

Salmat Limited results for the half year ended 31 December 2008

Presentation speech, February 2009

Phil Salter:

****Title slide****

Good morning and welcome to our presentation today, covering Salmat's results for the half year ended 31 December 2008.

I'm Phil Salter and I'll be presenting along with Peter Mattick and our Chief Financial Officer, Colin Wright.

As well as those here in person, we've got a number of attendees on the teleconference line. We'll provide ample opportunity for everyone to ask questions at the end of the presentation, so I'd ask that you all please hold any questions until that time.

****Highlights slide****

The first half of the year has been very positive for Salmat. We've achieved solid results across the group and are on track for a good full year result.

We are starting to reap the benefits of the productivity review undertaken in the past few years, as well as growing business within our existing client base.

Both sales revenue and EBITA saw double-digit growth compared with the prior corresponding period, supported by sales growth across all divisions. Some of our newer businesses are performing especially well, though obviously this is still from a smaller base.

We've also made excellent progress on debt reduction, bringing our gearing back to 40.6% by 31 December 2008. Our net debt has reduced from \$219.4 million at financial year end to \$191.2 million at 31 December.

Given Salmat's solid results and positive outlook for the full year, the board has elected to increase the interim dividend, paying 9.0 cents per share, fully franked. In the current market, this decision really underlines the board's confidence in Salmat's future prospects.

Of course, we also announced the appointment of a new Salmat Chief Executive Officer during the half.

Grant Harrod may already be known to some of you as the Managing Director and CEO of Corporate Express Australia, where he has worked for the past 13 years.

Grant joins Salmat at the beginning of April. Peter and I will be working closely with him during the following six months to hand over the running of the day-to-day business, before we step back as non-executive directors.

We are delighted to have Grant coming on board at this exciting time in Salmat's development and look forward to working with him as he takes on leadership of the business. You will all have a chance to hear from Grant at our full year results presentation, if not beforehand.

****Financial summary slide****

A snapshot view of our financial performance shows increased results across the board.

Sales revenue was up 22.4% to \$454.6 million. A full six months' revenue during the half from the HPA acquisition, compared with only two months' contribution in the prior corresponding period, was a key factor here.

EBITA was up 50.9% for the period, assisted by the additional BusinessForce earnings and increased Salesforce earnings. Colin and Peter will go into more detail on each of the business units shortly.

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

Earnings per share was up more than 50% this period 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.

I'll now hand over to Colin Wright to present our full year financials in more detail.

Colin Wright:

Thanks, Phil. Good morning everyone.

****Group result slide****

As Phil mentioned, this has been a very solid half for Salmat, with increases right through to the bottom line.

Sales revenue was up by more than \$83 million on the prior corresponding period; EBITA before significant items was up more than \$13 million; and profit before significant items was up by \$1.5 million.

Net profit after tax and significant items increased by \$9.3 million. Influencing this result was \$5.8 million in amortisation costs, mostly associated with the HPA acquisition. Tax was obviously higher, following on from the higher earnings result.

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. Approximately \$1.4 million further will be recognised in the second half of this year due to the leaseback arrangements.

****Revenue growth slide****

We saw each division making a contribution to growth at the sales revenue level.

MediaForce revenue was up \$3.4 million, mainly due to gains in the Australian catalogue business. Dialect and Lasoo revenue were also up significantly.

The \$68.2 million BusinessForce increase flowed largely from the additional four months of HPA revenue in this period. BusinessForce Asia also posted increased revenue compared with the prior corresponding period.

SalesForce revenue grew by \$11.7 million. The key factor here was higher Australian call centre revenue. Most of the other business areas, including @Home and Aframe also posted strong revenue increases.

****EBITA growth slide****

As you can see here, the BusinessForce earnings were again the main contributor to the more than 50% increase in EBITA before significant items.

MediaForce EBITA was down this period, due to Lasoo costs now being treated as regular costs rather than a significant item. Dialect made a positive contribution to the result.

SalesForce EBITA growth was higher than the increase in SalesForce revenue this period, largely due to better utilisation.

The \$1.2 million improvement in Corporate EBITA was primarily due to cost control.

****Cash flow slide****

Looking at cash flow, the first half saw a large increase in net operating cash flow and free cash flow, partly due to our improved result as well as working capital management.

We also realised a large gain from the sale of two properties in Sydney and Brisbane.

The higher dividend payment figure reflects both the increased final dividend amount plus the larger share base compared with the prior year.

While our cash at bank decreased by \$13.5 million during the half, we also decreased our net debt position by around \$28.2 million as at 31 December 2008.

****Borrowings and overdraft facilities slide****

This slide provides an overview of our current finance facilities.

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

As at 31 December 2008, Salmat held 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.

Salmat's gearing has been reduced from a peak of 56.8% in November 2007 to 40.6% by December 2008. Interest cover is 4.4 times for EBIT and 5.7 times for EBITDA.

We have headroom of just under \$60 million on our bank facilities totalling \$260 million.

I'll now hand over to Peter Mattick who will take you through each of our key business divisions and provide a guidance update.

Peter Mattick:

Thanks, Colin. Good morning everyone.

****BusinessForce slide****

As already noted by Phil and Colin, the primary contributor to the higher BusinessForce results was additional revenue flowing from the HPA acquisition, compared with the prior period. We also saw some organic growth in the underlying business.

Within BusinessForce, revenue was up for both the Australian and Asian operations, offset somewhat by smaller revenue drops in our data solutions, direct marketing and print on demand businesses.

At the EBITA level, cost savings were achieved across most areas of the business, with the exception of some increased premises and material costs in Hong Kong.

As mentioned at year end, the key focus within BusinessForce has been the continued integration of the HPA acquisition. I'm pleased to report that the integration program is proceeding very well and we are on target to achieve our projected synergy savings, starting with a net EBITA saving of \$5 million for the current financial year.

Our two Queensland branches are the next to merge in the facility integration program, coming together during the current half. We are also currently considering options for our South Australian and Victorian sites.

Many of our IT systems have already been integrated and standardised and the remainder of these programs should be substantially completed by mid year. The standardisation of systems and processes is helping facilitate load-sharing between different branches, further increasing efficiencies.

Sales-wise, we've been noticing a steady trend towards more sophisticated services and solutions, including good growth in Business Colour and e-solutions.

We are also evolving the way we work in some areas: for example, we have recently commenced the ongoing operation, commercialisation and marketing of a land information management system.

Steps such as these are helping to diversify the BusinessForce offering and open up new revenue opportunities for the future.

The first half also saw the appointment of a new BusinessForce CEO. Former NSW General Manager, Peter Hartley, took over from Terry Daly in December, after Terry announced his retirement. Peter has been with Salmat since 2000 and has a proven record of success in the BusinessForce division.

Looking ahead, a recent pattern of wins and opportunities has established a good diverse pipeline for the coming 12 months. A strong focus on labour management and improved efficiency, as well as some stabilisation in market pricing, should start to assist the gross margin.

****SalesForce slide****

SalesForce had a buoyant first half, with both revenue and EBITA increasing on the prior corresponding period.

Australian call centre performance was the key factor, with total hours considerably higher for the half. Increased volumes from existing clients saw several key accounts operating at near-peak capacity.

A focus on margin improvement began to deliver results, with improvements to operational efficiency. Salesforce also undertook a property consolidation program during the half, relocating its headquarters.

Most of the other businesses also made good contributions at both a revenue and EBITA level.

The @Home business grew both revenue and EBITA on the back of business development in existing accounts plus some new wins.

Aframe remains a fledgling business but shows excellent prospects for improvement during the year.

Direct Sales posted a relatively flat performance for the half, incurring some additional costs associated with its launch into New Zealand.

VeCommerce posted strong revenue and EBITA increases on the back of some good new business wins, both in Australia and overseas.

Generally, there has been a high level of client inquiries and business development activity across the entire division.

SalesForce has a strong sales pipeline evident for the second half.

****MediaForce slide****

MediaForce posted increased sales but reduced EBITA for the first half. As stated, the EBITA decrease was mainly due to the inclusion of Lasoo costs as a regular cost rather than a significant item. EBITA last year also included a one-off gain from the sale of Deltarg in New Zealand.

Strong volumes and improved pricing in the local catalogue business made the most significant contribution to these results, along with an improvement in overhead savings stemming from the productivity program commenced last year.

We also recently undertook a comprehensive account evaluation, proactively retiring some resource-heavy and low-profit work. This has already delivered efficiency gains.

During the half, we also re-engaged with Coles Supermarkets, commencing some new work in two states. This was rolled out nationally during January 2009.

The Reach Media joint venture posted a small loss for the period due to ongoing business integration and local market conditions. The focus for the second half will be on reducing overheads and growing volumes.

Dialect posted good increases this half, mostly on the strength of new business wins and strong volumes. This had a somewhat dilutive effect on overall MediaForce EBITA, due to the lower-margin model of the Dialect business.

Lasoo continues to grow scale and revenue. Lasoo costs for the first half were \$3.3 million, primarily marketing-related.

In terms of consumer and client figures, Lasoo continues to trend upwards at a pleasing rate. December was a record month for Lasoo traffic and usage, with visits jumping to a total of 1.4 million.

Lasoo was also recently nominated as a finalist in NetGuide's 'best new site' category, with the winner to be announced shortly.

While the current economic climate presents both threats and opportunities for Lasoo, we still anticipate that the business will post a much improved performance next year.

****Guidance slide****

Salmat's had a good first half this year and we expect a similar level of performance for the second half.

We've been fortunate not to have experienced any significant net impact from the current economic situation thus far. Our experience over the past 30 years shows that a market downturn generally provides opportunities for Salmat.

In terms of Salmat's full year guidance, we remain comfortable with our previous projection of around \$75-80 million EBITA, excluding significant items.

That concludes the formal part of the presentation today.

We'll now take questions regarding our results and operations. Please state your name and the organisation you represent before asking your question.