

Salmat Limited presentation: UBS Emerging Companies conference October 2010

Grant Harrod:

*****Agenda slide*****

Good morning and welcome to our presentation today on Salmat's emerging businesses.

I'm Grant Harrod - Salmat's CEO. Today I'll be presenting a brief overview of our recent full year results, then we'll be taking a look at some of our key emerging business areas, including Lasoo; our new eCommerce engine; and our recently-launched portal for the small to medium enterprise market.

Also here with me today is our Chief Financial Officer, Chad Barton.

*****Financial summary slide*****

We released our full year results to the market on 27 August, so most of you will already be familiar with the numbers.

In brief, we had a strong year, maintaining the top line and substantially improving the bottom line.

Normalised sales revenue was \$878.8 million for the year, up 1.0%.

EBITA before significant items was up 17.3% on the prior year to \$91.2 million, exceeding our guidance of \$85-90 million.

Net profit after tax but before significant items was up 43.8% to \$47.4 million. Net profit after tax and after significant items was up 42.5% to \$49.1 million. Our improved profitability led to an EPS of 31.1 cents: an increase of 43.3%.

Free cash flow was up 14.7% to \$72.0 million.

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

Full year highlights slide

One of the key highlights for the year was the positive response – both within the business and by our clients - to the One Salmat strategy.

'One Salmat' packages all our services into an extremely compelling 'one stop' multi-channel communication solution for clients, substantially improving the return on their marketing investment. We have a new sales structure in place to bring One Salmat to the market and the client reaction has been very positive, with interest building across various sectors.

Our strong financial position was another highlight.

We also achieved excellent cash flow, with plenty of headroom on our finance facilities. During the year, we managed to reduce our debt by more than \$33 million, with net debt standing at \$134.3 million by year end.

We continued to focus on cost control, productivity and margin enhancement during the year, with excellent results: particularly in the Targeted Media Solutions business and Business Process Outsourcing. Further business optimisation projects are planned for the next twelve months.

We also launched some new initiatives in the past year aimed at improving Salmat's standing as an employer of choice and responsible corporate citizen, including programs to promote women in leadership, improved workforce diversity and responsible procurement.

In all, the past year was one of consolidation: reviewing, strengthening and uniting the business in preparation for the next phase of growth.

Emerging businesses slide

Salmat's emerging businesses are an integral part of our overall growth strategy.

Salmat is evolving from a transactional service provider to a solutions provider. Clients servicing B2C markets need targeted customer communication strategies incorporating voice, interactive, mail and digital channels to target, acquire and retain customers. With the rapid evolution of technology including smartphones, social media and other interactive applications, these strategies, to be effective, now need to be incorporated into an integrated multi-channel communication solution.

Salmat is the only company capable of providing such a truly end to end solution. Rather than just facilitate messages, with our One Salmat focus we are now able to re-engineer a client's total communication environment, to substantially maximise the return on their sales and marketing investment.

We are already market leaders in many of our emerging business areas. The time is now ripe to put some further investment into these capabilities, so we lead the innovation curve and capture the excellent momentum now occurring in these markets.

This investment is also enabling us to develop new solution offerings and expand into new, previously untapped markets for the Salmat business. In BPO for example, workflow services offer solutions for sophisticated, multiple-step work, such as accounts payable, claims management and other back office processes. Where we might have previously handled just part of the process, our new offering enables us to take on the end-to-end application and most importantly leverage our existing infrastructure and available resources.

New market opportunities include the Small to Medium Enterprise (SME) space. While we've traditionally focussed more on the high-volume, large-scale corporates, we are

adapting many of our services to better suit the SME client, delivering the same sort of benefits and competitive advantages enjoyed by our larger clients. I'll go into more detail about our new SME offering in a moment.

Finally, we are actively reviewing a number of strategic acquisition opportunities to both strengthen our existing services as well as extend our one to one communication model.

Lasoo.com.au slide

We provided an update on our pre-shop website, Lasoo, at our full year results presentation and indicated that we've decided to bring forward further investment in this area to the current financial year in order to accelerate Lasoo's development. Today I'd like to go into a bit more detail on some of the plans for ramping up this exciting business over the next 12 months.

Lasoo.com.au currently leading the market slide

Launched in late 2007, Lasoo today engages more in-store shoppers than any other Australian site, influencing what people buy and from where they buy.

Lasoo hosts over 200,000 products from 75 regularly featured retailers – and this has grown from around 40-55,000 products just a few months ago. Averaging over 1.2 million visitors per month, we achieved our highest number of visitors in July 2010 with over 1.7 million. 10% of these were visitors accessing Lasoo via a mobile device.

In October 2009 we launched the Lasoo iPhone app, increasing visitors to the site by 15%. In June 2010 we launched the Lasoo iPad app, which was recognised as the most successful shopping app when the iPad was launched, surpassing other popular aggregated content applications.

These apps enable users to search for a specific product or browse by brand, product or retailer and use the built-in store locator with Google Maps to find store locations and

opening hours. Where they have integrated GPS functionality, users can choose to see products and promotions available in their nearby area.

Importantly for our clients, more than 250,000 people click on the 'find store' button each month, clearly indicating that Lasoo is directing shoppers into retail stores.

Lasoo performed very well last year, with an exponential increase in revenue and significant growth in visitor numbers and interactions on the site. We have continued to see strong growth in key metrics in the first quarter of this year.

In September, more than 1.2 million visits were made to Lasoo and we are looking forward to reaching two million and beyond this Christmas period.

The most important metric for the Lasoo business is interactions, because it most closely represents value to both the advertiser and the user. Interactions are non-navigational clicks: clicks on products and offers for which a user has interest.

In September, Lasoo registered over 2.5 million interactions. As content and traffic continues to improve, we see interactions also increasing, which will impact positively on revenue.

Lasoo next steps slide

The size of the opportunity for Lasoo has become much clearer.

All the evidence points to further strong growth potential for online channels, especially in the retail sector. While the Australian market has been a little slower than others to make the move, the current financial year will see many of the major retailers accelerate their online presence, with a corresponding increase in online advertising activity.

As such, we decided to bring forward further investment in Lasoo to maintain our market-leading position and capture a greater share of this growing revenue stream.

Our additional investment 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.

Our upgraded functionality and content strategy focuses on enhancing two key elements: firstly: 'where to buy', and secondly: 'what to buy'.

Our 'where to buy' strategy includes 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 the reach of Lasoo. We've already seen an increase in non-catalogue offers featured on the site, feeding directly from retailers with online stores.

Our 'what to buy' strategy includes dramatically expanding the detailed content represented on the site and adding extensive product reviews, product ratings, expanded images, video and product specifications.

In this area, we'll be concentrating on a number of key vertical categories, including fashion, coupons and groceries, with special features such as styleboards and shopping lists. Two of these verticals should 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.

The decision to bring forward further investment in Lasoo postponed our previous breakeven guidance to 2012. We are confident that this decision will reap strong rewards, with a 200% increase in site visitors; a two to three-fold increase in featured retailers; and a four to five-fold increase in revenue over the next few years.

eCommerce engine slide

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 a choice of working with a major enterprise platform vendors or customising an open-source platform or small-scale proprietary system. It's essentially a choice between an expensive, high-featured bespoke model or a cheaper but clunkier adaptation.

Salmat has identified a need for a world-class enterprise solution on a hosted or software-as-a-service model, with lower upfront costs and faster implementation than a major platform, plus much lower risk and more features than an open source solution.

We are currently working with one of the leading global software developers of ecommerce transaction engines to develop this solution, which will 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 be ready to start building the first applications in Q1 2011, going live before mid-year.

SME market expansion slide

Finally, I'd like to give a bit of background on our current activity in the small to medium enterprise market, with our 'local area marketing' solution.

This is a market where we've previously had limited exposure, mainly because Salmat has focussed on top 100 companies.

In the past few years however, Salmat started putting a foot in the SME market with a small network of shopfronts selling print and related services to local businesses.

Through this, we've recognised a real demand for simple and effective localised marketing tools geared to the SME client.

Our 15 shopfronts have recently been rebranded under the Local Direct Network banner, and the next stage of our service rollout is underway, with the upcoming launch of a self-service web portal.

This web portal is an ideal platform for the SME market, giving us a cost effective access to a broad clientele plus making it much easier for these clients to engage Salmat and access our range of services. It's currently being trialled and will be released to the market in November.

At launch time, the portal will offer four key functions:

- A print component, where clients can price and order printed materials such as brochures. The portal provides online quoting for hundreds of different design options suited to a range of businesses.
- A design component, where clients can order customised design if none of the standard packages suit their needs.
- A distribution component, where Google Maps creates a geographical distribution area and quotes on letterbox delivery within this area.
- An online component, where clients can arrange for their marketing material to be featured on the Lasoo website.

A number of promotional 'packages' will also be on offer, making it very easy and affordable for SME clients to put together quite a sophisticated and targeted marketing campaign.

Typical B2C SME clients who would take advantage of this service include real estate agents, tradies, local retailers, hospitality, local government and so forth.

Strong return on investment slide

The quoting, ordering, notification and billing process is automated by our back-end MIS tool and the work is fulfilled by a network of local suppliers and our creative design studio in the Philippines. Feedback from the trial on all service aspects has been extremely positive.

In the next phase of development, we will integrate additional Salmat services, including interactive SMS and email. This phase is expected to launch in early 2011.

We have made an investment of around \$1 million in software development and time spent on this initiative. 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. It's a great opportunity to expand our services into an untapped market without incurring excessive overheads.

Thank you

Thank you for your interest today. We look forward to providing a further update on our activities and current year performance at the AGM next month.