

# **DOMTAR CORPORATION**

## **THIRD QUARTER 2015 EARNINGS CALL**

**October 30, 2015**

(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, 2014 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-U.S. GAAP financial information. For a reconciliation to U.S. 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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## Third Quarter 2015

- 8% quarter over quarter increase in EBITDA before items\*
- Good productivity and lower costs in all businesses
- Paper volumes trending better than forecast driven by better demand and lower imports
- Year-to-date same currency EBITDA in Personal Care 16% higher
- Redeemed certain outstanding notes along with a new 10-year term loan
- Repurchased approximately \$20 million of stock

\* 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).

# FINANCIAL HIGHLIGHTS

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## Third Quarter 2015

- Net earnings of \$0.17 per diluted share; earnings before items\* of \$0.86 per share
- EBITDA before items\* of \$171 million
- Cash flow provided from operating activities of \$67 million
- Capital expenditures of \$66 million
- Free cash flow\* of \$1 million, \$41 million excluding debt-refinancing

\* 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

**3Q'15 vs. 2Q'15** (in millions of dollars)

	2Q'15	3Q'15	
<b>Sales</b>	<b>1,310</b>	<b>1,292</b>	● Lower pulp and paper volume and prices
Cost of sales	1,052	1,026	
Depreciation and amortization	91	89	
SG&A	99	95	
Impairment & write-down of PP&E	18	20	● Accelerated depreciation of Ashdown paper machine
Closure and restructuring costs	1	1	
Other operating income, net	(13)	-	
<b>Operating income</b>	<b>62</b>	<b>61</b>	
Interest expense, net	25	64	● Debt refinancing costs
Income tax benefit	(1)	(14)	● Enacted tax rate change and recognition of previously unrecognized tax benefits
<b>Net earnings</b>	<b>38</b>	<b>11</b>	

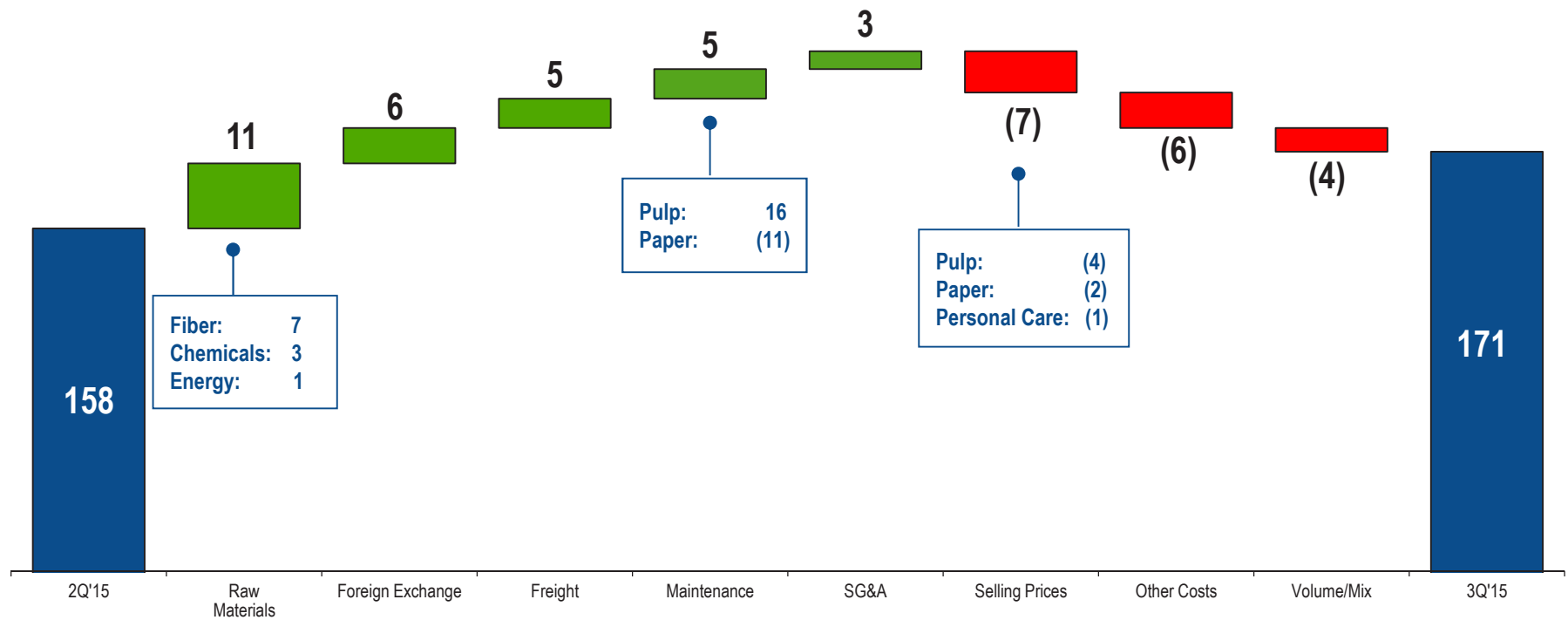
# CASH FLOW STATEMENT

**3Q'15 vs. 3Q'14** *(in millions of dollars)*

	3Q'14	3Q'15
<b>Net earnings</b>	<b>281</b>	<b>11</b>
Depreciation & amortization	96	89
Deferred income taxes and tax uncertainties	(196)	(18)
Impairment and write-down of PP&E	-	20
<b>Changes in assets and liabilities</b>		
Changes in working capital	18	(41)
Pension expense over contribution	6	(1)
Other	(2)	7
<b>Cash flows provided from operating activities</b>	<b>203</b>	<b>67</b>
Additions to PP&E	(56)	(66)
Other	5	28
<b>Cash flows used for investing activities</b>	<b>(51)</b>	<b>(38)</b>
Dividend payments and stock repurchases	(43)	(45)
Changes in borrowings	(58)	(62)
<b>Cash flows used for financing activities</b>	<b>(101)</b>	<b>(107)</b>

# EBITDA BEFORE ITEMS\*

3Q'15 vs. 2Q'15 (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)

	3Q'15	vs. 2Q'15	vs. 3Q'14
Sales	\$1,092	↓ 2%	↓ 8%
EBITDA before items *	\$150	↑ \$15	↓ \$32

- Good operating performance with several mills performing above plan
- Solid execution during planned maintenance outages resulting in good productivity and lower costs
- Year-over-year volumes outperforming the broader uncoated freesheet markets
- Department of Commerce announced preliminary anti-dumping duties on imports from China, Brazil, Portugal, Australia and Indonesia

\* 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)*

	3Q'15	vs. 2Q'15	vs. 3Q'14
Sales	\$855	↓ 1%	↓ 6%
EBITDA before items *	\$103	↓ \$20	↓ \$36
	3Q'15	vs. 2Q'15	vs. 3Q'14
Shipments <i>(manufactured, in thousands of short tons)</i>	779	↓ 1%	↔
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$3	↓ \$56

\* 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

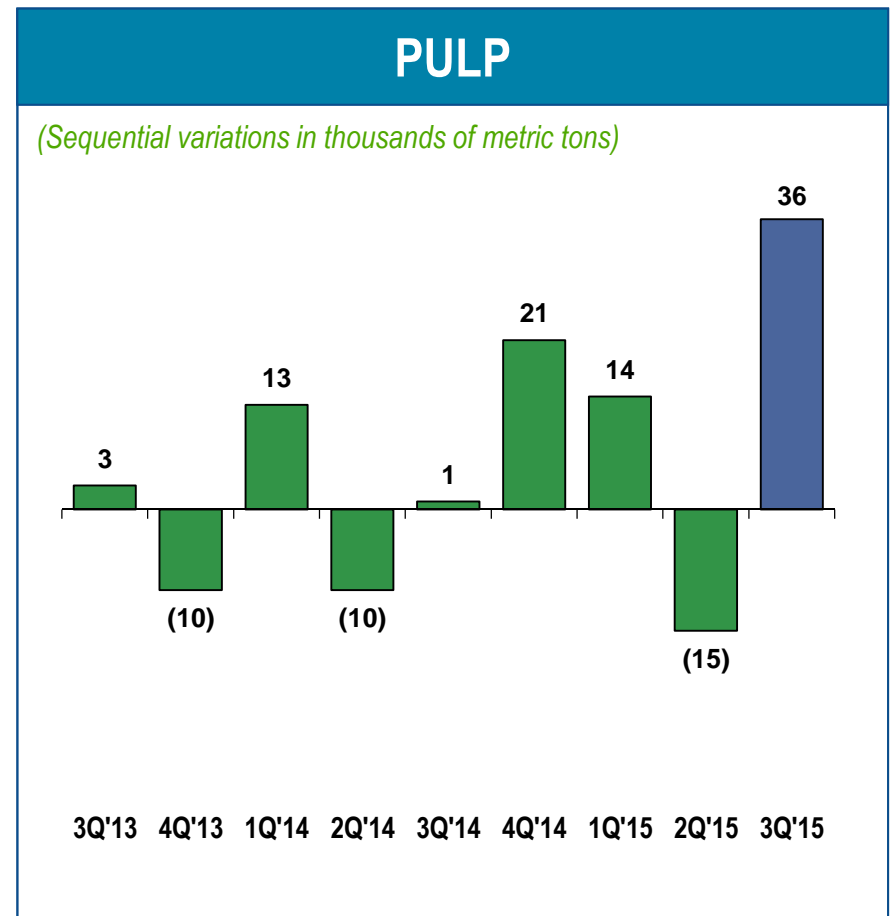
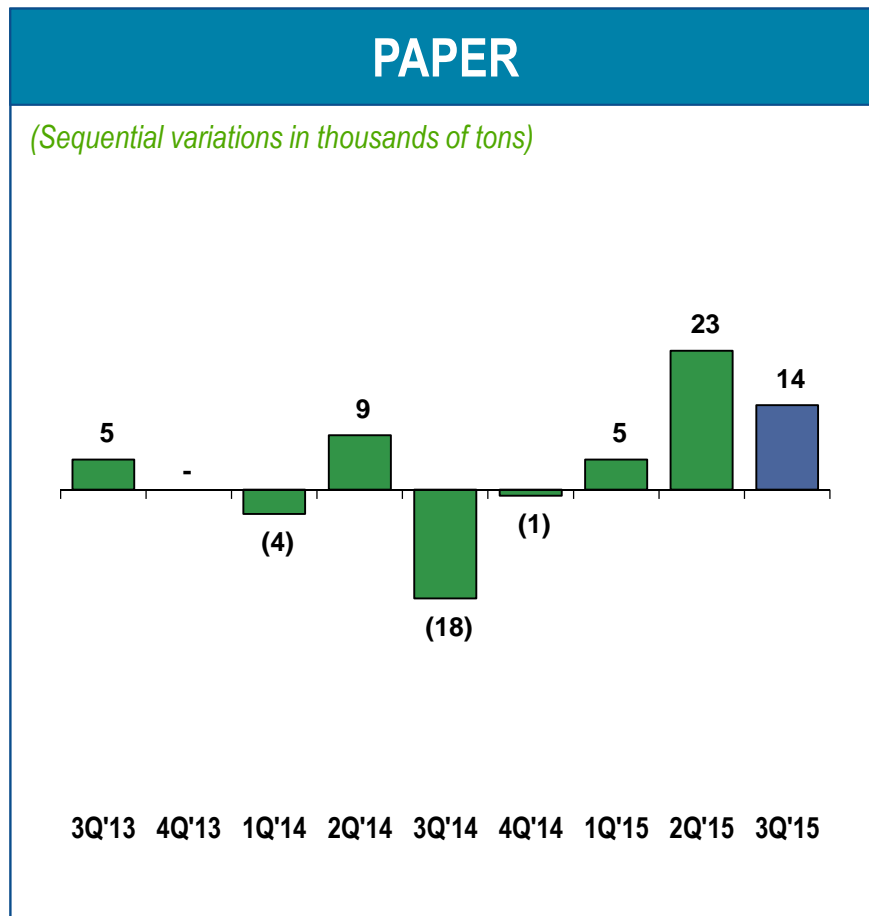
## PULP *(in millions of dollars)*

	3Q'15	vs. 2Q'15	vs. 3Q'14
<b>Sales</b> <i>(incl. intersegment sales)</i>	\$237	↓ 5%	↓ 13%
<b>EBITDA before items *</b>	\$47	↑ \$35	↑ \$4
	3Q'15	vs. 2Q'15	vs. 3Q'14
<b>Shipments</b> <i>(in thousands of ADMT)</i>	333	↓ 3%	↓ 9%
<b>Transaction prices</b> <i>(US\$ / ADMT – net, all regions)</i>		↓ \$12	↓ \$43

\* 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)

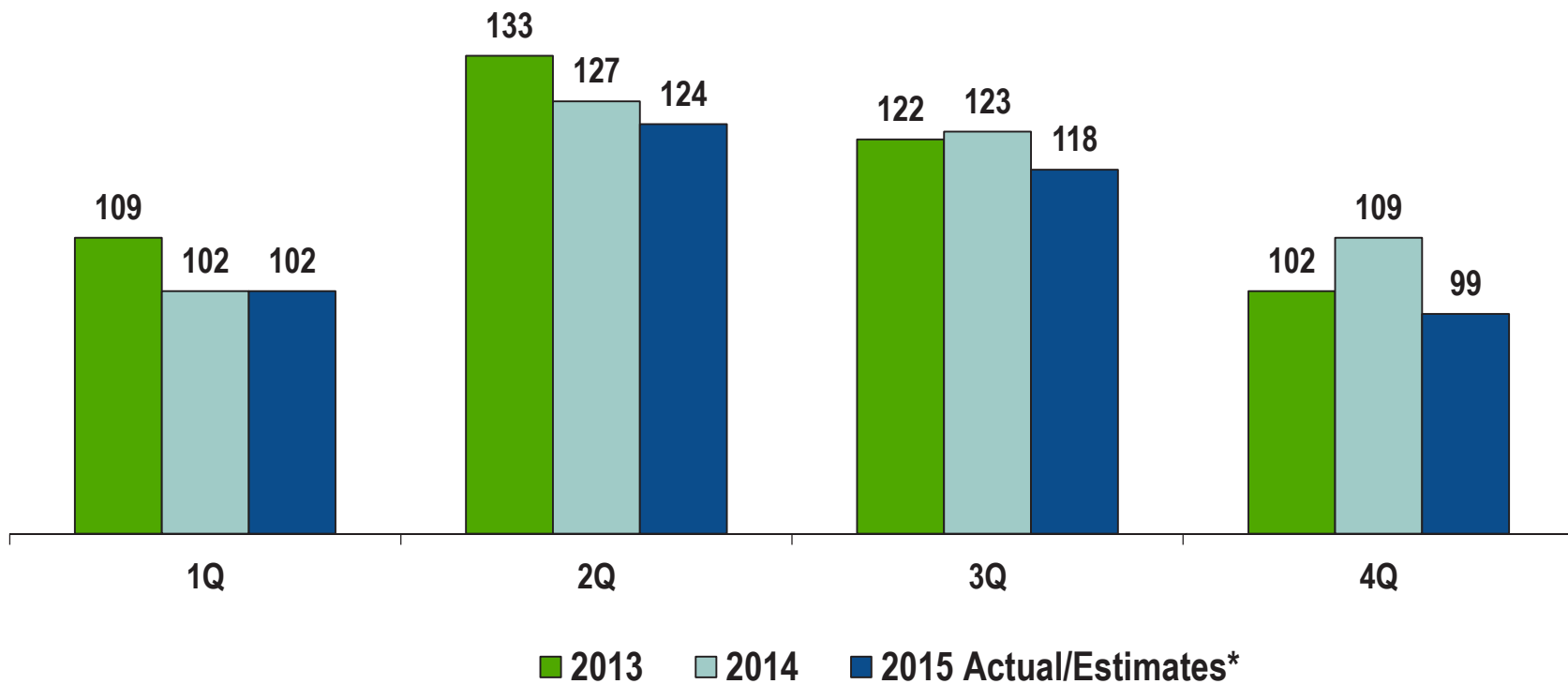
	3Q'15	vs. 2Q'15	vs. 3Q'14
Sales	\$214	↓ 1%	↓ 7%
EBITDA before items*	\$32	↓ \$1	↑ \$3
Same Currency Sales (@2Q'15 FX rate)	\$214	↓ 1%	-
Same Currency Sales (@3Q'14 FX rate)	\$233	-	↑ 1%

- Solid quarter with good momentum in the business
- Year-to-date same currency EBITDA 16% higher
- Won several new bids with expected delivery in the first half of 2016
- Further market share gains in private label baby diapers

\*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)



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

# OUTLOOK

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- Paper should be impacted by seasonality and mix
- Prices for pulp are expected to remain under pressure. We remain cautious on the short-term pulp outlook due to the strong U.S. dollar
- We expect to benefit from lower maintenance activities in our network
- We expect higher input costs due to increased raw material and energy usage due to colder weather
- Personal Care is expected to benefit from market growth and cost savings from its new manufacturing platform



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**Appendix**

# SUPPLEMENTAL SEGMENTED INFORMATION

<b>PULP &amp; PAPER SEGMENT</b>							
<i>(In millions of dollars)</i>	<b>1Q'14</b>	<b>2Q'14</b>	<b>3Q'14</b>	<b>4Q'14</b>	<b>1Q'15</b>	<b>2Q'15</b>	<b>3Q'15</b>
Paper	936	906	914	889	889	860	855
Pulp (incl. intrasegment sales)	289	309	322	316	301	298	277
Intrasegment sales – Pulp	(57)	(55)	(50)	(45)	(44)	(48)	(40)
Pulp	232	254	272	271	257	250	237
<b>SALES</b>	<b>1,168</b>	<b>1,160</b>	<b>1,186</b>	<b>1,160</b>	<b>1,146</b>	<b>1,110</b>	<b>1,092</b>
Paper	140	142	139	148	132	123	103
Pulp	32	11	43	47	36	12	47
<b>EBITDA before items*</b>	<b>172</b>	<b>153</b>	<b>182</b>	<b>195</b>	<b>168</b>	<b>135</b>	<b>150</b>
Paper Shipments – Manufactured	807	779	777	785	804	783	779
Paper Shipments – Sourced from 3rd parties	47	42	46	35	35	29	35
<b>PAPER SHIPMENTS</b>	<b>854</b>	<b>821</b>	<b>823</b>	<b>820</b>	<b>839</b>	<b>812</b>	<b>814</b>
<b>PULP SHIPMENTS</b>	<b>318</b>	<b>336</b>	<b>367</b>	<b>370</b>	<b>350</b>	<b>345</b>	<b>333</b>
<b>PERSONAL CARE SEGMENT</b>							
<i>(In millions of dollars)</i>	<b>1Q'14</b>	<b>2Q'14</b>	<b>3Q'14</b>	<b>4Q'14</b>	<b>1Q'15</b>	<b>2Q'15</b>	<b>3Q'15</b>
<b>SALES</b>	233	234	231	230	218	216	214
<b>EBITDA before items*</b>	34	29	29	26	27	33	32
<b>CORPORATE</b>							
<i>(In millions of dollars)</i>	<b>1Q'14</b>	<b>2Q'14</b>	<b>3Q'14</b>	<b>4Q'14</b>	<b>1Q'15</b>	<b>2Q'15</b>	<b>3Q'15</b>
<b>EBITDA before items*</b>	(24)	(7)	(11)	(13)	(15)	(10)	(11)

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# SENSITIVITY ANALYSIS\*

*(in millions of dollars)*

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

Business Papers

\$10

Converting & Publishing

\$7

Commercial Printing

\$6

Other

\$8

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

Softwood

\$11

Fluff

\$5

Hardwood

\$1

## **Foreign exchange**

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

\$9

Euro 0.01 change in relative value to the US dollar

\$2

## **Energy** *(Natural gas: \$0.25/MMBtu change in price)*

\$5

\* Before hedging

# THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



 Domtar