

Salmat Limited results for the year ended 31 December 2009

Presentation speech, February 2010

Grant Harrod:

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

Good morning and welcome to our presentation today covering Salmat's results for the half year ended 31 December 2009.

I'm Grant Harrod and I'll be presenting along with our Chief Financial Officer, Chad Barton.

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

*****Half 1 highlights - slide 1*****

The six months to 31 December have shown strong earnings growth for Salmat as we continue to consolidate our leadership position across our range of services and benefit from efficiency programs introduced into the business.

Pleasingly, EBITA before significant items was up 16.6% on the prior corresponding period to \$45.5 million. Net profit after tax but before significant items was up 48.5%. Net profit after tax and after significant items was up 21.9%.

Sales were \$453 million which was 0.4% lower than the prior corresponding period. After taking into account foreign exchange impacts, strategic decisions to exit from non-catalogue distribution, pass through telco revenue in Salmat Interactive and our underperforming DHQ business in BPO, revenue growth on a like-by-like basis was up 1.9%.

We've continued to reduce our debt position, from \$167.4 million at financial year end to \$156.2 million at 31 December.

The Board's confidence in our future prospects has led them to increase the interim dividend by 22%, paying 11 cents per share fully franked.

Half 1 highlights - slide 2

As last discussed at our AGM in November, let's update the three major deliverables for the business for FY 2010:

- 1. We anticipated a solid Christmas trading period for TMS, supported by retail catalogue activity, and improvements in Lasoo.*

This objective was achieved, with volume increases of 8.9% in the six month period. Lasoo continues to grow as retailers increasingly see online as an important component of their media mix, with over 1.7 million visits to this site in December alone.

- 2. We expect to fully realise remaining HPA synergies in the BPO business.*

We have continued to achieve synergy benefit targets for the HPA acquisition of \$2.5 million for the half. The full year financial impact of these benefits will continue through to June 30, 2010. Further site consolidation is scheduled to occur in FY2011 and 2012.

- 3. Investment in CCS may continue into the second half but we remain confident of the demand outlook for this business and we are initiating a number of activities to bring profit growth in line with revenue growth.*

Revenue was up 5.3% however, as advised, upfront investment required to support new business won saw EBITA decline by 8.9% in the first half. We expect these additional volumes to start having a positive effect in the second half.

Also during the first half, we welcomed two new members to our senior leadership team. Chad Barton joined us as the company's new Chief Financial Officer in August 2009 and David Hackshall commenced as Chief Information Officer in November 2009. Chad and David form part of our new senior leadership team which is charged with shaping the company for future growth and development.

On 23rd December, we refinanced our major existing debt facilities, which Chad will discuss later in the presentation.

In summary, we are on track with the objectives that we set and the first half has delivered solid earnings growth, auguring well for the full financial year.

I will now hand over to Chad to take you through the half year financials in more detail.

Chad Barton:

Thanks Grant. Good morning everyone.

Group result for year ended 31 December 2009 slide

As Grant advised, sales were \$453 million which was 0.4% lower than the prior corresponding period. Normalising the number, revenue growth on a like-by-like basis was 1.9%.

As previously mentioned our EBITDA before significant items increased by 13% and EBITA increased by 16.6%.

EBITDA increased from a combination of revenue growth, cost efficiencies and acquisition synergies.

Depreciation has remained constant over the period.

EBITA is in line with EBITDA and has increased by 16.6% as a result of strong margin improvements in TMS and BPO.

Amortisation relating to customer contracts is roughly in line with last year. The contracts are now two years into a seven year life.

In terms of our finance costs, they reduced \$2.5 million in the half, mainly due to the lower effective interest rate and lower borrowings compared to the prior corresponding period. Our debt balance decreased by \$35 million from December 2008 to December 2009.

Our full year effective interest rate for 2010 will be 6.4% on a hedged balance of \$160 million, as opposed to an average hedge rate of 7.99% on a balance of \$200 million during 2009.

Our effective tax rate fell from 34.2% in December 2008 to 30.8% in December 2009, mainly as a result of utilising tax losses in an overseas operation.

Our profit before significant items increased by 48.5% due to the reasons previously discussed.

Income from significant items decreased with the further recognition of deferred profit on the sale and leaseback of properties sold. The majority of profit was recognised at the time of sale.

NPAT increased by 21.9%.

Our EPS has grown from 12.5 cents to 15.4 cents representing an increase of 22%. As announced by the Board, our final dividend has risen from 9 cents to 11 cents, also a 22% increase. The record date is 16th March and payment will be made on 9th April 2010.

Revenue slide

Our revenue for the half was affected by a strategic decision to exit from low margin businesses, as discussed in our previous results announcement, together with FX impacts and a change in government legislation which impacted our SMS pass-through revenues. Once adjusted for these factors, our underlying revenue growth was 1.9% higher.

Grant will talk in more detail about the revenue performance of each of the individual business units.

*****EBITA (before significant items) slide*****

Both Targeted Media Solutions and Business Process Outsourcing had strong EBITA improvement in the first half. TMS increased by 40.5% following strong outcomes from efficiency programs, solid progress in Lasoo and new business wins. BPO increased by 8.9% as a result of driving ongoing synergies.

Customer Contact Solutions EBITA fell as a result of delays in new business projects within the speech solutions area and upfront investment associated with new business wins.

Corporate expenses increased from \$6.9 to \$7.2 million. This 5% increase represents increased wage costs associated with the transition of senior management roles during the Managing Director and CFO hand-over period. In addition, there was the appointment of our new CIO.

*****Balance sheet slide*****

Our current assets have increased by 2.8%, as we have \$47 million in cash at the end of the half together with a lower accounts receivable balance. This is due to improved working capital management as a result of our DSO's decreasing by 4.1 days from December 2008.

Fixed assets decreased due to depreciation, which negated any increases from capital purchases.

Other assets consist mainly of customer intangibles that are amortised over seven years.

Movement between 2009 and 2010 current and non-current liabilities should be viewed as a combination. Current liabilities increased as a result of our senior debt being re-classified to current. The original syndicated facility was due to be repaid in October 2010. Although Salmat entered into a new bi-lateral agreement which was executed on 23rd December 2009, the new facility was only drawn down on 4th February 2010, therefore our total syndicated facility has been accounted for in current liabilities.

Cash flow slide

Free cashflow has increased 12.1% in comparison to 2009.

Net capital spend has declined by \$2.5 million due to the focus on the capital intensity of the Group.

The dividend payment during the year was \$17.5 million which was greater than the prior corresponding period due to high earnings.

Net debt decreased by \$35 million in comparison to 31 December 2008 and our cash on hand was \$46.7 million up from \$22.2 million in the same period.

We continued to make good progress in working capital management.

Finance facilities slide

As mentioned at the beginning of our presentation, on 23rd December 2009 the Group refinanced its major existing debt facilities. The previous syndicated facilities were replaced with bilateral facilities provided by three Australian banks. Total commitments are now \$210 million under the new facilities and have been split between two and three years from the date of signing.

At 31st December 2009 the new facility was fully undrawn. Subsequent to year end, on 4th February 2010 the new facility was drawn to \$180 million to enable the group to repay all current borrowings under the old syndicated facility, which was then cancelled.

Some establishment costs associated with the new facility will be incurred in the second half as the draw down did not occur until 4th February 2010.

Net capital expenditure slide

Although net capital expenditure has fallen to 1.8% of revenue in the first half, it will increase in the second half. This will occur due to costs associated with our new sites in Melbourne, Adelaide, Brisbane and Manila. We expect the full year capital to be between 2.2 to 2.4%.

Key ratios slide

Return on Capital Employed has increased by 470 basis points reflecting higher earnings and focus on capital intensity.

EBITA as a percentage of margin has increased by 150 basis points to 10.1% due to margin expansion in TMS and BPO.

NPAT margins have increased by 100 basis points as a result of improved EBITA and lower tax and interest costs.

Debt to equity is 53.9% and gearing is 35% representing continued strong working capital management and cash flow.

I'll now hand back to Grant who will review each of our divisions and provide an update to our guidance.

Grant Harrod:

Thanks, Chad.

At our full year results announcement in August 2009, I presented the 2010 earnings growth focus for each of Salmat's business units. I would now like to update you on our progress with these objectives.

BPO financials slide

In terms of BPO's performance, EBITA before significant items increased by 8.9% and the EBITA margin increased from 10.8% last year to 12.4% this year, largely due to acquisition synergies and cost efficiency initiatives.

Sales revenue was down 5.1% to \$180.9 million due to volume decreases and FX impacts. The last three months of the half was further impacted by the strategic decision to close the underperforming DHQ business. Normalising for DHQ and FX saw revenue decline by 3.4% as a result of the underlying volume reduction.

BPO scorecard slide

At the beginning of FY 2010, we anticipated that essential mail volumes would remain flat and that discretionary mail would track down in line with the macro environment.

At the half year, we have seen a 4% reduction in our total underlying volumes. Discretionary mail continues to be impacted by the macro environment and essential mail volumes, particularly in the area of credit card statements, are being affected by the same.

Revenue within the e-Solutions area increased by 8.8% and volumes doubled off a low base. This service includes online archiving and electronic data delivery of documents. It is anticipated that this growth trend will continue moving forward.

Further to the HPA acquisition, our BPO division has access to a range of communication information management services. These include workflow automation services for our clients' back office management processes together with imaging and scanning.

In addition, we see the macro environment moving forward being more conducive to clients' increasing direct mail activity, both in driving customer acquisition and supporting general business communication. Included in this will be government communication, which has been subdued over the past 12-18 months.

At the commencement of FY 2010 we also committed to a continued focus on extracting further efficiencies via integration and optimisation.

We are on track and plan to achieve integration savings for BPO of \$15 million by 2010. We will continue to investigate further cost efficiency opportunities.

Our new Philippines BPO facility opened in September 2009, further strengthening our BPO offering for Australian customers. We expect that this will provide growth and margin opportunities for the business moving forward.

Our Hong Kong and Taiwan businesses have had good uptake amongst our Asian based clients, particularly with our print and mail services. Initiatives to address profitability have seen these businesses deliver profitable returns for the half and we anticipate this will continue.

Underlying sales for our Asian businesses for the period was up 11.2%. However there was a negative foreign exchange impact of \$1.6 million.

The opportunity to capitalise on our unique data analytics services and establish an additional income stream is in progress, as we recently merged our BPO data analytics capability into a new service that sits within TMS. We now have a range of geo-demographic profiling services, to assist our retail clients to maximise returns on their marketing investment.

Customer Contact Solutions financials slide

In terms of financial performance within our CCS division, sales revenue increased by 5.3% for the half to \$153.4 million. With the upfront investment associated with building our infrastructure to support new business won, EBITA before significant items was down 8.9% to \$9.7 million.

Customer Contact Solutions scorecard slide

At the beginning of FY 2010, we predicted that industry growth together with our low market share would provide continued opportunity. We also discussed how Salmat is ideally positioned as the leading Australian-domiciled contact centre provider with increasing trend towards on-shoring.

These trends are reflected in our revenue growth of 5.3% and within CCS, we have a strong pipeline of new opportunities moving forward.

Another objective for FY 2010 was that new businesses including learning and development solutions, speech solutions and field and retail kiosk sales would continue to strengthen our model and provide growth opportunities.

Within the Learning and Development area, investment to integrate eLearning with our Registered Training Organisation to create a hybrid learning and development model has expanded our capability, particularly for the retail sector. This together with the recruitment of several senior business development people added to the costs for the period. Since December, this team has secured a number of new contracts which we expect will flow through to revenue and EBITA for the second half.

Within the speech solutions area, some client delays in signing off on new projects impacted revenue and EBITA for the first half. There has been an increase in demand for voice-based authentication products as a result of fraud and security issues and this has led to opportunities within the financial services area. Again, since December, we have secured these projects and we expect benefits to flow through late in the second half.

There has been an increase in demand for our kiosk services. This sales mechanism is currently being trialled by several new clients and if successful, will provide considerable upside.

Within our New Zealand operations, revenue and EBITA increased with continued growth in key clients. Further opportunities exist to expand this business.

Within Malaysia, we added another 120 seats late in the half to handle increasing volumes. On this basis, we are expecting an uplift in revenue as we utilise the increased capacity.

Targeted Media Solutions financials slide

Revenue within our TMS division increased by 0.4% for the half. Once adjusted to negate the impact of exiting non-catalogue work and telco-pass through revenue, underlying revenue increased by 8.2%.

EBITA before significant items increased by 40.5% following a move away from low margin work, strong contribution from our Interactive and digital areas and a major focus to improve operating efficiencies.

Targeted Media Solutions scorecard slide

At the commencement of FY 2010 we anticipated that letterbox volumes would remain stable, as we focus on enhancing value for our customers by leveraging our unique delivery capability and suite of services.

We have seen organic growth amongst our existing client base, as they increasingly view catalogues as a media of choice. The undeniable ability of this channel to drive sales has seen retailers' increase frequency of distribution. In addition, the ability to segment delivery to suit a specific demographic has also led to an increase in uptake by retailers.

Our letterbox distribution joint venture in New Zealand continues to grow. This, combined with cost control measures, has enabled it to make a positive contribution to the business and we expect this will continue.

Another objective for the full year was that we would continue to evolve Lasoo as the premier pre-shop portal.

As mentioned previously, Lasoo doubled its revenue for the half and significantly decreased its loss as we continue to grow both clients and consumers.

As anticipated, retailers are seeing online as an important part of their media mix and traffic grew substantially during the first half. In the month of December, over 1.7 million people visited the site.

Organic visits, or unpaid traffic, also increased as a proportion of total visits from 49% in December 2008 to 63% in December 2009. This has a positive impact on the bottom line through more effective marketing spend.

At FY 2010 we predicted that Interactive services (SMS and email) would enjoy strong support as retailers embrace mobile technology.

This has certainly been the case, and SMS is now being used to drive instant customer feedback. Email and SMS both continue to gain legitimacy as a channel, with retail and corporate clients increasingly using them as part of their targeted marketing program. As a result, Salmat has expanded its offering by developing new products for these sectors.

At the beginning of FY 2010 we also discussed how our multi-channel communications capability (addressed and unaddressed mail, email, SMS, on-line, voice and non-voice) provides unique opportunity for customers to consolidate their communications strategy.

As we continue to evolve our One Salmat model, the ability for us to offer clients such a broad spectrum of services offers real benefit in dramatically improving their marketing return. We have a good pipeline of opportunities in this area and consider that it will provide strong leverage moving forward.

Growth plan slide

Salmat is currently working towards a three year plan to continue to grow the business and consolidate our positioning across key markets.

The main elements of this plan include:

1. Implementing our 'One Salmat' strategy, bringing together all our services into a single one stop offering, so that it is easier for our customers to do business with us.
2. Investing in new emerging businesses, including digital, interactive, analytics, learning and speech solutions, so that we become the leader in each of these markets and further strengthen our multi-channel communications model.
3. Expanding into new markets including the Small to Medium Enterprise (SME) market place.

4. Continuing to identify further opportunities to improve the efficiency of our business through our Optimise team.

We have progressed in each of these areas. Rebranding and communications around One Salmat is well underway. Several of our emerging businesses are now showing good growth, particularly in Interactive, Lasoo and @Home. And our Optimise team continues to drive efficiencies into the business.

The key focus in the upcoming period will be profitable growth across the Group and in particular, increasing scale in our emerging businesses.

I look forward to reporting on each of these in more detail at our full year results.

Guidance slide

We are confident that we will achieve a strong second half. On this basis, we continue to commit to our guidance to \$85-90 million EBITA for the full year before significant items.

We'll now take any questions. If I could ask you to state your name and the organisation you represent before starting your question.