Macquarie Securities Group Australia conference

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Grant Harrod:

****Title slide****

Good morning and welcome to today's update on the Salmat Group.

I'm Grant Harrod and I'm the new CEO at Salmat, having just officially started about a month ago. Some of you may already know me from my previous role at Corporate Express: it's great to be catching up with you again wearing my new Salmat hat.

Here with me today are Phil Salter and Peter Mattick - Salmat's founders and joint managing directors. Phil and Peter will be staying on for the next six months or so in their current roles as part of the handover process, before stepping back as non-executive board members.

I'll be going into a bit more detail on how we've been working together so far as well as my thoughts for the future a bit later in the presentation.

****Group result half year slide****

Salmat's most recent results were released at the end of February: I'll just give you a brief refresher on what was reported at that time.

In short, we were very satisfied with Salmat's progress at the half year mark.

Sales revenue was up 22.4% to $454.6 million. The additional HPA revenue in the first half this year compared with last year made a substantial impact here. Additionally, revenue was up across the board, with all divisions contributing.

EBITA was up 50.9% for the period, assisted by the additional BusinessForce earnings as well as increased SalesForce earnings.

Net profit after tax was up both pre and post significant items for the half. This was a very solid result.

There was $5.8 million in amortisation costs for the half, mostly associated with the HPA acquisition. There was also a significant item gain of $4.1 million after tax during the period, compared with a net $3.7 million significant item cost in the prior corresponding period.

This gain was generated by the sale and leaseback of premises in Sydney and Brisbane.

Earnings per share were up more than 50% in the first half to 12.5 cents per share. An increase in the total number of shares last financial year as a result of the $75 million share placement diluted this increase somewhat, compared with the percentage increase in net profit after tax.

****Borrowings and finance facilities slide****

In the current climate, many people want to know about debt control. We are extremely comfortable with Salmat's current financial arrangements and have put in place a number of measures to protect our position.

Salmat's borrowing facilities were restructured in August 2008 to provide longer term finance more suited to our requirements.

Our facilities are syndicated across existing relationships with three local banks: ANZ, CBA and Westpac. This includes a senior debt facility for $200 million, maturing in October 2010, plus a secondary working capital facility for $50 million which matures in August 2010. We also have an overdraft facility for $10 million, expiring in October 2010.

Our net borrowings as at 31 December 2008 were $191.2 million. We further reduced this figure to $177.6 million as at 31 March 2009. The April dividend payment of $14 million has since brought us back to around the same level as in December.

Last year, Salmat also took out insurance against bad debts. We have a good bad debt history, rarely exceeding $300,000 per annum in bad debts expense. As a result of our insurance initiative, we are now insured for bad debts after the first $350,000, with the usual caveats in place. We have excluded insurance cover on our larger blue chip clients.

Like most other businesses at the moment, we are keeping a close eye on debtors days outstanding as well as the ageing of our debts and remain comfortable with the current status.

****One Salmat slide****

This slide illustrates the concept of 'One Salmat', which is essentially the ability for us to provide all of our clients' customer communication needs under the one roof.

Salmat developed over the years through a combination of organic growth and acquisitions. The acquisitions in particular had led to a range of disparate businesses and brands under the Salmat banner.

"One Salmat' has been a strategy to bring all the Salmat services together under a singular Salmat brand, philosophy, attitude and identity.

We've worked to link the various sub-businesses, improving our ability to provide seamless cross-company solutions. Rather than targeting clients according to individual services needs, we are able to provide a comprehensive suite of relevant services to different vertical markets.

Our clients' customers want to receive information through a wide variety of channels, to suit their individual needs. We provide solutions that enable all of these channels to work together, for the most effective communication strategy possible.

We state that Salmat is 'the force in one to one communication'. Our current offering backs up this statement. Our future offering will reinforce this even further.

****BusinessForce slide****

It's now around 18 months since the acquisition of HPA into the BusinessForce division. All of the integration 'quick wins' have been achieved and the synergy savings have generally met or exceeded expectations.

Some of the longer-term integration programs are still in progress, so we'll continue to see flow-on benefits as major initiatives such as site mergers and full systems integration are bedded down.

We are currently looking at options to merge the South Australian facilities towards the end of this calendar year and then the two major Victorian facilities during 2010.

We've also got some further IT and production system standardisation taking place, which will be undertaken as part of a general review of IT needs for improved productivity and future growth.

The integration has expanded our range of services in the BusinessForce division, such that the scope for this division now includes essential and direct mail; comprehensive scanning, data capture and imaging solutions; electronic billing and payment; fulfilment and sophisticated data services.

With regard to the Australian economic climate, we haven't seen a significant change in demand from major clients, particularly in their regular ongoing work, but there has been a slight softening in demand for ad hoc and discretionary work. Smaller clients are also tending to the conservative end of the spectrum in this area.

Some of the Asian operations have been impacted by the exchange rate decline, increased costs and lower than expected sales.

New business opportunities remain strong, though with extended lead times in some cases.

There are a few areas of the business that need further attention to improve their returns and there will be a specific focus on this over the coming months.

We've already started to integrate the Print on Demand business more closely into the main BusinessForce production environment - to take advantage of scale efficiencies - and will continue to seek cost savings in that area.

We are also undertaking a comprehensive review of the Direct Headquarters business to target improved profitability.

Overall, BusinessForce EBITA remains on track for the full year, with overheads well under control.

****SalesForce slide****

SalesForce is also tracking well compared with the previous year, with revenue and EBITA up for almost all parts of the business. EBITA for the year to date is being positively impacted by gross margin improvements in the contact centre and VeCommerce areas.

Australian contact centre performance in particular has been strong, with several existing clients extending projects beyond anticipated deadlines and on a larger than expected scale. We've maintained a fairly consistent mix of clients and inbound/outbound work despite the economic downturn. It's also starting to become easier to source staff and we've seen a reduction in churn.

Outside the Australian market, we are currently scoping a new contact centre facility in the Philippines, in a client-driven initiative. This facility will also house some BusinessForce capabilities to enable a bundled service offering under the one roof.

The sophistication of the SalesForce service offering is our key point of difference in a competitive market.

Salmat's SalesForce division is far removed from the clichéd image of an offshore telemarketing shop. Offering voice and non-voice solutions, the majority of our contact centre work involves handling inbound customer queries, so our staff are highly trained in each client's business and effectively perform as an integral part of that business.

Sophisticated training programs and technology such as biometric voice recognition supplement this value-added offering. Our capability is such that SalesForce can usually provide an end-customer service experience superior to what our clients can provide themselves, on top of any cost arguments. This is what helps to really embed us into our clients' operations.

Salmat VeCommerce has achieved a number of significant recent interactive voice response (IVR) wins but has also experienced some delays in securing client decisions on new projects. Nonetheless, we are confident of a good full year performance from this business.

Our e-Learning business has attained a key service development highlight of late, with the delivery of e-Learning in French, German, Chinese and Japanese. Salmat e-Learning also recently won an award for 'Best Bespoke Learning Solution' at the LearnX Asia Pacific eLearning and Training Awards.

The SalesForce@Home business is achieving good revenue on existing projects and is currently in line for several new business opportunities. We anticipate further expansion of this network given its flexibility and cost-effective structure.

Direct Sales has shown improvement since the half year but is still posting relatively flat year on year sales performance.

Client activity levels for the division as a whole have remained strong, with several instances of recurring income and new work from existing clients. There's also a trend towards clients utilising a mix of technologies and solutions from across the division, such as combining a contact centre service with direct sales, IVR and e-Learning. We certainly believe that SalesForce offers the most comprehensive range of services in the voice and non-voice industry and is uniquely positioned to offer this sort of 'one stop shop' capability.

****MediaForce slide****

MediaForce has also had a good start to the second half, with overall earnings on track and some key wins in the traditional catalogue business.

The productivity review and restructure commenced last year has helped to reduce overheads and identify improvement opportunities in our distribution business. This work is continuing, with further updates to the management operating system, some reorganisation of teams and a number of strategic client initiatives.

We've also increased our focus on debtor control to reduce our exposure to any issues with retail clients.

While smaller clients are holding back on new campaigns, we've had some good wins and ongoing work at the top end of the market. This is partly due to the unique power of targeted media such as catalogues to drive sales, particularly in a tough climate. Our major clients recognise the value of catalogues and dedicate a significant – in many cases a majority - portion of their promotional budget to this medium.

I must point out here that there has been a lot of discussion in the media about work we may or may not have picked up from PMP: it is important to realise that many of these accounts are still under contract. Any work we are doing is on a week by week basis, so there will not be any significant impact in current financial year. We look forward to the opportunity to bid for this business and showcase our unique competencies.

The emerging catalogue business in NZ has been impacted by the severe economic conditions in New Zealand, with volumes and sales somewhat below expectation. Nonetheless, efforts to reduce overheads through integration with the New Zealand Post side of the business have had a positive impact on the bottom line. We've also appointed a new leader within this business to help drive further improvements. Recent months have shown promising signs with some good new wins, but it will be some time before this business reaches its full potential.

Lasoo continues to make good progress despite a seasonal drop in volumes during the post-Christmas period. Activity picked up again in the lead-up to Easter and subsequently Mothers Day. Recent upgrades to the Lasoo site and Dynamic Catalogue service have boosted the offering for both traditional catalogue clients and those with more non-traditional products and services.

The Salmat Interactive business has continued the strong performance seen in the first half, with continued new business wins and high volumes plus a good register of new opportunities.

****Leadership handover slide****

I first met Phil and Peter more than 12 months ago - when we started talking about the possibility of me coming on board at Salmat – and we've kept up a good dialogue ever since, so in many ways I feel like I've been engaged with the business for quite some time.

As has been outlined previously, Phil and Peter are staying on for the next six months as joint managing directors to ensure a very thorough and considered handover.

Obviously though, they've decided to bring me on board not just to keep the wheels turning, but to carry on growing Salmat and keep evolving the business further.

In these first few weeks I've been getting around to each of the businesses and spending time meeting with the various teams. This exercise has helped to confirm my understanding of Salmat's current position and opportunities for future growth

Firstly, I am confident that Salmat is in a strong position to ride out the increasingly volatile macro environment. Each division holds a number of defensive attributes within its relevant markets and is well placed to maintain or even grow revenue and market share. The business has traded through several recessions in its 30 years of operation and always come through in good condition.

Salmat also enjoys the advantages of a highly diversified product offering. No other business comes close to offering the same breadth and depth of services. Our unique mix of service and technology offerings helps our clients achieve real business efficiencies - and that's a valuable proposition in today's climate.

In recent times, there's been a particular focus on aggregating our various services and emphasising the logical links between them, under the 'One Salmat' strategy. Salmat's services are all about enabling our clients to communicate directly – one to one - with their customers, whether by phone, email, post or face-to-face. Clients using one stream of services can usually benefit greatly from tapping in to complementary channels and technologies that support this goal. Feedback to date indicates that our clients recognise and support the one to one proposition and are interested in opportunities to take the idea further.

As such, Salmat is also looking at opportunities to further evolve our structure, synergies and strategy to capitalise on the 'One Salmat' program. We are currently reviewing sales team organisation, our marketing program and other opportunities to better link our divisions across a common platform.

All of this is geared at improving the quality of service offering to our clients. Our current service levels already engender a high degree of client satisfaction. We intend to continue working on improvements in this area to drive client retention and competitive differentiation.

Long-term, I see Salmat providing an even greater range of services than we do now: perhaps in completely new areas. I look forward to sharing more on this down the track as we develop our strategy further.

Guidance slide

At the half year, it was stated that we expected a similar level of performance to the first half for the second half. That statement holds and we have no reason to amend our guidance.

Overall performance for the year to date supports our previously-stated outlook of around $75-80 million EBITA for the full year, excluding significant items.

That concludes the presentation today. I'll now open up the floor for any questions.