

DATA Communications Management Corp. Announces Second Quarter Financial Results For 2017

HIGHLIGHTS

SECOND QUARTER 2017

- Revenues of \$73.1 million compared with \$69.7 million in the prior year, an increase of 4.8% year over year
- Net Loss of \$0.6 million, including restructuring expenses of \$1.7 million, compared to Net Income of \$0.9 million, including restructuring expenses of \$0.4 million in the prior comparative period
- Adjusted EBITDA of \$4.3 million, compared to \$4.5 million in the prior year (See Table 2 and "Non-IFRS Measures" below)
- Raised \$8.4 million of equity to repay the 6.00% convertible debentures for \$11.2 million plus interest of \$0.3 million

YEAR TO DATE

- Revenues of \$143.2 million compared with \$144.3 million in the prior year, a decrease of 0.8% year over year
- Net Loss of \$2.7 million, including restructuring expenses of \$3.6 million and acquisition costs of \$1.0 million compared to Net Income of \$2.9 million, including restructuring expenses of \$0.7 million in the prior comparative period
- Adjusted EBITDA of \$7.2 million, compared to \$10.2 million in the prior year (See Table 2 and "Non-IFRS Measures" below)

BRAMPTON, ON, Aug. 8, 2017 /CNW/ - DATA Communications Management Corp. (TSX: DCM) ("DATA" or the "Company"), a leading provider of business communication solutions to companies across North America, announced its consolidated financial results for three and six months ended June 30, 2017.

"We are pleased with the progress we have made in key business areas and with the corresponding improved financial results," said Michael G. Sifton, Chief Executive Officer of DATA. "We continue to focus on sales stabilization strategies, further enhancement of operational efficiencies and the strengthening of our balance sheet. Under Greg Cochrane's focused sales and business development leadership, I am confident that we will make significant strides in improving DATA's position in both the marketing communications and print business segments. We continue to build a robust pipeline of opportunities that capitalize on our core competency of managing complex business communications for our customers. Furthermore, I am very pleased that DATA repaid our 6.00% convertible debentures in full upon maturity. I am cautiously optimistic about the balance of 2017 and our sales pipeline of new initiatives converting through 2018."

Settlement of 6.00% convertible debentures

As intended, upon maturity on June 30, 2017, DATA settled the outstanding 6.00% Convertible Unsecured Subordinated Debentures ("6.00% Convertible Debentures") with an aggregate payment of \$11.2 million plus accrued interest of \$0.3 million which was financed with the net proceeds received from the Rights Offering, Private Placement and Bridging Credit Facility (all of which are described in further detail below). This represents a significant achievement for the Company, as it looks to deleverage its balance sheet further.

Rights offering

On June 23, 2017, DATA completed a rights offering ("Rights Offering") and issued 3,312,368 Common Shares at a price of \$1.40 per share for gross proceeds of \$4.6 million. Among this, 1,090,727 Common Shares were issued to directors, officers and related parties of DATA for total gross proceeds of \$1.5 million. The gross proceeds were used to finance, in part, the settlement of the 6.00% Convertible Debentures which matured on June 30, 2017.

Private placement

On June 28, 2017, DATA completed a non-brokered private placement offering ("Private Placement"). Pursuant to the Private Placement, DATA issued 2,690,604 units ("Units"), with each Unit consisting of one Common Share and one-half of a Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant") at a price per Unit of \$1.40 for gross proceeds of \$3.8 million. Among this, 550,650 Units were issued to directors and officers of DATA for total proceeds of \$0.8 million. The gross proceeds of \$3.8 million were used to finance, in part, the settlement of the 6.00% Convertible Debentures which matured on June 30, 2017.

On July 13, 2017, DATA completed a second closing of the Private Placement to a director of DATA for 71,500 Units, raising additional gross proceeds of \$0.1 million.

New credit facility and covenant amendment

On June 28, 2017, DATA established a non-revolving credit facility (the "Bridging Credit Facility") with Bridging Finance Inc. ("Bridging") for \$3.5 million (the "Bridging Credit Agreement"). Advances under the Bridging Credit Facility are repayable on demand and bear interest at a rate equal to the prime rate of interest charged by DATA's bank lender from time to time plus 10.3% per annum, calculated and payable monthly. The Bridging Credit Facility has a term of one year and can be repaid at any time without any prepayment fee upon sixty days prior written notice to Bridging, subject to the prior written consent of DATA's other senior lenders. The gross proceeds of \$3.5 million were used to finance, in part, the settlement of the 6.00% Convertible Debentures which matured on June 30, 2017.

In addition to the establishment of the Bridging Credit Facility, the term on a sub facility of DATA's senior revolving credit facility with a Canadian chartered bank (the "Bank Term Facility") was concurrently amended whereby the outstanding balance as of June 30, 2017 for \$4.2 million will be repaid by May 31, 2018, with equal monthly instalments of \$0.4 million. Given the Bridging Credit Facility and Bank Term Facility are repayable within one year, these were classified as current liabilities in DATA's consolidated statement of financial position as at June 30, 2017. Consequently, the required working capital current ratio of 1.25 to 1, pursuant to the terms of DATA's senior term loan facilities with Integrated Asset Management Corp. ("IAM"), was not met as at June 30, 2017. On August 4, 2017, the terms of the IAM senior term loan facilities were amended whereby the working capital current ratio was changed to 1.1 to 1 effective June 30, 2017, thereby resulting in DATA's lenders confirming there is no event of default. Given that the amendment was entered into subsequent to June 30, 2017, the long-term portion of DATA's senior credit facilities totalling \$41.3 million were reclassified to current liabilities in DATA's consolidated statement of financial position as at June 30, 2017. DATA expects to be compliant with its covenants going forward and, accordingly, it expects that the long-term portion of DATA's senior credit facilities will be reclassified to long-term in future periods.

Further enhancements to sales

In the second quarter of 2017, Gregory J. Cochrane, President assumed additional sales and business development responsibilities with the objective of improving DATA's position in the marketing communications and print business segments. Under his leadership, DATA has made structural and leadership changes to the sales team to make it more responsive to the changing market, take a more consultative approach to our client interactions and better capitalize on our unique suite of integrated technology solutions. We also began to implement several strategic initiatives to improve customer profitability, build wallet share in our existing customer base and position DATA as a provider of a unique suite of superior solutions.

In addition, DATA recently announced the hiring of Mike Coté as Senior Vice President, Corporate Development and Strategy, effective September 5, 2017. In this new role, Mr. Coté will lead strategic business development efforts, and will focus on helping DATA achieve its organic growth objectives. Mr. Coté brings extensive business-to-business selling experience and is expected to help strengthen DATA's customer relationships and competitive positioning.

Restructuring

DATA continues to evaluate its business for opportunities to enhance productivity and reduce its cost of operations. During the three months ended June 30, 2017, additional restructuring charges of \$1.5 million were incurred primarily related to headcount reductions in the Sales and Customer Service functions as a result of initiatives described in the "Further Enhancements to Sales" section above. In addition, a \$0.3 million expense was recorded during the second quarter of 2017 as a result of an onerous lease on the Regina, Saskatchewan facility which DATA exited and consolidated with its Calgary, Alberta facility, in addition to expenditures for building maintenance costs. Annualized savings from these initiatives are expected to be \$1.4 million per year.

Post-integration of Eclipse and Thistle acquisitions

As previously reported, DATA completed the acquisition of Eclipse Colour and Imaging Corp. ("Eclipse") and Thistle Printing Limited ("Thistle") in the first quarter of 2017. During the second quarter of 2017, the sales force was cross-trained on the respective capabilities and service offerings of DATA, Eclipse and Thistle. This has translated into stronger than expected post-acquisition financial results as the Company has benefited from cross-selling opportunities, in addition to cost savings and improved margins from synergies gained. Eclipse generated revenue and net income for the three months ended June 30, 2017 of \$6.7 million and \$0.8 million (six months ended June 30, 2017 of \$9.4 million and \$1.2 million), respectively, and Thistle generated revenue and net income for the three months ended June 30, 2017 of \$4.2 million and \$0.4 million (six months ended June 30, 2017 of \$6.0 million and \$0.4 million), respectively. With the inclusion of Eclipse's and Thistle's financial results for a full quarter, in addition to synergies gained from these acquisitions, overall gross margin for the Company improved from 23.3% for the three months ended March 31, 2017 to 24.6% for the three months ended June 30, 2017 and is consistent with the same comparative period last year.

The valuation reports for the Eclipse and Thistle acquisitions are still in progress, and therefore, the purchase price allocation remains preliminary. As such, there may be adjustments to the purchase accounting and those adjustments could be material. The post-closing adjustment for the Eclipse acquisition was completed during the second quarter of 2017 and did not change the purchase price significantly from the estimated amount previously used for the purchase accounting. The finalization of the post-closing adjustment for the Thistle acquisition is expected to be completed in the third quarter of 2017.

RESULTS OF OPERATIONS

All financial information in this press release is presented in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Table 1 The following table sets out selected historical consolidated financial information for the periods noted.

For the periods ended June 30, 2017 and 2016	Apr. 1 to June 30, 2017	Apr. 1 to June 30, 2016	Jan. 1 to June 30, 2017	Jan. 1 to June 30, 2016
<i>(in thousands of Canadian dollars, except share and per share amounts, unaudited)</i>	\$	\$	\$	\$
Revenues	73,066	69,716	143,192	144,330
Cost of revenues	55,062	52,567	108,828	108,808
Gross profit	18,004	17,149	34,364	35,522
Selling, general and administrative expenses	15,715	14,258	30,739	28,596
Restructuring expenses	1,735	368	3,621	692
Acquisition costs	13	—	969	—
Income (loss) before finance costs and income taxes	541	2,523	(965)	6,234
Finance costs (income)				
Interest expense	1,181	869	2,131	1,737
Interest income	—	(1)	—	(4)
Amortization of transaction costs	121	109	236	356
	1,302	977	2,367	2,089
(Loss) income before income taxes	(761)	1,546	(3,332)	4,145
Income tax (recovery) expense				
Current	288	1,156	339	1,332
Deferred	(468)	(601)	(993)	(60)
	(180)	555	(654)	1,272
Net (loss) income for the period	(581)	991	(2,678)	2,873
Basic (loss) earnings per share	(0.04)	0.09	(0.20)	0.28
Diluted (loss) earnings per share	(0.04)	0.09	(0.20)	0.28
Weighted average number of common shares outstanding, basic	13,637,875	10,559,348	13,079,515	10,273,438
Weighted average number of common shares outstanding, diluted	13,637,875	10,586,957	13,079,515	10,287,242

As at June 30, 2017 and December 31, 2016	As at June 30, 2017	As at Dec. 31, 2016
<i>(in thousands of Canadian dollars, unaudited)</i>	\$	\$
Current assets	77,564	68,620
Current liabilities	106,778	58,473
Total assets	122,065	90,910
Total non-current liabilities	18,544	42,372
Shareholders' deficit	(3,257)	(9,935)

Table 2 The following table provides reconciliations of net (loss) income to EBITDA and of net (loss) income to Adjusted EBITDA for the periods noted. See "Non-IFRS Measures".

EBITDA and Adjusted EBITDA Reconciliation

For the periods ended June 30, 2017 and 2016	Apr. 1 to June 30, 2017	Apr. 1 to June 30, 2016	Jan. 1 to June 30, 2017	Jan. 1 to June 30, 2016
(in thousands of Canadian dollars, unaudited)	\$	\$	\$	\$
Net (loss) income for the period	(581)	991	(2,678)	2,873
Interest expense	1,181	869	2,131	1,737
Interest income	—	(1)	—	(4)
Amortization of transaction costs	121	109	236	356
Current income tax expense	288	1,156	339	1,332
Deferred income tax recovery	(468)	(601)	(993)	(60)
Depreciation of property, plant and equipment	1,058	1,134	1,943	2,249
Amortization of intangible assets	906	510	1,599	1,015
EBITDA	2,505	4,167	2,577	9,498
Restructuring expenses	1,735	368	3,621	692
Acquisition costs	13	—	969	—
Adjusted EBITDA	4,253	4,535	7,167	10,190

Table

3 The following table provides reconciliations of net income (loss) to Adjusted net income and a presentation of Adjusted net income per share for the periods noted. See "Non-IFRS Measures".

Adjusted Net Income Reconciliation

For the periods ended June 30, 2017 and 2016	Apr. 1 to June 30, 2017	Apr. 1 to June 30, 2016	Jan. 1 to June 30, 2017	Jan. 1 to June 30, 2016
(in thousands of Canadian dollars, except share and per share amounts, unaudited)	\$	\$	\$	\$
Net (loss) income for the period	(581)	991	(2,678)	2,873
Restructuring expenses	1,735	368	3,621	692
Acquisition costs	13	—	969	—
Tax effect of the above adjustments	(453)	(96)	(945)	(181)
Adjusted net income	714	1,263	967	3,384
Adjusted net income per share, basic and diluted	0.05	0.12	0.07	0.34
Weighted average number of common shares outstanding, basic	13,637,875	10,559,348	13,079,515	10,273,438
Weighted average number of common shares outstanding, diluted	13,637,875	10,586,957	13,079,515	10,287,242
Number of common shares outstanding, basic	19,263,235	11,666,095	19,263,235	11,666,095
Number of common shares outstanding, diluted	19,263,235	11,980,143	19,263,235	11,980,143

Revenues

For the quarter ended June 30, 2017, DATA recorded revenues of \$73.1 million, an increase of \$3.4 million or 4.8% compared with the same period in 2016. The increase in revenues for the quarter ended June 30, 2017 was due to the inclusion of a full quarter of financial results for Eclipse and Thistle, in addition to greater than expected growth realized from these acquisitions. This was partially offset by lower revenues in DATA's core business due to (i) lower volumes and pricing from certain customers that reduced their overall spend, particularly in the financial services sector, and (ii) non-recurring work related to labels and forms from a major retailer and certain government agencies, respectively.

For the six months ended June 30, 2017, DATA recorded revenues of \$143.2 million, a decrease of \$1.1 million or 0.8% compared with the same period in 2016. The decrease in revenues for the six months ended June 30, 2017 was primarily due to lower volumes and pricing pressures from certain customers that reduced their overall spend, particularly in the financial services sector, and was also due to non-recurring work related to the forms and labels business, from which DATA benefited last year. Those factors led to revenue declines during the six month period which more than offset the growth in revenues from new customers and additional revenues from the acquisitions of Eclipse and Thistle, resulting in the overall reduction in revenues compared to the first six months of 2016.

Cost of Revenues and Gross Profit

For the quarter ended June 30, 2017, cost of revenues increased to \$55.1 million from \$52.6 million for the same period in 2016 proportionate to the increase in year of year revenue for the same period. Gross profit for the quarter ended June 30, 2017 was \$18.0 million, which represented an increase of \$0.9 million or 5.0% from \$17.1 million for the same period in 2016. Gross profit as a percentage of revenues for the quarter ended June 30, 2017 remained largely unchanged from the prior year at 24.6%. For the six months ended June 30, 2017, cost of revenues remained largely unchanged from the prior year at \$108.8 million. Gross profit for the six months ended June 30, 2017 was \$34.4 million, which represented a decrease of \$1.2 million or 3.3% from \$35.5 million for the same period in 2016. Gross profit as a percentage of revenues decreased marginally to 24.0% for the six months ended June 30, 2017 compared to 24.6% for the same period in 2016. The decrease in gross profit as a percentage of revenues for the six months ended June 30, 2017 was due to the decrease in revenues in the first six months of 2017, changes in product mix, and compressed margins on recently negotiated large contracts with certain existing customers. The decrease in gross profit as a percentage of revenues was partially offset by higher gross margins attributed to Eclipse and Thistle, cost reductions realized from prior cost savings initiatives implemented in 2016 and additional process improvement savings implemented in January 2017.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the quarter ended June 30, 2017 increased \$1.5 million or 10.2% to \$15.7 million compared to \$14.3 million in the same period in 2016. As a percentage of revenues, these costs were 21.5% of revenues for the quarter ended June 30, 2017 compared to 20.5% of revenues for the same period in 2016. The increase in SG&A expenses for the quarter ended June 30, 2017 was primarily attributable to the acquisitions of Eclipse and Thistle and an increase in the amortization of intangible assets.

SG&A expenses for the six months ended June 30, 2017 increased \$2.1 million or 7.5% to \$30.7 million compared to \$28.6 million for the same period of 2016.

As a percentage of revenues, these costs were 21.5% and 19.8% of revenues for the six month periods ended June 30, 2017 and 2016, respectively. The increase in SG&A expenses for the six months ended June 30, 2017 was primarily attributable to the acquisitions of Eclipse and Thistle, an increase in the amortization of intangible assets, and increased investment in technology including expenses related to DATA's ERP project.

Restructuring Expenses

For the quarter ended June 30, 2017, DATA incurred restructuring expenses of \$1.7 million compared to \$0.4 million in the same period in 2016, of which \$1.5 million primarily related to headcount reductions across the sales and customer service functions of the business and a lease exit charge of \$0.3 million associated with the closure of its manufacturing and warehouse facility in Regina, Saskatchewan. For the quarter ended June 30, 2016, DATA incurred restructuring expenses of \$0.4 million primarily related to headcount reductions.

For the six months ended June 30, 2017, DATA incurred total restructuring expenses of \$3.6 million compared to \$0.7 million in the same period in 2016. \$3.7 million of restructuring costs in the first half of 2017 were related to headcount reductions in DATA's indirect labour force across its operations, designed to streamline DATA's order-to-production process and across the Sales and Customer Service functions of the business. These restructuring costs were offset by a recovery of \$0.3 million related to a sub-lease of a closed facility in Richmond Hill, Ontario and DATA also incurred a lease exit charge associated with the closure of its manufacturing and warehouse facility in Regina, Saskatchewan of \$0.3 million. For the six months ended June 30, 2016, DATA incurred restructuring expenses related to headcount reductions of \$0.7 million.

Adjusted EBITDA

For the quarter ended June 30, 2017, Adjusted EBITDA was \$4.3 million, or 5.8% of revenues, after adjusting EBITDA for the \$1.7 million in restructuring charges. Adjusted EBITDA for the three months ended June 30, 2017 decreased \$0.3 million or 6.2% from the same period in the prior year which was 6.5% of revenues in 2016. The decrease in Adjusted EBITDA for the three months ended June 30, 2017 was due to higher SG&A expenses and was partially offset by higher gross profit as a result of higher revenues.

For the six months ended June 30, 2017, Adjusted EBITDA was \$7.2 million, or 5.0% of revenues, after adjusting EBITDA for the \$3.6 million in restructuring charges and adding back \$1.0 million related to business acquisition costs. Adjusted EBITDA for the six months ended June 30, 2017 decreased \$3.0 million or 29.7% from the same period in the prior year which was 7.1% of revenues in 2016. The decrease in Adjusted EBITDA for 2017 was attributable to lower levels of revenue and gross profit and higher SG&A expenses compared to the prior comparable period.

Interest Expense

Interest expense, including interest on debt outstanding under DATA's credit facilities, on its outstanding 6.00% Convertible Debentures, on certain unfavourable lease obligations related to closed facilities, and on DATA's employee benefit plans, was \$1.2 million for the three months ended June 30, 2017 compared to \$0.9 million for the same period in 2016, and was \$2.1 million for the six months ended June 30, 2017 compared to \$1.7 million for the same period in 2016. Interest expense for the six months ended June 30, 2017 was higher than the same periods in the prior year primarily due to the increase in the debt outstanding under DATA's credit facilities in order to fund a portion of the upfront cash components of the purchase prices, settle certain debt assumed and pay for related acquisition costs associated with the Eclipse and Thistle acquisitions in February 2017.

Income Taxes

DATA reported a loss before income taxes of \$0.8 million and a net income tax recovery of \$0.2 million for the quarter ended June 30, 2017 compared to income before income taxes of \$1.5 million and a net income tax expense of \$0.6 million for the quarter ended June 30, 2016. DATA reported a loss before income taxes of \$3.3 million and a net income tax recovery of \$0.7 million for the six months ended June 30, 2017 compared to income before income taxes of \$4.1 million and a net income tax expense of \$1.3 million for the six months ended June 30, 2016. The current income tax expense was due to the taxes payable on DATA's estimated taxable income for the three and six month periods ended June 30, 2017 and 2016, respectively. The deferred income tax recoveries primarily related to changes in estimates of future reversals of temporary differences and new temporary differences that arose during the three and six month periods ended June 30, 2017 and 2016, respectively.

Net (Loss) Income

Net loss for the quarter ended June 30, 2017 was \$0.6 million compared to net income of \$0.9 million for the same period in 2016. The decrease in comparable profitability for the quarter ended June 30, 2017 was substantially due to higher SG&A expenses and restructuring expenses and partially offset by higher gross profit as a result of higher revenues during the three months ended June 30, 2017.

Net loss for the six months ended June 30, 2017 was \$2.7 million compared to a net income \$2.9 million for the same period in 2016. The decrease in comparable profitability for the six months ended June 30, 2017 was primarily due to lower revenue, higher SG&A expenses, a larger restructuring charge and business acquisition costs during the six months ended June 30, 2017.

Adjusted Net (Loss) Income

Adjusted net income for the quarter ended June 30, 2017 was \$0.7 million compared to Adjusted net income of \$1.3 million for the same period in 2016. Adjusted net income for the six months ended June 30, 2017 was \$1.0 million compared to Adjusted net income of \$3.4 million for the same period in 2016. The decrease in comparable profitability for the three and six month periods ended June 30, 2017 was attributable primarily due to lower revenues, higher SG&A expenses and higher interest expense in 2017.

CASH FLOW FROM OPERATIONS

During the three months ended June 30, 2017, cash flows generated by operating activities were \$3.9 million compared to cash flows generated by operating activities of \$7.9 million during the same period in 2016. \$3.3 million of current year cash flows resulted from operations, after adjusting for non-cash items, compared with \$4.7 million in 2016. Current period cash flows from operations were positively impacted by the acquisitions of Eclipse and Thistle however, this was offset by a \$1.5 million increase in SG&A expenses over the prior year comparative period, in addition to lower revenue from DATA's core business. Changes in working capital during the three months ended June 30, 2017 generated \$2.7 million in cash compared with \$5.5 million primarily due to an increase in inventory on hand and a decrease in deferred revenue which was partially offset by an increase in accounts payables due to the timing of payments to suppliers for purchases and a decrease in accounts receivable. In addition, \$1.7 million of cash was used to make payments primarily related to severances and lease termination costs, compared with \$1.6 million of payments in 2016. Contributions made to the Company's pension plans were \$0.5 million, which was unchanged from the prior year.

During the six months ended June 30, 2017, cash flows generated by operating activities were \$2.3 million compared to cash flows generated by operating activities of \$10.1 million during the same period in 2016. \$4.7 million of current year cash flows resulted from operations, after adjusting for non-cash items, compared with \$10.4 million in 2016. Current period cash flows from operations were positively impacted by the acquisitions of Eclipse and Thistle however, this was offset by a \$2.1 million increase in SG&A expense over the prior year comparative period, in addition to lower revenues from DATA's core business. Changes in working capital during the six months ended June 30, 2017 generated \$1.8 million compared with \$5.0 million in the prior year primarily due to an increase in inventory on hand which was partially offset by an increase in accounts payables due to the timing of payments to suppliers for purchases and a decrease in accounts receivable. In addition, \$3.3 million of cash was used to make payments primarily related to severances and lease termination costs, compared with \$4.1 million of payments in 2016. Contributions made to the Company's pension plans were \$0.9 million, which was unchanged from the prior year.

INVESTING ACTIVITIES

During the three months ended June 30, 2017, \$1.7 million in cash flows were used for investing activities compared with \$0.3 million during the same period in 2016. In 2017, \$0.8 million of cash was used to invest in label equipment with digital capabilities, digital press equipment and the relocation of certain sales offices. In 2017, \$0.8 million of cash was used primarily related to investments in DATA's ERP project.

During the six months ended June 30, 2017, \$6.6 million in cash flows were used for investing activities compared with \$0.9 million during the same period in

2016. In 2017, \$0.9 million of cash was used to invest in label equipment with digital capabilities, digital press equipment and the relocation of certain sales offices. In 2017, \$1.1 million of cash was used related primarily related to investments in DATA's ERP project. In 2017, \$4.6 million of cash was used to acquire the businesses of Eclipse and Thistle.

FINANCING ACTIVITIES

During the three months ended June 30, 2017, cash flow used for financing activities was \$5.0 million compared to cash flow used for financing activities of \$7.4 million during the same period in 2016. DATA used net cash received from the issuance of common shares and warrants of \$8.1 million and cash from advances under its credit facilities totaling \$3.5 million and to repay \$4.0 million in outstanding principal amounts under its credit facilities and to repay the 6.00% Convertible Debentures outstanding principal amount totaling \$11.2 million. DATA also repaid a total of \$0.9 million related to the post-closing adjustments and promissory note related to the acquisitions of Eclipse and Thistle. DATA also incurred \$0.3 million of transaction costs related to the amendments to its senior credit facilities during the three months ended June 30, 2017.

During the six months ended June 30, 2017, cash flow generated by financing activities was \$1.9 million compared to cash flow used for financing activities of \$9.1 million during the same period in 2016. DATA used net cash received from the issuance of common shares and warrants of \$8.1 million and cash from advances under its credit facilities totaling \$17.1 million to repay a total of \$2.4 million to settle the outstanding balance on certain equipment leases that were assumed upon the acquisition of Eclipse, \$7.6 million in outstanding principal amounts under its credit facilities, to settle certain debt assumed upon the acquisition of Eclipse and Thistle on February 22, 2017, and to repay the 6.00% Convertible Debentures outstanding principal amount totalling \$11.2 million. DATA also repaid a total of \$1.1 million related to the post-closing adjustment for Eclipse and the promissory note related to the acquisition of Thistle. Lastly, DATA also incurred \$0.6 million of transaction costs related to the amendments to its senior credit facilities during the six months ended June 30, 2017.

OUTLOOK

Financial results for the second quarter of 2017 show modest improvement over the first quarter of the year after the inclusion of full quarter results for Thistle and Eclipse for the three months ended June 30, 2017. While DATA's core business experienced some softness in sales during the second quarter of 2017, consistent with the secular declines experienced by the industry, the contribution of full quarter revenue and greater than expected growth from Eclipse and Thistle, offset this shortfall. As noted previously, cross-selling opportunities and cost savings from synergies gained from the Eclipse and Thistle acquisitions are materializing as planned. Gross margin was 24.6% for the second quarter of 2017 in comparison to 23.3% in the first quarter of the year. DATA expects the positive contributions from Eclipse and Thistle to continue going forward.

DATA has taken active steps to refine its positioning in the marketing communications and print business segment. Several strategic initiatives have been implemented to improve customer profitability, build wallet share in its existing customer base and position DATA as a provider of a unique suite of superior solutions. Early results are promising, and the Company has been developing a healthy pipeline of new business wins within its existing customer base together with new customer acquisitions which are expected to translate into improved sales and higher margins progressively over the balance of 2017 and into 2018.

With the integration of Eclipse and Thistle substantially completed, DATA is actively pursuing other target acquisitions it sees in its markets which leverage its key competencies and/or bring new capabilities. It is expected that the Company will continue to be active on this front to deliver further growth and widen its footprint in the business and marketing solutions space.

DATA also continues to identify opportunities to further deleverage its balance sheet. The 6.00% Convertible Debentures that were settled on June 30, 2017, with an aggregate principal amount of \$11.2 million plus interest of \$0.3 million, was a significant step in this direction. The Company is exploring various financing options that will facilitate new acquisitions, further pay down outstanding debt and provide additional funds for future working capital needs. In addition, DATA continues to seek out further operational efficiencies within its business to bolster profitability and generate higher cash flows.

DATA is encouraged by its sales funnel and the opportunities ahead of it. Despite having a robust new business pipeline, the sales and onboarding process is slow and is taking longer than the Company had anticipated. At the same time, DATA's core enterprise and financial institutions business has experienced larger declines than previously anticipated. Nonetheless, DATA is cautiously optimistic about the balance of 2017 and its sales pipeline of new initiatives converting through 2018. As a result, DATA is revising its financial guidance for fiscal 2017 to a range of between \$18.0 million and \$20.0 million of full year non-IFRS adjusted EBITDA. As part of establishing the above guidance, the Company made the following assumptions:

- Economic conditions in North America will not deteriorate
- Print revenues in DATA's core business will continue to decline consistent with trends experienced by the industry
- The Company will be able to translate its pipeline of sales into new customer acquisitions and higher wallet share from its existing customer base
- The structural and leadership changes to the sales team, and the several strategic initiatives implemented to date to further enhance sales, will result in improved customer profitability and higher revenues
- The acquisitions of Eclipse and Thistle will generate additional revenue from cross-selling opportunities gained and will also improve profitability through synergies in cost savings
- Further operational efficiencies and cost savings will result from additional cost management and/or restructuring initiatives

DATA cautions that the assumptions used to prepare the guidance provided above, although currently reasonable, may prove to be incorrect or inaccurate. Accordingly, actual results may differ materially from expectations as set forth above. The guidance provided above should be read in conjunction with, as is qualified by, the section Forward-looking Statements contained in this press release.

It is expected that the financial performance of the Company will improve in the second half of the year as DATA begins to realize the benefit of the various growth initiatives currently underway.

About DATA Communications Management Corp.

DATA is a leading provider of business communication solutions, bringing value and collaboration to marketing and operation teams in companies across North America. We help marketers and agencies unify and execute communications campaigns across multiple channels, and we help operations teams streamline and automate document and communications management processes. Our core capabilities include direct marketing, commercial print services, labels and asset tracking, event tickets and gift cards, logistics and fulfilment, content and workflow management, data management and analytics, and regulatory communications. We serve clients in key vertical markets such as financial services, retail, healthcare, lottery and gaming, not-for-profit, and energy. We are strategically located across Canada to support clients on a national basis, and serve the U.S. market through our facilities in Chicago, Illinois.

Additional information relating to DATA Communications Management Corp. is available on www.datacm.com, and in the disclosure documents filed by DATA Communications Management Corp. on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this press release constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of DATA, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward-looking statements. When used in this press release, words such as "may", "would", "could", "will", "expect", "anticipate", "estimate", "believe", "intend", "plan", and other similar expressions are intended to identify forward-looking statements. These statements reflect DATA's current views regarding future events and operating performance, are based on information currently available to DATA, and speak only as of the date of this press release. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Many factors could cause the actual results, performance, objectives or achievements of DATA to be materially different from any future results, performance, objectives

or achievements that may be expressed or implied by such forward-looking statements. The principal factors, assumptions and risks that DATA made or took into account in the preparation of these forward-looking statements include: the limited growth in the traditional printing industry and the potential for further declines in sales of DATA's printed business documents relative to historical sales levels for those products; the risk that changes in the mix of products and services sold by DATA will adversely affect DATA's financial results; the risk that DATA may not be successful in reducing the size of its legacy print business, realizing the benefits expected from restructuring and business reorganization initiatives, reducing costs, reducing and repaying its long-term debt, and growing its digital communications business; the risk that DATA may not be successful in managing its organic growth; DATA's ability to invest in, develop and successfully market new digital and other products and services; competition from competitors supplying similar products and services, some of whom have greater economic resources than DATA and are well-established suppliers; DATA's ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DATA's businesses; risks associated with acquisitions by DATA; the failure to realize the expected benefits from acquisitions and risks associated with the integration of acquired businesses; increases in the costs of paper and other raw materials used by DATA; and DATA's ability to maintain relationships with its customers. Additional factors are discussed elsewhere in this press release and under the headings "Risk Factors" and "Risks and Uncertainties" in DATA's management's discussion and analysis and in DATA's other publicly available disclosure documents, as filed by DATA on SEDAR (www.sedar.com). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this press release as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, DATA does not intend and does not assume any obligation to update these forward-looking statements.

NON-IFRS MEASURES

This press release includes certain non-IFRS measures as supplementary information. Except as otherwise noted, when used in this press release, EBITDA means earnings before interest and finance costs, taxes, depreciation and amortization and Adjusted net income (loss) means net income (loss) adjusted for the impact of certain non-cash items and certain items of note on an after-tax basis. Adjusted EBITDA means EBITDA adjusted for restructuring expenses, one-time business reorganization costs, goodwill impairment charges, gain on redemption of convertible debentures, and acquisition costs. Adjusted net income (loss) means net income (loss) adjusted for restructuring expenses, one-time business reorganization costs, goodwill impairment charges, gain on redemption of convertible debentures, acquisition costs and the tax effects of those items. Adjusted net income (loss) per share (basic and diluted) is calculated by dividing Adjusted net income for the period by the weighted average number of common shares (basic and diluted) outstanding during the period. In addition to net income (loss), DATA uses non-IFRS measures including Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA to provide investors with supplemental measures of DATA's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. DATA also believes that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. DATA's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet future debt service, capital expenditure and working capital requirements. Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are not earnings measures recognized by IFRS and do not have any standardized meanings prescribed by IFRS. Therefore, Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA are unlikely to be comparable to similar measures presented by other issuers.

Investors are cautioned that Adjusted net income (loss), Adjusted net income (loss) per share, EBITDA and Adjusted EBITDA should not be construed as alternatives to net income (loss) determined in accordance with IFRS as an indicator of DATA's performance. For a reconciliation of net income (loss) to EBITDA and a reconciliation of net income (loss) to Adjusted EBITDA, see Table 2 above. For a reconciliation of net income (loss) to Adjusted net income (loss) and a presentation of Adjusted net income (loss) per share, see Table 3 above.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars, unaudited) June 30, 2017 December 31, 2016
\$ \$

Assets

Current assets

Cash and cash equivalents	—	1,544
Trade receivables	34,909	29,157
Inventories	37,928	33,252
Prepaid expenses and other current assets	4,727	4,667
	<u>77,564</u>	<u>68,620</u>

Non-current assets

Deferred income tax assets	5,323	3,839
Restricted cash	425	425
Property, plant and equipment	18,427	12,483
Pension assets	—	1,589
Intangible assets	13,005	3,954
Goodwill	7,321	—
	<u>122,065</u>	<u>90,910</u>

Liabilities

Current liabilities

Bank overdraft	989	—
Trade payables and accrued liabilities	35,049	27,304
Current portion of credit facilities	51,913	5,886
Convertible debentures	—	11,082
Current portion of promissory notes	3,515	—
Provisions	3,527	3,305
Income taxes payable	2,927	2,231
Deferred revenue	8,858	8,665
	<u>106,778</u>	<u>58,473</u>

Non-current liabilities

Provisions	944	675
Credit facilities	—	29,156
Promissory notes	2,946	—
Deferred income tax liabilities	1,409	—

Other non-current liabilities	2,413	1,691
Pension obligations	8,212	8,340
Other post-employment benefit plans	2,620	2,510
	<u>125,322</u>	<u>100,845</u>

Equity

Shareholders' deficit		
Shares	248,094	237,432
Warrants	280	—
Conversion options	—	128
Contributed surplus	1,336	1,164
Accumulated other comprehensive income	184	258
Deficit	<u>(253,151)</u>	<u>(248,917)</u>
	<u>(3,257)</u>	<u>(9,935)</u>
	<u>122,065</u>	<u>90,910</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>		
	For the three months ended June 30, 2017	For the three months ended June 30, 2016
	\$	\$
Revenues	73,066	69,716
Cost of revenues	<u>55,062</u>	<u>52,567</u>
Gross profit	<u>18,004</u>	<u>17,149</u>
Expenses		
Selling, commissions and expenses	8,690	7,664
General and administration expenses	7,025	6,594
Restructuring expenses	1,735	368
Acquisition costs	13	—
	<u>17,463</u>	<u>14,626</u>
Income before finance costs and income taxes	541	2,523
Finance costs (income)		
Interest expense	1,181	869
Interest income	—	(1)
Amortization of transaction costs	121	109
	<u>1,302</u>	<u>977</u>
(Loss) income before income taxes	<u>(761)</u>	<u>1,546</u>
Income tax (recovery) expense		
Current	288	1,156
Deferred	(468)	(601)
	<u>(180)</u>	<u>555</u>
Net (loss) income for the period	<u>(581)</u>	<u>991</u>
Basic (loss) earnings per share	<u>(0.04)</u>	<u>0.09</u>
Diluted (loss) earnings per share	<u>(0.04)</u>	<u>0.09</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>		
	For the six months ended June 30, 2017	For the six months ended June 30, 2016
	\$	\$
Revenues	143,192	144,330

Cost of revenues	108,828	108,808
Gross profit	34,364	35,522
Expenses		
Selling, commissions and expenses	17,208	16,179
General and administration expenses	13,531	12,417
Restructuring expenses	3,621	692
Acquisition costs	969	—
	35,329	29,288
(Loss) income before finance costs and income taxes	(965)	6,234
Finance costs (income)		
Interest expense	2,131	1,737
Interest income	—	(4)
Amortization of transaction costs	236	356
	2,367	2,089
(Loss) income before income taxes	(3,332)	4,145
Income tax (recovery) expense		
Current	339	1,332
Deferred	(993)	(60)
	(654)	1,272
Net (loss) income for the period	(2,678)	2,873
Basic (loss) earnings per share	(0.20)	0.28
Diluted (loss) earnings per share	(0.20)	0.28

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

<i>(in thousands of Canadian dollars, unaudited)</i>	For the three months ended June 30, 2017	For the three months ended June 30, 2016
	\$	\$
Net (loss) income for the period	(581)	991
Other comprehensive loss:		
Items that may be reclassified subsequently to net (loss) income		
Foreign currency translation	(56)	(8)
	(56)	(8)
Items that will not be reclassified to net (loss) income		
Re-measurements of post-employment benefit obligations	(758)	(1,096)
Taxes related to post-employment adjustment above	197	286
	(561)	(810)
Other comprehensive loss for the period, net of tax	(617)	(818)
Comprehensive (loss) income for the period	(1,198)	173

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

<i>(in thousands of Canadian dollars, unaudited)</i>	For the six months ended June 30, 2017	For the six months ended June 30, 2016
	\$	\$
Net (loss) income for the period	(2,678)	2,873

Other comprehensive loss:
Items that may be reclassified subsequently to net (loss) income

Foreign currency translation	(74)	(117)
	(74)	(117)

Items that will not be reclassified to net (loss) income

Re-measurements of post-employment benefit obligations	(2,103)	(2,145)
Taxes related to post-employment adjustment above	547	560
	(1,556)	(1,585)

Other comprehensive loss for the period, net of tax (1,630) (1,702)

Comprehensive (loss) income for the period (4,308) 1,171

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

(in thousands of Canadian dollars, unaudited)	Attributable to Shareholders					
	Shares	Warrants	Conversion options	Contributed surplus	Accumulated other comprehensive income	Total equity Deficit (deficit)
	\$	\$	\$		\$	\$
Balance as at December 31, 2015	234,782	—	128	385	306 (216,582)	19,019
Net income for the period	—	—	—	—	—	2,873
Other comprehensive (loss) income for the period	—	—	—	—	(117)	(1,585)
Total comprehensive (loss) income for the period	—	—	—	—	(117)	1,288
Issuance of common shares	2,280	—	—	—	—	2,280
Share-based compensation expense	—	—	—	576	—	576
Balance as at June 30, 2016	234,782	—	128	385	189 (215,294)	20,190
Balance as at December 31, 2016	237,432	—	128	1,164	258 (248,917)	(9,935)
Net loss for the period	—	—	—	—	—	(2,678)
Other comprehensive loss for the period	—	—	—	—	(74)	(1,556)
Total comprehensive loss for the period	—	—	—	—	(74)	(4,234)
Cancellation of convertible debentures	—	—	(128)	128	—	—
Issuance of common shares and warrants, net	10,662	280	—	(15)	—	10,927
Share-based compensation expense	—	—	—	59	—	59
Balance as at June 30, 2017	248,094	280	—	1,336	184 (253,151)	(3,257)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, unaudited)	For the three months ended June 30, 2017	For the three months ended June 30, 2016
	\$	\$

Cash provided by (used in)
Operating activities

Net (loss) income for the period	(581)	991
Adjustments to net (loss) income		
Depreciation of property, plant and equipment	1,058	1,134
Amortization of intangible assets	906	510
Share-based compensation expense	7	576
Pension expense	135	147
Loss on disposal of property, plant and equipment	42	7
Provisions	1,735	368

Amortization of transaction costs	121	109
Accretion of convertible debentures and non-current liabilities	219	21
Other non-current liabilities	(248)	267
Other post-employment benefit plans, net	55	62
Income tax (recovery) expense	(180)	555
	<u>3,269</u>	<u>4,747</u>
Changes in working capital	2,721	5,478
Contributions made to pension plans	(453)	(459)
Provisions paid	(1,653)	(1,622)
Income taxes paid	(5)	(263)
	<u>3,879</u>	<u>7,881</u>

Investing activities

Purchase of property, plant and equipment	(811)	(171)
Purchase of intangible assets	(846)	(127)
Proceeds on disposal of property, plant and equipment	2	6
	<u>(1,655)</u>	<u>(292)</u>

Financing activities

Decrease in restricted cash	—	25
Issuance of common shares and warrants, net	8,080	2,280
Proceeds from credit facilities	3,500	—
Repayment of credit facilities	(4,003)	(9,622)
Repayment of convertible debentures	(11,175)	—
Repayment of loans and other liabilities	(166)	(56)
Repayment of promissory notes	(935)	—
Finance and transaction costs	(288)	(15)
Finance lease payments	(18)	(7)
	<u>(5,005)</u>	<u>(7,395)</u>

(Decrease) increase in cash and cash equivalents during the period	(2,781)	194
Cash and cash equivalents – beginning of period	1,838	815
Effects of foreign exchange on cash balances	(46)	(6)
(Bank overdraft) cash and cash equivalents – end of period	(989)	1,003

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, unaudited)	For the six months ended June 30, 2017	For the six months ended June 30, 2016
	\$	\$

Cash provided by (used in)

Operating activities

Net (loss) income for the period	(2,678)	2,873
Adjustments to net (loss) income		
Depreciation of property, plant and equipment	1,943	2,249
Amortization of intangible assets	1,599	1,015
Share-based compensation expense	59	576
Pension expense	270	295
Loss on disposal of property, plant and equipment	22	189
Provisions	3,621	692
Amortization of transaction costs	236	356
Accretion of convertible debentures and non-current liabilities	317	43
Other non-current liabilities	(118)	671
Other post-employment benefit plans, net	110	126
Income tax (recovery) expense	(654)	1,272
	<u>4,727</u>	<u>10,357</u>
Changes in working capital	1,836	5,036
Contributions made to pension plans	(912)	(918)
Provisions paid	(3,340)	(4,061)
Income taxes paid	(5)	(268)
	<u>2,306</u>	<u>10,146</u>

Investing activities

Purchase of property, plant and equipment	(948)	(823)
Purchase of intangible assets	(1,079)	(151)
Proceeds on disposal of property, plant and equipment	22	124
Cash consideration for acquisition of businesses	(4,638)	—
	<u>(6,643)</u>	<u>(850)</u>

Financing activities

Increase in restricted cash	—	(425)
Issuance of common shares and warrants, net	8,069	2,280
Proceeds from credit facilities	17,089	43,931
Repayment of credit facilities	(7,601)	(53,446)
Repayment of convertible debentures	(11,175)	—
Repayment of loans and other liabilities	(455)	(80)
Repayment of promissory notes	(1,064)	—
Finance and transaction costs	(605)	(1,341)
Finance lease payments	(2,400)	(18)
	<u>1,858</u>	<u>(9,099)</u>

(Decrease) increase in cash and cash equivalents during the period	(2,479)	197
Cash and cash equivalents – beginning of period	1,544	871
Effects of foreign exchange on cash balances	(54)	(65)
(Bank overdraft) cash and cash equivalents – end of period	(989)	1,003

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