

FINAL TRANSCRIPT

DATA Group Ltd.

First Quarter Results

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CORPORATE PARTICIPANTS

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May 15, 2014 — 11:00 a.m. E.T.
DATA Group Ltd. First Quarter Results

PRESENTATION

Operator

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

At this time, I would like to welcome everyone to the DATA Group Ltd. First 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, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Michael Suksi, President and CEO of DATA Group Ltd., you may begin your conference.

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

Thank you, Matthew. Good morning, everyone, and thank you for joining us to review the DATA Group's financial results for the first quarter of 2014. Paul O'Shea, our CFO, is with me, and Paul will be providing more detail on our financial results for the quarter.

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 our annual and quarterly continuous disclosure filings which are available on SEDAR.

Finally, please note that all references to the DATA Group means its various business divisions and affiliated entities.

All right. With the legal requirements out of the way, let me begin with an overview of our strategy and our progress against it.

With rapid changes in technology, our industry has seen many changes over the past several years, and the competitive environment has certainly intensified. To address those changes, we have developed a Transformation Plan that establishes clearer goals to enhance value for our shareholders by reducing costs, reducing our level of debt, and stabilizing our revenues.

In the first quarter of 2014, we continued to make progress on our Transformation Plan and we remain focused on creating long-term enterprise value appreciation for our shareholders.

I'd like now to provide you with some highlights on the progress of our Transformation Plan.

First of all, I'll talk about cost reduction; then I'll talk about debt reduction; and lastly, our revenue strategy.

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So cost reduction. In 2013, we launched a comprehensive three-year cost reduction program that, as I've said in the past, has resulted in \$13 million in annualized cost savings in its first year of 2013.

What I haven't talked to you about in the past is that we expect an additional 20 million to 25 million in total annual cost savings in 2014 and 2015. These will be mostly generated through a further reduction in locations, raw material costs, and number of employees.

The fact that I can now talk about a specific number reflects the work we've been doing to get more specificity around our overall cost savings plan for the next few years.

In the first quarter of 2014, we made further progress on this program by implementing new cost savings of 2.3 million on an annualized basis.

Switching now to debt reduction. We reduced our debt by \$2 million in the first quarter of 2014. As we've said in previous calls, we intend to continue our focus on debt reduction throughout the balance of 2014 and beyond.

As part of that, we are now announcing a normal course issuer bid for the purchase of up to \$4.476 million of our outstanding 6 percent convertible unsecured subordinated debentures, which are due June 30, 2017. We issued a press release to that effect, yesterday morning, Paul, I believe it went out?

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

Yes.

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**Michael Suksi**

Switching to revenue. Our intent in 2014 is to stabilize our revenue and position ourselves for longer-term revenue growth. Our plan to achieve this is based on four things.

One, we're going to continue to add new sales talent, as we've been doing. Two, winning market share in our traditional Print business. Three, investing in the key growth areas we have identified. Those are marketing-related print, labels, and digital or paperless communications. And four, we will bundle our digital services with our print offerings into complete business process outsourcing service offerings.

This will increase the value we provide to our customers and increase the contribution our digital services are making to our overall revenue and profitability. So that's our four-point plan.

In the last three quarters, we have made significant changes to our sales team as we have hired new sales management and sales representatives. This process will continue throughout 2014, and we are actively engaged in that as we speak.

During the first quarter of 2014, we generated \$6.4 million in new business and made encouraging progress on a number of new business sales opportunities in the retail, financial services, and transportation markets.

Additionally, during the first quarter of 2014, a key competitor, named Datamark Systems, announced they are ceasing operations. And as a result of that, we have begun to win new business.

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Due to the timing of these wins, they did not have a material impact on our first quarter results, but we do anticipate they will have a positive impact on our results during the remainder of the year.

That's a quick summary of our Transformation Plan and our progress against it.

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

Paul O'Shea

Thanks, Michael. For the quarter ended March 31, 2014, the DATA Group recorded revenues of \$77.9 million, a decrease of \$5 million or 6 percent compared with the same period in 2013. The decrease, before intersegment revenues, was the result of a 5.2 million decrease in the DATA East and West segment, and was offset by a \$200,000 increase in our Multiple Pakfold segment.

The decrease in revenues 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, and aggressive pricing by DATA Group's competitors supplying similar products and services.

The segment continued to experience revenue gains from new business which partially offset the declines in revenues from existing customers due to non-repeating orders, technological change, and competitive activity.

The increase in revenues in the Multiple Pakfold segment was attributable to new business which arose as the result of the bankruptcy of a competitor.

For the quarter ended March 31, 2014, cost of revenues decreased to 59.1 million from 61.1 million for the same period in 2013. Gross profit for the quarter ended March 31, 2014, was 18.8

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million, which represented a decrease of 2.9 million or 13.5 percent from 21.7 million for the same period in 2013. The decrease in gross profit for the quarter ended March 31 was attributable to a gross profit decrease of 2.9 million in the DATA East and West segments.

Gross profit as a percentage of revenues decreased to 24.1 percent for the quarter compared to 26.2 percent for the same period in 2013. The decrease in gross profit was attributable to the impact of competitive pricing and revenue declines, offset by cost reductions realized from savings initiatives instituted in 2013.

As Michael mentioned, we have a three-year plan to reduce costs. For the quarter ended March 31, 2014, SG&A expenses, excluding the amortization of intangible assets, decreased \$1 million to 14.7 million compared to 15.7 million in the same period in 2013.

As a percentage of revenues, these costs were 18.8 percent for the quarter compared to 18.9 percent for the same period in 2013. The decrease in SG&A expenses for the three months was attributable to the benefits realized from cost savings initiatives implemented in 2013.

For the three months ended March 31, 2014, DATA Group incurred restructuring expenses related to headcount reductions of \$900,000 as part of the ongoing restructuring initiatives.

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

Michael Suksi

Thanks, Paul. Listen, we know we have more work to do on our Transformation Plan, and we are committed to successfully executing on that strategy. We also know that the Transformation

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Plan we have embarked on has taken a toll on our share price and this is something that causes us great concern. It's not lost on us.

I want to tell you we are committed to delivering results that generate value to our shareholders. We are going 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.

The best way forward is to continue to build a stronger company, as we've been doing, and we firmly believe we have the right strategy to get us there.

I look forward to any questions you may have, and turn it back over to Matthew to open the lines for your questions.

Q&A

Operator

At this time, if you would like to ask a question please press *, 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster. Again, if you would like to ask a question please press *, 1 on your telephone keypad.

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

Kevin Tracey — Oberon Asset

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Thank you for taking my questions. So we continue to see gross margins decline with a 200 basis point contraction this quarter. Now in the past, it seems as though gross margins have held up better even as the businesses decline. So is the change just that the business has become much more competitive or the competition's intensified? And then do you think that this is unavoidable? Gross margins declining is unavoidable going forward if revenue continues to decline? Or do some of these cost cuts you've identified—able to offset that?

Michael Suksi

Well thanks for your question, Kevin. One quarter does not define a strategy or a year so we'll see what happens. Clearly though, in Q1, although we achieved cost savings, the gross margin decline was impacted by our revenue—as Paul said, revenue declined—but also the fact that we had some intense pricing competitiveness in the marketplace, and there's an element of product mix which does vary from quarter to quarter in there. Our intention going forward clearly is to stabilize through the revenue stabilization strategy that I talked about, and also through our cost reduction program which I've talked about as well.

Kevin Tracey

Okay. And then just a couple of questions around Datamark Systems. Just to clarify, they're leaving the market, is that correct? Are they—do you expect them to reorganize in bankruptcy and re-enter the business?

Michael Suksi

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Well, I don't have a crystal ball, obviously, but it's a fair question. From what we understand, they're leaving the business. We are not aware that they've entered into bankruptcy protection and will re-emerge. We understand they're leaving the business.

Kevin Tracey

Okay. And if I go back and look at the size of their business before they were acquired, it was a reasonably big business back in 2007 with 100 million of revenue or so, now presumably it's smaller today. But is there a reasonable estimate of what you all expect to win from those customers?

Michael Suksi

We have internal targets but I'm not sharing those specifically. It is in the context of our plan that I talked about to stabilize our revenue and eventually achieve growth. I will say that the size of the business, as we understand it, of Datamark had shrunk quite considerably from the 100 million that you referred to. But it's enough that we think it's a positive opportunity for us, and we are well into taking advantage of it.

Kevin Tracey

Okay. And I would imagine they tried to sell the company. Can you talk about why you think there weren't any buyers?

Michael Suksi

Well listen, it's conjecture. The company may not have been healthy enough. It may not have been profitable enough. It may not have been making money at all. Sounds to me like perhaps

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it wasn't given the decisions that they've made. So perhaps taking on that business would have been viewed by others as a poor decision. I'm sure they tried hard.

Kevin Tracey

Okay.

Michael Suksi

I would think they would have.

Kevin Tracey

Okay. Well, thank you.

Michael Suksi

Thanks for your questions, Kevin.

Operator

And again, if you would like to ask a question please press *, 1 on your telephone keypad.

We have no further questions at this time. I'll turn the call back over to our presenters for any closing remarks.

Michael Suksi

Thanks again, Matthew. I look forward to providing you with our further update on our progress with our Transformational Plan in our next conference call, which will summarize our Q2 results, and that will be in August.

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Also, I look forward to seeing as many of you as possible at our Annual and General Shareholders Meeting, which is on June 17, 2014.

I'd like to conclude by thanking our investors, our customers, and our employees for their support, and encourage our shareholders to contact me directly. My contact information is in today's press release, and I'd welcome your call.

Once again, thank you and have a good day.

Operator

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

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