ASX announcement
25 February 2016

FY16 First Half Results

Hills Limited (ASX: HIL) today announced its results for the half year ended 31 December 2015. A summary of the half year results is set out below:

$'millions	1HFY16	1HFY15
Revenue	**164.1**	227.0[1]
EBITDA[2]	**5.4**	20.4[1]
NPAT	**(69.0)**	9.2
Underlying NPAT[3]	**(2.9)**	9.5
Operating Cash Flow[4]	**0.4**	4.0

Results Summary

- EBITDA[2] of $5.4 million is better than expected at the time of the November AGM;
- Second half EBITDA expected to be an improvement over first half;
- Share price decline has triggered a further review of asset carrying values with impairments of $66 million booked, predominantly in respect of goodwill, intangible assets and deferred tax assets;
- Net debt at $38 million as at 31 December 2015;
- Hills is continuing to work proactively with its bankers to refinance its facilities to further align with the needs of the Company. The revised facilities are now expected to be in place by the end of April 2016.

---

[1] Revenue in the prior period included discontinued operations, the Home Division as a trading business before it was converted to a brand licensing arrangement and Crestron sales. EBITDA in the prior period included discontinued operations and Crestron.

[2] Earnings before interest, tax, depreciation and amortization (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 2 to the interim financial report.

[3] Underlying net profit after tax attributable to owners is a non-IFRS measure calculated as disclosed in note 12(c) to the interim financial report. 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 in light of its change program. The non-IFRS measures have not been subject to audit or review.

[4] Operating cash flow included the payout of $7.7m of restructure provisions in the current period and the payout of $3.2m in the prior period.

Strategic Focus

As outlined at the 2015 AGM in November, the Company has implemented a “Back to Basics” strategy to rebuild its businesses and address the Company’s performance.

As part of the implementation of this strategy, the Company’s management structure, businesses and people have been aligned to four key business units within the Hills Building Technology and Hills Health Solutions divisions to better service customers and vendors:

- Hills Building Technology
  - Hills AV
  - Hills Security, Surveillance & IT
  - Hills Communications
- Hills Health Solutions
  - Hills Health

The Company has also segmented its customer base between small and medium enterprises (SME) and large enterprise to ensure the service offering is appropriate to all customers.

Growth in the Hills businesses will come from:

- partnering with the right vendors and growing with them. In many cases the Company’s key vendors are growing at double digits; and
- signing up new distributors to freshen and widen the Company’s product offering. Hills has entered into agreements with Dell, Ipsotek, Vivotek, Qnap and BQT during the year.

Hills’ CEO, Mr Grant Logan said today: “We believe this new structure will provide greater agility and focus around delivering the value that customers expect. The new structure will mean that our customers are immediately dealing with the right sales team to deliver the best solution for them.

“As noted at the 2015 AGM our Health business restructure was 6 months behind our other business areas. However, we are pleased to advise that we have a new management team in place and this business now has a clear strategic vision focussed on:

- short term focus on sales and costs to bring the business back to profit;
- optimising the product and services portfolio;
- ensuring our “Go to Market Model” is appropriate; and
- operational excellence and quality.

Business Highlights

In the first half we have achieved the following:

- restructured our management and aligned our businesses more closely to the customer;
- the sales pipeline in our Health business has increased substantially since FY15;
- signed a number of new vendors;
- increased our services revenue so that this now represents 18% of total revenues – our target being 20% to 25%;
- we have continued to flatten the organisational structure achieving efficiencies and cost savings;
- we have continued to consolidate our property footprint by a further 4 sites; and
- we have reduced our inventory level by $5.3 million since 30 June 2015.

Asset Book Carrying Values – Impairment Charges

The recent decline in the Hills share price has triggered a review of the carrying value of Hills assets. The Company has determined that the accounting carrying values of goodwill, intangible assets, deferred tax assets and freehold property should be reduced by $66 million in total as at 31 December 2015. This has resulted in a non-cash impairment of book values in the statutory reported results for the first half of FY16.

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

“While the trading EBITDA results of the Hills business show positive signs of improvement, it is disappointing and distracting to have to recognize some further significant non-operating accounting charges in FY16.

“The remainder of the balance sheet after these write-downs is comprised almost entirely of net working capital and tangible assets. Even though the deferred tax assets have been derecognised from the balance sheet for accounting purposes, these assets can be written back in due course when applied as a shield to income tax in the years ahead.

“We have tax losses of $182.1 million which can be utilised in future years so that the tax Hills pays in the next few years will be close to zero,” Mr Logan said.

Improving Cash Generation

The first half results show a positive cash flow generated from operations of $0.4 million. This is despite the first half including the cash payout of $7.7 million in historical restructure provisions. This drain on Hills' operating cash is steadily phasing out and will be $2 million in the first half of FY17 and close to zero by the second half of FY17.

Financing

Hills is continuing to work proactively with its bankers to refinance its facilities to further align with the needs of the Company.

The new facilities are expected to be based on Hills' investment in working capital and will change as the scale of the investment in working capital changes, consistent with Hills being a value added distribution business.

The revised facilities are now expected to be in place by the end of April 2016. As a result, the debt has been classified as current during this period. Notwithstanding this change, Hills has a $33 million surplus of current assets to current liabilities.

Dividends

As advised at the 2015 AGM in November, no interim dividend will be paid this year.

FY16 Outlook

Mr Logan said "Hills core focus during the first half of FY16 had been:

- to improve profitability by focussing on sales and reducing costs; and
- to reduce debt by selling non-core assets and reducing inventory levels to a holding appropriate to a distribution company of our size".

"In the second half we plan to continue with cost and working capital reductions and together with improving sales from our realignment to the customer, we expect our second half EBITDA to be an improvement over the first half," Mr Logan said.

Contacts

Hills Limited

Grant Logan
Chief Executive Officer
Hills Limited
+61 2 9216 5510

Gareth Turner
Chief Financial Officer
Hills Limited
+61 2 9216 5510

Media

John Field
Field Public Relations
P: +61 8 8234 9555 / 0418 819 527
E: john@fieldpr.com.au