UBS Australian Small Companies Conference

<u>Presentation speech by Grant Harrod - October 21, 2009</u>

Title and agenda slides

Good morning and welcome to today's update on the Salmat Group.

For those of you whom I haven't met, my name is Grant Harrod and I am Salmat's CEO and Managing Director. I commenced with Salmat in April of this year, taking over the running of the business from Salmat's founders and joint managing directors, Phil Salter and Peter Mattick. On October 1st, Phil and Peter retired as joint managing directors of the company and are now non-executive directors on Salmat's board.

Today I would like to provide you with an overview of our business and each of its divisions; our results for the year ended 30 June 2009 and our growth focus and strategic insights moving forward.

One Salmat slide

Many people initially associate Salmat with letterbox distribution, but our service offering is far broader following thirty years of acquisition and innovative product and service development.

As a consumer, many of the interactions you have on a daily basis may have involved services provided by Salmat. The consumer touch points that we facilitate are vast. By way of example, if you have received a bill or statement in the mail; read through a catalogue; phoned to book concert tickets; sent a text message to a 1300 number; rang up for technical support about an appliance you have purchased, or used an interactive voice response system when phoning your bank or telco, there is a high chance that Salmat facilitated this interaction on behalf of our clients.

In summary, Salmat is Australia's leading outsourced services provider specialising in targeted customer communications solutions.

Through our intelligent systems, people and skills management and deployment, we provide outsourced services to principally consumer based organisations. We work across B2C industries including retail, financial services, utilities, health, government, hospitality and entertainment.

We're in the business of keeping companies in touch with their customers. Within our three business divisions, we offer a myriad of services which are often the communications interface between our clients and their customers - whether it is through mail, phone, online, email, fax or multimedia channels.

To explain this further, I'll now walk you through Salmat's three core divisions:

Business Process Outsourcing slide

Business Process Outsourcing (formerly BusinessForce), revolves around receiving customer's electronic data, processing it using smart technology and printing and distributing this information either in hard copy or electronic format. This mail is classified as essential, rather than discretionary, in that it is personalised and contains financial or statutory information which is critical to our clients' operations. Salmat prints over 4.1 million pages and distributes over 1.3 billion mail packs each year on behalf of our clients.

Within our BPO division, we are also involved in providing a range of workflow solutions including scanning, imaging and archiving information on behalf of our clients. Our expertise in capturing data, streamlining workflows and integrating with our clients' core business systems enables us to be a true business partner.

****Customer Contact solutions slide****

Within *Customer Contact Solutions* (formerly SalesForce)*,* Salmat operates 60 different contact centres within 13 sites across Australia, New Zealand and Asia. With capacity for 4500 seats, we are Australia's largest operator and engage in over 100 million conversations on behalf of our clients each year.

We customise solutions to suit each client depending on task complexity and cost objectives. With contact centres located in metropolitan, regional, offshore and @Home locations, we handle a wide range of inbound and outbound calls varying in type and complexity. These include anything from IT and technical help and support, product and services support, flight and entertainment bookings, loyalty programs, market research and sales.

The majority of our contact centre work involves handling inbound customer queries, requiring our staff to be highly trained in each client's business.

Within the Customer Contact solutions area, we also offer eLearning and educational programs which clients are very effectively using to deliver online induction and training programs for their staff.

We are a leader in speech recognition software and applications, with self service solutions including voice biometric authentication for companies who wish to improve their levels of customer service, security and privacy. Considering data fraud and security concerns, this is an area that is becoming increasingly popular amongst our clients.

Another service within this division is direct sales. Salmat employs 900 contractors nationally who visit households to present information about specific clients' products and services. A further 300 contractors work within kiosks located at shopping centres, airports and at major events.

****Targeted Media Solutions slide****

Our *Targeted Media Solutions* area (formerly MediaForce), subcontracts a network of 18000 walkers to deliver more than 4.5 billion catalogues and brochures to homes throughout Australia. Salmat pioneered the introduction of letterbox delivery in Australia and we are constantly advancing its effectiveness.

Using the latest market intelligence products, demographic profiling assists our clients to identify the people most likely to respond to their marketing campaigns.

Online reporting and GPS tracking of deliveries elevates our service levels to the highest levels of accountability. The introduction of a new online tool now enables clients to view in real time what catalogues have been distributed into the field, increasing efficiencies.

To complement this, Salmat is working with a number of clients to assist them to develop strategies to deliver one-to-one communication through mobile, email and online. Supporting a traditional catalogue campaign with the utilisation of interactive and digital services can increase the longevity of the catalogue, improve reach and ultimately response rates. It also has a powerful correlation with customer satisfaction.

Launched in November 2007, Lasoo.com.au is a pre-shop portal that enables customers to check pricing and product ranges before visiting their retailer of choice. Operating for almost two years, the volume of traffic is testament to its growing support and recognition.

In the 12 months to June 30th 2009, we had over 8.5 million unique visitors to the site, with 40% returning more than once. The average session time was 8 minutes and 60% of the visitors were female aged 30-55 years.

We have also just launched the Lasoo.com.au iPhone application, bringing the full search and browse functionality of the Lasoo website directly to the handset. This is the first fully-featured iPhone app of its kind in Australia and anyone using this type of phone can download the application for free then search across catalogues, products and offers from Australia's leading retailers while they're out and about.

Our Dynamic Catalogue product powers retailer's catalogues on their own sites. This has had similar success and is the leading catalogue viewing technology used by Australian retailers.

Financial summary and group result full year slides

As you can see from this summary of our financial performance, Salmat recorded a strong result for the full year to June 2009.

Sales were $890.8 million which was 9.7% up on last year. EBITA before significant items was up 34.3% on the prior year as depreciation increased but at a lower rate. EBITDA before significant items increased by 27.1% as we focused on improving efficiencies and extracting synergies from the HPA acquisition.

Net profit after tax but before significant items was up 49.7%. Net profit after tax and after significant items was up 168.2% leading to an EPS increase of 141.1%.

The Board's confidence in our future prospects led them to declare a final dividend of 11.0 cents per share fully franked. This brought the total dividend for the year to 20 cents per share, representing an increase of 8.1% on the previous year. Our EPS also increased from 9 cents to 21.7 cents representing an increase of 141.1%

Revenue growth slide

We planned for growth across all of our divisions. I am pleased to report that Business Process Outsourcing achieved revenue growth of 21.2% to $370.8 million, mainly due to the full twelve months inclusion of the HPA acquisition from November 2007 together with organic growth. EBITA before significant items increased by 37.3% and the EBITA margin increased from 9.8% last year to 11.1% this year.

Our Customer Contact Solutions division grew organically in the order of 6.9% to $294.2 million. EBITA before significant items was up 30.4% to $21.8 million. Due to a focus on costs and revenue growth, the EBITA margin increased from 6.1% last year to 7.4% this year.

Targeted Media Solutions declined by 2.2% to $225.7 million with our decision to exit non-catalogue work in the distribution of newspapers and directories, both of which are low margin activities consuming valuable capacity in our network. In addition, with changes in legislation we no longer captured pass through telco revenue in our Interactive division relating to the SMS marketing work we do. Both activities reduced our revenue contribution but likewise improved our return on sales. The underlying revenue growth in Targeted Media Solutions excluding newspapers and directories was 4.7%.

Targeted Media Solutions' EBITA margin increased from 11.5% to 12.5% in the period with the removal of low margin activities.

This waterfall slide visually shows the contributors to our revenue improvement this year. The largest contribution came from the full 12 months revenue from HPA.

EBITA (before significant items) slide

All divisions contributed positively to the EBITA growth. The Targeted Media Solutions EBITA result is noteworthy as it increased by $1.6 million despite the drop in revenue and it also included a $5.8 million loss from Lasoo. Last year the Lasoo cost was shown as a significant item.

Customer Contact Solutions and Business Process Outsourcing both made good contributions to EBITA and corporate costs at the EBITA level were $2 million lower than last year.

Key ratios slide

All of the key ratios listed have shown signs of improvement as a result of our good result this year and our improved borrowing position.

Our return on capital employed has improved from 8% to 14.5%.

Our EBITA margin has also increased from 7.2% to 8.8% even though the Lasoo costs have moved from significant items last year to normal EBITA this year.

Our NPAT margin has improved from 1.6% to 3.9%. EPS has increased by 141.1% from 9 cents to 21.7 cents.

As a result of our improved operating performance and the property sales our gearing ratio or debt to debt plus equity has improved from 43.6% to 37.3%.

Earnings growth focus 2010 – BPO slide

I'll now move into opportunities that we foresee within our three business divisions. For Business Process Outsourcing, we anticipate that print and mail volumes in the essential mail area are likely to remain flat in the upcoming year and discretionary mail volumes will continue to be affected by a weaker economy. Electronic delivery is predicted to continue to grow at double digit rates but this is off a low base.

Further integration savings and reductions in overheads will continue to contribute to profitability. Some of these will come from general business initiatives and further benefits will flow from the HPA integration with a continued focus on overhead costs and site consolidation activity.

Our Philippines operation offers offshoring opportunity for clients wishing to send data entry, scanning, programming and contact centre work overseas and we are targeting this as another area of growth for the Company.

Earnings growth focus 2010 – CCS slide

Within our Customer Contact Solutions area, the majority of our revenue growth will continue to come from opportunities across our existing client base. Our ability to offer a more aligned suite of capabilities than our competitors based on existing relationships and offerings has provided us with a competitive edge and we expect this will continue. Further opportunities exist within Australian corporates and government departments, which currently use a low level of outsourcing in this area.

Emerging services within this division have aggressive growth targets. The @Home network is complementary to our traditional call centre solution and is a cost effective and scalable offering. Its success is driven by excellent market acceptance.

We are also anticipating continued growth in our speech solutions area during the next year, particularly in light of issues surrounding data fraud and security within the financial services sector. Salmat's voice biometric system offers real security solutions to help customers manage and reduce their exposure to fraud and identity theft. Likewise, this platform provides clients with the opportunity to segment their customer base by routing calls to specialist service agents based on the individual's profile, reducing their service costs and enhancing the customer experience.

Our learning and development division is being used as an induction and skills development tool by retail clients and is proving to be an extremely cost effective and flexible solution to improve the selling skills and competencies of sales teams. We anticipate this service will be another area of growth moving forward.

Earnings growth focus – TMS slide

Within our Targeted Media solutions area, significant prospects exist within the retail sector reflecting a shift in the way this industry chooses to communicate with its customers.

Increasingly clients require a multi-channel communication capability so that they can link paper-based, mobile, SMS, voice and email technologies – Salmat is ideally positioned to integrate these solutions accordingly.

In the catalogue area, we foresee growth through a combination of organic and new business wins as we leverage our highly unique delivery model and competency.

We aim to break even on Lasoo by the end of 2011 as we continue to invest in building both the brand and content. We are also evolving a complete digital communications solution across on-line, SMS, email and social networking platforms.

****Outlook slide****

We pride ourselves on our ability to provide all of our clients' customer communication needs under the one roof.

With a highly diversified product offering, no other business comes close to offering the same breadth and depth of services, helping our clients' to achieve real business efficiencies.

Having completed the appointment of the new senior leadership team, we are all focused on the consolidation of our one-to-one communications model to capitalise on the significant opportunities for organic growth amongst our existing client base. By focusing on extending our services throughout these organisations and providing an enterprise wide solution, we can maximise synergies, lift customer engagement and reduce costs.

Rather than targeting clients according to their individual needs, we intend providing a comprehensive suite of relevant services to different vertical markets. We are excited about the opportunities that exist not only amongst our current client base, but also across the mid-tier sector where we do not have a significant presence.

In conclusion, we anticipate a stable economic and competitive market environment moving forward and we will provide an update to our 2010 year at our AGM in November.

That concludes the presentation today. I'll now open up the floor for any questions.