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8 September 2015

The Manager, Listings
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Via electronic lodgement

Dear Sir / Madam

Shareholder Letter

In accordance with ASX Listing Rule 3.17, please see attached communication that has been sent to shareholders.

Yours faithfully

A handwritten signature in black ink, appearing to read "Gai Stephens". The signature is stylized and cursive.

Gai Stephens
Company Secretary
Hills Limited

Shareholder letter

September 2015



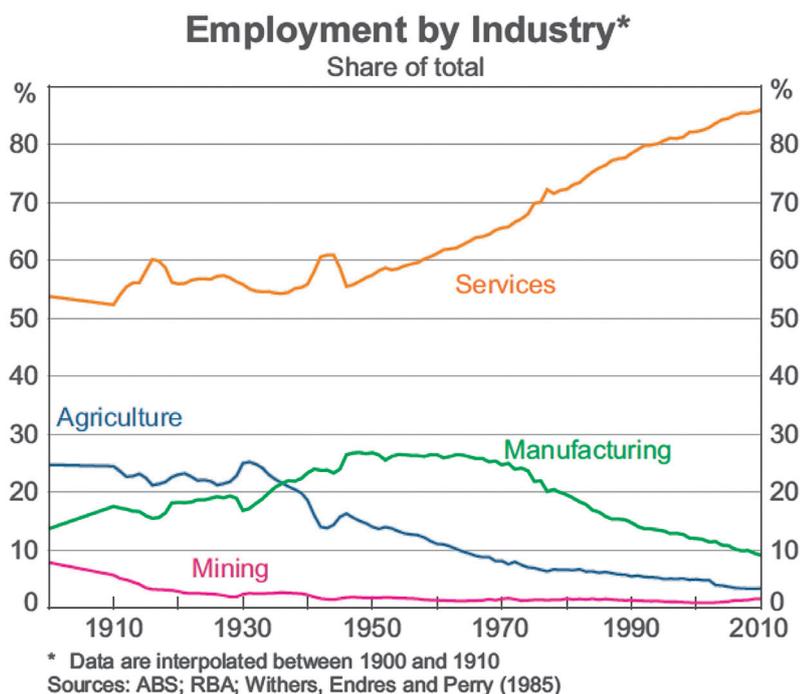
Dear Shareholder,

The First 70 Years

The 2015 financial year has been a challenging one for your Company. We have had many shareholders ask whether the strategic direction we took 3 years ago was the right one. To this we answer; absolutely!

When Hills started in business 70 years ago, Australia was in a post war boom with manufacturing growing and reaching its highest levels in the following few decades. In the 1970s, Asia started to emerge as a major producer of manufactured goods and its share of global manufacturing doubled from 1970 to 2010, and continues to grow. In Australia, our manufacturing industry could not compete with Asian manufacturers.

At the same time, the Australian government started the reduction in trade protection to "goods-providing industries". From the early 1980s, trade barriers were progressively wound back. Consequently, the decline of the manufacturing industry in Australia over the following decades continued. The loss of Australia's motor industry, particularly visible in South Australia, is the latest casualty of this change. The Hills story since 1945 is closely linked to the Australian manufacturing 'story'. The graph below is taken from the Reserve Bank of Australia's September 2010 business bulletin titled "Structural Change in the Australian Economy".



Source: RBA September 2010 Quarterly Bulletin "Structural Change in the Australian Economy" by Connolly and Lewis.

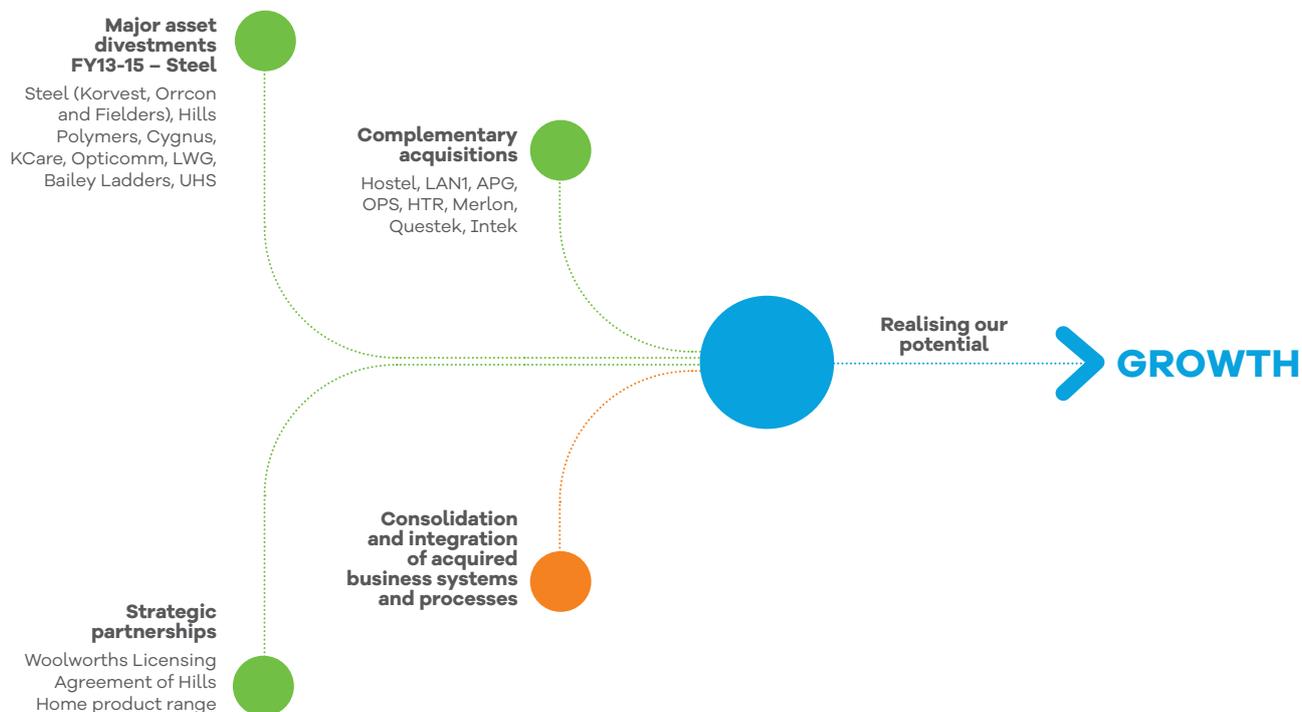
It was against this backdrop and declining profitability that your Board decided, after much deliberation, that the direction of your Company needed to change. Accordingly, the decision was made to "de-risk" the Company by:

- exiting low margin, capital intensive manufacturing operations exposed to competition from low cost products;
- using the funds from the sale of these businesses to pay down debt and to give your Company a sound balance sheet for organic growth and growth by acquisition; and
- exiting businesses and joint ventures where we had limited customers.

Your Company has transformed from a conglomerate dependent upon low margin, capital intensive steel fabrication to a higher margin value-added distributor of Security, AV and Health Services.

Our competitive advantage is our ability to add value for our customers by providing a broad range of products across both Australia and New Zealand with a bespoke service offering.

The Story So Far



In the appendix to this letter financial data shows what Hills looked like before we began the restructure and transformation in 2012, and what it looks like today. A restructure and transformation of this magnitude over a period of 3 years is some feat. The stark contrast between the data as at the end of 2012 and 2015 is self-evident and a clear indication of why Hills embarked on this path.

We have now completed the divestment and restructure programme. Your Board acknowledges, however, that the transformation and restructure programme has not been a smooth process. The rapid transformation and integration of our businesses has impacted our results and it will take us further time to return the Company to the profitability expected for a company of our size. The next phase of our journey is to stabilise, consolidate and grow.

It is in this context that the results for FY2015 need to be considered.

The Year in Review

During the 2015 financial year (FY2015) Hills:

- completed the divestment and restructure programme;
- progressed the transformation programme – the business moved to a common shared services platform referred to as 'One Hills'. This included the reduction in sites from approximately 124 to 39. This process impacted our supply chain and our relationships with our customers but we are now seeing improvement in both of these;
- progressed the integration of the businesses acquired over the last 3 years. These are solid businesses with good fundamentals in growth sectors with higher margins. However, the integration did not go as well as it could have and results were impacted;

- entered into a strategic partnership with Woolworths which we see as very important. Prior to this transaction the Home Segment was not consistently profitable and was not likely to return to an acceptable level of profitability. We now have a steady long term income stream with limited downside risk and uncapped potential;
- was impacted by the loss of a key supplier. Unfortunately, Crestron our largest supplier decided to distribute its own product in Australia – this is consistent with its global strategy. The impact of this will affect our results in FY2016, however, we have started to replace the lost revenue with profits on new contracts including Tyco which was agreed in February this year;
- was impacted by external events – reduced government spending, project deferrals across the construction, health and mining sectors and the declining Australian dollar have all impacted performance. Whilst we have taken corrective action we have been unable to recover all of the margin compression flowing from the decline in the Australian dollar during the financial year. Margin improvement is a key focus for management in FY2016;
- completed the purchase of Audio Products Group which strengthened our market leading position in our Building Technologies business in Australia and New Zealand. This business has now been fully integrated with the existing Hills AV business;
- acquired Hospital Telecommunications Pty Ltd ('Hostel') which further strengthened our market leading position in patient entertainment and provided growth in the number of facilities serviced – now 350 hospitals and 800 aged care facilities; and
- assessed a number of potential acquisitions locally and overseas – the buoyant market in the health and technology sectors meant prices for larger acquisitions moved higher during the year and the Company was unable to find suitable acquisitions within its financial capacity. Your Board is, and remains, determined to maintain financial discipline around mergers and acquisitions.

During the second half of FY2015, the Company undertook a realignment of the management team (including making some management changes) in order to focus on stabilising, consolidating and growing our business in Australia and New Zealand. As Chairman, I am pleased to advise that Mr Grant Logan – the incumbent Chief Operating Officer – was appointed CEO on 27 May 2015. The management team under Grant's leadership is well qualified, has the experience and knowledge of the Hills business and is well placed to consolidate and grow your Company.

Results

Hills underlying FY2015 result was a profit of \$11M, which was in line with guidance.

The Company recorded a statutory net loss after tax attributable to owners of \$86M for the year ended 30 June 2015. This loss reflects the Company's results post the after-tax impact of asset impairments, including the de-recognition of deferred tax assets, costs of acquisitions and other associated gains or losses on the disposal of businesses as previously advised to the market.

To explain the impairment a little further, under accounting standards, an indicator of impairment exists when the book value of the net assets of a company are higher than its market capitalisation. The drop in Hills share price over recent months has seen a discrepancy emerge between the share price and book values, and the associated impairment testing identified that an impairment was required.

This is a non-cash accounting charge as at 30 June 2015 with no impact on the future operating cash flows or economics of the business. Our Health and Building Technologies businesses remain solid, operating in growth sectors and our immediate focus is on returning these businesses to their expected growth levels.

As part of the impairment process Hills has de-recognised \$26M of deferred tax assets. These tax benefits will continue to be available to offset future taxable earnings.

We completed the year with net debt at 30 June 2015 of \$32M and total facilities in place of \$110M. Hills continues to have significant headroom against all of its banking covenants and has capacity for further acquisitions in Australia and New Zealand, in line with our strategic objectives.

Dividends

Having paid a dividend of 2.1 cents per share in the first half and in the context of a statutory loss for FY2015, there will not be a final dividend in relation to the 2015 financial year.

The Company's dividend policy remains unchanged, with a target on an annual basis of 50-75 percent of underlying profits, subject to future acquisitions and working capital requirements.

Outlook

During the year, we received "Best Distributor of the Year" awards from two of our key suppliers, Axis and Genetec. We also won a number of major contracts, as detailed in our Annual Report. However, we recognise that we can and must do better and we are accelerating efforts to stabilise, consolidate and grow our businesses. Significant energy is being directed to the following areas:

- Customer engagement;
- Vendor relationships;
- Training our people;
- Tight capital management;
- Margin improvement; and
- Growth both organically and by acquisition.

This renewed focus on operational performance will continue through FY2016 and the Board has reaffirmed its commitment to consolidating and growing both organically and by acquisition within Australia and New Zealand.

As previously advised, we have reduced the annualised corporate costs by approximately \$10M and will continue to focus on cost reduction into FY2016.

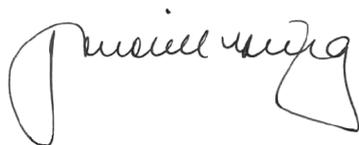
As we:

- roll out the back-to-basics programme to stabilise the business;
- work to replace the profit from the loss of the Crestron contract; and
- "right size" our cost structure in light of a significantly reduced business,

it will take further time for the businesses to return to the profit levels we expect. A full update will be given at the AGM in November.

On behalf of your Board and management, we thank you for your continued support.

Yours sincerely



Jennifer Hill-Ling
Chairman



Grant Logan
Chief Executive Officer

Appendix A

De-risking the Business



Hills could no longer sustain the significant fixed cost base in invested plant and equipment, working capital or staff numbers tied to manufacturing businesses, nor could Hills accept higher debt or leverage levels in the context of such substantial change. The following tables show the reduced investment in assets and debt levels and other operational risk items over the restructure period:

Annual fixed property costs have reduced by 66%:

FIXED PROPERTY COST PER ANNUM	FY12	FY15
Annual Rental Expense	\$27.240M	\$9.325M
Site Numbers	124	39

Staff numbers have reduced by 67%:

EMPLOYEES AT YEAR END	FY12	FY15
Employees – Australia and NZ	2,642	862

Funds tied up in working capital have reduced by 61%:

WORKING CAPITAL	FY12	FY15
Trade Receivables	\$169.539M	\$79.615M
Trade Payables	(\$51.129M)	(\$41.441M)
Inventory	\$165.287M	\$72.446M
Total Working Capital	\$283.697M	\$110.620M

Net debt and quasi-debt has reduced by 68%; Net debt and quasi-debt per share has reduced 66% from 53c to 18c per share:

NET DEBT, BANK GUARANTEES AND LETTERS OF CREDIT	FY12	FY15
Net debt, bank guarantees and letters of credits	\$129.280M	\$40.958M
Shares on offer	246.017M	231.986M
Net debt, bank guarantees and letters of credits per share	0.53	0.18

Annual capital expenditure has reduced by 62%:

CAPTIAL EXPENDITURE	FY12	FY15
Annual capital expenditure spend	\$28.9M	\$10.9M

Foreign exchange exposures have reduced by 53%:

FX EXPOSURE	FY12	FY15
Total FX Exposure in AUD	\$51.387M	\$24.045M

Workplace injuries have reduced by 87%:

WORKPLACE INJURIES	FY12	FY15
Lost time injuries	11	6
Medical treatment injuries	56	3
Total reportable injuries	67	9

Profitability

Hills is still a profitable Company after the restructure and divestment program, but most importantly, the earnings now come from the technology and health sector, where the risk-profile is substantially reduced:

Underlying NPAT is steady at 2.6% of sales both before and after the restructure:

UNDERLYING NPAT TO GROSS REVENUE	FY12	FY15
Underlying NPAT	\$28.822M	\$11.045M
Gross revenue	\$1,082.272M	\$427,822M
Underlying NPAT to gross revenue ratio calculation	2.7%	2.6%

Underlying EBITDA has improved from 6.1% of sales to 6.8% of sales after the restructure:

UNDERLYING EBITDA TO EMPLOYEES AND REVENUE	FY12	FY15
Gross revenue	\$1,082.272M	\$427,822M
Underlying EBITDA	\$65.802M	\$28.962M
Employees at 30 June	2,642	862
Underlying EBITDA to employees ratio	24.91	33.60
Underlying EBITDA to Gross Revenue	6.1%	6.8%