

Chairman's Address

Good afternoon, Ladies and Gentlemen.

Welcome to Hills 60th Annual General Meeting.

My name is Jennifer Hill-Ling and I am the Chairman of your Company.

I would like to acknowledge the traditional custodians of this land, the Kurna people of the Adelaide Plains, and pay my respects to their Elders, past and present.

We have a quorum and I declare the meeting open. The Notice of Meeting has been sent to all shareholders, with your consent, I will take it as read and move forward.

The Minutes of last year's AGM held on 4 November 2016 are in order. They have been signed by me and are available for any interested shareholders to review. In addition, to shareholders present here today, I can confirm that 35.87% of the Company's shares are represented by proxies.

I am pleased to introduce my fellow directors:

- *Philip Bullock;*
- *Fiona Bennett; and*
- *Ken Dwyer.*

I would also like to introduce:

- *our Chief Executive Officer (CEO), David Lenz;*
- *our Chief Financial Officer (CFO), Chris Jacka; and*
- *our Company Secretary, David Fox.*

Scott Fleming, from KPMG, is our auditor, and he is available to answer any audit related questions you may have in due course.

OVERVIEW

May I thank those shareholders who have taken the time to send us questions this year. David Lenz and I will endeavour to respond to them during the course of our addresses.

Now let me briefly outline what we will cover this afternoon.

First I will provide an overview of our performance over the past financial year, including the progress made in establishing our “Platform for Growth” and other strategic initiatives outlined at last year’s AGM.

Our CEO David Lenz, will then:

- *update you on the performance of each of our businesses;*
- *outline the Company’s direction and strategic focus for the current financial year and beyond; and*
- *finally, provide an overview of the outlook for the current financial year before we move to the formal items of business set out in the Notice of Meeting.*

FY17 STATUTORY REPORTED RESULTS

Following the transition of the Hills Home Living assets to AMES Australasia in December last year, your Company is now solely focused on delivering technology products and service solutions in the key growth categories of Health, Security, Communications & Audio Visual.

The net profit performance of your Company improved during the year in review by \$60.4 million however we did record a Net Loss after Tax of \$7.9 million after allowing for:

- *professional costs associated with the termination of the proposed Lincor merger;*
- *redundancy costs incurred in further reducing overheads;*
- *inventory write downs;*
- *additional costs under the satellite installation services for NBN; and*

- *divesting the Hills Home Living assets.*

Whilst our margin quality remained strong during financial year 2017 (“FY17”), our revenue declined from \$328.9 million to \$298 million which was due in part to changes in vendor portfolios, a reduction in the volume of product sold to Foxtel and Hills decision to only continue with NBN fixed wireless installations and exit NBN Co satellite installations.

Pleasingly, revenue from the provision of services represented 22% of total revenue for the period in review, which was a slight increase on financial year 2016 (“FY16”), and the profitability of our health business has continued to increase year on year.

CAPITAL MANAGEMENT - REDUCED NET DEBT

Our net debt reduced by \$1.6 million during the year in review to \$20 million. After payment of \$5.4 million for redundancies, lease make good obligations and Lincor costs we had a small operating cash outflow of \$800 thousand.

STRATEGIC INITIATIVES

Moving now to review the strategic focus of the Board and Management team over the past 12 months which has been to position the Company for growth. This work has included:

- *reducing operating expenses which we expect to be over \$10m lower than prior year with further reductions expected to flow through in financial year 2019 (“FY19”);*
- *selectively outsourcing administrative functions to Cognizant Worldwide Limited, a provider of IT, consulting and business process services;*
- *strengthening vendor and customer relationships;*
- *training and development of staff;*
- *Integrating the Hills Health business into the Company;*
- *the investment in new initiatives like our dementia software and the expansion of our bring your own device (“BYOD”) patient engagement offerings for our healthcare customers;*

3 November 2017

- *securing the sole distribution rights to United Technologies Corporation (“UTC”) security and surveillance solutions and launching the HillsTrak solution which provides our customers with an asset-tracking capability; and*
- *expanding and refreshing our Australian Monitor products in our Audio Visual (“AV”) business.*

I am pleased to advise that this work is delivering benefits together with improved product margin in both our Security and Surveillance and Nurse Call businesses in the first quarter of the current financial year.

We have also commenced additional work on a number of projects which will deliver benefits this financial year and in FY19 including:

- *our investment in our market-leading Digital Platform, which will enable us to better service our customers with improved efficiencies and productivity;*
- *the establishment of our own central distribution facility at Seven Hills in NSW which will also improve customer service and inventory management;*
- *the expansion of our current healthcare offering through adjacent solutions such as dementia monitoring which is currently in its trial phase; and*
- *development of end to end solutions for the Health sector focusing on Aged Care and Hospitals which leverage the full range of Hills products and services.*

David Lenz will provide further details on these initiatives shortly.

I am also pleased to confirm a number of successful contract wins for both our Health and Security and Surveillance businesses including the:

- *supply of nurse call solutions to the new Joan Kirner Women's and Children's Hospital in Victoria, and the Blacktown and Northern Beaches Hospitals in NSW;*
- *supply of patient engagement services to the Angliss, Box Hill, Maroondah and Peter James Centre Hospitals in Victoria and the*

3 November 2017

Royal Prince Alfred, Concord, Canterbury, Northern Beaches and Balmain Hospitals in NSW;

- *supply of security to the Perth Stadium;*
- *delivery of a Genetec solution and AXIS cameras to the NSW Parliament House, Mirvac Retail Properties and Transurban Limited; and*
- *supply of a Ruckus wifi solution and Williams Sound Hearing loops to Sydney Trains.*

Whilst it was disappointing to lose some distribution appointments in our AV business during the period we acquired a number of distribution rights in our other HBT businesses and we were rewarded for our distribution services in winning the

- *Genetec: SDK Developer of the year Asia Pacific;*
- *Genetec: Distributor of the year Asia Pacific; and*
- *Ruckus: Distributor of the year Australia & New Zealand.*

LINCOR MERGER

At last year's AGM we foreshadowed that Hills Health Solutions ("HHS") business would merge with Lincor Inc and that the newly incorporated company Lincor Limited, would list on the ASX with Hills shares in Lincor Limited to be distributed pro-rata to existing Hills shareholders. However, after testing the market and experiencing market volatility in November last year, the demerger and capital raising was deferred.

After the IPO was deferred, we then explored a number of options, including raising pre IPO funding with a 2017/2018 listing but unfortunately, none of the funding options presented to the Board and Management of Hills were, in our view, acceptable or in the best interests of Hills' shareholders and the merger agreement was terminated.

It may be argued that we should not have gone down the merger and IPO path given the distraction to management and the costs associated with it, but at the time we were provided with expert advice which indicated that a merger of our health business and Lincor would be financially attractive to our shareholders.

For personal use only

3 November 2017

Hills continues as the exclusive distributor of the Lincor patient engagement solution in Australia and after a comprehensive strategic review of our health business, your Board and Management determined that Shareholders would be better placed by Hills retaining the health business and continuing to invest in growth plans which David will outline shortly.

SHARE PRICE

As one of the major shareholders in the Company I share your disappointment and frustration with the current share price and the time it is taking to return the Company to profitability and to paying a dividend.

I can also assure you that my Board colleagues and I, together with Management are very focused and determined to improve the performance of your Company and value for all shareholders.

Many of you here today are familiar with the recent Hills history, we exited capital intensive manufacturing, because we could not effectively compete with China and lower cost countries and we used the money to invest in growth industries such as health and in strengthening our Security and AV distribution offerings.

Over the last five years we have sold our legacy steel, manufacturing and non-core businesses and assets as outlined in the table behind me for \$233 million and we have used the proceeds to acquire new technology businesses in the Health, Security and AV sectors for \$103 million (including transaction costs). The balance of the sale proceeds was applied to reduce debt by \$85 million and fund share buybacks of \$25 million and assist in funding a further \$53 million in restructure and right sizing costs associated with the transformation of Hills. During this time, we also paid dividends of \$43 million.

Dividend and restructure costs were funded from operating cash flows of \$76 million and the balance of \$20 million from the sale of legacy assets. It has been suggested that given we have had to impair some of the assets associated with these purchases that we did not invest wisely or we paid too much. These are difficult questions and answers are complex given that the accounting valuations adopted for the purposes of impairing assets differs from that used in valuing a business for sale/purchase as a going concern in a growth sector. In any event, we continue to own and invest in these businesses which were purchased for their long-term value and growth potential rather than their value at a given point in time which is what occurs for the purposes of impairment. I am also pleased to advise that many of these businesses have improved their performance since

3 November 2017

they were impaired however under accounting rules the value of impaired assets does not get reversed in the Company's accounts.

Your Board and Management are unified in our belief that the strategic decisions we made were correct, but the challenges we faced were the complexities of selling our legacy businesses, integrating a number of new businesses at the same time, and the distraction from operating the continuing businesses as a result.

After the sale of the manufacturing assets the Company's overheads including Corporate costs were too large and the legacy computer and distribution systems and processes which were established when we were a manufacturing Company are no longer suited to our technology and health businesses. The implementation of the digital platform I mentioned earlier and David will discuss shortly is the first step in rectifying this deficiency and is due to be launched early in calendar year 2018.

At the same time, David Lenz and his executive team continue to develop our people to meet the demands of the rapidly changing technology world in which we operate, and we have aligned compensation to the market for a Company of our size - with the top 10 executives earning 26% less in fixed remuneration from July 2016 to July 2017.

I have also worked with the Board to reduce the number of directors to bring it into line with a company of our size.

None of this is easy but we have made the difficult decisions.

We have put a plan in place to return a trading profit in FY18 and we hope to see improvement in the share price in 2018 as the benefits from our cost reductions and growth in profit initiatives are realised.

I will now hand over to our CEO, David Lenz to update you on the performance of our businesses and provide further detail on our strategic initiatives in the current financial year and beyond.

[CEO PRESENTATION]

For personal use only

CLOSING REMARKS

As I mentioned at last year's AGM, rebuilding takes time to do well.

Importantly, we are making progress and Hills is certainly heading in the right direction towards better times for the Company and its shareholders.

We have established a foundation for growth in the Company's healthcare, security and surveillance, communications and audio visual sectors which we believe will have a positive impact on profitability in the current financial year.

However, we still have work to do as David and I both outlined earlier.

Whilst our Health business is solid and as I mentioned earlier has enjoyed continued year on year growth in profitability, our future depends firstly, on having a cost effective modern value added technology distribution business which has a lean head office, efficient computer and distribution systems and great relationships with our vendors and clients and secondly on expanding our health business from patient engagement and nurse call systems, to providing a broader range of ongoing services to hospitals and aged care facilities

Although we are not anticipating returning a trading profit in the first half of the current financial year, pleasingly we are expecting to have a trading profit in the second half of FY18 as our strategic initiatives and the benefit of cost reductions are realised. With such improvement, we will then review our ability to pay a franked dividend after the FY18 results have been finalised.

In closing, I want to thank my Board colleagues for their commitment and valuable contribution and all of our employees for their dedication and hard work throughout the year.

Finally, I want to personally thank our Customers and Suppliers and my fellow shareholders who have expressed their support. I appreciate it and can assure you of our dedication to continue to improve the performance of the Company.

Thank you.

[END]

For personal use only



asx announcement
media release

3 November 2017

Contacts

Hills Limited

Mr David Lenz
Chief Executive Officer
Hills Limited
+61 2 9216 5510

Media Enquires

John Field
Field Public Relations

P: + 61 8 8234 9555

M: + 61 418 819 527

For personal use only