# ASX announcement
# Media Release

## 31 August 2021

# Hills FY21 results announcement (ASX:HIL)
# 30 June 2021

| | FY21 $m | FY20 $m (restated) | % change |
|---|---|---|---|
| **Sales revenue** | **180.2** | 220.1 | (18.1) |
| **Underlying[1] sales revenue** | **180.2** | 197.9 | (8.9) |
| **Segment EBITDA[1]** | **12.0** | 12.3 | (2.4) |
| **Underlying Segment EBITDA[1]** | **12.0** | 11.3 | 6.2 |
| ***Depreciation & Amortisation*** | *(9.8)* | *(8.6)* | - |
| ***Non-operating items*** | *(7.5)* | *(6.8)* | - |
| ***Finance expense*** | *(2.3)* | *(3.6)* | - |
| ***Tax expense*** | *(2.8)* | - | - |
| **NPAT** | **(10.2)** | (6.5) | (56.9) |
| **Operating cashflow** | **1.2** | 22.0 | (94.5) |
| **Net Debt (excluding AASB16 lease liabilities)** | **13.2** | 8.2 | (61.0) |

## FY21 Results Overview

- Health division achieved 33% growth in underlying EBITDA to $9.7 million – a solid result achieved in a volatile operating environment given COVID-related restrictions that have affected the commencement of new projects and access to hospitals and aged care facilities.
- Distribution division adversely affected by COVID-related lockdowns with customers experiencing delayed and cancelled projects, worldwide semiconductor shortages impacting product availability and lead times, reduced competitiveness from foreign exchange losses, and several non-operating items.
- Statutory NPAT loss of $10.2 million was primarily comprised of:
    - Non-operating items of $7.5 million, include non-cash asset reductions, non-operating foreign exchange losses and legal costs. These were largely foreshadowed in earlier ASX releases.
    - $2.8 million non-cash tax expense caused by the reversal of tax-related timing differences and New Zealand tax losses in the deferred tax assets.
- Continued focus on cost control and capital management delivered $10.7 million in savings and $5.3 million in reduced working capital.
- Board and senior leadership renewal process continued during the year with the appointment of a new chairman, two new directors, and the new Chief Executive Officer and Chief Financial Officer.

[1] Underlying and segment revenue and EBITDA exclude non-operating and abnormal items. Underlying excludes divested businesses, which occurred in FY20.

## Trading Overview

Hills experienced challenging trading conditions in FY21, with the net loss for the period reflecting significant business disruption caused by COVID-19 (including rolling lockdowns in all major states), COVID-related restrictions on hospitals and aged care facilities, deferral of elective surgery, worldwide semiconductor shortage, poor results from the New Zealand business, impact of foreign exchange losses, and several non-operating items.

Hills benefited from three months of JobKeeper in FY21, amounting to $2.95 million, versus a benefit of $3.2 million in JobKeeper and $1.2 million in temporary wage reduction from employees during Q4 FY20.

Despite these challenges, Hills remains focused on its strategic priorities of building and maintaining a market-leading product portfolio, tight cost control and capital management. Working capital declined by $5.3 million as at 30 June 2021, capital employed reduced by $8.5 million and net debt was $13.2 million. A solid net debt position was achieved despite the $5.7 million cash outflow in FY21 from foreign exchange losses, that were accounted for across FY21 ($1.7 million) and FY20 ($4.1 million), and for which all adverse hedging positions have now been exited.

Non-operating items of $7.5 million reflected:

- Mark-to-market foreign exchange adjustments of $1.7 million, with all adverse hedging positions now having been exited.
- Non-cash items of $2.72 million, previously reported in the first half results, comprising: write-off of assets relating to exited businesses $0.6 million; write-off of assets relating to exited vendors $0.2 million; aged, slow-moving and demonstration stock write-offs $1.4 million; and reassessment of asset lives and property settlements $0.55 million.
- Other costs, predominantly legal costs of $3.1 million.

As announced at the half year, the Group restated prior year accounts to reflect a $0.37 million understatement of the net loss for the full year ended 30 June 2020 and $1.18 million understatement of retained losses as at 30 June 2020.

A tax expense of $2.8 million was reported reflecting the reversal of timing differences and New Zealand tax losses in deferred tax assets. This is a non-cash timing difference, and the Company continues to have a significant amount of carried forward income tax losses available to offset against future taxable income.

Hills' Chief Executive Officer David Clarke said, "Operating conditions were challenging this year with the impacts of COVID-19 felt across all our divisions.

The Distribution division, notwithstanding the external factors of COVID-19, supply chain challenges and ongoing competitive pressures, has underperformed. The new leadership team are introducing a range of initiatives to improve operational performance, address revenue decline and support profitability.

We are pleased that the Health division delivered a solid result in a volatile operating environment where COVID-19 restrictions significantly delayed projects and inhibited access to hospitals and aged care facilities, temporarily deferring revenue-generating activity. We are excited by the prospects for this business and are investing to bolster our sales, marketing, technical and research capability to expand upon and capture greater health technology-related revenue and opportunities."

The Company saw significant changes during the year at both executive team and Board level. These changes resulted from an active process of renewal over the past twelve months. Reflecting on the changes Mr Clarke said, "The retirement or departure of several senior executives has resulted in the appointment of highly regarded leaders to the corporate team including Natalie Scott as Chief Financial Officer, and Janine King as Chief People and Culture Officer. Each bring significant expertise and varied experience, and their support of our divisional business leaders and their teams will be invaluable as we work to build a strong and sustainable business."

## Hills Health Solutions

| | FY21 $m | FY20 $m | % change |
|---|---|---|---|
| **Sales revenue** | **34.0** | 33.7 | 0.9 |
| **Segment EBITDA** | **9.7** | 7.3 | 32.9 |

Hills' Health division performed well in FY21, despite challenging trading conditions in Q1 and Q4, and produced a solid earnings result. The division was impacted by COVID-related restrictions which delayed projects and inhibited access to hospitals and aged care facilities.

Despite the challenges, in FY21 the division completed the installation of:

- 6,900 net new Nurse Call beds (3,100 in H1; 3,800 in H2).
- 53 projects delivered with hospital and aged care facilities.
- Patient Engagement Solutions, renewed 5,600 beds across 28 hospitals and installed 750 new beds with the GetWell Network solution.

In addition, Hills Guest Wi-Fi system has now been deployed across 80 sites in NSW Health districts, delivering service to more than 7,100 beds and providing an essential welfare tool for inpatients and the community. Hills is the largest supplier of Wi-Fi to NSW Health, who have received industry awards and accolades for this service.

Health revised its near-term strategy for nurse call and patient engagement during the year and has begun to develop greater capability across critical areas of its business. This capability is expected to accelerate the division's revenue growth in existing and adjacent markets when Australia emerges from its COVID-related restrictions.

Health is enhancing its reputation as a market-leading integrated solutions provider by delivering new and improved technologies for patient care based on market analysis and voice of the customer. This includes integrated voice technology in the nurse call products and advanced patient information displays. We are also seeing growing interest in the sophisticated GetWell Network solution that provides not only traditional patient engagement, but also integrates directly with hospital systems such as Cerner and has other features that deliver broader economic benefits to the community with the reduction in hospital re-admissions.

## Hills Distribution

| | FY21 $m | FY20 $m | % change |
|---|---|---|---|
| **Sales revenue** | **146.2** | 186.4 | (21.6) |
| **Sales revenue (underlying)*** | **146.2** | 164.2 | (11.0) |
| **Segment EBITDA** | **6.2** | 8.4 | (26.2) |
| **Segment EBITDA (underlying)*** | **6.2** | 7.4 | (16.2) |

*Excludes businesses divested in FY20

The Distribution division has recorded a decline in profitability reflecting the challenging trading conditions relating to COVID-19, with customers experiencing delays and cancellation of key projects and a worldwide semiconductor shortage adversely impacting supply of products from key vendors.

EBITDA as a percentage of sales declined to 4.3 percent reflecting a shift in product mix to lower-margin product range in the year, reduced competitiveness from foreign exchange losses, a competitive marketplace and losses generated by the New Zealand business.

Ongoing expense management saw operating expenses reduce by $4.4 million (including the benefit of the JobKeeper subsidy for three months).

The New Zealand business delivered a $1.9 million operating loss for the full year ($1.4 million loss in FY20), reflecting a highly competitive trading environment, the exit of key vendors and the corresponding loss of larger project-based work. The cost base of the New Zealand business was restructured in the second half of FY21, and Hills continues to explore initiatives to return the business to profitability.

Overall, the result of Distribution remains disappointing. As we go into the new financial year there will be a renewed focus on lifting sales and marketing performance, rationalising the product portfolio, increasing the value contribution, carefully controlling costs, better managing availability and sell-through of inventory, and driving greater operational efficiency.

## Outlook

Hills is focused on the execution of its Health strategy and improving the performance of the Distribution division to support sustainable earnings growth over the medium to long term.

However, trading conditions in all of Hills' businesses remain impacted by COVID-related restrictions. Any recovery is dependent on relaxation of restrictions and improved business confidence to drive new and deferred project and construction work. Semiconductor scarcity and erratic global supply chains are expected to continue into 2022, complicating demand and inventory planning, and impacting project delivery.

Notwithstanding the difficult environment, the pipeline from delayed projects remains solid and underlying demand for our products strong. In the first half of FY22, the team at Hills is focused on ensuring the Company is in good shape to make the most of market conditions as they recover, along with continued and careful implementation of the strategic growth plans.

This ASX announcement is authorised for release by the Board of Hills Limited.

***About Hills Limited***
*Hills is a majority Australian-owned publicly listed company (ASX:HIL) that is a value-added distributor of integrated technology solutions that connect, entertain and secure people in the environments they trust the most: their homes, schools, and universities, hospitals, and aged care facilities, workplaces, and government institutions.*

*For more information, visit www.hills.com.au.*

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