

# DOMTAR CORPORATION

## FOURTH QUARTER 2018 EARNINGS CALL

February 5, 2019

(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, 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

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## Fourth Quarter 2018

- One of the best quarterly performances since 2011
- Strong free cash flow in an above average capital spending quarter
- Solid performances by Paper and Pulp businesses
- Good cost performance despite fiber availability issues at several of our facilities
- Total production tonnage reached record levels at communication paper mills
- Significant improvement in Personal Care due to higher sales in Europe and strong productivity

# FINANCIAL HIGHLIGHTS

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## Fourth Quarter 2018

- Net earnings of \$1.38 per share; earnings before items\* of \$1.63 per share
- EBITDA before items\* of \$228 million
- Cash flow from operating activities of \$217 million
- Capital expenditures of \$84 million
- Free cash flow\* of \$133 million
- Dividend payout of \$27 million

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

# EARNINGS STATEMENT

4Q'18 vs. 3Q'18 *(in millions of dollars)*

	3Q'18	4Q'18	
Sales	1,367	1,390	Higher sales in Pulp and Personal Care
Cost of sales	1,059	1,064	
Depreciation and amortization	75	75	
SG&A	115	100	Mark-to-market of stock based compensation
Impairment of PP&E	-	7	Personal Care margin improvement plan
Closure and restructuring costs	-	8	
Other operating loss, net	4	3	
<b>Operating income</b>	<b>114</b>	<b>133</b>	
Interest expense, net	15	15	
Non-service components of net periodic benefit cost	(4)	(5)	
Income tax expense	3	35	Impact of U.S. Tax Reform
Equity loss, net of taxes	1	1	
<b>Net earnings</b>	<b>99</b>	<b>87</b>	

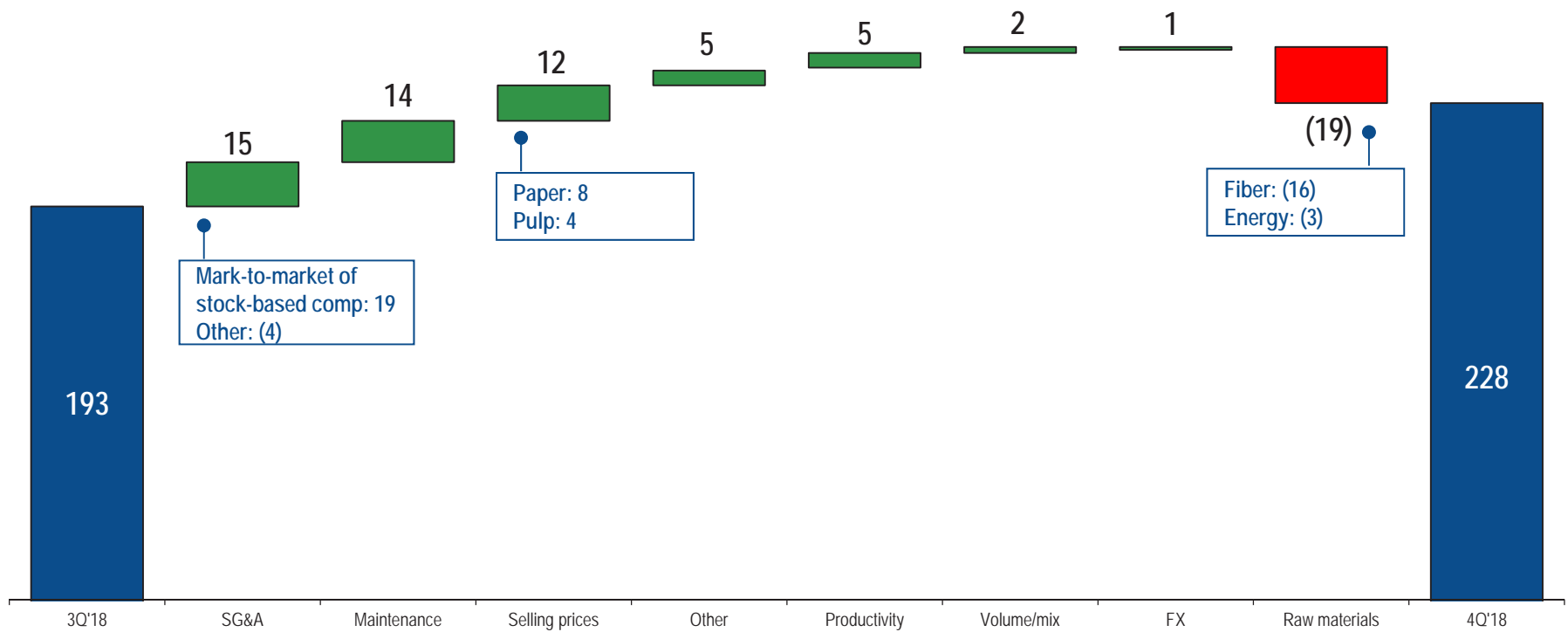
# CASH FLOW STATEMENT

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

	4Q'17	4Q'18
Net earnings	(386)	87
Depreciation and amortization	82	75
Deferred income taxes and tax uncertainties	(188)	10
Impairment of goodwill and PP&E	578	7
<b>Changes in assets and liabilities</b>		
Changes in working capital	-	44
Pension contribution over expense	1	-
Other	38	(6)
<b>Cash flows from operating activities</b>	<b>125</b>	<b>217</b>
Additions to PP&E	(71)	(84)
Acquisition of business, net of cash acquired	(8)	-
Proceeds from disposal of PP&E	11	1
<b>Cash flows used for investing activities</b>	<b>(68)</b>	<b>(83)</b>
Dividend payments	(26)	(27)
Changes in borrowings	(36)	(251)
Other	-	1
<b>Cash flows used for financing activities</b>	<b>(62)</b>	<b>(277)</b>

# EBITDA BEFORE ITEMS\*

4Q'18 vs. 3Q'18 (in millions of dollars)



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

# PULP AND PAPER SEGMENT

(in millions of dollars)

	4Q'18	vs. 3Q'18	vs. 4Q'17
Sales	\$1,154	↑ 1%	↑ 6%
EBITDA before items *	\$211	↑ \$14	↑ \$89




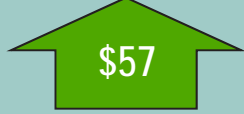
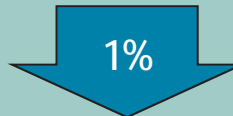
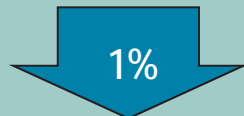


- Higher paper prices partially offset by product and customer mix
- Strong communication paper volumes and solid backlogs
- Lower maintenance outages and minimal market downtime in Paper
- Higher pulp prices in most regions offset China price reductions
- Fluff pulp markets continued to see good end-use growth dynamics

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



# PULP AND PAPER SEGMENT

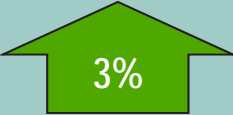
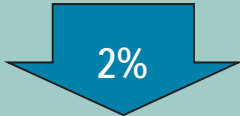
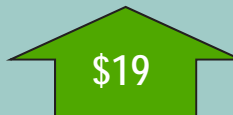

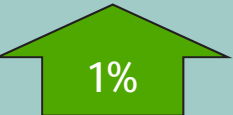


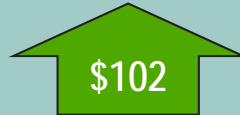
## PAPER *(in millions of dollars)*

	4Q'18	vs. 3Q'18	vs. 4Q'17
Sales	\$818		 9%
EBITDA before items *	\$129	 \$5	 \$57
	4Q'18	vs. 3Q'18	vs. 4Q'17
Shipments <i>(manufactured, in thousands of short tons)</i>	721	 1%	 1%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		 \$11	 \$101

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

# PULP AND PAPER SEGMENT

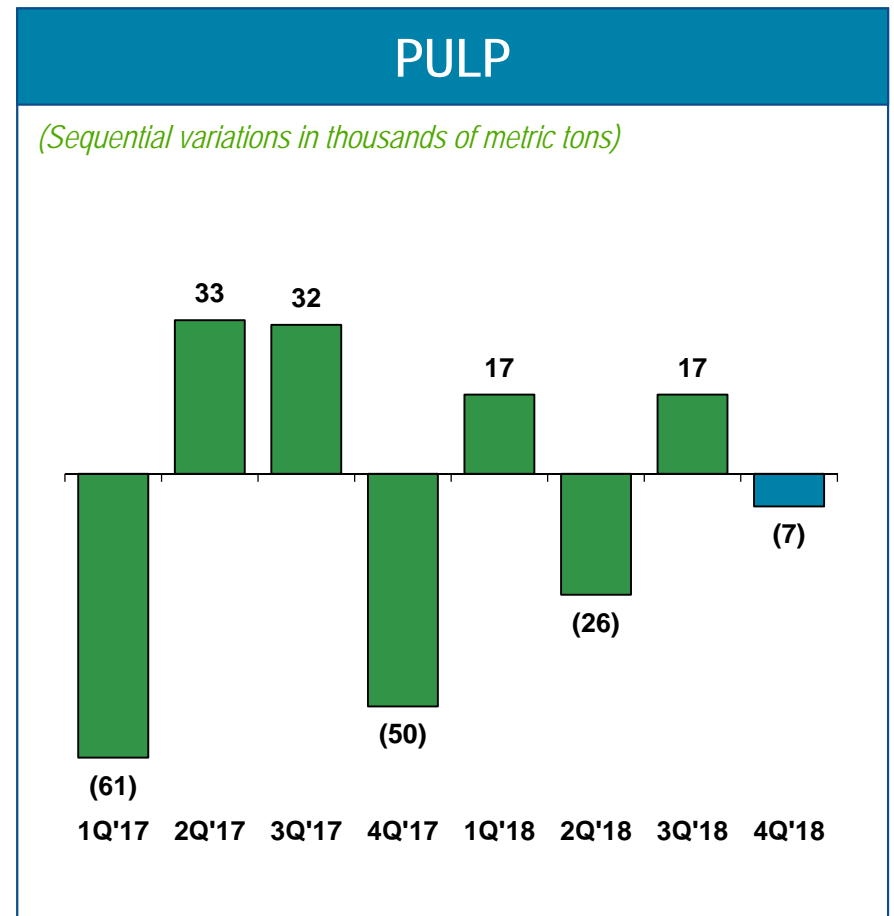
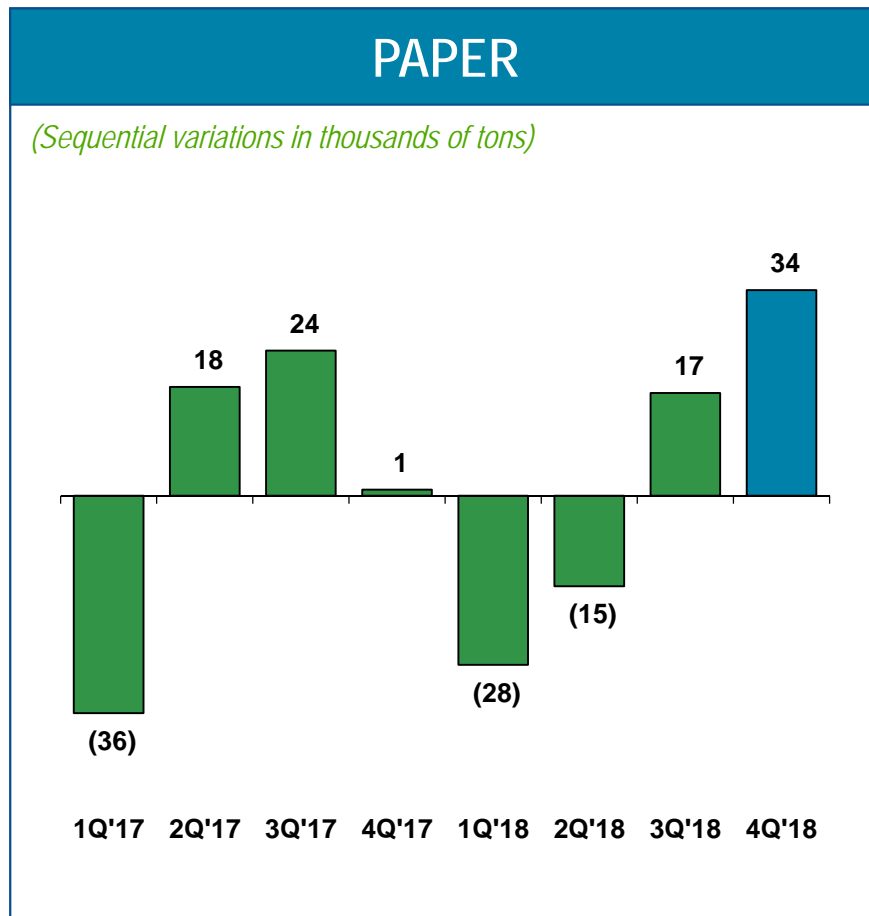
## PULP *(in millions of dollars)*

	4Q'18	vs. 3Q'18	vs. 4Q'17
<b>Sales</b> <i>(incl. intersegment sales)</i>	\$336	 3%	 2%
<b>EBITDA before items *</b>	\$82	 \$19	 \$32
	4Q'18	vs. 3Q'18	vs. 4Q'17
<b>Shipments</b> <i>(in thousands of ADMT)</i>	395	 1%	 15%
<b>Transaction prices</b> <i>(US\$ / ADMT – net, all regions)</i>		 \$8	 \$102

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://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)

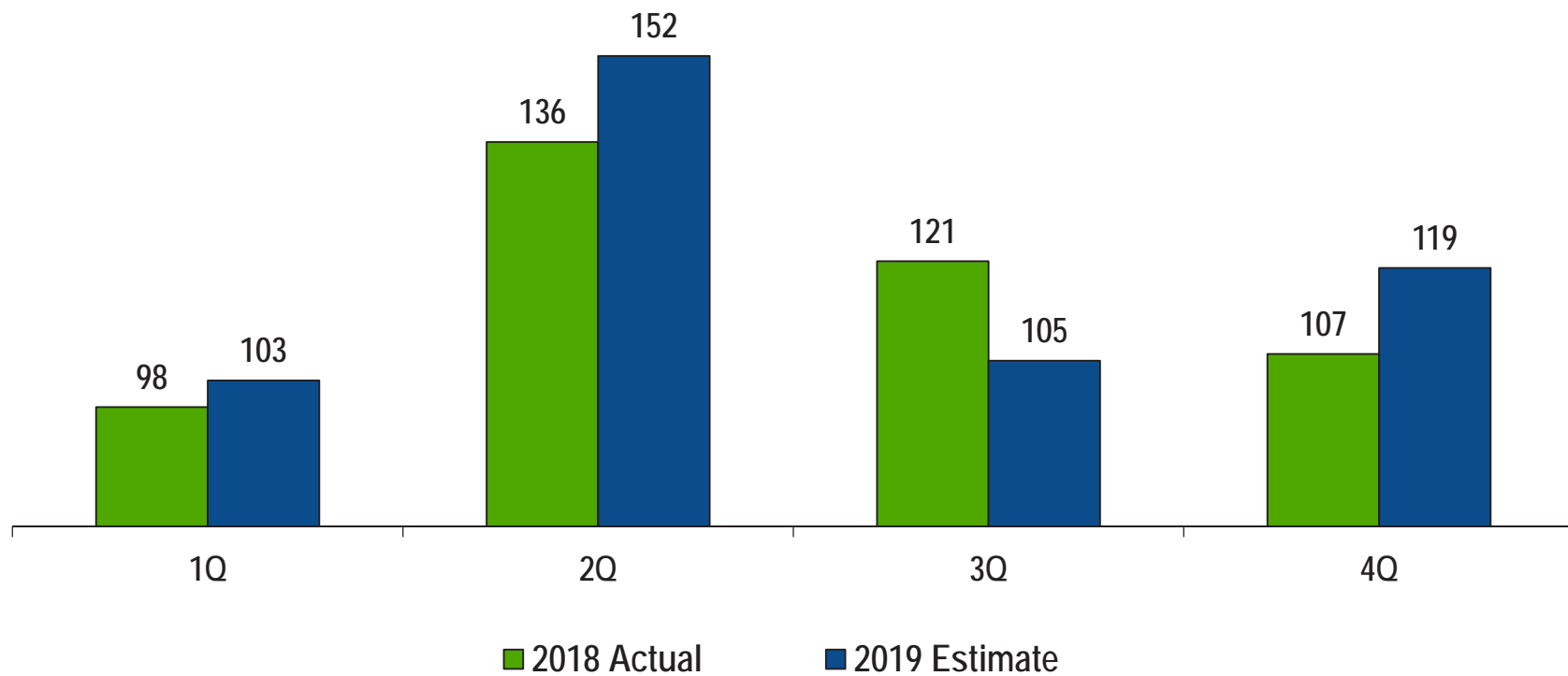
	4Q'18	vs. 3Q'18	vs. 4Q'17
Sales	\$254	7%	2%
EBITDA before items*	\$20	\$6	\$14
Same Currency Sales (@3Q'18 FX rate)	\$257	8%	-
Same Currency Sales (@4Q'17 FX rate)	\$258	-	1%

- Sales in Europe increased 7% year over year while new customer volume began to ramp up in North America
- Higher volume and cost improvements drove operational efficiencies and resulted in lower unit costs
- Waco closure expected to begin in 2Q 2019

\*Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://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

# 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

\$10

Specialty & Packaging Papers

\$5

## 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






\$7

### Annualized impact on EBITDA

# MANAGEMENT'S FINANCIAL ASSUMPTIONS

2018 ACTUAL/ 2019 ESTIMATE

*(in millions of dollars)*

	2018A	2019E	Variation
Maintenance costs	\$462	\$479	
CAPEX	\$195	\$220-240	
Depreciation and amortization	\$308	\$290-300	
Interest expense	\$62	\$48	
Income tax rate	17%	21-23%	

## 2019 OUTLOOK

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- Paper shipments will increase as we respond to increased demand from our customers, following the announced capacity closures
- Paper prices will continue to improve in the wake of our recently announced price increases across the majority of our paper grades
- Softwood and fluff pulp markets will remain balanced through the year due to continued steady demand growth and limited announced new capacity
- Freight, labor and raw materials are expected to marginally increase
- Personal Care is expected to benefit from our margin improvement plan and new customer wins, partially offset by further raw material cost inflation.





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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	4Q'18
Paper	786	734	764	748	805	815	820	818
Pulp (incl. intrasegment sales)	316	296	321	371	324	350	365	379
Intrasegment sales – Pulp	(29)	(31)	(31)	(29)	(29)	(42)	(39)	(43)
Pulp	287	265	290	342	295	308	326	336
<b>SALES</b>	<b>1,073</b>	<b>999</b>	<b>1,054</b>	<b>1,090</b>	<b>1,100</b>	<b>1,123</b>	<b>1,146</b>	<b>1,154</b>
Paper	104	101	125	72	103	106	134	129
Pulp	(6)	27	27	50	37	37	63	82
<b>EBITDA before items*</b>	<b>98</b>	<b>128</b>	<b>152</b>	<b>122</b>	<b>140</b>	<b>143</b>	<b>197</b>	<b>211</b>
Paper Shipments – Manufactured	745	698	722	726	769	754	727	721
Paper Shipments – Sourced from 3rd parties	29	26	29	25	28	26	30	25
Paper Shipments	774	724	751	751	797	780	757	746
Pulp Shipments	453	383	424	462	374	377	390	395
PERSONAL CARE SEGMENT								
<i>(In millions of dollars)</i>	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18
<b>SALES</b>	<b>247</b>	<b>238</b>	<b>251</b>	<b>260</b>	<b>262</b>	<b>247</b>	<b>237</b>	<b>254</b>
<b>EBITDA before items*</b>	<b>32</b>	<b>29</b>	<b>25</b>	<b>34</b>	<b>26</b>	<b>20</b>	<b>14</b>	<b>20</b>
CORPORATE								
<i>(In millions of dollars)</i>	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18
<b>EBITDA before items*</b>	<b>(8)</b>	<b>(14)</b>	<b>(14)</b>	<b>(15)</b>	<b>(5)</b>	<b>(20)</b>	<b>(18)</b>	<b>(3)</b>

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

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

# THE FIBER *of* Domtar

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