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26 November 2015

Chairman's Address

Good afternoon, Ladies and Gentlemen.

Welcome to the Hills 58th Annual General Meeting.

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

I would like to start by acknowledging the traditional custodians of this land, the Kaurna people, and pay my respects to their Elders, past and present.

We have a quorum and I declare the meeting open.

The Notice of Meeting has been sent to all shareholders so with your consent I will take it as read and move forward.

The Minutes of last year's AGM held on 31 October 2014 are in order. They have been signed by me and are available for any interested shareholders to review.

In addition to shareholders present here today, I can confirm that 44% of the Company's shares are represented by proxies.

I would like to introduce my fellow directors:

- Fiona Bennett;
- Philip Bullock; and
- David Spence.

Ian Elliot our Lead Independent Director is unable to join us today due to an urgent matter that has kept him in Sydney.

I would also like to welcome - from our Executive Management Team:

- Our new Chief Executive Officer (CEO), Grant Logan;
- Gareth Turner, our Chief Financial Officer; and
- Gai Stephens, our Company Secretary.

Paul Cenko, from KPMG is our auditor for the period in review, and he is available to answer any audit related questions you may have in due course.



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LEADERSHIP CHANGES

Turning to leadership changes - as shareholders you would be aware that the Board appointed Grant Logan, to the position of CEO in May this year.

This appointment followed the review and refinement of our strategy in May 2015 after which the Hills Board and former CEO and Managing Director, Mr Pretty, agreed that it was the time for a change in executive leadership. Mr Pretty was instrumental in completing the divestment of the Company's manufacturing assets over the previous three years.

Grant has been with Hills for the past 4 years in his previous roles as Chief Financial Officer and Chief Operating Officer.

He has extensive experience in executive roles in Australian public companies and global multinationals including Corporate Express, Goodman Fielder, Philips Electronics and Bayer Limited.

Grant has moved seamlessly into the role of our CEO and his primary focus is on stabilising and then growing our Company.

OVERVIEW

The past few years at Hills have been focused on restructuring, transforming and investing in the future.

The magnitude and complexity of this process has meant that it has had its challenges and while we did underestimate the scale and time required to complete some of the transformation initiatives, it was and remains imperative to the long term survival of our Company.

Today, I will update you on this transformation process; progress made; and where we are going. My remarks will specifically reference:

- some of the difficulties we have faced both internally and externally as we continue this process; and
- the action we have taken to address them.

So where are we, what have we done, and where are we going?

There has been no diversion from the traditional Hills vision to protect, improve and inspire people's lives.

It is 70 years since Hills began business as a manufacturing company and whilst it enjoyed years of profitability as a manufacturer, structural changes in the steel and manufacturing sectors with the rise of Asian manufacturing and cheap



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imported products arriving in Australia meant that we had to re-invent the Company to survive and prosper for the future.

We have completed the restructure and divestments of our steel and manufacturing assets and de-risked our Company by:

- exiting capital intensive manufacturing operations exposed to competition from low cost products;
- exiting Joint Ventures reliant on only one or two customers;
- reducing our debt levels and foreign exchange exposure;
- reducing occupational health and safety liabilities; and
- utilizing the funds from the sale of assets to pay down debt and give your Company a sound balance sheet.

In the process we have maintained:

- a national presence in our technology businesses;
- an extensive sales network of one-stop shops,

while simultaneously establishing:

- a presence in 800 aged care facilities and 350 hospitals;
- an unrivalled offering of innovative products and end to end solutions; and
- a refreshed and invigorated sales team in Australia and New Zealand.

We have retained the Hills trusted brand as the beacon for the next decade and beyond.

Timing is everything, and some of these benefits have not yet translated to bottom line profitability as:

- government spending was wound back;
- we saw many project deferrals across the construction, health and mining sectors;
- the Australian dollar rapidly plunged, impacting our margins;
- our management team was stretched in the midst of the transformation, as:
 - the changes required to our supply chain and sales activities proved more complex and extensive than expected; and
 - the integration of businesses acquired was more difficult than anticipated; and
 - the performance of our nurse call businesses did not meet our expectations.

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Whilst our Patient Infotainment businesses are performing solidly the poor performance in our Nurse Call division has impacted the overall Hills Health results and Grant will cover this in more detail shortly.

To table these realities and explain them does not change the fact that shareholders are entitled to be frustrated and disappointed that our Company could not somehow have maintained the share price and dividend in the short term and I am sorry that a company I lead both from the Boardroom and the share register could not have somehow avoided this heartburn. However, we stand behind our strategic decisions which will deliver long term benefits to shareholders.

It is our responsibility to accept and work through the challenges before the business, and we are determined to stay the course and complete the transformation of our Company to a value-added distributor of technology and communication solutions in the Security, Audio Visual, Communications sectors and a technology services provider to the hospital and aged care industry.

We have taken the following actions to address the challenges before us:

- we made some changes to the management team to focus on stabilising, consolidating and growing our businesses in Australia and New Zealand rather than pursuing international growth through acquisitions;
- we are progressively replacing the revenue foregone from Crestron following their decision to move to a direct distribution model, with new suppliers including Tyco, Vivotek and Ipsotek;
- we are building a stronger sales pipeline;
- we are fully focused on margin improvement; and
- we continue to resize our cost base having reduced it by some \$12 million to date and anticipate that this will continue over the next 12 months or so as we respond to changing market conditions.

Feedback from many customers, suppliers and employees in our Technologies businesses to the actions we have taken regarding our management and sales teams, our supply chain and customer service is very positive and we are now close to having the right people, products and solutions in place.

But rebuilding takes time to do well and the full benefits of the changes we have made and continue to implement will not come through until Financial Years 17 and 18.

Now let me turn to some of the wins and some of the losses that affected the perception of Hills in the market.

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Our revenue from our continuing businesses increased from \$415.5 million to \$427.8 million during the year in review - but on an underlying basis, we recorded a reduced Net Profit after Tax of \$11.1 million, and on a statutory basis, a loss of \$85.9 million.

This statutory loss was not from trading but the impact of:

- asset impairments;
- the de-recognition of deferred tax assets which can still be used in the future;
- costs of acquisitions;
- due diligence expenses in respect of acquisitions that did not proceed; and
- other associated gains or losses on the disposal of businesses and freehold property.

After considering the decline in the Hills share price, market growth assumptions and cash flows from on-going businesses we made an impairment and we were obliged to write down the values of our Health and Technologies businesses.

Whilst this impairment is a non-cash charge and has no impact on the future operating cash flows or the economics of any of the businesses, there was certainly an effect on investor confidence.

This outcome was disappointing to say the least but:

- our continuing businesses with the acquisitions we have made will provide a solid base from which to expand in the future;
- the market sectors in which we have chosen to invest are all recognised as growth industries; and
- the impact on our debt to equity ratio was small and will not affect our banking covenants.

CASH FLOW/BALANCE SHEET

Our cash flow for the period was impacted by:

- increases in working capital following the purchase of new businesses;
- increases in total inventory with the acquisition of the Tyco distribution; and
- payment of provisions relating to the restructure and transformation.

We will continue to reduce our working capital across the Company.



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DIVIDENDS/SHARE PRICE/ CAPITAL MANAGEMENT

Our underlying earnings per share (EPS) was 4.8 cents and we paid an interim dividend of 2.1 cents per share in the first half of the year in review. I regret that we were unable to declare a final dividend following the impairment.

Everyone in this room has skin in the game - and at current share prices your Board and senior management see value in our Company - since May this year they have acquired another 1 million shares to underscore their commitment.

Your Board has developed a practice for Directors acquiring shares in the Company so that over a 3-5 year period Directors will acquire shares to an approximate value of one year's directors' fees.

In the year in review the Company bought back 2.2 million shares for a total consideration of approximately \$3 million.

Whilst at current prices the buyback price is high it was EPS accretive at the date of purchase and decisions of this nature can only be made based on the information and knowledge of the markets at the time.

STRATEGY

In May this year, to address the challenges I outlined earlier, the Board redefined the Hills Strategy from pursuing a growth strategy largely focused overseas in the health sector - to one of being a value-added distributor of technology and communication solutions in the Security, Audio Visual (AV), Communications sectors and a technology services provider to the hospital and aged care industry across Australia and New Zealand.

This strategy has at its heart, our:

- vendors;
- customers;
- people;
- profit; and
- capital,

which Grant will elaborate on.

During the year we assessed a number of larger acquisitions but the combination of:

- the buoyant market in the health and technology sectors;
- a falling Australian Dollar; and
- low interest rates,



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meant prices and competition for the assets increased and we were unable to find a suitable larger acquisition offering value for our shareholders.

With a commitment to maintain financial discipline around mergers and acquisitions we felt it would be more prudent to refocus the management team on:

- improving the profitability of our continuing businesses in the immediate term; and
- later next year - pursuing local smaller acquisitions that meet our financial and strategic criteria with less risk and the ability to utilize our tax losses.

I would like to acknowledge some of the great wins the team achieved during the year including:

- completion of the restructure and divestment of our legacy assets;
- completion of the purchase of Audio Products Group and Hospital Telecommunications (HosTel);
- winning substantial contracts including Ericsson and Foxtel;
- receiving the award for “Distributor of the Year” from a number of our suppliers;
- reducing much of the duplication in the different businesses and moving them to a common shared services platform;
- reducing costs by \$12 million with more to come; and
- entering into a strategic partnership with Woolworths whereby Hills maintains ownership in its home hardware products and licences Woolworths to manufacture and distribute them – thereby improving our profitability in the long term.

We are undivided in our optimism for Hills with opportunities for us to participate in the widespread construction and infrastructure development planned over the coming years, particularly in the eastern states and with the development of new technological products and services.

Grant Logan our CEO will now talk in some detail on the performance of our businesses and update you on our progress in implementing our strategy.

[CEO Address]

Thank you Grant and welcome to your first AGM as the CEO.

REMUNERATION

Before we move to the formal part of today's meeting – I would like to address a couple of issues around our Remuneration strategy.

It is important and proper that we continue to focus on containing costs, in particular in relation to remuneration.

Directors Fees and Executive Salaries

In recognition of the Company's reduced size and the difficult trading environment, your Non-Executive Directors voluntarily reduced their fees by 20% per annum in May this year and except where there has been a material change in responsibilities, Executive base salaries have been frozen for the current financial year.

Financial Year 15 (FY15) Payments

Consistent with group level performance for the period and the strong alignment between employee incentives and shareholder returns, none of the senior executives, including the outgoing CEO, received an annual bonus in respect of financial performance measures. Some received a short term incentive (STI) for non-financial metrics however this only represented 4% of the STI pool.

No long term incentives (LTI) vested during the year in review either.

New CEO Package

The total remuneration package for our new CEO, Mr Logan, is less than his predecessor.

Remuneration Strategy in Financial Year 16 (FY16)

In the current financial year, Hills has implemented some changes to our near term remuneration framework to support our current transformational journey, which is focused on returning the Company to sustainable profitability.

Our short term incentives are focused on performance around the strategic objectives Grant outlined earlier:

- profit - with rewards for our sales team linked to margin;
- capital;
- customers;
- suppliers; and

- people,

details of which are set out in our Annual Report.

The LTI program has been deferred for the current financial year and a new incentive program will be introduced for Financial Year 17. The rationale for deferring the LTI program is predicated on an emphasis towards achieving short term milestones as we continue to transform and setting reasonable performance hurdles at this time.

CLOSING REMARKS

The Board and Management team clearly understand that further improvement in profit is required and the importance of returning to paying a dividend as soon as it is prudent to do so. Our focus in terms of business strategy and shareholder value is always on the long term, combined with a strong balance sheet. As we complete the transformation process it is unlikely that we will be in a position to pay a dividend in the current financial year. However, we believe that the initiatives we are rolling out progressively over the next 12 months will enable us to do so in subsequent years.

As you are aware, I am a substantial shareholder in Hills and together with my fellow directors and Management we have substantial incentives both personal and financial to see the transformation through and we need your continued support and patience to deliver.

Your Management team is firmly focused on ensuring that the work undertaken in the first quarter of this year continues and we anticipate that Hills Technologies businesses will start to benefit in the second half of Financial Year 16 with further improvements in all of our businesses including Health, in Financial Years 17 and 18.

In closing, I want to thank my Board colleagues for their valuable contribution and our executive team for their commitment throughout the year.

Finally, I want to personally thank my fellow shareholders who have expressed their support. These messages mean a lot. To our loyal shareholders, I appreciate your patience and support during a difficult year and I can assure you of our dedication to improve the performance of your Company.

I invite you to join us in cutting a cake to mark the first 70 years of Hills and to acknowledge and remember the significant contribution of Bob Hill-Ling who provided guidance, leadership and values that have shaped the iconic company that Hills is today. But, as Bob would say, the success of the Company is the



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sum of everyone's contribution and this is a value that will live on as the Company continues its journey.

Good afternoon

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