

Chairman's Address

Good afternoon, Ladies and Gentlemen. Welcome to Hills 61st Annual General Meeting.

My name is Jennifer Hill-Ling and I am the Chairman of your Company.

I would like to acknowledge the traditional custodians of this land, the Kaurna people of the Adelaide Plains, and pay my respects to their Elders, past and present.

We have a quorum and I declare the meeting open. The Notice of Meeting has been sent to all shareholders, with your consent, I will take it as read and move forward.

The Minutes of last year's AGM held on 3 November 2017 are in order. They have been signed by me and are available for any interested shareholders to review. In addition, to shareholders present here today, I can confirm that 32.71% of the Company's shares are represented by proxies.

I am pleased to introduce my fellow directors:

- *Philip Bullock;*
- *Fiona Bennett;*
- *Ken Dwyer; and*
- *our Managing Director and Chief Executive Officer (CEO), David Lenz.*

I would also like to introduce:

- *our Chief Financial Officer (CFO), Chris Jacka; and*
- *our General Counsel and Company Secretary, David Fox.*

Paul Cenko, from KPMG, is our auditor, and he is available to answer any audit related questions you may have in due course.

OVERVIEW

I would like to thank those shareholders who have taken the time to send us questions this year. David Lenz and I will endeavour to respond to them during the course of our addresses.

Let me briefly outline what we will cover this afternoon.

First, I will provide an overview of our performance over the past financial year, followed by the progress made in executing on the key strategic initiatives outlined at last year's AGM and finally, I will discuss our Corporate Governance and the ongoing process of Board renewal.

Our Managing Director and CEO David Lenz, will then:

- *update you on the performance of our businesses;*
- *outline the Company's direction and strategic focus for the current financial year and beyond; and*
- *finally, provide an overview of the outlook for the current financial year,*

before we move to the formal items of business set out in the Notice of Meeting.

FY18 FINANCIAL RESULTS

The financial year ended 30 June 2018 (FY18) saw a significant turnaround in the performance and profitability of your Company, a provider of technology products and service solutions in the key growth markets of Health, Security, Communications & Audio Visual.

In summary:

- *Net profit improved by \$8.3 million to \$400 thousand in line with market guidance;*
- *Gross margin on sales grew 2.5 percentage points from 29.4% to 31.9%;*
- *Revenue declined from \$298 million to \$272 million - due in part to changes in vendor portfolios, a reduction in the volume of product sold to Pay TV providers in Australia and New Zealand (ANZ) and Hills decision to exit unprofitable NBN Co satellite installations;*

- *Expenses decreased by \$21.2 million or 20%;*
- *Operating Cash flow was \$12 million up \$12.8 million on the prior year;
and*
- *Net debt reduced by \$3.1 million from \$20 million to \$16.9 million.*

Whilst there is still considerable work to be done in ensuring we maintain and grow Hills profitability in coming years it was a welcome result.

Our nurse call, IT and enterprise businesses were the stand out performers in the Group with growth in revenue of 26% in our nurse call business, 20% in our IT business and 14% in our Enterprise or commercial security and surveillance business.

Revenue from the provision of services represented 17% of total revenue for the period in review, which was a decrease on financial year 2017 ("FY17"), primarily due to our decision to exit the unprofitable NBN Co satellite installations and lower Pay TV installations in NZ.

Our strong operating cashflow of \$12 million was up \$12.8 million on prior year largely due to a stronger NPAT performance by \$8.3 million and improved capital management.

Operating cash flow for FY18 of \$12 million reconciles to the net profit after tax of \$400 thousand after:

- *Adding back depreciation and amortisation of \$6.5 million and \$0.5 million in other non-cash items; and*
- *A favourable \$4.6 million reduction for net working capital, non-trade capital and restructure provisions*

A concerted effort was made by Management to bring our operating costs into line with a Company of our size during the year in review.

Further cost reductions together with improved productivity remains a focus in the current year.

David will elaborate further on these initiatives shortly.

STRATEGIC INITIATIVES IN FY18

Moving now to review our progress in implementing the strategic initiatives outlined at last year's AGM which are delivering benefits in the current financial year.

- 1. We continued to invest in our technology infrastructure during the year in review and launched the new e-commerce platform, at hills.com.au, enabling us to better service our customers with improved efficiencies and productivity. The Company has over 3000 customers registered on our platform in Australia and New Zealand and is targeting to grow this to over 5500 by the end of the current financial year.*
- 2. We opened our own national distribution facility at Seven Hills in NSW in December 2017 which is improving customer service and inventory management. We are consistently processing over 20,000 order lines each month.*
- 3. We developed a fundamental positive shift in our customer service levels and we continued to strengthen our key vendor relationships. David will outline some of our key achievements shortly.*
- 4. The development of our staff also continued in FY18 with:*
 - Customer Service Excellence Training;*
 - Compliance training on Workplace, Health & Safety and Bullying and Harassment; and*
 - Managers training.*
- 5. Finally we continued our investment in our own intellectual property and R&D which resulted in the release of a new range of Australian Monitor amplifiers, and enhancements to our nurse call solution.*

DIVIDENDS AND SHARE PRICE

Your Board is acutely aware, and as fellow shareholders we share your frustration and disappointment in our current share price which does not appear to us to have reflected the turnaround in the Company's performance in FY18.

With the benefits from our continued cost reductions and anticipated profit improvement, we aim to see a higher share price in the near future.

I can assure you that everyone at Hills is very focused and determined to improve the performance of your Company and value for all shareholders.

We will re-commence the payment of a dividend as soon as it is prudent to do so, having regard to Hills profitability and the requirement to continue to invest in our businesses to ensure sustainable growth and long term profitability.

CORPORATE GOVERNANCE

Corporate Governance has been at the forefront of both political and social agendas in recent months and Hills Board is committed to up holding the highest standards of Corporate Governance.

We remain committed to sustainable practices and will continue to work with key stakeholders and communities to develop these. We continue to upskill our people and are fostering a positive culture consistent with our values. Both the Company and our people support the “Make a Wish Foundation” and various environmental initiatives such as the Australian Packaging Covenant.

We encourage flexible work practices where appropriate and provide a number of non financial benefits such as the Hills Wellness Program offering discounted health insurance and benefits in partnership with BUPA.

We must continue to make sure we provide excellent career and development opportunities for our people, and appropriately reward and recognise them.

Shortly Philip Bullock the Chair of our Remuneration Committee will outline the actions taken around executive compensation for both the year in review and the current year.

Leadership

In February this year we welcomed David Lenz to the Board as Managing Director and in July we were pleased to appoint Andy Hall to lead our Health business and Roger Edgar to lead our Security Surveillance and ATV businesses - their credentials are impressive.

Board Renewal

Board renewal is an ongoing and important task. It ensures the Board has the right mix of skills and experience to properly meet the Company's strategic objectives and current and future challenges. Following a thorough analysis of the Board's skills and expertise, we identified the need for additional experience in the Health market. We have commenced the search process and I look forward to making an announcement in the new year.

I will now hand over to our Managing Director and CEO, David Lenz to update you on:

- *the performance of each of our businesses;*
- *our strategic initiatives in the current financial year; and*
- *the outlook for the current financial year.*

[CEO PRESENTATION]

CLOSING REMARKS

The Company continues to make solid progress towards the delivery of its strategies, and our FY18 performance shows progress in that regard. However, we all acknowledge that there is more work to be undertaken in FY19 and we will continue to position Hills for sustainable growth and long term profitability in the current year.

Our greatest asset as a Company is the tireless energy, enthusiasm and dedication shown by all our team. Their capability and hard work is vital to the delivery of our ambitions in FY19 and I would like to acknowledge the enormous effort made by our staff over the last year.

Without them we would not have successfully transformed your Company from a metal manufacturer into a provider of technology products and solutions in the key health, security, communications, and audio visual growth markets.



**asx announcement
media release**

23 November 2018

Finally, I want to thank my fellow Directors, for their commitment and valuable contribution and to you our shareholders, thank you for your ongoing support. Your Directors remain excited about the prospects for the business and we look forward to you continuing the journey with us.

Thank you.

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Contacts

Hills Limited

Mr David Lenz
Chief Executive Officer
and Managing Director
Hills Limited
+61 2 9216 5510

Media Enquires

John Field
Field Public Relations
P: + 61 8 8234 9555
M: + 61 418 819 527