16 August 2011

Salmat building for the future

Salmat Limited (ASX:SLM), Australia's leading marketing communications and outsourced business services company specialising in innovative and strategic multichannel solutions, today announced revenue of $863.0 million for the year ended 30 June 2011, slightly down by 1.8% on the prior year.

Underlying EBITDA was $109.6m and underlying EBITA was $88.6 million, being in line with guidance. The underlying EBITA margin was stable at 10.3% (2010: 10.4%).

Underlying net profit after tax was $42.4 million, before a net significant item expense of $6.4 million which determined a statutory profit (NPAT) of $36.0 million. The significant item costs related to investments in building out Salmat's digital growth strategy and driving operational efficiencies.

The Board declared a final dividend of 12.5 cents per share, bringing the full year dividend total to 24.0 cents per share, fully franked. This represents an increase of 2.1% on the prior full year regular dividend.

Investment in Salmat's future growth - including the acquisition of a number of digital businesses and the repositioning of the Business Process Outsourcing (BPO) and Customer Contact Solutions (CCS) divisions - was a key theme of the year, as the business undertook a number of strategic initiatives to strengthen its market-leading position in integrated communication and outsourced business services and the rapidly growing digital communication market.

$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Reported sales revenue	863.0	878.8	- 1.8%
Underlying EBITDA	109.6	113.0	- 3.1%
Underlying EBITA	88.6	91.2	- 2.8%
Underlying net profit after tax	42.4	47.4	- 10.6%
Significant items after tax	(6.4)	1.7	NMF
Statutory profit (NPAT)	36.0	49.1	- 26.8%
Underlying earnings per share (cents)	26.8	30.0	- 10.7%
Earnings per share (cents)	22.7	31.1	- 26.9%
Final dividend per share (cents) – fully franked	12.5	12.5	0%
Total full year dividend per share (cents) – fully franked	24.0	23.5*	+ 2.1%

* Excludes special dividend of 10.0 cents per share.

Reported sales revenue of $863.0 million was driven by Targeted Media Solutions (TMS) normalised revenue growing by 7.1% on the prior year. Customer Contact Solutions (CCS) revenue was 3.6% lower with the exit of the Telstra contract and Business Process Outsourcing (BPO) normalised revenue was down 6.3% following a softer trading environment.

Underlying EBITA of $88.6 million was at the midpoint of our market guidance. Targeted Media Solutions normalised EBITA was up 4.3% on the prior year. With changes in the client portfolio, Customer Contact Solutions underlying

EBITA was down 20.0% and Business Process Outsourcing normalised EBITA was down 4.3%. Corporate costs were down 11.7% compared with the prior year. The **group underlying EBITA margin** remained stable at 10.3% (2010: 10.4%).

Significant items after tax had a net impact of $6.4 million in costs for the year, resulting from one-off investments in BPO site relocations, acquisition transaction and integration costs, restructuring and contract closure costs, offset slightly by residual deferred profit on the sale and leaseback of properties in Sydney and Brisbane in an earlier period.

Statutory profit (NPAT) was $36.0 million, as a result of one off restructuring and investments, higher amortisation and higher net interest expense.

Net debt was $258.3 million at year end, with the increase mainly due to funding of the digital business acquisition made earlier in the year.

Cash capital expenditure of $23.8 million was higher than the prior year as we continue our transformation and investment strategy for the future. The key capex items were property relocations and improvement, production technology upgrades and computer and software upgrades.

"It's been a year of investment for Salmat," said Chief Executive Officer Grant Harrod. "We've invested in strengthening our traditional businesses as well as building out our digital communication strategy."

"We've also managed to achieve a solid revenue result despite a challenging trading environment which has impacted many Australian businesses, confirming the resilient nature of many of Salmat's activities and the high rate of growth in digital volumes," said Mr Harrod.

"I'm confident that all areas of the business are now in a much stronger position and are well-placed to expand their market share and position Salmat as the leading marketing communications and outsourced business services company in the Australian marketplace," he said.

In support of the company's solid position, the directors are pleased to declare a **final dividend** of 12.5 cents per share, fully franked.

Operational review

Targeted Media Solutions

$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Normalised sales revenue[1]	250.9	234.2	+ 7.1%
Normalised underlying EBITA[2]	42.5	40.8	+ 4.3%

1: FY10 revenue figure adjusted for transfer of business from BPO division ($3.6m).
2: FY10 EBITA figure adjusted for transfer of business from BPO division ($0.5m).

Targeted Media Solutions revenue grew 7.1% for the year. The existing digital businesses – including Lasoo, Interactive and data services – all delivered solid revenue growth.

Underlying EBITA grew by 4.3% to $42.5 million. Earnings growth was lower than the revenue growth rate, primarily due to investment spending on Lasoo and Roamz as well as some duplication following acquisitions.

Major retailer catalogue volumes grew slightly on the previous year as these clients invested in marketing to drive sales, though smaller retailer activity was impacted by the economic conditions.

Lasoo consumer and client volumes continued an upward trend that has persisted since the site was launched. Site visits were up 43% for the year, while offer interactions and impressions were both up more than 45% on the prior year.

Interactive email and SMS volumes grew by more than 70% and 20% respectively on an underlying basis, supported by increased market demand. Additional volumes from the new digital businesses acquired during the year boosted this growth to more than 150% and 375% respectively.

We have now integrated the digital businesses we acquired in December 2010 to establish a new digital communication centre of excellence. The new combined team has been extremely busy establishing new sales opportunities from Salmat's extensive client network. In June, Salmat announced the appointment of a new CEO for its digital businesses: Nick Spooner will join Salmat in late August, bringing a wealth of digital experience from prior digital media roles.

Customer Contact Solutions

$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Sales revenue	293.7	304.8	- 3.6%
Underlying EBITA	16.0	20.0	- 20.0%

Customer Contact Solutions revenue was down 3.6% on the prior year to $293.7 million: a solid result considering the completion of a major contact centre contract and the exit of an underperforming business in Asia during the year.

Underlying EBITA was down 20.0% to $16.0 million, impacted by the closure of contracts and costs relating to these contracts. Costs were also incurred to restructure and revitalise the Direct Sales, e-Learning and Speech Solutions businesses, which are already showing strong signs of improvement in results.

The strategy to move from contact centre commodity work to more premium services is progressing to plan. There is a very strong pipeline for new business in all service areas of the division, which is expected to translate to improved results in FY12.

Business Process Outsourcing

$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Normalised sales revenue[1]	318.5	339.8	- 6.3%
Normalised underlying EBITA[2]	41.8	43.7	- 4.3%

1: FY10 revenue figure adjusted for transfer of business to TMS division ($3.6m) and FX impact ($1.9m).
2: FY10 EBITA figure adjusted for transfer of business to TMS division ($0.5m).

Business Process Outsourcing revenue was down 6.3% on the prior year to $318.5 million, largely due to lower mail volumes predominately due to softer trading conditions in certain key markets with the shift to electronic presentment holding at around 3%. New business wins will restore these volumes in FY12. Revenue from e-solutions and scanning was up on the prior year.

Normalised underlying EBITA was down 4.3% to $41.8 million. One-off investment costs associated with a number of site relocations, new colour print technology installation and e-business restructuring contributed to earnings being down. A focus on cost containment, improved efficiency and the implementation of new business wins should have a positive impact in the current year.

Now that the site integrations and colour print technology installation is complete, savings and volume growth from these initiatives will start to flow through in FY12 onwards.

We anticipate strong growth from the e-solutions portfolio over the next few years.

Digital business acquisition update

The integration of the new digital businesses into the Salmat business has now been completed, with the creation of a digital communication 'centre of excellence'. Five new key service areas – including search engine marketing and search engine optimisation, self-service SMS and email, web development, eCommerce services, consulting services and promotions - have been added to the digital portfolio and the combined sales teams are actively cross-selling these services into the extensive Salmat client base, as well as offering other Salmat services to the acquired clients.

The potential $15.7 million vendor performance hurdle payment was not triggered. The synergies from the acquisition are on track to meet the acquisition performance guidance for FY12.

Market update

“Many of Salmat’s businesses have proven to be relatively resilient to economic softness. While we expect ongoing volatility in global markets will continue to dampen local trading conditions, we anticipate stable volumes in traditional services and continued high growth in digital volumes in the coming year,” said Grant Harrod.

“The investment we’ve made in our traditional businesses over the past year will continue to generate new wins and steady volumes in a more efficient manner.

“Our digital division – including Lasoo and the newer interactive and online businesses acquired during FY11 – is expected to deliver strong and accelerating growth in line with overall market demand for these services.

“We will provide more details on our performance to date and outlook for FY12 at our annual general meeting in November,” said Mr Harrod.

ABOUT SALMAT

Salmat is Australia's leading marketing communications and outsourced business services company.

Salmat helps businesses find, acquire, grow and retain customers by delivering innovative multichannel communications solutions across an unmatched range of channel options - including:

Digital:	web development, data analytics, e-commerce, social media, email, SMS, search, mobile, e-solutions, scanning, archiving, Lasoo.com.
Voice:	call centres, speech solutions, voice biometrics.
Mail:	unaddressed mail (catalogues), direct mail, essential mail.

Measureable Results

Return on Communication **-** we deliver a return on our clients' investment in communication with measurable results demonstrating improved sales outcomes and productivity improvements.

Market Leaders

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

Targeted Media Solutions (TMS) delivers more than 5 billion unaddressed items 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. Salmat's new business, Salmat Digital, brings together all of Salmat's digital capabilities into a digital centre of excellence under TMS. This new business establishes Salmat as Australia's leading digital marketing communications provider. Salmat Digital has extensive capability across nearly every aspect of digital marketing communication including: data analytics, online, e-commerce, email, SMS, social media and e-solutions. Lasoo.com.au - Australia's premier online pre-shop website - also forms part of Salmat Digital.

Customer Contact Solutions (CCS) engages in millions of conversations each year for its clients through its contact centres. 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 as well as voice biometric technology and e-Learning training.

Business Process Outsourcing (BPO) 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. The division, which seeks to streamline and improve delivery of these regular services, also 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.

For more information on Salmat go to www.salmat.com

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