

# **DOMTAR CORPORATION**

## **FOURTH QUARTER 2017 EARNINGS CALL**

### **February 8, 2018**

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



# **Domtar**

# SAFE HARBOR

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## 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, 2016 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 the Analyst Corner of the IR section of the website).

# OVERVIEW

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## Fourth Quarter 2017

- Strong free cash flow generation
- Announced a 4.8% dividend increase in Q1'18
- Good cost management during planned maintenance outages
- Unfavorable product and customer mix in paper due to seasonality
- Results in pulp driven by strong volume and significant price improvement
- Price increases announced for several pulp and uncoated freesheet grades
- Strong performance in Personal Care driven by a holiday season promotional program and the seasonally strong quarter in adult incontinence and direct-to-consumer businesses

# FINANCIAL HIGHLIGHTS

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## Fourth Quarter 2017

- Net loss of \$5.42 per share; earnings before items\* of \$0.64 per share
- Non-cash goodwill impairment charge in Personal Care of \$578 million
- Deferred tax benefit of \$186 million related to the U.S. Tax Cuts and Jobs Act
- EBITDA before items\* of \$141 million
- Cash flow from operating activities of \$125 million
- Capital expenditures of \$71 million
- Dividend payout of \$26 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'17 vs. 3Q'17** (in millions of dollars)

	3Q'17	4Q'17	
<b>Sales</b>	<b>1,292</b>	<b>1,337</b>	Higher sales in Pulp and Personal Care
Cost of sales	1,012	1,076	
Depreciation and amortization	80	82	
SG&A	118	119	
Impairment of goodwill and PP&E	-	578	Non-cash goodwill impairment charge associated with Personal Care
Closure and restructuring costs	-	2	
Other operating (income), net	(7)	(8)	
<b>Operating income (loss)</b>	<b>89</b>	<b>(512)</b>	
Interest expense, net	16	16	
Income tax expense (benefit)	3	(188)	Deferred tax benefit related to the U.S. Tax Cuts and Jobs Act
<b>Net earnings (loss)</b>	<b>70</b>	<b>(340)</b>	

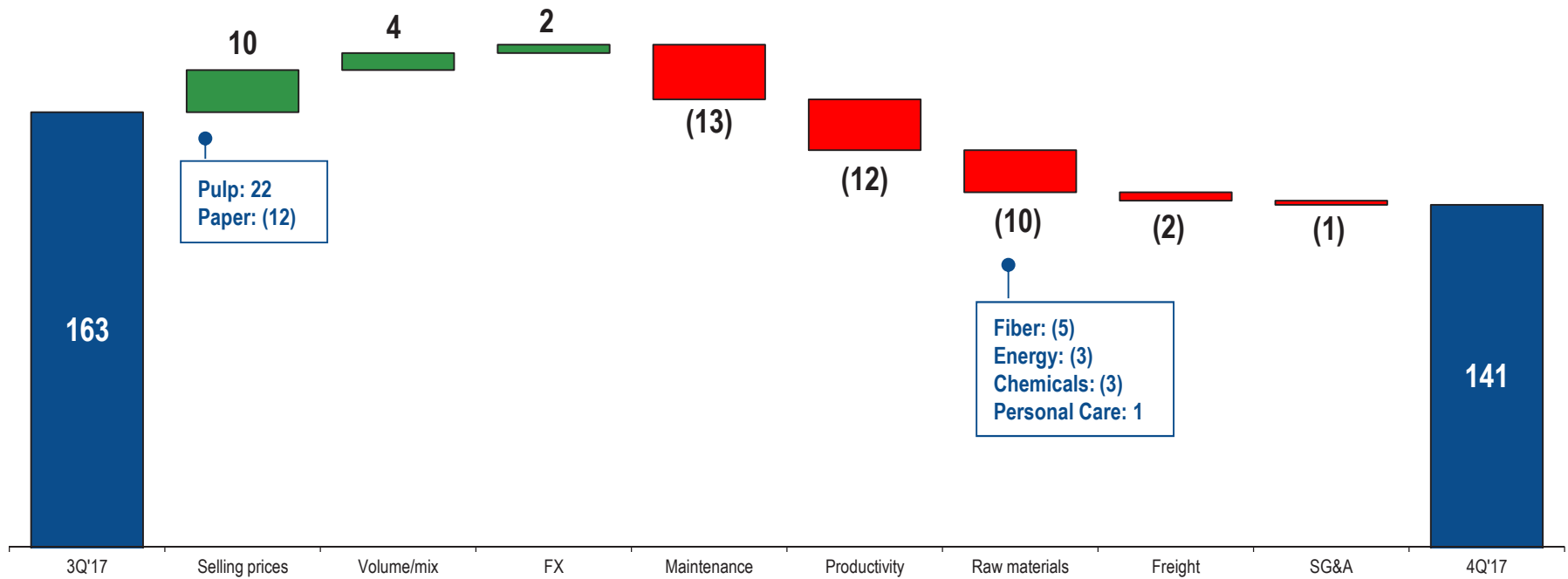
# CASH FLOW STATEMENT

**4Q'17 vs. 4Q'16** *(in millions of dollars)*

	4Q'16	4Q'17
<b>Net earnings (loss)</b>	<b>47</b>	<b>(340)</b>
Depreciation and amortization	85	82
Deferred income taxes and tax uncertainties	3	(188)
Impairment of goodwill and PP&E	-	578
<b>Changes in assets and liabilities</b>		
Changes in working capital	19	(4)
Pension contribution over expense	(5)	1
Other	6	(4)
<b>Cash flows from operating activities</b>	<b>155</b>	<b>125</b>
Additions to PP&E	(45)	(71)
Acquisition of business, net of cash acquired	(45)	(8)
Proceeds from disposal of PP&E and sale of business	1	11
<b>Cash flows used for investing activities</b>	<b>(89)</b>	<b>(68)</b>
Dividend payments	(26)	(26)
Changes in borrowings	(79)	(36)
<b>Cash flows used for financing activities</b>	<b>(105)</b>	<b>(62)</b>

# EBITDA BEFORE ITEMS\*

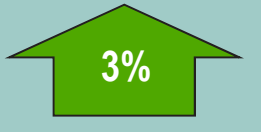
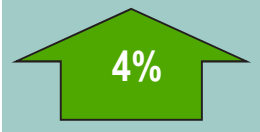


4Q'17 vs. 3Q'17 (in millions of dollars)



\* 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'17	vs. 3Q'17	vs. 4Q'16
Sales	\$1,090	 3%	 4%
EBITDA before items *	\$122	 \$30	 \$18

- Good execution and cost management during planned maintenance outages
- Price increases announced for several pulp and uncoated freesheet grades
- Solid pulp shipments driven by strong fluff pulp volumes
- Recently announced capacity closures and lower imports expected to result in favorable market conditions in paper over the next 12-18 months
- Expect to begin wind down of the NC 2 pulp line at Plymouth mill in Q1'18

\* 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



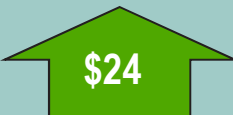

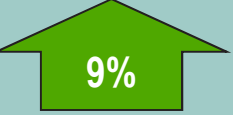
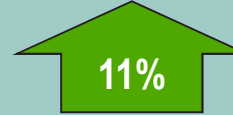
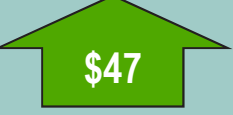

## PAPER *(in millions of dollars)*

	4Q'17	vs. 3Q'17	vs. 4Q'16
Sales	\$748	↓ 2%	↓ 4%
EBITDA before items *	\$65	↓ \$54	↓ \$52
	4Q'17	vs. 3Q'17	vs. 4Q'16
Shipments <i>(manufactured, in thousands of short tons)</i>	726	↑ 1%	↓ 2%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$17	↓ \$21

\* 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

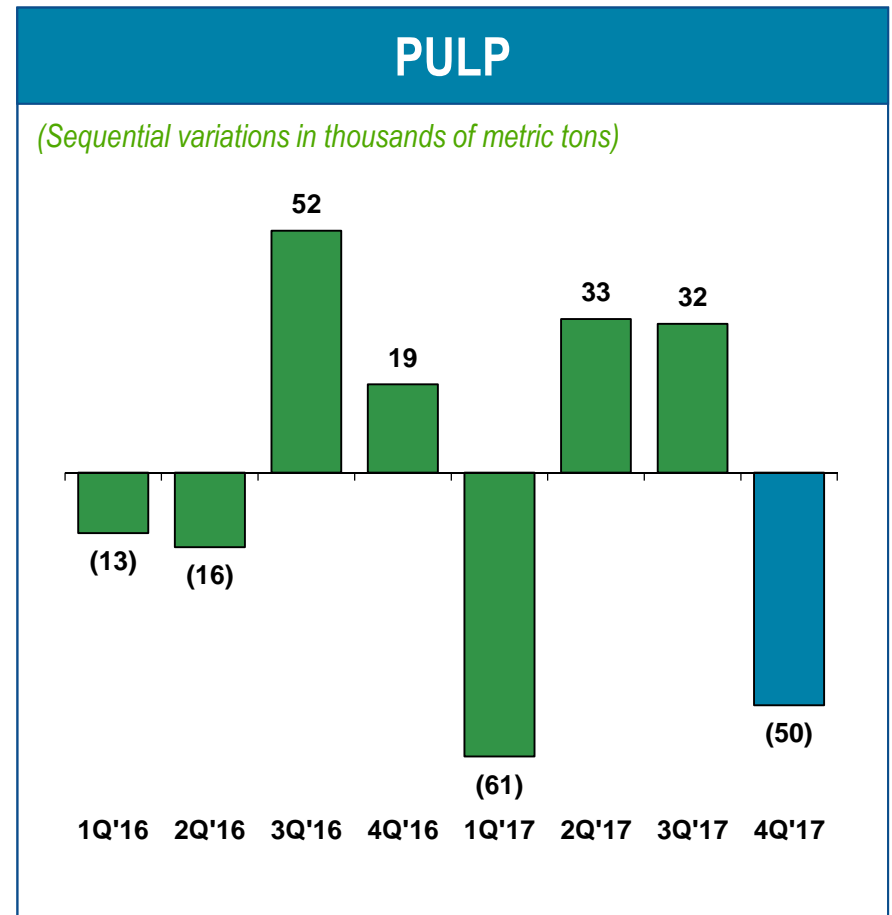
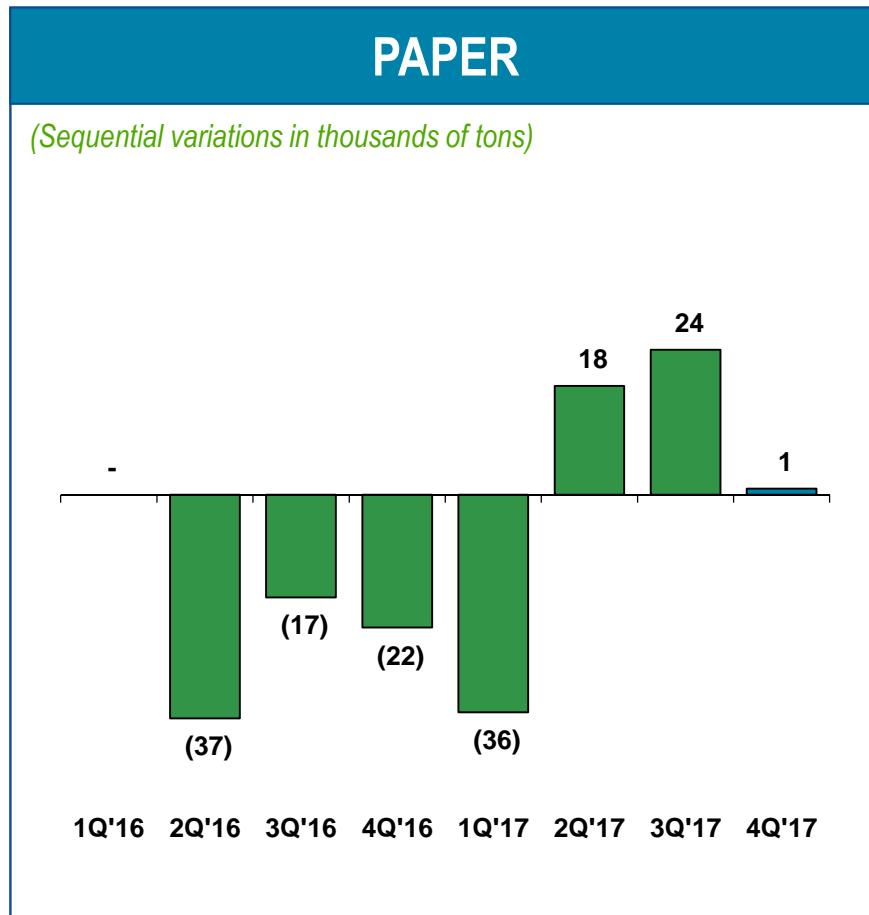
## PULP *(in millions of dollars)*

	4Q'17	vs. 3Q'17	vs. 4Q'16
<b>Sales</b> <i>(incl. intersegment sales)</i>	\$342	 18%	 29%
<b>EBITDA before items *</b>	\$57	 \$24	 \$34
	4Q'17	vs. 3Q'17	vs. 4Q'16
<b>Shipments</b> <i>(in thousands of ADMT)</i>	462	 9%	 11%
<b>Transaction prices</b> <i>(US\$ / ADMT – net, all regions)</i>		 \$47	 \$97

\* 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)

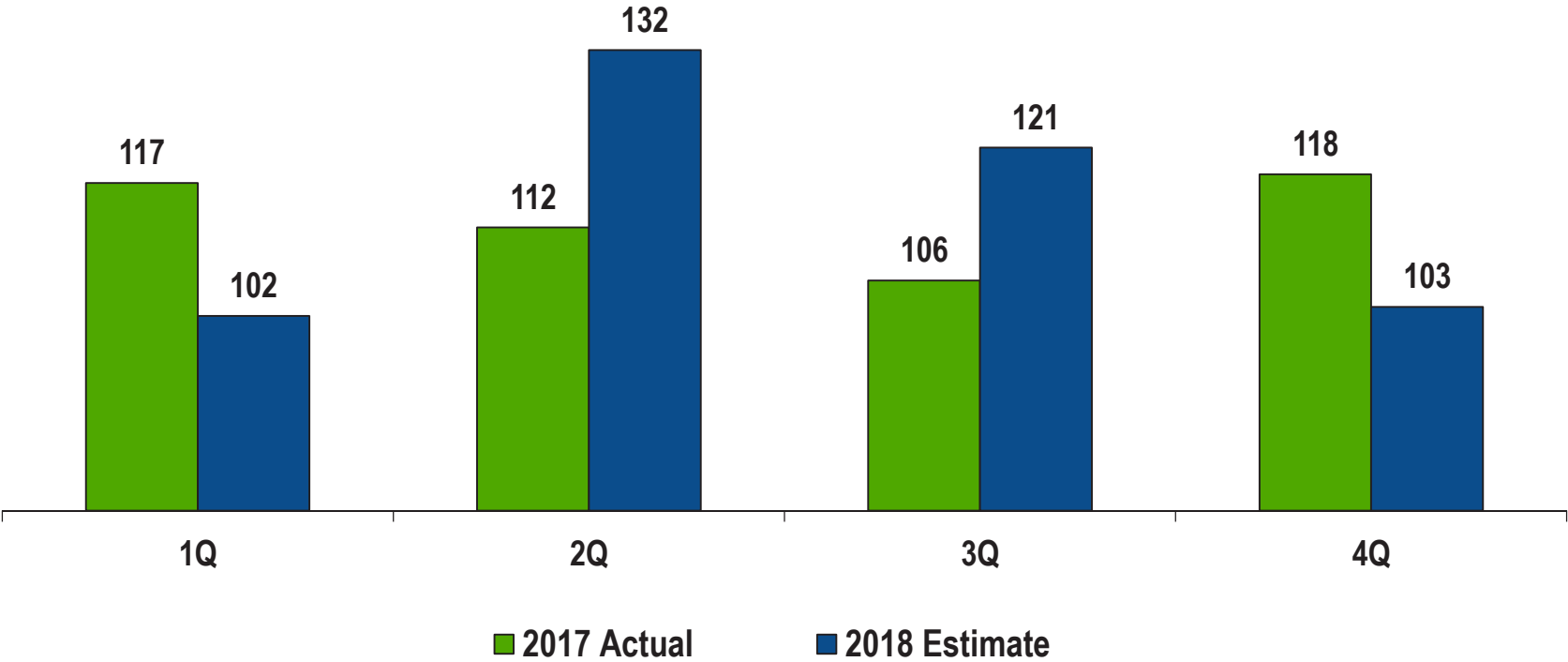
	4Q'17	vs. 3Q'17	vs. 4Q'16
Sales	\$262	 4%	 8%
EBITDA before items*	\$34	 \$9	 \$2
Same Currency Sales (@3Q'17 FX rate)	\$262	 4%	
Same Currency Sales (@4Q'16 FX rate)	\$252		 4%

- Best quarter of 2017 driven by additional volume related to a holiday season promotional program
- Seasonally strong quarter in our adult incontinence and direct to consumer businesses
- Initiated a review of operations to further optimize cost structure

\*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 in Pulp and Paper

# SENSITIVITY ANALYSIS

*(in millions of dollars)*

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

Business Papers

\$15

Commercial Print & Publishing Papers

\$9

Specialty & Packaging Papers

\$6

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

Softwood

\$10

Fluff

\$7

Hardwood

\$1

## **Foreign exchange**

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

\$9

US \$0.01 change in relative value to the Euro before hedging

\$2

## **Energy**

Natural gas: \$0.25/MMBtu change in price before hedging






\$6

### Annualized impact on EBITDA

# MANAGEMENT'S FINANCIAL ASSUMPTIONS

## 2017 ACTUAL/ 2018 ESTIMATE

(in millions of dollars)

	2017A	2018E	Variation
Maintenance costs	\$453	\$458	
CAPEX	\$182	\$200-220	
Depreciation and amortization	\$321	\$310-320	
Interest expense	\$66	\$64	
Income tax rate	45%	17-19%*	

\*This is subject to adjustments as more guidance becomes available around Tax Reform

## 2018 OUTLOOK

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- Costs, including freight, labor and raw materials are expected to marginally increase
- Paper shipments should benefit from expected industry capacity closures
- Paper prices should improve following the recently announced price increases
- Pulp will benefit from volume growth in fluff
- Personal Care is expected to be negatively impacted by an unfavorable tender balance, resulting in lower volume and operating margins





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**Appendix**

# SUPPLEMENTAL SEGMENTED INFORMATION

<b>PULP &amp; PAPER SEGMENT</b>									
<i>(In millions of dollars)</i>	<b>4Q'15</b>	<b>1Q'16</b>	<b>2Q'16</b>	<b>3Q'16</b>	<b>4Q'16</b>	<b>1Q'17</b>	<b>2Q'17</b>	<b>3Q'17</b>	<b>4Q'17</b>
Paper	850	844	816	810	781	786	734	764	748
Pulp (incl. intrasegment sales)	301	284	275	277	295	316	296	321	371
Intrasegment sales – Pulp	(41)	(43)	(37)	(33)	(30)	(29)	(31)	(31)	(29)
Pulp	260	241	238	244	265	287	265	290	342
<b>SALES</b>	<b>1,110</b>	<b>1,085</b>	<b>1,054</b>	<b>1,054</b>	<b>1,046</b>	<b>1,073</b>	<b>999</b>	<b>1,054</b>	<b>1,090</b>
Paper	135	109	114	140	117	100	96	119	65
Pulp	45	6	17	35	23	(2)	32	33	57
<b>EBITDA before items*</b>	<b>180</b>	<b>115</b>	<b>131</b>	<b>175</b>	<b>140</b>	<b>98</b>	<b>128</b>	<b>152</b>	<b>122</b>
Paper Shipments – Manufactured	797	786	752	744	739	745	698	722	726
Paper Shipments – Sourced from 3rd parties	28	32	29	35	27	29	26	29	25
Paper Shipments	825	818	781	779	766	774	724	751	751
Pulp Shipments	386	369	360	369	415	453	383	424	462
<b>PERSONAL CARE SEGMENT</b>									
<i>(In millions of dollars)</i>	<b>4Q'15</b>	<b>1Q'16</b>	<b>2Q'16</b>	<b>3Q'16</b>	<b>4Q'16</b>	<b>1Q'17</b>	<b>2Q'17</b>	<b>3Q'17</b>	<b>4Q'17</b>
<b>SALES</b>	<b>221</b>	<b>216</b>	<b>228</b>	<b>231</b>	<b>242</b>	<b>249</b>	<b>241</b>	<b>253</b>	<b>262</b>
<b>EBITDA before items*</b>	<b>32</b>	<b>30</b>	<b>30</b>	<b>31</b>	<b>32</b>	<b>32</b>	<b>29</b>	<b>25</b>	<b>34</b>
<b>CORPORATE</b>									
<i>(In millions of dollars)</i>	<b>4Q'15</b>	<b>1Q'16</b>	<b>2Q'16</b>	<b>3Q'16</b>	<b>4Q'16</b>	<b>1Q'17</b>	<b>2Q'17</b>	<b>3Q'17</b>	<b>4Q'17</b>
<b>EBITDA before items*</b>	<b>(8)</b>	<b>(15)</b>	<b>(9)</b>	<b>(12)</b>	<b>(13)</b>	<b>(8)</b>	<b>(14)</b>	<b>(14)</b>	<b>(15)</b>

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# THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



 Domtar