

# **FINAL TRANSCRIPT**

**DATA Group Inc.**

**Third Quarter Results**

**Event Date/Time: November 8, 2013 - 11:00 a.m. E.T.**

**Length: 12 minutes**

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**CORPORATE PARTICIPANTS****Michael Suksi***DATA Group Inc. – President and Chief Executive Officer***Paul O’Shea***DATA Group Inc. – Chief Financial Officer and Corporate Officer***CONFERENCE CALL PARTICIPANTS**

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**PRESENTATION****Operator**

Good morning. My name is Sharon and I will be your conference operator today. At this time, I would like to welcome everyone to the DATA Group Inc. Third Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one, on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

Mr. Michael Suksi, President and Chief Executive Officer for the DATA Group, you may begin your conference.

**Michael Suksi** – President and Chief Executive Officer, DATA Group Inc.

Thank you and good morning everyone. Thank you for joining us to review the DATA Group's financial results for our third quarter of 2013. Paul O'Shea, our CFO, is with me and will be discussing the Group's performance and strategic initiatives, year-to-date and for Q3 of 2013.

Before I begin, I'll remind you that our remarks and our answers to your questions today may contain forward-looking information. This information by its nature is subject to risks and uncertainties that may cause actual events or results to

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differ materially from any conclusion, forecast or projection contained in our remarks or answers. Certain material factors or assumptions were applied in drawing the conclusions, forecasts or projections included in our remarks, and answers and additional information about the applicable risk factors and assumptions are contained in the DATA Group's Annual and Quarterly Continuous Disclosure filings available on SEDAR. Also in today's conference call, all references to the DATA Group will mean its various business divisions and affiliated entities.

DATA is focused on long-term enterprise value appreciation for our investors. To do this, we are profoundly transforming our business, repositioning it for sustained profit growth by adding new revenue streams and new talent while at the same time significantly reducing our costs and positioning ourselves for accelerated debt reduction.

Why is transformational change required? Our legacy business built around supplying pre-printed products is declining due to technologically driven shifts in our markets towards digital communications. That is why we are significantly right-sizing the legacy portion of our business and reducing our cost base as we do so. At the same time, the digital market shift is creating new revenue opportunities for us. DATA has a strong customer base. Our customers are seeking visionary, forward-thinking vendors that can provide both print and digital communications and who can manage the transition between the two. That's our strategy. We will also reduce our debt to drive

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value for our investors and enhance our long-term ability to invest in the future. We believe the results of our transformation will be a lean, nimble company that thrives in the digital age.

Our transformation will take a number of years and will require a continued and intensely focused effort. Consequently, the Board of Directors has decided to suspend our dividend, effective immediately, until further notice. The funds will be redirected to debt repayment as well as investment in new capabilities, talent and cost-reducing initiatives, all of which will fuel our goal of long-term enterprise value appreciation for our investors.

Our net loss in the third quarter and year-to-date was primarily due to a non-cash goodwill impairment charge and restructuring expenses associated with our successful cost reduction initiatives. Our reduction in revenues invested in our growth strategy and a smaller deferred income tax recovery also contributed to the net loss for the quarter and year-to-date, all of which have been partially offset by cost reductions.

Revenue reductions in the third quarter and year-to-date were primarily due to losses of some legacy print orders to our competition. This has been an unusual result for us. In the past years, in the past three or four years, we have won more print business in the legacy part of our business than we have lost to our competition. It's an area where we have typically been up; this year we're down. That's the number one

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driver of the change in our revenue. The secondary reason for our revenue decline is the technological impact of increased digital communication. This decline was largely offset year-to-date by gains in revenue from our new products and new services.

The following provides more specifics on our strategy and progress on our key initiatives year-to-date. Our goal is to stabilize and then grow our revenue. To do this, DATA is investing in transformational, new digital capabilities and expertise. In the past 30 months, we have launched, acquired or expanded the following products and services: digital direct marketing, marketing campaign management, automation software, marketing campaign fulfillment services, workflow automation consulting services, digital document management and digital document scanning, and large-format promotional signage. We have also added significant new talent to support these changes. As a result, instead of only supplying print and related distribution, we can now re-engineer entire document-intensive marketing and administrative processes from beginning to end. Our approach includes converting paper-based functions to digital and outsourcing of entire processes. Clients benefit from cost reduction, revenue enhancement from improved effectiveness in their marketing campaign execution, DATA's reliable service and optimized document processes.

Another new revenue opportunity is supplying our clients' US requirements in addition to the Canadian ones we have traditionally supplied. Many of our customers

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have outsourced the management of all of their documents and related processes to DATA in multiyear, single-source relationships in Canada. These clients have US operations as well, providing an opportunity for DATA to expand our relationship with them across North America. We have established our first such agreement with a large financial institution with a corresponding new DATA location in Chicago.

In 2013, DATA began implementing a comprehensive, three-year cost reduction program. To do this, we are right-sizing our production capacity in the legacy portion of our business, automating our workflow processes and streamlining our organizational structure. The actions that have been implemented year-to-date will generate \$12 million in annualized savings. Additional cost savings initiatives will be implemented through 2014 and 2015.

To provide some specifics on this, in the first three quarters of 2013, we closed three and down-sized two of our 25 production sites. We have also reduced our material costs, begun implementation of new information management systems, consolidated three internal reporting divisions into one, and engaged a major consulting firm to identify and act on additional cost savings opportunities.

DATA intends to accelerate our rate of debt reduction. Debt repayments will be funded through the suspension of our dividend and improving financial results as our revenue growth and cost savings programs take effect.

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I'll now turn it over to Paul to talk about our specific financial results.

**Paul O'Shea** –Chief Financial Officer and Corporate Officer, DATA Group Inc.

Thanks, Michael. For the quarter ended September 30, 2013, DATA Group recorded revenues of \$74.1 million, a decrease of \$6 million or 7.5 percent compared to the same period in 2012. The decrease before intersegment revenues was the result of a \$6 million decrease in the DATA East and West segment and was offset by a \$100,000 increase in our Multiple Pakfold segment.

For the nine months ended September 30, 2013, DATA Group recorded revenues of \$234.8 million, a decrease of \$14.6 million or 5.8 percent compared with the same period in 2012. The decrease before intersegment revenues was the result of a \$14.1 million decrease in the DATA East and West segment and a \$500,000 decrease in the Multiple Pakfold segment.

Revenues for the three and nine months ended September 30 decreased from the same period in the prior year, primarily due to a change in product mix and orders from existing customers for print-related products and services which did not repeat in 2013. Revenues for those periods were also adversely affected by competitive, aggressive pricing by DATA Group's competitors supplying similar products and services. During the third quarter and the first nine months of 2013, we continued to experience revenue gains from new business, particularly from the start up of a new contract in the

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United States which has partially offset some of those declines from existing customers.

For the quarter ended September 30, 2013, Adjusted EBITDA was \$4.4 million or 5.9 percent of revenues. Adjusted EBITDA for the quarter ended September 30, 2013 decreased \$1.5 million or 26 percent from the same period in the prior year due to the continued investment in DATA Group's growth strategy and a decline in revenues, and was partially offset by cost savings realized as a result of our restructuring initiatives. These costs included SG&A expense related to investments to launch new products and services. The Adjusted EBITDA for the quarter as a percentage of revenues decreased from 7.4 percent in 2012 to 5.9 percent in 2013.

Adjusted EBITDA for the nine months ended September 30, 2013 was \$17.5 million or 7.5 percent of revenues. Adjusted EBITDA for the nine months ended September 30, 2013 decreased \$2.3 million or 11.7 percent from the same period in the prior year, and the Adjusted EBITDA margin for the nine-month period as a percent of revenues decreased from 8 percent of revenues in 2012 to 7.5 percent in 2013.

I'd also like to point out that during the quarter we completed an amending agreement to extend the maturity of our existing credit facilities to August 31, 2015. As part of that, we reduced the available credit facilities from \$90 million to \$70 million, and also, we are required under the amending agreement to make principal repayments of \$3 million on each of March 31 and September 30 of each year, commencing on

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March 31, 2014.

I'll now turn it back to Michael for some closing remarks.

**Michael Suksi** – President and Chief Executive Officer, DATA Group Inc.

Thank you, Paul. We are in the midst of a multiyear, significant transformation of our business and we believe in the longer term this will benefit our valued shareholders, customers and employees. Our revenue and Adjusted EBITDA results year-to-date, which we are not satisfied with, confirm that this strategic plan is necessary because we are seeing gradual but steady declines in our legacy business due to technological change.

I am optimistic about our key initiatives. Cost reduction is on-track, revenue from new sources is growing and our debt reduction plans are prudent.

I'd like to thank you for joining us today and I turn it back to the Operator to open it up for any questions you may have.

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## Q & A

### Operator

At this time, I would like to remind everyone, in order to ask a question, press

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star, then the number one, on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Once again, that's star, then the number one, on your telephone keypad to ask a question.

We have no further questions at this time. I turn the call over to the presenters.

**Michael Suksi** – President and Chief Executive Officer, DATA Group Inc.

Well, thank you and we look forward to speaking to you again when we next update you on our Q4 results.

**Operator**

This concludes today's conference call. You may now disconnect.