

Hills returns to profitability

Hills Limited (ASX: HIL) announced its FY18 full year results today, which showed the Company has returned to profitability, delivering a \$8.3m improvement on the previous year's results.

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

\$'million	FY18	FY17
Revenue	271.8	298.1
Gross Margin	86.7	87.8
EBITDA¹	9.4	6.4
Expenses²	84.4	105.6
NPAT	0.4	(7.9)
Operating Cash Flow	12.0	(0.8)

Financial Summary:

- NPAT of \$0.4m represents a significant turnaround from prior year loss of \$7.9m.
- Expenses down \$21.2m or 20.1% from \$105.6m prior year to \$84.4m.
- Net debt down \$3.1m from 30 June 2017 to \$16.9m.
- Significant turnaround in operating cash flow generating \$12.0m up by 12.8m from FY17.
- Inventory reduced from \$46.5m to \$44.0m.
- Stronger overall company gross margins at 31.9% up 2.4% on prior 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 Expenses includes depreciation, amortisation and non-operating expenses.

The Company's margins remained steady despite a revenue decline of \$26.3m for the full year following the decision to exit NBN satellite installations, as well as lower antenna sales in the competitive Pay TV market in Australia and New Zealand. The majority of this impact was felt in the 1H of FY18.

The FY18 net profit after tax (NPAT) result of \$0.4m was an \$8.3m improvement on the FY17 NPAT result and represents a significant turnaround for the business.

Hills Chief Executive Officer and Managing Director, David Lenz, said "In recent years the Company instigated a strategy to redefine and restructure the business and I am pleased for our shareholders, customers, vendors and employees that Hills has returned to profitability.

"In FY18 Hills set about delivering on a number of key initiatives outlined in detail at our AGM, and it was pleasing to see the business deliver against these objectives during the year, in particular the e-Commerce platform and the establishment of a National Distribution Centre and Trade Centre at Seven Hills in New South Wales.

"Hills will continue to deliver the best possible customer experience and we remain focussed on implementing key business improvements in FY19," Mr Lenz said.

During the year, Hills strengthened relationships with existing vendors and customers, including:

- an extension of the agreement with Ericsson for the installation of fixed wireless services associated with the NBN rollout until 2020; and
- an extension of the agreement with Genetec, a leading provider of security and public safety solutions, for exclusive distribution across Australia and New Zealand until 2020.

The Company continued to build and invest in its portfolio, attracting global technology leaders including:

- Dahua Technology Co, Ltd one of the world's leading security and video surveillance equipment; and

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- MC2 Audio, XTA Electronics and Xilica Audio Design to provide audio-visual solutions that complement the Company's existing vendor portfolio including Community Professional Loud Speakers, enabling Hills to deliver more comprehensive professional audio solutions.

Business Performance

Hills **Security, Surveillance and IT business**, had a solid result, delivering 2% sales growth over FY17.

The business saw strong growth in its Enterprise and IT business areas which is expected to continue into FY19 based on a strong pipeline.

Hills SMB business continued to be impacted by its product portfolio mix which will see improvement in FY19 following the signing of Dahua Technologies Co., Ltd and the pending release of new products from United Technologies Corporation (UTC).

"I am encouraged by our overall progress and with improvements in our vendor portfolio and the continued sales momentum of exclusive vendors Genetec and UTC, we expect to continue to grow in FY19," Mr Lenz said.

Highlights from FY18 include supply of:

- AXIS IP Cameras and Ipsotek analytics through SAAB for Queensland Corrections;
- a Genetec unified IP security solution together with Axis IP Cameras to Siemens for Brisbane Airport;
- together with Siemens, Genetec unified IP security solutions and AXIS IP Cameras to Woodside Petroleum HQ Perth; and
- Vivotek IP cameras at Sydney Trains together with Indra Australia.

The Hills **Health business** continued its momentum with Nurse Call sales growth of 26% over FY17. The strong performance in the Nurse Call business was partially offset by a slight decline in Patient Engagement revenue, however overall margin quality improved for the full year and the business continued to be profitable.

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“The health team has delivered an outstanding result and our success in our market-leading Nurse Call business has resulted in a strong backlog of contract work, over \$7m, to be completed in FY19,” Mr Lenz said.

“We continue to drive growth in our Nurse Call business and invest in research and development to progress and productise the next generation of iP7500 Nurse Call technology and staff terminal solutions to maintain our market leadership,” Mr Lenz said.

On the back of a successful year, the Hills Health business secured contracts at:

- Westmead Central Acute Services Building (NSW);
- Blacktown Hospital Acute Services Building Stage 1 and 2 (NSW);
- Joan Kirner Children’s Hospital (Victoria);
- Royal Hobart Hospital (Tasmania);

as well as aged care facilities across Australia including:

- Fresh Hope Care;
- Calvary Health Care; and
- Baptistcare.

“Our success in FY18 demonstrated our ability to deliver projects of any size and complexity across the Health sector,” Mr Lenz said.

Hills **Audio Visual (AV) business** revenues declined for the full year on the back of changes to the vendor portfolio, but margin quality held against the previous year.

A new Australian Monitor product line was launched at the AV industry trade show ‘Integrate 2018’ during August, and it is expected to drive sales growth over the next 12 months.

“The AV business has seen major growth in key vendors such as Williams Sound and Community Professional Loud Speakers along with strong performances from Denon, Barix, Renkus-Heinz, Media Matrix, Biamp Devio, Yamaha and SunbriteTV brands in FY18,” Mr Lenz said.

“The addition of new vendors into the AV portfolio, along with expected growth from our existing vendor brands, indicates a more positive outlook for our AV business over the next 12 months,” he said.



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During FY18, Hills AV business completed projects for:

- Morphetville Racecourse - Community Professional Loud Speakers;
- Isuzu Head Office – Entire AV Portfolio;
- Sydney Trains – Williams Sound; and
- Westconnex Tunnel – Community Professional Loud Speakers.

The Hills **Antenna Business**, which saw sales impacted by the competitive Pay TV market across Australia and New Zealand, continued to make a significant contribution to the Group business with margins remaining strong for the full year.

“Customers appreciate our commitment to source product from our Adelaide factory where we continue to manufacture the Hills Black Arrow antenna and Foxtel satellite dishes,” Mr Lenz said.

Hills **Connection Solutions** delivered a solid result with stronger margin quality in FY18 based on the decision to focus on NBN fixed wireless installations and exit NBN satellite installations which resulted in a decline in revenue over FY17. In addition, Hills has extended its service contract with Ericsson for the provision of fixed wireless installations to 2020.

Whilst we still have work to do, we are confident that the strategies undertaken in FY18 and the continued focus on reducing operating expenses, strengthening customer and vendor partnerships and the rollout of our digital transformation project will deliver an increased profit in FY19,” Mr Lenz said.

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