

## **Slide - Introduction**

Good afternoon everyone

As this is the last slot of the day, I'll be brief so we can all get on to the social end of the day.

I'm Phil Salter, joint CEO and founder of Salmat.

Today I want to do four things:

- I want to talk to you about Salmat's emerging business, which is our Voice division,
- I'll also briefly cover our half year results,
- I'll then give you an overview of our other main business units, Targeted Media and Business Process Outsourcing, and
- then lastly give you some ideas of where we're heading.

## **Slide - Returns to Shareholders**

This year Salmat turns 25 – an impressive milestone for any business these days. And Salmat continues to move from strength to strength, with the last ten years compound sales growth of 13.6%. Since our IPO in December 2002 Salmat has delivered an impressive return on investment of 94%. We have now grown to over 2000 employees and operate in every state of Australia, in New Zealand, Hong Kong, the Philippines and Taiwan.

Salmat is often described as “the name behind the names”. The quality of our customer base is second-to-none and major customers include the five biggest banks in Australia, not to mention some of the country's largest retailers, utilities and telecommunications companies.

In fact six of the top 10 companies in Australia are our customers. We have long standing relationships with our customers that are built on trust and reliability mixed in with a focus on providing solutions based on technology. These solutions are developed by the 250 IT professionals we have working at Salmat.

### **Slide - Half Year Results**

Turning to our recent half year results, Salmat continues to deliver, with double digit growth in revenue and profits. Total revenues of \$167 million were up on the first half of last year by 18%. Whilst revenue grew in all divisions, the standouts were our Voice and Targeted Media businesses, with Voice revenues up 145% and Targeted Media revenues up 18%.

### **Slide - Half Year Highlights**

Ok, on to some other key financial data from our half year.

EBITA and Net Profit after tax were also up on last year with earnings per share up 15% and our return on capital employed stands at 40%.

Strong operating pre-tax cash flows of \$21.9 million, up 22%, were driven by the solid business performance combined with a continuing focus on working capital management.

We've also declared an interim dividend of 5 cents per share. This is 2 cents per share higher than last year's interim dividend.

### **Slide - Voice – Slowly but Surely**

Salmat's newest business is its Voice business which offers inbound and outbound call centre solutions. We can provide customer service, billing services, technical assistance and inbound sales services as well as outbound sales and telemarketing.

Whilst we've seen a huge movement in attitudes in Australia over the last couple of years towards outsourcing generally, we still believe that the Australian marketplace has a long way to go in the acceptance and takeup of outsourced call centres.

In Australia the number of call centre seats that are outsourced is about 10%. In the USA they are about 5 – 10 years ahead of us in acceptance. In the USA they currently have approximately 78,000 call centres with 74%, or three-quarters of them being outsourced. But they have all the local metrics and benchmarks to readily compare inhouse call centres with outsourced.

We believe that, over time, this acceptance of outsourcing of call centres will be followed in Australia.

Many senior executives, mostly CFO's, are looking at ways to reduce costs in their businesses. Companies who have in-house call centres should be looking at the possibility of outsourcing this non-core activity as producing the next line of cost savings.

At Salmat we believe we can improve the quality as well as reducing the cost. In this way, outsourcing savings can be material.

This means that the opportunities for growth in this area are significant with Salmat being well placed to take its share of the opportunities as they arise.

### **Slide - Move Towards Inbound**

Initially this business had a reliance on outbound work. But we have now shifted that focus as inbound work generally delivers better margins and provides a steadier income stream than outbound. Our level of inbound work as a percentage of outbound increased from 42% in the previous year to 64%. Our aim is to move this to 80% over the next three years.

We have just had our first full reporting period that includes revenues from the new Telstra inbound contract. Revenues were up 145% to \$19.5 million with the division nearing EBITDA breakeven point.

The business has made a major turnaround with an operating run rate improvement at the EBITDA line over the last three years of \$4 million per annum. This business has only \$5 million of capital employed, is cash breakeven and is poised to deliver full year revenues in excess of \$35 million and importantly reach its EBITDA breakeven point. We believe that within three years we will be seeing EBIT of 10% in this business.

Our focus in this division is twofold. Firstly we need to continue to develop scale through organic growth and the pipeline of new business opportunities is encouraging. Secondly, the Telstra retail contract is extremely important to

Salmat and we will continue to strive to meet and exceed all customer service expectations. We have now established an additional 40 seats recently awarded to us in Bundaberg.

### **Slide - Voice Philippines**

Which leads me on to ClientLogic, our overseas call centre, in the Philippines.

The Philippines has significant advantages over most other Asian countries. It has a highly educated workforce. The majority of people we employ have tertiary degrees. They speak English as a first language with a strong bond to the American culture, have strong work ethic and a comparatively low labour cost.

A recent development has been the takeover of our previous 51% partner, ServiceZone, by the US call centre company, ClientLogic. ClientLogic is a world class operator with 39 contact centres in 12 countries with an impressive management team and client list of more than 250 mainly blue chip companies. Our business is focused on USA sourced inbound work, however we have the potential to offer Australian customers a lower cost model with the time zone difference allowing the call centre to be run "round the clock" to service both US and Australian customers.

Our facility has doubled its available seats over the last year to now have close to 1,100. I've just come back from meeting ClientLogic's senior management team in Manila and I can tell you that they're very enthusiastic about this business and the opportunities it presents to them. They can now widen their offering to their clients with the Philippines providing a quality, low cost centre. There is a lot of interest from their customers and we're pleased to announce that we've just secured a contract from MCI who will be rolling out 350 seats by the end of June.

With this expansion comes a need for additional capital and we expect additional funding requirements in the next six months of up to \$2 million.

And we are now confident that our business model is right. We expect that this business will achieve an EBITDA breakeven point by year end and also we expect a 10 – 15% EBIT within a three year period.

### **Slide - Targeted Media - Growth**

Moving on to Targeted Media.

This is the business that Salmat started with 25 years ago and it remains at our core. We have been continually surprised at the growth this business has been able to achieve each year since it's inception in 1979. In fact, this business has been growing at a Compound Annual Growth Rate of 14% for the last three years.

As you'd expect, we are the market leader in this industry.

We hold nearly 50% of the total market and last year put out 3.2 billion advertising catalogues in Australia and New Zealand.

So how effective are we as a media company?

Research has shown that 84% of households consider catalogues a useful source of information about products and services whilst 74% of people will visit a store as a result of receiving a catalogue. As a result, many major companies are

shifting more and more of their advertising expenditure to our Targeted Media division.

### **Slide - Advantages for the Business**

Targeted Media has many advantages. Firstly it's smart. We use smart technology to target potential customers and deliver advertising materials directly into their households. This is what it's really all about. We can cut out the bottom 10% of households that are very unlikely to buy a given product or service. This allows much greater impact for our customers' advertising dollars, as they are not wasting money on contacting people who are not going to buy their product.

As the only advertising medium where the customer has full control over the timing, placement and content of their advertising, we will continue to grow the market for targeted advertising.

We are also confident that our customers will increase the frequency of their marketing campaigns. That reflects the fact that the medium delivers results and importantly is cost effective.

The business has seen exceptional growth. We are asked if we have seen the letterbox saturation point, but we don't believe this is the case. Why? Well to answer that, we need firstly to look overseas. In Australia, each household averages 20 pieces of unaddressed mail each week. In Europe there are countries with much higher averages such as the Netherlands and Sweden, where they average 28 pieces each week, up 40% on Australian figures. So we don't think we're anywhere near saturation point at this stage.

Also the timing of deliveries is relevant. Presently in Australia, during peak retail periods such as Mother's Day, Easter and Christmas we see large spikes of catalogues being delivered. With our recent focus on non-traditional, non-retail customers we are able to flatten out that cycle and tie in deliveries with other marketing campaigns outside peak times. So there is plenty of scope here.

Our non-traditional customers now come from industries such as real estate, telecommunications such as Telstra Bigpond, financial institutions such as Commonwealth Bank and American Express and motor vehicle dealers, such as Holden.

Another key point is that the industry generally is low risk. We don't print, we don't own stock, there are high barriers to entry, low capex requirements and the business is a very strong cash generator.

Also significantly for our investors, our business is non-cyclical. Whilst the other delivery mediums for advertising rise and fall in peaks and troughs with the economic cycle, direct media is steadily growing and over the last 25 years we have endured recessions with none of the cyclicity that other media has experienced.

This industry has seen considerable fragmentation in recent years. There has been an influx of new TV channels, new magazines and other delivery mediums for advertising. Despite the huge array of choices on offer to advertisers, Salmat has been able to demonstrate to our customers that direct media is the most cost effective way to drive their sales.

In this division the key focus is to continue to grow the market and attract new customers to the medium. Also we will be building and strengthening our national distribution network. This will involve bedding down some recent small acquisitions made and implementing new web enabled systems to improve our efficiencies going forward. And we will continue to enhance our data tools and capabilities.

### **Slide - BPO - Technology based**

Our final division is BPO or Business Process Outsourcing. In this division, again we have a heavy focus on technology. We start with a customer's raw data that is downloaded into our systems. We then take that data, analyse it, format it, print it out and mail it. We also provide ongoing archiving facilities for our customers like CBA, David Jones and NAB, just to name a few.

We can do this nationally in Australia, in Hong Kong, Taiwan and the Philippines.

This business is currently at the bottom of a price discounting cycle. The industry has been hit by a loss of volume in recent times mainly due to corporate collapses such as HIH, OneTel and Ansett and lower levels of corporate activity through 2002/3.

This has led to pricing pressure across the market. As we told you at the half year announcement, this pressure now appears to have stabilised. The level of activity over the last year has increased and IPO activity has helped the smaller players. Additionally there has been some consolidation in the market with one major competitor buying a number of smaller players, and a few have closed their doors.

Despite the impacts of pricing pressure and the negative impact of the Australian dollar on our Asian operations, we still managed half year revenue growth of 2.6% (or 4.9% excluding the foreign exchange difference).

In terms of new business our focus during the last six months was on securing the ANZ and Westpac tenders. And we are delighted to have been successful on both counts. We will be doing ANZ's bank statement and credit card work and Westpac has selected Salmat to join their panel of key suppliers. However we don't expect much in the way of revenues for this second half as there is a lot of set up and data validation to get through.

We secured these new contracts primarily as a result of our second-to-none experience in the banking and financial services sector. Our experience in transitioning in-house operations to outsourced models, along with the use of superior technology has continued to make us the supplier of choice in this sector. We now service the top five banks in Australia.

Our data management capabilities and focus on security and disaster recovery are just some of the reasons why our customers choose Salmat.

Our focus in BPO continues to be in driving cost efficiencies and bedding down our new customers. Technology will be at the forefront in the delivery of new products and systems in order to drive new sales.

We see no rapid recovery in the margins we get in this business in the short term. Most contracts are long term and will only come up for renewal from time to time. However as we continue to drive technology over the long term to reduce costs and as we renew those contracts, margins will gradually improve.

### **Slide - Three year strategy**

Turning now to Salmat's three year strategy.

Put simply, our strategy is double digit growth over the long term with low risk.

Our prime objective is organic growth and we see that we have lots of opportunities within our existing businesses to grow at our current rate. We will achieve this by delivering on our commitments to our customers and our employees. We will continue to ensure that capital efficiency remains a critical part of our operating strategy. You will be pleased to know that we are as tight on capital as we are on costs.

Where they make sense and meet our tough criteria, we will make very selective acquisitions. If a business comes up that is a good fit, is earnings accretive and has good people, we would take a serious look at it. But nothing we have looked at has measured up so far.

We aim to maintain our position as the market leader across our business units. We continue to do this via the provision of world-class solutions for our clients by introducing new products and leveraging off new technology. We seek to maintain our customer focus in all that we do.

### **Slide - Outlook**

We're confident of the full year outlook and subject to the normal caveats, I would like to re-affirm our guidance provided at the half year. We are confident

of delivering double digit revenue growth for the full year predominantly driven by our Targeted Media division. We expect our full year profits after tax to be 20% - 25% higher than for the full year ended 30 June 2003 in line with the consensus range.

To finish up, we are well positioned in a fast growing segment of the media industry, we have a conservative approach to costs, capital management and risk and a 25 year track record of proven performance.

I am now happy to take questions.