

# FY19 FIRST HALF RESULTS PRESENTATION

27 FEBRUARY 2019

**millennium**  
SERVICES GROUP LIMITED

*a new millennium in integrated services*

# Agenda

- ① Background to current position
- ② First Half 2019 – financial overview
- ③ Conclusion
- ④ Appendix

# 1. Background to current position

# New Board of Directors

All new Directors were appointed from September 2018 to February 2019.

## Roger Smeed

- Chairman
- Chair Remuneration & nominations committee
- Appointed 27 September 2018

### Relevant experience

- Board level with numerous companies
- Specialist in large scale retail and commercial cleaning, security and facilities management
- FAICD, FAIM

## Neil Cathie

- Non-executive director
- Chair of Audit & Risk committee
- Appointed 16 Oct 2018

### Relevant experience

- Board and management level in industrial services companies, including 27 years at Reece Limited
- Non-Executive Chairman of Coventry Group Ltd (ASX: CYG)
- FCPA, GAICD, FGIA

## Royce Galea

- Executive Director
- Operations director
- Appointed 27 September 2018

### Relevant experience

- Co-founder of MIL
- 16% shareholder
- Over 30 years of experience in the cleaning industry

## Darren Boyd

- CEO
- Managing Director
- Commenced 7 February 2019

### Relevant experience

- G4S
- Spotless
- OCS
- Proven track record in change management
- MBA, CPA, GAICD

# Need for change

The New Board has taken proactive measures to address prior Company failings.



# Key findings of the New Board

**The Company has inherent strengths – but challenges needed immediate actions.**

## Strengths



Blue-chip clients



Quality of service



Scale of operations



Integrated service offering



Geographic diversity



Long-term recurring contract book

## Challenges



Focus on revenue not profit



Lack of clear direction



Inefficient management structure



Business processes not integrated



Margin compression



Overhead costs too high

# Drivers of deteriorating financial performance in 2018

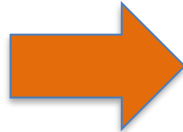
**The Company focused on top-line growth, rather than bottom line profits.**

- 1 • Key focus on revenue growth (rather than margin)
- 2 Loss or renewal of existing higher margin contracts (to lower margins on competitive tender)
- 3 Wage increases not fully recovered (nor timely)
- 4 Labour rostering inefficiencies (ineffective oversight)
- 5 Increased overheads (ahead of profit)

# Profit improvement plan

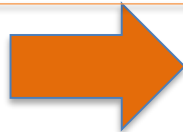
## Initiatives

### 1. Accountability & leadership



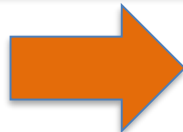
- New CEO appointed
- New CFO appointed
- Management restructure resulting in improved communication and accountability

### 2. Contract profitability



- Improving rostering / labour management
- New tenders based on appropriate margins
- Renegotiating or shedding unprofitable contracts

### 3. Cost reduction



- Reductions realised from overheads, consumables and other back office costs

The Company is targeting \$11m in annualised profit improvements in 1H19 to be realised in full in FY20



# 2. First Half 2019 - financial overview

# Introduction

- The 1H19 statutory results reported have been adversely affected by a number of non-recurring and catch up costs associated with:
  - Historic issues inherited by the New Board
  - Organisational restructure
  - Non-cash asset impairments
- EBITDA of \$0.3m (excluding non-recurring and catch up costs of \$6.2m) for 1H19 was in line with Company guidance provided at the AGM in November 2018

# Financial Snapshot – 1H19

## Revenue

\$153.7m

Up 12.8% on pcp

- Revenue growth mainly in security
- Growth mainly delivered from contracts won in FY18

## EBITDA\*

\$0.3m

- Reduced gross margin from revenue mix of wins/renewals at lower margins and losses of higher margin contracts, higher labour costs and overhead costs being too high
- EBITDA\* in line with AGM advice

## Statutory EBITDA

Loss of \$5.9m

Negative change of \$12.1m on pcp

- EBITDA loss driven by a number of non-recurring costs and one-off catch up costs totalling \$6.2m

## Statutory NPAT

Loss of \$23.2m

Negative change of \$24.2m on pcp

- Includes impairment of goodwill and customer contracts of \$14.6m

pcp = previous corresponding period, being the 6 months to 31 December 2017

\*EBITDA, excludes non-recurring and catch up costs of \$6.2m.

# Key financials

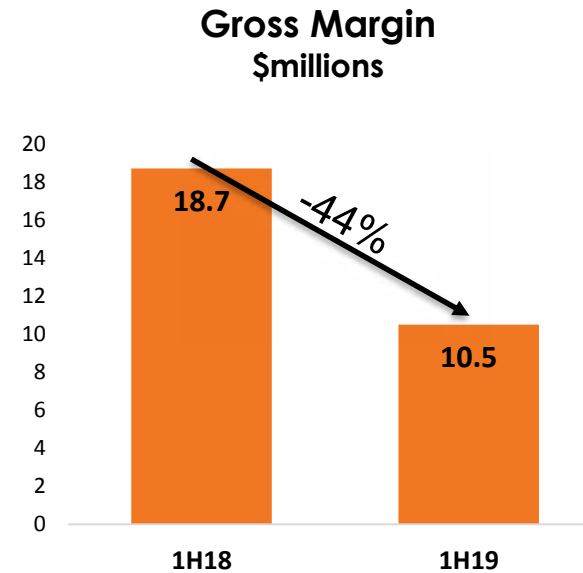
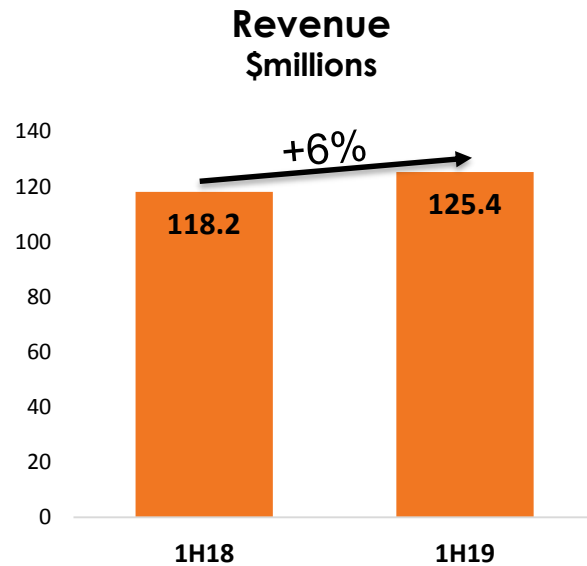
## Summary Income Statement

\$m	1H19	1H18	\$m variance	% variance
Total revenue	153.7	136.3	17.4	12.8
Gross margin	13.0	21.4	(8.4)	(39.2)
Gross margin %	8.45%	15.70%		(725 bps)
Overheads	(18.9)	(15.3)	(3.6)	23.5%
Statutory EBITDA	(5.9)	6.2	(12.1)	NM
Reported NPAT	(23.2)	0.9	(24.2)	NM

# Non-recurring and Catch Up Costs

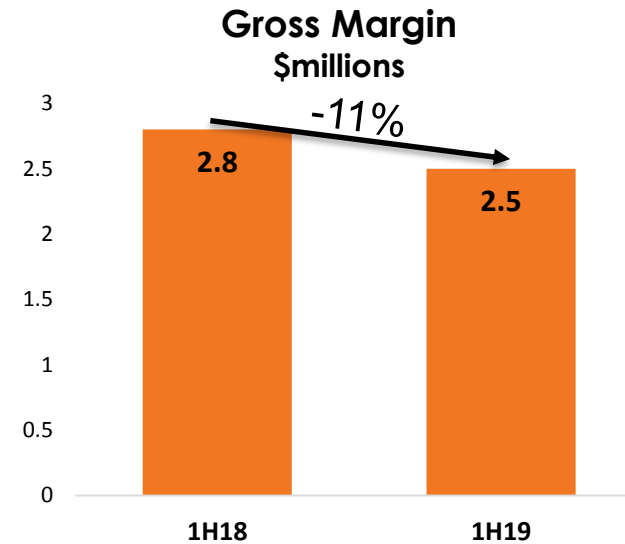
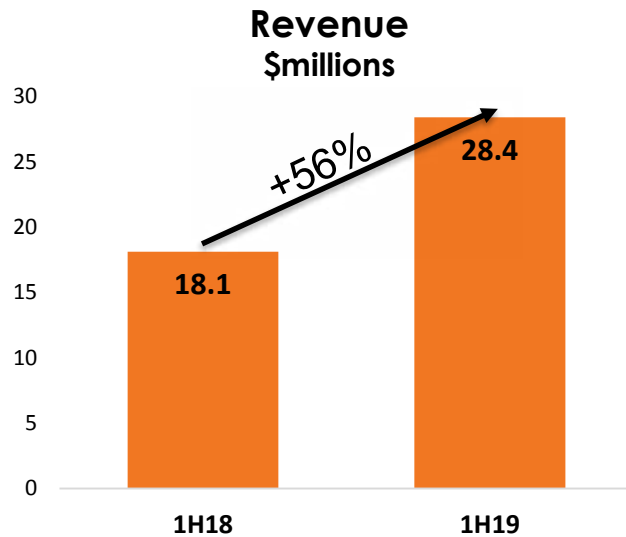
Summary of Non-recurring and Catch up Costs	
	<b>1H19</b>
<b>Non-recurring and catch up costs items impacting EBITDA</b>	
Increase in provision for doubtful debts	\$0.9m
Employment related costs	\$3.1m
ATO assessment (contingent liability at 30 June 2018)	\$0.5m
Public liability claim provisioning	\$0.5m
Other accounting adjustments	\$1.2m
<b>Total</b>	<b>\$6.2m</b>
<b>Non-recurring items impacting NPAT</b>	
Impairment of goodwill and customer contracts	\$14.6m

# Cleaning segment



- Revenue growth of 6% reflects lower contract win rate in 1H19 and lost contracts
- Decline in gross margin driven by under recovery of the 3.5% National Wage Increase and inefficient labour management across key contracts

# Security segment



- Revenue growth of 56% reflects impact of contract wins in 2H18 and 1H19
- Decline in gross margin driven by under recovery of the 3.5% National Wage Increase and inefficient labour management across key contracts

# Balance Sheet

Balance Sheet			
	Dec 2018	Jun 2018	% variance
Current assets	\$34.4m	\$31.2m	10.2%
Non-current assets	\$45.4m	\$62.2m	(27.0%)
<b>Total Assets</b>	<b>\$79.8m</b>	<b>\$93.4m</b>	<b>(14.6%)</b>
Current liabilities	\$87.2m	\$76.1m	14.6%
Non-current liabilities	\$6.7m	\$7.9m	(15.2%)
<b>Total liabilities</b>	<b>\$93.9m</b>	<b>\$84.1m</b>	<b>11.7%</b>
<b>Net Assets</b>	<b>(\$14.1m)</b>	<b>\$9.3m</b>	<b>NM</b>
Issued Capital	\$19.0m	\$19.0m	0%
Retained Earnings & Reserves	(\$33.1m)	(\$9.7m)	NM
<b>Total Equity</b>	<b>(\$14.1m)</b>	<b>\$9.3m</b>	<b>NM</b>
Net debt	\$29.5m	\$24.3m	21.4%

## Commentary on key variances

- Current assets:  
Higher receivables resulting from increased revenue
- Non-current assets:  
Write-down of non-cash goodwill and customer contract intangibles
- Liabilities:  
Trade payables and provisions increase
- Retained Earnings:  
Current period statutory losses



# Financing update

## Covenants

- Company within bank covenants as at 30 September 2018
- Bank waived the debt facility covenants for period ending 31 December 2018, subject to conditions.

## Commentary

- Bank deferred the scheduled principal repayment due January 2019
- Bank facility is due for refinancing in Nov 2019
- Discussions with bank underway
- Additionally, the Company is exploring a number of alternate funding strategies

# 3. Concluding remarks

# Conclusion

## 2019 will be a year of rebuild for Millennium

- New Board has taken decisive actions to refocus and improve the Company
- In conjunction with the new CEO, and CFO the New Board has developed a comprehensive Profit Improvement Plan
- The Company will take a disciplined approach to existing and new business to ensure return requirements are met
- The benefits of the Profit Improvement Plan are expected to be realised partly in 2H19 and FY20 (subject to the assumptions and qualifications noted)

**The New Board acknowledges our staff for their ongoing commitment to delivering outstanding service to the Company's many loyal customers**

# Appendices

# Summary Statutory Income Statement

Summary Statutory Income Statement		
	1H19	1H18
Total revenue	\$153.7m	\$136.3m
Gross margin	\$13.0m	\$21.4m
Overheads	(\$18.9m)	(\$15.2m)
EBITDA	(\$5.9m)	\$6.2m
Depreciation and Amortisation	(\$4.3m)	(\$3.7m)
Impairment of goodwill and other intangibles	(\$14.6m)	-
Interest expense	(\$1.1m)	(\$1.1m)
Profit before tax	(\$25.8m)	\$1.4m
Income tax benefit/(expense)	\$2.6m	\$0.4m
Net Profit After Tax	(\$23.2m)	\$0.9m

# Important Notice and Disclaimer

This document and the contents of this presentation (together the **Presentation**) has been prepared by Millennium Services Group Limited (ACN 607 926 787) (the **Company** or **Millennium**).

The Presentation contains general summary information about Millennium's business and activities which is current at the date of the Presentation. The information should not be considered comprehensive or complete and has not been independently verified. It has been prepared without taking account of any person's financial situation, objectives or particular needs. It does not comprise investment, taxation, legal or other advice. Any person reading the Presentation must make an independent assessment of its contents and seek independent financial, taxation, legal or other advice, appropriate to their own circumstances.

The Presentation is not and should not be considered to be an offer or invitation to acquire securities. It is not a prospectus, product disclosure statement or other disclosure document under Australian law or the law of any other jurisdiction. It does not comprise investment advice or a recommendation to acquire or dispose of any securities in Millennium.

Millennium and its related bodies corporate (and each of their respective directors, officers, agents, employees and advisers) have used reasonable endeavours to ensure that the information contained in the Presentation is not misleading but they make no representation or warranty as to the accuracy, reliability or completeness of the information or opinions contained in the Presentation. To the maximum extent permitted by law, they disclaim all liability arising from all loss of any kind which a person may sustain as a result of reliance on the Presentation.

Unless otherwise stated, all dollar values in this Presentation are Australian dollars (\$AUD).

The Presentation contains forward looking statements, including projections and opinions (**Forward Statements**). These are indicated where words such as "expected", "may", "intend", "likely", "should", "plan", "forecast", "estimate", "consider", "believe", "anticipate", or similar words are used. The Forward Statements are based on assumptions, statements of current intention and opinion and predictions as to possible future outcomes as at the date of this Presentation. The actual outcomes may differ materially from the Forward Statements, based on changes in circumstances, events, risks and general economic conditions.

Statements about past performance do not represent a guide to future performance (and should not be relied upon as such) and are given for illustrative purposes only.

This Presentation should be read in conjunction with Millennium's other periodic and continuous disclosure announcements which are available at [www.asx.com.au](http://www.asx.com.au)