Salmat Full Year Results to 30 June 2013

Tuesday 20 August 2013

Business overview and update

Peter Mattick - Interim CEO

Highlights

- Strategic divestment of BPO for $375 million.
- Good progress with FY13-FY15 growth strategy.
- Strong net cash position of $90 million at 30 June.
- Cost saving program on target.
- Underlying EBITA within guidance.
- Underlying NPAT growth during investment phase.
- Guaranteed FY14 dividend on top of special dividend in FY13.

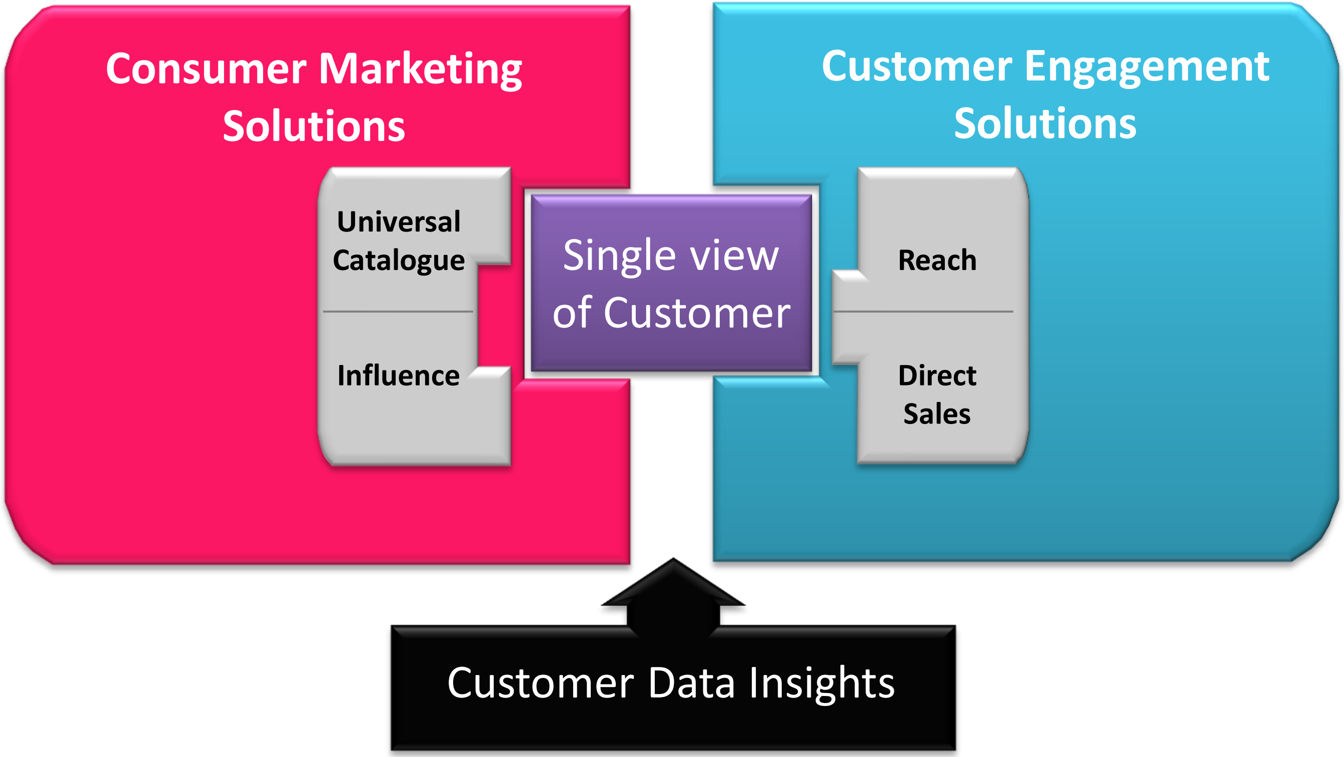
Financial summary

$ million	2013	2012	% change (pcp)
Revenue[1]	467.6	507.9	-7.9%
Underlying EBITA[1]	25.8	31.3	-17.6%
Underlying NPAT[2]	16.7	12.7	31.5%
Statutory NPAT	40.1	30.3	32.3%
Statutory earnings per share (cents)	25.4	19.2	32.3%
Full year dividend (cents per share)	11.5	19.0	-39.5%
Special dividend (cents per share)	21.0	-	-

Final dividend of 7.5cps fully franked payable 19 September 2013.

[1] Continuing operations
[2] Adjusted for significant items

Strategy: driving customer transactions



Strategic foundations

- Unique combination of technology and partnerships to provide platform solutions.
- ‘Best of breed’ technology partners enhanced by experienced team of subject matter experts.
- Variable-cost platform model for scale and unmatched competitive advantage.
- Extensive trusted long-term client relationships.

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Group financial performance

Chad Barton - CFO

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Financial performance

$ million	2013	2012	% change (pcp)
Reported revenue[1]	467.6	507.9	-7.9%
EBITDA	**36.3**	**42.4**	**-14.4%**
Depreciation	-10.5	-11.1	5.4%
Underlying EBITA	**25.8**	**31.3**	**-17.6%**
Underlying EBITA margin	5.6%	6.2%	- 60bp
Amortisation	-2.1	-3.3	36.4%
Underlying EBIT	**23.7**	**28.0**	**-15.4%**
Net interest	-0.4	-10.3	96.1%
Tax expense	-6.6	-5.0	-32.0%
Underlying NPAT from continuing business[2]	**16.7**	**12.7**	**31.5%**
Significant items	-10.9	-1.5	NMF
NPAT from continuing operations	**5.8**	**11.2**	**-48.2%**
NPAT from discontinued operations (incl significant items)[3]	34.3	19.1	79.6%
Total statutory NPAT	**40.1**	**30.3**	**32.3%**

Underlying EPS:
10.5 cents

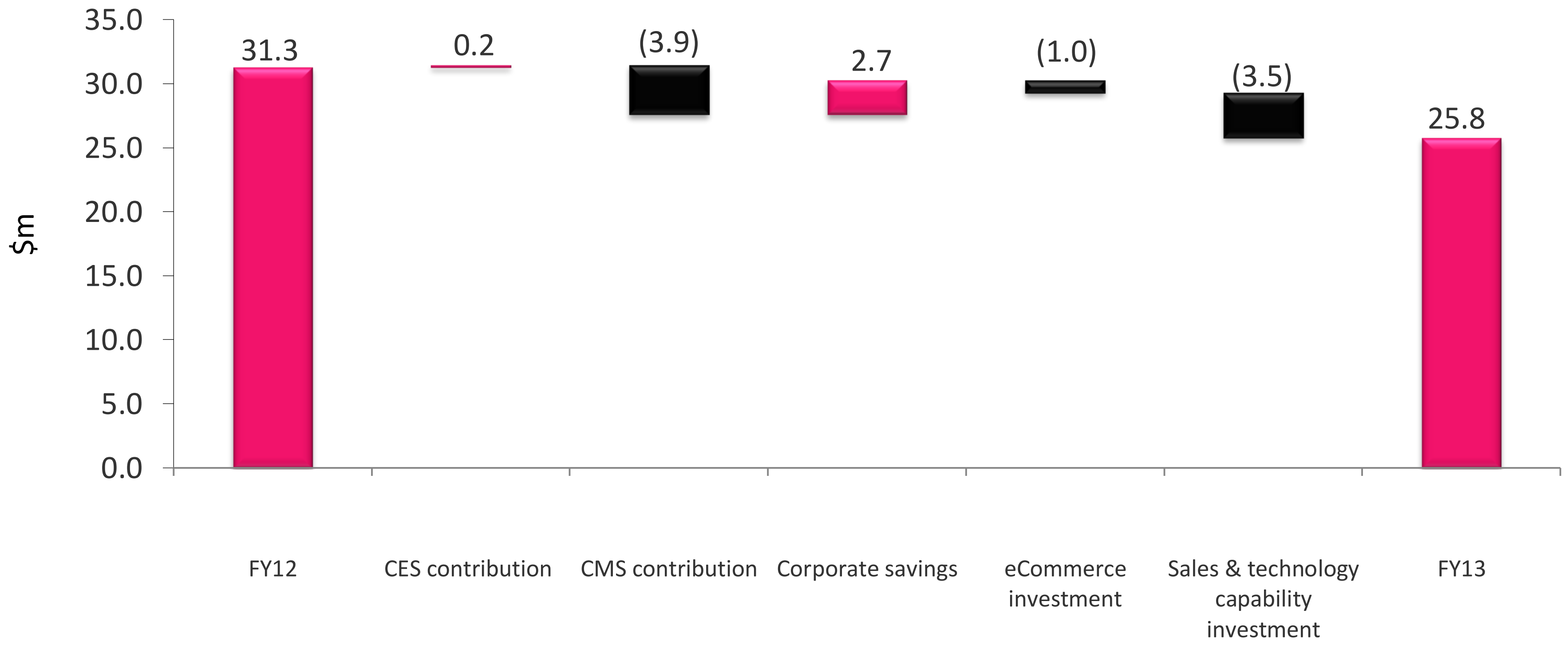
30.0%

Statutory EPS:
25.4 cents

32.3%

[1] Continuing operations
[2] Adjusted for significant items
[3] Refer to appendix

Underlying EBITA bridge



Strong balance sheet

- Higher-quality balance sheet.
- Net cash of $90m at 30 June 2013 vs net debt of $241.6m at 30 June 2012.
- Fully drawn debt facility of $99m with expiry of December 2014.
- Net tangible assets per share $0.66 (2012: -$1.11).
- Equity lower only due to dividend payout of $56.7 million during the year.

$ million	2013	2012	Change A$m	Change %
Cash and cash equivalents	189.1	37.4	151.7	405.6%
Accounts receivable	53.1	112.6	-59.5	-52.8%
Fixed assets	18.9	59.8	-40.9	-68.4%
Goodwill and intangibles	151.3	448.4	-297.1	-66.3%
Other	25	38.2	-13.2	-34.6%
Total assets	**437.4**	**696.4**	**-259**	**-37.2%**
Current liabilities	74.4	132.1	-57.7	-43.7%
Non-current borrowings	99	274.3	-175.3	-63.9%
Other non-current liabilities	6.8	19.0	-12.2	-64.2%
Total liabilities	**180.2**	**425.4**	**-245.2**	**-57.6%**
Equity	**257.2**	**271.0**	**-13.8**	**-5.1%**

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Operating cash flow

- Continued strong EBITDA conversion to cash flow at 118%.
- Interest payments significantly reduced.
- Tax higher due to lower interest expense.
- Net operating cash flow from continuing operations increased even though EBITDA reduced: more effective use of working capital.
- Cash outflow from BPO in the current year due to transaction and associated separation costs.
- Net cash movement of $151.7m. Proceeds of $363m enabling net borrowings repayment.

$ million	2013	2012	Change $Am
Continuing operations			
Underlying[1] EBITDA	36.3	42.4	-6.1
Operating cash flow	42.8	46.7	-3.9
EBITDA conversion to cash flow	118%	110%	
Interest [1]	-1.4	-10.4	9.0
Tax[1]	-7.4	-4.3	-3.1
Significant item cash payments	-3.7	-2.2	-1.5
Net operating cash flow from continuing operations	**30.3**	**29.8**	**0.5**
Cash outflow from discontinued operations	-9.4	47.7	-57.1
Total net operating cash flow	**20.9**	**77.5**	**-56.6**
Financing and Investing activities			
Cash capital expenditure	-12.9	-18.2	5.3
Dividends paid	-56.7	-33.6	-23.1
Proceeds from disposals	363.8	-	363.8
Net borrowings repayment	-161.0	-	-161.0
Other	-2.4	-9.0	6.6
Net financing and investing cash flow	**130.8**	**-60.8**	**191.6**
Net cash movement	**151.7**	**16.7**	**135.0**

1 Normalised to show as continuing operations.

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Cost savings

- Committed to $10m cost reduction with full benefit by FY15.
- $5m costs already out, remainder will be realised after BPO separation completed (around April 2014).
- Will achieve full run rate by FY15.
- BPO separation triggered software and environment refresh.
- Better efficiency, property consolidation, bestshoring.
- Corporate costs flat despite additional transition costs: offset by cost savings.
- Savings allowing more out of profit for rebuild.

Business units and outlook

Peter Mattick

Consumer Marketing Solutions

- Subdued retail environment impact and aggressive competition in catalogues yet maintained market share.
- Launched Universal Catalogue and Influence platforms – strong new business focus.
- Merged Targeted Media, Lasoo and Dynamic Catalogue to form Universal Catalogue.
- Transforming Digital to variable cost platform model with Influence solution. Refocus on scalable solutions.
- Platform investment.
- Underlying EBITA impacted by $3.9m in reduced business and $2.5m in investment costs.

million	2013	2012	Change % pcp
Sales revenue ($)	260.8	275.2	-5.3%
Underlying EBITA ($)	30.1	36.5	-17.5%
Margin	11.5%	13.3%	-180bp
Catalogue volumes	5.0bn	5.2bn	-3.8%
Email and SMS	845m	663m	27.5%

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Consumer Marketing Solutions

- Targeting larger share of the media pie.
- Investing ahead of the curve.
- Taking costs out as streamline into integrated division.
- Catalogue volumes addressed with new solution.
- Online self-service portal (SME and branch networks) continues to grow.
- Universal Catalogue and Influence development and rollout continue through FY14.

Customer Engagement Solutions

- Integrated Speech Solutions into contact centre business.
- Cycling out last remaining labour-intensive contact centre contracts. Margins are improving.
- Direct Sales impacted by energy clients pulling out of channel (regulator pressure).
- Implementing new Reach platform was a major focus for FY13 and is ongoing through FY14.

$ million	2013	2012	Change % pcp
Sales revenue	201.0	232.3	-13.4%
Underlying EBITA	11.2	11.0	+1.8%
Margin	5.6%	4.7%	+90bp
Contact centre seat utilisation (average)	62%	62%	-

Customer Engagement Solutions

- Reach implementation: migration of data centre and contact centres.
- Costs associated with duplication during system transition.
- Bestshoring to meet demand: increasing presence in NZ and Philippines.
- Cloud-based ‘virtual’ centre for single view of customer.
- Salmat Active – rapid response contact centre.
- Direct Sales impacted by major client departure: new revenue models.
- Continuing to target higher-margin technology-based contracts.
- Ongoing Reach platform migration and rollout throughout FY14.

Strategic roadmap

2011*

- Acquire Photon digital assets
- Online self-service portal build
- E-Commerce launches

2012

- Online self-service portal live
- Reach and Influence builds commence
- BPO divestment & transition commences

2013

- Reach and Influence live
- Universal Catalogue build commences

2014

- Reach and Universal Catalogue migrations complete – costs out
- BPO transition complete – costs out

2015

- Single customer view
- Full platform integration

2016

	FY14	FY13
Capex	$12m	$6m
Opex	$12m	$4.5m

* Calender Year

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Summary and outlook

- Early progress on growth strategy.
- FY14 a year of platform building and investment with $12m in opex and additional $12m capex above normal levels.
- Early sales indicative of potential, but time required.
- Strong cash position provides flexibility.
- Cost saving program will deliver full benefit by FY15.
- Dividend for FY14 while strategy build continues.
- Will provide trading update at AGM in November.

Questions

Appendix

Significant items – continuing operations

Significant items:	2013 $'m		2012 $'m	
	Pre Tax	Post Tax	Pre Tax	Post Tax
Continuing operations				
Restructuring costs	2.4	1.6	2.2	1.5
Separation costs	1.3	1.0	-	-
Impairment charge	8.8	8.3	-	-
Significant items from continuing operations	**12.5**	**10.9**	**2.2**	**1.5**

	2013 $'m	2012 $'m
Net profit after tax (NPAT)	5.8	11.2
Significant items	10.9	1.5
Underlying net profit after tax	**16.7**	**12.7**

Discontinued operations

$'m	2013	2012
Gain on sale		
Gross profit on sale of BPO division	41.2	-
Transaction costs	-8.8	-0.7
Separation costs	-12.2	-
Gain on sale before tax	**20.2**	**-0.7**
Tax benefit	6.5	-
Gain on sale after tax	**26.7**	**-0.7**
NPAT from BPO for period of ownership	11.1	22.0
Total NPAT from BPO	**37.8**	**21.3**
Discontinued joint venture losses	-3.5	-2.2
NPAT for the year (discontinued operations)	**34.3**	**19.1**

Transaction costs: advisor and other transaction fees.

Separation costs: primarily IT related.

Divisional summary

$ million	2013	2012	Change % pcp
Reported revenue:			
Continuing operations			
Consumer Marketing Solutions	260.8	275.2	-5.3%
Customer Engagement Solutions	201.0	232.3	-13.4%
Interest revenue	5.8	0.4	NMF
Group reported revenue	**467.6**	**507.9**	**-7.9%**
Underlying EBITA:			
Continuing operations			
Consumer Marketing Solutions	30.1	36.5	-17.5%
Customer Engagement Solutions	11.2	11.0	1.8%
Corporate	-15.5	-16.2	4.3%
Underlying EBITA	**25.8**	**31.3**	**-17.6%**
Significant items	-12.5	-2.2	NMF
EBITA from continuing operations	**13.3**	**29.1**	**-54.3%**

Board/management update

- Richard Lee retiring from Salmat board at next AGM.
- As previously announced, handed over as Chairman to Peter Mattick (effective 1 July 2013).
- Search underway for new CEO.
- Peter Mattick remains interim CEO until new appointment made.

Disclaimer

Company announcements and presentations can contain forward-looking statements. Words such as "believe", "anticipate", "plan", "expect", "intend", "target", "estimate", "project", "predict", "forecast", "guideline", "should", "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical markets; the supply and cost of materials; exposure to environmental or other legal proceedings; and risks of conducting business internationally. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those contained in forward-looking statements. Forward-looking statements speak only as of the date they are made.