

19 February 2020

Millennium FY20 Half-Year Results Announcement

SUMMARY

- Revenue of \$135.1 million, down 12.1% on the previous corresponding period of 1H19 (pcp) substantially as a result of the loss of a number of AMP contracts as previously announced, and reducing or handing back low margin contracts. Some lost revenue has already been recovered through new or increased contracts.
- Statutory EBITDA earnings of \$3.3m, a positive change of \$9.2m on the pcp.
- Underlying EBITDA of \$2.4m, up 201% on the pcp.
- Statutory net loss after tax of \$0.8m, a positive change of \$22.4m on the pcp.
- Profit Improvement Plan delivering improved Gross Margins across all sectors, up from 8.5% to 12.6%.
- Overheads reduced to 10.2% of revenue, down from 12.3%.
- Strong customer confidence with material contracts extended and/or new contracts won.
- No interim dividend declared.

Millennium Services Group Limited (ASX: MIL) today announced a statutory net loss after tax of \$0.8m. This is a \$22.4m improvement in profit after income tax compared to the pcp loss of \$23.2m. The loss in the pcp included \$14.6m of non-cash impairments and \$3.5m of non-recurring costs.

Summary financials

\$ million	1H20	1H19	Variance
Underlying results			
Revenue	135.1	153.7	(12.1%)
EBITDA	2.4	(2.4)	201%
Statutory results			
Revenue	135.1	153.7	(12.1%)
EBITDA	3.3	(5.9)	155%
NPAT	(0.8)	(23.2)	96.5%
Dividend (cps)	0.0	0.0	Unchanged

Financial performance

The Company delivered a much improved half-year result focused on service delivery and operational compliance. The Company EBITDA improved by \$9.2m over the pcp to \$3.3m

from (\$5.9)m. This included significant improvement in Gross Margins across all parts of the business from 8.5% to 12.6% driven by the ongoing profit improvement strategy announced in 2019. Revenue was down primarily due to the full year effect of the loss of the AMP contracts announced in February 2019 as well as the business decision to exit low margin contracts and focus growth in new sectors and services that deliver a higher margin.

Recently announced contract wins and contract extensions, to the value of \$159.3m over the contract terms, provides stability to the contract book. The new contract wins are completing their implementation phase and whilst partly offsetting the reduced revenue in 1H, will have a greater positive impact on 2H revenue. The mobilisation of the new contracts in the last quarter also had a negative impact on working capital however we expect to be reversed in 2H.

Overheads are also down as a percentage of revenue from 12.3% to 10.2% as we continue to simplify and automate the business.

Segment performance

Millennium's Cleaning segment revenue declined by 11.2% over the pcp to \$111.4m from \$125.4m, however there was significant improvement in Gross Margin \$10.5m to \$13.9m; the gross margin percentage improved from 8.4% to 12.4%.

Millennium's Security segment revenue declined by 16.4% over the previous corresponding period to \$23.7m from \$28.4m, however gross margin increased from \$2.5m to \$3.2m; with gross margin percentage improved from 8.7% to 13.4%.

This is in line with the Board's strategic objective to consolidate the revenue, drive improved labour controls and target higher margin contracts.

Strategic initiatives

In FY19 the business prioritised the need to implement a plan to improve gross margins, reduce overheads and introduce sustainable controls. These initiatives ensure the improvements are ongoing and meet our legal and contractual obligations, whilst resetting the business for growth into FY21 and beyond.

The business is on track to deliver the strategic priorities identified in FY19.

- ✓ \$11m Profit Improvement Plan on track with more to pull through in 2H and FY21
 - ✓ Removal of low margin contracts
 - ✓ Implementation of sustainable labour controls
 - ✓ Improved control over adhoc revenue billing
 - ✓ Reduced overhead while not impacting on service delivery
- ✓ \$159.3m renewed or new contracts providing a stable contract book over the contract terms
- ✓ Improved Gross Margin across all parts of the business
- ✓ Developed a diversified organic growth strategy and recruited senior expertise
- ✓ Healthy business lead indicators on track (HSE, Public Liability and Payroll)
- ✓ EBA payment issue resolved quickly and for less than provided for
- ✓ Finalising the refinancing arrangements with the ANZ Bank (currently being progressed)

The implementation of the \$11m Profit Improvement Plan continues and is driving greater control over labour management, non-core billable revenue and overhead expenses. The full benefit will continue to be realised in H2 and into FY21. These controls are supported by improved automated systems including the roll out of the Time and Attendance system, thereby giving management the confidence that the improvements are sustainable.

The Company has implemented strategies to address both public liability risk and to improve its Health and Safety performance. Systems have been enhanced and expertise recruited across the business and we are pleased to report that both the public liability and Health and Safety lead indicators are tracking a much improved performance. Pleasingly the business Loss Time Injury Frequency Rate (LTIFR) is exceeding its 20% improvement target and is now well below the industry average.

A strengthened compliance program positions Millennium to be a market leader in providing confidence to customers and staff that we are meeting our obligations in areas including the Modern Award, Labour Hire and Modern Slavery legislation.

As announced in December 2019 the business has signed extensions and new contracts with key customers indicating a continuing market confidence in the Millennium brand.

In accordance with the Board's desire to de-risk the Company's business, an organic growth strategy, led by a recently recruited highly experienced General Manager - Sales, has been developed with a strong short, medium and long term pipeline of opportunities in the process of being qualified.

This will focus on the previously announced strategy to diversify the business into the Commercial, Education, Government, Aviation and Health sectors.

Financing

During the FY20 half-year, Millennium's banker, the ANZ Bank, provided confirmation of its continuing support to at least October 2020, which will allow time for a review of the Company's debt structure and a refinancing of the facility. The ANZ has waived the debt facility covenants for the quarter ending 30 September 2019. The ANZ streamlined the financing covenants commencing from the December 2019 quarter and the Group met the required covenants for the December 2019 quarter. The ANZ has waived the scheduled quarterly principal repayments due in January 2020 and April 2020.

Outlook

The Board, the CEO, and the Executive Management team, are focused on continuing to improve the sustainable profitability of the Company. The second half of FY20 will focus on finalising the refinancing arrangements with the ANZ Bank, the roll-out of a more effective and efficient operating structure, the continuing improvement of its technology platform to be more innovative and cost-effective. The implementation of the Company's growth strategy to improve revenue will continue, but only with contracts or in sectors with acceptable margins that continue to contribute to the improving profitability of the Company.

For further details, refer to the Investor Presentation and 1H20 accounts which is available from the investor section of the Company's website (www.millenniumsg.com).

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