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Trading update and performance outlook

Trading Update

HGL Limited (ASX: HNG) provides the following guidance to the market ahead of the completion of its audited FY2018 full year results, expected to be released on 20 November 2018. All figures provided are preliminary and unaudited.

Continuing Operations

Revenue from Continuing Operations for the twelve months ended 30 September 2018 ("FY18") is anticipated to be in the range of $43.0 million to $43.5 million (FY17: $40.5 million), an increase of 6% - 8% on the prior corresponding period.

Underlying Earnings Before Interest & Tax ("EBIT") from Continuing Operations in FY18 is anticipated to be in the range of $3.6 million to $3.8 million (FY17 $3.5 million), an increase of 4%-10% on the prior corresponding period.

The acquisitions of Intralux Australia, POSM and Pegasus are contributing to earnings, whilst providing an improved platform for future revenue and profit growth.

JSB Lighting continues to provide quality service to its extensive client base in the architectural lighting market with sales revenue in financial year 2018 slightly below last year despite disruption following the departure of the former CEO and several sales team members.

The transition of the sales team is likely to impact the interim comparable sales order pipeline in 2019 from recent higher levels.

The acquisition of Intralux provided JSB with a greater product range, and enabled the optimisation of production of its Redsquare products. Intralux's manufacturing and technical capabilities provides further capacity to develop new product ranges with its own IP and technical features to enhance JSB's competitiveness.

Further to the announcement on 27 June 2018, JSB's legal action that commenced against former sales executive has been expanded to include other former employees and associates of JSB. It is alleged that there have been breaches by a number of parties of employment contract obligations, the Corporations Act and misappropriation of confidential information, through the establishment of a competing business.

HGL is disappointed at the necessity to take legal action against former employees in the HGL Group, but has a responsibility to protect the Group's intellectual property and revenue and will be seeking damages against the former employees and any associated company.

The addition of POSM in December 2017 supported SPOS Group maintaining similar revenues with FY17. Synergies realised to date from the acquisition, along with other cost saving initiatives, have assisted SPOS achieve significant EBIT growth on the prior year.

The final synergies will be realised over the final quarter of calendar 2018, with the combining of warehouse operations with the remainder of the SPOS business.

The acquisition of 70% of Pegasus Healthcare on 1 April 2018 has been a positive addition to the group, providing exposure to the growing healthcare sector.

Pegasus is performing well against the expected financial targets. The company has recently established new operational facilities in Newcastle (NSW) and Ballina (NSW) to increase its service to local hospitals and in-home treatments under the National Disability Insurance Scheme, and has secured multiple new rental and sales opportunities to hospitals in NSW and other states.

HGL is confident in the ability of Pegasus to deliver strong revenue and earnings growth in future periods.

BLC Cosmetics transition of its product portfolio mix towards higher demand brands sold to salon, spas and skin clinics, did not offset the continued decline in Thalgo sales, negatively affecting total revenue in FY18. The contracting sales resulted in a loss in earnings, despite a reduction in operating expenses.

Mountcastle continued its growth in school wear products sold to public and private schools nationwide. The company has strengthened management of its corporate wear division employing a new general manager to facility increase business development efforts underpinning future growth objectives in this segment. The equity accounted contribution from this business will be in line with the prior year.

<u>Statutory Results:</u>

The Statutory Net Profit Before Tax for FY18 is expected to be in the range $0.4 million to $1.0 million (FY17: $2.0 million), after non-underlying costs and the costs of divestment of Biante and Leutenegger during the period.

Following the disposal of Leutenegger, HGL has decided to completely exit the homewares market and wind-down Nido Interiors. Management formed the view that Nido Interiors did not have the scale to create a sustainable long-term position in Australia's homewares market. The business was unable to generate an adequate return and it's in the best interest to free-up invested capital to be redeployed within HGL's core portfolio (consisting of Architectural Lighting, Medical Equipment, Personal Care, Retail Marketing products, and School and Corporate Wear).

HGL will cease its funding of Nido Interiors after fulfilling current outstanding customer orders, and transfer selected assets and IP under an earn-out arrangement to the Creative Director of Nido Interiors, who will continue to service clients under a new operational setup and legal entity.

Nido Interiors will, together with Biante and Leutenegger, be classified as discontinued operations in the financial accounts.

HGL's objective going forward is to continue to build the scale of its core businesses and take advantage of any acquisitions that deliver operational and revenue synergies.

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