

# **DOMTAR CORPORATION**

## **FOURTH QUARTER 2014 EARNINGS CALL**

**February 6, 2015**

(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, 2013 filed with the Securities and Exchange Commission.

## Non-GAAP Financial Measures

This presentation refers to non-U.S. GAAP financial information. For a reconciliation to U.S. GAAP financial measures, please refer to the investors section of the company’s website at <http://www.domtar.com> (Refer to the Analyst Corner of the IR section of the website).

# OVERVIEW

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## Fourth Quarter 2014

- Strong fourth quarter results despite competitive paper market environment
- \$107 million of free cash flow generation
- 120 basis point margin improvement in paper despite 39,000 tons of lack-of-order downtime
- Announced the conversion of a paper machine at our Ashdown mill to produce fluff pulp
- Record sales in European Personal Care business
- Extended ramp-up period for new lines but significant headway with cost savings exiting the quarter

# FINANCIAL HIGHLIGHTS

## Fourth Quarter 2014

- Net earnings of \$1.10 per diluted share; earnings before items\* of \$1.41 per share
- EBITDA before items\* of \$208 million
- Cash flow provided from operating activities of \$186 million
- Capital expenditures of \$79 million
- Free cash flow\* of \$107 million

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# EARNINGS STATEMENT

**4Q'14 vs. 3Q'14** (in millions of dollars)

	3Q'14	4Q'14	
<b>Sales</b>	<b>1,405</b>	<b>1,379</b>	
Cost of sales	1,105	1,080	
Depreciation and amortization	96	93	
SG&A	99	103	
Impairment & write-down of PP&E	-	4	● Accelerated depreciation of Ashdown paper machine
Closure and restructuring costs	2	25	● Pension plan buyout, costs related to Ashdown conversion and closure of converting center
Other operating income, net	(17)	(12)	● Insurance recovery
<b>Operating income</b>	<b>120</b>	<b>86</b>	
Interest expense, net	25	27	
Income tax benefit	(186)	(12)	
<b>Net earnings</b>	<b>281</b>	<b>71</b>	

# CASH FLOW STATEMENT

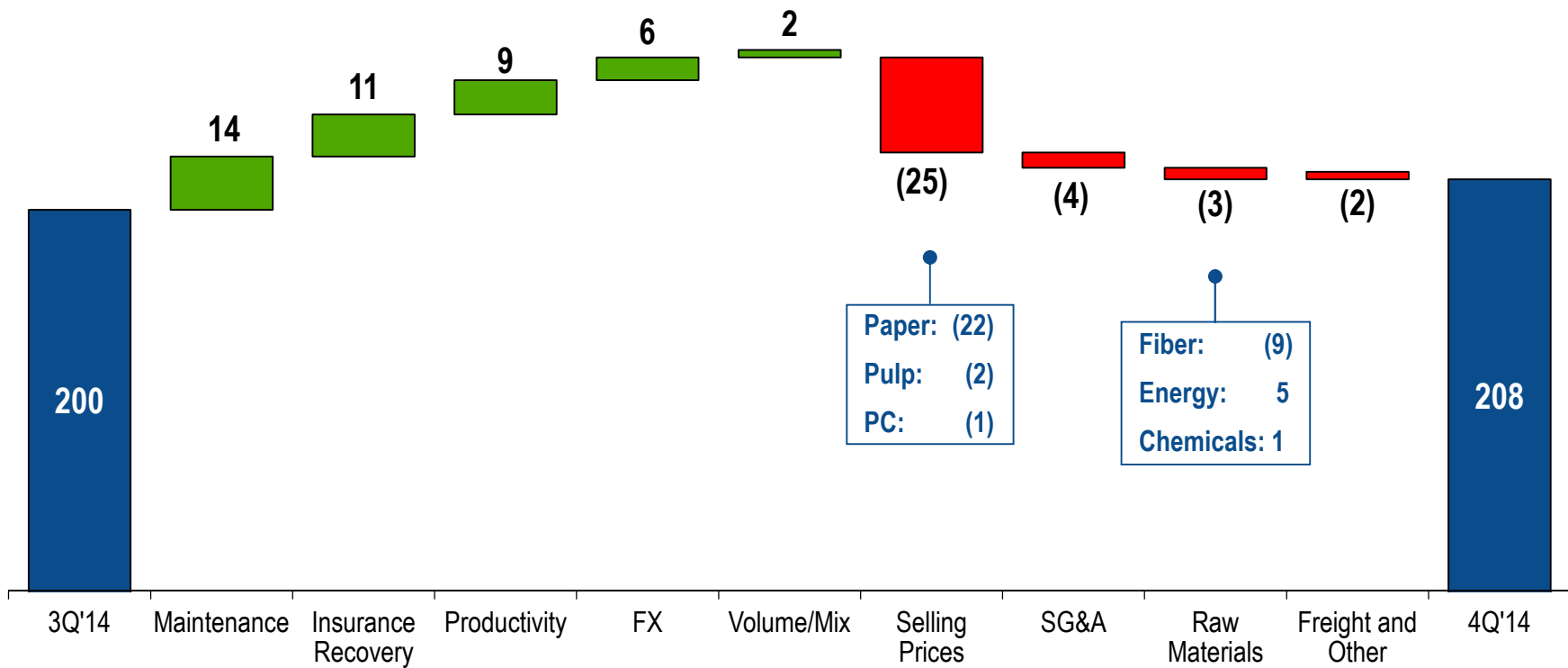
**4Q'14 vs. 4Q'13** *(in millions of dollars)*

	4Q'13	4Q'14
<b>Net earnings</b>	<b>65</b>	<b>71</b>
Depreciation & amortization	95	93
Deferred income taxes and tax uncertainties	1	1
Net losses on disposals of PP&E and sale of business	(5)	-
Impairment and write-down of PP&E	7	4
<b>Changes in assets and liabilities</b>		
Changes in working capital	(48)	(5)
Pension expense over contribution	8	16
Other	1	6
<b>Cash flows provided from operating activities</b>	<b>124</b>	<b>186</b>
Additions to PP&E	(62)	(79)
Other	6	(10)
<b>Cash flows used for investing activities</b>	<b>(56)</b>	<b>(89)</b>
Dividend payments and stock repurchases	(17)	(43)
Net changes in bank indebtedness & borrowings	416	(14)
Other	(2)	1
<b>Cash flows provided (used) for financing activities</b>	<b>397</b>	<b>(56)</b>

Pension plan buyout

# EBITDA BEFORE ITEMS\*



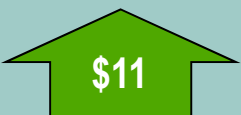

4Q'14 vs. 3Q'14 (in millions of dollars)



\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# PULP AND PAPER SEGMENT

(in millions of dollars)

	4Q'14	vs. 3Q'14	vs. 4Q'13
Sales	\$1,160	 2%	 3%
EBITDA before items *	\$183	 \$11	 \$17

- Lower maintenance activity in our mills
- Lack-of-order downtime totaling 39,000 tons of paper
- Announced a conversion of a paper machine to fluff pulp at Ashdown mill

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).



# PULP AND PAPER SEGMENT



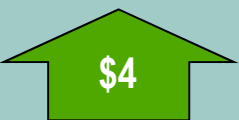

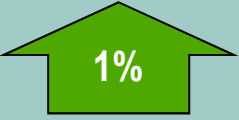



## PAPER *(in millions of dollars)*

	4Q'14	vs. 3Q'14	vs. 4Q'13
Sales	\$889	↓ 3%	↓ 4%
EBITDA before items *	\$138	↑ \$7	↑ \$9
	4Q'14	vs. 3Q'14	vs. 4Q'13
Shipments <i>(manufactured, in tons)</i>	786	↑ 1%	↓ 4%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$28	↑ \$13

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# PULP AND PAPER SEGMENT

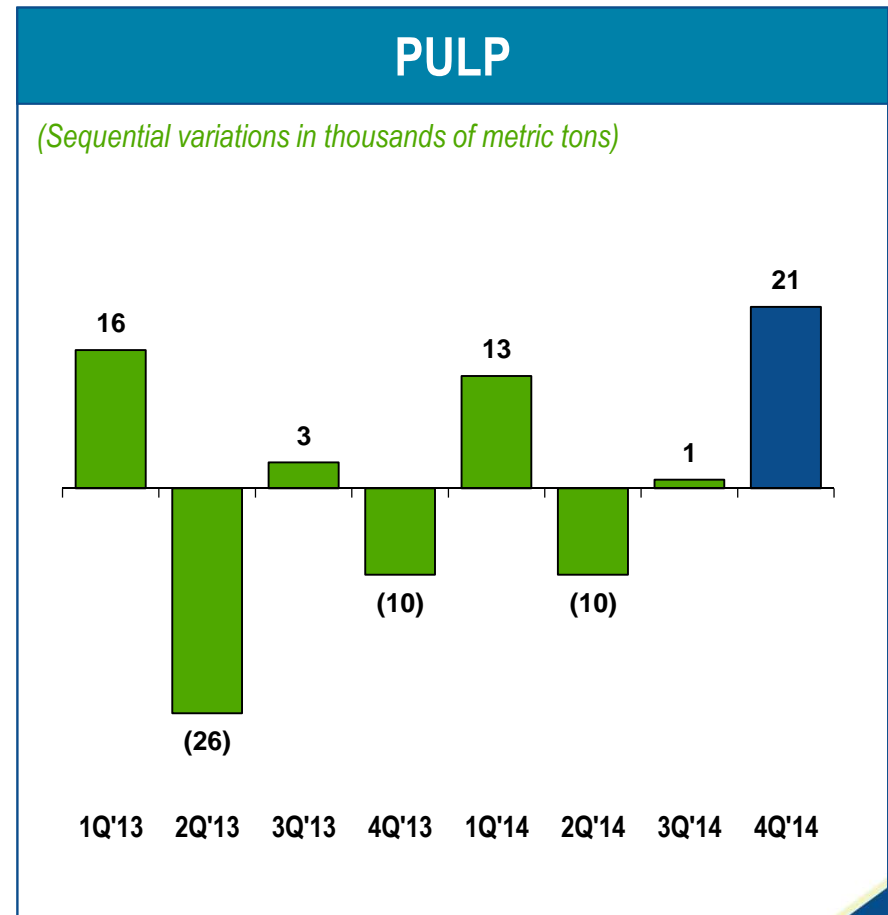
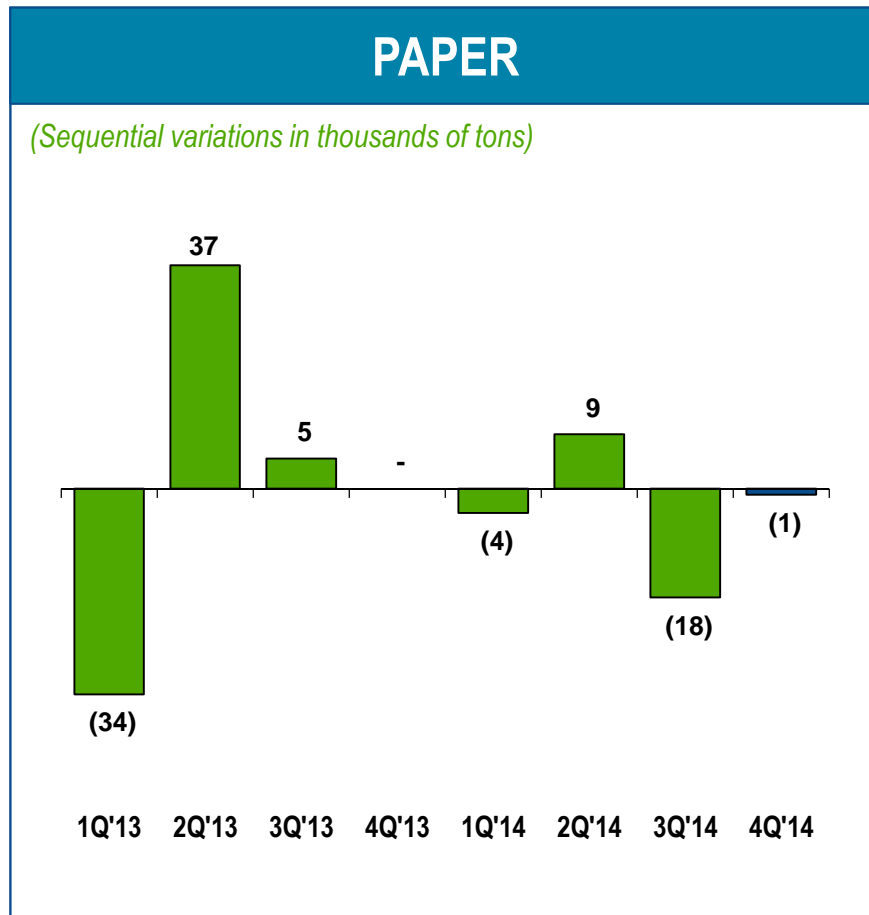
## PULP *(in millions of dollars)*

	4Q'14	vs. 3Q'14	vs. 4Q'13
<b>Sales</b> <i>(incl. intrasegment sales)</i>	\$316	 2%	 2%
<b>EBITDA before items *</b>	\$45	 \$4	 \$8
	4Q'14	vs. 3Q'14	vs. 4Q'13
<b>Shipments</b> <i>(in ADMT)</i>	370	 1%	 2%
<b>Transaction prices</b> <i>(US\$ / ADMT – net, all regions)</i>		 \$4	 \$19

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).






# PULP AND PAPER SEGMENT

## INVENTORIES



# PERSONAL CARE SEGMENT

(in millions of dollars)

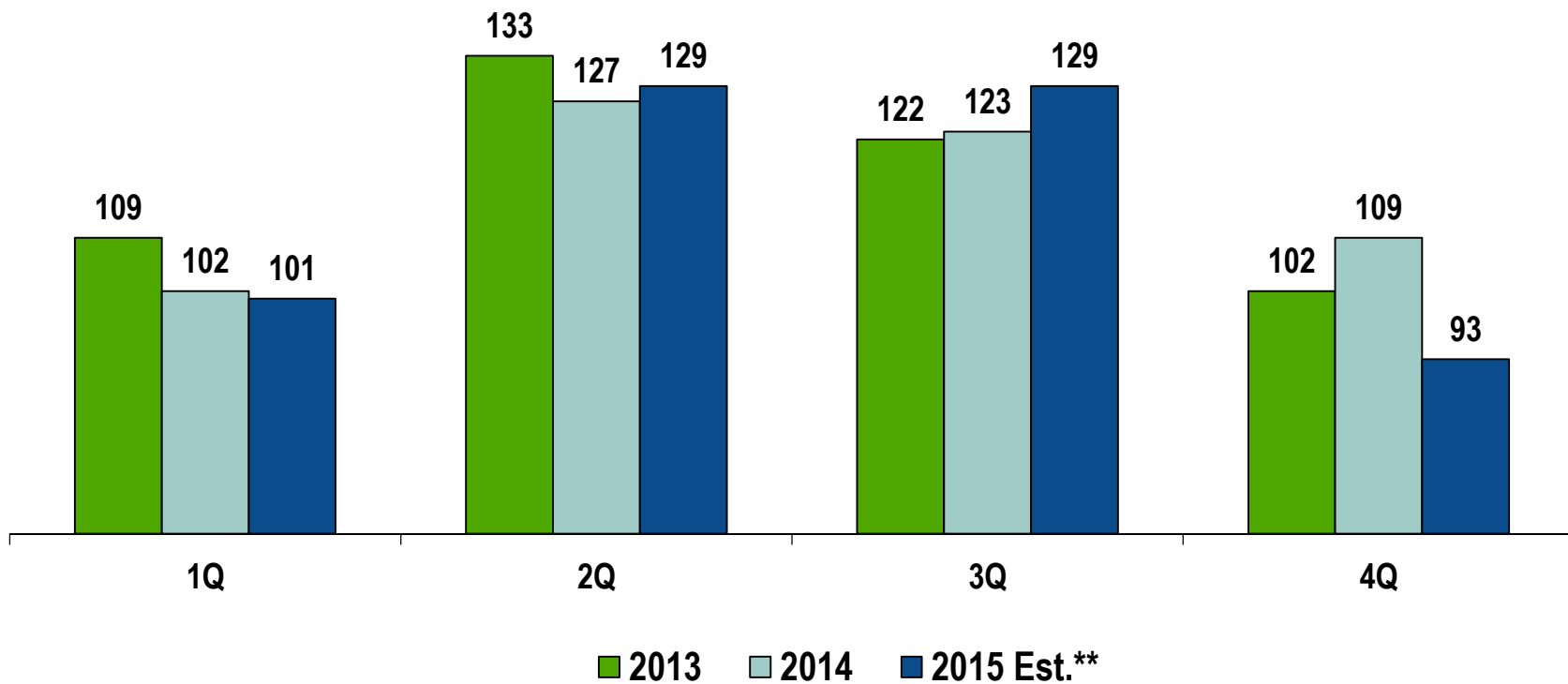
	4Q'14	vs. 3Q'14	vs. 4Q'13
Sales	\$230		
EBITDA before items*	\$27		
Same Currency Sales	\$237		

- Results impacted by inventory write-down and unfavorable Euro
- Same currency sales increased 3% when compared to the third quarter
- Record sales in European business
- Lower North American sales following an inventory destocking at two of our major customers

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR 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.

\*\* Based on budgeted foreign exchange rates

# SENSITIVITY ANALYSIS(\*)

*(in millions of dollars)*

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

Business Papers

\$10

Converting & Publishing

\$7

Commercial Printing

\$6

Other

\$8

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

Softwood

\$11

Fluff

\$5

Hardwood

\$1

## **Foreign exchange**

US \$0.01 change in relative value to the Canadian dollar

\$9

Euro 0.01 change in relative value to the US dollar

\$2

## **Energy** *(Natural gas: \$0.25/MMBtu change in price)*

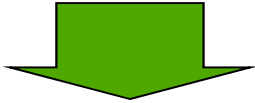
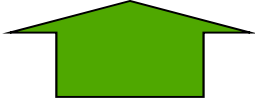


\$5

\* Before hedging

# MANAGEMENT'S FINANCIAL ASSUMPTIONS

ACTUAL 2014 / ESTIMATES 2015

(in millions of dollars)

	2014A	2015E	Variation
Planned maintenance costs	\$461	\$452	
CAPEX	\$236	\$310-330	
Depreciation and amortization*	\$384	\$375-385	
Interest expense	\$103	\$95-105	
Income tax rate	(65%)	26-28%	

\* Excludes accelerated depreciation of approximately \$73 million in 2015 related to the conversion of the Ashdown paper machine to fluff pulp

## 2014 RECAP

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- Generated \$765 million of EBITDA before items\* and \$398 million of free cash flow, a meaningful increase when compared to 2013
- Significant improvement in Pulp and Paper results
- Continued to make progress with Personal Care expansion plans and reached new milestones
  - Successfully completed the installation of 5 manufacturing lines at 3 locations; began the building expansion at 2 other facilities.
  - Gained national distribution at 3 major North American retailers to begin shipment in early 2015
- Increased annual dividend by 36% and further executed on share buyback program

\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).



# OUTLOOK

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- North American demand for uncoated freesheet is expected to decline in 2015 with long-term secular trends
- Short-term volatility in pulp pricing is expected due to the recent strengthening of the U.S. dollar
- Our new manufacturing platform is expected to generate further revenue and earnings growth in our Personal Care business
- We anticipate that oil-based input costs will be down year-over-year
- A weak Canadian dollar is expected to benefit our pulp and paper mills in Canada while a weak Euro will negatively impact the translation conversion of our Personal Care Euro results to U.S. dollars



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**Appendix**

# SUPPLEMENTAL SEGMENTED INFORMATION

<b>PULP &amp; PAPER SEGMENT</b>									
<i>(In millions of dollars)</i>	4Q'12	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'14	3Q'14	4Q'14
Paper	977	995	971	963	928	936	906	914	889
Pulp (incl. intrasegment sales)	289	292	295	294	321	289	309	322	316
Intrasegment sales – Pulp	(48)	(49)	(58)	(53)	(56)	(57)	(55)	(50)	(45)
Pulp	241	243	237	241	265	232	254	272	271
<b>SALES*</b>	<b>1,218</b>	<b>1,238</b>	<b>1,208</b>	<b>1,204</b>	<b>1,193</b>	<b>1,168</b>	<b>1,160</b>	<b>1,186</b>	<b>1,160</b>
Paper	168	131	125	116	129	124	138	131	138
Pulp	(4)	22	(7)	29	37	28	10	41	45
<b>EBITDA before items* **</b>	<b>164</b>	<b>153</b>	<b>118</b>	<b>145</b>	<b>166</b>	<b>152</b>	<b>148</b>	<b>172</b>	<b>183</b>
Paper Shipments – Manufactured	805	828	801	814	817	804	779	776	786
Paper Shipments – Sourced from 3rd parties	78	83	85	73	41	50	42	47	34
<b>PAPER SHIPMENTS</b>	<b>883</b>	<b>911</b>	<b>886</b>	<b>887</b>	<b>858</b>	<b>854</b>	<b>821</b>	<b>823</b>	<b>820</b>
<b>PULP SHIPMENTS</b>	<b>385</b>	<b>372</b>	<b>344</b>	<b>352</b>	<b>377</b>	<b>318</b>	<b>336</b>	<b>367</b>	<b>370</b>
<b>PERSONAL CARE SEGMENT</b>									
<i>(In millions of dollars)</i>	4Q'12	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'14	3Q'14	4Q'14
<b>SALES</b>	<b>111</b>	<b>111</b>	<b>108</b>	<b>175</b>	<b>172</b>	<b>233</b>	<b>234</b>	<b>231</b>	<b>230</b>
<b>EBITDA before items**</b>	<b>18</b>	<b>19</b>	<b>18</b>	<b>22</b>	<b>21</b>	<b>35</b>	<b>31</b>	<b>30</b>	<b>27</b>

\* The historical results of the former Distribution segment have been reclassified under the Pulp and Paper segment.

\*\* Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com) (refer to the Analyst Corner of the IR section of the website).

# THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE

