Kraton Performance Polymers, Inc.
Form 425
June 24, 2014

UPDATE CALL
PROPOSED COMBINATION
OF KRATON PERFORMANCE POLYMERS, INC.
WITH THE SBC BUSINESS OF LCY CHEMICAL CORP.
KRATON PERFORMANCE POLYMERS, INC.

KEVIN M. FOGARTY, PRESIDENT AND CHIEF EXECUTIVE OFFICER
June 24, 2014
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Forward-Looking Statements

This presentation includes forward-looking statements that reflect our plans, beliefs, expectations and current views with respe
and future events and financial performance. Forward-looking statements are often characterized by the use of words such as "
"expects," "projects," "may," "intends," "plans" or "anticipates," or by discussions of strategy, plans or intentions, including sta
the combination and the costs and timing to obtain them; expectations regarding the dilution / accretiveness of the combination
combined company; whether the transaction will close and the expected timing thereof; projected debt levels and leverage ratio

financial metrics, including revenue, margins, ROIC, free cash flow conversion and EBITDA, including components thereof, a
All forward-looking statements in this presentation are made based on management's current expectations and estimates, which
uncertainties and other important factors that could cause actual results to differ materially from those expressed in forward-lo
assumptions regarding cost rationalizations, variable cost optimizations and reductions in overhead may not materialize, or our
estimates, any of which would adversely affect our ability to achieve projected synergies. Our expectations and assumptions re
combined company may not materialize, which would adversely affect our ability to achieve expected accretion and the expect
approvals that are conditions to the closing may not be obtained as anticipated, which could delay or prevent closing of the tra
could be adversely affected by other risks and uncertainties, which would adversely affect the ability of the combined company
case of Kraton, these risks and uncertainties include, but are not limited to, those described in our latest Annual Report on For
Item 1A. Risk Factors" and "Part I, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Oper
described below, including, but not limited to Risk Factors , and in our other filings with the Securities and Exchange Comm
related to: conditions in the global economy and capital markets; declines in raw material costs; limitations in the availability o
products in the amounts or at the prices necessary for us to effectively and profitably operate our business; competition in our e
SBCs and from producers of products that can be substituted for our products; and other factors of which we are currently una
cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date the
to update such information in light of new information or future events.

Additional Information and Where to Find it

THIS COMMUNICATION DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER T
KRATON WILL FILE A REVISED PRELIMINARY PROXY STATEMENT/PROSPECTUS (AND AN AMENDMENT TO
AND OTHER DOCUMENTS WITH THE SEC . INVESTORS AND SECURITY HOLDERS ARE URGED TO CAREFUL
STATEMENT/PROSPECTUS AND AMENDMENT TO THE REGISTRATION STATEMENT (INCLUDING ANY FURT
BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION REGARDING KRATON, L
STATEMENT/PROSPECTUS WILL BE SENT TO THE SECURITY HOLDERS OF KRATON SEEKING THEIR APPRO
MAY OBTAIN A FREE COPY OF THE PROXY STATEMENT/PROSPECTUS AND THE REGISTRATION STATEME
WITH THE SEC AT THE SEC S WEBSITE AT WWW.SEC.GOV. THE PROXY STATEMENT/PROSPECTUS AND TH
(RELATING TO KRATON) MAY ALSO BE OBTAINED FOR FREE FROM KRATON BY ACCESSING KRATON S W

Participants in the Solicitation

Kraton, its directors, executive officers and certain members of management and employees may be considered participants i
stockholders in connection with the combination. Information regarding such persons and a description of their interest in the
statement/prospectus. Information concerning beneficial ownership of Kraton common stock by its directors and certain execu
statement dated April 15, 2014 and subsequent statements of changes in beneficial ownership on file with the SEC.

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USE OF NON-GAAP FINANCIAL MEASURES

This communication includes the use of both GAAP and non-GAAP financial measures. The non-GAAP financial measures ar and Adjusted EBITDA. We consider these non-GAAP financial measures important supplemental measures of financial perfo and believe they are frequently used by investors, securities analysts and other interested parties in the evaluation of our performance and/or that of other companies in our industry, including period-to-period comparisons. Further, management use these measures to evaluate operating performance.

These non-GAAP financial measures have limitations as analytical tools and in some cases can vary substantially from other m of financial performance. You should not consider them in isolation, or as a substitute for analysis of results under GAAP in th States. In the case of EBITDA, these limitations include: EBITDA does not reflect cash expenditures, or future requirements fo expenditures or contractual commitments; EBITDA does not reflect changes in, or cash requirements for, working capital need EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal pay on debt; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often ha be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; EBITDA calculations un terms of debt agreements may vary from EBITDA presented herein, and our presentation of EBITDA herein is not for purpose assessing compliance or non-compliance with financial covenants under debt agreements; and other companies in our industry calculate EBITDA differently from how we do, limiting its usefulness as a comparative measure. As an analytical tool, Adjuste is subject to all the limitations applicable to EBITDA. In addition, we prepare Adjusted EBITDA by adjusting EBITDA to elin impact of a number of items we do not consider indicative of ongoing performance, but you should be aware that in the future, expenses similar to the adjustments in this presentation may be incurred. Our presentation of Adjusted EBITDA should not be construed as an inference that future results will be unaffected by unusual or non-recurring items.

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Status Update
Kraton -
estimate for 2014 Adjusted EBITDA @ ECRC remains $150 million
First quarter 2014 Adjusted EBITDA at ECRC of $37.5 million
Estimate 2014 Adjusted EPS of $1.50 to $1.60
Waiting period under Hart-Scott-Rodino has expired, providing antitrust clearance for

transaction in the U.S.; we have also received antitrust regulatory approval in Taiwan and Turkey
China competition law and other necessary regulatory approvals in progress
Based upon current view of regulatory review process, and subject to satisfaction of remaining conditions, we continue to anticipate closing the transaction in 4Q14
Shareholders of LCY approved combination on March 31, 2014
1Q14 results for LCY s SBC business below expectations; expect improvement 2H14

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1Q14 performance significantly below 1Q13 and expectations
1Q14 volume 62 kT, Adjusted EBITDA $2.9 million vs. 1Q13 volume 65 kT, Adjusted EBITDA $20.6 million
Approx. 80% of Adjusted EBITDA shortfall vs. expectations due to gross profit decline

in China
China market
very difficult trading conditions for SBS
China represents >50% of LCY s SBC business (by volume)
SBS market decline began in 3Q13 and accelerated 4Q13, carrying over into 1Q14
Lower demand growth, excess inventory, effect of 2013 capacity additions
LCY has provided a revised forecast for 2014 Adjusted EBITDA of
$37 million
2Q14 similar to 1Q14; significant improvement expected in 2H14
LCY s SBC Business - Recent Performance

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Anticipated SBS growth did not materialize in 2013 as key markets softened, with demand weakness carrying over into 2014
China Market
Short-term Decline in Demand Growth
Paving

China
government
policies
to
tighten
liquidity
and
scrutiny
of
investment
and
infrastructure
projects
Footwear

high
finished
shoe
inventory
built
in
2011/2012
impacted
SBS
demand
as
footwear
production
reduced in 2013
Weakness in paving and footwear demand was partially offset by continued growth in Adhesives, Compounding and Roofing
(1) Source: SAI and Kraton Estimates
We expect growth in demand will recover in the second half of 2014 and continue into 2015
624
632
656
692
2012
2013
2014F
2015F
Est. China SBS Demand (kT)
1
Y-o-Y
Growth 1.3% 3.8%
5.5%

7
79%
64%
74%
2012
2013
2014F

2015F
68%
2013 production rates significantly higher vs. 2012 in anticipation of growth that did not materialize, resulting in a build in SBS inventories
China Market
Inventory Build
Production continued despite paving slowdown and build in footwear inventory
Result was a significant increase in inventory in 2H13
LCY brought 100 kT of SBS capacity on line in 3Q13
*
(1) Source: SAI, SCI99 and Kraton estimates
*Based on adjusted nameplate capacity of 845kT, which reflects partial year availability of LCY capacity
Est. inventory levels
increased to ~6 weeks
(50kT) vs. typical levels of
~2 weeks
Producers reducing output in 2014, and we estimate that excess SBS inventory will be eliminated by mid-2014
China
-
Estimated
SBS
Capacity Utilization
1

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Significant SBS capacity was added in China in 2H13, mostly LCY
China Market
Capacity Additions
Historically, capacity additions have been more in line with demand growth
~ 50 kT added in 2011 and 2012 respectively
In 2013, capacity additions were significantly above historical norms

~140 kT or 17% (100 kT LCY in Aug 2013, 40 kT Jusage end-2013)
(1) Source: SAI, SCI99 and Kraton estimates
Y-o-Y
Incr. (kT)
50 50 140 0 0
No SBS capacity additions in China are expected in 2014 or 2015

Resulting inventory build, combined with 2H13 capacity additions, created pricing pressure, which accelerated through 2H13 and carried over into 1Q14

China Market

Near-term Pricing and Margin Pressure

Raw material margin decreased >$400/ton in 4Q13

Widely-held industry assumption that margins would improve after Chinese New Year was incorrect

in fact, they continued to decline
Margins appeared to reach a low in April, increasing in May, and
are
continuing to increase in June
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* Preliminary based upon first two weeks of June 2014
Note: China market SBS-butadiene raw material margin defined as China market SBS price less 70% of the spot price for b
Source: SCI99 (Sinopec H791 benchmark grade), IHS/CMAI (Northeast Asia spot butadiene price)

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The China SBS Market Recovery Appears to be Underway
Producers
have
taken
steps
to

improve
margins
from
unsustainable
levels
Market prices have increased since mid-April
Production output is at reduced levels as excess SBS inventory is being worked off
We expect market conditions to improve in the second half of 2014 as the
market absorbs 2013 SBS capacity expansions
Footwear supply/demand in balance
Second half of the year is normally the peak season for paving demand
LCY projects 2014 sales volume of 294 kT, up 12% vs. 2013
In 2015, we expect overall SBS demand in China to return to longer term
growth rates of 5-6% per annum
Paving demand should improve, driven by need to complete projects included in 5
year plan, which ends in 2015
Continued high single-digit growth for adhesives, compounding and roofing
As China recovers, LCY s SBC business should benefit from
its leading market share position (>30%)

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Impact of Revised Market Outlook
LCY s outlook for its 2H14 is significantly better than 1H14
Producers in China are taking actions to improve margins from unsustainable levels,
industry
production
was

reduced
1Q14
and
excess
SBS
inventory
is
being
worked
off
YTD, SBS exports are higher and imports are lower, compared to same period in 2013
2H14 sales volume should be higher than both 2H13 sales volume and 1H14 sales
volume
Based upon the improvement in 2H14, full-year Adjusted EBITDA for LCY s
SBC business estimated at $37 million
We estimate it could take up to 2 years (i.e. until 2016) for the China market
to rebalance. Assuming a 2 year delay, we estimate:
LCY
Adjusted
EBITDA
for
2015
of
~$71
million,
reflecting
a
modest
improvement
over
the
annualized
2H14
run
rate;
LCY
Adjusted
EBITDA
for
2016
of
~$105
million
Our original LCY SBC business Adjusted EBITDA forecasts could be delayed by up to 2 years

Transaction Rationale Remains Unchanged

The combination addresses strategic objectives of both Kraton and LCY:

Kraton: a long-term strategy to access Asian growth markets with cost-effective assets

LCY: access to Kraton s differentiated products, R&D platform and global market reach

Enables projected $65 million in annual run-rate cost synergies by 2017

Results in stronger capital structure, reduced leverage and creates a platform for growth

Financial metrics still attractive, especially with full run-rate synergies of $65

million
2015 EBITDA multiple* 9.9x pre-synergies and 5.2x post-synergies
Dilutive to EPS by $0.19 in 2015; accretive to EPS by $0.29 in 2016
We expect LCY China margins to rebound as market conditions improve
Combination
gives
Kraton
immediate
access
to
local
capacity
in
a
high
growth
region,
with
less
risk
and
capital
cost
than
a
build
option
Despite near-term headwinds, China and Asia continue to represent
the best long-term growth potential for Kraton
*Based on Jan 24, 2014 KRA stock price of $21.66
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Asia continues to represent significant long-term growth potential

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Appendix

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Kraton Historical Financials
12 months ended
December
3 Months
Ended
3 Months

Ended
($ Millions)
2012
2013
3/31/2013
3/31/2014
Sales Volume (kT)
313
314
78
74
Revenue
$1,423
$1,292
$340
$312
EBITDA
(1)
$97
$89
$26
$15
EBITDA Margin
6.8%
6.9%
7.6%
4.7%
Adjusted EBITDA
(1)
$113
$110
$29
$42
Adjusted EBITDA Margin
8.0%
8.5%
8.4%
13.3%
Capex
$70
$86
$15
$21
Adjusted EBITDA less
Capex
$44
$24
$14
$20
(1) Refer to reconciliation of net income (loss) attributable to Kraton to EBITDA and Adjusted EBITDA.

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LCY SBC Historical Financials
12 months ended
December
3 Months
Ended
3 Months

Ended
($ Millions)
2012
2013
3/31/2013
3/31/2014
Sales Volume (kT)
222
263
66
62
Revenue
$619
$611
$171
$131
EBITDA
(1)
$94
$52
$23
$2
EBITDA Margin
15.2%
8.5%
13.2%
0.1%
Adjusted EBITDA
(1)
$91
$48
$21
$3
Adjusted EBITDA Margin
14.7%
7.8%
12.1%
0.2%
Capex
$18
$13
$3
$2
Adjusted EBITDA less Capex
$73
$35
$18
$1
(1)
Refer to reconciliation of net income (loss) for the LCY SBC business to EBITDA and Adjusted EBITDA.

Note: 2012 data revised from January 28, 2014 presentation, reflects final audited results and eliminates adjustments to corporate overhead for purposes of calculating Adjusted EBITDA

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Reconciliation of Net Income (Loss) Attributable to Kraton to EBITDA and Adjusted EBITDA
a)
Reflects the benefit of the settlement with LyondellBasell.
b)
Reflects a charge associated with the resolution of a property tax dispute in France.
c)

Reflects a storm related charge at our Belpre, Ohio facility.

d)

Includes other professional fees, severance expenses, fees associated with the public offering of our senior notes and the secon
associated with the restructuring of our European organization.

e)

Reflects an impairment of long-lived assets, of which $3.4 million and $2.0 million were associated with the HSBC facility an

f)

Reflects the non-recurring portion of the $6.1 million of aggregate turnaround costs in 2013. The adjustment relates to the pro
preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation.

g)

Reflects a retirement plan settlement charge associated with a disbursement from a benefit plan upon the retirement of an empl

h)

Primarily professional fees related to our proposed combination with the styrenic block copolymer operations of LCY Chemic
administrative expenses.

i)

Reflects $4.2 million of the Asia J.V. pre-startup costs, of which 50% are included in net income/(loss) attributable to Kraton.

($ Thousands)	2012	2013	3 months ended 3/31/2013	3 months ended 3/31/2014	Forecast 2014
Net income (loss) attributable to Kraton	$(16,191)	$ (618)	$ (3,748)	$ (7,909)	$ 16,421
Net loss attributable to noncontrolling interest	-	(357)	(76)	(285)	(2,134)
Consolidated net income (loss)	(16,191)	(975)	(3,824)	(8,194)	14,287
Add:					
Interest expense, net	29,303	30,470	13,298		

6,338
24,652
Income tax expense (benefit)
19,306
(3,887)
1,446
122
6,608
Depreciation and amortization expenses
64,554
63,182
15,098
16,409
65,193
EBITDA
$ 96,972
$ 88,790
$ 26,018
$ 14,675
$110,740
EBITDA
$ 96,972
$ 88,790
$ 26,018
$ 14,675
$110,740
Add (deduct):
Settlement gain
(a)
(6,819)
-
-
-
-
Property tax dispute
(b)
6,211
-
-
-
-
Storm related charges
(c)
2,481
-
-
-
-
Restructuring and other charges
(d)

1,359
815
55
521
653
Non-cash compensation expense
6,571
7,894
2,523
3,614
10,613
Impairment of long-lived assets
(e)
5,434
-
-
-
-
Production downtime
(f)
-
3,506
-
13,013
13,013
Retirement plan settlement
(g)
1,100
-
-
-
-
Transaction and acquisition related costs
(h)
-
9,164
81
9,236
18,511
Pre-startup costs on Asia JV
(i)
-
-
-
459
4,194
Adjusted EBITDA
$113,309
$110,169
$ 28,677

$ 41,518
$157,724
Add (deduct):
Spread between FIFO and ECRC
$ 30,533
$ 30,737
$ 507
$ (4,024)
$ (7,682)
Adjusted EBITDA at ECRC
$143,842
$140,906
$ 29,184
$ 37,494
$150,042
12 months ended
December

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Reconciliation of Net Income (loss) of the LCY SBC Business to EBITDA and Adjusted EBITDA
3 months
ended

($ Thousands)	2012	2013	3 months ended 3/31/2013	3 months ended 3/31/2014
Net income (loss)	$ 64,145	$ 27,581	$ 13,893	$ (3,291)
Add:				
Interest expense, net	498	(752)	(110)	(127)
Income tax expense	11,748	7,521	4,410	572
Depreciation and amortization expenses	17,367	17,899	4,433	4,727
EBITDA	$ 93,758	$ 52,249	$ 22,626	$ 1,881
EBITDA	$ 93,758	$ 52,249	$ 22,626	$ 1,881
Add (deduct):				
(Gain) / loss on currency transactions and financial instruments (a)	(2,588)	(4,914)	(2,006)	1,017
Transaction costs (b)	-	230		

-
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Adjusted EBITDA
$ 91,170
$ 47,565
$ 20,620
$ 2,924
12 months ended
December
a)
Reflects (gain)/losses on currency transactions and financial instruments
b)
Reflects costs associated with the combination with Kraton
Note: 2012 data revised from January 28, 2014 presentation, reflects final audited results and eliminates adjustments to corpora
purposes of calculating Adjusted EBITDA

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Reconciliation of Net Income Attributable to Kraton and Income Per Diluted Share to Adjusted Net Income and Adjusted Earnings per Diluted Share
$ in thousands except per share data
Estimated 12 Mos.
Ended 12/31/14
Per

Diluted
After Tax
Share
Net income attributable to Kraton
and income per diluted share
$ 16,421
$ 0.51
Restructuring and other charges
(a)
$ 532
$ 0.02
Transaction and acquisition related costs
(b)
$ 18,511
$ 0.58
Production downtime
(c)
$ 13,013
$ 0.40
Asia startup costs, net of non-controlling interest
(d)
$ 1,741
$ 0.05
Adjusted net income and adjusted
earnings per diluted share
$ 50,218
$ 1.56

a)
Severance expenses, which are primarily recorded in cost of goods sold.
b)
Primarily professional fees, related to our proposed combination with the styrenic block copolymer operations of LCY Chemic
recorded in selling, general and administrative expenses.
c)
Production downtime at our Belpre, Ohio and Berre, France facilities, of which $12.4 million is recorded in costs of goods solo
recorded in selling, general and administrative expenses.
d)
Startup costs of $4.194 (pre-tax) related to the joint venture company, Kraton Formosa Polymers Corporation, which are recor
general and administrative expenses, presented net of the associated impact on non-controlling interest.

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