16 February 2012

Interim FY12 results: Resilient performance in challenging conditions

Salmat Limited (ASX:SLM) - Australia's leading marketing and communication company - today announced EBITDA of $48.0 million, up 5.7% on the previous half and down 12.7% on the prior corresponding period ("pcp"). Underlying EBITA* of $38.0 million for the first half of FY12 was in line with December 2011 guidance of $36-38 million. Revenue for the period was $422.3 million, up 1.7% on the previous half and down 5.7% on the pcp.

The Board is pleased to declare an interim dividend of 8.5 cents per share, fully franked. This represents a 100% payout ratio, reflecting the Board's confidence in the business.

Volumes remained stable in the traditional business areas, highlighting the inherent resilience of these channels. Some key new business wins helped to offset the challenging trading conditions and closure of the Telstra Customer Contact Solutions (CCS) contract. The provision of digital services throughout the group continues to expand, with revenues from these services up 49% on the pcp.

Underlying EBITA* was down 22.1% on the back of the Telstra contract closure and additional investments totalling $2.3 million expensed in deploying the company's growth strategy.

Cash conversion and working capital management was strong during the half, with net operating cash flow up $20.8 million on the pcp to $42.5 million.

$ million	H1 2012	H2 2011	% change previous period	H1 2011	% change pcp
Sales revenue	422.3	415.4	+ 1.7%	447.6	- 5.7%
EBITDA	**48.0**	**45.4**	**+ 5.7%**	**55.0**	**- 12.7%**
Underlying EBITA*[1]	**38.0**	**39.8**	**- 4.5%**	**48.8**	**- 22.1%**
Significant items after tax	(0.8)	(3.0)	NMF	(3.4)	NMF
Statutory profit (NPAT)	**13.5**	**13.3**	**+ 1.5%**	**22.7**	**- 40.5%**
Earnings per share (cents)	8.5	8.3	+ 2.4%	14.4	- 41.0%
Dividend (cents per share)	8.5	12.5	- 32.0%	11.5	- 26.1%

"This year we are experiencing the double impact of subdued trading conditions and continued investment in transformational change," said Chief Executive Officer, Grant Harrod.

"Considering these factors, I'm pleased to report that our traditional businesses have continued to post resilient underlying results and that our journey to a stronger digital presence is well underway," said Mr Harrod.

"We've made positive progress with our strategy to build an integrated digital offer, expanding our capability and investing in key JV initiatives and growing digital revenue on the prior period. While work to build the leadership and team structure and deploy scalable systems has pushed out the timing of the acquisition synergies, we are otherwise on track with our digital strategy and achieving continued growth from this fast-expanding market.

"I'm also pleased that we've been able to grow new business to the extent we have in such challenging market conditions as well as drive solid cash flow increases," he said.

*[1] *Underlying EBITA is before significant negative items of $1.1m ($0.8 million after tax) for H1 FY12 and $4.9 million ($3.4 million after tax) in pcp. These figures are as set out in Salmat's reviewed financial statements for period ending 31 December 2011.*

Sales revenue was $422.3 million, up 1.7% on the previous half and down 5.7% on the pcp. The decline in group revenue over the pcp reflects the closure of the Telstra CCS contract in the second half of FY11 (with a $61 million reduction in revenue over the past 12 months), and slightly lower Business Process Outsourcing (BPO) revenues (down $4.3m), offset in part by the contribution of new digital services revenues and good sales momentum that created net new business wins across the group.

EBITDA was down $7 million over the pcp to $48 million. The $7 million reduction includes $5.5 million of EBITA attributable to the Telstra CCS contract in the pcp, as well as approximately $2.3 million in digital business investments and a negative $2.0 million bond rate impact on long service leave liabilities, which was expensed.

Significant items after tax of -$0.8 million were $2.6 million lower than the prior corresponding period and related to restructuring costs.

Reported profit (NPAT) was down $9.2 million on the prior corresponding period at $13.5 million. This was a 1.5% increase on the 2H11 result of $13.3 million. While tax expense was lower than the pcp, amortisation and net interest expenses were higher. Interest increased due to the higher net debt for the digital acquisition and lease interest on the additional finance leases.

Capital expenditure for the period was $14.5 million and related mainly to investments in assets for digital growth; $3 million (plus $4.2 million finance leased) in production technology for further colour upgrades and efficiency in BPO; and $7.3 million in technology hardware and software upgrades and refreshes across the group.

Net debt was $253.5 million as at 31 December 2011 ($4.8 million lower than at 30 June 2011). Tranche B of Salmat's senior debt ($105 million expiring December 2012) was extended 12 months to December 2013 under the same conditions. The remaining tranches of $105 million and $99 million - maturing in December 2013 and December 2014 respectively - remain unchanged.

Net operating cash flow is a strong feature of the current half, up $20.8 million on the pcp to $42.5 million, reflecting tight working capital management, lower tax payments and restructuring costs.

Earnings per share at 8.5 cents has been impacted by the softer earnings and higher interest costs. The Board and management remain committed to driving improved EPS.

The fully franked **interim dividend** of 8.5 cents per share has a record date of 13 March 2012 and is payable on 3 April 2012.

Operational review

Business Process Outsourcing

$ million	H1 2012	H2 2011	% change previous	H1 2011	% change pcp
Sales revenue	158.6	155.6	+ 1.9%	162.9	- 2.6%
Underlying EBITA	21.5	19.9	+ 8.0%	21.9	- 1.8%

Business Process Outsourcing revenue was down 2.6% on the pcp to $158.6 million. Volumes declined over the pcp at a lower rate than expected, aided by new business wins. Mail pack volumes increased from 508 million in the half ending June 2011 to 539 million in the current half. Impression volumes increased both on the pcp and 2H11. E-document volumes also grew across two consecutive periods.

Underlying EBITA was down $0.4 million on the pcp and up $1.6 million on the previous half to $21.5 million, largely due to improved efficiencies flowing from site consolidations and a colour technology refresh in FY11, as well as new business wins.

Continued solid growth in the e-solutions and scanning areas combined with further cost efficiencies will continue to underpin earnings performance in BPO.

Targeted Media Solutions

$ million	H1 2012	H2 2011	% change previous	H1 2011	% change pcp
Sales revenue	142.5	129.1	+ 10.4%	121.8	+ 17.0%
Underlying EBITA	18.7	20.1	- 7.0%	22.5	- 16.9%

Targeted Media Solutions (TMS) revenue was up 17.0% on the pcp, largely due to the contribution from the new digital businesses, which has grown revenue over two consecutive periods.

Underlying EBITA at $18.7 million was down 7.0% on the previous half and down 16.9% on the prior corresponding period. A combination of digital investment costs and reduced catalogue margins during the period impacted this result.

Catalogue volumes remained solid at the top end of the market, while tier two and three retailers reduced activity. Gross margins were impacted by weaker trading conditions, which led to a shift in the mix of major retail and smaller clients and a reduction in some higher-margin activities. The SME market continued to perform well, with volume, revenue and earnings growth.

A key focus during the period in digital has been the consolidation of the acquired businesses, investments and existing Salmat digital services into one integrated digital service centre, with common product platforms and scalability. As a consequence, we are actively investing in people and systems which will defer anticipated acquisition synergies into FY13. The recently appointed head of digital services, Nick Spooner, commenced his role in late August 2011.

$3.8 million was invested during the period in Lasoo ($2.5 million), e-commerce ($0.5 million) and Roamz and other digital ventures ($0.8 million).

Lasoo traffic numbers have continued to grow period on period, especially in emerging areas such as mobile device visits, which were up 90% on the previous half and 111% on the pcp. Management is now shifting the strategic focus from technological development to accelerated commercialisation, in order to better capture growing consumer and retailer demand in online advertising. The marketing investment supporting this growth means that we anticipate Lasoo to post a loss of $3.6 million for the full year.

Roamz launched in late October 2011 and has already achieved 50,000 downloads worldwide. The new e-commerce service has secured three new retail online sites and volumes across services such as email and SMS continue to grow each period.

Customer Contact Solutions

$ million	H1 2012	H2 2011	% change previous	H1 2011	% change pcp
Sales revenue	121.3	130.8	- 7.3%	162.9	- 25.5%
Underlying EBITA	5.7	5.9	- 3.4%	10.0	- 43.0%

Customer Contact Solutions revenue was down 7.3% on the previous half and 25.5% on the pcp to $121.3 million, all on the back of the Telstra CCS contract closure. New wins are starting to make up this shortfall.

Underlying EBITA was down 3.4% on the previous half and 43.0% on the pcp at $5.7 million, flowing on from the reduced revenue as well as start up costs associated with the new business wins. Performance in direct sales – which serves clients in more discretionary markets – was affected by the softer trading conditions, which impacted earnings.

The focus on full service opportunities will continue to improve CCS results over time. The speech solutions business - with new leadership and being integrated more closely into the contact centre business to provide a 'whole solution' approach – is seeing improved performance.

CCS has also recently invested in the latest technology – incorporating telephony, web and social - to greatly expand Salmat's contact centre multi-channel capabilities. This investment will clearly position Salmat as the leader in the outsourced contact centre market in terms of technology and scale and expand revenue streams in this division.

Outlook

"Following December and January trading, clients have highlighted growing uncertainty around trading conditions as most sectors experience reduced demand. In light of the deterioration in sentiment, we are adjusting our forecast for underlying EBITA for the full year of $78-83 million," said Mr Harrod.

"We are confident that our traditional businesses remain resilient and continue to generate good cash returns and we are also confident that our long-term transformational strategy remains on track, if somewhat slowed by the prevailing market conditions.

"Earnings for the full year will be supported by our growth investments and by efficiencies flowing from several productivity and cost control initiatives undertaken in the previous periods.

"We are ready to face the challenging conditions with sound financials, acceptable gearing, strong cash flows and a clear strategy to deliver sustainable earnings. The Board and management also remain confident about our ability to deliver continuing strong dividends," he said.

About Salmat

Salmat is Australia's leading marketing and communications company.

Salmat helps businesses find, acquire, grow and retain customers by delivering innovative multi-channel communication solutions across an unmatched range of channel options including online, mobile, voice and mail.

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

- Targeted Media Solutions (TMS) brings together our media channels of letterbox and digital. Salmat delivers more than five 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 Digital brings together all of Salmat's digital capabilities into a digital centre of excellence. It has extensive capability across nearly every aspect of digital marketing communication including, web development, data analytics, e-commerce, social media, email, SMS, search, mobile, e-solutions and Lasoo.com.au.

- 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. Sophisticated speech solutions, including voice biometric technology, and highly effective field sales teams, also form part of this division.

- 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. BPO streamlines and improves the delivery of these regular services and 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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