



**2019 FINANCIAL RESULT**  
**August 30, 2019**

**David Lenz, CEO & Managing Director**  
**Chris Jacka, CFO**

# Agenda

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1. Group Performance Overview
2. Financial Results
3. Outlook

Business Overview

**we are HILLS.**

# FY19 Snapshot

## Financial

- Revenue of \$267.4m, a 1.6% decrease on prior year driven by a disappointing result in Distribution and masking a strong performance in Health
- Statutory NPAT loss of \$8.8m resulting from one-off provisions and costs of \$7.7m relating to the Distribution business restructure and a non-cash impairment of \$6.5m of intangibles and non-current assets following a review of asset carrying values
- Improved underlying Net Profit after Tax\*\* of \$0.5m compared with the prior year of \$0.1m
- Strong momentum continued in FY19 for Hills Health Solutions, with revenues up 23% on prior year to \$38.1m and EBITDA up 49% to \$11.1m
- Continued progress on cost reduction with a 4% reduction in operating expenses to \$80.9m

## Operational

- Completed an Operating Review in May 2019 with Strategic Review ongoing to position Hills Distribution to return to profitability in FY20
- Exit of “non-core” Communications business
- Hills Health Solutions achieved a record result in revenues and earnings

A\$ million	FY19	FY18	Chg %
<b>Revenue</b>	<b>267.4</b>	<b>271.8</b>	<b>(1.6%)</b>
EBITDA	(4.5)	9.7	> (100%)
EBIT	(11.1)	3.2	> (100%)
<b>Net Profit / (Loss) after Tax (NPAT)</b>	<b>(8.8)</b>	<b>0.4</b>	<b>&gt; (100%)</b>
Non Operating	(14.7)	(0.1)	> 100%
<b>Underlying EBIT*</b>	<b>3.6</b>	<b>2.9</b>	<b>+24.6%</b>
<b>Underlying EBITDA*</b>	<b>10.2</b>	<b>9.4</b>	<b>+8.5%</b>
Reported EPS (cents)	(3.8)	0.2	> (100%)
Operating Cash Flow	(4.0)	12.0	> (100%)
Gearing (ND/ND+Equity)	35.2%	21.6%	13.6 pts

\* Underlying EBIT & EBITDA excludes non-operating expenses outlined on slide 18 & one-off income of \$0.418m in FY18

\*\* Underlying NPAT excludes the impact of operating expenses (after tax) & one-off income of \$0.418m in FY18

# Strategic Review

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To deliver long-term sustainable growth in profitability and dividends ensuring satisfactory return to shareholders

Key points:

- Commissioned in May 2018
  - Roadmap to profit and dividend growth with focus on businesses with growth potential - Health
  - Exit Communications businesses – Foxtel, STEP , Antenna & manufacturing facility in South Australia
  - Other strategic initiatives explored to streamline Distribution business
  - Board remuneration reduced
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- Hills has repositioned with a clear focus on the health sector, providing best-in-class patient care systems
  - With Health and Connection Solutions growing strongly, coupled with a streamlined Distribution business returning to profitability, Hills is positioned for long-term growth in profitability and dividends



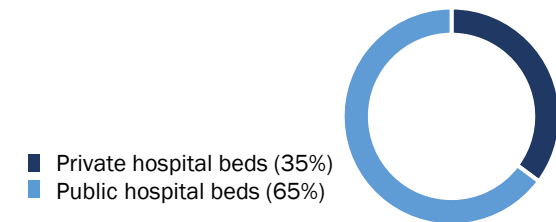
# Health – Investment Highlights

Strong structural and embedded growth, solid cash generation, high returns, increasing recurring revenues and decreasing capital intensity

## Structural growth in beds per capita driven by population growth and ageing population

- 9.8% of Australian GDP is spent on Health - \$47B public and \$11B private\*
- The rate of growth in new beds at private hospitals is 3 times that of public hospitals
  - Number of private beds are forecast to increase to 85,000 by 2045\*, a 274% increase or 4% CAGR

Australian Hospital Market (~ 94k beds)



## Market leading position in Nurse Call (NC) and Patient Engagement Systems (PES)

- Nurse Call Systems is Hills owned and manufactured (in Victoria) and is currently installed in ~43% of all public hospital beds and ~30% of private hospital beds
- Hills Patient Engagement Systems (principally TV and entertainment networks) are available in ~43% of public hospital beds and ~23% of private hospital beds in Australia
- Further penetration is expected within public and private hospitals with incumbency driving share of wallet
- Aged Care represents a growing market with Hills services (mostly NC) currently available in ~8% of the estimated 150,000-plus beds in Australia. The Aged Care Royal Commission has the potential to drive demand for higher quality solutions in what is a fragmented and highly contested market

## Technology shift to accelerate PES replacement cycle and drive penetration

- Next growth phase of patient engagement services is beyond entertainment to include additional functionality to drive financial and patient outcomes in hospitals
- GetWell is well positioned for this shift through its integrated, market leading product and investment in R&D

## Growth in recurring revenues driven by leveraging high customer retention and SAAS-based PES (GetWell)

- Focus on conversion of existing NC customer base to include ongoing service & maintenance agreements
- Continued growth in PES contract wins (user pays and fixed rental) and extensions (very high ROI) as well as capitalising on the shift towards SAAS-based PES

# Health – Operational Results

- Strong growth in revenue driven by Nurse Call project delivery
- EBIT margins expanded by 6.6 ppts driven by tighter cost control
- ROCE driven by the growth in more capital light Nurse Call business
- Operational review of Patient Engagement Systems expected to be a driver of profit improvement in FY20

## Financial Summary - Health

A\$ million	FY19	FY18	Chg %
<b>Revenue</b>	<b>38.1</b>	<b>30.9</b>	<b>+23.0%</b>
EBITDA	11.1	7.4	+49.2%
Depreciation & Amortisation	(2.1)	(1.9)	+13.4%
<b>EBIT</b>	<b>9.0</b>	<b>5.6</b>	<b>+61.1%</b>
<i>EBIT margin</i>	23.6%	18.0%	+6.6 ppt

## Return on Capital Employed - Health

A\$ million	FY19	FY18
Underlying EBIT (last 12 months)	9.0	5.6
Total Assets (average last 12 months)	25.5	20.9
Current Liabilities (average last 12 months)	7.0	6.7
<b>Capital Employed</b>	<b>18.5</b>	<b>14.2</b>
<b>Return on Capital Employed (ROCE) %</b>	<b>48.7%</b>	<b>39.3%</b>

# Health - Operational Highlights

## Nurse Call IP7500

- Successful release of the next generation IP7500 Nurse Call platform
  - Nurse Call go live at Joan Kirner Hospital in Victoria
- Continued growth in service level agreements – a four fold increase in monthly billing rate vs the prior year (off a low base)
- Key Wins:
  - Hammond Care (multiple sites), Concord Hospital, Westmead refurbishment, Blacktown stage 2 refurbishment, Alfred Health refurbishment, Western Health Sunshine & Footscray (Vic) refurbishment, Casey Hospital refurbishment and expansion, Churches of Christ – 4 refurbishment sites, Calvary St Francis and Kogarah Nurse Call upgrade



## Patient Engagement

- Signed GetWell Network to expand our offering to continue market leadership
- Completed first GetWell Sales 400+ beds at Calvary Health
- New patient entertainment contracts covering more than 2000 beds at Balmain, Canterbury, Concord, Royal Prince Alfred and Northern Beaches hospitals in NSW
- Resigned contracts - Barwon Health (2 years), Western Health Vic (5 years) & Mildura Vic (3 years)



## Guest Wi-Fi

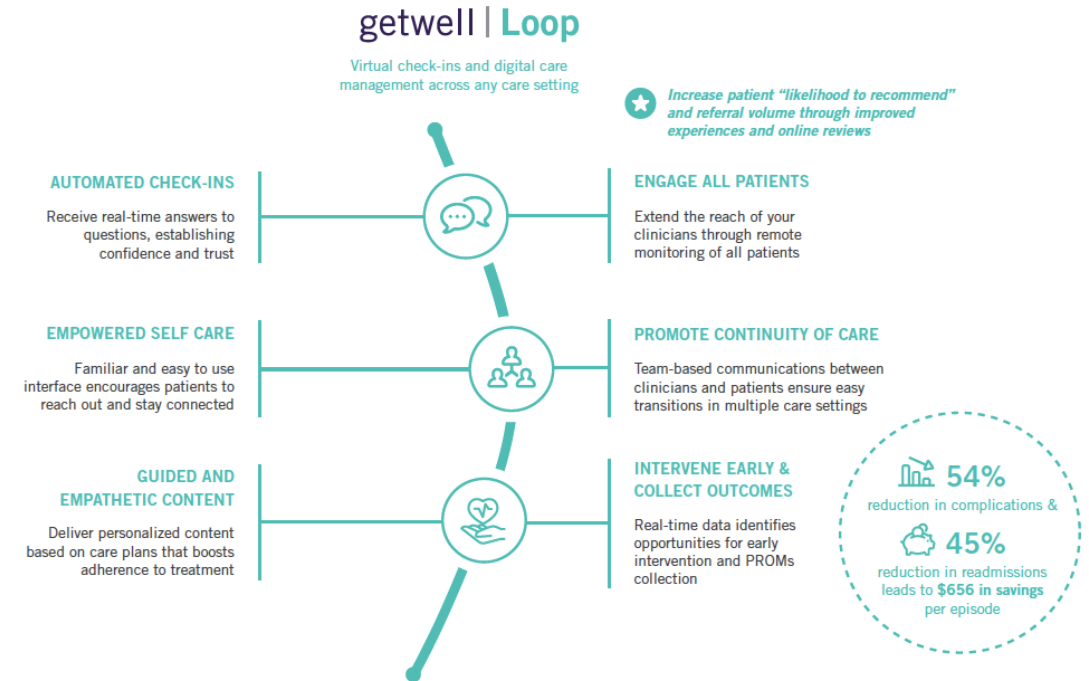
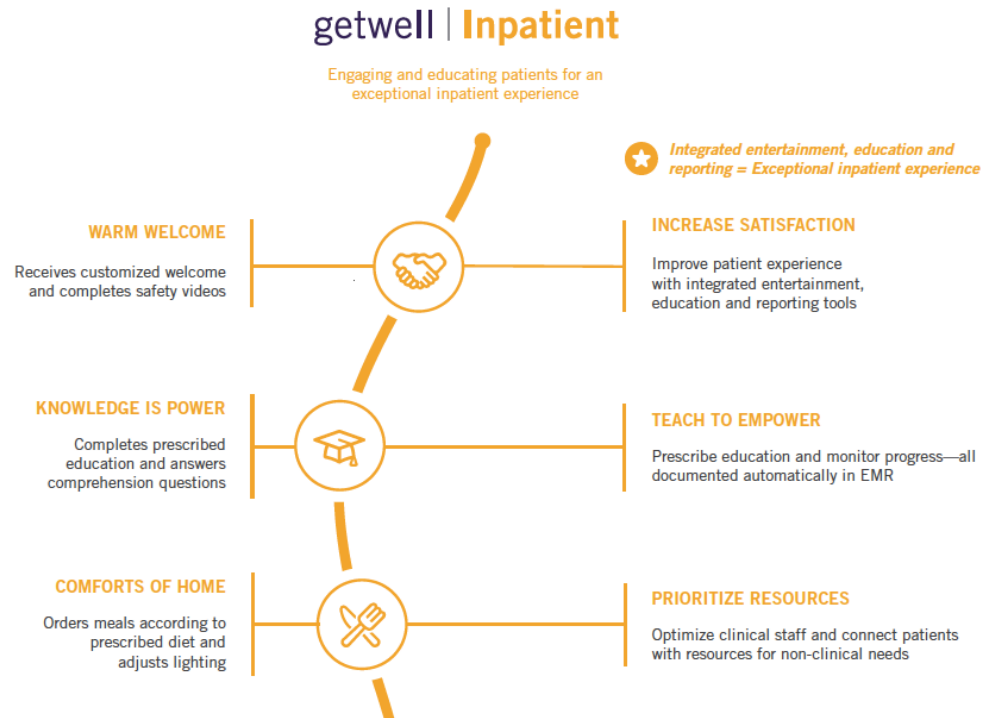
- Installation and go live of the first Wi-Fi Patient entertainment at Joan Kirner Hospital representing the first commercial patient entertainment BYOD (bring your own device) in Australia
- Expanded NSW eHealth Wi-Fi to 14 sites across NSW





# Health - GetWellNetworks

- In May 2019, Hills partnered with GetWellNetworks to distribute its interactive patient care products and services
- Proven “best in class” patient engagement platform used in more than 700 sites across the US, servicing 75k beds and 10 million patients p.a.
- GetWell is on the only certified platform that integrates with the two dominant market leaders in Electronic Medical Records (EMR) in Australia



- GetWell Loop is designed to address rates of patient re-admission (not covered by health funds) and the rescheduling of medical procedures, both of which are large, and often preventable, sources of cost in hospitals
- No other provider in Australia offer an equivalent “Loop” product that handles pre admission, post discharge and patient monitoring
- Loop is expected to be a slow burn but has strong medium term potential

# Health – Outlook

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- Solid pipeline of orders and tenders across both Nurse Call (\$70m) and Patient Engagement (\$10m)
- Continued focus on increasing the base of recurring revenues
- Solid growth in revenues is expected in FY20+ driven by:
  - Market share gains
  - Increased share of wallet
  - Leveraging replacement cycle in hospitals
  - Maximising contract renewals
  - GetWell market penetration
  - Continued investment in product development
- Hills R&D is primarily focused in the short term on the opportunities within Aged Care post the Royal Commission
- Major products currently under development:
  - New Generation Wireless Nurse Call System - Q4 launch
  - Hills Assist Generation 2 – complete system rewrite to bring all installed IP series Nurse Call systems to a modern user interface and enabling Enterprise and real time reporting
  - AI Camera interface for Axis and Mobotix cameras for next generation dementia and behavioural monitoring systems.

# Distribution – Operational Results

- Revenue decreased by 4.8% and EBITDA decreased by \$2.8m impacted by:
  - changes to the vendor mix
  - lower than expected performance in our small to medium business sector (SMB)
  - continued decline in Foxtel revenues
  - deterioration in the AUD/USD exchange rate
- Overall operating expenses were reduced by 6.1% versus prior year
- Hills Connection Solutions delivered solid growth in revenue and margin in FY19
- Falling AUD/USD exchange rate negatively impacted margins in FY19

## Financial Summary - Distribution

A\$ million	FY19	FY18	Chg %
<b>Revenue</b>	<b>229.3</b>	<b>240.8</b>	<b>(4.8%)</b>
Underlying EBITDA	1.7	4.5	(61.4%)
Depreciation & Amortisation	(4.5)	(4.7)	(3.2%)
<b>Underlying EBIT</b>	<b>(2.8)</b>	<b>(0.1)</b>	
<i>Underlying EBIT margin</i>	nm		

## Return on Capital Employed - Distribution

A\$ million	FY19	FY18
Underlying EBIT (last 12 months)	(2.8)	(0.1)
Total Assets (average last 12 months)	96.1	104.1
Current Liabilities (average last 12 months)	49.0	<b>49.9</b>
<b>Capital Employed</b>	<b>47.1</b>	<b>54.2</b>
<b>Return on Capital Employed (ROCE) %</b>	<b>(5.9%)</b>	<b>(0.3%)</b>

# Distribution - Operational Highlights



## Hills Connection Solutions

- Completed >54k NBN related jobs in FY19
  - 91% all jobs completed first time, a market leading performance
- Formed new partnership with Downer EDI Limited
- Recently signed new 2 year deal with LendLease Group to deliver further growth in FY20
- Significant scope to capitalise on further opportunities within the NBN eco systems

## Security, Surveillance, IT & AV

- Top 5 vendors (50% of the distribution business) have grown revenue by 8% in FY19
  - Carrier (UTC), Axis, Genetec, Williams AV , Ruckus
- Average order value has increased by 4% driven by volume and/or price
- Successfully launched new vendors – Dahua, Chiayo, ASL, Xilica & MC2Audio which will contribute to FY20 sales
- E-commerce sales have increased by 119% during the year
- Key wins:
  - Department of Educations & Sydney Trains - Williams AV
  - Rod Laver Arenas - Community Loudspeakers
  - Stations PA upgrade for NSW Fire & Rescue– Australian Monitor
  - Connect East Tunnel – Genetec & Axis
  - Major roadways & tunnel projects – Genetec & Axis
  - Law enforcement and correctional facilities wins – Genetec & Axis



# Distribution Awards

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International Distributor of the Year



Asia Pacific Distributor of the Year

Awards were based  
on sales growth  
achieved for these  
vendors



ANZ Distributor of the Year



Oceania Distributor of the Year





# Distribution – Outlook

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- Solid growth in revenues is expected FY20+ driven by:
  - New access control product releases from **Carrier (UTC)** including new Reliance model, Challenger Plus and Tecom
  - Release of the new **Australian Monitor** amplifier range
  - Continued growth of **Genetec** sales on the back of a strong pipeline
  - Continued innovation from key AV vendors eg. **WilliamsAV**
  - Execution of new **Hills Connection Solutions** contracts
  - Increased online sales
- Restructure and operational review of the distribution business is expected to drive growth in operating earnings and a return to profitability in FY20
  - \$3 - 5m additional operational costs savings expected in FY20
  - AUD/USD exchange rate risk to be managed through hedging and pricing strategy
- Continued focus on inventory management to drive working capital improvements
- Deliver business improvements within the branch network including new phone systems, branch displays and demonstrations facilities to drive increased SMB sales by delivering an improved customer experience

Financial Results

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# Financial Results

## Income Statement

A\$ million	FY19	FY18	Chg %
<b>Revenue</b>	<b>267.4</b>	<b>271.8</b>	<b>(1.6%)</b>
COGS	183.5	185.1	<b>(0.9%)</b>
Gross Margin	83.9	86.7	(3.2%)
Gross Margin %	31.4%	31.9%	(0.5 pp)
Other income	0.6	0.9	(39.5%)
Operating expenses	(74.3)	(77.8)	(4.6%)
Non-operating expenses	(14.7)	(0.1)	>100%
EBITDA	(4.5)	9.7	>(100%)
Depreciation & amortisation	(6.6)	(6.5)	+1.5%
EBIT	(11.1)	3.2	>(100%)
Interest	(3.2)	(3.2)	-
Tax	5.5	0.3	+17.3%
<b>Net Profit / (Loss) after Tax (NPAT)</b>	<b>(8.8)</b>	<b>0.4</b>	<b>&gt;(100%)</b>
<b>Underlying* EBIT</b>	<b>3.6</b>	<b>2.9</b>	<b>+24.6%</b>
<b>Underlying* EBITDA</b>	<b>10.2</b>	<b>9.4</b>	<b>+8.5%</b>

\* Underlying EBIT & EBITDA excludes non-operating expenses outlined on slide 18 & one-off income of \$0.418m in FY18

\*\* Can be used to offset future taxable income subject to continuity of ownership, and same or similar business tests rules

- Revenue down 1.6% with strong Health performance (up \$7m) offset by continued weakness in Distribution (down \$11.5m)
- Gross margins impacted by exchanges rate movements and ability pass on price increases
  - FY20 will see a proactive approach to managing these costs pressures through new hedging and pricing strategy
- Operational efficiency remains a focus for the Distribution business whilst we invest further in Health
- Tax includes deferred tax benefit relating to non-operating expense. Unused tax losses of \$238m not yet reflected in the balance sheet\*\*
- Underlying operating earnings exclude non-operating items with growth achieved in FY19 driven by a strong contribution from the health business

# Non Operating Items

\$M	FY19	FY18
Impairment of non-current assets	(6.5)	-
Inventory provision	(3.8)	-
Onerous lease provision	(2.5)	-
Provision for redundancy	(1.4)	-
Other net costs related to the restructure and transformation program	(0.5)	(0.1)
Costs related to proposed demerger of business	-	(0.1)
Reversal of impairment of property, plant and equipment	-	0.2
<b>Total</b>	<b>(14.7)</b>	<b>(0.1)</b>

- \$6.5m non cash impairment of carrying value of the Distribution business
- Inventory provision relates to the exit from the Communications business and completion of the operational review
- \$2.5m onerous lease provision from exiting the Communications business
- Redundancy expenses relate to the Communications business, closure of the South Australian factory and operational improvements in the Distribution business

# Continued progress on cost control

## Operating Expenses (excluding depreciation and amortisation)

A\$ million	FY19	FY18	Chg %
Labour and related expenses	(52.7)	(54.0)	(2.4%)
Operational and equipment expenses	(6.3)	(7.2)	(11.7%)
Property expenses	(7.6)	(7.7)	(1.5%)
Other expenses	(7.6)	(8.9)	(14.4%)
<b>Operating expenses</b>	<b>(74.3)</b>	<b>(77.8)</b>	<b>(4.6%)</b>

- Operating expenses declined a further 4.6% on prior year
- Further opportunity exists to reduce operating costs in the distribution business in FY20



# Cashflow

A\$ million	FY19	FY18
(Loss)/Profit after tax	(8.8)	0.4
Add back: non cash items	21.3	7.0
Increase in non-trade working capital	(6.2)	(5.0)
Decrease in trade working capital	(10.3)	9.6
<b>Net cash flows from operating activities</b>	<b>(4.0)</b>	<b>12.0</b>
Capex - (PPE and Intangibles)	(5.7)	(6.4)
Proceeds from disposal of PPE	0.0	0.2
<b>Net cash flows from investing activities</b>	<b>(5.6)</b>	<b>(6.2)</b>
Proceeds from / (repayment of borrowings)	4.7	1.5
<b>Net cash flows from investing activities</b>	<b>4.7</b>	<b>1.5</b>
Change in cash balance	(5.0)	7.2

- Operating cashflow impacted by lower revenue (\$4.4m) and lower trade and other payable balances (\$7.1) million being the primary drivers of the outflow in FY19
- Capex (as % sales) was broadly flat on prior year with FY19 spend primarily focussed on ecommerce and product development

# Balance Sheet

A\$ million	FY19	FY18
Trade and other receivables	59.2	59.6
Inventories	41.6	44.0
Other current assets (excluding cash)	-	0.1
<b>Current assets (excluding cash)</b>	<b>100.8</b>	<b>103.7</b>
Property, plant and equipment	15.3	14.9
Intangible assets	2.1	6.3
Deferred tax assets	16.7	11.1
Other non-current assets	0.0	0.0
<b>Non-current assets</b>	<b>34.1</b>	<b>32.3</b>
Trade and other payables	40.6	47.7
Provisions	13.4	10.1
Other liabilities	0.1	-
<b>Liabilities (excluding borrowings)</b>	<b>54.2</b>	<b>57.9</b>
<b>Net debt</b>	<b>28.4</b>	<b>16.9</b>
<b>Total equity</b>	<b>52.4</b>	<b>61.3</b>
<b>Gearing (Net Debt/Net Debt + Equity)</b>	35.2%	21.6%
Underlying EBITDA	10.2	9.4
<b>Net Debt/EBITDA</b>	<b>2.8</b>	<b>1.8</b>
Net Interest	3.2	3.2
<b>EBITDA/Net Interest</b>	<b>3.2</b>	<b>3.0</b>

- Inventory decline includes \$3.8m provision. Inventory management is a focal point in FY20 as part of a broader working capital strategy
- Deferred tax asset increase from non operating expenses in FY19
- Non cash impairment of \$6.5m of intangibles and non current assets relating to the restructure of the of the distribution business
- Reduction in trade and other payables reflects timing of vendor payment
- Provisions include \$4m in redundancy costs and onerous lease costs
- Net debt impacted by weaker operating cashflow (-\$4m) and capex investments in ecommerce, product development
- Net debt is expected to decrease in FY20 as profitability, cashflows and working capital improve
- The group continues to maintain significant headroom in relation to its interest cover covenant

Strategy & Outlook

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# FY20 Priorities

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Our key strategic focus in FY20 will be to:

- Continue to grow Hills Health by expanding our range of products and services, maintaining market leadership and extending our reach into more hospitals and healthcare facilities
- Focus on expanding in markets where Hills Health is underrepresented, such as Aged Care
- Successful execution of the GetWellNetworks plans to achieve growth targets
- Continue to implement changes to the Distribution business and review strategic initiatives to maximise operating performance
- Deliver \$3 - 5m additional operating cost savings
- Net debt is expected to decrease in FY20 as profitability, cashflows and working capital improve

With these areas of focus, we are confident Hills can deliver improved profits in FY20 and beyond, positioning the company to resume paying dividends, subject to the capital and growth requirements of the business

# Thank You





# Disclaimer

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