



# Domtar Corporation

## Second Quarter 2014 Earnings Call

July 24, 2014

*(All financial information is in U.S. dollars, and all earnings per share results are diluted, unless otherwise noted.)*

## FORWARD-LOOKING STATEMENTS / NON-GAAP MEASURES

### 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**

### **Second Quarter 2014**

- **Higher maintenance activity in our pulp and paper mills**
- **Results negatively impacted by lack-of-order downtime in paper**
- **Higher prices in pulp and paper stemming from previously announced price increases**
- **Integration of Indas and ramp-up of new production lines progressing well**



## FINANCIAL HIGHLIGHTS

Second Quarter 2014

- **Net earnings of \$0.61 per diluted share**
- **EBITDA before items<sup>(\*)</sup> of \$175 million**
- **Cash flow provided from operating activities of \$104 million**
- **Capital expenditures of \$56 million**
- **Free cash flow<sup>(\*)</sup> of \$48 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

## 2Q'14 vs. 1Q'14

(In millions of dollars)

	1Q'14	2Q'14	Chg	
<b>Sales</b>	<b>1,394</b>	<b>1,385</b>	<b>(9)</b>	Lower paper shipments partially offset by higher pulp and paper prices
Cost of sales	1,103	1,108	5	
Depreciation and amortization	99	96	(3)	
SG&A	114	100	(14)	Lower mark-to-market on some stock based compensation and lower M&A expenses
Closure and restructuring costs	1	-	(1)	
Other operating loss (income), net	(2)	2	4	
<b>Operating income</b>	<b>79</b>	<b>79</b>	<b>-</b>	
Interest expense, net	25	26	1	
Income tax expense	15	13	(2)	
<b>Net earnings</b>	<b>39</b>	<b>40</b>	<b>1</b>	



## CASH FLOW STATEMENT

### 2Q'14 vs. 2Q'13

*(In millions of dollars)*

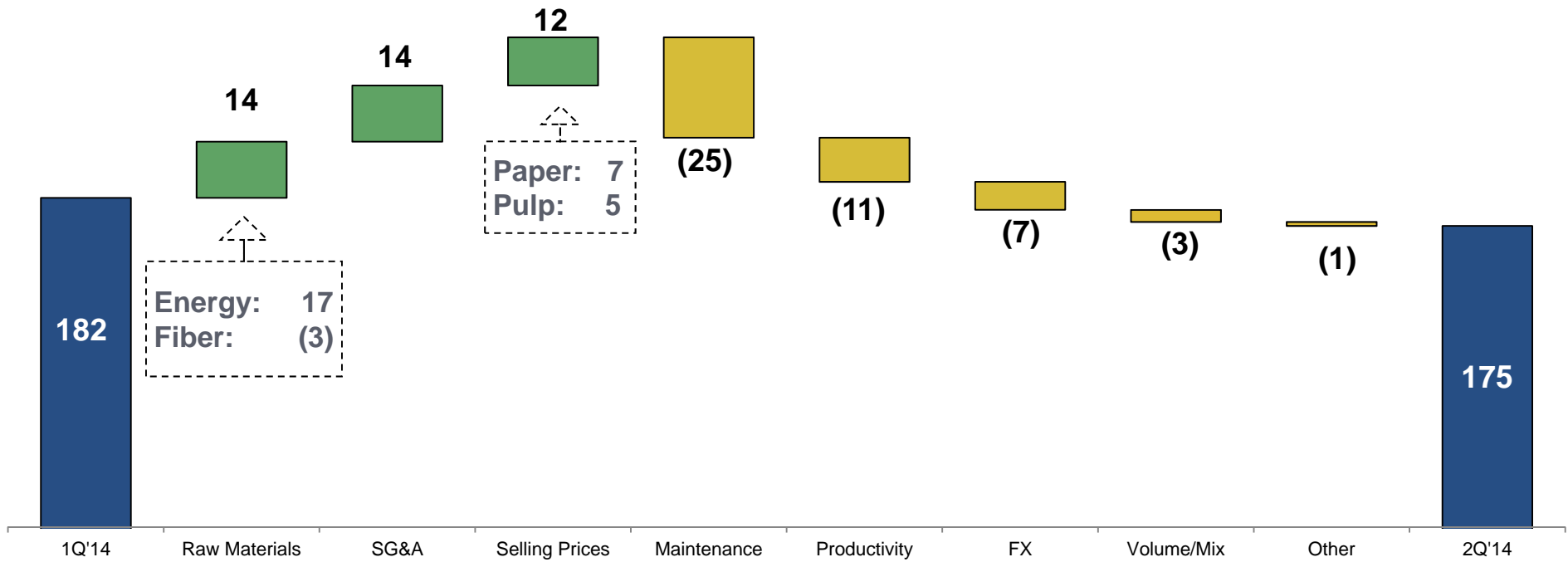
	2Q'13	2Q'14
<b>Net earnings (loss)</b>	<b>(46)</b>	<b>40</b>
Depreciation, amortization & impairment	98	96
Deferred income taxes and tax uncertainties	(1)	(6)
<b>Changes in assets and liabilities</b>		
Changes in working capital	45	(18)
Pension expense over contribution	21	(4)
Other	3	(4)
<b>Cash flows provided from operating activities</b>	<b>120</b>	<b>104</b>
Additions to PP&E	(62)	(56)
Acquisition of businesses, net of cash acquired	(11)	-
Proceeds from disposals of PP&E & other	1	1
<b>Cash flows used for investing activities</b>	<b>(72)</b>	<b>(55)</b>
Dividend payments and stock repurchases	(115)	(18)
Net changes in bank indebtedness & borrowings	(14)	(81)
Other	-	3
<b>Cash flows used for financing activities</b>	<b>(129)</b>	<b>(96)</b>



# EBITDA BEFORE ITEMS\*

2Q'14 vs. 1Q'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, unless otherwise noted)

	2Q'14	vs 1Q'14	vs 2Q'13
Sales <sup>(*)</sup>	\$1,160	↓ 1%	↓ 4%
EBITDA before items <sup>(*)(**)</sup>	\$148	↓ \$4	↑ \$30

- Higher maintenance activity in our pulp and paper mills
- Lack-of-order downtime totaling 51 thousand tons of paper
- Higher pulp and paper prices

(\*) 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)





# PULP AND PAPER SEGMENT

## Paper

(In millions of dollars, unless otherwise noted)

	2Q'14	vs 1Q'14	vs 2Q'13
<b>Sales<sup>(*)</sup></b>	\$906	3%	7%
<b>EBITDA before items<sup>(*)(**)</sup></b>	\$138	\$14	\$13
<b>Shipments</b> <i>(manufactured, in tons)</i>	779	3%	3%
<b>Transaction prices</b> <i>(US\$ / ton - net, all regions)</i>		\$9	\$27

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

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# PULP AND PAPER SEGMENT

## Pulp

(In millions of dollars, unless otherwise noted)

	2Q'14	vs 1Q'14	vs 2Q'13
<b>Sales</b> (incl. intrasegment sales)	\$309	7%	5%
<b>EBITDA before items<sup>(*)</sup></b>	\$10	\$18	\$17
	2Q'14	vs 1Q'14	vs 2Q'13
<b>Shipments</b> (in ADMT)	336	6%	2%
<b>Transaction prices</b> (US\$ / ADMT - net, all regions)		\$13	\$54

(\*) 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)

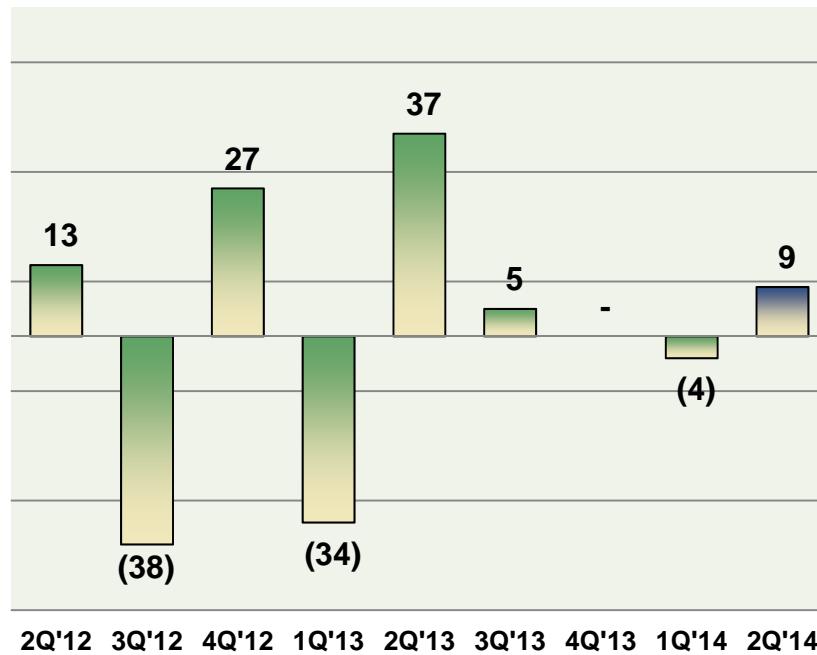
# PULP AND PAPER SEGMENT

## Inventories



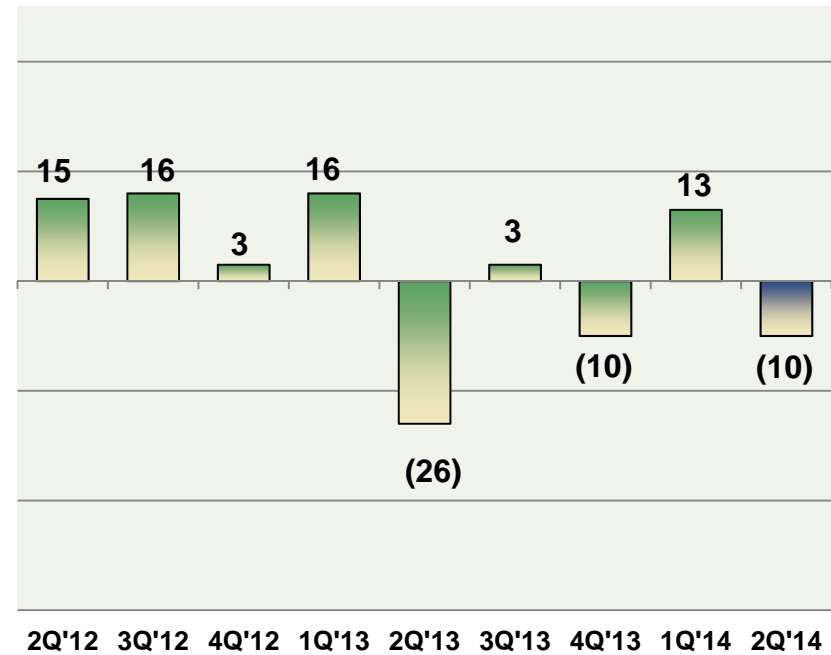
### Paper

*(Sequential variations in thousands of tons)*



### Pulp

*(Sequential variations in thousands of metric tons)*



## PERSONAL CARE SEGMENT



(In millions of dollars, unless otherwise noted)

	2Q'14	vs 1Q'14	vs 2Q'13
Sales	\$234		117%
EBITDA before items <sup>(*)</sup>	\$31	\$4	\$13

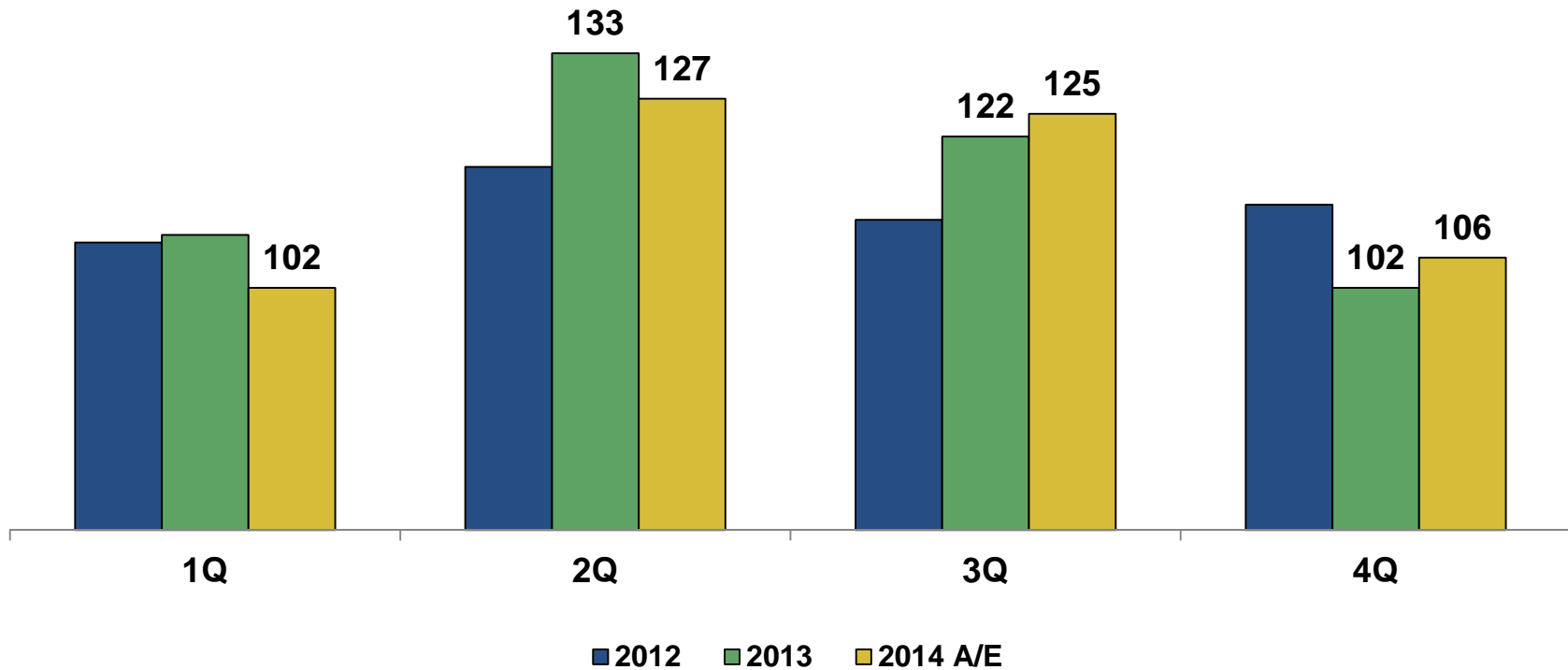
- Integration of Indas and start-up of new production lines progressing well
- Results impacted by higher raw material costs and ramp-up related expenses
- New adult incontinence production lines to begin manufacturing product-for-sale by the end of the year

(\*) 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<sup>(\*)</sup>

*(In millions of dollars, unless otherwise noted)*



(\*) Total maintenance costs includes planned maintenance, maintenance over \$100k outside of planned shutdown period, and day-to-day maintenance expenses.



## OUTLOOK

- **Our paper volumes are expected to decline with market demand while global softwood pulp markets are expected to remain balanced.**
- **Domtar will continue to closely monitor its inventory levels and balance its production with its customers' demand.**
- **The ramp-up of the new production lines are expected to positively impact the results of the Personal Care business towards the end of the year.**
- **Input costs are expected to stay relatively stable for the second half of 2014.**



# Appendix



## SUPPLEMENTAL SEGMENTED INFORMATION

### PULP & PAPER SEGMENT

<i>(In millions of dollars)</i>	4Q'12	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'14
Paper	977	995	971	963	928	936	906
Pulp (incl. intrasegment sales)	289	292	295	294	321	289	309
Intrasegment sales – Pulp	(48)	(49)	(58)	(53)	(56)	(57)	(55)
Pulp	241	243	237	241	265	232	254
<b>SALES<sup>(*)</sup></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>
Paper	168	131	125	116	129	124	138
Pulp	(4)	22	(7)	29	37	28	10
<b>EBITDA before items<sup>(*)(**)</sup></b>	<b>164</b>	<b>153</b>	<b>118</b>	<b>145</b>	<b>166</b>	<b>152</b>	<b>148</b>
Paper Shipments – Manufactured	805	828	801	814	817	804	779
Paper Shipments - Sourced from 3 <sup>rd</sup> parties	78	83	85	73	41	50	42
<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>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>PERSONAL CARE SEGMENT</b>							
<i>(In millions of dollars)</i>	4Q'12	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'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>EBITDA before items<sup>(**)</sup></b>	<b>18</b>	<b>19</b>	<b>18</b>	<b>22</b>	<b>21</b>	<b>35</b>	<b>31</b>

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# THE FIBER *of* Domtar

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Domtar