

Salmat 2008 Annual General Meeting

AGL Theatre - Museum of Sydney
Corner Bridge and Phillip Streets
SYDNEY NSW 2000
10.00 am Friday 21 November 2008

Presentation by Chairman, Richard Lee

Good morning, ladies and gentlemen.

My name is Richard Lee. I am the Chairman of Salmat Limited and the chairman for today's Annual General Meeting. I am very pleased to welcome you on behalf of the directors and management. We greatly appreciate your interest and attendance.

I have been advised by the company secretary that a quorum is present and as such I declare the 2008 Annual General Meeting open.

I would like to introduce to you my fellow directors:

- Philip Salter and Peter Mattick, our Joint Managing Directors;
- Ian Elliot, a non-executive, independent Director and Chairman of the Remuneration Committee.
- John Thorn, a non-executive, independent director and Chairman of the Audit Committee; and

Additionally, I'd like to introduce Stephen Bardwell, our Company Secretary, and Colin Wright, our Chief Financial Officer.

Also in attendance today is Craig Jackson, representing our auditor, Ernst & Young.

The past year represented a step change for Salmat as the company moved to increase its presence and scale in the direct communications market through the acquisition of a major competitor. In so doing Salmat has put in place a key element of its long term strategy to grow this business along with a achieving a number of other important milestones during the 12 months to 30 June 2008. I'd like to mention some of the highlights here today.

The acquisition of HPA resulted in Salmat recording its highest ever turnover with revenue increasing 35% to \$812 million. This continued Salmat's proud record of year on year sales growth but, most importantly, it was achieved through increased contributions from each of Salmat's divisions reflecting a consistently good year for sales across the whole business.

In November 2007, Salmat made its largest ever acquisition with the purchase of HPA. Strategically, this business was targeted because it expanded Salmat's overall suite of capabilities due to the complementary nature of many of HPA's operations. Management's focus over the past year has been on integrating HPA into the BusinessForce division and I am pleased to report that it is progressing very well. We are excited about the opportunities for additional revenue and synergy cost savings from what is now Salmat's largest division, but I will let Peter Mattick provide you with a more detailed update on this later in the presentation.

Just on a year ago, we made another key strategic move, with the launch of the Lasoo website and the associated suite of DigitalForce services. This area of the business has gone from strength to strength.

As many of you know, Lasoo is a pre-shop website that allows consumers to browse and search for the best deals on goods for sale in their local area. In just twelve months, more than 100 clients have benefited from the reach of Lasoo. More than 9.4 million visitors have checked out our retailers' dynamic catalogues and more than 6.8 million daily unique visitors have viewed the Lasoo site since it launched. An average of 31 offers per second were uploaded for viewing by visitors over the past year.

Independent research tells us that 25% of visitors went on to buy something they saw on the site, and the majority did that within a few days. It's a compelling opportunity for retailers.

Major ventures such as the Lasoo launch and the HPA acquisition capped off a long-term strategic program to build Salmat's capabilities across the full range of communication channels.

The concept of Salmat 'One' speaks to Salmat's ability to facilitate one-to-one communication with our clients' customers, no matter their communication preference.

It also highlights our strength as a one stop shop. Our clients can draw on any number and combination of services from the various Salmat divisions to achieve their communication objectives, including voice-based services, web, email, unaddressed letterbox delivery, SMS, personalised mail and a lot more.

It's one to one communication on a mass scale, and Salmat is the clear leader in this field.

As such, Salmat has undergone a rebranding across the group in the past year. We've also run an awareness campaign in key business media, highlighting our unmatched capabilities and consumer reach. We've had a great response so far to this initiative and we'll continue to promote Salmat's value-adding services to relevant markets over the coming year.

A quick summary of our overall results for the year highlights the record sales revenue mentioned previously. Although the main reason for the 35% increase was the additional revenue contribution from the HPA acquisition, organic growth across all divisions accounted for more than a third of that increase.

Earnings before interest, tax and amortisation was up 22.6% to \$57.6 million, though the impact of significant items brought the EBITA result back to \$44.1 million.

The significant items for the past year mainly related to one-off costs associated with the launch of Lasoo and the HPA acquisition. It's also worth noting that any comparison with the previous year's result was going to be adversely affected by the inclusion of a \$25 million one off gain in 2007 from the sale of the Philippines joint venture.

Net profit after tax was impacted by the significant items, as well as sizeable amortisation and interest costs associated with the HPA acquisition. The one-off nature of many of the factors impacting this result highlights the transitional nature of 2008 for this company as we redefine our offering in the key markets in which we operate.

It was in this context that the board approved an increased annual dividend, totalling 18.5 cents per share, fully franked. The decision to increase the final dividend reflected the board's confidence in Salmat's results for the current year given the company's strong trading performance since balance date.

At last year's annual general meeting, the board announced a range of capital management initiatives to support the funding of the HPA acquisition. These included the placement of around 18 million shares to institutional investors at \$4.20 per share and offering a Share Purchase Plan to existing shareholders. Together they raised around \$75.5 million.

A dividend reinvestment plan was also introduced for the interim dividend in April. With 68% participation, this raised a further \$8.4 million in new capital.

The board resolved not to offer a dividend reinvestment option for the final dividend and the plan has been suspended for the time being.

Together, Salmat's capital management initiatives reduced debt from a peak of \$375 million in late 2007 to \$219 million by 30 June 2008. Given what has happened in both debt and equity markets since that time, we feel particularly pleased with the timing of our raisings, which were completed before the global collapse in financial markets in January. We have continued to maintain our net debt position even with the payment of the final dividend.

As we stated at the full year results, Salmat has a secure source of finance that does not require renewal until August 2010.

Regarding future dividends, the board is committed to delivering reasonable returns to shareholders while maintaining an appropriate level of reinvestment in the business. We expect to maintain the total dividend at a similar level this year, in the absence of any special circumstances.

As announced last Tuesday, 18 November, the board has appointed Mr Grant Harrod to the role of CEO. He will take up this position on 1 April 2009 and will work closely with Mr Salter and Mr Mattick over the following six months to facilitate a smooth handover.

After 30 years building up Salmat from scratch, Philip and Peter have decided it's time to step back from the day to day management of the business.

At the completion of their contract in October 2009 they will step down as MDs but will remain on the board as non-executive directors. Mr Harrod will assume the executive leadership role at that time.

The board has spent considerable time planning this important succession and we are extremely pleased with the outcome. We believe that this arrangement will enable Salmat to enjoy continued access to the incredibly valuable corporate knowledge of Salmat's founders while at the same time benefiting from the fresh new leadership of Mr Harrod.

On behalf of the board, I'd like to welcome Grant Harrod to the Salmat team. Grant will bring valuable experience from his time with Corporate Express and his diverse experience in the office products and IT industry, and we are confident that he will be a great asset to the business.

Grant Harrod is here today, so I'd ask Grant to just stand up for a moment to introduce himself...
Thanks, Grant and welcome.

I'd also like to take this opportunity to extend my thanks to the entire Salmat team for their contribution and commitment to the business during a year of such significant transformation and re-organisation. Given the progress we've seen to date, I am confident of an even better result for Salmat in the year ahead.

I would now like to invite Salmat's joint managing directors, Phil Salter and Peter Mattick, to discuss our 2008 results in more detail and provide an update on our outlook for 2009.

Thank you.

Presentation by Joint Managing Director, Philip Salter

Good morning ladies and gentlemen.

As Rick has indicated, this was a year of transformation for Salmat, with a great deal of activity in each division.

I'll be going through an overview of performance by division and providing some more detail on activities within MediaForce and SalesForce. I'll then be handing over to Pete, who will talk about BusinessForce and provide an update on the market outlook.

Each of the Salmat divisions contributed to our sales growth in 2008.

BusinessForce revenue grew by 72% or \$128.8 million to \$306 million. While the additional eight months of revenue from HPA was a significant factor here, underlying growth in areas such as laser print volumes also contributed to the result.

SalesForce revenue increased 13% or \$31.5 million to \$275.2 million. Increased sales activity across its various businesses and higher contact centre volumes were the key growth drivers in this business.

MediaForce revenue was up \$49.8 million or 27% to \$230.9 million. This was primarily thanks to good increases in catalogue volumes and the first full year impact of the growing Dialect business.

At an EBITA level, BusinessForce made the largest contribution, again mainly due to the additional contribution from HPA.

SalesForce EBITA was consistent with the previous year's result. Margin decreases in some of the more mature businesses were offset by margin increases and new business in the emerging sectors.

The MediaForce result was impacted by pricing and field cost pressures in the catalogue business. Higher fuel and freight costs, as well as higher workforce costs in boom regions such as Western Australia, could not immediately be passed on to clients. The Reach Media joint venture also incurred some restructure costs.

The past year was an exciting one for MediaForce.

Despite ongoing competitive pressures, we achieved good volume growth and successfully increased our market share in the traditional catalogue business. While pricing and costs impacted the bottom line, we anticipate better results in the current year.

All the signs point towards increased market stability, notwithstanding the current economic climate, so we expect pricing should start to return to more realistic levels in the coming months. Clients have also recognised the higher costs being incurred and are accepting a share of these costs as contracts are renewed.

We undertook a comprehensive review of the traditional business during the year and implemented some structural and process improvements. While we have already started to see positive outcomes from this exercise in the form of cost savings, we will continue to seek productivity improvements over the next 12 months.

It was also great to see our total accountability model for unaddressed mail rolled out on a national basis. This is a highly sophisticated service that enables clients to track jobs with a high level of detail, in a very timely manner. It's the most advanced of its type in the world and we are pleased to be able to offer this sort of innovation to our clients.

Looking beyond the local market, we entered into a new joint venture with New Zealand Post during the year, covering the distribution of unaddressed mail in New Zealand. The two operating models are still coming together but we expect significant improvement in this business over the next two years.

In the area of emerging technologies, the Dialect business, which offers SMS and Interactive Voice Response (or IVR) technology services, made its first full year contribution to the business. On the back of strong growth in volumes and revenue over the past 12 months, Dialect was profitable for the year. While this remains a small part of the business, we are positive that it will continue to grow its contribution to earnings as demand for these services continues to rise.

Of course, one of the most exciting developments in MediaForce last year was the launch of our pre-shop website - Lasoo – and the associated online services under the DigitalForce banner.

As Rick mentioned in his opening remarks, this initiative has generated an amazing response from both retailers and consumers in just 12 months. It certainly didn't take long to establish proof of concept and the site now boasts some of the biggest names in the Australian market, including Coles Supermarkets, Harvey Norman and Big W.

While we incurred some start up costs getting Lasoo off the ground in last year's results, its performance since then has gone beyond expectation. We certainly expect to achieve run rate breakeven in the current year and see big things ahead for the following few years.

The Lasoo service has also given us the opportunity to create a bundled offering for our clients, incorporating, for example, integrated online catalogue presentation, letterbox distribution and call centre services. This has proved very popular with our clients and Salmat is the only business that can offer such a comprehensive solution.

SalesForce has also had a busy year, with growth across the division, but particularly in the newer technology-focussed areas.

In the traditional contact centre business, we had some good, sustainable new business wins that helped fill some of the space capacity built following a peak load in the previous year. Both volumes and seat utilisation efficiency improved as a result. In addition we extended our service offering with two new, but complementary, call centre models.

Salmat's @Home call centre model was trialled in the previous year and subsequently rolled out on a wider scale. This highly flexible model employs contractors who are trained and work remotely, out of their own homes. It's proved a very successful venture and turned a profit in the first five months.

We also opened a new 150-seat contact centre in Malaysia, re-establishing a presence in the region.

These two new services offer our clients a wider range of options for different service requirements.

In direct sales, growth was achieved across existing and new segments, and this was done without a corresponding increase in costs. We also expanded direct sales into New Zealand, which was a natural choice for replicating our proven model, given the many shared characteristics of this market with Australia.

Our e-Learning business – Aframe - also won a good measure of new business, from both local and international markets. This is a real growth industry. The interactive online training and induction services we offer are increasingly in demand as a more efficient way of educating diverse workforces. While still operating on a relatively small scale, Aframe holds a leading position in this exciting market.

Another fascinating area of emerging technology is that of speech recognition services. There's some really clever work being done in the areas of voice self-serve and biometric voice recognition. Salmat's VeCommerce business continues to win contracts with these services, which appeal to security and customer service-savvy clients.

I'll now hand over to Peter Mattick, who will take you through a BusinessForce update and our outlook.

Presentation by Joint Managing Director, Peter Mattick

Thanks, Phil. Good morning ladies and gentlemen.

With the major acquisition of HPA last November, this was a crucial year for BusinessForce.

This acquisition has involved bringing together around 2000 staff across more than 15 sites to form one cohesive group. I'm pleased to say that the integration team has done an outstanding job in making this process run extremely smoothly. We are almost half way through the integration program and remain on track to meet our internal deadline of completion by the end of calendar 2009.

We've successfully maintained all of our key client relationships during this transition. The combined team has worked well in continuing to deliver a high standard of service during what could have been quite a disruptive period.

Importantly, we've also made some great progress in the area of consolidating and strengthening our overall product and service portfolio. This was one of the key attractions of the deal: the ability to bring together Salmat's range of BPO services with those of HPA, as each business had differing and complementary strengths. We've also been able to greatly enhance our production capacity.

The BusinessForce team has developed a highly effective new sales structure that enables us to target both cross-selling opportunities within our own client base as well as those outside the group in new industry and geographical markets.

The success of this approach has already been demonstrated with some good new wins and a strong pipeline of future opportunities.

Cost savings continue to be made through site consolidation, shared corporate expenses and supplier negotiation as well as via an ongoing operational productivity review.

Some of the smaller facilities, including some PrintZoo sites and Perth and Canberra branches, were quickly merged. Site mergers in Brisbane and Adelaide will follow.

Our initial estimates on the cost savings that could potentially be achieved by putting the two businesses together were in the order of \$10-15 million per annum. Now that we are half way through the process, we are confident that the savings will be at the upper end of this range, with the full impact of annual savings being reflected in our result for the year ended June 2010.

While initial integration costs offset \$4 million in savings last year, we expect a net EBITA improvement of around \$5 million this year.

While the wider economic climate is of concern for Australian businesses generally, we find that most of our clients tend to maintain or even increase spend on the type of services we offer.

Salmat is not a cyclical business and not as sensitive to market fluctuation as some other sectors.

Outsourcing as a whole tends to increase in a more challenging market and cost-effective services such as catalogue distribution and online promotion become very attractive to retailers seeking to boost sales figures.

The outlook overall for Salmat is therefore very positive, with each of its key business divisions forecast to grow.

In MediaForce, for example, while we may see a decrease in catalogue pagination due to increased paper prices, we are anticipating higher overall volumes.

In SalesForce, contact centre market growth remains on track at around 7-9% per annum. Our comprehensive service model offers a wide range of options catering to different price points, so we can provide clients who wish to review their customer contact strategy with a number of alternatives.

Within BusinessForce, much of the work we do falls under the 'essential business' category, and as such is not impacted by changes to discretionary spending. We have opportunities to attract new clients to outsourced services both in Australia and in several Asian markets.

Our key areas of focus for the year ahead include, in no particular order:

- the completion of the BusinessForce integration program;
- further promotion of our bundled service offering across our group-wide client base;
- continued debt reduction; and
- the pursuit of organic business growth and improved productivity.

In terms of our financial performance, our run rate over the past seven months has reinforced our confidence for the year ahead, in spite of the economic downturn.

As a result, we expect a good half year result and remain comfortable with a forecast of \$75-80 million EBITA for the full year, subject to the usual vagaries of the market.

I will now hand back to our Chairman, Rick Lee to oversee the formal business of the meeting.