Tuesday 23 February 2016

Salmat on track to achieve increased earnings and making progress on transformation goals at half year

Salmat Limited (ASX:SLM) today released its half year results for the period ended 31 December 2015. In line with expectations, the company posted half year revenue of $235.6 million, a 7.1% decrease on the prior corresponding period (pcp). Revenue had been forecast to reduce this year as Salmat exits a number of service lines following a comprehensive product and services review.

Notably, EBITDA of $9.2 million was up 80.4% on the prior period earnings of $5.1 million.

"At the midpoint of our transformation program, Salmat has completed a number of important milestones and is making good progress towards its goals," said Salmat CEO Craig Dower.

"We have successfully completed our operations restructure, our products and services review; consolidated a number of internal finance, human resources and sales management systems; and simplified our business. We are starting to see the benefits of the cost-saving initiatives flowing through to the bottom line.

"Following the product and services review in 2015, we exited a number of low-margin and non-strategic service lines, which has reduced revenue in this half and will impact full year revenue as well.

"Accordingly we are now aiming to drive new sales and revenue to fill the gap, as well as turning our attention to the next-phase strategy to accelerate Salmat's growth post-transformation," said Mr Dower.

Group results

$ million	H1 2016	H1 2015	Change %
Revenue	235.6	253.5	- 7.1
EBITDA	9.2	5.1	+ 80.4
Underlying loss after tax	(0.6)	(5.1)	*
Significant items	-	(64.6)	*
Net loss after tax	(0.5)	(69.7)	*

* No meaningful figure

Revenue of $235.6 million was down from $253.5 million in the prior corresponding period. This was mainly due to product and service lines discontinued following the strategic review. Reduced discretionary spend within existing client accounts and expired contracts also reduced revenue, however this was offset by over $20 million in new business.

EBITDA of $9.2 million was up 80.4% on the first half 2015 total of $5.1 million. This was mostly due to the transformation program and associated cost-saving initiatives, which contributed $7 million. New business secured around $2.3 million in earnings. EBITDA margins on new business continues to be healthy.

There were no **significant items** for this period, compared with a $64.6 million expense in the prior corresponding period. The $64.6 million significant item in the prior corresponding period was a one-off non-cash impairment relating to goodwill in the Contact division.

Net loss after tax of $0.5 million marked a significant turnaround from the prior corresponding period loss of $69.7 million.

Operating cash flow for the first half was impacted by working capital outflows relating to FY15. Investing activities included outflows relating to deferred consideration and proceeds from sale of shares in associate.

No **interim dividend** will be payable at this time. The Board has previously indicated that Salmat's capital management and dividend strategy will be reviewed at the end of FY16.

Operational review

Media + Digital

$ million	H1 2016	H1 2015	Change % pcp
Sales revenue	136.0	154.2	- 11.8%
EBITDA	12.7	15.8	- 19.6%
Margin	*9.3%*	*10.3%*	

Media + Digital revenue of $136.0 million was down by 11.8% on the prior corresponding half, mainly due to discontinued services as well as some volatility in the catalogue market. Discontinued services in the Digital space accounted for around $8 million in non-recurrent revenue. Catalogue volumes were down 4.7% for the period as existing clients reduced discretionary spending.

All major Media contracts up for renewal were retained during the period and there is continued growth in media agency sales and local area marketing services. The integration of the Netstarter and Fuse teams has also led to an increased incidence of cross selling.

EBITDA was marginally down to $12.7 million for the half. The key impacts on earnings this half were increased average cost rates and a reduced average selling price in catalogues, largely due to market pressures and the mix of work undertaken. Digital performance improved this period, but it remains a relatively small contributor to earnings.

Cost saving remains a key focus for Media + Digital and further opportunities exist to optimise this division. Increasing non-traditional Media sales and bundled Digital services sales is also an important objective for the remainder of FY16.

Contact

$ million	H1 2016	H1 2015	Change % pcp
Sales revenue	99.1	98.0	+ 1.1%
EBITDA	2.7	1.7	+ 58.8%
Margin	*2.7%*	*1.7%*	

Contact revenue was up by 1.1% on the prior year, to $99.1 million.

EBITDA of $2.7 million was up 58.8% on the prior corresponding period, mainly due to reduced IT and other operating costs as well as the contribution from MicroSourcing.

During this half, the Reach contact centre platform has been fully upgraded, enabling more focus on maintaining and improving client service standards. For the second half, priorities include further optimisation, improved client engagement and solid client retention, as well as capitalising on significant pipeline opportunities.

Outlook

"With twelve months of the transformation now completed, there have been some significant changes within Salmat to operations, the management structure, back office systems and the approach to sales. There have been structural and systemic reductions in operating costs and the targeted savings for the first half of FY16 have been achieved," said Salmat CEO Craig Dower.

"With the major restructuring programs now completed, Salmat's business transformation program is now focussed on completing the new internal systems rollout; driving further optimisation within operations; and ramping up marketing and sales to drive profitable growth.

"While we do anticipate some further volatility in the market and recognise that there is still much work to be done to retain and grow revenue, we remain committed to our target of 7-10% EBITDA margin over the medium term," said Mr Dower.

ENDS

ABOUT SALMAT

We've been getting clients closer to customers since 1979

Salmat is a full-service marketing and communications company with a single aim – to get our clients closer to their customers.

With a talented team of people across four countries, our mission is to enable ROI-driven marketing services across local area marketing, digital, letterbox media and field marketing. Combined with best-in-class business management services covering customer engagement and business processes – it's no wonder that there are billions of customer interactions managed by Salmat every single year.

In every discipline, Salmat delivers best-of-breed expertise and insight-driven solutions that empower our clients to acquire, retain and grow the value of their customers. Our specialists invest in keeping our clients ahead of the game, and they use innovative approaches to technology, proven processes and a creatively inquisitive approach to make this reality. This approach helps hundreds of clients save money on their bottom line, strengthen ROI and accelerate business growth.

Founded in 1979, Salmat has evolved from a small letterbox distribution company to an ASX-listed company that has developed deep relationships with some of Australia and New Zealand's most trusted brands.

By partnering with brands in the moments that matter most, Salmat gives businesses the power to engineer deeper relationships with their customers.

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