

ASX Announcement

Millennium Services Group Limited

(ASX: MIL)

27 February 2019

Millennium FY19 Half Year Results to 31 December 2018

Summary

- Revenue of \$153.7 million, up 12.8% on the previous corresponding period of 1H18 (pcp)
- Statutory EBITDA loss of \$5.9m, a negative change of \$12.1m (on the pcp)
- Net \$0.3m EBITDA excluding \$6.2m of non-recurring and catch up costs in line with AGM advice
- Statutory net loss after tax of \$23.2m, a negative change of \$24.2m (on the pcp)
- No interim dividend declared
- New Board of Directors appointed in September and October 2018
- Darren Boyd appointed CEO and Managing Director effective 7 February 2019
- Michael Constable appointed CFO effective 15 October 2018
- Profit Improvement Plan underway, with benefits to flow in 2H19 and in FY20

Millennium Services Group Limited (ASX: MIL) today announced a statutory net loss after tax of \$23.2m and statutory EBITDA loss of \$5.9m. The statutory results include non-cash asset impairment charges of \$14.6m and non-recurring and catch up costs totalling \$6.2m.

Summary financials

\$ million	1H19	1H18	Variance
Statutory results			
Revenue	153.7	136.3	12.8%
EBITDA	(5.9)	6.2	Not meaningful
NPAT	(23.2)	0.9	Not meaningful
Dividend (cps)	0.0	0.0	Unchanged

Financial performance

Despite achieving strong revenue growth, the Company reported a large decline in underlying EBITDA. The reduction in underlying profitability was driven by:

- unfavourable changes in contract mix resulting in lower gross margins and higher labour costs;
- under recovery of the 3.5% National Wage Increase that took effect 1st July 2018;
- inefficient labour management across key contracts; and
- overheads being too high.

On a statutory basis, EBITDA was reduced by non-recurring and catch up costs totalling \$6.2m, comprising employment related costs of \$3.1m; increase in provision for doubtful debts \$0.9m; increase in public liability claim provisioning \$0.5m; a contingent liability at 30 June 2018 to the ATO for \$0.5m recognised in the current period and a number of other accounting adjustments totalling \$1.2m.

Net profit after tax was reduced further by an impairment charge against goodwill and other intangibles of \$14.6m.

Segment performance

Millennium's Cleaning segment increased revenue by 6% over the pcp to \$125.4m from \$118.2m. There was a significant reduction in segment gross margin from \$18.7m to \$10.5m as a result of the under recovery of the 3.5% National Wage Increase and inefficient labour management across key contracts. The Profit Improvement Plan already underway addresses these issues as a matter of urgency.

Millennium's Security segment increased revenue by 56% over the pcp to \$28.4m from \$18.1m. Despite the increase in revenue, segment gross margin declined to \$2.5m from \$2.8m, an 11% reduction over the pcp. This reflected new contract wins at lower gross margins and higher labour costs. The Profit Improvement Plan already underway addresses these issues as a matter of urgency.

Strategic initiatives

As previously disclosed to the market, the new Board became aware in October 2018 of a significant reduction in profitability and promptly commenced a strategic review to identify the causes and develop strategies to return Millennium to sustainable profitability.

The new Board has developed and is implementing a Profit Improvement Plan comprising a range of actions to reverse the decline in profitability and improve overall Company processes and controls. The Profit Improvement Plan is focused on cost saving actions and operational efficiency improvements. Cost savings include a major organisational restructure that has already reduced one layer of management resulting in improved accountability and communication flows. New controls over overtime, rostering and discretionary spending are now operating and yielding positive results. Realistic annualised profit improvements in the order of \$11m have been identified and all our plans are geared to getting these locked in such that a measurable and material improvement is achieved in the 2H19 with the full impact expected in FY20.

To address the declining contract margin driven by a changing contract mix the Company is developing a growth strategy that focuses both on a comprehensive contract retention program and to develop new business.

A key priority of the new Board was the recent appointment of an experienced CEO and Managing Director to ensure the successful execution of this Plan. The Company is delighted to have appointed Mr Darren Boyd, who commenced on 7 February 2019. Mr Boyd has the necessary skill set and experience to guide the Company through this challenging period. He will be ably assisted in this task by the Group's Chief Financial Officer Mr Michael Constable, who joined the business in October 2018 and has very relevant experience in this sector.

Importantly, while implementing the Profit Improvement Plan, the Company is ensuring that no client service offerings are compromised.

Financing

Millennium's debt provider the ANZ Banking Group, has waived the debt facility covenants for period ending 31 December 2018, subject to conditions, and agreed to defer the scheduled January 2019 principal repayment.

The current debt facilities are due to be refinanced in November 2019 and the Company is currently in discussions with the ANZ and exploring a number of alternative funding strategies.

Contracts Performance

As the new Board and Executive continues to focus on the profit improvement plan targeting contract performance and retaining contracts at market competitive rates, this will lead to a natural refresh of the contract base. Following a competitive tender process, AMP Capital has recently advised the Company that it has not been successful in retaining the cleaning and security contracts in a number of retail centres on the east coast of Australia and New Zealand. These contracts were due for tender under the normal AMP contract renewal process and are due to expire at the end of March 2019. The contract loss will result in an annualised reduction in revenue to Millennium in the order of 6% however we expect to minimise the EBITDA impact as part of the cost reduction strategies embodied in the Profit Improvement Plan.

The Company continues to win new contracts and the growth strategy will ensure we retain business and win new business at a market competitive gross margin.

Outlook

Since its appointment four months ago, the new Board has taken prompt and decisive action to uncover the operational and organisational issues that underpinned the poor 1H19 financial results, and to develop plans to address them. With the appointment of the new CEO, and an experienced CFO, the Company is confident of successfully executing its Profit Improvement Plan. The benefits of the Profit Improvement Plan are expected to be realised in part in 2H19 and FY20.

For further details, refer to the Investor Presentation and 1H19 accounts which is available from the investor section of the Company's website (www.millenniumsg.com).

Ends

For further information please contact

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Chairman

Millennium Services Group

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