



Investor Presentation

April 21, 2017



## Forward Looking Statements and Non-GAAP Reconciliations

*These slides and our remarks during the earnings call about Xerium's future expectations, plans and prospects are forward-looking statements within the meaning of the federal securities laws. Forward-looking statements involve risks, uncertainties and other factors, including those discussed in our earnings press release dated March 1, 2017 and in our filings with the SEC, which could cause our actual results to differ materially from the results expressed or implied by our statements. Any forward-looking statements which we make in this presentation or in our remarks today, represent our views only as of today. We disclaim any duty to update any such forward-looking statements.*

*These slides also include and we plan to discuss supplementary non-GAAP financial measures such as:*

- *Adjusted EBITDA*
- *Free cash flow*
- *Net debt*
- *Certain sales figures excluding currency effects*

*We use these numbers internally to assess financial performance, and therefore, we believe they will assist you in better understanding our company. See our most recent earnings release, the end of this presentation and our annual report on Form 10-K for reconciliations of the non-GAAP numbers to their comparable GAAP numbers. Our use of these non-GAAP measures in this presentation is subject to those additional disclosures, which we urge you to read.*



## Management in Attendance Today



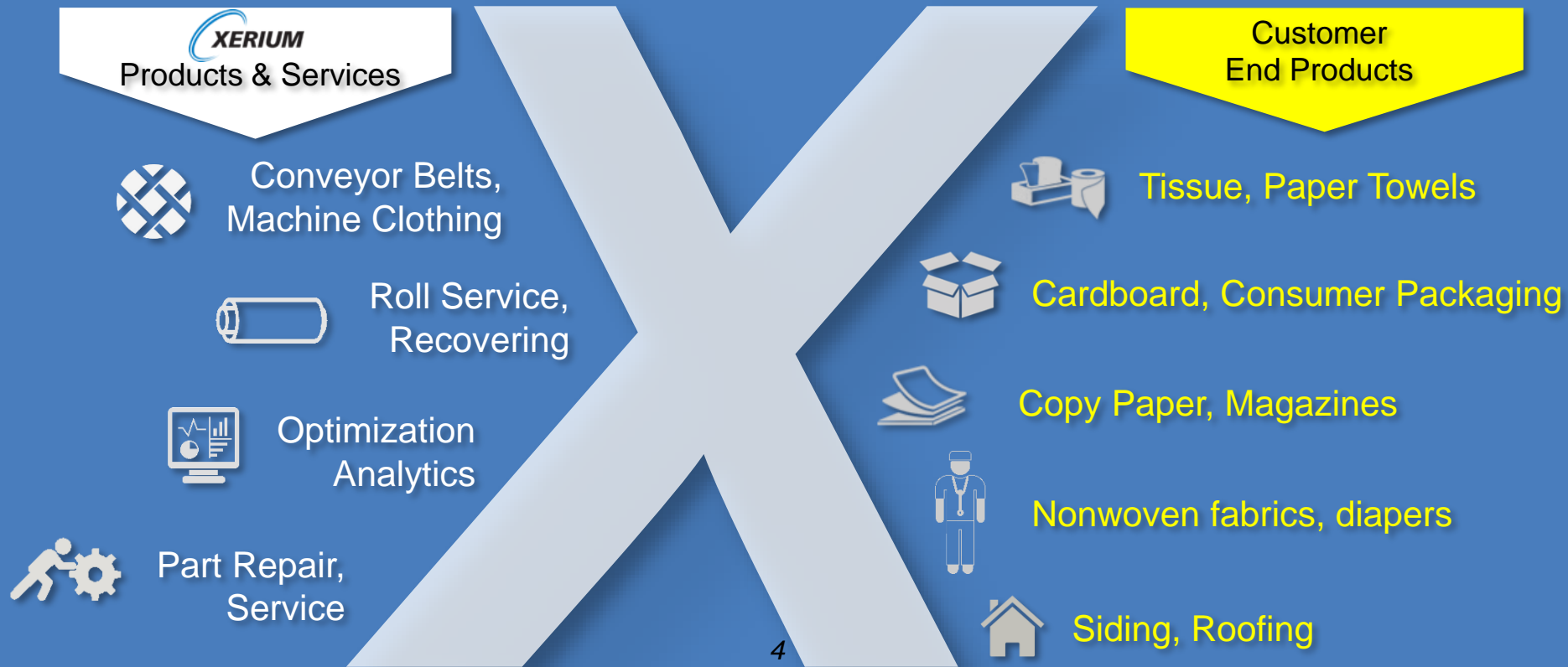
### Harold Bevis

- President, CEO, Director of Xerium Technologies (NYSE: XRM) since 2012
- Director of Commercial Vehicle Group (NASDAQ: CVGI) since 2014
- 31 years of experience; 15<sup>th</sup> year as a CEO, President, Director
- Experienced at repositioning – 3 corporate turnarounds (one underway!), 11 acquisitions, 3 divestitures, 11 new business/new plant startups, 24 plant expansions, 26 plant closures
- Experienced at growth and cost optimization - launched 150+ new products, companies received 500+ new patents, 26 industry awards. Lean Six Sigma - Green Belt
- Own 533k shares of Xerium stock, recently purchased stock at \$6.05/share





## Xerium Provides Consumable Parts & Services for its Customer's Manufacturing Process





## Xerium at a Glance



2016 Sales \$471 million



2016 EBITDA \$95 million  
20% of Sales



2016 Free Cash Flow \$23 million



~3,000 Employees



28 Plants in 13 Countries  
*Lean Six Sigma culture*



Direct Sales

- Customers in 63 Countries
- ~70% sales outside U.S.
- 11 Primary Currencies



Continuous Innovation

- 3 R&D Centers
- 450+ Patents



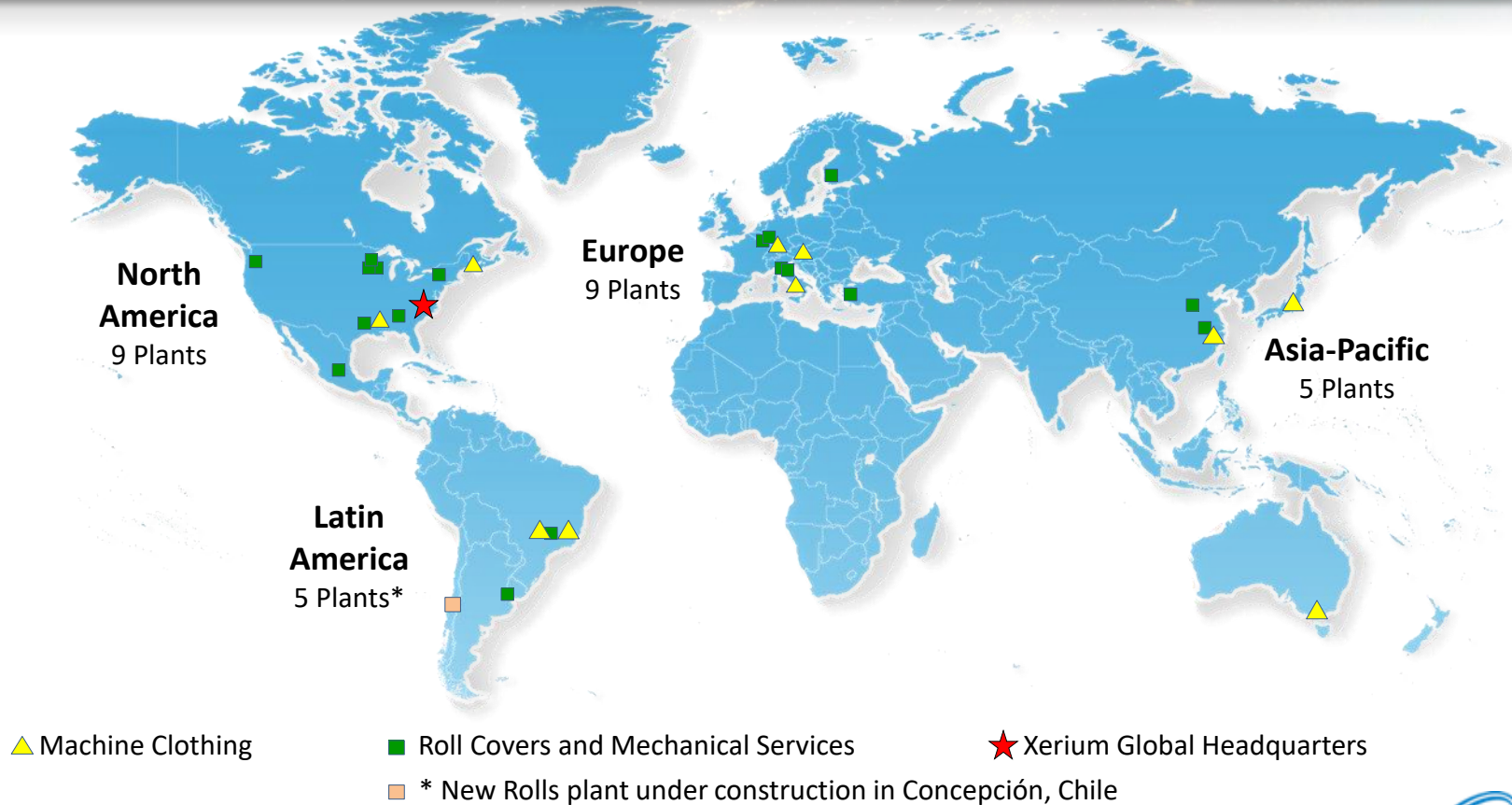
Powerful Data Analytics

- Industrial Internet of Things (IIoT)  
*"Digital to Win"*



**10 Machine Clothing Factories**  
**18 Roll Repair & Mechanical Service Centers**  
**13 Countries**  
**~3,000 Employees**  
**Customers in 63 Countries**

## Where We Are Located



# Strategic Objective

# 1

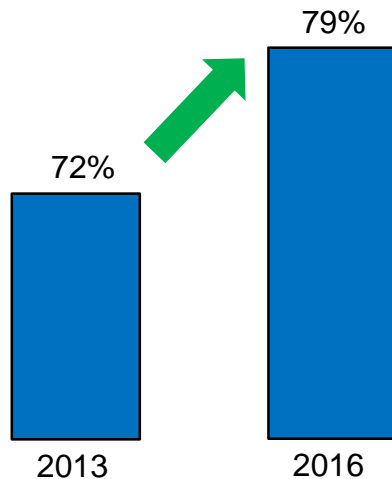
## Revenue Growth

- Core value proposition: improve our customer's machine operating performance through innovative and reliable clothing and roll cover solutions
- Attach the Company to naturally growing segments of the market
- Deploy the company's successful recurring revenue model into new markets
- Pursuit of this strategic objective requires high-quality capacity to be in the right geographies and equipped with winning technical designs
- Key 2017 actions – globally rolling out a new containerboard machine (~50% of the world's machines) product line called TransForm™, expanding China operations, expanding capacity for new products



## Strategic Goal is to Align With Stable, Growing Segments of the Market

% of Revenue from Steady, Growing Market Segments



### End Product Growth

- Consumer packaging
- Tissue
- eCommerce boxes
- Tissue converting
- Paper towels, napkins
- Shipping containers
- Folding cartons

### Emerging Country Growth

- China/Asia
- Chile/Latin America
- Turkey/Middle East



# Xerium is Repositioning...

# ...Into Growth Markets

8 Plants Closed, Equipment Retooled,  
And Relocated

## Machine Clothing Plants

- Argentina
- Brazil
- Canada
- Spain

## Rolls Plants

- Charlotte, NC
- France
- Germany
- Middletown, VA

10 Plants Renovated, Equipment Repurposed,  
And Repositioned For Growth

## Machine Clothing Plants

- Canada
- Austria
- Brazil
- China (new)

## Rolls Plants

- Chile (new, underway)
- China
- Griffin, GA
- Neenah, WI
- Ruston, LA
- Turkey (new)



## **Centerpiece of 2013 – 2016 Repositioning Investment Plan** ***Xerium's First-Ever Machine Clothing Plant in China***

### **This New Plant Was the Main Reason for Above-Trend Capital Investment 2013 – 2016**

- Average depreciation was historically \$35 million per year (2003-2012)
- Average capital spending was historically \$27 million per year (2003-2012)
- Invested a cumulative \$35 million above these traditional levels during 2013 – 2016
- Capital spending required to build new machine clothing plant in China was \$35 million cumulative during 2013-2016, or the entire amount of the overage

Having a machine clothing plant located in the largest and fastest growing market in the world for the Company's products is a game-changer for Xerium

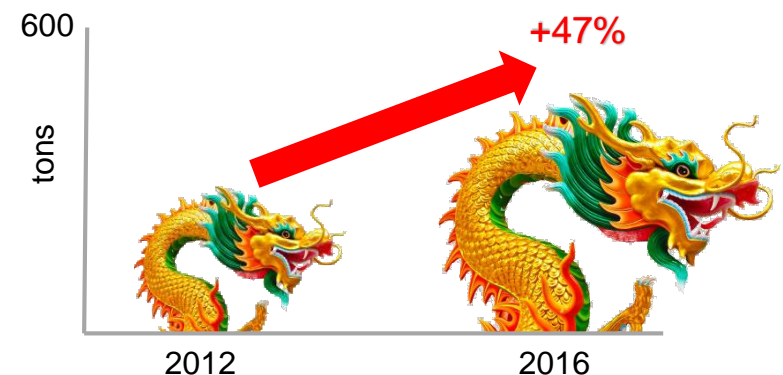




## New China Machine Clothing Plant a Success, Ramping Up

- Permanently corrected lead time and delivered cost competitiveness for press felts for Asian market
- Plant is focused on growing markets & segments
- Plant launched ground-up with Lean Six Sigma
- Plant in full ramp-up mode, adding forming fabric production in 2017
- New credibility in region, game-changing commitment from “Voice of the Customer”

Xerium Asia Press Felt Sales Growth







## **Xerium's 2<sup>nd</sup> Machine Clothing Operation in China is Starting Up Now** ***Forming Fabric Production Has Begun***



- Xerium's most profitable and advanced product line
- A major break-through in competitiveness for Xerium & will help sales growth in the region
- First 20 orders have been received with elite customers including **Nine Dragons and Asia Symbol**
- First shipment within weeks
- Next production phase is also already underway





## Improved Presence in China is Opening Up Many Opportunities

Region	Number of Paperboard, Tissue, Pulp & Paper Machines*
Asia-Pacific	4,604
China	2,749
EMEA	1,906
North America	835
Latin America	<u>650</u>
Global Total	7,995

- 34% of the world's machines in China
- Many new machines forecasted
- 1,040 new tissue machines worldwide by 2025 alone\*\*

### Sales Pathways Now Open

- Expanded press felt business (underway)
- Expanded forming fabric business (underway)
- Expanded local market customer base (underway)
- Expanded roll service in Southern China mills (2018)

Source: Fisher International.

\*Machines that produce >30 tons per day as of February 23, 2017.

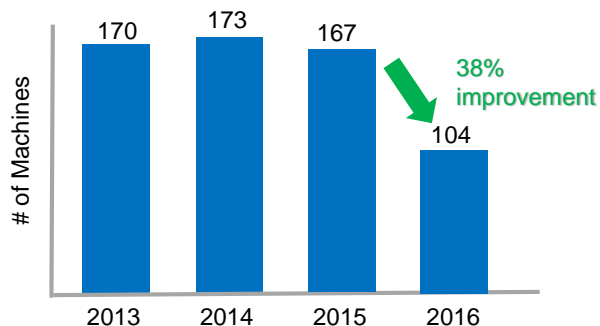
\*\*Modeled based on historical tissue machine growth + GDP or population growth for developed, and developing countries.





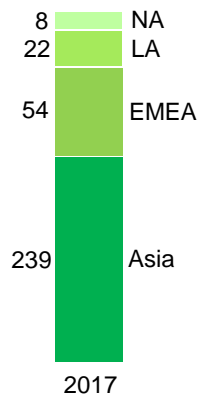
## Base Business Stabilizing

Global Machines Shut Down



Source: Fisher International, machines that produce >30 tons per day

### 323 New Machines Announced for 2017



Source: Fisher International

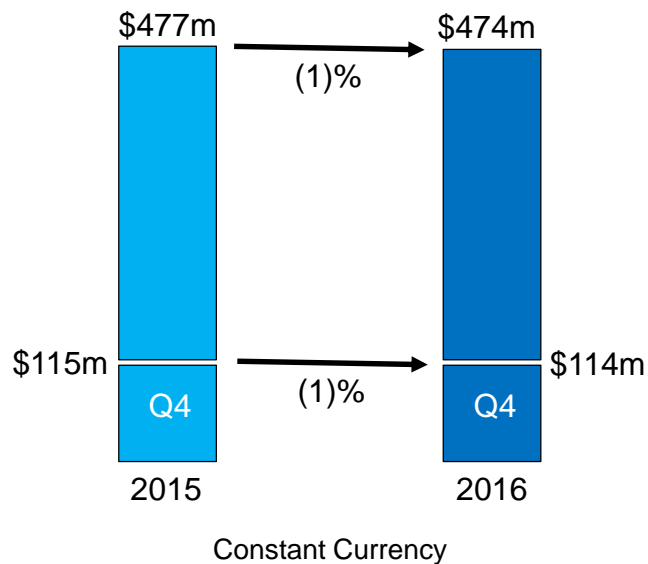
### Startups Outpacing Closures

- As of April 18, 2017 - new machine startups + machine restarts outpacing old machine closures by ~ 2:1
  - New start-ups + restarts = 59 machines
  - Closures = 29 machines
- Significant machine/market correction occurred during 2013 – 2015, and the machine closure pace declined significantly in 2016
- Graphical market decline will continue (~20% of the market), but closure pace and impact will be less
- Growth of GDP grades (~80% of the market) is continuing and is overcoming the declining grades

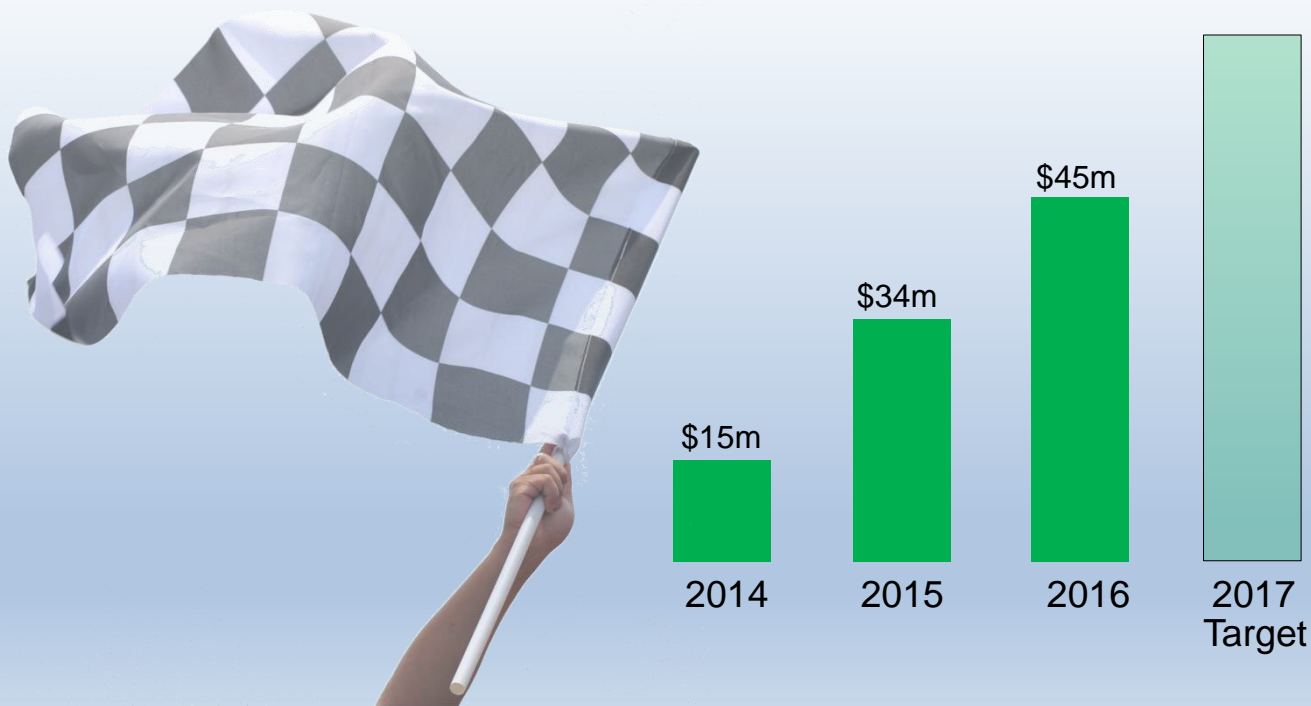




## Sales Are Stabilizing



- 2016 Orders were above prior year, 2017 orders are above 2016 orders YTD
- Sales slightly down due to end of year timing, some production ramp-up issues
- Backlog up, repositioning program is working – new products and new capacity in the right spots



## New Business Wins Increasing

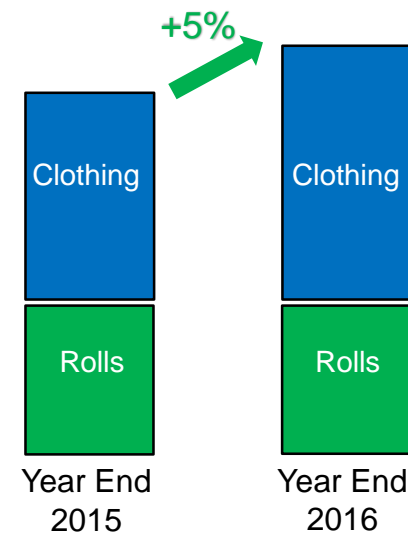
### Repositioning Initiatives in Ramp-Up Phase, \$94 million of New Wins & Climbing

- China press felt plant (underway)
- Shoe press belt ramp-up (underway)
- TransForm™ forming fabrics (underway)
- Spencer Johnston acquisition full-year effect (underway)
- Production increases for new products (now)
- China forming fabric plant (now)
- Chile rolls & service plant (Q4)



## Order Levels Strong, Backlogs Steadily Improving

- 2017 backlog continues to increase YTD
- 90 new products launched since 2013, very successful value propositions
- Synergies between machine clothing, roll technology, analytics. Delivering unique customer value.
- New capacity in targeted regions, enabling growth volume.
- Spencer Johnston integration fully underway





# Strategic Objective

## 2



## Operational Excellence

### Lean Six Sigma

- Lead in quality, delivery, cost
- Achieve > 99% delivered quality
- Offset inflation, price, mix

### Leading Financial Outcomes

- 38-40% gross margin
- 19-21% EBITDA
- 21-23% working capital

# Strategic Objective

## 3

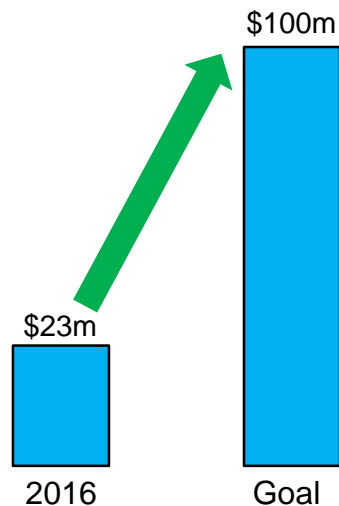


### Reduce Leverage

- Generate free cash flow
- Pay down debt and reduce leverage over the next 3-5 years
- Target leverage reduction from 5.1x (pro-forma including Spencer Johnston) to <3x
  - ✓ Annual debt reduction, timing around interest payments
  - ✓ Improvement and de-risking of EBITDA driven by stronger commercial program & repositioning actions



## Free Cash Flow

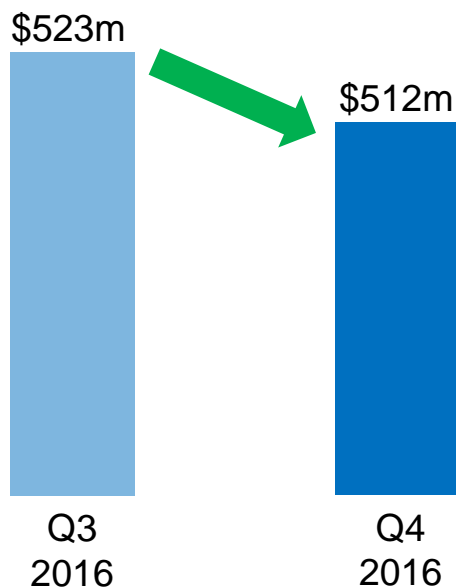


- 2016 was a good start with free cash flow generation
- Headed towards long term goal





## Net Debt Reduction Underway

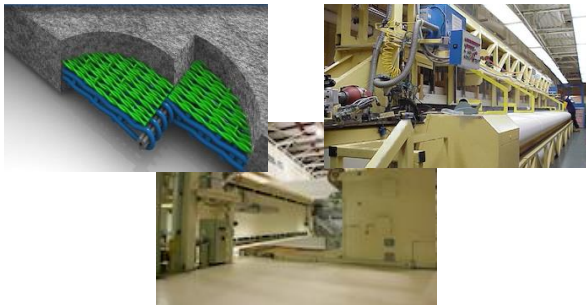


- Committed to paying down \$100 million of debt
- Continue to reposition & de-risk the Company commercially & financially
- Benefit from 2013-2015 equipment modernization and maintain modest capex spending levels



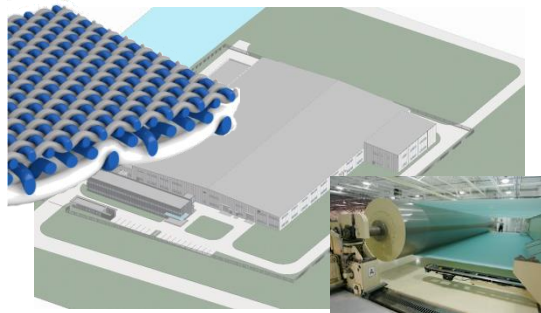
## Key 2017 Projects

### Increase Production for New Products



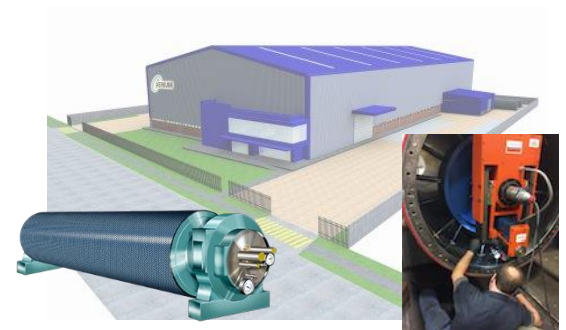
Starting Now

### China Forming Fabric Plant



Starting Now

### Chile Rolls & Services Plant



Q4

# European Machine Clothing Expansion at Gloggnitz, Austria Plant – Q2 Startup Serves Growing Demand for Seamed Felts in European Market



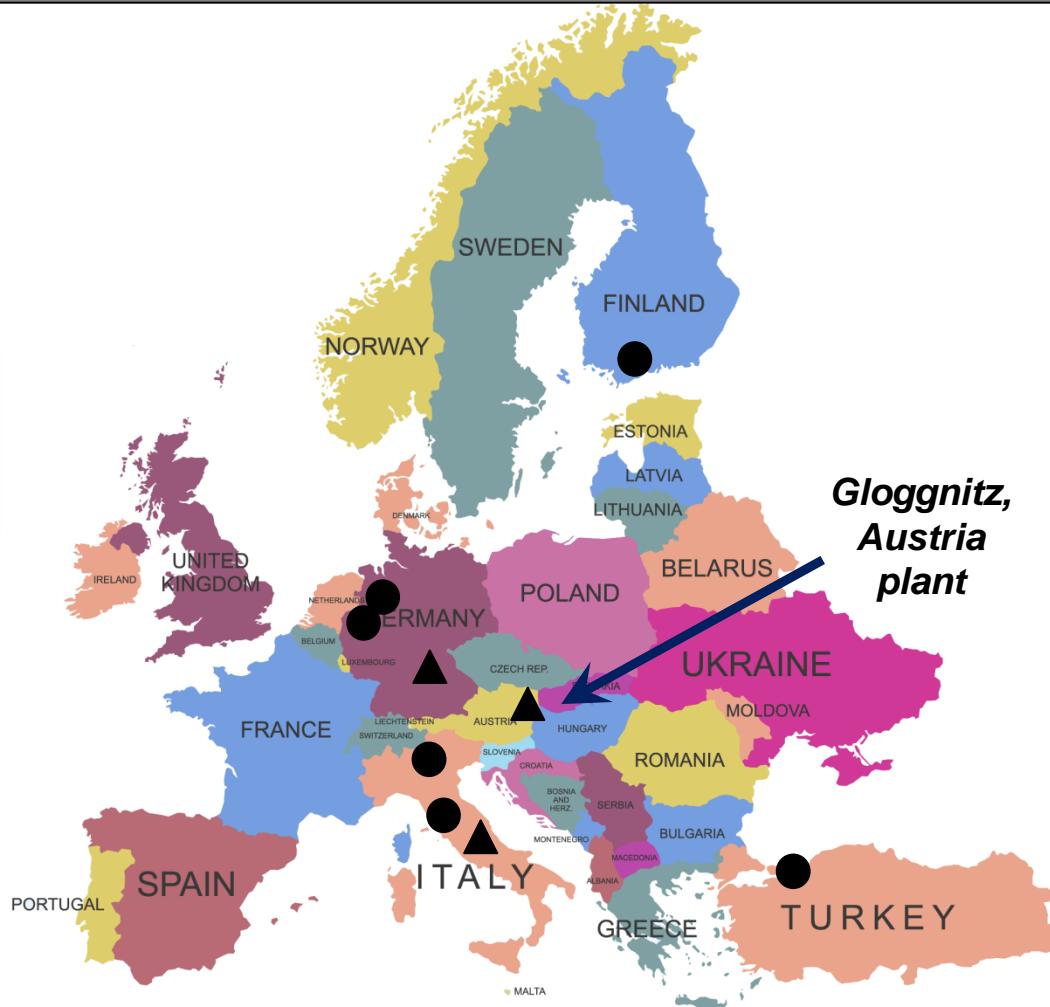
## Europe Market Facts:

- Total Machines<sup>1</sup>: ~1,906
- 2<sup>nd</sup> largest market in world
- Est. Market Size<sup>3</sup>: ~\$690 million/yr



## Xerium Goals:

- #1 or #2 marketshare
- Best value in the region
- Integrated supplier of Machine Clothing, Roll Repair, Mechanical Services, Analytics



▲ Machine Clothing Plants

● Rolls & Mechanical Service Plants



This type of press felt is rapidly growing in prominence; faster & safer for customers



Capital efficient, bolt-on plant to existing plant location



EMEA has over ~1,906 machines in operation<sup>1</sup>



Xerium European headquarters for machine clothing business



Strong project return, ROI <1 year

Sources: <sup>1</sup> Fisher International, does not include non-paper segments  
<sup>2</sup> Numera Analytics, does not include non-paper segments  
<sup>3</sup> Management US\$ estimates, machine clothing and rolls, all segments



# New, Full-Service Plant in Concepcion, Chile – Q4

## A Growth Market for Global Pulp & Paper Production

*The new plant in Concepción provides best value – full product line, lower shipping costs & lead times*

### Latin America Market Facts:

- Total Machines<sup>1</sup>: ~650
- Est. Growth Rate<sup>2</sup>: ~3%/yr CAGR
- Est. Market Size<sup>3</sup>: ~\$200 million/yr



### Xerium Goals:

- #1 marketshare
- Provide best value in the region
- Only L.A. Pacific Coast integrated supplier of Machine Clothing, Rolls, Mechanical Services, Analytics

Target Market for New Plant

Concepción



- ★ Rolls & Services Plants
- ▲ Machine Clothing Plants



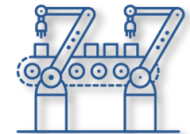
Roll Recovering & Mechanical Services



2 large customers have already agreed to a 5 year business arrangement



Local Market has 65 machines in operation and growing



Capital efficient, equipment relocated from other Xerium facilities



Local headquarters for machine clothing business in the region



Strong returns, ROI <3 years

Sources: <sup>1</sup> Fisher International, does not include non-paper segments  
<sup>2</sup> Numera Analytics, does not include non-paper segments  
<sup>3</sup> Management US\$ estimates, machine clothing and rolls, all segments



## Outlook for 2017

### Expect Market Environment to Continue to Improve

- Non-declining grades now 79% of sales, was 72% three years ago
- New wins and business growth are now outpacing graphical paper business declines
- Expect new machine startups to outpace old machine closures
- Expect Brazil macro-economic environment to continue its gradual improvement, and our business alongside it

### Expect Business Growth to Continue to Increase

- Repositioned people, capacity, products → go-forward opportunities much more robust
- Foundational China machine clothing plant in place & ramping up – press felts and forming fabrics
- Additional new business growth projects ramping up this year
- Backlog has continued to grow, good backlog headed into Q2

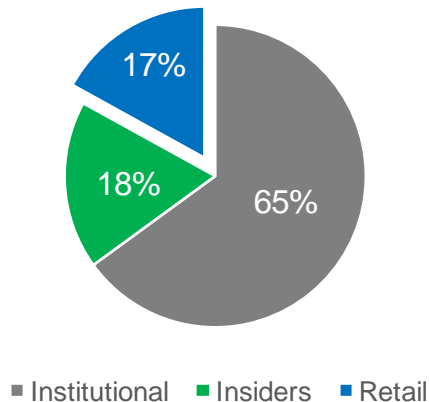
### Generate Free Cash Flow and Pay Down Debt

- 2017 capex investment will be similar to 2016. Benefiting from newly refurbished, repositioned machines, will result in a sustained modest level of spending.
- After 2 years of unfavorable currency environment, expect stability



## Facts About Xerium's Stock (NYSE: XRM)

- Company is just beginning its first retail investor outreach program
- XRM enterprise value multiple is at 6x and is trading at a discount to market, peers, comparables
- High margins, high market share in products with improving markets



- Shares Outstanding: 16.2 million
- Float: 13.2 million
- 2016 Sales \$ 471 million
- 2016 EBITDA \$ 95 million
- 2016 Free Cash Flow \$ 23 million





## Investment Highlights

- Passing through a tough business cycle of machine closures and strong dollar effects, and **consensus among industry peers that the market future looks better.**
- Implemented a large repositioning program, **go-forward sales opportunities brighter and more robust.**
- Committed to deleveraging and a multi-year goal of **paying down \$100 million of debt.**






## 2017 Update




- Q1 has been a good start to the year
- Orders, sales, production, costs, margins, EBITDA, customers, prices, cash, capex → on track
- Excellent backlog of good-mix business headed into Q2
- Continue to have FX headwind versus US Dollar reporting, hedge a portion
- Next round of strategic programs coming on line right now

# Supplemental Information



## Sales by Segment

		Q4			
		2016	2015	% Change	% Change Excluding Currency Impacts
	Total	\$ 113	\$ 115	(2)%	(1)%
	Machine Clothing	\$ 69	\$ 71	(3)%	(3)%
	Rolls & Services	\$ 44	\$ 44	(1)%	- %

		Full Year			
		2016	2015	% Change	% Change Excluding Currency Impacts
	Total	\$ 471	\$ 477	(1)%	(1)%
	Machine Clothing	\$ 286	\$ 300	(5)%	(5)%
	Rolls & Services	\$ 185	\$ 177	4%	6%

Note:

All numbers rounded to the nearest million

# EBITDA

## Adjusted EBITDA Reconciliation

	Full Year		Q4	
	2016	2015	2016	2015
<b>Operating Income</b>	\$ 46	\$ 46	\$ 9	\$ 9
Interest, taxes, other	(68)	(50)	(18)	(15)
<b>Net Loss</b>	<b>(22)</b>	<b>(4)</b>	<b>(9)</b>	<b>(6)</b>
Interest expense, net (1)	46	38	13	10
Income tax expense	9	13	5	4
Depreciation and amortization	33	29	8	8
<b>EBITDA (Non-GAAP)</b>	<b>67</b>	<b>77</b>	<b>17</b>	<b>16</b>
Restructuring	10	15	2	2
Loss on extinguishment of debt (2)	12	0	0	0
Stock-based compensation	3	3	0	1
Pension settlement losses	0	1	0	1
Plant startup costs	2	4	0	1
Other Adjusted EBITDA	1	4	0	1
FX (Gains)/Losses	0	(2)	0	0
<b>Adjusted EBITDA (Non-GAAP)</b>	<b>\$ 95</b>	<b>\$ 102</b>	<b>\$ 20</b>	<b>\$ 22</b>

Notes:

(1) - Interest increase is due to impact of debt refinancing in August 2016

(2) - Loss on extinguishment of debt is due to impact of debt refinancing in August 2016

*All numbers have been rounded to the nearest million*

**Thank You!**