



# Domtar Corporation

## First Quarter 2014 Earnings Call

April 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>.

## **OVERVIEW**

### **First Quarter 2014**



- **Improved year over year results despite negative impact from severe weather**
- **Implemented price increases for pulp and a wide range of paper products**
- **Completed the acquisition of Laboratorios Indas, Spain's largest manufacturer and marketer of branded adult incontinence products**

## FINANCIAL HIGHLIGHTS

First Quarter 2014



- **Net earnings of \$1.20 per share, earnings before items<sup>(\*)</sup> of \$1.29 per share**
- **EBITDA before items<sup>(\*)</sup> of \$182 million dollars**
- **Cash flow provided from operating activities of \$141 million**
- **Capital expenditures of \$45 million**
- **Free cash flow<sup>(\*)</sup> of \$96 million**

(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com).



# EARNINGS STATEMENT

## 1Q'14 vs. 4Q'13

(In millions of dollars)

	4Q'13	1Q'14	Chg	
<b>Sales</b>	<b>1,359</b>	<b>1,394</b>	<b>35</b>	Inclusion of Indas, higher prices for pulp and paper and lower volumes
Cost of sales	1,081	1,103	22	
Depreciation and amortization	95	99	4	Inclusion of Indas
SG&A	100	114	14	Inclusion of Indas, M&A expenses and mark to market on stock based compensation
Impairment and write-down of PP&E & intangibles	7	-	(7)	
Closure and restructuring costs	-	1	1	
Other operating income, net	(17)	(2)	15	
<b>Operating income</b>	<b>93</b>	<b>79</b>	<b>(14)</b>	
Interest expense, net	22	25	3	Indas financing
Income tax expense	6	15	9	
<b>Net earnings</b>	<b>65</b>	<b>39</b>	<b>(26)</b>	

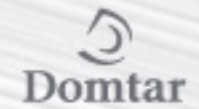


# CASH FLOW STATEMENT

## 1Q'14 vs. 1Q'13

*(In millions of dollars)*

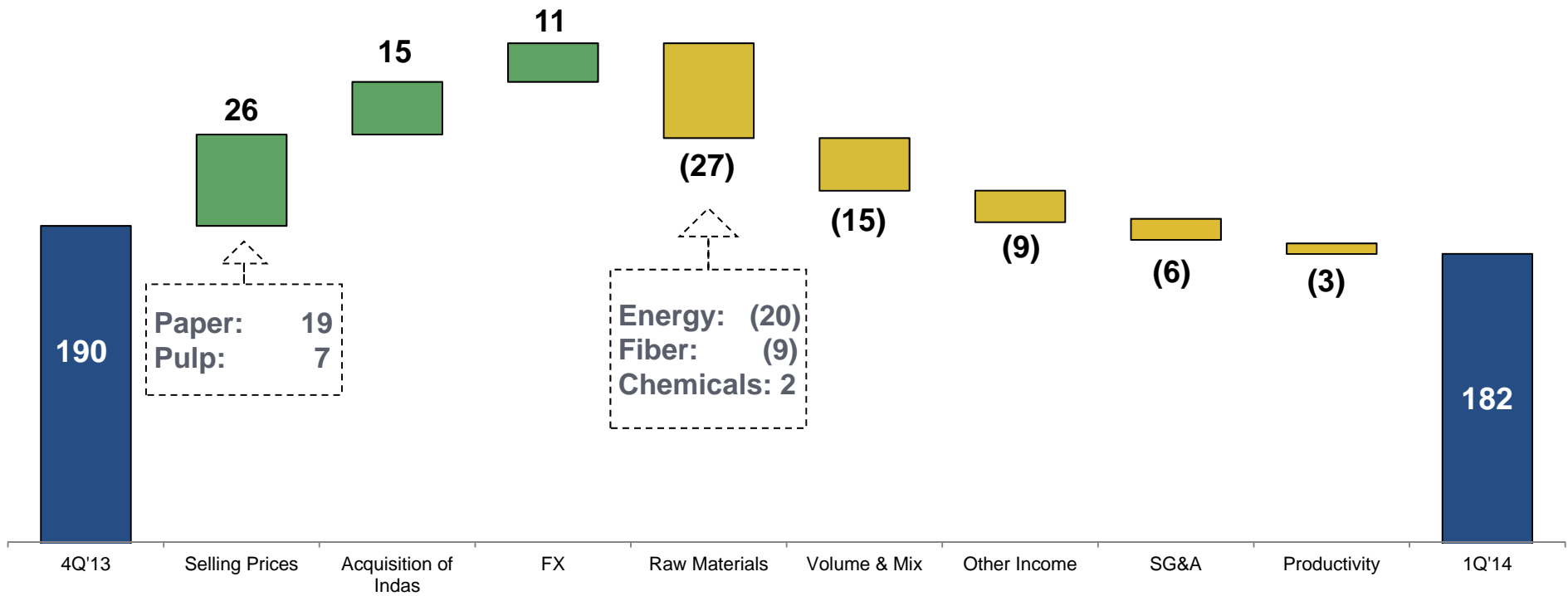
	1Q'13	1Q'14
<b>Net earnings</b>	<b>45</b>	<b>39</b>
Depreciation, amortization & impairment	105	99
Deferred income taxes and tax uncertainties	1	-
Net gain on disposals of PP&E	(10)	-
<b>Changes in assets and liabilities</b>		
Changes in working capital	(82)	(5)
Pension expense over contribution	5	(2)
Other	(1)	10
<b>Cash flow provided from operating activities</b>	<b>63</b>	<b>141</b>
Additions to PP&E	(56)	(45)
Acquisition of business, net of cash acquired	-	(546)
Proceeds from disposals of PP&E & other	8	-
<b>Cash flows used for investing activities</b>	<b>(48)</b>	<b>(591)</b>
Dividend payments and stock repurchase, net	(63)	(18)
Net changes in bank indebtedness & long-term debt repayment	(100)	(8)
Change in revolving bank credit facility & other borrowings	-	(48)
Other	1	1
<b>Cash flows used for financing activities</b>	<b>(162)</b>	<b>(73)</b>



# EBITDA BEFORE ITEMS\*

1Q'14 vs. 4Q'13

(In millions of dollars)



(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com).



## PULP AND PAPER SEGMENT

(In millions of dollars, unless otherwise noted)

	1Q'14	vs 4Q'13	vs 1Q'13
Sales <sup>(*)</sup>	\$1,168	2%	6%
EBITDA before items <sup>(*)(**)</sup>	\$152	\$14	\$1

- Implementation of price increases for pulp and a wide range of paper products
- Weather-related costs amounted to approximately \$22 million

(\*) 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)





# PULP AND PAPER SEGMENT

## Paper

(In millions of dollars, unless otherwise noted)

	1Q'14	vs 4Q'13	vs 1Q'13
<b>Sales<sup>(*)</sup></b>	\$936	 1%	 6%
<b>EBITDA before items<sup>(*)(**)</sup></b>	\$124	 \$5	 \$7
<b>Shipments</b> <i>(manufactured, in tons)</i>	804	 2%	 3%
<b>Transaction prices</b> <i>(US\$ / ton - net, all regions)</i>		 \$23	 \$21

(\*) 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)



# PULP AND PAPER SEGMENT

## Pulp

(In millions of dollars, unless otherwise noted)

	1Q'14	vs 4Q'13	vs 1Q'13
<b>Sales</b> <i>(incl. intrasegment sales)</i>	\$289	10% ↓	1% ↓
<b>EBITDA before items<sup>(*)</sup></b>	\$28	\$9 ↓	\$6 ↑
	1Q'14	vs 4Q'13	vs 1Q'13
<b>Shipments</b> <i>(in ADMT)</i>	318	16% ↓	15% ↓
<b>Transaction prices</b> <i>(US\$ / ADMT - net, all regions)</i>		\$22 ↑	\$68 ↑

(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com).

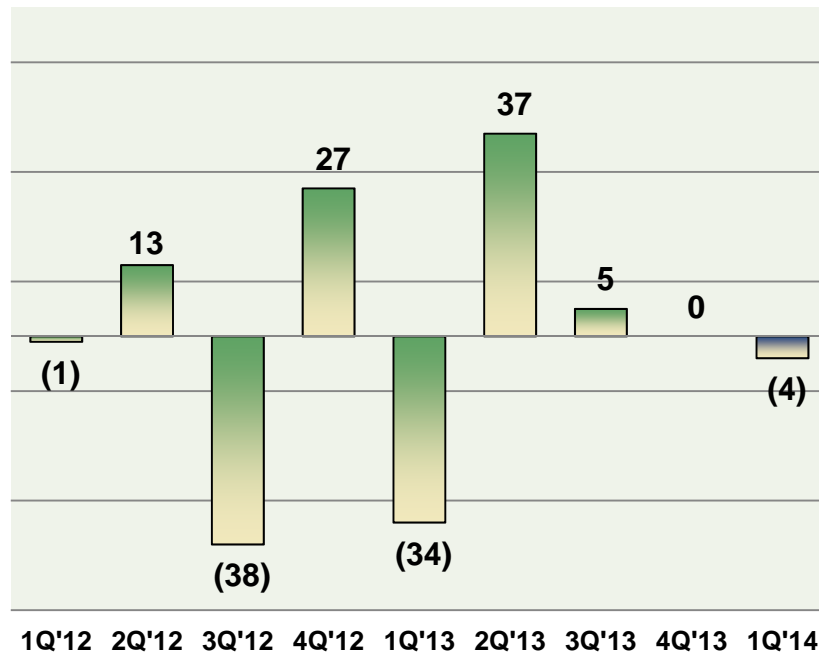


# PULP AND PAPER SEGMENT

## Inventories

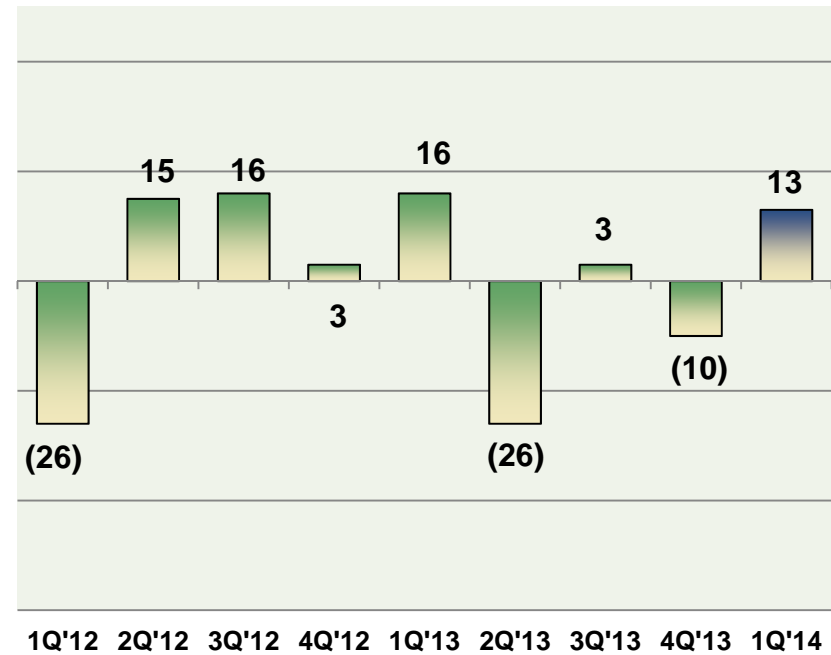
### Paper

*(Sequential variations in thousands of tons)*



### Pulp

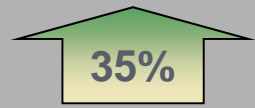
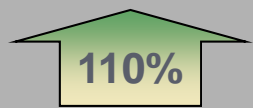


*(Sequential variations in thousands of metric tons)*



# PERSONAL CARE SEGMENT



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

	1Q'14	vs 4Q'13	vs 1Q'13
Sales	\$233	 35%	 110%
EBITDA before items <sup>(*)</sup>	\$35	 \$14	 \$16

- Results include a full quarter of Indas
- Sales erosion in baby diaper business
- New adult incontinence converting lines to begin manufacturing product-for-sale by the end of the fourth quarter

(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com)



# MAINTENANCE COSTS<sup>(\*)</sup>

Actual 2012-2013 / Estimates 2014  
*(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.



## SENSITIVITY ANALYSIS

### Based on 2014 Capacity / Consumption

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

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

Business Papers

**\$12**

Converting & Publishing

**\$9**

Commercial Printing

**\$7**

Other

**\$5**

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

Softwood

**\$10**

Fluff

**\$4**

Hardwood

**\$2**

#### **Foreign exchange** *(US \$0.01 change in relative value to the Canadian dollar before hedging)*

**\$10**

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

**\$4**



# MANAGEMENT'S FINANCIAL ASSUMPTIONS

Actual 2013 / Revised 2014

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

## Selected Financial Assumptions

	2013A	2014 Original	2014 Revised
Planned maintenance costs	\$466	\$462	\$458
CAPEX	\$242	\$260-280	\$290-310
Depreciation and amortization	\$378	\$370-380	\$380-390
Interest expense	\$89	\$100	\$100
Income tax rate	(28%)	28-30%	28-30%



## OUTLOOK

- **Price realizations in paper are expected to further improve from the first quarter as a result of the second price increase while volumes are expected to remain relatively stable**
- **The second quarter will be affected by the seasonally higher maintenance activity**
- **Input costs are expected to return to more normal levels for the remainder of the year**
- **Personal Care will continue to benefit from the recent acquisition of Indas and the addition of the new production lines towards the end of the year**





# 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
Paper	977	995	971	963	928	936
Pulp (incl. intrasegment sales)	289	292	295	294	321	289
Intrasegment sales – Pulp	(48)	(49)	(58)	(53)	(56)	(57)
Pulp	241	243	237	241	265	232
<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>
Paper	168	131	125	116	129	124
Pulp	(4)	22	(7)	29	37	28
<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>
Paper Shipments – Manufactured	805	828	801	814	817	804
Paper Shipments - Sourced from 3 <sup>rd</sup> parties	78	83	85	73	41	50
<b>PAPER SHIPMENTS</b>	<b>883</b>	<b>911</b>	<b>886</b>	<b>887</b>	<b>858</b>	<b>854</b>
<b>PULP SHIPMENTS</b>	<b>385</b>	<b>372</b>	<b>344</b>	<b>352</b>	<b>377</b>	<b>318</b>
<b>PERSONAL CARE SEGMENT</b>						
<i>(In millions of dollars)</i>	4Q'12	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14
<b>SALES</b>	<b>111</b>	<b>111</b>	<b>108</b>	<b>175</b>	<b>172</b>	<b>233</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>

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# THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE



  
Domtar