

Domtar CORP  
Form DEFA14A  
April 01, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**DOMTAR CORPORATION**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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MESSAGE

TO SHAREHOLDERS

## Partners

every day

At Domtar, we are taking action every day to shape our future and deliver meaningful value for our shareholders. Guided by clear strategic priorities and a well-defined plan that positions Domtar for sustainable growth, our business transformation is well underway, and our results demonstrate the progress we are making. Our goal over the longer term is to generate annual EBITDA of \$300 million to \$500 million from growing fiber-based businesses, while delivering solid value for shareholders along the way.

Our Personal Care division is gaining traction in North America and Europe, both in the adult incontinence and infant care categories, and growth is accelerating. Our Pulp and Paper division is proving resilient year after year. We remain the North American leader in uncoated freesheet, with industry-leading margins over the past several years. We are repurposing assets and leveraging the flexibility of this division's integrated value chain to capture opportunities that deliver higher value, more sustainably.

Thanks to our strong and steady performance in our Pulp and Paper division, which generated approximately \$4.5 billion in sales in 2015, we have been able to invest in growth markets and reward our shareholders. From January 2011 to December 2015, we returned approximately \$1.3 billion to shareholders—fully 72% of our free cash flow, through share buybacks and dividends—while maintaining a strong financial position.

## **DRIVING VALUE IN OUR CORE BUSINESS**

Our 2015 shipments of communication papers—which account for about 80% of Domtar's total paper mix—benefited from higher white-collar employment and an increase in direct mail marketing. Shipments were also up for specialty and packaging grades, a category that represents 16% of our mix and tracks GDP growth.

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**FROM JANUARY 2011 TO DECEMBER 2015, DOMTAR RETURNED APPROXIMATELY \$1.3 BILLION TO SHAREHOLDERS THROUGH SHARE BUYBACKS AND DIVIDENDS.**

**OVER \$900 MILLION IN CUMULATIVE BUYBACKS**

In 2016, Domtar will remain a supplier of choice for a broad range of paper customers and channel partners by staying focused on innovation, product quality, technical support and excellent service. The recent favorable decisions by the U.S. International Trade Commission and the U.S. Department of Commerce to address unfairly-priced imports of certain uncoated paper into the United States will support higher shipments from U.S. manufacturers in 2016.

Our customers and partners continue to appreciate our initiatives to reinforce the practical and enduring qualities of paper and encourage its responsible use. This includes our *Print Works!* publications and our edgy, award-winning *PAPERbecause* campaign, which advocates for paper through innovative promotions.

Market pulp represents 19% of our consolidated sales, and we continue to diversify and expand in growth markets. Pulp volumes remained strong in 2015, and we expect higher sales following the completion of our paper machine conversion into a fluff pulp line in Ashdown, Arkansas, in the second half of 2016. We are adding over 500,000 air dry metric tons (ADMT) in annual pulp capacity on a machine that will also be able to produce softwood bales. The repurposing of this asset will further shift our pulp customer base toward growth markets. Our goal is for 50% of the production capacity on this machine to be used for fluff pulp by 2017.

The Pulp and Paper division achieved solid productivity last year, driven by full capacity operation and the introduction of continuous improvement and reliability programs across our mill network that is extracting costs from the system and is reducing maintenance spending, an ongoing objective. We expect these programs to generate further productivity improvements in 2016 and beyond as we pursue our goal to be the lowest cost producer in the industry.

MESSAGAE

TO SHAREHOLDERS

## **EXPANDING DOMTAR'S FOOTPRINT IN PERSONAL CARE**

Over the past few years, we have established a meaningful position in the global personal care market through strategic acquisitions, investments in expanded and improved manufacturing, product innovation and organic growth. Today, we have a growing position in institutional channels for adult incontinence products in North America and Europe. We are one of the largest suppliers of private-label baby diapers in the North American retail channel and a leader in the branded adult incontinence segment in Spain. The personal care market has attractive fundamentals, and we are investing to build efficiency and scale, and to expand our product offering.

In 2015, we achieved cost savings from our new manufacturing platform and secured significant new business in key retail channels that will be reflected in our 2016 sales. These wins reflect the strength of our partner brand model, a unique go-to-market approach that offers close alignment with the needs of our customers. We are bringing more choice, innovation and flexibility to the private-label market, as well as technical expertise, category management and customer service.

Whether developing products with our clients or marketing our own, we are at the forefront of innovation for absorbent materials and product design. We incorporated new innovation in the re-launch of our line of branded light incontinence products in Spain, which was well received by consumers, and we conducted consumer testing for innovations that will be launched in 2016 within our infant line and adult incontinence brief design. This is the R&D engine of our personal care business.

Overall, our broadening product assortment across the absorbent hygiene spectrum will further position us as a partner of choice, with the offering, insight and scale to provide required service levels in both products and distribution capabilities. As we continue to win new business and strengthen customer relationships, we are confident that this growth segment will contribute significantly to achieving Domtar's long-term objectives.

## **CREATING VALUE FOR SHAREHOLDERS**

We increased our quarterly dividend by 7% to \$0.40 per share and our stock buyback program from \$1 billion to \$1.3 billion in 2015. For the year, we returned over 90% of our free cash flow directly to shareholders. We will continue to pursue a balanced approach to the deployment of our capital, while maintaining the flexibility to execute our growth strategy.

Maximizing value in our pulp and paper business and positioning Domtar in growth markets remain our strategic priorities. We are also committed to operating responsibly, an ethic that is engrained in our culture and drives everything we do. From the environmental compliance of our operations and making responsibly-sourced and manufactured products, to giving back to our communities, we are committed to setting an example of sustainable business.

We are pleased with our progress in 2015 and look forward to achieving new milestones in the years ahead as our investments and our efforts bear fruit. We are confident in our strategy. In 2016, a significant portion of our capital expenditures will be allocated to investments in pulp and personal care, further advancing our long-term financial objectives. We will remain squarely focused on execution and on ensuring that we deliver value for our shareholders, employees, customers and communities by shaping our future, every day.



**John D. Williams**

President and Chief Executive Officer

*The terms EBITDA and free cash flow referred to in this message are non-GAAP financial measures. Please see Reconciliation of non-GAAP financial measures at [domtar.com](http://domtar.com).*

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## **PULP**

In addition to paper products, we also sell papergrade, fluff and specialty pulp that we manufacture in excess of our internal needs. Our papergrade softwood and hardwood pulp is mainly used to make tissue, towel, packaging and specialty products. Fluff pulp, derived from softwood fibers, is used in a broad range of absorbent products - baby diapers, feminine hygiene and adult incontinence products.

**1.7 MILLION**

**AIR DRY**

**METRIC TONS**

**OF MARKET PULP**

The location of our mills positions us well for serving the growing export markets, where over half our market pulp is sold, and for the North American tissue, hygiene and specialty customers we currently serve. The global pulp market is experiencing modest growth, and we plan on growing our position in the softwood and fluff pulp market by the end of 2016 with the announced capacity conversion at Ashdown, Arkansas.

Together, our pulp and paper products are sold in over 40 countries around the world.

Recyclable, re-usable and sourced from renewable forests, Domtar pulp and paper products bring value to the businesses and consumers who use them every day.

BUSINESS SEGMENTS

## HEALTH AND SAFETY

Beginning in 2014 and reaching full implementation in 2015, Domtar embarked on a Life-altering Injury, Fatality Elimination (LIFE) journey to provide additional focus on the elimination of serious injury. The importance of this program was heightened by an employee fatality in late 2015. For the year, nine pulp and paper sites were free of recordable incidents.

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BUSINESS SEGMENTS

**HEALTH AND SAFETY**

In 2015, the Personal Care division reduced incident frequency by 29%, with two sites remaining injury-free for the year. To further improve its safety performance, the recently implemented, division-wide Environmental Health and Safety Steering Council developed comprehensive safety plans for each facility.

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MANAGEMENT COMMITTEE AND  
BOARD OF DIRECTORS

Responsible

every day

Domtar upholds the highest standards of ethical and socially responsible behavior. Our commitment is supported and enforced by Domtar's Code of Business Conduct and Ethics which is applicable to all our directors and employees strict Corporate Governance Guidelines and a robust compliance program. As a responsible corporate citizen, Domtar has adopted policies and best practices that often go beyond what the law requires. Promoting strong governance and diversity, as well as ensuring the compliance with policies and procedures, is a responsibility we take seriously every day.

For more information on our governance practices, or to consult our proxy statement, please visit [domtar.com](http://domtar.com).

MANAGEMENT COMMITTEE

**John D. Williams**

President  
and Chief Executive  
Officer

**Michael D. Garcia**

President  
Pulp and Paper Division

**Zygmunt Jablonski**

Senior Vice President  
and Chief Legal  
and Administrative  
Officer

**Daniel Buron**

Senior Vice President  
and Chief Financial  
Officer

**Michael Fagan**

President  
Personal Care Division

**Patrick Loulou**

Senior Vice President  
Corporate Development

**BOARD OF DIRECTORS**

**Robert J. Steacy**

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Domtar Corporation

Toronto, Ontario

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Chief Executive Officer

Harmless Harvest, Inc.

San Francisco, California

**Robert E. Apple**

Chief Operating Officer

MasTec, Inc.

Miami, Florida

**Louis P. Gignac**

Chairman

G Mining Services Inc.

Montreal, Quebec

**David J. Illingworth**

Corporate Director

Orchid, Florida

**Brian M. Levitt**

Chairman of the Board

The Toronto-Dominion Bank

Vice-Chair, Osler Hoskin &

Harcourt LLP

Montreal, Quebec

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Corporate Director

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South Carolina

**Domenic Pilla**

Corporate Director

Toronto, Ontario

**Pamela B. Strobel**

Corporate Director

Chicago, Illinois

**Denis Turcotte**

President and CEO

North Channel Management and

North Channel Capital Partners

Sault Ste. Marie, Ontario

**John D. Williams**

President and

Chief Executive Officer

Domtar Corporation

Charlotte, North Carolina

**Mary A. Winston**

Corporate Director

Charlotte, North Carolina



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## Selected financial

figures

| Years ended December 31 | 2013 | 2014 | 2015 |
|-------------------------|------|------|------|
|-------------------------|------|------|------|

(In millions of dollars unless otherwise noted)

|   |       |       |       |
|---|-------|-------|-------|
| Consolidated sales per segment  |       |       |       |
| Pulp and Paper  | 4,843 | 4,674 | 4,458 |
| <i>Intersegment sales Pulp and Paper</i>  | (18)  | (39)  | (63)  |
| Personal Care   |       |       | 869   |
|   | 566   | 928   |       |
| Consolidated sales  | 5,391 | 5,563 | 5,264 |
| Operating income (loss) per segment   |       |       |       |
| Pulp and Paper  | 244   | 352   | 270   |
| Personal Care   | 40    | 49    | 61    |
| Corporate   | (123) | (37)  | (43)  |
| Operating income  | 161   | 364   | 288   |
| Net earnings  | 91    | 431   | 142   |
| Cash flow provided from operating activities  | 411   | 634   | 453   |
| Capital expenditures  | 242   | 236   | 289   |
| Free cash flow <sup>1</sup>   | 169   | 398   | 164   |
| Total assets  | 6,278 | 6,185 | 5,663 |
| Long-term debt, including current portion   | 1,514 | 1,350 | 1,260 |
| Net debt-to-total capitalization ratio <sup>1</sup>   | 24%   | 29%   | 30%   |
| Total shareholders' equity  | 2,782 | 2,890 | 2,652 |
| Weighted average number of common and exchangeable shares outstanding in millions (diluted) | 66.7  | 64.9  | 63.4  |

<sup>1</sup> Non-GAAP financial measure. Please see "Reconciliation of non-GAAP Financial Measures" at [domtar.com](http://domtar.com).

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Shareholder  
information

Production  
notes

**DIVIDENDS DECLARED IN 2015**

| <b>Declared</b>   | <b>Record Date</b> | <b>Payable Date</b> | <b>Amount</b> |
|-------------------|--------------------|---------------------|---------------|
| November 4, 2015  | January 4, 2016    | January 15, 2016    | \$0.40        |
| August 5, 2015    | October 2,<br>2015 | October 15, 2015    | \$0.40        |
| May 5, 2015       | July 2, 2015       | July 15, 2015       | \$0.40        |
| February 23, 2015 | April 2, 2015      | April 15, 2015      | \$0.40        |

**PAPER**

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**EXCHANGE LISTINGS**

NYSE: UFS  
  
TSX: UFS

**INVESTOR RELATIONS**

**Investor Relations Department**  
  
**Domtar Corporation**  
  
395 de Maisonneuve Blvd. West  
  
Montreal, QC Canada H3A 1L6

**DIVIDEND POLICY**

Subject to approval by our Board of Directors, Domtar pays a quarterly dividend on its common stock.

Tel.: 514-848-5555  
  
Voice Recognition: Investor Relations  
  
Email: ir@domtar.com

**TRANSFER AGENT**

Electronic versions of this report, SEC

**PRINTING**

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**AND REGISTRAR** filings and other publications are

**Computershare** available at [domtar.com](http://domtar.com)

P.O. BOX 30170

College Station, TX 77845-3170

**ANNUAL MEETING**

North American Toll Free Number: Tuesday, May 3, 2016, 5 p.m. ET

1-877-282-1168

Domtar Corporate Office

Tel.: 1-781-575-2879

234 Kingsley Park Drive

[computershare.com/investor](http://computershare.com/investor)

Fort Mill, SC 29715

**WE THANK THE  
DOMTAR  
EMPLOYEES  
WHO  
PARTICIPATED  
IN THE COVER  
PHOTO**

Cindy Chee,  
Internal Auditor  
Vincent Déry,  
Advisor  
Pension Plans  
Dominique Buslot,  
Manager  
IT Service  
Providers

**TENTATIVE EARNINGS SCHEDULE**

First Quarter 2016: Thursday, April 28, 2016

Second Quarter 2016: Thursday, July 28, 2016

Third Quarter 2016: Thursday, October 27, 2016

Fourth Quarter 2016: Thursday, February 9, 2017

Domtar is pleased to make an annual contribution of \$425,000 to WWF from the sale of FSC<sup>®</sup> Certified EarthChoice<sup>®</sup>

<sup>®</sup> WWF Registered Trademark. Panda Symbol

© 1986 WWF. © 1986 Panda symbol  
WWF-World Wide Fund for Nature (also known as World Wildlife Fund).

<sup>®</sup> WWF is a WWF Registered Trademark

Learn the environmental, social and economic impacts of Domtar products at [domtarpapertrail.com](http://domtarpapertrail.com).