

8 November 2019

CEO and Managing Director Address

Thank you for the introduction Jenny and good afternoon ladies and gentlemen.

As outlined by Jenny, the challenges we experienced with our business mix during the first half of FY19 resulted in the Operational and Strategic reviews of our business during the second half.

The outcome of these reviews was the decision to divest our Communications and AV businesses reducing our exposure to non-performing assets and reduce the overall complexity of the business. This will enable the company to streamline and narrow the focus of our distribution business and increase our investment in our Health business.

Hills, moving forward, will now be a more streamlined company focussed on:

- *Hills Health – the leading provider of nurse call solutions, patient engagement systems and wi-fi networks in Australian and New Zealand hospitals and aged care facilities.*
- *Hills Distribution – a leading provider of integrated security, IT and technical services across Australia and New Zealand.*

I believe this improved focus will have a positive impact on the overall performance of our company and provide our customers, partners, shareholders and staff with an exciting future that will deliver the results many in this room have been waiting for over the past few years.

So why have we chosen to focus the business on these two divisions?

Health Business

First, I will tell you why we are in the Health sector.

Today 9.8 per cent of Australia's GDP is spent on health, with \$47 billion spent in the public sector and \$11 billion in the private sector.

Structural growth in hospital beds per capita is driven by population growth and an ageing population which requires continued investment in our health facilities and services.

Hills today occupies a market-leading position in providing Nurse Call and Patient Engagement Systems (PES).

Our Nurse Call business currently serves 43 per cent of all public hospital beds in Australia and 30 per cent of all private hospital beds.

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asx announcement media release

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Our next generation IP7500 Nurse Call platform was successfully released this year and installed at the new Joan Kirner Hospital in Victoria. This product was developed in Australia by the R&D team based in Melbourne and during the course of the year we signed a further 5 contracts for the new platform with the latest signing being Concord Hospital in NSW ensuring we maintain our market leadership position.

*Our road map for this product will see the release of the IP7500 **Wireless** Nurse Call system in Q4 this financial year, enabling our health business to further accelerate its presence in the Aged Care market providing a future growth opportunity for the business with a solution that meets the needs of the market by removing expensive cabling requirements and reducing installation challenges*

We have brought with us today a demonstration system so you can see how our IP7500 system operates. Andy Hall, our Head of Health, will be happy to demonstrate after the AGM.

Hills also occupies a market leading position in the Patient Engagement Systems market with systems available in 43 per cent of all public hospital beds and 23 per cent of all private hospital beds in Australia.

Our Patient Engagement Systems provide services from basic TV and Entertainment services through to functionality that will drive financial and patient outcomes in Hospitals.

Hills is well positioned to capitalise on the shift towards SAAS (software as a service) based solutions and currently provides a market leading solution in the delivery of guest Wi-Fi for NSW eHealth into 64 sites. SAAS solutions are based on regular subscriptions, rather than upfront contract payments, delivering more predictable, ongoing recurring revenues streams for Hills.

Hills also recently delivered the first commercial Wi-Fi patient entertainment BYOD (bring your own device) solution in Australia at Joan Kirner Hospital demonstrating our ability to innovate to deliver customer outcomes.

We continue to grow our Patient Engagement business with new contracts signed covering 2,000 new beds in NSW Public hospitals over the past year. This combined with the renewal of 16 contracts around Australia covering 3,200 beds reinforces our ability to maximise our existing business and at the same time grow new business.

In order to maintain our market leadership in the Patient Engagement market, in May this year Hills reached agreement to be US-based GetWell Networks sole distribution partner for its interactive patient care products and services across Australia and New Zealand.

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Let's hear from Michael O'Neil Founder and CEO of GetWell Networks

[Play Video <https://youtu.be/QKFYALyGaaY>]

The two key GetWell solutions are:

GetWell | Inpatient

This is a proven, best-in-class patient engagement platform used in more than 700 sites across the US, servicing 75,000 beds and 10 million patients each year.

We have already had success, with our first installation taking place with over 400 beds at Calvary Health in South Australia.

The other key benefit of this solution is it is the only certified platform that integrates with the two dominant market leaders in Electronic Medical Records in Australia – CERNER & EPIC. This provides hospitals with the ability to display patient records and information through the GetWell platform.

*The second solution is **GetWell | Loop***

GetWell Loop is designed to address patient re-admission and rescheduling of medical procedures, both of which are large, and often preventable, sources of cost in hospitals.

No other provider in Australia can offer an equivalent product that handles pre-admission, post discharge and patient monitoring.

***Inpatient & Loop** offer Hills Health exciting growth opportunities over the next 12-24 months and will ensure Hills maintains its leadership position.*

This type of innovation, along with our Wi-Fi solutions, will ensure we continue to maintain our leadership in the Patient Engagement Systems market.

The outlook for our Health business is very strong, with a solid pipeline of orders and tenders across both Nurse Call (\$70 million) and Patient Engagement Systems (\$10 million)

We expect to see solid growth in revenues in FY20 and beyond driven by:

- *Market share gains*
- *Increased share of wallet*
- *Leveraging replacement cycle in hospitals*
- *Maximising contract renewals*

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- *Increasing the base of recurring revenues*
- *GetWell market penetration*
- *Continued investment in product development*

Moving onto our Distribution business I will now tell you why we have focused on integrated security, IT and technical services.

Over the next three years we will see compound annual growth in the following key segments in which Hills Distribution business plays today – Access Control, Video Management Systems, and CCTV & IT.

The Access Control market is expected to continue to grow at an annual rate of 7 per cent over the next three years. Hills is well positioned to capitalise on this market opportunity through its exclusive relationship with Carrier (formally Interlogix), which will see new products introduced into the home automation market through the Reliance XR platform, and the corporate market with enhancements to the Tecom range with the launch of ChallengerPlus delivering a market-leading solution.

In the Video Management Systems (VMS) market we are also seeing 7 per cent annual growth in this segment. On the back of our exclusive agreement with the market-leading Genetec solution we expect to continue to deliver growth higher than the market rate as Genetec continues to take share and grows new applications in adjacent market segments, such as parking and workflow management.

The CCTV & IT markets are both looking at 5 per cent growth rates and Hills is well positioned with a range of CCTV solutions led by Axis, where Hills currently holds a market-leadership position, and IDIS, which is our exclusive CCTV brand. We also have Vivotek, Dahua and Mobotix to round out our range of CCTV solutions.

On the IT front we have seen great success in 2019, with Ruckus and Extreme Networks both experiencing strong growth, which has allowed our IT business to grow 6.4 per cent over the past 12 months and this trend is continuing into FY20.

As part of the Operational review of the Distribution business we have worked to implement technology to drive improved productivity. In recent months, we have implemented new business intelligence tools, customer relationship management tools and a new phone system to deliver an improved customer experience.

The streamlined Distribution business is also expected to accelerate the utilisation of our eCommerce platform, which will now be focused only on the Security & IT customer segment, and this should drive stronger adoption and usage of this platform.

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We have also worked to increase our customer-facing resources across the business and opened a new high-profile site in Nerang in Queensland servicing the Gold Coast region.

Over the past 12 months we have seen encouraging signs with our top four vendors delivering revenue growth in FY19 and winning major infrastructure, law enforcement and correctional facilities projects across Australia.

Our Technical Services business (formally known as Hills Connection Solutions) has signed new contracts with the Lendlease group and Downer EDI Limited, providing the business with a solid foundation for the future.

Within our Distribution business, we have reduced our operating expenses by a further 6.1 per cent or \$4 million over the previous year and increased our focus on inventory management. In FY20 we are looking to deliver a further \$3 million-\$5 million in additional operational cost savings as we continue to implement the changes that came out of the Operational review of the business.

With the continued focus on improving the overall distribution business and as a result of our announced business divestments, we have the confidence we are well positioned to return the distribution business to profitability in FY20 and positive cash flow generation.

As you would be aware, we have announced the sale of our Antenna Business to Bitek, and most recently the sale of our AV business to Amber Technology Limited. I can today announce that we have also agreed to terms with Av-Comm for the sale of the STEP business completing our program of business divestments.

As part of these divestments it has been pleasing to be able to also ensure the transfer of over 50 staff, enabling them to continue their careers in their chosen industries.

These transactions are on track to be concluded during December and we expect them to have the following effects on the Company's financial position:

- *Full-year revenue impact of approximately \$50m with no negative impact on EBITDA;*
- *An approximate \$10m release of working capital to reduce net debt and to invest in the continuing businesses; and*
- *No further provisions or impairments associated with these transactions.*

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Outlook

We have had an encouraging start to 1H FY20, which means we are tracking as highlighted today to guidance provided with our full-year results in August 2019:

- *the Distribution business on track to achieve cost savings of \$3m to \$5m in FY20; and*
- *the Health business is on track to deliver solid growth in Hills Health revenues in FY20.*

We expect to deliver a strong 1H NPAT performance over the prior year, subject to the timing of major project deliveries in November and December.

We expect our performance in FY20 to show strong growth year on year as we pursue the strategy outlined today.

I am sure, like all companies today, we will continue to face challenges over the coming 12 months, but I am very confident we have made the right decisions to ensure the longer-term success of Hills and ensure it is well placed to continue to hold a strong position in the Australian business landscape.

Thank you

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