



## asx announcement media release

18 August 2014

### HILLS FULL YEAR FY14 RESULTS IN LINE WITH MARKET GUIDANCE

Hills Limited (ASX: HIL) today announced improved results for the year ended 30 June 2014.

#### Result Highlights

- Statutory profit after tax attributable to owners of \$24.8M, up \$118.9M on prior year.
- Underlying FY14 NPAT attributable to owners of \$27.3M<sup>1</sup>, up 42.2% on prior year and in line with guidance provided to the market of \$26M - \$28M.
- Final dividend of 3.60 cents per share declared, fully franked.
- Underlying EPS<sup>2</sup> up 46%.
- Sale of Orrcon and Fielders to BlueScope Steel Limited (“BlueScope”) completed.
- A positive net cash balance of \$8.5M at 30 June 2014 i.e. zero net debt.
- Return on funds employed in excess of 20%.

Hills Limited reported today a statutory net profit after tax attributable to shareholders of \$24.8M for the year ended 30 June 2014. In line with market consensus, the Company’s FY14 underlying NPAT<sup>1</sup> was \$27.3M (before acquisition transaction costs expensed during the period and before one-off income tax credits associated with business sales). This result was achieved in very challenging market conditions across the building and construction sector with improvements in revenue from the Group’s continuing Hills Technologies Segment.

Hills Group Managing Director and CEO, Mr Ted Pretty, said: “The FY14 underlying result is in line with guidance provided to the market recently and further reflects our success in delivering on Hills new strategy.”

“Our restructure of Hills by exiting businesses non-core to its future and closing unprofitable businesses is now largely complete. We continue to drive new initiatives and programs to improve group operations.” he said.

“Hills is now firmly focused on businesses which can deliver higher returns. We are concentrating on opportunities as an integrated solutions provider in the technology and communications market segments, with a particular but not exclusive focus on security and health care technologies,” Mr Pretty said. Asset sales and acquisitions during FY14 included Hills completing the sale of Orrcon and Fielders to BlueScope; the sale of UHS Systems to

<sup>1</sup> Underlying NPAT attributable to owners for the year ended 30 June 2014 of \$27.3M is a non-IFRS measure calculated as: NPAT attributable to owners of \$24.8M adjusted for business combination acquisition transaction costs after tax, offset by one-off income tax credits associated with business sales (a net adjustment of \$2.5m) as disclosed in note 22(c) of the Annual Report. The 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> Underlying Earnings per share (EPS) is calculated with reference to underlying NPAT attributable to owners for the year ended 30 June 2014 of \$27.3M (a non-IFRS measure) as disclosed in note 22(c) of the Annual Report.



## **asx announcement media release**

**18 August 2014**

UTC; and Opticomm to Hills joint venture partner. Acquisitions by the Group during the financial year included: Merlon (nurse call); HTR (patient entertainment), Questek (nurse call), Open Platform Systems (security), Intek (security) and APG (audio products).

### **Restructure and Transformation Charges**

No further net restructuring charges and impairments were taken in respect of ongoing businesses in FY14 as a result of the earlier restructuring and transformation program. Any additional closure, exit costs and or/redundancies not covered by existing provisions have been treated as part of business as usual and allocated against operational savings.

### **Land and Building**

Hills progressed the sale of various company-owned properties during the year converting their asset carrying values to cash which was put towards retiring debt, new acquisitions, other innovation investment and to buy back Hills shares.

### **Assets Held for Sale and Discontinued Operations**

On 28 February 2014 Hills announced the completion of the sale of its Orrcon and Fielders steel assets to BlueScope Limited. Net cash proceeds were approximately \$80.0M.

The impact on the Hills FY14 pre-tax result was not material given that the assets are held for sale and carried at fair value.

### **Net Cash/Debt and Funding**

Hills net cash at 30 June 2104 was \$8.5M, with total debt facilities in place of \$202.7M (subject to ongoing covenant limitations).

The Company has capacity for further acquisitions in line with its strategic and financial objectives. Hills is in discussions with its bankers regarding the refinancing of its entire debt facility on better commercial terms and securing a new facility which will provide ample capacity for further acquisitions.

### **Dividends**

The Board declared a fully franked dividend of 3.60 cents per share which will be paid on 26 September 2014 to registered shareholders as at 12 September 2014. This follows the fully franked dividend of 3.40 cents per share paid to Hills shareholders on 31 March 2014.

The intention of the Hills Board, subject to acquisitions and working capital requirements, is to target on an annual basis a dividend payout ratio of 50-75% of underlying net profits attributable to owners, franked to the maximum extent possible.

Given the Company's strong balance sheet, Hills continues to suspend the Dividend Reinvestment Plan and Share Investment Plans.



## **asx announcement media release**

**18 August 2014**

### **On-Market Buyback**

During the FY14 year, the Company completed the buyback of 12.3M ordinary shares for a total consideration of \$22.3M. This represents 5% of the issued share capital being bought back in the previous 12 months at an average price of \$1.81 per share.

Mr Pretty said: "The Hills Board is of the opinion that the current price for the Company's shares does not necessarily reflect the underlying value of our assets, our business capability and our strong capital position."

"On 15 August 2014 we announced our intention to refresh the Company's ability to undertake an on-market buyback. The extension of the buyback provides Hills with the option to acquire shares up to ten per cent (10%) of the issued capital during the next 12 months. Any buyback will not affect the dividend policy."

### **Safety**

Safety is a priority for Hills and the safety performance across the Company's operations for the 12-month period from 1 July 2013 to 30 June 2014 resulted in a Lost Time Injury Frequency Rate of 0.5 and a Total Recordable Incident Frequency Rate (Lost Time Injuries and Medical Treatment Injuries combined) of 1.0. The financial year saw a 9% decrease in Total Recordable Incident Frequency for the group.

### **Strategy Update**

Hills continues to be a company with a brand that attracts market attention. During FY14 we focused on building on this trust, while regularly updating the market on our strategy and business model.

The strategy of the Company remains based on creating value by being focussed on delivering technology based solutions into trusted government, enterprise, business and residential markets. This includes supplying access control and video security, automation and control, audio visual and lighting solutions into hospitals, aged care facilities, schools, universities, banks, retailers, public transport and private logistic providers.

There are three key elements to this strategy. First, strengthen our core, value-added product distribution business. Second, build a services model creating recurring revenues around those solutions and third, expand in certain high growth segments such as health.

We recently completed bolt-on acquisitions to support our core security and automation solutions and the first of a number of anticipated acquisitions in the health care segment. We have a high conviction that security, well-being and health have strong domestic growth potential. Our acquisitions in security and healthcare have been well received, further reflecting the trust and faith placed in Hills.



## **asx announcement media release**

**18 August 2014**

At the beginning of FY14, the Hills Board confirmed our aspirational settings to be achieved by FY16 including:

- 75% of revenues from technologies and communications
- 20-25% of revenues from services
- Sustained earnings growth
- Return on funds employed (ROFE) of 13-15%

The Board continues with management to tune our strategy and objectives and we intend to provide shareholders with an update for the period FY15-17 at this year's AGM. We are well on the way to meeting these targets. In particular in FY14:

- Our revenues from technology and communications were greater than 75%; and
- We achieved a return on funds employed (ROFE) in excess of 20% in the period.

### **FY15 Outlook**

Mr Pretty noted the Reserve Bank's recent observation that notwithstanding a pick-up in growth around the turn of 2014, GDP growth was expected to be below trend over the next year or so, rising gradually thereafter.

"While the continuing subdued commercial construction sector does impact building-related technologies, Hills remains very well positioned for the year ahead," he said.

"We have entered FY15 with a very strong balance sheet, reduced structural and operating complexity and a lower operating risk profile. We have ample capacity for further acquisitions that are accretive to our core and or offer medium to long term growth opportunities.

The outlook for FY15 of necessity must be based on continuing businesses (including FY14 acquisitions and the recently acquired business of APG). Hills current guidance is for an underlying FY15 NPAT attributable to owners of \$22-24M (before further acquisitions) reflecting expectations of underlying growth in our continuing technologies business. Hills also intends to seek larger acquisitions in the security and healthcare technology sectors.

"We remain committed to delivering sustainable earnings growth and optimising shareholder value as the implementation of the new Hills strategy continues."

**18 August 2014**



**asx announcement  
media release**

**18 August 2014**

**Investor / Analyst Enquiries**

Ted Pretty  
Group Managing Director and CEO  
Hills Limited  
(08) 8301 3200

Grant Logan  
Group Chief Financial Officer  
Hills Limited  
(08) 8301 3200

**Media Enquiries**

Virginia Kim  
Product Communication & Innovation Manager  
Hills Limited  
(08) 8301 3200