Tuesday 24 February 2015

Salmat announces half year results for FY15: renewed revenue growth; continuing transformation.

Salmat Limited (ASX:SLM) today released its half year results for the period ended 31 December 2014. The company posted first half revenue of A$253.5 million, a 9.2% increase on the previous corresponding period (pcp). Investment costs relating to the growth strategy and ongoing business transformation impacted earnings.

A one-off, non-cash impairment of $64.6 million relating to goodwill within the Customer Engagement Solutions (CES) division was also recognised during the period, contributing to a first half net loss of $69.7 million.

Salmat is at the midpoint of a growth strategy initiative to increase sales and profit. This has included the divestment of the BPO division; investment in the Reach contact centre platform; and the streamlining of the Consumer Marketing Solutions (CMS) and CES divisions.

A number of major milestones were achieved during the half, with substantial IT programs largely completed and the successful migration of the Reach platform into new hosted data centres. This has enabled Salmat to shift its focus to the next phase of business transformation, involving a review of all internal systems and processes to improve the cost base and achieve optimal efficiency.

Salmat Chief Executive Officer Craig Dower said: "The first half of the current financial year has been a crucial transitional period for Salmat, as we consolidated recent acquisitions and completed the migration of all legacy platforms into our hosted data-centres."

"Completing these migrations and the separation from our BPO business is a major milestone in the overall growth strategy, which has involved several major projects running concurrently.

"It's been a challenging and complex process. We were completing the platform build for Reach and facilitating the transfer of clients across to this new platform in parallel with the separation from the BPO business, which housed the majority of Salmat's IT infrastructure and required the migration of more than 4000 servers to a new environment. These projects both proved more complex than first expected, requiring additional time and attention and incurring additional costs, which has impacted the results.

"The underlying financial performance for the half - while not surprising given the scale of investment and focus on platform-building – is not where we'd like it to be. We are seeing good top line growth, but earnings have been impacted by one-off costs and margins in non-core services that are currently under review. The result was further impacted by a one-off, non-cash impairment, which relates to goodwill within the CES business," Mr Dower added.

"We are taking a number of steps to address our performance over the medium term. In the 10 months since I commenced as CEO, we've implemented a number of new initiatives to build on Salmat's existing strengths and focus on improving our client offering, operational performance and growth potential.

"Today we are announcing a number of transformation initiatives that will build on the momentum underway, sharpen our focus and ensure that the future growth we achieve is profitable and sustainable," said Mr Dower.

Group results

$ million	H1 2015	H1 2014	Change %
Revenue	253.5	232.1	+ 9.2%
EBITDA	5.1	14.4	- 64.6%
Underlying (loss)/profit before income tax	(2.6)	9.1	*
Significant items: Impairment for CES goodwill Investment & acquisition costs	(64.6)	(2.5)	*
Net (loss)/profit after tax	(69.7)	7.0	*
Interim dividend *(cents per share)*	-	7.5	*

* No meaningful figure

Revenue of $253.5 million was up 9.2% on the prior corresponding period. Revenue was stable across the business and was higher in several areas, including contact centre services. Revenue was also boosted by the acquisitions made during FY14. This revenue result was up 14.9% on the second half of FY14, showing a solid increase on the previous six months.

EBITDA of $5.1 million was down from $14.4 million in the prior corresponding period. This was largely the result of investment costs relating to the growth strategy, particularly in the Customer Engagement Solutions (CES) and IT. Contract closures in Direct Sales and increased sales in some lower-margin services also contributed to the drop. Around $1.4 million was spent on restructuring and transformation projects during the half, focussed on longer-term earnings growth.

An **underlying loss before income tax** of $2.6 million compares with a profit of $9.1 million for 1H14. Depreciation and amortisation was up 31.2% on the prior corresponding period due to the addition of the acquired companies and amortisation of customer-related intangibles and the Reach platform.

An **impairment** loss of $64.6 million was recognised during the half, relating to goodwill within the CES division. The impairment resulted from a number of items, including a review of the Direct Sales business, which resulted in a decision to reduce focus on door-to-door sales. The flow-on effect of delays in the Reach platform also had an impact. Forecasts have been revised based on the known timing of the Reach platform and current market conditions.

Net loss after tax of $69.7 million resulted from the impairment and a tax expense of $2.5 million. Tax was significantly higher this period due to profits generated from overseas entities and movements in timing related differences.

The Board has considered the payment of an interim **dividend** in light of the half year result and has decided that it is prudent to retain the available cash within the business at the present time and not pay a dividend.

Operational review

Consumer Marketing Solutions

$ million	H1 2015	H1 2014	Change % pcp
Sales revenue	141.4	138.0	+ 2.5%
EBITDA	16.9	17.7	- 4.5%
Margin	*12.0%*	*12.8%*	

Consumer Marketing Solutions revenue of $141.4 million for the half year was up 2.5% on the prior corresponding period. The catalogue market experienced volume growth by major clients, while the mid-tier softened slightly and smaller client volumes were steady. The strategy targeting media buyers in the agency market and the Local marketing strategy focused on the SME space are both showing growth.

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EBITDA was down 4.5% to $16.9 million, mainly due to the mix of client volumes across client base and higher operating expenditure relating to the sales team investment. Other areas of the CMS business continue to improve on the back of a concerted focus on costs and overall project management. Overall, digital channels continue to post solid revenue growth year on year.

Customer Engagement Solutions

$ million	H1 2015	H1 2014	Change % pcp
Sales revenue	110.7	91.3	+ 21.2%
EBITDA	0.6	3.4	- 82.4%
Margin	*0.5%*	*3.7%*	

Customer Engagement Solutions revenue was up by more than 20% on the prior corresponding period to $110.7 million. Contact centres in Australia and overseas as well as the MicroSourcing acquisition all contributed to the growth. Other parts of the division, including Direct Sales, experienced revenue decline.

EBITDA of $0.6 million was significantly lower than the $3.4 million result in the prior corresponding period. There were a number of factors that contributed to this, primarily in the contact centre area. IT costs relating to the Reach platform migration as well as investment in the sales team ahead of the new business drive accounted for over $2 million in costs. A portion was also due to the absence of several higher-margin contracts that contributed to the 1H14 result.

Business transformation

While Salmat's growth strategy program has implemented state-of-the-art technology and platform-based services, the underlying business operations have remained geared to a much larger business and a less integrated operating model. A review process initiated over the past several months has identified opportunities for improvement to make Salmat leaner, more efficient, more focussed and ultimately more profitable.

As a result, the Board has approved a transformation program to simplify and unify the business structure; implement common, automated systems; and improve financial reporting capabilities. Where there are under-performing or non-strategic service lines, these will also be reviewed.

The business transformation is centred on the three key principles of:

- **Focus** energy and investment in areas where Salmat is - or can be - the clear market leader. Rationalising the product and service portfolio to focus on scalable and profitable work.
- **Simplify** every aspect of the business – including operations and systems - so that Salmat is agile, responsive, efficient and effective.
- **Grow** the business in a targeted, connected and profitable manner, through more targeted, data-driven sales and account management efforts.

Outlook

“The decision to undertake a business transformation process now will have some impact in terms of additional costs, however this process is essential to ensure Salmat’s longer-term success,” said CEO Craig Dower.

“While the business transformation will have an impact in the second half, we still anticipate top line growth for FY15 and expect revenue to be up by around 10% on the prior year.

“Earnings continue to be impacted by increased costs and lower margins in some areas of the business. Accordingly, we have revised our outlook for full year EBITDA to $11-14 million, excluding significant items,” 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 engagement and marketing services 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. Whether our clients are going through a growth phase or a challenging business climate, we're there for them. 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 six thousand staff members dedicated to making this happen across Australia, New Zealand and Asia. One half of our team work in Consumer Marketing, more specifically, Salmat Digital and Universal Catalogue 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, with innovative and agile marketing solutions for every stage of the consumer lifecycle. We do this using the most up-to-date technology solutions and platforms to deliver innovative and scalable services for any organisation, regardless of size or industry.

Over the years, our powerful credentials and 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.

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