

DOMTAR CORPORATION

FIRST QUARTER 2018 EARNINGS CALL

May 1st, 2018

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



Domtar

SAFE HARBOR

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, 2017 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

First Quarter 2018

- Earnings improvement versus Q4'17 and Q1'17
- Strong price momentum in our Pulp and Paper business
- Announced a \$50 per ton price increase on the majority of communication paper grades with implementation set for May 2018
- Financial performance negatively impacted by weather, notably in pulp output and costs
- Generated \$65 million of free cash flow* and returned \$26 million to shareholders via dividend
- Results in Personal Care inline with our expectations with higher year-over-year volumes in infant and adult incontinence

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

FINANCIAL HIGHLIGHTS

First Quarter 2018

- Net earnings of \$0.86 per share; earnings before items* of \$0.87 per share
- EBITDA before items* of \$161 million
- Cash flow from operating activities of \$90 million
- Capital expenditures of \$25 million
- Dividend payout of \$26 million

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

EARNINGS STATEMENT

1Q'18 vs. 4Q'17 *(in millions of dollars)*

	4Q'17	1Q'18	
Sales	1,335	1,345	Higher sales in Pulp and Paper due to higher price realizations
Cost of sales	1,079	1,084	
Depreciation and amortization	82	79	
SG&A	115	110	
Impairment of goodwill and PP&E	578	-	
Closure and restructuring costs	2	-	
Other operating income, net	(8)	(5)	
Operating income (loss)	(513)	77	
Interest expense, net	16	16	
Non-service components of net periodic benefit cost	(1)	(4)	New accounting standards on retirement benefits
Income tax expense (benefit)	(142)	11	
Net earnings (loss)	(386)	54	

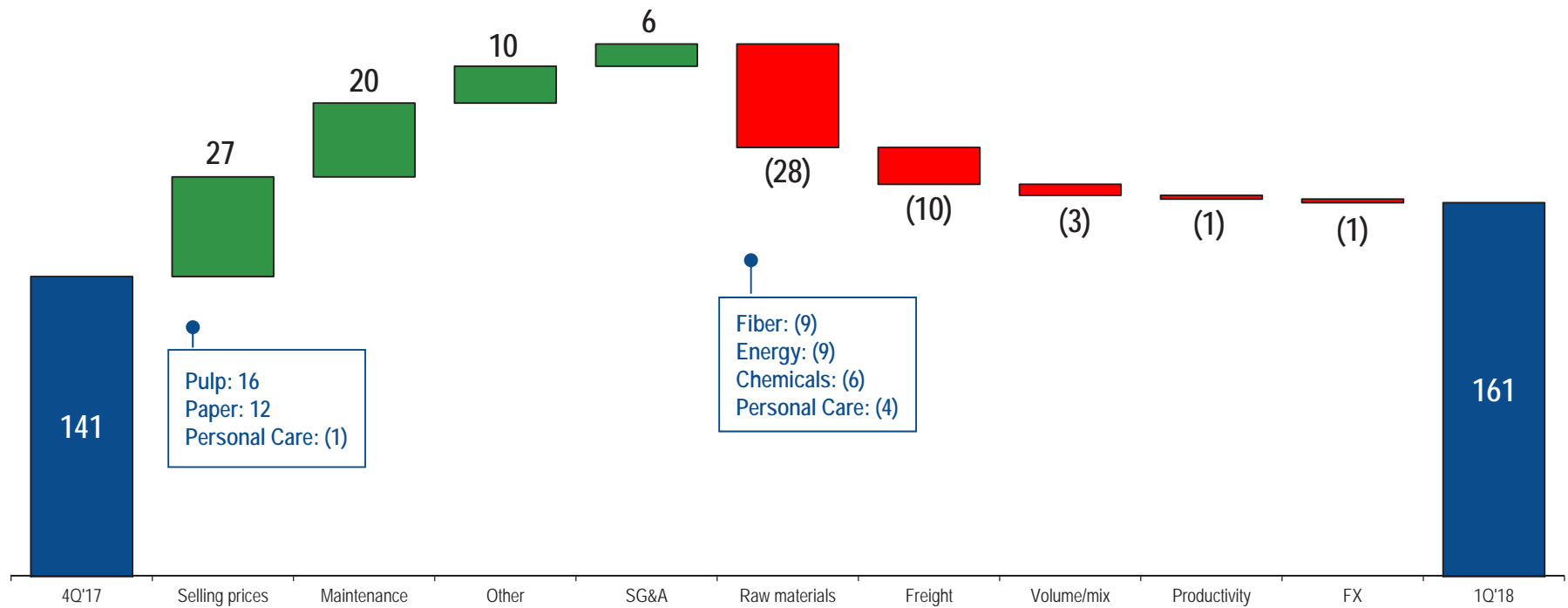
CASH FLOW STATEMENT

1Q'18 vs. 1Q'17 *(in millions of dollars)*

	1Q'17	1Q'18
Net earnings	20	54
Depreciation and amortization	80	79
Deferred income taxes and tax uncertainties	(4)	(3)
Changes in assets and liabilities		
Changes in working capital	(5)	(38)
Other	-	(2)
Cash flows from operating activities	91	90
Additions to PP&E	(34)	(25)
Proceeds from disposal of PP&E	-	1
Other	-	(4)
Cash flows used for investing activities	(34)	(28)
Dividend payments	(26)	(26)
Changes in borrowings	(46)	(25)
Cash flows used for financing activities	(72)	(51)

EBITDA BEFORE ITEMS*

1Q'18 vs. 4Q'17 (in millions of dollars)



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

PULP AND PAPER SEGMENT

(in millions of dollars)

	1Q'18	vs. 4Q'17	vs. 1Q'17
Sales	\$1,100	↑ 1%	↑ 3%
EBITDA before items *	\$140	↑ \$18	↑ \$42

- Continued momentum in pulp and paper prices
- Additional price increases announced in April on Softwood, Fluff and most Communication Papers
- Weather-related issues negatively impacted results, notably with pulp production and costs
- Paper sales volume 6% higher versus Q4'17
- Pulp shipments impacted by Q4'17 50k ton inventory drawdown and productivity issues
- Plymouth NC5 fluff pulp line running at nearly 50 tons per day above plan since streamlining efforts

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

PULP AND PAPER SEGMENT

PAPER *(in millions of dollars)*

	1Q'18	vs. 4Q'17	vs. 1Q'17
Sales	\$805	8%	2%
EBITDA before items *	\$96	\$31	\$4
	1Q'18	vs. 4Q'17	vs. 1Q'17
Shipments <i>(manufactured, in thousands of short tons)</i>	769	6%	3%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		\$16	\$3

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

PULP AND PAPER SEGMENT

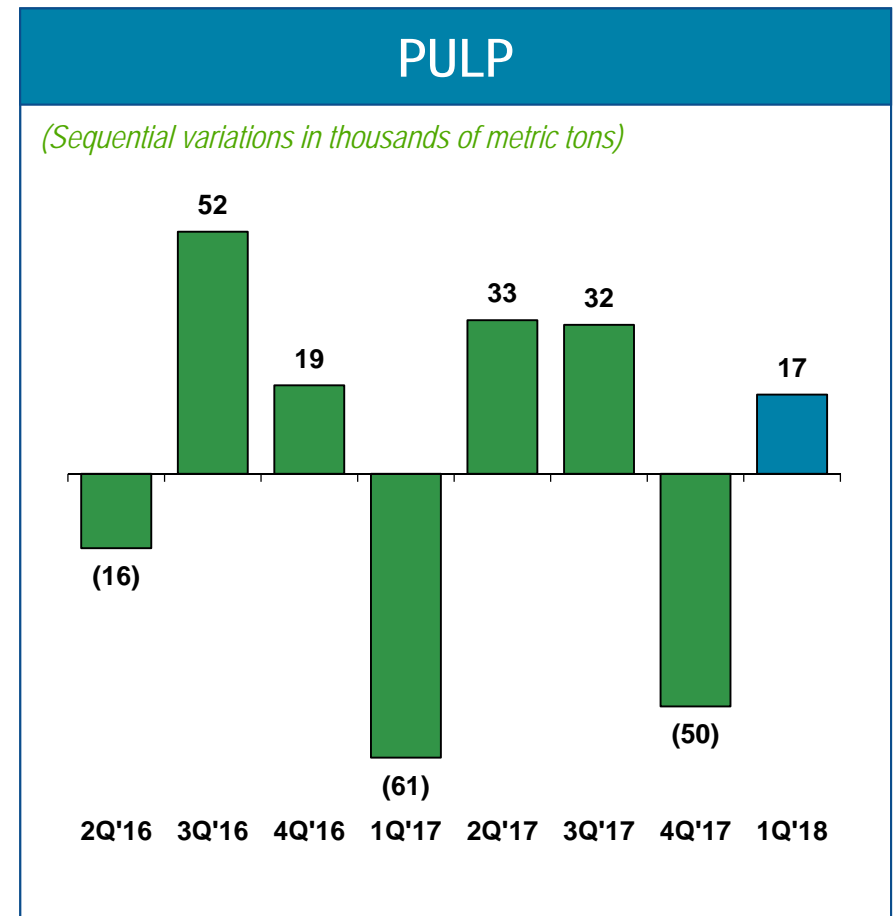
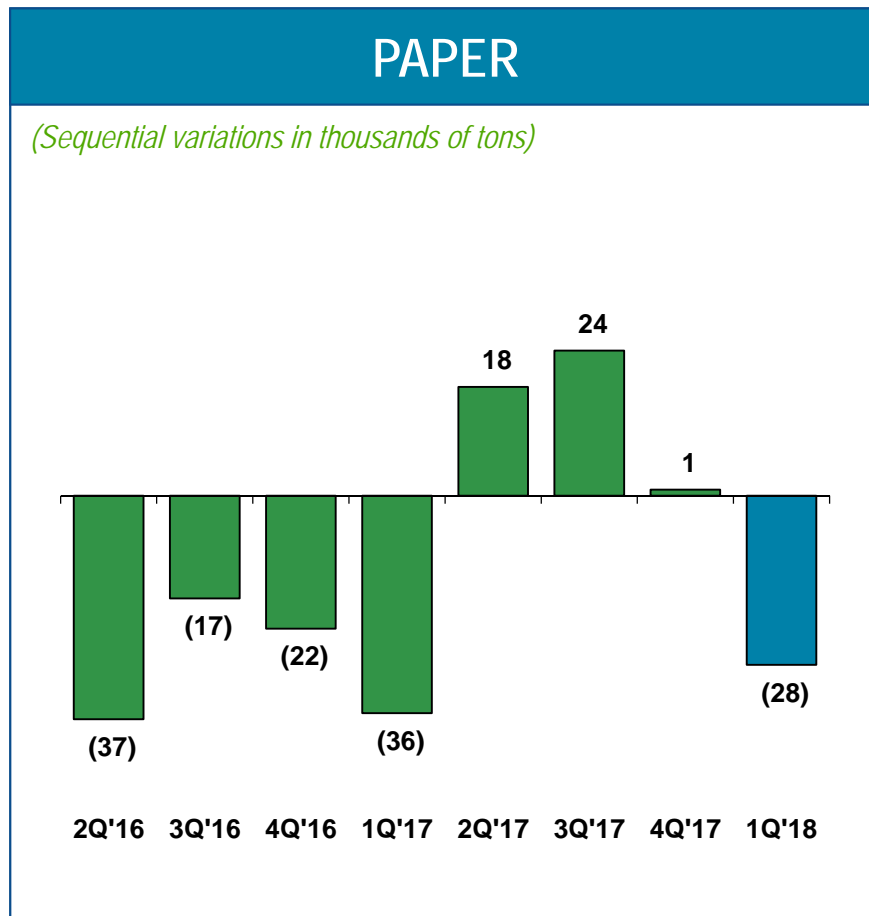
PULP *(in millions of dollars)*

	1Q'18	vs. 4Q'17	vs. 1Q'17
Sales <i>(incl. intersegment sales)</i>	\$295	↓ 14%	↑ 3%
EBITDA before items *	\$44	↓ \$13	↑ \$46
	1Q'18	vs. 4Q'17	vs. 1Q'17
Shipments <i>(in thousands of ADMT)</i>	374	↓ 19%	↓ 17%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		↑ \$42	↑ \$144

* Non-GAAP financial measure. Refer to reconciliation available at 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)

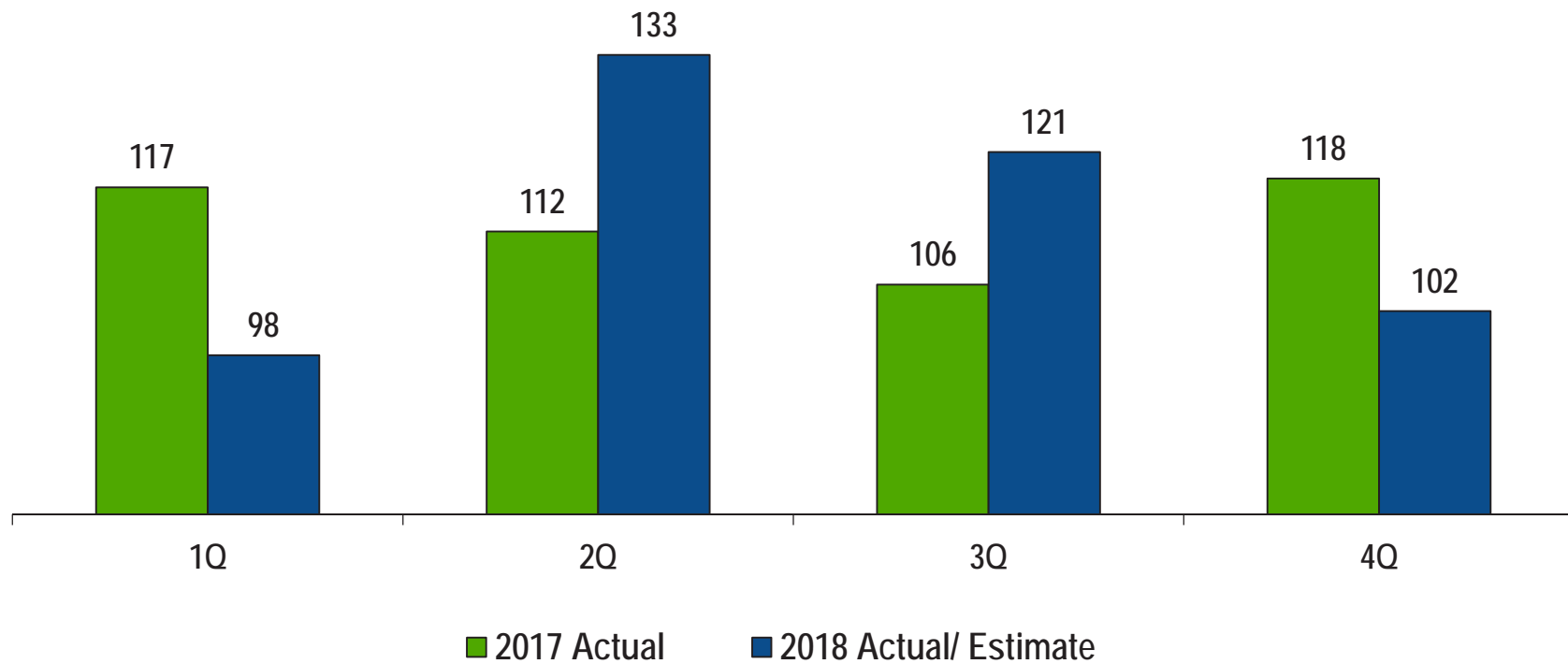
	1Q'18	vs. 4Q'17	vs. 1Q'17
Sales	\$262	1%	6%
EBITDA before items*	\$26	\$8	\$6
Same Currency Sales (@4Q'17 FX rate)	\$257	1%	-
Same Currency Sales (@1Q'17 FX rate)	\$246	-	

- Results inline with expectations with same currency sales flat year-over-year
- Adult incontinence and infant diaper volumes grew 2% and 4% year-over-year
- Cost saving measures included SKU reduction, resulting in productivity and efficiency gains
- New win, with expected delivery in Q2'18, should partially offset some customer volume reduction occurring in 2018

*Non-GAAP financial measure. Refer to reconciliation available at 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

2018 OUTLOOK

- Paper shipments should benefit from the announced industry capacity closures and lower imports
- Pulp and Paper business will benefit from recently announced pulp and paper price increases
- Q2'18 will be affected by seasonally higher maintenance activity in our Pulp and Paper business due to annual shutdowns at major facilities
- Personal Care is expected to be negatively impacted by higher raw material costs and an unfavorable tender balance partially offset by some cost savings initiatives



Domtar

Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT									
<i>(In millions of dollars)</i>	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18
Paper	844	816	810	781	786	734	764	748	805
Pulp (incl. intrasegment sales)	284	275	277	295	316	296	321	371	324
Intrasegment sales – Pulp	(43)	(37)	(33)	(30)	(29)	(31)	(31)	(29)	(29)
Pulp	241	238	244	265	287	265	290	342	295
SALES	1,085	1,054	1,054	1,046	1,073	999	1,054	1,090	1,100
Paper	109	114	140	117	100	96	119	65	96
Pulp	6	17	35	23	(2)	32	33	57	44
EBITDA before items*	115	131	175	140	98	128	152	122	140
Paper Shipments – Manufactured	786	752	744	739	745	698	722	726	769
Paper Shipments – Sourced from 3rd parties	32	29	35	27	29	26	29	25	28
Paper Shipments	818	781	779	766	774	724	751	751	797
Pulp Shipments	369	360	369	415	453	383	424	462	374
PERSONAL CARE SEGMENT									
<i>(In millions of dollars)</i>	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18
SALES	214	226	229	240	247	238	251	260	262
EBITDA before items*	30	30	31	32	32	29	25	34	26
CORPORATE									
<i>(In millions of dollars)</i>	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18
EBITDA before items*	(15)	(9)	(12)	(13)	(8)	(14)	(14)	(15)	(5)

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

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

\$6

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

Softwood

\$10

Fluff

\$7

Hardwood

\$1

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

\$2

Energy

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






\$6

Annualized impact on EBITDA

MANAGEMENT'S FINANCIAL ASSUMPTIONS

2017 ACTUAL/ 2018 ESTIMATE

(in millions of dollars)

	2017A	2018E	Variation
Maintenance costs	\$453	\$454	
CAPEX	\$182	\$200-220	
Depreciation and amortization	\$321	\$310-320	
Interest expense	\$66	\$64	
Income tax rate	45%	17-19%*	

*This is subject to adjustments as more guidance becomes available around U.S. Tax Reform

THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE




Domtar