



ASX announcement Media Release

6 November 2020

Chairman's Address

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

On behalf of my fellow Directors, I welcome you all to the 63rd Annual General Meeting of Hills and the first virtual AGM.

In the spirit of reconciliation, I would like to acknowledge the traditional custodians of country throughout Australia and their connections to land, sea and community.

We pay our respect to their Elders past and present and extend the respect to all Aboriginal and Torres Strait Islander peoples today.

As you know, due to the Government restrictions and the potential health risks arising from the COVID-19 pandemic, today's meeting is a virtual meeting at which we will:

- *update you on your Company's activities over the last 12 months;*
- *conduct the formal business contained in the Notice of Meeting; and*
- *listen to any comments you may have and answer your questions.*

David Fox, our Company Secretary has confirmed we have a Quorum, and I now declare the meeting open.

The notice of meeting dated 2nd October 2020 has been made available to all shareholders. As is usual I will take the notice as read.

The Minutes of last year's AGM held on 8 November 2019 are in order and have been signed by me.

In addition, to shareholders present via the online platform today, I can confirm that 29.21% of the Company's shares are represented by proxies.

It is my pleasure to introduce my fellow Directors:

- *Philip Bullock AO;*
- *Ken Dwyer; and*
- *David Lenz, our CEO and Managing Director,*

who are with me in Sydney, and:



ASX announcement Media Release

6 November 2020

- *Fiona Bennett; and*
- *David Chambers,*

who join us remotely from Melbourne.

Also joining me today in Sydney is our:

- *CFO, Peter Steel; and*
- *Company Secretary, David Fox.*

The Company's Auditor, Paul Cenko from KPMG is also present virtually from Adelaide to answer questions in relation to the audit of the Company's financial accounts.

I would also like to welcome representatives from Link Market Services who I can confirm will be scrutinising the meeting today.

OVERVIEW

I will shortly outline:

- *the Group's response to the COVID-19 pandemic and its impact on our financial results during the year in review; and*
- *our progress in implementing our key strategic initiatives,*

before covering off on some governance matters and the ongoing process of Board renewal.

David Lenz will then take you through:

- *the performance of each of the business areas in the year in review;*
- *the strategic initiatives underway in the current financial year;*
- *trading during the first quarter of this year; and*
- *the outlook for the remainder of the year.*

We will then move to the formal part of the meeting.

I would like to thank those shareholders who have taken the time to send us questions. We will endeavour to respond to them during the course of our addresses today.



ASX announcement Media Release

6 November 2020

For those of you attending the meeting via the online platform, you may now submit your votes by clicking on the “Get a Voting Card” box on your screen. I now declare the Poll open.

FY20 FINANCIAL PERFORMANCE OF THE GROUP

Turning now to review the Financial Performance of your Company.

As the devastating impact of COVID-19 continues to spread across the globe, all of us are experiencing its impact both at work and at home. Without question, our daily life routines and those of our loved ones have been altered, and I want to assure you that the health and safety of our employees, customers and suppliers remains our top priority.

I also hope that you and your families remain safe and healthy during these unprecedented times.

The past financial year has seen two distinct halves in the performance of Hills.

We commenced the year in review on the cusp of an exciting new period for the Company with a first half Net Profit after Tax of \$2.6 million and a simplified and focused business structure that delivered Earnings Before Interest and Tax of \$4.0 million in our Health business and EBIT growth of 247% to \$2.4 million in our Distribution business which positioned us to maximise returns for shareholders with the plan to pay a full-year dividend.

However, the onset of COVID-19, presented unexpected challenges in the second half unlike anything faced in the 75-year history of Hills.

Our people have met the challenges of this crisis head-on ensuring:

- *our branches have remained operational to support our distribution customers, and*
- *our dedicated health clients could meet the demands of the hospitals and healthcare facilities that we serve,*

while keeping everybody safe.

At the same time your Board and management team moved to:

- *monitor sales and receivables;*
- *right size our operations;*
- *preserve cash; and*
- *optimise liquidity,*

6 November 2020

holding weekly meetings to review our progress against forecast.

In March this year we negotiated rent deferrals with a number of our landlords and the deferral of \$3.8 million in GST payments which will predominantly be repaid in the current financial year.

From 1 April, we reduced wages across the Company, and I would like to take this opportunity to thank all our employees and your Directors for willingly accepting compensation reductions during this unprecedented period.

Whilst employee salaries were restored to pre COVID-19 levels on 1 July this year, your Directors elected to continue to receive 50% of their fees for the first half of the current Financial Year. This follows the 30% reduction in Directors' fees implemented in July 2019.

We commend the Australian and New Zealand Governments for the wage subsidy assistance Packages provided to us in the amount of \$3 million in Financial Year 2020 and \$2.95 million in the current financial year. These amounts offered much-needed support to our workforce and saved many jobs.

Notwithstanding all of these actions, and despite recording positive contributions from both our Health and Distribution businesses during the year in review, trading in the second half of the financial year was adversely impacted by COVID-19 related:

- closures and restricted access to health and aged care facilities;*
- deferrals of elective surgeries;*
- supply chain disruptions; and*
- delays and deferrals of larger customer projects,*

such that we were unable to build on the profitable performance in the first half of the year.

We recorded a statutory loss for the full year of \$6.2 million after taking into account non-operating expenses of \$6.8 million including foreign exchange adjustments of \$4.1 million as well as \$1.2 million in redundancies.

Disappointingly, our full year results for Financial Year 2020 are not a true reflection of the hard work from our team or the progress we have made on many important initiatives, which David and I will outline shortly.

FOREIGN EXCHANGE TRANSACTIONS AND THE IMPACT ON FY21 OUTLOOK

Let me now turn to the foreign exchange issues which impacted the year in review and the current year.

6 November 2020

In August this year we announced that finance personnel had taken out longer term foreign exchange instruments outside of both policy and practice in both their scale and duration. The Board and Management have taken action to cap direct losses and in addition to the \$4.1 million loss in FY20, losses in the current financial year will be a maximum of \$2.3 million. Mitigation strategies have included:

- *Closing out foreign exchange contracts; and*
- *Securing option protection of foreign exchange exposure to protect the Company in respect of increases in the Australian Dollar above 72 cents whilst still allowing us to participate in any depreciation of the Australian Dollar against the US Dollar.*

A STRONG BALANCE SHEET

Moving now to review the strength of our Balance Sheet.

Our strong focus on working capital and expenses during the year together with proceeds from the divestment of non-core businesses resulted in a stronger balance sheet at 30 June 2020.

Net Debt was down 71% or \$20.2 million on the prior corresponding period to \$8.2 million and gearing (measured as net debt to net debt plus equity) was down 20 points to 15.5%.

Net Inventory was down 39.4% to \$25.2 million and creditors payments were within terms.

Our cashflow outlook to December this calendar year remains solid, but has been subject to:

- *the cost of addressing the foreign exchange open positions;*
- *tough trading conditions; and*
- *further investment in the business,*

and remains susceptible to any adverse impacts from further COVID-19 trading restrictions during the remainder of the current year.

DELIVERY OF STRATEGIC INITIATIVES

Turning now to the delivery of strategic initiatives.

Our management team demonstrated their ability to deliver a number of key strategic initiatives during the year in review, despite the disruptions from COVID-19 which have set up your Company for future growth. These initiatives include:



ASX announcement Media Release

6 November 2020

- *the sale of our non-core AV, Antenna and STEP businesses in the first half of the year in review;*
- *the streamlining of our continuing Distribution business with costs savings at the top end of the \$3 million-\$5 million target range as promised; and*
- *further investment in research and product development in our Health business.*

In the second half of Financial Year 2020, we reviewed our medium-term growth strategy for our Health business with the assistance of Paxton Partners and the board and management recently resolved to:

- *explore a number of opportunities to expand into the telehealth sector;*
- *expand our range of Nurse Call and Patient Engagement Solutions;*
- *increase our market penetration in aged care facilities and explore new markets, such as the disability and homecare sectors.*

I am pleased to announce that in a little over 12 months and following a business review we have now secured exclusivity for GetWellNetwork across Australia and New Zealand.

With a strong pipeline over the next three years in both Nurse Call and Patient Engagement, we are well placed to see significant growth in our Health business, which David will discuss shortly.

SHARE PRICE AND DIVIDENDS

It is appropriate to acknowledge the disappointing fall in our share price over the last 12 months. I can assure you that your Board and management will be working hard to:

- *increase profitability in the current year; and*
- *continue to educate the market on the strength of our Health Services business, and the potential to significantly grow this business in the medium to long term.*

To maintain balance sheet strength through a period of significant change, the Board took the difficult decision in February not to declare an interim dividend. This is understandably disappointing for shareholders, but this decision was made in the long-term interests of your Company and enabled us to preserve cash during the difficult COVID-19 period.



ASX announcement Media Release

6 November 2020

When trading conditions return to normal, your Board is determined to resume paying dividends, subject to the capital and growth requirements of the Company's Health business.

GOVERNANCE AND BOARD RENEWAL

Turning now to Governance and Board Renewal.

Your Board and Management recognise the importance of sound environmental, social and governance practices as part of our responsibility to all our stakeholder groups.

Our remuneration framework and consequence Management process, promote accountability, and encourage and reward appropriate behaviours.

Shortly Philip Bullock, Chair of our Nomination and Remuneration Committee, will outline the actions taken during the year in review and the current year regarding executive remuneration and outcomes.

Hills strives to be a diverse and inclusive workplace embedding flexible work practices which have been embraced by our staff particularly with the onset of COVID-19.

The Company has continued to join staff in supporting the "Make a Wish Foundation" and this continued support since 2017 has enabled us to help grant the wishes of five children. We also support various environmental initiatives including the Australian Packaging Covenant.

In July this year, we were delighted to have David Chambers join the Board as a non-executive independent Director as part of our structured approach to Board succession. David has a long and distinguished career in the healthcare and technology sectors and his appointment is reflective of our increasing focus on growing our Health Solutions business. I look forward to introducing him shortly when we reach the resolution on his election.

As previously advised, Philip Bullock is retiring from the board at the conclusion of this meeting. Philip has been a board member since 2014 and has fulfilled his responsibilities to Hills and our shareholders with distinction, at a deeply challenging time for the Company. Everyone at Hills has benefited from his wisdom, expertise and thoughtful approach.

Philip, thank you for your significant contribution and we all wish you the very best for the future.

I will now hand over to our CEO and Managing Director, David Lenz.

[CEO PRESENTATION]



ASX announcement Media Release

6 November 2020

CLOSING REMARKS

In closing, I would like to thank all our staff for their continued resilience and contribution during these challenging times and to my fellow Directors, thank you for your guidance and support as we steer the business towards a better, brighter future.

Finally, on behalf of the Board, I would like to extend my gratitude to all our shareholders, for your ongoing support.

Voting will remain open for another 5 minutes for those who have not submitted your votes.

Results of the poll on each resolution put to the meeting will be provided to the ASX by close of business today and posted on the Company's website.

I now declare the meeting closed and thank you for attending this year's AGM.

This ASX announcement is authorised for release by the Board of Hills Limited.

[END]

About Hills Limited

Hills is a majority Australian-owned publicly listed company (ASX: HIL) and consists of two businesses: Hills Health Solutions – the leading provider of nurse call solutions, patient engagement systems and wi-fi networks in Australian and New Zealand hospitals and aged care facilities; and Hills Distribution – a leading provider of integrated Security, IT and Technical Services across Australia and New Zealand. For more information, visit www.hills.com.au

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