



Activities Report & Cash Flow Statement

For the 3 months ending 31 March 2024



MCS Services Limited (**MCS Services, Company**, ASX: **MSG**) is pleased to present its Activities Report and Appendix 4C for the three months ending 31 March 2024 (Period).

Cash and net receivables as at 31 March 2024 totalled \$0.6 million (31 December 2023 \$1.2 million) comprising cash of \$0.7 million (31 December 2023 \$1.2 million) and net receivables of negative \$0.1 million (31 December 2023 \$nil).

The cashflow movements in the Company's Appendix 4c are summarised across the Company's activities as:

| | Security Business | Traffic Business | Corporate | Total |
|------------------------------------|-------------------|------------------|--------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cashflow from Operating Activities | (605) | (338) | (156) | (1,098) |
| Cashflow from Investing Activities | (14) | - | - | (14) |
| Cashflow from Financing Activities | 734 | (26) | (67) | 641 |
| Net | 114 | (363) | (223) | (472) |

CASH FLOW

The Quarterly Cashflow reported in the attached Appendix 4c was affected by:

- The receipt of \$0.48m in the Previous Period from a major Traffic client that would ordinarily have been received during this Period;
- A net \$0.7m drawdown (31 December : \$0.9m paydown) of the Security Business' Nab Finance Facility during the Period, with a drawdown balance of \$1.1m (facility limit \$1.5m) at Period-end;
- Having regard to forecast cashflows, the Company applied to the ATO during the Period for a repayment plan in relation to the Security Business' BAS due in February (see below)
- Making \$0.53m of ATO Repayment Plan instalments (as per below) as well as maintaining all other current tax payment obligations

ATO

| | Ordinarily Due | Security | Security | Traffic | Corporate | Total |
|---|----------------|--------------|------------|------------|-----------|--------------|
| Approved ATO Repayment Plans | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | | | | | | |
| BAS | Nov 2023 | 575 | - | - | - | 575 |
| PAYG | Nov 2023 | - | 360 | - | - | 360 |
| PAYG | Dec 2023 | - | 366 | 127 | - | 493 |
| PAYG | Jan 2023 | - | 189 | 71 | - | 260 |
| BAS | Feb 2024 | 682 | - | - | - | 682 |
| | | 1,257 | 915 | 198 | - | 2,370 |
| Estimated Interest | | 37 | 52 | 13 | - | 102 |
| | | 1,294 | 967 | 211 | - | 2,472 |
| | | | | | | |
| Repayments | | | | | | |
| Instalments paid in previous Period | | 57 | 91 | 20 | - | 168 |
| Instalments paid this Period | | 262 | 219 | 45 | - | 526 |
| Income Tax Refund applied this Period | | 272 | - | - | - | 272 |
| | | 591 | 310 | 65 | - | 966 |
| Future remaining total instalments (Note below) | | 703 | 657 | 135 | - | 1,495 |
| Future final instalment | | - | - | 11 | - | 11 |
| | | 1,294 | 967 | 211 | - | 2,472 |
| | | | | | | |
| Note: Monthly instalments \$'000 pm | | 59 | 55 | 15 | - | 128 |
| Note: Months remaining | | 12 | 12 | 9 | - | |

During the Period the ATO confirmed acceptance of the Security Business' repayment plans. The ATO had confirmed acceptance of the Traffic Business' payment plan in the Previous Period.

PROPOSED SALE OF SECURITY BUSINESS

As announced on 2 February 2024, the Company entered into a conditional agreement to sell its 100% interest in the Security Business subsidiary for a cash consideration of \$3,000,000 on a nil net asset basis.

The Company's decision to undertake the sale was made after thorough and diligent evaluation from the Board of Directors as to the merits of the sale or retention of the business, with the Company's primary aim being to preserve value for its shareholders.

During the Period the company entered into a Heads of Agreement with Vibrant Service Pty Ltd, subject to execution of a Share Sale Agreement to be negotiated in good faith and subject to approval by Company shareholders

A General Meeting of the Company shareholders on 29 April 2024 voted to approve the sale

As at the date of this Report a Share Sale Agreement has been drafted and is considered to be in the latter stages of negotiation. Subject to finalisation and execution of a Share Sale Agreement, Settlement has been provisionally estimated for 22nd-23rd May 2024

OPERATIONS UPDATE

During the Period the Company:

- Commenced a number of small new Security and Traffic management contracts
- Lodged a number of security and traffic management tenders, the results of which are due for release subsequent to the Period-end.
- Agreed a sizeable increase to change-rates to a major Traffic client

ACQUISITION AND WORKING CAPITAL FUNDING OF HIGHWAYS TRAFFIC

During a previous Period, and as announced on 20th October 2022, the Company completed the acquisition of Highways Traffic Pty Ltd ("Highways"), a traffic management company, effective midnight 16th October 2022.

The acquisition was structured such that working capital (including Cash and Accounts Receivable, net of Accounts Payable and other liabilities) as at completion accrued to the vendors. As such, the Company arranged an Invoice Finance facility (\$1.5m limit) with National Australia Bank to fund, where needed, the working capital requirements of Highways in the post-Completion period. As at the end of the Period the Company had drawn down net \$1.1m (\$0.4m 31 December 2023) on the Invoice Finance Facility. As at the end of the Period Highways Traffic had Accounts Receivable of \$1.91 million (\$0.9 million 31 December 2023)

GROWTH OPPORTUNITIES

Organic Growth:

The Company has security operating licenses for Western Australia, South Australia, Victoria, South Wales, ACT and Queensland.

CORPORATE

As disclosed in Section 6 of the Appendix 4c, during the Period the Company paid:

- \$nil (\$nil : December 2023) to Directors in fees,
- and a total of \$71,000 (\$62,700 : 31 December 2023) to Paul Simmons, CEO, as salary and office rent to a related entity of Paul Simmons

Attached is the Appendix 4C Quarterly Cash Flow Statement for the three months ending 31 March 2024.

Your's faithfully

A handwritten signature in black ink, appearing to read 'Paul R. Simmons', with a large circular flourish at the start.

Paul R. Simmons

Managing Director

ABOUT MCS SERVICE LIMITED

MCS Services Limited is a Company listed on the Australian Securities Exchange (ASX: MSG). The Company is one of the largest fully integrated security providers in Western Australia, employing over 500 operational staff and supervisors. MCS Services specialises in asset security at government offices and facilities, major commercial property sites, retail shopping centres, sports stadiums, ancillary sites and major outdoor events throughout Western Australia and also traffic management for large infrastructure projects.

Visit the Company's website

www.mcssecurity.com.au or see the Company's latest announcements

<https://www.asx.com.au/asx/share-price-research/company/MSG> for more details.

FORWARD LOOKING STATEMENTS

This document includes forward-looking statements. Forward-looking statements include, but are not limited to, statements concerning MCS Services Limited's planned activities, operations, expectations and other statements that are not historical facts. When used in this announcement, the words such as "could," "plan," "estimate," "expect," "intend," "may", "potential," "should," and any other similar expressions are forward-looking statements. Although MCS Services Limited believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. All figures presented in this document are unaudited and this document does not contain any forecasts of profitability or loss.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

MCS Services Limited

ABN

66 119 641 986

Quarter ended ("current quarter")

31 March 2024

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | 10,812 | 32,112 |
| 1.2 Payments for | | |
| (a) research and development | - | - |
| (b) product manufacturing and operating costs | - | - |
| (c) advertising and marketing | (8) | (46) |
| (d) leased assets | - | - |
| (e) staff costs | (8,936) | (24,729) |
| (f) administration and corporate costs | (2,496) | (6,556) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 1 | 14 |
| 1.5 Interest and other costs of finance paid | (53) | (164) |
| 1.6 Income taxes paid | - | (56) |
| 1.7 Government grants and tax incentives | - | - |
| 1.8 Other : GST to ATO | (418) | (1,338) |
| Other: Return of Bank Guarantee | - | 200 |
| 1.9 Net cash from / (used in) operating activities | (1,098) | (563) |

| | | |
|--|------|-------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire or for: | - | - |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | (14) | (424) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | 15 |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received | - | - |
| 2.5 | Payment for Security for Bank Guarantees* | - | - |
| 2.6 | Net cash from / (used in) investing activities | (14) | (408) |

| | | | |
|-----------|--|------------|--------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from (payments for) issues of equity securities (excluding convertible debt securities) | - | (6) |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | - | - |
| 3.5 | Proceeds from borrowings | - | 349 |
| 3.6 | Repayment of borrowings (see Note) | (111) | (316) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other: Invoice Financing (see Note) | 752 | (196) |
| 3.10 | Net cash from / (used in) financing activities | 641 | (169) |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|--------------------------------------|--|----------------------------|---------------------------------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 1,179 | 1,848 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,098) | (563) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (14) | (408) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 641 | (169) |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 708 | 708 |

Consistent with the accounting treatment in the Consolidated Financial Statements for the year ending 30 June 2023, \$0.2m cash transferred to the Company's Term Deposits during previous periods as security for Bank Guarantees provided to Company clients was treated as a cash outflow for cashflow reporting purposes in the relevant Period and classed as 'restricted cash' Non-Current Assets in Statements of Financial Position. The \$0.2m backing the client Bank Guarantees was released to the Company during the previous Period and is included above as part of Net Cash from Operating Activities Year to Date.

A separate \$20,000 was provided as a Landlord guarantee in a previous Period and was accounted for in the same manner on inception. As the landlord cash-backed guarantee remains in effect the Term Deposit totalling \$20,000 is not included in the above.

Repayment of Borrowings (Section 3.6 above) was reported in the December 2023 Quarterly including Invoice Financing. An analysis follows.

| | Quarter Dec 2023 | Year to Date Dec 2023 |
|-------------------|---------------------|--------------------------|
| | A\$'000 | A\$'000 |
| Invoice Financing | (910) | (948) |
| Other | (104) | (204) |
| | (1,014) | (1,152) |

For clarity, Invoice Financing is reported separately (Section 3.9 above) in this March 2024 Quarterly:

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|-----|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 708 | 1,179 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other* | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 708 | 1,179 |

| 6. | Payments to related parties of the entity and their associates | Current quarter \$A'000 |
|--|---|------------------------------------|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 71 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |
| <p><i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i></p> <p>The amounts at 6.1 above include:</p> <ul style="list-style-type: none"> - Director fees of \$nil (31 Dec 2023: \$nil); - salary paid to Paul Simmons as CEO and office rent paid to a related entity of Paul Simmons totalling \$71,036 (31 Dec 2023: \$62,700) | | |

| | | | |
|--|---|---|--|
| 7. | Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i> | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
| 7.1 | Loan facilities (Term loan) | 959 | 959 |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other (Invoice Financing) | 1,500 | 1,173 |
| | Other (Vehicle Leases) | 70 | 70 |
| | Other (Vehicle Loan) | 650 | 537 |
| 7.4 | Total financing facilities | 3,179 | 2,739 |
| 7.5 | Unused financing facilities available at quarter end | \$0.33m (Invoice Financing facility) | |
| 7.6 | Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. | | |
| Nab Term Loan: \$1.338m loan to part-fund Highways Traffic acquisition. Commenced October 2022, straight-line principal repayment over 5 years, interest rate of 6.05% on commencement. | | | |
| Nab invoice financing facility: Facility limit of \$1.5m, any drawn-down balance secured over Accounts Receivables of MCS Security, interest of 6.62% on drawn-down balances on commencement. Drawn down at Period-end to \$1.17 million (31 Dec 2023: \$0.42 million) to assist with funding the working capital ramp-up of the Highways Traffic subsidiary. As at Period-end MCS Security had Accounts Receivable of \$3.8 million (31 Dec 2023: \$3.8 million) and Highways Traffic \$1.91 million (31 Dec 2023: \$0.87 million) | | | |
| Vehicle leases: leases secured over three site patrol cars and one commercial light vehicle used in Security operations. Commenced over 2022 with interest at 4.85%, repayable in equal monthly instalments over four years from inception | | | |
| Nab Vehicle Loan: Finance facility secured over relevant vehicles (and guaranteed by the Company) to a maximum of \$0.65m. Interest rate of 7.41% on inception. Entered into in a previous period and utilised to acquire, for a total of \$0.6m, one specialist truck (delivered and funded in period to 30 June 2023) and a total of ten (three delivered / funded in the period to 30 June 2023, remainder in period to 30 Sept 2023) commercial light vehicles as a rolling improvement / replacement of elements of Highways Traffic's operational fleet vehicles. Repayable in equal monthly instalments over 5 years for each vehicle. | | | |

| | | |
|-----------|---|----------------|
| 8. | Estimated cash available for future operating activities | \$A'000 |
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (1,098) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | 708 |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | 327 |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 1,035 |

8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)

1

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

Net operating cashflows for quarterly periods can vary notably due to factors including timing of large client-account receipts and wage-runs close to period-ends and due to any ramp up in work levels during a particular period

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

As described in the Activities Report, the Company is taking steps to sell its Security Business including:

- a conditional Heads of Agreement was signed on 2 February 2024 for the sale of 100% of the shares in the Company's MCS Security Group Pty Ltd subsidiary for \$3m on a \$nil net asset basis;
- Company shareholders voted at a General Meeting held on 29 April 2024 to approve the sale of the Security Business;
- a Share Sale Agreement (SSA) has been drafted and is considered to be in the latter stages of negotiation;
- subject to finalisation of a SSA, settlement of the proposed transaction is expected on or around 22-23 May 2024

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Following a sale of the MCS Security subsidiary, and after using net proceeds to extinguish corporate bank debt, the Parent Company will hold remaining cash from the Security Business sale proceeds, have negligible direct debt, and still hold its 100% interest in the Traffic Management subsidiary.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 April 2024

Authorised by: By the Board of Directors
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.