Tuesday 20 August 2013

Salmat announces full year results for FY13:

a year of strategic divestment and investing for future growth.

Salmat Limited (ASX:SLM) today announced its full year results for the year ended 30 June 2013. Some of the key highlights include:

- Underlying EBITA of $25.8 million, within guidance.
- Underlying NPAT of $16.7 million, up 31.5% on pcp.
- Statutory NPAT of $40.1 million, up 32.3% on pcp.
- Strategic divestment of legacy BPO division for $375m.
- Good progress made on growth strategy.
- BPO separation process on track for completion by 2H14.
- Solid result in challenging trading conditions and period of transformation.
- Net cash position of $90 million at 30 June 2013.
- Final dividend of 7.5cps, amounting to a full year dividend of 32.5cps, fully franked.

Revenue from continuing operations was $467.6 million for the year ended 30 June 2013, down by 7.9% on the prior year. Underlying EBITA was $25.8 million (2012: $31.3m), within guidance provided of $25-28 million. Included within underlying EBITA was $4.5m of operating expenses incurred in building out the group's strategic direction. EBITDA was $36.3 million (2012: $42.4m).

Statutory Net Profit after Tax (NPAT) was $40.1 million (2012: $30.3m). Underlying NPAT was $16.7m (2012: $12.7m). Underlying NPAT excludes net significant items after tax of $10.9 million which comprised restructuring and separation costs associated with the BPO sale and an intangibles impairment charge for discontinued digital businesses.

The Board declared a final dividend of 7.5 cents per share (2012: 10.5cps) payable on 19 September 2013, with a record date of 3 September 2013. This brings the full year dividend total to 32.5 cents per share (2012: 19cps), fully franked. This included a special dividend of 21 cents per share.

"This has been a transitional year for Salmat across all areas of the business, as we divested the major BPO division and restructured the remaining business into two key divisions: Consumer Marketing Solutions (CMS) and Customer Engagement Solutions (CES)," said interim CEO, Mr Peter Mattick.

"The BPO separation is a complicated process taking place over an 18 month period, so this has occupied much of our attention in FY13. While we have already achieved around half of our targeted $10 million annualised savings as part of this process, the balance of costs won't be out until after the separation process is completed in the second half of FY14.

"We've also been investing in our major growth strategy, which was detailed at our recent Investor Briefing in July. This strategy involves building out technology-based platforms that deliver sophisticated, integrated communication solutions to our clients on a variable-cost model.

"The key platforms developed as part of this strategy are Universal Catalogue (bringing together print and online catalogues); Influence (multi-channel campaign management); and Reach (cloud-based multi-channel contact centre model).

"We've already had a strong initial response to these new offerings, which will continue being built out and integrated over the next two years," he said. "Development of these platforms and our people in support of our vision to be the leading multi-channel communication and engagement provider in the Australasian marketplace will require $12 million in operating expenditure in FY14, following $4.5 million spent in FY13. There will also be a capital expenditure of $12 million additional to our normal levels.

"Salmat has achieved a reasonable result given the internal focus of FY13 and the ongoing economic pressures on our retail clients, with underlying EBITA within our guidance range and underlying profit up 31.5%. While there is still more investment and work to be done, we are positive that we are on the right track for future growth," said Mr Mattick. "Now that BPO has been divested, we have a clear focus on sales and clients within our remaining business to drive growth in the next few years."

$ million Continuing operations	2013	2012	Change %
Revenue	467.6	507.9	-7.9%
Underlying EBITA	25.8	31.3	-17.6%
Underlying profit (NPAT)[1]	16.7	12.7	31.5%
Significant items after tax	-10.9	-1.5	-616.2%
Profit from discontinued operations (NPAT)	34.3	19.1	79.6%
Statutory profit (NPAT)	40.1	30.3	32.3%
Underlying earnings per share (cents)	10.5	8.1	30.0%
Earnings per share (cents)	25.4	19.2	32.3%
Final dividend (cents per share)	7.5	10.5	-28.6%
Total ordinary full year dividend (cents per share)	11.5	19.0	-39.5%
Special dividend	21.0	-	-

[1] Note: Adjusted for significant items. Refer Note 2 in Appendix 4E Full Year report

Revenue of $467.6 million (pcp $507.9m) was down by 7.9% on the pcp. The trading environment during 2013 was difficult and impacted all participants across the Australian retail landscape. Direct Sales was particularly impacted by the current trading conditions with energy retailers leaving the channel under regulator pressure. Other reductions in revenue were primarily due to discontinued business within the CES division and the decision to close some non-strategic digital services. Catalogue market share remains resilient, with the market experiencing moderate reductions in volumes.

Underlying EBITA of $25.8 million (pcp $31.3m) was down by 17.6% on the pcp. Investment in the growth strategy had an impact of $4.5 million on the P&L in FY13 and is expected to total $12 million in FY14. EBITA was also impacted by the reduction of revenue and exited businesses. Some parts of the business – notably contact centres – did achieve strong margin growth on the back of a strategy to pursue value-added, higher margin contracts, however this was offset by other areas such as Direct Sales and catalogues.

Significant items after tax amounted to costs of $10.9 million (pcp $1.5m). These related to restructuring and separation costs associated with the BPO sale and an intangibles impairment charge for a number of non-strategic digital businesses that were discontinued during the year.

Statutory NPAT was $40.1 million (pcp $30.3m) and was positively impacted by profit on the sale of the discontinued BPO division as well as a reduced net interest expense compared to the prior year.

Net cash was $90 million at year end, compared with net debt of $241.6m at 30 June 2012. This followed the sale of the BPO business and $56.7 million returned to shareholders via dividend during the year.

A **Final Dividend** of 7.5 cents per share, fully franked (pcp 10.5cps) brings the total dividend for the year to 32.5 cents per share, fully franked, including a special dividend of 21 cents per share. The dividends declared for FY13 represent a payout ratio of 126% and a return of 14.3%.

Operational review

Consumer Marketing Solutions

$ million	2013	2012	Change % pcp
Sales revenue	260.8	275.2	-5.3%
Underlying EBITA	30.1	36.5	-17.5%
Margin	11.5%	13.3%	-180bp

Consumer Marketing Solutions revenue was down 5.3% on the pcp, primarily due to exiting some non-strategic services in the digital space and the tough trading environment in retail impacting catalogues that saw some volume reductions. We retained market share in catalogues and are now seeing many retailers return to the category after trialling other media.

Underlying EBITA and margin was impacted by reduced volumes as well as investment in the division to support our growth strategy including the Universal Catalogue and Influence solutions, which were launched to the market late in FY13.

Our focus is now on integrating both the print and online elements (including Lasoo) of our Universal Catalogue solution and we have had good early success with this approach.

We've also had particular success in selling campaign-based catalogue solutions via the self-service portal, with double-digit revenue growth in SME segment.

With Influence, Salmat has partnered with a leading global technology company to provide a world-class marketing platform to the Australian market at an affordable price. We have discontinued a number of noncore services within the digital suite to refocus our attention on strategic, higher-margin services that link effectively with the rest of the business.

Our decision to invest in technology, systems, people and sales support to deliver the Universal Catalogue and Influence platforms to the market has already been rewarded with a solid pipeline of prospects, which we expect to begin converting through the first half of FY14.

Customer Engagement Solutions

$ million	2013	2012	Change % pcp
Sales revenue	201.0	232.3	-13.4%
Underlying EBITA	11.2	11.0	+1.8%
Margin	5.6%	4.7%	+90bp

Customer Engagement Solutions revenue was down 13.4% on the prior year, as a result of reduced revenue in the Direct Sales area as well as a number of exited contact centre contracts. Direct Sales was impacted during the year as energy retailers pulled out of the door-to-door segment following pressure from the ACCC about sales tactics. Within contact centres, FY13 saw the cycling out of the last remaining labour-intensive contracts, which impacted revenue but has already improved margins.

Underlying EBITA and margin increased on the back of the new value-added technology based contact centre contracts taking a larger share of the mix. This was offset somewhat by investment in platform technology and the cost of supporting two platforms during the transition phase. These costs will be out after FY14.

Implementing and launching the new Reach platform solution was a major focus of FY13 and will continue to require an investment of both time and money as it is developed during FY14. New Unified Communications technology was in place by the end of FY13, with more than a third of contact centres already transitioned to the new system.

Investment in the Reach platform has greatly expanded the sales opportunities for the CES division as the new cloud-based solution allows us to target both outsourced and in-house operations, and offer a much faster, more flexible implementation. Interest in the new solution has been strong and we are already starting to see an increase in sales, with more than $30 million TCV closed in just nine months of FY13.

There has also been a focus on 'bestshoring', in response to clients demanding lower cost solution with same service standards. This has seen Salmat shifting contact centre work to New Zealand and the Philippines, which will reduce revenue but maintain profit for the same work. This year, overseas operations are expected to grow from around 20% to 30% of contact centre revenue.

Salmat remains committed to the Direct Sales channel and we have been pursuing new strategies to fill the gap left by the major utility contract that has closed, which will impact revenue by around $22 million in FY14. This includes a new technology-based door-to-door sales research tool and a focus on more kiosks and more 'in store' sales promotions.

Chairman and Board succession

As previously announced to the market, Richard Lee intends to retire from the Salmat Board at the upcoming Annual General Meeting in November. Accordingly, he has transitioned out of the Chairman role as of 1 July 2013, at which time Peter Mattick assumed the role.

The search for a new Chief Executive Officer is now well underway. Peter Mattick will continue to serve as interim Chief Executive Officer until a suitable candidate is found.

Outlook

"We've made early progress on Salmat's new growth strategy, with a pleasing market response to our recently-launched platform solutions. Early sales are indicative of the potential of these services," said Mr Mattick.

"A strategy of this scale does require time and patience to develop however, and we do not expect the see the full effect of financial benefits until FY15. Further investment is required and we will also not realise the full run rate cost savings from the BPO divestment until the separation process is completed in 2H14.

"Where FY13 marked the launch of our strategy, FY14 will be year we build out and develop the solutions, with the benefits to be fully realised from FY15 onwards," he said. "We have committed to paying our shareholders a dividend of 15 cents per share, fully franked in the FY14 year while we continue to grow and develop our strategic platforms," he said.

"While investment costs, including $12 million in additional capital expenditure and $12 million in operating expenditure will impact profit in FY14, we are confident that this strategy gives Salmat a market competitive advantage and sets in place platforms for sales growth as the business moves to becoming a seamless multi-channel communication provider," said Mr Mattick.

ENDS

ABOUT SALMAT

Salmat is focussed on driving Return on Communication for our clients through applicable and effective media channels and on delivering outcomes that improve marketing effectiveness, are highly measurable, engaging and build loyalty and lasting relationships with consumers.

Market Leaders

Salmat has two market-leading divisions:

Consumer Marketing Solutions (CMS) division consists of the Salmat Digital, Targeted Media Solutions and Lasoo businesses. CMS delivers relevant, targeted and integrated communications across all digital and traditional channels. Salmat's solutions enable clients to interact and engage with their customers through interactive email, online content management, search optimisation, data insights and analytics, loyalty management, e-commerce, SMS, letterbox advertising and catalogue distribution, as well as the Influence multi-channel marketing solution, and Australia's premier online pre-shopping site, Lasoo.com.

Customer Engagement Solutions (CES) helps Australia and New Zealand's most trusted brands generate revenue, exit cost, and improve their customer experience. Salmat designs and delivers multi-channel contact centre services and technology solutions, field sales services and learning and development solutions. Salmat CES specialises in maximising customer lifetime value using inbound and outbound voice, email, web chat, social media, mobile, SMS and field sales. Salmat provides sophisticated speech technology and automation solutions including natural language speech recognition, voice biometrics and Reach, enterprise class contact centre technology solutions hosted in the cloud.

Salmat is focussed on the growth and sustainability of our clients by designing and delivering highly engaging relationships with their customers.

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

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