

# DOMTAR CORPORATION

## SECOND QUARTER 2019 EARNINGS CALL

August 1<sup>st</sup>, 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, 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

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## Second Quarter 2019

- Strong operating cash flow
- Announced a 4.6% dividend increase and resumed share buybacks
- Paper business impacted by lower volume and market-related downtime costs
- Further implemented price increases in Paper
- Continued price pressure in global pulp markets
- Peak maintenance outage quarter of the year impacting fixed cost absorption and productivity in Pulp and Paper
- Good performance in Personal Care, driven by lower raw material pricing and steady progress in our margin improvement plan

# FINANCIAL HIGHLIGHTS

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## Second Quarter 2019

- Net earnings of \$0.28 per share; earnings before items\* of \$0.57 per share
- EBITDA before items\* of \$133 million
- Cash flow from operating activities of \$119 million
- Capital expenditures of \$55 million
- Free cash flow\* of \$64 million
- Dividend payout of \$28 million
- Share buybacks of \$8 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

2Q'19 vs. 1Q'19 *(in millions of dollars)*

	1Q'19	2Q'19	
Sales	1,376	1,317	
Cost of sales	1,052	1,079	
Depreciation and amortization	73	74	
SG&A	123	105	● Mark-to-market of stock based compensation
Impairment of long-lived assets	10	15	● Personal Care margin improvement plan
Closure and restructuring costs	4	8	●
Other operating loss (income), net	(1)	2	
<b>Operating income</b>	<b>115</b>	<b>34</b>	
Interest expense, net	13	13	
Non-service components of net periodic benefit cost	(3)	(2)	
Income tax expense	24	5	
Equity loss, net of taxes	1	-	
<b>Net earnings</b>	<b>80</b>	<b>18</b>	

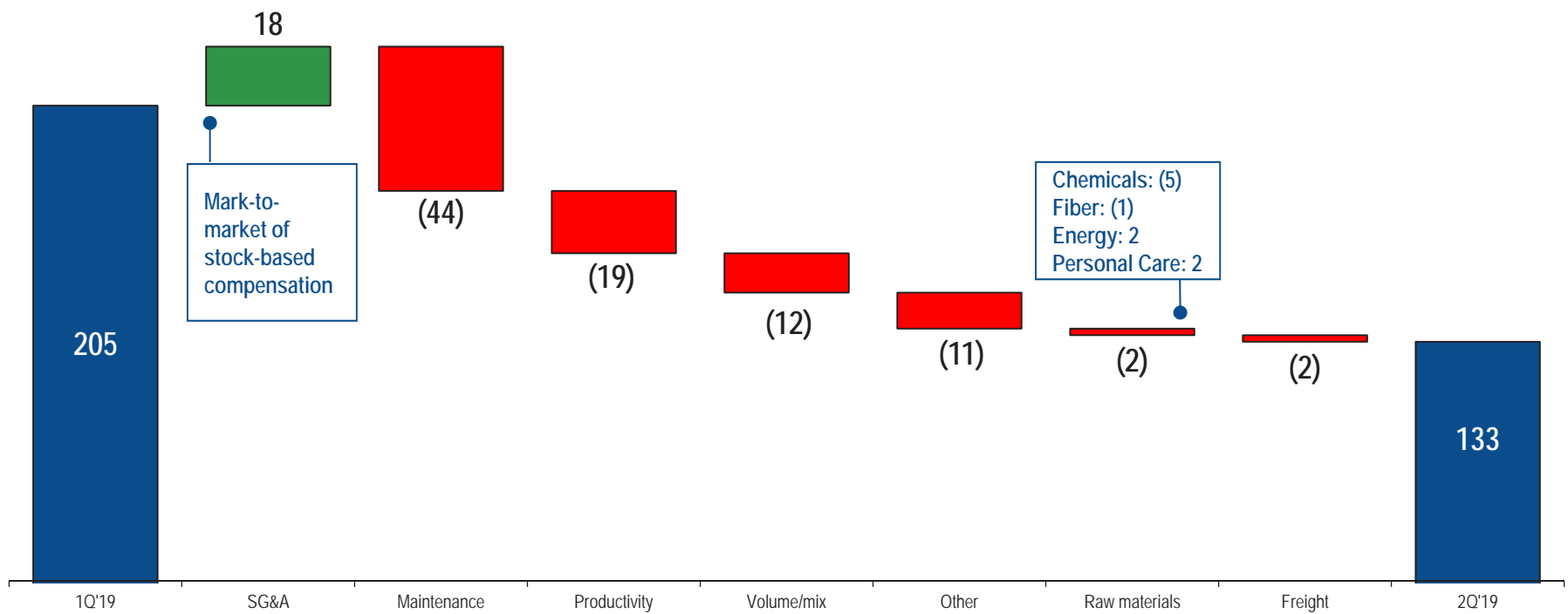
# CASH FLOW STATEMENT

2Q'19 vs. 2Q'18 *(in millions of dollars)*

	2Q'18	2Q'19
Net earnings	43	18
Depreciation and amortization	79	74
Deferred income taxes and tax uncertainties	(2)	2
Impairment of long-lived assets	-	15
<b>Changes in assets and liabilities</b>		
Changes in working capital	54	7
Other	3	3
<b>Cash flows from operating activities</b>	<b>177</b>	<b>119</b>
Additions to PP&E	(37)	(55)
Proceeds from disposal of PP&E	3	1
Other	(2)	-
<b>Cash flows used for investing activities</b>	<b>(36)</b>	<b>(54)</b>
Dividend payments and stock repurchases	(27)	(36)
Changes in borrowings	-	(31)
Other	2	-
<b>Cash flows used for financing activities</b>	<b>(25)</b>	<b>(67)</b>

# EBITDA BEFORE ITEMS\*

2Q'19 vs. 1Q'19 (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)*

	2Q'19	vs. 1Q'19	vs. 2Q'18
Sales	\$1,096	↓ 4%	↓ 2%
EBITDA before items *	\$123	↓ \$81	↓ \$20

- Lower volumes driven by higher imports and customer destocking in Paper
- 73,000 tons of market-related downtime in Paper
- Further implementation of announced price increases in Paper
- Peak outage quarter with eight of our thirteen mills taking planned maintenance downtime
- Current cycle in pulp drove downward price adjustments in most regions

\*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)*

	2Q'19	vs. 1Q'19	vs. 2Q'18
Sales	\$805	↓ 6%	↓ 1%
EBITDA before items *	\$115	↓ \$41	↑ \$9
	2Q'19	vs. 1Q'19	vs. 2Q'18
Shipments <i>(manufactured, in thousands of short tons)</i>	681	↓ 7%	↓ 10%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↑ \$22	↑ \$103

\* 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

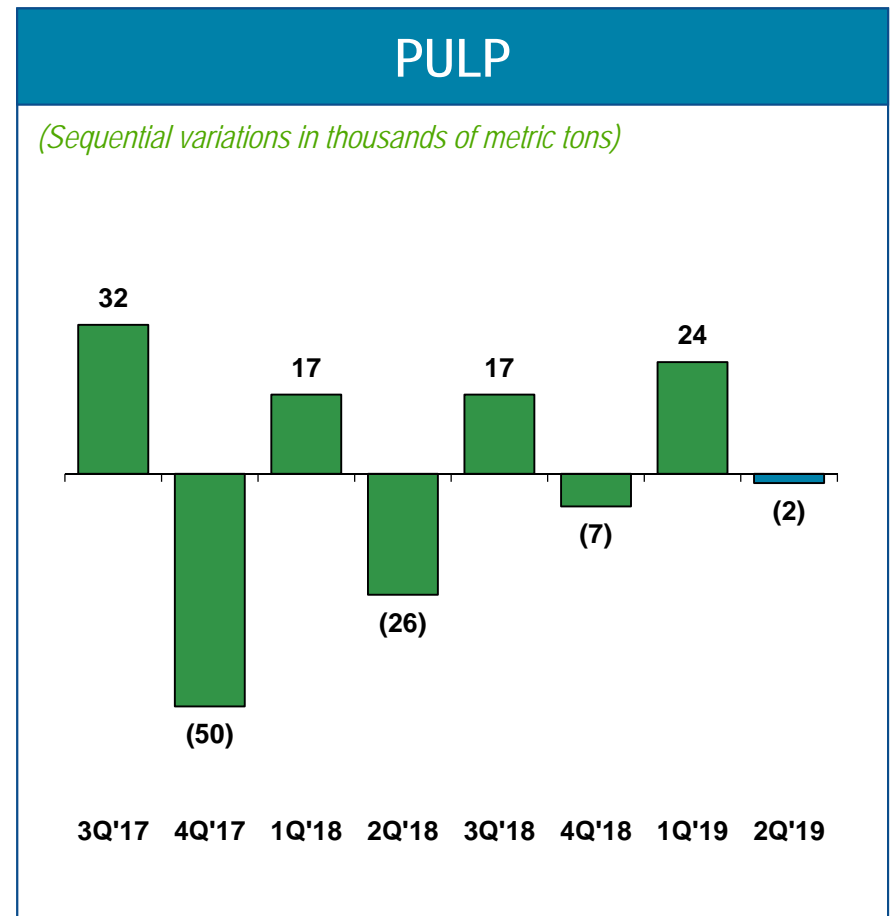
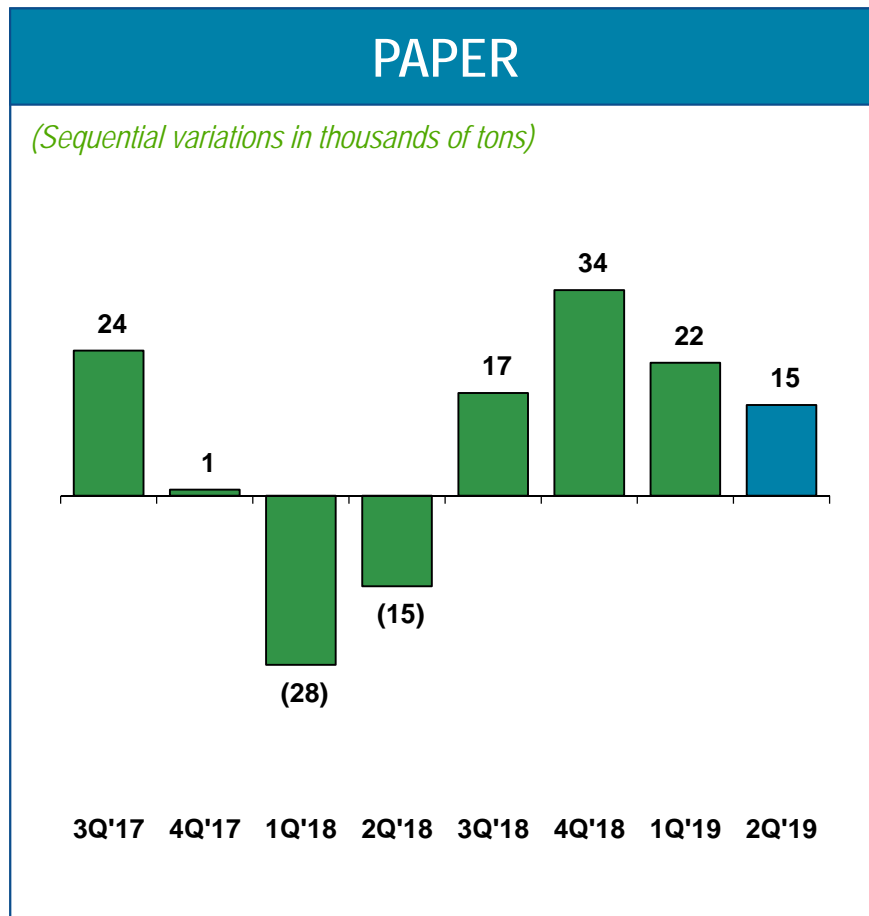
## PULP *(in millions of dollars)*

	2Q'19	vs. 1Q'19	vs. 2Q'18
<b>Sales</b> <i>(incl. intersegment sales)</i>	\$291	↓ 1%	↓ 6%
<b>EBITDA before items *</b>	\$8	↓ \$40	↓ \$29
	2Q'19	vs. 1Q'19	vs. 2Q'18
<b>Shipments</b> <i>(in thousands of ADMT)</i>	370	↑ 6%	↓ 2%
<b>Transaction prices</b> <i>(US\$ / ADMT – net, all regions)</i>		↓ \$45	↓ \$40

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# PULP AND PAPER SEGMENT

## INVENTORIES



# PERSONAL CARE SEGMENT

(in millions of dollars)

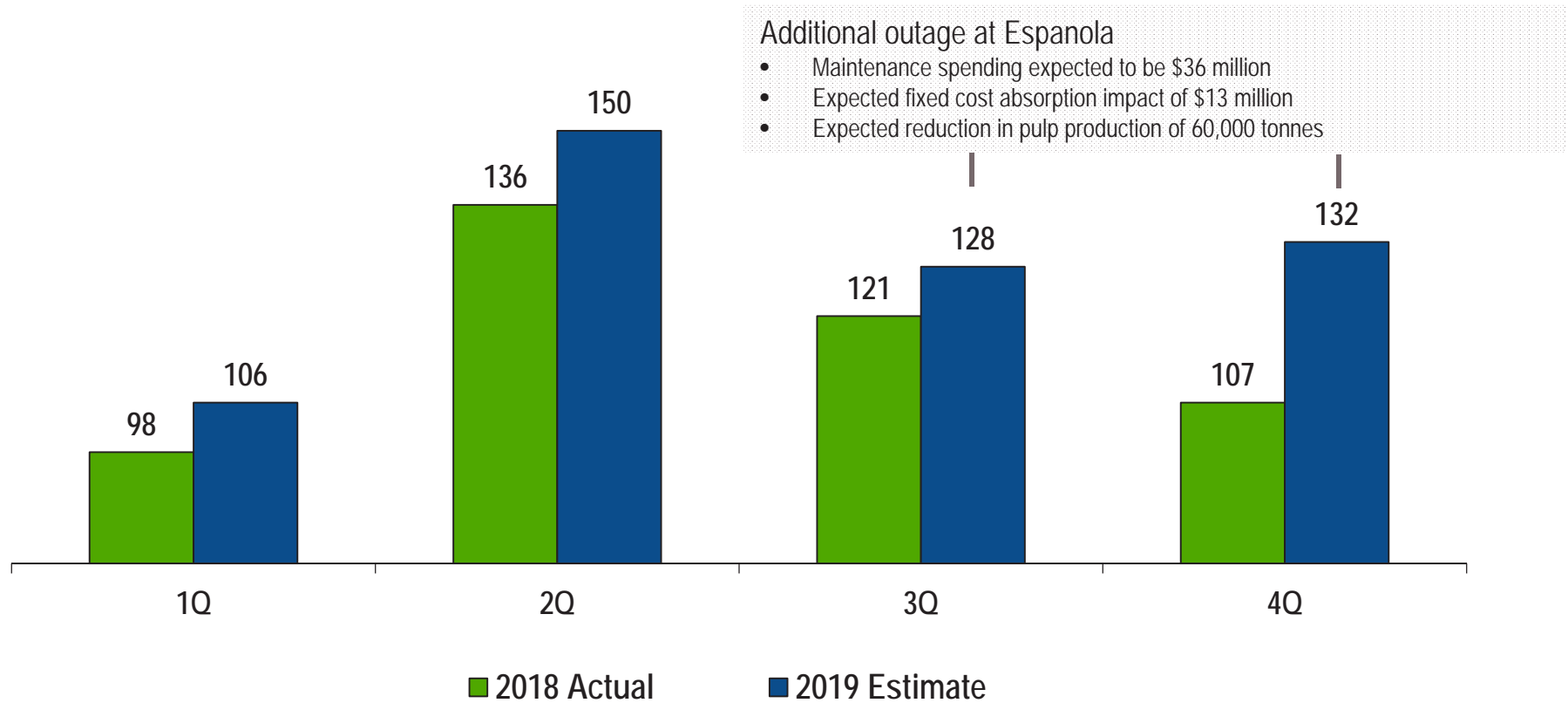
	2Q'19	vs. 1Q'19	vs. 2Q'18
Sales	\$237	↓ 4%	↓ 4%
EBITDA before items*	\$21	↓ \$1	↑ \$1
Same Currency Sales (@1Q'19 FX rate)	\$237	↓ 4%	
Same Currency Sales (@2Q'18 FX rate)	\$243		↓ 2%

- Good performance driven by lower input costs and steady progress in our margin improvement plan
- Waco, Texas facility ceased production in May and shipped all remaining inventory in June
- Expect further improvements in 2H'19 driven by strong order books, price increases and continued savings from the margin improvement plan

\*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

## OUTLOOK

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- Paper volumes expected to improve and trend in line with the market
- Our paper prices should remain relatively stable
- Expect to continue to balance our production to our customer demand in our Paper business
- Anticipate some volatility in softwood and fluff pulp markets but should recover cyclically and seasonally in the back-end of the year
- Personal Care is expected to benefit from the margin improvement plan and increased sales driven by a stronger order book
- Expect moderate inflation in our costs for the second half of the year



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Appendix

# SUPPLEMENTAL SEGMENTED INFORMATION

<b>PULP &amp; PAPER SEGMENT</b>								
<i>(In millions of dollars)</i>	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19
Paper	764	748	805	815	820	818	854	805
Pulp (incl. intrasegment sales)	321	371	324	350	365	379	346	319
Intrasegment sales – Pulp	(31)	(29)	(29)	(42)	(39)	(43)	(53)	(28)
Pulp	290	342	295	308	326	336	293	291
<b>SALES</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>	<b>1,147</b>	<b>1,096</b>
Paper	125	72	103	106	134	129	156	115
Pulp	27	50	37	37	63	82	48	8
<b>EBITDA before items*</b>	<b>152</b>	<b>122</b>	<b>140</b>	<b>143</b>	<b>197</b>	<b>211</b>	<b>204</b>	<b>123</b>
Paper Shipments – Manufactured	722	726	769	754	727	721	736	681
Paper Shipments – Sourced from 3rd parties	29	25	28	26	30	25	23	21
Paper Shipments	751	751	797	780	757	746	759	702
Pulp Shipments	424	462	374	377	390	395	349	370
<b>PERSONAL CARE SEGMENT</b>								
<i>(In millions of dollars)</i>	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19
<b>SALES</b>	<b>251</b>	<b>260</b>	<b>262</b>	<b>247</b>	<b>237</b>	<b>254</b>	<b>247</b>	<b>237</b>
<b>EBITDA before items*</b>	<b>25</b>	<b>34</b>	<b>26</b>	<b>20</b>	<b>14</b>	<b>20</b>	<b>22</b>	<b>21</b>
<b>CORPORATE</b>								
<i>(In millions of dollars)</i>	3Q'17	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19
<b>EBITDA before items*</b>	<b>(14)</b>	<b>(15)</b>	<b>(5)</b>	<b>(20)</b>	<b>(18)</b>	<b>(3)</b>	<b>(21)</b>	<b>(11)</b>

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	\$516	
CAPEX	\$195	\$220-240	
Depreciation and amortization	\$308	\$290-300	
Interest expense	\$62	\$52	
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

