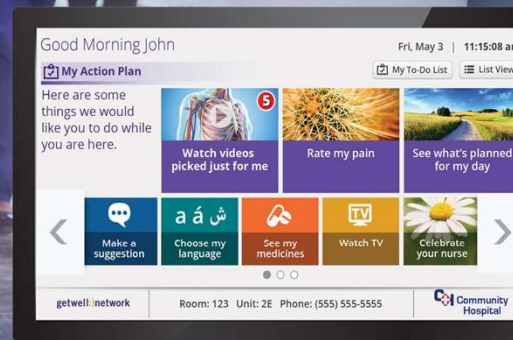


# HILLS.<sup>TM</sup>

## 2020 Half-Year Results

February 25th 2020



# Agenda

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1. Overview - David Lenz
2. Financial Results – Chris Jacka
3. Outlook – David Lenz

**Business Overview**

**we are HILLS.**

A decorative blue curved line that starts from the top right, curves downwards and to the left, passing behind the 'HILLS' part of the logo, and then curves back towards the bottom right.

# Hills Business Today



**Hills Health Solutions**

- Nurse Call
- Patient Engagement

65% of EBIT

The leading provider of nurse call solutions, patient engagement solutions and wi-fi networks in Australian and New Zealand hospitals and aged care facilities



**Hills Distribution**

- Security & IT
- Technical Services

35% of EBIT

The leading provider of integrated Security, IT and Technical Services across Australia and New Zealand

# H1 FY20 Snapshot

Result reflects the successful streamlining of the Distribution business and repositioning of the Group's portfolio with an increased focus on Health

- Statutory NPAT of \$2.6m a significant improvement on the \$0.2m recorded in the previous corresponding period (pcp)
- Continued progress on cost reduction with total operating expenses (including depreciation) tracking towards the upper end of the targeted \$3-5m in FY20
- Distribution business returned to profitability in the half, ahead of the FY20 target
- Hills Health Solutions was impacted by increased investment in capability combining with project delays in Nurse Call (NC)
- Solid growth in underlying new business in NC underpins expectation of a stronger H2. Patient Engagement Solutions (PES) grew strongly with revenues up 8.6% on the pcp
- Early achievement of the targeted \$10m FY20 working capital release drove improved cash flow and lower net debt

## Group Financials

A\$ million	H1 FY20 (Statutory)	AASB 16 Adjustment <sup>1</sup>	H1 FY20 (pre AASB 16)	H1 FY19	Chg % <sup>2</sup>
<b>Revenue</b>	<b>126.7</b>	-	<b>126.7</b>	<b>132.3</b>	<b>-4.2%</b>
EBITDA <sup>1</sup>	9.1	(2.8)	6.3	5.1	24.8%
EBIT	4.5	(0.3)	4.2	1.8	141.9%
<b>Net Profit after Tax (NPAT)</b>	<b>2.6</b>	0.1	<b>2.7</b>	<b>0.2</b>	<b>&gt; 200%</b>
Reported EPS (cents)	1.1	-	1.1	0.1	<b>&gt; 200%</b>
Operating Cash Flow	7.6	(2.4)	5.2	(1.2)	<b>&gt; 200%</b>
Gearing (ND/ND+Equity)*	27.6%		27.2%	35.2%	-8.0% pts

\* Lease-adjusted

<sup>1</sup> EBITDA and AASB 16 adjustments are non-IFRS measures not subject to audit or review

<sup>2</sup> Change is versus H1 FY20 (pre AASB 16)

# Progress on Strategic Priorities

Significant  
portfolio  
repositioning

- **Streamlined Distribution business\*:**

- Sale of AV business
- Sale of Antenna business
- Sale of STEP business

- **Increased investment in Health**

Cost out program

- **Tracking towards the upper end of \$3-5m of targeted cost savings in FY20**

- Restructure of back office
- Reduced freight and property costs
- Lower depreciation

Capital Management

- **Achieved targeted working capital release (\$10m)**

- Targeting further reduction in H2

- **Net Debt reduced to circa \$20m**

- Debt reduction remains a key priority

To deliver long-term sustainable growth in profitability ensuring satisfactory return to shareholders

# Health – Financials

Hills Health Solutions continues to demonstrate underlying sales momentum and a solid order pipeline

- Solid revenue growth in Patient Engagement Solutions (PES) was offset by the delay in the awarding of key contracts for external projects containing Nurse Call (NC) opportunities
- Product margin improvements achieved during the half
- EBIT was impacted by investment in capability and R&D mostly within NC. Early benefits are already evident and these investments are expected to drive earnings growth in future years
- PES delivered solid 8.6% growth
  - Focus remains on contract renewals and net new beds
- Recurring revenues continue to grow off a low base predominantly from service and maintenance and rental agreements
  - targeted to double YoY on a run rate basis by end of FY20

## Financials - Health

A\$ million	H1 FY20 (Statutory)	H1 FY20 (Pre AASB 16)	H1 FY19	Chg % (Statutory)
<b>Revenue</b>	<b>18.2</b>	<b>18.2</b>	<b>18.6</b>	<b>-1.9%</b>
EBITDA	5.5	5.1	5.7	-2.5%
<i>EBITDA margin</i>	<i>30.3%</i>	<i>28.2%</i>	<i>30.5%</i>	<i>-2.4% pts</i>
Depreciation & Amortisation	(1.6)	(1.2)	(1.0)	+61.3%
<b>EBIT</b>	<b>4.0</b>	<b>3.9</b>	<b>4.7</b>	<b>-15.6%</b>
<i>EBIT margin</i>	<i>21.8%</i>	<i>21.4%</i>	<i>25.3%</i>	<i>-3.9% pts</i>

## Return on Capital Employed - Health

A\$ million	H1 FY20 (Statutory)	H1 FY20 (pre AASB 16)	H1 FY19
Underlying EBIT (last 12 months)	8.2	8.2	7.6
Total Assets (average last 12 months)	26.3	26.3	23.6
Current Liabilities (average last 12 months)	6.0	6.0	7.0
<b>Capital Employed</b>	<b>20.3</b>	<b>20.3</b>	<b>16.6</b>
<b>Return on Capital Employed (ROCE) %</b>	<b>40.6%</b>	<b>40.3%</b>	<b>45.4%</b>



# Health – the addressable market

Structural growth in beds per capita driven by population growth and ageing population

## Public Hospitals

61,000 beds  
+1% p.a. growth\*

## Aged Care

150,000 beds  
+10% p.a. growth\*

## Private Hospitals

33,100 beds  
+3% p.a. growth\*

## Hills market segments

- **Public** – 43% market share\*
- **Private** – 30% market share\*
- **Aged Care** – 8% market share\*
- 14 year replacement cycle

### Nurse Call

Safety call systems

- **Manufactured (outsourced) in Vic**
- **Replacement cycle a competitive advantage**
  - Product quality is paramount (life saving equipment)
  - Shift to Service & Maintenance contracts

- **Public** – 43% market share\*
- **Private** – 23% market share\*
- 10 year replacement cycle

### PES

TV, Wi-Fi & Entertainment networks

- **Unparalleled service model**
  - 2.5 million patient interactions p.a.
  - 24x7 call centre taking 0.5 million calls

- Digital navigation tools that empower patients and medical care providers
- Addresses challenges of patient re-admission and rescheduling of medical procedures

### GetWellNetwork

Next generation PES

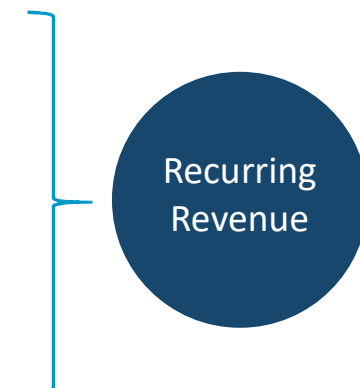
- Step change in technology - drives financial & patient outcomes for hospitals
- Established best of breed product
  - Only Cerner certified PES globally

Market leading positions driven by product quality and service delivery standards



# Health – Revenue Model

	Nurse Call	Patient Engagement Solutions	GetWellNetwork
Product sales (capex)	√	√	√
Installation	√	√	√
Upgrades	√	√	√
Service & Maintenance	√	√	√
Administration		√	
Licence fees		√	√
Rental		√	√



Technology shift + repositioning to contract-based service model  
to drive recurring revenues

# Health - Operational Highlights

## Nurse Call IP7500



- 3,600 net new beds delivered in 1H
- Six contracts signed for the IP7500 platform
- We will complete the delivery of a number of key projects in H2, including Westmead, Casey, Western Health, Alfred and Royal Hobart
- We expect to receive a number of new projects orders which we will receive revenue benefit from in H2
- New IP series wireless platform remains on track for launch in April 2020

## Patient Engagement Solutions



- The Patient Engagement Solutions business added 1,060 net new beds and renewed 2,800 beds across 15 hospitals
- The first GetWellNetwork patient engagement platform installed
  - the system now operating in 400 beds at the Calvary Hospital in Adelaide
- GetWellNetwork product continuing to develop sales momentum
  - 350 beds are under contract for installation in H2
  - Strong pipeline building
- Selected as a preferred provider for SA Health, opening up \$8m of direct opportunity

## Guest Wi-Fi



- Hills Guest Wi-Fi system is now deployed in 13 NSW Health districts, delivering services to more than 4,300 beds
  - continued growth in net new beds is expected in the second half

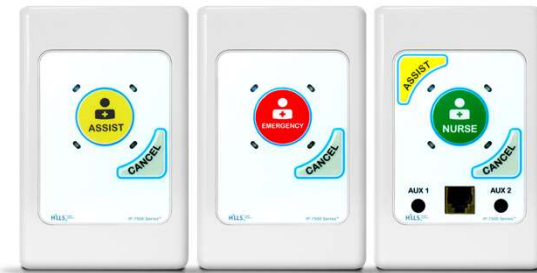
# Health – continuing to invest for the medium term

- Sales and operational capability expanded in Nurse Call and Patient Engagement Solutions
- Continued market expansion into Aged Care
- Increased investment in R&D to support product development in Nurse Call
  - New Generation Wireless Nurse Call System – on track for Q4 launch
  - Hills Assist Generation 2 – complete system rewrite to bring all installed IP series Nurse Call systems to a modern user interface and enabling Enterprise and real time reporting
  - Artificial Intelligence Camera interface for Axis and Mobotix cameras for next generation dementia and behavioural monitoring systems to target the Aged Care market
- Further investment in capability and R&D is expected in H2 and FY21

## Nurse Call - Enterprise Reporting Platform

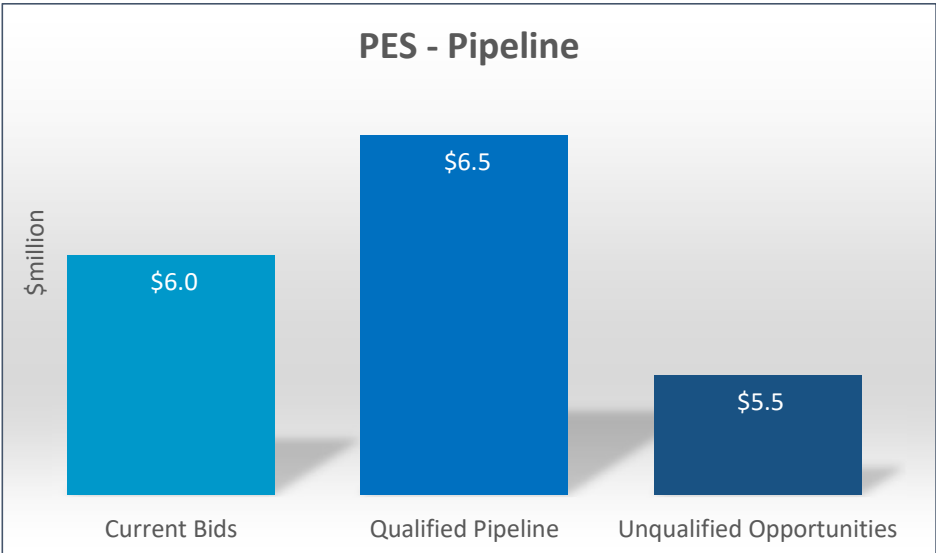
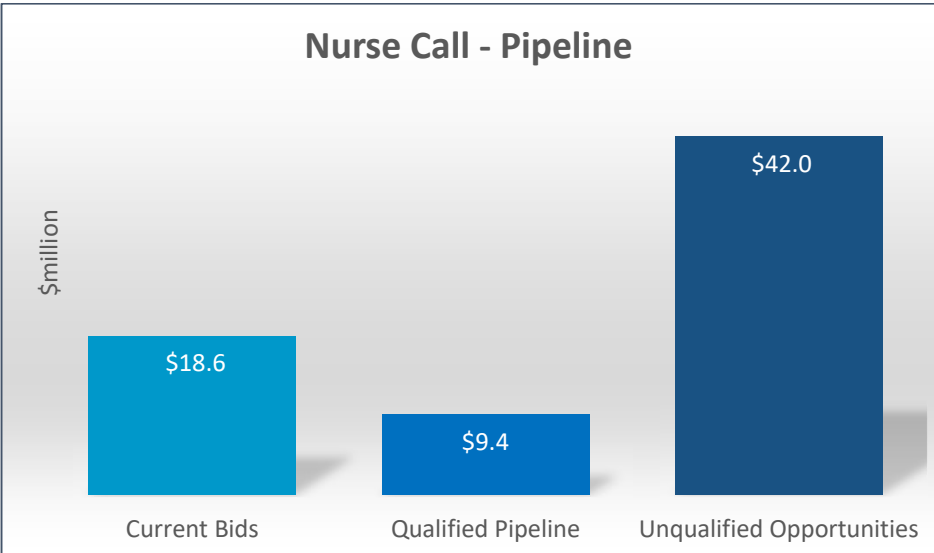


## Nurse Call – IP Series with wireless call points



# Health – Pipeline

- Strong Current Bids and qualified pipeline for both Nurse Call and Patient Engagement Solutions for the next 12 to 18 months



# Health – Outlook

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- Solid pipeline of orders and tenders across both Nurse Call and Patient Engagement
- Continued focus on increasing the base of recurring revenues; targeting a doubling of FY19 recurring revenues, on a run rate basis
- Solid growth in revenues continue to be expected in FY20+ driven by:
  - Market share gains
  - Increased share of wallet
  - Leveraging replacement cycle in hospitals
  - Maximising contract renewals
  - GetWellNetwork market penetration
  - Continued investment in product development
- Further investment in capability and R&D is expected in H2 FY20 and over the medium term to capitalise on the growth opportunities within the health sector.
- Management is actively reviewing all opportunities to accelerate growth in existing and adjacent markets as part of a continued focus on driving momentum within the Health business
- The impact on the Health business of coronavirus, or COVID-19 is expected to be minimal given the low exposure to goods sourced from China

# Distribution – Operational Results

## Distribution returned to profitably in the half, ahead of FY20 target

- Revenue decreased 4.6% driven with revenues from the divested Antenna business (including Foxtel) down \$3.5 m on declining sales and the divested AV business down \$2m
- Revenue from the continuing businesses (Technical Services and Security & IT) increased by 0.6% with cost out initiatives delivering an improved margin performance
- An improved Return on Capital Employed was driven by the return to profitability and reduced the capital employed following the divestments
- Operating expenses in the division were reduced by a further \$4.0m to \$22.9m
- Inventory was reduced \$6.4m on the back of the divestment of the AV, Antenna and STEP business units during the period.

## Financials - Distribution

A\$ million	H1 FY20 (Statutory)	H1 FY20 (Pre AASB 16)	H1 FY19	Chg % <sup>1</sup>
Revenue	108.4	108.4	113.7	-4.6%
EBITDA	5.3	3.0	0.9	+230.9%
<i>EBITDA margin</i>	4.9%	2.8%	0.8%	+2.0% pts
Depreciation & Amortisation	(2.9)	(0.9)	(2.4)	-63.2%
<b>EBIT</b>	<b>2.4</b>	<b>2.1</b>	<b>(1.4)</b>	<b>+247.4%</b>
<i>EBIT margin</i>	2.2%	2.0%	-1.3%	+3.2% pts

## Return on Capital Employed - Distribution

A\$ million	H1 FY20 (Statutory)	H1 FY20 (pre AASB 16)	H1 FY19
Underlying EBIT (last 12 months)	1.0	0.8	(0.5)
Total Assets (average last 12 months)	92.8	92.8	101.8
Current Liabilities (average last 12 months)	47.6	47.6	<b>50.3</b>
<b>Capital Employed</b>	<b>45.2</b>	<b>45.2</b>	<b>51.5</b>
<b>Return on Capital Employed (ROCE) %</b>	<b>2.3%</b>	<b>1.8%</b>	<b>-1.0%</b>

<sup>1</sup> Change is versus H1 FY20 (pre AASB 16)

# Distribution - Operational Highlights

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- Successfully divested the AV, ATV & STEP business delivering a streamlined distribution business
- Further operational changes implemented following divestment of business to support continued OPEX decline
- Grew our revenue from continuing businesses (Technical Services and Security & IT)
- Experienced strong growth in the enterprise business through major project wins by our Integrators
- IT and Technical services continued to perform well
- Small to Medium Business (SMB) business showed quarter on quarter growth in the 1H
- Implemented new “Netstock” inventory management systems during the period
- Launched new access control range from Carrier with Challenger Plus and Reliance XR



# Distribution – Outlook

- Solid growth in revenues is expected FY20+ driven by:
  - New Business growth within Hills Technology Services
  - Small to Medium Business (SMB)
  - Continued growth with exclusive vendor relationships
- Deliver the upper end of the targeted \$3-5m reduction in operating expenses including depreciation in FY20
- Continue to extract business improvements within the branch network to drive increased SMB sales by delivering an improved customer experience
- Continued focus on inventory management to drive working capital improvements
- Drive ecommerce growth with streamlined distribution business
- Focus on the recruitment of new exclusive vendors and continue to rationalise the vendor portfolio
- The group will continue to monitor the impact of the coronavirus, or COVID-19, on the supply chain of the Distribution 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.



**Financial Results**

**we are HILLS.**

Two thin, light blue curved lines that sweep from the top right towards the bottom left, passing behind the 'we are HILLS.' text.

# Financial Results

## Income Statement

A\$ million	H1 FY20 (Statutory)	AASB 16 Adjustment	H1 FY20 (pre AASB 16)	H1 FY19	Chg % <sup>1</sup>
<b>Revenue</b>	<b>126.7</b>	-	<b>126.7</b>	<b>132.3</b>	<b>-4.2%</b>
COGS	84.9	-	84.9	90.3	<b>-6.0%</b>
Gross Profit	41.8	-	41.8	42.0	-0.5%
<i>Gross Profit %</i>	<i>33.0%</i>	-	<i>33.0%</i>	<i>31.7%</i>	<i>+1.2% pts</i>
Other income	0.0	-	0.0	0.4	nm
Operating expenses	(32.7)	(2.8)	(35.5)	(37.3)	-4.8%
EBITDA	9.1	(2.8)	6.3	5.1	+24.8%
Depreciation & amortisation	(4.6)	2.5	(2.1)	(3.3)	-37.0%
<b>EBIT</b>	<b>4.5</b>	<b>(0.3)</b>	<b>4.2</b>	<b>1.8</b>	<b>+141.9%</b>
Interest	(1.9)	0.4	(1.5)	(1.5)	+1.3%
<b>Net Profit after Tax (NPAT)</b>	<b>2.6</b>	0.1	<b>2.7</b>	<b>0.2</b>	<b>&gt;200%</b>

<sup>1</sup> Change is versus H1 FY20 (pre AASB 16)

- Revenue decreased 4.2% driven primarily by the businesses divested in December 2019
  - Antenna business (including Foxtel) down \$3.5m on declining sales
  - AV business down \$2m
- Gross margins expanded 1.2% pts from a combination of:
  - Price increases in the Distribution business effective from 1 July 2019
  - Improved USD hedging management

# Continued progress on cost control

## Operating Expenses (including depreciation and amortisation)

A\$ million	H1 FY20 (Statutory)	H1 FY20 (Pre AASB 16)	H1 FY19	Chg (\$m)	Chg % <sup>1</sup>
Labour and related expenses	(24.4)	(24.4)	(25.5)	(1.1)	-4.3%
Operational and equipment expenses	(2.4)	(2.7)	(3.3)	(0.6)	-17.3%
Property expenses	(0.8)	(3.2)	(4.0)	(0.8)	-19.4%
Other expenses <sup>2</sup>	(5.1)	(5.1)	(4.5)	0.7	+14.6%
<b>Operating expenses</b>	<b>(32.7)</b>	<b>(35.5)</b>	<b>(37.3)</b>	<b>(1.8)</b>	<b>-4.8%</b>
Depreciation and amortisation	(4.6)	(2.1)	(3.3)	(1.2)	-37.0%
<b>Total operating expenses</b>	<b>(37.3)</b>	<b>(37.6)</b>	<b>(40.6)</b>	<b>(3.0)</b>	<b>-7.4%</b>

<sup>1</sup> Change is versus H1 FY20 (pre AASB 16)

<sup>2</sup> 'Other expenses' includes \$0.2m for impairment of divestments in FY20

- Operating expenses declined a further 4.8% on the pcg primarily driven by the outcomes of the strategic and operational review undertaken in H2 FY19:
  - \$1.1m from headcount reductions
  - \$0.6m from freight and equipment costs
  - \$0.8m from property savings
- 'Other' expenses include the net impact of the divestments completed in December 2019
- Depreciation decreased \$1.2m and is expected to remain at this level going forward
- Operational efficiency remains a focus for the Distribution business and further reductions in operating costs expected in H2 FY20
- The Group will continue to invest in the Health business

# Cashflow

A\$ million	FY20 (Statutory)	FY20 (pre AASB 16)	FY19
(Loss)/Profit after tax	2.6	2.7	0.2
Add back: non cash items	5.0	2.6	3.0
Decrease in restructure provision	(1.5)	(1.5)	(0.5)
Increase in non-trade working capital	(0.6)	(0.6)	0.0
Decrease in trade working capital	2.1	2.1	(4.0)
<b>Net cash flows from operating activities</b>	<b>7.6</b>	<b>5.2</b>	<b>(1.2)</b>
Capex - (PPE and Intangibles)	(2.3)	(2.3)	(3.0)
Proceeds from disposal of PPE	4.7	4.7	0.0
<b>Net cash flows from investing activities</b>	<b>2.4</b>	<b>2.4</b>	<b>(3.0)</b>
Proceeds from / (repayment of borrowings)	(12.0)	(9.6)	1.2
<b>Net cash flows from investing activities</b>	<b>(12.0)</b>	<b>(9.6)</b>	<b>1.2</b>
Change in cash balance	(2.1)	(2.1)	(3.0)

- Operating cashflow (pre AASB16) of \$5.2m, a circa \$6.5m improvement on prior year primarily driven by:
  - improved net working capital, particularly lower trade receivables
  - increased underlying profitability (up \$2.5m)
- Operating result includes restructure costs of \$1.5m in the half which is up from \$0.5m in the prior year
- Capex down on prior year with FY20 spend primarily focussed on ecommerce and product development activities
- Statutory repayment of borrowings includes lease liability payments under AASB 16 (refer to Appendix)

# Balance Sheet

A\$ million	H1 FY20 (Statutory)	H1 FY20 (pre AASB 16)	H1 FY19
Trade and other receivables	55.3	55.3	59.2
Inventories	36.0	36.0	41.6
Other current assets (excluding cash)	0.1	0.1	-
<b>Current assets (excluding cash)</b>	<b>91.4</b>	<b>91.4</b>	<b>100.8</b>
Property, plant and equipment	13.4	13.4	15.3
Intangible assets	2.9	2.9	2.1
Right of use assets	12.9	-	-
Deferred tax assets	16.6	16.6	16.7
Other non-current assets	0.8	0.8	0.0
<b>Non-current assets</b>	<b>46.6</b>	<b>33.7</b>	<b>34.1</b>
Trade and other payables	38.9	38.9	40.6
Provisions	8.4	10.2	13.4
Lease liability (right of use assets)	15.8	-	-
Other liabilities	-	-	0.1
<b>Liabilities (excluding borrowings)</b>	<b>63.2</b>	<b>49.1</b>	<b>54.2</b>
<b>Net debt</b>	<b>20.6</b>	<b>20.6</b>	<b>28.4</b>
<b>Total equity</b>	<b>54.2</b>	<b>55.2</b>	<b>52.4</b>

## Gearing ratios (lease adjusted)

<b>Gearing (Net Debt/Net Debt + Equity)</b>	27.6%	27.2%	35.2%
Underlying EBITDA (last 12 mths)*	11.4	11.4	10.2
<b>Net Debt/EBITDA</b>	1.8	1.8	2.8
Net Interest (last 12 months)*	3.3	3.3	3.3
<b>EBITDA/Net Interest</b>	3.5	3.5	3.1

\* Lease adjusted

- Inventory decline includes the impact of the 3 divestments in December 2019 with \$4.7m cash received in H1
  - Inventory is now only comprised of the continuing businesses
- Trade receivables and trade payables will decline in H2 as balances relating to the divested businesses are paid
- Trade and other receivables includes further cash inflows relating to the divestments expected over H2 FY20 and FY21
  - \$2.6m reflected in trade and other receivables
  - \$0.8m reflected in non-current assets
- Reduction in trade and other payables is largely a result of payment timings
- Net debt reflects the working capital release from the divestments and strong debtor collections across the Group
- Net debt is expected to decrease further in H2 FY20 as profitability, cashflows and working capital improve
- The group continues to maintain significant headroom in relation to its interest cover covenant

Outlook

**we are HILLS.**



# FY20 Priorities

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- Continue to grow Hills Health Solutions by investing in the range of products and services, maintaining market leadership and extending Hills' reach into more hospitals and healthcare facilities
  - Focus on expanding in markets where Hills Health Solutions is underrepresented, such as Aged Care with the launch of the IP7500 wireless platform
  - Leverage Hills Health Solutions market leading position to drive penetration of the next generation PES via GetWellNetwork
  - Continue to implement changes to the Distribution business and review strategic initiatives to optimise operating performance
  - Deliver the upper end of the targeted \$3-5m reduction in operating expenses in FY20
  - Further reduce net debt in FY20 as profitability, cashflows and working capital improve
- With these areas of focus, we are confident Hills can deliver improved profits in FY20 and beyond, positioning the company to resume paying dividends, subject to the capital and growth requirements of the business

# HILLS.<sup>TM</sup>

## Appendix



# Impacts of AASB 16

- The Group adopted the new leases accounting standard, AASB 16, on July 1, 2019
- AASB 16 has no impact on cash, net debt or debt facilities funding arrangements
- Under the new standard, operating leases moved onto the balance sheet:
  - Lease assets (Right of Use assets)
  - Lease liabilities (present value of future lease payments)
- Depreciation of the right of use assets and interest on the lease liabilities are now recognised on the income statement over the lease term

## Summary impacts on financial statements in H1 FY20

A\$ million	Change	Profit Impact
<b>Income Statement</b>		
Lower property/equipment expenses/rent	+	2.8
EBITDA	+	2.8
Higher Depreciation costs	-	(2.5)
EBIT	+	0.3
Higher Finance costs	-	(0.4)
Profit before tax	-	(0.1)
<b>Balance Sheet</b>		
	Change	Net Asset Impact
Assets*	+	12.9
Liabilities*	-	(15.8)

\* Opening balance sheet restatement (as at 1/7/2019):  
 Assets \$15.4m (adjusted for onerous lease in FY19)  
 Liabilities \$18.2m

Thank You

**HILLS.**<sup>TM</sup>

# Disclaimer

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No express or implied warranty is given as to the accuracy or completeness of the information in this document or any corresponding presentation. Statements contained in this presentation, particularly those regarding possible or assumed future performance, estimated company earnings, potential growth of the company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve unknown risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward-looking statements.

To the maximum extent permitted by law, responsibility for the accuracy or completeness of any forward-looking statements, whether as a result of new information, future events or results or otherwise, is disclaimed.