

Major board and leadership overhaul inspires hope for end of downward spiral.

Company/ASX Code	Hills Ltd (HIL)
AGM date	24 November 2021
Time and location	2.30 pm (Sydney time), online
Registry	Link Market Services
Webcast	No
Monitor	Cynthia Loh assisted by Malcolm Keynes and Bob Ritchie
Pre AGM Meeting?	Yes, with Chair and CEO

The individuals (or their associates) involved in the preparation of this voting intention have shareholdings in this company.

Summary of Issues for Meeting

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Financial Performance

It was another year of disappointing results for Hills shareholders. Net loss for the year increased by 57% to \$10.2 million (FY2020: \$6.5 million). Net debt increased by 67% to \$13.2m (FY2020: \$8.2 million). Underlying basic EPS declined further to -4.4c. (FY2020:12.8c). So did total shareholder return (TSR) by -15.2% (FY 2020: -5.7%). No dividend was declared. (Dividends were last paid in 2015.)

FY2020 accounts had to be restated as the net loss for the full year had been understated by \$0.37 million and retained losses by \$1.18 million. Last year's foreign exchange losses continue to make its impact; a further \$1.7 million had to be written off this financial year. In addition, \$1.25 million were paid in legal costs and \$43,000 in non-audit services.

Government JobKeeper Program aid (\$2.95million) and New Zealand government support (\$0.2 million) helped fund wage costs and ensured key staff were retained.

Covid-19 restrictions impacted all business divisions. On a positive note, while the Distribution division underperformed, the Health division managed to achieve 33% growth in underlying EBITDA to \$9.7 million, cost control and capital management delivered \$10.7 million in savings and \$5.3 million in reduced working capital.

Key Events

Covid-related rolling lockdowns in major states and restrictions on access to hospitals and aged care facilities caused major disruption to business.

A world-wide semiconductor shortage impacted product availability.

There was a major ongoing overhaul of board and executive management positions throughout the year.

Key Board or Senior Management Changes

Jennifer Hill-Ling, whose family founded the company, retired on 1 July 2021, after more than 36 years on the board which included the last 16 years as chair.

David Chambers was appointed as chairman of the board from 1 July 2021 after being appointed first as a non-executive director (NED) on 8 July 2020.

Phillip Bullock AO retired as a NED on 6 November 2020 after serving 6 years on the board.

Fiona Bennett retired as a NED on 31 March 2021 after serving nearly 11 years on the board.

David Lenz retired as CEO and Managing Director on 17 May 2021 after being in the position for nearly 5 years.

C Jacka, resigned as Chief Financial Officer (CFO) on 29 September 2020.

Peter Steele acted as Interim CFO from 8 September 2020 to 2 March 2021 and was subsequently appointed to the board as a NED on 31 March 2021.

Natalie Scott was appointed CFO from 22 March 2021.

David Clarke was appointed as CEO from 17 May 2021.

ASA focus issue (not discussed under remuneration report or re-election of directors)

(As at FYE)	2021 as at 30 June	2020 re-stated*	2019 re-stated*	2018	2017
Statutory NPAT (\$m)	-10.2	-6.5	10.0	0.4	-7.9
UPAT (\$m)			0.5	0.04	-1.1
Share price (\$)	0.140	0.165	0.175	0.23	0.155
Dividend (cents)	0.00	0.00	0.00	0.00	0.00
Simple TSR (%)	-15.2	-5.7	-23.9	48.4	-36.7
EPS (cents)	-4.4	-2.8	-4.3	0.2	-3.4
*M Director & CEO (D Lenz) total remuneration, actual (\$m)	0.48	0.38	0.42	0.39	0.38
**CEO (D Clarke) total remuneration, actual (\$m)	0.03				

Summary

*Managing Director & CEO David Lenz retired on 17 May 21 and stayed on in an advisory role until 1 July 2021. His remuneration included a departure payment of \$113,246.00.

**The new CEO D Clarke commenced employment on 17 May 2021.

The combined salaries of the two CEOs for the financial year was **5.5 times** the Australian Full time Adult Average Weekly Total Earnings based on May 2021 data from the Australian Bureau of Statistics.

Item 2 / Resolution 1	Election of Ms Janet Muir as a Director of the Company
ASA Vote	For

Summary of ASA Position

Ms Muir is a chartered accountant with a MBA and brings extensive experience in large healthcare organisations with skills in strategy, business development, government relations and organisational change leadership. We believe that Hills can benefit significantly from her contacts, skills and experience particularly those in organisational change leadership. However, Ms Muir is currently employed as Audika’s ANZ Managing Director, Retail.

At the meeting with the chairman, we asked him if her responsibilities in Audika would allow her to give adequate time and attention to Hills. He assured us that appropriate arrangements had been made and he is confident that she would devote the time and attention required of her.

Ms Muir is the only woman NED on the current board. If Ms Muir is not elected, she will cease to be director of Hills Ltd after the AGM.

We will vote “FOR”.

Item 3 / Resolution 2	Election of Mr Peter Steel as a Director of the Company
ASA Vote	For

Summary of ASA Position

Mr Steel is a chartered accountant and brings significant experience in consumer goods (Coca Cola Amatil Ltd) and logistics industries (Toll Priority) with skills in strategy, acquisitions, business planning and development.

To fill the vacancy created by the resignation of the previous CFO (C Jacka) until the appointment of the new CFO (Natalie Scott), Mr Steel took on the role of interim chief financial officer for a period of nearly 6 months. We believe Mr Steel’s skills and experience, especially his tenure as interim CFO, will provide invaluable insights to help strengthen the financial management of the company.

Mr Steel is chair of the Audit, Risk and Compliance Committee. He does not hold any other directorships. He currently owns 409,000 shares in the company. If Mr Steel is not elected he will cease to be a director of Hills after the AGM.

We will vote “FOR”.

Item 4 / Resolution 3	ASX Listing Rule 7.1A Approval of Future Issue of Securities
ASA Vote	For

Summary of ASA Position

Under Listing Rule 7.1A, Hills is seeking shareholder approval to have the capacity to issue an additional 10% of its issued shares so that it will be able to issue up to the combined 25% of its issued shares without further shareholder approval for a period of 12 months from the 2021 AGM or the next AGM, whichever is earlier.

If the resolution is approved and the company issues shares, existing shareholders' economic and voting power will be diluted; there is also a risk that the share price may become significantly lower on the issue date.

Hills has informed that while they have not formed an intention to issue any shares, if this resolution is approved and funds are raised, the company may use the funds for working capital and acquisition of new assets.

In the pre-AGM meeting we discussed the implications of this resolution in depth with the chair and CEO. Both reiterated the information provided in explanatory notes in the notice of meeting and assured us that where practicable, any issue of shares will be structured to facilitate equitable participation by existing shareholders.

Among other things, the openness with which our questions were received and responded to by the chair and CEO, backed by evidence of their deliberate efforts to recruit appropriate skills to the company and to change its business strategy and company culture caused us to reverse our original decision. We think the new board and new executive leadership team deserve a chance to prove themselves.

We will vote "FOR".

Item 5	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO David Clarke is paid a fixed remuneration of \$350,000 (inclusive of superannuation) and a variable incentive opportunity of \$275,000 per annum, split between a STI of \$150,000 and a LTI of \$125,000.

The STI (\$150,000) is paid 50% in cash and 50% as performance rights that vest after one year. This is subject to annual performance targets measured against financial (80%) and non-financial (20%) objectives. Financial measures include NPAT, cumulative divisional EBIT performance and working capital. The LTI (\$125,000) is based on a combination of financial performance targets and service conditions which include an absolute test based on EPS growth and a relative test based on TSR.

On commencement, Mr Clarke was issued three tranches of performance rights valued at \$125,000 each, vesting over a three year period, the first tranche vesting on 30/06/2024 if performance targets and service conditions are achieved. Although ASA does not approve of sign-on incentives, in this case we believe that it is fair as they are heavily focussed on performance to overcome the challenges Hills is currently facing.

We will vote “FOR”.

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