FINAL TRANSCRIPT

DATA Group Inc.

Fourth Quarter Results

Event Date/Time: March 6, 2013 — 11:00 a.m. E.T.

Length: 27 minutes

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PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Ryan (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the DATA Group Inc. Fourth Quarter Results Call.

All lines have been placed on mute in order 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 at this time, simply press *, and the number 1 on your telephone keypad. If you would like to withdraw your question from the queue, press the # key.

I would now like to turn the call over to your President and CEO of the DATA Group, Michael Suksi.

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

Thank you, Ryan, and good morning, everyone. Thanks for joining us to review the DATA Group's financial results for the year-end and for the fourth quarter of 2012. As usual, Paul O'Shea, our CFO, is with me and I have to give you a few comments before we 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 risk and uncertainties that may cause actual events or results to 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. So let me get started.

The DATA Group made strong progress on our growth strategy in the fourth quarter of 2012. Our Q4 2012 adjusted EBITDA was ahead of the fourth quarter of 2011 by 5.1 percent as we signed significant new client agreements, launched two important new products, and initiated a new program to accelerate our rate of cost savings reductions in 2013 and beyond.

We incurred a net loss during the quarter and year to date due to a change in the valuation of our goodwill in Q4. This was a noncash adjustment, which does not impact current or future cash flows, and more closely aligns our book value per share with our current market price per share.

During the fourth quarter we announced a change in our dividend policy which was effective January 1, 2013, and improved the allocation of our available cash among dividends on our common shares, our debt reductions plans, and investment in our growth initiatives. Consistent with that announcement, in a press release issued this morning we confirmed a quarterly dividend of $0.075 per share or $0.30 on an annualized basis payable on April 15, 2013, to shareholders of record on March 29, 2013.

As evidence of the sustainability of our dividend, if we had paid the $0.075 per share in Q4 of 2012, we would have had a 30.5 percent payout of free cash flow. Based on our current business outlook we expect to continue with this dividend per share rate for the balance of 2013, while also continuing to reduce our debt and invest in new revenue-generating activities. We believe this strategy will position DATA Group for sustainable profit growth, enterprise value appreciation, and a consistent dividend payout to our shareholders over the longer term.

DATA Group continues to expand its capabilities with new electronic communications orientated solutions in order to position the company for sustainable long-term growth. The company's growth strategy from a revenue and EBITDA perspective is to meets its clients' evolving requirements by building our new e-communications services and bundling them with our traditional print services into a single holistic communications management solution. Our vision is clients will enter into multi-year outsourcing contracts with the DATA Group for this bundled solution, and we refer to the new solution as Managed Business Communications Services.

This growth strategy also includes selectively expanding into the United States with our existing clients who have US operations and making acquisitions that accelerate our expansion into new products and services.

DATA Group is also focused on continuously reducing our costs in our traditional business in order to offset investment in our growth strategy and to improve our profitability. DATA Group believes this strategy provides it with substantial opportunities to offset revenue declines in our traditional print services due to technology change and resulting in revenue and profitability growth through expanded market share in our traditional business, and from new revenue streams.

DATA Group remains focused on the successful ongoing execution of this plan in a prudent well-managed fashion, balancing our investment in the growth plans with our financial strategy.

DATA Group launched two technology-oriented services in the fourth quarter, as I mentioned. Marketing Campaign Management, a software-based service, enhances the effectiveness of our clients marketing departments by creating collaborative automated workflows between the client's marketing staff, their ad agencies, and fulfillment of their projects by the DATA Group. This results in faster and more effective marketing campaign planning, creative design, execution, and finally reporting on the results of the campaign.

In addition, DATA Group also launched Document Process Management Services. Rather than just managing the supply of blank or uncompleted documents, which we've done for quite some time, Document Process Management allows DATA to provide services associated with completing and using documents. For example, workflow consulting and process automation, scanning and archiving of documents, and related data extraction from the completed documents.

In the fourth quarter of 2012, DATA Group achieved approximately $2 million in cost savings efficiencies. In the full year 2012, we generated approximately 5.3 million in cost savings, and this is similar to what we have achieved in the previous two years.

DATA Group is now initiating a new program that it believes will increase our rate of cost savings in the future.

I'll now turn it over to Paul to go over the specific financial results for the fourth quarter and for 2012.

Paul O'Shea — Chief Financial Officer, DATA Group Inc.

Thanks, Michael. For the quarter ended December 31, 2012, we recorded revenues of 86.9 million, a decrease of 2.9 million or 3.2 percent compared to the same period in 2011. The net decrease was the result of a $3.2 million decrease in the DATA East and West segment, and was offset by a $300,000 increase in the Multiple Pakfold segment.

The decrease in revenues in the DATA East and West segment was due to declines in revenues from existing customers, and partially offset by revenue gains from new business wins. During the fourth quarter of 2012, the segment began operations and shipping from its Niles, Illinois facility servicing a large financial institution.

The increase in revenues in the Multiple Pakfold segment was attributable to market share growth as a result of implementing a targeted accounts program and improvement in successful quoting activity.

For the year ended December 31, 2012, DATA Group recorded revenues of 336.3 million, an increase of 4.3 million or 1.3 percent compared with the same period in 2011. The increase was the result of a 4.1 million increase in the DATA East and West segment and a $100,000 increase in the Multiple Pakfold segment. The increase in revenues in the DATA East and West segment was due to the inclusion of the results of the operations of FSA and Datalytics for the full year, and revenue gains from new business wins.

The increase in revenues was partially offset by declines in revenues from commercial printing in Western Canada; revenues from business documents in Ontario were lower due to several large projects from major customers in the prior year, which did not repeat, and declines in revenues from existing customers due to technological changes.

Gross profit for the quarter ended December 31, 2012, was 23.2 million, which represented an increase of $700,000 or 2.9 percent from 22.5 million for the same period in 2011. The increase in gross profit for the quarter ended December 31, 2012, was attributable to an increase in gross profit of $500,000 in the DATA East and West segment and $100,000 in the Multiple Pakfold segment. Gross profit as a percentage of revenues increased to 26.7 percent for the quarter compared to 25.1 percent for the same period in 2011.

Gross profit for the year ended December 31, 2012, was 87.2 million, which represented an increase of 3.8 million or 4.5 percent from 83.4 million for the same period in 2011. The increase in gross profit was attributable to an increase in gross profit of 3.7 million in the DATA East and

West segment and $100,000 in the Multiple Pakfold segment. Gross profit as a percentage of revenues increased to 25.9 percent for the year ended December 31, 2012, compared to 25.1 percent in the prior year.

For the quarter ended December 31, 2012, adjusted EBITDA was 9.1 million or 10.4 percent of revenues. Adjusted EBITDA for the quarter increased, as Mike said earlier, 5.1 percent from the same period in the prior year. An adjusted EBITDA margin for the quarter as a percentage of revenues increased from 9.6 percent in 2011 to 10.4 percent in 2012.

The increase was attributable to realized cost savings from the ongoing productivity improvement and cost reduction initiatives and higher profit margins related to revenues from FSA and new business wins in each of the DATA Group’s reporting segments.

Adjusted EBITDA for the year ended December 31, 2012, was 28.7 million or 8.5 percent of revenues. Adjusted EBITDA for the year ended December 31, 2012, decreased 1.7 million or 5.6 percent from the same period in the prior year. And the adjusted EBITDA margin for the year as a percentage of revenues decreased from 9.2 percent of revenues in 2011 to 8.5 percent of revenues in 2012. The decrease was attributable to the cost of DATA Group's investment in its growth strategy in 2012. These costs are included in SG&A expenses and are related to the launch of the new products and services.

Turning to capital expenditures. In the quarter, the capital expenditures were $400,000, and they related primarily to maintenance capital expenditures. For the year ended December 31, 2012, we incurred capital expenditures of $2 million related primarily to maintenance capital expenditures, but also an investment in intangible assets of $400,000 related to software licences. These capital expenditures were all financed from cash flow from operations and existing cash resources.

At December 31, 2012, we had a bank draft of 1.2 million, which consisted of outstanding cheques of 2.5 million, offset by cash and cash equivalents of 1.3 million. During the year DATA Group repaid 2.5 million of its revolving bank facility outstanding.

For the quarter ended December 31, 2012, DATA Group paid aggregate dividends—cash dividends of 3.8 million and $14 million, respectively, to its shareholders for the year. For the year ended December 31, 2012, DATA Group paid cash distributions of 1.3 million to holders of the common shares of DATA Group who were formerly unitholders of the fund.

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

Michael Suksi

Thank you, Paul. In summary, we are transitioning our business. In response to changes in technology and customer expectations, DATA is capitalizing on new technology-driven revenue growth opportunities, reducing our cost base, and reducing our debt levels.

We believe our dividend is sustainable for the balance of 2013, and we remain committed to our policy of paying 40 percent to 60 percent of free cash flow in dividends.

I'd like to thank the many people who share our strategic vision and are supporting us through this crucial transformation: our shareholders, our customers, and our dedicated employees.

Thanks for joining us, and I'll turn it back to Ryan to open it up for any questions.

Q&A

Operator

At this time, ladies and gentlemen, if you would like to ask a question over the phone, please press *, and the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Mike Elkins from TD Securities. Your line is open.

Mike Elkins — TD Securities

Hey. Good morning, guys.

Michael Suksi

Good morning, Mike.

Mike Elkins

So in the MD&A and in your script you talked quite a bit about the new program to accelerate cost savings. Can you just provide a little more detail on the program and quantify what you expect to save from it?

Michael Suksi

Well, we're not going to quantify what we expect to save on it, other than to say that if you look at our results over the past few years, three, four years, you'll see that 4 million, 5 million, 6 million a year is typically what we've been able to achieve in terms of our cost savings, Mike. And we think that we'll be able to in a material way accelerate that, which is why we've commented on it.

But beyond that I won't comment on specific numbers about what we're forecasting.

Mike Elkins

Okay. But you think an acceleration from the 4 million, 5 million, 6 million that you I guess have achieved previously?

Michael Suksi

That's correct.

Mike Elkins

And what's the source of the savings?

Michael Suksi

I would describe it as a comprehensive review of all of our expenses. You know that in our SG&A we've had increases in expenses over the last few years due to the investment in our business. We don't expect to reduce the investment we're doing, but we certainly are looking at other elements of our SG&, and we think that there's opportunities there.

And then in addition to that in our cost of goods sold we also think that there are a range of opportunities, so we're looking at this quite comprehensively. I would describe it as no stone unturned, and I would add that this is not a plan that contemplates what we're going to do in the next quarter or two only. It's a broader plan that contemplates over a period of two, three years.

Mike Elkins

Great. So on the new contract or agreement that you signed that took effect this December, just remind us of the incremental annual revenue to expect from that deal? And if you can, the incremental costs or investments that you made in the quarter to facilitate it?

Michael Suksi

Yeah. I don't think I ever gave you a hard number. I think you asked in the past call, and we'd had a little bit of a dance on that. So it's in a range in terms of incremental revenue of between 10 million and 20 million a year as it becomes fully implemented.

It is implementing in stages. For example, we launched as you know, our operations in Chicago or in more specifically in Niles, which is a suburb of Chicago, and that portion of the business got started in December.

There are additional portions of that new agreement that are starting in Q1 here in Canada, and so it's coming along pretty much as we expected.

The second part of your question, I believe, was around what kind of investments that we've had in that category?

Mike Elkins

Yeah. It's just the I guess investments either on the—I guess primarily on the income statement and what they were in Q4 and then maybe what you expect them to be longer term?

Michael Suksi

Yeah. I'll let Paul answer that.

Paul O'Shea

Yeah. Most of the investment so far has been the start-up of the Niles facility, which is about a 20,000 square foot facility. We won't get more specific than that, but we hired some people in the US and it's a warehousing facility at this point in Illinois.

Mike Elkins

Okay.

Paul O'Shea

That's the extent of our cost investment.

Michael Suksi

And we've added some staff here in Canada, new account manager, and so that again will be in SG&A. But we did, as you'd expect to add that kind of volume, you're going to be…

Paul O'Shea

It's not—yeah. It's not massive capital expenditure to start this.

Mike Elkins

Okay.

Paul O'Shea

The number I quoted earlier of $2 million for the year would include those start-up costs.

Mike Elkins

Okay. Okay. So with Target in the process of entering the Canadian market, I know you guys don't print their flyers, but are you seeing any increased business from their competitors as they try to defend their market position?

Michael Suksi

I would say not in a material way, and I would say we wouldn't expect to because if you think about flyers, as you referred to, that's just not a business we're in. In terms of direct marketing, we certainly do provide direct marketing services to a number of retailers. But if I was listing out what are the key drivers of revenue growth for us going forward I wouldn't list that as one of the things that would be highly strategic for us to focus on.

The retail segment, sure, but driven specifically by Target, no. I'd say if I was in the flyer business that would be more of a thing I'd be focusing on.

Mike Elkins

Okay. And final question; Paul, I always ask this, but update on pension funding for 2013?

Paul O'Shea

Pension funding should basically remain unchanged in 2013.

Mike Elkins

Okay. And just remind me, what is that again?

Paul O'Shea

It's approximately 2.2 million to 2.4 million.

Mike Elkins

Got it. Okay. Thanks very much.

Michael Suksi

Thanks, Michael.

Operator

Again, if you would like to ask a question, please press *, and the number 1 on your telephone keypad.

Your next question comes from Bill Chisholm from MacDougall & MacTier. Your line is open.

Bill Chisholm — MacDougall & MacTier

Good morning.

Michael Suksi

Good morning, Bill.

Bill Chisholm

I guess a question on the new contract you have, which is a multiyear one, do you have many multiyear contracts?

Michael Suksi

We have—yeah. Multiyear agreements are quite normal for us, and a significant portion of our business is associated with those kind of agreements.

Bill Chisholm

Okay. And on the—I guess on the cash flow. Your CapEx last year was $2 million I think Paul said. Can you give us any idea what it'll be this year?

Paul O'Shea

We don't expect it to change materially from what it was last year. We've been at that run rate for the last three or four years.

Bill Chisholm

Okay.

Paul O'Shea

As we've said, most of our investment shows up in our SG&A line because it's investing in people.

Michael Suksi

Yeah. It's a key point I think with regards to the assessment people like you are doing on us. Our growth strategy does not involve a big ramp up of CapEx.

Bill Chisholm

Okay. Now part of your program is to retire debt or reduce your debt over time. Have you quantified it to any extent how much you'd expect in the next year or so?

Paul O'Shea

It'll be substantial based on the dividend cut as we—or dividend reduction as we balance out the cash that we have from the dividend reduction in the fall. So we have to balance our growth strategy with our debt reduction strategy and our dividend payments.

Bill Chisholm

Yeah. There's not a large amount of debt actually due this year, is there?

Paul O'Shea

No. It's not due till next year.

Bill Chisholm

Obviously you had a very good fourth quarter with adjusted EBITDA of 9 million. Historically the fourth quarter looks like it's the biggest quarter. Is that probably a condition that's going to persist?

Michael Suksi

We don't see that changing in the near term, no. It usually is our best quarter.

Bill Chisholm

Okay. Well, you seem to be righting the ship to some extent.

Michael Suksi

Well, thanks for saying that. We're optimistic. We see a lot of good things happening and we know we have our work to do yet, but we believe we're going in the right direction.

Bill Chisholm

Okay. Very good.

Operator

Your next question comes from the line of Peter de Auer from Cluster Management. Your line is open.

Peter de Auer — Cluster Management

Good morning.

Michael Suksi

Peter, good morning.

Peter de Auer

Quick question on profit margin between the two, the traditional business and the electronic side. I think in the past you said that you didn't really see a big difference, that they would both be profitable. So maybe you could comment on whether that's based on the additional experience that's what you're still seeing? And the interface between the two businesses in terms of synergies again that you're seeing based on the additional time that's elapsed since the acquisition?

Michael Suksi

I would describe the profit margins from the new businesses as being on a percentage basis higher than the traditional business that we're in, Peter.

Peter de Auer

Mm-hmm.

Michael Suksi

Now that's going to—I wouldn't say we've achieved that yet because we've got start-up costs in those categories and we're still growing the revenue. But all the indications would say to me that on a percentage basis that we'll have higher profit margins in the new categories.

In regards to synergies, are you thinking about cost saving synergies? Or more of market selling synergies? What were you wondering about?

Peter de Auer

You name it.

Michael Suksi

Yeah. Sure. I can speak to both. In term of cost saving synergies, I would simply say that we are taking advantage of our existing infrastructure wherever possible to reduce the cost of the new services.

So for example, when we put our Document Process Management solution in place and made it operational last year, we took advantage of space that we had in existing locations, and didn't need to go out and rent some more space.

So there's an example. Another is in some cases some of the some of the inputs that we needed by way of, for example, of software in a couple cases for some of our new solutions, we are looking at some existing supplier relationships we have with certain suppliers. And so we can leverage our overall spend with existing technology providers that we have to get a good rate on some of the new things that we're doing.

So there are some synergies in cost that we're seeing. More importantly, the synergies are around how this is helping us drive revenue, so I'll take you back to what I said in my scripted remarks. What we are doing with regards to the new products and services that crystallized for us during 2012, is we're bundling them with our existing document management services that we already provided, and as a result of that going to market with a broad overall solution that we're calling Managed Business Communications Services.

So to be a little more specific, there'll be cases without question where we sell our new services, document process management, cross channel, what have you, the other services as standalones. So that will definitely happen. But the bigger opportunity we think is by offering this bundled solution set, and the significant wins that we achieved last year, but are really just ramping up this year, are all around the fact that we did that.

We bundled the new services with the traditional service and said to the clients, if I put it in simple terms: they need someone to manage their print, but they also need to move towards new technology. And rather than try to have one company managing print and somebody else managing converting that to electronic and taking advantage of new technology, we're saying we'll work with you in both of those categories, and make it easier and seamless for you. And it's a bit of an over simplification, but essentially that's what that packaged solution is all about.

And the market reaction so far has been I would say quite favourable.

Peter de Auer

Great.

Michael Suksi

Does that answer your question?

Peter de Auer

Yeah. Thanks.

Michael Suksi

Okay.

Operator

We have no further questions on the line at this time.

Michael Suksi

All right. Well, thank you, everybody, for joining us, and we look forward to talking to you again when we update you on our Q1 results.

Operator

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

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