14 February 2011

Salmat invests in its digital future

Salmat Limited (ASX:SLM) - Australia's leading marketing services provider specialising in targeted customer communication solutions - today announced sales revenue of $447.6 million, which was down 0.5% against the prior corresponding period on a normalised basis.

Underlying EBITA grew by 7.2% to $48.8 million and underlying net profit was up 11.3% to $26.1 million.

The Board has declared an interim dividend of 11.5 cents per share, up 4.5% on the prior corresponding period.

The acquisition of four digital and interactive businesses in late December was a key highlight for the half, signalling Salmat's commitment to the emerging business portfolio and to consolidating Salmat's leading position as an innovator in multi-channel communication.

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Normalised sales revenue	447.6	449.9	-0.5%
Reported sales revenue	447.6	452.9	-1.2%
Underlying EBITA	48.8	45.5	+7.2%
Underlying net profit after tax	26.1	23.5	+11.3%
Significant items after tax	(3.4)	0.8	NMF
Statutory profit (NPAT)	22.7	24.3	-6.5%
Underlying earnings per share (cents)	16.5	14.8	+11.5%
Earnings per share (cents)	14.4	15.4	-6.3%
Interim dividend per share (cents) – fully franked	11.5	11.0	+4.5%

Normalised sales revenue was down 0.5% compared with the prior corresponding period, at $447.6 million. The $3 million adjustment to prior year revenue accounted for foreign exchange variances and the removal of pass-through telecommunications revenue. **Reported sales revenue** was down 1.2% on the prior year. The main influencing factor was lower mail volumes in Business Process Outsourcing (BPO), offset by good growth in Customer Contact Solutions (CCS) and Targeted Media Solutions (TMS) revenue.

Underlying EBITA grew by 7.2% on the previous result on the back of growth in TMS and CCS EBITA. BPO EBITA was $0.5 million down on the prior corresponding period. Corporate costs were lower than the prior year following a comprehensive program of business efficiency. The EBITA margin was up 80 basis points to 10.9%.

Underlying earnings per share was 16.5 cents, up 11.5% on the prior corresponding period. Earnings per share was down 1.0 cent to 14.4 cents, in line with the net profit decrease.

Underlying net profit after tax was up 11.3% on the prior year. **Significant items after tax** included $2.8 million in relocation and restructure costs relating to the new BPO Victorian facility; $1.1 million in acquisition transaction costs; and a $0.5 million gain from deferred recognition of property profit in the prior year.

Statutory profit (NPAT) was down $1.6 million on the prior year at $22.7 million, largely due to the $3.4 million in net significant item costs. Importantly, the significant item costs all relate to investment activity that will drive future earnings growth benefits.

Cash capital expenditure of $10.6 million for the period was up 32.5% on the prior year. Apart from some cash capex on the site relocation discussed earlier, we have also commenced our investment in colour technology.

Net debt was $160.2 million at 31 December 2010, up from $156.2 million at 31 December 2009.

The directors are pleased to declare an **interim dividend** of 11.5 cents per share, fully franked. This represents a 4.5% increase over the previous interim dividend. While statutory NPAT and cash flow were impacted by the net cost of significant items, the Board still elected to increase the interim dividend based on their confidence in Salmat's future prospects. The dividend has a record date of 16 March 2011 and is payable on 6 April 2011.

"This has been a busy and exciting first half for Salmat, with major activities relating to new service launches, business restructuring, site relocations and new business acquisitions," said Chief Executive Officer, Grant Harrod.

"It's extremely pleasing that we've been able to continue to increase underlying earnings while making investments for future growth.

"As well as the digital business acquisition, other highlights for the first half included the relocation of our BPO Victorian sites into a new facility at Ravenhall; the launch of our new strategy for the small to medium enterprise market; and a strong performance by our Lasoo business, following the decision to accelerate our growth strategy in this area," said Mr Harrod.

Operational review

Targeted Media Solutions

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Normalised sales revenue	121.8	118.1	+3.1%
Underlying EBITA	22.5	20.7	+8.7%

Normalised Targeted Media Solutions (TMS) revenue was up 3.1% on the prior corresponding period, on the back of stable volumes and good revenue growth in some of the smaller businesses, including Lasoo. Adjustments were made to the prior period TMS revenue for the removal of pass-through telecommunications revenue and the transfer of a data analytics business into TMS from the BPO division.

A strong business efficiency program across all parts of the division helped grow underlying EBITA by 8.7%.

Additional focus on enhanced content and functionality for the Lasoo site during the first half is already delivering returns, with a marked increase in site traffic and revenue over the previous year. The site received 2.5 million visitors in December, including more than 200,000 mobile hits. More than 73 million page views in December gave Lasoo the number one spot for all Australian pre-shopping sites in the week just after Christmas.

The acquisition of the four new businesses greatly boosted the digital and interactive arm of TMS. Further detail about this development follows under a separate heading.

Customer Contact Solutions

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Reported sales revenue	162.9	153.3	+ 6.3%
Underlying EBITA	10.0	9.7	+ 3.1%

Customer Contact Solutions revenue grew by 6.3% as a result of good performance in the call centre business. Revenue growth was drawn from both existing and new clients. Revenue was lower in the @Home business as some work moved across to traditional call centres. Revenue was also lower in Asia as an underperforming business was exited. While revenue growth was achieved in the learning and speech solutions businesses, these businesses are more discretionary in nature and therefore vulnerable to a softer retail environment.

Underlying EBITA was higher than the prior corresponding period due to improved operational performance in the call centre business. Field sales earnings continue to be impacted by the weaker retail sector.

A longer-term strategy has been commenced to transition from commodity call centre work to premium, higher-margin work and better leverage the unique skills and resources of our business.

Business Process Outsourcing

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Normalised sales revenue	162.9	178.5	-8.7%
Underlying EBITA	21.9	22.4	-2.2%

Normalised Business Process Outsourcing revenue was down 8.7% on the previous year, resulting from lower mail volumes that flowed through from the second half of 2010. Revenue from e-solutions and scanning was up on the prior period, though from a relatively small base. Adjustments were made to prior period revenue for foreign exchange impacts and the transfer of the data analytics business into the TMS division.

Underlying EBITA was down $0.5 million, largely due to the reduced volumes. Reinvestment in e-solutions also impacted earnings from this area. Productivity gains across the business supported EBITA.

Revenue growth in BPO for the full year is unlikely however a higher sales result is anticipated for thereafter due to new business conversions. A focus on maintaining high service levels during the Victorian site integration led to short-term increased staffing costs and thus production inefficiencies within the new facility, however we expect savings of around $1.8 million per annum to flow through from FY2012. A refresh of BPO's colour business to install market-leading print technologies will be finalised in the second half and should contribute approximately $2.8 million in annualised savings, also from FY2012 onwards.

Digital business acquisition

As announced to the market, Salmat acquired a portfolio of four digital and interactive businesses for $75.3 million on 22 December 2010. An additional $15.7 million capped performance hurdle will be paid by 30 June 2011, dependent on performance. The four businesses include C4 Communication (providing digital and experiential media services), Be.Interactive (interactive mobile marketing), MessageNet (business SMS communication) and Returnity (email marketing and database services).

These businesses are being merged into Salmat's TMS division, complementing the existing digital portfolio, including Lasoo and interactive services. The integration team is currently working to bring these businesses into the 'One Salmat' fold and leverage the new opportunities they present.

Salmat anticipates around $50 million in annualised gross revenue and $8.4 million in EBITA from the deal, plus synergy gains. It is expected to be EPS accretive in FY11 (excluding one-off costs and amortisation) and achieve over 5% accretion in FY12.

Outlook

"Assuming trading conditions remain stable and comparable to the first half, we anticipate remaining on track to meet our underlying EBITA guidance of $92–97 million," said Chief Executive Officer, Grant Harrod.

"Earnings in the second half will be impacted by the additional labour costs linked to the BPO site integration; the strategic transition from commodity to premium work in CCS; additional marketing investment in Lasoo; and the tougher retail trading environment. We expect each of these areas to show improvement in FY2012.

"Our results will be boosted however by the increased earnings and synergy benefits flowing from the recent acquisition and increased multi-channel sales from the continued rollout of the One Salmat strategy," said Mr Harrod.

About Salmat

Salmat is Australia's leading marketing services provider specialising in targeted customer communication solutions. Salmat facilitates its 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.

Salmat has three key divisions, all of which are market leaders:

Targeted Media Solutions (TMS) delivers more than 5.9 billion retail catalogues 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 email, 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 Australian retailers, connecting buyers with sellers in a virtual marketplace. Lasoo provides a strong online presence for retailers to promote items and feature products for sale, 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, hosted e-commerce solutions for retailers seeking to go online and a self service direct marketing portal to assist SME businesses in promoting their goods and services.

Customer Contact Solutions (CCS) engages in more than 100 million conversations per year for its clients. 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 (BPO) sends more than 1.2 billion 'essential' mail packs every year. The division 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.

BPO streamlines and improves delivery of these services and 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 Salmat has built a 7,000 plus strong team, experienced in contributing to their clients' growth by helping them to communicate effectively with their customers. This experience, together with its proprietary systems and technology and strong client relationships, secures Salmat's position as Australia's – and increasingly the region's – leader in customer communication solutions.

-- ends –-

For more information about the Salmat Group, please visit Salmat's website at www.salmat.com.au.

For further information, please contact:

Grant Harrod	*Chad Barton*
Chief Executive Officer	*Chief Financial Officer*
+612 9928 6500	*+612 9928 6500*