



HILLS.TM

FY16 first half results
25 February 2016

TOPICS TO COVER

- CEO Summary
- Business Summary
- Asset book carrying values – impairment charges
- Financial results
- Recap & reset
- Outlook

CEO SUMMARY

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Security & CCTV

- New vendors signed up – Vivotek, Ipsotek, Dell
- Business realigned to customers and industry capability
- Continuing to focus on margin improvement
- Continuing to focus on cost reduction

Audio Visual

- Establishment of Hills AV division to realign all AV resources under a single national structure
- On track to add 3 new vendors to strengthen the Hills AV portfolio
- Continue to build pipeline of large projects – several due for completion in second half

Communications & Satellite

- Continued growth in installation volumes and revenue for NBN Fixed Wireless program
- Commencement of installation program for NBN satellite driving a new revenue stream.
- Growth opportunity in the 3G alarm communications market with renewed product range
- New product release – MATV launched & training completed
- New vendor signed up – CPI Canada
- Sales pipeline building through balance of FY16 and into FY17

Health

- New leadership team in place
- New vendors signed up – Sonitor, Essence (Care@home)
- Streamlining product offering
- Focus on strengthening the sales pipeline
- Building out sales and project team strength
- Project management focusing on margin retention
- Focus on building sales channels through partner network
- Focus on cost

Corporate

- Headcount down by 57 since the beginning of the financial year to Feb 16
- Consolidating property footprint – exited 2 properties in FY16 and continuing
- We need to flatten our structure further
- We will reduce the Corporate team to further minimise cost
- We will further consolidate corporate/shared services offices into existing sites

Capital

- Cash flow for FY17 impacted by restructure provisions will reduce to \$2 million
- Inventory reduction a continuing focus – down \$5.3 million this financial year
- Strong focus on debtor days
- Sale of surplus properties being progressed
- Finalise revised lending arrangements

1H FY16 Highlights

- EBITDA result of \$5.4 million is better than expected at time of the 2015 AGM;
- Share price decline triggered a further review of asset carrying values. Impairments of \$66 million booked (goodwill, intangibles and deferred tax assets);
- Net Debt at \$38 million as at December 2015; and
- Continue to work with banks to refinance facilities that further align with the needs of the Company. Now expected to be in place by end of April 2016.

BUSINESS SUMMARY

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Hills provides Australia and New Zealand with leading security, CCTV and IT solutions to protect homes, businesses and places where large crowds may gather, such as at sporting events, entertainment facilities, shopping centres and other public gatherings

Product offering

- Integrated access
- Card access
- Intruder alert
- Cameras
- Home hub
- Locks
- Analytics software

Our competitive advantage:

- **Vendor Relationships** - We have long term vendor relationships and so are able to provide our customers with access to the largest Security Product Portfolio in the industry
- **Customer Relationships** - We add value for our customers by providing them with a full "solution" to their security needs - Hills is a "one stop shop". This includes pre and post installation service
- **Expert Resources** - We have invested in a dedicated and highly experienced team of security experts across Australia & New Zealand covering sales and technical support
- **Geographic Footprint** - We have a large national footprint in Australia and New Zealand making our solutions accessible for our customers
- **Our Size** - Companies like dealing with us because we have high levels of governance, ability to extend credit and have sophisticated systems and processes

Hills provides Australian and New Zealand businesses with the next generation of audio visual and lighting technology for their homes, businesses, sporting and entertainment venues

Product offering

- Microphones
- LCD Displays
- Projectors
- Hearing Augmentation

Our competitive advantage:

- **Vendor Relationships** - We have long term vendor relationships and so are able to provide our customers with access to the largest AV Product Portfolio in the industry
- **Customer Relationships** - We add value for our customers by providing them with a full "solution" to their AV needs - Hills is a "one stop shop". This includes pre and post installation service
- **Expert Resources** - We have invested in a dedicated and highly experienced team of AV experts across Australia & New Zealand covering sales and technical support
- **Geographic Footprint** - We have a large national footprint in Australia and New Zealand making our solutions accessible for our customers
- **Our Size** - Companies like dealing with us because we have high levels of governance, ability to extend credit and have sophisticated systems and processes

We enhance lives, captivate audiences and astound people

Technology: Communications & Satellite

Hills provide Australian and New Zealand consumers and businesses with communication solutions whether they are in the city or the outback. Hills delivers technology and equipment to enable television viewing in homes, stadiums, hotels, offices and more all around Australia and New Zealand

Product offering

- Antenna
- Set top boxes
- Digital TV Systems
- Professional Services
- Installations

Our competitive advantage:

- **Service Model** - Hills has a unique service model – we are able to harness large teams of installers to service high volume contracts such as wireless and satellite rollout on behalf of NBN or satellite dishes for Foxtel
- **Local Manufacture** - Nimble local manufacture of antennas and satellite dishes and consumables
- **Intellectual Property** - Well respected product with patent protection
- **R&D** - we have a small R&D team making sure our products evolve and keep ahead of competitors

We enable people to keep in touch and enjoy their lives

Patient entertainment

We provide interactive TV Systems to watch movies, order meals and access other information

Nursecall

Hills provides nursecall to in excess of 350 hospitals and 800 aged care facilities across Australia – helping the sick and elderly access medical assistance when they need it

Our competitive advantage:

- **Numbers** - Our products service 350 hospitals and 800 aged care facilities throughout Australia
- **Intellectual Property** - Hills owns the unique IP in our nurse call and monitoring systems and undertakes continuous R&D to ensure its technology is leading edge
- **Our Size** - Large hospitals and installers want to do business with a company of substance and one which has appropriate governance around its products

We keep people engaged while they are unwell and recovering and alive in emergency situations

ASSET BOOK CARRYING VALUES - IMPAIRMENT CHARGES

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IMPAIRMENT CHARGES



- Share price decline has triggered a further review of asset carrying values with impairments of \$66 million booked

	<u>\$m</u>
→ Impairment of goodwill and intangible assets	39.2
→ De-recognition of deferred tax assets ¹	20.3
→ Other asset impairments	6.5
→ TOTAL	<u>66.0</u>

¹ The tax losses remain available in the Hills tax return despite the de-recognition for accounting purposes. These can be written back when the company returns to a tax payable position.

FINANCIAL RESULTS

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KEY NUMBERS FROM THE INTERIM FINANCIAL REPORT **HILLS**

(A\$M)	H1-2016	H1-2015
Revenue	164.1	227.0
EBITDA (note 2(b))	5.4	20.4
(Loss)/profit for the half year attributable to owners	(69.0)	9.0
Items not considered part of underlying profit (note 12 (c))	66.0	0.5
Underlying NPAT (note 12 (c))	(2.9)	9.5

Revenue and EBITDA is broken down per the segment note in the following slides to enhance visibility and comparability

HILLS SEGMENT REPORTING



Revenue (A\$M)	1HFY16	1HFY15
Building Technologies	146.9	165.5
Health	15.5	17.6
Home	1.0	27.3
Corporate	0.8	1.6
Segment Revenue	164.1	212.0
Discontinued operations	-	15.0
Total Revenue	164.1	227.0

EBITDA (A\$M)	1HFY16	1HFY15
Building Technologies	6.0	14.4
Health	(0.1)	2.6
Home	1.0	3.9
Corporate	(1.5)	(2.7)
Segment EBITDA	5.4	18.2
Discontinued operations	0.0	2.2
Total EBITDA	5.4	20.4

Building Technologies

- Revenue reduced due to the loss of the Crestron distributorship
- New distribution arrangements are taking time to “ramp up”
- Some margin pressure from deterioration in the AUD
- Cost base is being reduced and sales improved through better alignment of management structures to customers and vendors

Health

- Some major contracts taking longer to close especially government agency customers
- Project costing over budget due to delay in projects
- Higher cost base as business units not fully integrated

Home

- 7-year licensing agreement with Woolworths Limited (extendable to 19 years)
- Guaranteed \$2M p.a. in revenue and EBITDA

Corporate

- Costs have reduced significantly in line with plans
- Further cost reduction to come as Transitional Service Agreement expires

OPERATING EXPENSES (NOTE 4)



Functional operating expenses

(A\$M)	1HFY16	1HFY15
Sales and marketing expenses	37.7	33.1
Distribution expenses	9.3	12.4
Administration expenses	12.6	24.9
Total	59.6	70.4

• Sales and marketing costs have increased with a view to rebuilding sales capabilities

• Distribution expenses have decreased through reduced sales but also as a result of the transformation program

• Admin function for operations and Corporate - gross costs have decreased as businesses have been closed or sold and through general cost reduction initiatives

Other expenses

(A\$M)	1HFY16	1HFY15
Other expenses (non-underlying)	45.7	2.6

• 1HFY16 is predominantly the impairment charge

BALANCE SHEET



(all in A\$M)	31 Dec 2015	30 Jun 2015
Receivables and other assets	66.7	92.7
Inventory	67.1	72.4
Current assets (excluding cash)	133.8	165.2
Non-current assets (analysed in later slide)	39.4	103.5
Total assets (excluding cash)	173.2	268.7
Payables and provisions	66.3	100.1
Net debt / (net cash)	38.5	32.0
Total equity	68.4	136.6
Net debt/(net debt + equity)	36%	19%

Working capital and non-current assets are analysed in the next two slides

Change in total equity consists of:

- Underlying NPAT (\$ 2.9M)
- Impairment charge (\$66.0M)
- Other changes \$ 0.7M

(\$68.2M)

TRADING WORKING CAPITAL



(A\$M)	31 Dec 2015	30 Jun 2015	Cash effect of Change Jun 15 to Dec 15	
Trade receivables	56.1	79.6	+23.5
Inventory	67.1	72.4	+5.3	
Trade and other payables	(47.3)	(67.7)	-20.4
Net trading working capital	75.9	84.3	+8.4

Trade receivables and payables changes net to a release of \$3.1 million in cash largely due to improvement in collections performance

Inventory reduction of \$5.3 million contributed towards the overall 10% reduction in trade working capital

NON-CURRENT ASSETS



As at (A\$M)	31 Dec 2015	30 Jun 2015	Change Jun 15 to Dec 15
Property, plant and equipment	28.2	32.8	(4.6)
Intangible assets	-	39.2	(39.2)
Deferred tax assets	10.6	30.8	(20.2)
Non-current receivables	0.6	0.7	(0.1)
Total non-current assets	39.4	103.5	(64.1)

Reductions were due to the current period impairments.

Even though deferred tax assets have been derecognized from the balance sheet for accounting purposes, the economic benefit of using these carry forward tax losses as a shield against future income tax remains for the benefit of the business in the years ahead.

Revenue tax losses for which no deferred tax asset has been recognised total \$182 million.

The closing balance of Property, Plant and Equipment at 31 Dec 2015 includes Land and Buildings of \$6.8 million.

NET DEBT AND FINANCING



Net Debt	A\$M
As at 30 June 2015	32.0
As at 31 December 2015	38.5

- As announced on 30 December 2015:
 - Hills reduced its banking facilities from an unsecured \$110 million to a secured \$55 million facility
 - At that time we agreed that the refinancing would be in place by the end of February 2016
- Hills and its bankers are working collaboratively to revise its financing facilities to better align with the needs of the Company and limit cost wherever possible
- The revised bank facilities are expected to be based on Hills investment in working capital and will change as the scale of the investment in working capital changes, consistent with Hills being a value added distribution business
- The refinancing exercise is now expected to be completed by the end of April 2016. As a result, the debt has been classified as current during this period. Notwithstanding this change, Hills has a \$33 million surplus of current assets to current liabilities

CASH FLOWS



(A\$M)	1HFY16	1HFY15
Profit/(loss) after tax	(69.0)	9.2
Add back: Non-cash items (mostly impairment, depreciation, amortisation)	68.7	4.6
Profit after tax adjusted for non-cash items	(0.3)	13.8
(Decrease)/increase in restructure provisions	(7.7)	(3.2)
(Increase)/decrease in trade working capital	8.4	(6.6)
Net cash flow from operating activities	0.4	4.0
Acquisition of businesses	(2.7)	(16.8)
Acquisition of intangible assets (acquired intangibles and software)	(2.4)	(2.0)
Capex	(2.9)	(5.4)
Proceeds from the disposal of businesses and PP&E	0.2	23.3
Other investing cash-flow	0.8	1.6
Net cash flow from investing activities	(7.0)	0.7
Dividends paid	-	(8.4)
Payment for shares bought-back on-market	-	(3.2)
(Repayment) of/proceeds from borrowings	4.9	(5.2)
Net cash flow from financing activities	4.9	(16.8)
Change in gross cash balance	(1.7)	(12.1)

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Excluding the restructure provisions payments, net cash flow generated by operating activities would have been \$8.1m in 1HFY16 and \$7.2m in 1HFY15

RECAP AND RESET

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RESET & RECAP



Reset

- Impairing soft assets
- Hills continues to flatten the organization to reduce operating expenses
- Reducing our property footprint
- Reducing inventory levels by \$5.3 million since June 2015
- Focusing on debt reduction

Recap

- EBITDA result of \$5.4 million is better than expected at the time of the 2015 AGM
- Share price decrease triggered further impairment testing and impairments of \$66 million were booked in respect of goodwill, intangible assets and deferred tax assess
- Working with bankers to finalise the revised banking facilities by end of April 2016

OUTLOOK

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- Our focus in the second half of FY16 will be:
 - increasing our sales pipeline
 - growing existing vendors and signing up new vendors
 - continuing cost reduction – i.e. headcount and rent costs
 - continuing reduction in debt by sale of non-core assets and reduction of inventory
 - finalise negotiation of revised banking facilities
- To deliver **an improved EBITDA for the second half which exceeds that of the first half**

Statements contained in this presentation, particularly those regarding possible or assumed future performance, estimated company earnings, potential growth of the company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve unknown risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward-looking statements.

Thank you