

Hills announces FY2019 results

Hills Limited (ASX: HIL) announced today its FY2019 results.

Key points:

- Statutory loss of \$8.8 million as a result of one-off provisions and costs of \$7.7 million related to the Distribution business restructuring and a non-cash impairment of \$6.5 million of intangibles and non-current assets following a review of asset carrying values.
- Improved underlying net profit¹ after tax of \$0.5 million compared with the prior year of \$0.1 million.
- Continued momentum of Hills Health Solutions, with 49 per cent year-on-year EBITDA² growth.
- 4 per cent reduction in operating expenses to \$80.9 million.
- Completion of Operating Review and ongoing Strategic Review to position Hills Distribution to return to profit in FY20.

The results demonstrate the success of Hills' continued investment in its Health division, however the disappointing performance from its Distribution business significantly impacted the overall profitability of the Company.

Following the Operational and Strategic Reviews undertaken in H2 of FY19 and with the continued strong growth in Health and Hills Connection Solutions, Hills is forecasting improved profitability in FY20 and has positioned the Company to resume paying dividends to shareholders, subject to the capital and growth requirements of the Company.

Business Unit Overview

Hills Health Solutions

Hills Health is the leading provider of nurse call solutions, patient engagement systems and wi-fi networks in Australian hospitals and enjoyed another landmark year, with revenues up 23% to \$38.1 million and EBITDA up 49 per cent to \$11.1 million.

Hills' Nurse Call and Patient Engagement systems are installed in more than 40 per cent of Australian public hospital beds, and more than 20 per cent of Australian private hospital beds.

¹ Underlying net profit is a non-IFRS measure not subject to audit or review. It excludes the impact (after tax) of certain income and costs associated with the restructuring of the Company to support future growth opportunities.

² Earnings before interest, tax, depreciation, amortisation and impairment of intangible assets, goodwill and other receivables (EBITDA) is a non-IFRS measure not subject to audit or review. Segment EBITDA excludes the impact of certain income and costs associated with the restructuring of the Company to support future growth opportunities.

Major Nurse Call contracts awarded in the period include Hammond Care (aged care, multiple sites); Concord Hospital, Westmead Hospital, Blacktown Hospital, Prince of Wales Private Hospital, Calvary St Francis and Calvary Health Care Kogarah in NSW; Alfred Health, Western Health, Casey Hospital in Victoria; Churches of Christ (multiple sites).

New patient entertainment contracts secured during the period include more than 2,000 beds at Balmain, Canterbury, Concord, Royal Prince Alfred and Northern Beaches hospitals in NSW. In addition, Hills renewed contracts with Barwon Health, Western Health and Mildura hospital in Victoria.

Hills also completed the successful trial of 14 new Wi-Fi sites with eHealth NSW.

Commenting on the performance, Mr Lenz said, "In today's environment, customers are looking for the reliability and quality of products and services that the Hills team are delivering. With the appointment of Hills as the sole distributor in Australia of the GetWellNetwork's interactive best-in-class patient engagement platform, and our continued investment in the next generation of its own IP7500 Nurse Call platform during the period, we are well positioned to sustain strong growth."

Distribution

In FY19, Hills' Distribution business reported an \$11.5 million decline in revenue to \$229.3 million, driven primarily by changes to the vendor mix, lower than expected performance in the small to medium business sector and the continued decline of Foxtel revenues. EBITDA declined 61 per cent due primarily to reduced revenue and margin pressure from a deterioration in the AUD/USD exchange rate, partially offset by cost reductions achieved during the year.

The one-off provisions and costs of \$7.7 million and the non-cash impairments of \$6.5 million to intangibles and non-current assets included in FY19, predominantly relate to the Distribution business and the actions required as a result of the Operational and Strategic Reviews.

Following the Operational and Strategic Reviews undertaken by Hills, the Company will exit its underperforming Antenna and STEP satellite services businesses and discontinue its contract to supply Foxtel satellite dishes due to declining volumes from Foxtel.

These actions will result in Hills' Distribution business becoming a more streamlined operation focused on providing audio visual, security and IT systems and services for customers in Australia and New Zealand.

"Pleasingly, sales across the top five vendors, which together represent more than 50 per cent of revenue, grew 8 per cent in FY19," Mr Lenz said. "Hills Connection Solutions business also continued to benefit from the nationwide NBN roll-out and new partnerships with Downer EDI Limited and Lendlease Group. We are now a much more streamlined and simplified distribution business, and well positioned to deliver growth in FY20."

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Outlook

Hills will continue to focus on growing its Health business by expanding its range of products and services to hospitals and healthcare facilities, including Aged Care facilities.

The ongoing improvements to the Distribution business will continue in FY20, with the Company committed to exploring further strategic initiatives to maximise its performance.

“The Company expects to deliver an improved trading profit in FY20, positioning the Company to resume paying dividends to shareholders, subject to the capital and growth requirements of the business,” Mr Lenz said.

Contacts

Hills Limited

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

Media

Clive Mathieson
Cato & Clegg
P: +61 411 888 425
E: clive@catoandclegg.com

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