Salmat transformation program delivering results

Salmat Limited (ASX:SLM) today released its full year results for the year ended 30 June 2016. Full year revenue of $450.8 million was down on the previous year, following the planned discontinuation of a number of product and service lines. New business was also lower than expected in the third quarter, however client retention was strong, with all major contracts up for renewal in FY16 being retained. Despite the decreased revenue, cash flow increased and underlying EBITDA was up $6.3 million to $19.6 million. This improvement is a direct result of the transformation program that has been underway for the past 18 months, which is setting Salmat on the path of long-term sustainable growth.

"We commenced Salmat's transformation program in January 2015, to focus our efforts on areas of market leadership; simplify every aspect of our operations; and grow the business in a targeted and sustainable manner," said Salmat CEO Craig Dower.

"The underlying EBITDA growth we've achieved this year reflects the great progress we have made with this transformation. We are now well on track to achieve sustainable and profitable growth.

"Over the past 12 months, we have undertaken a comprehensive operations restructure; implemented changes to Salmat's product and services portfolio, which included discontinuing a number of services; and continued to consolidate multiple finance, human resources, desktop and sales management systems to new cloud-based platforms.

"Having overhauled Salmat's operations and internal systems, we are concentrating on sales and driving profitable revenue growth. This will be a clear focus for FY17.

"The past twelve months has seen a huge amount of change within the business. We have taken major steps in structurally and systemically realigning our cost structures, through the targeted removal of roles and systems and a move of our IT platforms to the cloud," said Mr Dower.

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Group results

$ million	2016	2015	Change % pcp
Revenue	450.8	498.1	-9.5%
Underlying EBITDA	19.6	13.3	+47.4%
Underlying profit/(loss) before tax	4.2	(3.1)	*
Significant items#	(6.8)	(91.3)	-92.6%
(Loss) before tax	(2.6)	(94.4)	+97.2%
Income tax expense	(3.4)	(3.6)	-5.6%
Net (loss) after tax	(6.0)	(98.0)	+93.9%

* No meaningful figure
# This is non-recurring expenditure such as restructuring costs, impairment, adjustments to contingent considerations, profit on sale of shares in an associate and other income. Non-IFRS information is unaudited.

Revenue of $450.8 million was down $47.3 million on the previous year. This was due to the product and services portfolio review announced last year that saw a number of underperforming and non-strategic services discontinued, along with the exiting of a number of customer contracts. The direct impact of this was just under $38 million in FY16. While client retention was strong and first half revenue tracked well, the impact of the discontinued services was more acute in the second half. There were also fewer new sales in the third quarter and delayed timing in some new contract wins late in the second half. A number of initiatives were implemented during the second half of FY16 to specifically target revenue growth and these are already showing results.

Underlying EBITDA of $19.6 million was up 47.4% on the previous year. This was a good result given the reduced revenue. The transformation program's emphasis on simplifying Salmat's business operations was the key contributor to this result, with a reduced cost base and improved efficiency across every area of the business. Moving to cloud-based platforms helped switch costs from fixed to variable and reduce Salmat's IT spend in FY16.

There was $6.8 million of net costs in **significant items** for this period, compared with a net cost of $91.3 million in FY15. For FY16, this included transformation restructuring costs and a fair value adjustment of $5.5 million on previous acquisitions, offset by profit on the sale of shares in an associate and a small online learning business. The FY15 figures included a one-off non-cash impairment for goodwill and intangibles.

Underlying net profit before tax of $4.2 million represents a $7.3 million improvement on FY15.

Net cash at 30 June 2016 was $14.6 million, down from $23.1 million at 30 June 2015 and $14.9 million at 31 December 2015. The key outflows include deferred consideration payments relating to MicroSourcing and settlement of purchase commitment for the Fuse acquisition. Positive contributors to cash included a reduced capex spend and a $0.9 million gain made on the sale of shares in an associate and a small online learning business.

No final **dividend** has been declared for this period. The Board had previously indicated that Salmat would be retaining cash to reinvest in the transformation and acquisition completions.

Capital management is currently being reviewed in the context of the MicroSourcing acquisition completion. As announced to the market, Salmat acquired the remaining 50% of the MicroSourcing business on 10th August 2016, for US$24.1 million. This consideration is being paid via a combination of cash and shares, including some deferred payments. Salmat is currently considering various funding alternatives. Should any equity raising be pursued, Salmat intends that any such offer would be conducted on a pro rata basis.

Outlook

"The transformation program over the past 18 months has been an intense process for Salmat, crucial for ongoing sustainability," said Craig Dower.

"It's a program that has ultimately proved successful in overhauling the business structure and operations and re-establishing Salmat's cost base at a more appropriate level: I'm proud of the great work the team has done to get us to this point. Salmat is now more technologically-advanced, scalable and cost competitive in the delivery of client solutions," said Mr Dower.

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ABOUT SALMAT

Salmat is a leading Australian marketing services business. We partner with our clients to help them with the constant pressure of acquiring and servicing their customers, week-in, week-out. With media, digital and contact capabilities, we have the right solutions for our clients, enabling them to Reach, Convert and Serve more customers.

Founded in 1979, Salmat has evolved from a small letterbox distribution business to an ASX-listed company. With a talented team across four countries, we work with some of Australia's most recognised and trusted brands to manage billions of customer interactions every year.

Reach: We offer the broadest reach media (online & offline), with the ability to target individuals and up to 17 million people.

Convert: We deliver conversion across multiple channels, creating more opportunities for our clients' customers to buy.

Serve: We make every one of our clients' interactions count online and offline.

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