

# **DOMTAR CORPORATION**

## **FOURTH QUARTER 2016 EARNINGS CALL**

**February 9, 2017**

(All financial information is in U.S. dollars, and all earnings per share results are diluted, unless otherwise noted.)



**Domtar**

# SAFE HARBOR

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## Forward-Looking Statements

All statements in this presentation that are not based on historical facts are “forward-looking statements.” While management has based any forward-looking statements on its current expectations, the information on which such expectations are based may change. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to materially differ from those projected in the forward-looking statements.

## Risk Factors

For a summary of the risk factors, please refer to Domtar’s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission and as updated by subsequently filed Form 10-Q’s.

## Non-GAAP Financial Measures

This presentation refers to non-GAAP financial information. For a reconciliation to GAAP financial measures, please refer to the investors section of the company’s website at <http://www.domtar.com> (Refer to the Analyst Corner of the IR section of the website).

# OVERVIEW

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## Fourth Quarter 2016

- Quarter impacted by lower selling prices and higher costs
- Strongest cash flow quarter of the year; \$155 million dollars of operating cash flow
- Record softwood pulp shipments as a result of good demand and additional volume from new fluff pulp line
- Qualification of Ashdown fluff pulp underway with initial trials providing good results
- Highest Personal Care sales and EBITDA of the year, which included the results of HDIS

# FINANCIAL HIGHLIGHTS

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## Fourth Quarter 2016

- Net earnings of \$0.75 per diluted share; earnings before items\* of \$0.75 per share
- EBITDA before items\* of \$159 million
- Cash flow provided from operating activities of \$155 million
- Capital expenditures of \$45 million
- Dividend payout of \$26 million

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# EARNINGS STATEMENT

**4Q'16 vs. 3Q'16** (in millions of dollars)

	3Q'16	4Q'16	
<b>Sales</b>	<b>1,270</b>	<b>1,274</b>	• HDIS sales offset by lower pulp and paper prices
Cost of sales	969	1,003	• Higher manufacturing and raw material costs and HDIS costs
Depreciation and amortization	87	85	
SG&A	107	113	• HDIS SG&A
Impairment of PP&E	5	-	
Closure and restructuring costs	10	(1)	
<b>Operating income</b>	<b>92</b>	<b>74</b>	
Interest expense, net	17	17	
Income tax expense	16	10	
<b>Net earnings</b>	<b>59</b>	<b>47</b>	

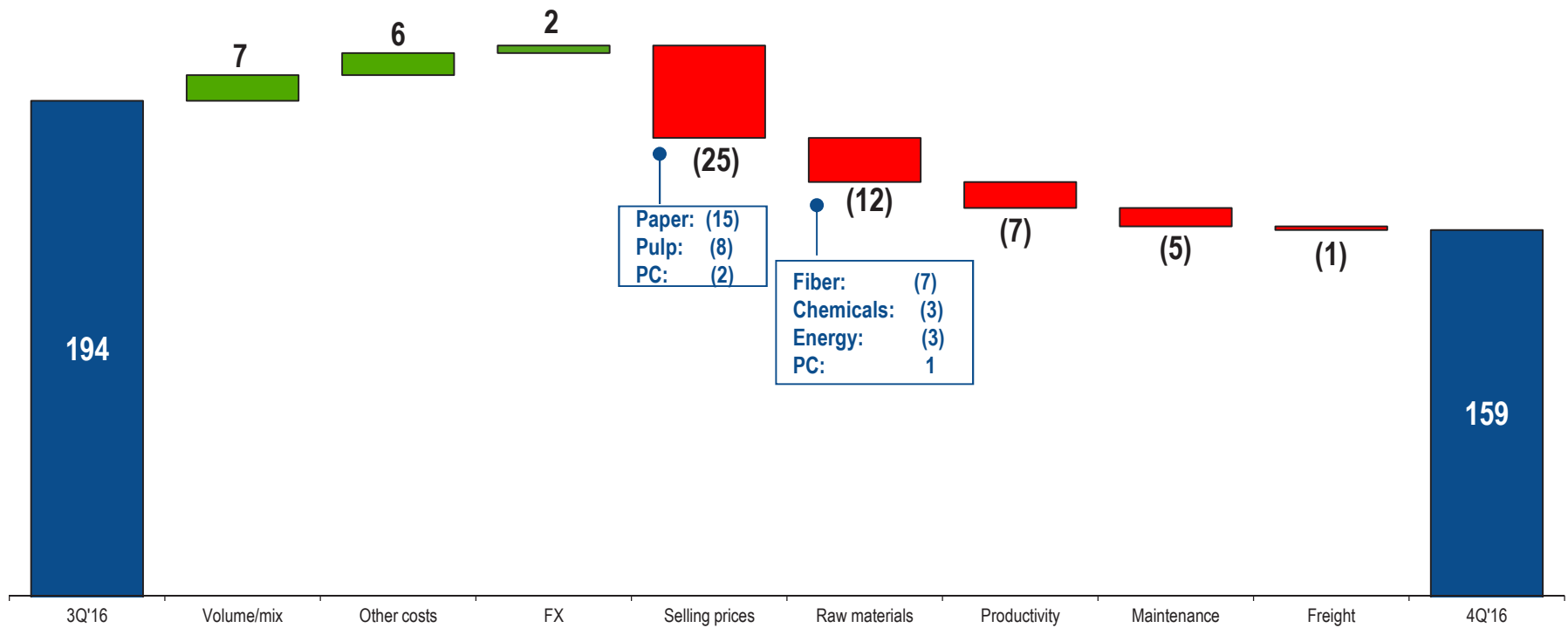
# CASH FLOW STATEMENT

**4Q'16 vs. 4Q'15** *(in millions of dollars)*

	4Q'15	4Q'16
<b>Net earnings</b>	<b>57</b>	<b>47</b>
Depreciation and amortization	89	85
Deferred income taxes and tax uncertainties	(6)	3
Impairment of PP&E	20	-
<b>Changes in assets and liabilities</b>		
Changes in working capital	(17)	19
Pension contribution over expense	(3)	(5)
Other	(3)	6
<b>Cash flows provided from operating activities</b>	<b>137</b>	<b>155</b>
Additions to PP&E	(87)	(45)
Acquisition of businesses, net of cash acquired	-	(45)
Proceeds from disposal of PP&E	1	1
<b>Cash flows used for investing activities</b>	<b>(86)</b>	<b>(89)</b>
Dividend payments and stock repurchases	(25)	(26)
Changes in borrowings	(27)	(79)
<b>Cash flows used for financing activities</b>	<b>(52)</b>	<b>(105)</b>

# EBITDA BEFORE ITEMS\*

4Q'16 vs. 3Q'16 (in millions of dollars)



\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# PULP AND PAPER SEGMENT

(in millions of dollars)

	4Q'16	vs. 3Q'16	vs. 4Q'15
Sales	\$1,046	↓ 1%	↓ 6%
EBITDA before items *	\$140	↓ \$35	↓ \$40

- Price erosion in both Pulp and Paper businesses
- Additional maintenance and market downtime impacted costs
- Record shipments of softwood pulp due to strong demand and new volume from Ashdown fluff pulp line
- Qualification of Ashdown fluff pulp underway with initial trials providing good results

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).



# PULP AND PAPER SEGMENT

## PAPER *(in millions of dollars)*

	4Q'16	vs. 3Q'16	vs. 4Q'15
Sales	\$781	↓ 4%	↓ 8%
EBITDA before items *	\$117	↓ \$23	↓ \$18
	4Q'16	vs. 3Q'16	vs. 4Q'15
Shipments <i>(manufactured, in thousands of short tons)</i>	739	↓ 1%	↓ 7%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$19	↓ \$7

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# PULP AND PAPER SEGMENT

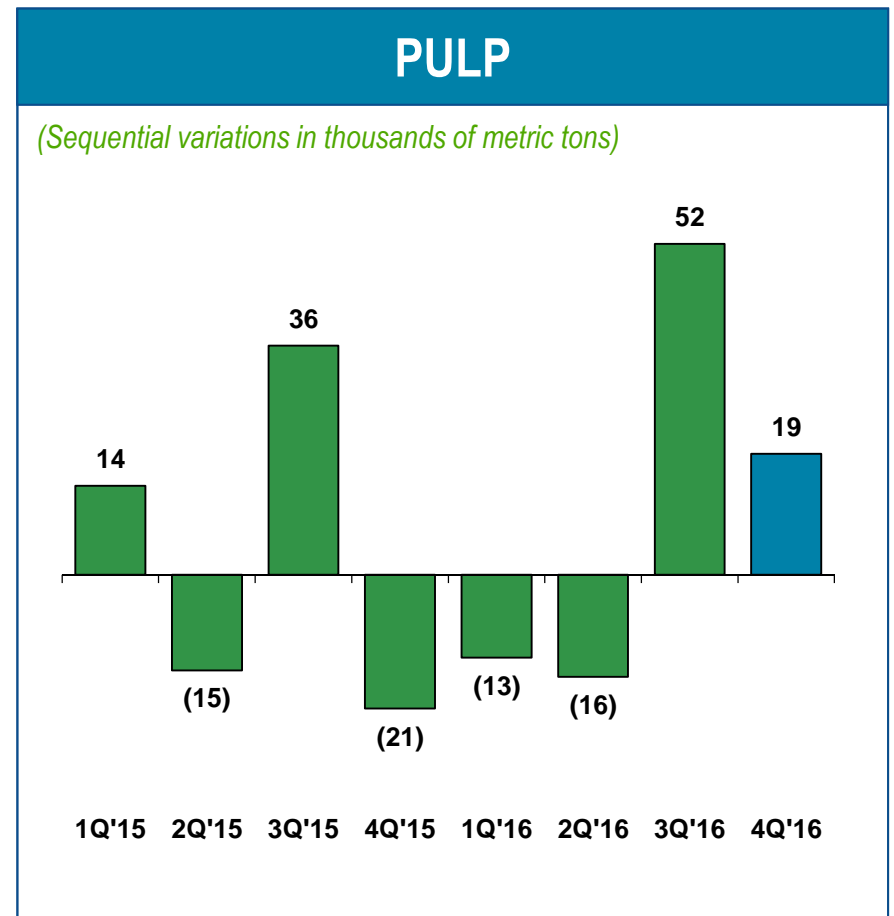
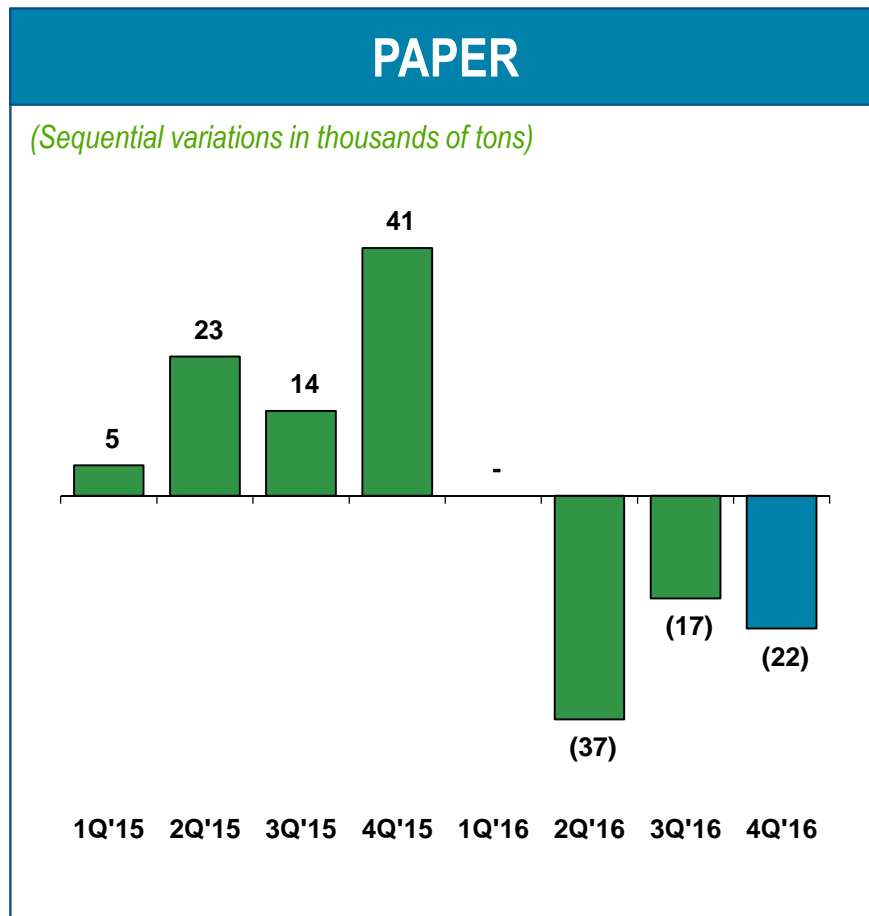
## PULP *(in millions of dollars)*

	4Q'16	vs. 3Q'16	vs. 4Q'15
<b>Sales</b> <i>(incl. intersegment sales)</i>	\$265	9%	2%
<b>EBITDA before items *</b>	\$23	\$12	\$22
	4Q'16	vs. 3Q'16	vs. 4Q'15
<b>Shipments</b> <i>(in thousands of ADMT)</i>	415	12%	8%
<b>Transaction prices</b> <i>(US\$ / ADMT – net, all regions)</i>		\$20	\$28

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).







# PULP AND PAPER SEGMENT

## INVENTORIES



# PERSONAL CARE SEGMENT

(in millions of dollars)

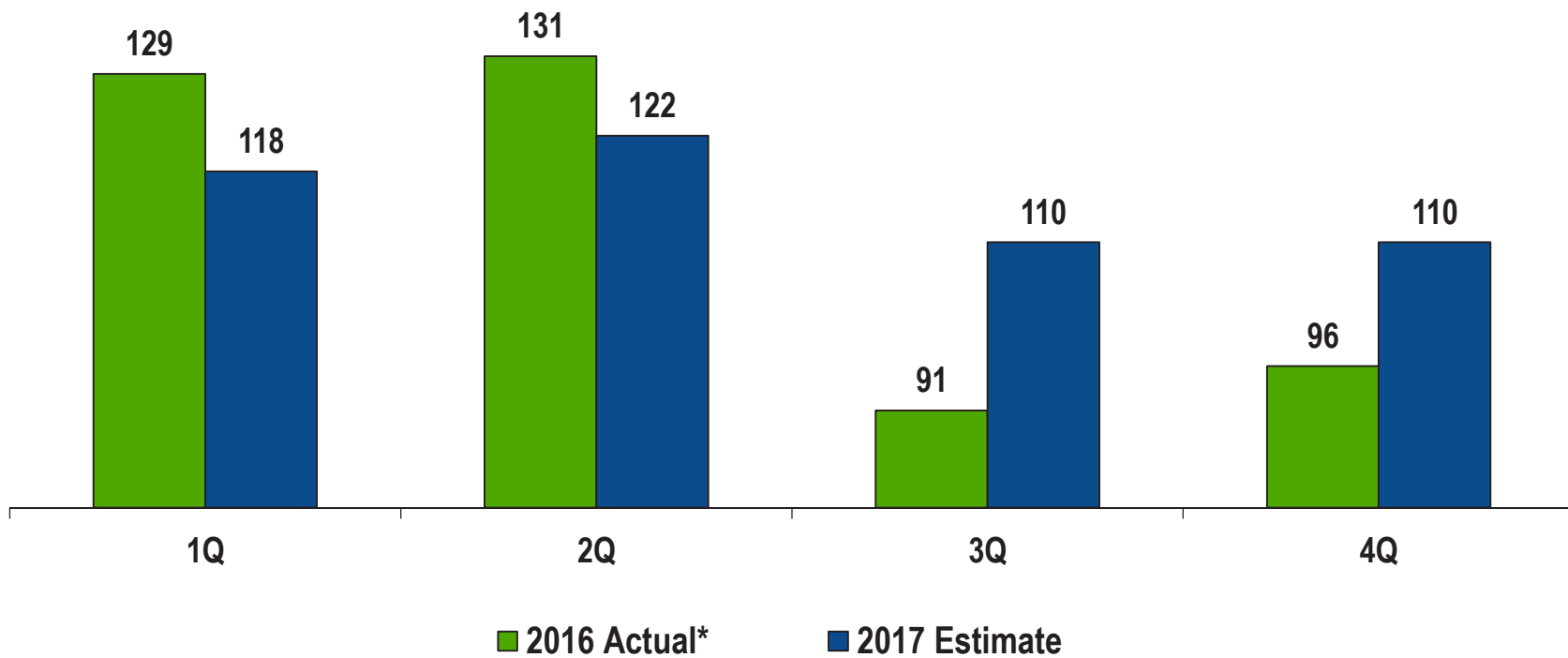
	4Q'16	vs. 3Q'16	vs. 4Q'15
Sales	\$242	 5%	 10%
EBITDA before items*	\$32	 \$1	
Same Currency Sales (@3Q'16 FX rate)	\$246	 6%	-
Same Currency Sales (@4Q'15 FX rate)	\$244	-	 10%

- Strong sales momentum with year over year sales growth of 10%, including results of HDIS
- Successfully relocated an infant line from North America to Europe; line is currently operating and will help support growth in that region
- Continued to make progress on our European adult incontinence capacity expansion plans by extending both our capacity and capabilities on key product platforms

\*Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# MAINTENANCE COSTS

(in millions of dollars)



\*2016 maintenance costs have been restated to include approximately \$4 million per quarter of labor costs previously presented outside of maintenance costs to conform with 2017 presentation

Total maintenance costs includes planned maintenance, maintenance over \$100k outside of planned shutdown period, and day-to-day maintenance expenses in Pulp and Paper.

# SENSITIVITY ANALYSIS

*(in millions of dollars)*

## **Papers** *(Each \$10/ton change in the selling price of the following products)*

Business Papers

\$15

Commercial Print & Publishing Papers

\$9

Specialty & Packaging Papers

\$5

## **Pulp – net position** *(Each \$10/tonne change in the selling price of the following products)*

Softwood

\$11

Fluff

\$6

Hardwood

\$2

## **Foreign exchange**

US \$0.01 change in relative value to the Canadian dollar before hedging

\$9

US \$0.01 change in relative value to the Euro before hedging

\$1

## **Energy**

Natural gas: \$0.25/MMBtu change in price before hedging


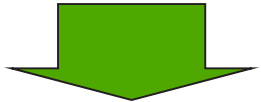


\$6

### Annualized impact on EBITDA

# MANAGEMENT'S FINANCIAL ASSUMPTIONS

## 2016 ACTUAL/ 2017 ESTIMATE

(in millions of dollars)

	2016A	2017E	Variation
Maintenance costs*	\$447	\$460	
CAPEX	\$347	\$210-230	
Depreciation and amortization	\$348	\$310-320	
Interest expense	\$66	\$68	
Income tax rate	18%	21-23%	

\*2016 maintenance costs have been restated to include approximately \$4 million per quarter of labor costs previously presented outside of maintenance costs to conform with 2017 presentation

## 2017 OUTLOOK

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- Paper shipments are expected to be in-line with market demand
- Pulp shipments will be higher than in 2016 as a result of the Ashdown conversion
- We expect some volatility in pulp markets due to the strong U.S. dollar and new capacity additions
- Costs, including freight, labor and raw materials are expected to marginally increase
- Investments in advertising and promotion in addition to new customer wins should drive higher sales in Personal Care





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**Appendix**

# SUPPLEMENTAL SEGMENTED INFORMATION

<b>PULP &amp; PAPER SEGMENT</b>									
<i>(In millions of dollars)</i>	<b>4Q'14</b>	<b>1Q'15</b>	<b>2Q'15</b>	<b>3Q'15</b>	<b>4Q'15</b>	<b>1Q'16</b>	<b>2Q'16</b>	<b>3Q'16</b>	<b>4Q'16</b>
Paper	889	889	860	855	850	844	816	810	781
Pulp (incl. intrasegment sales)	316	301	298	277	301	284	275	277	295
Intrasegment sales – Pulp	(45)	(44)	(48)	(40)	(41)	(43)	(37)	(33)	(30)
Pulp	271	257	250	237	260	241	238	244	265
<b>SALES</b>	<b>1,160</b>	<b>1,146</b>	<b>1,110</b>	<b>1,092</b>	<b>1,110</b>	<b>1,085</b>	<b>1,054</b>	<b>1,054</b>	<b>1,046</b>
Paper	148	132	123	103	135	109	114	140	117
Pulp	47	36	12	47	45	6	17	35	23
<b>EBITDA before items*</b>	<b>195</b>	<b>168</b>	<b>135</b>	<b>150</b>	<b>180</b>	<b>115</b>	<b>131</b>	<b>175</b>	<b>140</b>
Paper Shipments – Manufactured	785	804	783	779	797	786	752	744	739
Paper Shipments – Sourced from 3rd parties	35	35	29	35	28	32	29	35	27
Paper Shipments	820	839	812	814	825	818	781	779	766
Pulp Shipments	370	350	345	333	386	369	360	369	415
<b>PERSONAL CARE SEGMENT</b>									
<i>(In millions of dollars)</i>	<b>4Q'14</b>	<b>1Q'15</b>	<b>2Q'15</b>	<b>3Q'15</b>	<b>4Q'15</b>	<b>1Q'16</b>	<b>2Q'16</b>	<b>3Q'16</b>	<b>4Q'16</b>
<b>SALES</b>	<b>230</b>	<b>218</b>	<b>216</b>	<b>214</b>	<b>221</b>	<b>216</b>	<b>228</b>	<b>231</b>	<b>242</b>
<b>EBITDA before items*</b>	<b>26</b>	<b>27</b>	<b>33</b>	<b>32</b>	<b>32</b>	<b>30</b>	<b>30</b>	<b>31</b>	<b>32</b>
<b>CORPORATE</b>									
<i>(In millions of dollars)</i>	<b>4Q'14</b>	<b>1Q'15</b>	<b>2Q'15</b>	<b>3Q'15</b>	<b>4Q'15</b>	<b>1Q'16</b>	<b>2Q'16</b>	<b>3Q'16</b>	<b>4Q'16</b>
<b>EBITDA before items*</b>	<b>(13)</b>	<b>(15)</b>	<b>(10)</b>	<b>(11)</b>	<b>(8)</b>	<b>(15)</b>	<b>(9)</b>	<b>(12)</b>	<b>(13)</b>

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# THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



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