

**MILLENNIUM SERVICES GROUP LIMITED
ANNUAL GENERAL MEETING
27 NOVEMBER 2018**

CHAIRMAN'S ADDRESS

Good morning Ladies and Gentlemen.

My name is Roger Smeed and as the Chairman of Millennium Services Group Limited, I welcome you all to the Annual General Meeting and thank you for your attendance here today. The Company Secretary has advised me that we have a quorum present, so I declare the Annual General Meeting open.

At today's meeting, I will provide my Chairman's address and then proceed to consider the formal business of the meeting.

I would like to point out that the Directors you see on the podium, including myself were not in place at last years' Annual General Meeting. Since the time of that meeting, and particularly since January 2018, there has been a marked decline in the performance of the Company.

This has manifested itself in:

- Deteriorating financial performance, especially in the second half of FY18;
- Increasing debt levels;
- The suspension of dividends; and
- A declining share price.

This state of affairs was unacceptable and urgent change was required to restore the financial position of the Company.

In October 2018, there was a complete change of the composition of the Board and a resulting deep and detailed examination of the Company and a strategy reset.

Given that background, I now wish to introduce your New Board.

I was appointed a director of Millennium on 27 Sept 2018 and Chairman on 3 October 2018. In terms of my background, I have extensive experience at Board level with companies specialising in large scale retail and commercial cleaning, security and facilities management. Many years ago, I was Chairman of Millennium Hi-Tech, a company which was focussed on major shopping centres and commercial cleaning in NSW, the ACT and SA. Millennium Hi-Tech was merged into Millennium Services Group at IPO. I therefore have a strong understanding of the potential of the Millennium business.

I am and also have been a director of both ASX companies and private companies. I am also Fellow of the Australian Institute of Directors (FAICD) and Fellow of the Australian

Institute of Management (FAIM). In addition to being Chairman, I am the Chair of the Remuneration and Nominations Committee.

Next to me is Neil Cathie. Neil was appointed as a non-executive director on 16 Oct 2018. Neil has extensive experience at Board and management level in industrial services companies, including 27 years at Reece Limited. At Reece, Neil held senior management positions in finance and governance, including Chief Financial Officer, Company Secretary and General Manager of Finance and IT. Neil is currently Non-Executive Chairman of ASX-listed Coventry Group Ltd. Neil is a Fellow of CPA Australia (FCPA), a Graduate of the Australian Institute of Company Directors (GAICD), a Fellow of the Governance Institute of Australia (FGIA).

Neil will Chair the Audit Risk and Compliance Committee.

Next to Neil is Royce Galea. Royce was appointed an Executive Director on 27 Sept 2018. Royce has over 30 years of experience in all aspects of the cleaning industry, in particular major retail cleaning. Royce is one of the founders of Millennium and remains one of the largest shareholders. As one of the major shareholders, his interests are clearly aligned with all other shareholders.

Royce will now be responsible for the total cleaning operations of MIL.

Millennium's recently appointed CFO, Michael Constable, and the new Company Secretary, Jo-Anne Dal Santo are also here.

They are both valuable and welcome members of the Millennium team.

As announced to the ASX on 1 November 2018, the new Board initiated a comprehensive whole-of-business review (Review) with the assistance of external consultants. Today I intend to provide an update on the Review – and the key findings of a Preliminary Report received by the Board.

Firstly, the Preliminary Report confirmed the major strengths of the Millennium business.

- Millennium has an enviable portfolio of blue-chip clients with national presence, including Scentre Group (Westfield), QIC, Vicinity, Stockland, the federal and various state governments and authorities.
- Millennium has a strong reputation in the industry for the quality of services to clients.
- Millennium's operations have major scale. This scale provides a platform for profitable growth.
- Millennium has geographic diversity, with operations in Victoria, New South Wales, Queensland, South Australia, the ACT, Tasmania and Western Australia. We are also expanding profitably in New Zealand. This diversity means we are not overly exposed to downturns in any one particular state.
- Millennium has a strong contract book that generates significant annuity-style revenue of around \$300m per annum. Most contracts are for a minimum of three years, providing the Company with revenue security.

In addition to the Company's strengths, it should be remembered that its business is built on solid market foundations.

- Cleaning and Security remain essential services for our clients and are unlikely to be replaced in the future; and

- There are significant barriers to entry in the Cleaning and Security sectors that seek to provide services to customers with national networks.

That said, the Preliminary Report found that Company is facing many challenges. These challenges are not new nor recent, and have been building up within the Company for some time.

The Report has indicated a lack of accountability within all layers of the organisation to address significant operational and structural issues.

There appears to have been a lack of leadership and clear direction at the highest level of the Company to make decisive decisions to address these issues.

The Report found that while the Company had a number of good business processes, these processes were not integrated or made consistent across the company or fully communicated to all levels of the Company.

Additionally, there has been margin compression within the industry, adversely impacting margins.

Finally, the Report confirms that the Company has an overhead cost structure that is too high.

These issues together have contributed to the current deterioration of the financial performance of the Company.

The Board has spent considerable time investigating the decline in the financial performance of the Company. We have identified a number of drivers:

1. Millennium has been winning new tenders at lower gross profit margins. This is not sustainable.
2. In the context of the continual rollover of contracts, Millennium has lost some existing higher margin contracts that have accentuated the margin decline.
3. Millennium has not been able to fully recover all or part of national wage increases from some customers.
4. The Report identified rostering and labour inefficiencies, leading to increasing non-recoverable overtime and higher costs.
5. Millennium has seen a significant increase in overhead costs over the last 2 years.

The important issue to bear in mind is that these issues are resolvable as long as there is a commitment to change and action. The New Board has this commitment.

The New Board is committed to change to restore the financial performance and improve the profitability of the Company and improving value for all shareholders.

The New Board understands the urgency of the situation and has initiated a 100-day action plan, which has already commenced.

The key focus areas are:

1. **Accountability:** There has already been a top-down assessment of the organisational structure, with a review already underway and changes implemented to remove duplication, improving lines of responsibility and imposing accountability for performance.
2. **Leadership:** The New Board have instructed senior management to immediately action change. The New Board has already commenced the recruitment process for a highly credentialed CEO, to be appointed early 2019, to continue the change

process and make further improvements. At present, new hirings, other than service delivery staff, have been immediately suspended.

3. Business processes: The New Board have commenced actions to improve rostering, control non-recoverable overtime and review costs, without impacting on the delivery of the highest levels of service and full contract compliance to our clients.
4. Overheads: The New Board have cut over \$1m in annual overhead costs since October, and further significant cuts will be made in both overheads and discretionary spending. Simply put, overhead costs have expanded beyond the needs of the Company and will be significantly reduced.

These corrective measures will stabilise the Company and enable it to better provide ongoing quality service to our customers. This will improve profitability for Millennium, whilst ensuring that that no client service offerings are compromised. This is particularly important over the December/January retail period.

The financial performance of Millennium in the first four months to October 2018 is extremely unsatisfactory.

While sales revenue is up by 16% on the previous corresponding period to \$102.5m, there has been a material reduction in the gross margin on the previous corresponding period. While there was some decline in overhead costs, these costs remain too high compared to the decline in gross margin.

On the basis of this performance to date, the FY19 EBITDA guidance provided by the previous Board on 31 August will not be achieved. On the basis of there being no change, and this is certainly not going to be the case, should current trends continue full year EBITDA will be close to breakeven

On a positive note, the long running NSW Office of State Revenue payroll tax matter has been resolved at no additional cost to the Company. Also, the Company satisfied all banking covenants at 30 September 2018. The Company's bank has been kept informed of the current issues.

FY2019 will be a difficult year for Millennium. However, the new Board have set in place actions that will set the foundations for a much improved future performance.

Your New Board has only been in place for 7 weeks, but already we have made real effort and progress in identifying the issues that have contributed to the decline in the Company's financial performance and has taken immediate action to resolve them.

A key focus of the New Board is the appointment of the new CEO with the right operational skills and leadership who can help us realise the tremendous potential of this great Company.

However, this process will take time to implement and reap benefits, and we are seeking patience from our shareholders as we implement those changes.

This Company has wonderful assets – among them; our staff, who are the key to what we do and our ambassadors to our clients; and in our diverse contract book. Your New Board has confidence that the value of these assets will be realised in the future and shareholder value restored.

Thank You