

DOMTAR CORPORATION

THIRD QUARTER 2018 EARNINGS CALL

November 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

Third Quarter 2018

- Significant year-over-year and quarter over quarter earnings improvement
- Strong cash flow generation
- Continued price momentum in our Pulp and Paper businesses
- Solid operational performance in Pulp and Paper with productivity gains across the mill system
- Personal Care margin improvement plan expected to result in \$25-30 million of annualized benefit by end of 2020

FINANCIAL HIGHLIGHTS

Third Quarter 2018

- Net earnings of \$1.57 per share; earnings before items* of \$1.46 per share
- EBITDA before items* of \$193 million
- Cash flow from operating activities of \$70 million
- Capital expenditures of \$49 million
- Dividend payout of \$28 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

3Q'18 vs. 2Q'18 *(in millions of dollars)*

	2Q'18	3Q'18	
Sales	1,353	1,367	Higher sales in Pulp and Paper due to higher price realizations
Cost of sales	1,096	1,059	
Depreciation and amortization	79	75	
SG&A	118	115	
Other operating loss (income), net	(2)	4	
Operating income	62	114	
Interest expense, net	16	15	
Non-service components of net periodic benefit cost	(5)	(4)	
Income tax expense	8	3	U.S. Tax Reform, the recognition of previously unrecognized tax benefits and the tax impact of the Q3 pension contribution
Equity loss, net of taxes	-	1	
Net earnings	43	99	

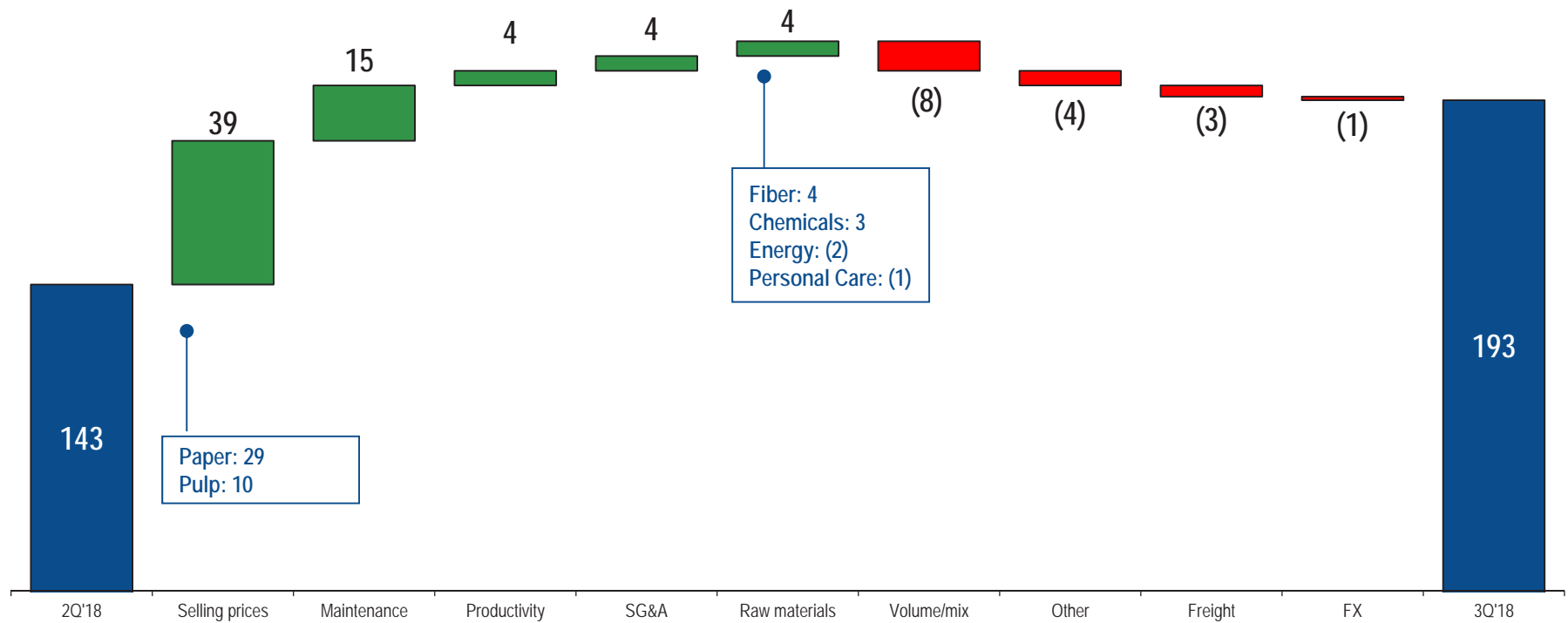
CASH FLOW STATEMENT

3Q'18 vs. 3Q'17 *(in millions of dollars)*

	3Q'17	3Q'18
Net earnings	70	99
Depreciation and amortization	80	75
Deferred income taxes and tax uncertainties	(7)	8
Changes in assets and liabilities		
Changes in working capital	(2)	(72)
Pension contribution over expense	(33)	(45)
Other	4	5
Cash flows from operating activities	112	70
Additions to PP&E	(40)	(49)
Proceeds from disposal of PP&E	8	-
Cash flows used for investing activities	(32)	(49)
Dividend payments	(26)	(28)
Changes in borrowings	(40)	-
Other	2	(1)
Cash flows used for financing activities	(64)	(29)

EBITDA BEFORE ITEMS*

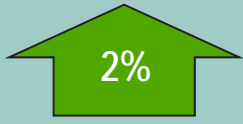
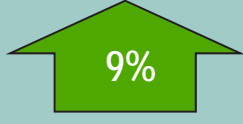


3Q'18 vs. 2Q'18 (in millions of dollars)



*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)

	3Q'18	vs. 2Q'18	vs. 3Q'17
Sales	\$1,146	 2%	 9%
EBITDA before items *	\$197	 \$54	 \$45

- Higher price realizations in Pulp and Paper
- Good paper volume performance with year-to-date shipments up 4%
- Margin expansion in Pulp and Paper on strong productivity
- Expect to fully realize the September paper price increase within the next 3 months

*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

PAPER *(in millions of dollars)*

	3Q'18	vs. 2Q'18	vs. 3Q'17
Sales	\$820	1%	7%
EBITDA before items *	\$134	\$28	\$9
	3Q'18	vs. 2Q'18	vs. 3Q'17
Shipments <i>(manufactured, in thousands of short tons)</i>	727	4%	1%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		\$40	\$73

* 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

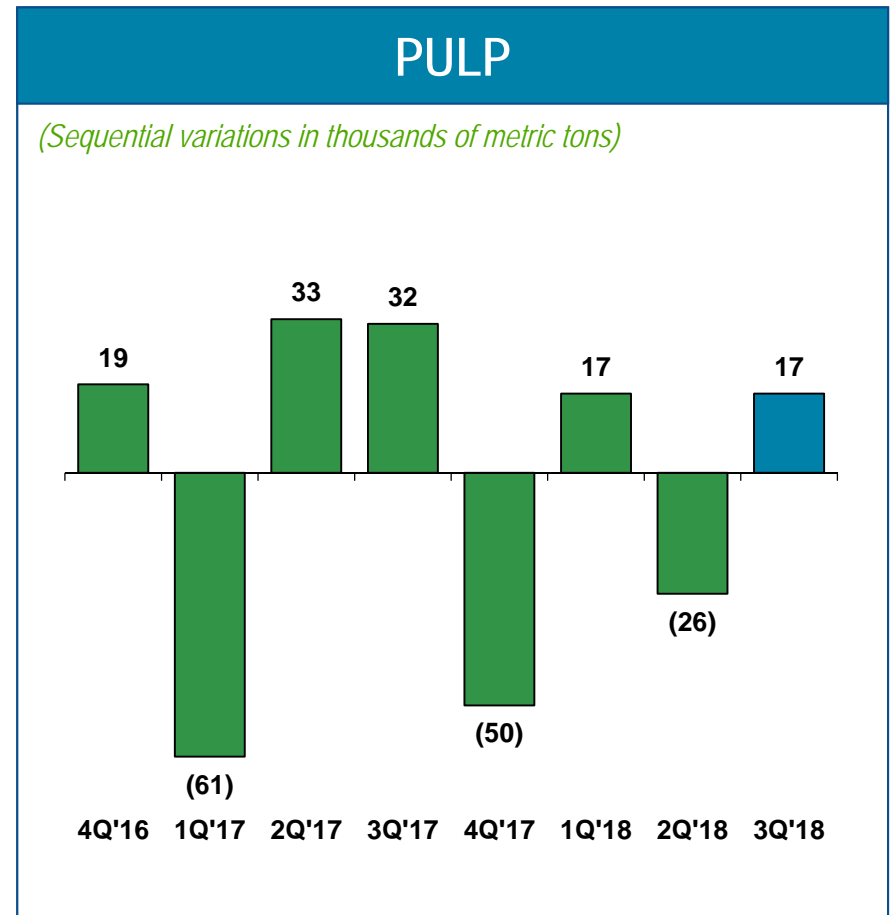
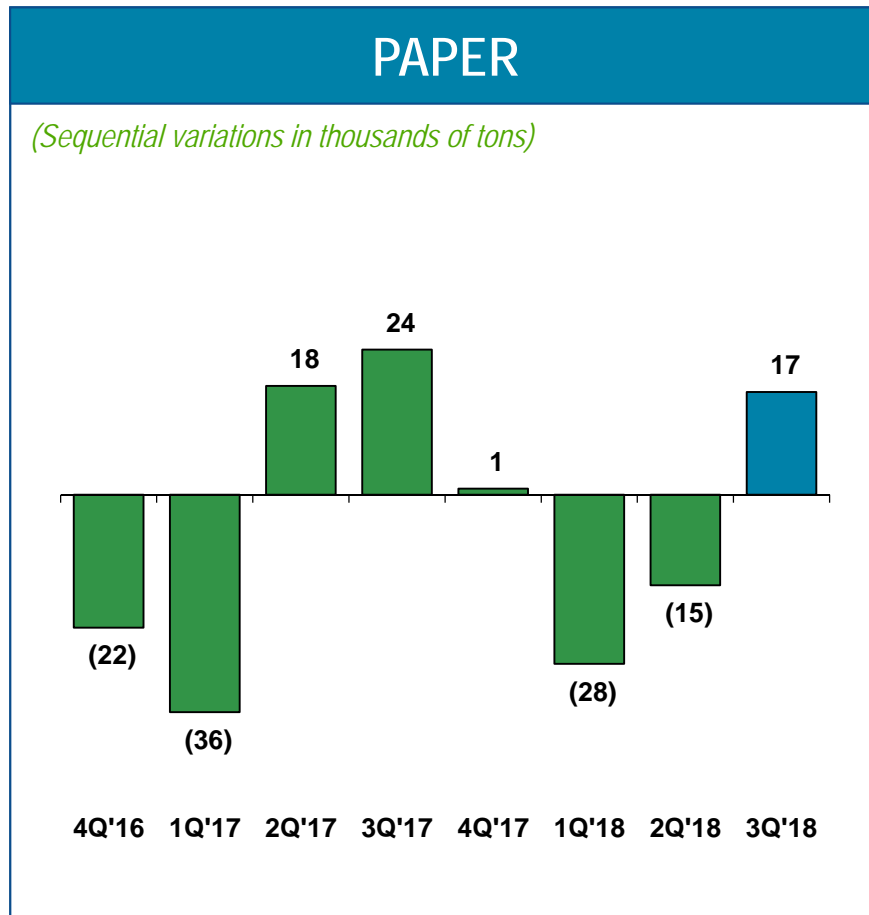
PULP *(in millions of dollars)*

	3Q'18	vs. 2Q'18	vs. 3Q'17
Sales <i>(incl. intersegment sales)</i>	\$326	6%	12%
EBITDA before items *	\$63	\$26	\$36
	3Q'18	vs. 2Q'18	vs. 3Q'17
Shipments <i>(in thousands of ADMT)</i>	390	3%	8%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		\$23	\$141

* 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)

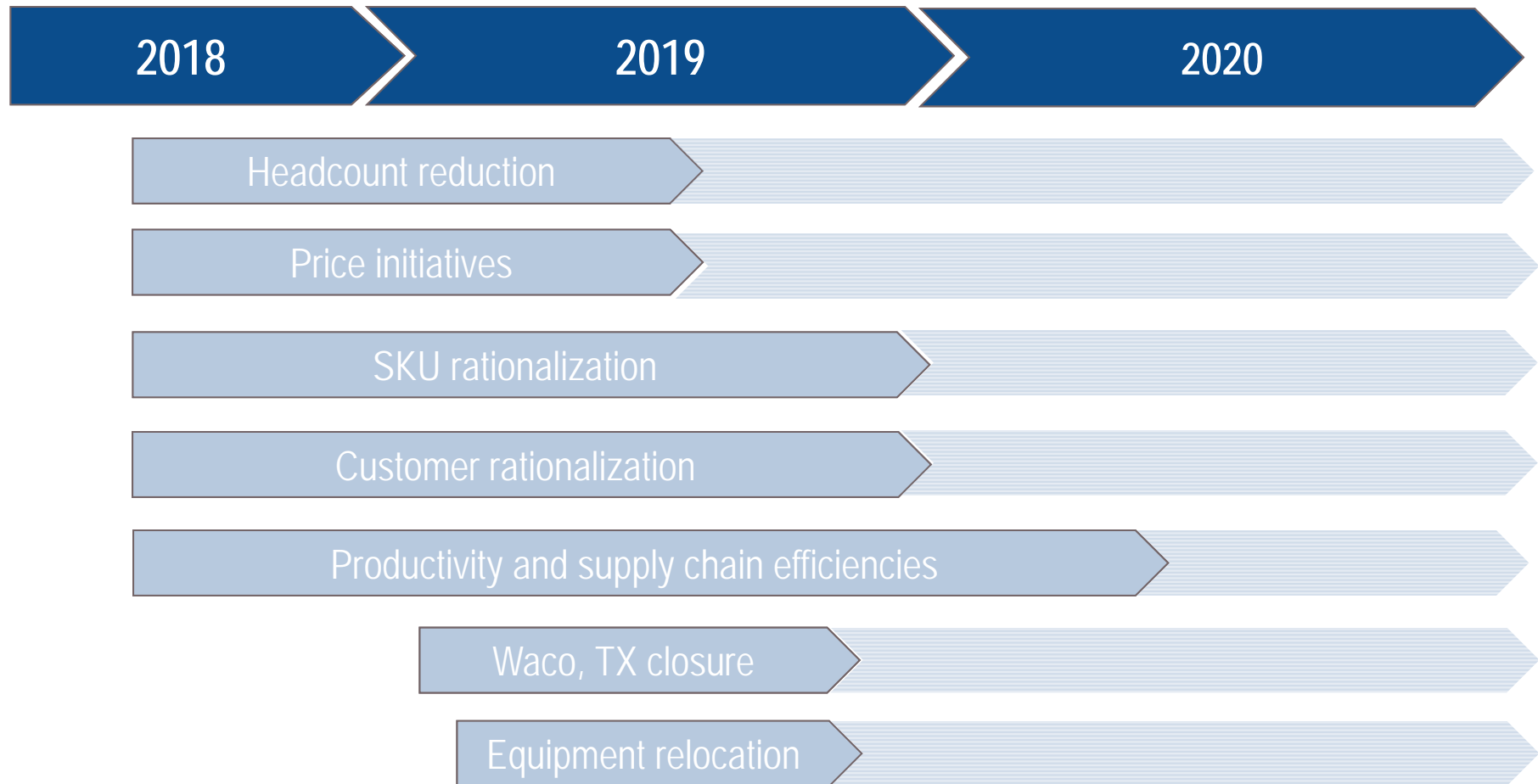
	3Q'18	vs. 2Q'18	vs. 3Q'17
Sales	\$237	↓ 4%	↓ 6%
EBITDA before items*	\$14	↓ \$6	↓ \$11
Same Currency Sales (@2Q'18 FX rate)	\$240	↓ 3%	-
Same Currency Sales (@3Q'17 FX rate)	\$238	-	↓ 5%

- Margins impacted by higher raw material prices and lower volumes
- Announced division-wide margin improvement plan to enhance margins and EBITDA*
- Expect benefits of approximately \$25-30 million, with full effect by the end of 2020
- Will include streamlining SG&A, cost reductions across operations, SKU rationalization, pricing initiatives and the closure of the Waco, Texas facility

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

MARGIN IMPROVEMENT INITIATIVES

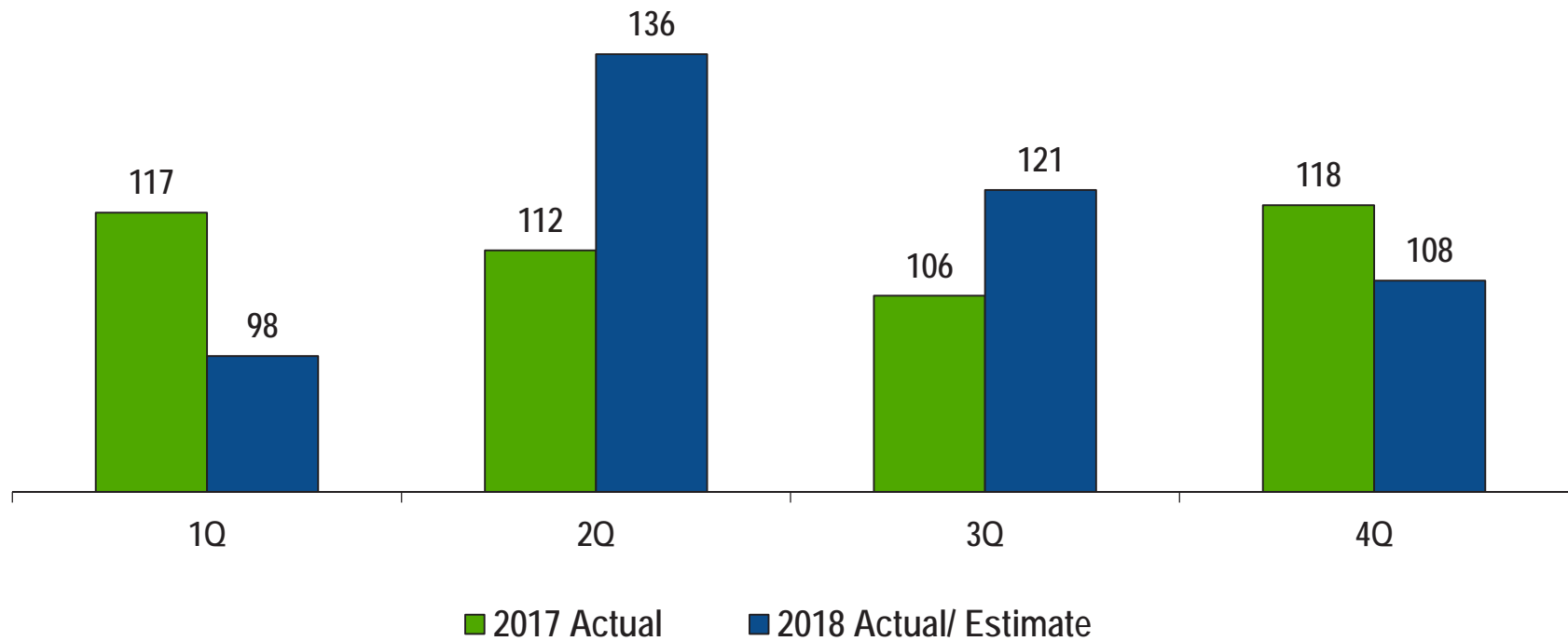
Targeting \$25-30 million of EBITDA improvement



Actions will reduce our cost base and strengthen our long-term competitive position

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

- Lower maintenance costs in Pulp and Paper
- Paper and Pulp should continue to realize higher prices following recently announced price increases
- Personal Care should benefit from higher volume and cost savings efforts
- Commodity cost inflation in the Personal Care business is expected to remain at elevated levels



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT							
<i>(In millions of dollars)</i>	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18
Paper	786	734	764	748	805	815	820
Pulp (incl. intrasegment sales)	316	296	321	371	324	350	365
Intrasegment sales – Pulp	(29)	(31)	(31)	(29)	(29)	(42)	(39)
Pulp	287	265	290	342	295	308	326
SALES	1,073	999	1,054	1,090	1,100	1,123	1,146
Paper	104	101	125	72	103	106	134
Pulp	(6)	27	27	50	37	37	63
EBITDA before items*	98	128	152	122	140	143	197
Paper Shipments – Manufactured	745	698	722	726	769	754	727
Paper Shipments – Sourced from 3rd parties	29	26	29	25	28	26	30
Paper Shipments	774	724	751	751	797	780	757
Pulp Shipments	453	383	424	462	374	377	390
PERSONAL CARE SEGMENT							
<i>(In millions of dollars)</i>	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18
SALES	247	238	251	260	262	247	237
EBITDA before items*	32	29	25	34	26	20	14
CORPORATE							
<i>(In millions of dollars)</i>	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18
EBITDA before items*	(8)	(14)	(14)	(15)	(5)	(20)	(18)

EBITDA between the Pulp and Paper businesses has been restated to reflect the intrasegment pulp transfer at cost within the segment

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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

THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE




Domtar