



HILLSTM **FY21 Results**

August 2021

Our Business... Built on Innovation



Vision

To distribute end-to-end technology solutions that **connect, entertain** and **secure** people's lives



Mission

To add value by choosing the best products and solutions while delivering high quality service, product insights and expertise for all stakeholders

Strategic Priorities

Leading Product Portfolio

- **Increased investment in Health**
 - World-class customer solutions that meet patient needs
 - Expanding geographically
 - Continuing product innovations that aligns with post COVID Health eco-system
 - Increasing capability in sales, marketing and research & development
 - Strategic partnerships

Cost Control

- **Streamlined Distribution business**
- **Achieved further cost savings for the Continuing Operations**
 - Refocussing employees into frontline roles
 - Reduced freight and equipment costs
 - Reduce property footprint and lower occupancy cost

Capital Management

- **Working capital release of \$5.3m**
- **Capital employed reduced by \$8.5m**
- **Net Debt at \$13.2m**

Health Solutions

The leading provider of Nurse Call solutions, Patient Engagement Solutions and wi-fi networks in ANZ hospitals and aged care facilities

Distribution

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



HILLSTM Company Update

FY21 Snapshot

Challenging trading conditions and COVID-related movement restrictions significantly impacted operating performance

- Result adversely affected by COVID-related lockdowns, delayed projects in both Health and Distribution, reduced competitiveness from foreign exchange losses and non-operating items
- Segment EBITDA of \$12.0m, down 2.4% on prior year, reflects
 - Solid earnings growth from Health
 - Positive contribution from Distribution – Australia
 - \$1.9m loss from Distribution – New Zealand
- Statutory loss after tax of \$10.2m includes \$7.5m in non-operating items plus \$2.8m in reversal of non-cash timing differences in deferred tax assets
- Continued focus on cost control and capital management delivered savings in operating expenses of \$10.7m in FY21 (including \$5.6m from divested businesses) and reduced working capital (down \$5.3m on prior year)

Group Financials

A\$ million	FY21	FY20 Restated ⁴	Change
Revenue	180.2	220.1	(18.1%)
Segment EBITDA	12.0	12.3	(2.4%)
EBIT	(5.1)	(2.9)	(75.9%)
Non-Operating Expenses	(7.5)	(6.8)	
Underlying EBIT¹	2.4	3.8	(36.8%)
Net Profit/(Loss) after Tax	(10.2)	(6.5)	(56.9%)
Reported EPS (cents)	-4.41	-2.81	
Operating Cash Flow ²	1.2	22.0	(94.5%)
Net Debt	13.2	8.2	61.0%
Gearing (ND/ND+Equity) ³	28.4%	16.0%	+12.4% pts

1. Segment EBITDA and Underlying EBIT exclude non-operating and abnormal items, and divested businesses (refer slide 18)
2. Operating cash flow in FY20 includes the working capital release related to the sale of three business units - AV, Antenna and STEP businesses
3. Gearing ratio is Net Debt/Net Debt+Equity (excludes lease liabilities)
4. All FY20 financials are restated to reflect adjustments in net assets (-\$1.6m), net loss after tax (+\$0.4m) and retained losses (+\$1.18m). Refer to the FY21 financial statements (note 1.3)

COVID-19 Impacts

Health Solutions (HHS)

- Q1 and Q4 sales adversely impacted by COVID-related restrictions resulting in project delays
- Pipeline from delayed projects remains solid - timing of delivery subject to improved business confidence and end to COVID-related restrictions
- New Health strategy positioning Hills for post COVID eco-system
 - Selectively improving sales, marketing and research & development capability
 - Building new generation NurseCall
 - Developing next generation patient entertainment system (includes GetWell Network)

Supply Chain

- USD hedging exposure adversely impacted FY21 product margins (\$5.7m cash outflow in year)
- Worldwide semiconductor shortage adversely impacted key vendors supply of products
- Rationalisation and proactive management of inventory
- Global supply chain pressures (increasing freight rates) driving supplier cost inflation
- Continued review of vendor arrangements
 - Strengthened existing vendor arrangements
 - Rationalisation of vendor portfolio is ongoing

Distribution - Australia

- Minimal recovery in trading with extended lockdowns in all states – customers experienced major projects delays and cancellations
- Pipeline of product orders remains solid - timing of delivery subject to improved business confidence and end to COVID-related restrictions
- Increased marketing activity and customer retention programs to drive sales

Distribution - New Zealand

- Weak FY21 trading with sales meaningfully affected by the exit of key vendors, resulting in \$1.9m operating loss
- Cost reduction and other initiatives undertaken to improve profitability

Health – Solid Result as Business Reset with new Strategy



Solid earnings growth despite COVID-related restrictions impacted revenues

- Restricted site access and continued project deferrals drove a decline in Q1 and Q4 revenue
- Resilience of the business reinforced by the growth in new beds and renewal of existing beds for both Nurse Call and Patient Engagement Systems
- Segment EBITDA margins expanded 6.8 points, despite flat revenue, reflecting improvements in Nurse Call and strong cost control despite continued investment in capability and R&D
- Short and medium term priority is execution of the new strategy focused on increased product development and people capabilities to accelerate growth in existing and adjacent markets

Financials - Health

	FY21	FY20 Restated	Change
A\$ million			
Revenue	34.0	33.7	0.9%
Segment EBITDA	9.7	7.3	32.9%
<i>EBITDA margin</i>	<i>28.5%</i>	<i>21.7%</i>	
Depreciation & Amortisation	(4.3)	(3.4)	(26.5%)
Non-Operating Expenses	(0.6)	-	
EBIT	5.0	3.9	28.2%
<i>EBIT margin</i>	<i>14.7%</i>	<i>11.7%</i>	

Health – Operational Highlights

Nurse Call IP7500



- 6,900 net new beds delivered in FY21 (3,100 in H1 and 3,800 in H2) solid growth on the 6,400 new beds added in FY20
- Projects delivered in FY21
 - NSW – 17 hospitals/aged care facilities
 - TAS/VIC – 23 hospitals/aged care facilities
 - QLD – 13 hospitals/aged care facilities
- Encouraging early signs following release of the new IP Series wireless platform but sales performance has been hampered by COVID-19

Patient Engagement Solutions



- 750 new beds added with growth continued to be hampered by site access issues and deferral of elective surgery
- 5,600 beds renewed across 28 hospitals, an almost doubling of renewals vs FY20 (3000 beds)
- GetWell Network product is continuing to build sales momentum

Guest Wi-Fi



- Hills Guest Wi-Fi system is now deployed across 80 sites in NSW Health districts, delivering services to more than 7,100 beds

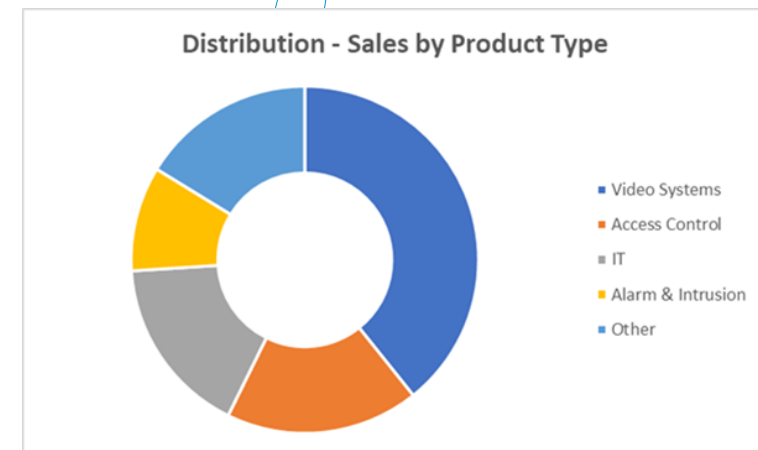
Distribution – Challenging Trading Conditions

Decline in profitability reflected challenging trading conditions in all markets

- Underlying revenue decline driven by:
 - Delays in customer's projects due to COVID disruptions
 - Exiting of underperforming vendors (\$11.9m in revenue)
 - Worldwide shortage of semiconductors adversely impacting key vendor product supply
- Underlying EBIT of \$0.7m driven by relative resilience of the Australian business and good cost control
 - Australian run rate customers increased in FY21 compared to pre-COVID levels reflecting customer retention activities and improved business analytics
 - New Zealand distribution delivered a \$1.9m loss reflecting the weak COVID-impacted operating environment
- Inventory reduced by a further \$1.0m reflecting vendor rationalisation program and tight working capital
- Significant level of committed orders expected to be invoiced in FY22 post COVID-related restrictions easing, arrival of delayed shipments and recommencement of delayed projects

A\$ million	FY21	FY20 Restated	Change
Revenue	146.2	186.4	(21.6%)
Segment EBITDA¹	6.2	8.4	(26.2%)
EBITDA margin	4.3%	4.5%	
Depreciation & Amortisation	(5.6)	(5.2)	(7.7%)
Non-Operating Expenses	(2.1)	-	
EBIT	(1.5)	3.2	+nm
EBIT margin	-1.1%	1.7%	
Underlying EBIT¹	0.7	3.2	(78.1%)
UL EBIT margin	0.5%	1.7%	
Continuing Operations²			
Underlying Revenue	146.2	164.2	(11.0%)
Segment EBITDA¹	6.2	7.4	(16.2%)
EBITDA margin	4.3%	4.5%	
Underlying EBIT¹	(5.6)	(5.2)	(7.7%)

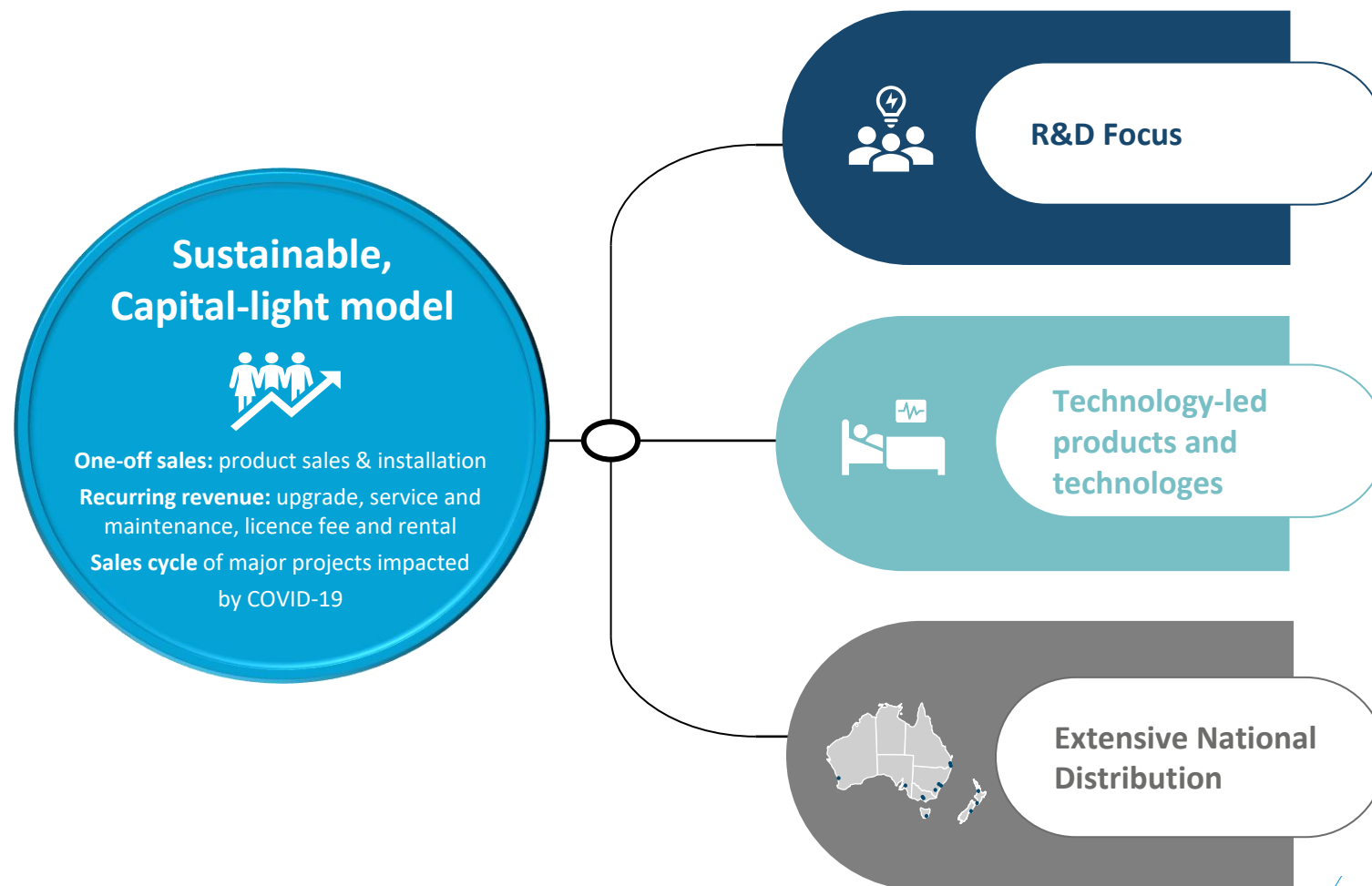
- Segment EBITDA and Underlying EBIT exclude non-operating and abnormal expenses (refer to slide 18)
- 'Continuing Operations' excludes the three divested business units (AV, Antenna and STEP) sold in December 2019





HILLSTM Strategy and Outlook

Increasing Investment in Health



- Linking customer needs to technology capability
- Driving development of next generation products
 - Aggressive development roadmap
 - Cloud-based platforms



Nurse Call

Positioning for post COVID-19
Health eco-system



PES

getwell:)network

- Upskilling frontline sales teams & direct sales model
 - Extend reach & maximise addressable market
 - High level of customer service & advice
 - Industry experts in configuration & delivery of patient-focused systems

Streamlining in Distribution

Well established and extensive national branch network

Extends reach, maximises addressable market and enables high level of customer service and advice



Australia's largest distribution company in security technology solutions

13 sites in Australia & NZ

70% of orders are fulfilled locally

Meeting demand at a local level with value-add solutions

Focus on customer loyalty and share of wallet

Long-term, highly valuable vendor relationships



Exclusive distributor



'Distributor of the Year' for last 2 years



Exclusive distributor with 20+ year relationship

Exclusive or symbiotic relationship being created

Next generation cloud-based solutions

Stock rotation a key deliverable

Centralised Distribution Model

Warehousing and freight synergies are significant



Right sizing property footprint with further rationalisation opportunities
Improved control over inventory and order fulfilment

Strong net asset backing >\$20m

Significantly lower capital employed



Reduced inventory
almost 80% of stock aged 1 year or less
Netstock inventory management system
delivering smarter buying decisions
Reduced debtors
circa 90% of debtors - 30 days or less

Short term adverse impacts from COVID-related restrictions expected to continue to impact in FY22 H1

FY22 Outlook

- Focused on execution of Health strategy and improving the performance of Distribution to support sustainable earnings growth over the medium to long term
- Trading conditions remain impacted by COVID-related restrictions. Recovery is dependent on relaxation of restrictions and improved business confidence
- Semiconductor scarcity and erratic global supply chains are expected to continue into 2022, complicating demand and inventory planning, and impacting project delivery
- The pipeline from delayed projects remains solid and underlying demand is strong
- In the immediate future the Company is focused on ensuring it emerges from COVID-19 restrictions in a position to make the most of improved market conditions as they recover, along with continued and careful implementation of longer-term strategic plans

**Leading provider of
Nurse Call solutions,
Patient Entertainment
Solutions and wi-fi
networks in Australian
and New Zealand
hospitals and aged care
facilities**

**Leading provider of
integrated Security, IT
and Technical Services
across Australia and
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HILLSTM Financial Statements

Financial Results

Income Statement

A\$ million	FY21	FY20 Restated ³	Change
Revenue	180.2	220.1	(18.1%)
COGS	(126.6)	(153.9)	+nm
Gross Profit	53.6	66.2	(19.0%)
<i>Gross Margin %</i>	<i>29.7%</i>	<i>30.1%</i>	
Operating expenses ²	(41.6)	(53.9)	22.8%
Segment EBITDA	12.0	12.3	(2.4%)
Depreciation & Amortisation	(9.8)	(8.6)	(14.0%)
Non-operating items	(7.5)	(6.8)	
EBIT	(5.1)	(2.9)	+nm
Interest	(2.3)	(3.6)	36.1%
Tax	(2.8)	-	
Net Profit after Tax (NPAT)	(10.2)	(6.5)	56.9%
Underlying* EBIT	2.4	3.8	(36.8%)
Underlying* EBITDA	12.0	11.3	6.2%

1. Segment EBITDA and Underlying EBIT exclude non-operating and abnormal expenses (refer to slide 18)
2. FY21 operating expenses are net of \$2.95m relating to three months of Job Keeper and FY20 expenses are net of \$3.2m relating to Job Keeper and \$1.2m of temporary wage reductions from employees
3. During the preparation of the consolidated financial statements, the Group identified that net assets in the prior reporting periods had been overstated by \$1.55 million (net loss for full year ended 30 June 2020 was \$0.37 million understated and retained losses as at 30 June 2020 were understated by \$1.18 million)

- Revenue decreased 18% driven by the lost revenue from the divested businesses (\$22.2m) coupled with COVID-related revenue disruptions
- Statutory net loss after tax of \$10.2m includes \$7.5m in non-operating expenses (largely comprised of one-off costs) plus the non-cash reversal of timing differences in deferred tax assets of \$2.8m
- Higher Depreciation and Amortisation costs reflects increased investment in Health (capitalised R&D and amortisation software) as well as website costs

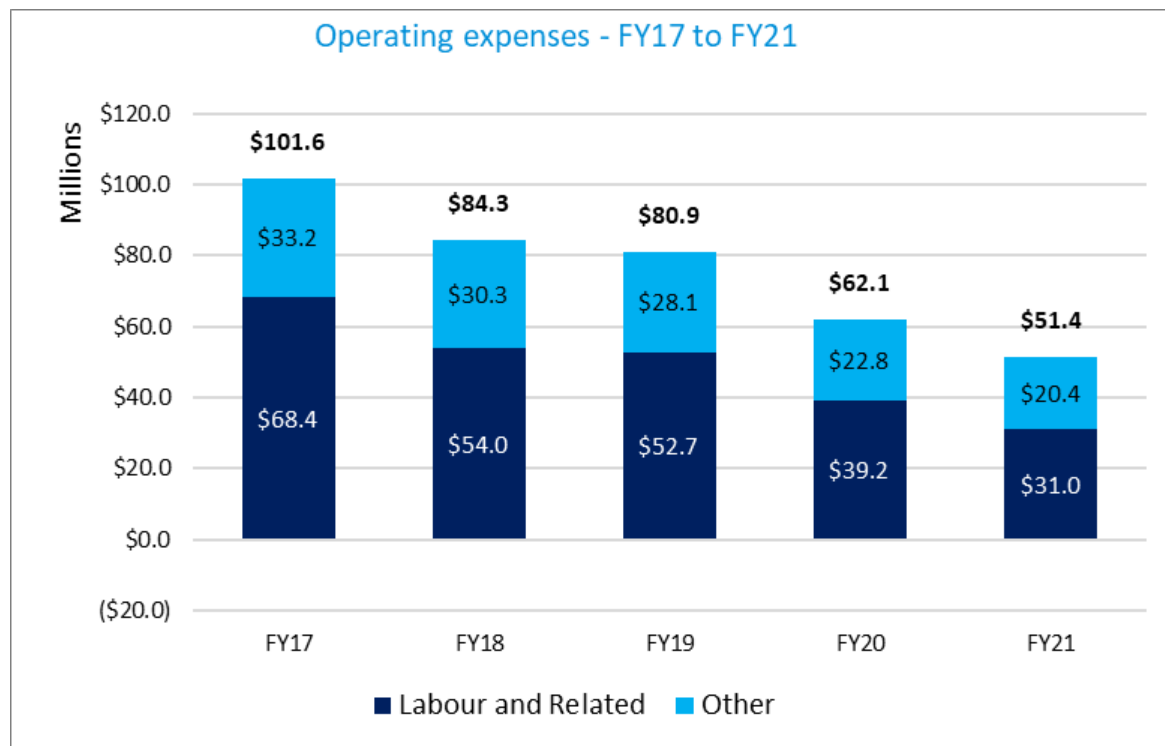
Non-operating and Abnormal Expenses

A\$ million	Health	Distribution	Corporate	FY21
Foreign Exchange			(1.66)	(1.66)
Write-off of assets relating to exited businesses		(0.59)		(0.59)
Write-off of assets relating to exited vendors		(0.18)		(0.18)
Aged, slow-moving and demonstration stock write-off	(0.26)	(1.14)		(1.40)
Impairment of current and non-current assets	(0.34)	(0.21)		(0.55)
Other costs		(0.14)	(2.97)	(3.11)
Total	(0.60)	(2.26)	(4.63)	(7.49)

- Non-recurring and/or abnormal expenses, totalling \$7.5m:
 - \$1.66m mark-to-market foreign exchange adjustments reflecting the volatility in the AUD (further to \$4.1m loss recorded at 30 June 2020). All adverse hedge contract positions have been closed out
 - Non-cash items of \$2.72m:
 - Write off of \$0.6m of assets relating to exited businesses following finalisation of those transactions
 - Write off of \$0.2m of assets relating to existed vendor arrangements
 - Aged, slow-moving and demonstration stock write offs of \$1.4m
 - Reassessment of asset lives and property settlements of \$0.55m
 - Other costs relates predominantly to legal fees

Continued Progress on Cost Reduction

Operating Expenses (including depreciation and amortisation)¹



- Operating expenses FY21 down \$10.7m to \$51.4m, largely reflecting:
 - Non-recurring costs from the divested businesses (\$5.6m)
 - Cost savings in the continuing operations
 - Cost savings from operational efficiencies, lower property footprint and freight savings
 - Head count savings
 - COVID-19 subsidies and cash conservation (\$2.95m in FY21 versus Q4 FY20 benefit of \$3.2m from Job Keeper plus \$1.2m temporary wage reduction by employees)

1. Operating expenses exclude abnormal and non-recurring items

Cashflow

A\$ million	FY21	FY20
Receipts from customers	206.8	264.3
Payments to suppliers and employees	(203.4)	(239.2)
Net financing costs	(2.2)	(3.1)
Net cash flows from operating activities	1.2	22.0
Capex - (PPE and Intangibles)	(3.0)	(4.2)
Proceeds from disposal of PPE/divestments	0.0	7.4
Net cash flows from investing activities	(3.0)	3.2
Proceeds from / (repayment of borrowings)	(4.1)	(22.8)
Net cash flows from investing activities	(4.1)	(22.8)
Change in cash balance	(5.9)	2.4

- Operating cashflow of \$1.2m, a decline on prior year primarily driven by:
 - Cost of exiting and utilising foreign exchange contracts at uncompetitive rates (\$5.7m). This represents the final cash outflow from the excess foreign exchange hedge positions put in place during the height of COVID uncertainty in FY20
 - Tougher trading conditions, aggressive competitor pricing and resultant fall in product margins
 - Comparable period included substantial benefits of working capital savings from exited businesses
- Working capital continued to be tightly managed and included lower inventories and trade receivables (\$5.3m)
- Capex remains subdued due to trading conditions and Health spending somewhat delayed during the development of the new Health strategic plan
- Statutory repayment of borrowings includes new Commonwealth Bank of Australia facility and lease liability payments under AASB 16

Balance Sheet

A\$ million	FY21	FY20 ¹
Trade and other receivables	31.5	39.6
Inventories	22.0	25.1
Current assets (excluding cash)	53.5	64.7
Property, plant and equipment	10.8	12.3
Intangible assets	3.1	3.7
Right of use assets	7.3	10.8
Deferred tax assets	13.9	16.7
Non-current assets	35.0	43.6
Trade and other payables	24.3	30.2
Provisions	7.3	8.3
Lease liability (right of use assets)	10.5	13.9
Other liabilities	-	4.6
Liabilities (excluding borrowings)	42.2	57.0
Net debt	13.2	8.2
Total equity	33.2	43.1
Gearing (Net Debt/Net Debt + Equity)	28.4%	16.0%
Underlying EBITDA (last 12 mths)	12.0	11.3
Net Debt/EBITDA	1.1	0.7
Net Interest (last 12 months)	2.3	3.6
EBITDA/Net Interest	5.2	3.1

1. During the preparation of the consolidated financial statements, the Group identified that net assets in the prior reporting periods had been overstated by \$1.55 million (net loss for full year ended 30 June 2020 was \$0.37 million understated and retained losses as at 30 June 2020 were understated by \$1.18 million)

- Working capital release of \$5.3m
 - Inventory reduction versus 30 June 2020 reflected tighter procurement practices, improved responsiveness to sales trends and reduction in aged stock driven through the Netstock inventory management system
 - Declines in trade receivables and trade payables reflects a strong focus on cash management during the tighter economic conditions
- Net debt increased to \$13.2m reflects cash outflows from closing out excess foreign exchange hedge positions (\$5.7m in FY21) as well as the impacts of tougher trading results
- Successful refinancing of the Group debt in December 2020 with a 3-year arrangement with the Commonwealth Bank of Australia at significantly better terms than the previous facility



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This document should be read in conjunction with the FY21 Results Announcement and FY21 Appendix 4E.