



Hills strategic refocus delivers solid improvement in first half 2020 profit

Hills Limited (ASX: HIL) is pleased to release its results for the six months to 31 December 2019.

A\$ million	H1 FY20	H1 FY19	Chg %
Revenue	126.7	132.3	-4.2%
EBITDA ¹	9.1	5.1	+79%
EBIT	4.5	1.8	+158.4%
NPAT	2.6	0.2	> 200%
EPS (cents)	1.1	0.1	> 200%
Operating Cash Flow	7.6	(1.2)	> 200%
Gearing *	27.6%	35.2%	-7.6% pts

* lease-adjusted (net debt/net debt +equity)

Key points

- Solid profit growth as forecast, with net profit after tax (NPAT) up \$2.4m to \$2.6m
- Health and Distribution businesses both reported H1 profits
- Revenues down 4.2%, primarily impacted by lower sales in the divested businesses prior to their exit
- Operating expenses down 8.2% to \$37.3m, with a decline of \$3.3m in H1
- EBITDA up 79% to \$9.1m and EBIT up 158% to \$4.5m
- Pre AASB 16, EBITDA up 25% to \$6.3m and EBIT up 141% to \$4.2m
- Positive operating cashflow of \$7.6m (\$5.2m pre AASB 16)
- Net debt down 27% from June 2019 to \$20.6m, with further reductions expected in H2
- Management exploring all options to accelerate growth in Health

Overview

Hills' strategic decision in 2019 to focus on its Health business and a streamlined Distribution business has been reflected in solid first-half results, with both the Health and Distribution businesses expecting continued positive momentum in the second half.

¹ EBITDA is a non-IFRS measure that is not subject to audit or review. It 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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The company's net profit after tax (NPAT) rose significantly to \$2.6 million, up from \$242,000 in the previous corresponding period.

Overall revenue was \$126.7 million, down 4.2% from \$132.3 million in the prior year, with revenues from the divested Antenna business (including Foxtel) down \$3.5 million on declining sales and the divested AV business down \$2 million.

Hills delivered positive operating cash flow of \$7.6 million in the first half, with operating expenses down 8.2 per cent to \$37.3 million. The company remains on track to deliver a reduction in operating expenses (including depreciation) of up to \$5 million in its Distribution business in FY20.

Net debt at 31 December 2019 was \$20.6 million, down from \$28.4 million at the end of June 2019, with further reductions anticipated in the second half.

Hills Chief Executive and Managing Director David Lenz said: "After a year of significant change in 2019, we are starting to see the results of our decision to focus on our Health division and a streamlined Distribution division. With Distribution returning to profitability, a growing pipeline of orders in Health, strong operating cash flow and a continued commitment to finding operational cost savings, we remain on track for a solid full-year result. As we continue to prioritise growth opportunities, we are confident of delivering a prolonged period of sustainable growth in shareholder returns."

Health

	H1 FY2020	H1 FY2019	% change
Sales revenue	\$18.2m	\$18.6m	-1.9%
EBITDA	\$5.54m	\$5.7m	-2.5%

Hills' Health Solutions division – the leading provider of nurse call solutions, patient engagement solutions and wi-fi networks in Australian and New Zealand hospitals and aged care facilities – performed well in H1 FY20.

Health sales were down 1.9 per cent in the first half, with delays to the roll-out of nurse call systems offset in part by 8.6 per cent growth in sales from patient engagement solutions. EBITDA for the period was down 2.5 per cent to \$5.54 million following increased investment in the Health business in FY20 that was largely offset by improved product margin.

The Nurse Call business signed six contracts for the new IP7500 platform in H1 and delivered 3,600 net new beds during the period. We will complete the delivery of a number of key projects in H2, including projects at Westmead, Casey, Western Health, Alfred and Royal Hobart hospitals. The new IP series wireless platform remains on track for launch in April 2020.

The first installation of the GetWellNetwork patient engagement platform took place in the first half, with the system now operating in 400 beds at the Calvary Hospital in Adelaide. An extra 350 beds are under contract for installation in second half, with the GetWellNetwork product continuing to gain sales momentum.



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Hills' patient engagement solutions business delivered solid growth in H1, adding 1,060 net new beds and renewing 2,800 beds at 15 hospitals during the period. Hills' guest wi-fi system is now deployed in 13 NSW Health districts, delivering services to more than 4,300 beds, with the number expected to continue to grow in the second half.

As part of our continued focus on driving momentum within our Health business, management is actively reviewing all opportunities to accelerate growth in existing and adjacent markets.

Distribution

	H1 FY2020	H1 FY2019	% change
Sales revenue	\$108.4m	\$113.7m	-4.6%
EBITDA	\$5.35m	\$0.91m	+490%

The Distribution division – a leading provider of integrated Security, IT and Technical Services across Australia and New Zealand – has worked hard to return to profitability following the divestment of non-performing businesses in H1.

The division delivered first half EBITDA of \$5.35 million compared to \$0.91 million in the previous corresponding period.

While revenue for the division was down primarily from the businesses exited in December 2019, revenue from the continuing businesses increased by 0.6 per cent with additional improvement in overall margin quality.

Operating expenses in the division fell \$4.0 million to \$22.9 million, with the Distribution business on track to deliver cost savings (including depreciation) of up to \$5 million in FY20. Inventory further reduced by \$6.4 million on the back of improved trading and the divestment of the AV, Antenna and STEP business units during the period.

While conditions remain challenging across the Distribution division, all the work undertaken in H1 of FY20 points towards continued profitability of the business.

Outlook

In line with previous guidance, Hills expects a continuation of solid results in the second half of FY20.

The group will continue to monitor the impact of the coronavirus, or COVID-19, on the supply chain of the Distribution and Health businesses.

While the Distribution business has a strong inventory position today, some delays associated with products sourced from China are anticipated in the coming months and this has been catered for in our safety stock levels.

The impact on the Health business is expected to be minimal given the low exposure to goods sourced from China.



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About Hills Limited

Hills is a majority Australian-owned publicly listed company (ASX: HIL) and consists of two businesses: Hills Health Solutions – the leading provider of nurse call solutions, patient engagement solutions and wi-fi networks in Australian and New Zealand hospitals and aged care facilities; and Hills Distribution – a leading provider of integrated Security, IT and Technical Services across Australia and New Zealand. For more information, visit www.hills.com.au

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