



# HILLS<sup>TM</sup>

David Lenz  
CEO & Managing  
Director

# Agenda

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- Introduction to Hills Company Overview
- Key Business Growth Categories
- Hills Solutions in Key Verticals
- 1H FY18 Business Update
- Digital Platform Update
- Supply Chain Update
- 1H FY18 Financial Results

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## TODAY

Over the years we have diversified and divested, expanding our product range to include AV, Communications, Security and Surveillance, Fire, Nurse Call and Patient Engagement. But our focus has remained constant – we're committed to delivering technology solutions into the environments that people need and trust most: their homes, hospitals, places of learning, entertainment venues, retail spaces, workplaces and government institutions.

# Values



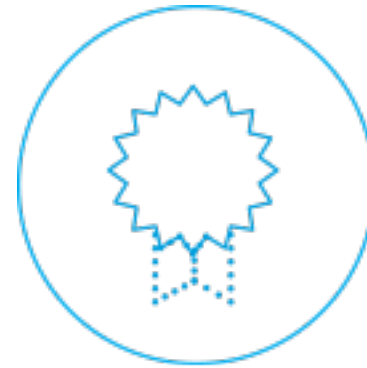
## Customer

Enhance customer experience and deliver what we promise



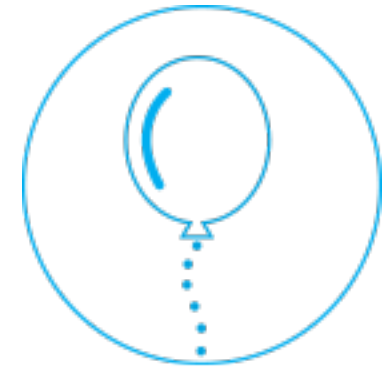
## People

Respect, accountability, teamwork, integrity and safety



## Quality

Excellence in all we do, innovate and create better ways with partners



## Have Fun

Celebrate at work and in the community

# Hills Business by Growth Category

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**Health:**  
Patient Engagement  
& Nurse Call



**Security:**  
Security, Surveillance,  
IT & Communication



**Audio Visual**



# Hills Vertical Market Matrix

Verticals	AV 	Security 	Communication 	Fire 	Patient Engagement 	Nurse Call 
Banking and Finance 	✓	✓	✓	✓		
Corporate & Government 	✓	✓	✓	✓		
Education 	✓	✓	✓	✓		
Healthcare 	✓	✓	✓	✓	✓	✓
Transport, Infrastructure & Utility 	✓	✓	✓	✓		
Retail 	✓	✓	✓	✓		
Home Automation 	✓	✓	✓	✓		
Stadium and Live production 	✓	✓	✓	✓		
Service capability 						
Shared service functions 						
Common supply chain 						

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Business Update

# 1H Results Summary

## Financial

- Revenue declined by \$21m, due primarily to exiting of unprofitable NBN satellite installation business (\$13m) and shortfall in Antenna sales (\$5m) due to the competitive Pay TV landscape
- EBITDA of \$3.6m represented a solid turnaround when allowing for the transition of Hills Home Living to AMES and the inventory impairment in the prior corresponding period
- OPEX down \$8.9m or 18% on the corresponding period and by \$4.8m or 11% on 2H FY17
- Net debt down \$4.3m from 30 June 2017 to \$15.7m
- Significant turnaround in operating cash flow up \$8.1m on the prior year

## Business

- Growth in core Distribution and Nurse Call business areas
- Established National Distribution Centre & New Trade Centre at Seven Hills
- E-commerce platform now fully operational
- Entered into a strategic relationship with Microsoft
- Continued Investment in R&D – Nurse Call & Australian Monitor
- Ericsson contract extended until 2020 for installation services for Fixed Wireless associated with the NBN rollout

# Key FY18 Business Initiatives

## DIGITAL PROJECT

Deliver online platform  
for future growth

Phase 1 completed



## FULLY CONTROL SUPPLY CHAIN

Exit 3rd Party Logistics.  
Open brand new national  
distribution centre at Seven  
Hills, NSW

Completed



## HEALTHCARE

Deliver total solution  
collaboration

On Track



## LEVERAGE END TO END CAPABILITIES IN KEY VERTICALS

Fire, Asset Management,  
Communications, Health,  
AV & Security

On Track



# Key FY18 Business Metrics

## INVENTORY & DEBT MANAGEMENT

- Net Debt at 31 December 2017 was \$15.7m, down from \$20.0m at 30 June 2017
- Continue to remain focused on inventory reduction



## DELIVER PROFITABILITY

- We continue to execute on our key strategies and plans and continue to anticipate being able to deliver a trading profit in the second half of FY18



## OPEX MANAGEMENT

- OPEX down \$8.9m or 18% on the corresponding period and by \$4.8m or 11% on 2HFY17
- Remain focused on continuous OPEX improvement



## CUSTOMER, VENDOR & EMPLOYEE MANAGEMENT

- Opened new National Distribution Centre
- Launched new e-commerce platform
- Delivering a fundamental shift in our customer service levels



# Security, Surveillance, IT & Communications Business – Highlights

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Security,  
Surveillance, IT  
Business  
grew 4% in 1H

Strong growth in 1H  
with exclusive vendors

- **Genetec**
- **UTC**

Key CCTV vendors  
**Axis, Pelco, Vivotek &  
TruVision** grew in 1H

**IT Networking  
Business grew in 1H**  
Our core networking vendors,  
Ruckus, Brocade & Extreme  
Networks

## **HILLS Connection Solutions**

- Focused on profitable fixed wireless installations after exiting satellite business
- Ericsson contract extended until 2020 for installations services for Fixed Wireless associated with the NBN rollout.

## **Key Wins**

- Sydney Trains – Vivotek via Indra Australia
- Queensland Corrections – AXIS/Ipsotek via SAAB
- Woodside Petroleum HQ Perth – AXIS/Genetec via Siemes

# Health Business – Overview

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Nurse Call  
Business  
23% growth 1H

Strong Nurse Call Pipeline\*  
**\$39m & 270**  
Facilities

Nurse Call Rollouts  
**\$3.8m**  
In contracted work to be completed in  
FY18

Key PES rollouts  
are on track  
including Sydney LHD and  
Westmead

Patient Engagement  
**18,000**  
Number of beds under management  
**19,000**  
Project growth in FY18

R&D Investment

- Guest Wi-Fi
- Genetec Integration
- RGB Ward Indicator
- RGB POE Annunciator

\* Indicates the size of the Nurse Call opportunity sales pipeline for the next 12 months

# AV Business – Overview

## Australian Monitor

Completed upgrade of its current product line which we expect to deliver sales growth over the next 12 months.

Williams Sound saw strong growth in 1H

Community Speakers grew 1H & Expanded range to include the new IV6 line arrays

## Expansion of vendor portfolio to include solutions in:

- Emergency paging and life safety systems
- High powered amplifiers
- Commercial audio DSP and networked audio solutions

## Key Wins

- Morphettville Racecourse
- St Stephens Cathedral
- Isuzu Head Office
- Sydney Trains
- Westconnex Tunnel

Wolfvision, Wyrestorm, Barix, Renkus Heinz, and Biamp Devio all grew 1H

# Areas of focus in 2H

## Satellite & Communications Business

- Look for Improvement in Customised solutions
- Leverage new Foxtel initiatives in 2H

## Inventory Management

- Further reduction in inventory expected based on centralised warehousing and additional inventory controls

## Australian SMB Business Growth

- Leverage the new digital platform and new centralised distribution centre to drive growth in 2H

## New Zealand

- Leverage the new digital platform and focus on Enterprise business to drive growth in 2H

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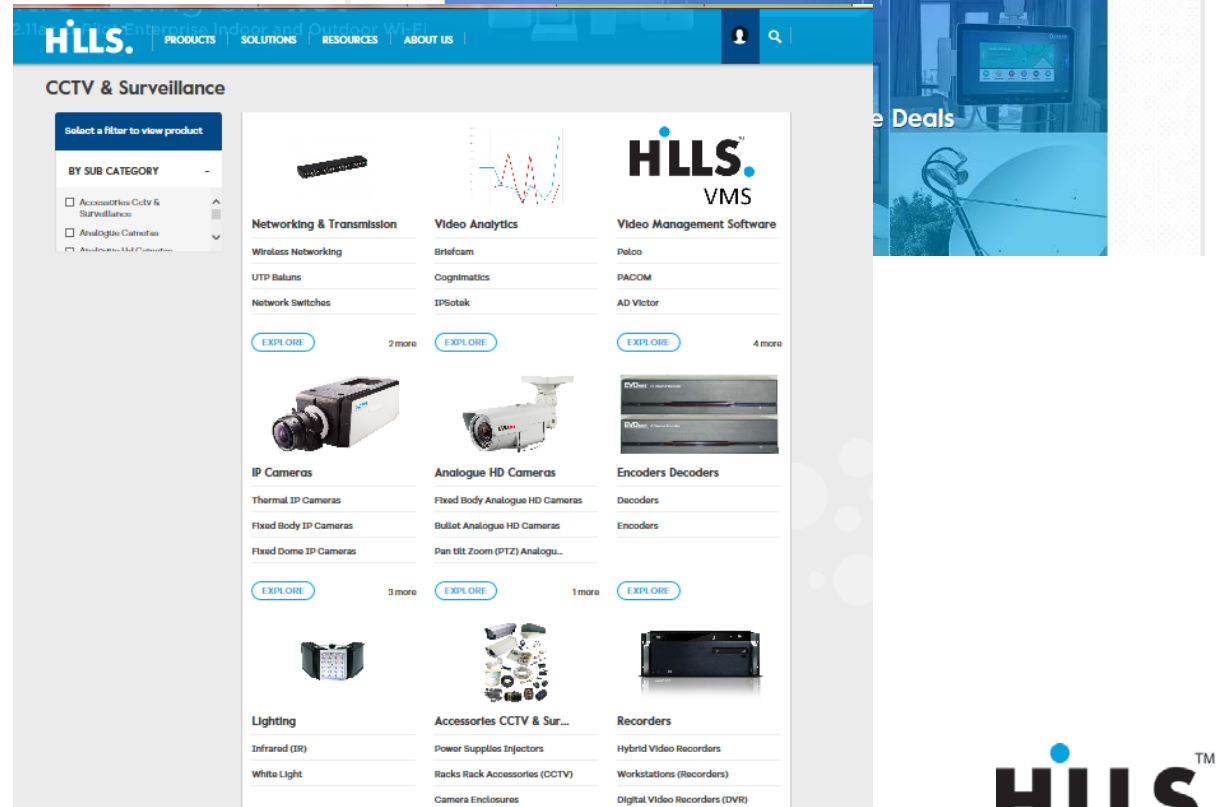
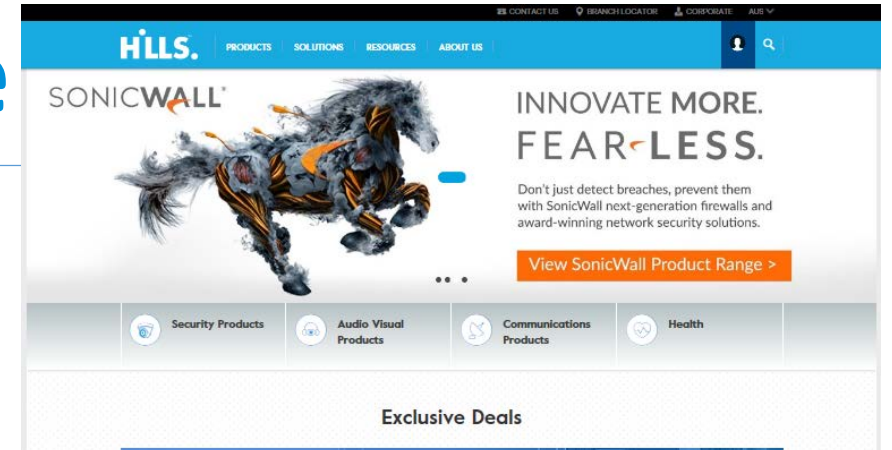
A large white circle with a blue and purple gradient border is positioned on the right side of the image. Inside the circle, the word "HILLS." is written in a bold, black, sans-serif font. A small blue dot is placed above the 'i' and another blue dot is placed at the end of the period. Below the word "HILLS.", the text "Digital Platform Update" is written in a smaller, black, sans-serif font. The background of the entire image is a night-time photograph of a city skyline with tall buildings and their reflections in a body of water. A network of white lines connects various points across the image, with some points highlighted by blue and green circular icons containing symbols like a smartphone, a house, a person, and a truck. The overall color palette is dominated by the blues and purples of the night sky and the white of the central circle.

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Digital Platform  
Update

# e-Commerce Platform – Update

- **Go live** of the new e-Commerce website for Australia and NZ took place during the week ending 16 February 2018
- **2420 products** published at launch on the Australian and New Zealand sites. The program of uploading and automatically publishing of the remaining Hills products is well underway with daily updates to the site
- **Customers** will be activated over a phased roll out during February
- **New features and enhancements** will be rolled out on a 4 to 6 week cycle and another two major phases are planned to be launched late 2018 and 2019



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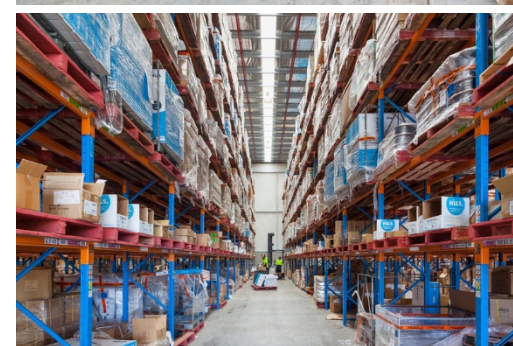
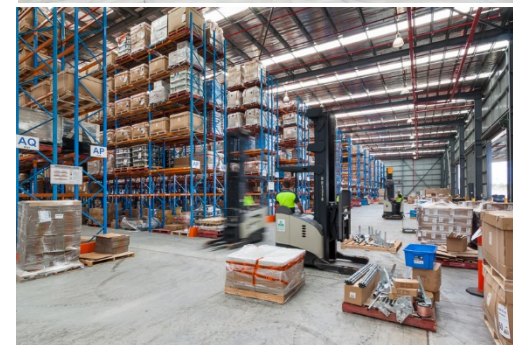


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Supply Chain Update

# Supply Chain – Update

## National Distribution Centre

- 9,000 m2 including warehouse, offices and trade centre
- 80 parking spaces
- 7,000 products
- 600m from M2/M7 Sydney orbital road network
- 8,000+ orders shipped to customers since Go Live 11 December 2017
- Trade Centre launched 9 February 2018



# **1H FY18 Financial Results**

**we are HILLS.**

# Key numbers from the financial statements

A\$million	1H FY18	2H FY17	1H FY17
Revenue	136.2	140.8	157.3
Gross Margin	43.7	42.7	45.1
Other income	0.6	0.4	12.7
Operating Expenses (excluding depreciation, amortisation and non-operating costs)	(40.4)	(45.2)	(49.3)
EBITDA	3.6	(2.1)	8.4
Non-operating costs	(0.2)	(1.1)	(2.9)
(Loss) / profit for the period	(0.7)	(8.1)	0.2

Revenue declined by \$21m, due primarily to exiting of unprofitable NBN satellite installation business (\$13m) and shortfall in Antenna sales (\$5m) due to the competitive Pay TV landscape.

**Gross margin** in 1H FY17 includes impairment of inventory of \$4.4m

**Other income** in 1H FY17 includes exit of HHL business

**Operating expenses** continue to decline as expenses are aligned to the current business size.

# Operating Expenses

A\$million	1H FY18	2H FY17	1H FY17
Labour and related expenses	(28.5)	(32.7)	(35.8)
Operational and equipment expenses	(3.7)	(4.1)	(3.8)
Property expenses	(3.6)	(3.8)	(4.1)
Other expenses	(4.5)	(4.7)	(5.6)
<b>Operating expenses</b> (excluding depreciation and amortisation)	<b>(40.4)</b>	<b>(45.2)</b>	<b>(49.3)</b>
Depreciation and amortisation	(3.3)	(3.5)	(3.5)
<b>TOTAL Operating expenses</b>	<b>(43.7)</b>	<b>(48.8)</b>	<b>(52.8)</b>
Non-operating costs	(0.2)	(1.1)	(2.9)
<b>TOTAL Expenses</b>	<b>(43.9)</b>	<b>(49.8)</b>	<b>(55.7)</b>

**Labour and related costs** continued to reduce as headcount was aligned to current sales levels, down \$7.3m or 20% on the corresponding period

**Property expenses** declined as Hills exited a number of properties and we continue to review the property requirements of the Group

**Depreciation and amortisation** remains largely stable on preceding periods

**Non-operating costs** in FY17 relate to the terminated Lincor transaction and costs following the FY17 headcount reductions

# Balance Sheet

A\$million	Dec 2017	Jun 2017
Trade and other receivables	53.5	59.5
Inventories	47.1	46.5
Other current assets (excluding cash)	-	0.2
<b>Current assets (excluding cash)</b>	<b>100.6</b>	<b>106.2</b>
Property, plant and equipment	15.4	16.6
Intangible assets	3.5	2.6
Deferred tax assets	11.2	10.9
Other non-current assets	1.3	0.0
<b>Non-current assets</b>	<b>31.4</b>	<b>30.1</b>
Trade and other payables	45.5	40.3
Provisions	10.7	14.8
Other liabilities	0.1	0.3
<b>Liabilities (excluding borrowings)</b>	<b>56.3</b>	<b>55.3</b>
<b>Net debt</b>	<b>15.7</b>	<b>20.0</b>
<b>Total equity</b>	<b>60.0</b>	<b>60.9</b>
Debt to equity ratio	20.7%	24.7%

**Trade receivables** remain a focus with improved collections and lower sales levels vs prior year.

**Inventory** remained largely flat during the half however we do see opportunities to reduce from December levels during the second half

**Deferred tax assets** – does not include recognition of tax benefit on available tax losses. Tax losses are available to the business to offset future taxable income.

**Trade and other payables** reflects creditor payment timing

**Net debt** down to \$15.7m from \$20.0m at 30 June 2017

# Cashflow

A\$million	1H FY18	2H FY17	1H FY17
(Loss) / profit after tax	(0.7)	(8.1)	0.2
Add back: non-cash items	3.2	3.7	(2.9)
Decrease in restructure provision	(2.0)	(0.8)	(0.4)
Increase in non-trade working capital	(2.1)	(2.1)	(0.5)
Decrease in trade working capital	9.7	7.4	2.9
<b>Net cash flow from operating activities</b>	<b>8.1</b>	<b>0.0</b>	<b>(0.8)</b>
Capex - PPE	(1.4)	(0.7)	(0.8)
Capex - Intagibles	(1.7)	(0.6)	(1.6)
Proceeds from disposal of PPE	0.1	0.2	6.5
Other investing cash flow		-	0.0
<b>Net cash flow from investing activities</b>	<b>(3.1)</b>	<b>(1.2)</b>	<b>4.1</b>
Proceeds from / (repayment of) borrowings	(5.4)	(3.7)	6.2
<b>Net cash flows from financing activities</b>	<b>(5.4)</b>	<b>(3.7)</b>	<b>6.2</b>
<b>Change in cash balance</b>	<b>(0.4)</b>	<b>(4.9)</b>	<b>9.5</b>

**Cash inflow from operating activities** was supported by stronger NPAT performance and favourable working capital movements in the half vs the preceding half to 30 June 2017

**Non-trade working capital** cash out flow is predominantly the payout of employee entitlement provisions (mostly driven by redundancies).

**Intangible assets capex** is predominantly related to Digital Transformation project.

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# Thank You

