

29 August 2017

Hills Outlines Road to Profitability in FY18

Hills Limited (ASX: HIL) today announced its results for the year ended 30 June 2017 (FY17) and outlined its road back to profitability in FY18. A summary of the results is set out below:

	FY17 \$'000	FY16 \$'000
Revenue	298,068	328,913
Net loss after tax	(7,932)	(68,305)
Net debt	20,039	21,608
Operating cash flow	(785)	9,376

Results Summary

- Net Loss after Tax of \$7.9 million - an improvement on the net loss of \$68.3 million in FY16¹
- Net debt down \$1.6 million to \$20.0 million²
- Net cash out flow from FY17 operating activities of \$0.8 million
- Inventory down \$9.2 million to \$46.5 million
- Receivables down \$9.9 million to \$59.5 million

Hills margin quality remained strong during FY17. However, revenue declined within the core distribution business impacting profitability, in part due to changes in vendor portfolios and Hills decision to exit NBN Co satellite installations.

Hills has further reduced operating expenses and expects to deliver an annualised reduction of approximately \$12 million, with \$8 million to benefit FY18. This has been achieved through continued flattening of the management structure and back-office functions while ensuring minimal impact on front-end customer service.

¹ In line with previous market guidance, allowing for HHL revenues offset by costs associated with Lincor, inventory write downs applied to Tyco and additional costs incurred under the satellite installation services with Ericsson/NBN Co

² Net debt includes unamortised borrowing costs of \$1.9 million

Strategic Focus

During FY17, the Hills group business has continued to stabilise. The strategic focus of the management team during the period included:

- a further reduction in corporate costs;
- selectively outsourcing administrative functions to Cognizant Worldwide Limited, a provider of IT, consulting and business process services;
- strengthened vendor and customer relationships;
- continued training and development of staff;
- integration of Hills Health Solutions (HHS) into the Group and continued improvement of its profitability;
- transition of the Hills Home Living assets to AMES Australasia from Woolworths, following the exit of Woolworths from its Masters business; and
- refocusing the Company's direction on vertical industries and the Company's key growth categories: Health, Security & Audio Visual.

One Hills

Hills Chief Executive Officer, Mr David Lenz, said "The Company has established a foundation for growth in the healthcare, security and surveillance, communications and audio-visual sectors, which we believe will have a positive impact on profitability in FY18 and beyond.

"The profitability of the Hills Health business, as reported in June, has increased year on year with the business benefiting from key changes in the management team and its integration into the Hills business.

"Hills continued to invest in its Nurse Call solution to grow this segment of the business and return it to profit. This strategy was validated with a number of significant contracts secured during FY17," Mr Lenz said.

Successful contract wins for the Health business include:

- supply of the Hills IP-Series nurse call to the new Joan Kirner's Women's and Children's Hospital in Victoria;
- supply of a nurse call solution as part of the Stage 2 redevelopment for Blacktown Hospital in NSW;
- awarded project to exclusively supply nurse call and patient engagement services to Northern Beaches Hospital (NSW);
- a five-year contract extension to provide patient engagement services to Northern Health (Victoria) including The Northern Hospital, the Bundoora Extended Care Centre and the Broadmeadows Health Service;

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29 August 2017

- supply of patient engagement services for over 1200 beds for Sydney Local Health District – Royal Prince Alfred, Concord, Canterbury and Balmain Hospitals; and
- patient engagement contract extension for four hospitals in Eastern Health (Victoria), including Angliss, Box Hill, Maroondah and Peter James Centre Hospitals.

During FY17, Hills secured the sole distribution rights to United Technologies Corporation (UTC) security and surveillance solutions, including UTC's TruVision solution for the low-end CCTV market. Hills also launched HillsTrak, a new asset-tracking solution.

Hills has been successful in securing a number of major contracts which will add to the Company's FY18 profitability outlook, including:

- working with Siemens for the supply of the security solution to Perth Stadium;
- delivery of a unified Genetec Security Centre solution with AXIS cameras to NSW Parliament House;
- supply of a Genetec Video, AXIS cameras and Dell hardware solution to Mirvac Retail Properties;
- delivery of a Genetec Video and AXIS cameras solution to Transurban Limited nationally;
- through Virtual Graffiti, supply of a Ruckus solution (station wifi) to Sydney Trains;
- delivery of Samsung Panels through Fredon and Telstra to the Melbourne and Sydney offices of PricewaterhouseCoopers;
- supply of L-Acoustics speakers for the Asia Games Kuala Lumpur and two hall upgrades at Sydney Grammar School; and
- supply of Williams Sound Hearing loops as part of an overall upgrade for Sydney Trains.

Digital Transformation Project

As highlighted in the June update, Hills has commenced an investment of \$2-2.5 million in a market-leading digital platform which will enable Hills to better service its customers. The new platform will provide customers with key self-service capabilities such as: 24 x 7 e-commerce access with real-time inventory, customer statements, invoices, pricing, online payments, product specifications and delivery information.

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29 August 2017

The new platform will allow staff to be more engaged with our customers and vendors, increasing productivity across the organisation.

The project remains on track and on budget for release early in calendar year 2018.

Hills takes complete control of its supply chain

Following a review of its supply chain and distribution requirements, Hills will be exiting its 3rd party supply chain arrangements in January 2018.

Mr Lenz said “It’s important for Hills to control its own supply chain and this decision is critical for the successful rollout of the digital transformation project. Hills will open a new and exciting central distribution facility in Seven Hills, NSW, which will benefit customers and vendors, and increase our overall market flexibility.”

Dividends

The Hills Board of Directors has agreed that the Company is not in a position to pay a final dividend in respect of FY17.

FY18 Outlook

Mr Lenz said “Given our investments, reduction of operating expenses, strong customer and vendor management, increased profitability of the Health business and the investment in the digital transformation project, we expect to return to profitability in FY18.”

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