FINAL TRANSCRIPT

DATA Group Ltd.

Fourth Quarter Results

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Rob Borda
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PRESENTATION

Operator

Good morning. My name is Mike (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Data Group Ltd. Fourth 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. You may begin your conference.

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

Thanks, Mike. Good morning, everyone, and thank you for joining us to review the DATA Group's financial results for the full year and the fourth quarter of 2014. Paul O'Shea, our Chief Financial Officer is with me.

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, which are available on SEDAR.

Also in today's conference call all references to the DATA Group will mean its various business divisions and affiliated entities.

All right. Let's get started. DATA Group earned net income of $4,479,000, or $0.19 per share in the year ended December 31, 2014, and this is versus a loss in the previous year. I'm particularly encouraged by our results in the second half of 2014, as revenue increased by 1.4 percent and adjusted EBITDA stabilized compared to the same period in 2013.

During the year, DATA Group repaid $6.5 million of debt, bringing total indebtedness to $90.1 million. Also, during the fourth quarter we extended the term of our senior debt credit facilities to August 31, 2016.

One of our key goals in 2014 was to stabilize our revenue and position ourselves for longer-term revenue growth. This is something that I've been talking to you about for some time.

During 2014, DATA Group had sales of 313 million, a 1.2 percent decline from 2013. This 313 million included strong growth from our US customers. During the second half of 2014, as I mentioned, overall revenue grew 1.5 percent compared to the same period in 2013. So we are seeing signs of stability and potential growth.

We will continue with our plans to add new sales talent; win market share in our traditional print business; invest in the key growth areas we have identified, which are labels, marketing print, and associated digital communications; we will bundle our digital services with our print offerings; and we'll continue to focus on our targeted expansion in the United States.

In the fourth quarter we made a number of investments in this regard, highlighted by new sales leadership in Western Canada, the creation of a dedicated new marketing function, and a decision to upgrade our print capability at our new Calgary facility that will come on line in early 2015.

We are reducing our costs as well to balance productive capacity with demand in declining markets, while investing selectively in growth areas. When we started the restructuring process in 2013, 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 these targets. By the middle of 2015, we will have reduced our manufacturing floor space by 26 percent, and we will have achieved our headcount reduction target of 20 percent.

While doing this, we have successfully sublet three of the existing facilities for which we have ongoing lease commitments. Now I mentioned a moment ago we've achieved one of our targets. I want to be clear: we are continuing with these initiatives and look forward to further progress and reporting on that in the future.

Last fall, we announced plans for the consolidation of four existing manufacturing locations in Western Canada into one new modern print and marketing communications centre located in Calgary, Alberta. We are on schedule to finish this project by the end of Q1 2015, as originally planned and previously communicated.

Since last fall, we have identified further savings opportunities we expect to act on in the first half of 2015. These will come from the reorganization of several locations, from process improvements, and from strategic sourcing initiatives.

If I include the Western Canadian consolidations that were previously announced, we anticipate annual savings of between 9 million and $11 million as a result of these actions, with associated restructuring charges in the first half of 2015 of between 5 million and $6 million. I'll note the majority of these actions and associated restructuring charges will take place in Q1 of 2015.

Our industry has seen wholesale changes over the last number of years, mostly due to rapid technological advances. Our competitive environment 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.

The DATA Group has responded with a transformational plan that establishes clear goals, all of which aim to enhance shareholder value. As I have just described for the past few minutes, our transformational plan is showing results in the three key areas we have targeted, which are debt reduction, revenue stabilization and then growth, and cost reduction.

For 2015, DATA Group expects to report higher net income and continued reductions in total indebtedness. To support this, our revenue growth and cost reduction strategies will continue. The associated restructuring expenses will be more than offset by efficiency gains.

Management has set the following financial targets for 2015: net income of at least $6 million; debt reduction of at least 10 million; revenue equal to or better than 2014; and lastly, return on shareholders' equity of at least 25 percent after taxes.

I'll now turn it over to Paul to go over the specific financial results for the fourth quarter and full year 2014.

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

Thanks, Michael. For the quarter ended December 31, 2014, the DATA Group recorded revenues of $80.4 million, a decrease of 1.8 million, or 2.2 percent compared with the same period in 2013.

For the year ended December 31, 2014, DATA Group recorded revenues of 317 million, a decrease of 3.8 million, or 1.2 percent compared with the same period in 2013. The decrease in revenues occurred primarily in the first, second, and fourth quarters, and was primarily due to orders from existing customers for print-related products and services which did not repeat in 2014, aggressive pricing by DATA Group's competitors supplying similar products and services, technological change, and a change in product mix.

Third quarter revenues increased as a result of an increase in sales to existing customers and improvement in product mix, and price increases passed through to customers for increased material costs.

For the quarter ended December 31, 2014, cost of revenues increased to 61.6 million from 61.3 million for the same period in 2013. Gross profit for the quarter ended December 31, 2014, was 18.7 million, which represented a decrease of 2.1 million, or 10.3 percent from 20.9 million in the same period in 2013. Gross profit as a percentage of revenues decreased to 23.3 percent for the quarter ended December 31, 2014, compared to 25.4 percent for the same period in 2013.

For the year ended December 31, 2014, cost of revenues increased to 238.6 million from 236.9 million for the same period in 2013. Gross profit for the year ended was 74.6 million, which represented a decrease of 5.5 million, or 6.8 percent from 80.1 million for the same period in 2013. Gross profit as a percentage of revenues decreased to 23.8 percent for the year ended December 31, 2014, compared to 25.3 percent for the same period in 2013.

The decrease in gross profit was attributable to lower revenues and the impact of competitive pricing and changes in product mix. The decrease in gross profit was partially offset by cost savings. These cost savings included headcount reductions, the closure of certain manufacturing locations, and the renegotiation of agreements for a number of raw material input costs.

Selling, general, and administrative expenses for the quarter ended December 31 decreased $500,000, or 3.2 percent, to $13.7 million compared to 14.2 million in the same period in 2013. As a percentage of revenues, these costs were 17.1 percent of revenues for the quarter compared to 17.3 percent in 2013.

SG&A expenses for the year ended December 31 decreased $2.8 million, or 4.6 percent, to 57.1 million compared to 59.8 million for the same period of 2013. As a percentage of revenues, these costs were 18.2 percent versus 18.9 percent in 2013. The decrease in SG&A expenses for the quarter ended and the year ended was attributable to the benefits realized from cost saving initiatives implemented in 2013 and '14, which included simplifying DATA Group's organizational structure and centralizing a number of functions.

For the quarter ended December 31, 2014, adjusted EBITA was 6.2 million, or 7.7 percent of revenues. Adjusted EBITDA for the quarter ended December 31 decreased 1.9 million, or 23 percent, from the same period in the prior year. An adjusted EBITDA margin for the quarter as a percentage of revenues decreased from 9.8 to 7.7 percent.

For the year ended December 31, adjusted EBITDA was 22.5 million, or 7.2 percent of revenues. Adjusted EBITDA for the year ended December 31, 2014, decreased 3.1 million, or 12.1 percent, from the same period in the prior year. And the adjusted EBIT margin for the year as a percentage of revenues decreased from 8.1 percent in 2013 to 7.2 percent in 2014.

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

Michael Suksi

Thanks very much, Paul. During 2014, our transformational plan showed a number of positive trends.

During 2015, we intend to intensify—I underlined intensify—our focus and accelerate our results regarding our key goals of cost reduction, debt reduction, and revenue growth. We will do this with a sense of urgency while also being mindful of maintaining the operational business stability. Put in other words, operational excellence in meeting our customers' service level expectations that is a precondition to maintaining our valued customer relationships.

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

Q&A

Operator

At this time, I'd 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 the line of Rob Borda with Rob Borda Consulting.

Michael Suksi

Good morning.

Rob Borda — Rob Borda Consulting

Good morning, gentlemen. How's everybody today?

Michael Suksi

Fine, thank you.

Rob Borda

Beautiful. Just a question about revenue. You stated your revenues included strong growth from US customers. My question would be what percentage of overall revenue is attributed to US customers say in 2013 and 2014? And secondary, is the gross profit that you're making from those US customers, is that more or less than your annual gross profits which run around 22, 23 percent?

Michael Suksi

I'll give you a range on this answer just because for confidential reasons I don't want to get too specific.

Rob Borda

Sure.

Michael Suksi

But for 2013, our US revenues would have been between 1 and 3 percent—I'll give you that range—and for 2014 they increased by approximately—in the range of 50 percent. The margins are so far above average compared to what you see overall for DATA.

Rob Borda

And what would be your plans for 2015 for additional US penetration?

Michael Suksi

Well, again for competitive reasons I won't go into specifics, but the strategy that we've outlined in the past has been that we will have quite a targeted focus in terms of how we stand in the US. And more specifically what that means is that our main focus is to focus on taking our very good relationships that we have with a number of Canadian customers where those customers also have US operations.

And, therefore, there's a natural extension of our Canadian relationship into the US, which arguably gives us a competitive advantage compared to simply trying to go into the US and find new clients. So that's the strategy we've been working on for some time, and we've had some success. It's slow, but steady improvement, as I described, and our main thrust will be to continue with that focus.

Secondarily, I'll add one other point that is different from what we've talked about in the past for reasons that'll be obvious. Given the current exchange rate between the Canadian and US dollar, we do think there will be some, again, selective and not overly material in the overall scheme of things, but there will be some opportunity to go after selected print opportunities in the US, taking advantage of the dollar. And of course that means manufacturing product in Canada.

Rob Borda

Fantastic. Thank you very much, and have a great remainder of 2015.

Michael Suksi

Thanks for your question.

Operator

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

The next question is from Kevin Tracey with Oberon Asset Management.

Michael Suksi

Good morning, Kevin.

Kevin Tracey — Oberon Asset Management

Thanks for taking my questions. First question is on your EBITDA margins. You lost about 100 basis points starting the year compared to 2013. Given that you expect revenues to be flat or up and you're pushing forward with these cost-cutting initiatives, do you expect to get a good chunk of that back? Or will pricing declines offset that? It would seem as though your net income guidance suggests margins should improve.

Michael Suksi

The last part of your question you just trailed off. Could you just repeat the last phrase...

Kevin Tracey

No, I was just saying your net income guidance for next year seems to suggest that those EBITDA margins will improve in 2015.

Michael Suksi

Sure. Yeah. Well, I think you hit the nail on the head, Kevin. Even though we've had significant cost reductions, at the same time with regards to our EBITDA the reality of our marketplace, as I alluded to in my comments at a high level, is that it's becoming increasingly competitive and there are pricing pressures without question. And so there's an offset going on there.

The numbers, as you suggested for 2015, indicate that we believe that we'll grow in regards to the net impact of those two things: cost savings on the one hand versus increased price pressures. I do think there will continue to be increased price pressures, but the numbers that you see in our comments about net income I think you're drawing the right conclusion from.

Kevin Tracey

Okay. Okay. Good. And then do you all have a budget in terms of what you expect to spend in CapEx in 2015?

Michael Suksi

We do, and I would say that it's not particularly materially different from what you've seen already. And I don't think we'd go into it in more detail than that.

Kevin Tracey

Okay. And then just a couple quick financial-related questions; the first is the contributions to your pension plan were down quite sharply in the fourth quarter. I guess where do you expect those to be in 2015? I know that for regulatory reasons the measurement date's kind of delayed in terms of what you need to contribute, but just what will that look like this year?

Paul O´Shea

Yeah. We anticipate that will be $1.3 million in contributions.

Kevin Tracey

Okay. And then I guess related to cash taxes you had a—I guess we'll see this when the annual report comes out—but you had an NOL as of the end of last year, and you haven't paid much in cash taxes. Do you expect minimal cash taxes this year as well?

Paul O´Shea

No. We would expect our cash taxes to increase in 2015 as we use up our losses.

Kevin Tracey

All right. Well, thanks.

Michael Suksi

Thank you.

Operator

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

Michael Suksi

Well, thanks for your participation today and for your questions, and we certainly look forward to speaking again and updating you on our progress at the end of Q1.

Thanks very much. Have a great day.

Operator

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

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