

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 in security in Education, Tourism, Health Care, Aged Care and other sectors.

Our reputation for integrity, quality service and competitive pricing, underpinned by blue-chip major clients, has been recognised this year by key Business Association

Awards and an Award from the security sector's national governing body – the Australian Security Industry Association.

CONSOLIDATION

FY 2017/2018 was a year of consolidation for the Company:

- Consolidation - as we renewed and reinforced all existing client contracts that fell due;
- Consolidation - as we completed the acquisition of the customer contracts of State Security Services WA, with attendant legal, severance and establishment costs;
- Consolidation - as we reduced the (Simmons) vendor loan and renegotiating a two year extension of the remainder;
- Consolidation - as we finally cleared all legacy issues arising from the original company listing;

INVESTMENT

But FY18/19 was also a period of investment in growth:

- Investment - in the winning and the start-up of major new Events contracts, in particular the Asset Management contract for the new and iconic Perth Stadium;
- Investment – in the winning and the start-up of major new Retail contracts, in particular the remaining four major Vicinity Centres in WA;
- Investment - as we funded the final stages of preparing for ISO Quality Management accreditation, expected to be completed in 2019;
- Investment - as we completed the licensing processes for South Australia, established our business in the Northern Territory and applied for Security Licences in New South Wales and Victoria.

CHALLENGES

The year also presented a suite of challenges:

- There was a sizeable increase in the Federal and State minimum wage award, though this was balanced by contractually permitted increases to our customer-rates;
- There was continued questionable employment and labour hire practices by some suppliers to the Security Sector which impacted on tendered pricing in areas in which they operate. MCS limits the effect of such pricing on our business by seeking work in sectors, and for clients, which are less tolerant of such practices.

Increasingly such practices are coming under the scrutiny of Federal and State Government agencies, with a major inquiry being conducted in Western Australia. MCS, via the Australian Security Alliance, assisted in the presentation of submissions to that inquiry.

GOALS

All of our above actions were, and are, aimed at creating a platform for nationwide expansion – at the same time as still maintaining our current valued client base.

With a trusted brand, an established and efficient management system, a blue-chip portfolio of clients, minimal financial gearing, expanded licencing and no legacy issues to deal with, we are perfectly positioned to expand nationally, including servicing the same major retail clients that enjoy our service in WA.

Some major Security providers have struggled with low-margin expansion and excessive financial gearing. This may present considerable opportunities for MCS in acquiring additional contracts nationally.

We began to reap the benefits of *biting the bullet* in the results for the 2nd half of FY17/18, and the indications for FY18/19 are encouraging. The Company continues to perform consistently - with under-contract Retail and Event security work providing consistent revenue, with seasonal work-flow increases, and a regular inflow of new jobs, including those in new sectors and new geographies, adding to work levels.

SHAREHOLDER REWARD

We really value our shareholders and the commitment they have shown during challenging times.

We are anticipating a return to annual profitability for FY19, supported by results to date.

Consistent with prudent capital management, it is our intention to offer a share buy-back of all Un-Marketable Parcels of shares (\$500 or less, as defined by the ASX).

The company at this time considers this better value for all our shareholders than payment of an un-franked dividend.

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

second half of the financial year. As the financial year progresses, further consideration may be given to shareholder reward.

I remind Shareholders that, except for the recently reduced and extended long-term loan arrangement with the MCS Security vendor, currently the Company remains debt free.

BOARD

The Board, which currently comprises three independent non-executive directors, operates in the interests of all shareholders and has similarly consolidated without change since the last AGM. The Board has worked effectively together during the past 18 months and has set out a clear strategic path for the company to follow; one which we believe will add value to shareholders over time.

Naturally, all of your directors have kept up to date with best practice governance via the Australian Institute of Company Directors during the year with a focus on Governance.

Both myself and fellow directors have continued to accepted Director fees well below the industry norm for this sized ASX-listed company during the past financial year.

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. Recent "Terrorist" incidents in other States have added to the general demand for a security presence at all major sporting and entertainment venues and events.



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, especially with the re-emergence of the Western Force rugby union team under the stewardship of Andrew Forrest at Nib Stadium.

In addition, the iconic Perth Stadium provides an increasing 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 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 will create 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, Road Traffic Management - with us still actively pursuing targeted strategic acquisitions.

As its principal mission, MCS will actively seek to maximize benefits for all shareholders through increased revenue and earnings from organic growth - securing new contracts via our current and future pipeline tenders - through acquisitions and progressive Australia-wide expansion, and management of overall costs.

It is YOUR Company and I am very confident as your Chair that we will continue to go from strength to strength, especially after this period of consolidation.

I would like to thank our Chief Executive Officer Paul Simmons for his unstinting efforts, his senior management team including Mark Englebert, our tireless 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 displayed within a light blue rectangular box.

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