

CHIEF EXECUTIVE OFFICER'S ADDRESS

27 November 2019

Thank you Roger and welcome everyone, for those that I have not met, my name is Darren Boyd and I have been the CEO and Managing Director of Millennium Services Group since early February this year.

As the Chairman has stated, FY19 was a tale of two halves, with the second half delivering a much stronger underlying performance and laying the groundwork for a greater improvement in FY20.

The results for the FY19 year were consistent with the company's previous statements. Revenue increased 4.5% to \$294.7m, EBITDA declined by \$13.1m to a \$4.3m loss compared to the prior year and the Group recorded a statutory loss after income tax of \$45.6m which included:

- \$26.8m of non-cash impairments;
- \$12.7m of deferred tax assets not recognised; and
- \$4.4m of non-recurring expenses.

This impact to the balance sheet reflects the appropriate steps that have been taken by the Board to reset the balance sheet to better align with Millennium's current position.

This shows the early impact of the important work being undertaken as part of the \$11m business improvement plan.

Segments

The Cleaning segment's revenue decreased by 0.4% over the prior year to \$241.3m partly due to not retaining the AMP contract as announced in February, but was also impacted by the strategy to exit loss making contracts and replace them with profitable contracts. This was demonstrated in the improvement of gross margin with the first half reporting a gross margin of 9.0% recovering to 12.5% in the second half.

The Security segment increased revenue by 34% over the prior year to \$53.4m, and similar to the Cleaning sector gross margins, improved from 8.7% in the first half to 10.2% in the second half.

As the Chairman mentioned, we have also been working towards addressing the Company's debt position.

In addition to negotiating a trade finance facility with Scottish Pacific, we received confirmation from the ANZ Bank of an extension to our banking facility until September 2020.

The trade finance facility, negotiated in May, was initially for \$10m and included escalation clauses over the following 5 months for a further \$4m subject to hitting our Business Improvement Plans milestones. I'm pleased to say that those milestones were met and the facilities have been increased - \$2m in August and a further \$2m since then.

The ongoing support from our financiers has provided us with time to turn the business around via our Business Improvement Plan and to review the terms and conditions of a debt restructure. We anticipate completing that restructure in the second half of 2020 financial year.

With a blue chip client base, the contract book profile remains strong with 92% of revenue forming core billing and only 14.2% of contracts due for renewal in FY20. This provides stability and an enviable platform for organic growth over the coming 2 years.

Restoring client confidence in Millennium has been a key objective over the last 9 months and the recently announced cleaning contract wins in New Zealand along with security contracts in NSW and Victoria, are delivering profitable organic growth from both new and existing clients, demonstrating market confidence in our service offering and ability to deliver.

FY19 Focus

On joining the Company my focus has been on delivering the strategies to meet the objectives identified in the Board initiated Strategic Review, namely:

- Securing appropriate levels of working capital, in particular a focus on cash flow;
- Right-sizing the overhead to remove duplication, streamline administrative functions and reduce costs;
- Implement an annualised \$11m Business Improvement Plan savings focused on labour control and revenue leakage; and
- Strengthen the leadership team in key roles including Health and Safety, HR and Business Development.

The Chairman has outlined a number of the key achievements in addressing these objectives and I would like to add some insight into the work undertaken at the operational level.

As I have stated, my approach has been to simplify, automate and integrate our business processes, controls and systems. I am confident we have the right team focused on the right issues to ensure we continue to build on the improvements achieved over the last 9 months including:

- Material improvement in aged debtors, the securing of a debt finance facility and an intensive focus on cash forecasting/management;
- A focused, unrelenting process building on the Business Improvement Plan initiatives delivered in the second half of FY19, ensuring that we are on target to realise the \$11m identified profit improvements by the end of FY20, with the full annualised value pulling through into FY21;
- Included in the \$11m improvements is an overhead reduction of \$2m annualised and the implementation of a corporate structure designed to accommodate growth over the next 1-3 years.

2019 Annual General Meeting

FY19 was a challenging year and the business has had to make some difficult decisions as we analysed and fully understood the profitability of the business at a contract level.

Driving cultural change; exiting loss making contracts; changing the growth strategy from a focus on revenue to profitability and making compliance a key objective of day to day operations, have all presented challenges but have been met with enthusiasm and a desire to achieve.

Each of the key leadership positions have now been filled with experienced team members who have hit the ground running.

Ensuring that the business improvement initiatives are sustainable, we have identified four key operational areas that provide the foundation of our service outcomes:

- Managing labour – on averaged 82% of our cost base;
- Billing – ensuring we invoice for all the work being delivered;
- Quality – meeting, and where possible, exceeding our clients service expectations; and
- Compliance – meeting our obligations to staff, customers and the general public.

To support this, we are well underway in an ambitious project to move all of our 1000+ sites onto an end to end, time and attendance system and we expect to complete this during FY20. This will deliver labour controls, real time visibility of actual v's rostered labour and provide the rigor our industry needs to ensure all staff are paid correctly.

The Millennium Services Group is the product of a number of companies being merged at the time of IPO and acquired over recent years. Whilst the FY19 Business Improvement Plan initiatives were focused on the parts of our business operating along the East Coast of Australia, the Airlite business in Western Australia and our New Zealand business continue to perform well thanks to the hard work and commitment of their teams.

Throughout FY20 our attention will shift towards greater integration of our business under the one Millennium brand. We have recognised that the Airlite business has some great processes that can be shared across the broader Millennium Group and in return we intend to automate some of Airlite's manual process with the systems I have just mentioned. I am confident that the full integration of the Airlite business will deliver a much broader service platform, quality improvements and opportunity for team members to develop their careers, and in turn make us a much stronger overall business.

As the Chairman mentioned, FY20 and FY21 will see the business look to diversify into new sectors with a focus on Commercial, Education, Government and Infrastructure – in particular in WA, Qld, ACT and NZ where we believe there is a greater opportunity for growth at appropriate margins. While Retail remains an important part of the business it is essential that we look to de-risk the Millennium business by developing a broader portfolio.

2019 Annual General Meeting



Lastly, but most importantly, I would like to thank the 5300 loyal team members that deliver a fantastic service to our clients, the Executive Team that are working tirelessly to achieve the improved business outcomes, our clients who continue to show faith in the business, the Board for their guidance and our Shareholders for your support as we get the business back on track.

I will now hand back to the Chairman for the formal business of today's meeting.