



**asx announcement**

**24 February 2015**

## First Half FY15 Results

Hills Limited (Hills, ASX:HIL) today announced its results for the half year ended 31 December 2014.

A summary of the half year results and update on Hills performance post 31 December 2014 is set out below:

### Results Summary

- NPAT attributable to owners for the half year ending 31 December 2014 was \$9.0M
- Underlying NPAT attributable to owners<sup>1</sup> for the same half year period was \$9.5M. The difference reflects adjustments for one-off or non-operating items (such as acquisition transaction costs expensed or one-off tax credits that reduce the tax expense)
- Prior period (6 months to 31 December 2013) results included the Steel businesses that were divested in February 2014
- Revenue of \$229.5M for the half was up 11.1% on a comparable basis<sup>2</sup>
- Net cash on hand (i.e. zero net debt) at 31 December 2014 was \$1.7M
- New \$110M 3-year core banking facility signed on substantially better terms and pricing than the previous facility
- 2.1 cents per share dividend declared (fully franked)

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<sup>1</sup> 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.

<sup>2</sup> The comparable basis is as per the Segment Note (note 2(b) to the Interim Financial Report).

# Hills Limited asx announcement

24 February 2015  
(continued)

## Business Update

### Core: Security, AV, Audio and Communications

For the half year ended 31 December 2014, revenue for the core Security, AV, Audio and Communications business was \$175M, up 5.8%. EBITDA for this period was \$15M, up 3.5%<sup>3</sup>.

The core Security, AV, Audio and Communications business continues to see pressure from aggressive competition and the impact on margins from a lower exchange rate. In response, Hills has stepped up innovative marketing efforts to drive sales and undertaken appropriate price book increases.

In the context of Security we are pleased to advise that in February 2015, we secured distribution rights to Tyco's complete range of security products for businesses, retailers and homes including access control systems, electronic identification tags and video surveillance systems. Hills will replace Tyco's previous local distributors on a phased basis.

In light of the shift to the cloud of many services, Hills is evaluating its position in the VSaaS (Video Surveillance as a Service) market to support customers in the migration from on-premises video storage to hybrid cloud and cloud-first solutions.

We also advise that from 1 July 2015 Crestron Inc. (US) will itself assume direct responsibility for distribution of their high-end customised solutions in Australia and New Zealand consistent with its approach in all other parts of the world. However, Crestron has offered Hills the exclusive distribution of its Pynq range of home automation solutions.

Hills sees the automation market for HAaaS (Home Automation as a Service) contributing to our business over time given technology and market shifts to cloud driven service models and intends to pursue this vigorously.

These changes will not have any material impact on FY15 revenues or margin performance. The changes to Crestron arrangements will impact margin and earnings in the AV portfolio in FY16. However, this is expected to be partially offset by ongoing margin sharing agreements with Crestron, cost savings, Tyco product contribution, and overhead reduction as transitional service agreement obligations (for legacy businesses now sold) progressively cease.

Hills Connection Solutions secured the renewal of the contract for installation of NBN fixed wireless for a further 4 year period and is actively tendering for new businesses in the broadband and media sectors.

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<sup>3</sup> 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.

# Hills Limited asx announcement

24 February 2015  
(continued)

## **Growth: Health**

The Health business has continued its steady performance and results for the first half were pleasing.

Revenue for the half year was \$18M, up 189%, and EBITDA for this period was \$4M, up 192%<sup>3</sup>.

The acquisition of HosTel (Hospital Telecommunications) further strengthened our patient entertainment footprint and adds additional service revenues consistent with our strategic focus. HosTel adds another 17 hospitals and 4,000 beds to Hills Australian footprint.

We have built our Health business on the back of four successful health acquisitions and recent licensing agreement with Ireland and US based Lincor Solutions, a leader in patient engagement technology platforms. A \$10M p.a. EBITDA Health business has been spawned in the restructure process.

Hills continues to look for further growth through other acquisitions, plus organic growth with the combined platform we now have. Hills is exploring opportunities to expand its reach in the interactive patient care and medical technology services and solutions market. One key focus is on new service platforms supporting patient directed care.

## **Brand Licensing: Home**

For the half year ended 31 December 2014, revenue attributed to the Hills Home business was \$37M, up 5.6%. EBITDA for this period was down 7.7% at \$6M<sup>3</sup>.

During the period, we announced our licensing agreement with Woolworths Limited. This strategic relationship has effectively converted the original Hills Home manufacturing and distribution business, which faced the challenges of both limited scale and challenging supply chain logistics, into a brand licensing annuity business. We are expecting a neutral result after set up and transition costs in the second half of 2015.

Under the terms of the agreement, Hills will receive income from the use of the brand and intellectual property by way of a minimum annual licencing fee of \$2M p.a. To the extent that outcomes exceed the agreed minimums in the agreement, the upside for Hills is uncapped. We are excited by this strategic relationship and look forward to driving this business initiative with Woolworths through our joint brand committee.

During the period we also completed the sale of our SmartBar business.

## **Corporate overhead**

Hills Corporate and Shared Services costs had been allocated to all of its operations including Steel in the prior period. As we have exited businesses, overhead of \$4M<sup>3</sup> for the half year has remained in the Corporate centre. We are focused on reducing that overhead but a level of capability will be needed to

# Hills Limited asx announcement

24 February 2015  
(continued)

support growth. 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.

## Dividend

The Board has declared an interim dividend of 2.1 cents per share (fully franked) which will be paid on 30 April 2015 to registered shareholders as at the record date of 16 April 2015.

Any future dividends are likely to be partially franked in the near term and unfranked in the medium term due to the Company's tax loss position.

## Strategy

Hills has successfully completed its restructure and transformation into a focused technology company. Focus will be given to leveraging our strong presence in hospitals, aged care facilities and independent living communities to drive opportunities across our core Security, AV, Audio and Communications business.

As previously advised to the market, we continue to scope acquisition opportunities.

## 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 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 owners<sup>4</sup> in the range of \$18.5M to \$19.5M.

## Contacts

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<sup>4</sup> 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.