

DOMTAR CORPORATION

THIRD QUARTER 2019 EARNINGS CALL

October 25th, 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

Third Quarter 2019

- Solid operating cash flow quarter
- \$159 million returned to shareholders through dividends and share buybacks
- Announced reduction of 204,000 tons of uncoated freesheet capacity with two paper machine closures
- Lower maintenance spending and overall favorable raw material costs
- Paper business impacted by market-related downtime costs
- Continued price pressure in global pulp markets
- Good performance in Personal Care, driven by lower raw material pricing and steady progress in our margin improvement plan

FINANCIAL HIGHLIGHTS

Third Quarter 2019

- Net earnings of \$0.32 per share; earnings before items* of \$0.89 per share
- EBITDA before items* of \$147 million
- Cash flow from operating activities of \$108 million
- Capital expenditures of \$56 million
- Free cash flow* of \$52 million
- Dividend payout of \$28 million
- Repurchased 3.9 million shares

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

	2Q'19	3Q'19	
Sales	1,317	1,283	
Cost of sales	1,079	1,041	
Depreciation and amortization	74	72	
SG&A	105	94	● Mark-to-market of stock based compensation
Impairment of long-lived assets	15	33	● Closure of two paper machines and Personal Care margin improvement plan
Closure and restructuring costs	8	11	●
Other operating loss, net	2	3	
Operating income	34	29	
Interest expense, net	13	12	
Non-service components of net periodic benefit cost	(2)	(2)	
Income tax expense (benefit)	5	(1)	● R&D tax credit and lower expected tax rate
Net earnings	18	20	

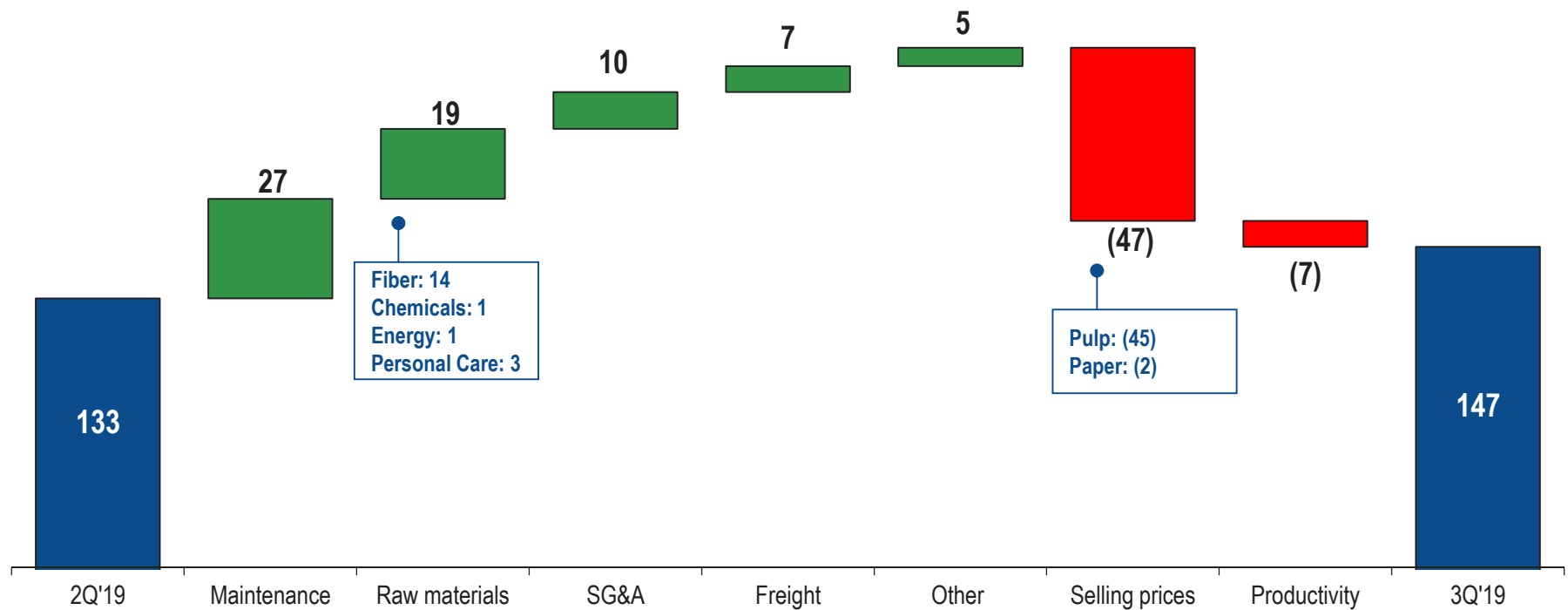
CASH FLOW STATEMENT

3Q'19 vs. 3Q'18 *(in millions of dollars)*

	3Q'18	3Q'19
Net earnings	99	20
Depreciation and amortization	75	72
Deferred income taxes and tax uncertainties	8	2
Impairment of long-lived assets	-	33
Changes in assets and liabilities		
Changes in working capital	(72)	(11)
Pension contribution over expense	(45)	(4)
Other	5	(4)
Cash flows from operating activities	70	108
Additions to PP&E	(49)	(56)
Cash flows used for investing activities	(49)	(56)
Dividend payments and stock repurchases	(28)	(159)
Changes in borrowings	-	114
Other	(1)	-
Cash flows used for financing activities	(29)	(45)

EBITDA BEFORE ITEMS*

3Q'19 vs. 2Q'19 (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'19	vs. 2Q'19	vs. 3Q'18
Sales	\$1,071	↓ 2%	↓ 7%
EBITDA before items *	\$126	↑ \$3	↓ \$71

- Announced closure of paper machine at Ashdown, AR and Port Huron, MI
- 300 basis point margin improvement in Paper driven by lower maintenance and improved cost performance
- 125,000 tons of market-related downtime and 19,000 ton inventory reduction in Paper
- Continued price pressure in global pulp markets but supply and demand fundamentals improving

* 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'19	vs. 2Q'19	vs. 3Q'18
Sales	\$794	↓ 1%	↓ 3%
EBITDA before items *	\$139	↑ \$24	↑ \$5
	3Q'19	vs. 2Q'19	vs. 3Q'18
Shipments <i>(manufactured, in thousands of short tons)</i>	672	↓ 1%	↓ 8%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$3	↑ \$60

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PULP AND PAPER SEGMENT

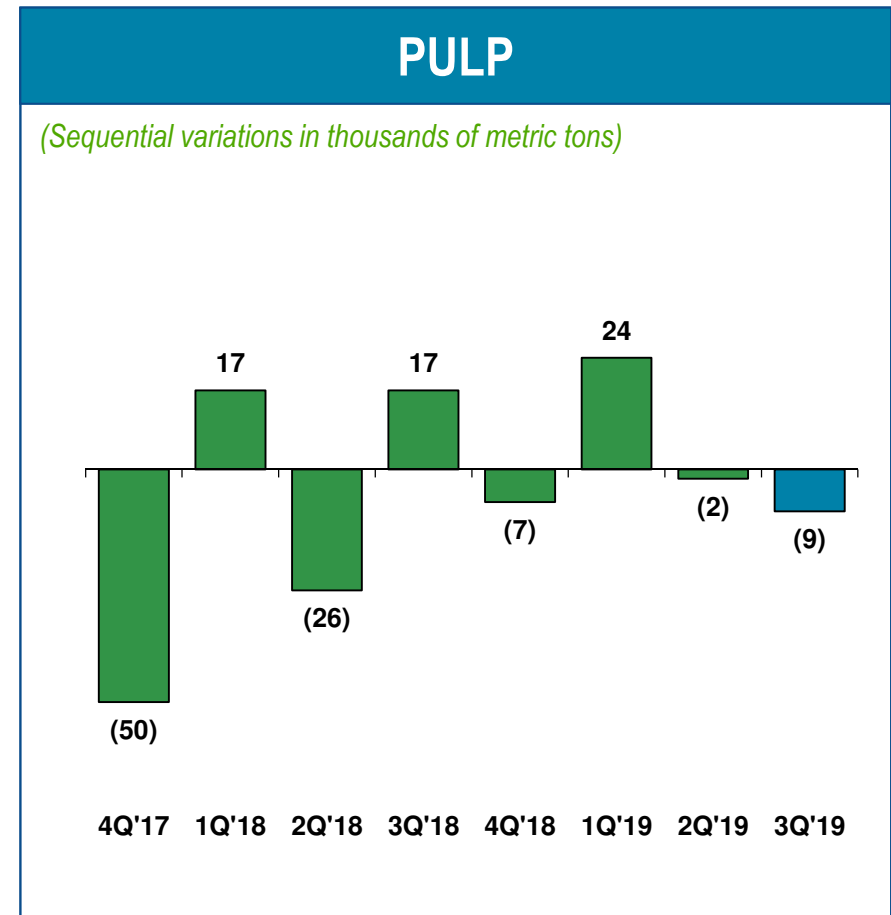
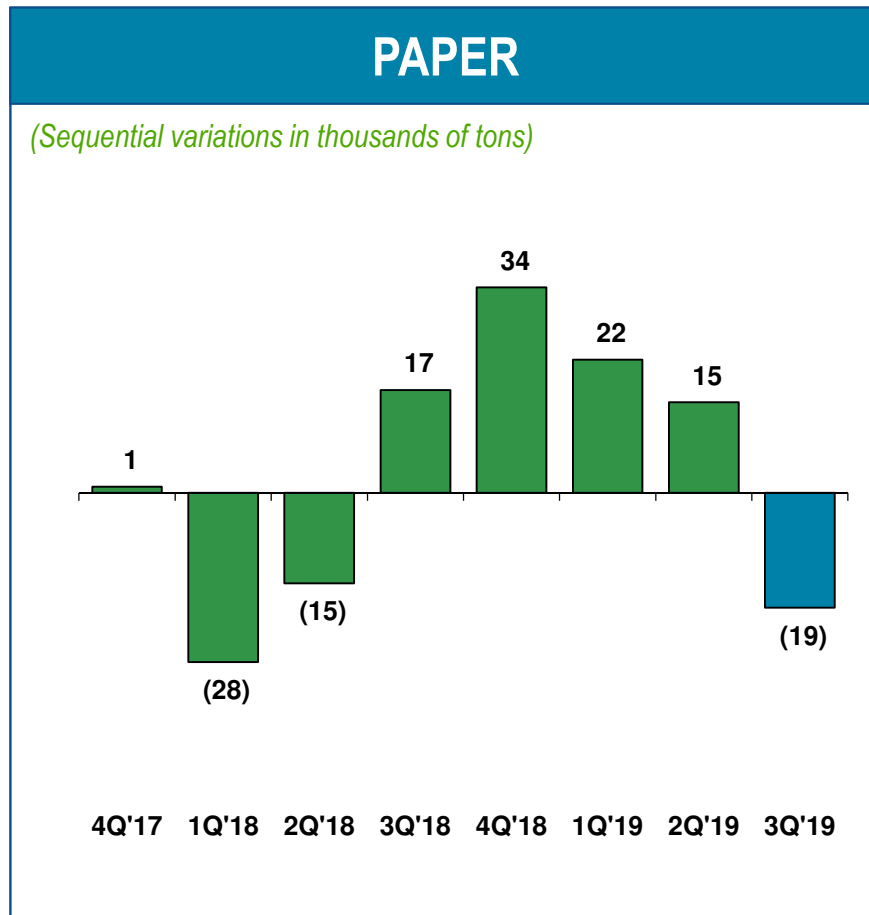
PULP *(in millions of dollars)*

	3Q'19	vs. 2Q'19	vs. 3Q'18
Sales <i>(incl. intersegment sales)</i>	\$277	↓ 5%	↓ 15%
EBITDA before items *	(\$13)	↓ \$21	↓ \$76
	3Q'19	vs. 2Q'19	vs. 3Q'18
Shipments <i>(in thousands of ADMT)</i>	416	↑ 12%	↑ 7%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		↓ \$106	↓ \$169

* 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)

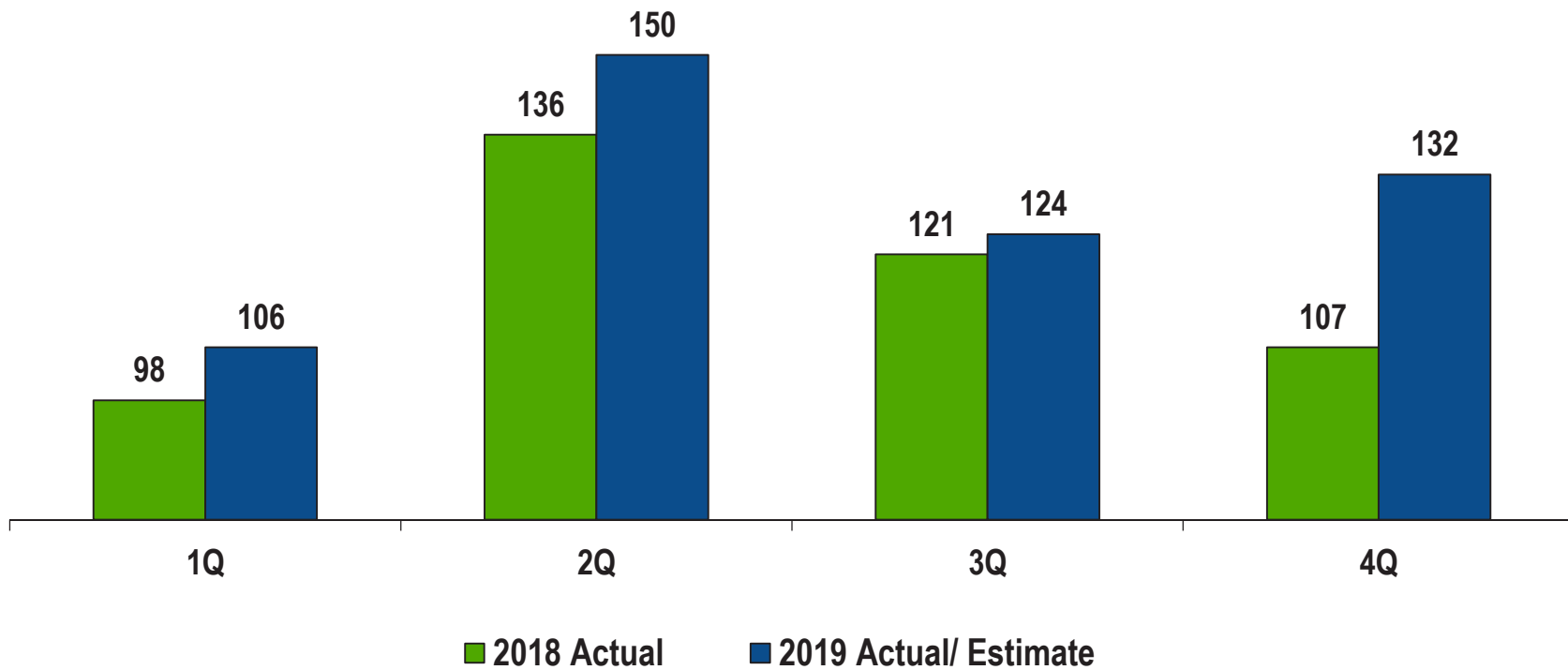
	3Q'19	vs. 2Q'19	vs. 3Q'18
Sales	\$227	↓ 4%	↓ 4%
EBITDA before items*	\$25	↑ \$4	↑ \$11
Same Currency Sales (@2Q'19 FX rate)	\$229	↓ 3%	-
Same Currency Sales (@3Q'18 FX rate)	\$232	-	↓ 2%

- One of the best EBITDA and margin performances in several quarters
- Good performance driven by improved input costs and better manufacturing efficiencies
- Continued savings from the margin improvement plan

* 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

- Planned maintenance spending expected to be higher quarter over quarter
- Paper is expected to be negatively impacted in part by a seasonally unfavourable mix
- We anticipate some volatility in softwood and fluff pulp markets
- Personal Care is expected to benefit from our margin improvement plan and increased sales driven by a stronger order book



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT								
<i>(In millions of dollars)</i>	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19
Paper	748	805	815	820	818	854	805	794
Pulp	342	295	308	326	336	293	291	277
SALES	1,090	1,100	1,123	1,146	1,154	1,147	1,096	1,071
Paper	72	103	106	134	129	156	115	139
Pulp	50	37	37	63	82	48	8	(13)
EBITDA before items*	122	140	143	197	211	204	123	126
Paper Shipments – Manufactured	726	769	754	727	721	736	681	672
Paper Shipments – Sourced from 3rd parties	25	28	26	30	25	23	21	25
Paper Shipments	751	797	780	757	746	759	702	697
Pulp Shipments	462	374	377	390	395	349	370	416
PERSONAL CARE SEGMENT								
<i>(In millions of dollars)</i>	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19
SALES	260	262	247	237	254	247	237	227
EBITDA before items*	34	26	20	14	20	22	21	25
CORPORATE								
<i>(In millions of dollars)</i>	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19	3Q'19
EBITDA before items*	(15)	(5)	(20)	(18)	(3)	(21)	(11)	(4)






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	\$512	
CAPEX	\$195	\$210-230	
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



 Domtar