



## **ASX announcement Media Release**

**6 November 2020**

### ***CEO and Managing Director Address***

*Thank you for the introduction Jenny and good afternoon ladies and gentlemen.*

*As outlined by Jenny, the year in review has been a story of two halves and with everything that has gone on in FY20 we sometimes need to remind ourselves of our journey over the past 12 months before we look at the interesting road ahead.*

*At our AGM last year, we advised our shareholders that Hills, moving forward, would be a more streamlined company focussed on:*

- *Hills Health – the leading provider of nurse call solutions, patient engagement systems and wi-fi networks in Australian and New Zealand hospitals and aged care facilities;*
- *Hills Distribution – a leading provider of integrated security, IT and technical services across Australia and New Zealand.*

*In order to achieve this goal, we divested the Audio Visual, Antenna and STEP businesses, reducing our exposure to non-performing assets and reducing the overall complexity of the business in H1 of FY20.*

*In H1 FY20 we delivered a significantly improved NPAT, up from \$0.242 million in H1 FY19 to \$2.636 million. Our Distribution business returned to profit ahead of our FY20 expectations, and our Hills Health Solutions division continued to deliver strong profit contributions. In addition, the management team delivered cost savings and cash flow improvements.*

*Overall, the company was in a much better position to tackle what was soon to become the most challenging period of our working lives.*



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*COVID-19 resulted in an extremely difficult trading environment from March 2020 and NPAT in H2 FY20 was a loss of \$8.8 million, which included a statutory loss of \$6.8 million relating to non-operating expenses, largely comprised of one-offs. The underlying loss of \$2.0 million reflected a dramatic decline in revenue and margin compression arising from the impact of COVID-19 on the trading environment during H2 FY20. The loss was despite your management, staff and Board taking pay cuts, company-wide cost reductions on discretionary expenditure and the assistance of the Government's JobKeeper subsidy.*

*Despite being an essential service, our Health business during this period was impacted by site closures, project deferrals, the shutdown of elective surgery along with site access restrictions that all contributed to a significantly weaker Q4 performance from our Nurse Call and Patient Engagement businesses. A good example of the impact during this period is the 40% reduction in Patient Engagement Solutions revenue in April directly attributed to the deferral of elective surgery. We did undertake some specific work for COVID-19 related activities and sought to pivot some of our existing PES contracts from a user pays model to a fixed rental model.*

*In Distribution, our Australian business experienced a significant number of project cancellations and delays. Our underlying run rate business servicing our small to medium business (SMB) customers remained relatively stable post lockdown but was insufficient to cover the resulting shortfall in margins.*

*In New Zealand, our business went into stage 3 lockdown on the 28<sup>th</sup> of April and in May, even operating as an essential service, we saw a 90% reduction in sales over the prior year.*

*The COVID-19 impacts also overshadowed the achievement of cost savings in FY20. The Continuing Distribution Operations delivered savings at the top end*



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*of our \$3 million-\$5 million target range and reduced capital employed (as at June 30) to \$22.6 million, more than half of the prior year levels. This reflected:*

- *tight inventory management delivering a further \$8.0 million inventory reduction in the Continuing Distribution Operations; and*
- *and the divestment of the AV, Antenna and STEP business units.*

### **Actions Taken**

*With the advent of COVID-19, whilst there was no play book, we focussed on a number of key areas in order for the company to come out the other side of the pandemic in the best competitive shape possible.*

*Firstly, we continued the work to improve the balance sheet and this resulted in achieving a \$20.2 million reduction in Net Debt to \$8.2 million.*

*Secondly, we continued to manage our cost base and cashflow through the period – leveraging Government, landlords and staff support. The review of our cost base, including inventory levels and capital expenditure requirements, has helped your company to preserve cash and protect the balance sheet. In inventory we streamlined our product portfolio across both Distribution and Health, resulting in an additional one-off provision for the IP7000 stock holding to reflect the success of the new IP7500 Nurse Call platform and a further provision of \$1.1 million for changes to the Distribution product portfolio.*

*Thirdly, in June we re-organised the Distribution business to prepare ourselves for the post-COVID trading environment placing a greater focus on State-based profitability and ownership. This restructure, at a cost of \$1.2 million, resulted in 39 people leaving our organisation and is expected to deliver annualised savings of \$3.9 million.*

*Finally, but perhaps most importantly, a major focus for the business was the health, welfare and safety of our staff, customers and suppliers. This remains*



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*an ongoing KPI for the board and management as we adjust to the new challenges and working environment that COVID-19 has presented.*

### **Foreign Exchange Transactions**

*Whilst the actions taken have improved our overall balance sheet, it was very disappointing for the company and me personally that during this period a sizable number of foreign exchange hedges were taken out, which were outside of policy and practice, resulting in a material impact on our full-year profit.*

*As outlined by Jenny, we have undertaken mitigating strategies to cap the company's exposure in FY21 but further to this action the Board and management have implemented enhanced reporting processes and reviewed our governance structures to ensure they are robust, understood and are respected at all times by employees.*

*The impact on the business is specifically linked to the Distribution business, which will continue to be impacted until March 2021.*

*I would now like to talk about the FY20 highlights from each of our main business units.*

### **Health**

*Our Health business had a game-changing year in FY20, delivering a number of highlights.*

*We have continued to win new Nurse Call business, delivering 6,400 net new beds in FY20, with major contracts at Westmead, Casey Hospital Tower, Western Health, The Alfred and Royal Hobart and the recently announced New Nepean Hospital project.*

*It was also pleasing to see our Nurse Call revenue in SA and WA, delivered through partners, double in FY20 to over \$1.5 million. The new IP Series*



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*wireless platform, developed by our R&D team in Melbourne, has shown encouraging early signs, but sales activities have been hampered, not surprisingly, by COVID-19 limiting access to the aged care market.*

*The Patient Engagement Solutions business added 1,060 net new beds and renewed 3,000 beds across 15 hospitals in FY20.*

*We also had continued success with our guest wi-fi system, which is now deployed in 13 NSW Health districts across 64 sites, delivering services to more than 6,400 beds.*

*We successfully implemented the first GetWellNetwork patient engagement platforms at Calvary Hospital in Adelaide and Royal Hobart Hospital, delivering 800 new beds.*

*During this period, we continued with the Health business strategic review through the engagement of Paxton Partners. This is a key step in being able to further articulate the medium-term direction and growth potential of our Health business. We expect to announce new business initiatives arising from this review throughout FY21.*

### ***Distribution***

*The Distribution business has benefited from the hard work undertaken to streamline this business, reduce operating expenses and manage working capital. This work delivered a solid start to the year, which saw the business return to profitability and despite the adverse impact from COVID-19 in the second half, the business delivered an improved earnings performance for FY20 before one-off costs as outlined previously.*

*Our Hills Technical Services business (HTS) continued to trade solidly on the back of the work being undertaken with Ericsson linked to the NBN rollout and support.*



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### ***Current Trading Environment***

*Despite trading conditions remaining tough in Q1 FY21, we remain committed to increasing our investment in Health and continuing to focus on margin improvements from our streamlined Distribution business.*

*Our Health business has emerged from the pandemic with a strong three year pipeline of opportunities, which has doubled half on half from \$88 million to \$175 million, with significant growth in GetWellNetwork opportunities, which is exciting, along with a 20% pipeline growth for our existing Nurse Call and PES businesses.*

*The business priorities for the Health business in FY21 continue to be:*

- *Increasing overall market share;*
- *Leveraging replacement cycle in hospitals;*
- *Maximising contract renewals;*
- *Driving GetWellNetwork market penetration;*
- *Continuing to focus on increasing the base of recurring revenues;*
- *Increasing market share in aged care; and*
- *Continuing investment in R&D product development.*

*While COVID-19 delayed Health projects in Q1 of this financial year and increased uncertainty, the underlying structural support for the Health sector is unchanged and Hills Health's market-leading businesses remain well positioned for medium to long-term sustainable profit growth. We expect the Health business to return to pre-COVID-19 trading levels in Q2, subject to any further disruptions from the pandemic.*



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*Our Distribution business has experienced continued tough trading conditions into Q1 and these are expected to remain for at least the first half of FY21. The Victorian shutdown has resulted in many projects, linked to the construction industry, being delayed and these are not expected to materialise until Q3 and Q4 FY21. This is despite our local team performing an amazing job in tough personal and working conditions – exemplified through our run rate business, servicing our small to medium business customers, continuing to trade at pre-lockdown levels in Victoria.*

*In NSW, trading in Q1 has been strong and the business has a solid pipeline out to the end of Q3. Our other markets, such as WA, QLD and SA, have seen some improvement with run rate remaining solid but are generally impacted by fewer projects.*

*The IT business has also been impacted in Q1 by the Victorian lockdown, especially the education and hospitality sectors, along with foreign exchange fluctuations impacting margin quality. The student accommodation business was also hit nationally, with project delays as universities dealt with border restrictions.*

*The Hills Technical Services business has had a solid Q1 in line with prior year and we expect this will continue for the remainder of H1 on the back of current contracts.*

*The economic outlook for New Zealand, however, remains challenging and the road out of COVID will take time to materialise as the economy reboots. We are not expecting to see the New Zealand business start to recover until H2 of FY21.*

*We believe the Distribution business is in much better shape to navigate the challenging times ahead and our FY21 priorities remain to:*

- *Renew focus on state-based profitability metrics in Australia;*



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- *Drive further improvements in our customer experience within the branch network to drive increased SMB sales;*
- *Continue growth of our exclusive distribution relationships with Carrier & IDIS;*
- *Drive new business growth within Hills Technical Services;*
- *Further capitalise on growth in ecommerce sales;*
- *Maintain continued focus on inventory management to drive working capital improvements; and*
- *Continue to rationalise the vendor portfolio in support of margins.*

### **Outlook**

*In summary, the current difficult trading environment, with its many unknowns, makes it difficult to forecast the future and we do expect H1 to be challenging. It remains our clear objective to deliver a full-year net profit in FY21, including the foreign exchange impact.*

### **Closing**

*In closing, I share in the disappointment of our full-year FY20 results after such a promising start to the year, but the challenge of COVID-19 was unseen and unprecedented.*

*This has been without doubt the most difficult period in my working life and without the support of our hard-working and dedicated staff at Hills we would not have been able to navigate our way through this period.*

*I would also like to thank my fellow Board members who have also provided continued support during this very difficult period.*



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*Having said that, we remain committed to emerging as a strong competitive force in the markets we serve and have already made tough decisions that place us in a better position to navigate through the current challenging environment.*

*I remain confident that we have made the right decisions to ensure the longer-term success of Hills.*

*Thank you*

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](http://www.hills.com.au)

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