HILLS™

ASX announcement
Media Release
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Hills first half FY21 results announcement

Hills Limited (**ASX: HIL**) releases its results for the six months to 31 December 2020.

	1H FY21 $m	1H FY20 Restated $m	% change
Revenue	**93.2**	**126.7**	(26.5)
Segment EBITDA	**6.4**	**9.1**	(29.3)
Underlying Segment EBITDA [1]	**6.4**	**7.4**	(13.5)
Depreciation & amortisation	*(4.6)*	*(4.6)*	
Non-operating items	*(5.7)*	*(0.3)*	
Tax expense	*(1.1)*	-	
NPAT	**(6.5)**	**2.3**	nm
Operating cashflow	**0.5**	**7.6**	(93.7)
Net debt [2]	**11.3**	**8.2**	38.4

Key points

- Health division reported strong Q2 sales growth, up 10.8% year-on-year, after slow Q1 sales due to COVID-related restrictions affecting access to hospitals and elective surgery.
- Distribution division adversely affected by COVID-related lockdowns, delayed projects, reduced competitiveness from foreign exchange losses and non-operating items.
- NPAT was also impacted by:
  - $2.95m from three months of JobKeeper subsidy;
  - Non-operating items of $5.7m, which were largely foreshadowed in earlier market releases, include non-operating items, foreign exchange losses and legal costs; and
  - $1.1m reversal of timing differences and New Zealand tax losses in deferred tax assets.

Overview

Hills experienced challenging trading conditions in the first half of FY21, with the net loss for the period reflecting project delays caused by the COVID-19 pandemic (including the Victorian lockdown), slow Q1 sales in the Health division caused by COVID-related restrictions on hospitals and elective surgery, losses from the New Zealand business ($0.8 million) and non-operating items ($5.7 million).

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[1] Underlying EBITDA for H1 FY20 excludes $1.6m of EBITDA related to the three business units divested in that period – the AV, Antenna and STEP businesses

[2] Net debt for FY20 as at 30 June 2020

Despite these challenges, Hills remains focused on its strategic priorities of building and maintaining a market-leading product portfolio, tight cost control and capital management (working capital declined by $5.3 million at 31 December 2020, capital employed reduced by $3.8 million and net debt was $11.3 million).

As largely foreshadowed to the market on 18 December 2020, non-operating items of $5.7 million were recorded in the first half reflecting:

- Mark-to-market foreign exchange adjustments ($1.7 million)
- Write-off of assets relating to exited businesses ($0.6 million)
- Write-off of assets relating to exited vendors ($0.2 million)
- Aged, slow-moving and demonstration stock write-offs ($1.4 million)
- Reassessment of asset lives and property settlements ($0.55 million)
- Other costs, predominantly legal costs ($1.25 million)

During the preparation of the consolidated financial statements, the Group identified an overstatement of the carrying value of trade and other receivables and inventory and an understatement of trade and other payables as at 30 June 2020 of $1.55 million:

- Net loss for full year ended 30 June 2020 was understated by $0.37 million (net profit for the half year ended 31 December 2019 was overstated by $0.33 million); and
- Retained losses as at 30 June 2020 were understated by $1.18 million.

In addition, a tax expense of $1.1 million was reported in the first half reflecting the reversal of timing differences and New Zealand tax losses in deferred tax assets.

Hills Chief Executive Officer and Managing Director David Lenz said: “The impacts of COVID, non-operating items and foreign exchange losses have resulted in disappointing first-half results. We are pleased to report that our Health division has returned to revenue growth in the second quarter as COVID restrictions have been lifted and we remain excited by the profit opportunities identified in our recent strategic review of this business. We continue to streamline the Distribution division to remove costs and improve margins.”

Hills Health Solutions

	1H FY21	1H FY20	% change
Sales revenue	**$16.9m**	$18.2m	(7.6)
Segment EBITDA	**$6.2m**	$5.5m	12.4

Hills' Health division performed well in first half of FY2021 and remains on track for profit and sales growth over the full year based on a strong order pipeline in the second half.

Health division sales were down 7.6 per cent in the first half, with project delays in Q1 caused by COVID-related restrictions on site access and hospital decision-making and fewer elective surgeries impacting both Nurse Call and patient entertainment revenue.

Growth returned in Q2, with sales improving by 10.8 per cent compared to the previous corresponding period. EBITDA for the period was up 12.4 per cent to $6.2 million, reflecting improved product margin and the benefit of three months of JobKeeper subsidies.

Despite the challenging environment, the Nurse Call business added 3,100 new beds during the period. In addition, the Patient Engagement business renewed 3,200 beds across 16 hospitals in the first half.

Health is now executing against its strategic review and has identified opportunities to accelerate growth in existing and adjacent markets. A market update detailing the new strategic direction will be provided in Q4 FY21.

Distribution

	H1 FY21	H1 FY20	% change
Revenue	$76.3m	$108.4m	(29.6)
Segment EBITDA	$1.8m	$5.3m	(67.1)
Continuing businesses [3]			
Revenue	$76.3m	$86.4m	(11.7)
Segment EBITDA	$1.8m	$3.7m	(52.3)

The Distribution division has recorded a decline in profitability reflecting the challenging trading conditions, particularly in Victoria and in the IT business. EBITDA as a percentage of sales declined to 2.3 per cent reflecting the adverse impacts on competitiveness caused by foreign exchange losses, an increasingly competitive marketplace and losses generated by the New Zealand business.

Operating expenses in Distribution declined by $4.4 million (including the benefit of three months of JobKeeper subsidy), with the division on track to deliver cost savings of up to $5 million in FY21.

The New Zealand business delivered a $0.8 million loss in first half, reflecting a highly competitive trading environment and poor economic conditions in the country.

[3] Excludes EBITDA and revenue related to the three business units divested in 1H FY20 – the AV, Antenna and STEP businesses.

Outlook

Hills is focused on execution of its Health strategy and further reducing the cost base of the Distribution division and remains confident that this will support sustainable earnings growth over the medium to long term.

The Q2 recovery in Health trading is expected to continue in the second half. However, trading conditions remain competitive in the Australian Distribution division and any recovery is dependent on improved business confidence that will drive project work.

This ASX announcement is authorised for release by the Board of Hills Limited.

About Hills Limited
Hills is a majority Australian-owned publicly listed company (ASX: HIL) that is a value-added distributor of integrated technology solutions that connect, entertain and secure people in the environments they trust the most: their homes, schools and universities, hospitals and aged care facilities, workplaces and government institutions. For more information, visit www.hills.com.au

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