Salmat Half Year Results to 31 December 2013

Tuesday 25 February 2014

Business overview and update

Peter Mattick - Interim CEO

Key messages

- **Growth strategy progressing well**:
  - Transition: enhanced IT environment.
  - Transformation: cutting-edge client and product platform.
  - Growth in new markets: technology sales, SME, offshore.
  - Acquisitions: Netstarter and MicroSourcing successful deals.
- Continued strong cash and balance sheet position.
- Interim dividend of 7.5cps - committed to 15cps total for FY14.
- Underlying sales pipeline growing.

Financial summary

$ million	H1 2014	H1 2013	% change - pcp
Revenue from continuing operations	232.1	243.4	- 4.6%
Underlying EBITA	10.0	15.0	- 33.3%
NPAT from continuing operations	7.0	- 2.2	NMF
Statutory NPAT	7.0	41.5[1]	- 83.1%
Statutory earnings per share - cents	4.4	26.2	- 83.2%
Interim dividend - cents per share	7.5	4.0	+ 87.5%

1 Includes $43.6 million profit on sale of the BPO division.

Progress on growth strategy ahead of expectations

Initial launch and investment phase completed FY13

Focus on investment and building in FY14

Positively impacting results from FY15 on

Milestone goals: 30 June 2014	Status
CES: Reach migration completed. Several new platform sales secured.	Migration on track for 30 June completion. A number of key sales already signed. More expected.
CMS: several clients taking up Influence solution. Job management system up and running.	Several sales already secured (scoping and pilot phase) including major retailers. JMS operational in January 2014.
IT: finalise data centre migration.	Delays incurred. Still aiming for 30 June.
Acquisitions: fill capability gaps with strategic, earnings-accretive businesses.	Two successful acquisitions completed: criteria-compliant and progressing well. Performance-based payments.

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Investment expenditure

- $12 million additional capex and $12 million opex in FY14 plus additional $6 million IT investment driving growth strategy.
- $2.5 million significant item cost relating to IT migration extension.
- At midpoint of fundamental IT transformation:
  - Fujitsu managed services data centres - migration in progress.
  - Capability build across the group.
  - Removing old platforms, standardising processes, improving cost-recovery capabilities, improving network robustness.
  - Project of this scale involves cost and change ‘pain’.
- Ramping up to complete migration ready to implement new wins.

Management and Board update

- New CEO Craig Dower commences 14 April 2014.
- New independent Board member Mark Webster appointed in December 2013.
- CIO Nick Warne appointed to permanent role in November 2013.
- Good injection of technology experience at crucial juncture.

Group financial performance

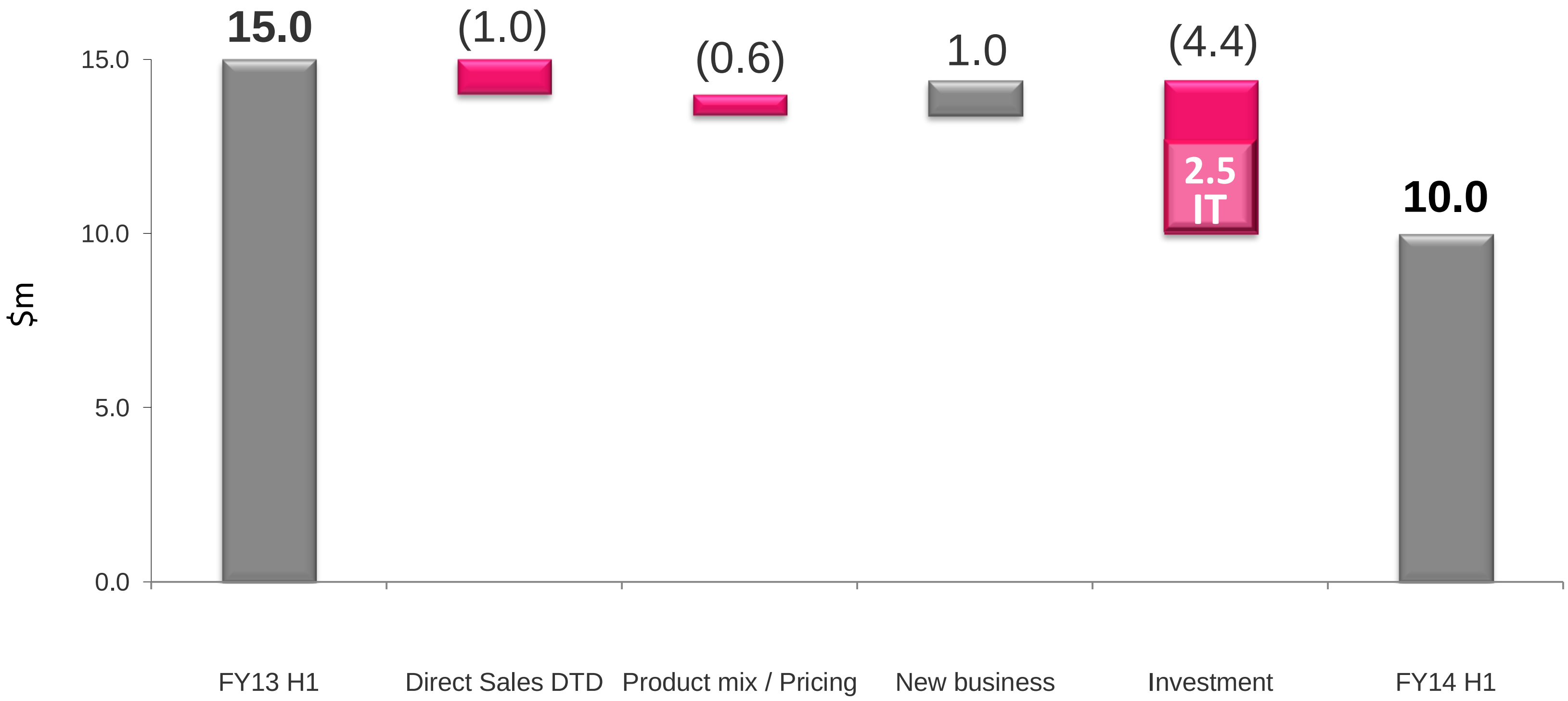
Chad Barton - CFO

Financial performance

$ million	H1 2014	H1 2013	% change - pcp
Revenue from continuing operations	232.1	243.4	- 4.6%
EBITDA	**14.2**	**20.3**	- 30.0%
Depreciation	- 4.2	- 5.3	- 20.8%
Underlying EBITA	**10.0**	**15.0**	- 33.3%
Underlying EBITA margin	*4.3%*	*6.2%*	
Amortisation	- 0.8	- 1.3	- 38.5%
Underlying EBIT	**9.2**	**13.7**	- 32.8%
Net interest	- 0.1	- 1.0	- 90.0%
Tax expense	0.4	- 3.2	NMF
Significant items	- 2.5	- 11.7	78.6%
NPAT from continuing operations	**7.0**	**- 2.2**	NMF
NPAT from discontinued operations - incl significant items	-	43.7	NMF
Total statutory NPAT	**7.0**	**41.5**	- 83.1%

NMF = not a meaningful figure.

Underlying EBITA bridge



Strong balance sheet maintained

- Strong cash position maintained with net cash of $67m.
- Intangible assets increased due to Netstarter acquisition.
- Senior debt moved to current borrowings - tranche expires December 2014.

$ million	31 Dec 13	30 Jun 13	Change A$m
Cash and cash equivalents	166.1	189.1	- 23.0
Accounts receivable	52.4	53.1	- 0.7
Fixed assets	26.9	18.9	8.0
Goodwill and intangibles	164.8	151.3	13.5
Other	27.6	25.0	2.6
Total assets	**437.8**	**437.4**	0.4
Current liabilities	65.5	74.4	- 8.9
Current borrowings	99.0	-	99.0
Non-current borrowings	-	99.0	- 99.0
Other non-current liabilities	15.4	6.8	8.6
Total liabilities	**179.9**	**180.2**	- 0.3
Equity	**257.9**	**257.2**	0.7

Operating cash flow summary

- Operating cash flow remained positive despite cash payments finalising stranded commitments post-BPO.
- Cash conversion of 88% (94% pcp).
- FY14 dividend of 15 cents per share committed - $12m in each half.
- Capex remains strong with planned investment in technology and IT-related production platforms - e.g. Reach/Kana.

	$ million
Net cash at 30 June 2013	90.0
Cash inflow - EBITDA	14.2
Dividend paid	- 11.9
Capex	- 11.2
Tax	- 1.5
Netstarter acquisition	- 5.5
BPO IT separation	- 7.0
Net cash at 31 Dec 2013	**67.1**

Business units and outlook

Peter Mattick

Consumer Marketing Solutions

- Revenue boosted by Universal Catalogue strategy, digital and solid new business growth.
- New business and underlying catalogue sales up on pcp.
- Earnings impacted by investment and product mix.
- Catalogue volumes up 5.8% on a like-for-like basis - excluding lost contracts.

$ 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%*	
Catalogue volumes	2.55b	2.60b	- 1.9%

Consumer Marketing Solutions

- Platform sales hitting stride: several wins secured - in scoping and pilot phase including two majors.
- Good revenue growth and volumes in digital and mid-tier/SME markets.
- New job management system and major cost improvement program will drive margin improvement.

Customer Engagement Solutions

- Revenue impacted by lost Origin business and shift to offshore.
- Margin impacted by utilisation and investment.
- Carrying additional costs of dual platforms during Reach migration.
- Short-term excess capacity to be filled soon.

$ 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%*	
Contact centre seat utilisation - average	60%	62%	-200bp

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Customer Engagement Solutions

- Reach rollout continues - completion on target for 30 June.
- Currently 80% of clients converted to Reach solution.
- Salmat Direct: impressive turnaround of business model after major Origin contract loss. New service diversification.
- Sales pipeline continues to trend upwards - now valued at around $300m. Significant new wins secured.

Acquisition update

- MicroSourcing initial 50% acquisition successfully completed.
  - Adds unique managed services model and extends non-voice capabilities.
  - Now focussed on synergies, client retention and growth.
- Netstarter integration progressing well.
  - Mid-tier ecommerce capability complements top-tier offering.
  - New offices; have commenced combined sales approach.
- Both acquisitions meet stated objectives:
  - complement strategy; recurring revenue and profit; strong IP, capabilities and client bases; staged approach with performance-based earn out agreements.

Summary and outlook

- Three-year growth strategy launched July 2013: early phase.
- IT transformation and transition to new platform continues.
- Significant sales already achieved.
- CMS and CES focus on sales and optimisation.
- FY14 forecast of $14-16m EBITA excluding significant items.
- New CEO and CFO on board soon.
- Upcoming CEO roadshow and Investor Day.

Questions

Appendix

Significant items – continuing operations

Significant items:	H1 2014 $'m		H1 2013 $'m	
	Pre Tax	Post Tax	Pre Tax	Post Tax
Continuing operations				
Digital joint ventures			- 1.0	- 1.0
Impairment charge			- 8.8	- 8.3
Separation costs	- 2.5	- 1.8	- 3.5	- 2.4
Significant items from continuing operations	**- 2.5**	**- 1.8**	**- 13.3**	**- 11.7**
Discontinued operations				
Gain on sale of BPO	-	-	42.1	43.3
Transaction costs	-	-	- 6.6	- 6.0
Separation costs	-	-	- 5.9	- 4.1
Digital joint ventures	-	-	- 0.2	- 0.2
Significant items from discontinued operations	-	-	29.4	33.0
Total significant items	- 2.5	- 1.8	16.1	21.3

Continuing operations	H1 2014 $'m	H1 2013 $'m
Net profit after tax - NPAT	7.0	- 2.2
Significant items	1.8	11.7
Underlying net profit after tax	**8.8**	**9.5**

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Divisional summary

$ million	H1 2014	H1 2013	Change % pcp
Reported revenue:			
Continuing operations			
Consumer Marketing Solutions	138.0	136.1	+ 1.4%
Customer Engagement Solutions	91.3	105.4	- 13.4%
Interest revenue	2.9	1.9	+ 52.6%
Group reported revenue	**232.2**	**243.4**	**-**
Underlying EBITA:			
Continuing operations			
Consumer Marketing Solutions	16.0	17.5	- 8.6%
Customer Engagement Solutions	2.3	5.8	- 60.3%
Corporate	- 8.3	- 8.3	-
Underlying EBITA	**10.0**	**15.0**	**- 33.3%**
Significant items	- 2.5	- 13.3	+ 81.2%
EBITA from continuing operations	**7.5**	**1.7**	**NMF**

Operating cash flow

$ million	H1 2014	H1 2013	Change $Am
Continuing operations			
Underlying[1] EBITDA	14.2	20.9	-6.7
Operating cash flow	12.5	19.7	-7.2
EBITDA conversion to cash flow	88%	94%	
Interest	- 0.1	-1.0	0.9
Tax	- 1.5	-4.0	2.5
Significant item cash payments	-	-1.0	1.0
Net operating cash flow from continuing operations	**10.9**	**13.7**	**-2.8**
Cash outflow from discontinued operations	-	-9.2	9.2
Total net operating cash flow	**10.9**	**4.5**	**6.4**
Financing and investing activities			
Cash capital expenditure	- 11.2	-7.4	-3.8
Dividends paid	- 11.9	-16.8	4.9
Netstarter acquisition	- 5.4	-	-5.4
Proceeds from disposals	-	355.7	-355.7
BPO separation costs	- 7.0	-	-7.0
Net borrowings repayment	-	-160.5	160.5
Sales of treasury shares	1.8	-	1.8
Other	- 0.1	-1.9	1.8
Net financing and investing cash flow	**- 33.8**	**169.1**	**-202.9**
Net cash movement	**- 22.9**	**173.6**	**-196.5**

1 Normalised to show as continuing operations.

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Biography: Craig Dower

- Past seven years with Avanade – global IT consultancy providing business technology solutions and managed services, most recently as President – Asia Pacific and China.
- Proven CEO with key skills in applying technology.
- Experience in leading companies through growth and change: three-fold growth period at Avanade.
- Previous roles with Coles Group, EDS, Lucent, Mallesons.
- 30 years in ICT industry.
- Several Board directorships - executive and non-executive.

Biography: Mark Webster

- Currently Managing Director of William Inglis and Sons Ltd – thoroughbred sales group.
- Strong media and digital background.
- Extensive experience in extending traditional businesses into online environments, both at Inglis and in prior roles at News Limited.
- Has served as director on several boards, including realestate.com.au and Nationwide News Limited.

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.