

DOMTAR CORPORATION

SECOND QUARTER 2018 EARNINGS CALL

August 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 Earnings in the Investor Relations section of the website).

OVERVIEW

Second Quarter 2018

- Strong cash flow generation
- Higher price realizations in our pulp and paper businesses
- Peak maintenance outage quarter with approximately 16,000 tons of paper and 42,000 metric tons of pulp maintenance downtime
- Personal Care results were impacted by anticipated volume reduction and commodity inflation
- Strong year over year sales growth in adult incontinence

FINANCIAL HIGHLIGHTS

Second Quarter 2018

- Net earnings of \$0.68 per share; earnings before items* of \$0.65 per share
- EBITDA before items* of \$143 million
- Cash flow from operating activities of \$177 million
- Capital expenditures of \$37 million
- Dividend payout of \$27 million

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to Earnings in the Investor Relations section of the website)

EARNINGS STATEMENT

2Q'18 vs. 1Q'18 *(in millions of dollars)*

	1Q'18	2Q'18	
Sales	1,345	1,353	Higher sales in Pulp and Paper due to higher price realizations
Cost of sales	1,084	1,096	
Depreciation and amortization	79	79	
SG&A	110	118	Mark-to-market of stock based compensation
Other operating income, net	(5)	(2)	
Operating income	77	62	
Interest expense, net	16	16	
Non-service components of net periodic benefit cost	(4)	(5)	
Income tax expense	11	8	
Net earnings	54	43	

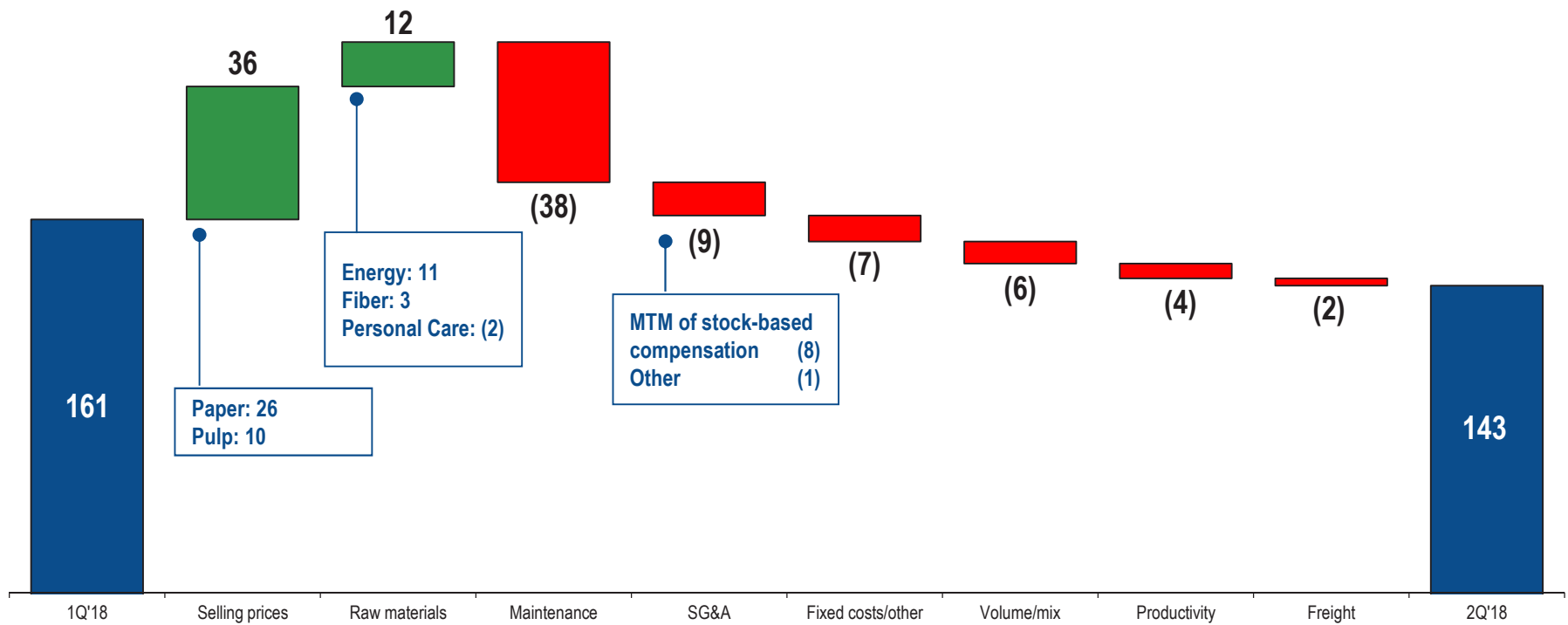
CASH FLOW STATEMENT

2Q'18 vs. 2Q'17 *(in millions of dollars)*

	2Q'17	2Q'18
Net earnings	38	43
Depreciation and amortization	79	79
Deferred income taxes and tax uncertainties	(8)	(2)
Changes in assets and liabilities		
Changes in working capital	8	54
Other	4	3
Cash flows from operating activities	121	177
Additions to PP&E	(37)	(37)
Proceeds from disposal of PP&E	-	3
Other	-	(2)
Cash flows used for investing activities	(37)	(36)
Dividend payments	(26)	(27)
Changes in borrowings	(49)	-
Other	(1)	2
Cash flows used for financing activities	(76)	(25)

EBITDA BEFORE ITEMS*

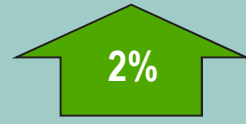
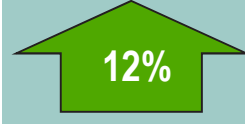


2Q'18 vs. 1Q'18 (in millions of dollars)



* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to Earnings in the Investor Relations section of the website)

PULP AND PAPER SEGMENT

(in millions of dollars)

	2Q'18	vs. 1Q'18	vs. 2Q'17
Sales	\$1,123		
EBITDA before items *	\$143		

- Peak planned maintenance outage quarter
- Higher price realizations in pulp and paper
- Good paper volume performance with year-to-date shipments up 6%
- Paper ran at 102% shipment-to-production
- Fluff pulp mix from Ashdown grew to 75% of market shipments

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PULP AND PAPER SEGMENT

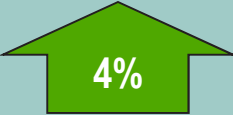







PAPER *(in millions of dollars)*

	2Q'18	vs. 1Q'18	vs. 2Q'17
Sales	\$815	1%	11%
EBITDA before items *	\$98	\$2	\$2
	2Q'18	vs. 1Q'18	vs. 2Q'17
Shipments <i>(manufactured, in thousands of short tons)</i>	754	2%	8%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		\$34	\$35

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PULP AND PAPER SEGMENT

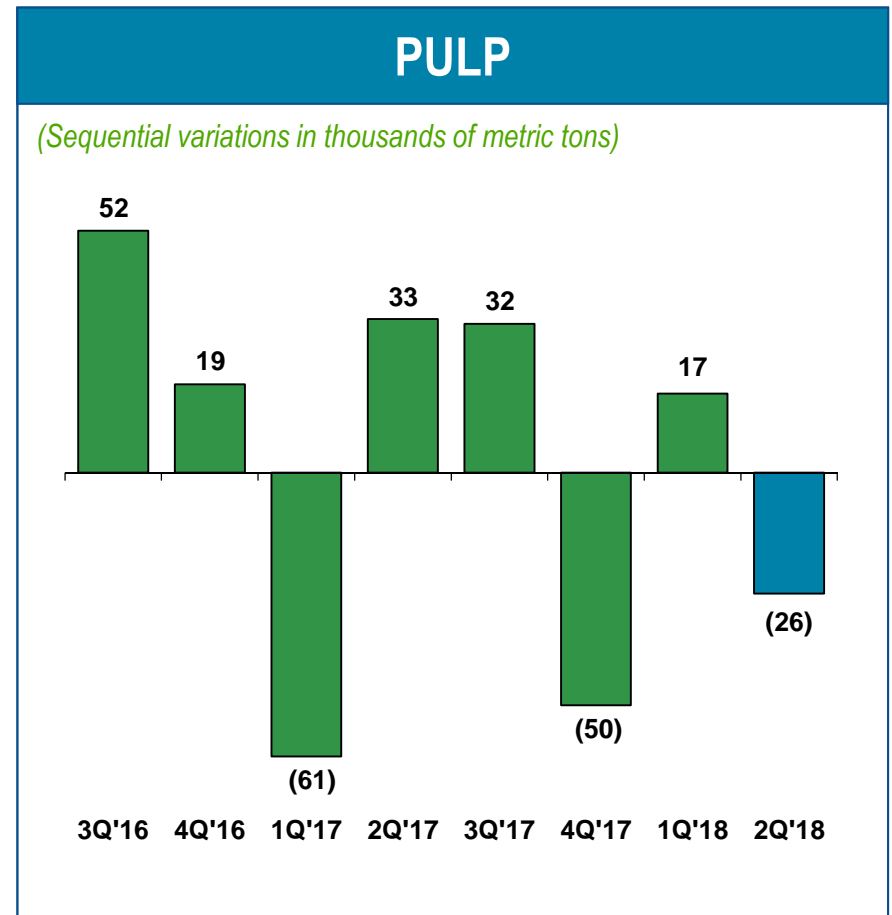
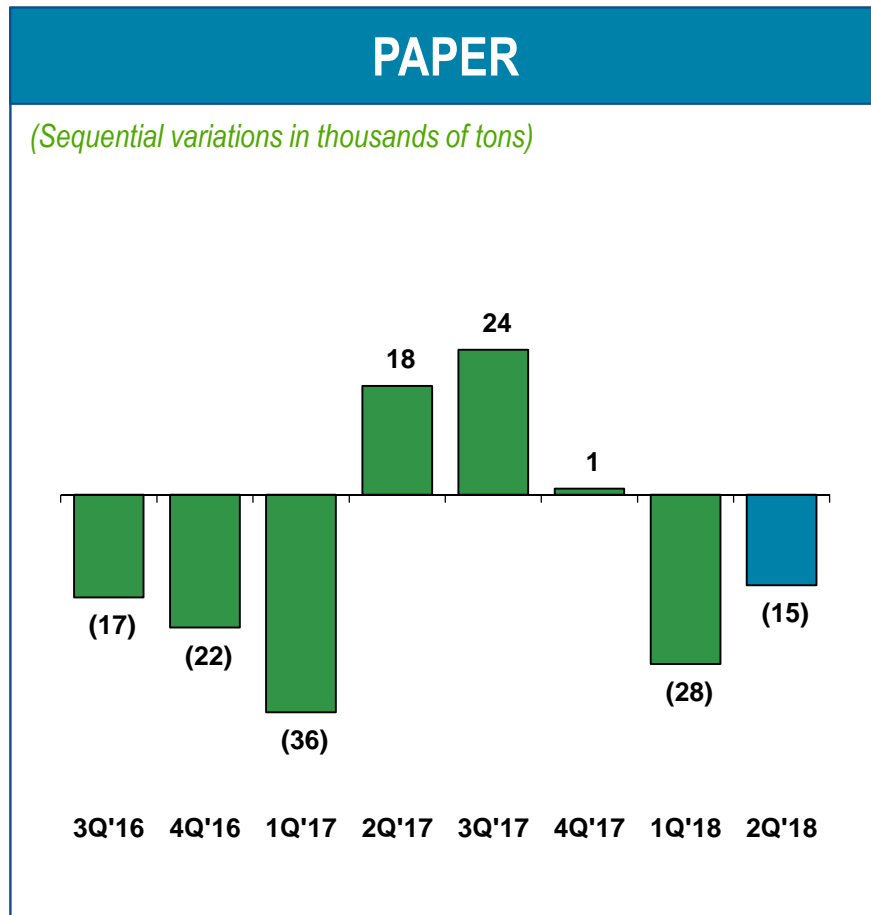
PULP *(in millions of dollars)*

	2Q'18	vs. 1Q'18	vs. 2Q'17
Sales <i>(incl. intersegment sales)</i>	\$308	 4%	 16%
EBITDA before items *	\$45	 \$1	 \$13
	2Q'18	vs. 1Q'18	vs. 2Q'17
Shipments <i>(in thousands of ADMT)</i>	377	 1%	 2%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		 \$29	 \$128

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to Earnings in the Investor Relations section of the website)

PULP AND PAPER SEGMENT

INVENTORIES



PERSONAL CARE SEGMENT

(in millions of dollars)

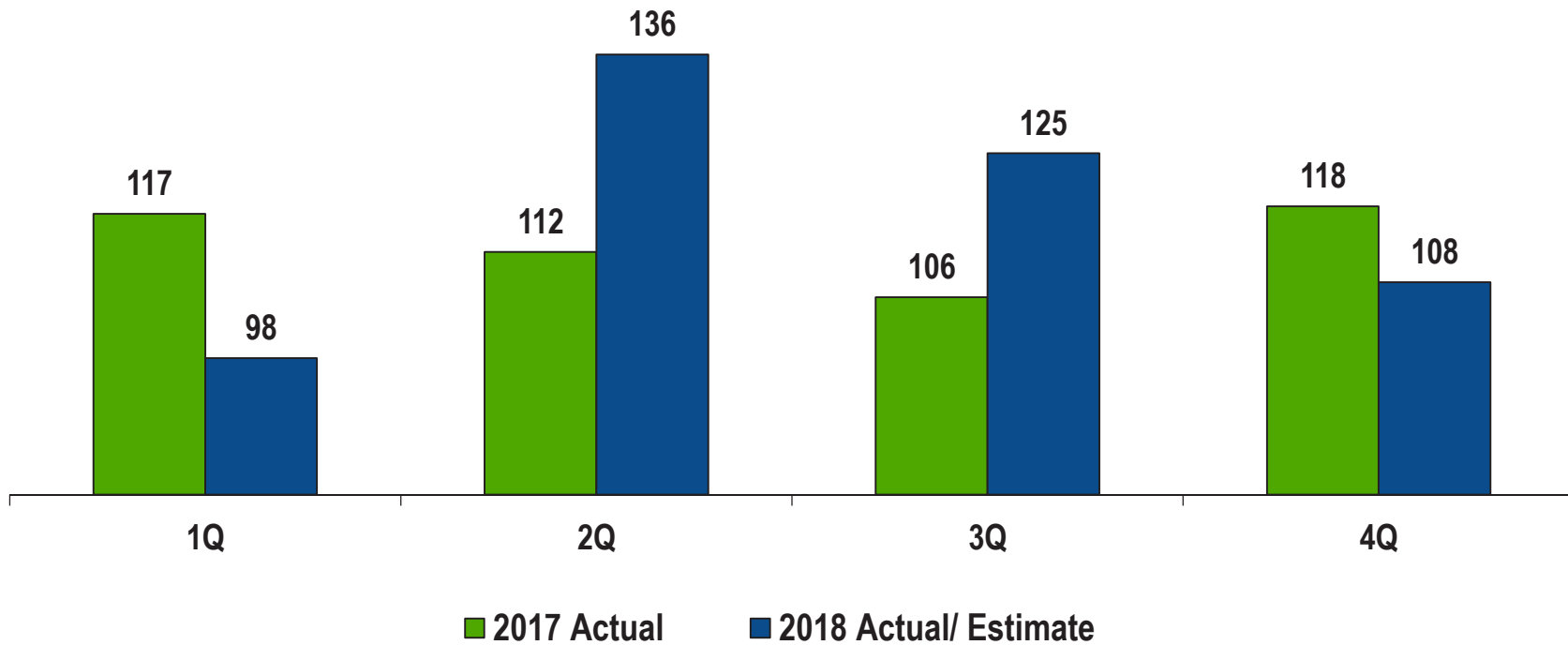
	2Q'18	vs. 1Q'18	vs. 2Q'17
Sales	\$247	↓ 6%	↑ 4%
EBITDA before items*	\$20	↓ \$6	↓ \$9
Same Currency Sales (@1Q'18 FX rate)	\$250	↓ 5%	-
Same Currency Sales (@2Q'17 FX rate)	\$237	-	↔

- Margins impacted by higher raw material prices and lower volumes
- Priority remains to win new customers, grow sales and improve profitability
- Adult incontinence volumes grew 7% year over year driven by strong consumer demand and category growth in Adult pants
- Margins expected to improve towards year-end as new customer wins flow through

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to Earnings in the Investor Relations 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 expected to trend better than market given the announced industry capacity closures.
- The announced price increases in paper are expected to continue to positively impact results in the second half of 2018.
- Pulp will benefit from lower planned maintenance costs while prices will continue to trend positively.
- Personal Care results should improve towards the end of the year as the benefits of new customer wins flow through.
- Moderate inflation in costs for the second half of the year.



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT									
<i>(In millions of dollars)</i>	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18
Paper	816	810	781	786	734	764	748	805	815
Pulp (incl. intrasegment sales)	275	277	295	316	296	321	371	324	350
Intrasegment sales – Pulp	(37)	(33)	(30)	(29)	(31)	(31)	(29)	(29)	(42)
Pulp	238	244	265	287	265	290	342	295	308
SALES	1,054	1,054	1,046	1,073	999	1,054	1,090	1,100	1,123
Paper	114	140	117	100	96	119	65	96	98
Pulp	17	35	23	(2)	32	33	57	44	45
EBITDA before items*	131	175	140	98	128	152	122	140	143
Paper Shipments – Manufactured	752	744	739	745	698	722	726	769	754
Paper Shipments – Sourced from 3rd parties	29	35	27	29	26	29	25	28	26
Paper Shipments	781	779	766	774	724	751	751	797	780
Pulp Shipments	360	369	415	453	383	424	462	374	377
PERSONAL CARE SEGMENT									
<i>(In millions of dollars)</i>	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18
SALES	226	229	240	247	238	251	260	262	247
EBITDA before items*	30	31	32	32	29	25	34	26	20
CORPORATE									
<i>(In millions of dollars)</i>	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18
EBITDA before items*	(9)	(12)	(13)	(8)	(14)	(14)	(15)	(5)	(20)

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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

\$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




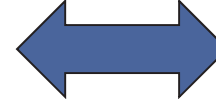

\$6

Annualized impact on EBITDA

MANAGEMENT'S FINANCIAL ASSUMPTIONS

2017 ACTUAL/ 2018 ESTIMATE

(in millions of dollars)

	2017A	2018E	Variation
Maintenance costs	\$453	\$467	
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

