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.

From Jan 2018

- Deteriorating financial performance
- Increased debt
- Dividend ceased
- Declining share price

Sep – Oct 2018

- Board changes

Oct 18 – Feb 19

- Organisational restructure
- Profit Improvement Plan
- New CEO
- New CFO

- 1H19 Results

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

Progress to date

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 in1H19 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.

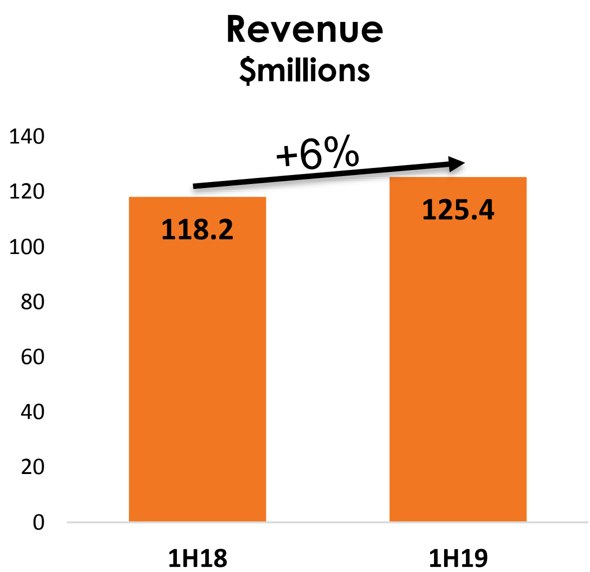
Key financials

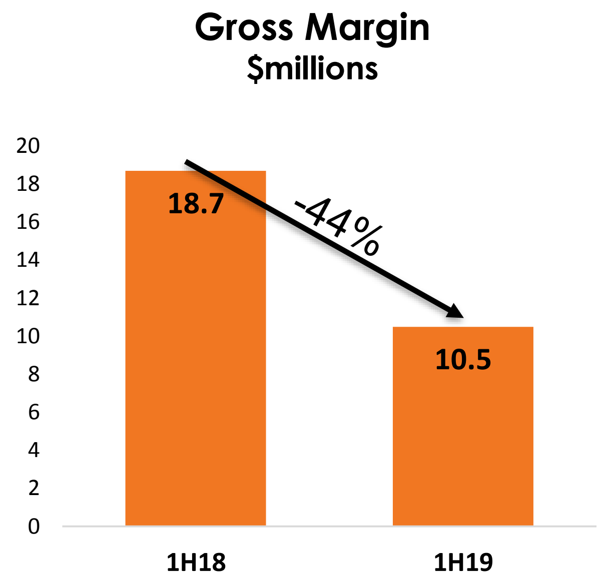
Summary Income Statement				
$m	**1H19**	**1H18**	**$m variance**	**% variance**
Total revenue	153.7	136.3	17.4	12.8
Gross margin	13.0	21.4	(8.4)	(39.2)
Gross margin %	8.45%	15.70%		(725 bps)
Overheads	(18.9)	(15.3)	(3.6)	23.5%
Statutory EBITDA	(5.9)	6.2	(12.1)	NM
Reported NPAT	(23.2)	0.9	(24.2)	NM

Non-recurring and Catch Up Costs

Summary of Non-recurring and Catch up Costs	
	1H19
Non-recurring and catch up costs items impacting EBITDA	
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
Total	**$6.2m**
Non-recurring items impacting NPAT	
Impairment of goodwill and customer contracts	$14.6m

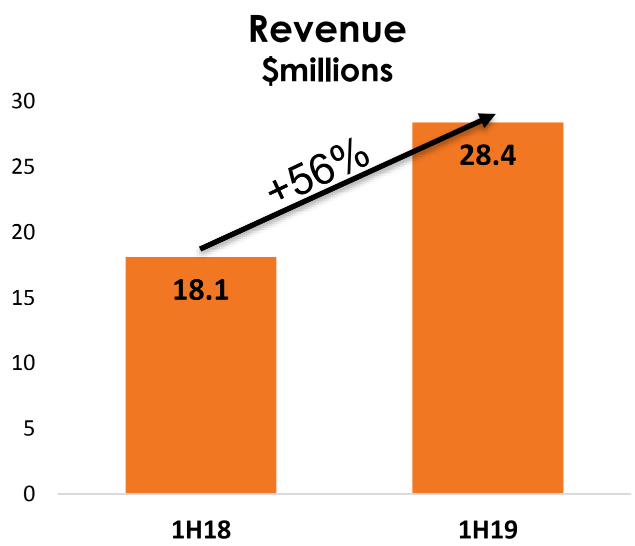
Cleaning segment

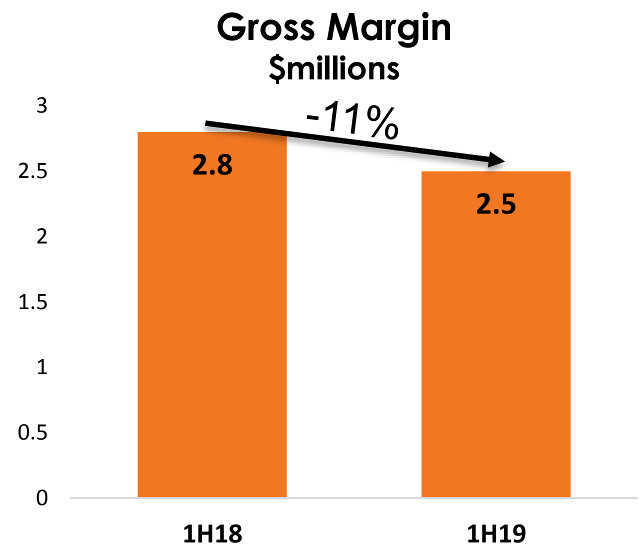




- Revenue growth of 6% reflects lower contract win rate in 1H19 and lost contracts
- Decline in gross margin driven by under recovery of the 3.5% National Wage Increase and inefficient labour management across key contracts

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%)
Total Assets	**$79.8m**	**$93.4m**	**(14.6%)**
Current liabilities	$87.2m	$76.1m	14.6%
Non-current liabilities	$6.7m	$7.9m	(15.2%)
Total liabilities	**$93.9m**	**$84.1m**	**11.7%**
Net Assets	**($14.1m)**	**$9.3m**	**NM**
Issued Capital	$19.0m	$19.0m	0%
Retained Earnings & Reserves	($33.1m)	($9.7m)	NM
Total Equity	**($14.1m)**	**$9.3m**	**NM**
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

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