



**asx announcement
media release**

26 November 2015

CEO Address

Thank you Jennifer and good afternoon.

This is my first AGM since taking over as Chief Executive in May.

I would like to start by reviewing the main components of the business, but then spend the majority of my time updating you on our strategic priorities and the steps we are taking to address the Company's financial performance.

FINANCIAL YEAR 2015

As Jennifer has mentioned, there were a number of external and internal factors impacting Hills in FY2015.

The result was a decline in our service standards and some attrition in our customer base.

I assure you that we are very, very focused on turning around the fortunes of this company and improving the financial returns.

Hills is now a very different company to what it was.

As outlined, we are no longer a manufacturer or steel bender, we are now a distribution and services business.

We add value by distributing security, access control, audio visual, communication and health solutions that inspire, protect and improve people's daily lives in the environments they trust the most: their homes, schools, hospitals, aged care facilities, educational institutions, workplaces and governments.

In the past we had a handful of technology businesses, small but profitable.

What we have done is to pull them together, then acquire complementary businesses to strengthen our position in select growth markets such as health, security, communications, and audio visual.

For international manufacturers, Australia is a long way away. It is much simpler, less risky, and better value for them to partner with a local distributor to service customers and manage working capital. It helps if the local partner is large enough to have warehousing facilities and outlets across the country where customers can reach them. Vendors also need distributors with specialist



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expertise so that they can answer customers' questions and provide proper training and support.

This is where we come in and where we see growth.

I will now move on to discuss the trading results by each segment.

Building Technologies

I will start with Building Technologies as it is by far 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.

Revenues were up 6.5% on the previous year to \$348M, due mainly to acquisitions made during FY2015.

However, earnings were \$27M, down \$9M on the previous year. The costs associated with acquisitions were a major factor in this reduction.

Aggressive competition and a falling exchange rate impacted our margins throughout the financial year, but not all of the causes of the poor FY2015 earnings result were external, macro factors. There is no doubt that a number of internal issues contributed their fair share. Operating costs increased during the year at the same time as the transformation program caused disruption to customers and a loss of revenue and goodwill. The Management team is certainly focused on settling down the supply chain and winning back customers who had been negatively impacted.

However, it was not all bad news.

We continued to focus on strong vendor engagement. In recognition of this, Hills won several awards from our suppliers during FY2015:

- Genetec: Most Innovative Distributor 2015
- Axis: Distributor of the Year Award calendar year 2014
- Ruckus: Australian Distributor of the Year Award 2015
- Allied Telesis: Authorised Distributor of the Year 2015
- Williams Sound: International Distributor of the Year



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Our Security & IT Practice won major contracts with system integrators and is continuing to win sizable contracts.

We completed the acquisition of Audio Products Group (APG) at the start of FY2015 and integrated it with our other brands to create the Hills AV Product Practice. The acquisition delivered Hills a key exclusive vendor in Biamp, the world leader in audio digital signal processing, which will provide growth opportunities for the market leading Hills AV business.

During FY2015 Hills Connection Solutions secured the renewal of the contract for installing the NBN fixed wireless for Ericsson for a further four year period.

As a distribution business we continually refresh the pool from which we draw our portfolio of vendors, ensuring we have a combination of solid suppliers offering leading technology which enables us to provide our customers with the best solutions. During the year in review, we secured the distribution rights to Tyco and Radwin and after year end, Hills has also been appointed as the exclusive distributor for Ipsotek and Vivotek, both players in the security space. However Crestron and some other vendors in the AV space moved to a direct distribution model.

To spearhead our sales drive we appointed a new Head of Sales for the Building Technology business, a new Sales manager for NSW, and a Head of Supply Chain, all with strong backgrounds in distribution. There are a number of other fundamental changes that we have made to improve the business, which I will come back to later.

Health

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

This comprises the nurse call and patient infotainment businesses brought together through the acquisition of Questek, Merlon, HTR and HosTel.

Hills identified the Health industry as one which would experience high growth and entered via acquisition in September 2013. As a trusted brand in Australia, Hills was ideally placed to begin distributing into trusted environments in the Health sector while leveraging our existing connections and distribution footprint in the Building Technologies segment.

The acquisition of HosTel in February 2015 expanded our footprint with the addition of a further 17 hospitals and approximately 4,000 beds.



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The Health segment reported revenues of \$33.5M for the year, up 48%. This large increase in comparison to the prior year is primarily a result of the acquired businesses being owned for a greater portion of FY2015 than in FY2014.

EBITDA was \$4.1M, compared to \$5.3M the previous year.

This profit result was very disappointing and is really down to three main factors:

1. The integration process has taken longer than we had anticipated, so the synergy benefits have been delayed.
2. We lost a number of our sales team and momentum in terms of managing the forward looking sales pipeline. We also lost a number of our project management team which led to cost overruns on our projects.
3. Management attention was diverted from the day-to-day business due to a focus on integrating the new businesses and pursuing a large overseas Health acquisition, a strategy which we have since abandoned.

I would like to assure you that we are firmly focused on improving the situation as I will outline in a few moments.

Our Health business now has a consolidated product range and a much better focus on growing our pipeline. However, the repair process of the Health business is 6 months behind our Building Technologies business and we are still coming to grips with identifying some of the issues.

It is important to note that projects can take up to two years from the initial lead to conversion so we do not expect improvements in the Health segment to be realised until FY2017.

Home

Over the past few years, the Home segment has not been consistently profitable for us and was unlikely to return to an acceptable level of profitability given challenges associated with the channels to market for the Home products.

We have a valuable asset in the Hills brand which we have now licensed to Woolworths over a seven year contract. This converts the original manufacturing and distribution business into a brand licensing annuity with a guaranteed \$2M a year net margin starting in FY2016.

We also divested our Polymers and SmartBar businesses.



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Corporate

This covers the costs of running Hills corporate, compliance and shared services functions.

In previous years, certain costs were recovered from Hills businesses which have now been sold. Since the start of the year, we have removed \$12M of corporate costs on an annualized basis, and further cost reductions remain a key imperative.

DISCONTINUED BUSINESSES

The fall in total revenues in FY2015 reflects the sale of the discontinued businesses, including the Steel operations, which were sold in February 2014, and which had contributed \$319.9M in revenues the previous year.

Debt and capital management

Net debt on the balance sheet as at 30 June 2015 was \$32M.

STRATEGIC OBJECTIVES

I will now update you on our strategic priorities and steps we are taking to address the Company's financial performance.

Our strategy is to get "back to basics". To do this we have identified five key areas we want to excel in:

1. Vendors
2. Customers
3. People
4. Profit
5. Capital

If we get these right, we have a better business, a business with improved profitability and a stronger balance sheet. From this we can grow the business and fund future acquisitions.

Vendors

Our aim is to be the first choice for vendors.



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We are a one-stop shop. This is where we have a competitive edge.

Our job is to identify innovative vendors with growth prospects and help them grow their business in Australia. If we help them grow, we will grow with them.

Customers

With customers, our aim is for Hills to be their first choice.

To achieve this we have to focus on every aspect of the customer experience. We want to make it a pleasure for customers to do business with Hills so that they keep coming back.

We have streamlined the way we handle customer enquiries by channeling them into a single Customer Contact Centre. This ensures that customer calls get answered promptly and minimises the risk of call overflow.

We have realigned our Customer Support teams so that the people with the right technical knowledge and skills are matched to the customers and their needs. If you are looking to buy an Audio Visual system, you want to speak to someone who lives and breathes AV.

We are rebuilding our Hills Trade Centre teams and ensuring that our people are properly trained.

We have extended our opening hours to better serve our tradies and we have improved our inventory system to ensure our Centres carry the optimal amount of stock.

We are collecting better customer data now and we have a much more disciplined approach to managing the whole sales process.

People

Our aim is for Hills to be a great place to work where our people feel engaged and empowered to advance the company mission.

Our employees have gone through a lot of turmoil as a result of the changes and restructuring of the last few years, but we now have a workforce that firmly understands that we are in business of providing value-adding distribution and exceptional service.

We have to bring it in, store it, sell it, deliver it, and make it work. We want our people to take pride in doing this better than anyone else.



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We are rebuilding our teams and the signs are that our employees are now happier and more motivated.

This is a key priority as it is people who provide the service and support to customers and vendors.

Profit

The key to improving our profitability is to improve our margins, not just focus on growth for growth's sake.

We have changed the way in which we incentivise our sales people so that they are now remunerated by the amount of margin they generate, not just the volume of sales.

We are introducing a more rigorous centralized approach to pricing.

Capital

Finally, our aim is to use capital sparingly. Hills is a much less capital intensive business now but we still have to be smart about the way we employ capital.

We are continuing to improve the tracking of working capital, slow moving stock and capex.

With better supply chain management, we can optimize the amount of stock that we carry, reducing capital outlay and overall debt.

We still have work to do in this area but are heading in the right direction.

CONCLUSION

In conclusion, I believe that while we have many challenges we also have a great opportunity ahead of us.

Our businesses command market leading positions in growth segments. By executing properly and delivering on our objectives, we will restore profitability and grow the business.

We are now in two businesses where we expect to grow and develop:

Technology – Given the world we live in, security and safety are a growing concern for an ever increasing percentage of our population.



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Health – Our ageing population will require increased levels of care while maintaining independence. At the same time, health providers continue to seek innovative solutions to improve patient care and drive efficiencies.

As we reviewed the businesses, we had to confront reality and recognise there was room for improvement.

This meant that before we look ahead to growth we need to fix what we already have. We remain firmly of the view that our underlying businesses remain solid and are well positioned for growth.

We have implemented a 'back to basics' program to address these issues, based on the five strategic objectives I referred to earlier and we are seeing progress.

The results in the Health sector will be delayed as we began the journey a little later. While we have identified issues and begun work on addressing them, there is still a lot to be done before we begin to see the results we'd like.

We updated the market on 21 October 2015 advising that the first quarter result for FY2016 was an EBITDA of \$3M with a small loss at the NPAT level. The first two months of the 2nd quarter have been softer than anticipated in our Building Technologies business and as outlined above the repair process for our Health business is continuing.

As a result we anticipate a small loss for the first half with improvements coming through in the second half of FY2016.

I look forward to answering any questions you may have and keeping you informed about our progress through the coming year.

Thank you

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