

# **Salmat presentation at Macquarie Australia Conference, 5 May 2011**

***Presented by Grant Harrod, CEO***

***\*\* Agenda – slide 2 \*\****

Good afternoon everyone and thanks for your interest in Salmat.

I realise not all of you may be familiar with the Salmat Group, so today I'll be providing a brief overview of our business; some detail on our strategy for future growth; and an example of our unique capabilities in action. I'll also be providing an update on what's been happening in each of our divisions over the past few months; and an update on the outlook for our business as a whole.

***\*\* Salmat today - slide 3 \*\****

Salmat is a unique business in the Australian market and - as far as we can tell - worldwide as well.

In essence, we are specialists in customer communication, from the smart use of data for segmentation and profiling; the development of communication strategy and specialist design of communication pieces including direct mail and websites; through to technology-based solution builds and deployment; enabling communication delivery through whatever data, paper or voice channel is desired; and of course the management of inbound communication back from our clients' customers.

We offer an integrated service model, so businesses can really tailor their communication to achieve a true one-on-one relationship with their customers.

Our client base is extensive and includes most of Australia's top tier retailers, banks, utilities, insurers and transport companies. We also service all tiers of government, and increasingly we are building services for other clients, right through to small businesses.

We are bridging the divide between traditional and new media for our clients, in a logical extension of our core capabilities to the interactive digital and online arena. Supported by the strong cash profile of our current business, we are investing in platform based services to support multichannel activity and stepping into the next phase of building sites and content that complement these services. Rather than just sending messages out into the market, these initiatives appeal directly to consumers and thus bring customers to our clients.

Salmat delivers all of these capabilities through three key divisions. All three divisions interconnect to provide our clients with an integrated multi-channel communication offering.

*\*\*Targeted Media Solutions - slide 4\*\**

Targeted Media Solutions is where Salmat all began more than 30 years ago, with the catalogue distribution service. This service today though is much evolved from the original offering, with sophisticated customer segmentation and audited reconciliation of deliveries.

This division also includes the Lasoo.com.au website, interactive SMS and email services, our new ecommerce platform and the recently-acquired portfolio of digital businesses.

*\*\*Customer Contact Solutions - slide 5\*\**

The Customer Contact Solutions division incorporates a range of contact centre services, speech recognition solutions, direct and retail kiosk sales and learning and development solutions as well as consulting.

*\*\*Business Process Outsourcing - slide 6\*\**

Business Process Outsourcing is focussed on back office outsourcing, providing large-scale electronic communication services, essential and direct mail services, scanning and digital archive services and the workflow automation of labour-intensive processes such as accounts payable and forms processing.

***\*\*Salmat's operations - slide 7\*\****

In all, Salmat employees more than 7,000 people worldwide and is by far the largest outsourced communication provider in Australia. We are unique in the scale and scope of services we provide and lead the market in many of the areas in which we operate.

Just by example, our multi-channel capability sees us deliver more than 60% of all business to consumer communications in Australia and handle more than 25% of all outsourced phone calls in Australia. Our Lasoo pre-shop website receives more than 1.6 million visits on average each month.

***\*\*One Salmat example - slide 8\*\****

To illustrate the integrated nature of our services and the strength of the One Salmat strategy, I'd just like to talk you through a quick case study of a retail client utilising our integrated service offering for their customer engagement program.

Salmat was involved from the initial strategy and planning stages of this program through to the pilot and eventually the full-scale rollout and ongoing implementation.

The sophisticated front end technology powering the program leaves it generations ahead of other retail loyalty programs and enables it to link purchases, reward points and other program elements involving a range of retailers within the group. The program is potentially the largest database marketing opportunity ever seen in Australia, with the ability to impact print media and other above-the-line advertising channels.

Salmat's range of services provided on this program has included strategy and consulting, data services, call centre, direct mail, promotions management, SMS and email communication, customer contact management and reporting, OCR data capture and outbound customer fulfilment. We also provide print and online catalogue services.

The program has proved extremely successful, with five million registered loyalty cards and proof that registered users spend substantially more than the average customer. The retailer is able to engage with each customer based on their inferred and actual behaviour and is also able to influence purchasing behaviour.

It's a true 'One Salmat' solution where we are able to provide a comprehensive range of integrated planning, data and fulfilment services that keep the program running effectively and delivering considerable competitive advantage for the client.

*\*\*Multi-pronged growth strategy - slide 9\*\**

Salmat's current growth plan is built upon four key strategies that speak to growth both from our core, existing businesses as well as from new investments.

Firstly, we are aiming to drive organic growth via our One Salmat strategy, which packages all our services into a compelling, integrated multi-channel offering for existing and new clients.

One Salmat is a key differentiator for the business and a logical progression in the evolution of Salmat from a transactional service provider to an integrated solutions provider. It's a logical, long-term approach that will continue to evolve as we grow the business. Rather than just facilitate messages, with our One Salmat focus we are now able to re-engineer a client's total communication environment, by deploying smart processes, outsourced workforce optimisation programs and cloud-based technology solutions, which will substantially maximise the return on their sales and marketing investment.

At present, we are naturally focussed on leveraging cross-selling opportunities presented by our recently-acquired digital businesses but we are also continuing to deepen our sales reach across the group.

Secondly, we are seeking to accelerate growth in our digital businesses, which include the Lasoo pre-shop website, a range of recently-acquired web and interactive services, the Roamz website currently in development and our new hosted ecommerce offering.

As has been widely reported, consumer demand for information, online retailing and new media channel access continues to grow at an increasing rate. Australian retailers are finding that a digital presence is simply essential in order to remain competitive. We will remain at the forefront of innovation in this area to capitalise on the opportunities presented by this exciting sector.

Thirdly, we are developing new solution offerings and expanding into untapped markets for the Salmat business, such as the Small to Medium Enterprise space. While we've traditionally focussed more on the high-volume, large-scale corporates, we are adapting many of our services to better suit the SME client, delivering the same sort of benefits and competitive advantages enjoyed by our larger clients. Our Local Direct Network service is an example of this, with our [ldn.net.au](http://ldn.net.au) online portal providing smaller clients with easy and affordable access to sophisticated marketing services that would previously have been out of reach.

Driving better results from our operations is something we continue to focus on. Our Optimise program has uncovered some excellent, sustainable efficiencies to date and we anticipate further ongoing benefits. There are also synergy opportunities flowing from our recent acquisitions and site mergers.

Finally, we are actively reviewing strategic acquisition and partnership opportunities in support of our growth strategy. We hope to announce more of these in the not-too-distant future.

I'll now give you an update on each of Salmat's operating divisions.

*\*\*Targeted Media Solutions update - slide 10\*\**

In Targeted Media, catalogues remain an important channel for our clients, both print and online. While we've seen slight volume reductions by some clients in response to the softer retail environment, overall catalogues remain one of the most effective retail marketing tools available. Certainly, this is an area where we expect additional activity and growth next year, particularly among our growing SME client base.

Catalogues remain immensely popular with consumers also. Our [Lasoo.com.au](http://Lasoo.com.au) site has continued to expand in terms of features and content as well as consumer metrics. Site visits, page impressions, offer interactions and mobile page views all continue to grow at a very pleasing rate. I'll go into a bit more detail about Lasoo in a moment.

In late December we acquired a portfolio of digital businesses to build on our existing capabilities. The businesses include:

C4 Communication, which is a leading digital platform company, providing innovative web development, online publishing, e-business strategy, e-commerce, retail kiosks and digital mobile marketing services;

Be.Interactive – an interactive and mobile marketing platform services business creating value-added campaigns using SMS, IVR, mobile phone, digital and 1900 premium rate products;

MessageNet, which is a leading business SMS communication technology platform business that supports 50% of the BRW Top 100 companies and also has embedded applications across many business accounting packages supporting many SME businesses; and

Returnity – a leader in email marketing platforms and supporting digital and database services.

These new businesses are currently being integrated into the division, with physical integration taking place right now and software integration due to be completed in FY12. The acquisition means that we now have a team of more than 220 digital experts and a truly comprehensive suite of digital and interactive services linked in to our more traditional offering.

As alluded to earlier, the SME market is a market that's of growing importance to Salmat as we adapt many of our services that have been traditionally geared for larger clients to suit smaller businesses. We successfully launched our newly expanded SME strategy during the first half of FY11, with the rebranding of our Local Direct Network shopfronts and the launch of our online service portal, both of which provide small and medium businesses with easy and affordable access to sophisticated direct marketing tools. We are currently rolling out a renewed marketing campaign in support of this initiative.

Development of our new hosted ecommerce platform for the local retail market is well underway and we are now in discussion with potential clients for the tier one and tier two offerings. This new platform addresses a market gap in Australia for a world-class hosted online retail solution incorporating Salmat's range of digital services. Central to this service is providing a white label transaction engine and associated services on a software-as-a-service model to assist Australian retailers taking their products and services online.

Our data analytics business has also continued to grow, as clients recognise the value of the information available within their customer base and the ROI opportunities of one-to-one marketing.

*\*\*Lasoo update - slide 11\*\**

Each time we update the market on Lasoo, it's pleasing to be able to report higher traffic and usage and today is no exception.

The Lasoo portal averaged 1.6 million visitors a month in the six months to the end of April 2011. More tellingly, we also averaged 3.5 million offer interactions. With more than half of retail purchases influenced by online research, it's a number too high for any retailer to ignore.

Total page views across all devices are up more than 50% on last year and the rise of mobile access to the site has been staggering. We saw more than 7.2 million mobile page views in April alone, which is up more than 700% on last year.

The number of products and offers on the site continues to grow and a deal in the final stages of agreement will soon see the total offering increase by more than half again. We've got some really exciting prospects that I'm not able to share right now, but it's very much a case of watch this space.

New features are adding consumer appeal. A new 'Daily Deals' section was added in January, consolidating various 'limited offer' group buying deals from other online aggregators, providing a new revenue stream for the site. Recent data indicates that the group buying market has grown by 280% this financial year and now accounts for 1.8% of Australian total online retail spend. IBISWorld predicts the segment will double its revenue by 2015-16, exceeding \$650 million and accounting for 2.1 per cent of online retail spend.

A new fashion portal site called '565 Lasoo' was launched in February and has quickly added new retailers attracted by specific fashion features such as interactive styleboards, a fashion newsletter and retailer brand books.

We are continuing the rollout of new features as well as ramping up the Lasoo sales and effort in the current half to support stronger branding and increase registered user numbers.

Just to give an idea of why we are so excited about the opportunities for Lasoo and our other digital services, the latest market research shows that consumers are migrating to online activity at a rapid pace. The demand is already there: local retailers simply must catch up.

Australians spend around 18 hours online each week: more than any other media. Australia has one of the highest rates of mobile phone use in the world, with more than 97% overall penetration and consumers are snapping up smart phones to access information on the go.

Australians are amongst the heaviest users of social media, with one in every four minutes online spent social networking – and this is where Lasoo and our new Roamz site are primed to leverage the trend.

In terms of actual spend, it is anticipated that Australians will spend \$32 billion online in 2012, accounting for around 3% of total retail sales. As online retail shop availability improves, this will increase even further. Of course Lasoo supports both online and in-store purchase decisions, so we are somewhat agnostic in that sense, but it's a trend we are well aware of and ready to service.

*\*\*Targeted Media Solutions growth - slide 12\*\**

We see growth in Targeted Media being achieved across the division.

We lead the market in letterbox distribution with a clearly superior service that continues to attract clients at all tiers. As stated, some of the secondary tier retailers have been impacted by the market conditions but tier one volumes have remained strong. There are further opportunities for growth in this area through the provision of value-added services, additional sales outside the tier one market and improved efficiency.

One Salmat sales continue to prove very appealing to Targeted Media clients as there is a logical extension from more traditional channels into other related forms of marketing and customer service. The addition of a new suite of digital and interactive services will further support this strategy.

We also see growth potential in the new services being developed within the division, including the new hosted ecommerce platform offering and the Roamz website.



The ecommerce platform incorporates both a full and 'lite' version suited to larger and smaller clients respectively. With the current online focus of bricks and mortar retailers, we anticipate this service fulfilling a growing demand.

The Roamz site is a new location-based, social media online classifieds site, aggregating content to a very localised audience. It is also a service well-suited to our expanding SME client base and complements our suite of targeted marketing services for this sector.

As evidenced by our recent acquisition, digital is a real focus and we see fantastic potential in this space. We have already identified an opportunity to leverage some of the unique offerings in the acquired businesses to a standardised platform that enables much wider rollout and redeployment. We are also currently reviewing further digital service opportunities to support our growth strategy in this area.

Demand for digital services just continues to grow and grow. The rise of online retailing in the local market presents a huge opportunity for Salmat to leverage its existing retail client base and digital service capabilities to deliver integrated online and offline services.

*\*\*Digital services - slide 13\*\**

Just to give an indication of how the recent acquisition has boosted our digital capabilities, this graphic illustrates where Salmat had existing discrete capabilities (marked in green), where the acquisition has contributed brand new services (in yellow), where we have new services under development (in orange) and where acquired services will complement existing similar capabilities (in blue).

You can see the significant synergies and complementary opportunities the new businesses have brought to our service suite.

*\*\*Customer Contact Solutions update - slide 14\*\**

The Customer Contact Solutions division is an area where we've had some good success with our One Salmat strategy. The sales teams have been working well to uncover logical opportunities to extend complementary service offerings into our current client base, with

good results. Several new wins are being implemented at the moment and the pipeline for future sales is strong.

Call centre services are the major component of the CCS division and we have been pursuing a strategy to change the mix of services we provide in this area, increasing the incidence of more sophisticated, premium services and reducing the volume of commodity-style work, where we are effectively providing labour for hire.

As announced in March this year, this strategy was fast-tracked with the decision by Telstra not to renew Salmat's call centre contract, which was largest commodity-style contract we held. This contract involved Telstra-specific sites and around 770 staff in Wagga, Geelong, Bundaberg and Surry Hills. We've not been able to redeploy the Wagga, Geelong and Bundaberg sites, so these are being closed as the work in these centres is wrapped up. We will be continuing to use the Surry Hills site for other work.

The Telstra work has been ramping down more quickly than originally anticipated, so we have borne some additional costs associated with maintaining these sites at sub-optimal occupancy levels.

Several new contract wins have been helping to make up shortfall and these will start to contribute in the last few months of FY11, with further ongoing benefit in FY12. These new contracts all match the 'sweet spot' profile that Salmat is targeting.

Our smaller Direct and Retail Sales business has felt the impact of the softer retail conditions this year, particularly in overseas markets, however a recent focus on sales has generated promising leads and are we are reviewing new strategic opportunities.

While the Telstra contract loss will have a short-term impact on revenue and earnings, we anticipate good growth for this division over the next few years.

*\*\*Customer Contact Solutions growth - slide 15\*\**

The transformation of our call centre services and linking these with our other technology-based services is the key to our growth in this division. Our goal is to create innovative customer contact solutions that drive increased sales, achieve cost efficiencies and deliver better client experiences.

We will create customised solutions that intelligently route any customer contact (phone, fax, email, chat, co-browse, automated process, social media) to the right person, at the right time, located in the right place to enable a resolution and/or sale outcome.

We are no longer offering simply labour for hire but a complete solution incorporating people, process and technology.

One of the key elements of the technology aspect is a new hosted customer contact platform that will enable us to develop more scalable applications on a 'best of breed' unified platform. As well as delivering enhanced services to our existing client base, this will also enable us to offer high-end services to smaller clients and those operating in-house contact centres.

We'll also be targeting key vertical markets, business types and call centre sizes based on our unique capabilities and growth potential in these areas.

We are also refreshing our strategy for our Speech Solutions, Learning and Development and Direct and Retail Sales divisions.

We've just appointed a new CEO for the Speech division who is reviewing opportunities to expand into new alliances and new geographic markets while improving standardisation and efficiency.

In Learning and Development, we'll be building on our core competencies to take advantage of the positive momentum we see building in key client sectors.

In Direct and Retail Sales, we are positioned for renewed growth with a restructuring of the division to better align the business with market opportunities and sales objectives; the leveraging of existing capabilities into complementary segments and the addition of new products and services.

We are also continuing to extend our consulting capability across all the businesses and integrate our sales effort with all divisions to maximise One Salmat opportunities.

*\*\*Business Process Outsourcing update - slide 16\*\**

BPO's electronic communication capability includes electronic bill and statement delivery, online customer portals and specialised platforms to enable transaction information retrieval and presentment.

We also offer a comprehensive suite of e-solutions applications, built around a multi-channel inbound and outbound communication platform. This technology uses intelligent character recognition and workflow capability and can be applied to automate many types of business processes, such as claims processing and accounts payable. It is highly scalable and capacity can easily be ramped up for the deployment of multiple client applications.

We've recently had some significant wins in this type of technology-based, repeatable work. In March we announced an eight year partnership to deliver an integrated land information system (ILIS) for the South Australian Government. This is a system Salmat commercialised for the Northern Territory Government. Both parties are now working to roll out the service offering to other jurisdictions in Australia and around the world.

We are focussing on further development of the e-solutions service portfolio at the moment. Growth in this area has been pleasing in the past 12 months and we anticipate even further growth over the next three years.

Print and mail volumes continue to be impacted by the subtle shift to electronic presentment - especially amongst telco clients – and the reduction in statement frequency by clients such as banks.

Volumes have also been lower due to an absence of major shareholder communication activities such as IPOs in the period and the flow on effect from account losses in FY10, however several key wins in the current financial year are now reversing that trend.

While mail volumes will likely continue to trend downwards overall, there have been some findings regarding electronic delivery that suggest mail will remain relevant for essential mail such as billing for some time to come. While email billing has proven a convenient and effective option for many consumers, there are still certain groups where this sort of email tends to be lost and forgotten more easily than paper statements, thus impacting client cash flow. Interestingly this appears to be the case amongst younger rather than mature consumers.

There is still opportunity for further efficiencies in the print and mailing area and this will be our key focus moving forward.

Integration is continuing following the major site consolidation that took place in Victoria during the first half of FY11. A decision to focus on high client service levels during the integration led to some unbudgeted operating costs relating to additional labour that have continued in the second half. Productivity is now improving and targeted synergy savings should be achieved in the first half of FY12.

*\*\*Business Process Outsourcing growth - slide 17\*\**

As mentioned, we still see opportunities for top line growth and increased profit from mailing over the next few years from a number of areas.

Recent wins are yet to fully ramp up production and there are further opportunities for new business wins in this area.

An ongoing refresh of production technology, including more efficient inserters and improved colour technology, will improve productivity and increase the appeal of print mail for both essential and marketing-based applications.

New opportunities also still exist in overseas markets, which do not outsource print-based mailing functions to the same degree as the Australian market.

We are also targeting increased business efficiency, standardisation of processes and improved margins through ongoing integration synergy benefits. Cheaper bandwidth is also increasing the opportunity to centralise functions such as data receipt and formatting, with associated labour and site cost savings. A renewed quality and safety focus will also reduce costs associated with rework and lost time.

Significant growth is anticipated through the development of e-solutions incorporating imaging-related services such as scanning and digital archives and smart workflow solutions to automate traditional paper based business processes. Resources have been increased to accelerate new application development and key opportunities are currently being evaluated. A recent key win involving a web-based fully hosted business application service also highlighted the opportunities in this space.

Finally, One Salmat remains a core strategy for BPO and a strong opportunity to capitalise on the long-term client relationships with blue-chip organisations that exist within the division.

*\*\*Business update - slide 18\*\**

Our strategies to reposition and transform Salmat's businesses across the group – including new digital services, premium technology-based contact centre services and eSolutions in BPO - are well underway at this time. We have high growth expectations from this initiative, while continuing to derive good returns from our more traditional services.

The tougher retail trading conditions that we've witnessed both in Australia and overseas have certainly continued to impact some of our clients, especially the second and third tier of retailers. This has had an impact on the more discretionary parts of our business, including Speech Solutions, Direct and Field Sales and in some cases catalogues.

We've been taking care with creditors in light of some of the retail administrations taking place and are confident that sufficient measures are in place to guard against any significant issues.

Where we really see opportunity for the future is in the digital space. You will have seen yourself the media attention on Australian retailers moving into online sales. Consumer demand for online access to products, information and social media is simply going to keep growing and driving the need for businesses to rethink their customer engagement across a whole range of media. Salmat is uniquely positioned to help our clients achieve this with an integrated omni-channel solution that bridges traditional and new media to capture every possible marketing opportunity for every single customer.

In terms of guidance, we remain on track to achieve our forecast guidance of \$87-92 million in underlying EBITA. Our statutory results will be impacted by a number of significant items including the Telstra contract loss, the BPO site relocation and the digital business acquisition.

Thank you. I'm happy to take any questions from the floor.

## **Disclaimer**

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