Salmat – Results Presentation FY2005

[Phil Salter]

Title slide

Good morning and welcome to this presentation of Salmat's results for the year to June 30 2005.

Thank you for joining us on this conference call.

I'm Phil Salter and with me are Peter Mattick and Ashley Fenton, our CFO.

During the presentation we will refer to the slides that were lodged with the ASX this morning. If you don't have them yet, they are available on our website www.salmat.com.au

I'll start by running through highlights of the year. Ashley will then discuss our financial performance in more detail, and Peter will talk about the progress and operational focus of our three divisions.

Slide 2 – Financial highlights

This has been another successful year for Salmat. We've posted strong double digit results; and we've also made great strategic progress with all three divisions now market leaders.

Sales increased by 24.7 per cent to $407.5 million.

Pleasingly, profit after tax and earnings per share were both up 29.4 per cent. Profit after tax was $27.1 million and earnings per share were 23.3 cents.

The board has declared a fully franked final dividend of 9.0 cents, up 29 per cent on the previous year, payable on 4 October to shareholders on the register at 13 September.

This will bring dividends for the year to 15.5 cents fully franked, an increase of 29 per cent over 2004.

Slide 3 – Operational highlights

There were significant achievements by management in each of our divisions.

Targeted Media delivered over four billion catalogues for the first time.

Business Process Outsourcing broadened its product range through the acquisition of NSW Government Printing Service in April.

The division also secured a five year, $40 million contract to provide statement processing services to a global credit and charge card company in both Asia and Australia.

We transformed our Contact Centres division in January with the $64 million acquisition of SalesForce, which has made Salmat the Australian market leader with 2,300 seats, compared with 909 seats in December 2004.

ClientLogic, our call centre business in the Philippines, showed its potential with its first full year profit. This excellent result enabled the initial repayment of part of our loans to the business. It also allowed us to reverse a significant portion of our loan provision.

Slide 4 – The goals we achieved

On the strategic front, we are particularly pleased that we achieved the key objectives we set ourselves.

I have already talked about our increases in earnings per share and dividend, and shareholders should be happy with our 30.9 per cent total shareholder return.

Targeted Media and BPO retain leadership positions in their markets.

Contact Centres achieved positive EBITA in the first half and built on this in the second. The acquisition of SalesForce also gives us a dominant position in this market.

Salmat's competitive edge depends on providing customers with new solutions, services and products, like Targeted Media's MarketDisk, which we introduced in the first half. This is just one example of our investment to secure continuing growth.

Our acquisitions of SalesForce and the NSW Government Printing Service expanded our technology platform and introduced new IP; and we also refreshed BPO's laser printing and mail insertion equipment.

We have looked at a lot of acquisitions, and we have been selective in the two we have made, both of which met our rigorous financial, operational and strategic criteria.

I will now hand over to Ashley to talk about our financial results in more detail.

[Ashley Fenton]

Slide 5 – Group result

Thanks Phil. Good morning everyone. As Phil has just mentioned, this is another good result.

Sales revenue was $407.5 million, up 24.7 per cent due substantially to the inclusion of $53 million revenue from SalesForce from 21 January. Excluding SalesForce, revenue grew by 8.5 per cent, which was within our 8 to 10 per cent guidance range.

EBITDA was up 28.6 per cent to $60 million. This included positive significant items totalling $4.4 million, which I will cover later. Excluding significant items, EBITDA growth was 13 per cent.

Depreciation increased by $4.4 million to $15.3 million. This includes a significant item of $2.3 million which I will also cover later. Other factors were the acquisition of SalesForce, which increased depreciation by $900,000, and the new equipment acquired by the BPO division.

Goodwill amortisation, which was lower in the first half, increased slightly for the full year as a result of the SalesForce acquisition.

Net interest expense of $700,000 reflects the debt to fund the acquisition of SalesForce.

The effective tax rate of 29.5 per cent was lower than prior years due to non-assessable ClientLogic provision reversals offsetting non-deductible goodwill amortisation.

As Phil has mentioned, profit after tax was up 29.4 per cent. This is in line with the guidance we provided in May, when we said we expected it to be at the lower end of the 27 to 32 per cent range.

The final dividend of 9 cents takes the total dividend for the year to 15.5 cents fully franked, which represents a pay-out ratio of 66 per cent.

Slide 6 – Significant items

I mentioned that we had a number of significant items.

This slide shows in detail the significant items before tax, which totalled positive $2.1 million.

On the positive side, following the turnaround in our ClientLogic joint venture we released provisions totalling $5.4 million against our loans to the business.

$2.0 million of this was included in our first half accounts, with the balance in the second half. At year-end, the remaining provision against our loan to ClientLogic was $400,000.

Partly offsetting this were restructuring and integration costs related to the SalesForce and NSW Government Printing Service acquisitions and the costs of closing our plastic wrapping operations.

We also wrote down the value of our software assets, including those of Targeted Media following a new system upgrade. This increased depreciation by $2.2 million in the first half and a further $100,000 in the second half.

Slide 7 – Revenue growth

As I have mentioned, total revenue was up 24.7 per cent to $407.5 million, with all three divisions providing organic growth.

As this slide shows, the main contributor to revenue growth was Contact Centres, with revenue up 128 per cent to $97.2 million.

The 7.7 per cent increase in Targeted Media's catalogue volumes translated into a 9.3 per cent increase in revenue. As anticipated, second half growth of 4.7 per cent was lower than the 13.9 per cent in the first half due to the exceptionally strong second half of 2004, when growth was 17.1 per cent; and there was also some impact as a result of print capacity constraints. The year included one less distribution period than 2004 and, adjusting for this, underlying volume growth for the full year was 8.9 per cent.

From the 2005 financial year, we are reporting our fulfilment activities in the Contact Centres division, instead of in Targeted Media as in the past. For those of you who want to re-set your models, comparative information is provided on a slide in the appendix.

BPO's revenue grew by 9.0 per cent. First half growth was 3.7 per cent, compared with 14.6 per cent in the second half, which included the NSW Government Printing Service from April. Excluding this, revenue growth for the year was 6.8 per cent.

Slide 8 – EBITA growth

Total EBITA grew by 24.9 per cent to $44.7 million.

The largest growth contributor among our divisions was again Contact Centres, which moved from an EBITA loss of $1.5 million to positive EBITA of $3.3 million. As anticipated, the SalesForce acquisition was earnings per share neutral after goodwill amortisation of $1.2 million, interest and integration costs.

Targeted Media's EBITA was $36.0 million; growth was impacted by higher distribution costs and totalled 3.8 per cent. Margins, however, at 21.3 per cent for the year, remained within our sustainable target range of 21-22 per cent.

BPO's Australian EBITA before significant items was up 6.2 per cent to $12.8 million, although earnings in Asia were lower due to the loss of a contract at the end of 2003. Overall, the division's EBITA was unchanged at $13.7 million.

Corporate costs rose by $1.8 million. This increase resulted mainly from higher costs in the first half related to the group's 25th anniversary celebrations, higher IT and systems costs, and foreign exchange losses. Second half costs increased by 4.7 per cent.

Slide 9 – Cash flow

Operating cash flow was strong at $31.2 million, up 13.9 percent.

Capital expenditure of $16 million was within our target range of 4.0 to 4.5 per cent of sales. This increase resulted mainly from the purchase of equipment in the BPO division to provide additional capacity for new contracts, both in Australia and in Asia.

The $65 million total for acquisitions includes $61 million paid to date for SalesForce, together with the acquisition cost of the NSW Government Printing Service.

Joint venture funding reflects the $4.5 million lent to ClientLogic in the first half to build its new call centre, less the repayment of $2.3 million we received ahead of schedule in the second half. At 30 June, outstanding loans to ClientLogic totalled $9.9 million and we anticipate further repayments of around $3 million in the current year.

We expect to begin to equity account our 49 per cent interest in ClientLogic in the second half of the current financial year, once the joint venture has absorbed accumulated losses, of which Salmat's share is $1.3 million.

Slide 10 – Balance sheet

On the balance sheet, goodwill increased to $80.2 million with $54.8 million resulting from the SalesForce acquisition.

Net debt at 30 June was $52.6 million, representing a net debt:equity ratio of 56.6 per cent.

Annualised interest cover, at more than 21X, remains strong.

As expected following the acquisition of SalesForce, our return on capital was lower than the previous year, but still an impressive 33 per cent.

Slide 11 – IFRS

We have largely completed the conversion of our financials into IFRS format and the impact on 2005 results would have been an increase of $4.2 million in net profit before tax. This slide shows the key adjustments, with goodwill amortisation, not surprisingly, being the largest.

I will now hand over to Peter Mattick, who will review the operations of each division and our plans for the year ahead.

[Peter Mattick]

Thanks, Ashley. Good morning, everyone.

Slide 12 –Targeted Media

Our Targeted Media division, which is a low capital-intensive and low risk business, continued to strengthen its position as the market leader in targeted catalogue distribution in Australia and New Zealand. Sales revenue increased by 9.3 per cent to $169 million, and for the first time the number of catalogues delivered was more than four billion. The compound average volume growth rate for the past four years is now 13.5 per cent and for the past 12 years is 12.5 per cent.

We also broadened our customer base, as more advertisers appreciated the cost-effectiveness of our targeted media services. Some 51 per cent of new business now comes from non-traditional areas, with 80 per cent of that coming through advertising agencies, and we plan to encourage this trend.

Higher freight costs, resulting from fuel price increases, reduced our margins in the second half but they remained within our target range. We will endeavour to recover these additional freight costs through price increases and efficiencies in the year ahead.

Revenue was also affected by print industry capacity constraints, particularly in peak demand periods. Given recent press updates from PMP and other printers, we are very optimistic that the situation will improve progressively over the next six months.

Our focus during the coming year will be to roll out our new software and distribution platform which will increase our productivity, reduce costs and improve the services we provide to our customers.

We also intend to continue to develop our local sales strategy to broaden our market reach.

These initiatives will help us to retain our market leadership and increase our share of the total media spend.

Slide 13 – Business Process Outsourcing

Our BPO division, which is the Australian market leader in processing essential mail such as bank and credit card statements, increased its total sales revenue by 9.0 per cent to $141.3 million.

While EBITA was flat, this masked the strong performance of the Australian business in a particularly competitive market. Australian revenue grew by 10.7 per cent; the number of mail packs lodged increased by 4.6 per cent; and EBITA increased by 5.8 per cent. Our contract with the ANZ Bank began to contribute in October 2004.

The $40 million statement processing contract was a particularly significant achievement. The contract covers the Asia-Pacific region, and our Asian operations and capability were key to our selection as a supplier. We will process this work in Hong Kong, Taiwan and Australia, and it will help us to expand our business in Asia.

Implementation of the contract is proceeding according to plan; there will be an earnings contribution this year, with the full impact in the 2007 financial year.

Our Hong Kong operation has just moved into new premises to handle the extra volumes from this and other contracts, and is expected to be trading profitably by the end of the current financial year.

The acquisition of the NSW Government Printing Service in April has broadened BPO's product range and customers. Following some small acquisitions, we now also provide digital print-on-demand services in Queensland and South Australia.

The essential mail market remains competitive and we are not prepared to compete for business at unrealistic margins. This cost us one of our contracts with a government entity, but we renewed all our other significant contracts with corporate customers, although as anticipated there will be some margin impact.

We continue to look for cost savings and efficiencies; and we recently closed our loss-making plastics operations in NSW and Victoria.

The main focus of the BPO division this year is to leverage our technology and equipment to increase productivity and margins, while providing an even higher standard of service to customers. We have a strong pipeline of potential new business which will help to drive further growth.

Slide 14 – Contact Centres

The highlight of the year in the Contact Centres division was the acquisition of SalesForce which has made us the market leader in Australia. It has transformed our business and given us a much stronger base on which to build.

SalesForce's revenue of $53 million from 21 January was in line with our expectations, and integration is proceeding to plan. Financial systems and all key operations have been consolidated, and synergies have been as anticipated. During the integration process, there has understandably been an internal focus, but this is now changing.

Contact Centres' ratio of inbound calls is now 65 per cent, which provides an acceptable mix.

Our Telstra retail contract was renewed for a further two years, and during the year we were awarded an additional 50 seats.

The division's current seat utilisation is 60 per cent, providing significant opportunities to increase both revenue and margins. Our target is to increase our call centre EBITA margin from its current level of 3.7 per cent to 10 per cent within three years. The new business pipeline is the strongest we have ever seen, and recently we secured contracts which will add 90 seats in Sydney and triple the size of our New Zealand business.

We are upgrading our Genysys technology to world-leading standard, which will enable us to increase productivity and improve customer service through intelligent routing and other enhancements.

We are also increasing our investment in staff training and development and in helping our customers extract greater value from their call centre activities through optimisation.

ClientLogic, our 49 per cent owned call centre business in the Philippines, increased its sales by 78.5 per cent and made its first profit – a great achievement. It won a number of new major US corporate clients and increased its available seats by 58 per cent to 2,500 with the opening of a new 800 seat call centre.

ClientLogic's seats are currently in use during day-time in the United States, and there are opportunities to use them at other times for different markets. This enables us to offer customers the choice between using call centres in Australia or in the Philippines.

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In conclusion, 2005 was another year of significant achievement for Salmat. We delivered on our promises of organic growth, acquisitions and increased shareholder returns. We now have three market leading businesses, all well positioned for future growth.

We will provide an update on trading at our annual general meeting in November.

We shall now be pleased to answer any questions. Please say who you are and the firm you represent.