Salmat 2010 Annual General Meeting

AGL Theatre – Museum of Sydney
Corner Bridge and Phillip Streets
SYDNEY NSW 2000
10.00am Thursday 25th November 2010

Presentation by Chairman, Richard Lee

Good morning, ladies and gentlemen.

My name is Richard Lee. I am the Chairman of Salmat Limited and the chairman for today's Annual General Meeting. I am very pleased to welcome you on behalf of the directors and management. We greatly appreciate your interest and attendance.

I have been advised by the company secretary that a quorum is present and as such I declare the 2010 Annual General Meeting open.

I would like to introduce to you my fellow directors:

- Grant Harrod, Managing Director and CEO;

- Philip Salter and Peter Mattick, both non-executive directors;

- Fiona Balfour, a non-executive, independent director and chairman of the Technology and Innovation Committee.

- Ian Elliot, a non-executive, independent director and chairman of the Remuneration and Compensation Committee.

- John Thorn, a non-executive, independent director and chairman of the Audit, Risk and Compliance Committee.

I would also like to introduce Stephen Bardwell, our Company Secretary, and Chad Barton, our Chief Financial Officer.

Also in attendance today is Rob Lewis, representing our auditor, Ernst & Young.

The past year marked another strong financial performance by Salmat, with a significant increase in net profit, a considerable reduction in net debt and an increased total dividend for shareholders. This solid result reflected a great performance by the team as well as the resilience of the Salmat businesses in a softer economy.

Sales revenue was $878.8 million, up 1.0% on a like-for-like basis and down 1.3% on a reported basis. Group revenue was supported by revenue growth in Targeted Media Solutions and Customer Contact Solutions, but negatively impacted by lower revenue in our Business Process Outsourcing division.

We exceeded our EBITA guidance of $85-90 million with a result of $91.2 million before significant items - up 17.3% on the prior year.

Net profit after tax was up 43.8% on the prior year, at $47.4 million. This was an impressive result that speaks to a strong focus on improved efficiency and cost control across all areas of the business. Earnings per share grew 43.3% to 31.1 cents per share.

Salmat's balance sheet and cash flow also improved significantly during the year.

Following a significant debt reduction in the previous year, further reduction brought our net debt down almost 20%, to $134.3 million at 30 June 2010.

Salmat's debt reduction is a particularly notable achievement considering that our gearing has been restored to 31.2% in less than three years from a post HPA acquisition high of approximately 61.5% in November 2007.

New finance facilities were secured in December 2009 and the first tranche of our debt facilities do not expire until December 2011.

Free cash flow grew by 14.7% to $72.0 million, thanks to higher earnings, lower capital spend and improved working capital management. This was a key achievement considering that prior year cash flow had the benefit of $24 million in cash from the sale of properties.

In light of Salmat's consistent growth in earnings during the global financial crisis, the significant debt reduction and a strong cash position, your directors were pleased to declare an increased final dividend as well as a special dividend, which were both paid on 28th September 2010.

The final dividend of 12.5 cents per share fully franked and special dividend of 10.0 cents per share fully franked brought the total dividend for the year to 33.5 cents per share, representing an increase of 67.5% on the previous year.

All in all, the past year saw some significant investment, consolidation and productivity improvements that have put Salmat in a very strong position. There were several key achievements that are worth noting here today.

The 'One Salmat' strategy has been a focus in the past 18 months, as it's a key differentiator for the business and a logical progression in the evolution of Salmat from a transactional service provider to an integrated solutions provider. 'One Salmat' sees all of Salmat's various services – such as letterbox delivery, contact centre services and online marketing - packaged into an extremely compelling 'one stop' multi-channel communication solution for our clients.

Salmat's sales resources were realigned during the year to better support the promotion of One Salmat. Market reaction to the concept has been very positive and we now have a number of major clients adopting more integrated solutions and achieving encouraging returns on their investment. This is a strategy we'll continue to evolve and extend as a matter of course.

The performance of our Lasoo business was another highlight. Lasoo is Salmat's consumer-facing pre-shop website, launched just on three years ago. In that time, it's grown to become the clear market leader, engaging more in-store shoppers than any other Australian site.

In the past year, Lasoo experienced continued strong growth in key consumer metrics and revenue. Total visits were up more than 35% on the previous year and product searches were up more than 200%. Web page views increased by more than 60% and offer interactions grew more than 70%. We've continued to see the same growth trends in the first few months of this year, and expect to reach more than two million visitors a month by Christmas.

Increased consumer interest has naturally increased the appeal of our site for retailers. As announced with our full year results, Lasoo's performance – combined with compelling online trends – has led us to bring forward future planned investment to the current year. Enhancing the Lasoo offering now will enable us to leverage the current market demand and further extend our leading position.

We were also very pleased to welcome a new independent non-executive director – Fiona Balfour - to the Salmat board in January this year, restoring the majority of independent directors to four of the seven total.

Fiona chairs our new Technology and Innovation committee, bringing to the role an extensive background in information technology and service innovation with the likes of Qantas and Telstra.

Having been appointed since the last AGM, Fiona is up for re-election today and will give you some further details on her background and experience when she addresses the meeting.

Certainly, IT and innovation is a crucial part of the Salmat business and we are fortunate to have Fiona's expertise on board. Our emerging services are all technology-based and continued innovation in these areas is essential to the evolution of the business.

As Salmat evolves, growth is a key objective and we have a three-year strategic plan in place aimed at accelerating growth, both organically and through new business activity.

The key elements underpinning this strategy include:

- Continuing to expand the 'One Salmat' service model, which improves our ability to cross-sell a wider range of services to our existing client base and drive further efficiencies within our business;
- Building on our range of retailer marketing services, including ramping up our emerging services, such as the Lasoo pre-shopping site and a new eCommerce platform;
- Expanding into new markets, such as the small to medium enterprise market; and
- Actively seeking synergistic acquisition opportunities to accelerate our growth strategy.

Grant will give you an overview of some of our activity in these key areas in a moment.

Before he does, I'd just like to thank and congratulate the entire Salmat group on behalf of the board, for their committed efforts during the past year. Grant and his team have done an outstanding job leading the company through a period of change and renewal and I am confident that Salmat is well-placed for its next stage of evolution.

I am now very pleased to invite our Managing Director, Grant Harrod, to provide an overview of the operational performance of each of our business divisions, outline Salmat's current growth activities; and to provide an update for the 2011 financial year.

Thank you.

Presentation by Managing Director, Grant Harrod

Thank you, Rick and good morning, ladies and gentlemen.

As Rick has outlined in his opening address, last year was a profitable one for Salmat, both in regards to earnings and the good ground made on many of our initiatives. With increased net profit, improved margins, lower debt and strong cash flow, we are in a prime position to capitalise on the opportunities presented by the current market and achieve sustainable new growth.

Salmat has three main operating divisions: Targeted Media Services, Customer Contact Solutions and Business Process Outsourcing. Each posted highlight performances in different parts of the business, though there are also some areas for improvement.

Targeted Media incorporates our customer targeting and letterbox distribution services; interactive email and mobile solutions; and our online services, including the Lasoo pre-shop website.

This division had a strong year, with normalised sales growth of 10.4% delivering $230.6 million in revenue and EBITA up 44.3% to $40.3 million. This was largely the result of increased volumes across the division, a focus on efficiency and the development of new systems to better manage both direct and indirect costs.

We set a number of objectives for Targeted Media Services last year and it was very pleasing that all of these were successfully achieved.

We anticipated letterbox volumes remaining stable and aimed to enhance client value in this area by leveraging our unique delivery capability and service suite to encourage take-up of our multi-channel offering. Catalogue volumes were up 11% on the previous year to more than five billion catalogues and we implemented several new operational initiatives to improve our network efficiency and engagement with the field. We've also seen an increasing trend in traditional letterbox clients moving towards a more integrated communication model, incorporating online and interactive channels.

We targeted further development of our digital services, including evolving Lasoo as the premier pre-shop portal. As highlighted by Rick, Lasoo visitor numbers and visitor interactions were all significantly up on the prior year and we also saw excellent growth in the number of retail offers featured on the site.

We also anticipated interactive SMS and email services enjoying strong support as retailers embraced mobile technology. Interactive email volumes were up 141% to more than 154 million and normalised SMS volumes grew 15.7% to more than 14.7 million. Mobile access is certainly an area we will see continue to grow as smart phone technology increases in popularity.

Finally, we flagged the continuation of cost efficiency programs in this division. EBITA growth of more than 44% speaks to our success on this count, as we successfully implemented a number of new programs to improve operational efficiency and better manage costs.

For the current year, we are aiming to drive further integrated sales opportunities, leveraging our targeted multichannel media strategy, incorporating a combination of online and offline modes such as catalogues, email, SMS and Lasoo.

We are also aiming to expand Lasoo and accelerate its growth via further investment. This drive is ramping up over the first three quarters of the year, enhancing site functionality and content; evolving our commercial model; and accelerating our sales and marketing effort.

Finally, we recently announced the launch of a new one-stop targeted marketing solution for the small to medium enterprise market. Phase one of this initiative is already underway, with the creation of a dedicated sales strategy and sales team to target the SME marketplace. Phase two incorporates the launch next week of a self-service web portal that enables SME clients to quickly and easily access sophisticated design, print, letterbox and online marketing services to promote their business.

The Customer Contact Solutions division incorporates our local and offshore call centres; intelligent speech recognition; field and retail kiosk sales; and our learning and development solutions.

Revenue in this division was $304.8 million for the year, up 3.6% at a reported level and 2.8% at a normalised level. EBITA was $20.0 million, down 8.1% on the prior year.

Revenue was positively impacted by good sales growth of more than 7% in the call centre business - exceeding market growth rates - but EBITA and margin were impacted by investment in an expanded sales infrastructure and a higher volume of sales in the lower margin call centre services. We are transitioning the service mix in this division to focus on higher-margin premium activities which better leverage our skills and infrastructure, but expect this will take time.
In terms of our performance against 2010 objectives, we had mixed results in this division.

Our aim for continued growth was partially achieved with gains in call centre and learning and development revenue, but field and kiosk sales as well as speech solutions underperformed. This was largely due to delays in implementing new contracts won in our speech business and a softer discretionary retail market impacting field sales.

In the call centre business, we successfully maintained our position as the leading outsourced provider in Australia, with unmatched local capabilities driving our revenue growth. We also grew revenue and earnings from our @Home model, which employs home-based operators and we will continue to integrate this specialised service with our traditional call centre offering to maximise the choice of services for our clients.

Our offshore call centre capabilities were boosted as we established a new Philippines centre and ramped up utilisation of centres in New Zealand. We will assess the need for further offshore investment depending on client demand.

Our newer businesses, including learning and development, speech solutions and field and retail kiosk sales were impacted by investments in expanding the sales infrastructure and the range of services, plus the discretionary nature of the work we undertake for clients, particularly in direct sales. We anticipate both a payback in our investments and a more favourable economic environment to positively impact earnings in these businesses in the coming period.

We also sought to extend our portfolio of services into the existing client base as well as winning new work. This was achieved, with new revenue from consulting and other non-traditional services as well as a number of new contracts.

For 2011, we continue to focus on repositioning our call centre business to focus on providing higher-skilled services. Likewise, we are introducing more ‘off the shelf’ products in our speech and learning businesses to better smooth the earnings profile.

Our Business Process Outsourcing division incorporates essential and direct mail; electronic bill presentment; print on demand; print management services; and back office business process automation.

Revenue for this division was down 5.7% at a normalised level and 7.4% at a reported level, to $343.4 million. This decrease was primarily due to lower mail volumes in our essential and direct mail services, the closure of an underperforming creative marketing business and unfavourable foreign exchange movements with our Asian operations.

Despite the lower revenue, EBITA was up 7.1% on the prior year at $44.2 million, resulting from a strong productivity focus as well as benefits flowing from the continued integration of the acquired HPA business. Overall margins increased despite the lower mail volumes.

Our goals for Business Process Outsourcing in 2010 were largely achieved.

We targeted productivity and efficiency gains, including further synergies from the HPA integration, and this was certainly achieved, with overheads substantially reduced.

We are leveraging the additional HPA resources and capabilities in imaging and scanning to drive new back office automation business in our existing mailing client relationships.

We also evolved the BPO product and service offering to include workflow management and document management solutions. Significant solution sales were made in key sectors and the overall sales offering was broadened. We announced a joint venture in HealthStream to provide back office claims management in the health insurance sector and a partnership with SAP Software to provide accounts payable workflow services.

While we expected print and mail volumes to remain flat, 2010 volumes ended up lower than the previous year, so this was one objective that wasn't met. We do not expect the same rate of decrease in the current year and have a solid pipeline of new work.

It was anticipated that a new Philippines infrastructure established in September 2009 would further strengthen BPO services. This facility performed very well, providing valuable support services to the division and we are now expanding its capabilities to provide outsourcing services for our clients across IT programming, data capture and a range of data management services.

We also capitalised on our unique data analytics skills to establish a new income stream. During the year, the data analytics resources within BPO were merged into a new centre of excellence with our customer targeting solutions business in the Targeted Media division. This team is now developing new offerings to suit the needs of our retail clients and further strengthen our retail marketing services model.

Key BPO objectives in 2011 include further developing our range of e-solutions capabilities; continuing the next phase of the HPA integration, including consolidation of our Victorian facilities; realigning our cost base; and a technology refresh. Some of these initiatives will result in one-off redundancy and relocation costs in the current year which I will outline shortly, however ongoing savings and benefits will be significant.

Growth is of course a prime objective for the Salmat business as a whole. Rick outlined the four main components of our three-year growth strategy, namely our 'One Salmat' service model; a focus on emerging services; expansion into new markets; and acquisitions.

We currently have a number of active initiatives in each of these domains.

Our One Salmat strategy continues to see our sales teams promote the full range of our services to existing clients under our multi-channel communication model. Clients truly see value in consolidating these services into a single supplier relationship and we have already secured a number of multi-channel service contracts and expect this trend to continue.

In emerging services, the renewed program of investment in Lasoo is well underway.

Here we are expanding our sales efforts to increase retailer participation, adding e-tailers to the site who previously have been outside our engagement model, and establishing more partnership networks to extend our reach. We've already seen an increase in non-catalogue offers featured on the site, feeding directly from retailers with online stores.

We are also dramatically expanding the level of detailed content on the site, adding extensive product reviews, product ratings, expanded images, video and product specifications.

You'll see site expansion in a number of key vertical categories, including fashion, coupons and groceries, with specific features such as styleboards and shopping lists. The first of these will be up and running by the end of 2010.

Now that Lasoo is a proven concept, we'll also be developing our commercial model, with performance-based pricing and new advertising streams forming a greater part of our revenue growth.

Another opportunity that has emerged from the growth in Australian online retail is that of a new eCommerce platform.

Currently, retailers looking to set up an online presence have limited choices between an expensive, in-house bespoke model or a cheaper, clunkier adaptation of an open source system. Salmat has identified a need for a world-class enterprise solution on a hosted or 'infrastructure-as-a-service' model, without the upfront capital investment and costly implementation of an in-house system, plus much lower risk and more features than an open source solution.

We have partnered with German eCommerce software manufacturer, Hybris, to develop this solution, which will also feature Salmat's range of digital services including content management, Lasoo and multi-channel communication services.

We've already had strong interest from retailers and anticipate that we'll have our first client live by the third quarter of 2011.

Regarding expansion into new markets, our current focus is on the small to medium enterprise market, as I mentioned earlier, with our Local Direct Network strategy and fantastic new self-serve web portal offering design, print, distribution and online marketing services.

In one sense, this marks a real departure for Salmat, as we've previously focussed exclusively on top 100 companies. On the other hand however, this is a logical expansion of our existing services into a whole new space, now that technology makes the transaction cost effective for both us and the SME client.

We anticipate revenue from the SME market to grow more than 50% this year, with further growth as new capabilities are added to the offering. While less than 6% of our letterbox sales came from this sector in 2010, we expect it to contribute 10-12% of letterbox revenue in the next couple of years.

In terms of acquisitions, obviously any activity here is subject to the usual confidentiality agreements until the deals are done, but I can say that we are actively pursuing a number of opportunities to scale up our emerging businesses.

It is customary for Salmat to provide a trading update and outlook at our AGM. I am pleased to report that the company is on strategy as it continues its journey to be the outright leader in providing retailer marketing and communication services. Trading in the first quarter has been flat, reflected by the softer retail climate across the Australian and New Zealand markets and the flow-on effect of lower BPO mail volumes in the first half of the year. This being said, we are anticipating a solid Christmas trading period as many of our clients gear up their promotional and sales activities.

In looking at the full year results for 2011, we are taking the business through a transformational period as we realign parts of the business, build out new services and continue the integration of operating sites.

With the integration of BPO in Victoria we anticipate one-off costs this half of $4-4.5 million but net EBIT savings of $1.8 million per annum from FY2012 onwards. We intend to reflect these costs as a significant item in the first half, offsetting significant item gains of $0.7 million from residual deferred property profit.

We announced the acceleration of investment in Lasoo, which will see a further $1 million in investment for the current half, however we anticipate that by FY2013, Lasoo will be in excess of 10% of Targeted Media earnings.

The realignment of our speech and learning businesses within Customer Contact Solutions is beginning to drive earnings improvement in this division.

The addition of new services across BPO and TMS and expansion into the SME sector will collectively generate material returns over the next few years.

So in light of our planned initiatives, excluding net significant item costs of $2.8-3.3 million, we anticipate FY2011 EBITA to be in the range of $92-97 million.

Presentation by Remuneration and Compensation Committee Chairman, Ian Elliot

Good morning, ladies and gentlemen.

I am pleased to propose adoption of Salmat's remuneration report for the year to 30 June 2010 which is part of the directors' report and can be found on pages 8 to 17 of the full financial report. As you are probably aware, the vote on this motion is advisory and does not bind the company, but I can assure you that we will take any input and comments seriously when reviewing our remuneration policies and practices.

The role of the remuneration and compensation committee, which consists of the four independent non-executive directors, is to:

- Review overall remuneration policies and ensure they are in accordance with current best practice;
- Determine the remuneration arrangements for the chief executive officer, including his short and long term incentives;
- Review the chief executive officer’s recommendations for remuneration arrangements including short and long term incentives for the other senior executives of the company;
- Set and review the performance targets for the chief executive officer;
- Review and approve the recommended performance targets for other senior executives;
- Review succession planning for the chief executive officer and other senior executives; and
- Oversee the company’s compliance with relevant occupational health and safety legislation.
- Monitor and ensure the effectiveness of Salmat’s Diversity Policy. Ensure compliance with ASX Corporate Governance guidelines and other relevant regulations.

Our present policies and practices are designed to align directors’ and employees’ interests with those of shareholders and are explained in the full financial report. In summary, our aims are to set remuneration packages that:

- reflect the scope of the role;
- are competitive, in order to attract and retain talent;
- are linked to the company's financial and operational performance and reflect its long-term business objectives; and
- reflect individual performance.

The committee obtains independent external advice on best practice and appropriate market benchmarks for remuneration levels, the split between fixed and variable components, as well as incentives, both short-term and long-term, for the chief executive officer and other senior executives.

It should be noted that no equity incentives are guaranteed as part of these packages. Any equity-based incentives issued to the CEO will be subsequent to, and on the conditions contained in resolutions approved by shareholders, will be dependent on service and performance-based hurdles.

Equity-based incentives issued to senior executives are aligned with the CEO’s service and performance hurdles.

I draw your attention to Part D of the remuneration report: Share-based compensation. In this area of the report, we disclose the quantum, the entitlement, expiry date and performance conditions of deferred shares and options currently on issue.

Salmat has not used the Salmat Employee Option Plan for the purposes of long-term incentives since 1 July 2008. In the year ended 30 June 2009, the board decided that long-term incentives should be by way of acquisition of shares under Salmat’s Deferred Employee Share Plan.

Accordingly, there were no options granted during the past year.

In the option plan, there was a balance of 3,051,500 options at the start of the year. Of these, 1,000,000 were forfeited during the year; 340,000 were exercised at a weighted average exercise price of $3.50; 889,000 expired during the year; and 212,500 were vested and exercisable at a weighted average exercise price of $3.88.

The Salmat Deferred Employee Share Plan acquired 285,342 shares during the year for participants in the Long Term Incentive Plan, at a cost of $1,213,018. These shares will vest to senior management upon satisfying the required service and employment conditions.

The issue and conditions were disclosed in detail in the Remuneration Report. I will now summarise the conditions of the grants.

For shares granted to senior employees in February 2009:

- For 50% of the shares, the performance hurdle is a cumulative EPS for Salmat shares of 66 cents for the three years ending 30 June 2011. If this EPS is not achieved there is a sliding scale of vesting which is set out in the report. This scale reduces to a nil entitlement for these shares if the EPS achieved is less than 75% of the EPS hurdle.
- For 50% of the shares, the performance condition is based on Salmat achieving a TSR in excess of the S&P/ ASX small ordinaries accumulation index for the three fiscal years ending 30 June 2011.

For shares granted to senior employees in April 2009 and March 2010, the terms are the same except that they apply to the three years ending 30 June 2012 and the cumulative EPS is 79 cents.

No shares were granted during the year to the chief executive officer. Item five on our agenda today relates to the proposed terms and conditions for the granting of deferred shares to the chief executive officer. Full details of the proposed long-term incentive plan for the CEO were provided with the notice of meeting and we will provide a further summary of the terms and conditions prior to the vote on that item.

You will note from the Notice of Meeting that we have altered the Total Shareholder Return (TSR) hurdle to the Small Industrials Index - which is a more relevant index to Salmat – and raised the vesting level to performance equal to or in excess of the 75th percentile to achieve 100% entitlement.

Non-executive directors' fees are reviewed externally each year. The Board increased its fees during the 2009/10 financial year to reflect current market conditions. The chairman's fee increased by 8% and the non-executive directors' fees increased by 14%. Full details of the remuneration packages are provided in the remuneration report. This was the first fee increase since 2007.