

ASX Announcement: 18 February 2010

## CEO & CFO on FY 10 Outlook

Open Briefing interview with PMP CEO Richard Allely  
and CFO Phillip Elbourne



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### In this Open Briefing®, CEO Richard Allely and CFO Phillip Elbourne discuss

- Market conditions in the first half and currently
- Benefits of transformation program initiatives
- Outlook for full year earnings

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#### Record of interview:

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PMP Limited reported net profit after tax of \$13.7 million for the first half ended December 2009 compared with a net loss of \$11.2 million in the previous corresponding period. EBIT before significant items was \$29.1 million, down 12.6 percent, on revenue of \$645.4 million, down 9.5 percent, and you appear to have lost market share in your core print and distribution markets. To what extent does the decrease in revenue and EBIT reflect internal issues as opposed to cyclical or structural trends in your markets?

##### **CEO Richard Allely**

The decrease in revenue in the Print division was largely due to lower market volume, which fuelled price competition as market players sought to fill their available capacity. The decrease in revenue in our letterbox distribution business reflected a significant loss of market share due in part to internal issues, which have now been addressed, and also to aggressive price competition in the market.

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For the full year ending June 2010, you expect an EBIT of \$52 million to \$55 million. This implies second-half EBIT of \$23 million to \$26 million, growth of 10 to 24 percent compared with the previous second half. What will be the key drivers of the expected return to growth and what factors could potentially push the result to the top or bottom of the range?

##### **CEO Richard Allely**

We have a high degree of confidence at the lower end of the range given the volume of contracted work in hand at the end of December. Achieving the upper end of the range will depend on a few factors: an improvement in print market volume conditions; the opportunity for market share gains in letterbox distribution; and the general state of the New Zealand economy, which was quite challenging in the first half.

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Phase 2 of your transformation program is “well underway.” What cost savings do you expect from the program and how will they be distributed across the business? What were the benefits of the program in the first half and what are the expected savings in the current second half?

**CFO Phillip Elbourne**

Phase 2 of the program, which was initiated in the first half, will yield savings in the second half. However, the initiatives we’ve commenced in the second half aren’t expected to yield full benefits until 2011.

The major initiatives in the program are aimed at taking the complexity out of the business and substantially lifting both our sales effectiveness and our product and service quality. We’re committed to building the best printing and distribution business in Australia and New Zealand, and have made very positive steps in that direction over the last 12 months.

**CEO Richard Allely**

It’s very difficult for us to quantify the expected benefits of the program given we face the dual forces of a decline in market volume and an increase in competitor rivalry that affects price. That said, the first half result of the Print business is proof positive of what we can achieve. In Print we have a business that delivered a better result year on year, not withstanding the fact that it had to endure a significant volume decline and price competition.

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In the first half PMP booked significant items totalling \$2.8 million pre-tax, relating to restructuring and redundancy costs. This is down from \$28.1 million, including impairment charges of \$16.6 million, in the previous corresponding period. Is the level of significant items expected to continue to fall? What are the expected costs of implementing the remainder of the transformation program?

**CFO Phillip Elbourne**

In the second half, we expect the level of significant items to be in the same range as the first half. As we continue to improve efficiency and get the business model exactly the way we’d like it, it will be necessary to incur further minor redundancy and restructuring costs.

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PMP saw Print volumes decrease by 14.7 percent to 142,800 tonnes and revenue in the segment fall by 13.2 percent to \$269.5 million. At the same time, the Print business saw EBIT rise by \$0.8 million to \$24.0 million on the back of reduced paper, labour, freight and delivery costs as well a reduction in outside work. Apart from labour costs, you would appear to have little control over these factors. What scope is there to improve Print performance if volumes remain weak?

**CEO Richard Allely**

Our Print volumes decreased and revenues fell, although not to the same extent as the volume decline, which shows we’ve migrated the business to a slightly better mix. But the big shift in the business has been that it actually grew its earnings even though it was

operating at lower volume and lower revenue. That reflects our transformation program, which isn't just about the cost side, but also about developing a better margin business; about being very selective in relation to the work we run on our presses, and the prices we're prepared to accept for that work.

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Can you comment on the current trend in Print volumes and prices? What has been the recent trend in contracted tonnes?

**CEO Richard Allely**

We expect print volumes to be down year on year and prices to remain competitive given the level of excess capacity in the market, particularly in the second half of the year which attracts less demand than the first. The percentage of contracted tonnes to total tonnes has not changed dramatically from last year.

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The Distribution Australia business booked EBIT of \$1.5 million in the first half, down 65.7 percent due to loss of market share. PMP has had a number of high-profile client losses in this segment in recent months. What ability do you have to further cut costs in this business to match the decline in volumes and what is your strategy to regain market share?

**CEO Richard Allely**

Rather than cut costs in Distribution, we're investing substantially in its sales and operational capability. We now have the most experienced sales team in the country and we've re-engineered our distribution network to ensure our performance meets, and in some cases exceeds, market demands. We're very confident we'll grow this business and at the same time regain significant market share. This won't happen in the short term, but over time the business will return to at least where it was, and hopefully even better.

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The Gordon & Gotch Australia magazine distribution business booked EBIT before significant items of \$4.4 million, down 45.7 percent, on revenue of \$212.3 million, down 1.6 percent. To what extent do you see the lower levels of magazine circulation that have affected the business as a structural, rather than cyclical trend? To what extent will your "significant" new business wins impact results going forward?

**CFO Phillip Elbourne**

Gordon & Gotch includes both magazine and book distribution. The segment's EBIT decline was largely due to a significant reduction in EBIT from the Scribo book distribution business and unfavourable foreign exchange hedging on imported magazines. Magazine circulation was slightly down, reflecting current economic conditions.

During the half we launched Treet.com.au, our new online business, which introduces a new set of retailers to the Gordon & Gotch network and is expected to produce steady growth in revenue over time.

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Digital Premedia booked EBIT of \$1.9 million excluding significant items, down 13.7 percent, on revenue of \$15.7 million, down 10.3 percent. What is the outlook for Digital Premedia earnings given continuing pressure on selling prices and slow print volumes in the nearer term?

**CEO Richard Allely**

Earnings in the Digital Premedia business tend to track our Print volumes. We have some growth opportunities, but earnings won't be material in the short term.

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PMP New Zealand booked EBIT before significant items of \$2.7 million, down 53.0 percent, on revenue of \$102.3 million, down 6.7 percent. Given the New Zealand economy remains relatively weak, what is the outlook for earnings in the business and what is the expected impact of the acquisition of the Independent Magazine Distributors (IMD) business in New Zealand on future performance?

**CEO Richard Allely**

The weak New Zealand economy substantially hurt our first half results and we'd expect to benefit if there is any uplift in the economy in the second half. We expect to benefit from synergies associated with the acquisition of IMD, and we're already seeing a positive impact on our Gordon & Gotch business in New Zealand.

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As at 31 December 2009, PMP had net debt of \$183.8 million, down from \$208.4 million six months earlier, with gearing of 50.1 percent, down from 59.3 percent. First half free cash flow was \$27.3 million, compared with outflow of \$33.8 million in the previous corresponding period. What is the outlook for full year free cash flow and for net debt and gearing at the end of the year? What is your gearing target for the company?

**CFO Phillip Elbourne**

Debt levels will continue to reduce through to 30 June 2010 as we continue to use our free cash flow generation to pay down debt in the lead up to and beyond the 2010 year-end. Our target gearing range is 50 to 75 percent and we expect to remain comfortably in this range at 30 June 2010.

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PMP has confirmed that it expects to pay a final dividend for 2010. To what extent do you expect the dividend will be franked? Can you comment on the longer term outlook for dividends and franking?

**CEO Richard Allely**

The Board expects to declare a final dividend for 2010 subject to operating earnings remaining on target and there being no significant adverse change in economic conditions. As a result of our significant carry-forward tax losses, we currently have only sufficient franking credits to pay a partially franked dividend for the period ending 30 June 2010. We'll be carrying the tax losses forward for a number of years yet, but once they've been fully absorbed, we'll return to regular payment of fully franked dividends.

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Thank you Richard and Phillip.

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For more information about PMP, visit [www.pmplimited.com.au](http://www.pmplimited.com.au) or Phillip Elbourne on (+61 2) 9412 6000

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