



ASX announcement

Media Release

31 August 2020

Hills poised to emerge from COVID-19 in a strong competitive position

Hills Limited (the **Group** or **Hills**, ASX: HIL) is pleased to release its results for the 12 months to 30 June 2020:

	FY2020	FY2019	Change
NPAT (\$)	(6.2)	(8.8)	30.3%
Revenue (\$m)	220.1	267.4	(17.7%)
Underlying Segment EBITDA¹ (\$m)	12.6	9.6	31.4%
EBIT (\$m)	(2.6)	(11.1)	77.0%
EPS (c)	(2.65)	(3.8)	30.3%
Operating cashflow (\$m)	22.0	(4.0)	>100%
Net debt - Pre AASB16 (\$m)	8.2	28.4	(71.2%)
Net debt - Statutory (\$m)	22.1	28.4	22.2%
Gearing - Pre AASB16	15.5%	35.2%	20pts
Gearing – Statutory	33.1%	35.2%	2pts

KEY POINTS

- Statutory loss of \$6.2m after one-off costs including foreign exchange adjustments, inventory provisions and redundancies; partially offset by the benefit of JobKeeper and temporary salary reductions
- Positive underlying segment EBITDA up 31.4% to \$12.6m, reflecting positive contributions from Health and Distribution
- Net debt (pre AASB16) reduced more than 70% to \$8.2m reflecting proceeds from divestments and a reduction in inventory and debtors
- Gearing (pre AASB16) down 20 points to 15.5%

OVERVIEW

Hills' focus on:

- investing in its Health business;
- further streamlining its Distribution operations; and
- reducing debt,

has strengthened its ability to emerge from the COVID-19 downturn in a competitive position.

The impact of COVID-19 restrictions on the Group's performance was reflected in part by:

¹ Underlying Segment EBITDA refers to revenue less costs of sales, cost of services and operating expenses. It excludes depreciation, amortisation and other one-off, abnormal or non-recurring items. The underlying (non-IFRS) segment EBITDA is unaudited but is derived from the audited accounts by removing the impact of non-recurring items from the reported (IFRS) audited profit. Hills believe this reflects a more meaningful measure of the Group's underlying performance.



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- lower revenue and profitability in H2 as customers in Health and Distribution deferred and/or cancelled projects and delayed spending, particularly in Q4. This was partially offset by temporary salary reductions and cost savings across the Company; and
- receipt of wage subsidy assistance from the Australian and New Zealand Governments.

Notwithstanding this impact, both the Health and Distribution businesses recorded a positive EBIT result and the Group delivered an overall EBIT loss of \$2.6 million compared to a \$11.1 million loss in the prior year.

Revenue for FY20 was \$220.1 million, down 17.7 per cent from \$267.4 million in FY19, of which more than \$22 million was attributable to the divestment of Hills' AV, STEP and Antenna operations in December 2019.

These divestments, coupled with an acceleration of the ongoing cost reduction program during COVID-19 and disciplined management of working capital, allowed Hills to reduce net debt (pre AASB16) by more than 70 per cent, or \$20.2 million, in the past 12 months to \$8.2 million at 30 June 2020.

Hills reported a statutory loss of \$6.2 million for FY20, reflecting one-off, non-operating expenses of \$6.8 million largely related to mark-to-market foreign exchange adjustments, redundancy payments and other costs. This was an improvement on the statutory loss of \$8.8 million in FY19.

Hills Chief Executive Officer and Managing Director David Lenz said:

“Like all companies, Hills was forced to adapt quickly to the extraordinary challenges presented by the COVID-19 pandemic. Throughout this period, however, we have remained absolutely focused on our strategic priorities – investing in our Health business, streamlining our Distribution business and strengthening our balance sheet.

As a result, we have not only weathered what we hope is the worst of the storm, but we are in a strong position to cope with future challenges and to capitalise on any economic recovery. This gives us confidence that we can deliver sustainable earnings growth over the medium to longer-term. While conditions remain uncertain, our core markets have proved relatively resilient and we have seen solid trading at the start of FY21.”



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HILLS HEALTH SOLUTIONS (HHS)

	FY2020	FY2019	Change
Revenue (\$m)	33.7	38.1	(11.5%)
Underlying Segment EBITDA (\$m)	8.6	11.0	(22.1%)
EBIT (\$m)	5.4	8.9	(38.7%)

HHS started H2 with a promising outlook before the COVID-19 outbreak resulted in closures and restricted access to health and aged care facilities. Coupled with the deferral of elective surgeries, this resulted in delays in the delivery of Nurse Call and Patient Engagement Systems (**PES**), significantly affecting Q4 revenues.

HHS revenue fell 11.5 per cent to \$33.7 million, with underlying segment EBITDA down 22.1 per cent to \$8.6 million.

HHS expects deferred contracts to be realised once the COVID-19 period of disruption has eased and is currently experiencing improved trading conditions.

During the year we also reviewed our health inventory based on the success of our flagship IP7500 nurse call platform, resulting in additional inventory provisions for the IP7000 series products, which will continue to be used for the expansion, maintenance and support of current sites.

Despite the disruptions of COVID-19 in the last quarter of FY20, HHS secured several new Nurse Call projects throughout FY20, with the IP7500 product installed to a total of 6400 new beds across various locations in Australia, including Westmead Hospital in NSW; Casey Hospital Tower, Western Health and The Alfred Hospital in Victoria; and the Royal Hobart Hospital.

The PES business added 1,060 new beds and renewed contracts across 15 hospitals representing 3,000 beds. Sales momentum continues to build for our GetWellNetwork patient engagement platform, which was installed in the Calvary Hospital in Adelaide and the Royal Hobart Hospital during FY20.

The success of the GetWellNetwork system has contributed to the growth in HHS recurring revenues, which are up 40 per cent from a low base in the corresponding period of FY19.

Hills is anticipating further growth in HHS revenues in FY21, driven by

- market share gains;
- continued investment in Nurse Call product development; and
- a \$175 million pipeline of orders and tenders over the next three years.

As previously announced, Hills is actively reviewing all opportunities to accelerate growth in existing and adjacent markets as part of a continued focus on driving momentum within the HHS business. Further details of the strategic review, being undertaken with the support of specialist health sector advisory firm Paxton Partners, will be provided at the Annual General Meeting in November.



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DISTRIBUTION

	FY2020 ²	FY2019	Change
Revenue (\$m)	186.4	229.3	(18.7%)
Underlying Segment EBITDA (\$m)	6.7	1.3	>100%
EBIT (\$m)	1.3	(3.2)	>100%

Despite the adverse impact from COVID-19 in the second half, the Distribution business delivered an improved earnings performance for FY20, reflecting the successful strategy to streamline the business, divest or exit non-core operations and reduce operating expenses.

Revenue fell 19 per cent to \$186.4 million, with a majority of the reduction attributable to the divested AV, Antenna and STEP business units.

Revenue from continuing operations was down only 6.7% to \$164.2 million, with a COVID-19-related decline in sales in Q4 partially offset by approximately \$2 million of Australian and New Zealand government wage subsidies, which allowed Hills to retain key employees throughout the pandemic lockdowns. Underlying segment EBITDA from continuing operations was \$5.7 million, compared to \$0.1 million in the prior year.

While the enterprise market for Security & IT products experienced a substantial decline in sales as a result of COVID-19, the small and medium-sized business segment delivered a solid performance, with sales of firewall and wi-fi products rising as people adapted to working from home.

Online sales for the Distribution business increased 91 per cent in Q4. Although this was off a low base, it provides a positive baseline for further growth in FY21.

The Hills Technical Services business continued to experience solid revenue from its contract with Ericsson to supply home installation services for NBN Co's fixed wireless services, which has been classified by the Government as an essential product/service.

The Distribution business was further streamlined in H2, with cost savings achieved in the continuing businesses at the top end of the forecast \$3 million-\$5 million range. Inventories reduced by \$8 million through tighter inventory management, with a further \$1.1 million provision made to reflect our ongoing requirements following the divestments and further streamlining of the continuing businesses.

Hills expects the Distribution business to show further improvement during H1 FY21 as the Group continues to focus on inventory control and reviews its vendor portfolio to target higher-margin business.

² The FY2020 result includes the continuing Distribution business plus the divested AV, Antenna and Step businesses.



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LOOKING FORWARD

While trading in July was encouraging, the medium-term economic outlook remains clouded by the significant uncertainty created by the COVID-19 pandemic and economic conditions.

The recent movement in exchange rates, however, has had an adverse impact on current foreign exchange contracts given their scale and duration, which has caused uncertainty around FY21 financial performance. Management is pursuing mitigation strategies.

At the same time, a review has been instigated into the circumstances relating to the foreign exchange contracts giving rise to the uncertainty. The Chief Financial Officer will stand aside while an independent review takes place.

However, with the strong pipeline of business in HHS and a sharpened focus on higher-margin growth in the Distribution business, Hills is confident of delivering sustainable earnings growth over the medium to long-term.

Hills will provide a further update on FY21 trading at the Annual General Meeting.

This ASX announcement is authorised for release by the Board of Hills Limited.

About Hills Limited

Hills is a majority Australian-owned publicly listed company (ASX: HIL) and consists of two businesses: Hills Health Solutions – the leading provider of nurse call solutions, patient engagement systems and wi-fi networks in Australian and New Zealand hospitals and aged care facilities; and Hills Distribution – a leading provider of integrated Security, IT and Technical Services across Australia and New Zealand. For more information, visit www.hills.com.au

ENDS

Contacts

Hills Limited

David Lenz
Chief Executive Officer and Managing Director
Hills Limited
+61 2 9216 5560

Media

Clive Mathieson
Cato & Clive
P: +61 411 888 425
E: clive@catoandclive.com