FY15 Update and Revised Guidance

Hills Limited (ASX:HIL) provides the following updated guidance and outlook.

Revised Guidance

The Company advises that second half earnings (underlying NPAT[1]) will be lower than the first half. The revised guidance for the full year is for an underlying NPAT attributable to owners in the range of $11M to $14M.

While sales to March in our core security, AV, audio and communications businesses were near internal forecasts, we now anticipate continued delays in project starts. This is due to lower Government spending and project deferrals across the construction, health and mining sectors which have become more pronounced during April.

Margins declined materially in March and we expect this trend to continue in the period from April through June, in part because we have not been able to recover margin compression flowing from the significant year on year decline in the $A.

In prior years the Company's results have typically been strongest in the fourth quarter but, based on results for the first 3 weeks of April and a re-examination of the sales pipeline, this is not expected to be the case this year.

Outlook

The Company continues to accelerate its efforts to reduce group overhead and drive further structural efficiencies in its core business. This will include removing the additional fixed costs that have been maintained in anticipation of a large acquisition. However, the Company will continue to invest in front line sales and service resources.

In recognition of the reduced size of the Company and the need to focus on costs, fees paid to non-executive directors will be reduced by 20% from 1 May 2015.

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[1] Underlying Net Profit After Tax attributable to owners is a non-IFRS measure used consistently by the Company over time. The measure is relevant because it is consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business in light of its change program. It is calculated by removing the effect of non-operating items such as business combination transaction costs, the cost of disposing of freehold properties and one-off income tax credits. Non-IFRS measures are not subject to audit or review.

The Company will also look to capture some upside from extensions to existing contracts for satellite and fixed wireless services, and will continue to participate in tenders for other installation services contracts.

Cash and debt position

The Company's cash position remains strong with net debt around $25M after allowing for the dividend payment to be made on 30 April 2015. The balance sheet remains conservatively geared.

Strategy

The Company’s strategic focus on security, AV, audio, communications and health technologies is sound and we remain committed to grow both organically and by acquisition.

The Company continues to evaluate opportunities to prudently use the balance sheet to acquire new service revenue streams in the communications and health sectors.

In the past few months the Company has incurred and continues to incur certain due diligence and related costs on completed and potential acquisitions. These costs are not included in the determination of underlying NPAT as is consistent with the calculation methodology applied over time.

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