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Hills confirms underlying profit guidance and books asset write-downs

Guidance

Hills Limited (ASX: HIL "Hills") expects to report a full year underlying[1] net profit after tax attributable to owners of $11 million for FY15, subject to the finalisation of the year end audit. This result is in line with guidance provided to the market on 27 April 2015.

Following the recent appointment of Grant Logan as CEO, Hills Board and Management team have completed the Company's business plan for FY16 and are in the process of implementing the Company's strategy. The Company's strategic focus on Security, AV, Communications and Health technologies is sound and we remain committed to grow both organically and by acquisition. Further information about the Company's strategic direction will be provided to shareholders at the AGM later this year.

Asset book values

The Group has carried out a comprehensive review of the carrying value of its assets as part of the year-end process having due consideration to Hills market capitalisation, market growth assumptions and cash flows from ongoing operations.

As part of this review, the Company has determined that the accounting carrying values of goodwill, other intangible assets, deferred tax assets and freehold property as at 30 June 2015 should be reduced by approximately $94 million in total. This will result in a non-cash impairment in the statutory reported results for FY15 of approximately $92 million with approximately $2 million recognised as a reduction in the revaluation reserve.

Importantly, this non-cash accounting charge has no impact on the economics of the business nor does it have any impact on future operating cash flows.

[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, impairments, the cost of disposing of freehold properties and one-off income tax credits. Non-IFRS measures are not subject to audit or review.

"While we continue to see our Health and Technology markets as attractive in the medium to long term, this impairment reflects the market capitalisation and revised growth rates in our Health and Technology businesses," said Hills CEO Grant Logan.

"We are working hard to improve the experience for Hills customers and vendors and are continuing to drive cost reductions and productivity improvements. For at least the rest of the calendar year, our focus will be on the efficiency and profitability of our Health and Technology businesses."

Statutory loss

The Statutory reported net loss after tax is expected to be approximately $86 million. This includes non-operating costs after tax of $5 million as announced on 27 May 2015 and $92 million associated with the impairments.

Dividends

In the context of a statutory loss for FY15, there will not be a final dividend in relation to the 2015 financial year.

The Company's medium term dividend policy remains unchanged, with a target on an annual basis of 50-75 percent of underlying profits with FY16 and future dividend levels to be set having regard to profitability and balance sheet strength.

Hills will report its full year results on 24 August 2015.

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