FINAL TRANSCRIPT

DATA Group Ltd.

Third Quarter Results Conference Call

Event Date/Time: November 13, 2015 — 11:00 a.m. E.T.

Length: 28 minutes

CORPORATE PARTICIPANTS

Mike Sifton
DATA Group Ltd. — President and Chief Executive Officer

James Lorimer
DATA Group Ltd. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

David Ellis
RBC Dominion Securities — Analyst

Kevin Tracey
Oberon Asset Management — Analyst

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. 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 Mike Sifton, President and CEO. You may begin your conference.

Mike Sifton — President and Chief Executive Officer, DATA Group Ltd.

Thank you, Mike. Good morning. 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, forecast, or projections included in our remarks and answers, and additional information about the applicable risk factors and assumptions are contained in DATA Group's annual and quarterly continuous disclosure filings available on SEDAR.

Also on today's conference call, all references to DATA Group will mean its various business divisions.

Good morning. In the third quarter, we started to see the positive impact in our financial results of the substantial staff and plant rationalizations we announced in our second quarter results in August.

The impact of lower direct and indirect labour costs, together with improved utilization rates at our key plants, contributed positively to improved gross margins, despite lower levels of revenue compared to the third quarter of last year.

In addition, our adjusted EBITDA margin for the quarter benefitted from the headcount reduction and other savings initiatives we implemented across our selling, general, and administrative functions. And we expect to see additional benefits from our operational initiatives in the fourth quarter.

During the third quarter, we substantially completed the restructuring initiatives we announced with our second quarter results. Our total headcount now stands at 1,435, a reduction of 205 employees since December 31, 2014.

We are now experiencing significantly higher capacity utilization rates across our six key centres of excellence. While we will continue to carefully manage our operations, we are turning our efforts to stabilizing our revenue, including a renewed focus on core vertical markets where we have a strong competitive advantage, and where we see opportunities for improved product margin together with growth opportunities.

To support our efforts to stabilize and grow revenue, we have been developing a renewed strategic plan, customer value story, and marketplace identity. While much of this work is expected to be more broadly revealed in the first quarter of 2016, the process has been significantly wider and deeper than in recent years. And we will focus more closely on solving the challenges that our customers and prospects experience every day.

We expect that this renewed strategic focus will better position us to invest in the right products, technology, and people to deliver on evolving customer needs and drive top line revenue growth in the future.

As you have read and heard, we have been conducting a comprehensive review of the company's capital structure in order to improve our financial flexibility, and to better position the company for long-term growth.

In particular, we have reviewed potential means to refinance our bank debt, which matures in August of 2016; ways to refinance, amend, and/or extend the terms of our 6 percent convertible unsecured subordinated debentures, which matures in June 2017; raising new equity; and other strategies to enhance value for our shareholders, debenture holders, and other stakeholders.

In connection with that review, we engaged TD Securities Inc. as our exclusive financial advisor to assist in the evaluation of strategic alternatives. As a result of this process, our Board of

Directors has announced the redemption of 33.5 million aggregate principal amount of our $44.7 million outstanding 6 percent convertible debentures as of December 23, 2015.

We have elected to satisfy our obligation to pay the redemption price by issuing and delivering to holders of the 6 percent convertible debentures redeemed common shares of DATA Group in lieu of cash. The shares will be freely tradable in Canada, and the issuance of the shares is subject to receipt of all necessary regulatory approvals.

Based on the current trading price of our common shares, we will be required to issue a large number of shares, which will significantly dilute the existing shareholders' interest in DATA Group, and is likely to have an adverse effect on trading price of the common shares.

The company believes that redeeming 75 percent of the total principal amount of the debentures and satisfying the redemption price through the issuance of shares has a number of benefits, including the elimination of a significant obstacle to refinancing the current senior credit facility indebtedness and securing additional growth capital.

In the absence of completing the redemption, the company believes it has the ability to refinance its existing senior indebtedness on commercially acceptable terms or at all is unlikely. Failure to refinance the company's senior indebtedness would create a significant risk of insolvency at or prior to the maturity of the significance—of the senior credit facility.

Third point. Reduction of approximately 37.5 percent of the company's outstanding total debt, which will result in significantly reduced financial leverage and improved book value of our shareholders' equity.

Fourth, reduction of annual cash interest expense of $2 million per year will enhance the company's free cash flow, and provide additional liquidity for working capital and growth opportunities. It provides additional flexibility to enable the company's management to continue its focus on improving profitability, and to pursue new growth initiatives. And lastly, to increase customer and supplier and investor confidence in the company's long-term viability.

In connection with our capital structure review, we have considered a number of proposals to refinance our senior indebtedness, which matures in August 2016. And we are now in advanced discussions with arm's length potential—potential arm's-length lenders regarding proposed financing arrangements which would provide sufficient funding to refinance our senior indebtedness.

While we remain confident in our ability to refinance our senior indebtedness, the current proposals are subject to final commitments; final due diligence; finalization of inter-creditor agreements; and other customary closing conditions. There is no assurance that any such proposal will result in a transaction being entered into or consummated with the new lenders, or other senior indebtedness being retired.

We recorded restructuring expenses of $5.8 million in the quarter ended September 30, 2015, and a total of $12 million for the nine months ended September 30, 2015, compared to an aggregate of $2 million for the comparable nine-month period in the prior year.

We presently expect to incur additional restructuring expenses of approximately 1 million to $2 million in the fourth quarter of this year. These charges are expected to consist primarily of lease exit charges, and to a lesser extent, severance costs associated with headcount reductions.

I would like to conclude by reiterating the point that your management team has made significant strides in repositioning your company for long-term success. This has involved many difficult decisions and has affected many individuals.

I’d like to applaud the team's unflinching drive to do what is right for the organization while balancing these acts with compassion and empathy. I would equally like to thank the whole DATA team for their support and dedication.

I have said it before and I’ll say it again: DATA is made up of wonderful people who do really good work.

I’d now like to turn the call over to James Lorimer, our CFO.

James Lorimer — Chief Financial Officer, DATA Group Ltd.

Thank you, Mike. We're pleased to announce the following third quarter highlights: third quarter non-GAAP adjusted net income of $2.5 million, an increase of $0.5 million compared to the prior period in the third quarter of 2014; adjusted earnings per share of $0.11 for the quarter compared to $0.09 in the prior period.

We reported a GAAP third quarter net loss of $1.8 million, which includes restructuring expenses of $5.8 million compared to net income last year for the same period of $1.8 million, which included restructuring expenses of $0.3 million. We reported adjusted EBITDA of $6.6 million for the third quarter compared to $6.2 million last year, an increase of 7.7 percent year over year.

We reported third quarter revenue of $74.1 million compared to $78.1 million last year, which is a decrease of 5.1 percent. As Mike noted, we’ve made progress in refinancing our senior credit facility, and we've announced the redemption of 75 percent of our outstanding convertible debentures.

In terms of revenues, for the quarter ended September 30th this year, we reported revenues of $74.1 million. For the nine months ended this September 30th, we recorded revenues of $223.6 million, which is down $9.2 million, or 4 percent compared to the same period last year.

The decrease in revenues during the three- and nine-month periods ended September 30th are primarily due to a reduction in orders from existing customers; price concessions; reduced demand for printed products generally; nonrecurring projects; and the timing of customer orders and a change in product mix.

For the quarter ended September 30, 2015, cost of revenues decreased to $55.7 million from $58.9 million last year. Gross profit was $18.4 million, which is a decrease of $0.8 million, or 4.4

percent from $19.2 million in the period last year. Gross profit as a percentage of revenues increased to 24.8 percent for the quarter compared to 24.6 percent last year.

For the nine months ended September 30th, cost of revenues decreased to $172.3 million from $176.9 million for the same period last year. And gross profit was $51.3 million, a decrease of $4.6 million from the same period last year.

Gross profit as a percent of revenues decreased to 22.9 percent for the nine months ended September 30th compared to 24 percent for the period last year. The increase in gross profit as a percent of revenues for the quarter ended September 30th was primarily due to cost reductions, including lower direct and indirect labour costs from some of the cost savings we've initiated over the past few months, improved utilization rates at our key plants, and positive changes in product mix, which were partially offset by a decrease in revenues and the impact of competitive pricing.

The decrease in gross profit as a percent of revenues for the nine months ended September 30th was largely due to a decrease in revenues, the impact of the competitive pricing, and changes in product mix, but was partially offset by cost reductions for prior cost-savings initiatives. These cost savings included headcount reductions and the re-negotiation of agreements for a number of raw material input costs.

During the three and nine months ended September 30th, we continued our ongoing productivity improvement and cost reductions initiatives, which were substantially completed by the end of September 2015.

SG&A expenses, excluding the amortization of intangible assets for the quarter ended September 30, 2015, decreased by $1.3 million to $13 million compared to $14.3 million in the same period last year, and as a percent of revenue were 17.5 percent compared to 18.3 percent last year.

SG&A expenses for the nine months ended September 30, 2015, were down $1.2 million to $42.1 million compared to $43.4 million for the same period last year, and as a percent of revenue were 18.8 percent compared to 18.6 percent last year. The decrease in SG&A expenses were largely due to cost-savings initiatives.

In the second quarter of 2015, we recorded a goodwill impairment charge of $26 million, which is reflected in the nine-month period ended September 30th.

For the quarter ended September 30th, adjusted EBITDA was $6.6 million, or 8.9 percent of revenues. Adjusted EBITDA for the quarter increased $0.5 million from the prior year, and as a percent of revenue last year was 7.9 percent.

For the nine months ended September 30, 2015, adjusted EBITDA was $12.7 million, or 5.7 percent of revenue compared to 7 percent of revenue last year. The increase in adjusted EBITDA for the quarter was primarily the result of cost savings we've realized as part of our restructuring initiatives and positive changes in product mix, and was partially offset by a decline in revenues due to lower production volumes and pricing concessions.

Net loss for the three- and nine-months periods ended September 30, 2015, was $1.8 million and $32.6 million compared to $1.8 million and $2.9 million for the same periods last year. The decrease for the three- and nine-month periods this year was largely due to lower gross profit, higher restructuring expenses during the year, and a goodwill impairment charge, which I mentioned earlier.

Adjusted net income for the three months ended September 30, 2015, was $2.5 million and $2.3 million for the nine months ended September 30th compared to adjusted net income last year of $2 million for the quarter and $4.4 million for the nine-month period.

At September 30, 2015, our debt to EBITDA ratio was calculated at 2.35 times compared to 2.1 times last year, and compared to a maximum ratio for the 12-month period ended September 30th of 2.75 times under the amendment which we secured from our senior lenders after the second quarter of this year.

At September 30th, our fixed charge ratio was calculated at 1.58 times compared to 1.61 times last year, and a minimum required under our amended facility of 1.1 time.

As our credit facilities are due to mature in less than 12 months, our outstanding borrowings have been classified as current at September 30th and in our financial statements.

At September 30, 2015, we had cash and cash equivalents of $3.2 million compared to $0.8 million a year ago and compared to $3.5 million at June 30th this year.

During the three- and nine-month periods ended September 30, 2015, we used $1 million and $3 million, respectively, to repay a portion of our credit facilities outstanding, and we remain current on our principal and interest payments under our credit facilities.

As Mike noted earlier, we are in advanced discussions to refinance our senior credit facility, and we have redeemed—we have announced the redemption of the convertible debentures. The redemption of the convertible debentures eliminates a significant obstacle to us, refinancing our senior credit facility and securing additional growth capital, and as Mike mentioned earlier, provides a number of other advantages, including eliminating approximately 37.5 percent of our outstanding total debt. This will result in significantly reduced financial leverage and improved book value of our shareholders' equity, and provide us with additional financial flexibility.

I'd now like to turn the call back to Mike.

Mike Sifton

And I'm happy to turn the call over to the Operator. Mike?

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'll pause a few moments to compile the Q&A roster. Again, if you'd like to ask a question, press *, 1.

The first question is from David Ellis with RBC Dominion Securities.

David Ellis — RBC Dominion Securities

Good morning.

Mike Sifton

Good morning, David.

David Ellis

I would like to ask—yeah. Thank you. I'd like to ask a question about the convertible debs. You say you're redeeming 75 percent of the debentures in shares. The other 25 percent will remain outstanding?

James Lorimer

That's correct, yes.

David Ellis

And for every holder of those debentures they'll find that 75 percent of them are shares and they still have 25 percent of their debentures?

James Lorimer

That's correct. So the debentures will be essentially divided up on a pro rata basis.

David Ellis

Okay. I was just curious if there was one holder that was—had elected just to hold onto the debs or something?

James Lorimer

No. The CDS and Computershare will be managing that process, David. And there will be a further TSX bulletin that'll go out that'll explain the technical mechanics of how that works.

David Ellis

Mm-hmm. I noticed it said that the price determined will be 95 percent of the trading price for the 20 business days ending December 16th. What day will that start do you think? (unintelligible) like today?

James Lorimer

Well, I guess—yeah. I don't have a calendar in front of me, but essentially it's 20 trading days that end on that date.

David Ellis

All right. And so your intention is just to continue paying the interest on the other outstanding ones in cash? Or in shares?

James Lorimer

The intention is to continue paying them in cash, and the 25 percent that remain outstanding will have the same terms and the same maturity date as currently.

David Ellis

Okay. Thank you. That's all the questions I have.

Mike Sifton

Thank you, David.

Operator

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

Kevin Tracey — Oberon Asset Management

Thanks for taking my questions. On the last call you mentioned that we'd see part of the benefit to the restructuring in the third quarter and all the benefits in the fourth quarter. And we saw good progress on improving the margins in the third quarter. My question is should we see even more improvement in the fourth quarter compared to the fourth quarter of 2014?

James Lorimer

Yes. Kevin, most of the initiatives that we implemented really started to take hold in the last, I guess, half of the quarter, and so they were completed substantially in the third quarter. And so really some of the headcount reductions we'll see additional improvements in the fourth quarter.

Kevin Tracey

Okay. Good. And you noted that the main reason for the decline in revenue was less business from existing customers and lower pricing. I'm wondering if you could talk about whether you won new customers or lost any customers. I'm just remembering back in 2013 the prior management talked about how the company lost market share, and I think some of that was regained in 2014, but I'm just wondering if you'd give us an update?

Mike Sifton

No, I don't think we've lost market share. It's just been the tightening of margins.

Kevin Tracey

Okay. And how do you envision paying off the 25 percent of the converts that you won't redeem? I guess you're talking to banks right now about a new credit facility. Is it your hope to extend the new credit facility beyond June 2017? And in a size large enough that you can use to redeem the rest of converts? Or can you just talk about your plan there?

Mike Sifton

Well, I think we have a couple of avenues we’re going down. Obviously what we're doing right now is building a balance sheet that makes sense for this business and the trajectory we're on.

We do look to grow and be in a position by June 2017 to obviously have a much stronger balance sheet so that we have many options as to how to deal with the debentures at that time. Obviously they can also be addressed at any point between now and then as well, but clearly we’re trying to build a balance sheet that's right for this business.

James, I don't know whether you’d like to add to that?

James Lorimer

No, I think that's fair comments, Mike.

Kevin Tracey

Okay. And then just a couple more questions about some cash outflows. I'm wondering if you have a sense of what your CapEx budget will look like over the next year. And also with regards to your tax position, are you going to be a cash taxpayer? Or have your accumulated any tax losses that you’ll be able to offset with tax liabilities?

James Lorimer

Yeah. I guess we have about 7 million to $8 million of noncapital losses that we have available to shelter taxes, Kevin. We haven't really given guidance in terms of our net income or our profitability, and I think we'd refrain from that at this point.

From maybe more of a free cash flow perspective, I think the important things to note are we still have continuing severance and lease obligations that although they've been removed from the income statement, they still work their way through the cash flow statement.

Kevin Tracey

Okay. And do you have a sense of what your CapEx budget will look like in 2016?

James Lorimer

Our CapEx is typically in the really just kind of maintenance CapEx for the most part. We're not planning any significant capital expenditures at this point, but as we come into the year-end we are certainly looking at our budgets for next year.

So our typical kind of maintenance CapEx is in the 2.5 million to $3 million range per year.

Mike Sifton

And, Kevin, just to be clear, we have not done our budgets for 2016 yet. So we don't have any approved numbers to share.

I think that's very fair that James is kind of giving you some sort of indication of how we've operated in the past. And then what's really, I think, constructive is we'll have the flexibility through this to look at other capital opportunities that the company really hasn't had the opportunity to look at for some time, as well as other business opportunities.

Kevin Tracey

Okay. Great. And then just the last question for me. You’re required to contribute, I think, 1.3 million to your pension plan this year. Do you have a sense of what that number will look like next year? And then just so I understand correctly, there was a new law passed that is such that you won't be required to make any contributions to make up the shortfall in your multiemployer pension plans. Is that right?

James Lorimer

That's correct in terms of the multiemployer pension plan in Québec, and next year the pension contribution continues at $1.3 million.

Kevin Tracey

Great. Okay. Thanks, guys.

Mike Sifton

Thanks, Kevin.

Operator

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

Mike Sifton

Well, Mike, thank you. Ladies and gentlemen, thank you for your time this morning. We appreciate your ongoing interest and support.

We think the results and decisions made reflect a real constructive approach to building this business for the long term and look forward to our next quarterly results and sharing them with you.

Thank you very much. Have a great day.

Operator

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

*****