

28 February 2022

Hills Half Year FY22 results announcement

Hills Limited (**ASX:HIL**) releases its results for the half year ending to 31 December 2021.

A\$ million	HY22	HY21	Change %
Revenue	80.0	93.2	(14.2%)
Segment EBITDA	2.2	6.4	-65.6%
Depreciation and amortisation	(4.7)	(4.6)	
Non-Operating Expenses	(2.9)	(5.7)	
Tax expense	(13.9)	(1.1)	
Interest	(0.7)	(1.5)	
Net Loss after Tax	(20.0)	(6.5)	
Operating Cash Flow	1.6	0.5	+nm
Net Debt	14.9	13.2	12.9%

H1 FY22 Results Overview

- Health division EBITDA of \$2.4 million reflected the volatile operating environment given COVID-related restrictions that have affected the commencement of new projects and access to hospitals and aged care facilities, as well as an investment in capability to accelerate the capture of future revenue growth.
- Distribution division benefited from strong cost control but continued to be adversely affected by COVID-related customer delayed and cancelled projects, as well as worldwide semiconductor shortages impacting product availability.
- Statutory NPAT loss of \$20.0 million included \$2.6 million in operating losses and one-off costs and adjustments including:
 - Non-operating items of \$2.9 million, that includes non-cash asset reductions, New Zealand business non-cash exit losses and legal costs.
 - \$13.9 million non-cash tax expense caused by the reversal of deferred tax asset timing differences and tax losses.
- Continued focus on cost control and capital management delivered \$1.5 million in reduced working capital.
- The proposed divestment of Hills security and information technology distribution business for an estimated \$20 million all cash consideration was announced on 21 February 2022.

Overview

Hills continued to experience challenging trading conditions in the first half of FY22, with the net operating loss for the period reflecting significant business disruption caused by COVID-19 (including extended lockdowns in all major states), COVID-related restrictions on hospitals and aged care facilities, reduced hospital admissions, worldwide semiconductor shortage, and losses from the New Zealand business.

Hills remains focused on its strategic priorities of building and maintaining market-leading businesses, tight cost control and capital management. During the half year Hills closed the New Zealand security distribution business and folded the remaining health and technical installation operations under the respective Australian businesses. The Company also undertook a thorough review of and pursued various options in relation to the Australian security and IT distribution business, choosing in February 2022 to divest the business to Dicker Data for approximately \$20 million. Due to the uncertain economic environment, growth investment in the health business was moderated until such time as the company's financial and cash position was clearer. Despite the conditions the Company took the opportunity to acquire 70% of community health records specialist Extensia Pty Ltd, for a modest upfront cost and a commitment for funding working capital requirements to build the business.

During the half year, working capital declined by \$1.5 million as at 31 December 2021 and net debt increased to \$14.9 million. A solid net debt position was achieved despite ongoing weakness in Hills' key markets, with the business delivering a small \$1.6 million positive cash flow from its operating activities from strong costs control and tight cash management.

Hills has modified its agreement with the Commonwealth Bank of Australia subsequent to the half year end and expects to repay its current borrowing facility with the CBA by 30 June 2022, made possible by the proposed \$20 million divestment of the security and information technology business. The Company is working with financiers to ensure the continuance of financing facilities that are appropriate for the remaining Group businesses.

Non-operating items of \$2.9 million comprises:

- New Zealand non-cash closure losses of \$0.7 million.
- Non-cash items of \$1.3 million, including the write-off of goodwill and intangible assets relating to the proposed divestment of the security and information technology distribution business.
- Other costs, predominantly legal costs, of \$0.9 million.

A non-cash tax expense of \$13.9 million reflects the reversal of timing differences and tax losses in the deferred tax asset, primarily in relation to the security and IT distribution business. Significant carried forward tax losses are expected to result in the Company having no tax payable in the foreseeable future. Reflecting a conservative position, a nil deferred tax asset has been recorded in the half year financial statements.

Hills Chief Executive Officer David Clarke said "Operating conditions remained challenging in the first half of the year with the impacts of COVID-19 felt across all divisions.

"The decision to close or divest the security and IT distribution businesses in New Zealand and Australia reflects Hills' ongoing efforts to focus attention and resources on businesses with the greatest potential returns for investors, most particularly the health technology sector.

"Despite the volatile operating environment which has deferred revenue-generating activities, we continue our focus of pursuing diversification of the technical services business' customer base, and carefully executing on our health technology business strategy.

"The health strategic plan includes investment to bolster sales, marketing, technical and research capability, expand delivery and support capacity, upgrade systems and apply business automation. The goal is to resource the business to expand upon and capture greater opportunities for revenue growth both within and beyond our existing activities, and support the commercialisation and scaling of targeted acquisitions and partnerships."

Hills Health Solutions

A\$ million	HY22	HY21	Change %
Revenue	14.4	16.9	(14.8%)
EBITDA	2.4	5.4	(55.6%)

The Hills Health division's weak Q4 FY21 trading continued into H1 FY22, with challenging trading conditions accentuated by a higher cost base in place to capture future revenue growth. Despite a strong order-book, the division's ability to deliver projects and capture in-hospital patient revenue is adversely impacted by COVID-related restrictions (whether mandatory or community-driven) which delayed projects, inhibited access to hospitals and aged care facilities, and suppressed elective surgeries.

Despite the challenges in H1 FY22, the division successfully completed:

- The installation of nurse-call and integrated nurse-patient speech communications at Nepean Hospital (600 beds and other care locations).
- 30 other projects delivered and completed during H1 within hospital and aged care facilities.
- A three-year extension of the Sydney Local Health District Concord Hospital Patient Engagement Solutions contract and advanced development of new GetWell Network opportunities.
- A two-year extension for its Guest Wi-Fi system that has been deployed across NSW Health districts, delivering service to more than 7,100 beds plus staff.

Health's revised near-term strategy for nurse call and patient engagement was executed carefully in the first half with higher labour costs (excluding government support) versus the comparable prior period, as the business develops greater capability across critical areas of its business. This capability is expected to be built-up further in the second half to accelerate the division's revenue growth in existing and adjacent markets as Australia emerges from its COVID-related restrictions.

Hills completed a small bolt-on acquisition of 70% of the shares in Extensia Pty Ltd in November 2021. Extensia is a small cloud-based software company that enables medical and other data to be updated at the point of care and shared real-time. As a community record provider, it is complementary to Hills' residential and facility focused nurse call and patient engagement systems.

Health is focused on delivery of new and improved technologies for patient care to enhance its reputation as a market-leading integrated health technology solutions provider. This includes integrated voice technology in the nurse call products and advanced workflow, communication, and patient information systems. Hills is also generating 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 a reduction in hospital re-admissions through pre and post admission support and education of patients.

Distribution

A\$ million	HY22	HY21	Change %
Revenue	65.6	76.3	(14.0%)
EBITDA	1.1	1.4	(21.4%)

The Distribution division recorded a small decline in profitability of \$0.3 million despite a loss of revenue of \$11 million and higher shipping costs, due to a focus on strong cost and cash control.

Customers continue to experience delays from COVID-related restrictions impacting delivery of key projects plus a worldwide semiconductor shortage adversely impacting supply of key products and thus project completion. These disruptions and delays have suppressed revenue during the half.

The New Zealand business delivered a \$0.4 million operating loss (after depreciation) for the half year (\$1.0 million loss in H1 FY21). The New Zealand business exit resulted in non-cash write offs of \$0.7 million.

Despite the recent streamlining of the Distribution division, the business still requires significant ongoing investment, and the trading outlook remains variable. Therefore, Hills has signed a conditional business sales agreement to divest its security and information technology distribution division to ASX listed company, Dicker Data, for an estimated \$20 million all-cash consideration. The proposed divestment is subject to a number of key conditions including approval by Hills' shareholders, expected at a general meeting of shareholders in early April 2022. The purchase price represents a premium to the net assets sold and the final amount is largely dependent upon inventory-related balances at the completion date.

Outlook

In the second half of FY22, the team at Hills is focused on making the most of market conditions and retaining a strong focus on the continued implementation of the strategic growth plans of both remaining businesses, to support sustainable earnings growth over the medium to long term.

The Company is also focused on the successful completion of the proposed divestment of the security and information technology distribution business and the core transition elements that arise as a result. These include:

- Provision of transitional services to Dicker Data in the areas of administration, financial, systems, IT support, and warehouse facilities post-completion; this is for an expected period of at least five months during which Dicker Data will pay a services fee.
- Restructuring and reshaping of the corporate function, including IT systems, to reflect the Company's reduced complexity and structured to support the strategic plans.
- Securing the Company's future funding requirements, both in terms of new debt facilities and capital raising.

Trading conditions remain impacted by COVID-related restrictions. Any recovery is dependent on relaxation of restrictions, improved hospital admissions and improved business confidence to drive new and deferred project and construction work. Currently, signs are positive in this regard, the pipeline from delayed projects is solid and underlying demand for our products is strong.

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

About Hills

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

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