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FINAL TRANSCRIPT

DATA Group Ltd.

Fourth Quarter Results

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CORPORATE PARTICIPANTS

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

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DATA Group Ltd. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Kevin Tracey
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PRESENTATION

Operator

Good morning. My name is Michelle (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. 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, simply press * then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key.

I would now like to turn the call over to Mr. Michael Suksi. Please go ahead.

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

Good morning, Michelle. Good morning, everyone, and thank you for joining us to review the DATA Group's financial results for the fourth quarter of 2013 and the full year 2013. Paul O'Shea, our CFO, is with me and Paul will be discussing the Group's performance by division.

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.

DATA Group continues to make progress on our transformational plan. We remain focused on creating long-term enterprise value appreciation for our shareholders. In 2013, some of our highlights are that we reduced our costs by $13 million on an annualized basis, we generated $11.3 million in revenue from the selected growth areas management has targeted, and we reduced our debt by $4.5 million.

Our net loss in the fourth quarter and in 2013 was primarily due to a noncash goodwill impairment charge, or charges, and the restructuring expenses associated with our successful cost-reduction initiatives.

I started by mentioning our transformational plan, and I wanted to talk a bit about why a transformational plan is required. Portions of our core print business, which continue to generate a significant portion of our revenues, face increased competitive pressures and unprecedented change with a shift towards digital communication technologies. These factors adversely impacted our financial results for 2013. In response to these market-driven forces, we are transforming our business to reposition it for sustained profit growth by focusing on three key areas: one, continuing to significantly reduce our costs; two, reducing our indebtedness; and three, stabilizing our revenue.

In 2013, DATA Group began a comprehensive three-year cost reduction program. During the year, we closed three production sites, downsized two others, simplified our organizational structure, centralized the number of our internal functions, and in doing those things we reduced our work force by 145 staff or approximately 8 percent. We also renegotiated a number of raw material input costs, and in total these actions, and others, resulted in the $13 million in annualized savings I've mentioned previously. We are committed to this program and are continuing our efforts, including engaging a major consulting firm to assist in identifying and acting on additional cost savings opportunities for 2014 and beyond.

Moving to debt reduction. We did reduce our debt by 4.5 million in 2013 as I mentioned. DATA Group intends to accelerate our rate of debt reduction in 2014, and we have reduced our debt by $2 million already year-to-date in 2014.

I mentioned that our strategy is to stabilize our revenue. We will achieve this by investing selectively in new talent, focusing on winning market share in our traditional print business, and prudently investing in growth areas that we have identified. For example, since Q3 of 2013 we've made a number of changes in our sales management and our executive teams and we have invested in our direct mail and in-store retail signage capabilities. Our digital services, such as e-marketing and document scanning, will be closely bundled with our print offerings to increase the value we provide to our customers and increase the contribution these services are making to our overall revenue and profitability.

I'll now turn it over to Paul to go over the specific financial results for the fourth quarter of 2013.

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

Thanks, Michael. For the quarter ended December 31, 2013, DATA Group recorded revenues of 82.1 million, a decrease of 4.8 million or 5.5 percent compared with the same period in 2012. The decrease, before intersegment revenues, was a result of a 4.6 million or 5.5 percent decrease in the DATA East and West segment and a $200,000 or 4 percent decrease in the Multiple Pakfold segment, respectively.

The decrease in revenues in the DATA East and West segment was due to the climbs in revenues from existing customers due to competitive activity and technological change and was partially offset by revenue gains from the selected growth areas. The decrease in revenues in the Multiple Pakfold segment was attributable to aggressive pricing by competitors and orders in 2012 which did not repeat in 2013.

For the quarter ended December 31, 2013, cost of revenues decreased to 61.3 million from 63.7 million for the same period in 2012. Gross profit for the quarter ended December 31, 2013, was 20.9 million, which represented a decrease of 2.3 million or 9.8 percent from 23.2 million for the same period in 2012. The decrease in gross profit was attributable to lower revenues and was partially offset by cost savings in each segment.

Gross profit as a percentage of revenues decreased to 25.4 percent for the quarter ended December 31, 2013, compared to 26.7 percent for the same period in 2012.

Turning now to the year to date. Revenues at DATA Group's DATA East and West segment for the year ended December 31 decreased $18.7 million or 5.8 percent to 304.2 million from 322.9 million for the same period in 2012. Revenues for the year ended December 31, 2013, decreased, primarily due to competitive activity, which resulted in the loss of orders from existing customers and, as we've mentioned, the continued decline in demand for traditional printed products, including business work, due to the increased use of digitally based replacement products. Revenues were also adversely affected by aggressive pricing by DATA Group's competitors supplying similar products and services.

For the year ended December 31, 2013, gross profit decreased 6.8 million or 8.1 percent to 77.5 million from 84.3 million in the same period in 2012. Gross profit as a percentage of revenues for the year ended December 31, 2013, decreased to 25.5 percent from 26.1 percent for the same period in 2012.

The decline in gross profit as a percentage of revenues for the year ended 2013 was due to lower revenues and was partially offset by cost savings. As mentioned, these cost savings included headcount reductions, the closure and downsizing of certain manufacturing locations and warehouses, and the renegotiation of agreements for a number of raw material input costs.

During the year ended December 31, 2013, we continued our ongoing productivity improvement and cost-reduction initiatives, which gave rise to the additional severance costs and restructuring charges. Revenue at DATA Group's Multiple Pakfold for the segment for the year ended December 31, 2013, decreased $600,000 or 4.5 percent to 13.9 million from 14.5 million for the same period in the prior year.

For the year ended December 31, 2013, gross profit decreased $200,000 or 8.3 percent to $2.6 million from $2.8 million. Gross profit as a percentage of revenues for the year ended December 31, 2013, decreased to 18.7 percent from 19.4 percent for the same period in 2012.

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

Michael Suksi

Thanks very much, Paul. The successful growth of a company is dependant upon the expertise, experience, and commitment of the management team. At DATA Group, your management team is committed to the long-term creation of value, and we intend to accomplish this, as I've said, by reducing costs, reducing debt, and stabilizing our revenue.

I look forward to any questions you may have and turn it back over to Michelle to open it up for those questions.

Q&A

Operator

At this time, I would like to remind anyone who would like to ask a question to please press *, 1 on your telephone keypad. Again, that would be *, 1 on your telephone keypad.

Our first question comes from Kevin Tracey from Oberon Asset Management. Please go ahead.

Kevin Tracey — Oberon Asset Management

Thank you for taking my questions. You all did a very good job of cutting SG&A during the year, even taking it down as a percentage of revenue, but the decline in gross margin over 100 basis points in the quarter was sizable, and I'm curious if you can talk to what your expectations are. What your ability is to hold up gross margins if the business continues to decline at mid-single digit rates?

Michael Suksi

Kevin, we continue to take costs out, not just in SG&A but also in the operational parts of our business, which offset some of the revenue declines we're seeing. For example last year, as Paul touched on briefly, we closed three locations in Montreal, Markham, and Brockville and consolidated those into our other locations, and downsized two others, as well as other steps that we took. Our intention, as I mentioned, is to be aggressive about continuing to reduce those costs, to protect the gross margins that we have, and at the same time do, frankly, a stronger job in 2014 and beyond in terms of stabilizing our revenue to also help offset those declines then we saw in 2013.

On that note, I want to point out that the decline in revenue that we saw in 2013 was more significant than we've seen in the past, and our track record with regards to revenue has been that we've done a better job winning market share in our core print business in the previous five years to 2013 than we did in 2013. It's our intention to get back to that winning record. We've made changes to do that, and as a result of that between our cost savings and stabilizing the revenue we expect to not see the kind of decline in gross profit that we saw in 2013.

Kevin Tracey

Okay. Great. And then with regards to the restructuring, it seems to have slowed down since the second quarter. On that call you all announced 12 million of annualized cost savings, and also in that call you talked about 28 million as the total number you hoped to achieve by 2015. And I guess the question is is that still—you all still believe that number's achievable? And I'm curious if you could estimate how many provisions you would need to take to cut another $15 million of fixed costs.

Michael Suksi

Kevin, we think that the number is achievable over 2014 and ‘15. And as I said, we continue to be aggressive about looking at those cost reductions.

In terms of the provisions, we don't have a projection at this point in time about what exactly those will look like.

Paul O’Shea

But I would expect that we would have restructuring provisions going forward…

Michael Suksi

Sure.

Paul O'Shea

As we initiate those savings.

Kevin Tracey

Okay. And then lastly with regards to the new growth area of revenue during the year of $11 million. Now I know in the past you all talked about your large new customer in Chicago as hopefully driving 10 to 20 million of annual revenue when it's fully ramped, and I believe there are a couple other customers that were ramping in the second half of 2013. So can you give a sense of, based on just maybe additional customers that you've won or what the pipeline looks like, in terms of this new revenue in your growth areas for 2014?

Michael Suksi

Yeah, I'm going to give you a little feedback as well on the specifics of what we're doing in terms of those growth areas, but the revenues that you mentioned from a couple of those clients have been very similar to what you described at the lower end of the range so far, but we also expect that we'll continue to see growth in those in 2014.

So I want to elaborate a little bit on our revenue plan with regards to the selected growth areas that we focused on. Bear with me, I want to give you some specifics. First of all, a lot of the growth we're seeing is in the marketing, print, and related services for the financial, retail, and telco sectors, some of which is in the US, as we've talked about. That's things like direct mail, brochures, retail signage, posters, and so on that you see inside a retail store or financial institution, and then services that go with the marketing solutions such as creative design, data analysis, e-mail, webpages, warehousing, kitting and fulfillment, reporting.

I'll give you a couple of examples. One you touched on a moment ago. Last year we launched an expanded relationship with a large financial institution that already was a customer, and that involved us being the single source North American print management partner for that client. They had previously had relationships in addition to the one they had with DATA with over 100 other printing suppliers. Over 100, and we consolidated that with ourselves. The result for them has been savings in the millions of dollars, and the revenue stream that we've added is in the range of what you talked about in your question.

For another client we redesigned the direct mail campaign for them using our creative services. This is another—this is actually a financial institution client as well, and as a result of that redesign we increased the response rate by 46 percent in the direct mail campaign.

In the document process management sector where we're automating document-intensive functions we've had success with the financial—in the financial services market, government, and in the construction industries. I'll give you a couple quick examples there.

For another financial institution we were printing and sending out collection letters for them to their customers. And as you can imagine a number of them came back—returned to us—because of incorrect addresses. The client was manually trying to manage that, those incorrect returns, and that was taking them days to do it, costing them money and delaying their ability to collect money. We improved the process by introducing our new scanning technology to those returned documents, extracting the address, getting it corrected, and then getting documents resent for the client to the right address. That improved the collection time by several days, and it reduced the client's internal costs.

In a similar way for a large construction company we were supplying invoices for them and also proof-of-delivery documents when they shipped their goods to their clients. They were having trouble matching the document that shows proof of delivery with the invoice, and as a result some invoices were going out incorrectly and certainly was taking a long time to get paid because obviously incorrect invoices lead to delays. So we started scanning the proof-of- delivery documents, matching those up to the invoices in an automated fashion, posting the invoices electronically to a website, as well as in some cases mailing them out in hard copy format. And again, like the first example, that resulted in a significant reduction in the days outstanding and it also reduced their internal labour.

So those are a couple of examples of the kind of things that we're doing and have done in 2013, and we expect to continue to see growth in those areas as we move into 2014.

Kevin Tracey

Okay. Great. Thank you.

Michael Suksi

Thank you for your questions, Kevin.

Operator

Again, if anybody would like to ask a question, please press *, 1 on your telephone keypad.

I have no further questions in queue at this time.

Michael Suksi

Michelle, thanks very much. Thank you to everyone for joining us, and we look forward to updating you in our next call after our Q1 results. Take care.

Operator

Thank you, everyone. This concludes today's conference call. You may now disconnect.

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