

# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

## Xenos Group Inc. (XNS:TSX)



STUART BUTTS is Chairman, President and Chief Executive Officer of Xenos Group Inc. A successful entrepreneur and creative leader, Mr. Butts is the founding Chairman of the company. He is considered to be a pioneer in the high volume transaction output market. His vision and commitment have been instrumental in carrying Xenos forward to its present position as a world leader in its segment. Mr. Butts is an experienced entrepreneur, having founded a number of leading-edge technology companies in both Canada and the US. He is a graduate of Trent University and the University of Toronto Law School and a member of the Law Society of Upper Canada.

**TWST: Please begin with a brief historical sketch of Xenos Group and a picture of the things you're doing at the present time.**

**Mr. Butts:** We're actually a 25-year old software company. The root of our heritage was an attempt to create a paperless office by making it possible to move data from any device to any other device, and to therefore eliminate the requirement to print before you deliver information, so you could deliver and then print if necessary. Our vision broadened in the last decade to include data and documents of all types. We now talk in terms of streamlining information supply chains by making it possible to access and deliver information from any platform or device throughout the enterprise and beyond for internal or external communication, thereby maximizing the utility of valuable enterprise information resources.

**TWST: What kind of competition do you have and what differentiates you?**

**Mr. Butts:** Broadly, a lot of people in IT are integrating technologies these days. So to a certain extent, everyone is in it. We, however, have a deep and broad understanding of the structure and design of electronic information and electronic data presentation generally. We've developed a suite of software solutions that can process extremely high volume, and is very quick, allowing for sub-second response times for very complex procedures. Our enterprise-

scale software together with our broad range of specific solutions (eg, IBM AFP, Xerox metacode, Adobe PDF, ebXML, legacy file structures) sets us apart.

**TWST: I believe that you can deal with a great variety of customers.**

**Mr. Butts:** Our technology is horizontal and it applies to essentially every industry, which is also a challenge in a way. Our biggest customer base is in financial services and insurance, but we also address logistics manufacturing, and health care to name a few other verticals. Xenos is used essentially anywhere that information relevant to the business or operations of an entity is communicated in multiple, disparate formats or stored in numerous, different depositories. Because that is the case for all enterprises, the challenges we address are ubiquitous.

**TWST: I understand that you took on a very large project, a national healthcare system.**

**Mr. Butts:** Yes, in Norway our technology is used to interconnect the hospitals, doctors' offices, pharmacies and the state-run medical system, over the Internet without requiring changes to the underlying technology of the doctors, the pharmacists or the hospitals. They can communicate key information such as prescriptions, doctors' reports, and billing information electronically over the Web, back and forth, seamlessly.

**TWST: So that is a comprehensive solution, but I believe that you can also work piecemeal.**

**Mr. Butts:** You mentioned competition; a lot of the competition comes in the piecemeal area. We can deal with essentially any point problem requiring a transformation of some kind. As a result, our customers can get this type of support from a single vendor, rather than multiple vendors as in a series of piecemeal solutions. We are carrying that single vendor focus further with our new Xenos Enterprise Information Server development that will offer software as an enterprise service capability from a single, server-based product.

**TWST: How much training of the clients is necessary?**

**Mr. Butts:** We do provide training, but generally the technology operates seamlessly once it's installed and the client doesn't need to know about what is happening. We have, of course, GUI interfaces to our technology, so that it can be programmed by a properly trained person once it's installed. It doesn't require ongoing services from us. This is actually quite a powerful element. The reality is, of course, people generally come back to the experts, but certainly knowledgeable people use our technology in their own shops.

**TWST: What about adaptability once the product has been installed?**

**Mr. Butts:** Using our powerful GUIs, customers can adapt and change the inputs and change the outputs. We support essentially all of the common enterprise input and output formats. So if a customer is involved with two or three different formats, and has a requirement to send or receive information in another "new" format, we can add that capability for them. We are basically a one-stop shop for optimizing the enterprise information supply chain.

**TWST: Since you started, how far along on the road to paperlessness have some of your customers come?**

**Mr. Butts:** Our largest customer, and one of the largest companies in the world, claims that in some 14 divisions where our solution is installed, they have virtually achieved the paperless office in both a manufacturing and commercial environment. A lot of production equipment generates information that traditionally has been printed and then re-keyed into business systems. We capture that information electronically, before it is printed, and deliver it internally within the organization, and also Web-enable it for electronic presentation. Our customer sends documents such as invoices and purchase orders to trading partners over the Web. So they essentially have eliminated the paper requirement for all the people who became addicted to it, because they originally had no choice.

**TWST: How well did you fare during the tough times in the early part of the century? To what extent has the company sort of restructured or reinvented itself?**

**Mr. Butts:** We were one of the miracle surviving bubble babies. We went public during the Internet boom bubble and benefited from the opportunity of raising inexpensive capital. The speed of adoption of a lot of the stuff that we did was much slower than the market bubble was forecasting, so we paid the penalty. We have re-

structured over the last number of years, broadened our offerings, and increased the customer base. The most recent quarter was our best quarter in about four years. That is significant for two reasons. One is the continuing growth of the business over the last four years. Secondly, we broke out of the challenge of the rapidly rising Canadian dollar. We generate most of our revenues in US dollars and British pounds, but we report our earnings and revenues converted into Canadian dollars. In recent years, the Canadian dollar has gone up more than 50% against the US dollar and significantly against the British pound. As a result, our revenue translated into Canadian dollars essentially stayed flat for a few years despite the fact that we were doing more and more actual business. So in this past quarter, we managed to break through and actually show a C\$0.5 million profit.

**TWST: What are the main items on your agenda as you look out over the next two to three years?**

**Mr. Butts:** We have been developing a comprehensive enterprise scale solution that incorporates all of the components of our technology and adds significant additional system functionality for large enterprises. Internally we call this product the Xenos Enterprise Information Server (Xeis). Essentially, Xeis is a product built on a server-based architecture that maintains all the resources for data and document transformation and routing. It has enterprise capacities such as failover and flopper to address different challenges that develop in the operating environment. If you have too much demand, you can pick up an additional server. If the server goes down, it can move automatically to a second server. Xeis will be a single location in the enterprise offering software as an enterprise service to integrate, translate, repurpose or reroute information in real-time.

**TWST: Are there any other challenges ahead that might have to be dealt with?**

**Mr. Butts:** We actually feel very good at the moment. One of the challenges obviously is a potential downturn in the level of economic activity in our major markets, but our solutions speak to economy and leanness and meanness. We have a compelling ROI story, particularly in financial services, which is one of the areas that it is important to us. We can do a lot of things to help enterprises reduce their IT costs and that is something that will continue to resonate regardless of the economic environment.

**TWST: Is your technology likely to advance rapidly in the foreseeable future?**

**Mr. Butts:** The reality of what we do is that we converge different formats that people have created over time for different reasons. Industry keeps inventing new languages and inventing new reasons to communicate with each other across those different language barriers. The historical jumble of languages, if you like, isn't going to go away because it's too entrenched in the system. New languages will only add to the jumble. So we don't foresee the ongoing challenge of integrating disparate systems or different languages going away. We think our Xenos Information Server solution is revolutionary and represents a significant jump ahead in architecture,

resource utilization and comprehensive functionality. Having a single product from a single vendor offering a software as an enterprise service solution for the myriad complexities that we address is a significant technological advance.

**TWST: Are there advantages in such a complex web of things?**

**Mr. Butts:** They are created for different reasons. Certain languages, for example, print stream languages, deliver the beautiful multi-color printed pages that you can generate from computers these days. These languages, IBM AFP, for example, include a complex set of instructions to the physical printer to enable it to deliver color and form and content. That complexity, when it's converted to the requirement, for example, to deliver what was designed to be a printed page to a computer screen to be viewed, instead of printed, presents the challenge that we address. To convert AFP to a viewable language, for example, PDF, is complex. Our business involves mastering those complexities. The languages were each created for a purpose. Each of the printer manufacturers, when they designed their hardware and software, had to choose an operating system, a way of describing page layout and information content. And that is the heritage of a lot of the jumble. But each language did good things in its time and they continue today to deliver the information. It is our job to convert it into forms that fit today's requirements.

**Mr. Butts:** We have actually been in a pretty decent growth phase. One area is archive content migration. Archive content migration addresses a need to move or rationalize large electronic archives. Most large corporations have more than a dozen electronic archives. Providing this consolidation will be an important part of our business going forward. With that and our upcoming Xenos Enterprise Information Server, I can see significant double-digit growth for a number of years.

**TWST: Would you tell us about your own background and expertise and the same for one or two of your colleagues?**

**Mr. Butts:** I've been in the business for 25 years. I am the founding Chairman of the company. I am by training a lawyer, but after 25 years of running a software company, I think can say that I am part of the fabric. I have had a strong interest in environmental issues and I believe the paperless office and the energy efficient electronic enterprise one day will be a necessity and I think that's important. It will happen. Our Chief Financial Officer, George Kypreos, joined us about a year and a half ago and has made a significant contribution in driving for profitability. Paul Walker, a graduate of Waterloo Computer Sciences, is our Chief Operating Officer. He does a lot of customer calls and is extremely knowledgeable in enterprise solutions and does a fantastic job for us. A year ago, we recruited a new Vice President of Sales who was formerly a Vice President of a major commercial bank. He brought to us a great deal of knowledge about why customers buy

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**TWST: What are your feeling about mergers, acquisitions and being acquired?**

**Mr. Butts:** I suppose it's an element of any technology company's business plan. It represents liquidity for all the shareholders, and I think there will be a time for that. For now, we are very keen on seeing the completion this year of the Xenos Enterprise Information Server, which will dramatically improve our organizational efficiency as well as deliver benefits to customers and increase market penetration. Perhaps after that stage, we'll be in a position to look at maximizing shareholder value.

**TWST: What would you reasonably expect the company to look like in three to four years?**

the solutions that we are offering from a business perspective. His name is Craig Smith. Finally, Graham Barker, our Chief Marketing Officer, has been with us for many years in a variety of capacities. Graham came to us from a background in IT operations and has been very instrumental in helping fashion our vision of what we are doing and putting into words the complexities of the world Xenos inhabits.

**TWST: You mentioned that one person brought in a great deal of knowledge about why customers buy your product. Would you tell us about that?**

**Mr. Butts:** Essentially, it's understanding the business drivers behind our information technology. What is the benefit of the technology, for example, to a bank? Why are they doing this? Currently, it's very

much about the banking customer experience. It is a very broad concept, but when it comes to, again, delivering information from disparate systems into systems meaningful for a bank, it's a need to understand the customer's perspective of what you are doing. So how is our solution helping the bank enhance their customers' experience? For example, enabling easy customer self-service. That can be subtle, but has a significant impact on our marketing and our approach to customers.

**TWST: Do you see any need to improve your company's capital structure?**

**Mr. Butts:** We are well capitalized. This current year, we are looking at completion of development of the Enterprise Information Server. We continue to look at opportunities to acquire or associate ourselves with other technologies, but really we don't foresee at this point any requirements for additional capital.

**TWST: How much energy are you putting into investor relations? What do you feel about your current stock price?**

**Mr. Butts:** We have a very good advisor in that area. Unfortunately, our financial results really haven't justified large investment of time or money into investor relations for the last couple of years. Last year was a very big turnaround year for us, and the first quarter of this year has been pretty exciting. Our stock has gone up 33% since December so I'm much happier with it now than I was. The Canadian market always remains a challenge. Canadian listed technology companies are undervalued relative to our American cousins, and it's frustrating not to see US-comparable value reflected in the Canadian stock market.

**TWST: What would be the two or three best reasons for the long-term investor to look very closely at Xenos Group?**

**Mr. Butts:** We are definitely in a solid growth with profitability phase. Because of the Canadian dollar, our results have been masked for a number of years. Investors are going to see a significant increase in valuation based upon our hitting some good target numbers. Our Enterprise Information Server, I think, is going to be powerful, both from a business and from a green IT point of view. We'll be rolling Xeis out at the beginning of October. I think that there will be a lot of interest in Xeis as a single point solution for all transformation requirements. I think our enterprise archive content consolidation/migration initiative is going to gain traction throughout industry, especially in a financial downturn, when consolidation and rationalization make a lot of sense. Finally, our Integrated Document Solution, utilizing our technology for integrating input and output in conjunction with Document Sciences Xpression print composition technology, will be a significant contributor to revenue. We see all of those things as being important drivers of value for our shareholders in the next two to three years.

**TWST: Is there anything that you would like to add, especially regarding strategies, long-term objectives and reasons for an investor to look at the company?**

**Mr. Butts:** I think, as I said, we've come off a period of rationalization. We are set for significant profitability as we demonstrated in our first quarter. We see no reason for that trend to be truncated. In fact, we actually see acceleration of profitability and growth going forward. That's, to my mind, the recipe for increasing shareholder value.

**TWST: If we would look well forward into the paperless era, what would that mean for society and business in general?**

**Mr. Butts:** Just because you are not using as much paper and physically delivering as much paper doesn't mean your processes are green. There is an awful lot of stuff around information technology that requires a very careful look. There has been a huge increase in demand for electricity around IT in general and the Internet in particular. I believe that Xenos enterprise information server is an important green initiative facilitator because it gives enterprises the ultimate in flexibility in enterprise information management. It allows each enterprise to establish policies and procedures around information creation, distribution and storage without constraints of either hardware or software. Now enterprises can establish enterprise policies and procedures that drive toward efficiencies from a green IT perspective. I think there's just an awful lot of complexity when you start dealing with issues involving the use of energy, the consumption of raw materials and provision of information. Information electronically is not always environmentally friendly. Inherently the information may be valuable and desirable, but, as a society, I believe we should think a little bit about the environmental costs of some of the absolute free market policies that have developed around energy consuming information propagation.

**TWST: Thank you.**

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