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media release

4 November 2016

CEO Address

It is a great privilege for me to be appointed the CEO of Hills and I look forward to the challenge of taking the business forward. The Hills team and I will work tirelessly to ensure that Hills remains the most iconic brand in the markets we service today.

As Jennifer has mentioned, there has been considerable improvement in our overall business performance in the 2016 financial year (FY16) and the management team remain focused on continuing the hard work undertaken over the past 12 months in turning around the fortunes of this Company.

As indicated at last year's AGM, the Hills recovery journey is an 18-month project. The work undertaken over the past year has gone a long way to preparing Hills for growth.

Hills is well positioned as the leading player in value added products and services covering key market segments in Security, Surveillance, Audio Visual, Communications and Health.

As with any business recovery there is still more to be done and the management team is continuing to look for further cost reductions across the business. We will continue to flatten the organisation while seeking further improvements in productivity, customer service and customer experience.

The vision we have established for the Company reflects our ability to distribute technologies that "connect, entertain and secure people's lives".

Based on this vision, Hills will continue to look for areas to invest that support the growth of our core market segments, including complementary or adjacent opportunities.

I will provide more details on this later in today's presentation.

The Building Technologies business is the largest part of our business, accounting for over 80% of our revenues.

We are a market leader in providing an extensive range of electronic products from simple domestic alarm systems to more complex integrated surveillance and access control systems, audio visual and communications solutions.

Our Vendors remain an important part of our overall business and during the year we secured the exclusive distribution rights for Ipsotek and Vivotek, both players in the security space.

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We have also secured Community Sound and Cadac to our Audio Visual portfolio.

Hills also saw a number of new vendors signed around emerging opportunities in the communications sector with the signing of Netcomm, Radwin and ConnectedIO.

Hills remains a very attractive partner for vendors seeking to establish themselves in the ANZ market – this is a significant competitive advantage for Hills.

We will continue to look to secure brands that complement our current market offerings.

As outlined by Jennifer, our Building Technology business won major contracts with system integrators and is continuing to win sizable contracts today.

We remained focused on strong vendor engagement throughout the year and this was recognised with several awards from our suppliers during FY16 including:

- Hills AV – Commercial Distributor of the Year – Connected magazine;
- Australian Monitor – Best PA System - Connected Magazine;
- Axis Distributor of the Year;
- Ruckus ANZ and APAC Distributor of the Year; and
- Genetec – Product Award winner at ASIAL.

The Australian Monitor brand is a Hills developed brand in the audio visual market and the Company has increased its investment in this brand, which celebrates its 30th Anniversary this year.

We have announced a complete refresh of our Australian Monitor portfolio and announced in August, this year, our exciting new product line which will continue to be expanded over the next 2 years.

The new product line includes a complete refresh of our ceiling speaker range and the introduction of a new amplifier range which continues Hills great tradition in market innovation.

The Building Technologies business generated \$294M in revenue in FY16 and it was pleasing to see our revenue and EBITDA increase in the second half of FY16. The full year results were down due to businesses that were discontinued in the 2015 financial year (FY15) and Crestron choosing to go direct in July 2015.

During FY16, we have seen a number of new distribution agreements start to ramp up, in particular, our Tyco relationship and the continued success of

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vendors such as Genetec, Interlogics, Axis, Pelco, Ruckus, Mypro, Williams Sound, Revolabs, L'Acoustics and many more.

Also towards the end of the year, we have seen the ramp up of Hills Connect Solutions in line with the NBN rollout under our Ericsson's contract. This is expected to continue to grow in 2017 financial year (FY17).

The "Back to Basics" program saw considerable change within the Building Technologies business as outlined by Jennifer which focused on improving our customer services levels and winning back customers.

In order to ensure that we continue to improve, we have recently launched our first customer survey in 3 years to establish a baseline against which the organisation can be measured.

We intend to implement changes following the customer survey to ensure that our organisation continues to deliver on the expectations of our vendors and customers.

The next major part of our business is Hills Health Solutions.

In FY16 the Health segment reported revenues of \$31.3M for the year and we saw a significant turnaround in EBITDA for the second half of FY16 as outlined by Jennifer.

This was achieved through a significant increase in our recurring services revenue, which is very important within this business segment, along with a number of key contract wins.

The strategic relationship with Lincor continued to drive new business opportunities for Hills in FY16 with the New Royal Adelaide Hospital being a significant win for the relationship.

As outlined by Jennifer, Hills announced that subject to shareholder approval, the Hills Health Solutions ("HHS") business will be merged with Lincor Inc. ("Lincor Solutions") to form a newly incorporated company, Lincor Limited, which will be listed on the ASX.

During the first half of FY15 the Hills Home Living segment was converted to a Heritage Brand licensing arrangement with Woolworths Limited which guaranteed \$2M per annum in revenue and EBITDA which has been reported in the FY16 results.

As outlined by Jennifer, we have announced that our licensing arrangements with Woolworths to use the Hills Home brands had been terminated following their decision to exit the Masters Hardware Business and we are currently reviewing a number of options around re-licensing the brand.

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Our strategy following the “Back to Basics” program is to continue to build the business to deliver a platform for future growth.

To do this we have identified 4 key areas we want to excel in:

1. Organisational Excellence
2. People & Culture
3. Vendors & Customers
4. Operational Excellence

Our recent employee survey is a great example of changes in our approach – we have seen a strong collaborative effort to identify key areas for improvement across the business. Getting this right will grow the business.

We are looking actively at investments that can help drive growth within our business.

This will include complementary or adjacent opportunities along with the development of key strategic initiatives including a company-wide digital strategy and investment opportunities in the Internet of Things (IoT) sector.

Two new areas Hills will be investing in which provide complementary or adjacent opportunities are Fire & DIY.

Hills is in the process of launching our Fire business which will be operational by January 1st. This is our first major push into this business sector and we will be announcing our strategic partner later this month.

The Fire business will focus on fire indicator panels and associated products which offer a great opportunity to create a new complementary category within the Hills Building Technology business.

The Fire panel business will target current and new customer markets, providing product expertise and smart, one stop solutions by linking the technology between various Hills product divisions.

The Fire business represents a strong market opportunity for Hills.

The other area of investment is the DIY sector which is one of the fastest growing market segments and Hills has been working to establish a suitable product line to launch into this market.

I am pleased to announce Hills will be launching a new DIY range of products into the Australian and New Zealand markets in Q3 under the iProtect by Hills brand covering areas such as home Wi-Fi, GPS and smart device solutions.

Both these areas provide Hills with the opportunity to move into new areas which continue to remain true to our core business and provides growth opportunities.

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The other strategic areas which Hills will be investing in over the next 2 years will be the establishment of a new company wide digital strategy that will provide an enhanced experience for our customers around self-service and B2B capabilities.

Our goal is to take a leadership position in this area.

The first phase of this project will commence later this month.

The final area that we will be looking at for strategic investment is around the emerging IoT and Machine to Machine (M2M) market which Hills believes will be part of the future of the security & surveillance industry. We will be looking for opportunities in this area.

In conclusion, I firmly believe that we are laying the foundations for future growth and success.

Although we still have challenges to overcome we are better positioned than ever before to take the next steps in growing Hills as the Iconic brand in the markets we now service today.

Usually at this time of the AGM, the Company likes to provide an update on the outlook for the first half.

This is proving challenging this year due to a number of material transactions currently underway, including the relicensing of the Hills Home business which will have a material positive impact on the financial results for the half, and the demerger of the Health Solutions business which will drive additional one-off costs in the half and a material reduction in net debt when the transaction completes.

After both of these transactions complete, Hills will look to have one reportable segment moving forward.

We are however able to provide an update on trading conditions and similar to last year we have seen softer than expected trading conditions in the first quarter, particularly in the Antenna and low end CCTV markets which have recorded lower than anticipated sales.

There has also been higher than expected costs associated with the ramp up of the NBN project.

It will be difficult to fully recover this lost revenue during the remainder of this half and we would expect the Hills Building Technology business to be down on the corresponding half. We are, however, refreshing and optimising our product mix for current market conditions and we expect a stronger second half.

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We are also focusing on our cost structures as outlined earlier with changes to be implemented in Q2 which will benefit the second half.

I look forward to keeping you informed about our progress through the coming year.

Thank you.

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