

We are Hills.
Trusted technology.

First half FY15 results

HILLS.TM

Half year results summary

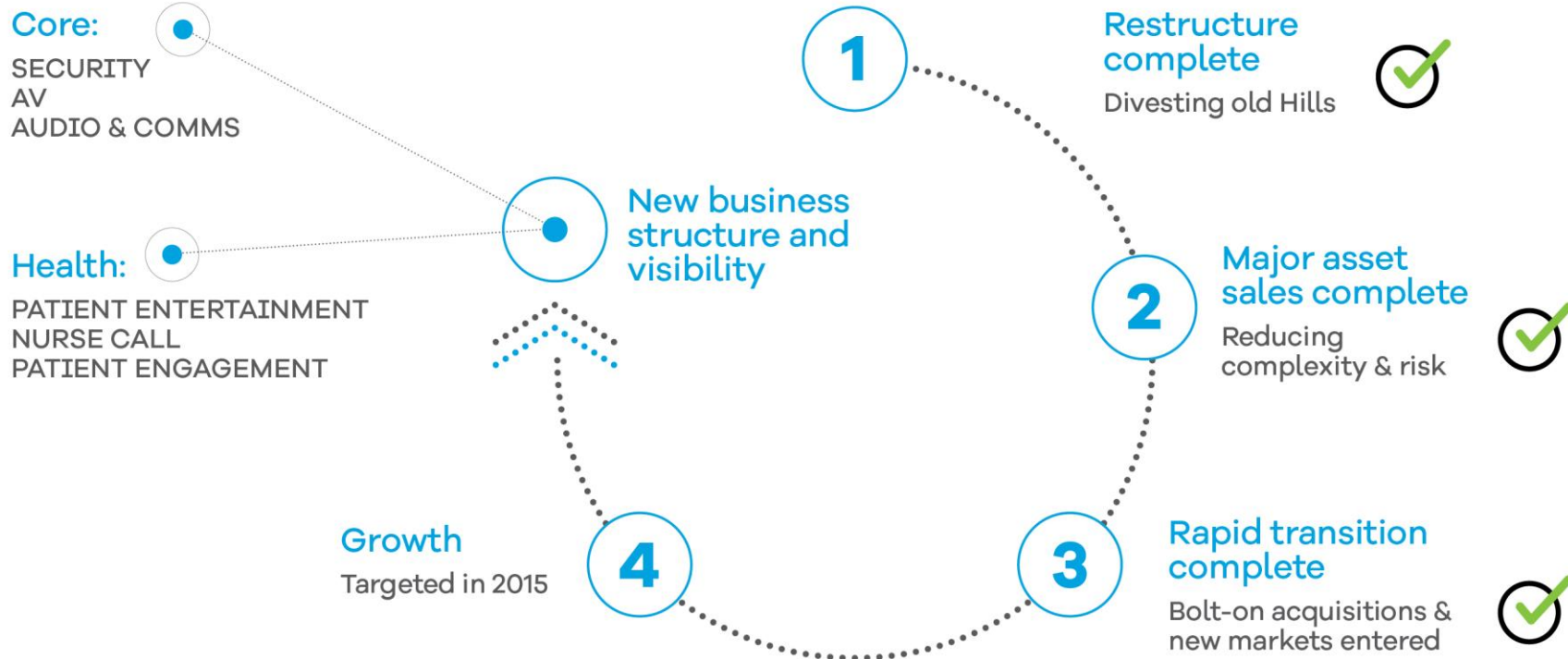


- **Net Profit After Tax attributable to owners of \$9.0M**
- **Underlying¹ Net Profit After Tax attributable to owners of \$9.5M**
- **Prior period figures (Jul-Dec 2013) included six months of Steel**
- **Revenue of \$229.5M for the half, up 11.1% on a comparable² basis**
- **Net cash on hand of \$1.7M at 31 December 2014 i.e. no net debt**
- **New \$110M three year core banking facility signed**
- **2.1 cents per share dividend declared (fully franked)**
- **New business structure enhances visibility of key components of the business**

1 - Underlying Net Profit After Tax attributable to owners is calculated as disclosed in note 10 (c) to the Interim Financial Report. This \$0.5M adjustment includes business combination transaction costs and the costs of disposing of properties in the half of \$2.2M, offset by one-off tax credits of \$1.7M. Non-IFRS measures used by the company are relevant because they are consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. The non-IFRS measures have not been subject to audit or review.

2 - The comparable basis is as per the Segment Note (note 2(b) to the Interim Financial Report).

Restructure and transformation



Visibility of the components of value



	Core	Health	Home	Corporate
Business unit activity today	<ul style="list-style-type: none"> Distribute technology and service offerings for security, AV, audio and communications across ANZ 	<ul style="list-style-type: none"> Patient engagement solutions (Patient Entertainment, Nurse Call) across ANZ 	<ul style="list-style-type: none"> Licensing Hills iconic and trusted brand through key partnerships globally (e.g. Woolworths deal) 	<ul style="list-style-type: none"> Back-office, support, corporate and enabling functions
Strategic direction	<ul style="list-style-type: none"> Leverage a lean 'One Hills' operating model Grow service revenue Grow scale profitably 	<ul style="list-style-type: none"> Add software solutions that enhance Hills offering Expand globally 	<ul style="list-style-type: none"> Drive the Woolworths deal via the joint brand committee Find new licensing deals 	<ul style="list-style-type: none"> Meet Transitional Service Agreement obligations Reduce operating costs as the business changes
Indicative EBITDA multiples¹	<ul style="list-style-type: none"> Around 9 – 11x 	<ul style="list-style-type: none"> Around 18 – 20x 	<ul style="list-style-type: none"> Around 10 – 12x 	

1 – Estimated indicative ranges based on a number of comparable businesses, recent transactions and Hills own internal expectations. These ranges are dependent on a number of factors that can change materially over time. The ranges detailed above should be considered indicative only and should not be relied upon. Hills encourages investors to form their own view as to appropriate EBITDA multiples for the purposes of valuation expectations.

Key numbers from the Appendix 4D

(A\$M)	1HFY15	1HFY14	
Revenue from the continuing Hills Technology Segment (note 2(b))	229.5	206.5	Continuing business revenue and EBITDA is broken down into key components of the business in the following slides to enhance visibility
Revenue of businesses closed or sold	-	20.4	
Sub-total (face of income statement in accounts)	229.5	226.9	
Revenue of discontinued operations	-	220.7	
Total revenue and other income (note 2(b) of accounts)	229.5	447.7	
EBITDA from continuing businesses	20.4	22.1	Prior period totals included a full 6 months of Steel as well as other businesses closed or sold
EBITDA of businesses closed or sold	-	2.3	
EBITDA of discontinued operations	-	3.8	
Total EBITDA (note 2(b) of accounts)	20.4	28.2	
NPAT attributable to owners	9.0	14.1	
Items not considered part of underlying profit (note 10(c) of accounts)	0.5	2.1	
Underlying¹ NPAT attributable to owners (note 10(c) of accounts)	9.5	16.2	

1 - Underlying Net Profit After Tax attributable to owners for the current period is calculated as detailed on slide 2. In the prior period, the adjustments related to business combination transaction costs of \$2.1M.

Hills businesses in more detail

Revenue (A\$M)	1HFY15	1HFY14	Change	Change %
Core	174.5	165.0	9.5	5.8%
Health	17.6	6.1	11.5	188.5%
Home	37.4	35.4	2.0	5.6%
Corporate	-	-	-	-
Total revenue¹	229.5	206.5	23.0	11.1%

EBITDA (A\$M)	1HFY15	1HFY14	Change	Change %
Core	14.9	14.4	0.5	3.5%
Health	3.5	1.2	2.3	192%
Home	6.0	6.5	(0.5)	(7.7%)
Corporate	(4.0)	(0.0)	(4.0)	NA
Total EBITDA¹	20.4	22.1	(1.7)	(7.7%)

Core

- Pressure from aggressive competition and impact on margins of lower exchange rate
- New Tyco and Pyng exclusive distributorships at the same time as deal with Crestron ends
- Hills Connection Solutions renews four year contract for the installation of NBN fixed wireless

Health

- Continued its steady performance with a pleasing first half result
- Acquisition of Hostel further strengthens our patient engagement footprint
- Exploring opportunities to expand reach via new services platforms

Home

- New seven year licensing agreement with Woolworths Limited (extendable to 19 years)
- Converts original manufacturing and distribution business into a brand licensing annuity
- Expect a neutral result after set-up and transition costs in H2 but \$2M p.a. in net margin from FY16.

Corporate

- Overhead had been allocated to businesses sold in prior periods
- A level of capability has had to be retained for growth as Hills expands into Health
- Overhead is also higher in the short term as we transition through service agreements with buyers of the legacy businesses

1 – Core, Health, Home and Corporate are operating business units that are consolidated into the continuing Hills Technology reportable segment disclosed in the Segment Note (note 2(b) to the Interim Financial Report). These business units' Revenue and EBITDA figures are non-IFRS measures used to enhance visibility of the constituent parts of the group. Non-IFRS measures have not been subject to audit or review.

2 – Acquisitions in the Core added revenue and EBITDA in the half that offset margin reductions in this business unit.

Margin and operating expenses

Margins and cost of sales and service

(A\$M)

1HFY15 1HFY14

Cost of goods sold and services provided (note 4 of the accounts)	144.5	142.0
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- Total gross margin% on sales and services in 1HFY15 of 35.9% (1HFY14: 36.9%)
- Margin pressure arising from fall in AUD and aggressive competition

Normal operating expenses

(A\$M)

1HFY15 1HFY14

Sales and marketing expenses	33.1	35.7
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Distribution expenses	12.4	9.4
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Administration expenses ¹	20.9	18.3
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Total	66.4	63.4
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- Decrease of \$2.6M resulting from 'One Hills' cost reductions in the salesforce

- Increase of \$3.0M coming from acquisitions (\$1.2M), volumes (\$1.1M) and 3PL (\$0.7M)
- Focus on reductions through distribution efficiencies in 2HFY15 and FY16

- Admin functions for operations and Corporate:
- Higher amortization from acquisitions (\$2.2M)
 - Incremental costs due to acquisitions (\$0.3M)
 - Focused on reducing overhead but a level of capability will be needed to support growth

Unrecovered admin and other expenses

(A\$M)

1HFY15 1HFY14

Administration expenses unrecovered ¹ (refer prior slide)	4.0	-
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Other expenses (non-underlying)	2.6	2.2
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- Other expenses includes:
- Acq. transaction costs (1HFY15 & 1HFY14)
 - Transaction costs on property sales (1HFY15)
- These items are removed for the purposes of calculating the underlying results per note 10 (c)

1 – Administration expenses unrecovered is a subset of the total administration costs detailed in the note 4 to the Interim Financial Report. This reconciles back to the IFRS number in total i.e. \$20.9M + \$4.0M = \$24.9M as disclosed in note 4. This particular non-IFRS measure is useful as it allows management to consider the normal administrative overhead expense separate from the component carried for growth in the short term.

Balance sheet

(all in A\$M)	31 Dec 2014	30 Jun 2014
Receivables and other assets	93.7	104.4
Inventory	61.9	59.4
Assets held for sale	-	7.8
Current assets (excluding cash)	155.6	171.6
Non-current assets (analysed in later slide)	184.3	186.8
Total assets (excluding cash)	339.9	358.4
Payables and provisions	100.9	121.7
Net debt / (net cash)	(1.7)	(8.5)
Total equity	240.7	245.2
Net debt/(net debt + equity)	NA as net cash	NA as net cash

\$7.8M asset held for sale was a property under contract at the time

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

Change in total equity consists of:

- Share buyback (\$3.1M)
- Dividends paid (\$8.4M)
- Other reserves (\$2.2M)
- NPAT \$9.2M
- (\$4.5M)

Trading working capital

(A\$M)	31 Dec 2014	30 Jun 2014	Change Jun 14 to Dec14
Trade receivables	77.7	87.3	(9.6)
Inventory	61.9	59.4	2.5
Trade and other payables	(62.1)	(75.8)	13.7
Net trading working capital	77.5	70.9	6.6

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Increase of 9.3% is in line
with comparable revenue
increasing 11.1%

Non-current assets

As at (A\$M)	31 Dec 2014	30 Jun 2014	Change Jun 14 to Dec 14
Property, plant and equipment	32.0	47.6	(15.6)
Intangible assets	94.0	83.2	10.8
Deferred tax assets	57.3	56.0	1.3
Non-current receivables	1.0	-	1.0
Total non-current assets	184.3	186.8	(2.5)

The closing balance of Property, Plant and Equipment at 31 Dec 2014 included Land and Buildings of \$13.3M.

Hills is not expected to be in a tax paying position in the near term due to significant carry forward tax losses.

Net debt and financing

A\$M

Net cash as at 30 June 2014	8.5
Net cash as at 31 December 2014	1.7

- Hills has refinanced its banking facilities with a new 3-year \$110 million core facility
- The lenders are the NAB, CBA and Westpac with each broadly holding a third of the new core facility
- The core facility consists of a \$90 million cash revolver tranche and a \$20 million multi-option facility tranche
- The new facility is on substantially better terms and pricing than the previous one
- Based on recent discussions with its bankers, Hills also expects to be able to secure a significant acquisition tranche in due course that will facilitate one or more substantial acquisitions. This is in addition to the new core facility but would be subject to approval by the banks and due diligence on the target.

Cash flows

(A\$M)	1HFY15	1HFY14
Profit/(loss) after tax	9.2	15.1
Add back: Non-cash items (mostly depreciation, amortisation)	4.6	11.4
Profit after tax adjusted for non-cash items	13.8	26.5
(Decrease)/increase in restructure provisions	(3.2)	(10.6)
(Increase)/decrease in working capital	(6.6)	(25.8)
Net cash flow from operating activities	4.0	(9.9)
Acquisition of businesses	(16.8)	(38.3)
Acquisition of intangible assets (acquired intangibles and software)	(2.0)	(1.7)
Capex	(5.4)	(6.6)
Proceeds from the disposal of businesses and PP&E	23.3	17.9
Other investing cash-flow	1.6	0.7
Net cash flow from investing activities	0.7	(28.0)
Dividends paid	(8.4)	(8.0)
Payment for shares bought-back on-market	(3.2)	(18.1)
(Repayment) of/proceeds from borrowings	(5.2)	17.1
Other financing activities	-	(0.1)
Net cash flow from financing activities	(16.8)	(9.1)
Change in gross cash balance	(12.1)	(47.0)

Prior period totals included a full 6 months of Steel as well as other businesses closed or sold.

FY15 first half key takeaways



- The business is now more simplified: Core security, AV, Audio and comms; plus Health
- Hills will continue to grow through acquisition, especially in Health
- Focus turns to seeking greater distribution efficiency and reducing corporate admin overhead whilst retaining the capability needed to support growth

Core and growth options



Today

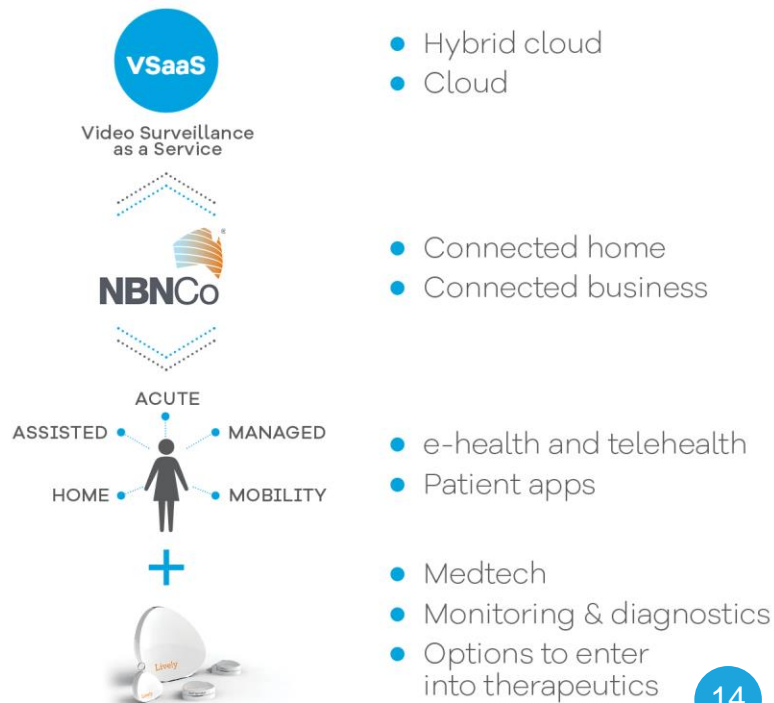
One Hills

- One business
- One operating model

Hills Health Solutions

- Build further scale
- Unify patient platforms
- Extend entry into patient apps
- Continuum of care

FY15-17



FY15 full year outlook



- The further downward pressure on the \$A and the Reserve Bank's forecast for a longer period of below trend growth imply a conservative outlook for the Australian economy and in turn for our core business.
- On this basis and subject to market conditions, we expect the second half of 2015 underlying earnings to be broadly in line with the first half, implying a full year underlying NPAT attributable to owners¹ in the range of \$18.5M to \$19.5M.

1 - Underlying Net Profit After Tax attributable to owners is calculated as disclosed in note 10 (c) to the Interim Financial Report. This is calculated by adjusting for items not considered to be part of the underlying profit of the business. In the first half, \$0.5m of adjustments were made in respect of business combination transaction costs and the costs of disposing of properties of \$2.2m; offset by one-off tax credits of \$1.7m. Non-IFRS measures used by the company are relevant because they are consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. Non-IFRS measures are not subject to audit or review.

Thank you