

26 May 2020

MILLENNIUM SERVICES GROUP LIMITED (ASX:MIL) COVID-19 BUSINESS UPDATE

Summary

- Millennium is a major provider of cleaning and security services across multiple sectors in Australia and New Zealand with a long-term contract book currently standing at \$850M.
- Business turnaround through the Business Improvement Plan continued successfully until March when the impact of the Covid-19 Government restriction took effect. The Plan will resume as business ramps-up again as restrictions are eased or lifted. In total approximately 70% of the targeted \$11M improvement in underlying EBITDA has been achieved to date.
- Revenue has been impacted during the last quarter of FY20 by temporary service reductions from customers as they respond to COVID 19 challenges. Approximately 75% of Millennium's contracts are in the retail sector and we are already starting to experience increased activity across shopping centres nationally and in NZ.
- Financial impact of COVID-19 is expected to be as follows:
 - Revenue for 2HFY20 to be approximately 15%-20% lower than the same time last year;
 - Gross Margin for 2HFY20 is anticipated to reduce by approximately 200 to 250 basis points compared to the same time last year; and
 - 2HFY20 EBITDA impact is expected to be less than the impact on revenue as the Company has been able to manage our workforce to deliver efficient services to its customer base.
- Millennium is well positioned to maximise on opportunities presented by the COVID-19 crisis driven by factors such as higher levels of hygiene standards, and also social distancing measures which will provide increased security opportunities.
- Millennium has been providing rapid and ongoing responses in Australia and New Zealand to existing and new clients particularly for cleaning services. This is expected to continue into FY21.
- New clients have been won in Millennium's existing market sectors and also new business sectors such as Commercial, Aged Care, Government, and Education and provides the Company with an excellent opportunity to accelerate its growth and diversification plans post COVID-19.
- Millennium has qualified for Job Keeper in Australia and the wage subsidy program in New Zealand.

Millennium Services Group provides this brief Business Update.

Millennium is one of the largest providers of cleaning and security services across multiple sectors in Australia and New Zealand. Employing over 5100 staff across all States, the ACT and New Zealand, it provides services to blue chip companies in more than 1000 locations.

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ASX Announcement

Business Improvement Plan

The Company continued to deliver the benefits associated with its ongoing Business Improvement Plan up to and including the end of March 2020. In total approximately 70% of the targeted \$11M improvement in underlying EBITDA has been achieved to date. Whilst a delay in realising the target has been experienced due to COVID-19, the Company is confident that the remaining cost reductions will be realised through FY21.

COVID-19 Business Impact

Throughout April, Millennium worked with its cleaning customers to reduce the range of core services as they, in turn, reacted to the evolving Government restrictions throughout Australia and New Zealand associated with COVID-19. Approximately 75% of Millennium's business is in the retail sector and the move to close food courts was a significant driver to service reduction in the cleaning business.

Millennium's core security contracts were less impacted by the Government restrictions and we expect ad hoc services to return over the coming months.

In addition, the higher margin ad hoc work in both cleaning and security paused across the business in April and early May as customers scaled back their operations in response to COVID-19 issues.

As a result of these impacts Millennium expects that the 2HFY20 revenue to be approximately 15%-20% lower than the same time last year on a like for like basis (noting that contract wins and contract lapses makes a direct comparison difficult).

Throughout this period Millennium has been working closely with many of its largest clients and the Company remains confident that there is no material negative impact on the ongoing contract book from COVID-19. The contract book currently stands at \$850M.

Our strong service delivery, under difficult circumstances, and our excellent customer relationships has enabled Millennium to extend a number of existing contracts in recent weeks, with further extensions currently being negotiated.

Gross Margins will be affected by the COVID-19 Government restrictions in the last quarter of FY20 and we expect to a lesser extent in first quarter FY21. When compared to the margins achieved from the Business Improvement Plan initiatives in the first three quarters of this financial year, Gross Margin for 2HFY20 is anticipated to reduce by approximately 200 to 250 basis points compared to the same time last year. The Company expects margins to rebound as restrictions are eased and Millennium ramps services back up.

Overall the impact on 2HFY20 EBITDA is expected to be less than the impact on revenue as the Company has been able to manage our workforce to deliver efficient services to its customer base.

JobKeeper

Millennium has qualified for Job Keeper in Australia and the wage subsidy program in New Zealand. During this period, the Company has stood down approximately 30% of its workforce in response to client service reductions.

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Approximately 2,400 staff have qualified for JobKeeper scheme, allowing Millennium to keep the majority of its workforce employed, which has Millennium well placed for when work levels return. Due to reallocation of work duties and the recent commencement of sites ramping back up, approximately 4400 of Millennium's 5100 staff are currently active and performing cleaning or security functions.

Millennium Well Positioned

As Government restrictions have started to ease and more customers step up their operations, Millennium is experiencing the first stages of a resumption of services and anticipates both core and ad hoc revenue will return, and the benefits of the Business Improvement Plan will resume. This is evidenced with the substantial return of customer traffic in shopping centres and our major retail clients reopening stores as early as the end of May, across the country and NZ.

The business has continued its growth strategy in new sectors including Commercial, Aged Care, Government, Education and Aviation. The delivery of ad hoc and short-term contract sanitisation work in new sectors is being undertaken including our tailored Code Red, Amber and Green specialist hygiene programs. This has resulted in Millennium already delivering services to new clients in three of these new sectors, Aged Care, Government and Commercial. This provides the Company with an excellent opportunity to accelerate its growth and diversification plans post COVID-19.

Millennium has significant opportunities in the short to medium term across all market sectors, as organisations are faced with an increased focus on hygiene services and social distancing when resuming their operations. Millennium, given its national presence, significant capability and its credibility in the marketplace, is well placed to capitalise on available and new market opportunities.

The Board and the Executive remain confident that the business is well positioned for strong growth while remaining committed to completing the Business Improvement Plan and delivering the diversified growth strategy.

Finally, the Millennium Board would like to pay tribute to our magnificent and loyal staff and our amazing clients. They are all working through the challenges and hardships caused by the COVID-19 crisis with incredible goodwill and professionalism. Their combined actions have again proven that Millennium is as much about the quality of our people and our clients, as it is about the quality of our business.

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