# FINAL TRANSCRIPT

**DATA Group Ltd.**

**Third Quarter Results**

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## CONFERENCE CALL PARTICIPANTS

**Kevin Tracey**
*Oberon Asset Management — Analyst*

**Robert Tattersall**
*Private Investor*

**Andy Krystal**
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**Rob Borda**
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**Romeo D'Angela**
*Novaden — Analyst*

## PRESENTATION

**Operator**

Good morning. My name is Mike , and I will be your conference Operator today. At this time, I would like to welcome everyone to the DATA Group 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, press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key.

I will now turn the call over to Michael Suksi, President and CEO of the DATA Group. You may begin your conference.

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

Thanks, Mike, and good morning, everyone. Thank you for joining us today to review DATA Group's financial results for our third quarter of 2014. Paul O'Shea, our CFO, is also with me and will be participating in our call.

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 risks 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.

We continue to make progress on our Transformation Plan and remain focused on creating long-term enterprise value appreciation for our shareholders.

In the third quarter of 2014, we were encouraged by positive results, as we were able to increase revenue by 5.4 percent and adjusted EBITDA by 41 percent relative to the same period in 2013.

I talk about a Transformation Plan in every one of our quarter calls, so I will briefly elaborate on why a Transformation Plan is important and required.

Our industry has seen wholesale changes over the last number of years, mostly due to rapid technological advances. The competitive environment has become ever-more challenging as our industry transforms to more digital forms of communication and adapts to new clients' demands for blended print and digital solutions.

These factors adversely impacted our financial results for 2013 and for the first half of 2014. The important point I want to make is that DATA Group has responded with a Transformational Plan that establishes clear goals, all of which aim to enhance shareholder value.

Our Transformational Plan is showing results in the three key areas that we have targeted, which are cost reduction, debt reduction, and revenue stabilization. So I'll summarize those now, first starting with cost reduction.

In October, we announced plans for the consolidation of four existing manufacturing locations in Western Canada into one new modern print and marketing communications centre, which will be located in Calgary, Alberta. This will happen in early 2015, and as such will be part of our 2015 savings. This announcement's had no impact on our Q3 results.

We anticipate annual savings of 2.5 million to 3.0 million as a result of this consolidation, with associated restructuring charges in the first quarter of 2015 of 2 million to $2.2 million.

In addition, we completed several management changes in the third quarter, which have strengthened our operational management team and will positively contribute to our cost-savings program. When we started the restructuring processes—the restructuring process, excuse me—we had a target to take out 35 percent of our manufacturing floor space and 20 percent of our headcount at all levels. We are well advanced in achieving our targets.

Including the announcements made in October, we will have reducing our manufacturing floor space by 23 percent, so we're about two-thirds to our goal, and our headcount by 13 percent, again, about two-thirds of the way to our goal. While doing this we have also successfully sublet three of the exited facilities in which we had ongoing lease commitments.

Turning to debt reduction. We have reduced our long-term indebtedness by $10 million since the beginning of 2013, including a $2 million reduction in the third quarter of 2014. And it's our intention to further reduce debt going forward.

We commenced a normal course issuer bid for the purchase of our outstanding 6 percent converted unsecured subordinated debentures, which we refer to as 6 percent convertible debentures, due June 30, 2013. As at September 30, 2014, $200,000 in principal amount of the 6 percent convertible debentures have been purchased under this NCIB.

Turning to revenue stabilization. Our intent in 2014 is to stabilize our revenue and then position ourselves for longer-term revenue growth.

Our plan to achieve this goal is based on four key elements: one, adding new sales talent; two, winning market share in our traditional print business; three, investing in the key growth areas we have identified, which are labels, marketing communications, and digital communications; and four, bundling our new digital services with our traditional print offerings.

Our increased revenue in the third quarter indicates progress towards this goal, highlighted in particular by strong new business development results. Year to date, revenue has materially stabilized relative to 2013, and new business development results have improved by approximately 30 percent.

The significant changes we have made to our management and sales teams in the past year have given us an aggressive focus on new business development and the talent to lead our Transformational Plan.

During the third quarter, we continued to make a number of personnel changes to strengthen our sales team, highlighted in particular by new sales leadership in Quebec, and to make prudent investments to expand our capabilities in the growth areas that we've targeted. For example, the new Calgary facility we recently announced will provide more effective services offerings to clients in Western Canada, including a wide range of document management and marketing communication services.

Also during the third quarter we completed installation of new equipment for specialty label production and point-of-sale, or lottery roll production, and we made encouraging progress on a number of new business sales opportunities in the retail, financial services, and transportation markets.

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

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

Thanks, Michael. For the quarter ended September 30, 2014, DATA Group recorded revenues of $78.1 million, an increase of $4 million, or 5.4 percent compared with the same period in 2013.

The increase before intersegment revenues was the result of a $3.4 million increase in the DATA East and West segment and a $700,000 increase in the Multiple Pakfold segment.

For the nine months ended September 30, 2014, DATA Group recorded revenues of 232.8 million, a decrease of $2 million, or 9 percent—or 0.9 percent compared with the same period in 2013. The decrease before intersegment revenues was the result of a $3.2 million decrease in the DATA East and West segment and was partially offset by a 1.4 million increase in our Multiple Pakfold segment.

The increase in revenues for the three months ended September 30, 2014, in the DATA East and West segment was primarily due to the increase in sales to existing customers, improvement in product mix, and price increases passed through to customers for increased material costs.

Revenues in the DATA East and West segment for the nine months ended September 30, 2014, decreased from the same period in the prior year and mostly in the first half of 2014. The decrease was primarily due to orders from existing customers for print-related products and services which did not repeat in 2014, aggressive pricing by our competitors supplying similar products and services, and a change in product mix.

The segment continued to experience gains from new business, which partially offset declines in revenues from existing customers, technological change, and competitive activity.

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

Selling, general and administrative expenses, excluding the amortization of intangible assets, for the quarter ended September 30, 2014, decreased $400,000 to 14.3 million compared to 14.7 million in the same period in 2013. As a percentage of revenues, these costs were 18.3 percent for the quarter compared to 19.8 percent in 2013.

SG&A expenses, excluding amortization of intangible assets, for the nine months ended September 30 decreased 2.3 million to 43.4 million compared to 45.7 million for the same period in 2013. As a percentage of revenues, these costs were 18.6 percent of revenues for the nine months compared to 19.4 percent of revenues for the same period in 2013.

The decrease in SG&A expenses for the three and nine months ended September 30, 2014, was attributable to cost-saving initiatives implemented in 2013. For the three and nine months ended September 30, 2014, DATA Group incurred restructuring expenses related to headcount reductions of $300,000 and $2 million, respectively, as part of its ongoing restructuring initiatives.

Turning now to adjusted EBITDA. Adjusted EBITDA for the quarter was $6.2 million, or 7.9 percent of revenues.

Adjusted EBITDA for the quarter ended September 30, 2014, increased 1.8 million, or 40.9 percent for the same period in the prior year, and adjusted EBITDA margin for the quarter as a percentage of revenues increased from 5.9 percent in 2013 to 7.9 percent in 2014.

Adjusted EBITDA for the nine months ended September 30 was $16.3 million, or 7.0 percent of revenues. Adjusted EBITDA for the nine months ended September 30, 2014, decreased 1.2 million, or 7.1 percent from the same period in the prior year, and the adjusted EBITDA margin for the nine-month period as a percentage of revenues decreased from 7.5 percent in 2013 to 7.0 percent for the same period in 2014.

Net income for the three and nine months ended September 30 was 1.8 million and 2.9 million, respectively, compared to a net loss of 20.2 million and 23 million, respectively, for the same periods in 2013. The increase in comparable profitability for the three and nine months was due to cost savings realized as a result of prior restructuring initiatives that led to a decline in SG&A expenses, a reduction in restructuring expenses, amortization of intangibles and current income tax expense for the third quarter and first nine months of 2014.

The increase in comparable profitability for the three and nine months ended September 30, 2014, was also due to the absence of any goodwill impairment charges during 2014. The increase in comparable profitability for the three months ended September 30, 2014, was due to increase in sales to existing customers, improvement in product mix, and price increases passed through to customers for material costs.

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

**Michael Suksi**

Thanks very much, Paul. Well, we are certainly encouraged by our third quarter results. All elements of our Transformational Plan showed positive trends.

At the same time, we know we have more work to do on our Transformational Plan in order to consistently grow our business, and you can expect us to continue to take actions to support our plan. We will continue to do this with a sense of urgency, while also being mindful of maintaining the operational business stability that is a precondition to maintaining our valued customer relationships.

I'd like to thank you again for joining us today, and I turn it back to Michael to open it up for any questions.

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## Q&A

**Operator**

At this time, I would like to remind everyone in order to ask a question, press *, 1 on your telephone keypad. We will pause for a few moments to compile the Q&A roster.

Your first question is from Kevin Tracey with Oberon Asset Management.

**Michael Suksi**

Good morning, Kevin.

**Kevin Tracey** — Oberon Asset Management

Hi. Thanks for taking my questions. It sounds like your business development efforts, I guess, were successful and then you won a number of new customers in the quarter. And I'm curious in which—which products did you sell to these new customers? Where they just winning outsourced printing bids? Or were there some sales of your new marketing services that should show good growth in the future?

**Michael Suksi**

Yeah. It's a bit of both. First of all, we refer to our, I'll call it, flagship solution which bundles all of our solutions together and offers that to a client in a single-source relationship. We refer to that as managed business communication services, and some of the wins were in that space.

In addition that, we also had some wins in the label category and the marketing print category and in the document process management category. So broadly I would say that, as I mentioned in my remarks, the wins that we saw were in the areas that we have targeted that we see as our strategic growth areas.

**Kevin Tracey**

Okay. Good. And then last year on your conference calls you talked about losing some market share in the first half of 2013, and that a lot of the contracts that you've lost were renewed on an annual basis; that would represent kind of a headwind to growth, I guess, through the first half of 2014. And now we've kind of lapped those contracts it would seem, and here we are in the third quarter and growth has very much picked up. So should we see good growth going forward on a year-over-year basis and the quarters ahead now that it looks like you won back some of that market share?

**Michael Suksi**

Mm-hmm. Well, we're not going to give absolute forward-looking statements, but what you summarized about what we've said in previous calls about that business that we lost is accurate. And so now we're not dealing with that issue as we go forward.

**Kevin Tracey**

Okay. And in the last couple years your fourth quarter has been—it's the best quarter of the year. Is that something you expect to continue in 2014?

**Michael Suksi**

I'm optimistic that it will be.

**Kevin Tracey**

Okay. Good. And then a quick question on taxes. You haven't paid any cash taxes this year, and I think you still have some NOLs. I'm wondering how long do you think you all have not having to pay taxes.

**Paul O´Shea**

That's—without giving guidance we will have used up—we are working through our losses that we had from the amalgamation that we did January 1, 2014.

**Kevin Tracey**

Okay. And then just quickly if I could ask about the Canadian dollar. It's declined quite rapidly over the last couple months, and I'm wondering if that presents, I guess, any problems or opportunities? I know you have at least a little bit of business in Chicago. Maybe if you could just talk about that a little bit?

**Michael Suksi**

Yeah. It isn't a big factor for us, and the reason is that on the one hand we have sales into the US—as you point out, Chicago is one of those areas—and we've stated in our strategic plan that it's our intention to grow in the US, which by the way we have been doing. I didn't touch on that in my comments, but we continue to add business at a modest pace in the US, so we're encouraged by that.

But offsetting that we also buy a fair bit of our raw materials out of the US, so the two factors tend to weigh each other out. Or offset each other is a better way to say.

**Paul O'Shea**

Yeah. We tend to have a natural hedge between the purchases and the profits we make in the US.

**Kevin Tracey**

Okay. All right. Well, thank you very much.

**Michael Suksi**

Thanks, Kevin.

**Operator**

The next question is from Robert Tattersall. Your line is open.

**Robert Tattersall** — Private Investor

Hi. Good morning, gentlemen. I'm a private investor in the convertible debentures, so I was pretty pleased to see your year-to-date net income up around almost $3 million, and that left me a little confused as to why shareholders' equity was down almost 1 million. And I guess I tracked it down, you have remeasurements of post-employment benefit obligations, I guess, and other comprehensive income. And looking at this nine months compared to the nine months of the prior period that's an $11 million swing from a plus 6 million to a minus 5 million this period, but your pension obligations in total on the balance sheet are only 11 million. So I'm a bit perplexed as to what the dynamics are here, so perhaps the CFO can explain in nontechnical language?

**Paul O'Shea**

Yeah. It's actually very simple. Last year we had an increase in the discount rate and increase in interest rates…

**Robert Tattersall**

Mm-hmm.

**Paul O'Shea**

Which bumped up the pension asset.

**Robert Tattersall**

Mm-hmm.

**Paul O'Shea**

And we moved from having a liability to an asset. And this is—I'm speaking strictly about our legacy defined benefit plan…

**Robert Tattersall**

Yeah.

**Paul O'Shea**

And this year the interest rates have gone the other way…

**Robert Tattersall**

Mm-hmm.

**Paul O'Shea**

The discount rate has declined, which forces the liabilities to go up, which…

**Robert Tattersall**

Mm-hmm.

**Paul O'Shea**

Decreases the value of our pension asset. And swings in interest rate discount can have that type of impact on the defined benefit pension plan.

**Robert Tattersall**

Okay.

**Paul O'Shea**

So we won last year, and this year it's going against us.

**Robert Tattersall**

Yeah. Okay. Fair enough. And quick unrelated question. Almost a year ago, late December last year, KST Industries bought about 10.7 percent of your shares; at least they reported that for investment purposes. And I'm wondering if those guys ever stop by and have coffee? Have they ever contacted you? Do they show any interest in the ongoing business?

**Michael Suksi**

I would say most definitely. In fact, Robert, what you may not be aware of is that we announced—was it two quarters ago I think, Paul? We previously announced that we'd made some changes and refreshed our Board.

**Robert Tattersall**

Mm-hmm.

**Michael Suksi**

And as a result of that there is a representative from KST who is on our Board.

**Robert Tattersall**

Oh okay. Well, thank you very much.

**Michael Suksi**

He was at the Company yesterday.

**Robert Tattersall**

Okay. That's my questions. Thank you.

**Michael Suksi**

Thank you.

**Operator**

The next question is from Andy Krystal with Royal Capital Management.

**Andy Krystal** — Royal Capital Management

Hey. Good morning.

**Michael Suksi**

Good morning.

**Andy Krystal**

The results look encouraging. I was just wondering about the balance sheet. Do you have a target for where you want to see your credit facility go down to?

**Paul O'Shea**

We do, but I'm not going to give you a forward-looking statement on that, but yes we have a definite target of where we want to get it down to. We have a…

**Andy Krystal**

Okay.

**Paul O'Shea**

In our forecast we have a plan in place.

**Andy Krystal**

Okay. Is there any way you'd be able to give some sort of EBITDA multiple or some sort of multiple? Not just a—I know you don't feel comfortable giving an exact number, but…

**Paul O'Shea**

No.

**Andy Krystal**

Okay. And then…

**Paul O'Shea**

I could give you this. Anywhere below 2…

**Andy Krystal**

Okay.

**Paul O'Shea**

On our senior debt, but of course we want to achieve far, far better than that.

**Andy Krystal**

Okay. Sure. And then just on the debenture repurchases. Was there anything where you weren't allowed to purchase the debentures before you're releasing results? Or…

**Paul O'Shea**

Yes. We were in a blackout period from the 15th of September.

**Andy Krystal**

Okay. Perfect. Okay. That answers my questions. Thanks so much.

**Michael Suksi**

Thank you.

**Operator**

Again, if you would like to ask a question, press *, 1.

The next question is from Rob Borda with Rob Borda Consulting.

**Rob Borda** — Rob Borda Consulting

Good morning, guys. How's everybody today?

**Michael Suksi**

Terrific, Rob, how are you?

**Rob Borda**

Fantastic; thanks for asking. Congratulations again on your successes to date and your Transformation Plan. Just as an investor myself, what are the triggers or requirements for DATA Group to meet before you would pay a dividend again?

**Michael Suksi**

Well, it's a fair question, and it is something that we do consider. It's not completely on the backburner, but I think it will be fair to say that we need to see solid, sustained, positive results against the various elements of our Transformational Plan, including growing EBITDA, revenue at a modest growth rate, and debt reduction before we would be doing that.

So we're very encouraged by the fact that we've had a very strong quarter, I believe, but we need to see this sustained for a while before we're looking at that.

**Rob Borda**

What would you be looking at? Three quarters? Four quarters? A year and half before you would consider?

**Michael Suksi**

Yeah. I won't quantify it. It would depend on a lot of factors; not just the number of quarters, but how significant the results were in each quarter…

**Rob Borda**

Of course.

**Michael Suksi**

How much debt was paid down, so I don’t think it would be appropriate to quantify it specifically.

**Rob Borda**

Very good. Thank you very much.

**Michael Suksi**

Sure.

**Operator**

Next question is from Romeo D’Angela with Novadan.

**Romeo D’Angela** — Novaden

Hi, gentlemen. It’s Romeo D’Angela. Congratulations. I think it was a very good quarter overall. Quick question; if you have a choice between paying down bank debt or buying back the convertible debentures, you seem to have allocated more money to buying back—well, paying off bank debt as opposed to buying back those debentures, which to me seem exceptionally cheap. How do you make that decision?

**Paul O’Shea**

We’re in the market when we’re not in a blackout period. We’re just—we’re trying to buy the debentures because we realized they’re at a good value right now…

**Romeo D’Angela**

Mm-hmm.

**Paul O’Shea**

But we’re restricted as to how much we can buy per day. We can only buy up to $19,000 per day, so we’re in the market trying to buy them. But they’re not that easy to buy at this time, and we’re restricted on the amounts we can buy.

**Romeo D’Angela**

Right. Okay. Fair enough. And I guess a philosophical question. Only as a purchaser of other convertible debentures I’ve noticed that in some cases companies when they’re in any kind of distress they will take the opportunity to make an offer or buy back the convertibles at significant discounts to the market, or make an offer and do not sort of live up to the commitment of paying par value for the debentures when it's time for maturity. Philosophically, unless the Company's in distress, what's your view on doing that?

**Michael Suksi**

I'm not particularly comfortable giving a philosophical answer, Romeo, with all due respect. Some companies have made decisions to do that, and those are their individual choices.

**Romeo D’Angela**

Right.

**Michael Suksi**

And I'm not going to comment on that.

**Romeo D’Angela**

Okay. Fair enough. All right. Thank you.

**Michael Suksi**

Thanks for your questions.

**Operator**

There are no further questions at this time. I will turn the call back over to the presenters.

**Michael Suksi**

Well, thanks, Mike. Thanks again to everybody for joining us today. Thanks for the questions we received, and we look forward to updating you on our progress at the end of fourth quarter.

Have a good day. Thank you again.

**Operator**

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

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