Kraton Corporation

Third Quarter 2018
Earnings Presentation

October 25, 2018

Disclaimers

Forward Looking Statements

Some of the statements and information in this presentation contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 identified by words such as “outlook,” “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans”, “on track” “on trend”, or “anticipates,” or by discussions of strategy, plans or intentions, including our expectations regarding our Panama City, Florida and Wesseling, Germany sites, logistics costs and global tariffs, as well as all matters described on the slide titled “2018 Modeling Assumptions” and our expectations for targeted debt reduction and 2018 Adjusted EBITDA..

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: Kraton's ability to repay its indebtedness; Kraton's reliance on third parties for the provision of significant operating and other services; conditions in the global economy and capital markets; fluctuations in raw material costs; limitations in the availability of raw materials; competition in Kraton's end-use markets; natural disasters and weather conditions 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 assume no obligation to update such information in light of new information or future events.

Disclaimers

GAAP Disclaimer

This presentation includes the use of non-GAAP financial measures, as defined below. Tables included in this presentation 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

We consider these non-GAAP financial measures to be important supplemental measures in the evaluation of our absolute and relative performance. However, we caution that these non-GAAP financial measures have limitations as analytical tools and may 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.

EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin: For our consolidated results, EBITDA represents net income (loss) before interest, taxes, depreciation and amortization. For each reporting segment, EBITDA represents operating income before depreciation and amortization, disposition and exit of business activities and earnings of unconsolidated joint ventures. Among other limitations, EBITDA does not: reflect the significant interest expense on our debt or reflect the significant depreciation and amortization expense associated with our long-lived assets; and EBITDA included herein should not be used for purposes of assessing compliance or non-compliance with financial covenants under our debt agreements since it calculation differs in such agreements. 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 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. We define Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of revenue (for each reporting segment or on a consolidated bases, as applicable).

Adjusted Gross Profit and Adjusted Gross Profit Per Ton: We define Adjusted Gross Profit Per Ton as Adjusted Gross Profit divided by total sales volume (for each reporting segment or on a consolidated basis, as applicable). We define Adjusted Gross Profit as gross profit excluding certain charges and expenses. Adjusted Gross Profit is limited because it often varies substantially from gross profit calculated in accordance with U.S. GAAP due to volatility in raw material prices. Certain amounts reported in the prior periods have been reclassified to conform to the current reporting presentation.

Adjusted Diluted Earnings Per Share: Adjusted Diluted Earnings Per Share is Diluted Earnings (Loss) Per Share excluding the impact of a number of non-recurring items we do not consider indicative of our on-going performance.

Net Debt and Consolidated Net Debt: Net debt for Kraton is total debt (excluding debt of KFPC due to its own capital structure) less cash and cash equivalents. Consolidated net debt is Kraton net debt plus debt of Kraton Formosa Polymers (KFPC) joint venture less KFPC’s cash and cash equivalents. Management believes that net debt is useful to investors in determining our leverage since we could choose to use cash and cash equivalents to satisfy our debt obligations.

Consolidated Net Debt Leverage Ratio: The consolidated net debt leverage ratio is defined as consolidated net debt as of the balance sheet date divided by Adjusted EBITDA for the twelve months then ended. Our use of this term may vary from the use of similarly-titled measures by others in our industry due to the potential inconsistencies in the method of calculation and differences due to items subject to interpretation.

Third Quarter 2018 Summary

- The decline in Q3'18 Adjusted EBITDA[(1)] from $121.7 million in Q3'17 to $98.7 million reflects:
  - Lower sales in non-core paving markets and to a lesser extent, Polymer segment adhesive markets
  - Impact of unplanned outages in Belpre and Berre
  - Higher operating costs, including transportation and logistics costs

- Margin preservation through "Price Right"
  - Chemical unit margins improved vs. Q3'17
  - Performance Product margins in line with Q3'17
  - Maintained target margins in Specialty Polymers, albeit down vs. strong Q3'17 which benefitted from falling raw material prices

- Full year 2018 Adjusted EBITDA[(1)(2)] expected to be approximately $380 million
  - Reflects Q3'18 results
  - Near-term global demand uncertainty
  - Estimated delay in startup at Wesseling (raw material availability)
  - Excludes Panama City impact

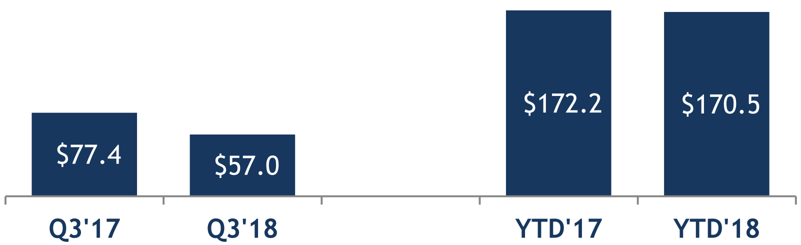
(1) See non-GAAP reconciliations included in the accompanying financial tables for the reconciliation of each non-GAAP measure to its most directly comparable GAAP measure.
(2) We have not reconciled Adjusted EBITDA guidance to net income (loss) because we do not provide guidance for net income (loss) or for items that we do not consider indicative of our on-going performance, including, but not limited to, transaction costs and production downtime, as certain of these items are out of our control and/or cannot be reasonably predicted. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding U.S. GAAP measures is not available without unreasonable effort.

Polymer Segment - Third Quarter 2018 Results

($ In millions, except volume)

	Q3' 17	Q3' 18	YTD'17	YTD'18
Volume (kT)	91.9	84.2	258.1	249.5
Revenue	$314.2	$321.0	$920.2	$948.2
Operating income	$18.7	$44.9	$98.3	$137.9

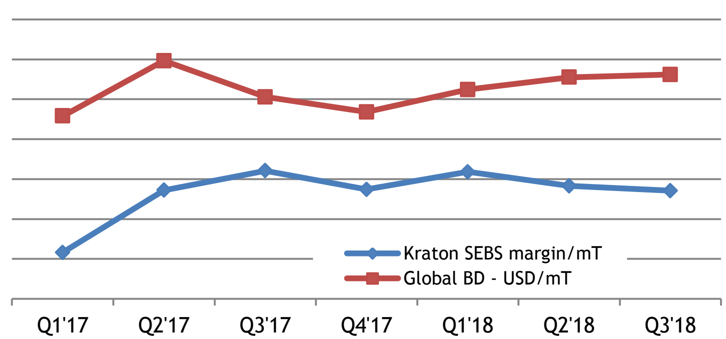
Adjusted EBITDA[(1)] and Adjusted EBITDA Margin[(2)]



	Q3'17	Q3'18	YTD'17	YTD'18
Adj. EBITDA Margin[(2)]	24.6%	17.8%	18.7%	18.0%

- Volume decline in Q3'18 predominately confined to paving and roofing outside of North America and Europe
  - YTD volume up in Specialty Polymers, Cariflex, and in North America and Europe paving and roofing markets
- Q3'17 Adjusted EBITDA[(1)] benefitted from a significant decline in butadiene costs
  - Impact, therefore, is a decline in Specialty Polymer margins
  - Overall unit margins, however, remain in line with expectations
- Higher Q3'18 and operating costs included unplanned outages (Ohio and France), logistics, and transportation
- YTD'18 Adjusted EBITDA[(1)] reflects solid unit margins, which mitigated higher costs including unplanned outages, logistics, and transportation costs
- YTD Adjusted Gross Profit[(1)] per ton of $1,019 ($980 in Q3 2018) vs. $987 in YTD'17 ($1,154 in Q3'17)

Global Butadiene Price[(3)] and Kraton HSBC Margin



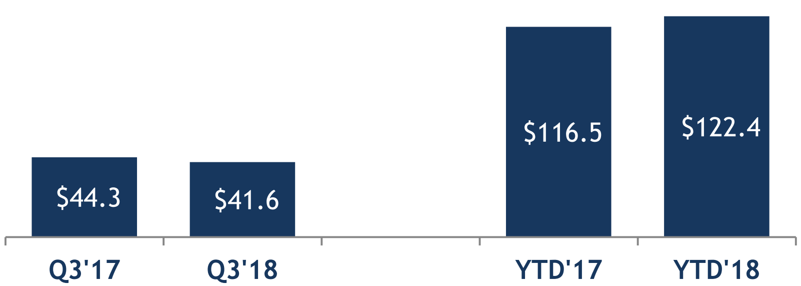
(1) See non-GAAP reconciliations included in the accompanying financial tables for the reconciliation of each non-GAAP measure to its most directly comparable GAAP measure.
(2) Defined as Adjusted EBITDA as a percentage of revenue.
(3) Source: IHS Markit and Kraton Corporation

Chemical Segment - Third Quarter 2018 Results

($ In millions, except volume)

	Q3' 17	Q3' 18	YTD'17	YTD'18
Volume (kT)	107.8	105.9	327.5	332.7
Revenue	$196.8	$202.1	$574.2	$615.7
Operating income	$23.6	$27.5	$66.6	$79.4

Adjusted EBITDA[(1)] and Adjusted EBITDA Margin[(2)]



Adj. EBITDA Margin[(2)]	22.5%	20.6%	20.3%	19.9%

- Sales volume in line with Q3'17 with YTD growth driven by 4.1% growth in Performance Chemicals partially offset by 3.3% decline in Adhesives sales volume
- Unit margins improved in Q3'18 vs Q3'17
  - Higher average pricing for TOFA, TOFA derivatives and other high value products
  - Tire business performing well
  - Adhesives margins in-line sequentially
- Q3'18 Adjusted EBITDA[(1)] reflects the increase in core unit margins offset by higher operating costs, including planned maintenance, logistics and transportation
- YTD'18 Adjusted EBITDA[(1)] up $5.9 million or 5.1% on improved margins, partially offset by higher costs, including costs for planned maintenance, and transportation and logistics costs
  - Maintaining 20% Adjusted EBITDA[(1)] margins

(1) See non-GAAP reconciliations included in the accompanying financial tables for the reconciliation of each non-GAAP measure to its most directly comparable GAAP measure.
(2) Defined as Adjusted EBITDA as a percentage of revenue.

Consolidated Results – Third Quarter 2018

($ In millions, except per share amounts)

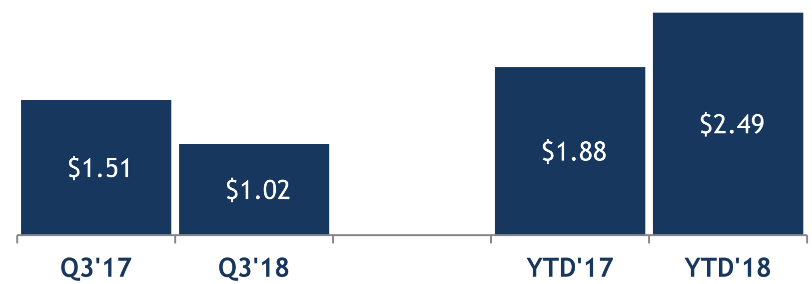
	Q3' 17	Q3' 18	YTD'17	YTD'18
Revenue	$510.9	$523.1	$1,494.4	$1,563.9
Operating income	$42.4	$72.4	$165.0	$217.3
Diluted EPS	$(0.13)	$1.31	$0.88	$1.53

- Q3'18 Adjusted EBITDA[1]:
  - Healthy core unit margins – "Price Right"
  - "Timing" of Polymer segment feedstock costs
  - Some volume weakness in certain paving and roofing markets
  - Higher operating costs
  - Continue to deliver high-teens Adjusted EBITDA[1] margins
- YTD Adjusted EBITDA[1] of $292.9 million, up $4 million compared to 2017
- YTD Adjusted EPS[1] includes a benefit of $0.60 per share associated with lower interest expense

Adjusted EBITDA[1] and Adjusted EBITDA Margin[2]

	Q3'17	Q3'18	YTD'17	YTD'18
Adj. EBITDA Margin[2]	23.8%	18.9%	19.3%	18.7%

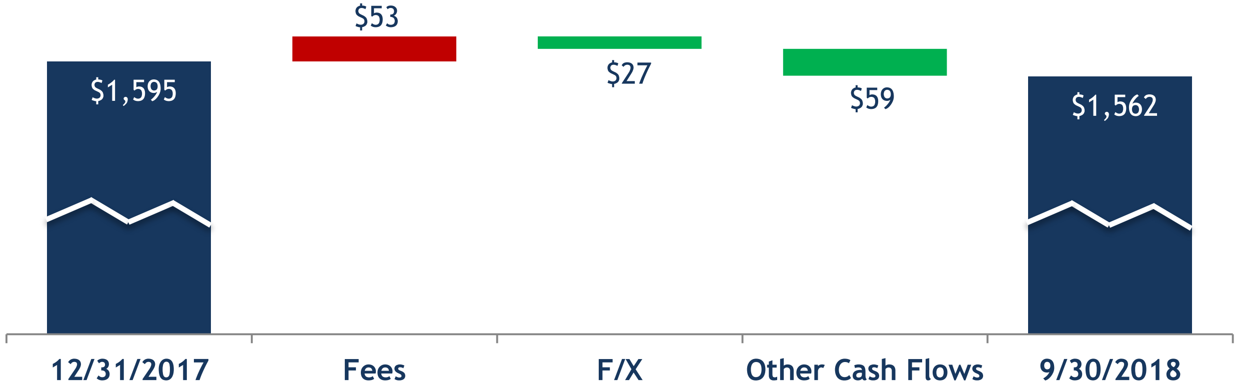
Adjusted Diluted EPS[1]



(1) See non-GAAP reconciliations included in the accompanying financial tables for the reconciliation of each non-GAAP measure to its most directly comparable GAAP measure.
(2) Defined as Adjusted EBITDA as a percentage of revenue.

Change in Net Debt

($ In millions)



	Sept. 30, 2018	Dec. 31, 2017
Kraton debt	$ 1,482.3	$ 1,525.4
Kraton cash	45.8	75.2
Kraton net debt	1,436.5	1,450.1
KFPC loans	131.5	158.3
KFPC cash	5.7	13.8
KFPC net debt	125.7	144.5
Consolidated net debt	$ 1,562.2	$ 1,594.6

May not foot due to rounding

Appendix

2018 Modeling Assumptions(1)

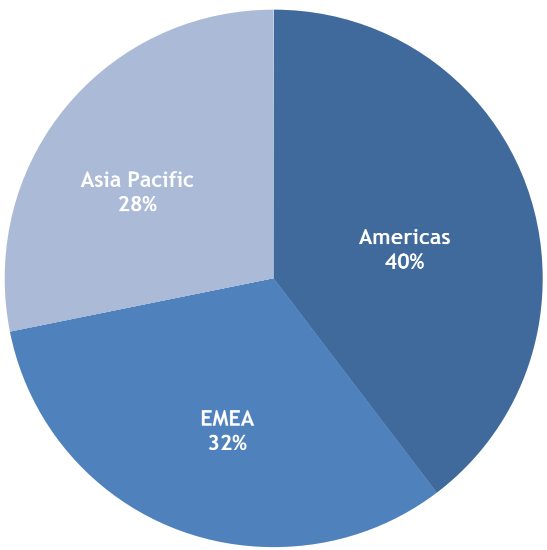
($ in millions)	
Non-cash compensation expense	$10
Depreciation & amortization	$140
Interest expense and cash interest	$96
Effective tax rate - Adjusted *Effective tax rate - GAAP – 15% - 20%*	20% - 25%
Capex (includes capitalized interest)	$110
Reduction in consolidated net debt(2) (3)	$50 to $60

Note: Non-cash compensation expense is excluded in determining Adjusted EBITDA and included in determining Adjusted EPS.

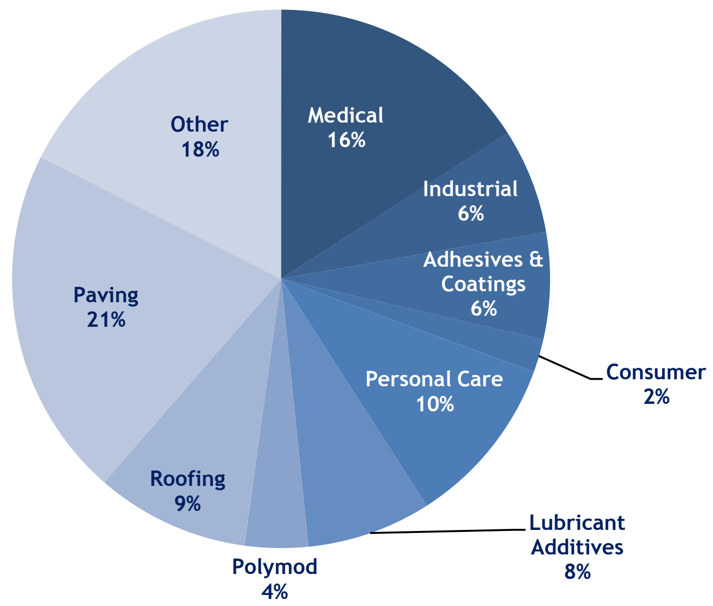
(1) Management's estimates. These estimates are forward-looking statements and speak only as of October 25, 2018. Management assumes no obligation to update or confirm these estimates in light of new information or future events.
(2) We have not reconciled net debt guidance to debt due to high variability and difficulty in making accurate forecasts and projections that are impacted by future decisions and actions. The actual amount of such reconciling items will have a significant impact if they were included in our net debt. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measures is not available without unreasonable effort.
(3) Includes the impact of approximately $53 million of costs associated with the 5.25% Senior Notes financing during the second quarter of 2018.

Polymer Segment - Revenue by Geography and End Use (TTM September 30, 2018)

Segment Revenue by Geography



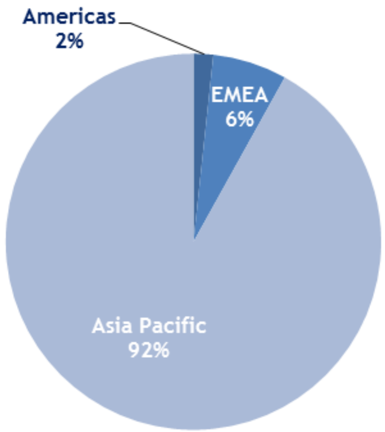
Segment Revenue by End Use

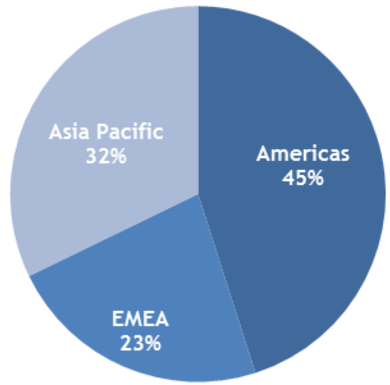


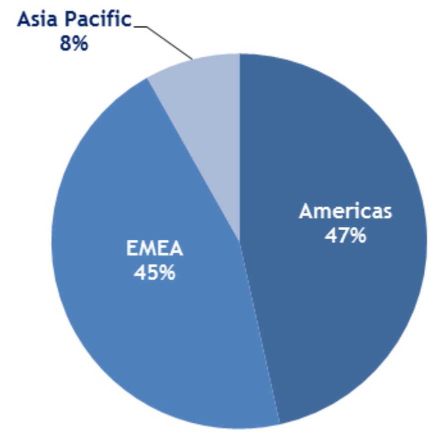
Polymer Segment – Product Group Revenue by Geography and End Use (TTM September 30, 2018)

CARIFLEX | SPECIALTY POLYMERS | PERFORMANCE PRODUCTS

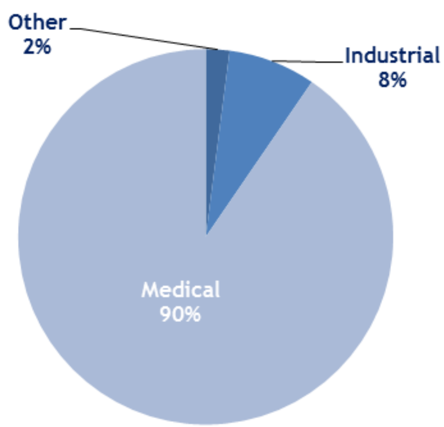
Revenue by Geography

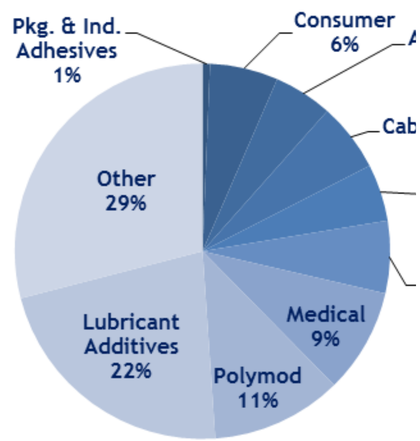


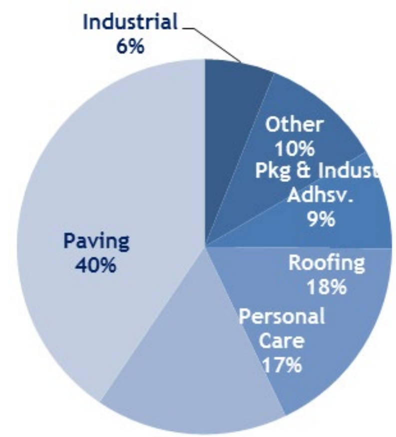




Revenue by End Use

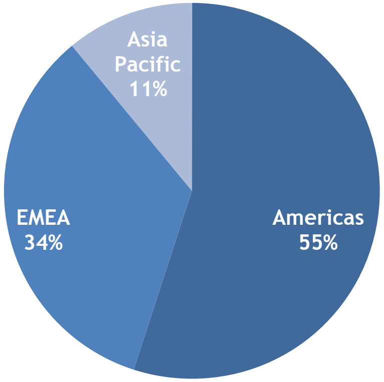




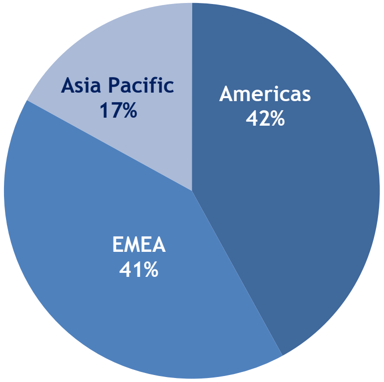


Chemical Segment - Revenue by Geography and Product Group (TTM September 30, 2018)

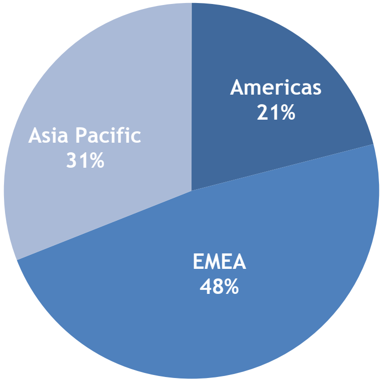
ADHESIVES
36% of TTM Revenue



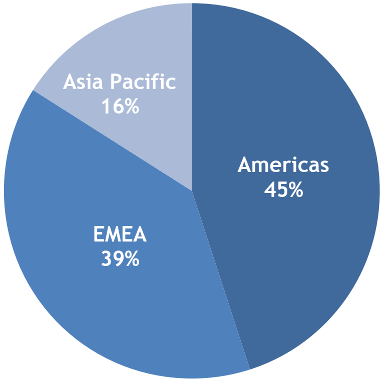
PERFORMANCE CHEMICALS
58% of TTM Revenue



TIRES
6% of TTM Revenue



Chemical Segment TTM Revenue



Polymer Reconciliation of Gross Profit to Adjusted Gross Profit

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(In thousands)			
Gross profit	$ 90,202	$ 67,308	$ 281,407	$ 242,807
Add (deduct):				
Restructuring and other charges (a)	—	1,028	—	6,528
Weather related costs (b)	—	760	—	760
KFPC startup costs (c)	—	2,341	—	7,662
Non-cash compensation expense	149	133	457	442
Spread between FIFO and ECRC	(7,771)	34,451	(27,711)	(3,431)
Adjusted gross profit (non-GAAP)	$ 82,580	$ 106,021	$ 254,153	$ 254,768
Sales volume (kilotons)	84.2	91.9	249.5	258.1
Adjusted gross profit per ton	$ 980	$ 1,154	$ 1,019	$ 987

a) Severance expenses and other restructuring related charges.
b) Costs related to Hurricane Harvey and Hurricane Irma.
c) Startup costs related to the joint venture company, KFPC.

Reconciliation of Net Income to Operating Income to Non-GAAP Financial Measures

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Polymer	Chemical	Total	Polymer	Chemical	Total
	(In thousands)					
Net income (loss) attributable to Kraton			$ 42,349			$ (4,033)
Net income (loss) attributable to noncontrolling interest			928			(818)
Consolidated net income (loss)			43,277			(4,851)
Add (deduct):						
Income tax expense (benefit)			8,334			(2,165)
Interest expense, net			20,143			33,017
Earnings of unconsolidated joint venture			(100)			(125)
Loss on extinguishment of debt			—			15,632
Other expense			740			846
Operating income	$ 44,899	$ 27,495	72,394	$ 18,731	$ 23,623	42,354
Add (deduct):						
Depreciation and amortization	17,554	17,563	35,117	17,342	16,965	34,307
Other income (expense)	(958)	218	(740)	(929)	83	(846)
Loss on extinguishment of debt	—	—	—	(15,632)	—	(15,632)
Earnings of unconsolidated joint venture	100	—	100	125	—	125
EBITDA	61,595	45,276	106,871	19,637	40,671	60,308
Add (deduct):						
Transaction, acquisition related costs, restructuring, and other costs (a)	689	(177)	512	2,240	61	2,301
Loss on extinguishment of debt	—	—	—	15,632	—	15,632
Weather related costs (b)	—	—	—	760	1,320	2,080
KFPC startup costs (c)	—	—	—	2,424	—	2,424
Non-cash compensation expense	2,495	—	2,495	2,219	—	2,219
Spread between FIFO and ECRC	(7,771)	(3,456)	(11,227)	34,451	2,272	36,723
Adjusted EBITDA	$ 57,008	$ 41,643	$ 98,651	$ 77,363	$ 44,324	$ 121,687

a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges.
b) Costs related to Hurricane Harvey and Hurricane Irma
c) Startup costs related to the joint venture company, KFPC

Reconciliation of Net Income to Operating Income to Non-GAAP Financial Measures

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Polymer	Chemical	Total	Polymer	Chemical[f]	Total
	(In thousands)					
Net income attributable to Kraton			$ 49,491			$ 27,941
Net income (loss) attributable to noncontrolling interest			1,743			(5,178)
Consolidated net income			51,234			22,763
Add (deduct):						
Income tax expense			8,743			2,907
Interest expense, net			74,835			101,766
Earnings of unconsolidated joint venture			(357)			(370)
Loss on extinguishment of debt			79,921			35,370
Other expense			2,960			2,517
Operating income	$ 137,930	$ 79,406	217,336	$ 98,339	$ 66,614	164,953
Add (deduct):						
Depreciation and amortization	52,914	52,719	105,633	50,439	51,601	102,040
Other income (expense)	(3,600)	640	(2,960)	(2,767)	250	(2,517)
Loss on extinguishment of debt	(79,921)	—	(79,921)	(35,370)	—	(35,370)
Earnings of unconsolidated joint venture	357	—	357	370	—	370
EBITDA	107,680	132,765	240,445	111,011	118,465	229,476
Add (deduct):						
Transaction, acquisition related costs, restructuring, and other costs (a)	2,062	(963)	1,099	11,493	(509)	10,984
Loss on extinguishment of debt	79,921	—	79,921	35,370	—	35,370
Weather related costs (b)	—	—	—	760	1,320	2,080
KFPC startup costs (c)	897	—	897	9,664	—	9,664
Non-cash compensation expense	7,620	—	7,620	7,366	—	7,366
Spread between FIFO and ECRC	(27,711)	(9,371)	(37,082)	(3,431)	(2,771)	(6,202)
Adjusted EBITDA	$ 170,469	$ 122,431	$ 292,900	$ 172,233	$ 116,505	$ 288,738

a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges.
b) Costs related to Hurricane Harvey and Hurricane Irma
c) Startup costs related to the joint venture company, KFPC

Reconciliation of Diluted EPS to Adjusted Diluted EPS

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Six Months Ended September 30, 2018	Six Months Ended September 30, 2017
	Unaudited			
Diluted Earnings (Loss) Per Share	$ 1.31	$ (0.13)	$ 1.53	$ 0.88
Transaction, acquisition related costs, restructuring, and other costs (a)	0.02	0.05	0.03	0.25
Loss on extinguishment of debt	-	0.32	1.89	0.72
Weather-related costs (b)	-	0.04	-	0.04
KFPC startup costs (c)	-	0.04	0.01	0.16
Spread between FIFO and ECRC	(0.31)	1.19	(0.97)	(0.17)
Adjusted Diluted Earnings Per Share (non-GAAP)	$ 1.02	$ 1.51	$ 2.49	$ 1.88

a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges.
b) Costs related to Hurricane Harvey and Hurricane Irma.
c) Startup costs related to the joint venture company, KFPC.