Tuesday 25 August 2015

Salmat Revenue and EBITDA on target: business transformation underway and restructuring charges taken to focus on profitable growth.

Salmat Limited (ASX:SLM) today released its full year results for the period ended 30 June 2015. The company posted full year revenue of $498.1 million, a 10.0% increase on the prior corresponding period (pcp). EBITDA of $13.3 million (excluding significant items) was within the $11-14 million guidance previously advised, however significant item costs amounted to $89.7 million for the year after tax. One-off, non-cash impairments accounted for the greatest part of this amount, including $64.6 million non-cash relating to goodwill within the Customer Engagement Solutions (CES) division that was taken in the first half; and $30.3 million non-cash taken as a result of goodwill and the rationalisation of the overall product and services portfolio in the Consumer Marketing Solutions (CMS) division in the second half of the year. This resulted in a full year net loss after tax of $98.0 million.

Salmat is currently undergoing a major business transformation to restructure its revenue and earnings growth for sustainable profitability and shareholder returns.

"While solid progress had been made with the growth strategy of the past few years, Salmat had retained a lot of cost and complexity following the sale of the Business Process Outsourcing division," said Craig Dower, Salmat's Chief Executive Officer.

"In addition, we had a number of product and service lines that were no longer effective parts of the portfolio, either in terms of strategic fit or growth and profitability. Finally, our structure and leadership capability reflected the historical business, and was not effectively positioned for the future.

"In January 2015 we commenced a two-year business transformation program to focus our energy and investment into areas of current or potential market leadership; simplify every aspect of our business operations and grow Salmat in a targeted, connected and profitable manner.

"I am pleased with the progress we have made this year, wrapping up several of the major growth strategy initiatives – including the migration of the Reach platform to new, hosted data centres, and the final separation from our BPO business – and commencing the new business transformation initiative. We have rounded out the executive team, installed a new Finance and HR system across the Group and started to wind down some of the underperforming and non-strategic services.

"Whilst the investment has contributed to an underlying full year loss after tax of $6.7 million for FY15, we now have a more focused portfolio, a simpler and more connected structure, a strong and experienced leadership team and a clearer line of sight to profitable growth," said Mr Dower.

Group results

$ million	2015	2014	Change %
Revenue	498.1	452.8	+10.0%
Underlying EBITDA	13.3	18.2	-26.9%
Underlying (loss)/profit before tax	(3.2)	7.0	*
Significant items post tax	(89.7)	(5.9)	*
Net (loss)/profit after tax	(98.0)	0.8	*
Underlying net (loss)/profit after tax	(6.7)	10.2	*
Final dividend *(cents per share)*	-	7.5	*

* No meaningful figure

Revenue of $498.1 million was up 10.0% on the prior year, in line with the forecast. Acquisitions made a solid contribution as did new business growth in the contact centre business, which helped to offset some reduced discretionary spend by mid-tier clients. Revenue from door to door sales and some other smaller service lines reduced by around $6 million on the prior year, as Salmat elected to discontinue these service offerings in light of both performance and reduced market relevance.

Underlying EBITDA of $13.3 million for the full year was within the guidance range of $11-14 million.

Underlying loss before income tax was $3.2 million, compared with a $7.0 million profit in the prior year. Depreciation and amortisation costs were up by 27% on the prior year following the impact of acquisitions and the amortisation of intangibles and the Reach contact centre platform.

Significant items for FY15 included substantial one-off, non-cash impairments for goodwill and intangibles, some business transformation costs, fair-value adjustments on acquisitions and profit on the sale of online media shares. The impairment in the CES division was booked in the first half of FY15 and related to a review of the door-to-door sales offering and the flow-on effect of delays in the Reach platform build. The impairment in CMS was recognised in the second half of the year and relates to the product and services review across the digital services division as well as to a recent acquisition that has not performed in accordance with expectations.

Net loss after tax of $98.0 million flowed on from the sizeable significant items cost and a tax expense of $3.6 million. The comparative net profit after tax of $0.8 million in the prior year followed significant item costs of $5.9 million and a tax benefit of $3.2 million.

Operating cash flow for FY15 was impacted by a number of outflows relating to the prior year, as detailed in the first half results. Cash has also been used to reduce our overall borrowings and to fund the current business transformation.

At this stage, we are retaining cash within the business to complete the acquisitions of MicroSourcing and Fuse and fund the growth profile of the next few years. Accordingly, the Board has elected not to pay a final **dividend** for FY15 and will review Salmat's capital management strategy in 12 months' time.

Operational review

Consumer Marketing Solutions

$ million	2015	2014	Change % pcp
Sales revenue	268.8	259.2	+ 3.7%
Underlying EBITDA	27.1	27.3	- 0.7%
Margin	*10.1%*	*10.5%*	

Consumer Marketing Solutions revenue of $268.8 million was up by 3.7% on the prior year. Catalogue volumes held steady, outperforming overall industry and other print media. Major retailer volumes in particular remained strong and Salmat continued to lift its profile in the agency space. Salmat's investments in innovation in the catalogue medium are helping to drive clear product differentiation and are resonating well with clients.

EBITDA was marginally down by 0.7% to $27.1 million, due to cost and pricing pressure in certain segments and the relative mix of work. Digital achieved some good earnings improvement as a result of a more focused portfolio approach, targeting mid-tier clients, and moving relevant work off-shore.

Customer Engagement Solutions

$ million	2015	2014	Change % pcp
Sales revenue	227.4	187.9	+ 21.0%
Underlying EBITDA	5.4	5.5	- 1.8%
Margin	*2.4%*	*2.9%*	

Customer Engagement Solutions revenue was up by 21% on the prior year, to $227.4 million. New revenue from the MicroSourcing acquisition made a significant contribution and contact centre revenue also grew, up by 12% on FY14. This was offset by discontinued revenue as we exited Door to Door sales.

EBITDA of $5.4 million was down marginally on the prior year. Contact centre earnings were impacted by residual Reach platform migration costs and other investment costs and benefited from growth in the MicroSourcing business.

Business transformation

Following on from the growth strategy launched in July 2013, Salmat commenced the next stage of business transformation in January 2015, with a directive to focus energy and investment in areas where Salmat is - or can be - the clear market leader; simplify every aspect of the business so Salmat is agile, responsive, efficient and effective; and grow the business in a targeted, connected and profitable manner.

Since January, the restructure of overall business operations has been completed; a new senior executive team established; the initial review of all products and services has concluded; and a new integrated finance and HR system has gone live. Several programs are also well underway, including the rationalisation of internal systems; a rightshoring initiative to make best use of Salmat's international team; and the sales team restructured around a client, rather than product focus. Approximately $2.8 million in one-off costs were incurred during FY15 due to the transformation.

Benefits are already being derived from these initiatives, including a reduced IT spend run rate and the establishment of a single source of truth across finance and human resources functions.

The next phase of transformation involves continued improvements to Salmat's market offering, service delivery and back office consolidation, as well as increased collaboration and reduced costs as the business migrates to a cloud-based Google platform.

Current position

“The product and services rationalisation will reduce our revenue by approximately 10% in FY16 and we are aiming to achieve top line growth of around 6-8% from this new base,” said CEO Craig Dower.

“Costs will also be reduced due to the portfolio rationalisation and the removal of redundant processes, systems and roles via the business transformation project.

“We will provide an update to the market on our progress and performance at the half year results in February 2016,” said CEO Craig Dower.

ENDS

ABOUT SALMAT

We've been getting clients closer to customers since 1979

Salmat is a full-service marketing and communications company with a single aim – to get our clients closer to their customers.

With a talented team of nearly 4,000 people across four countries, our mission is to enable ROI-driven marketing services across local area marketing, digital, letterbox media and field marketing. Combined with best-in-class business management services covering customer engagement and business processes – it's no wonder that there are billions of customer interactions managed by Salmat every single year.

In every discipline, Salmat delivers best-of-breed expertise and insight-driven solutions that empower our clients to acquire, retain and grow the value of their customers. Our specialists invest in keeping our clients ahead of the game, and they use innovative approaches to technology, proven processes and a creatively inquisitive approach to make this reality. This approach helps hundreds of clients save money on their bottom line, strengthen ROI and accelerate business growth.

Founded in 1979, Salmat has evolved from a small letterbox distribution company to an ASX-listed company that has developed deep relationships with some of Australia and New Zealand's most trusted brands.

By partnering with brands in the moments that matter most, Salmat gives businesses the power to engineer deeper relationships with their customers.

For further information, please contact:

Craig Dower
Chief Executive Officer
+612 9928 6500

Peter Mattick
Chairman
+612 9928 6500