

# **DOMTAR CORPORATION**

## **FOURTH QUARTER 2019 EARNINGS CALL**

**February 7<sup>th</sup>, 2020**

(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

---

## 2019 Highlights

- EBITDA before items of \$563 million and \$442 million of operating cash flow
- Returned over \$300 million to shareholders in dividends and share buybacks
- Profitability in Paper improved year-over-year despite challenging market conditions
- Took 300,000 tons of market-related downtime and reduced capacity by 200,000 tons in Paper
- Challenging pulp markets but market prices appearing to have reached the bottom
- Strong performance in Personal Care driven by margin improvement plan and good sales momentum

# OVERVIEW

---

## Fourth Quarter 2019 Highlights

- Lower paper volumes due to seasonally slower demand and some further destocking in certain channels
- Paper business impacted by market-related downtime costs
- High planned maintenance spending quarter
- Market fundamentals for softwood pulp improving
- Strong performance in Personal Care with expected sales momentum to continue
- Solid operating cash flow quarter
- \$107 million returned to shareholders through dividends and share buybacks

# FINANCIAL HIGHLIGHTS

---

## Fourth Quarter 2019

- Net loss of \$0.59 per share; earnings before items\* of \$0.03 per share
- EBITDA before items\* of \$78 million
- Cash flow from operating activities of \$160 million
- Capital expenditures of \$98 million
- Free cash flow\* of \$62 million
- Dividend payout of \$27 million
- Repurchased 2.3 million shares for \$80 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'19 vs. 3Q'19** (in millions of dollars)

	3Q'19	4Q'19	
<b>Sales</b>	<b>1,283</b>	<b>1,244</b>	
Cost of sales	1,041	1,053	
Depreciation and amortization	72	74	
SG&A	94	112	● Mark-to-market of stock based compensation and higher reversal of bonus accrual in Q3
Impairment of long-lived assets	33	-	
Closure and restructuring costs	11	19	● Closure of two paper machines and Personal Care margin improvement plan
Other operating loss, net	3	1	
<b>Operating income (loss)</b>	<b>29</b>	<b>(15)</b>	
Interest expense, net	12	14	
Non-service components of net periodic benefit cost	(2)	30	● Pension plan buy-out
Income tax expense (benefit)	(1)	(26)	● Reversal of uncertain tax liabilities, additional tax credits on energy projects and revenue mix
Equity loss, net of taxes	-	1	
<b>Net earnings (loss)</b>	<b>20</b>	<b>(34)</b>	

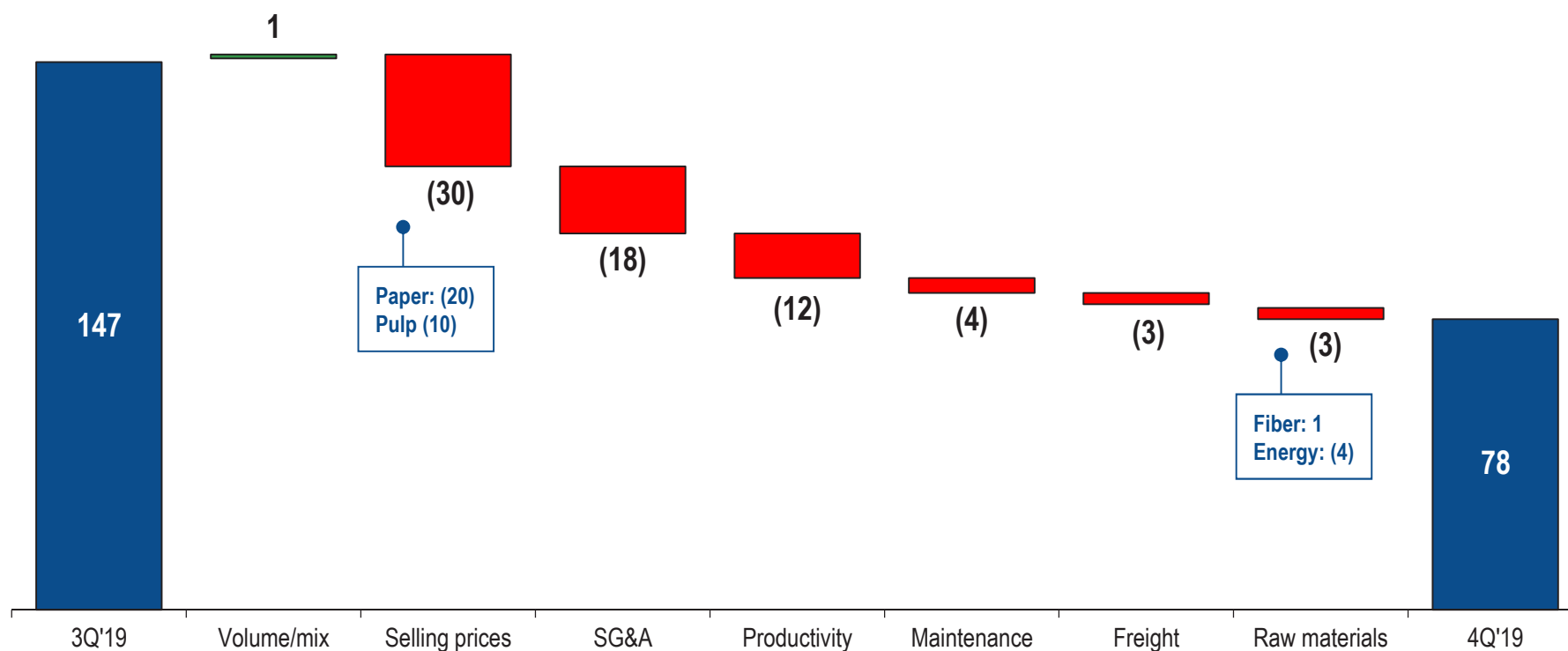
# CASH FLOW STATEMENT

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

	4Q'18	4Q'19
<b>Net earnings (loss)</b>	<b>87</b>	<b>(34)</b>
Depreciation and amortization	75	74
Deferred income taxes and tax uncertainties	10	(17)
Impairment of long-lived assets	7	-
<b>Changes in assets and liabilities</b>		
Changes in working capital	44	98
Pension contribution over expense	-	32
Other	(6)	7
<b>Cash flows from operating activities</b>	<b>217</b>	<b>160</b>
Additions to PP&E	(84)	(98)
Proceeds from disposal of PP&E	1	-
<b>Cash flows used for investing activities</b>	<b>(83)</b>	<b>(98)</b>
Dividend payments and stock repurchases	(27)	(107)
Changes in borrowings	(251)	7
Other	1	-
<b>Cash flows used for financing activities</b>	<b>(277)</b>	<b>(100)</b>

# EBITDA BEFORE ITEMS\*

4Q'19 vs. 3Q'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)

	4Q'19	vs. 3Q'19	vs. 4Q'18
Sales	\$1,018	↓ 5%	↓ 12%
EBITDA before items *	\$64	↓ \$62	↓ \$147

- 92,000 tons of market-related downtime and 36,000 ton inventory reduction in Paper
- Paper system expected to return to a balanced level in early 2020 given recent capacity closures and lower inventories
- 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](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'19	vs. 3Q'19	vs. 4Q'18
Sales	\$755	5%	8%
EBITDA before items *	\$95	\$44	\$34
	4Q'19	vs. 3Q'19	vs. 4Q'18
Shipments <i>(manufactured, in thousands of short tons)</i>	656	2%	9%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		\$30	\$19

\* 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

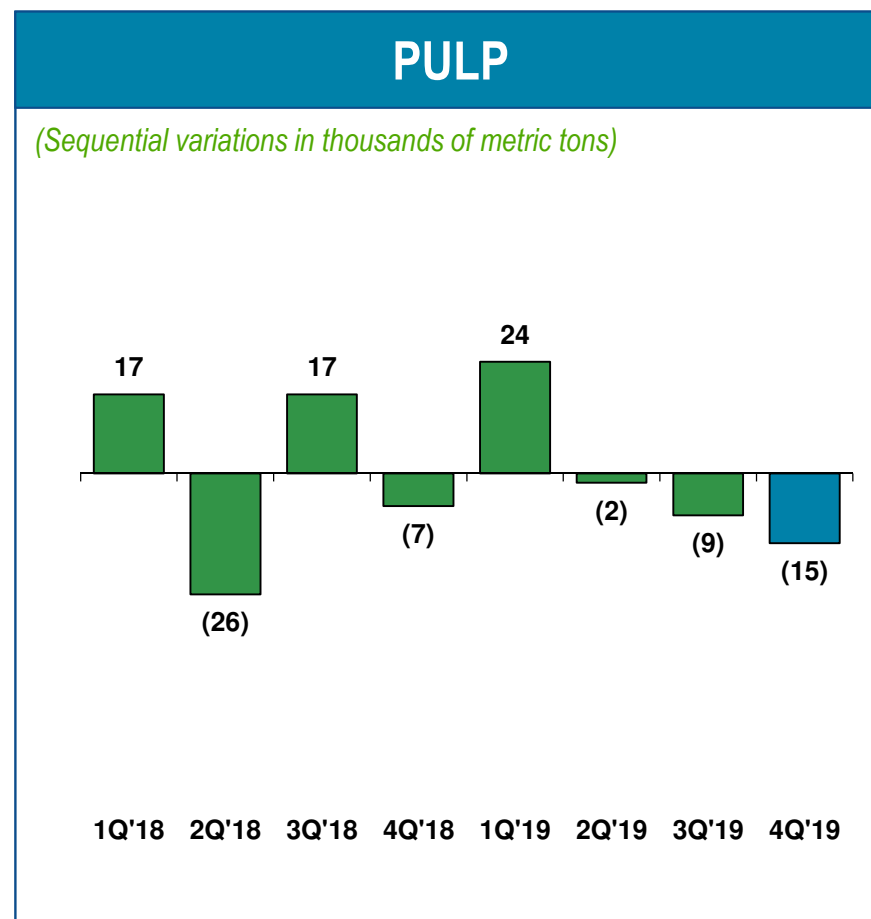
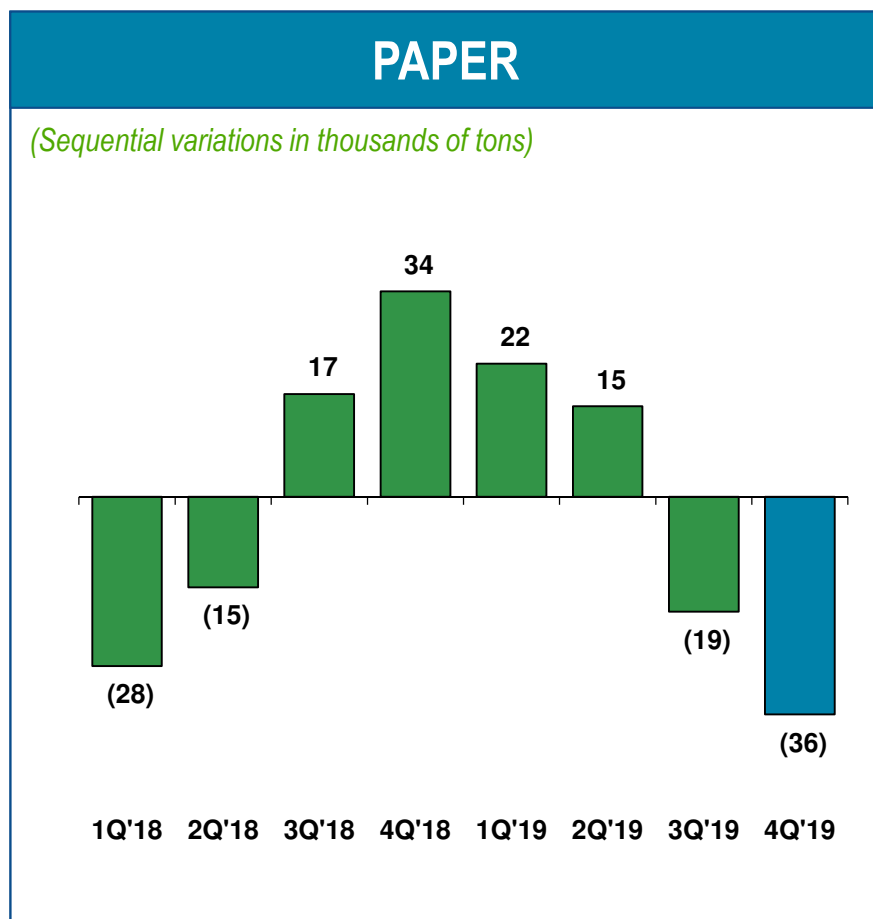
## PULP *(in millions of dollars)*

	4Q'19	vs. 3Q'19	vs. 4Q'18
Sales <i>(incl. intersegment sales)</i>	\$263	5% ↓	22% ↓
EBITDA before items *	(\$31)	\$18 ↓	\$113 ↓
	4Q'19	vs. 3Q'19	vs. 4Q'18
Shipments <i>(in thousands of ADMT)</i>	404	3% ↓	2% ↑
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		\$24 ↓	\$201 ↓

\* 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)

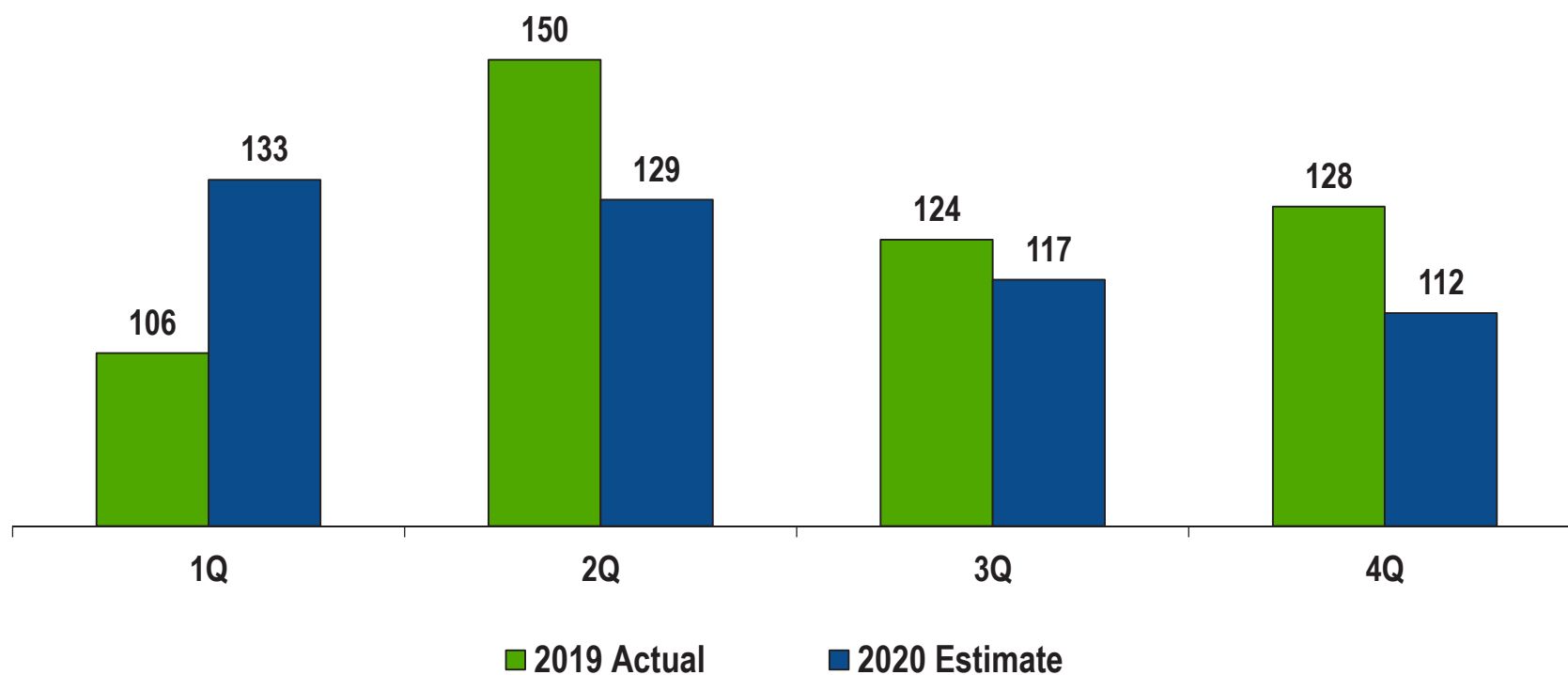
	4Q'19	vs. 3Q'19	vs. 4Q'18
Sales	\$242	7%	5%
EBITDA before items*	\$28	\$3	\$8
Same Currency Sales (@3Q'19 FX rate)	\$242	7%	-
Same Currency Sales (@4Q'18 FX rate)	\$245	-	4%

- Best EBITDA before items\* and margin performance since 2017
- Strong operating performance in Europe coupled with solid progress in our asset repositioning and start-up activities in North America
- Strongest margin performance of the year in Europe
- 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)*


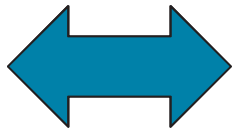
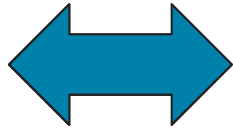




Total maintenance costs includes planned maintenance, maintenance over \$100k outside of planned shutdown period, and day-to-day maintenance expenses in Pulp and Paper

# MANAGEMENT'S FINANCIAL ASSUMPTIONS

## 2019 ACTUAL/ 2020 ESTIMATE

*(in millions of dollars)*

	2019A	2020E	Variation
Maintenance costs	\$508	\$485-495	
CAPEX	\$255	\$230-260	
Depreciation and amortization	\$293	\$290-300	
Interest expense	\$52	\$57-60	
Income tax rate	2%	20-22%	

# SENSITIVITY ANALYSIS

*(in millions of dollars)*

## **Papers** *(Each \$10/ton change in the selling price of the following products)*

Business Papers

\$14

Commercial Print & Publishing Papers

\$9

Specialty & Packaging Papers

\$5

## **Pulp – net position** *(Each \$10/tonne change in the selling price of the following products)*

Softwood

\$11

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



## 2020 OUTLOOK

---

- Paper volumes are expected to trend with market demand
- Pulp volumes will increase due to higher pulp productivity at the Espanola and Ashdown mills
- The Pulp and Paper businesses will benefit from lower planned maintenance costs
- Personal Care is expected to benefit from their margin improvement plan and higher sales following new customer wins
- Overall costs, including freight, labor and raw materials, expected to marginally increase



**Domtar**

**Appendix**

# SUPPLEMENTAL SEGMENTED INFORMATION

<b>PULP &amp; PAPER SEGMENT</b>								
<i>(In millions of dollars)</i>	<b>1Q'18</b>	<b>2Q'18</b>	<b>3Q'18</b>	<b>4Q'18</b>	<b>1Q'19</b>	<b>2Q'19</b>	<b>3Q'19</b>	<b>4Q'19</b>
Paper	805	815	820	818	854	805	794	755
Pulp	295	308	326	336	293	291	277	263
<b>SALES</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>	<b>1,071</b>	<b>1,018</b>
Paper	103	106	134	129	156	115	139	95
Pulp	37	37	63	82	48	8	(13)	(31)
<b>EBITDA before items*</b>	<b>140</b>	<b>143</b>	<b>197</b>	<b>211</b>	<b>204</b>	<b>123</b>	<b>126</b>	<b>64</b>
Paper Shipments – Manufactured	769	754	727	721	736	681	672	656
Paper Shipments – Sourced from 3rd parties	28	26	30	25	23	21	25	24
Paper Shipments	797	780	757	746	759	702	697	680
Pulp Shipments	374	377	390	395	349	370	416	404
<b>PERSONAL CARE SEGMENT</b>								
<i>(In millions of dollars)</i>	<b>1Q'18</b>	<b>2Q'18</b>	<b>3Q'18</b>	<b>4Q'18</b>	<b>1Q'19</b>	<b>2Q'19</b>	<b>3Q'19</b>	<b>4Q'19</b>
<b>SALES</b>	<b>262</b>	<b>247</b>	<b>237</b>	<b>254</b>	<b>247</b>	<b>237</b>	<b>227</b>	<b>242</b>
<b>EBITDA before items*</b>	<b>26</b>	<b>20</b>	<b>14</b>	<b>20</b>	<b>22</b>	<b>21</b>	<b>25</b>	<b>28</b>
<b>CORPORATE</b>								
<i>(In millions of dollars)</i>	<b>1Q'18</b>	<b>2Q'18</b>	<b>3Q'18</b>	<b>4Q'18</b>	<b>1Q'19</b>	<b>2Q'19</b>	<b>3Q'19</b>	<b>4Q'19</b>
<b>EBITDA before items*</b>	<b>(5)</b>	<b>(20)</b>	<b>(18)</b>	<b>(3)</b>	<b>(21)</b>	<b>(11)</b>	<b>(4)</b>	<b>(14)</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

AGILE | CARING | INNOVATIVE



 Domtar