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Hills Business Update and FY17 Outlook

Hills Limited (ASX: HIL) today announced it has commenced the development of its new market-leading Digital Platform and also provided an update on FY17 operations.

The Digital Platform is a major investment which is expected to come online in the 2018 third quarter, for Australian and New Zealand markets.

It is planned to deliver increased sales and the following key features to Hills customers: -

- 24 x 7 e-commerce availability, including product association for ease of use;
- “Live” inventory availability down to the branch level;
- access to all account information including statements, invoices and price books;
- the ability to update details and make payments online; and
- delivery of product information and providing access to technical specifications.

As well as the innovative Digital Platform, Hills continues to invest in new adjacent businesses, including the launch of its asset-tracking solution, **HillsTrak** and entry into Fire and DIY markets.

The Company has strengthened its exclusive vendor relationships across its Hills Building Technologies (HBT) business, including industry-leading vendors such as Genetec, UTC, Vivotek, Revolabs, Williams Sound, L-Acoustics and WyreStorm.

Hills CEO, Mr David Lenz said today: “A significant reflection of our progress was the recent award to Hills of the highly regarded “*Genetec Distributor of the Year for APAC*”, recognising the strong growth we delivered across Australia and New Zealand.”

Mr Lenz said the profitability of the Hills Health business had materially increased year on year, due in part to the turnaround of the Nurse Call business and further major contract wins, including:

- A contract to provide inpatient beds with Lincor Patient Engagement Systems delivering a state of the art IPTV system to the Sydney Local Health District, which consists of Royal Prince Alfred, Concord, Canterbury and Balmain hospitals, continuing our market leadership.
- Five new contracts signed by the Hills Health business with health facilities to supply Hills IP Nurse Call systems.

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During the second half of FY17 margin quality remained strong, but revenue in the HBT businesses declined impacting profitability, in part due to changes in our vendor portfolios and our decision to exit NBN satellite installations.

In response, Hills has further reduced operating expenses and, along with the changes made earlier in FY17, expects to deliver an annualised reduction of approximately \$12m in FY18. This has been achieved through continuing to flatten the organisation and ensuring minimal impact on front-end customer service.

Outlook

Mr Lenz said Hills Limited expected to deliver a full year statutory loss of between \$6–\$8m for FY17, compared to a statutory loss of \$68.3m in FY16.

“The operating cash flow is currently targeted to be neutral for the second half of FY17 inclusive of restructuring costs and charges associated with the proposed Lincor transaction, which were paid in the second half,” he said.

“Given our investments, the reduction in operating expenses, strong customer and vendor relationships and increased profitability in the Hills Health business, we expect to return to profitability in FY18.”

Further details will be provided in the full year results to be released in August.

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