Tuesday 25th February 2014

Salmat announces half year results for FY14:
solid progress in year of transformation.

Salmat Limited (ASX:SLM) today announced its half year results for the period ended 31 December 2013. Some of the key highlights include:

- Continued strong cash and balance sheet position.
- Underlying sales growth and strong new business pipeline.
- Growth strategy progressing well.
- Two strategic acquisitions now completed.
- Interim dividend of 7.5 cents per share declared in line with previous commitment.

Revenue from continuing operations was $232.1 million for the half year, down 4.6% on the prior corresponding period. Underlying EBITA was $10.0 million, a reduction on the prior year following the group's investment in transformation.

NPAT from continuing operations was $7.0 million, an increase of $9.2 million on prior corresponding period. Statutory Net Profit after Tax (NPAT) was also $7.0 million, compared with $41.5 million in the pcp (which included $43.6 million profit on the sale of the BPO division).

The Board declared an interim dividend of 7.5 cents per share, fully franked, as had been projected at the FY13 full year results. The previous interim dividend was 4.0 cents per share.

"Having completed the first year of our three year growth strategy, our focus this year is on re-engineering and re-architecting the business," said interim CEO, Mr Peter Mattick.

"We have significantly scaled up our IT resources in order to complete the major transformation process, as has been previously communicated to the market. This investment will begin to dissipate as we scale back in the first quarter of FY15.

"Our growth strategy is progressing well as we transform our IT environment, transition to new service platforms and finalise the separation of the major BPO business divested last year.

"These efforts have already been rewarded with a robust new business pipeline across all areas of the business and some recent significant wins that will see sales boosted in the new financial year.

"We've made some small but highly strategic acquisitions to build on our services and geographic reach and invested in our sales capability to support the new solution suite and extend sales into new markets," he said.

$ million	H1 2014	H1 2013	Change %
Revenue from continuing operations	232.1	243.4	- 4.6%
Underlying EBITA from continuing operations	10.0	15.0	- 33.3%
NPAT from continuing operations	7.0	- 2.2	NMF
Statutory NPAT	7.0	41.5	- 83.1%
Statutory earnings per share (cents)	4.4	26.2	- 83.2%
Interim dividend (cents per share)	7.5	4.0	+ 87.5%

Revenue of $232.1 million (pcp $243.4m) was down 4.6% on the pcp. Revenue was impacted by the completion of the Origin Direct Sales contract and lost business from the prior year, offset by new business wins across the group. Underlying sales growth was especially strong in the SME market, catalogues and digital. Whilst catalogue volumes were down 1.9%, they were up 5.8% on a like-for-like basis (excluding accounts discontinued last year).

Underlying EBITA of $10.0 million was down 33.3% from $15.0 million in the pcp. Ongoing investment in the growth strategy had a significant impact with $4.4 million in investment costs, including $2.5 million in IT, relating both to new platform development and additional costs associated with carrying dual operating systems prior to the final transition.

NPAT from continuing operations of $7.0 million compares with a loss of $2.2 million in the pcp.

Statutory NPAT was down 83.1% against the prior corresponding period, which included the $43.6 million profit from the divestment of BPO.

Net cash was $67.1 million at 31 December 2013, following the payment of $11.9 million in dividends and $11.2 million in capital expenditure plus costs relating to the Netstarter acquisition and BPO separation process.

The Board has declared an interim **Dividend** of 7.5 cents per share, fully franked, payable on 3 April 2014 with a record date of 11 March 2014. This is in line with the Board's previous commitment to a total dividend of 15.0 cents per share for the current financial year, notwithstanding any unforeseen events.

Operational review

Consumer Marketing Solutions

$ million	H1 2014	H1 2013	Change % pcp
Sales revenue	138.0	136.1	+ 1.4%
EBITA	16.0	17.5	- 8.6%
Margin	*11.6%*	*12.9%*	

Consumer Marketing Solutions revenue was up 1.4% on the pcp thanks to solid underlying growth in areas including the SME market and digital services. This growth was also achieved despite the absence of some significant catalogue work from the previous year. Catalogue volumes were down 1.9% against the same period last year but up 5.8% on a like-for-like basis, excluding the lost accounts.

EBITA was down 8.6% on the pcp to $16.0 million on the back of investment in the new service platform and sales capability, as well as a shift in the weighting of lower-margin services.

The Universal Catalogue solution is continuing to gain traction amongst both traditional and new markets, with SME clients and media agencies both growing in relevance. While the sales cycle for the solution has proved somewhat longer than anticipated, the new Influence platform is also starting to ramp up, with several sales now secured, including scoping and pilots underway with two major retailers. This has exceeded expectation and already achieved the target of having several new clients taking up the solution by year end.

Good progress has also been made with the Digital suite of services, which has established strong working relationships with the various strategic technology partners and achieved solid sales growth in the period.

Further investment in both technology and sales capability for the CMS division will continue in the second half, as will an ongoing program aimed at operational efficiency and margin improvement across the full suite of services.

These investments will impact the second half of FY14, with the benefits to be realised via an uplift in CMS sales and earnings in FY15.

Customer Engagement Solutions

$ million	H1 2014	H1 2013	Change % pcp
Sales revenue	91.3	105.4	- 13.4%
EBITA	2.3	5.8	-60.3%
Margin	*2.5%*	*5.5%*	

Customer Engagement Solutions revenue was down 13.4% on the pcp to $91.3 million, following on from the closure of the major Origin business in Direct Sales (with an impact of approximately $22 million in FY14) and a number of discontinued contact centre contracts, as previously outlined to the market. A refocus of the Direct Sales business model has enabled the business to fill the Origin gap significantly with new diversified work, which will reduce the dependence on traditional door-to-door work moving forward.

EBITA of $2.3 million was down from $5.8 million in the pcp and was impacted both by investment and costs associated with the new Reach platform as well as additional costs incurred with excess capacity on-shore. This capacity was retained in anticipation of some significant new opportunities, a number of which have now been secured.

The rollout of the new Reach platform has continued to progress with completion expected by the end of FY14, after which time the duplicate operating system costs will be significantly reduced. Around 80% of the total client base has been transitioned to the new platform.

While sales pipeline conversion had been tracking more slowly than expected, a recent turnaround has seen the division secure a significant number of new business wins that will fill Australian capacity and contribute an additional $25 million per annum in revenue. The pipeline now totals around $300 million.

While a number of these new wins should start to be implemented during the second half, revenue and earnings impact will not be realised until FY15.

Acquisitions

Two strategic acquisitions were announced during the half year, with the Netstarter acquisition taking place in October and the MicroSourcing deal signed in December. The acquisitions impacted cash flow by $5.5 million during the half and have a combined commitment of an additional $40 million in earn out agreements.

Netstarter is already integrating very well, complementing Salmat's existing e-commerce portfolio.

With the MicroSourcing 50% acquisition successfully completed on 13 February, the focus is now on achieving synergies, client retention and growth.

Both acquisitions are EBITA positive and meet the stated deal objectives, contributing to Salmat's growth strategy.

Board and management changes

A number of Board and Senior Management changes were announced during the half year.

Mr Mark Webster joined the Salmat Board as a new independent Non-executive Director in December 2013 and is a member of the Technology and Innovation Committee. Mark is presently Managing Director of the thoroughbred sales group, William Inglis and Son Limited.

In January it was announced that Mr Craig Dower has been appointed as Salmat Chief Executive Officer, commencing on 14 April 2014. Craig joins Salmat from the global IT consultancy firm, Avanade, which is a joint venture between Microsoft and Accenture.

Outlook

"The current financial year remains a year of significant investment and building for the future. As previously stated to the market, FY14 is a period of strengthening the business rather than achieving stellar financial results in the short term," said Mr Mattick.

"We are on track with the implementation of our new solution platforms and have made solid progress with our major IT re-engineering. We've also secured some small but strategically important acquisitions during the period, boosting our digital capabilities and contact centre services, as well as expanding our geographic reach into Asia.

"FY13 marked the launch of our strategy, FY14 is the year of building and FY15 remains the period when we will see the benefits flow to both our top and bottom line.

"We look forward to welcoming our new CEO, Craig Dower, on board in April and will provide an update to the market on our strategic progress once he has had an opportunity to settle in to the business.

"Considering the additional costs being incurred in IT investment and in implementing the high volume of new CES contracts recently secured, our guidance is for EBITA in the range of $14-16 million excluding significant items for the full year," 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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