

Hills continues momentum with FY19 first half results

Hills Limited (ASX: HIL) announced its FY19 first half results today.

A summary of the half year financial results is set out below:

\$'million	1H FY19	1H FY18
Revenue	132.3	136.2
Operating Expenses ¹	40.6	43.7
NPAT	0.2	(0.7)
EBITDA ²	5.1	3.6
Operating Cash Flow	(1.2)	8.1

Financial Summary:

- NPAT increased \$1.0m over the prior year corresponding period.
- EBITDA of \$5.1m represented a 41.7% improvement.
- Revenue declined primarily due to changes to the AV vendor portfolio and challenges within the small to medium business (SMB) sector of our security and surveillance business.
- Operating expenses down \$3.1m or 7.1% on the prior year corresponding period.
- Net debt up \$5.5m from 30 June 2018 to \$22.4m.
- Cash flow from operating activities was an outflow of \$1.2m in the period versus prior year inflow of \$8.1m reflecting investment in new brands and key projects due for delivery in H2.

¹ Operating expenses excludes net income / costs not considered part of segment EBITDA. This is a non-IFRS measure that is not subject to audit or review. This non-IFRS measure is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

² Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure that is relevant because it is consistent with the measures used internally by management and some in the investment community to assess the operating performance of the business.

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Hills CEO and Managing Director, David Lenz said, “In the 1H we saw strong performances from our Health, Hills Connection Solutions, Enterprise SSIT and IT business areas which underpinned our improved 1H performance. What was also encouraging is these business areas grew versus prior year. However, we still had challenges in certain parts of our distribution business which need to be improved and impacted our first half results.

In order to ensure we deliver continuous business improvement we will undertake a strategic review in Q4 to ensure we have the correct structure, processes and systems in place to deliver sustained and improved profitability.”

Business Performance Update

Hills **Security, Surveillance and IT business (SSIT)** had a mixed first half result. Enterprise and IT business areas continued to deliver high single digit growth over the prior period, however the sales divisions targeting SMB business continued to perform below expectation in the 1H of FY19.

The business continued to see strong growth from key vendors in the 1H, with Genetec delivering 41% sales growth and Axis product sales increasing by 20%. The Company also won a number of projects during the period including:

- a supply of Axis CCTV products into a major correctional facility; and
- delivery of a Genetec solution for law enforcement.

We continued with the ongoing roll-out of:

- transportation solutions in conjunction with Transurban; and
- CCTV across regional and metro rail stations with Indra for Sydney Trains and Transport for New South Wales (NSW).

The Hills IT business had a strong 1H, growing sales by 6% with key networking vendors, Ruckus and Extreme Networks.

The SMB business continued to experienced challenges in the 1H and as a consequence, will be a key focus in the strategic review during Q4.

Hills Health business achieved 25.7% sales growth over the previous corresponding period, continuing its momentum from the FY18 result.

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Hills market leading Nurse Call solution, delivered another strong sales performance over the prior year.

Hills continued to win large projects in the first half of FY19, including Westmead Hospital Stage 2, Alfred Health retrofit, Sunshine Hospital retrofit, Prince of Wales Private Hospital and Barwon Health Blakiston Lodge.

“Our ownership of the Nurse Call intellectual property and our commitment to invest in R&D will ensure the Hills Nurse Call solution remains the market leader in this segment, with a very strong pipeline of sales for the second half,” Mr Lenz said.

“The Patient Engagement business also performed well. Whilst revenue was down slightly, margin quality increased in the first half. We had new interactive patient engagement wins at Calvary Adelaide Hospital, Northern Health Victoria and Prince of Wales Private in Randwick, NSW.

“Our supply of Hospital Wi-Fi to eHealth NSW has been extended to seven sites and additional ‘proof of concept’ work is currently being undertaken to expand to other sites,” he said.

“We continue to look at opportunities to further expand our health portfolio to drive additional growth in adjacent market segments,” Mr Lenz said

Hills **Audio Visual (AV) business** continues to show improvement and while revenues declined in the 1H as the business absorbed prior year changes to the vendor portfolio, margin quality improved 3 percentage points against the prior year, providing a solid platform for the AV division to build on in the 2H of FY19.

“Hills AV business continues to see strong sales growth from many of our key brands. Hills was recently awarded Williams Sound “Global Distributor of the Year”, which is great recognition of our performance in the market,” Mr Lenz said.

Hills Australian Monitor division has grown sales by 9.3% in the 1H and, following the recent launch of its products at the Integrated Systems Europe trade show in Amsterdam³, expects to enjoy continued growth over the next 12 months. As an example, the Australian Monitor business will supply Fire & Rescue NSW with a public address solution for 335 fire stations across NSW, which was customised to meet the unique requirements of the fire department.

³ Integrated Systems Europe is the world’s largest exhibition for AV and systems integration. Source: <https://www.iseurope.org/>

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“Hills recently announced the addition of Chiayo to complement its portfolio and we expect this vendor will help deliver further growth within the AV portfolio over the next 6-12 months,” Mr Lenz said.

The Hills **Antenna Business** continues to make a significant contribution to the group results with margins remaining strong and on-going demand from customers to source product made locally in the Adelaide factory. Sales revenue grew 5% in the 1H of FY19.

Hills Connection Solutions produced a strong 1H result, delivering a margin improvement on the prior year with slight top line revenue growth as a result of the mix of work now undertaken as part of the NBN fixed wireless rollout. This business is on track and now well positioned for new growth opportunities.

Digital Platform Update

Average daily sales from our eCommerce platform continue to increase. The total number of customers registered on line now totals over 3,800, with a target of over 5,500 customers to be registered by the end of the current financial year.

The digital transformation team continues to develop the business’ eCommerce capabilities to further enhance the customer and supplier experience.

Outlook

Hills expects to deliver an improved trading profit for the full year.

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