

CEO and Managing Director Address

Thank you for the introduction Jenny and good afternoon ladies and gentlemen.

Last year we talked about building the culture of the company and a key component of that was to ensure that the Hills team started to deliver on our commitments.

Before we go any further I want to take the opportunity to listen to what our staff think about Hills today and the progress we have made.

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As you can see, the mood at Hills is upbeat. Staff are energised by the strategies we are initiating and they're excited to see positive change taking place. This confidence is echoed in the market, where we're attracting industry talent back to the business, re-building our sales teams and positioning the company for the future. Importantly, we are also developing our leadership team, adding additional management experience to our Security, Surveillance and IT business, our Health and AV business along with our supply chain and finance function all resulting in a stronger and more capable management team.

As outlined by Jenny, over the past 12 months, we have delivered on the key strategic initiatives outlined at last year's AGM and in the process moved the company into profit.

Whilst this is encouraging we still have considerable work to do and the management team understands fully that we need to continue along the road to deliver strong and consistent profitability.

During the year we have received feedback on the need to provide increased insight and transparency into each of the business areas and to highlight the challenges and opportunities within these lines of business.

As highlighted previously the company is focused on 3 core markets:

- **Health** - covering Patient Engagement & Nurse Call solutions
- **Security** - covering Surveillance, Access Control, Information Technology (IT), Fire and Communications and

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- **Audio Visual** – which encompasses Professional Audio & Visual displays.

When we break this down further, our business can be broken down in the following manner which I believe will provide shareholders, customers and suppliers with clarity around the various parts of our business and the value they provide.

*The first area I would like to cover is our **Health business** which as highlighted by Jenny, has had a strong and profitable FY18 and has continued this strong momentum into FY19. We expect the Health business to deliver another strong full year performance.*

The key to our success over the past 24 months has been our focus on having the right people to lead this business with the experience needed to deliver success. Our recent appointments continue to demonstrate this focus on acquiring talent to help drive our Health business forward.

We have also focused on our market execution both in sales and project delivery whilst ensuring we delivered best in class customer service.

In our Health business we sell both directly to hospitals and aged care facilities and through our selected partners. We will also continue to look for opportunities to offer the full suite of Hills products and services to the Health market.

Our Nurse Call iP7500 platform is now the market leader and with our commitment to further R&D we expect to remain at the forefront of this market and maintain our leadership position.

During the past 12 months we have also won the following major Nurse Call projects including:

- *Westmead Clinical Acute Services Building*
- *Western Health Footscray & Sunshine Hospital Refresh*
- *Joan Kirner Children's Hospital*
- *Prince of Wales Private Hospital*
- *Casey Hospital Refresh & Expansion*

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- *Royal Hobart Hospital Redevelopment*
- *Hammondcare – Multiple sites*

We also delivered on major projects including the recent Northern Beaches Hospital, the first new major hospital built in New South Wales (NSW), which I'm proud to say incorporates both our Nurse Call and Patient Entertainment systems.

As we entered the year the hard work by our health team ensured we had over \$7Mil in contracted work which was up by \$2Mil on the prior year.

I am pleased to say the team has continued to add further wins this financial year maintaining our market momentum.

This success will open the opportunity for future services revenue as we continue to maintain these installations in the years to come.

We have also expanded our Health business into New Zealand in FY19 with key appointments that will help expand our business in the New Zealand market.

Our R&D efforts will be focused on the development of our Nurse Call solution to further productise the platform providing an integration layer that enables us to easily interface to many of the current systems and future devices that will emerge in the health market over the coming years.

This will enable Hills to expand our sales further into mid markets and engage our partner network to expand our market coverage and position Hills for potential overseas expansion of our Nurse Call business in Asia being the next logical step for our business in 2020.

Our Patient Engagement business has had a strong year with the completion of key deployments in NSW at:

- *Northern Beaches Hospital;*
- *Westmead; and*
- *Balmain.*

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We have also commenced work on the:

- *Prince of Wales Private; and*
- *Northern Health Intensive Care Unit rollouts.*

This will take the number of beds under management by Hills to over 19,000, maintaining our market leadership.

With recent wins in the Patient Engagement market we are building good momentum and expect this business to continue to perform well throughout FY19.

From an R&D perspective, we have been looking at strategies to improve our system delivery and operational efficiencies as we continue to analyse the future direction of this business.

Last year we advised we had been testing a Guest Wi-Fi solution at Royal North Shore hospital. Following the success of this pilot, the solution has now been rolled out to 500 beds in NSW. This provides Hills with additional recurring revenue and we expect this market to continue to expand throughout 2019 with agreements having been reached with 4 more NSW Local Health Districts to sign onto the program over the next 3 months.

With our recent wins and successful installations and the diversification into Guest Wi-Fi, Hills Health is well positioned for the future.

With the recent developments within aged care following the decision to launch a royal commission into this sector, we see an opportunity to leverage our Nurse Call integration with Genetec. Genetec has software which anonymizes individuals in camera fields of view without obscuring actions and movements. This will help overcome the privacy concerns that have been aired in recent public commentary. This presents a great opportunity for Hills to demonstrate its capabilities in this area.

*Our **security, surveillance & IT business** is our largest business and we are the largest player in the Australian and New Zealand market. The business is broken into 2 distinct areas covering **Enterprise business**, which is predominantly based around major projects and our **Small to Medium Business (SMB)** which is characterised by the man in the van customer or the*



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small to medium business owner who transacts through our branch networks and online across Australia & New Zealand.

As reported in our full year results, our enterprise business delivered a strong result in FY18 growing at 14% over the prior year. This result was underpinned by very strong sales of Genetec, with whom we extended our exclusive relationship until 2020.

Genetec provides a fully integrated solution that enables the easy identification and management of major security and surveillance environments such as stadiums including the iconic MCG, Sydney Cricket Ground & the New Perth Stadium; key infrastructure projects that include major tunnel projects with Transurban, airports such as Queensland Airport, and railway infrastructure like Sydney Trains along with government and law enforcement.

Our Genetec business grew 70% during the year and it's important to understand that for every \$1 in Genetec sales we drive up to \$3 in associated product sales such as CCTV cameras, network equipment and server hardware.

We are also working within the Parking and Cybersecurity areas on further opportunities to drive incremental growth. Parking, for example, covers number plate recognition and associated payment solutions for parking areas and offers a great opportunity to open up a new market for Hills in partnership with Genetec.

We also had a strong result with United Technologies (UTC), also exclusive to Hills, resulting in 20% growth during the year. UTC remains a market leader in access control and with the planned rollout of new technology in February 2019 this will ensure UTC maintains its leadership position in the Australian and New Zealand markets. A key differentiator for UTC has been its commitment to interoperability through its C4 platform which provides flexibility for existing and new customers.

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At last year's AGM, we talked about focussing on vertical markets and during FY18 our Enterprise business achieved sales in the following verticals:

- *Mass Transportation;*
- *Government & Law Enforcement;*
- *Health and aged care;*
- *Higher education;*
- *Stadiums; and*
- *Data Centres.*

As a result of our success Hills has received awards from

- *Genetec Asia Pacific - Distributor of the year;*
- *Genetec Software - Developer of the year;*
- *Axis Pacific Region - Distributor of the Year; and*
- *For the 4th year running - Ruckus ANZ Distributor of the year.*

Within our IT portfolio we also acquired the expanded distribution rights for Extreme Networks, which is the third largest networking company in the world, enabling us to sell its full suite of products not only in Australia but to provide expansion into the New Zealand market.

Our IT business, on the strength of our enterprise sales, grew 20% in FY18 and delivered improved margin performance for this category. This trend has continued in FY19.

With our continued focus on key vertical markets and our success with both Genetec and UTC we have seen our enterprise business continue to perform in the 1H of FY19 and our outlook for the next 12 months remains positive.

*The other part of our business is our **Small to Medium Business (SMB)** which has been challenging over the past 18 months, and has had an impact*

on our profitability. We have continued to work with vendors on identifying products that best suit our business, in particular the low-end CCTV category which has been impacted by market commoditisation.

As part of our push to improve the SMB's business performance we undertook a review that has focused on the key drivers to improved performance covering:

- *Our product portfolio;*
- *The ecommerce platform; and*
- *Our people.*

A key part of our review was to look at our product portfolio in particular our CCTV range. After many discussions we have been able to secure Dahua distribution, one of the world's leading providers of security and video surveillance equipment, as our key brand to drive into this market. Whilst the ramp up has been slower than expected during the 1H, the initial signs are positive and we expect to see further sales acceleration in the 2H of FY19 based on the current monthly trend.

We are also excited by the pending release of the new Hills/Reliance panel from UTC, due to be launched in February next year having received positive feedback from our customers at the major industry security event in July, and via a successful Australia wide road show .

Whilst the product was initially scheduled for release in the 1H of FY19, which has impacted our sales growth in the 1H the new release has created excitement as there are over 800,000 panels in homes around the country which can be upgraded to this new technology. With new and improved features, this product will enable Hills to take advantage of the connected home market. We are clearly excited with the growth potential of this product and the associated wireless devices and cameras that can be connected as part of an upsell opportunity.



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On the ecommerce front, our ecommerce platform will have over 12,000 products available online by December, enabling us to offer the entire range of products required by our SMB customers and providing the opportunity to further accelerate the utilisation of our ecommerce platform and drive online sales growth.

On the people side, we have undertaken a review of our teams, and made the necessary changes in July and August to ensure that we have the right team in place to move forward.

Following the hard work by the team to address this business, we are confident that with the improvements in our product portfolio, ecommerce platform and our people, we expect to see improved SMB sales in the 2H of FY19 and beyond.

*As highlighted, our **communications business** can be broken into 4 categories which simplifies the understanding of each of these business areas:*

- 1. Antenna Business;*
- 2. STEP Electronics;*
- 3. Ericsson/NBN Business; and*
- 4. Foxtel.*

*Our **Antenna business** has remained constant over the past 12 months and whilst not showing growth year on year, we have maintained our position in the market. We have added additional technology into this portfolio to provide a more complete offering to the market and provide us with new growth opportunities moving forward.*

Sold through our partners and the wholesale channel, the portfolio expansion is complementary to satellite and antenna solutions we offer today and includes:

- *MATV solutions;*
- *Digital Signage solutions; and*
- *Exclusive distribution of Rover RF Testing Instruments certified by Foxtel.*

Our key competitive advantage remains the locally manufactured “Black Arrow” product which is produced by our Adelaide manufacturing facility and remains a high-quality Australian Made product.

*Our **STEP Electronics** business is focused on specialised satellite solutions delivered into remote locations or current satellite delivery environments.*

Members of the team are leaders in the supply of complex satellite solutions and a good example of the type of work they do is the recently won \$1.2Mil contract with the World Bank for the provision of services for the supply of High Wind Satellite systems for 5 Airport sites that are to join the Pacific Aviation Safety Network.

This team is also working on “satellite on the move” solutions with several major carriers to look at how this technology can be deployed. A great example of this technology in use was this year’s World Solar Challenge where Hills provided the solutions that enabled live worldwide streaming of the event through social media to audiences around the world.

Let’s have a look at “satellite on the move”.

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The team has also won a number of other major projects which will be delivered in the 2H of FY19 ensuring the business is on track to deliver full year growth over the prior year.

*Our **Hills Connection Solutions** business has been servicing the Ericsson/NBN contract for several years and the contract was recently extended to 2020.*

The business has developed solutions that provide routing capabilities for field technical teams which includes scheduling and delivery of services and mobile based applications.

As the technology has been developed by Hills, we have the opportunity to use this technology within our Health service delivery teams and expand into other business verticals that leverage these capabilities.

As highlighted in our full year results, Hills Connection Solutions has focused on the delivery of profitable business through the NBN, which has seen us primarily deliver fixed wireless services. This has resulted in a decline in revenues year on year, but we now have a stable profitable business.

Hills sees the opportunity servicing the NBN continuing past 2020, as we not only focus on the NBN but expand into the NBN eco system and explore opportunities with other suppliers. A good example of this was our recent signing with Downer to provide services for the delivery of trained technician services for the NBN, which is a great example of our ability to sell the services capability of this business.

*The final area of our communications business is our **Foxtel** business which sees Hills supply Foxtel with dishes, manufactured at our O'Sullivan Beach facility in South Australia, and associated brackets.*

This business is dependent on the sales of Foxtel and the recent decision to deliver products via satellite provides the opportunity to see more consistent and predictable supply of these products into the market.

This business continues to remain challenging to manage as we are linked to the success of Foxtel sales, and we need to factor this into our business forecasting to cater for the highs and lows in the supply chain.

*Finally, our **Audio-Visual business** has faced some challenges over the past 18 months as well which has impacted sales growth as we work to align ourselves with the vendors and solutions that best suit our business moving forward.*

During the year we've added new vendors which deliver solutions in the following growth areas of the market covering:

- *Emergency paging and life safety systems for airports and train stations;*
- *High powered amplifiers for large venues;*
- *Commercial audio digital signal processing (DSP); and networked audio solutions for the integration market.*

The standout performance from our AV team was Williams Sound. Williams Sound provides hearing loop solutions and the team won a key deployment in 2018 with Sydney Trains, demonstrating the value of this technology in the community. Williams Sound sales grew 18% over the prior year and we expect this trend to continue with new product introductions this year.

Our Community Professional Loudspeaker brand also had a great year with strong momentum continuing into FY19 on the back of key project wins including the supply of tunnel horn speakers into the M4 and M5 Westconnex tunnel projects in NSW.

During the year we also revamped our Australian Monitor amplifier product range and established a clear roadmap for the next 24 months

In August we announced the new amplifier range at Integrate, Australia's largest AV tradeshow. The range was well received, and we expect to see growth in our domestic and international markets over the next 12 months.

A customized amplifier product was recently created specifically for NSW Fire and Recuse who are rolling out upgrades to all Fire stations across NSW with this exclusive Australian Monitor product.

The AV business has started to turn the corner as we see sales of new vendor products starting to grow and along with the renewed focus on our Australian Monitor business we have a very optimistic outlook for the 2H of FY19.

On another positive note, the business recently secured a highly respected audio brand called Chiayo, a leader in professional wired and wireless microphones, which we will launch to the market in February. This will bring to Hills capabilities in this market that complement our Australian Monitor business as well as enabling us to re-engage with over 350 customers who specialise in this market.

Closing Remarks

Last year I stated that as Hills shareholders, you have been through difficult times and there had been many promises made in relation to the company's direction.

I made it clear we would deliver on our FY18 business commitments and over the past 12 months we have done just that.

I firmly believe we are heading in the right direction and that the company is well positioned to take advantage of the future market opportunities.

To further emphasise the opportunities ahead and the alignment between what Hills is doing today and into the future, the recent Federal Budget overview released in May outlined a 10-year National Infrastructure Plan which sees major investments in:

- *Transportation;*
- *Hospitals;*
- *Border Protection; and*
- *Airports.*

Whilst there is a tendency to get ahead of ourselves, we must realise that this is a journey of continual improvement which will not result in dramatic overnight change but instead, we will see a steady progressive change over the next 6 to 12 months and beyond.

Today I have outlined the business areas we operate in with the view to providing a better understanding and transparency on the nature of our business and the products and solutions we provide.

Whilst we have many parts of our business that have either turned the corner or are operating at a level we expect we still have areas of our business that we need to improve.

Our SMB and AV business areas have plans in place to address the issues I have outlined today, and we expect to see a strong turnaround in both these businesses in the 2H which will help contribute to an improved trading performance.

We will also continue to maintain our focus and attention on the activities within the business that will ensure our success in the markets we serve. This will not only cover the business initiatives outlined today but also include the need to continue to manage our working capital with particular focus on delivering further improvement in our inventory and debt management.

After considerable work on our OPEX, as outlined by Jenny earlier, we expect to continue to demonstrate further improvements this year, driven mainly through operational efficiencies, changes to our property portfolio and cost reduction in our Information Technology through the IT transformation program.

On the outlook for the company, we currently plan to deliver an improved trading performance in the 1H over the prior year despite headwinds from exchange rate fluctuation during the period.

As you would expect there are a number of major projects for delivery over November and December and these are currently on track.



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When looking at the full year outlook, we plan to deliver a stronger overall trading profit with an increased focus on revenue growth in the 2H.

I am sure, like all businesses, we will continue to face challenges along our journey, but I am confident we are on the right track and the leadership team, along with the board and myself, continue to remain committed to staying the course.

Thank you.

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