

28 February 2023**Half Year FY23 results announcement**

Hills Limited (**ASX:HIL**) releases its results for the half year ending 31 December 2022.

	31 Dec 2022	31 Dec 2021	% change
	\$million	\$million	
Sales Revenue	22.5	22.6	(0.6%)
Cost of goods and services sold	(12.0)	(10.9)	(10.3%)
Gross margin	10.5	11.8	(10.6%)
Other operating (costs)/income	(11.1)	(11.1)	0.0%
Segment EBITDA	(0.6)	0.7	
Depreciation & amortisation	(2.0)	(2.0)	0.8%
Other income/(expense)	(0.7)	(0.9)	24.5%
Interest and finance costs	(0.3)	(0.7)	52.0%
Statutory net loss before tax	(3.6)	(2.9)	(22.7%)
Tax expense	-	(1.9)	
Statutory net loss after tax	(3.6)	(4.8)	24.7%
Cash flows from operating activities	(4.2)	1.6	
Net debt	(4.9)	3.2	

HY23 Results Overview

- Record health orderbook of \$17.6 million, up 120% on 30 June 2022.
- Secured New Footscray Hospital Nurse Call contract for approximately \$7 million, cementing Hills as a leader in the sector.
- Health revenue from delivered projects was stable at COVID-19 pandemic levels.
- Technical Services revenue dropped with delays in technology introductions from NBN.
- Margins on fixed price contracts impacted by the global supply shortage and significant component price fluctuations. Relief expected during the 2023 calendar year.
- Statutory net loss after tax of \$3.6 million from continuing businesses. Key focus remains on cost control, realisation of operational efficiencies and capital management.
- Extensia leading a consortium of health-tech providers in primary, remote and aged care.

The Company's operations reflected the delivery of the reduced orders taken during the COVID-19 pandemic period. Post-pandemic demand is building, and we are encouraged that the future delivery pipeline is strong. Hills remained focused on retaining key staff and capabilities during the pandemic and at 31 December 2022 had accumulated over \$17.6 million of future orders, predominantly for delivery in FY24 and FY25, up from almost \$8 million at 30 June 2022.

Hills' net loss for the period reflects these underlying trading conditions, as well as the higher cost of components and the work required following the divestment of the Distribution business to improve operational performance.

Operating cash flow in the first half of the year was a \$4.2 million outflow which included payments for inventory of \$2.4 million reflecting supply chain changes, and cash trading losses of \$2.0 million. Net debt increased \$8.1 million to \$4.9 million as at 31 December 2022, which included the operating cash outflow of \$4.2 million, \$1.4 million to support bank guarantees for landlords, and \$1.2 million payments for one-off costs, including costs associated with the divested business. These predominantly one-off payments were funded through a new \$6 million facility agreed in September 2022.

Hills Chief Executive Officer David Clarke said: “The Company finds itself in a position of strong demand, however, the timing of delivery of our projects combined with supply chain delays have had a negative impact on first-half FY23 trading of the Health division. The Technical Services business was also adversely impacted by the unavailability of key NBN infrastructure components.

“Hills remains focused on pursuing revenue growth across its core business supported by strategic investment in product development. At the same time, we are focusing on the restructure and modernisation of the Health business to lift operational performance. This is key for the Company to effectively compete in the fast-moving health-tech sector and pursue our growth ambitions within and beyond our core businesses.”

Outlook

The divestment of the Distribution business has allowed Hills to intensify its focus on achieving earnings growth over the medium to longer term in both the Health and Technical Services businesses. In addition to ensuring that all opportunities are optimised in line with Hills’ strategy, the business will focus on:

- Revenue growth and opportunities in both businesses;
- Product development to support that growth;
- Scaling the business through the pursuit of future acquisitions;
- Leading the Digital Health Consortium to participate in the broader health-tech sector;
- Improving operational performance and managing cost; and
- Securing the Company’s future funding requirement, including debt facilities and raising capital.

Revenue recognition for health projects remains reliant on activity and investment to drive the refurbishment and construction of new and deferred hospital projects. The current trading conditions are expected to continue in the short-term through the second half of FY23 until supply chain pressures are eased.

The orderbook of projects secured of \$17.6 million, as well as new incoming opportunities, sets up a strong delivery pipeline into FY24. This strong future demand for our products, our focus on operational performance and an increase in confidence in the health sector are expected to underpin the return of Hills to sustained net profit during FY24.

Financing

The Company is in the late stages of preparing a capital raising with the support of its shareholders and financiers.

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

About Hills

Hills (ASX:HIL) is a majority Australian-owned company that designs, develops, distributes, installs and manages integrated health technology solutions in homes, hospitals, aged care facilities and other health settings across Australia and New Zealand. www.hills.com.au.

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