

27 August 2010

## Salmat grows earnings per share 43.3% and declares increased final dividend and special dividend

Salmat Limited (ASX:SLM), Australia's leading outsourced services provider specialising in targeted customer communication solutions, today announced sales revenue of \$878.8 million for the year ended 30 June 2010, up 1.0% on a like-for-like basis. On a reported basis, revenue was down 1.3% on the previous year.

EBITA before significant items grew by 17.3% to \$91.2 million, which was higher than our guidance of \$85-90 million.

Net profit after tax was up 42.5% to \$49.1 million for the year, in line with the corporate strategy to drive growth.

The Board declared a final dividend of 12.5 cents, bringing the full year dividend total to 23.5 cents per share, fully franked. This represents an increase of 17.5% on the prior year. The Board has also declared a special dividend of 10.0 cents per share fully franked, bringing the total dividend to 33.5 cents per share, up 67.5% on the previous year.

| \$ million  | Year ended<br>30 June 2010 | Year ended<br>30 June 2009 | % change |
|---|----------------------------|----------------------------|----------|
| <b>Normalised revenue</b>   | 878.8                      | 869.7                      | + 1.0%   |
| <b>Reported sales revenue</b>                                     | 878.8                      | 890.8                      | - 1.3%   |
| <b>EBITA (before significant items)</b>                           | 91.2                       | 77.7                       | + 17.3%  |
| <b>Net profit before significant items</b>                        | 47.4                       | 33.0                       | + 43.8%  |
| <b>Significant items after tax</b>                                | 1.7                        | 1.5                        |          |
| <b>Net profit after tax</b>                                       | 49.1                       | 34.5                       | + 42.5%  |
| <b>Earnings per share (cents)</b>                                 | 31.1                       | 21.7                       | + 43.3%  |
| <b>Final dividend per share (cents) – fully franked</b>           | 12.5                       | 11.0                       | + 13.6%  |
| <b>Total full year dividend per share (cents) – fully franked</b> | 23.5                       | 20.0                       | + 17.5%  |
| <b>Special dividend per share (cents) – fully franked</b>         | 10.0                       | -                          | NMF      |
| <b>Total dividend per share (cents) – fully franked</b>           | 33.5                       | 20.0                       | +67.5%   |

**Normalised revenue** was up 1.0% on the previous year, at \$878.8 million. Targeted Media Solutions (TMS) revenue grew by 2.1% on the prior year and Customer Contact Solutions (CCS) revenue grew by 3.6%. The result was negatively impacted by a 7.4% reduction in Business Process Outsourcing (BPO) revenue, as a result of lower mailpack volumes and unfavourable foreign exchange rates in the Asian businesses. **Reported sales revenue** was down 1.3% on the prior year.

**EBITA before significant items** grew by 17.3% to \$91.2 million. This exceeded Salmat's guidance, and resulted largely from an outstanding performance by the Targeted Media Solutions division, with an increase of 44.3% in EBITA. Customer Contact Solutions EBITA fell by 8.1% and Business Process Outsourcing EBITA grew 7.1%.

Corporate costs were consistent with the prior year. The EBITA margin grew by 170 basis points from 8.7% to 10.4% on the strength of the group's performance.

**Significant items** had a net impact of \$1.7 million for the year, resulting from residual deferred profit on the sale and leaseback of properties in Sydney and Brisbane in the prior year.

**Net profit after tax** was up 42.5% to \$49.1 million for the year. Strong cost control and new business wins across the business contributed to the result, as well as higher volumes for TMS and Lasoo. Continued debt reduction also contributed interest expense savings.

**Earnings per share** grew by 43.3% to 31.1 cents per share, in line with the increase in net profit before significant items.

**Free cash flow** grew 14.7% as a result of higher earnings, lower capital spend and improved working capital management.

**Cash capital expenditure** of \$12.9 million was 28.7% lower than the previous year. This was partly due to the strategic decision to fund long term leasehold improvements through finance leases rather than an up-front cash outlay. Total capital expenditure was in line with the prior year at \$21.3m (2009: \$22.0m).

**Net debt** was further reduced during the year, from \$167.5 million at 30 June 2009 and \$156.2 million at 31 December 2009, to \$134.3 million by year end. Whilst a net reduction in the previous year was assisted by the cash inflow of \$24.0 million from asset sales, the reduction this year was achieved through strong cash flow and working capital management.

The directors are pleased to declare a **final dividend** of 12.5 cents per share, fully franked. This brings the total full year dividend payment to 23.5 cents per share fully franked - an increase of 17.5%. As a result of Salmat's consistent growth in earnings, significant debt reduction and strong cash flow the Board has also declared a special dividend of 10.0 cents per share fully franked. This brings the total dividend for the year to 33.5 cents per share, up 67.5% on the prior year. The dividends have a record date of 10 September 2010 and are payable on 28 September 2010.

"This result reflects the focus of the past twelve months on streamlining the Salmat business and aligning our suite of services under our One Salmat strategy to drive profitable growth," said Chief Executive Officer Grant Harrod.

"We are extremely pleased to deliver double-digit growth in EBITA and net profit, and to pass on these earnings to our shareholders via an increased final dividend and special dividend."

"The past year has been one of review and consolidation, as our new senior leadership team worked closely with staff across all three divisions to uncover opportunities for service bundling, cross-selling and cost efficiencies."

"We've improved our margins, reduced our debt and maintained strong cash flow. Coupled with our ongoing drive to strengthen and unify under the 'One Salmat' banner, puts us in a prime position to pursue new growth," said Mr Harrod.

## Operational review

### Targeted Media Solutions

| \$ million                     | Year ended<br>30 June 2010 | Year ended<br>30 June 2009 | % change |
|--------------------------------|----------------------------|----------------------------|----------|
| Sales revenue                  | 230.6                      | 225.7                      | + 2.1%   |
| EBITA before significant items | 40.3                       | 27.9                       | + 44.3%  |

Targeted Media Solutions revenue grew by 2.1% for the year, largely due to new business wins. The removal of pass-through telecommunications revenue had an impact on revenue from interactive services, incorporating SMS and email channels. Lasoo online services revenue increased significantly on the prior year, from a relatively small but growing base. Normalised sales growth for Targeted Media Solutions overall was in the order of 10.4%, as volumes increased across the division.

Significant growth was achieved at the EBITA level, with a 44.3% increase on the prior year. This was largely the result of a comprehensive program of cost control, improved volumes in Lasoo and the development of new systems to better manage both direct and indirect costs. All areas of the business posted solid earnings improvement.

Interactive services also benefited from an investment in new email technology and saw a significant uplift in email volumes of more than 150% as retailers embrace this application as an effective communication channel.

Lasoo continued to experience very pleasing volume growth in key consumer metrics including total visits and activity on the site. Total visits were up more than 35% on the previous year. Offer interactions grew by more than 70%, product searches were up more than 200% and web page views increased by more than 60%. Mobile phone page views are also becoming an important access channel, growing almost 90% from February to June 2010. This increased consumer interest as well as a number of site and service enhancements drove higher retailer demand, spurring a decision to bring forward further strategic investment in Lasoo.

This decision means our previous breakeven guidance will be postponed for a further 12 months to 2012. Our upgraded strategy will focus on enhancing two key elements: firstly: 'where to buy', and secondly: 'what to buy' We anticipate that successful deployment of this strategy will lead to a 200% increase in site visitors over the next two to three years and a two to three-fold increase in retailers featured on the site.

Retailers are increasingly recognising the value of integrated communication across several mediums and as such we will be further developing Salmat's multi-channel offering, .

### Customer Contact Solutions

| \$ million                            | Year ended<br>30 June 2010 | Year ended<br>30 June 2009 | % change |
|---------------------------------------|----------------------------|----------------------------|----------|
| <b>Sales revenue</b>                  | 304.8                      | 294.2                      | + 3.6%   |
| <b>EBITA before significant items</b> | 20.0                       | 21.8                       | - 8.1%   |

Customer Contact Solutions revenue was up 3.6% on the prior year, driven by strong call centre services growth both onshore and offshore. Field sales and speech solutions revenue was lower compared with the previous year, as clients held off activity in these areas due to the macro environment, however this trend is beginning to reverse and the outlook is stronger for FY11.

EBITA for this division was impacted mainly due to increased investment and lower margin associated with transitional changes to a major call centre contract both we expect to reverse in the coming period. The remainder of the call centre portfolio performed above expectation. . Field sales and speech solutions earnings were down in line with lower revenue. We expect investment in the learning and development solutions area will generate good returns in the coming year and the improving macro environment to positively impact our field sales division..

Salmat's unique capabilities in speech solutions present strong opportunities to expand this offering into related service areas and new markets. Our voice biometrics solution using voice as a security signature to manage authentication and identity theft is evolving into an exciting opportunity particularly in the financial services sector.

Investment to improve content and technology in the learning and development portfolio, as well as new sales resources has started to deliver results. Revenue from several recent wins in this area will be realised in the next financial year.

### Business Process Outsourcing

| \$ million                            | Year ended<br>30 June 2010 | Year ended<br>30 June 2009 | % change |
|---------------------------------------|----------------------------|----------------------------|----------|
| <b>Sales revenue</b>                  | 343.4                      | 370.8                      | - 7.4%   |
| <b>EBITA before significant items</b> | 44.2                       | 41.3                       | + 7.1%   |

Business Process Outsourcing revenue was down 7.4% for the full year, mainly resulting from lower mail volumes, the closure of an underperforming direct marketing business and unfavourable foreign exchange movements. Excluding the impact of the latter two factors, normalised revenue was down 5.7% on the prior year.

EBITA was up 7.1% for the year, reflecting a strong focus on productivity as well as some residual integration benefits. Overall margins increased despite the impact on volumes. Bulk mail volumes were down across the industry during the past financial year, as clients deferred discretionary mail spending and reduced the frequency of essential mail or transitioned this communication to electronic. Electronic delivery volumes are increasing at a steady rate and form an important part of the future business..

Traditional scanning and archive services were also impacted by reduced demand as clients postponed project-based work. Salmat has been developing these services to incorporate more sophisticated workflow processing aimed at ongoing, end-to-end solution based work such as online marking and accounts payable processing.

The division has a number of initiatives underway aimed at driving top line growth and controlling costs, with a focus on e-solutions and further standardisation of processes.

## **Outlook**

“The inherent resilience of Salmat’s service offering in a softer economy is reflected in this year’s results, as we grew net profit after tax by 42.5%,” said Chief Executive Officer Grant Harrod.

“We anticipate that market conditions will remain fairly consistent over the next twelve months and that clients will continue to seek business solutions that drive revenue and enhance competitive advantage. Salmat offers a compelling suite of integrated communication solutions that enable clients to maximise the potential of each individual customer and improve their bottom line.”

“Our One Salmat strategy has aligned our sales effort and enabled us to bundle our wide range of services into effective enterprise-wide solutions. The opportunity for our customer to consolidate their spend across these services and benefit from engaging an integrated provider will drive organic growth. We will continue to develop innovative new offerings in the coming year to build on the success this approach has already achieved. This will include further investment in our emerging digital services, which offer promising growth potential in the medium term.”

“With our strong cash flow and solid new business pipeline, we are in a prime position to capitalise on opportunities within our existing client base; extend into new markets such as the Small to Medium Enterprise (SME) space; and pursue strategic acquisition targets.”

“We will provide further updates on these activities as well as a more detailed outlook for the year at our Annual General Meeting in November,” said Mr Harrod.

## About Salmat

Salmat is Australia's leading outsourced services provider specialising in targeted customer communication solutions. We facilitate our clients' contact with their customers via an unmatched range of communication channel options – including voice, online, print, electronic and mobile - with comprehensive reporting on measurable results.

We have three key divisions, all of which are market leaders:

**Targeted Media Solutions (TMS)** delivers more than 5 billion unaddressed items to homes across Australia every year. The division uses up to date lifestyle and geo-demographic data to maximise the effectiveness of each campaign, and employs the latest technology to provide clients with real time campaign reporting and auditing. Furthermore, TMS undertakes promotional mobile and interactive voice response campaigns throughout Australia through its digital communication operation Salmat Interactive.

TMS launched Lasoo.com.au in 2007, and it is now the premier online pre-shop service for Australia's retailers. Lasoo provides a strong online presence for promoted items and catalogues, while consumers have a single means of assessing the best price and closest location for their desired purchases. Further growth in this developing sector is coming from Salmat's Dynamic Catalogue software product, which creates searchable catalogues on the retailers' own websites.

**Customer Contact Solutions** engages in more than 100 million conversations per year for its clients through its contact centres. This division applies world-class technology and a highly trained staff to handle inbound and outbound phone, fax, email and online communication. It also provides face-to-face sales teams on behalf of clients in Australia, New Zealand and more recently in Asia. Tailored voice recognition applications and accredited e-Learning training are fuelling further growth.

**Business Process Outsourcing** manages outsourced business services for large corporate clients, using high end technology to engage consumers through bulk 'essential' and direct marketing communication, via mail, email or online, both outbound and inbound. The division, which seeks to streamline and improve delivery of these regular services, also uses its data management capability to record, store and cross reference large amounts of archive information for clients in Australia, Hong Kong, Taiwan and the Philippines.

Over 30 years we have built a 7,000 plus strong team, experienced in contributing to our clients' growth by helping them to communicate effectively with their customers. This experience, together with our proprietary systems and technology and our strong client relationships, secures Salmat's position as Australia's – and increasingly the region's – leader in customer communication services.

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For more information about the Salmat Group, please visit Salmat's website at [www.salmat.com.au](http://www.salmat.com.au).

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