ASX announcement
17 August 2016

FY2016 Full Year Results

Hills Limited (ASX: HIL) today announced its results for the full year ended 30 June 2016. A summary of the results is set out below:

$'millions	2HFY16	1HFY16	FY2016	FY2015[4]
Revenue	164.7	164.2	**328.9**	**428.8**
EBITDA[1]	6.5	5.2	**11.7**	**29.0**
NPAT	0.7	(69.0)	**(68.3)**	**(85.9)**
Underlying NPAT[2]	2.1	(2.9)	**(0.8)**	**11.1**
Operating Cash Flow[3]	9.0	0.4	**9.4**	**(13.0)**
Net debt	24.2	38.5	**24.2**	**32.0**

Results Summary

- EBITDA[1] of $11.7million is 8.3% higher than February 2016 guidance
- Net debt down to $24.2million from $38.5million in December 2015
- Improved cash flow from operations by $22.4million
- Increased half on half Revenue, EBITDA[1] and NPAT
- Improved Hills Health Solutions (HHS) EBITDA[1] from a loss of $0.1million in 1HFY16 to a $1.4million profit in 2HFY16
- "Back to Basics" turnaround mostly complete, flattening of the organisation structure continues

Strategic Focus

At the Hills AGM in November 2015 and in a separate letter to Hills Shareholders, the Company explained the strategic imperatives to transform Hills from a conglomerate dependent upon low margin, capital intensive steel fabrication, to a higher margin value-added distributor of security, AV and Health technology products and services.

In doing so, Hills:

- exited capital intensive manufacturing operations exposed to competition from low cost products;
- exited Joint Ventures reliant on only one or two customers;
- reduced foreign exchange exposure;
- reduced occupational health and safety liabilities; and
- utilised the funds from the sale of assets to pay down debt and give the Company a sound balance sheet.

Whilst the transformation and restructure program was critical for the long term future of the Company, it was not a smooth process. The key focus for FY2016 was to stabilise the business through a "Back to Basics" program by:

- changing the management team to focus on consolidating and growing the Hills businesses in Australia and New Zealand;
- progressively replacing revenue foregone from Crestron (following its decision to move to a direct distribution model globally), with new suppliers including Tyco, Vivotek and Ipsotek;
- building a deeper and stronger sales pipeline;
- improving margins; and
- further reducing the Company's cost base.

Full year Statutory results

- The FY2016 net loss after tax of $68.3million reflects the impairments already booked in the first half of FY2016
- Revenue and EBITDA[1] in FY2015 included certain business operations that were ceased or disposed of, the Home Division as a trading business before it was converted to a brand licensing arrangement and Crestron sales (Crestron moved to a global direct model in FY2015)

Improving trading EBITDA[1] results

- FY2016 EBITDA[1] result of $11.7million was 8.3% higher than the EBITDA[1] guidance number provided to the market in February with the first half results announcement.
- The Hills Building Technologies Segment reported Revenue of $294million and EBITDA[1] of $12.1million for the full year, with both Revenue and EBITDA[1] up in the second half of FY2016
- The Hills Health Segment went from an EBITDA[1] loss of $0.1million at the end of 1HFY16 to an EBITDA[1] profit of $1.4million in 2HFY16.
- These results reflect the success of the “Back to Basics” business stabilisation program

Hills Building Technologies

Hills Building Technologies (HBT) recorded improved Revenue and EBITDA[1] in the second half of the financial year and has achieved significant contract wins within key segments of airports, higher education and correctional facilities. The successful contract wins include:

- Supply of **Ruckus** Wi-Fi networks at **Western Sydney University** in partnership with **Big Air Group Limited**;
- Supply of **Genetec** unified IP security solutions at **Auckland International Airport** with **Datacom NZ**;
- The supply of **L-Acoustics** speakers to **Novatech** in South Australia and **Power Audio** in Victoria;
- Upgrade of the acoustics solutions in lecture theatres at **Newcastle University** in conjunction with **Soundcorp**; and
- Supply of **Genetec** unified IP security solutions at **Sydney Trains** with **Indra** Australia

As a value added distributor, Hills continually refreshes its product range by partnering with leading edge vendors. HBT has recently added **Community Sound** and **Cadac** to vendor relationships and ceased its distribution arrangement with Biamp.

Significantly, the Company has increased its investment in the continued development of the Hills’ own **Australian Monitor** portfolio which celebrates its 30th anniversary next year. This expanding investment in **Australian Monitor** will see improvements in the current product line along with the introduction of exciting new products which will be announced at the major AV *Integrate* event in Sydney later this month.

Hills Health Solutions

Hills Health Solutions (HHS) went from an EBITDA[1] loss of $0.1million at the end of 1HFY16 to an EBITDA[1] profit of $1.4million in 2HFY16. The strategic licencing agreement between HHS and Lincor Solutions, a global leader in patient engagement technology and clinical access platforms, continues to assist Hills in securing contracts for the installation of state-of-the-art systems at significant hospital developments.

HHS has signed contracts with **Western Sydney Local Health District** for the installation and maintenance of patient engagement solutions at **Auburn, Blacktown, Westmead** and **Mt Druitt** hospitals.

The supply of patient engagement solutions into the **New Royal Adelaide Hospital** has begun**.**

HHS has also signed a contract for the supply of Hills' nurse call solution at the new **Northern Beaches Hospital** in Sydney.

Hills Home Segment

The Home Segment reported an EBITDA[1] of $1.8 million for FY2016 in line with the guaranteed brand licensing arrangement with Woolworths Limited.

Corporate Segment

Hills Corporate Segment includes the costs of running Hills Corporate, Compliance and Shared Services functions. Net Corporate EBITDA[1] costs for FY2016 were $3.5million, down $4.8million from FY2015 (net cost of $8.3million). The second half of FY2016 showed a small increase of $0.5million related to the conclusion of the Company's last remaining TSA income arrangement on its legacy Steel business. The business is continuing to seek cost reductions for this segment including through the further flattening of the organisation structure.

Reduced net debt

Hills net debt at the end of FY2016 was $24.2million – a significant $14.3million reduction from the $38.5million net debt position at 31 December 2015.

The Company's long term financing facilities comprise:

- a $36 million, 5-year debtor finance facility originated through Assetsecure; and
- a $15 million, multi-tranche senior secured debt facility from the Commonwealth Bank of Australia ($10million for 18months and $5 million for 12 months). The $5million 12-month tranche has since been repaid and cancelled.

Hills' new long-term facilities are a better fit-for-purpose for the Company both in terms of their size and nature.

Reduced working capital

The net debt reduction was driven for the most part by a substantial decrease in working capital this year. Inventory in particular has been a key focus during the financial year with the Inventory holding reducing by $16.8 million from $72.4 million at 30 June 2015 to $55.6million at 30 June 2016.

Improved operating cash flows

- Cash generated from operating activities in FY2016 was an inflow of $9.4 million - a $22.4 million improvement from the FY2015 outflow of $13 million.
- The significant turnaround in operating cash flow is calculated after the payment of $10.3million in legacy restructure provisions in FY2016 ($12.5 million in FY2015). These payments cover warranty costs, make-good provisions, onerous lease costs, redundancy and restructuring costs resulting from the sale of the steel and industrial assets in prior years.
- The remaining restructure provision payouts for FY2017 will be approximately $3million. This will result in a marked improvement in Hills' cash flow in FY2017.

Dividends

The Hills Board of Directors have agreed that the Company is not in a position to pay a final dividend in respect of financial year FY2016.

FY2017 Outlook: From "Back to Basics" to "Back to Growth"

Significant energy continues to be directed to the following areas:

- Customer engagement;
- Vendor relationships;
- Training our people;
- Tight capital management;
- Margin improvement; and
- Growing our existing businesses.

The Company will start to move beyond the recent stabilization phase and focus on growth opportunities in FY2017 and beyond.

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[1] Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure used to present the company's segmental information in financial reporting and is calculated on a consistent basis as detailed in note 1 to the financial statements.

Non-IFRS measures used by the company are relevant because they are consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

[2] Underlying net profit after tax attributable to owners is a non-IFRS measure calculated as disclosed in note 6 to the financial statements.

[3] Operating cash flow included the payout of $10.3m of restructure provisions in the current year and the payout of $12.5m in the prior year.

[4] Revenue and profit in FY2015 included certain business operations that were ceased or disposed of, the Home Division as a trading business before it was converted to a brand licensing arrangement and Crestron sales (Crestron moved to a global direct model in FY2015).