

21 February 2017

FY17 First Half Results In Line With Outlook

Hills Limited (ASX: HIL) today announced its results for the half year ended 31 December 2016 in what was an active period for the Company following the appointment in September of new CEO, Mr David Lenz.

Following the recent transition of the Hills Home Living assets to AMES Australasia, Hills is now solely focused on the value added distribution of technology and services.

Mr Lenz said today that the focus in the second half is on achieving growth from the Hills business, implementing a new digital transformation project and delivering improved customer service.

“Hills will start to move beyond the recent stabilisation phase and focus on profitable growth opportunities in the remainder of FY17 and beyond,” he said.

A summary of the half year results is set out below:

\$ millions	1HFY17	1HFY16
Revenue¹	157.3	164.1
EBITDA²	8.4	5.4
NPAT	0.2	(69.0)
Operating Cash Flow³	(0.8)	0.4

Results Summary

- First half EBITDA of \$8.4 million – up from \$5.4 million in 1H FY16.
- Top line revenue was down 4% over the same period last year.
- Net Debt at 31 December 2016 was \$20.9 million, down from \$24.2 million at 30 June 2016, with continued focus on cash flow.

¹ 1H FY17 revenue does not include proceeds from the Hills Home Living transition from Woolworths Limited to AMES Australasia.

² Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure used to present the Company's segment information in its financial report and is calculated on a consistent basis as detailed in note 1 to the interim financial report.

³ Operating cash flow includes the 1H FY17 payout of \$1.7 million of restructure provisions and \$7.5 million in 1H FY16.

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- Operating Cash Flow was an outflow of \$0.8 million and included payment of restructure costs of \$1.7 million and costs of \$0.6 million relating to the previously proposed merger of Hills Health Solutions (HHS) with Lincor Inc.
- A one off impairment of \$3.5 million has been applied to aged Tyco inventory acquired as part of the exclusivity arrangement in 2015 and \$0.9 million for discontinued vendors.
- During 1H FY17, Hills completed the transition of the Hills Home Living assets from Woolworths to AMES Australasia in December 2016.

Business Update

Top line revenue was down 4% over the same period last year, which did impact profitability in the 1H FY17 by:

- Competition from Chinese brands impacting low end CCTV sales,
- Reductions in Antenna volumes following changes to a major customer's distribution model,
- Cessation of the Crestron separation income, and
- No further rental income, following the sale of the O'Sullivan Beach properties in late FY16.

The first half performance was also impacted by higher costs to service the Ericsson contract.

Hills has undertaken the following actions:

- Signed a contract during the first half with UTC Fire & Security which will help the Company to compete in the low-end CCTV market,
- Returned the Antenna business to prior sales levels during Q2,
- Continued to work with Ericsson to address delivery related issues and to bring costs back into line, and
- Continued to focus on the Hills cost structure, which saw operating expenses further reduced in Q2 by an annualised sum of \$4.8 million as the management structure is flattened and corporate overheads reduced.

As announced earlier this year, the proposed merger of HHS with Lincor Inc. was terminated. Despite the focus on the proposed merger, HHS had a strong first half, exceeding prior year performance in both revenue and margin. HHS continues to maintain the strategic distribution relationship with Lincor.

Mr Lenz said "I believe the Health category is the right fit for the Hills Group and presents the Company with the opportunity for greater leverage across the HBT products and services portfolio".

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Dividends

As advised at the 2016 AGM in November, no interim dividend will be paid this year.

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