

FINAL TRANSCRIPT

DATA Group Ltd.

Second Quarter Results

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CORPORATE PARTICIPANTS

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DATA Group Ltd. — President and Chief Executive Officer

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PRESENTATION

Operator

Good morning. My name is Andrea (phon), and I will be your conference Operator today.

At this time, I would like to welcome everyone to the DATA Group Ltd. Second Quarter 2014 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 *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, please press the # key.

I would now like to turn the call over to our host, Mr. Michael Suksi, President and CEO. You may begin your conference, sir.

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

Good morning, everyone, and thank you for joining us to review the DATA Group's financial results for our second quarter of 2014. Paul O'Shea, our CFO, is with me, and Paul will be discussing the DATA Group's performance by division.

Before we begin, I'll remind you that our remarks and 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.

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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 continues to make progress on our transformational plan, and remains focused on creating long-term enterprise value appreciation for our shareholders. In the second quarter of 2014, we continued to reduce our costs, generate significant revenue from new business in the selected growth areas management has targeted, and make progress on debt reduction.

At the same time, we continue to experience challenges due to the technological changes and competitive factors that are having an adverse effect on financial results in our industry.

I referred to our transformational plan a moment ago. Why is our transformational plan required? Our industry has seen wholesale changes over the last number of years, mostly due to rapid technological advances.

As a result, the competitive environment in which we operate has become even more challenging as our industry transforms to more digital forms of communication and adapts to new client demands for blended, print, and digital solutions.

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These factors have adversely impacted our financial results in 2013 and the first half of 2014. I want to emphasize the DATA Group has responded with a transformational plan that establishes clear goals, all of which aim to enhance shareholder value.

Our transformational plan is beginning to show results in the three key areas we have targeted: cost reduction, debt reduction, and revenue stabilization. I'll elaborate a little bit on all three of those points.

First of all with regards to cost reduction, we reduced our cost structure by 13 million in 2013. As I stated in our last quarterly call, we anticipate eliminating an additional 20 million to 25 million in 2014 and 2015, mostly through a further reduction in locations, raw material costs, and the number of our employees.

During the second quarter of 2014, we realized modest incremental cost savings while continuing to make solid progress on a number of initiatives that will generate significant additional savings in the future. As I've stated in the past, the amount of savings that we get will not be even on a quarterly-by-quarterly basis, and what I'm signalling is we have some significant savings coming up in the future.

The cost savings we have realized since the beginning of 2013 have been offset by a reduction in revenue, changes in our product mix, and pricing pressures driven by competitive activity and the technological change I described a few moments ago.

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With regards to debt reduction, we've reduced our long-term indebtedness by \$8 million since the beginning of 2013, including a \$1.5 million reduction during the second quarter of 2014. As stated previously, it continues to be our intent to further reduce debt going forward.

At the same time as we achieved those reductions in our long-term debt, in Q2 our bank overdraft increased and our working capital increased. This was due to increase in order volumes, which is an encouraging sign and gives us an optimistic feeling about what revenue would look like in Q3 and the balance of the year.

As noted previously, we have also commenced a normal course issuer bid for the purchase of up to \$4.476 million of our outstanding convertible unsecured subordinated debentures which are due at the end June in 2017.

With regards to revenue stabilization, our intent in 2014 is to stabilize our revenue and position ourselves for longer-term growth. Our plan and actions to achieve this goal are based on the following: we have been and we'll continue to add new sales talent; we will win market share in our traditional core print business; we will continue to invest in key growth areas we have identified: labels, marketing print, and related digital communications; and lastly, we will bundle our digital services, the new things that we're investing in, with our print offerings to increase the value we provide to our customers and increase the contribution these services make to our overall profit and revenue.

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Our results in the second quarter reflected progress towards this goal, with strong new business development results and overall revenue results that were similar to last year's second quarter.

During the second quarter of 2014, we generated strong revenue from new business and continued to make encouraging progress on a number of new business sales opportunities in the retail, financial services, and transportation markets.

The significant changes we have made to our management and sales team in the past year have given us an aggressive focus on new business development and the necessary talent to lead our transformational plan.

In the second quarter we continued to make personnel changes to strengthen our sales team, and we continued to make prudent investment to expand our capabilities in the growth areas we've targeted.

I also want to make mention of refreshed governance. As part of our transformational plan earlier this year, we began recruiting to refresh our Board of Directors with new Directors who could assist us in our progress and represent the best interests of our all our shareholders.

After a thorough process in June, we were pleased to have four eminently qualified new Board nominees, who are replacing three retiring Directors, join our Board. Those new nominees are—those new Board members are Michael Blair; Rod Philips; Harinder S. Takhar; and J.R. Kingsley

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Ward. Our four new Directors join Tom Spencer, who is now our Chairman; Bill Albino; and myself on our refreshed Board.

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

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

Thanks, Michael. For the quarter ended June 30, 2014, DATA Group recorded revenues of \$76.8 million, a decrease of \$1 million, or 1.3 percent compared with the same period in 2013. The decrease before intersegment revenues was the result of a 1.4 million decrease in the DATA East and West segment, and was partially offset by a \$500,000 increase in the Multiple Pakfold segment.

For the six months ended June 30, DATA Group recorded revenues of \$154.7 million, a decrease of \$6 million, or 3.7 percent compared with the same period in 2013. The decrease before intersegment revenues was the result of a 6.6 million decrease in the DATA East and West segment, and was partially offset by a \$700,000 increase in the Multiple Pakfold segment.

The decrease in revenues for the three and six months ended June 30, 2014, in the DATA East and West segment was primarily due to orders from existing customers for print-related products and services which did not repeat in 2014, was also due to aggressive pricing by DATA Group's competitors supplying similar products and services, and also a change in product mix was a contributor. The segment did continue to experience revenue gains from new business.

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The increase in revenues for the three and six months ended June 30, 2014, in the Multiple Pakfold segment was attributable to new business which arose as a result of the bankruptcy of a competitor.

Gross profit for the quarter ended June 30, 2014, was 17.8 million, which represented a decrease of \$2 million, or 9.7 percent from 19.8 million for the same period in 2013. The decrease in gross profit for the quarter ended June 30, 2014, was attributable to a gross profit decrease of \$2 million in the DATA East and West segment, and was partially offset by a gross profit gain of \$200,000 in the Multiple Pakfold segment.

Gross profit as a percentage of revenues decreased to 23.2 percent for the quarter ended June 30, 2014, compared to 25.4 percent for the same period in 2013. Gross profit for the six months ended June 30, 2013 (sic) [2014], was 36.6 million, which represented a decrease of 4.9 million, or 11.7 percent from 41.5 million for the same period in 2013. That was supposed to be June 30, 2014.

The decrease in gross profit for the six months ended June 30, 2014, was attributable to a gross profit decrease of \$5 million in the DATA East and West segment, and was partially offset by a gross profit increase of \$100,000 in the Multiple Pakfold segment. Gross profit as a percentage of revenues decreased to 23.7 percent for the six months compared to 25.8 percent for the same period in 2013.

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Selling, general, and administrative expenses for the quarter ended June 30, 2014, decreased by \$900,000 to 14.4 million compared to 15.3 million for the same period in 2013. As a percentage of revenues, these costs were 18.8 percent of revenues for the quarter compared to 19.7 percent of revenues for the same period in 2013.

For the six months, expenses decreased 1.9 million to \$29.1 million compared to \$31 million for the same period of 2013. As a percentage of revenues, these costs were 18.8 percent of revenues for the six months compared to 19.3 percent for the same period in 2013. The decrease in SG&A expenses was attributable to cost savings initiatives implemented in 2013.

For the three and six months ended June 30, 2014, DATA Group incurred restructuring expenses related to headcount reductions. Those reductions were \$900,000 and 1.7 million, respectively.

For the three and six months ended June 30, 2013, DATA Group incurred restructuring expenses related to headcount reductions and lease exit charges of 5.2 million and \$6 million, respectively, as part of its 2013 restructuring initiatives.

As a reminder, the restructuring initiatives in 2013 included closing facilities in Brockville, Ontario and Anjou, Quebec, and transferring the operations of our Fulfillment Solutions Advantage Inc. from Markham, Ontario to DATA Group's existing facility in Mississauga, Ontario.

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For the quarter ended June 30, 2014, adjusted EBITDA was \$4.7 million, or 6.1 percent of revenues compared to 5.7 million, or 7.4 percent in 2013. Adjusted EBITDA for the six months was 10.1 million, or 6.5 percent of revenues compared to 13.1 million, or 8.2 percent in 2013.

The decrease in adjusted EBITDA during the three and six months was due to continued investment in DATA Group's growth strategy and a decline in revenues due to pricing concessions and changes in part in product mix, which was partially offset by our cost savings realized as a result of restructuring initiatives. The costs included in SG&A expense related to investments to launch new products and services.

Turning now to net income. Net income for the three and six months ended June 30, 2014, was \$300,000 and \$1 million, respectively, compared to a net loss of 3.7 million and 2.8 million, respectively, for the same periods in 2013. The increase in comparable profitability for the three and six months was due to lower SG&A expense, lower restructuring expenses, lower amortization of intangibles, and current income tax expense during the second quarter and first half of 2014, respectively.

The increase in comparable profitability during the second quarter and first half were partially offset by lower gross profit as a result of the lower revenues and a larger deferred income tax expense during 2014.

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Earnings per share in the quarter increased to \$0.01 per share compared to a loss of \$0.16 per share in 2013. Our year-to-date earnings per share is \$0.04 compared to a loss of \$0.12 per share in 2013.

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

Michael Suksi

Thanks very much, Paul. We remain highly committed to a successful execution of our transformational plan. I'd like to thank our customers, our employees, and our shareholders for your support during our transition.

And I'll now turn it over to Andrea, the Operator, to open it up for questions.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, please press *, then the number 1 on your telephone keypad. And we'll pause for a moment to compile the Q&A roster.

Your first question comes from the line of Kevin Tracey with Oberon Asset Management. Your line is open.

Kevin Tracey — Oberon Asset Management

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Yes. Thank you for taking my questions. In previous calls you've talked about losing market share, I guess, in the first half of last year, but based on your comments it sounds like you might have won some of that market share back. If that's the case, should we expect to see revenue stabilize in the second half of this year?

Michael Suksi

Thanks for your question, and yeah, it's a good insight. You're exactly right about previous comments. And we are making progress relative to gaining some of that back, and it does give us optimism going forward.

Kevin Tracey

Okay. And then with regards to gross margins, we've seen them, I guess, come down in the last couple of quarters. And I guess do you expect if you're able to stabilize revenue that you'll be able to get some of that margin back? Or has pricing just declined to the point where you don't think that you'll be able to get margins back to where you were a year ago?

Michael Suksi

Well, I'm not going to make an absolute prediction, but I'll tell you, as I said, we've got definite pricing pressure going on in our industry as a whole. So that is a headwind that we're facing.

However, against that we have our cost-savings program, and of course with regards to our sales strategy the intent is to focus on the higher value-add categories. So our strategy is in place to address that issue.

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Kevin Tracey

All right. Thank you.

Michael Suksi

Thank you.

Operator

So again, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

And we have no further questions in queue. I turn the call back over to management for any further comments.

Michael Suksi

Thanks, Andrea. I just wanted to say thank you to those who have joined us today for your time, and we look forward to speaking again in November when we update you on our Q3 results.

Have a good day, and thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's teleconference. You may now disconnect.

Michael Suksi

Thank you.

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