

DOMTAR CORPORATION

FIRST QUARTER 2019 EARNINGS CALL

May 1st, 2019

(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, 2018 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

First Quarter 2019

- Strong operational performance with good productivity in Paper
- Paper margins improve by 250 basis points to 18%
- Favorable market conditions drive further volume and price momentum in Paper
- Pulp impacted by lower prices and higher internal pulp shipments due to wood fiber constraints
- Above-average wood fiber costs due to weather-related wood supply shortage
- Margin improvement in Personal Care driven by better cost absorption, higher prices and lower costs

FINANCIAL HIGHLIGHTS

First Quarter 2019

- Net earnings of \$1.27 per share; earnings before items* of \$1.44 per share
- EBITDA before items* of \$205 million
- Cash flow from operating activities of \$55 million
- Capital expenditures of \$46 million
- Free cash flow* of \$9 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

1Q'19 vs. 4Q'18 *(in millions of dollars)*

	4Q'18	1Q'19	
Sales	1,390	1,376	
Cost of sales	1,064	1,052	
Depreciation and amortization	75	73	
SG&A	100	123	● Mark-to-market of stock based compensation
Impairment of PP&E	7	10	● Personal Care margin improvement plan
Closure and restructuring costs	8	4	●
Other operating loss (income), net	3	(1)	
Operating income	133	115	
Interest expense, net	15	13	
Non-service components of net periodic benefit cost	(5)	(3)	
Income tax expense	35	24	
Equity loss, net of taxes	1	1	
Net earnings	87	80	

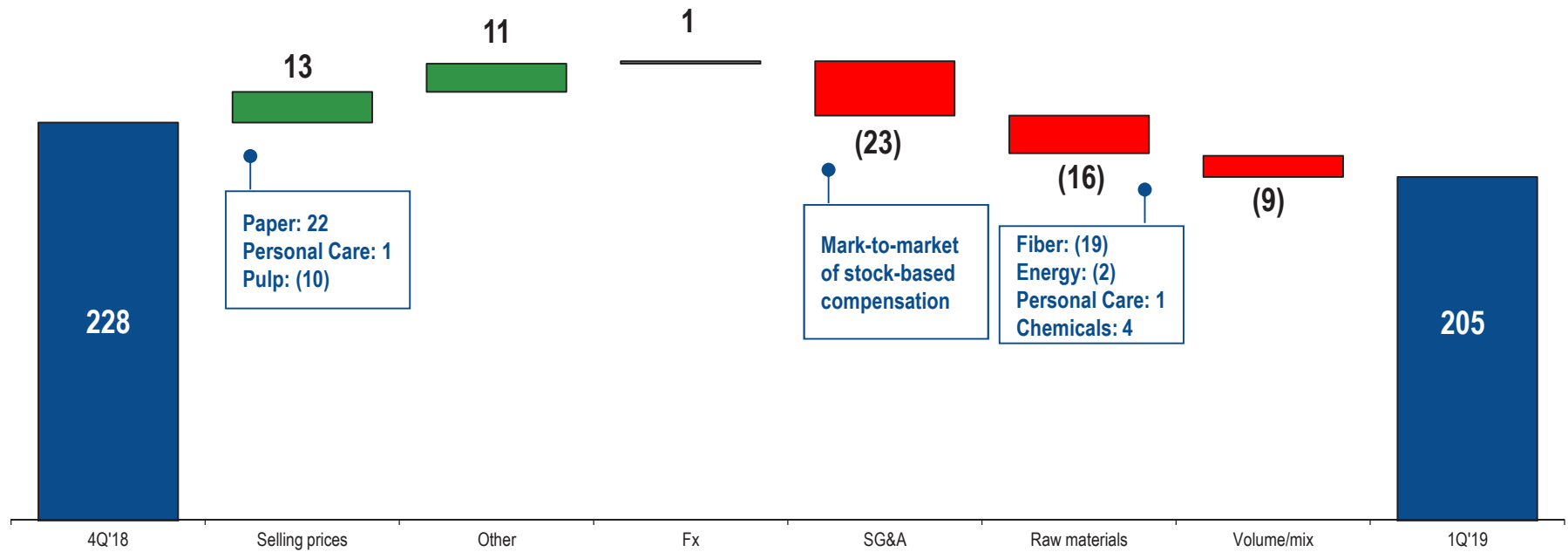
CASH FLOW STATEMENT

1Q'19 vs. 1Q'18 *(in millions of dollars)*

	1Q'18	1Q'19
Net earnings	54	80
Depreciation and amortization	79	73
Deferred income taxes and tax uncertainties	(3)	(3)
Impairment of PP&E	-	10
Changes in assets and liabilities		
Changes in working capital	(38)	(122)
Pension contribution over expense	-	1
Other	(2)	16
Cash flows from operating activities	90	55
Additions to PP&E	(25)	(46)
Proceeds from disposal of PP&E	1	-
Other	(4)	-
Cash flows used for investing activities	(28)	(46)
Dividend payments	(26)	(27)
Changes in borrowings	(25)	3
Other	-	(1)
Cash flows used for financing activities	(51)	(25)

EBITDA BEFORE ITEMS*





1Q'19 vs. 4Q'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)

	1Q'19	vs. 4Q'18	vs. 1Q'18
Sales	\$1,147	 1%	 4%
EBITDA before items *	\$204	 \$7	 \$64

- Higher paper prices and favorable sales mix
- Higher paper volumes due to seasonally better demand
- Several paper machines operated at record production levels
- Lower overall pulp prices but prices in China stabilizing
- Good growth dynamics in tissue and hygiene end-markets

* 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)*

	1Q'19	vs. 4Q'18	vs. 1Q'18
Sales	\$854	4%	6%
EBITDA before items *	\$156	\$27	\$53
	1Q'19	vs. 4Q'18	vs. 1Q'18
Shipments <i>(manufactured, in thousands of short tons)</i>	736	2%	4%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		\$30	\$115

* 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

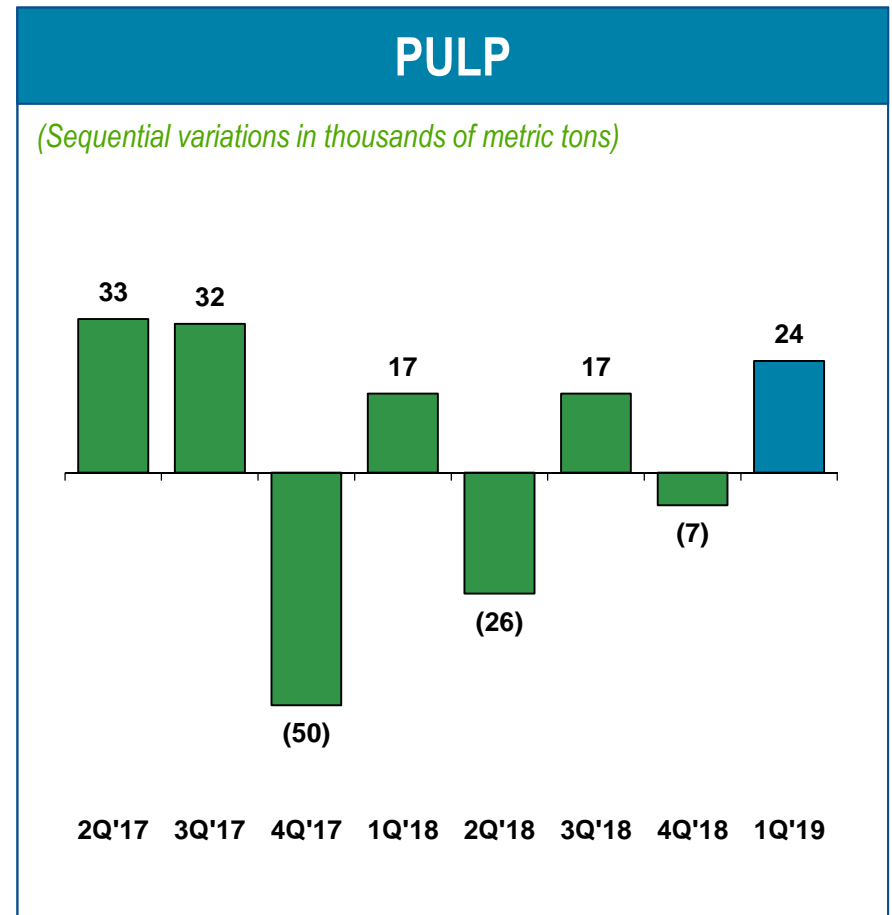
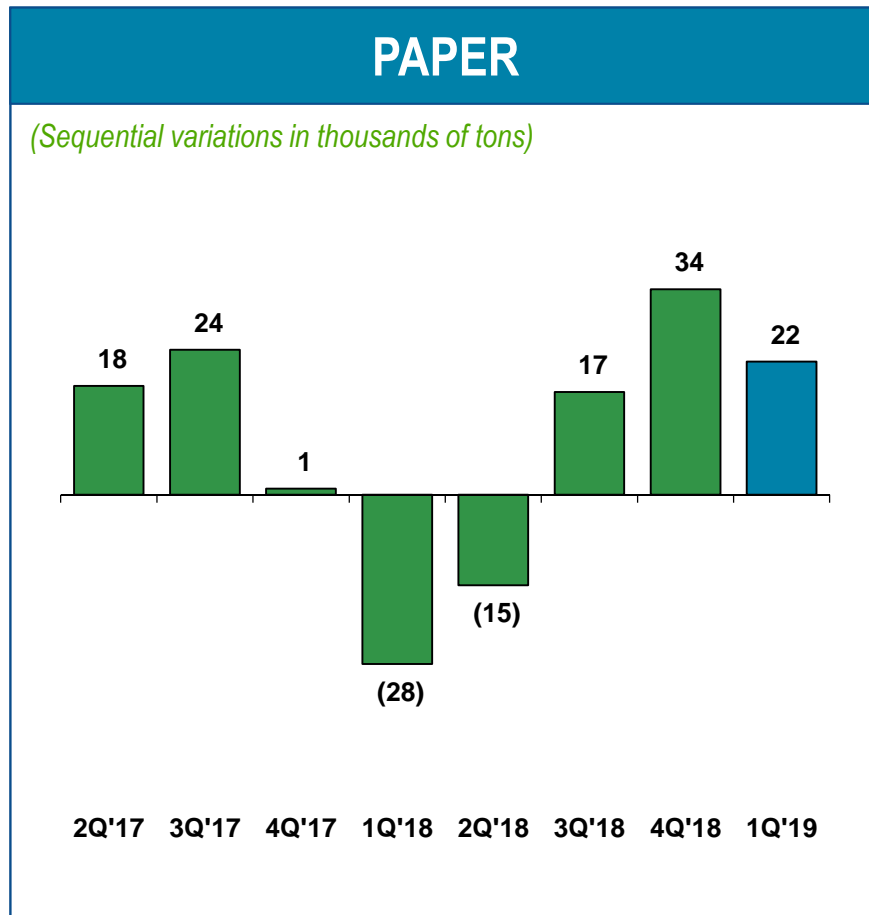
PULP *(in millions of dollars)*

	1Q'19	vs. 4Q'18	vs. 1Q'18
Sales <i>(incl. intersegment sales)</i>	\$293	↓ 13%	↓ 1%
EBITDA before items *	\$48	↓ \$34	↑ \$11
	1Q'19	vs. 4Q'18	vs. 1Q'18
Shipments <i>(in thousands of ADMT)</i>	349	↓ 12%	↓ 7%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		↓ \$26	↑ \$34

* 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)

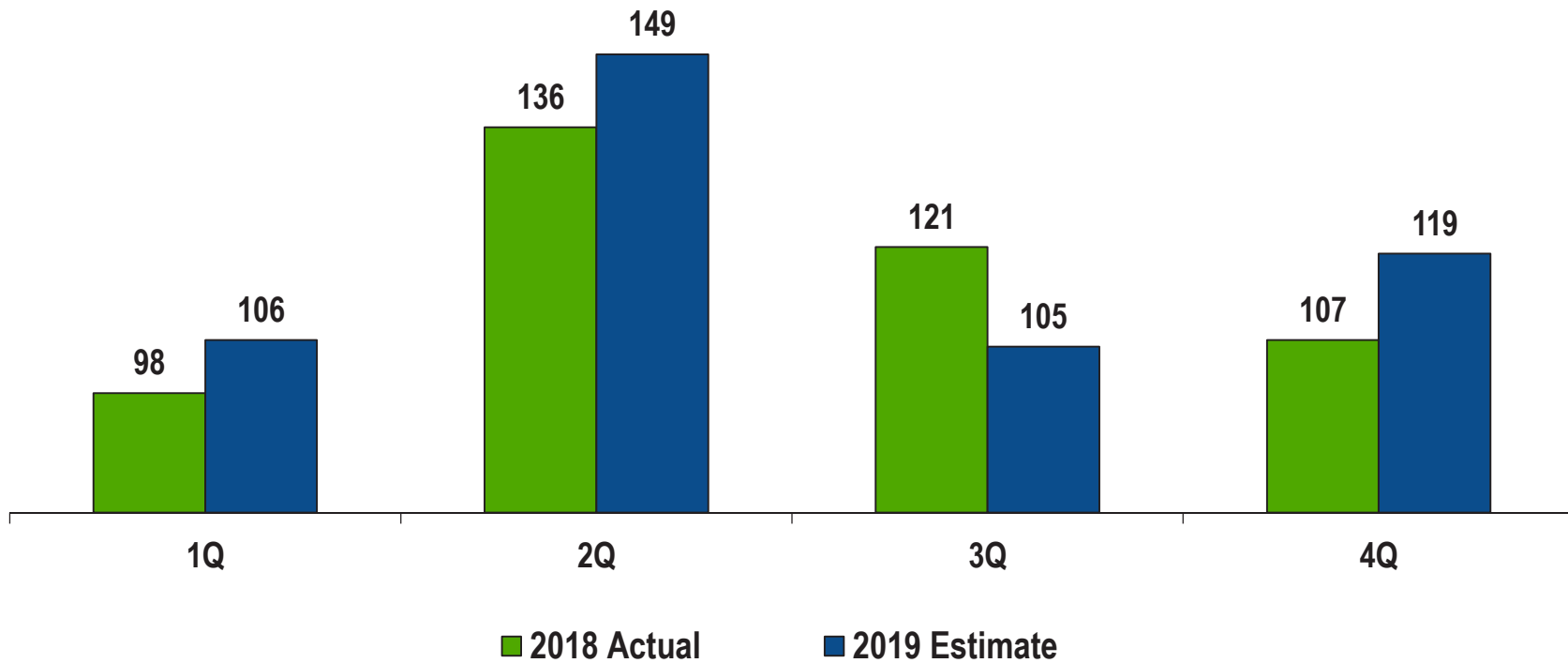
	1Q'19	vs. 4Q'18	vs. 1Q'18
Sales	\$247	↓ 3%	↓ 6%
EBITDA before items*	\$22	↑ \$2	↓ \$4
Same Currency Sales (@4Q'18 FX rate)	\$248	↓ 2%	-
Same Currency Sales (@1Q'18 FX rate)	\$257	-	↓ 2%

- EBITDA and margin improvement driven by strong productivity and good cost absorption
- Wind down of production at Waco facility; full closure expected by Q3'19
- Margin improvement plan expected to progress throughout the year
- Strong sales opportunities in North America and Europe

* 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

OUTLOOK

- Paper shipments should benefit from higher demand from our customers following industry capacity closures
- Paper prices will further improve as we continue to implement our recently announced price increases
- Q2'19 will be adversely affected by seasonally higher maintenance activity in our Pulp and Paper business
- Personal Care is expected to benefit from our margin improvement plan and the ramp-up of a new customer, 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>	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19
Paper	734	764	748	805	815	820	818	854
Pulp (incl. intrasegment sales)	296	321	371	324	350	365	379	346
Intrasegment sales – Pulp	(31)	(31)	(29)	(29)	(42)	(39)	(43)	(53)
Pulp	265	290	342	295	308	326	336	293
SALES	999	1,054	1,090	1,100	1,123	1,146	1,154	1,147
Paper	101	125	72	103	106	134	129	156
Pulp	27	27	50	37	37	63	82	48
EBITDA before items*	128	152	122	140	143	197	211	204
Paper Shipments – Manufactured	698	722	726	769	754	727	721	736
Paper Shipments – Sourced from 3rd parties	26	29	25	28	26	30	25	23
Paper Shipments	724	751	751	797	780	757	746	759
Pulp Shipments	383	424	462	374	377	390	395	349
PERSONAL CARE SEGMENT								
<i>(In millions of dollars)</i>	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19
SALES	238	251	260	262	247	237	254	247
EBITDA before items*	29	25	34	26	20	14	20	22
CORPORATE								
<i>(In millions of dollars)</i>	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19
EBITDA before items*	(14)	(14)	(15)	(5)	(20)	(18)	(3)	(21)






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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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%	

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

THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



 Domtar