

EVENT: DATA GROUP INCOME FUND
THIRD QUARTER 2007 EARNINGS RESULT
CONFERENCE CALL
TIME: 11H00 E.T.
REFERENCE: CNW GROUP
LENGTH: APPROXIMATELY 31 MINUTES
DATE: NOVEMBER 6, 2007

OPERATOR: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Data Group Income Fund Third Quarter 2007 Earnings Results conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If anyone has any difficulties hearing the conference, please press star followed by zero for Operator assistance at any time. I would like to remind everyone that this conference call is being recorded on Tuesday, November 6th, 2007 at 11:00 a.m. Eastern Time.

I will now turn the conference over to David Odell, President and CEO. Please go ahead, sir.

DAVID ODELL (President and Chief Executive Officer, Data Group Income Fund): Good morning everyone and thank you for joining us to review the Data Group Income Fund's financial results for our third quarter of 2007. Paul O'Shea, our CFO is with me and we will be discussing the Fund's performance for the third quarter and the year-to-date ended September 30th, 2007.

Before we begin, I'll remind you that our remarks and our answers to your questions today may contain certain forward-looking information about future events on the Fund's performance. This information by its nature is subject to risks and uncertainties that may cause actual events or results to differ materially.

Also, on today's call, all references to the Data Group will mean the Fund together with its various business divisions and affiliated entities.

Let me start by saying that I am very pleased with our progress to date in the integration of our Relizon Canada Acquisition. All planned facilities and office closures have been completed ahead of schedule. Our focus now turns to improving productivity and training new employees we had to recruit in a number of facilities, particularly in the Alberta market where employment market conditions have resulted in longer than expected lead times in securing the people we needed. Having largely completed our integration, we believe that we will achieve synergies of approximately 10 million, 3 million more than our original estimate of 7 million per annum in pre-tax operating synergies.

In addition, we have experienced our first success in our efforts to sell real estate assets we acquired through the Relizon Acquisition. On October 24th, 2007, we completed the sale and leaseback of Brockville, Ontario facility for which we received 4.5 million, less transaction costs.

Revenue for the quarter ended September 30th, 2007 was 90.2 million, an increase of 33 percent compared to the same period in 2006.

Net income for the third quarter was 1.4 million or 0.061 per basic unit.

EBITDA, earnings before interest, taxes, depreciation and amortization in the quarter was 8.1 million or 9 percent of revenue

compared to adjusted EBITDA, that's EBITDA adjusted for non-cash inventory fair value allocation charges of 6.6 million or 9.7 percent of revenue in the same period of 2006.

In the third quarter of 2007, the Fund had total cash available for distribution of 5.1 million or \$0.232 per unit. The third quarter includes an additional 600,000 in integration costs and 1 million in maintenance CAPEX for upgrading former Relizon equipment. Adding these items back would have improved cash available for distribution to 7 million or 0.298 per unit.

Turning now to the calendar year-to-date, revenues were 291.4 million versus 177.8 million in 2006, an increase of 63.9 percent. Cost of revenues increased from a 130.1 million in 2006 to 214.9 million in 2007 resulting in gross profit of 76.5 million compared to 47.7 million in 2006.

Adjusted EBITDA was 25.5 million or 8.7 percent of revenue versus 19.9 million of 11.2 percent of revenue in 2006. Cash available for distribution for the year-to-date at September 30th was 17.2 million or 0.730 per unit. Cash distributions were 20.4 million or 0.869 per unit. Adjusting for integration cost of \$4 million year-to-date and 2 million in the maintenance CAPEX would have increased cash available for distribution to 23.1 million or 0.985 per unit.

Now, I'll turn to covering highlights on a divisional basis starting with our Data East and Data West segment.

This segment includes the operations of the Relizon Canada business for the nine months ended September 30th, 2007 and for the period from August 31st, 2006 to September 30th, 2006. In the three months ended September 30th, 2007, revenue at the Data Group's DATA East and West segment increased 23.8 million or 41.2 percent to 81.7 million from 57.9 million for the same period in the prior year. Revenue for the nine months ended September 30th, 2007 increased 119.1 million or 83 percent to 262.6 million from 143.5 million for the same period in the prior year.

The increase in revenue in the quarter was primarily due to the acquisition of Relizon Canada on August 31st, 2006. July and August were slower than as expected, particularly in Western Canada. However, activity levels improved significantly in September. Two new contracts in Western Canada which were to start in August were delayed, with one to commence mid-December and the other to commence mid-December or mid-January. We have also now begun the process of reviewing products and services which generate low margins with the intent of increasing prices to acceptable levels or discontinuing them, much of that review relates to former Relizon business.

Gross profit in the quarter ended September 30th, 2007 increased 8.7 million to 21.5 million from 12.8 million in the same period of 2006. After adjusting for the Relizon Inventory Allocation of 2.5 million, the gross

profit for the quarter ended September 30th, 2006 would have been 15.3 million. The gross profit as a percentage of revenues increased to 26.3 from 22.1 percent for the same period in 2006. After adjusting for the Relizon Inventory Allocation, the gross profit as a percentage of revenues would have been 26.4 percent. For the nine months ended September 30th, 2007, gross profit increased 30.8 million to 68.5 million from 37.7 million in the same period of 2006. After adjusting for the Relizon Inventory Allocation of 2.5 million, the gross profit for nine months ended September 30th, 2006 would have been 40.2 million. The gross profit as a percent of revenues decreased to 26.1 from 26.2 percent for the same period in 2006. After adjusting for the inventory allocation, the gross profit as a percentage of revenues would have been 28 percent.

The decline in the gross profit as a percent of revenues during the three months and nine months ended September 30th, 2007 are due to two principal factors. Primarily, margins with the acquired Relizon Canada business were lower than those realized in the former Data Business Forms Limited business. Consequently, we have begun a review of low margin business with this segment as discussed previously.

Secondarily, necessary recruiting and relocation in the Alberta marketplace has resulted in increased expense of approximately \$300,000 and was slower than required. This resulted in increased overtime, training costs and reduced productivity. With all but a small number of

positions filled and having completed plant closures and the realignment of assets within continuing facilities, management is now focused upon fine tuning equipment, training new employees and taking steps to improve productivity and efficiencies to historical DBFL levels and beyond.

As part of the Fund's restructuring plan announced on March 1st, 2007, the Fund closed plants within the Data East and West segment located in Hemmingford, Quebec, Orangeville, Ontario, and Medicine Hat, Alberta. In addition, certain assets were realigned within continuing plant operations to consolidate and focus on improving efficiencies. The closure of these plants and the movement of equipment into and between continuing plant operations was completed at the beginning of the quarter and production resumed with no adverse effects to consumer relationships. These plant closures are expected to reduce excess production capacity, improve operating efficiencies and profitability within the Data East and West segment following the combination of the former Relizon and Data businesses.

I'll now turn to some comments on Sundog.

Revenues at Sundog grew 0.2 million from 5.7 million in the third quarter of 2006 to 5.9 million in 2007 in spite of a generally soft local commercial print market. The increase in revenue in the quarter was due to the completion of a major project for a large customer. Generally, the business continues to be affected by tighter local market demand and

some increased competitiveness. Revenue for the nine months ended September 30th, 2007 decreased 0.7 million or 3.4 percent to 19.6 million from 20.3 million for the same period in the prior year. The decrease of revenue for the nine months ended September 30th, 2007 is due to softer market and competitive conditions previously discussed.

For the quarter ended September 30th, 2007, gross profit decreased 12.7 percent to 1.8 million from 2 million in the same period of 2006. Gross profit as a percent of revenues decreased to 29.7 percent from 35.2 in the comparable period of 2006. The gross profit declined in the quarter was due to market conditions previously mentioned, which resulted in higher labour costs as a percentage of revenues. In addition, the Sundog segment experienced gross profit declines on US based ticket and specialty customers as a result of the strengthening Canadian dollar.

For the nine months ended September 30th, 2007, gross profit decreased 0.7 million to 6.5 million from 7.2 million in the same period of 2006. The gross profit as a percentage of revenues was 33.3 percent compared to 35.5 percent for the same period of 2006. A strengthening of sales management, the addition of new sales representatives and tighter cost controls are expected to help mitigate the impact of current market conditions.

Multiple Pakfold. Revenues of Multiple Pakfold decreased 1.5 million to 4.3 million in the third quarter of 2007 from 5.8 million in the

same period of 2006. Revenue for the nine months ended September 30th, 2007 decreased 3.6 million or 20.7 percent to 13.9 million from 17.5 million for the same period in the prior year.

While a decline in revenue was expected as a result of closing the Montreal Dorval facility as part of its restructuring plan announced on March 1st, 2007, the decline in revenue was greater than expected. The revenue decrease in the Multiple Pakfold segment came as a result of the closure of the Dorval facility which caused interruptions in the segment's ability to meet customer delivery requirements. In addition, the set-up of equipment, recruiting and training of staff have taken significantly longer than planned. As a result and subsequent to quarter end – subsequent to the end of the quarter, management changes were made.

For the quarter ended September 30th, 2007, gross profit decreased by 0.5 million to 0.3 million from the same period in 2006. The gross profit as a percent of revenues was 7.5 percent compared to 14.2 percent for the same period in 2006. For the nine months ended September 30th, 2007, gross profit decreased 1.3 million to 1.5 million from 2.8 million in the same period of 2006. The gross profit as a percentage of revenues was 11 percent compared to 16.2 percent for the same period in 2006. In each case, the decline was due to the reasons stated above.

In terms of CAPEX, we spent 1.4 million in the quarter. As mentioned earlier, maintenance CAPEX includes 1 million for upgrading former Relizon equipment.

As we have said previously, we will continue to fund necessary maintenance CAPEX expenditures with cash flow from operations.

In closing, I'd like to say that as we look at the business currently, we are confident that the Fund will continue to meet its objectives. With the cost of integration essentially behind us and the coming quarters will reap the benefits of the 10 million on annual synergies we worked so hard to put in place.

Our backlogs are strong. September was a very good month following a soft summer and currently our incoming sales are also strong. True (phon) of course being enhanced by the start up of three new contracts in the December, January period.

I'll also remind you that as we mentioned in previous calls, the acquisition of Relizon added from overall seasonal waiting which is the fourth quarter due to the direct mail business component. Once more, we finally have essentially all the operators in place that we needed in Western Canada. Training of new employees is progressing well and together with the required headcount, we're working to get our efficiencies and productivity back to and above historical levels while reducing overtime that was required to compensate for staff shortages.

Lastly, I'd like to thank our customers and our unit holders for their support, our employees for their dedication and our management team for their continued focus on our fundamental strategy while successfully managing through this enormous integration.

Thank you very much for joining us today. I'll now turn it back to the Operator to open it up for any questions you may have.

OPERATOR: Thank you and your first question comes from James Leung of Mackenzie Financial. Please go ahead.

JAMES LEUNG: Good morning, David and Paul.

DAVID ODELL: Hey, David.

PAUL O'SHEA: Good morning.

JAMES LEUNG: My first question is regarding the (inaudible) Data East and West, namely the start of the new contracts being delayed so in December and January timeframes. What's the reason for that and what would be the size of these contracts roughly?

DAVID ODELL: The reason in both cases had to do with the clients giving notice legally to the incumbents and when they acted on that James, so in both cases they have notices to give. In one, we will start December or January. The good news about that one is we've been doing some stuff with them and putting things in place to be prepared for that.

The size of them, boy, I'm not remembering. Steve, are you on the line? No? Okay.

DAVID ODELL: Paul, do you remember?

PAUL O'SHEA: I think we're in the range of 2 to \$3 million.

JAMES LEUNG: On an annual basis?

PAUL O'SHEA: Yes.

DAVID ODELL: The other one that I mentioned is the third one, is with an Eastern financial client, and on an annual basis it would be about 4 to 4.5 million per year.

JAMES LEUNG: Okay, great. Just on the, you've talked about the process of reviewing products and services from Relizon which has low margins. Now, what would be the percentage of your total revenues of this particular division of those that are under review? And so, to your best judgment, what's the chances of or how do you see the chances of price increases or discontinuation?

DAVID ODELL: Well, it's difficult to put an absolute number on it, James. We're reviewing everything. But, I will say that the Western business that Relizon enjoyed, I'm not sure I'm using the right word there because I'm not enjoying some of it. But, the Western business that they had and remember their business was still positioned proportionally much heavier to the East, smaller in the West you know relative to geography, market size and what have you, was in a lot of cases carrying very low levels of contribution. So, we had started the process of identifying those and talking to some of those customers. In some cases, we've already

gotten some agreement for price increase and the other cases we'll be giving the client time to find a new home.

JAMES LEUNG: Okay, great. Multiple Pakfold -- a question on just the margins. How do you see some of the trends in margins in the next year or so now given that the various challenges that you have? And also, on the management change which you said that it's subsequent from the quarter end, so does that mean that there will be a severance charge or restructuring charge in Q4 then?

DAVID ODELL: Yes. There will be a severance charge. As far as the margins go, our intention in making this consolidation was to get the operating margin up in the 8 to 10 percent range recognizing that this is a channel that affords, doesn't have the same capabilities to just deliver margins as the East and West segments. That's a value-added issue. So, the basic pieces was in Montreal, they made a very little or rock money but it was actually worst than it appeared, because there was business that was sent from Toronto to Montreal to try and help manufacturing absorption and what have you. So, the thesis was downsize the business somewhat, get the synergies associated with the reduction and overhead through one plant and that's the direction. The move as I've said in the MD&A and so on was not well managed.

The move as I said in the MD&A and so was not well managed, well, it was poorly managed to be frank, and there's some other productivity

issues there that need to be addressed. I have personally done a complete review of the operations and we have started process fees to transport best practices from our best operation in there. So, that's what's happening there.

JAMES LEUNG: And my final question is on CAPEX. I know that you have sort of segmented some of these CAPEX expenses for some related to restructuring. So, if you take out all the restructuring stuff on the maintenance CAPEX on an annual basis in '07 for example, what would be your expectation for sort of the annual maintenance CAPEX excluding restructuring?

PAUL O'SHEA: This year was a special year with all of the equipment moving around. So, we've now said we've increased that. We had originally said 4.7 million, I believe we spent 4.2 year-to-date and we're looking at spending \$5 million for the year. However, we're going to continue to believe that our CAPEX rate is around the 4.7 million when the businesses are combined, when they're completed in terms of maintenance CAPEX.

JAMES LEUNG: So the 4.5 or so it would be including all these restructuring?

PAUL O'SHEA: This year, we're looking at 5 million including the restructuring, okay? So, it would be three out of run rate, but we're still

looking at overall that we believe our CAPEX going forward will be 4.7 million.

JAMES LEUNG: Thank you very much. Keep up the good work. We're patient for the results.

DAVID ODELL: So are we only I'm not patient. Thanks, James.

JAMES LEUNG: Thanks, Dave.

OPERATOR: And your next question comes from Sophia Taylor of TD Newcrest. Please go ahead.

SOPHIA TAYLOR: Good morning.

DAVID ODELL: Good morning, Sophia.

SOPHIA TAYLOR: I just want to verify rather, the answer given to James' question on the size of the contracts that were delayed at Data East West?

DAVID ODELL: Yes.

SOPHIA TAYLOR: Out in the West, were each about 2 to 3 million annually? (Inaudible).

DAVID ODELL: Yes.

SOPHIA TAYLOR: Okay, great. What then sort of explains the rest of the weakness that you saw in the earlier months of the quarter of West do you figure?

DAVID ODELL: Well, I have to break it down between Sundog and Data West. In terms of Sundog, there has been some softness in the local

marketplace. You know, that seems strange to everyone including myself, since all we read about is the robustness of the Alberta marketplace. But, with respect to Sundog and commercial printing, in some local markets there, they have been so inundated with demand that they're basically running at capacity. They have some of the same issues that we had with getting the necessary human resources in place, that's Sundog's client and it's sort of fundamental with if you're in a position where you're running at or above capacity, you don't need to spend as much on marketing as you traditionally do. So, that's one of the reasons where some softness in the commercial marketplace there.

SOPHIA TAYLOR: Okay.

DAVID ODELL: In terms of the West, there are a couple of issues. We have built a significant backlog there. You know, (inaudible) greater than normal and largely as a result of the challenges we've had in getting people and therefore getting throughput. A number of the people, we just recently this week got our last label press operator and a number of the people out there have been sourced by some external markets including in the East. So, that and a bit of slowdown in one month amongst their document management contracts, you know relative volume are the reasons for that softness. But, September you know picked up substantially.

SOPHIA TAYLOR: And how does October look?

DAVID ODELL: Our incoming, as I've said in my closing remarks, our backlog and our incoming are very strong and we've seen some pick-up in incoming in Sundog as well.

SOPHIA TAYLOR: Okay. Generally speaking, we don't hear you talk about to any extent (inaudible) from the US in this new effects FX environment.

DAVID ODELL: Right.

SOPHIA TAYLOR: Can you comment on it? What would you say?

DAVID ODELL: Sure and I understand the question. I guess there are a couple of reasons why, you know, that hasn't been an issue. Let me start I guess with competitive structure.

You know, Moore (phon) which is part of our Donnelly (phon), a well-known large US based company, have operations here in Canada. Standard Register, were another major company in the United States. We have a long-term North-South relationship with them where we tackle North-South requirements and customers who are doing things that way on a joint basis. So, those would be reasons why some of the major players aren't here.

Second of all, our product mix is extremely diverse and it's not easy for anybody to replicate that. Our service paradigms in a lot of categories, they're very tight. You know, when you talk about 24 hours delivery, orders are placed 2 o'clock local time, you better have assets and facilities

and capabilities close to market within the country in order to be able to fulfill that kind of level of service requirement. So, those would be the key reasons why it's not been an issue.

SOPHIA TAYLOR: Great. Just going back to the contracts, make sure I again understand two were delayed...

DAVID ODELL: Yes.

SOPHIA TAYLOR: As you've already addressed. And then you mentioned the third one starting...

DAVID ODELL: Yes.

SOPHIA TAYLOR: In Q4, Q1?

DAVID ODELL: That's an Eastern contract and it starts about January 1st.

SOPHIA TAYLOR: And that's 4 to 4.5 million per year revenue?

DAVID ODELL: Roughly, yes.

SOPHIA TAYLOR: Great. Last question I have for you, I guess is just on the synergies, in terms of the timing of, when we, I guess there to see most meaningful impact, is it a Q1 '08 start or how would you describe it?

PAUL O'SHEA: I would describe it as starting in Q1 of 2008.

SOPHIA TAYLOR: Okay and is it pretty much straight? The 10 million that you talk about, is it pretty much straight line?

PAUL O'SHEA: It should be.

SOPHIA TAYLOR: Okay. I'm pretty sure that's it for me. Thanks very much.

DAVID ODELL: Okay. Thank you, Sophia.

OPERATOR: Mr. Odell, there are no further questions at this time. Please continue. Oh, I'm sorry. Mr. Odell, we have a question and it comes from James Leung of Mackenzie Financial. Please go ahead.

DAVID ODELL: Sure.

JAMES LEUNG: Hi, just a quick follow-up. Just on your gift card business and also the pattern from last, which you say that last year and again in the press release I saw was that it will impact possibly from your fourth quarter. Now the impact this year, what's your sense of going into the fourth quarter and how's the outlook for that sort of, that segment of the business?

DAVID ODELL: Well, I'm not sure if I'm starting to step into guidance or not James, but let me go back...

JAMES LEUNG: Generally speaking if you cannot be specific.

DAVID ODELL: Well, I told you where we are now in terms of our backlogs and incoming, and if you look historically at the businesses, you know we have more fourth quarter waiting because of the impact of the direct mail business within Relizon, and as a fact of the matter in the direct mail business, you know, it does have that waiting in general, so those are good signs.

JAMES LEUNG: Okay. Thanks very much.

DAVID ODELL: Okay. Thank you.

All right, thank you very much for joining us. We look forward to reporting our progress to you after our next quarter. Have a good day.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you participating. Please disconnect your lines.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »