

DOMTAR CORPORATION

FIRST QUARTER 2020 EARNINGS CALL

May 8th, 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. Actual results may differ materially from those suggested by these statements for a number of reasons, including the COVID-19 pandemic and the resulting decrease in paper sales and the challenges we face in maintaining manufacturing operations, changes in customer demand and pricing, changes in manufacturing costs, including facility closings, future acquisitions and divestitures.

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, 2019 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).

COVID-19 RESPONSE PLAN



EMPLOYEES, CUSTOMERS AND COMMUNITY

- Formed a pandemic committee at the onset of the crisis to develop and implement safety protocols
- Established work from home protocols, travel bans, modifying work practices to maintain social distancing
- Several facilities making important donations to help local hospitals and healthcare workers combat the pandemic



LIQUIDITY AND BALANCE SHEET

- Completed a \$300 million, five-year term loan to increase liquidity
- Reduce planned 2020 capital expenditures by nearly 40%
- Reduce planned 2020 maintenance spending by \$40 million
- Actions to manage working capital, reduce operating costs, discretionary spending & SG&A
- Suspension of share repurchases and quarterly dividends



OPERATIONS

- Announced temporary closure of paper machines at Kingsport, TN, Ashdown, AR and Hawesville, KY, impacting 227,000 short tons
- Continue to closely monitor customer orders and backlogs, and will adjust capacity accordingly

FINANCIAL HIGHLIGHTS

First Quarter 2020

- Net income of \$0.09 per share
- EBITDA before items* of \$95 million
- Cash flow from operating activities of \$88 million
- Capital expenditures of \$62 million
- Free cash flow* of \$26 million
- Dividend payout of \$26 million
- Repurchased 1.8 million shares for \$59 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'20 vs. 4Q'19 *(in millions of dollars)*

| | 4Q'19 | 1Q'20 | |
|---|--------------|--------------|--|
| Sales | 1,244 | 1,278 | |
| Cost of sales | 1,053 | 1,083 | |
| Depreciation and amortization | 74 | 72 | |
| SG&A | 112 | 102 | ● Mark-to-market of stock based compensation |
| Closure and restructuring costs | 19 | - | |
| Other operating loss, net | 1 | 2 | |
| Operating income (loss) | (15) | 19 | |
| Interest expense, net | 14 | 14 | |
| Non-service components of net periodic benefit cost | 30 | (4) | ● Pension plan buy-out in 4Q'19 |
| Income tax expense (benefit) | (26) | 3 | |
| Equity loss, net of taxes | 1 | 1 | |
| Net earnings (loss) | (34) | 5 | |

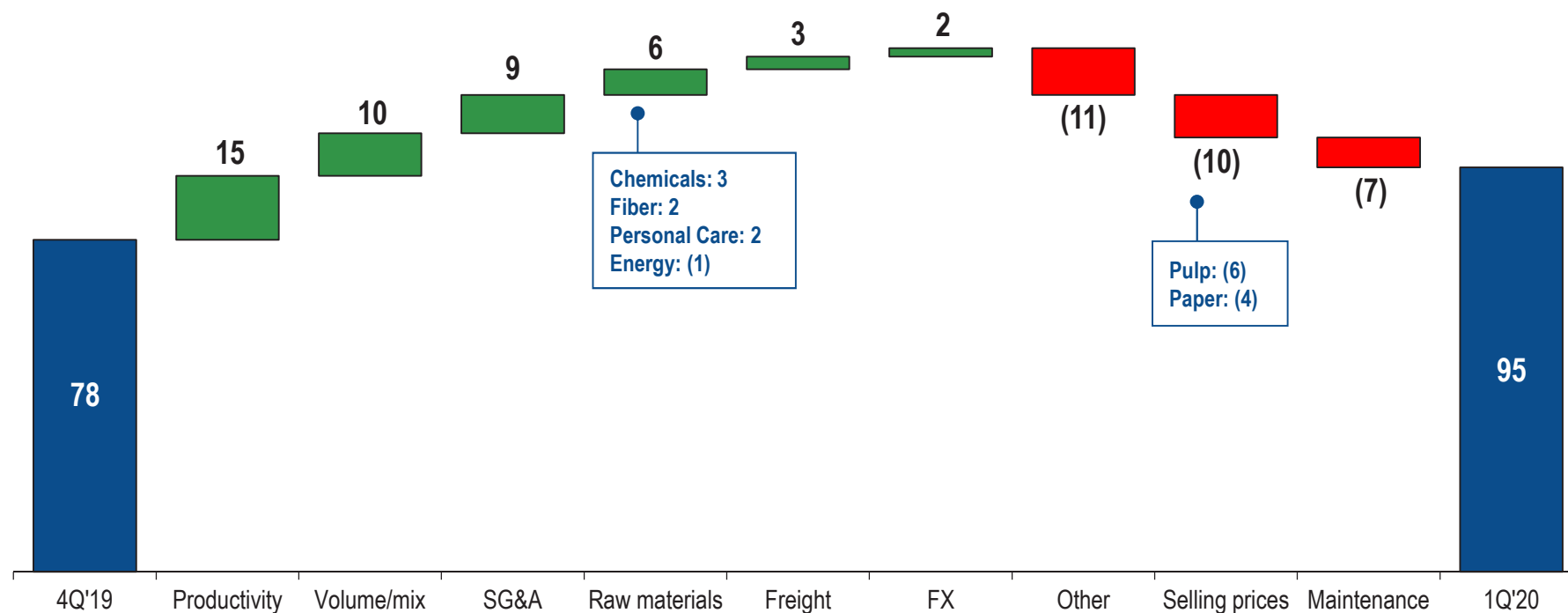
CASH FLOW STATEMENT

1Q'20 vs. 1Q'19 *(in millions of dollars)*

| | 1Q'19 | 1Q'20 |
|---|-------------|-------------|
| Net earnings | 80 | 5 |
| Depreciation and amortization | 73 | 72 |
| Deferred income taxes and tax uncertainties | (3) | 1 |
| Impairment of long-lived assets | 10 | - |
| Changes in assets and liabilities | | |
| Changes in working capital | (122) | 18 |
| Pension contribution over expense | 1 | (1) |
| Other | 16 | (7) |
| Cash flows from operating activities | 55 | 88 |
| Additions to PP&E | (46) | (62) |
| Cash flows used for investing activities | (46) | (62) |
| Dividend payments and stock repurchases | (27) | (85) |
| Changes in borrowings | 3 | 155 |
| Other | (1) | (3) |
| Cash flows provided from (used for) financing activities | (25) | 67 |

EBITDA BEFORE ITEMS*

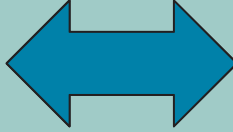
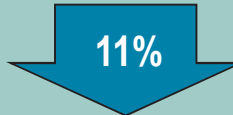


1Q'20 vs. 4Q'19 (in millions of dollars)



* 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)

| | 1Q'20 | vs. 4Q'19 | vs. 1Q'19 |
|-----------------------|---------|---|---|
| Sales | \$1,031 |  |  |
| EBITDA before items * | \$66 |  |  |

- Inventory reduction of 30,000 tons in 1Q and 21% since 2Q 2019 in paper
- Lockdown of schools, offices, retailers and other business sectors led to reduction of orders in April
- Pulp shipments steady in 1Q, despite some logistical challenges and a major shutdown of operations in China due to COVID-19
- Announced price increases for several softwood and fluff pulp grades in April and May

* 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'20 | vs. 4Q'19 | vs. 1Q'19 |
|--|-------|-----------|-----------|
| Sales | \$773 | 2% | 9% |
| EBITDA before items * | \$100 | \$5 | \$56 |
| | 1Q'20 | vs. 4Q'19 | vs. 1Q'19 |
| Shipments <i>(manufactured, in thousands of short tons)</i> | 679 | 4% | 8% |
| Transaction prices <i>(US\$ / ton – net, all regions)</i> | | \$6 | \$17 |

* 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)*

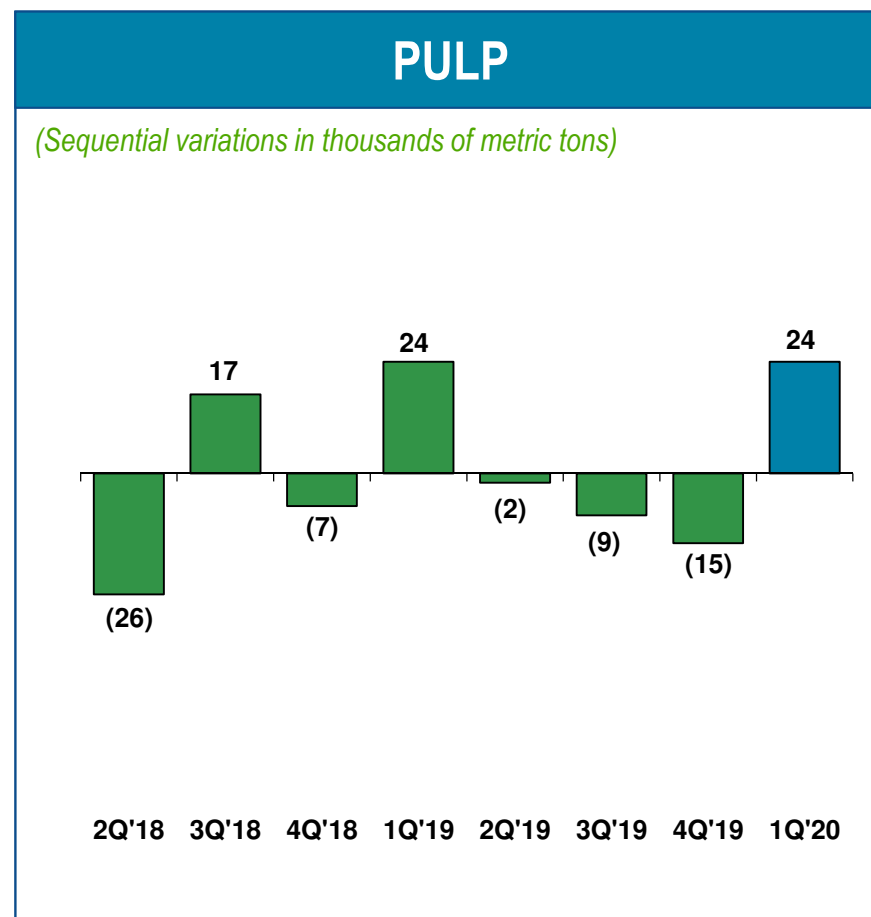
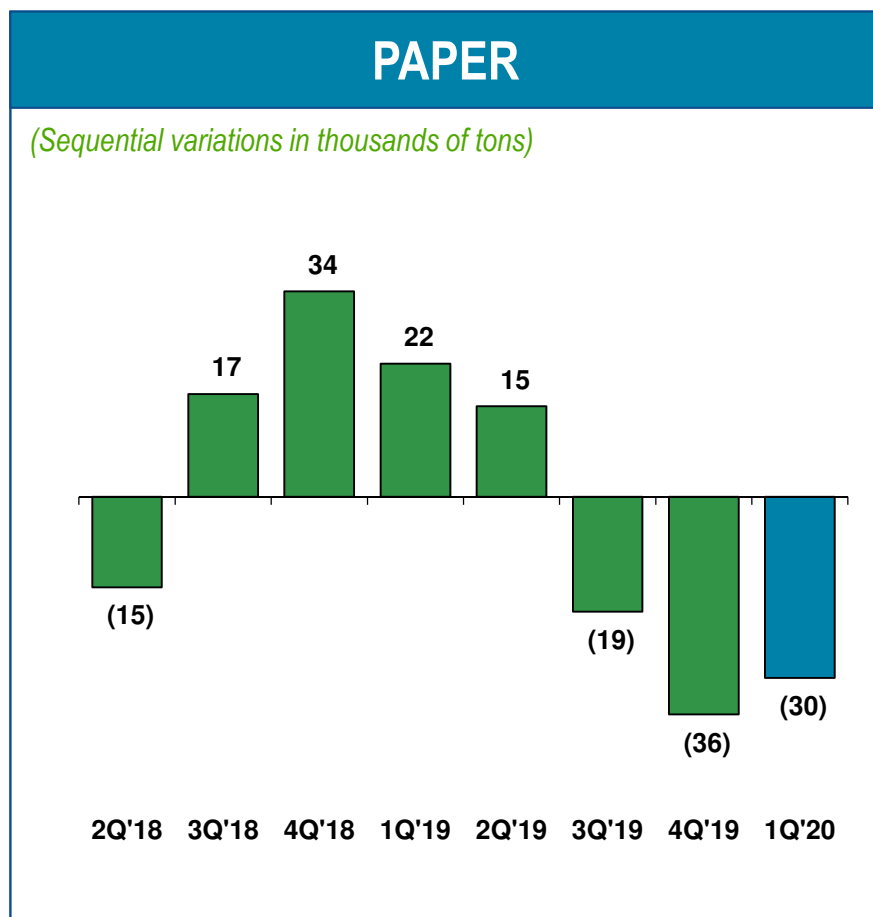
| | 1Q'20 | vs. 4Q'19 | vs. 1Q'19 |
|--|--------|-----------|-----------|
| Sales <i>(incl. intersegment sales)</i> | \$258 | 5% | 15% |
| EBITDA before items * | (\$34) | \$4 | \$83 |
| | 1Q'20 | vs. 4Q'19 | vs. 1Q'19 |
| Shipments <i>(in thousands of ADMT)</i> | 389 | 4% | 11% |
| Transaction prices <i>(US\$ / ADMT – net, all regions)</i> | | \$13 | \$188 |

As a result of changes in our organization structure, we have changed our segment reporting. Starting January 1, 2020, our materials business EAM, a manufacturer of high quality airlaid and ultrathin laminated cores, previously reported under our Personal Care segment is now presented under our Pulp and Paper segment. Prior period segment results have been restated to the new segment presentation with no significant impact on segment results.

* 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)

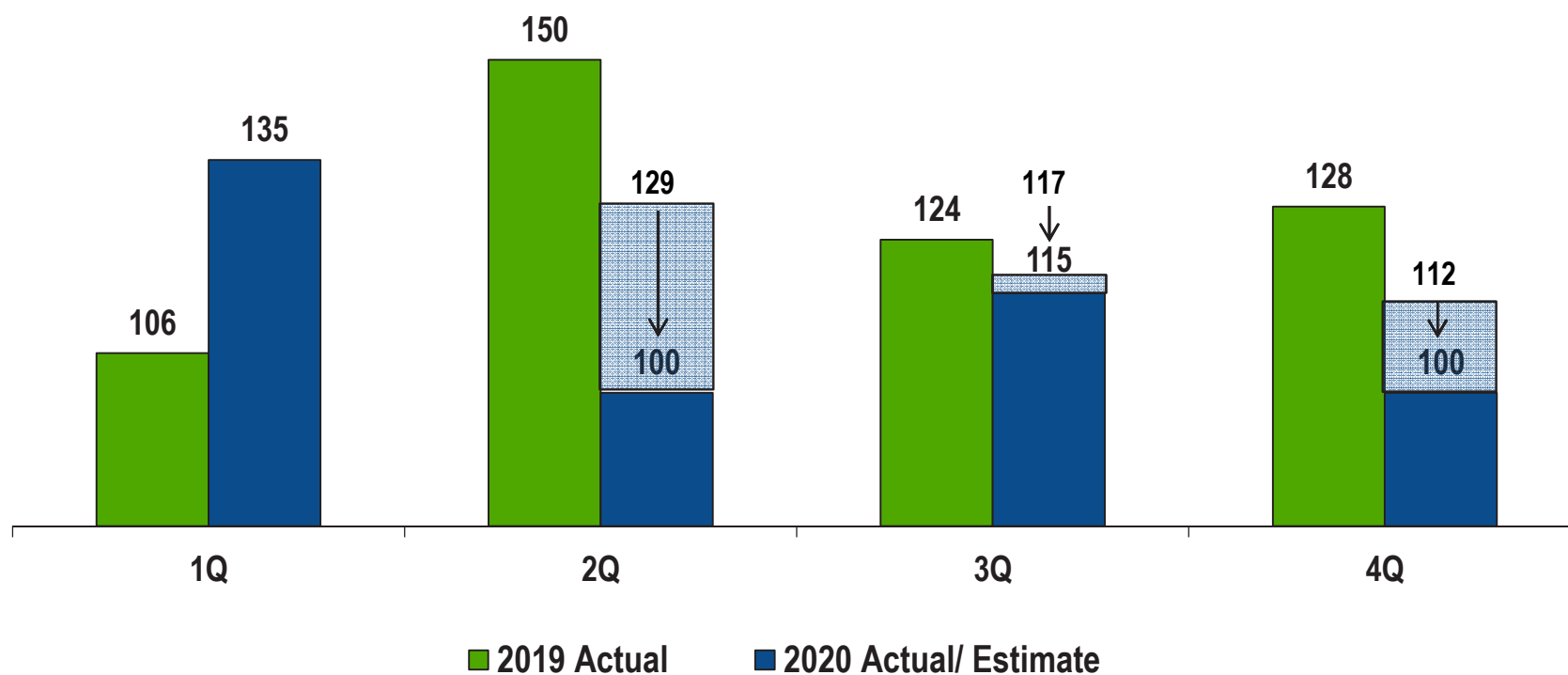
| | 1Q'20 | vs. 4Q'19 | vs. 1Q'19 |
|--------------------------------------|-------|---|--|
| Sales | \$266 |  14% |  11% |
| EBITDA before items* | \$34 |  \$7 |  \$13 |
| Same Currency Sales (@4Q'19 FX rate) | \$266 |  14% | - |
| Same Currency Sales (@1Q'19 FX rate) | \$269 | - |  13% |

- Record sales and EBITDA quarter
- Significant shipments to support consumer stock-up in preparation for in-home quarantine
- Good performance in several areas including the scale-up of new customer wins
- EBITDA margin for the quarter finished at 13%, a 130-basis-point improvement versus the prior quarter

* 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

MANAGEMENT'S FINANCIAL ASSUMPTIONS

2020 REVISION

(in millions of dollars)

| | 2020 Previous | Revised | Variation |
|-------------------|------------------|-----------|---|
| Maintenance costs | \$485-495 | \$445-455 |  |
| CAPEX | \$230-260 | \$140-150 |  |
| Interest expense | \$57-60 | \$60-62 |  |
| Income tax rate | 20-22% | 17-19% |  |

DELIVERING ESSENTIAL PRODUCTS TO CUSTOMERS WORLDWIDE

MAKING LIFE BETTER EVERY DAY



PAPER



PULP



PERSONAL CARE



2020 OUTLOOK

- High degree of uncertainty and volatility day-to-day and the longer term potential impacts of the economic lockdown remain unclear
- Expect significantly lower demand in Paper in the second quarter
- Expect demand for softwood and fluff pulp to remain strong in the near-term, driven by accelerated growth in tissue and towel
- Containment measures across Europe and North America are anticipated to weigh on certain pulp end-use markets
- Personal Care will continue to benefit from higher usage and the impact from new customer wins but pantry inventory levels should return to normal in 2H 2020
- Raw material costs expected to remain flat



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

| PULP & PAPER SEGMENT | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| <i>(In millions of dollars)</i> | 1Q'19 | 2Q'19 | 3Q'19 | 4Q'19 | 1Q'20 |
| Paper | 854 | 805 | 794 | 755 | 773 |
| Pulp | 303 | 301 | 285 | 272 | 258 |
| SALES | 1,157 | 1,106 | 1,079 | 1,027 | 1,031 |
| Paper | 156 | 115 | 139 | 95 | 100 |
| Pulp | 49 | 9 | (12) | (30) | (34) |
| EBITDA before items* | 205 | 124 | 127 | 65 | 66 |
| Paper Shipments – Manufactured | 736 | 681 | 672 | 656 | 679 |
| Paper Shipments – Sourced from 3rd parties | 23 | 21 | 25 | 24 | 22 |
| Paper Shipments | 759 | 702 | 697 | 680 | 701 |
| Pulp Shipments | 349 | 370 | 416 | 404 | 389 |
| PERSONAL CARE SEGMENT | | | | | |
| <i>(In millions of dollars)</i> | 1Q'19 | 2Q'19 | 3Q'19 | 4Q'19 | 1Q'20 |
| SALES | 239 | 228 | 219 | 234 | 266 |
| EBITDA before items* | 21 | 20 | 24 | 27 | 34 |
| CORPORATE | | | | | |
| <i>(In millions of dollars)</i> | 1Q'19 | 2Q'19 | 3Q'19 | 4Q'19 | 1Q'20 |
| EBITDA before items* | (21) | (11) | (4) | (14) | (5) |

EBITDA between the Pulp and Paper businesses has been restated to reflect the intrasegment pulp transfer at cost within the segment. As a result of changes in our organization structure, we have changed our segment reporting. Starting January 1, 2020, our materials business EAM, a manufacturer of high quality airlaid and ultrathin laminated cores, previously reported under our Personal Care segment is now presented under our Pulp and Paper segment. Prior period segment results have been restated to the new segment presentation with no significant impact on segment results.

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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

\$11

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

THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



 Domtar