

## CHAIRMAN'S LETTER



Specialising in the provision of uniformed guard security in the Retail and Events sector, MCS is a *Premier Player* in these fields and an increasing presence in covert security to the retail sector as well as security in Education, Tourism, Health Care and other sectors.

Our reputation for integrity, quality service and competitive pricing, underpinned by blue-chip major clients, places the Company on a solid footing for expansion.

2016/2017 was both another exciting and challenging year for MCS.

Exciting – as we made an inaugural full-year profit.

Exciting – as we paid our FY16 dividend to our shareholders. and declared a dividend for FY17.

Exciting - as we won new contracts, and grew overall revenue through organic growth.

Exciting – as, despite the disruption and one-off costs of dealing with legacy issues, we remained focused, targeted and profitable.

Exciting - as we completed the restructuring of the Company's Board of Directors and Senior Management.

Exciting – as, moving into FY18, we have:

- undergone major consultative updates to the Strategic Planning and business modeling;
- acquired the client base of State Security Services WA including prestigious private schools, Government contracts and a range of Retail and Commercial Clients;
- embarked on a comprehensive and focused business development plan, which sees increased costs in 1HFY18 but with potential benefits expected in 2HFY18;
- continued our progress towards ISO quality standards accreditation, to place the Company in the forefront of innovation and quality provision of security services;
- finalised the Capital Restructure, cancelling 18 million shares (8.7% of the then total share capital of the Company) under the Share Buy-Back Scheme for a total consideration of \$58,000 cash.

Challenging – as, with the competitive nature of the industry and the need for constant vigilance in terms of quality and costs, the Company has been able to maintain all retail contracts and also add to its market share.

Challenging - as we firmly and decisively dealt with a number of legacy issues arising from the acquisition of Intiga Security in 2015. These challenges did incur unforeseen costs, all of which have been met.

Challenging - as we constantly seek to manage the efficiency of head office costs through redeployments of the work force and provision, wherever possible, of IT solutions to complement the hard work of our valued employees.

We are now positioned to take full advantage of our industry standing and our Company's reputation for integrity and client-focus to obtain resultant shareholders benefits.

## **FINANCIAL RESULTS**

The Company performed consistently throughout FY17. Contracted retail security work provides steady revenue, with seasonal increases and a number of new jobs adding to work levels.

Both Retail and Event security work is subject to seasonality, typically with increased work levels from Christmas to Easter tending to skew results into the 2<sup>nd</sup> half of the financial year.

Except for the long-term loan arrangement with the MCS Security vendor, currently of \$0.29m, the Company remains debt free.

## DIVIDEND



Our inaugural FY16 dividend of \$0.65m was declared in November 2016, with some 16% of dividend entitlements reinvested by shareholders through the Company's Dividend Reinvestment Plan.

The Company, in considering the Dividend for FY17, was mindful of the strategic direction of the Company, being to pursue growth both organically and by actively seeking acquisitions to expand into other security markets and locations.

We were therefore pleased to recently declare a dividend of \$0.2m (\$0.001 cents per share) for FY17, being approx. half of the FY17 net profit. This represents a dividend yield of 4.2% on the closing share price of \$0.024 at the date of announcement. In addition, shareholders have benefitted from the now finalised buy-back of the Intiga Security vendor's 18 million shares in the Company, representing some 8.7% of the previous total share capital of the Company.

We have again incentivized shareholders preferring to provide funding to the Company under the Company's Dividend Reinvestment Plan (DRP).

These two actions will provide the Company with an increased capacity to actively grow our business – organically and through acquisition - for the benefit of all shareholders.

As Chair, and together with my fellow director Matthew Ward, I will take full advantage of this DRP provision and I urge shareholders to support the future growth of the company in this manner.

## **BOARD**

We have attended to:

- appointment of the independent Chair and two new Directors;
- appointment of a new Company Secretary;
- appointment of the current CFO;
- development of a refocused, innovative and dynamic company-wide Strategic Plan and Vision focusing on integrity, shareholder value and growth whilst delivering excellence in service to our clients;
- completion of legacy issues arising from 2015 acquisition of Intiga Security.

Both I and fellow directors have accepted Director Fees well below the industry norm for this sized company during the past financial year. We have set a modest increase this coming year, and are grateful for the suggested issue of options in lieu of any major increase to Director Fees, as outlined in the resolutions put before this meeting.

## **OUTLOOK**

The underpinning strength of our long-term client base and trusted relationships, and the continued growth in the Retail Shopping Centre sector, bodes well for the company's retail operations.

Global uncertainty and economic downturns often have a positive effect on the demand for security services, including growth in areas traditionally serviced by Government or Policing Agencies.



Also, as State and Federal Governments seek to grow the tourism industry by actively developing entertainment and sporting precincts and events, demand in that sector is also expected to increase. Our Event security business is seeing expansion opportunities, notwithstanding the unfortunate situation with the Western Force rugby team. The completion of the iconic Perth Stadium provides a number of opportunities for

MCS, as do the increased activities and proposed WA-based teams in all major codes, particularly in women's sports. It is very pleasing to see the current State and Federal Governments placing emphasis on contracting local Australian companies.

Other exciting opportunities are emerging for security in the Health-care, Aged Care and Education sectors.

The Company has an exciting tender pipeline - with a key focus on Retail and Events (including the iconic new Perth Stadium), Health, Education and Resources sectors – where the Company's Guard availability, recruitment, training and quality management are key competitive strengths. Our development towards ISO quality management systems creates a clear point of difference from our competitors.

We also see many opportunities to leverage our strengths - including our management, systems, reputation and brand – into other sectors such as Ports, Mining and Oil & Gas, including through targeted strategic acquisitions.

As its principal mission, MCS will actively seek to maximize benefits for all shareholders through increased revenue from organic growth, management of

overall costs and securing new contracts via our current and future pipeline tenders, through acquisitions and progressive Australia-wide expansion. It is YOUR company and I am very confident as your Chair that we will go from strength to strength.

I would like to thank our Chief Executive Officer Paul Simmons for his unstinting efforts, his senior management team including our CFO, each and every one of our valued employees, my fellow Directors Matthew Ward and Geoffrey Martin, and our Company Secretary, Jonathan Asquith, for their valued and loyal support.

My final thanks go to you, our valued shareholders, for your support, your confidence and your investment in this, YOUR company.

Thank you.

A handwritten signature in blue ink, appearing to read 'Bob Kucera', is written over a light blue rectangular background.

**The Hon. RC (Bob) Kucera, APM JP Chair  
MCS Services Limited (MSG)**

**November 30, 2017**



## CEO ADDRESS

### INTRODUCTION

Good morning ladies and gentleman.

My name is Paul Simmons, and I am the Chief Executive Officer of MCS.

I welcome all shareholders to this, our second AGM as a listed security company.

I firstly thank our Chairman, The Hon Bob Kucera, for his address and for his guidance and encouragement over the past year. I similarly thank our other Board members for their skills and valued contributions over the course of the year.

Our second year as a listed company has been demanding and challenging but also rewarding:

#### **Integration:**

- We have fully integrated the Retail Security and the Events Security businesses;

#### **Strategy:**

- We have undertaken a Strategy Review, using a 3<sup>rd</sup> party moderator, giving us a roadmap for the next five years;
- Our strategy includes organic growth and acquisitions with the aim of significantly enhancing shareholder value;

#### **Quality Standards:**

- We have employed a highly credentialed and experienced HSEQ Manager to drive the process of gaining ISO accreditation, and acquired a specific IT package to assist;
- The road towards ISO is paying dividends already, with enhanced recruitment and training already in place for our Guards – further differentiating the quality of our Guards from our competitors;

#### **Business Development:**

- We have enhanced our Business Development team, who have lodged high quality tenders in a number of sectors;
- We are in the latter stages of the process for a number of key tenders, and anticipate hearing results shortly;

#### **Acquisitions:**

- We have successfully acquired the key assets of *State Security WA*, a WA-based security provider specialising in uniform security to schools, shopping centres, Government Departments and tourism facilities such as yacht clubs and museums;
- The acquisition demonstrates our ability to acquire such businesses at a reasonable price, on appropriate payment terms, and to integrate them into our systems;
- The transaction also provided us with an entry point into new security sectors;

- We continue to discuss opportunities for similar acquisitions, to grow our business into other security sectors and geographies.

#### **Legacy Issues**

- We have successfully and efficiently dealt with the legacy issues of the Intiga business acquisition;
- The acquisition price has been adjusted to a modest cash payment, with all original shares issued to the vendor cancelled;
- At an operational level, our Chief Operating Officer left the business and we successfully restructured the office staff around his former role;
- Notwithstanding such issues, the performance of our Events security business has remained strong.

### **OPPORTUNITIES FOR THE SECURITY INDUSTRY AND OUR COMPANY**

Security is a growing business benefitting from general population growth, by construction phases, community concerns with security, and new emerging sectors seeking security services.

Strategic opportunities for growth exist in the Retail sector. Shopping Centres in WA, whether by number or floorspace, make up only some 10-15% of the national total. Although a leader within retail security in WA, there are still opportunities for us in WA and – by leveraging our proven capabilities and client relationships – there are clearly massive opportunities in the rest of the country.

But there are also opportunities in Events security and in other sectors including education, Government and tourism.

We have two focuses of growth - organic and acquisition - to take advantage of such opportunities.

We are also mindful of currently untapped opportunities in three other main areas:

- oil and gas,
- mining and
- Ports and Harbours.

and are taking steps to access these markets.

### **FUTURE**

There is an exciting future ahead for our Company.

#### **I retain absolute focus on our key aims:**

- to maximise shareholder value;
- to service existing clients to the highest standards,
- to retain their work in the long term;
- to leverage proven capabilities and long-term trusted relationships with major Retail Centre owners into work in other geographies;
- to leverage into servicing new sectors;
- to maximise the utilisation of our Head Office team by driving a greater volume of work through our Company, and to maintain office numbers at efficient levels.



### **Looking at the immediate future:**

- We are now moving into the 2<sup>nd</sup> half of the year which is always our highest generating period due to extended Christmas-holiday trading hours, Easter trading and summer Events and sports;
- We are awaiting formal confirmation of a major tender in the Events sector;
- We have progressed to the short-listing stage for Retail work across multiple centres across a number of States, and will be making a further presentation to the client next week.

### **CHALLENGES**

There have been, and always will be, many challenges for our Company.

*Sham contracting* remains a major problem in the security sector, especially in the smaller end of the tender market. It involves Security companies having Guards subcontract to them via an ABN invoice arrangement – with the Guards often receiving an hourly rate below Award rates and, in some cases, with no superannuation, payroll-tax, leave or Workers Compensation coverage. Such practices allow those Security providers to submit very low-priced tenders which would be unsustainable without resorting to such practices. We, and other respected security providers, are addressing this through the Security Agents Institute of WA and the Police Licensing - Commercial Agents Division.

*New Technology* has the potential to change the way the Security sector operates. Rather than a challenge, I consider it an opportunity. We aim to be at the forefront of technological change and currently offer our clients the latest technology in vehicle and key trackers, body-cameras and Guard-performance Apps. We are also investigating other technologies, including the use of drones.

*Efficiency* of our overhead structure is under regular review. Workloads within the office, especially rostering, fluctuate on a regular basis. Our Head Office staff will become really stretched shortly – and will continue as such, over the next 3-4 months during our busiest period of the year. The cyclical nature of the industry and our determination to provide a quality 24/7 service to our clients makes it essential to provide a fully integrated head office structure.

### **ONWARDS**

I thank all our Guards and office staff for their tireless work this year. And I thank my senior management team for focussing on driving the business forward for the benefit of shareholders, employees, clients and partners.

I would like to take this final opportunity to thank each and every one of you for your support of MCS during this year and look forward to many profitable years to come.

Thank you.

**Paul Simmons**  
**Chief Executive Officer**  
**MCS Services Limited**

# MCS Services Ltd

**AGM 30 November 2017**



*Exceeding Client Expectations*

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## Summary

### Corporate Snapshot

ASX Code	MSG
Share Price	\$0.022 (29/11/17)
Number of shares on Issue	188 million
Market Capitalisation	\$4.1m (29/11/17)
Cash (30 June 17)	\$1.2m
Debt (30 June 17)	\$0.3m

### Substantial Shareholders:

Paul & Maureen Simmons	17.3%
Microequities Asset Management Pty Ltd	10.8%

### Operations

Long term contracts with blue chip clients

High proportion of recurring revenue

Growth opportunities in Events, Education, Healthcare, Resources, Ports, Marine, Govt, Transport

### Board of Directors

Chairman	Bob Kucera
Non Executive Director	Mathew Ward
Non Executive Director	Geoff Martin

### Senior Management

CEO	Paul Simmons
CFO	Mark Englebert
Company Secretary	Jonathan Asquith

## FY17 Highlights

### **Growth:**

- Acquired client base with < 1 year payback and diversified into schools security

### **Financial:**

- Profitable in first full financial year of operations
- Revenue increased to over \$18m.
- Inaugural net profit after tax \$0.4m
- Net cash to fund growth

### **Capital Management**

- Declared dividend of 0.1cps
- Bought back 18m shares for 0.3cps, a significant discount to the share price

## Summarised Profit/(Loss)

	FY17 \$'m	FY16 \$'m (8 month trading)
Revenue - Security	18.1	11.8
<b>Gross Profit</b>	<b>3.9</b>	<b>2.8</b>
<b>Underlying EBITDA</b>	<b>0.8</b>	<b>0.3</b>
Depreciation / Amortisation	(0.17)	(0.6)
Significant Items	(0.1)	-
Impairments / Writedowns	-	(5.6)
Profit loss before tax	<b>0.53</b>	<b>(5.9)</b>
Tax	(0.07)	0.09
Net profit after tax	<b>0.46</b>	<b>(5.89)</b>

## Cash flows

	FY17 \$'m	FY16 \$'m
Operational	0.2	0.3
Investing	(0.1)	(3.2)
Financing	(1.3)	3.9
Net	(1.1)	1.1
<b>Closing Cash</b>	<b>1.2</b>	<b>2.4</b>

## Financial Position

	30 June 2017 \$'m	30 June 2016 \$'m
Cash	1.2	2.4
Other current assets	2.8	2.0
	4.0	4.4
Non current assets	0.2	0.5
<b>Total assets</b>	<b>4.2</b>	<b>4.9</b>
Trade & other payables	(1.6)	(2.4)
Other	(0.5)	(0.7)
	(2.1)	(3.1)
Related Party Loan	(0.3)	-
Other non current liabilities	(0.2)	(0.1)
	(0.5)	(0.1)
<b>Total Liabilities</b>	<b>(2.6)</b>	<b>(3.2)</b>
<b>Net Assets</b>	<b>1.6</b>	<b>1.7</b>



## Clients

**MCS** Services Ltd  
*Exceeding Client Expectations*

AMPCAPITAL 

Charter Hall 

 JONES LANG  
LASALLE®

  
VICINITY  
CENTRES

  
lendlease

CBRE

savills

Domain  
stadium

HILLARYS  
BOAT HARBOUR 



nibStadium

  
PERTH CONCERT HALL

Government of **Western Australia**  
Department of **Health**

## Strategy

### **Growth:**

- Organic via increased tendering activity to expand client base
- Acquisitions for entry into new verticals and markets
- Innovation to differentiate customer proposition

### **Customers**

- Continue to exceed client expectations

### **Financial Returns**

- Recurring revenue base and free cash flow

### **Shareholder Focus**

- Enhance shareholder value via profitable growth, buybacks, etc

## Outlook / Guidance

### Outlook

- Positive outlook with WA economy improving
- Many opportunities in security services
- Awaiting result of two significant tenders, with many other tenders submitted
- Only at the start of the journey

### FY18 Guidance

- FY18 Revenue expected to exceed \$20 million (FY17: \$18 million)
- Expect earnings skew to 2H18 as business development benefits are realised and restructuring is completed
- Additional guidance will be provided at interim results



*Exceeding Client Expectations*

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