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FY20 Half-Year Results

'Turnaround On Track'

Millennium Services Group Limited
(ASX:MIL)

19 February 2020

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1. Highlights

Business On Track.

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 (Health Safety & Environment, Public Liability and Payroll)
- ✓ EBA payment issue resolved quickly and for less than provided for
- ✓ Working with the ANZ Bank to refinance the bank facility by June 2020

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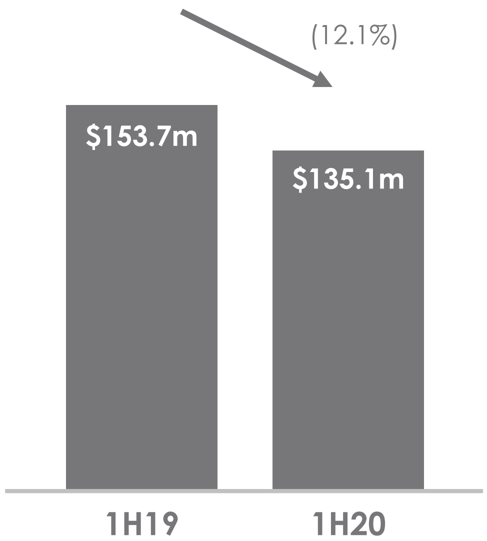
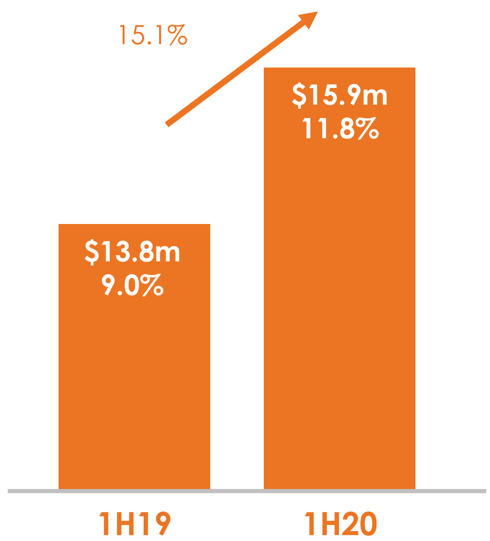
1H FY20 Performance Headlines.

Revenue



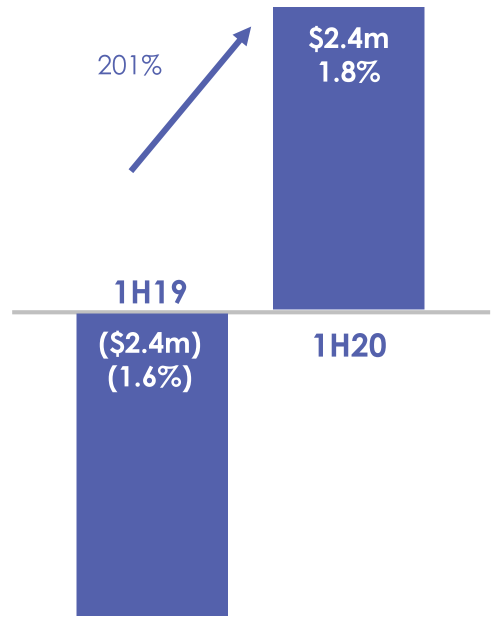
- $11m revenue reduction from loss of AMP contract in Feb 2019 previously announced
- Approx. $9m of low margin contracts exited as part of BIP
- Approx. $2m of new revenue, most of which was in the last quarter

Gross Margin*



- Ongoing profit improvement strategy
- Improved labour management controls
- Focus on capturing billable non-core revenue

EBITDA*



- Overhead controls in place
- Reduction in the use of 3rd party contractors / consultants
- Efficiency from centralized support functions

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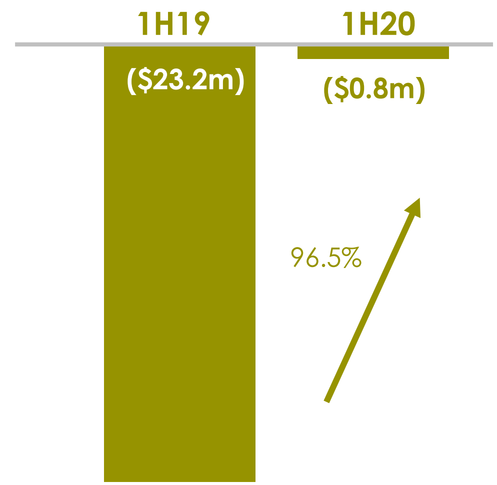
- Balance Sheet clean up complete FY19
- Poised to return to profitability



* Refer to page 30 for details of non IFRS adjustments

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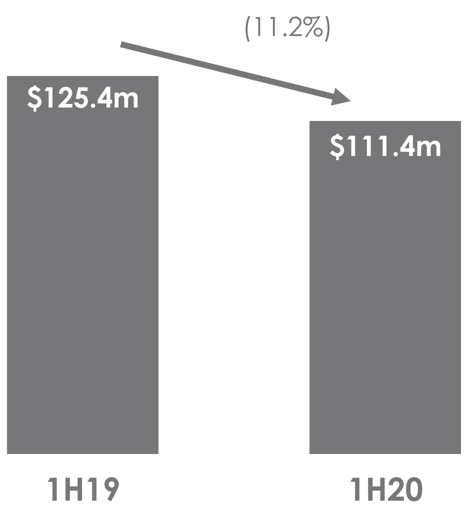
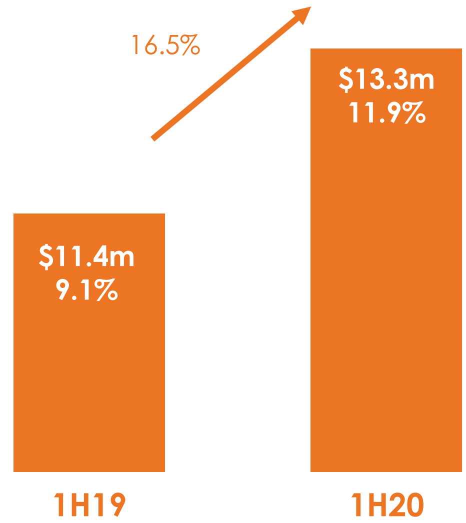
Cleaning Summary & Highlights.

Revenue



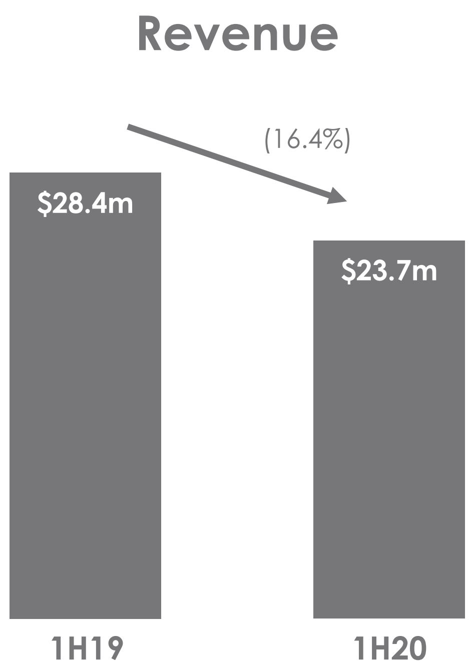
Gross Margin*

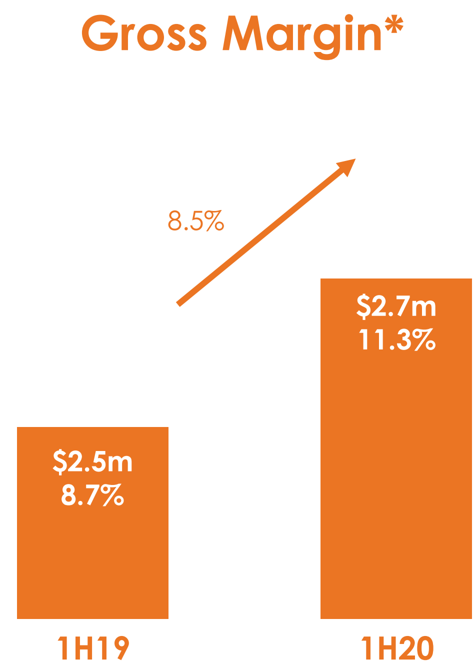


- The Profit Improvement Plan is delivering sustainable improvements
  - Impact of the new time & attendance system roll-out
  - Improved process for capturing adhoc revenue
  - Exiting low margin contracts
  - Improved procurement process for non-labour expenses
  - Profitability on retained contracts is improving

* Refer to page 30 for details of non IFRS adjustments

Security Summary & Highlights.

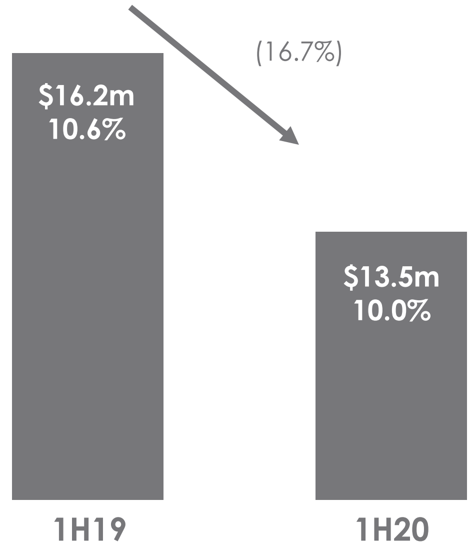




- The Profit Improvement Plan is delivering sustainable improvements
    - Increase in adhoc billing
    - Exiting low margin contracts
    - Improved labour management
    - Profitability on retained contracts is improving

* Refer to page 30 for details of non IFRS adjustments

Overheads*.



- Capable of delivering growth without increasing corporate overhead expense
- Overhead structure reduced greater than the reduction in revenue
- Consultants and other discretionary costs reduced
- Benefits of headcount reductions as part of Profit Improvement Plan

* Refer to page 30 for details of non IFRS adjustments

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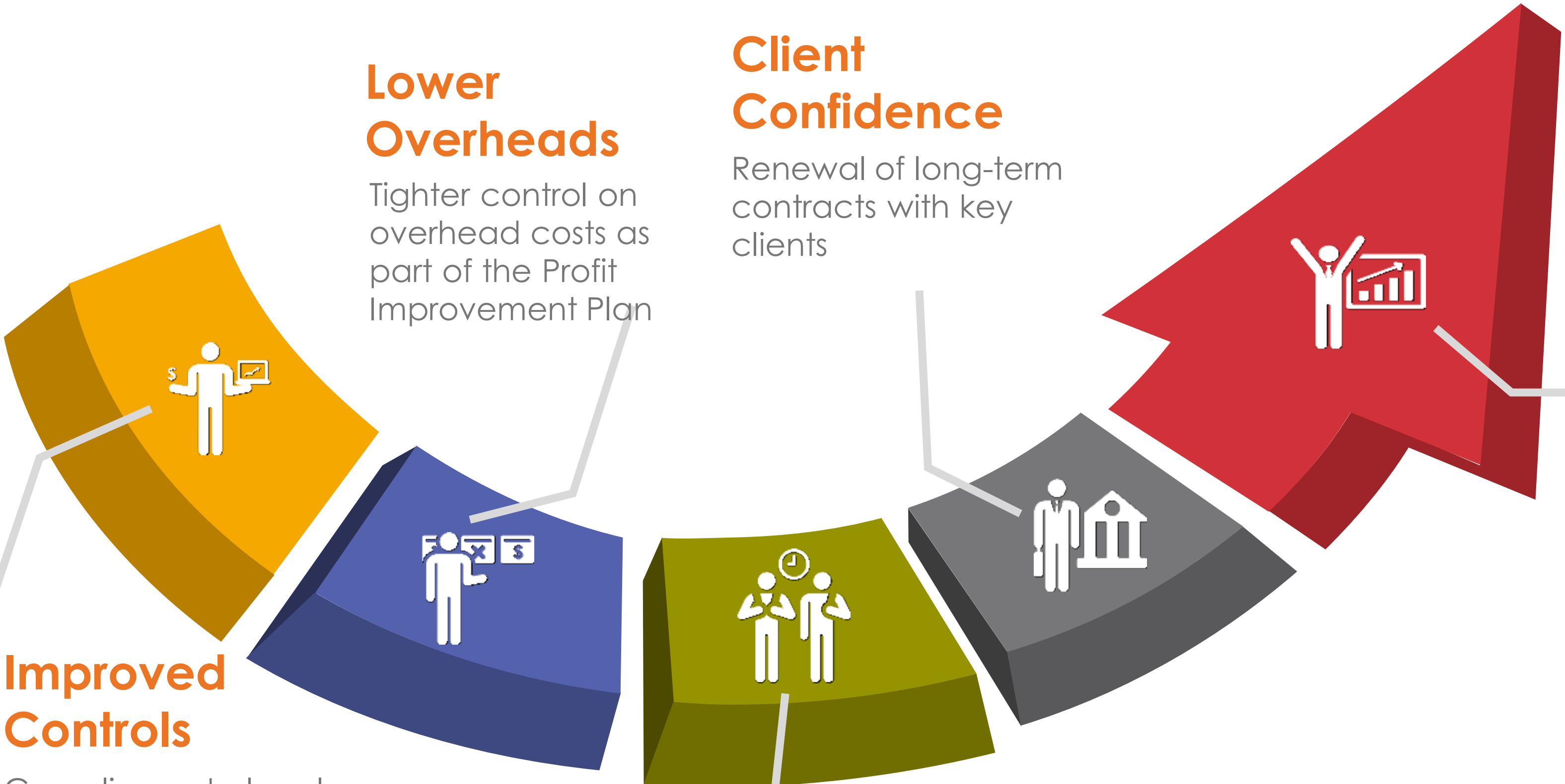
2. Operational Performance

Driving Improved Performance.



Improved Controls

Compliance to legal and contractual obligations as well as delivering sustainability to profit improvements

Lower Overheads

Tighter control on overhead costs as part of the Profit Improvement Plan

Roster Efficiencies

Systems driven improvements to rostering controls and oversight

Client Confidence

Renewal of long-term contracts with key clients

Improved Margins

Focus on delivering contract quality

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Improved Controls.

Compliance to legal and contractual obligations as well as ensuring Profit Improvement Plan is sustainable.

Embedded and supported by new systems, governance, as well as increased monitoring and reporting, resulting in a stronger compliance regime.

Rigorous compliance to use of 4 key operating systems:

- Time & attendance (as rolled out)
- Management of periodical & adhoc billing
- Beacon/wand system for public liability protection
- iAuditor to drive quality management

FY20 focus on compliance to legislation, in particular:

- Fair Work Australia’s Modern Awards
- Modern Slavery Act
- Labour Hire Regulations

Lower **Overheads.**

As part of the $11m Profit Improvement Plan there is an ongoing focus on overhead controls including:

- Greater use of technology
- Centralisation of support functions to create efficiencies
- Reduced reliance on 3rd party consultants / contractors
- Removal of duplicated roles
- Increased focus on reducing discretionary non-contract related expenses

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Roster Efficiencies.

Labour is our biggest expense and is a critical driver of profitability, hence management focus on system-based controls.

Continued the roll-out of a new time and attendance system resulting in:

- More efficient labour management (rostering, payroll, entitlements, overtime etc.)
- Greater visibility of demand changes (contracted hours vs adhoc requests)
- Stringent compliance with Modern Awards
- Ability to capture billable adhoc or periodical work

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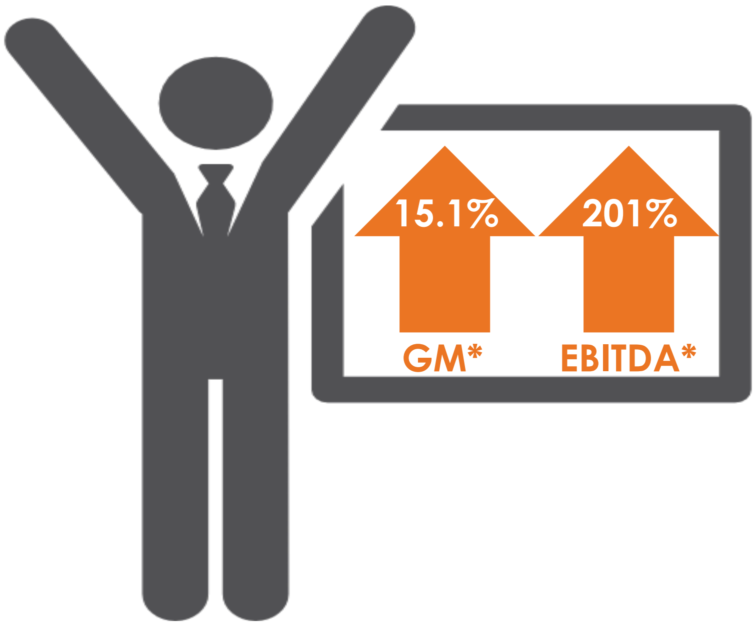
Client **Confidence.**

$159.3m of renewed or new contracts providing a stable book over the term of the contracts

Long term contracts won / renewed / extended

- Scentre Group in October 2019
- Myer in December 2019
- Metro Trains NSW in May 2019
- Stockland in December 2019
- Queensland Government/Queensland Police Service in January 2020
- NZ Ministry of Social Development in September 2019

Improved Gross Margin* & EBITDA*.



- The continued roll-out of the Profit Improvement Plan will deliver further benefits in 2H and FY21
- Exited low margin contracts (process in place for continual review)
- More sustainable controls are being embedded into the business
- Commitment to ongoing contract margin review by senior management
- Strategy to focus growth on higher margin sectors / contracts
- Improvements on-track but more work to be done
- Improved tendering process to deliver growth at higher margins

* Refer to page 30 for details of non IFRS adjustments

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Socially Responsible Operations.

3 Facets of Corporate Social Responsibility

Business practices undergoing simplification, automation and integration as the Company continues to set the foundations for ongoing growth and success.

Governed by ASX Corporate Governance Principles and aligned to UN Global Compact and UN Sustainable Development Goals the Company updated its Corporate Social Responsibility Policy in December 2019.

FY20 focus on

- Health & safety
- Labour management
- Supply chain management
- Indigenous engagement

SafetyFirst Culture.

- National structure to support safety
- Introduction of new policies and procedures
- Improved reporting that has clear escalation protocols
- Broader communication to staff through 'Safety Sam' videos and posters, and on-site Toolbox talks
- Executive focus on key incidents and/or trends
- Reporting to Board with review of critical incidents
- Leading to 1H average 29% improvement and below industry standard of LTIFR

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3.
Financial Performance

Solid Margin Growth.

Summary Income Statement*

	1H20	1H19	$m	%
Total Revenue	$135.1m	$153.7m	($18.6m)	(12.1%)
Gross Profit	$15.9m	$13.8m	$2.1m	15.1%
Gross Margin %	11.8%	9.0%	-	-
Overheads	($13.5m)	($16.2m)	$2.7m	16.7%
Overhead %	10.0%	10.6%	-	-
Underlying EBITDA	$2.4m	($2.4m)	$4.8m	201%
Reported EBITDA	3.3m	(5.9m)	9.2m	156%

* Refer to page 30 for details of non IFRS adjustments

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Balance Sheet Work in Progress.

Summary Balance Sheet

	1H20 $m	1H19 $m	% var
Current Assets	26.8	34.4	(22.0%)
Non-Current Assets	21.0	45.4	(53.7%)
Total Assets	**47.8**	**79.8**	(40.1%)
Current Liabilities	81.4	87.2	(6.7%)
Non-Current Liabilities	3.5	6.7	(47.8%)
Total Liabilities	**84.9**	**93.9**	(9.6%)
Net Assets	(37.1)	(14.1)	(163.1%)
Issued Capital	19.0	19.0	-
Retained Earnings & Reserves	(56.1)	(33.1)	(69.5%)
Total Equity	**(37.1)**	**(14.1)**	(163.1%)

Borrowings

	Drawn $m
Term Loan	18.1
Asset Finance	3.1
Overdraft	9.1
Trade Debtor Financing	7.2
Premium Funding Loans	1.2
Total	**38.7**

Bank refinance being progressed and on track for completion by June 2020

Cash Profile.

Operating Cash Flows

	1H20 $m
EBITDA Reported	3.3
EBA Back payments made from prior period provision	(4.4)
Reversal of EBA provision	(1.1)
Increase in receivables and prepayments	(2.3)
Increase in employee benefits and provisions	1.1
Decrease in trade and other payables	(0.6)
Net operating cash outflows (excluding interest)	**(4.0)**

- Renewed focus on working capital management
- EBA issues settled for less than provisioned
- Working Capital negatively impacted by multiple contracts mobilising in last quarter, expect to be reversed in next half

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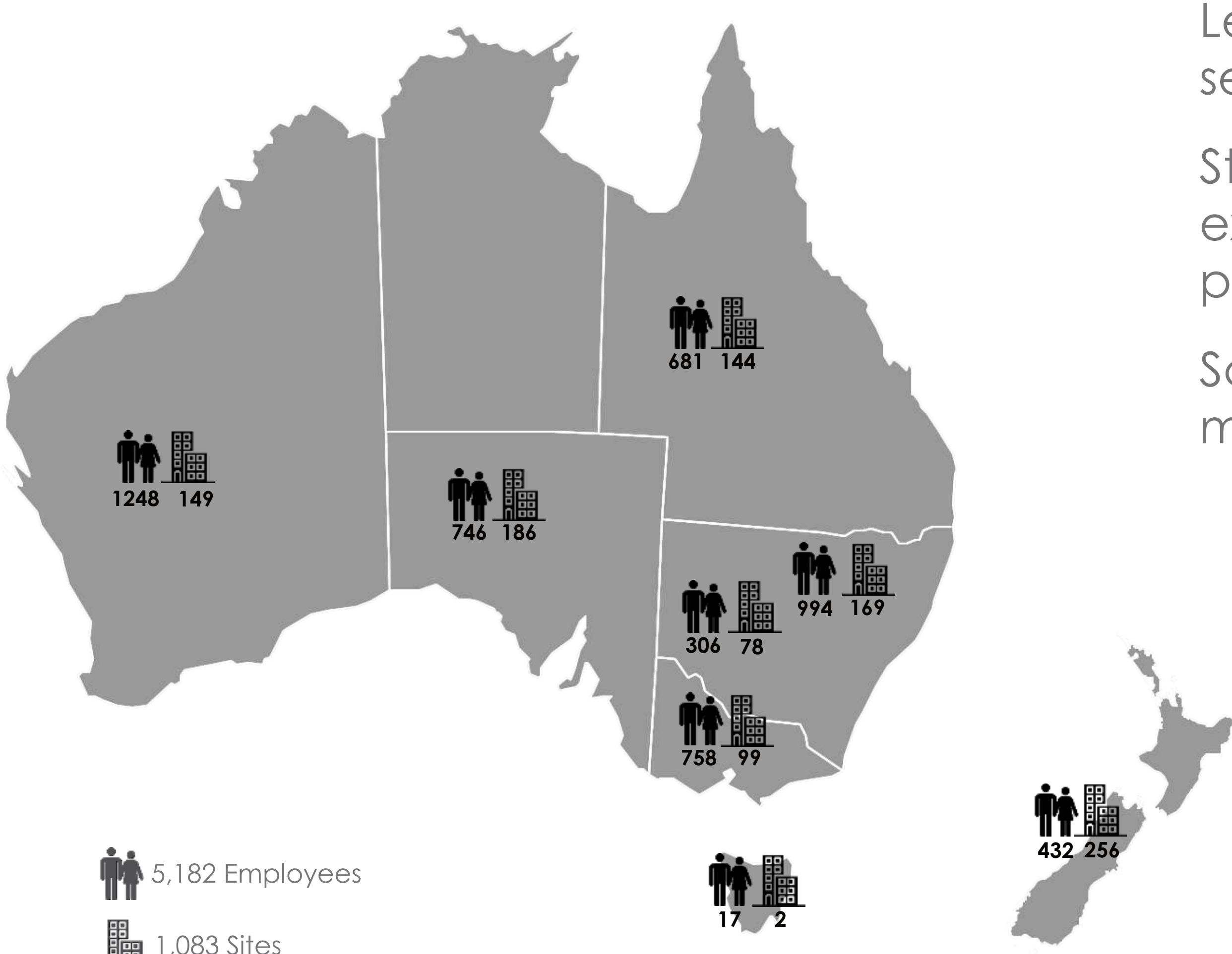
4. Growth Objectives

Positioned for Growth.



5,182 Employees

1,083 Sites

Leading national integrated services provider

Strategically positioned with extensive Australia / NZ presence

Scalable service delivery model

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Delivering Against Growth Initiatives.

GROWTH

ORGANIC
- Leverage growth from existing clients and their development pipeline
- Investment in sales into new sectors (commercial, education, government & infrastructure)

M&A
- Once Business Improvement Plan completed, target medium size opportunities in sectors that align with sector and geographic expansion program

✓ Winning material contracts with Scentre Group, Stocklands, Metro Trains, Crown and MSD (NZ)

✓ Extending contracts with Myer, Scentre Group and Stocklands

✓ Possible M&A activity to commence in FY21

EXPANSION

GEOGRAPHIC
- Focus on key markets where margins are higher
- Continue to grow in NZ

SECTOR
- Expand services to commercial offices where there are synergies with current client base
- Target education, government and infrastructure where compliance is critical

✓ Developed a short/medium/long term pipeline in key target sectors

✓ Recruited experienced senior executive to lead the Sales Strategy

✓ Winning contracts in key NZ market

DIVERSIFICATION

SERVICES
- Grow security division
- Grow maintenance and integrated services
- Pursue commercial/aviation cleaning, facilities management, and related services opportunities

CUSTOMER BASE
- Deepen market penetration with existing major clients, leveraging ASX-listed status
- Establish long-term partnerships through delivery of integrated service solutions

✓ Using security as a service to lead into key education & Government contracts

✓ Developing partnerships to address specialist service needs, thereby enabling capability to grow in more complex contract environments

PEOPLE & SYSTEMS

PEOPLE
- Re-align operating structure to focus on client engagement and performance
- Build account management capability across the business
- HSE and Compliance to underpin operating culture

SYSTEMS
- Focus on the 4 key operating systems (Time & Attendance, Periodical/Adhoc Billing, Quality and Beacon Tracking)
- Transition to a cloud environment and automate key processes

✓ All system utilization improved

✓ Time & Attendance already rolled out across 60% of cleaning

✓ Go-live with Microsoft 365 in cloud environment by 31/3

✓ Rollout of Millennium Assist by 31/3

5. Summary

Business Fundamentals Remain Strong.

- ✓ The Board is committed to the strategies already being implemented to turn the business around and reset for growth
- ✓ Great progress towards $11m Profit Improvement Plan with more to come in 2H and FY21
- ✓ Refinancing arrangements with the ANZ progressing and on track to be resolved during 2H.
- ✓ Gross margins improving across all parts of the business
- ✓ Contract Book strengthened with contract renewals and new contracts won
- ✓ Diversified growth strategy developed and underway to deliver growth in FY21
- ✓ Business controls strengthened including the continued roll-out of the time and attendance system
- ✓ Compliance program advanced to deal with compliance to Modern Award, labour hire laws and the Modern Slavery Act.
- ✓ Overhead right-sized to manage growth - complete

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6. Appendices

Summary Statutory Income Statement.

	1H20 $m	1H19 $m
Total Revenue	135.1	153.7
Gross Margin	17.0	13.0
Overheads	(13.7)	(18.9)
Reported EBITDA	3.3	(5.9)
Depreciation & Amortisation	(2.4)	(4.2)
Impairments	0	(14.6)
Interest	(1.7)	(1.1)
Profit / (Loss) Before Tax	(0.8)	(25.8)
Income Tax Benefit / (Expense)	0	2.6
Net Profit / (Loss) After Tax (NPAT)	(0.8)	(23.2)

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Summary of Non-Recurring Items.

	1H20 $m	1H19 $m
EBITDA reported	**3.3**	**(5.9)**
Add non-recurring items		
Reversal of prior year EBA provision - cleaning	(0.6)	
Reversal of prior year EBA provision - security	(0.5)	
Advisor Fees Overheads	0.2	-
Increase in provision for doubtful debt (cleaning)	-	0.9
2015 ATO assessment	-	0.5
Public Liability claim provisioning	-	0.5
Employment related and other costs provisioning	-	1.6
EBITDA Underlying	**2.4**	**(2.4)**

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