

ASX Announcement: 17 February 2011

CEO & CFO on H1 Results & Outlook

Open Briefing interview with CEO Richard Allely & CFO Geoff Stephenson



In this Open Briefing[®], Richard & Geoff discuss:

- H1 EBIT before significant items up 7.8% on strong Print Australia earnings, Distribution turnaround
- NZ Transformation Plan underway
- H1 free cash flow \$25.5 million and net debt \$142.6 million at 31 December

Record of interview:

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PMP Limited today reported a net loss of \$14.8 million for the first half ended December 2010, versus profit of \$14.3 million for the previous corresponding period (pcp). EBIT excluding significant items was \$32.2 million up 7.8 percent, on revenue of \$621.9 million, down 3.7 percent. You expect EBIT for the full year ending June 2011 to be in the range of \$56 million to \$60 million, implying second half EBIT of \$24 million to \$28 million, growth of 7 to 25 percent from the pcp. To what extent is \$56 million a “worst case” scenario, and what are the factors that could push EBIT to the top of the range?

CEO Richard Allely

The full-year EBIT range is based on a granular forecast across the Australian and New Zealand businesses up to the end of the second half. A benefit we have is strong earnings visibility from our contracted businesses, and EBIT of \$56 million is our worst case scenario. We have some potential opportunities in the fourth quarter of fiscal 2011 that could add to the earnings momentum in Australian Print and to our market share gains in the Australian letterbox distribution business. That could push the result toward the top of the range.

At the same time however, our magazine distribution business is exposed to the recent natural disasters in Queensland, Victoria and northern New South Wales. The business operates on a sale or return basis in some sectors: it will take another couple of months before we can see the level of returns of unsold product from the regions affected.

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To what extent is the impact of the recent weather events incorporated in your guidance?

CEO Richard Allely

The impact on EBIT isn't expected to be material. Although some disruption occurred, we've

largely restored services. In Rocklea in Queensland one of our external paper storage facilities was completely submerged and we lost all the paper in it. The paper was insured and fortunately we have a national network: while we had the inconvenience and cost of moving stock around to fulfill short term orders, all our customers had their production needs met. We also had some minor flood damage at our Toowoomba and Bundaberg Distribution warehouses.

In Victoria, our factory in Clayton experienced some flooding but we were able to move paper inventory to higher ground and while delivery slowed, production wasn't disrupted.

Our guidance range reflects what we can assess today but it will be a few months before we have absolute numbers around the full impact, particularly in magazine distribution.

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PMP's free cash flow was \$25.5 million in the first half, up 3.7 percent from \$24.6 million in the pcp. Given the ongoing capital needs of PMP's Transformation Plan which was announced at your AGM in November, can free cash flow be maintained at this level?

CFO Geoff Stephenson

There will be total cash outflow of \$45 million in relation to the Transformation Plan. In the first half we spent \$7.5 million of that. We expect to spend the remaining \$37.5 million during the second half of FY11 and the first half of FY12. After that, we expect to return to our normal position of having very strong underlying operating cash performance.

As a capital intensive business we'll continue to invest in our manufacturing capability to ensure we take advantage of market opportunities, particularly in Print where the business needs to be responsive to client requirements. For example, when we win a major contract we may require further investment.

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As at 31 December 2010, PMP had net debt of \$142.6 million and gearing (debt to equity) of 40.3 percent. This compares with net debt \$168.1 million and gearing of 44.8 percent six months earlier. You expect net debt to increase to about \$160 million by year end. What is your gearing target for the business and post the transformation of the business, will debt reduction remain a priority?

CFO Geoff Stephenson

Debt reduction remains a priority and we continue to target gearing in the 50 to 75 percent range. Following the one-off cash spend associated with the Transformation Plan, our strategy is to continue to use free cash flow to pay down debt.

We have \$157 million of carried-forward tax losses and are therefore unable to effectively accumulate many franking credits for dividends. The best way we can reward shareholders is to reduce debt rather than pay an unfranked dividend. As soon as our tax losses are consumed and we start generating increased franking credits through paying more tax, dividends will be our preferred choice to reward shareholders.

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Despite an improved cash position, PMP has not declared an interim dividend. This is in spite

of paying a final dividend of 1 cent per share for the 2010 financial year. What is the rationale behind this and how far away is a return to interim dividend payments?

CFO Geoff Stephenson

After taking into account cash availability, cash already spent on the Transformation Plan and the availability of franking credits, the Board decided it wasn't appropriate to declare an interim dividend. That decision will be reviewed this time next year.

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Print Australia volumes decreased by 5.8 percent to 134,000 tonnes and revenue fell by 8.6 percent to \$246.4 million in the first half. Despite this, lower operational and input costs as well as freight efficiencies saw EBIT rise 25.4 percent to \$30.1 million. What was behind the fall in revenues and what ability do you have to maintain margins in an increasingly competitive print market?

CEO Richard Allely

The primary driver of the fall in Print revenues was the volume decline in directories and in the Griffin book publishing business.

In directories, we recently entered a new seven year contract with our major client, and the early stages of the contract saw an unprecedented drop in volume. We expect the volume decline to flatten and there might be slight growth in the years ahead.

In the book business, unlike previous periods, there weren't any block busters like the Harry Potter books or the novels of Stephenie Meyer and we're not forecasting one in the second half of this year.

In our heatset printing business, catalogues and magazine circulation are expected to do well in the second half. In the catalogue sector, we made a decision to decline opportunities that didn't have the potential for sufficient returns but we've held market share with key customers. In magazines, circulation is declining but advertising is picking up and pagination is following.

We're very comfortable with our Print market shares and market position in Australia and also with the economics of the business now that the benefits of the transformation work of recent months are flowing through. We're running the business better and expect continuing margin improvement on ongoing increases in operational efficiency around production, paper management and freight.

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The Distribution Australia business booked EBIT of \$1.4 million in the first half, consistent with the pcp but a turnaround from the loss of \$3.7 million in the second half of 2010. This reflected market share growth on rising contract volumes and new customers. To what extent is further Distribution earnings growth dependent on market share growth and volume increases?

CEO Richard Allely

We've spent time and effort rebuilding and repositioning the business and we're pleased with our market share gains in the first half. Currently we have a market share of about 35

percent in letterbox distribution, versus the 65 percent share of our competitor. The future prosperity of the business depends on market share growth and while we recognise it will take a couple of years to regain share, we'll relentlessly pursue this until we get closer to a 50:50 market.

Longer term, we expect distribution market growth as this is a very effective medium from both a cost and impact perspective. We have an excellent business model and the service we provide is the best it's ever been.

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The Gordon & Gotch Australia business booked EBIT of \$2.7 million in the first half, down from \$4.4 million in the pcp. The decline was mainly due to reduced titles in the Scribo book distribution business and higher freight costs for metropolitan magazine deliveries. Revenue rose by 1.7 percent to \$215.8 million with higher Gordon & Gotch magazine sales offsetting lower revenues from Scribo. To what extent are the declines in the book and magazine markets structural as opposed to cyclical? Can Gordon & Gotch remain economically viable amid a structural shift in its markets?

CEO Richard Allely

Gordon & Gotch is economically viable today and we're confident it will remain so well into the future. It generates an excellent return on funds employed and recently signed Pacific Magazines for a further 10 years. We've also benefited enormously from the closure of a competitor's distribution business in 2010, with Gordon & Gotch now distributing approximately 99 percent of imported magazines in Australia.

Magazine circulation levels are in structural decline, and printed magazines need to co-exist with online or digital alternatives. Gordon & Gotch is very capable in the printed channel and is increasing its capability and effectiveness in the online channel. We're moving toward a distribution model that will be economically viable in servicing both printed and online channels.

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The impairment charge of \$19.2 million on the Scribo book distribution business was higher than the \$10 million to \$15 million range advised at the AGM in November. With falling sales and earnings, do you expect further impairments? What are your plans to generate value from Scribo?

CEO Richard Allely

The Scribo book distribution business was severely impacted by a lack of titles in the first half and a very difficult Christmas trading period. This, combined with the structural changes in the book market around the rapid emergence of e-readers and move online by customers, caused us to look at the carrying value of the intangibles in the business: we've taken a fairly conservative view and written those assets down in full rather than hope for a turnaround in new book titles.

We don't expect any further impairment of Scribo. We've taken a conservative view with a full write-off of the Scribo intangibles: the business is operating in very difficult market conditions and Christmas trading in the second quarter of 2011 was very subdued. This had a

significantly detrimental impact on the forecast performance of the business, leading to a higher impairment.

We have a number of strategic alternatives for Scribo and we'll be taking those alternatives to our board shortly. We'll communicate the outcome of the strategic review at the appropriate time.

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In the first half Digital Premedia reported EBIT of \$0.2 million, down from \$1.9 million, on revenue of \$15.0 million, down 4.5 percent. You've attributed the EBIT decline to a timing difference between revenue generation from the new Dmarketer product and related amortisation costs. What are the market opportunities for Dmarketer and how do you expect earnings to trend for the full year?

CEO Richard Allely

Amortisation of costs associated with the new system came ahead of revenue generation, while there was a deferral of license renewals in Pacific Micromarketing. We expect new revenues from Dmarketer and license renewals to recover in the second half.

I'm very excited about the future opportunities for our digital business. Dmarketer gives us capability in a range of technologies to take content and re-purpose it in a channel-agnostic fashion. For example, we can re-purpose catalogue content for online distribution or for another media.

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First half EBIT from PMP New Zealand was \$2.8 million, up from \$2.7 million in the pcp. What was the contribution of the Transformation Plan to the result? Given the loss of the ACP print contract and commencement of the contract with APN, what are your expectations for the business in the second half of the current year?

CEO Richard Allely

First half earnings in the New Zealand business weren't significantly impacted by the Transformation Plan. While some benefits from the plan will flow through in the second half, it won't be until the 2012 financial year that the full benefit will be felt. The loss of the ACP contract and the replacement of that volume with APN are going quite smoothly. We're still printing some magazines under the ACP contract but they are due to transition out in June.

Under the Transformation Plan we're in the process of closing a number of our sites in New Zealand and moving into one heatset site in Auckland. We're moving assets around, upgrading machinery and will install some new machines

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At the AGM in November 2010 you announced \$29 million of significant items associated with the Transformation Plan. What are the next steps in implementing the plan in Australia and New Zealand and when do you expect the program to create consistent cost savings?

CEO Richard Allely

The plan is on track. In Australia, the transformation work involves completing what we've already started, and in comparison with New Zealand is quite small. There'll be some capital

equipment upgrades, particularly in Western Australia where old equipment needs replacing. This investment in capital underpins the national footprint that's PMP's strategic and competitive advantage with major clients.

We expect the benefits of the New Zealand transformation to commence towards the end of the second half of this financial year in line with the timing given at the AGM.

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Thank you Richard and Geoff.

For more information about PMP, please visit www.pmplimited.com.au or call Geoff Stephenson on (+61 2) 9412 6000

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