Tuesday 26 August 2014

Salmat announces full year results for FY14:
good progress on growth strategy, with many milestones achieved.

Salmat Limited (ASX: SLM) today announced its full year results for the year ended 30 June 2014. Key points include:

- Good progress made on growth strategy, with majority of milestones achieved.
- A period of significant investment and transformation.
- Revenue of $452.8 million, within 3.2% of the prior year.
- Underlying EBITA of $8.6 million, in line with guidance.
- Underlying NPAT of $6.7 million.
- Statutory NPAT of $0.8 million.
- Net cash position of $50.0 million at 30 June 2014.
- Final dividend of 7.5cps, amounting to a full year dividend of 15.0cps, fully franked.

Revenue from continuing operations was $452.8 million for the year ended 30 June 2014, down by 3.2% on the prior year. Underlying EBITA was $8.6 million (2013: $25.8m), in line with guidance provided of approximately $8 million. Included within underlying EBITA was $9m of operating expenses incurred in building out the group's strategic direction. Underlying EBITDA was $18.2 million (2013: $36.3m).

Statutory Net Profit after Tax (NPAT) was $0.8 million (2013: $40.1m). Underlying NPAT was $6.7 million (2013: $16.7m). Underlying NPAT excludes net significant items after tax of $5.9 million which included restructuring and separation costs associated with the BPO sale, acquisition costs and a fair value adjustment relating to deferred consideration.

In line with the July 2013 announcement, the Board declared a final dividend of 7.5 cents per share (2013: 7.5cps) payable on 18 September 2014, with a record date of 1 September 2014. This brings the full year dividend total to 15.0 cents per share (2013: 32.5cps including a 21.0cps special dividend), fully franked.

"I've joined Salmat at a very exciting and important juncture in its history," said new CEO, Mr Craig Dower.

"As outlined by the team last July, FY14 was marked as the intensive investment and building phase of Salmat's three year growth strategy. While the separation of our BPO business has proven to be more complex than first anticipated, we've achieved a lot in just 12 months.

"We've invested in robust new IT infrastructure, hardware and software and migrated our systems to new hosted data centres. We've made significant progress on building sophisticated platform-based solutions that cater to both existing client demands and future market growth. We've also put enhanced sales support initiatives in place and boosted our sales resources. And, importantly, we're adding new leadership capabilities.

"It's a strategy that is already delivering in terms of a growing sales pipeline, a rising conversion rate and some key wins already secured.

"The size of the transformation effort was larger than anticipated, however we have made solid progress and are confident that this current major phase will be completed by early 2015.

"We are confident of solid top line growth in FY15, with benefits flowing through to the bottom line from the second half onwards," he said.

$ million	2014	2013	Change %
Revenue	452.8	467.6	-3.2%
Underlying EBITA[1]	8.6	25.8	-66.7%
Underlying profit (NPAT)	6.7	16.7	-59.9%
Significant items after tax	-5.9	-10.9	-45.9%
Profit from discontinued operations (NPAT)	-	34.4	-100.0%
Statutory profit (NPAT)	0.8	40.1	-98.0%
Underlying earnings per share (cents)	0.2	10.5	-98.1%
Earnings per share (cents)	0.2	25.4	-99.2%
Final dividend (cents per share)	7.5	7.5	-
Total ordinary full year dividend (cents per share)	15.0	11.5	+30.4%
Special dividend	-	21.0	NMF

[1] Before significant items of $9.4m before tax and $5.9m after tax

Revenue of $452.8 million (pcp $467.6m) was down by 3.2% on the pcp. This was mainly due to delayed contact centre revenue as migration to the new Reach technology platform took longer than anticipated, as well as the gap from Direct Sales and catalogue contracts that were not renewed from the prior year. Pleasingly, most of this gap - which was in excess of $30 million - was filled with new work during FY14.

Underlying EBITA of $8.6 million (pcp $25.8m) was down by 66.7% on the pcp. Investment in new platforms had an impact of $9 million on the P&L in FY14. EBITA was also impacted across both divisions by a higher incidence of lower-margin work, due to a shift in the product and service mix.

Significant items after tax amounted to costs of $5.9 million (pcp $10.9m). These related to residual restructuring and separation costs associated with the BPO sale, acquisition costs relating to the Netstarter and MicroSourcing deals and a fair value adjustment relating to deferred consideration.

Statutory NPAT was $0.8 million (pcp $40.1m). The variance against the prior year was exacerbated by the inclusion of $34.4 million NPAT from discontinued operations in the FY13 result.

Net cash was $50 million at year end, compared with $90 million at 30 June 2013. Outlays on capital expenditure of $17 million, net acquisition cash payments of $14 million and dividend payments of $24 million - offset by operating cash flows - accounted for the difference.

A **Final Dividend** of 7.5 cents per share, fully franked (pcp 7.5cps) brings the total dividend for the year to 15.0 cents per share, fully franked. The dividends declared for FY14 represent a return of 7.5%.

Operational review

Consumer Marketing Solutions

$ million	2014	2013	Change % pcp
Sales revenue	259.2	260.8	-0.6%
Underlying EBITA	23.8	30.1	-20.9%
Margin	9.2%	11.5%	

Consumer Marketing Solutions revenue was in line with the previous year, down 0.6% on the pcp. Increased catalogue volumes at both the top tier and SME level helped to replace revenue from two key contracts discontinued from FY13. Digital revenue also held up well against the previous year.

Underlying EBITA and margin was impacted by the cost of investment in the division to support our growth strategy, as well as a higher weighting of lower-margin digital services during the year.

The combined online and offline approach of the Universal Catalogue solution continues to gain ground, with a significant increase in the number of clients taking up combined services during the year. Salmat's strategy to divert other media spend to catalogues will support this trend further in FY15.

Within Digital, the Netstarter ecommerce acquisition and the implementation of a new job management system during the year have rounded out Salmat's capabilities while enabling a clearer line of sight to service efficiency and job-related costs.

The acquisition also brought in a new suite of mid-tier clients, which are ideally suited to benefit from Salmat's wider range of services. As well as cross-selling into this existing base, Salmat has invested in the tools and sales support that enable us to more effectively target the mid-tier market. Diverting spend from other media to Salmat channels is a key part of this strategy.

Customer Engagement Solutions

$ million	2014	2013	Change % pcp
Sales revenue	187.9	201.0	-6.5%
Underlying EBITA	3.0	11.2	-73.2%
Margin	1.6%	5.6%	

Customer Engagement Solutions revenue closed the year down 6.5% on the pcp. This resulted from the $22 million gap presented by the discontinued energy business in Direct Sales as well as some contact centre closures and contracts that moved offshore. A focus on completing the new platform migration before commencing new business implementations also delayed revenue from new wins.

Underlying EBITA and margin was significantly impacted by investment costs across the division this year, as well as the decision to fill excess capacity in the short term with some lower margin work. Investment costs related to the new technology, the cost of maintaining dual platforms and associated support resources until the migration is complete, plus costs associated with the MicroSourcing business acquisition.

The extension of the Reach completion date to the end of the first quarter of 2015 will continue to impact performance early in the year. Once the migration is completed, this will free resources and enable Salmat to focus on implementing new business.

There are opportunities presented by the enhanced CES capabilities. The new Reach platform and the geographical and service model expansion afforded by the MicroSourcing acquisition has expanded the potential market for Salmat CES services. We are seeing momentum building in our pipeline and client response to our Reach platform and new operating models has been positive.

With sales starting to grow, attention is also being turned to margin improvement, with a number of initiatives underway to reduce operating costs and maximise efficiency. Salmat expects to achieve $3.5 million in savings from this program in FY15, with the full benefit of reduced costs to flow through in FY16 and beyond.

Senior executive appointments

There were three key senior executive commencements and appointments during the second half of the year.

Salmat's new Chief Executive Officer, Mr Craig Dower, commenced in his role on 14 April 2014. Craig joined the business following seven years with Avanade – a joint venture between Microsoft and Accenture.

During the second half, Salmat also appointed a new Chief Financial Officer – Ms Rebecca Lowde – and a new Head of People and Culture – Ms Julie Stuart – both of whom commenced in August.

Outlook

"We are making progress with Salmat's growth strategy," said Mr Dower. "While initiatives such as the Reach platform migration have taken longer than expected, other milestones have been achieved on time.

"Having completed much of the transformation phase, we are looking forward to the next stage, where we start to see the growing sales pipeline increasingly converted to booked business in the second half.

"I've made clear in previous communication to the market that Salmat's current focus is on executing the remaining growth strategy initiatives, continuing the momentum that is already underway in sales, leveraging and embedding our recent acquisitions, and realising the synergy benefits of a streamlined, platform-based business.

"While it is too early in the year to be providing profit guidance, we've already indicated that we expect to achieve sales growth in the order of 15% this year.

"We will provide a trading update as usual at our Annual General Meeting in November," said Mr Dower.

ENDS

ABOUT SALMAT

We've been getting clients closer to customers since 1979

Thirty-five years ago, good friends, Phil Salter and Peter Mattick formed a partnership that has become one of the most successful customer communications organisations in Australia, Salmat.

Today, we are industry pioneers, ASX listed and have over five billion customer touch-points. But above all, we specialise in doing something impressively simple: we help our clients get closer to their customers.

We do this with clear-sighted, intelligent campaigns that get results, and a down-to-earth, nurturing approach. Whether our clients are going through a growth phase or a challenging business climate, we're there for them.

In many ways, we view ourselves as our clients' professional partner. No matter what line of business a client is in, or what size they are, we have a solution to deliver a better return on their communications.

We have three thousand staff members dedicated to making this happen across Australia, New Zealand and Asia. One half of our team work in Customer Marketing, more specifically, Salmat Digital, Targeted Media Solutions and Lasoo businesses. With their unique blend of strategy & consulting, creative & design and insights & analytics they create rewarding and long-lasting customer connections.

Our other half is made up of Customer Engagement specialists. They provide sophisticated speech technology and automation solutions including natural language speech recognition, voice biometrics and Reach - contact centre technology solutions hosted in the cloud. Plus, tailored voice recognition applications and accredited eLearning training.

With such a vast range of resources we truly do cover all bases. Our contact centres engage in more than 130 million conversations a year for our clients. However, we're not just a voice at the end of the line. We also provide face-to-face sales teams for clients in Australia, New Zealand and Asia.

Over the years, our powerful credentials along with our supportive approach have seen us become a trusted partner to some of the nation's most prominent brands including the Australian Government, the Commonwealth Bank and Woolworths. We operate today with the same genuine attitude that our founders started out with in 1979, continuing to help clients get closer to their customers.
For more information on Salmat go to www.salmat.com

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