

DOMTAR CORPORATION

THIRD QUARTER 2020 EARNINGS CALL

November 6th, 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 about our expectations and future performance, including the statements related to our “Outlook” and “Strategic Initiatives,” are “forward-looking statements.” 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, future acquisitions and divestitures, including facility closings, the failure to achieve our cost containment goals, costs of conversion in excess of our expectations, demand for linerboard, and the other reasons identified under “Risk Factors” in our Form 10-K for 2019 as filed with the SEC and as updated by subsequently filed Form 10-Qs. Except to the extent required by law, we expressly disclaim any obligation to update or revise these forward-looking statements to reflect new events or circumstances or otherwise.

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).

OVERVIEW

3Q' 20 Highlights

- Earnings supported by improving market conditions and by strong momentum from the execution of the strategic initiatives
- Cost savings, including the permanent closure of production facilities and the flow-through benefit of improved volume drove improved Paper results
- Pulp prices remain at cyclically low levels but supply demand dynamics expected to improve
- Cost savings program targeting \$200 million in annual run-rate savings progressing well
- Kingsport conversion to recycled linerboard is proceeding as planned; expect to receive first equipment deliveries in the next few months, with construction set to begin by Q2 2021
- Excellent cost performance in Personal Care with good operational and commercial execution

FINANCIAL OVERVIEW

3Q' 20 Highlights

- Net loss of \$1.67 per share, earnings before items* of \$0.33 per share
- EBITDA before items* of \$118 million
- Cash flow from operating activities of \$121 million
- Capital expenditures of \$28 million
- Free cash flow* of \$93 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

3Q'20 vs. 2Q'20 (in millions of dollars)

	2Q'20	3Q'20	
Sales	1,012	1,124	Higher Paper and Personal Care sales
Cost of sales	837	911	
Depreciation and amortization	71	71	
SG&A	93	99	
Impairment of long-lived assets	-	111	Cost reduction program
Closure and restructuring costs	1	68	
Other operating (income), net	(4)	-	
Operating income (loss)	14	(136)	
Interest expense, net	15	14	
Non-service components of net periodic benefit cost	(5)	(4)	
Income tax (benefit)	(15)	(55)	Mix of earnings and CARES Act
Equity loss, net of taxes	-	1	
Net earnings (loss)	19	(92)	

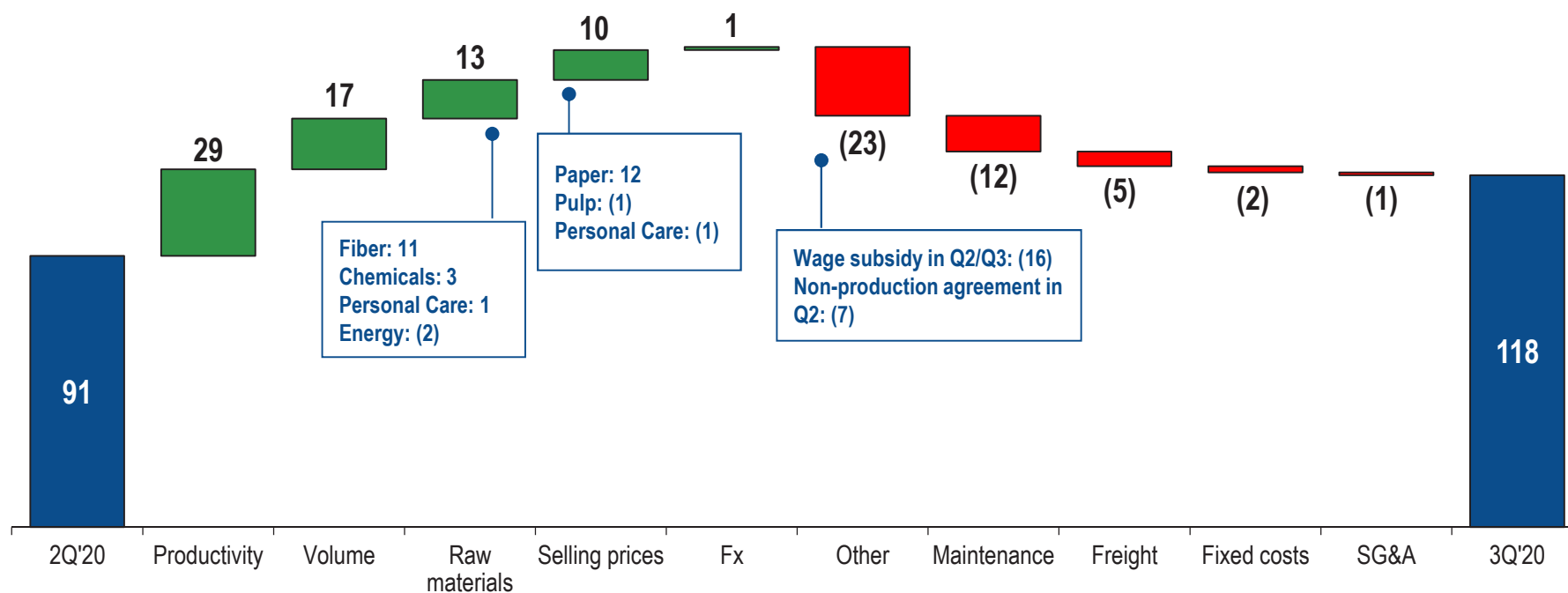
CASH FLOW STATEMENT

3Q'20 vs. 3Q'19 *(in millions of dollars)*

	3Q'19	3Q'20
Net earnings (loss)	20	(92)
Depreciation and amortization	72	71
Deferred income taxes and tax uncertainties	2	(48)
Impairment of long-lived assets	33	111
Changes in assets and liabilities		
Changes in working capital	(11)	81
Pension contribution over expense	(4)	(5)
Other	(4)	3
Cash flows from operating activities	108	121
Additions to PP&E	(56)	(28)
Cash flows used for investing activities	(56)	(28)
Dividend payments and stock repurchases	(159)	-
Changes in borrowings	114	(3)
Other	-	1
Cash flows used for financing activities	(45)	(2)

EBITDA BEFORE ITEMS*

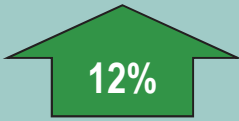



3Q'20 vs. 2Q'20 (in millions of dollars)



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PULP AND PAPER SEGMENT

(in millions of dollars)

	3Q'20	vs. 2Q'20	vs. 3Q'19
Sales	\$899	 12%	 17%
EBITDA before items *	\$98	 \$32	 \$29

- Strong paper production translated into an excellent cost performance
- Paper demand recovering; several consecutive months of increased sales and business activity from the lows of April and May
- Reduced inventories by 20,000 tons in Q3'20; reduction of nearly 130,000 tons over the last five quarters
- Pulp demand steady with global tissue shipments remaining above trend
- Successful start-up of bale pulp dryer at Ashdown mill following the curtailment of paper operations

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PULP AND PAPER SEGMENT

PAPER *(in millions of dollars)*

	3Q'20	vs. 2Q'20	vs. 3Q'19
Sales	\$631	23%	21%
EBITDA before items *	\$119	\$60	\$20
	3Q'20	vs. 2Q'20	vs. 3Q'19
Shipments <i>(manufactured, in thousands of short tons)</i>	550	20%	18%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		\$29	\$23

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PULP AND PAPER SEGMENT

PULP *(in millions of dollars)*

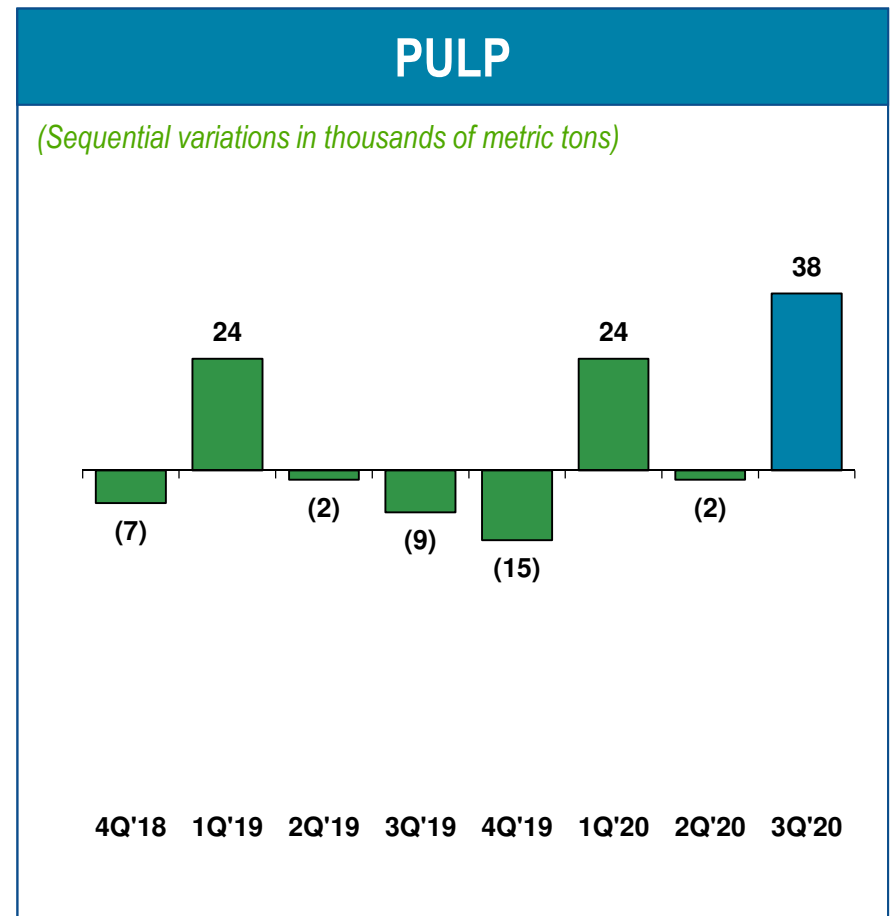
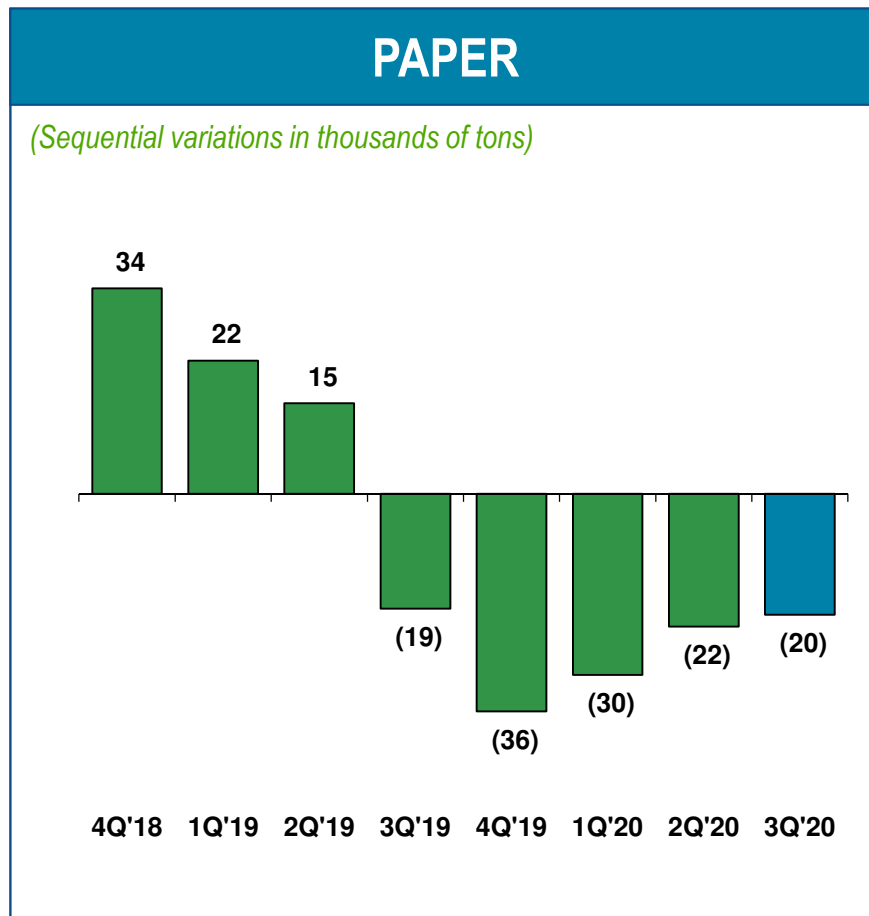
	3Q'20	vs. 2Q'20	vs. 3Q'19
Sales <i>(incl. intersegment sales)</i>	\$268	8%	6%
EBITDA before items *	(\$21)	\$28	\$9
	3Q'20	vs. 2Q'20	vs. 3Q'19
Shipments <i>(in thousands of ADMT)</i>	396	7%	5%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		\$3	\$23

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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PULP AND PAPER SEGMENT

INVENTORIES



PERSONAL CARE SEGMENT

(in millions of dollars)

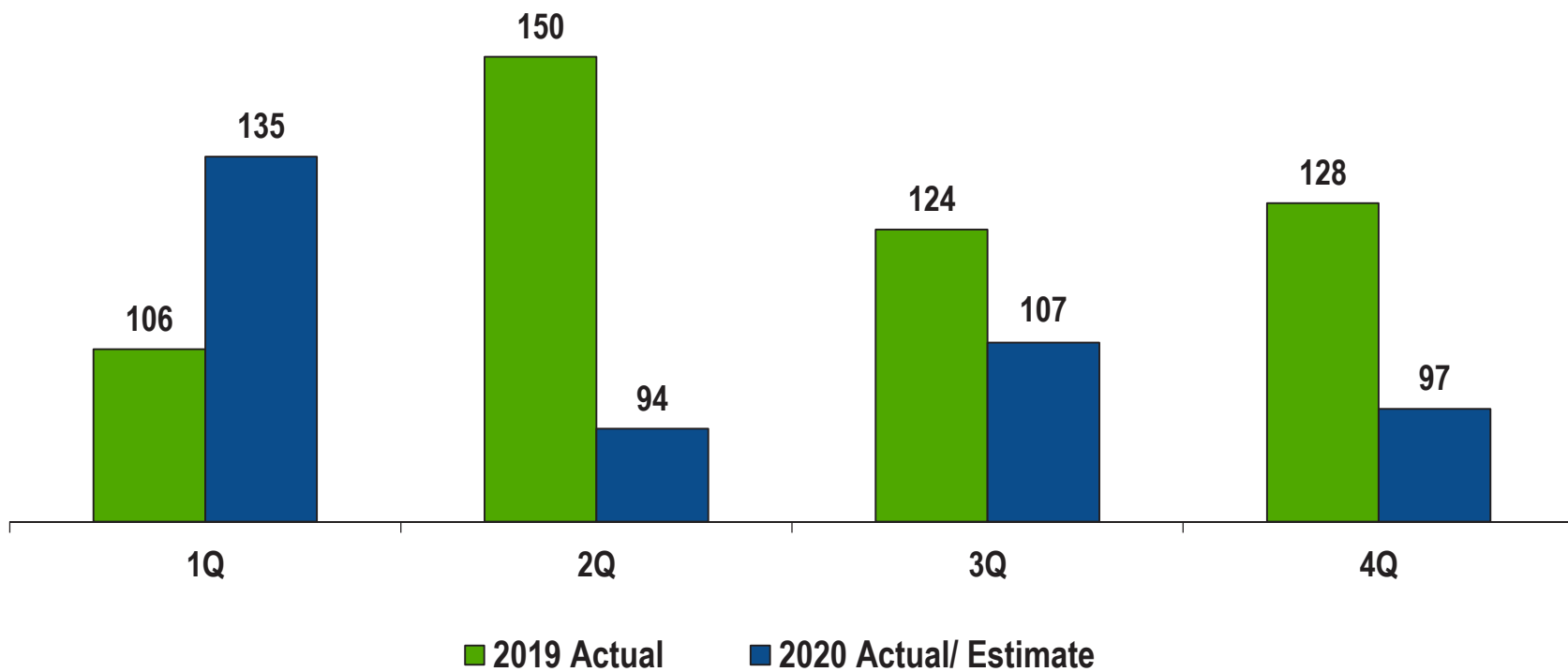
	3Q'20	vs. 2Q'20	vs. 3Q'19
Sales	\$243	 6%	 11%
EBITDA before items*	\$31	 \$2	 \$7

- Strong sales performance in Europe
- Year-to-date sales in North America 19% higher led by the launch of several new customer brands
- Awarded a contract extension with a major retailer
- Began servicing and expanding our share of wallet with one of our biggest customers in the U.S.

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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

STRATEGIC INITIATIVES UPDATE

Value Drivers

Cost reduction program

Program targeting \$200 million in annual run-rate savings progressing well

Executing on our asset conversion roadmap

- Expected start-up at Kingsport mill by end of 2022
- Signed an agreement with Voith to provide equipment & technical services at Kingsport mill
- Start-up of bale pulp dryer at Ashdown mill

Personal Care strategic review

Process ongoing

4Q 2020 OUTLOOK

- Flat quarter-over-quarter volume and unfavorable mix in Paper due to seasonality
- Near-term pulp markets should gradually improve driven by better demand, maintenance outages and restocking in China
- Personal Care will continue to benefit from higher usage and the impact from new customer wins
- Overall raw material costs are expected to remain stable
- Lower quarter-over-quarter planned maintenance costs



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT						
<i>(In millions of dollars)</i>	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20
Paper	805	794	755	773	512	631
Pulp	301	285	272	258	290	268
SALES	1,106	1,079	1,027	1,031	802	899
Paper	115	139	95	100	59	119
Pulp	9	(12)	(30)	(34)	7	(21)
EBITDA before items*	124	127	65	66	66	98
Paper Shipments – Manufactured	681	672	656	679	459	550
Paper Shipments – Sourced from 3rd parties	21	25	24	22	12	16
Paper Shipments	702	697	680	701	471	566
Pulp Shipments	370	416	404	389	427	396
PERSONAL CARE SEGMENT						
<i>(In millions of dollars)</i>	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20
SALES	228	219	234	266	229	243
EBITDA before items*	20	24	27	34	33	31
CORPORATE						
<i>(In millions of dollars)</i>	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20
EBITDA before items*	(11)	(4)	(14)	(5)	(8)	(11)

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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THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



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