

DOMTAR CORPORATION

FOURTH QUARTER 2020 EARNINGS CALL

February 11th, 2021

(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).

NOTE TO READER

On January 8, 2021, Domtar announced the sale of its Personal Care business. The sale represents a significant strategic shift that has a material effect on our results of operations and financial position. In accordance with GAAP, we have applied discontinued operations treatment for the results of operations and the net assets of the Personal Care business are considered “assets held for sale” in the financial statements for the period ended December 31, 2020. The impact of the treatment as discontinued operations results in the results of operations of our Personal Care business being presented as a one-line item, net of tax. The discontinued operations line also includes the estimated loss on sale of the business. On the balance sheet, the treatment results in all elements of the Personal Care balance sheet presented in four distinct lines, under the common name of “held for sale.”

OVERVIEW

2020 Highlights

- Kept employees safe and all facilities operating throughout pandemic
- Solid performance and strong cash generation in a dynamic environment
- Maximized cash, reduced costs, and remained a reliable partner to our customers
- Executed on strategic initiatives including asset conversions, cost reduction and sale of the Personal Care business
- Set a clear roadmap to create significant long-term shareholder value by focusing portfolio around Paper, Pulp and Packaging

FINANCIAL OVERVIEW

4Q' 20 Highlights

- Net loss of \$1.07 per share
- Loss from discontinued operations of \$0.78 per share
- Loss from continuing operations of \$0.29 per share, earnings from continuing operations before items* of \$0.34 per share
- EBITDA before items* of \$91 million
- Cash flow from operating activities of \$135 million
- Capital expenditures of \$45 million
- Free cash flow* of \$90 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

4Q'20 vs. 3Q'20 *(in millions of dollars)*

	3Q'20	4Q'20
Sales	899	920
Cost of sales	750	776
Depreciation and amortization	56	53
SG&A	66	60
Impairment of long-lived assets	111	25
Closure and restructuring costs	68	30
Other operating loss (income), net	-	(4)
Operating income (loss)	(152)	(20)
Interest expense, net	14	15
Non-service components of net periodic benefit cost	(4)	(4)
Income tax expense (benefit)	(52)	(16)
Equity loss, net of taxes	1	1
(Loss) earnings from continuing operations	(111)	(16)
Discontinued operating income (loss), net of taxes	19	(43)
Net earnings (loss)	(92)	(59)

Discontinued Operations

	3Q'20	4Q'20
Sales	243	257
Cost of sales	179	183
Depreciation and amortization	15	16
SG&A	33	40
Impairment of long-lived assets	-	1
Other operating loss (income), net	-	1
	227	241
Operating income (loss)	16	16
Loss on sale of business	-	45
Income tax expense (benefit)	(3)	14
	19	(43)

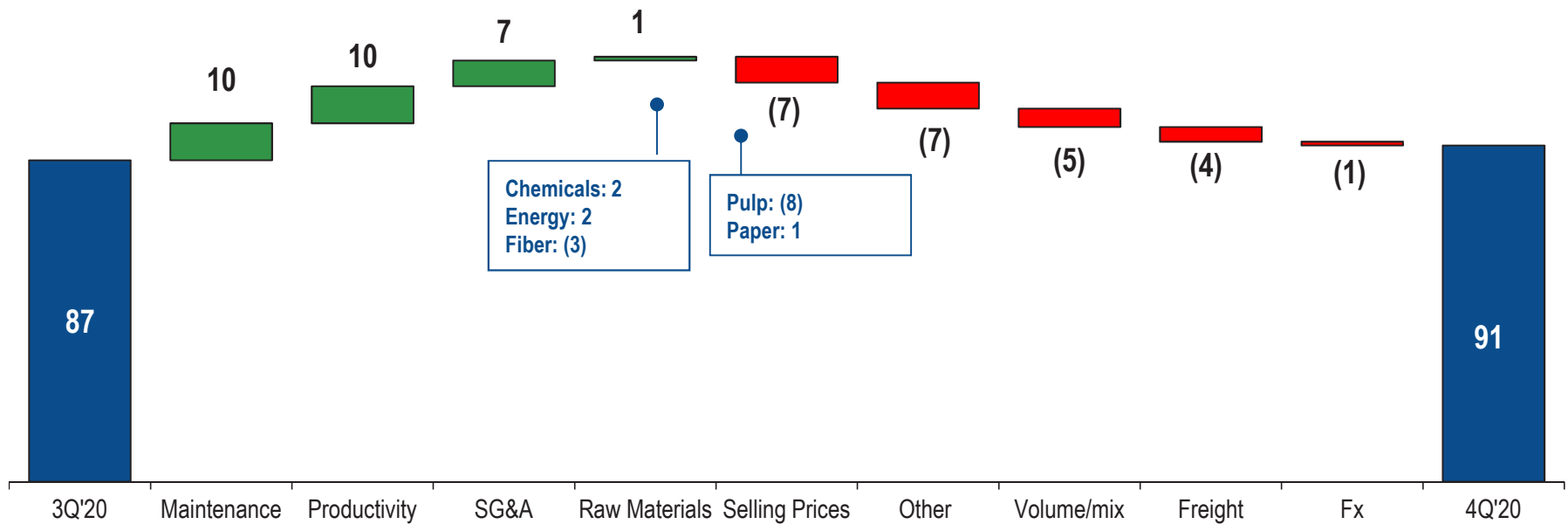
CASH FLOW STATEMENT

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

	4Q'19	4Q'20
Net earnings (loss)	(34)	(59)
Depreciation and amortization	74	69
Deferred income taxes and tax uncertainties	(17)	15
Impairment of long-lived assets	-	26
Net loss on disposition of discontinued operations	-	45
Changes in assets and liabilities		
Changes in working capital	97	14
Pension contribution over expense	32	2
Other	8	23
Cash flows from operating activities	160	135
Additions to PP&E	(98)	(45)
Proceeds from disposals of PP&E	-	3
Cash flows used for investing activities	(98)	(42)
Dividend payments and stock repurchases	(107)	-
Changes in borrowings	7	(4)
Cash flows used for financing activities	(100)	(4)

EBITDA BEFORE ITEMS*

4Q'20 vs. 3Q'20 (in millions of dollars)



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PAPER BUSINESS

(in millions of dollars)

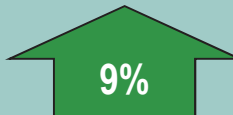
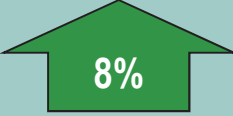



	4Q'20	vs. 3Q'20	vs. 4Q'19
Sales	\$627	↓ 1%	↓ 17%
EBITDA before items *	\$105	↓ \$14	↑ \$10
Shipments <i>(manufactured, in thousands of short tons)</i>	542	↓ 1%	↓ 17%
Transaction prices <i>(US\$ / ton – net, all regions)</i>	-	↑ \$2	↑ \$9

- Paper order activity stable with shipments in line with Q3'20 volume
- Favorable customer mix allowed a reduction in flex tons and exports
- Strong paper productivity and capacity utilization in mill system resulted in a good cost performance
- Port Huron, MI paper mill scheduled to cease operations in Q1'21

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PULP BUSINESS

(in millions of dollars)

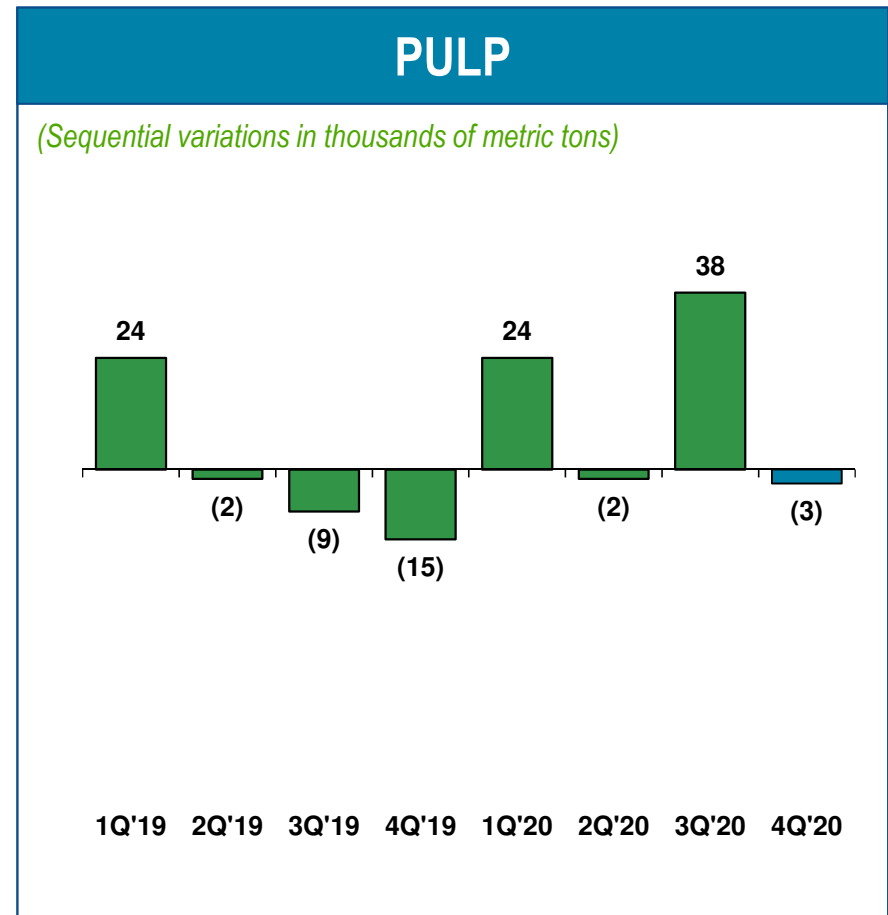
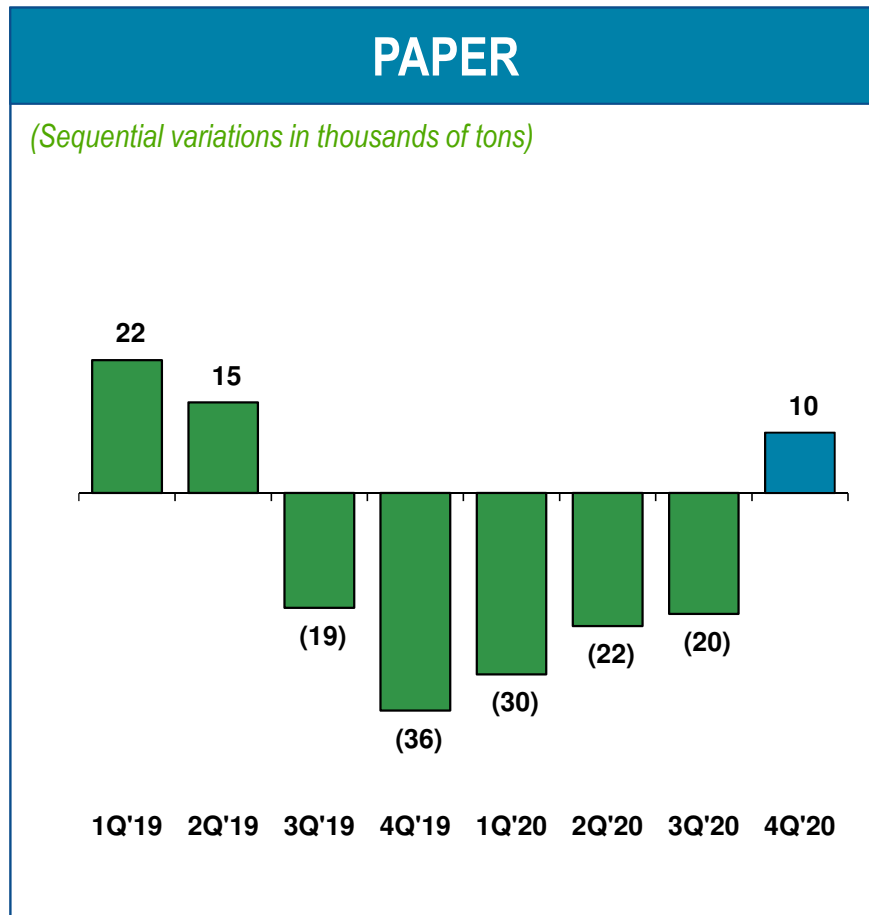
	4Q'20	vs. 3Q'20	vs. 4Q'19
Sales	\$293	 9%	 8%
EBITDA before items *	(\$5)	 \$16	 \$25
Shipments (in thousands of ADMT)	482	 14%	 10%
Transaction prices (US\$ / ADMT – net, all regions)	-	 \$17	 \$14

- Strong volume performance and one of our best in recent history
- Good cost performance attributable to lower maintenance costs and cost reduction program
- Supply and demand dynamics in pulp continue to improve and support recently announced price increases

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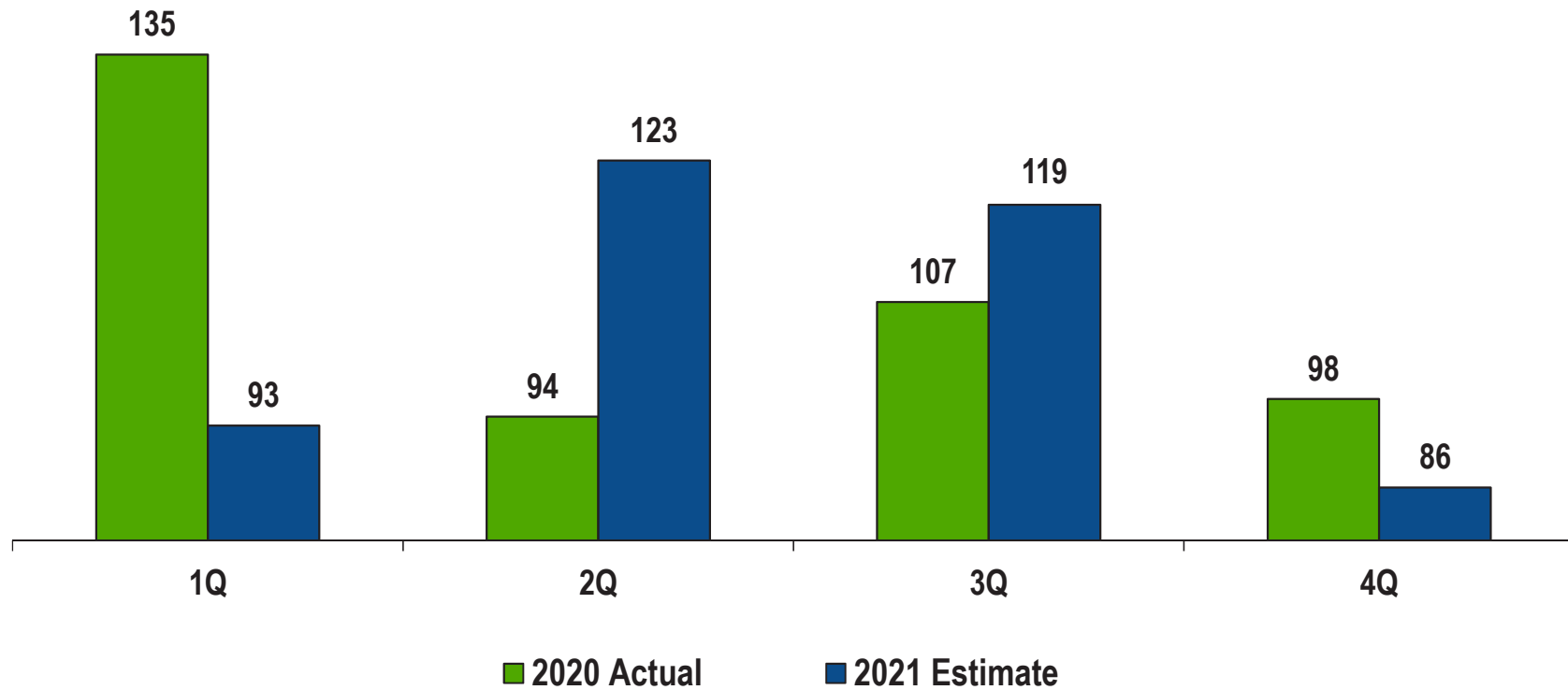
PULP AND PAPER

INVENTORIES



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 ACTUAL/ 2021 ESTIMATE

(in millions of dollars)

	2020A	2021E	Variation
Maintenance costs	\$434	\$421	
CAPEX	\$141	\$310-330	
Depreciation and amortization	\$223	\$210-220	
Income tax rate	35%	19-21%	

2021 OUTLOOK

- Paper demand remains uncertain and dependent upon the Covid-19 recovery, especially quarantine measures impacting the return to office and school
- We expect near-term pulp markets to gradually improve driven by better demand, maintenance outages and restocking in China
- Overall raw material costs are expected to moderately increase and freight costs will be higher
- The sale of the Personal Care business is expected to close in the first quarter of 2021



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Appendix

SUPPLEMENTAL INFORMATION

PULP & PAPER								
<i>(In millions of dollars)</i>	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20
Paper	854	805	794	755	773	512	631	627
Pulp	303	301	285	272	258	290	268	293
SALES	1,157	1,106	1,079	1,027	1,031	802	899	920
Paper	156	115	139	95	100	59	119	105
Pulp	49	9	(12)	(30)	(34)	7	(21)	(5)
EBITDA before items*	205	124	127	65	66	66	98	100
Paper Shipments – Manufactured	736	681	672	656	679	459	550	542
Paper Shipments – Sourced from 3rd parties	23	21	25	24	22	12	16	19
Paper Shipments	759	702	697	680	701	471	566	561
Pulp Shipments	383	400	443	438	422	459	424	482
CORPORATE								
<i>(In millions of dollars)</i>	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20
EBITDA before items*	(21)	(11)	(4)	(14)	(5)	(8)	(11)	(9)

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THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



 Domtar