

Clearing the decks to prepare for a turnaround

Company/ASX Code	Hills Limited (HIL)
Date of General Meeting	Wednesday, 20 April 2022
Time and location	9.30 am Adelaide Time, online
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll
Monitor	Cynthia Loh assisted by Malcolm Keynes
Pre AGM Meeting?	Yes, with Chairman David Chambers, CEO David Clarke and General Counsel & Company Secretary David Fox

Please note potential conflict as follows: The individuals and their associate involved in the preparation of this voting intention have shareholdings in this company.

Summary of issue for meeting

In accordance with ASX Listing Rule 11.2, an ASX listed entity must obtain approval from its shareholders before disposing of its main undertaking. Hills Ltd has called a general meeting to seek shareholders' approval to sell its Security and Information Technology distribution division. (Transaction)

RESOLUTION:	The shareholders of Hills approve and agree to the sale of Hills' interest in its Security and Information Technology distribution division, being a main undertaking of Hills, on the terms and conditions described in the explanatory statement accompanying the Notice of Meeting, for the purposes of ASX Listing Rule 11.2 and for all other purposes.
ASA Vote	For

Summary of ASA Position

On 21 Feb 2022, Hills announced that it had entered into a Sale & Purchase Agreement to sell certain net assets of its Security and Information Technology distribution division to Dicker Data Ltd (DDR) for a cash consideration of about \$20 million.

The Board believes that the benefits of the Transaction will include:

- enabling Hills to be more easily understood by prospective investors and financiers;
- improving Hills' ability to access capital and on terms more attractive to existing shareholders;
- increasing Hills' re-rate potential as health businesses generally trade on higher earnings multiples than distribution businesses;
- significantly reducing Hills' ongoing working capital and debt servicing requirements;
- significantly increasing Hills' profit after tax to cash flow conversion; and
- improving Hills' ability to use scrip as consideration in healthcare acquisitions as previous vendors of targets have advised that they have little interest in receiving Hills' scrip whilst the SIT distribution division is owned by Hills.

Completion of the Transaction is conditional on the following:

- Independent Expert concluding the sale is fair and reasonable;
- Shareholder Approval;
- Discharge of CBA Encumbrance;
- CBA Consent to the sale of the Security and Information Technology distribution division to DDR;
- Novation of Key Contracts to DDR from Completion; and
- Landlord consent to the assignment of property leases to DDR from Completion.

Findings from the Independent Expert Report

The Independent Expert (RSM Corporate Australia Pty Ltd) has determined that the Transaction is **fair and reasonable** for the shareholders of Hills.

Advantages of Approving the Transaction

In the opinion of the independent expert, the advantages the Transaction include:

- It will enable the Company to repay a significant portion of the company's loan from CBA.
- It will significantly reduce the Company's ongoing working capital and avoid incurring re-structuring costs.

- It will allow the Company to focus on the Health Solutions and Technical Services divisions.
- The focus on the Health Solutions and Technical Services divisions will enable a better understanding of the Company's operations by prospective investors and financiers with the potential for better access to debt and equity funding.
- There is no dilution to shareholders' interests.
- The transaction may create an increased interest in Hills which may improve the liquidity of the Company's shares.

Future Prospects of Hills if the Transaction does not Proceed

The Company disclosed net losses after tax of \$20 million and generated cash of \$1.6 million from operating activities for 1H22. Subsequent to 31 Dec 2021, the Company was in breach of an undertaking in its loan with CBA. It has obtained a waiver from the bank and entered into a revised agreement which expires on 30 June 2022.

The Transaction will enable Hills to repay a significant portion of the loan. If the Transaction is not approved, the Company may need to seek alternative funding.

Shareholders are urged to read the Independent Expert's Report (IER) for more details.

ASA Position

The company monitors for Hills met with the Chairman Mr David Chambers, CEO Mr David Clarke and General Counsel & Company Secretary Mr David Fox on Friday 1 April. They established to our satisfaction that all the other conditions of the Transaction, except shareholders' approval which is being sought at the general meeting, have progressed satisfactorily to date.

We recommend shareholders who give their proxies to ASA send in directed proxies. In the event that shareholders still prefer to send us open proxies, we will cast these in favour of the resolution in the absence of a superior proposal.

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