

Slide - Introduction

Good afternoon everyone

I'm Phil Salter, joint CEO and founder of Salmat.

Salmat has had a pretty fantastic run since listing on 2nd December 2002, with our share price more than trebling.

What I want to do today is tell you a bit about our company, it's key strengths and strategies and hopefully leave you with an understanding why after 25 years in business we still think there are great opportunities to grow all our businesses in the years ahead.

- I'll start by giving you an overview of each of our businesses,
- I will spend more time on our call centre operation, which is our emerging business, and where we are with Salesforce, which we acquired in January,
- Next we'll have a quick look at our first half results,
- And finally I will talk about our competitive advantages and outlook.

Slide – What we do

For those of you who don't know Salmat, we are Australia's leading customer communications group with growing operations in Asia. We have three businesses and we are the market leader in each business:

- Targeted Media, which provides targeted direct marketing and distribution of printed advertising material – mainly catalogues;

- Business Process Outsourcing, which manages, analyses and stores large volumes of customer data and processes bills, bank and credit card statements and other essential mail; and
- Call centres, where we provide inbound and outbound customer service and sales support.

Salmat is all about keeping companies in touch with their customers, whether by way of advertising, mailouts, or telephone conversations. Our mission is to improve and grow our customers' businesses.

We've been in business for 25 years and have grown from a small Targeted Media operation in NSW, to a diversified international group, which achieved revenue of \$327 million and net profit of \$21 million last financial year. We now employ over 3,700 people in 23 sites across five countries.

Let's now look at each business in turn.

Slide – Targeted Media

In Targeted Media we distribute advertising catalogues to people's letterboxes in Australia and New Zealand. This is a duopoly business, with Salmat one of two market leaders. It is low risk, with minimal capital investment and the barriers to entry are high.

We delivered 3.8 billion catalogues last year, but I want to emphasise that we don't print them. What makes our business so special is the technology we have developed, which enables us to target advertising according to demographic profile.

Let me explain the importance of this.

Advertising today is about target market penetration and value for money. For example, in 1990 it took commercials in 5 different television shows to expose 80 per cent of housewives to a particular supermarket product. Today, with the plethora of TV channels and the advent of remote control, it takes commercials in 95 different television shows to reach the same number of buyers.

In contrast, we use technology to target people who are more likely to buy a given product or service. We then distribute catalogues to those people at a much lower cost to the advertiser than other media. Catalogues have the added advantage that they're invasive...they get into consumers' hands and into their homes. Our research tells us that consumers are likely to peruse the catalogue at a time that suits them. In fact, independent research shows that 50 per cent of people are likely to visit a store as a result of receiving a catalogue from a retailer.

Slide - Target

The strength of our customer relationships is demonstrated by testimonials such as this from Target:

"Target has worked with Salmat for over 15 years in refining catalogue distribution, using a catalogue targeting methodology specifically developed for Target. Target uses walker area sales values to determine its catalogue distribution requirements ensuring that maximum sales coverage is achieved."

This targeting methodology has resulted in incremental sales and cost savings for our business".

Targeted Media has high barriers to entry. The scale and network required is simply prohibitive. And the intellectual property, investment in technology that provides demographic and socio-economic profiling, takes years to develop.

This business is the bedrock of Salmat and the one we've been in from the start.

Slide – 12 Year Targeted Media Volume Growth

We've been achieving double digit volume growth since we started this business 25 years ago. This slide shows the last twelve years where we achieved a compound average growth rate (CAGR) of 11.6%.

We have been asked on occasion what happens to us during a recession or downturn. What we've found is that companies, particularly retailers, tend to look for ways to drive their stock turnover and sales revenue.

And our relatively low cost advertising medium, which is effective at driving sales is well positioned when marketing budgets are being cut. We are also able to adjust our business to maintain margins as our cost base is mainly variable.

Slide – Targeted Media - Focus

We continue to target double digit revenue growth in this business over the long term and our strategy to achieve this is based on growing the market.

In recent years, we have seen solid results from focusing on non-traditional users of targeted media, such as financial institutions car manufacturers and telecommunications companies. Traditionally, the large store retailers have been the dominant users of catalogues. In the last half, 51% of our new business came from these non-traditional sources and 80% of that was via an advertising agency.

There is a notable shift towards direct media and we consider advertising agencies to be a key to driving growth in the future. We are working closely with advertising agencies to help them understand the value of our offering in an increasingly fragmented mass media market.

We also are focused on making our targeting products more accessible to the market, using internet technology and enhancing our targeting tools so that we are always offering the most effective and up to date products and services.

Moving on to Business Process Outsourcing.

Slide – Business Process Outsourcing

Our BPO business is all about taking peoples data, merging it, formatting it, storing it and ultimately printing it and mailing it. Predominantly it involves “essential mail” which is bills, bank statements and credit card statements We operate in Australia, Hong Kong, Taiwan and the Philippines. Again we are the market leader in this industry with undisputed expertise in financial services. We have a blue chip customer base on long term contracts and our customers benefit from our focus on technology and quality.

We are now providing a distributed processing model across Australia, Hong Kong, Taiwan and the Philippines. This means that we are able to process data in the most cost effective location for our customers. For example, we process bank statements for Citibank Japan here in Australia by using our double bite technology that allows us to print Asian characters.

A more significant example of this is the recent win of a \$40 million contract over five years, to provide statement processing services across the Asia Pacific region to a global credit and charge card company.

Our scale in this business provides us with competitive advantages. To get an idea of the scale of our operation, in Australia we lodge 570 million mailpacks annually which accounts for around 20 per cent of Australia Post's bulk business mail.

As we've said before, this business currently operates in a difficult market that has been characterised by aggressive pricing in the past few years. However we believe this has started to settle down and, for new business, has bottomed out.

Despite this, we continue to achieve reasonable volume growth. Our key differentiators are our intellectual property and approach to quality management which make our processes more reliable, efficient and effective. We have recently begun a program of refreshing our laser printing and mail inserting platforms, which has given us greater capacity to take on more work and increased processing speeds.

Slide – Business Process Outsourcing

We also continue to introduce new products and services, which allow us to deepen our market penetration by providing additional business solutions for our customers. Our Data Solutions facility sits within our BPO Business which gives access to 250 IT professionals. This is a huge advantage in a business that is data driven. We see this constant improvement of our product and service offering to be key to the success of this business.

For example we recently launched a product called Streamserve, which is a virtual server. The best way to explain what it does is to use an example of a financial institution which needs to send out cheque dishonour letters. These would normally come from each branch, with someone individually printing each letter, putting it in an envelope and paying the full 50 cents postage. By using Streamserve, our customers can bundle dishonour letters from their branches onto our server and then, we'll print them out, in one run. In this way, our customer reduces costs within the branch and can also take advantage of some postal discounts.

Another recent development is the purchase of the NSW Government Printing Service, which we expect to complete this week. This acquisition will give us better access to work from the NSW government – an area we have not been strong in. It will also give us access to a higher level of laser 'print on demand' applications and management skills. We expect this business to generate revenues of more than \$25 million per annum. However, in the first year of operations, integration costs including the transition of operating and inventory management systems, will offset any contributions from the business.

BPO is a solid business which achieves an impressive return on capital; 31 per cent in the half to 31 December. As you will see from this slide, the compound average growth rate in mailpack volumes, in Australia for the past four years has been 7.1 per cent and was 4.5 per cent for the last half, which was well above the industry average.

Slide – Business process Outsourcing - Focus

The key to our market leadership position in this industry is our strength in financial services, our data management capabilities, and our commitment to our customers with regard to quality and data security.

We are continuing to work on broadening and deepening our current product offerings consistent with our mission and will obviously be focusing on bedding down and integrating the new acquisition.

As we've said previously, we aim to see gradual improvement in our margins over time.

Slide – Call Centres

Now to our third and newest business, call centres. We believe this business has excellent growth prospects and that profitability will be driven by scale, technology and effective people management.

Our call centres handle both inbound and outbound telephone communications on behalf of our customers. The inbound services we offer include customer technical

support, help desk and customer care, whilst our outbound services include telemarketing, sales campaign management and customer retention.

We see this as our emerging business and it achieved a pleasing EBITA turnaround of \$1.3 million in the first half.

Slide – Industry Position – call centre seats by company

The Salesforce acquisition has made Salmat the largest Australian owned call centre business, operating 2,300 seats across Australia and New Zealand and with nearly 23 per cent of Australia's outsourced call centre seats. The industry is characterised by four main players who account for around 50 per cent of the total market with the rest highly fragmented.

Where we are looking to differentiate, apart from IP and service capability, is through our approach to “right-shoring”.

By this we mean the ability to locate the right type of work in the most cost effective place for our customer, whether in Australia or off-shore.

So, for example, we have taken Telstra to our lower cost regional centres in Bundaberg and Wagga, where we provide customer service support.

Our joint venture in the Philippines has been focused on US inbound work with our joint venture partner, ClientLogic, providing the sales and marketing via its international capabilities. It continues to grow strongly, with the number of seats

increasing to nearly 2,300 in the last half. This has resulted predominantly from new business, mainly customer technical support work from major US corporates

including Dell, MCI, Sony and BellSouth. This type of work would be ideally suited to many Australian Corporates currently operating in house call centres.

The infrastructure we have there is geared around servicing the US time zone and so currently the seats are largely empty during the Australian working day. We are now in the process of putting in telco links from Australia and expect to begin marketing our Philippines capability later in the year.

Slide – Growth Potential

The growth opportunity for our call centre business comes from our ability to develop a market which we believe is still relatively immature in Australia. And which will be increasingly driven by the need for organisations to have conversations with their customers, rather than paper or electronic communications.

Independent research by Paul Budde Communications into the call centre outsourcing industry, released in 2004, showed that approximately 11 per cent of Australia's 141,000 call centre seats are outsourced.

International comparisons are imprecise as different studies have different ideas of what constitutes an outsourced call centre seat, but US figures suggest that between 50 per cent and 70 per cent of call centre seats there are outsourced. We would like to see a penetration rate of around 50 per cent in Australia over time.

Cost effectiveness and the technological servicing requirements of call centre operations are the main reasons why companies move to outsourcing.

But typically they need to understand that service to customers will actually improve under an outsourced model before they will take the plunge. This is why our extensive references and performance metrics are so valuable to developing this industry.

In-house call centres tend to experience shortages of skilled labour, high salaries and little investment in technology and so fail to produce cost-effective results.

One of the biggest issues an in-house centre finds is career development – if you join a 100 or 200 seat call centre, where's your career path going to take you? If you have any drive, probably out the door and into another area or department.

Whereas in a large scale organisation there are many more opportunities to progress within sales, training, recruitment and call centre management.

Outsourced call centres are cheaper and more flexible, they offer greater customer service skills, eliminate management time, employment and recruitment hassles and they provide the security of service level agreements, ongoing quality control; and superior functionality and reporting.

Industry sectors which have the highest volume of in-house call centres are banking, financial services and telecommunications. Salmat has long established relationships and experience in these industries across our businesses and we will leverage off these as we target these sectors.

Slide - Salesforce Update

SalesForce which, as I mentioned earlier, we acquired in January, is one of Australia's most successful and dynamic call centre and direct sales organisations,

with sales revenue of \$92 million and EBITDA of \$9.5 million for the year to 30 June 2004. Our total consideration was \$64 million, representing an EBITDA multiple of 6.7 times.

Our integration process is going well. We have recently announced that Kevin Panozza, who founded and was managing director of Salesforce and who is a visionary in the call centre industry, will head our combined call centre business. We have managed to make this transition without the loss of any senior manager and we are now working towards full integration.

Currently we are working on integrating back office support, including IT and finance and putting together our sales strategy.

SalesForce provides Salmat with a wider range of products and services which will enable us to accelerate future growth. One of these is a direct sales model which, whilst it is early days, we think has good growth potential as companies seek to outsource sales functions via mobile kiosks and field force activities.

We expect to provide updated guidance on our full year outlook incorporating Salesforce in mid to late May. By then, we will have completed our Business Review and will have a more detailed view of synergies and prospects.

Slide – Salmat Call Centre Targets

We have some key targets we will be aiming to achieve as we look to increase the rate of outsource penetration towards 50 per cent.

First, we aim to increase inbound work to close to 75 per cent of total business. We believe this is important because inbound work is more stable and produces a more sustainable margin. We are currently at about 67% inbound. This allows for better workforce management and lower recruitment and training costs. Outbound work can be extremely profitable on a contract by contract basis but it is more volatile and requires more flexing of the workforce to meet campaign demands. Another important factor is that the barriers to entry for inbound work are much higher as the degree of technology sophistication and data handling requirement increases.

Second, we are aiming to achieve a 10 per cent plus EBIT margin in this business in the next 2 – 3 years. We will do this by further developing and leveraging the scale of this business.

Slide – Half Year Results

Now briefly to our results for the six months to 31 December 2004. We were pleased with what the management team delivered.

Net profit was \$14.9 million, up 35.5 per cent on the 2003 result of \$11.0 million. Earnings per share was 12.8 cents compared with 9.5 cents, and revenue increased by 8.3 per cent to \$180.8 million. Return on capital increased to 53 per cent from 47 per cent.

A fully franked interim dividend of 6.5 cents per share was paid on 28 March, compared with 5 cents last year, an increase of 30 per cent.

All our businesses increased their revenue, with Targeted Media the standout performer.

Slide – Competitive Advantages

Looking ahead, we have some unique competitive advantages that will help our businesses to grow.

We are the market leader in our businesses, all of which have high barriers to entry. This is an important fact and reflects our focus on only expanding businesses where the industry is attractive and where we have a clear competitive advantage.

In addition, we have a stable, talented management team and workforce, backed by robust management systems and strong free cash flow. Our growth over the past has been achieved through a total focus on quality to ensure the highest standards of customer service.

Our strong and lengthy customer relationships - which extend to six of the top ten listed companies in Australia as well as many of the largest entities in the government, utilities and telecommunications sectors - are also major competitive advantages for all of our businesses.

We have clear strategies to expand each of our businesses through organic growth and through bolt-on acquisitions. Our small, but growing, presence in Asia also positions us to take advantage of the substantial opportunities there.

Lastly we have a 25 year history of strong financial returns and businesses that generate significant free cash flow. These position us well to be able to grow the businesses in the coming years.

Slide - Outlook

In terms of outlook, I have no update on the guidance we provided with our half year results. We said then we are confident of another strong full year result subject to the normal caveats. Revenue growth is expected to remain close to that for the first half – 8 to 11 per cent. Whilst net profit growth is expected to be 27-32 per cent.

These figures exclude the impact of Salesforce, which we expect to be EPS positive in its first year of operation. As I mentioned earlier, we plan to provide an update on our outlook including Salesforce later in May.

Salmat is a business that is founded on the core values of trust, leadership and providing flexible solutions which improve our customers' businesses.

Our scale and technology set us apart from our competitors, while our quality focus ensures that we deliver what we say we'll deliver. We have a long term, blue chip customer base which positions us well to continue to achieve organic growth.

So we have plenty of opportunities to grow all our businesses in the years ahead.

Thank you.

Disclaimer

Company announcements can contain forward-looking statements. Words such as "believe", "anticipate", "plan", "expect", "intend", "target", "estimate", "project", "predict", "forecast", "guideline", "should", "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical markets; the supply and cost of materials; exposure to environmental or other legal proceedings; and risks of conducting business internationally. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those contained in forward-looking statements. Forward-looking statements speak only as of the date they are made.