave you with just one message it would be:

“We will intensively focus on what we can control, while thinking and taking action like owners.”

Financial Overview



Allen Campbell

SVP and Chief Financial Officer

2017 Q1 Update

- Launched new products: Brilliantly Brighter, Natural Kraft and Ideal Truejet®.
- Announced multiple price increases in Pulp to date.
- Did not realize price increases in SC and CGW.
- Implemented single order entry/management system (Project Fusion) in January.
- Idled A3 machine at Androscoggin Mill in January.
- Realized unfavorable raw material prices as increases in latex and other chemicals offset favorable wood cost.
- Paid down approximately \$12M on Term Loan.

Q1 2017 Profit and Loss

(Dollars in millions)	Predecessor	Successor	Δ
	Q1-16	Q1-17	
Net sales	\$ 690	\$ 616	\$ (74)
Costs and expenses:			
Cost of products sold	618	560	(58)
Depreciation, amortization, and depletion	48	33	(15)
Selling, general, and administrative expenses	47	33	(14)
Restructuring charges	144	2	(142)
Other operating income	(57)	-	57
Operating loss	(110)	(12)	98
Interest expense	26	9	(17)
Loss before reorganization items, net	(136)	(21)	115
Reorganization items, net	(48)	-	48
Loss before income taxes	(88)	(21)	67
Income tax expense	-	-	-
Net loss	\$ (88)	\$ (21)	\$ 67
EBITDA	\$ (14)	\$ 21	\$ 35

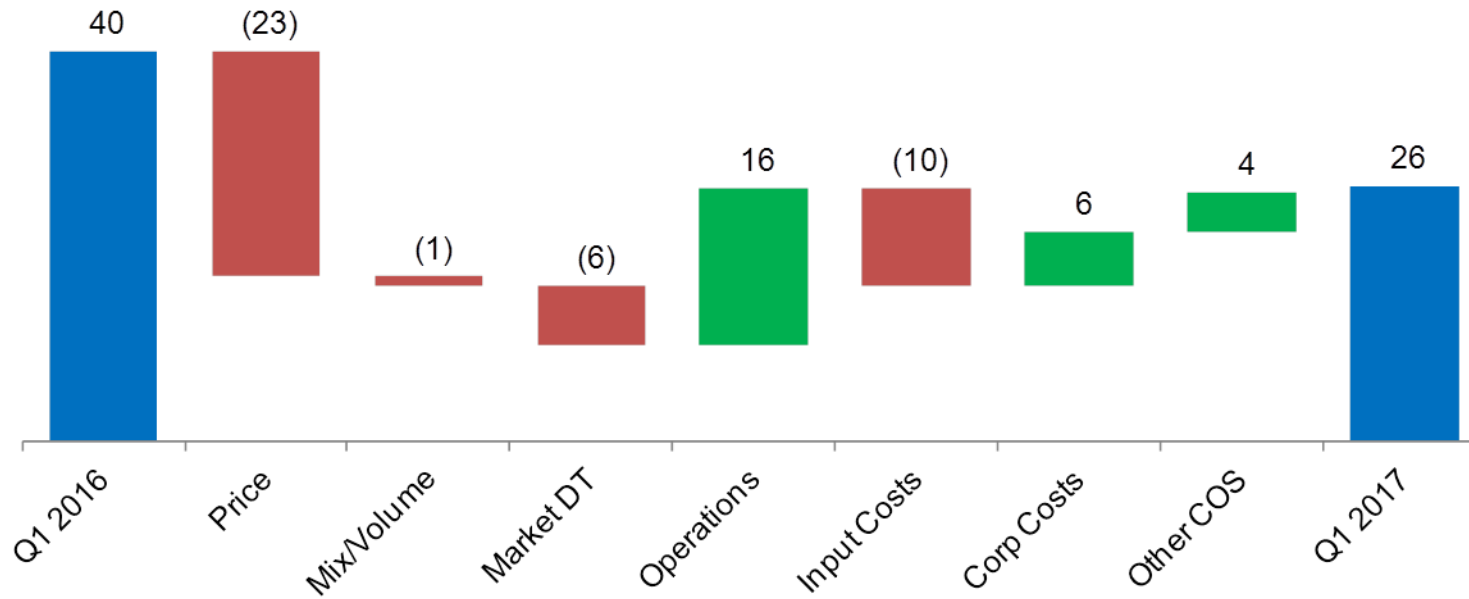
- Volume and price down driving lower revenue and margin due to competitive market pressures and the idling of A3 machine.
- SG&A down \$6M due to elimination of pre-reorganization related costs from 2016 and \$7M reclassified as COGS related to operations costs in 2017.
- Depreciation run rate decreased from approx. \$16M/month to \$9M/month in 2017 (excludes \$6M of accelerated depreciation related to idling of A3 in Q1 2017) due to fresh start revaluation of assets.

Q1 2017 Adjusted EBITDA

(Dollars in millions)	Predecessor	Successor	Δ
	Q1-16	Q1-17	
EBITDA	\$ (14)	\$ 21	35
Restructuring charges	144	2	(142)
Reorganization items, net	(48)	-	48
Pre-reorganization related charges	6	-	(6)
Gains on disposal of assets	(57)	-	57
Other items, net	9	3	(6)
Adjusted EBITDA	\$ 40	\$ 26	(14)
Adjusted EBITDA margin %	5.8%	4.2%	-1.6%
Gross margin	\$ 72	\$ 56	\$ (16)
Gross margin %	10.4%	9.1%	-1.3%
CapEx	\$ 11	\$ 10	\$ 1

- Restructuring costs relate to the closure of the Wickliffe Mill (2016/2017) and HQ consolidation (2017).
- Gains on disposal of assets relate primarily to the sale of the Andro Hydro facility.
- Gross margin decline driven by product pricing declines and input costs increases.

Q1 2016 to Q1 2017 EBITDA Bridge

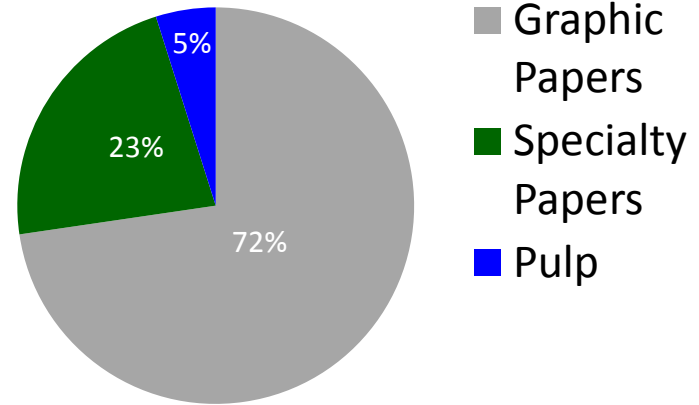


- Price up in Specialty, but down in all other grades.
- Paper volume down 76K tons with Pulp volume up 8K tons.
- Mix improvement driven by Premium, Digital and Specialty grades, virtually offsetting volume declines as we exited low margin products.
- Operations favorable in most mills with some operating slightly behind target.
- \$5M of Operations improvement related to maintenance spend.
- Input costs driven by unfavorable chemicals and energy costs, partially offset by favorable wood pricing.
- Corp costs due to reduced headcount and focus on cost cutting.
- Other COS is driven by capitalization of variances and favorable pension partially offset by increased logistics costs.

Key Metrics

	Q1-16	Q1-17	Δ	Δ %
<u>Shipments</u>				
- Paper	756	680	-76	-10%
- Pulp	<u>55</u>	<u>63</u>	<u>8</u>	<u>15%</u>
Total	811	743	-68	-8%
<u>NSP</u>				
- Paper	\$877	\$860	-\$17	-2%
- Pulp	\$544	\$481	-\$63	-12%
Paper Production	756	681	-75	-10%

Q1 2017 Revenues



- CGW web and CFS (web and sheets) driving the lower overall volume.
- Pulp volume up 15% vs. prior year.
- Premium and CFS web negatively impacting price.
- Specialty average price per ton holding as a result of mix.
- Pulp price experiencing recovery from low last half 2016.
- Paper production is down 10% vs. prior year driven by the idling of A3 machine, mix changes across the system and some machine reliability items.

Liquidity and Net Debt

Liquidity \$M	12/31/16	3/31/17
Revolving credit facilities ¹	347	369
- Balance drawn	112	157
- Letter of credit	78	78
Remaining capacity	157	134
Cash	6	7
Total liquidity	163	141

Liquidity \$M	
December 31, 2016	163
Increase in balance drawn	(45)
Increase in availability	23
Change in LOC	0
March 31, 2017	141

Net Debt \$M	3/31/17
Revolving credit facilities	157
Other debt (Term Loan) ²	200
Less: cash	(7)
Net Verso Corporation debt	350

¹ \$375M ABL availability limited by Borrowing Base.

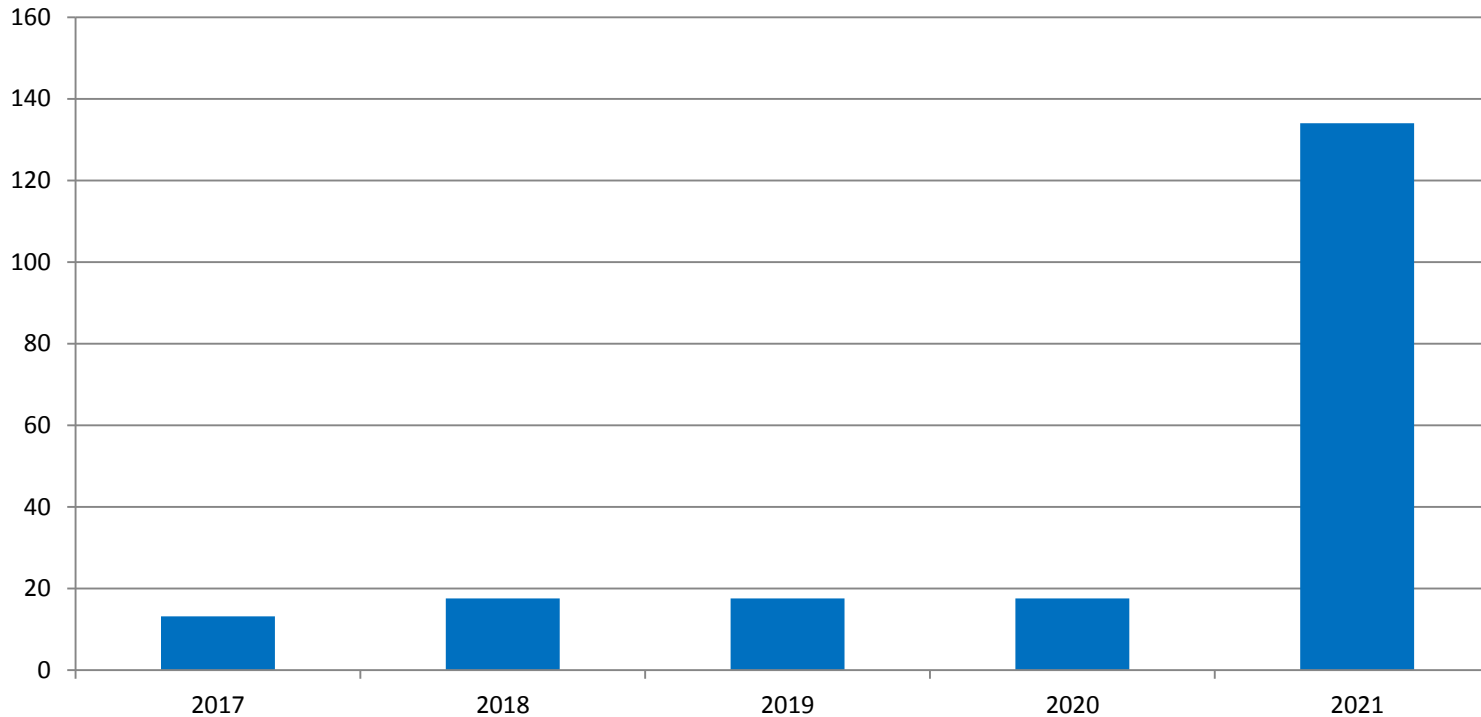
² Par value of Term Loan will decrease due to quarterly payments of \$4.4M.

Debt Covenant and Excess Cash Flow for First Quarter

- Excess cash flow payment of \$7.3M required for year end 2016 was paid March 31, 2017.
- Total leverage ratio at 1.65x compared to a covenant maximum of 2.50x.
- Fixed charge coverage ratio at 1.8 to 1.0 compared to a covenant minimum of 1.0 to 1.0.

Debt Maturity Schedule

Term Loan Scheduled Amortization



Term Loan

- Final maturity October 2021.
- \$200M balance at March 31, 2017.
- Quarterly amortization of \$4.4M.
- Excess Cash Flow Sweep is 75% of ECF net of scheduled amortization.

ABL Revolver

- ABL committed facility up to \$375M with final maturity July 2021.
- \$157M balance at March 31, 2017.

Guidance

- *2017 Q2*
 - Sales of \$575-595M.
 - Price pressures will continue for the foreseeable future.
 - CapEx of \$13-16M.
 - Maintenance expense of \$60-70M, heaviest quarter of 2017.
- *2017 Full Year*
 - CapEx of \$55-65M, down from \$73M in 2016.
 - Maintenance costs of \$210-220M, down from approximately \$235M in 2016.
 - SG&A of \$110-115M.
 - Cash pension funding of \$32-36M.
 - Cash taxes of \$0-5M, primarily state income and franchise taxes.

Finance Appendix

Cash Flow – Q1 2017 (\$M)

Adjusted EBITDA	\$ 26
Less CapEx	(10)
Net	\$ 16
Less:	
Change in working capital	(35)
Net pension contributions	(4)
Cash interest	(8)
Other	(2)
Net change	\$ (33)
Term Loan reduction	\$ (12)
Revolver increase	46
Change in cash balance	\$ 1

- Working capital cash flows include AR of (\$5M), inventory of (\$17M), other current assets of \$2M, accounts payable of \$13M, and accrued liabilities of (\$28M).
- Inventory increases primarily tied to normal seasonal build of finished goods and wood.
- Accrued liabilities decrease primarily tied to annual payments including incentive compensation and customer rebate programs.

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)	<u>Predecessor</u> <u>Three Months</u> <u>Ended</u> <u>March 31,</u> <u>2016</u>	<u>Successor</u> <u>Three Months</u> <u>Ended</u> <u>March 31,</u> <u>2017</u>
Net loss	\$ (88)	\$ (21)
Income tax expense	-	-
Interest expense, net	26	9
Depreciation, amortization and depletion	48	33
EBITDA	\$ (14)	\$ 21
Adjustments to EBITDA:		
Reorganization items, net ⁽¹⁾	(48)	-
Restructuring charges ⁽²⁾	144	2
Gains on disposal of assets ⁽³⁾	(57)	-
Pre-reorganization costs ⁽⁴⁾	6	-
Other items, net ⁽⁵⁾	9	3
Adjusted EBITDA	\$ 40	\$ 26

⁽¹⁾ Net gains associated with the Chapter 11 Cases.

⁽²⁾ For 2017, charges are primarily associated with the announced closure and relocation of the Memphis office headquarters and closure of the Wickliffe mill. For 2016, charges are primarily associated with the closure of the Wickliffe mill, of which \$137 million is non-cash.

⁽³⁾ Realized gains on the sale of assets, which are primarily attributable to the sale of hydroelectric facilities in January 2016.

⁽⁴⁾ Costs incurred in connection with advisory and legal services related to planning for the Chapter 11 Cases.

⁽⁵⁾ For 2017, costs incurred in connection with the re-engineering of information systems, amortization of non-cash incentive compensation, costs associated with the temporary idling of the No. 3 paper machine at the Androscoggin mill, and miscellaneous other non-recurring adjustments. For 2016, costs associated with the indefinite idling of the Wickliffe mill, amortization of non-cash incentive compensation, unrealized losses (gains) on energy-related derivative contracts, and miscellaneous non-cash and other earnings adjustments.