

Hills continues drive to profitability after delivering solid FY18 first half results

Hills Limited (ASX: HIL) announced its FY18 first half results today, which are in line with the guidance provided at the Company's AGM in November 2017.

A summary of the half year financial results is set out below:

\$'million	1H FY18	1H FY17
Revenue	136.1	157.3
EBITDA ¹	3.6	8.4
OPEX ²	40.4	49.3
NPAT	(0.7)	0.2
Operating Cash Flow	8.1	(0.8)

Financial Summary:

- Revenue declined by \$21m, due primarily to exiting of unprofitable NBN satellite installation business (\$13m) and shortfall in Antenna sales (\$5m) due to the competitive Pay TV landscape.
- EBITDA of \$3.6m represented a solid turnaround when allowing for the transition of Hills Home Living to AMES and the inventory impairment in the prior corresponding period.
- OPEX down \$8.9m or 18% on the corresponding period and \$4.8m or 11% lower than in second half of FY17.
- Net debt down \$4.3m from 30 June 2017 to \$15.7m.
- Significant turnaround in operating cash flow, up \$8.1m on the prior half year.

¹ Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure that is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

² Operating expenses (OPEX) exclude depreciation, amortisation and net income / costs not considered part of segment EBITDA. This is a non-IFRS measure that is not subject to audit or review. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.



Hills CEO and Managing Director, David Lenz said, "I am pleased with the overall first half performance of the Company and look forward to achieving continued improvement in the second half."

"Based on the first half results and Hills' current strategic initiatives, the Company continues to anticipate delivering a trading profit in the second half of FY18," Mr Lenz said.

Business Update

Hills **Security, Surveillance and IT business**, (comprising the Group's largest division) had a solid first half, delivering 4% growth over the corresponding half in FY17 while maintaining similar margins.

Hills Enterprise business won a number of projects during the period including:

- Supply of Vivotek IP cameras at Sydney Trains with Indra Australia;
- Working with Siemens supplied Genetec unified IP security solutions and AXIS IP Cameras to Woodside Petroleum HQ Perth; and
- Supply of AXIS IP Cameras and Ipsotek analytics through SAAB for Queensland Corrections.

This success was fuelled by growth in many of Hills key vendor sales including Genetec, UTC, Axis, Pelco, Vivotek and TruVision.

The Hills IT business had very strong sales in the first half, with networking vendors Ruckus, Brocade and Extreme Networks all achieving growth.

Hills Australian SMB business and Hills New Zealand (NZ) are both expected to strengthen their performance in the second half.

Mr Lenz said, "It was encouraging to see the growth in the largest part of Hills business in the first half. With the successful launch of our new distribution centre and e-commerce platform, we expect to see continued growth in the current half."

Hills **Health business** continued its momentum with strong Nurse Call sales, which grew 23% over the previous corresponding period. This was offset partially by a slight decline in Patient Entertainment revenue, however, overall margin quality improved in the first half.



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Hills continued to win key contracts in the first half of FY18, including Royal Hobart Hospital (Nurse Call and Infant Protection System) and two Bapcare Nurse Call contracts.

“With further investment in R&D, the market-leading Nurse Call business continues to be very profitable and has a strong pipeline of sales for the second half,” Mr Lenz said.

“The Patient Management business also performed well, with the Sydney Local Health District and Westmead Hospital projects on track and due for completion in the second half,” he said.

Hills **Audio Visual (AV) business** saw revenues decline slightly, but has maintained solid margins, limiting the profit impact.

“Despite changes to its vendor portfolio, the AV business has seen strong sales growth from many of our key brands, including Williams Sound, Community Speakers, Wolfvision, Wyrestorm, Barix, Renkus Heinz and Biamp Devio, which all grew in the first half of FY18,” Mr Lenz said.

“We are also excited about the opportunities within our Unified Communications business with new initiatives from Yamaha and Revolabs,” he said.

Hills’ Australian Monitor division has completed an upgrade of its product line, which was shown at the recent ISE trade show in Amsterdam, and is also expected to deliver sales growth over the next 12 months.

Mr Lenz said, “We also expect to be able to announce the addition of a number of complementary new vendors to our AV business shortly, which will see Hills deliver additional growth over the next 12 months.”

The Hills **Antenna Business** continues to make a significant contribution to the Group business with margins remaining strong and customers further appreciating our commitment to source product from our Adelaide factory.

Hills **Connection Solutions** saw margin improvement based on the decision to focus solely on fixed wireless installations. In addition, Hills has extended its service contract with Ericsson for the provision of fixed wireless installations to 2020.

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Digital Platform Update

Hills has successfully launched its market leading e-commerce platform across Australia and New Zealand.

Mr Lenz said “the launch of the new e-commerce site ushered in a new era in customer service at Hills.

Early indicators are we would expect to see a sales uplift of over 10% based on similar system deployments in the ANZ market and a similar improvement in overall productivity.”

National Distribution Centre and New Trade Centre

The new national distribution centre continues to deliver improved operational and customer service benefits and we expect to gain further productivity improvements within the facility.

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