Salmat

# Annual General Meeting

27 November 2015

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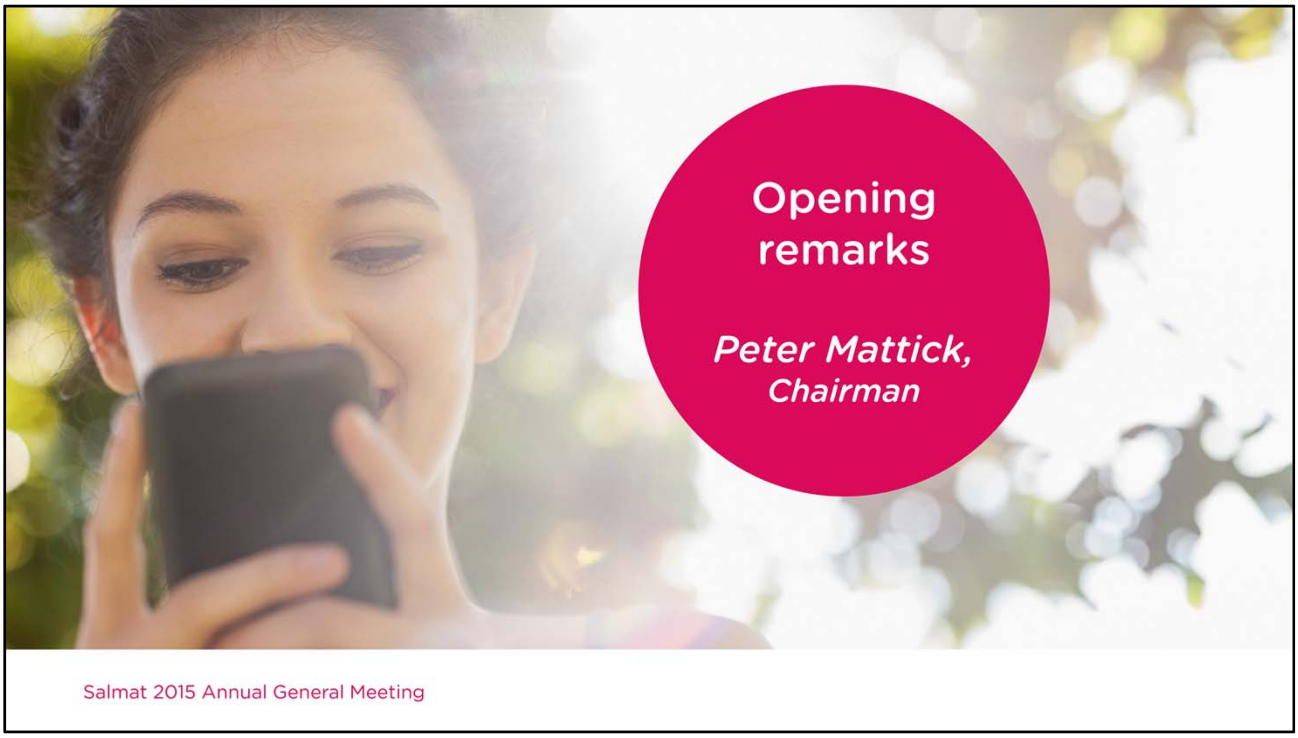
Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include 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.




***Welcome by Chairman, Peter Mattick***

Good morning, ladies and gentlemen.

My name is Peter Mattick and I am the Chairman of Salmat Limited.

I am very pleased to welcome you on behalf of the Directors and management. We greatly appreciate your interest and attendance.

I have been advised by the Company Secretary that a quorum is present and as such I declare Salmat's 2015 Annual General Meeting open.

I would like to introduce to you my fellow Directors:

- Fiona Balfour, a Non-executive, Independent Director and Chairman of the Technology and Innovation Committee.

- Ian Elliot, a Non-executive, Independent Director and Chairman of the Remuneration and Compensation Committee.

- John Thorn, our Lead Independent Director and Chairman of the Audit, Risk and Compliance Committee.

- Mark Webster, a Non-executive, Independent Director.

From our executive team, I'd like to introduce Craig Dower, our Chief Executive Officer; Rebecca Lowde, our Chief Financial Officer; and Stephen Bardwell, our Company Secretary.

Also in attendance today is Sue Horlin, representing our auditor, PricewaterhouseCoopers.

## Vale Philip Salter, co-founder of Salmat

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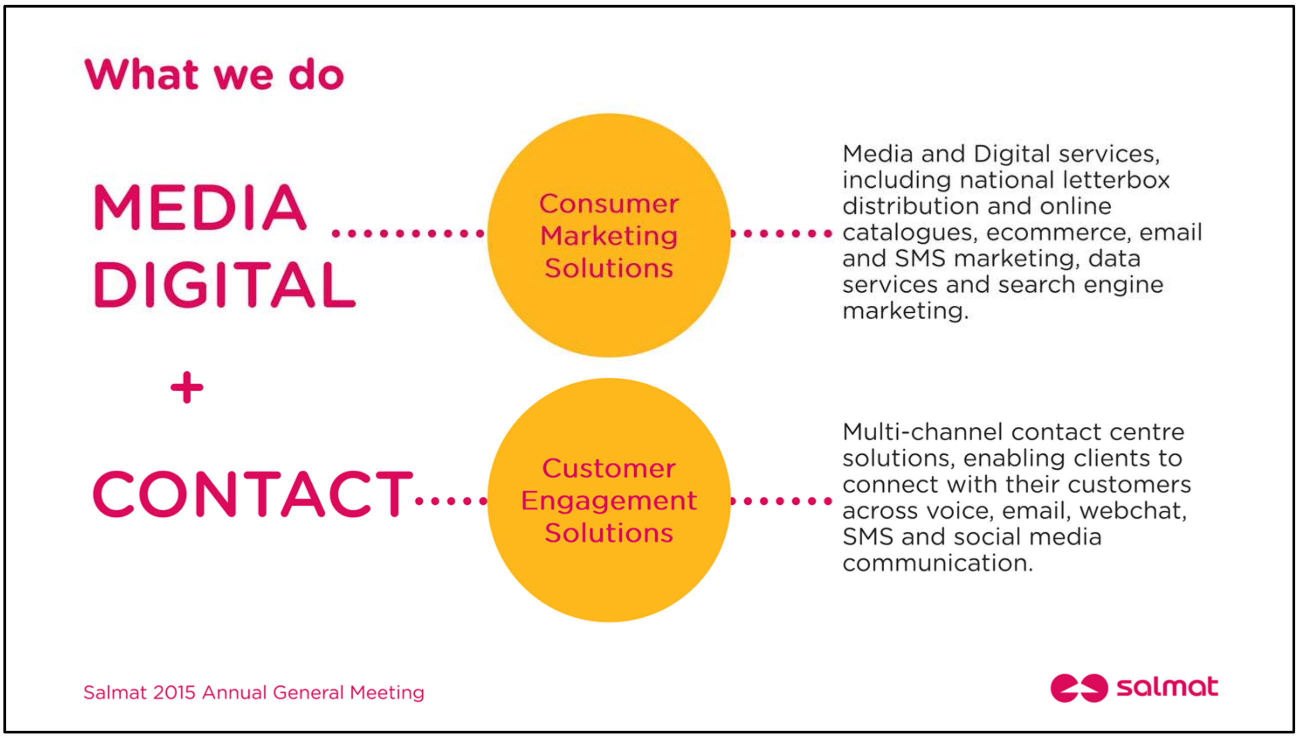
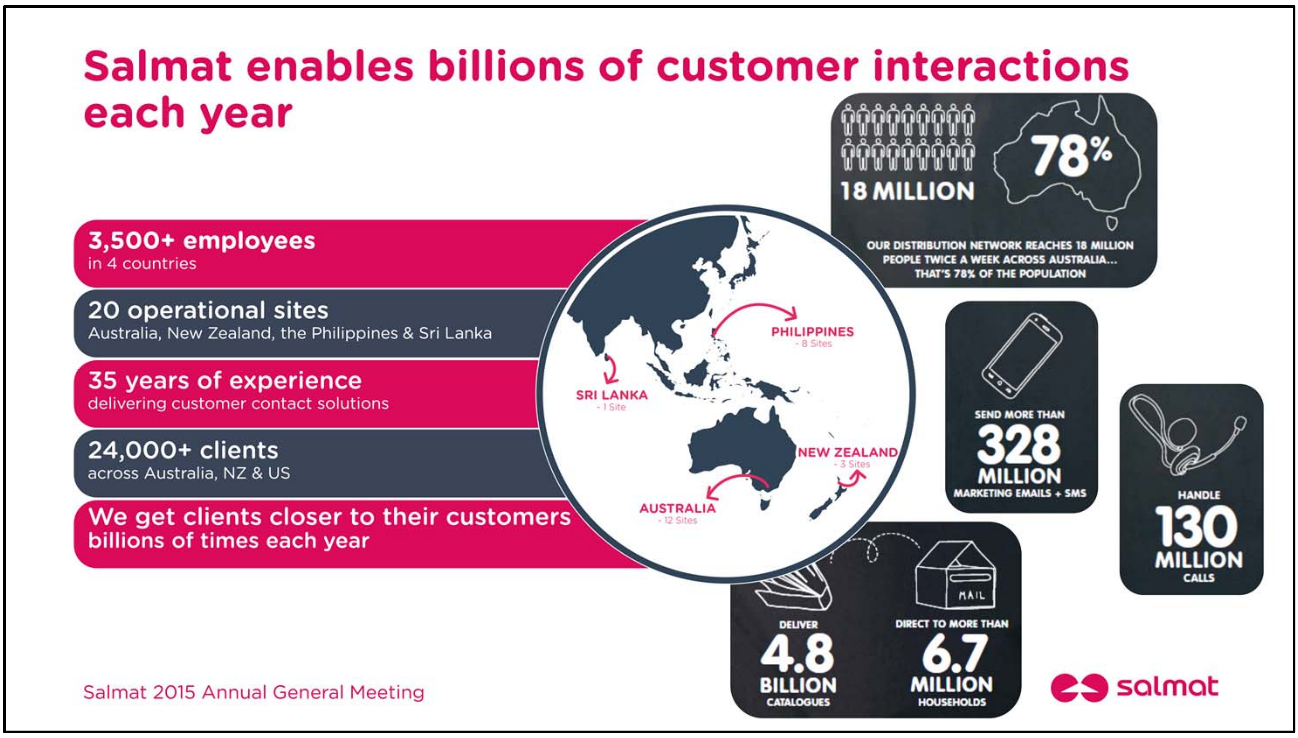
Sadly not with us today is our former Director and Salmat co-founder, Mr Philip Salter, who passed away earlier this month. Phil was a great friend and business partner. He was an astute businessman who understood the value of strong client relationships. Phil was a driving force in the establishment of Salmat and remained a passionate and active Director up until the last few weeks of his life. He will be dearly missed by many.

Phil was due for re-election today, at agenda item three. We are removing this agenda item from today's meeting. We do not intend to appoint any new Directors to the Board at this time. As stated in the market announcement earlier this month, the Salter family intends to remain a substantial shareholder in Salmat.




Salmat has evolved considerably over the past 36 years. Today, we operate as a multi-channel communication business that connects our clients with their customers via sophisticated platform-based technology. From traditional – and still highly relevant – letterbox distribution, through to webchat and real-time social media, Salmat is in the business of helping our clients get a better return on their communication investment.




And we enable those connections billions of times each year, operating out of more than 20 sites across four countries. Through catalogue distribution alone, we can reach 78% of the Australian population twice a week, every week.

## Financial results – top line growth

| $ million | 2015 | 2014 | % change |
|---|---|---|---|
| Revenue | 498.1 | 452.8 | + 10.0% |
| Underlying EBITDA | 13.3 | 18.2 | - 26.9% |
| Depreciation & Amortisation | (14.7) | (11.6) | + 26.7% |
| Underlying EBIT | (1.4) | 6.6 | * |
| Tax (expense)/benefit | (3.6) | 3.2 | * |
| Underlying (loss)/profit after tax | (6.7) | 10.2 | * |
| Significant items | (91.3) | (9.4) | * |
| Net (loss)/profit after tax | (98.0) | 0.8 | * |
| Final dividend (cents per share) | - | 7.5 | * |

* no meaningful figure

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There's no doubt that the past few years and especially the past twelve months have been significant for Salmat.

Completing the second year of the three-year growth strategy while commencing the business transformation may have seemed an ambitious target – and the scale and complexity of effort involved is reflected in our results - but the key milestones have been achieved and we are starting to see these investments pay off.

Financial results for FY15 were largely in line with expectation, given the scale of change taking place.

Revenue of $498.1 million was up by 10% on the prior year: a great result given a very challenging market and the transformation program. Contact centre growth and new revenue from acquisitions offset a drop of approximately $6 million as we exited door-to-door sales.

Underlying EBITDA of $13.3 million was at the upper end of our $11-14 million forecast. The reduction on the previous year was primarily due to the investment in Salmat's growth strategy and transformation. Employee cost savings and higher margins from new business made a positive contribution.

The underlying loss of $6.7 million for the year flowed on from the reduced earnings but was also impacted by increased depreciation and amortisation as well as net interest and tax expenses compared with the prior year.

There were a number of one-off significant items in FY15, which have been covered in detail in the annual report. The largest significant items were impairments recognised for goodwill and intangibles, as forecasts were revised to reflect changes within the product and services portfolio and a delay in new revenue following on from the Reach platform migration.

These significant items were the key contributor to a net loss after tax of $98.0 million.

While net cash reduced in FY15, it remained positive at year end, at $23.1 million. Salmat repaid borrowings and finalised a finance facility agreement for a two-year term in February 2015.

## Investing back into the business

- Growth strategy has established new solution platforms.
- Business transformation putting the brakes on non-performance and prioritising profitable growth.
- Preserving cash to complete final stages of the MicroSourcing and Fuse acquisitions during FY16.
- Capital management strategy will be reviewed at end of FY16.



We are making solid progress.

The past few years have involved a significant investment of time, effort and money back into the business. It was something we had to do, and while some of it has taken longer and cost more than we expected, the end result will be worth it.

We have a new executive team in place that is doing a great job transforming the business inside and out, with an improved earnings trend already evident in the second half of FY15.

With changing technology in recent years, we had some decisions to make. We elected to divest the BPO division and invest in new technology platforms across the business. This was a fairly momentous shift but an essential one, as we saw the landscape changing for both Salmat and our clients. We now have the technology platforms we need to take us through the next stage of growth.

As we progressed the growth strategy and reduced the overall size of the business, we identified a need to better integrate and streamline our operations, rationalise our product and services and prioritise higher-margin growth. We've stopped doing things that don't make strategic sense or that erode profit.

We elected not to pay a dividend for FY15 as we preserved cash to fund the transformation and to complete the final stages of the MicroSourcing and Fuse acquisitions: both of which are performing well. While this deviated from Salmat's tradition of paying solid dividends to our shareholders, the Board decided it was prudent to remain debt-free at this stage.

Salmat has a very stable register of loyal, long-term shareholders and we thank you all for your continued support and patience as we undertake our transformation. We intend to repay your loyalty with improved performance and a sustainable growth profile as we start to build momentum over the course of FY16. The Board will revisit our capital management and dividend strategy after this time.

I am now very pleased to invite Salmat's CEO, Craig Dower to take you through Salmat's current priorities and future outlook before we address the formal items on the agenda. Thank you.


***Presentation by CEO, Craig Dower***

Thank you, Peter and good morning, ladies and gentlemen.

It’s a pleasure to welcome you here today and share some insight on how your company is transforming and targeting growth.

Today I’m going to add to our Chairman’s overview with a bit more background on Salmat’s performance over the past 12 months and how we’ve performed against the objectives set last year.

I’ll also provide an update on our progress with the current business transformation strategy; and talk a little about priorities for this financial year.


Firstly, I think it's fair to say that Salmat is in very different position than when we met here 12 months ago.

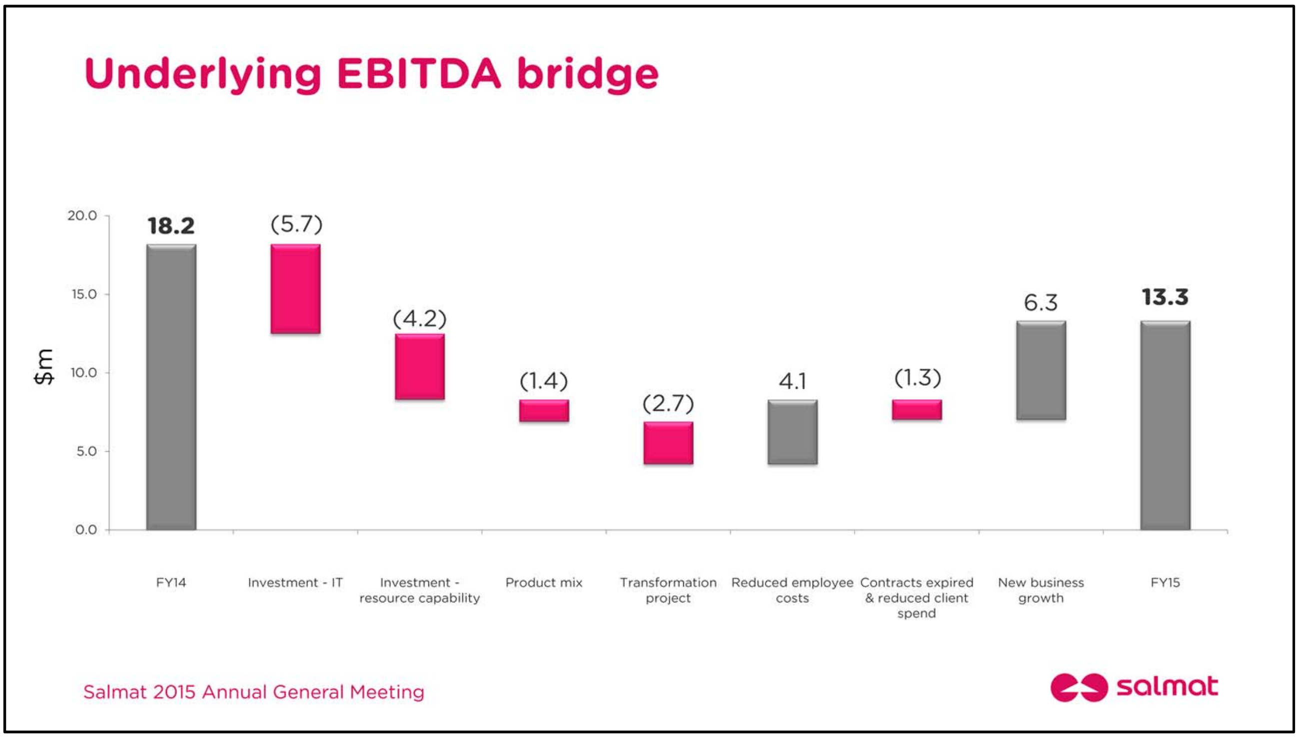
Since then, we've successfully completed the major projects that followed on from the BPO business separation, freeing up resources and establishing a clearer path for new wins to be implemented.

We have also completed or commenced a number of transformative programs, which are all aimed at making Salmat a smarter, leaner and more profitable business.

We've implemented Workday to integrate our HR and Finance systems; rolled out Salesforce.com across our sales and business development teams and recently commenced rolling out Google for Work across the business. These three cloud-based platforms form the core of our operating system and will enable much improved financial insight and employee productivity over the next several years, as well as reduced costs of operations. I mentioned that we were focussed on execution – getting on and getting things done – this year, and all of these major projects were completed on time and to budget.

We've taken a good look at our range of products and services. Not all of these were profitable and over time, we'd retained some services that no longer make strategic or economic sense. So we've made the decision to discontinue or divest some of those, for the long-term benefit of the business. I will detail these a little further on.

FY15 was a huge year for Salmat. We made a lot of changes and asked our people to change along with us.




One of the issues with undertaking so many significant projects at once is the impact upon near-term performance.

You can see on the slide that investment in IT, resource capability and the transformation project impacted earnings by almost 70% over the year. Some of this was the continued cost of completing the BPO divesture, which as Peter Mattick has described as "untangling 35 years of spaghetti". That project was expected to take 12 months and cost around $9 million. Instead it took 30 months and cost almost $25 million. That said, it was an absolutely essential project and it is now finished. Moving to the cloud with our recent IT investments will ensure the tangle of IT infrastructure won't be repeated.

With the BPO separation and associated projects now complete, IT spend will revert more towards business-as-usual and fall more in line with revenue drivers. Investments in technology and innovation will continue, but the large capital projects have now been completed.

Adding new capability was a focus during FY15 as we built a new senior executive team and significantly boosted Salmat's marketing expertise. The two-year transformation project commenced in the second half of FY15, so we still have further work to be done, but a number of projects have already been completed, which involved one-off costs that will lead to savings.

The impact from product mix relates to projects that were simply not profitable – that was one of the key drivers of the product and services review, where we are focussing on selling services that are core to our strategy and already earnings-positive or have scope to be made more profitable.

Reduced employee costs offset some of the investment costs as we rightsized the business more in line with revenue.

What is most pleasing on this chart is the new business growth, which was derived from new business revenue of around $67 million. That means that we are driving around 10% EBITDA from the new wins, which is in line with our longer term growth goals.  Clearly it will take time to bring overall earnings to this level, but it is certainly a step in the right direction.

We had flagged back in February that FY15 would be a year of two halves, and this certainly proved true. Over 60% of our full year EBITDA came from the second half and that was still in an environment where we were investing significantly in many transformation initiatives and in a time where we were implementing new back office technology across both HR and finance.

## Segment information

| $ million | 2015 | 2014 | % change |
|---|---|---|---|
| Sales revenue: | | | |
| Consumer Marketing Solutions | 268.8 | 259.2 | + 3.7% |
| Customer Engagement Solutions | 227.4 | 187.9 | + 21.0% |
| Underlying EBITDA: | | | |
| Consumer Marketing Solutions | 27.1 | 27.3 | - 0.7% |
| Customer Engagement Solutions | 5.4 | 5.5 | - 1.8% |

| Production volumes | 2015 | 2014 | % change |
|---|---|---|---|
| Catalogues | 4.8bn | 4.8bn | - |
| Contact centre seat utilisation (average) | 65.8% | 56.7% | 910bp |



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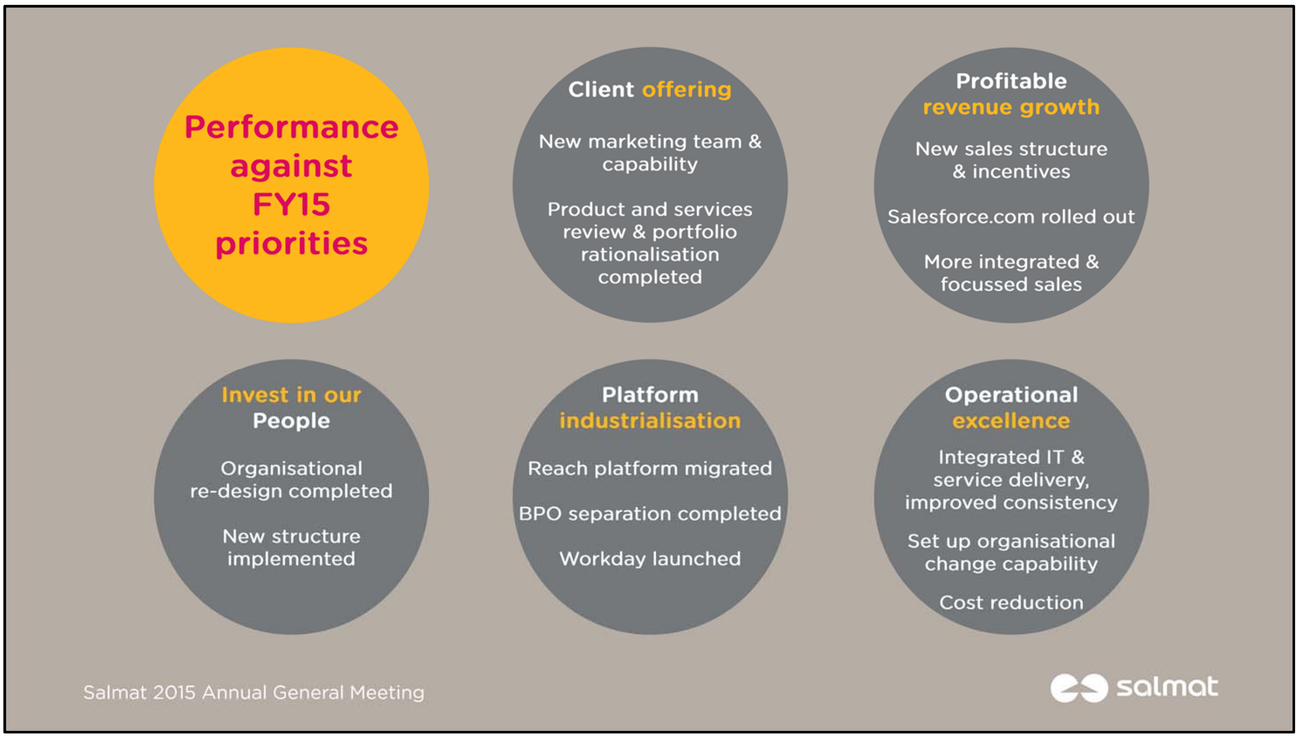
Looking at the breakdown of performance within our two key service divisions, we saw revenue growth in both CES and CMS, but also earnings declines for both.

CMS revenue was up by 3.7% as Salmat's catalogue volumes held steady, outperforming the wider industry as well as other print media such as newspapers and magazines. Major retailer volumes in particular remained strong and Salmat continued to lift its profile amongst media agencies, where we are pursuing white space opportunities. Digital services - including ecommerce - also performed well compared with previous years.

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

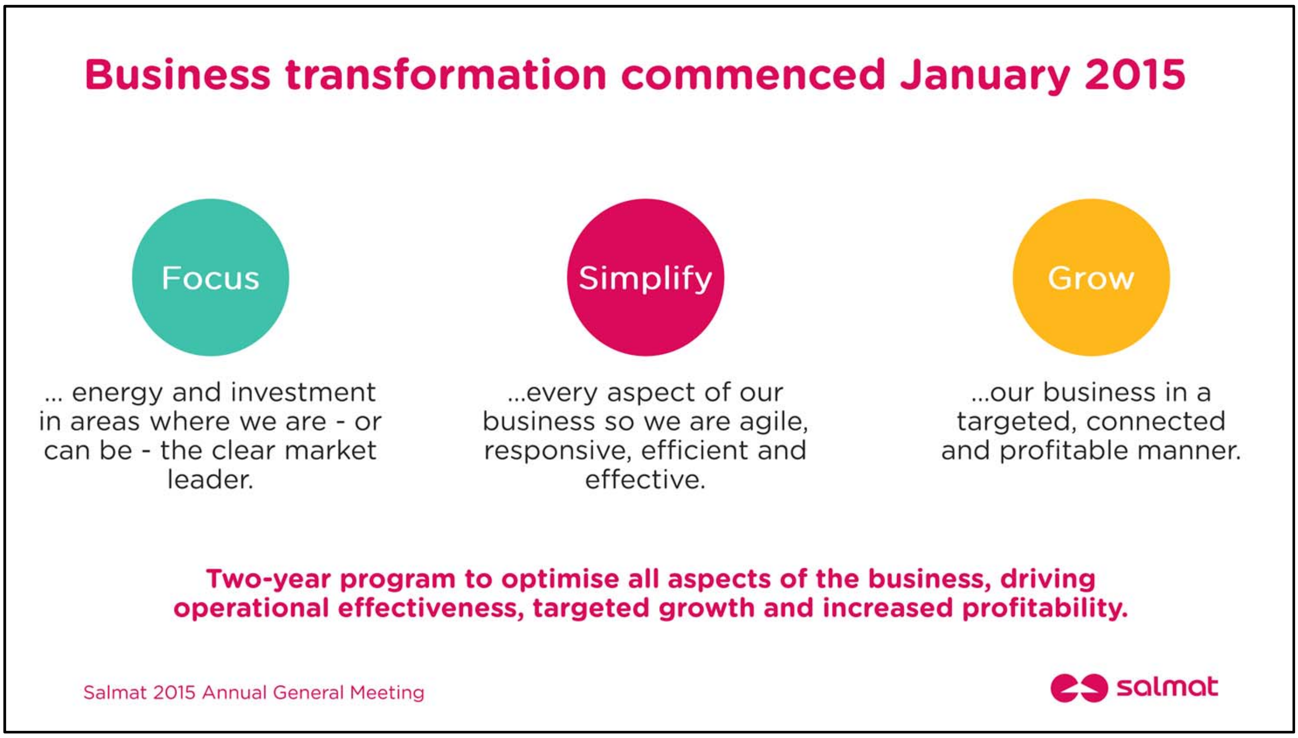
CES saw a strong improvement in revenues from both our own contact centre business – which was up 12% on the previous year - and through acquired contracts and new growth from the MicroSourcing acquisition. This growth was offset by reduced revenue from door-to-door sales as we exited this business during the year.

CES did improve contact centre seat utilisation during FY15, but this earnings gain was outweighed by the impact of the final Reach platform migrations and other IT investment costs. CES earnings were up significantly in the second half of the year, from $0.6 million in the first half to $4.8 million in the second half. There is still a way to go but this was a great indication that we are through the investment-intensive stage and starting to find some clear air in this division.

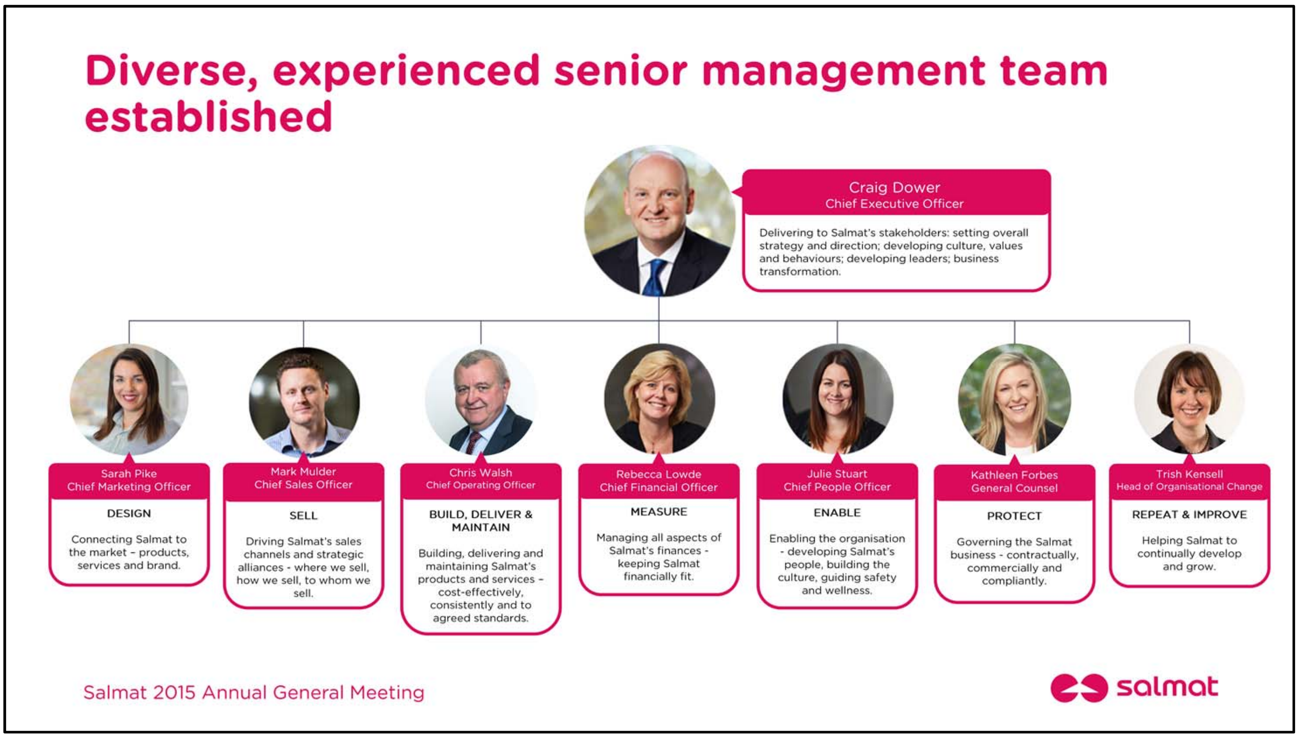



We set a number of priorities for FY15, centred around Salmat's client offering; profitable revenue growth; investing in our people; building world-class technology platforms; and driving operational excellence. I'll let you take a look at the slide, which details the specific projects, but I'm happy to say we've ticked off our list and achieved what we set out to achieve in FY15.

One of the key investments we have been making is around execution: setting clear accountabilities and getting things done.




In the second half of FY15, we commenced our Business Transformation strategy. This is a two-year program, so we are currently almost halfway through. The need for transformation arose following the BPO separation, when we found that Salmat was still carrying the infrastructure and overheads of a much larger business. Accordingly, we identified a need to sharpen our focus on a tighter suite of service offerings; simplify and consolidate our structure and internal systems; and more stringently concentrate our attention on practices, activities and clients that drive profitable and sustainable growth.




An important part of driving the right strategy is getting the right people to lead it, so it was pleasing to finalise the senior executive team during FY15. Joining CFO Rebecca Lowde, Chief People Officer Julie Stuart and myself this year were Sarah Pike, who heads our marketing team; Mark Mulder who stepped up within Salmat to head Sales; Chris Walsh who is now overseeing our operations – where we have brought together all aspects of client service delivery and technology; Kathleen Forbes who has been Salmat's General Counsel for some years but is new to the executive team; and Trish Kensell who is leading Organisational Change as we go through this major transformation.

We have clear and connected accountabilities across the leadership team and throughout the business.  All of the executive team are experienced in delivering successful business transformation programs and delivering results. It is a privilege to lead such a great team.

## Focus, Simplify, Grow

- Several services discontinued or divested to focus on core business (FY16 revenue impacted by 10%):
  - Direct sales (residential, SME); Kiosk sales (SME, consumer); Learning, low-value customer segments.
- New marketing capability with emphasis on product management; stronger alignment with sales.
- New integrated Finance and HR platform (Workday) for better information, streamlined processes.
- Consolidated, integrated IT and business operations to drive greater accountability and reduced cost.
- Removal of redundant roles and processes.
- 'Cloud-first' approach to all IT investments.
- Established client-centric sales structure and targeted account planning.
- Focussing sales efforts on core solutions and channels, with more rigorous lead qualification.

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So just what are we doing to transform Salmat?

Taking a thorough inventory of our products and services was an important step. Following that review, we have discontinued or sold a number of lines. The first was our Direct Sales business, which encompassed face-to-face sales via either door to door or in pop-up kiosks like you might see in shopping centres, both the residential and small business customers. These channels are very labour-intensive and no longer core to Salmat's overall product offerings.

We had a small eLearning division that we picked up as part of a contact centre acquisition many years ago. This served Salmat well for both internal and external clients, but again, with the changing landscape, it made less and less sense in recent years for Salmat to be in this line of business and we have now sold this division.

We have continued to refine our digital portfolio, both in the services we offer as well as the way in which we deliver them, with the aim of being more client relevant, more efficient and more profitable.

We also did a thorough review of our client base and took some hard decisions on some customer segments that required a high degree of service for relatively little return.

Another area that we have focussed on quite strongly is marketing. Salmat's marketing effort had been somewhat fragmented across the business in recent years. We appointed a new Chief Marketing Officer – Sarah Pike – to build a new, integrated marketing program that has a much closer alignment with our sales and business development efforts, and take a good look at improving Salmat's product and brand management capability.

There was also significant scope for greater efficiency within Salmat's own systems and operations. To this end, we installed our new Finance and HR platform, Workday; simplified and consolidated our IT and business operations and removed a number of redundant roles and processes. We will be taking a 'cloud first' approach to all new IT investments, and this includes our recent move to Google for Work.

We appointed a new Chief Sales Officer – Mark Mulder – who has overhauled our sales team structure and put in place a more consistent and stringent set of practices, with our clients clearly at the centre of all we do.  Mark has responsibility for all aspects of sales within Salmat.

Finally, we added a new role of Head of Organisational Change to the executive team.  Trish Kensell has lead major change programs at large global and Australian companies, and this emphasis on embedding change management capability across all parts of Salmat will result in greater project execution success and improved results across all that we do in the years ahead.

In the market in which we operate, change is the only constant.

## Next steps

- Continued optimisation:
  - Product and services review phase two – product roadmaps, gap closures.
  - Workday phase two – further systems and process consolidation.
  - Improved service delivery and lower cost-to-serve.
  - Greater sales effectiveness – targeted growth around core solutions.
- Collaboration platform:
  - Salmat has gone Google.
  - Increased collaboration, reduced cost.
  - Common platform across all of Salmat – cloud-based.
- Marketing:
  - Connecting products and solutions with market growth.
  - Integrated campaign management.
  - Drive greater market awareness.

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As we continue the transformation program, the next projects to be completed are in the three main areas of continued optimisation, our new collaboration platform and driving our overall product management and marketing program.

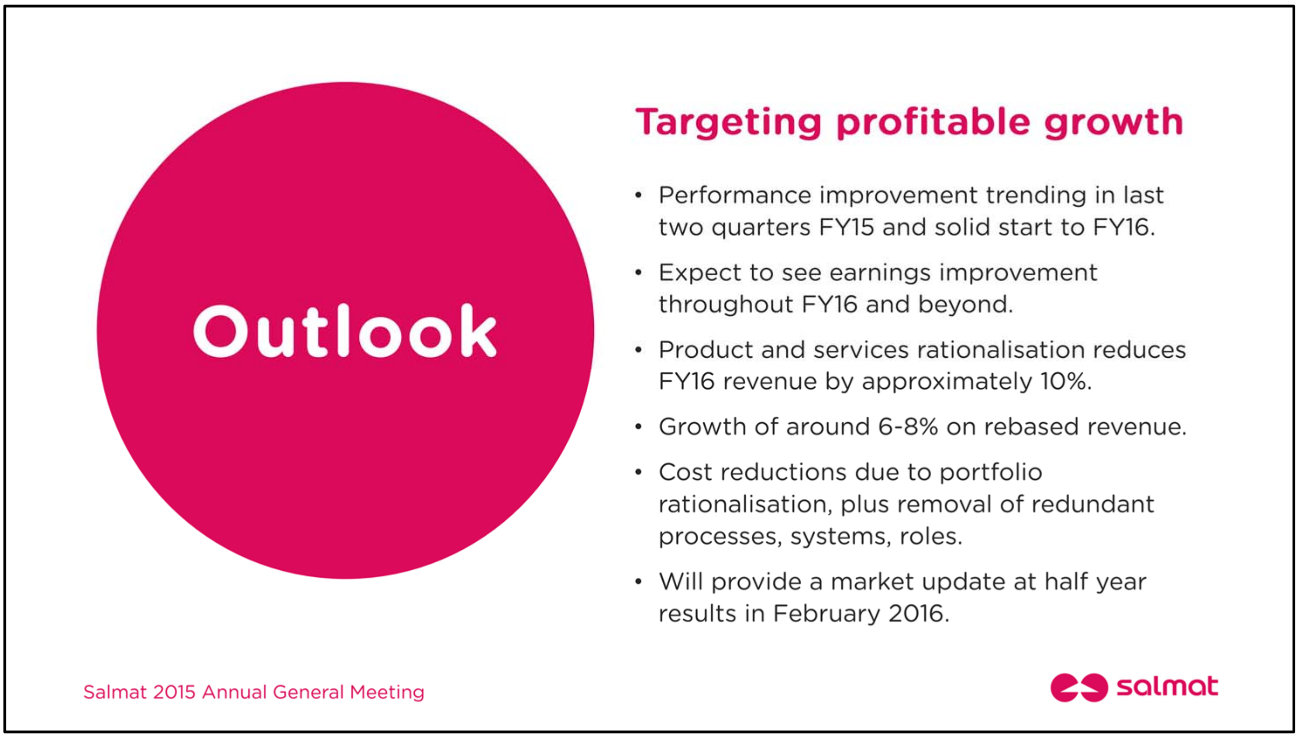
Now that the initial product and services review and appropriate divestments have been completed, we are working on future-looking product roadmaps and assessing any gaps in the portfolio.

The Workday platform has been in place for just on five months, so now that we've seen how it works within the business, we are investigating what else it can do for us and what further systems consolidation is possible.

Within sales, we are focussing on both improving new sales growth in core solutions and then delivering those solutions more effectively and efficiently.

I'm a great believer in using technology to enable better collaboration, so launching Google for Work within Salmat last month was an exciting step. The rollout has gone very well so far and we will be continuing to educate and support staff in using the cloud-based Google suite of tools to drive greater collaboration and teamwork across all of Salmat. This not only improves productivity but reduces the requirement and cost of things such as software licences, data storage, travel and conference call facilities, and removes the need for capital spend on all of that.

With six months under her belt, our Chief Marketing Officer, Sarah Pike, has now finalised the new marketing structure and is set to start rolling out some of Salmat's first integrated marketing campaigns.  With the right suite of products and services, Salmat is in a better position to communicate our client offering as an industry leader in multi-channel marketing and customer engagement solutions.




The aim of all this activity is of course sustainable, profitable growth.

We saw improvement in earnings in the second half of FY15 compared with the first half and we are pleased with our progress thus far in FY16. We expect to see overall earnings improvement this year and remain committed to our target of 7-10% EBITDA margins over the medium term.

As disclosed at the full year results, the product and services rationalisation has rebased our revenue for FY16 by around $50 million; we are then anticipating around 6-8% revenue growth from this new reduced base.

We do anticipate achieving further cost reductions during FY16 as a result of the business transformation program being implemented. While there are also some costs involved with the transformation, we expect a net saving overall.

I’m excited about the progress being made. This has been a massive year of change and there’s still some more to come, but as the business transformation accelerates we can see a new, improved Salmat starting to emerge. That transformed Salmat will be more innovative, competitive and profitable, with a reputation for outstanding client service delivery and a culture centred around the talent and commitment of its people.

I look forward to updating you on our progress at the half year results in February.

I will now hand back to the Chairman to take us through the ordinary business of today’s meeting.


Ordinary business of meeting
Peter Mattick, Chairman

## Item one: Financial Statements

To consider and receive the Financial Report, the Directors' Report and the Auditor's Report of Salmat Limited for the year ended 30 June 2015.

## Item two: re-election of Director, Peter Mattick

Ordinary resolution:

*That Peter Mattick, who retires by rotation in accordance with the Constitution of the Company, be re-elected as a Director of the Company.*

Following any questions or discussion, at the end of the meeting a poll will be held to ensure that the voting cast on this resolution is clear to all shareholders.

## Item four: Remuneration Report

Non-binding advisory resolution:

*That the Remuneration Report of the Company for the year ended 30 June 2015 be adopted.*

Following any questions or discussion, at the end of the meeting a poll will be held to ensure that the voting cast on this resolution is clear to all shareholders.

## Item four: Remuneration Report
## Senior executive incentive plans

- No short or long-term incentives (LTIs) were issued in FY15.
- LTIs now split equally between earnings per share (EPS), total shareholder return (TSR) and return on capital employed (ROCE).
- Targets for FY16 LTI performance rights are:
  - Cumulative EPS target of 14 cents over three years.
  - TSR at 75% of the ASX small industrials index average TSR.
  - Average ROCE of 6.5% over three years.
- Performance targets for any future grants will be recalculated based on performance expectations at that time.

## Item four: Remuneration Report

Non-binding advisory resolution:

*That the Remuneration Report of the Company for the year ended 30 June 2015 be adopted.*

Following any questions or discussion, at the end of the meeting a poll will be held to ensure that the voting cast on this resolution is clear to all shareholders.

# Proxies received on resolutions

| Resolution | In favour | Against | Open | Abstaining | Ineligible to vote |
|---|---|---|---|---|---|
| 2: Re-election of Director, Peter Mattick | 133,628,028 | 193,707 | 378,096 | 75,095 | - |
| 4: Remuneration Report | 60,386,793 | 588,151 | 362,074 | 1,140,216 | 71,795,843 |

## Poll for resolutions two and four

Please indicate your vote on your yellow voting card.

Link Market Services representatives will collect your completed cards.

# Thank you