

Chairman's Address

Good afternoon, Ladies and Gentlemen.

My name is Jennifer Hill-Ling and as Chairman of your Company it is a pleasure to welcome you to Hills 62nd Annual General Meeting.

I would like to acknowledge the traditional custodians of this land, the Kaurna people of the Adelaide Plains, and pay my respects to their Elders, past and present.

To begin formalities today, we have a quorum and I declare the meeting open.

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

The Minutes of last year's AGM held on 23 November 2018 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 37.2% of the Company's shares are represented by proxies.

I am pleased to introduce my fellow Directors:

- *Philip Bullock AO;*
- *Fiona Bennett;*
- *Ken Dwyer; and*
- *our Managing Director and Chief Executive Officer (CEO), David Lenz.*

I would also like to introduce:

- *our Chief Financial Officer (CFO), Chris Jacka; and*
- *our General Counsel and Company Secretary, David Fox.*

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

OVERVIEW

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

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Before I hand over to David Lenz to discuss:

- *the performance of each of our businesses;*
- *the strategic initiatives underway for the current year and beyond; and*
- *the outlook for the current financial year,*

I will provide an overview of our:

- *financial performance during the year in review;*
- *our progress in implementing the recommendations from the Operational and Strategic reviews announced during the year; and*
- *finally, our Corporate Governance and the ongoing process of Board renewal.*

We will then move to the formal items of business set out in the Notice of Meeting.

FY19 FINANCIAL PERFORMANCE

2019 has been an important year for Hills – one in which we have focused relentlessly on unlocking and delivering value for all shareholders.

Our strategy to become a simpler, streamlined Company, focussed on the delivery of Health Solutions, and the distribution of integrated Security Solutions and Services. We are well advanced having divested a number of smaller non-core businesses and we are committed to returning our Distribution business to profitability this year which David Lenz and I will elaborate on shortly.

Let me now turn to Hills financial performance during the year in review (FY2019):

In June 2019, your Board and Management determined to report Hills results into operating segments, which highlighted the strong growth in our Health business and its significance on our overall results.

Hills Health Solutions grew in both revenue and profitability in FY2019 recording a 61 per cent increase in earnings before interest and tax (EBIT) year on year.

However our Distribution business did not perform to plan despite a strong performance from our IT and Technology Services categories.

We announced:

- *Group Revenues of \$267.4 million down 1.6 percent on the prior year, principally as a result of:*
 - *a decline in Foxtel revenues; and*
 - *a lower than expected performance in the small to medium business sector*

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in our Distribution business;

- *An improved underlying Group net profit after tax of \$0.5 million compared with the prior year of \$0.1 million before one-off items; and*
- *A Group statutory loss of \$8.8 million as a result of one-off provisions and costs comprising:*
 - *\$7.7 million (before tax) related to the Distribution business restructuring; and*
 - *a non-cash pre-tax impairment of \$6.5 million of intangibles and non-current assets relating to the Distribution business and the actions required as a result of the Operational and Strategic Reviews.*

While this statutory loss was a disappointing outcome, we are confident that the implementation of the recommendations from the Operational and Strategic Reviews will position us to deliver an increase in profitability in the current year which David will discuss shortly.

We have continued to reduce operating costs by \$3.5 million in FY19 following a reduction of \$21.2 million in FY18 to align with the smaller underlying businesses.

The operating cash out flow of \$4.4 million for the year largely due to:

- *Reduced revenues; and*
- *A reduction in trade and other payables.*

OPERATIONAL AND STRATEGIC REVIEWS UNDERTAKEN IN FY19

Moving now to review our progress in implementing the recommendations from the Operational and Strategic Reviews announced earlier this calendar year, which are delivering benefits in the current financial year.

In 2013 Hills embarked on a transformational strategy to exit the hardware products and capital intensive low margin steel manufacturing assets and reinvest those proceeds in businesses in the Health and Technology sectors with real growth potential and in repaying debt and paying dividends to shareholders.

Since 2016, we have been firmly focused on establishing Hills as a leading provider of Health Solutions and Services whilst continuing to enhance our Distribution business. This strategy has paid off in respect to Health, with Hills Health Solutions the clear market leader in providing nurse call and patient engagement solutions and WIFI networks In Australian Hospitals.

During FY2018, the Company saw a significant profit turnaround of \$8.3 million, and a return to a small trading profit. However, in the first half of FY2019 the results from our Distribution business were disappointing

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As a result your Board and Management engaged a group of independent consultants in January this year, with deep knowledge and experience within distribution markets in Australia and New Zealand, to identify initiatives to return Hills Distribution business to profitability.

In April this year we also undertook a major Strategic Review of Hills underlying businesses with the assistance of advisory firm, AquAsia. This process included a review of each businesses' performance, growth prospects and an over-arching need to ensure their value is properly reflected in the Hills share price.

While the Strategic Review is ongoing, we have actioned many of the recommendations, including the decisions to:

- *exit the non-core Antenna and STEP satellite services businesses; and*
- *discontinue the contract to supply satellite dishes to Foxtel following declining orders; and*
- *sell the smaller Audio Visual business to Amber Technology Limited; and*
- *implement savings in our Distribution business of \$4 million in the year in review and a further \$3-5 million in the current year.*

These actions will allow us to focus on our Distribution business centred around our strong position in the Security and Services sectors and our growing Health business.

Naturally implementation of the various recommendations from both the Strategic and Operational Reviews takes time. While we recognise some people may wish us to move more quickly we believe we have built momentum but acknowledge we still have more to do.

The initial response from investors has been positive.

CAPITAL MANAGEMENT

As we complete the sales outlined today we expect to release approximately \$10 million in working capital this financial year to reduce debt, and fund development in our continuing businesses.

DIVIDENDS AND SHARE PRICE

With the anticipated on going growth in our Health business and the return of our Distribution business to profitability in the current year, your Board is determined to position Hills to resume paying dividends, subject to the capital and growth requirements of the Company.

CORPORATE GOVERNANCE

Corporate Governance has received an enormous amount of attention at a political and social level this year. The Hills Board is proud of our track record in upholding the highest standards of Corporate Governance and we will continue to do so.

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We continue to upskill our people and are fostering a positive culture consistent with our values around:

- *Customer service;*
- *Integrity Accountability and safety of our people;*
- *Innovation and excellence in all we do; and*
- *Celebrate at work and in the community.*

We are committed to operating sustainably and responsibly, and we continue to work with key stakeholders and communities to develop these. Both the Company and our staff support the “Make a Wish Foundation” and various environmental initiatives such as the Australian Packaging Covenant.

Shortly Philip Bullock the Chair of our Remuneration Committee will outline the actions taken in this regard for both the year in review and the current year.

We spend a huge amount of time trying to get the balance right between protecting shareholders interests and not over paying executives while at the same time motivating, incentivising and retaining the best management talent that we can.

BOARD OF DIRECTORS

As a Board we are focused on ensuring we have the appropriate mix of skills and experience in our composition which are in line with the business needs and strategic direction of the Company. We believe that we have the correct mix of skills and experience for today. However, as we concentrate more on our Health and Services businesses, shareholders should expect to see a different mix and experience on the Board in the future.

In light of the financial results and to bring Non-Executive Director (NED) fees in line with similar sized companies, effective 1 July 2019, total NED compensation was reduced by 41% per annum.

I will now hand over to our Managing Director and CEO, David Lenz to update you on:

- *the performance and strategic initiatives for each of our businesses; and*
- *the outlook,*

for the current financial year.

[CEO PRESENTATION]

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CLOSING REMARKS

On behalf of the Board, I welcome our new shareholders who have joined us over the last 12 months and sincerely thank all loyal shareholders, for your ongoing support of the Company.

We look forward to you continuing the journey with us as we enter an exciting new period in Hills long history – with a simplified and focused business structure that will allow us to maximise the value of the Company as the results of our Strategic and Operational reviews restore sustainable profitability.

The Board understands that our success as an organisation depends on the capabilities and commitment of our people particularly during times of change. I would like to sincerely thank them for their efforts and energy in supporting our customers and vendors as well as executing the recommendations of the Operational and Strategic Reviews of the Company.

Finally I would like to thank David Lenz, and my fellow Board members for their continued guidance, commitment and hard work.

Thank you for attending this year's AGM, please stay and join us for some afternoon tea.

[END]

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