

James Lorimer

Good morning, ladies and gentlemen. Thank you for standing by and welcome to the DATA Communications Management Corp Second Quarter Fiscal 2025 financial results conference call. I'm James Lorimer, CFO of DCM, and I'm pleased to be hosting today's call.

Joining me on the call today is Richard Kellam, our President and Chief Executive Officer. Following our prepared remarks, we will be moderating a Q&A session. As a reminder, this conference is being broadcast live and recorded. We'd also like to remind everyone that Richard and I can be available after the call for any follow-up questions that you might have.

Before we begin, I'll remind everyone that we will be referring to forward-looking information on today's call. This information is subject to certain risks and uncertainties as outlined in the forward-looking information disclosure in our press release and more fully within our public disclosure filings on SEDAR+.

The highlights of our results will be posted on our website in the form of an infographic along with other material. This presentation will be added to our website for your reference along with the poster, recording and transcript. Our detailed information is also available on SEDAR+. Please follow us on LinkedIn to keep up to date with other business developments. With that, I will now turn the call over to Richard.

Richard Kellam

Thank you, James, and good morning, everyone. And I know we might have some people in Europe listening, so good afternoon to you as well. Want to take a quick look at today's agenda. We're going to hit the highlights and results of the quarter; talk a little bit about some new business development opportunities; priorities for 2025; and we'll turn it over to Q&A.

So starting off the highlights and results, I guess our key theme before I get into the highlights is that we've delivered solid performance amid some pretty challenging market conditions, which I'll get into in a little bit more detail.

Looking at the slide, four highlights here. First pillar is the Q2 2025 results. Our Adjusted EBITDA beat consensus. EBITDA margin was 14.6% versus 13.4% and our value was 16.6 versus 16.9, so essentially flat vs. a year ago — 98.2% index over a year ago. So very, very good solid EBITDA despite revenue being below expectations. Really given the stronger-than-planned macro headwinds we experienced — again a little bit more detail in a minute on that — gross margin held pretty solid given the revenue headwinds at 26.8 versus 27.3, and you know, again, despite that decline in revenue.

So just a fixed cost overhead recovery; obviously we couldn't recoup as a result of the revenue decline, but good solid gross margin performance despite that.

Market uncertainty — and I think the keyword is uncertainty that we're experiencing here — remains. The economic and tariff uncertainty has certainly negatively impacted business confidence. That obviously has resulted fewer or smaller orders and then some inventory drawdowns as well. And then of course we had both direct and indirect impact from Canada Post. The ongoing labour disruptions, started back in November of last year, continued through until the summer and they're still not settled. Doesn't seem to be any strike action right now, but certainly still unsettled given the contract is not completed.

And then, however, with all that, I'd say the team has done a great job managing overhead to mitigate impacts of lower client spending. And you see those results in our financial results. On the third pillar here, our new business development and outlook: Our sales pipeline continues to grow and it has reached the highest level that that we've seen in years.

Give you a little fact here: We've actually won 45 new logos in the first half of the year, and that's the equivalent of about \$9 million in annualized revenue. So new logo development has certainly far surpassed where we were the last couple of years.

So we're all in. We have a phrase, *All in on Growth*. We're all in on growth and we'll expect to more fully realize these opportunities as market conditions improve. And the final sort of outlook on new businesses: I can tell you that we have had no material client losses. Our top 10 enterprise clients are still the same — our top 20 or top 30. It's just the order flow and work that they're doing has obviously been impacted given the uncertainty in tariffs, the economy, and postal disruptions. But no material losses at all in clients.

Then from an M&A perspective, certainly coming into focus for us, industry dynamics are creating more opportunities I'd say. So our activities increased quite significantly. We've got a very robust M&A pipeline and as you'll see later in the presentation, we're well-capitalized to take advantage of opportunities in the marketplace.

So some of the highlights. I'll get a little bit more detail as we progress through the deck here. Revenues, as I said, impacted by client budget reductions, delayed orders, inventory drawdowns due to market uncertainty, the macro economy of course, and the Canada Post labour disruptions. And you saw that in our numbers we reported: down 9.5%, down about \$12 million versus a year ago.

Gross margin decline: It really is all due to the headwinds we experienced in revenues and not being able to get some of the fixed-cost overhead recovery. So we'll see that improve considerably when we when we move back into positive momentum. And you can see the gross margin: Profits down about 3.8% and 11% or about 50 basis points. But again, no kind of underlying issues with gross margin. It's really just related to the headwinds in in revenues.

We're actually very pleased with our financial performance despite the revenue headwinds. As I mentioned earlier, our Adjusted EBITDA is at \$16.6 million, so essentially flat to a year ago, or 98.2% index. I guess we call that close to flat to a year ago, right James? And adjusted EBITDA margin of 14.6%.

So clearly you can see that we benefitted from all the hard work that we've done to restructure and integrate the acquisition we did a couple of years ago. And that's certainly putting us in a good solid financial position as we manage through some of the market uncertainties. So, we're proud of the team here and what we've accomplished from an EBITDA perspective.

Revenue by reported segment: We broke this into four segments here. Product sales you can see are -9.1%, so very consistent to the -9.5% in the quarter.

Logistics are quite interesting. In our logistics numbers, we have warehousing and distribution or freight and you can see that it's down 22.7% and that really reflects a comment I made earlier on inventory drawdowns. As there's inventory drawdowns, obviously that affects our warehousing revenue.

And that's why we're seeing the logistics headwinds at a higher rate than our product sales headwinds. So again, you'll see that kind of all correct as we get back into positive momentum.

Very positive progress on tech revenues: Tech revenues are up 16%. And that's really due to the progress that we're making on ASMBL, on Zavy, and our DCMFlex platform, and our whole kind of workflow optimization for clients, which we're getting a return on. Our tech hardware is down about 23% over a year ago and that's really just a year ago overlap — a timing overlap. We had a large digital signage install for a pretty large automotive client a year ago. We're overlapping that, but we'll see that turn as we progress through the year because we've got a lot of good stuff happening on our digital signage business.

James, you want to talk productivity?

James Lorimer

Sure. Productivity — the proxy we use is revenue per employee — was just under \$300,000. You know our target is \$350,000 and greater. So despite the lower revenue, we certainly are kind of close to our minimum threshold there and look to see this grow in the future.

From a balance sheet perspective, our net debt came down a little bit compared to the first quarter and we're down about 40% since our Moore Canada acquisition. That's despite the 20-cent special dividend we did earlier this year, and holding up nicely with the kind of free cash flow that we're generating.

Overall credit availability: very strong — over \$35 million. We had \$12.5 almost \$13 million in excess availability under a credit facility — an extra \$20 million accordion facility that we can draw upon — and we had about \$3 million in cash on the balance sheet.

I'll turn it back to you, Richard.

Richard Kellam

Okay, thank you, James.

A quick look at new business development. We have a theme, we call it *All in on Growth*, and that's been our theme for the last year knowing that we were coming in some uncertain times in the economy.

We've got an exceptional new business development focus on retention obviously. And as I said, we've had no material losses at all in clients — our focus is on wallet share, or we call that expansion revenue, and then new logos.

And our pipeline is primed to deliver with market improvement. So as we see the market improvement — it will improve at some point — we will see a lot of these new business development opportunities come into our workflow. A lot of active opportunities: Our proposals are up quite significantly and our number of value wins are up. As I mentioned, we've won 45 new logos here to date.

On an annualized basis, that's about \$9 million in revenue, and we'll see that continue to increase as well. But 27% of our opportunities are from new logos, 73% are from existing clients, which is a good sign that we've retained all of our clients, and there's opportunities for expansion revenue as we progress and the market improves. A fair bit of our businesses is RFPs and our RFP win rate has accelerated over a year ago.

And as I said, we've had no material client losses at all. Our top 10 enterprise clients are still the same top 10, still same top 20s, top 30s, so no material client losses.

And then we're continuing our momentum on our AI-enabled solutions: ASMBL, Zavy, and DCMFlex as I mentioned earlier. Those are, you know — our technology is up about 16% over a year ago. So good progress there and we expect that momentum to continue.

Having a look at our priorities for 2025, these are the same priorities that we have reported to shareholders the last couple of quarters. We will maintain our focus on profitable organic growth, and you see that in our financials. We're not racing to the bottom at all. We will continue to remain focused on that profitable growth sector in the marketplace; deliver return on new capital investments — we made some investments in some new capital into our factories. We're getting good return on that now and continue to drive that return.

We will continue on our gross margin improvement through operational efficiencies: You know we pulled that lever hard in 2024 and we continue to progress on that in 2025. And then of course demonstrate the agility that we need and the adaptability we need to navigate through these uncertain times in the marketplace.

So those are our priorities for 2025. They remain our priorities and of course we're making good progress against all four and they're well-embedded into our ways of working across the organization.

James, you want to talk about returning capital?

James Lorimer

Sure. So we did declare another 2.5-cent-per-share cash dividend that'll be payable later in September. I'll remind shareholders we did declare and pay a special dividend of 20 cents back in March this year. This is the third quarterly dividend we've declared and paid, and our current dividend yield based on yesterday's close is about 6.5%.

Richard Kellam

Okay, and then in summary, I wanted to sort of hit the highlights in terms of how we're well-positioned in the current market environment. We've got strong operating performance. You know, you saw that from a financial perspective, solid cash flow generation.

As I said, our new business development pipeline is the best in years. The entire team is All in on Growth, and we'll see that — we've already seen our productivity and results — we'll see that continue to improve.

Our track record of execution certainly has — we've proven that over the last couple of years, and as market conditions kind of turn, we'll see that benefit.

We're well-positioned to pursue opportunistic M&A. As I mentioned, the market is certainly favourable for that right now. We have an experienced leadership team - I'd argue one of the best in the industry - and we're well-capitalized, as James showed you earlier, to take advantage of market opportunities — we've got over \$36 million in available capital.

Alright. So that's a summary of our quarter and we'll now turn it over to Q&A.

James Lorimer

Thanks, Richard. We'll now take questions from the audience. If you have a question and are accessing the call through Teams, you can use the raise-your-hand feature and we will queue up questions. Alternatively, you can also use the chat feature in Teams and we'll respond to chat questions as well.

Please introduce yourself once you have joined the session, and we'll now open it up for calls. Looks like, Martin, we have Noel Atkinson on the line. If you could let him in, please.

Noel Atkinson

Hi Richard and James, if you can hear me.

Richard Kellam

Hey Noel.

Noel Atkinson

It's Noel Atkinson from Clarus Securities. Thanks for taking questions this morning. First off, maybe if you could talk a little bit about where you think you are in terms of performance versus the overall Canadian commercial print market? And then are you seeing competitors getting more aggressive on pricing to win contracts?

James Lorimer

Yeah. The Canadian commercial print market is certainly competitive Noel. We have seen some competitors that have struggled. We've seen a couple go out of business recently.

We have been fortunate to pick up some business from them. You know our sales team does get calls on a fairly regular basis from other salespeople, and so we we're using this market as a bit of an opportunity to, you know, selectively recruit some of the best.

But you know overall, we're really pleased with the capital investment we made in the commercial print business, the consolidation you may recall we did about a year and a bit ago now. Both consolidating two large commercial print plants, and so we've got that plant running very smoothly. We're really kind of poised to take on new business and we've been working on our cost structure as well and think we're very competitive in that market.

Richard Kellam

Yeah, just to add to the fact that the market is certainly competitive, Noel, especially in commercial print because there's capacity in the marketplace. As James said, the new capital we invested in last year allows us to be a little bit more price-competitive, yet at the same time get good margin.

The other thing I'd say that's working in our favour is, you know, the tariffs and the tariff threat where we had a lot of paper coming in from the U.S. — we've looked to diversify that paper source and we've found some very good sources in other countries. I won't tell you what countries they are, but other countries that are more economical than the source or sources we had in the U.S., which allows us to be more competitive on pricing, specifically in commercial print, and still deliver a pretty good margin.

Noel Atkinson

Okay, great. And that's a good segue to talking about your M&A strategy. It sounds like you're starting to ramp up your activities there a bit. Can you talk about what types of businesses are you looking at or are you looking at distressed competitors to pick off new clients, fill up your capacity, or are you looking more at digital expansion?

Richard Kellam

Yeah. I mean without being overly specific, obviously, given the competitive nature of the industry, we're certainly looking to acquire in growth sectors of the market, and certainly if there's any distress out there where we can gain clients and bring them into our world and maybe consolidate some of the capacity in the marketplace, those will be opportunities as well.

Noel Atkinson

Okay, alright. That's good for me. I'll jump back in the queue. Thanks.

Richard Kellam

Okay. Thanks Noel.

James Lorimer

Thanks. We have a question from Daniel Rosenberg,

Daniel Rosenberg

Okay, perfect. Thank you. Good morning. My first question is just around the customer conversations you're having on spending patterns. I was wondering if you have any insight or changes that you're seeing based on the sales you had in this quarter versus what that could look like or how that might change in the next six months as you think about commercial print going forward.

Richard Kellam

Yeah, the, I would say, the key theme — you know, I used the word earlier, *uncertainty*. And client spending patterns are a little bit more unplanned or erratic than we've experienced in the past. And we're seeing that month by month. We could have a great month, and planning for a positive month the next month, we find we're -15 because some clients have cancelled activity to protect their cash flow.

So we're seeing a lot of inconsistencies and uncertainty in the marketplace. Daniel, that's obviously affecting those budgets. And as I said earlier as well, clients that do hold inventory, are working that inventory down to manage cash flow and manage the uncertainty they're experiencing.

Daniel Rosenberg

Okay, appreciate that. And maybe as it relates to, it seemed like tech had some nice growth that you put up in one of your slides. I was wondering if you could provide an update on the initiatives you're taking on cross-selling. Have you spoken to certain clients, expanded conversations, etc.?

James Lorimer

Sure. Yeah. Those kinds of conversations are ongoing, Daniel, and we've been leveraging our existing sales force and client base for our ASMBL and Zavy applications. And certainly, just about all our client conversations lead with the technology that we can bring to the table to deliver those to clients and help them better understand their clients and how to communicate with their clients.

We've also had some good success in what we call the customer communications management space, that's transactional print and the communications that go out to those clients. That world is relatively new to us — it came with the Moore Canada acquisition two years ago, but we're having some good success in that market as well. And that's not only kind of a production environment, but it's also a professional services fees as we onboard new clients and stand them up and do work for them. So, we're doing some interesting development in that world as well.

Richard Kellam

And maybe just to build on that as well: Our two pure SaaS products — the ASMBL platform, which is a digital asset management solution, and Zavy [social media management] are fully AI-enabled, and the revenue we're building around them is mostly coming from cross-selling, upselling, or bringing that platform into our existing client base.

Daniel Rosenberg

Okay, good to hear. And I remember in previous conversations, you know, in terms of verticals, thinking about packaging as potentially a place to explore. Are there any updates on that end in terms of initiatives around that space?

Richard Kellam

So back to the question that Noel had earlier — you know, what are the sectors in the market that are growing, and we either build our way into them or buy our way into them. Packaging is a very small percentage of our current portfolio or current revenue. So that's an opportunity for us. We are building our way in right now, but there's certainly potential to accelerate that by acquisition.

Labels is a very active and growing sector of the market, naturally a sizable piece of our business on the operational side, which we're pretty active — that's growing — but there's certainly opportunities in prime labels. We do a lot of prime labels in the cannabis sector, but there's

endless opportunities for prime labels outside of that sector and some of the investment we made in capital last year positions us well to build our way into that, which we're starting to do, but there could be opportunities or potential for M&A in that space as well.

So hopefully that answers your question, right? Labels and packaging, clearly opportunities for us and growing sectors. Retail in general is growing, and you know, if you look at our business, our large format business is actually very positive this year. Headwinds in our business are really in what we call BCS: business communication services and some commercial print.

But overall, large format, packaging, labeling and so on, they're all growing sectors of the industry.

Daniel Rosenberg

Great. Thank you for taking my questions.

James Lorimer

Great. We have a question in the audience here from Brian Strader: Are you able to maximize paper purchasing from Canada versus the United States to a greater extent than prior to tariff threats from USA?

Richard Kellam

I can take that on. Yeah, it's a great question. I guess there's good and bad with the tariff threats. You know, the bad is the uncertainty that it created in the marketplace. The good is it forced us to look at alternatives worldwide. And maybe just a little background for the listeners about the paper market — it's kind of like the automotive market. It's directly connected north-south flow. You've got pulp that goes south, then you've got it converted to fine paper that then comes north.

A lot of paper production and paper mills in Canada have closed as a result of the interconnected North American trade, obviously with the tariff threat and the tariff uncertainty. By the way, paper is still covered under CUSMA. So we're still covered for now, but who knows what happens with that, you know?

But as a result of the unknown, we started looking at alternatives in other countries around the world, and our procurement guys have done an incredible job to find alternative sources. There's only so much capacity, by the way, in the Canadian marketplace, given the mills, although some of those mills are actually increasing capacity as a result of the uncertainty and this cross-border flow. But we found some very good alternative sources, very competitive sources in other markets.

So that's the good side of the tariffs. It's really kind of gotten us to really look at alternatives — not rely on U.S. sources for raw materials. And again, we've got some really, you know,

favourable market conditions in other countries that allow us to be more competitive in the marketplace and still deliver solid gross margin.

So hopefully that answers your question.

James Lorimer

It doesn't appear, Richard, that we have any more questions at this time.

I think this concludes the Q&A portion of today's call. Thank you everyone for joining and your interest in DCM. As a reminder, Richard and I can be available after the call for any follow-up questions that you may have. This concludes our call this morning.

Please enjoy the rest of your day and we look forward to speaking with you in November with our third-quarter results.

Richard Kellam

Thank you everyone.