

**HILLS (ASX: HIL)  
MAY 2016 UPDATE**

**we are HILLS™**

#1

LEADERSHIP IN  
OUR CORE MARKETS



CLEAR OBJECTIVES



RESTRUCTURING ON TRACK



SHIFT TO  
RECURRING SERVICES



GROWTH



WE HAVE THE RIGHT TEAM

## Hills is building on its leadership positions

	TECHNOLOGY			HEALTH SOLUTIONS
	Security & CCTV	Audio Visual	Communication & Satellites	
REVENUE (1HFY16)	\$147M (half year)			\$16M (half year)
OPERATIONS	<ul style="list-style-type: none"> <li>Leading security, CCTV and IT solutions to protect homes, businesses and places where large crowds gather, such as at sporting events, entertainment facilities, shopping centers, airports and other public gatherings across ANZ</li> <li>Leading provider of AV products to government, corporations and education institutions across ANZ</li> </ul>		<ul style="list-style-type: none"> <li>Communication solutions installed in homes, stadiums, hotels, offices across ANZ</li> </ul>	<ul style="list-style-type: none"> <li>Provision of interactive TV systems</li> <li>Nurse call facilities to patients in care facilities</li> </ul>
LEADERSHIP	<ul style="list-style-type: none"> <li>✓ #1 - Largest security / largest AV product portfolios in ANZ</li> <li>✓ #1 - The only national one-stop shop with full service</li> <li>✓ #1 - Deepest team of security experts across ANZ</li> </ul>		<ul style="list-style-type: none"> <li>✓ Niche player with service and satellites uniquely positioning Hills for NBN and Foxtel</li> <li>✓ Local satellite production</li> <li>✓ Net promoter score consistently above 89%</li> </ul>	<ul style="list-style-type: none"> <li>✓ 350 hospitals and 800 aged care facilities throughout Australia</li> <li>✓ Owned IP in nurse call</li> </ul>

# FROM MANUFACTURER TO TECHNOLOGY BUSINESS



Hills has transformed its business in the last four years – positioning it for growth

	FY2012	Current (see below dates)
Number of sites	124	26 <sup>1</sup>
Staff numbers (FTE)	2,642	673 <sup>1</sup>
Back office functions	28	1 <sup>1</sup>
Trading working capital	\$284M	\$76M <sup>2</sup>
Annual capex spend	\$29M	\$7M <sup>1</sup>
Debt as at 31 December 2015	\$130M	\$38M <sup>2</sup>

<sup>1</sup> At May 2016

<sup>2</sup> At 31 December 2015

We are working to clear and achievable objectives for the next 3 years

- EBITDA margin recovery
- Services income growth
  - both in absolute terms
  - and as a proportion of revenue
- Consistently improving return on equity

## Business transformation is delivering significant benefits

### SUPPLY CHAIN REPAIR

- ✓ Ability to ship same day has increased from 63% (Apr 2015) to 88% (as at Apr 2016)
- ✓ 3PL costs have reduced by 60% during FY16
- ✓ Inventory levels are down from \$76M (Oct 2015) to \$61M – and are continuing to fall

### PRICING RIGOUR

- ✓ Rigorous pricing regime has been introduced since 1HFY16 – step pricing now depend on sales volume
- ✓ Prices now respond better to market dynamics
- ✓ Since 1HFY16, sales team remuneration is based on gross margin not sales

## Business transformation is delivering significant benefits

### THE RIGHT TEAM

- ✓ Loss of key personnel in 2014/15 has been addressed. We now have:
  - the right leaders at the head of each of our businesses
  - strong teams around those leaders
  - a highly motivated and disciplined senior management team

### THE RIGHT STRUCTURE

- ✓ The sales team is now aligned around clients
  - large enterprise / SMB / trade centres
  - the health pipeline has been rebuilt
- ✓ Proper allocation of resources and dedicated account managers for large clients are now in place
- ✓ Product specialists are now available for clients
- ✓ Trade centres now appropriately stocked with the Hills range

## Business transformation is delivering significant benefits

- Corporate costs since start 2016 reduced by c. \$4.7M
- Operations costs reduced by \$5M by realignment of the structure



- ✓ We will enter FY17 with materially lower annualised costs
- ✓ Transitional service fee income phasing out
- ✓ Hills back office functions are now much leaner and more nimble



- We have refinanced with a flexible debtor facility:
  - \$36M, 5 year debtor finance facility originated through Assetsecure; and
  - \$15M, multi-tranche senior secured debt facility from Commonwealth Bank of Australia (\$10 million for 18 months and \$5 million for 12 months)
- Historical restructuring costs (e.g. from warranty costs, make-good, surplus lease costs, redundancy payments) which have previously been provided against profit have impacted cash flows in FY16. This cash impact will reduce substantially in FY17
- Unbooked tax losses of \$182M available for utilisation against future profit

# GROWTH OPPORTUNITIES



## We have strong sources of growth across all divisions

TECHNOLOGY	COMMUNICATIONS	HEALTH
<ul style="list-style-type: none"><li>✓ Our vendor partners are growing strongly<ul style="list-style-type: none"><li>▪ Genetec, Ruckus, Tyco &amp; UTC</li></ul></li><li>✓ Sales force alignment with customers is delivering growth</li><li>✓ Alignment with Hills Health Solutions<ul style="list-style-type: none"><li>▪ Offering the full Hills suite (security, access control) to care facilities</li></ul></li><li>✓ 'Internet of Things' – growth opportunity will continue over the next 3 years</li><li>✓ Growing the proportion of higher margin, recurring, services revenue</li></ul>	<ul style="list-style-type: none"><li>✓ Transition from installation services to managed services<ul style="list-style-type: none"><li>▪ NBN fixed wireless and satellite programs</li></ul></li><li>✓ Broadening of M2M product portfolio<ul style="list-style-type: none"><li>▪ Security, Smart Communities, Retail, Healthcare, Transportation and Logistics</li></ul></li><li>✓ 'Internet of Things' – growth opportunity will continue over the next 3 years</li><li>✓ Growing the proportion of higher margin, recurring, services revenue</li></ul>	<ul style="list-style-type: none"><li>✓ Execution significantly improving<ul style="list-style-type: none"><li>▪ Businesses now fully integrated</li></ul></li><li>✓ Leading product set and industry position</li><li>✓ Double digit industry growth</li><li>✓ Sales pipeline rebuilt and growing</li><li>✓ 'Internet of Things' – growth opportunity will continue over the next 3 years</li><li>✓ Growing the proportion of higher margin, recurring, services revenue</li></ul>

# WHERE ARE WE IN OUR RESTRUCTURING PLAN?



	Status	Comments
<b>Back to Basics</b>		
Repair supply chain	●	Completed
Pricing sophistication	●	Completed
The right team	●	Completed
The right structure	●	Completed
Online ordering	●	In progress
Trade centre refresh	●	In progress
Continual improvement & right sizing:		
➤ Freight provider rationalisation	●	Completed
➤ Distribution network redesigned	●	Completed
➤ Inventory management	●	In progress
➤ Site consolidation	●	In progress
<b>Costs Out</b>		
\$8M delivered	●	Completed
\$2M more to come	●	On track for 30 June 2016

# WHERE ARE WE IN OUR RESTRUCTURING PLAN? (Cont.) **HILLS**

	Status	Comments
<b>Shift to Services</b>		
Shift to services	●	Increasing Services Income
<b>Capital Management</b>		
New financing facility in place	●	Completed
Deleveraging	●	In progress
Focus on working capital management	●	On going
Inventory management	●	On going
<b>Hills is in the Right Industries</b>		
Technologies market growth to FY19	●	We provide products and services to keep people safe. There is a growing emphases on safety given the world we live in today
Communications market growth to FY19	●	We are uniquely positioned to service the needs of high volume businesses such as NBN and Foxtel
Health market growth to FY19	●	We are well positioned in hospitals and aged care facilities to take advantage of the surge in growth in the healthcare industry

**THANK YOU**

**we are HILLS™**