

DATA Communications Management Corp. Announces Third Quarter 2020 Results

BRAMPTON, Ontario--(BUSINESS WIRE)--November 10, 2020--DATA Communications Management Corp. (TSX: DCM) ("DCM" or the "Company"), a leading provider of marketing and business communication solutions to companies across North America, announces its consolidated financial results for the three and nine months ended September 30, 2020.

Third Quarter Highlights (vs. Q3, 2019)	Third Quarter YTD Highlights (vs. Q3 YTD, 2019)
Revenue of \$57.4 million, compared with \$63.2 million	Revenue of \$198.7 million, compared with \$211.4 million
Cost of sales of \$40.7 million, compared with \$48.0 million	Cost of sales of \$140.8 million, compared with \$159.7 million
Gross margin of 29.0%, compared with 24.1%	Gross margin of 29.2%, compared with 24.5%
Adjusted EBITDA of \$10.2 million, compared with \$2.2 million	Adjusted EBITDA of \$34.1 million, compared with \$14.5 million
Net income of \$2.1 million, compared with a net loss of \$5.9 million	Net income of \$8.6 million, compared with a net loss of \$10.0 million

THIRD QUARTER HIGHLIGHTS

- Revenues for the quarter were \$57.4 million compared with \$63.2 million in the third quarter of 2019, a decrease of \$5.8 million or 9.2%. Revenue in the third quarter was adversely impacted by the decline in revenue associated with those clients whose businesses, owing to COVID, were not fully operational and/or operating normally.
- Gross profit increased to \$16.7 million, up 9.2%, or \$1.4 million, compared to the third quarter of 2019.
- Gross margin of 29.0%, a significant improvement from 24.1% in the third quarter of 2019. Gross margin benefited from the realization of cost saving initiatives implemented throughout 2019 and year to date in 2020 and in continued operational improvements from the ERP system challenges faced in 2019.
- SG&A expenses declined to \$13.3 million, or 23.1% of total revenues, compared to \$17.8 million, or 28.2% of total revenues, in the third quarter of 2019.
- Restructuring expenses incurred of \$1.1 million compared to \$2.7 million in the third quarter of 2019.
- Net income was \$2.1 million compared with a net loss of \$5.9 million in the third quarter of 2019.
- Adjusted EBITDA was \$10.2 million or 17.7% of revenue, a 368.4% improvement when compared to \$2.2 million in the third quarter of 2019, or 3.4% of revenue. Adjusted EBITDA was positively impacted by improved gross margins, lower SG&A expenses, and \$2.8 million received from the CEWS program.
- Basic and diluted EPS of \$0.05 compared with \$(0.27); adjusted basic and diluted EPS of \$0.07 compared with \$(0.18).
- Revolving line of credit balance stood at \$10.9 million as of October 30, 2020, a reduction from \$18.1 million as of September 30, 2020 and its peak of \$36.8 million as of March 31, 2020

THIRD QUARTER YEAR TO DATE HIGHLIGHTS

- Revenues during the first three quarters of 2020 were \$198.7 million compared with \$211.4 million in the first three quarters of 2019, a decrease of \$12.7 million or 6.0%.
- Gross profit increased to \$57.9 million, up 12.0%, or \$6.2 million, compared to the first three quarters of 2019 and gross margin improved to 29.2% from 24.5% in the first three quarters of 2019.
- Net income was \$8.6 million compared with a net loss of \$10.0 million in the first three quarters of 2019.
- Adjusted EBITDA was \$34.1 million or 17.2% of revenue, a 135.7% improvement when compared to \$14.5 million in first three quarters of 2019, or 6.8% of revenue. The increase in Adjusted EBITDA for the first three quarters of 2020 is attributable to: strong revenue in the first quarter of this year, mitigated by COVID-19 impacted levels in the subsequent two quarters of 2020; the realization of additional cost savings initiatives; ERP remediation efforts; and better management of raw materials and other inventory related efficiency gains. Adjusted EBITDA in the first three quarters of 2020 was also positively impacted by \$8.9 million received from the CEWS program.
- Basic and diluted EPS of \$0.20 compared with \$(0.46); and adjusted basic and diluted EPS of \$0.24 compared with \$(0.17).

MANAGEMENT COMMENTARY

“Our results over the first three quarters of 2020 speak to our focus on operating efficiencies and improvements in SG&A during an uncertain economic environment,” said Gregory J. Cochrane, Chief Executive Officer. “Revenue from our top 100 clients is up, in aggregate, 6% compared to the first nine months of 2019. The strong performance of our top 100 clients has served to mute the impact of COVID-19 operating constraints on many other clients. While our more traditional business services client spend has remained quite resilient, and in a number of cases has benefited from the current environment, our clients’ marketing solutions spending, which is more discretionary and transactional by nature and can be deferred, has been most impacted. We do, however, expect this discretionary spending will recover in the coming months.”

“Through continued process rationalization efforts, and company-wide efficiencies from the ERP implementation now being realized, we expect to achieve at least an additional \$8.5 million of new cost savings in 2021,” added Michael J. Coté, President. “This is in addition to the more than \$10.5 million of in-year savings we expect to achieve in 2020 through process and plant improvement efficiencies, personnel reductions, temporary lay-offs and management wage rollbacks, and hiring restrictions, among other things.”

“The conversion of our “bill as released”, or “BAR”, clients to bill and hold warehousing arrangements has to date resulted in the receipt of almost \$12 million in client payments. Our plan remains to convert all of our remaining BAR customers to a more appropriate bill and hold warehousing model.”

For the periods ended September 30, 2020 and 2019 <i>(in thousands of Canadian dollars, except share and per share amounts, unaudited)</i>	July 1 to September 30, 2020	July 1 to September 30, 2019	January 1 to September 30, 2020	January 1 to September 30, 2019
Revenues	\$ 57,374	\$ 63,215	\$ 198,725	\$ 211,387

Gross profit	16,663	15,253	57,934	51,736
Gross profit, as a percentage of revenues	29.0%	24.1%	29.2%	24.5%
Selling, general and administrative expenses	13,282	17,808	45,908	50,496
As a percentage of revenues	23.1%	28.2%	23.1%	23.9%
Adjusted EBITDA	10,151	2,167	34,089	14,462
As a percentage of revenues	17.7%	3.4%	17.2%	6.8%
Net income (loss) for the period	2,139	(5,917)	8,581	(9,994)
Adjusted net income (loss)	3,026	(3,900)	10,476	(3,732)
As a percentage of revenues	5.3%	(6.2)%	5.3%	(1.8)%
Basic and diluted earnings (loss) per share	\$ 0.05	\$ (0.27)	\$ 0.20	\$ (0.46)
Adjusted net income (loss) per share, basic and diluted	\$ 0.07	\$ (0.18)	\$ 0.24	\$ (0.17)
Weighted average number of common shares outstanding, basic	43,047,030	21,523,515	43,047,030	21,523,515
Weighted average number of common shares outstanding, diluted	43,227,051	21,523,515	43,138,431	21,523,515

About DATA Communications Management Corp.

DCM is a communication solutions partner that adds value for major companies across North America by creating more meaningful connections with their customers. DCM pairs customer insights and thought leadership with cutting-edge products, modular enabling technology and services to power its clients' go-to market strategies. DCM helps its clients manage how their brands come to life, determine which channels are right for them, manage multimedia campaigns, deploy location-specific and 1:1 marketing, execute custom loyalty programs, and fulfill their commercial printing needs all in one place.

DCM's extensive experience has positioned it as an expert at providing communication solutions across many verticals, including the financial, retail, healthcare, consumer health, energy, and not-for-profit sectors. As a result of its locations throughout Canada and in the United States (Chicago, Illinois and New York, New York), it is able to meet its clients' varying needs with scale, speed, and efficiency - no matter how large or complex the ask. DCM is able to deliver advanced data security, regulatory compliance, and bilingual communications, both in print and/or digital formats.

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 DCM, 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 DCM’s current views regarding future events and operating performance, are based on information currently available to DCM, 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 DCM 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 DCM made or took into account in the preparation of these forward-looking statements include: risks relating to the continuing impact of the COVID-19 pandemic, the impact of which could be material on DCM’s business, liquidity and results of operations; DCM’s enterprise resource planning (“ERP”) system interrupted operational transactions during and following the implementation, which has, and may continue to, materially and adversely affect DCM’s financial liquidity and operations and results of operations; there is no assurance that management’s initiatives for dealing with these events and conditions will be successful and there are risks in the expected timing of resolution thereof and the possible effects of these issues if they are not resolved; DCM’s ability to continue as a going concern is dependent upon its ability to comply with its financial covenants for at least the next twelve months which is contingent on management’s ability to meet forecast revenue, profitability and cash collection targets; risks relating to DCM’s ability to access sufficient capital, including, without limitation, under its existing revolving credit facility, on favourable terms to fund its liquidity and business plans from internal and external sources; the risk that a material weakness in internal control of financial reporting, could, if uncorrected, result in a future misstatement of revenues that may result in a material misstatement of DCM’s annual or interim consolidated financial statements if not prevented or detected on a timely basis; the risk that DCM will not be successful in negotiating amendments to the terms of its existing credit facilities including, without limitation, the financial covenants of DCM under these facilities; the limited growth in the traditional printing industry and the potential for further declines in sales of DCM’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 DCM will adversely affect DCM’s financial results; the risk that DCM 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 and marketing communications businesses; the risk that DCM may not be successful in managing its organic growth; DCM’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 DCM and are well-established suppliers; DCM’s ability to grow its sales or even maintain historical levels of its sales of printed business documents; the impact of economic conditions on DCM’s businesses; risks associated with acquisitions and/or

investments in joint ventures by DCM; the failure to realize the expected benefits from the acquisitions it has made and risks associated with the integration and growth of such businesses; increases in the costs of paper and other raw materials used by DCM; and DCM's ability to maintain relationships with its customers and suppliers. Additional factors are discussed elsewhere in this press release and under the headings "Liquidity and capital resources" and "Risks and Uncertainties" in DCM's management's discussion and analysis and in DCM's other publicly available disclosure documents, as filed by DCM 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, DCM 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. Adjusted EBITDA means EBITDA adjusted for restructuring expenses, one-time business reorganization costs, goodwill impairment charges, and acquisition costs. Adjusted net income (loss) means net income (loss) adjusted for restructuring expenses, one-time business reorganization costs, goodwill impairment charges, 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 (loss) for the period by the weighted average number of common shares of DCM (basic and diluted) outstanding during the period. In addition to net income (loss), DCM 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 DCM's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. DCM also believes that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. DCM'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 DCM's performance. For a reconciliation of net income (loss) to EBITDA and a reconciliation of net income (loss) to Adjusted EBITDA, see Table 3 in the most recent Management's Discussion & Analysis filed on www.sedar.com. For a reconciliation of net income (loss) to Adjusted net income (loss) and a presentation of Adjusted net income (loss) per share, see Table 4 in the most recent Management's Discussion & Analysis filed on www.sedar.com.

Condensed interim consolidated statements of financial position

<i>(in thousands of Canadian dollars, unaudited)</i>	September 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,517	—
Trade receivables	78,621	86,451
Inventories	11,141	12,580
Prepaid expenses and other current assets	3,638	2,611
	94,917	101,642
Non-current assets		
Other non-current assets	596	828
Deferred income tax assets	3,651	6,648
Restricted cash	515	515
Property, plant and equipment	10,442	13,062
Right-of-use assets	48,118	56,381
Pension assets	—	156
Intangible assets	14,984	18,167
Goodwill	16,973	16,973
	190,196	214,372
Liabilities		
Current liabilities		
Bank overdraft	—	1,093
Trade payables and accrued liabilities	48,839	51,743
Current portion of credit facilities	6,068	3,887
Current portion of promissory notes	1,164	492
Current portion of lease liabilities	8,297	8,252
Provisions	1,640	3,886
Income taxes payable	2,102	2,068
Deferred revenue	1,271	2,133
	69,381	73,554
Non-current liabilities		
Provisions	239	192
Credit facilities	54,942	74,760
Promissory notes	973	2,095
Lease liabilities	46,084	53,514
Deferred income tax liabilities	274	402
Pension obligations	8,648	7,958
Other post-employment benefit plans	3,053	2,938
	183,594	215,413
Equity		
Shareholders' equity / (Deficit)		
Shares	256,045	256,045

Warrants	892	853
Contributed surplus	2,349	2,300
Translation reserve	281	254
Deficit	(252,965)	(260,493)
	<u>6,602</u>	<u>(1,041)</u>
	<u>190,196</u>	<u>214,372</u>

Condensed interim consolidated statements of operations

<i>(in thousands of Canadian dollars, except per share amounts, unaudited)</i>	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2020
	\$	\$	\$	\$
Revenues	57,374	63,215	198,725	211,387
Cost of revenues	40,711	47,962	140,791	159,651
Gross profit	16,663	15,253	57,934	51,736
Expenses				
Selling, commissions and expenses	5,982	8,545	20,438	25,527
General and administration expenses	7,300	9,263	25,470	24,969
Restructuring expenses	1,065	2,724	2,073	7,595
	<u>14,347</u>	20,532	<u>47,981</u>	58,091
Income (loss) before finance costs, other income and income taxes	2,316	(5,279)	9,953	(6,355)
Finance costs				
Interest expense on long term debt and pensions, net	1,008	1,356	3,316	3,760
Interest expense on lease liabilities	796	904	2,500	2,707
Debt modification losses	—	—	625	—
Amortization of transaction costs	146	177	407	400
	<u>1,950</u>	2,437	<u>6,848</u>	6,867
Other income				
Government grant income	2,759	—	8,928	—
Income (loss) before income taxes	3,125	(7,716)	12,033	(13,222)
Income tax (recovery) expense				
Current	(327)	395	263	(79)
Deferred	1,313	(2,194)	3,189	(3,149)
	<u>986</u>	<u>(1,799)</u>	<u>3,452</u>	<u>(3,228)</u>

Net Income (loss) for the period	2,139	(5,917)	8,581	(9,994)
Other comprehensive (loss) income:				
Items that may be reclassified subsequently to net income (loss)				
Foreign currency translation	69	4	27	16
	69	4	27	16
Items that will not be reclassified to net income (loss)				
Re-measurements of pension and other post-employment benefit obligations	(1,461)	791	(1,373)	67
Taxes related to pension and other post-employment benefit adjustment above	342	(201)	320	(13)
	(1,119)	590	(1,053)	54
Other comprehensive (loss) income for the period, net of tax	(1,050)	594	(1,026)	70
Comprehensive income (loss) for the period	1,089	(5,323)	7,555	(9,924)
Basic earnings (loss) per share	0.05	(0.27)	0.20	(0.46)
Diluted earnings (loss) per share	0.05	(0.27)	0.20	(0.46)

Condensed interim consolidated statements of cash flows

<i>(in thousands of Canadian dollars, unaudited)</i>	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
	\$	\$

Cash provided by (used in)

Operating activities

Net income (loss) for the period	8,581	(9,994)
Adjustments to net income (loss)		
Depreciation of property, plant and equipment	2,779	3,109
Amortization of intangible assets	3,156	2,672
Depreciation of right-of-use-assets	6,725	6,563
Interest expense on lease liabilities	2,500	2,707
Share-based compensation expense	49	167
Pension expense	364	446
(Gain) loss on disposal of property, plant, and equipment	(27)	84
Provisions	2,073	7,595
Amortization of transaction costs and debt modification losses	1,032	400
Accretion of non-current liabilities and capitalized interest expense	625	238
Other post-employment benefit plans, net	115	206
Tax credits recognized	—	(89)

Income tax expense (recovery)	3,452	(3,228)
	31,424	10,876
Changes in working capital	5,137	(8,957)
Contributions made to pension plans	(785)	(763)
Provisions paid	(4,272)	(4,661)
Income taxes paid	(121)	(1,391)
	31,383	(4,896)
Investing activities		
Purchase of property, plant and equipment	(96)	(820)
Purchase of intangible assets	(35)	(3,899)
Proceeds on disposal of property, plant and equipment	27	254
Proceeds on sale of business	—	675
	(104)	(3,790)
Financing activities		
Proceeds from credit facilities	—	26,097
Repayment of credit facilities	(18,958)	(3,262)
Repayment of other liabilities	(300)	(300)
Proceeds from promissory notes and warrants	—	1,000
Repayment of promissory notes	(533)	(3,905)
Transaction costs	(227)	(327)
Lease payments	(8,640)	(8,075)
	(28,658)	11,228
Change in Cash (Bank overdraft) during the period	2,621	2,542
(Bank overdraft) – beginning of period	(1,093)	(3,999)
Effects of foreign exchange on cash balances	(11)	(18)
Cash and cash equivalents (Bank overdraft) – end of period	1,517	(1,475)

Contacts

Mr. Gregory J. Cochrane
Chief Executive Officer
DATA Communications Management Corp.
Tel: (905) 791-3151

Mr. James E. Lorimer
Chief Financial Officer
DATA Communications Management Corp.
Tel: (905) 791-3151
ir@datacm.com