



## Salmat 2019 Annual General Meeting

Museum of Sydney

Corner Bridge and Phillip Streets

SYDNEY NSW 2000

10.00am Tuesday 26 November 2019



### ***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 2019 Annual General Meeting open.

I would like to introduce to you my fellow Directors:

- Stuart Nash, a Non-executive, Independent Director and Chair of the People Performance Committee.
- Bart Vogel, a Non-executive Independent Director and Chair of the Audit, Risk and Compliance Committee; and
- Mark Webster, a Non-executive, Independent Director and Chair of the Technology and Innovation Committee.

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

Also in attendance today is Jason Hayes, representing our auditor, PricewaterhouseCoopers.

As was outlined in the 2019 corporate governance report, Bart Vogel is retiring as a Salmat Director at today's meeting. Bart joined the Board in mid-2017 and has made a valuable contribution in that time, including as Chair of the Audit, Risk and Compliance Committee. Thank you, Bart and all the best for the future.



I'd first like to address the announcement that was made yesterday, regarding the agreement to sell Salmat's Marketing Solutions business to the IVE Group.

This announcement follows an extensive and exhaustive industry review process undertaken by Salmat's management and Board, looking at strategies to address sustainability in the catalogue distribution network.

While we considered a number of alternatives, we believe that the IVE proposal represented the best available option for employees, clients, shareholders and the Marketing Solutions business as a whole in the current market.

At this stage, completion of the Marketing Solutions sale is anticipated by 1 January 2020.

Clearly this sale brings up a number of questions about the remaining Salmat business and we are currently reviewing the strategic options post-completion.



The sale agreement follows a year of improvement and innovation within Salmat. It was a great effort by the entire team.

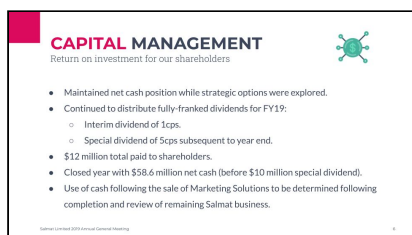
Some of the key highlights for FY19 included growing revenue, net operating cash and underlying profit against the background of a challenging local market. New business growth contributed to these results.

The separation of the Contact Centre business - which was sold during FY18 - was successfully and seamlessly separated during FY19. Following the separation, Salmat was able to reduce corporate costs by a third.

A concerted effort was made in Marketing Solutions to optimise processes and procedures, in pursuit of operational excellence. This is a multi-year program which has embedded a continuous improvement culture and delivered measurable efficiency benefits.

The trial of automated collation technology was expanded during FY19 to test feasibility within Salmat's own production environment and over a larger distribution area. This trial delivered positive results and valuable learnings for the business. The IVE Group has indicated that they are willing to integrate these learnings into their business model.

The Managed Services business - which is primarily MicroSourcing operating out of the Philippines - continued to deliver reliable year-on-year growth, increasing both revenue and earnings, as it has done every year since it was acquired.



While we did consider it prudent to retain cash as we considered various strategic options, Salmat also continued distributing dividends in FY19. A fully franked interim dividend of one cent per share was paid in April 2019.

The goodwill impairment and subsequent statutory loss prevented the payment of a final dividend, however a fully franked special dividend of five cents per share was declared in August and paid in October 2019. This marks a total of \$12 million in dividends.

The use of cash following the sale of the Marketing Solutions business will be determined as part of the consideration of Salmat's future options.



What next for Salmat?

Phil Salter and I founded Salmat 40 years ago this year. We saw an opportunity in the market, took a chance, made significant personal sacrifices and worked long, long hours to build this business from the ground up. Over time we bought and sold other businesses and added different services to the mix.

But always at the heart of the business was catalogues.

I think it's fair to say that Salmat played a pivotal role in the development of the catalogue distribution industry in Australia and I am proud of what we achieved. I still believe in catalogues as a highly effective marketing medium and it seems that retailers and consumers agree.

Unfortunately the catalogue distribution market over the past several years has been subject to extreme competitive pressures. The industry as a whole has been impacted.

We have explored a number of different strategies and the IVE proposal emerged as the best way forward for all key stakeholders, releasing value for shareholders as well as ensuring a sustainable future path for the business, employees and clients.

Salmat and IVE have worked together over many years and forged a partnership that will serve as a solid foundation for this next evolution. Given the existing synergies, we anticipate a smooth transition for all parties.

We are currently anticipating completion of the deal by 1 January 2020 and will keep the market updated on our progress.

We will also keep the market updated on our future plans for Salmat following completion of the sale.

MicroSourcing within Managed Services has been a solid and steady performer over the past several years. We have been extremely happy with its performance.

But clearly Salmat without Marketing Solutions is a very different business and we will need to work through the best options for everyone involved.



While it has been a difficult decision to let go of the distribution business that Phil and I built, the IVE transaction is in the best interests of shareholders and the business.

I'd like to take this opportunity to publicly say thank you to the many people who have worked in this business over the years, from the very early days at Regents Park to the employees across Australia today. There are too many people to thank individually, but I would like to recognise our contractors - the walkers and area representatives - and all the operational teams. Thank you.

Of course Salmat would never have gotten off the ground without the support of mine and Phil's families, so special thanks to my wife Pam, Phil's wife Chrissy and all the kids. Extra special thanks and recognition is due to Phil, for creating this business in partnership with me. It's been a great journey.

Having built the Salmat network up over forty years, I'm looking forward to watching it continue to succeed and deliver results under the new ownership, and I wish IVE all the best for the future.

I am now very pleased to invite our CEO, Rebecca Lowde to give her overview of the past financial year, before we address the formal items on today's agenda.

Thank you.



**Presentation by CEO, Rebecca Lowde**



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

We appreciate your interest in Salmat and thank you for attending today.

The past financial year was a year of continuing to implement our innovation strategy, driving operational excellence and targeting respectable financial results in a challenging market.

Salmat's strategy in FY19 centred on evolving the Marketing Solutions offering with innovative technology and forward-looking product roadmaps; ensuring Operational Sustainability with improved practices and measures; driving Sales Excellence to grow new business and investing in our People to nurture a high-performance culture.

We made solid progress against this strategy, including launching the new salmathub portal for contracted distributors, establishing our Data & Analytics program and developing a new MicroSourcing website.

Operationally, we implemented process improvement throughout the business and expanded MicroSourcing's capacity with two new facilities.

In terms of financial performance, a focus on efficiencies and reduced overheads following the Contact separation as well as targeted new business helped us to maintain our target Underlying EBITDA margin even with flat revenue.

<b>FINANCIAL OVERVIEW</b>			
Full year to 30 June 2019			
\$ million	FY19	FY18	% change
Revenue*	251.0	250.2	0.3%
Underlying EBITDA from continuing operations	19.0	20.3	-6.4%
Depreciation & Amortisation	-4.8	-4.1	-15.2%
Net Interest	0.7	-0.4	NM <sup>†</sup>
Underlying profit before income tax	14.9	13.7	8.8%
Income tax expense	-2.8	-2.3	21.7%
<b>Underlying profit after income tax</b>	<b>12.1</b>	<b>11.4</b>	<b>6.3%</b>
Significant items	-38.1	-16.6	NM <sup>†</sup>
Net loss after tax from continuing operations	-26.0	-5.2	NM <sup>†</sup>

\* FY19 revenue reduced by \$7.9m due to accounting standard change. NM<sup>†</sup> = non-meaningful figure.  
 † Refer to the 2019 Annual General Meeting.

Revenue from continuing operations was \$251.0 million, in line with the prior year, but was up \$7.8 million when adjusted for the impact of changes in accounting standards. Managed Services revenue grew 20% whilst Marketing Solutions revenue continued to be impacted by volume decline in a highly price-sensitive market.

Underlying EBITDA of \$19.0 million was lower than the prior year. Managed Services earnings grew in line with revenue, however the Marketing Solutions result was impacted by increased costs of distribution in the catalogue business as well as pricing pressure continuing to impact operating margins.

Depreciation was lower in FY19 due to a number of IT assets being fully written down at the end of last year. Amortisation remained in line with the prior year.

Underlying NPAT was \$700k higher for the year, with net interest increasing by \$1.1 million as the Group repaid its loans in full at the end of the previous financial year.

Significant item costs were \$38.1 million for the year and included the impairment of \$32.5 million of goodwill in the Marketing Solutions CGU. The New Zealand joint venture, Reach Media, was also written down by \$2.7 million, as the business faced similar challenges in the New Zealand market.

The remaining significant items related to restructuring costs, industry review fees and collation trial costs.



**SEGMENT INFORMATION**  
Year ended 30 June 2019

\$ million	FY19	FY18	% change
<b>Sales revenue:</b>			
Marketing Solutions	162.4	176.9	-8.2%
Managed Services	87.8	72.8	+20.6%
<b>EBITDA:</b>			
Marketing Solutions	10.2	16.6	-38.6%
Managed Services	13.4	10.5	+27.6%
Corporate costs	-4.5	-6.8	-33.8%
<b>Production volumes</b>	<b>FY19</b>	<b>FY18</b>	<b>% change</b>
Catalogues	4.0bn	4.2bn	-3%
MicroSourcing headcount	4,057	3,853	+5%

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At a segment level, Marketing Solutions revenue was down 4.5% when taking into account changes in accounting standards and underlying EBITDA was down \$6.4 million on the prior year. Reduced catalogue volumes, increased pricing pressure and higher distribution costs all had an impact. The Netstarter ecommerce business experienced client retention challenges, which had a flow-on effect to the remainder of the digital marketing services.

Managed Services achieved revenue growth of 20.6% and EBITDA growth of 27.6% compared to the prior year. The investment made in both facilities and marketing during the year had some impact on overall margin, but has set up the business for further growth.

Corporate costs were significantly lower in FY19, decreasing in line with the reduced business size following the Contact business sale.

Catalogue volumes were down 3% on the previous year, which is in line with the long-term industry trend. Overall industry volumes for FY19 were down 4%. MicroSourcing headcount increased to accommodate growth.

**MARKETING SOLUTIONS**  
Took steps to strengthen the market offering

- Catalogue industry issues persisted. Price and volume challenges.
- Bolstered value proposition with innovation: salmathub, automated collation trial, data & analytics capability growth.
- Catalogues are still a valuable tool for retailers and loved by consumers across all age groups. Will become more targeted.
- Digital performance issues persisted: recently closed this service.

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We've talked about the issues in the catalogue industry for some time now. Gradual volume decline over time was to be expected, as clients diversify into other channels and data insights enable more selective and targeted distribution rather than blanket coverage.

What has persisted beyond any reason is the intense price competition. Combined with growing costs, it's a trend that damages the channel as a whole.

So some time ago we decided to focus on adding value while we maximise efficiency.

We continued this strategy in FY19 and while some clients have decided to try the cheaper option, many others have recognised that return on investment is key. Marketing Solutions new business wins were up in FY19 for the first time in a while and the feedback from clients was that Salmat's innovation and higher deliverability help to achieve more sales per dollar of marketing spend - and that's worth a premium.

As we focussed on our core catalogue offering, it became increasingly apparent during FY19 that the digital solutions were not performing to expectation at an operational or financial level. Accordingly, we recently made the difficult decision to close our ecommerce and search offering.

This closure did not include Lasoo online catalogues or our data and analytics business, which will form an increasingly important component of the overall catalogue offering. The ability to reach the right consumers at the right time will be supported by data and online, increasing the value of catalogues for retailers and consumers alike.



**MANAGED SERVICES**  
Supported continued growth with investment

- MicroSourcing continues to lead this specialist market with unmatched expertise and experience.
- Expanded facilities in two sites to address capacity constraints.
- New website launched and supported with additional online optimisation and marketing investment.
- Growth from new and existing clients - proven 'sticky' model.
- Continued demand prompting review of further expansion options. Key client has renewed.

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Managed Services is predominantly comprised of our MicroSourcing business in the Philippines, which offers a unique managed outsourcing model for businesses who want to enjoy the benefits of offshore outsourcing while maintaining management of their team.

MicroSourcing had another solid year in FY19, with both revenue and earnings growth during a year of investment.

This business has maintained market leadership over the past few years, and FY19 saw us secure

two new facilities in order to meet current demand and provide a buffer for future growth.

During FY19 we also completely redeveloped the MicroSourcing website. Online search remains the number one source of new business for MicroSourcing, so this was an important exercise. The new website launched in August and has received positive feedback.

The client base remains predominantly US and Australian based businesses. We will continue to focus on these as well as the Canadian market over the near-term.

As well as winning new clients, growth is also expected from the usual MicroSourcing trend of clients starting off with a relatively small headcount and then growing their team over time as the model is proven.

Based on current forecasts, the team is already commencing the search for their next premises for expansion.



As Peter has indicated, the Marketing Solutions sale is a significant change for Salmat and raises questions about the best future shape of the business.

While it is sad to see the catalogue business move on, we are confident that is the best move for the business itself, the new owners and Salmat's shareholders.

We are now working towards completion and a smooth separation and transition process for all stakeholders.

While this process progresses, we are also turning our attention to determining the best options for Salmat and Managed Services for the future and will advise the market of any material developments.

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



### **Ordinary Business of Meeting by Peter Mattick**

*[Peter Mattick]*

#### **NOTICE OF MEETING**

Ladies and gentlemen, the Notice of Meeting dated 23 October 2019 was distributed to all shareholders. Additional copies of the Notice of Meeting and the Annual Report are available at the registration desk in the foyer.

As the Notice of Meeting has been sent to all shareholders, can I take it that the Notice of Meeting convening this meeting be taken as read?

*[If someone objects, have the company secretary read the notice].*

Thank you.

#### **MINUTES OF PREVIOUS ANNUAL GENERAL MEETING**

The minutes of the previous general meeting of shareholders of Salmat Limited, which was the Annual General Meeting on 28 November 2018, were approved by the Board and signed by me as Chair of that meeting in accordance with the provisions of section 251A of the Corporations Act 2001 (the **Act**). The original minutes are tabled and there are copies of those minutes available for inspection should any shareholder wish to see them.

## **PROXIES VALIDITY**

I have made rulings on proxies and I ask the Company Secretary to report to you on the matter of proxies.

### **Proxies by Steve Bardwell**

I report that the number of valid proxies received at the Registered Office of the Company providing a direction to vote by 10.00 am on 24 November 2019 was 176,808,269. This represents 88.6% of all shares on issue, so we thank our shareholders for their interest in the running of the company.

In accordance with section 251AA (2) of the Corporations Act, the minutes of this meeting will record, in respect of each resolution in the notice of this meeting, the total number of proxy votes exercisable by all proxies validly appointed, the directions in those proxies and, if a resolution is decided on a poll, the total votes in favour, total votes against, and a total of abstentions.

The proxies received for each resolution will be disclosed to the meeting.

I will now hand back to the Chairman.

### **Meeting administration by Peter Mattick**

[\[Peter Mattick\]](#)

Thank you, Steve.

## **VOTING PROCEDURES**

Before we start with the formal part of the meeting, I wish to explain the voting arrangements.

When you came in and registered, you were handed either a yellow voting card or if you have already lodged your proxy or are a joint holder attending with a voting holder, a blue card, or if you are a visitor, a red card.

Only those people holding yellow or blue cards can ask questions of the meeting and only those holding yellow cards can vote on the resolutions.

We will take a poll today on each of the resolutions, which I now declare open. As we move through the items of business, I will ask you to mark your ballot paper to have it ready for a poll vote. I will run through the voting procedures at the time that we call the poll.

I have appointed Lee Marshall of Link Market Services as the Returning Officer for today's meeting.

Only shareholders and their representatives, proxies or attorneys are entitled to vote. If you believe you are entitled to vote, but have not been given a yellow card, please see one of the registration staff located immediately outside the meeting room.

As I would like to give as many shareholders as possible the opportunity to ask questions, I would ask you to be as brief as your question allows. Salmat staff will bring you a microphone as you are acknowledged by the floor.

If you wish to ask a question, would you please indicate and I will acknowledge you. When asking your question, please show your yellow or blue card and begin by identifying yourself by name or if you are appointed as a proxy, who you are representing. Please wait until you receive a microphone before speaking.

**\*\*\*[Item one – financial statements slide]\*\*\***

## **AGENDA ITEM 1 – FINANCIAL REPORT, DIRECTORS' REPORT AND AUDITOR'S REPORT**

The first item of notified business is to receive the Company's Annual Financial Report for the year ended 30 June 2019 and the Directors' Report and the Auditor's Report, which have been circulated to all shareholders and are now tabled.

Are there any questions in relation to the Annual Financial Report?

**[Discussion from floor]**

*[ At conclusion of discussion of Annual Financial Report, proceed on – do not put the financial report to a vote ]*

Thank you – we will now move to agenda item two.

**\*\*\*[Item two – election of Directors slide]\*\*\***

## **AGENDA ITEM 2 – TO RE-ELECT STUART NASH AS A DIRECTOR OF THE COMPANY**

The next item of notified business concerns the re-election of **Stuart Nash** as a Director of the Company. Stuart retires at this meeting in accordance with Salmat's constitution, and being eligible, offers himself for re-election.

Explanatory Notes regarding Stuart Nash were circulated with the Notice of Meeting.

Stuart has served as a Director of Salmat since 2017. He is Chairman of the People Performance Committee and a member of the Technology and Innovation Committee and the Audit, Risk and Compliance Committee. Stuart has the full support of the Board in seeking re-election today.

I'll now ask Mr Nash to address the meeting.

### **Re-election Address by Stuart Nash**

Thank you, Peter.

*[Stuart to read re-election speech]*

*[Speech as read]*

**[Peter Mattick]**

Thank you, Stuart.

The votes received as at proxy close are displayed on the slide behind me.

Does anyone have any questions regarding this resolution?

*[Discussion from floor]*

Please mark your yellow voting card accordingly for this resolution. The cards will be collected when all the other items on the agenda have been dealt with in accordance with the Notice of Meeting.

**\*\*\*[Item three – remuneration report]\*\*\***

### **AGENDA ITEM 3 – REMUNERATION REPORT**

We now move to the final item of notified business, which is to receive the Company's Remuneration Report for the year ended 30 June 2019. This report has been circulated to shareholders and is now tabled.

Explanatory Notes regarding the Remuneration Report were included in the Notice of Meeting.

The short-term and long-term incentives for senior executives involve a range of targets including EBITDA and revenue, earnings per share, total shareholder return and return on capital employed. These incentive programs are fully detailed in Salmat's 2019 annual report.

No long-term incentives were granted in FY19.

I would remind the shareholders that there is a voting exclusion in place for this resolution and therefore all Directors and key management personnel are excluded from voting on the remuneration report.

The votes received as at proxy close are displayed on the slide behind me.

As stated in the notice of meeting, I intend to vote all undirected proxies to me in favour of this resolution.

Does anyone have any questions regarding this resolution?



*[Discussion from floor]*

Please mark your yellow voting card accordingly for this resolution.

**\*\*\*[Proxies received on resolutions]\*\*\***

Now that we have tabled all of the agenda items for today's meeting, we will conduct the poll on the resolutions.

For the purposes of disclosure, the total number of proxy votes exercisable by all proxies validly appointed in respect to the resolutions is displayed on the slide.

Does anyone require the numbers to be read out?

I intend to vote the open votes directed to me in favour of each resolution.

**\*\*\*[Poll for resolutions]\*\*\***

I have appointed Lee Marshall of Link Market Services as the Returning Officer for this poll.

Please ensure that you have indicated your votes on your yellow voting card. Representatives of Link Market Services will now collect and tally your completed cards.

*[Poll process takes place and Link Market Services representatives collect completed cards.]*

Does anybody need more time to complete their cards?

*[Check that all eligible shareholders have handed in their card.]*

I now declare the poll closed. Results of the poll will be announced to the Australian Securities Exchange.

**CLOSE**

That concludes the formal business of this Annual General Meeting.

Ladies and gentlemen, there being no further business tabled for discussion, I declare this Annual General Meeting of Salmat Limited closed, subject to declaration of the results of the poll.

Thank you for your attendance today. I invite you to join us for tea and coffee outside.