

23 February 2020

## Millennium FY21 Half-Year Results Announcement

### SUMMARY

- Statutory net profit after tax of \$17.1m (includes recognition of \$4.0m of deferred tax assets not previously recognised in relation to deductible temporary differences), a positive change of \$17.9m on the pcp.
- Statutory EBITDA earnings of \$22.1m, a positive change of \$18.8m on the pcp.
- Underlying EBITDA of \$7.0m, up 192% on the pcp.
- Statutory revenue of \$135.0 million was flat compared to the previous corresponding 1H20 period of \$135.1m.
- Q1 contract revenue negatively impacted by COVID-19, offset by increased project and ADHOC revenue from COVID-19 related activity. Contract revenue returned to pre-COVID-19 value during Q2.
- \$11m annualised Profit Improvement Plan completed.
- Gross Margins across all sectors, up from 11.8% to 15.9% on an underlying basis.
- Net debt reduced by \$27.5m, from \$34.6m at 30 June 2020 to \$7.1m at 31 December 2020.
- Independent non-Executive Board expanded, and a new Chairman appointed from 1<sup>st</sup> March 2021.
- Strong customer confidence in Millennium with \$35m (annualised) material contracts extended and \$9m of new contracts won, offsetting the loss of \$9.5m of mostly low margin contracts.
- No interim dividend declared.

Millennium Services Group Limited (ASX: MIL) today announced a statutory net profit after tax of \$17.1m. This is a \$17.9m improvement in profit after income tax compared to the pcp loss of \$0.8m.

### Summary financials

\$ million	1H21	1H20	Variance
<b>Underlying results</b>			
Revenue	136.8	135.1	1.3%
EBITDA	7.0	2.4	192%
<b>Statutory results</b>			
Revenue	135.0	135.1	(0.08%)
EBITDA	22.1	3.3	570%
Profit before tax	18.8	(0.8)	2,378%
Deferred tax assets recognised /(not recognised)	4.0	(0.2)	2,100%
Income tax benefit / (expense)	(5.7)	0.2	(2,950)%
NPAT	17.1	(0.8)	2,172%
Dividend (cps)	0.0	0.0	Unchanged

### Financial performance

The Company completed its Profit Improvement Plan with the underlying Gross Margin and EBITDA performance (excluding the impact of the JobKeeper Government subsidy program), reflecting the extensive work undertaken to deliver the \$11m improvement target, on an annualised basis.

Underlying EBITDA improved from \$2.4m 1H20 to \$7.0m for 1H21 with a statutory EBITDA of \$22.1m. This included significant improvement in Gross Margins across all parts of the business from 11.8% to 15.9% on an underlying basis. This improvement is underpinned by the Profit Improvement Plan strategy announced following a 1H19 loss of \$2.4m, which is now effectively complete, with strong controls in place to ensure that gains are sustainable.

Underlying revenue was marginally up on 1H20, however this was negatively impacted in Q1 as some of the core contracts in States such as Victoria remained effected by service reductions from COVID-19 Government restrictions. These contracts returned to pre-COVID-19 levels during Q2.

The 1H21 result has been positively impacted by project and ADHOC services related to COVID-19, such as additional cleaning at sites effected by COVID-19 incidents and security services provided at COVID-19 testing stations in Victoria. The Company expects these services to continue in Q3, but gradually reduce during Q4. Project and ADHOC services generally deliver a stronger Gross Margin than core contract revenue and therefore we expect Gross Margins to reduce closer to the 14.0% - 14.5% target range by the end of FY21. This is in line with the Profit Improvement Plan strategy.

Overheads increased marginally from 10.0% to 10.7% of underlying revenue as the Company introduced new automated control systems and moved the IT network to a more secure cloud environment resulting in some non-repeatable implementation costs. The cost of insurance increased in line with market increases. This is consistent with the Company's strategy to invest in overhead that contributes to improved profitability and facilitate growth.

### Segment performance (numbers are on an underlying basis)

Millennium's Cleaning segment revenue declined by 1.6% over the pcp to \$109.6m from \$111.4m, as reduced services due to COVID-19 Government restrictions continued to impact contract revenue. However, there was significant improvement in Gross Margin \$13.2m to \$17.3m; the gross margin percentage improved from 11.8% to 15.8%.

Millennium's Security segment revenue increased by 14.8% over the previous corresponding period to \$27.2m from \$23.7m, and gross margin increased from \$2.7m to \$4.4m; with gross margin percentage improving from 11.4% to 16.2%. Both revenue and gross margin were positively impacted by the increase in COVID-19 project and ADHOC related services. The Company expects the gross margin to recede in Q4 as the demand for COVID-19 related project and ADHOC services reduce.

This is in line with the Company's previous statements that contract revenue would continue to be impacted by COVID-19 Government restrictions in the first quarter and expected to return to pre-COVID-19 levels by the end of 1H21. The Company also reported that it was pursuing opportunities to deliver increased short-term project and ADHOC COVID-19 related services while longer term growth opportunities were restricted as a result of potential customers decisions to delay procurement during uncertain times.

### Strategic initiatives

Since commencing the turnaround strategy following the 1H19 results, the Company has delivered the following:

- ✓ Improved gross margins (up from 9.0% in 1H19 to 15.9% 1H21), underlying basis.
- ✓ Moved the workforce to the Modern Award and addressed any historical underpayment issues.
- ✓ Reset the Balance Sheet.
- ✓ Implemented sustainable controls, including roll out of a Time and Attendance system.
- ✓ Reduced overheads while not impacting on service and investing for growth (down from \$16.2m in 1H19 to \$14.7m in 1H21).
- ✓ Improved customer confidence in the Millennium brand.
- ✓ Materially improved the lead indicators of a healthy business.
- ✓ Developed a diversified organic business growth strategy.

The Profit Improvement Plan was completed in 1H21 and we expect to deliver the annualised \$11m identified savings by the end of FY21.

This is a significant achievement in a relatively short time frame, starting from a reported underlying EBITDA loss of (\$2.4m) in 1H19. The Company has implemented systems and processes to ensure it achieves ongoing sustainable control over labour management, non-core billable revenue and overhead expenses. While the Company expects the higher gross margin project and ADHOC work related to COVID-19 to reduce over the second half, the Profit Improvement Plan which targeted a gross margin in the range of 14.0% - 14.5%, is expected to be maintained going forward.

The new Time and Attendance System has been rolled out across all sectors of the business with the exception of New Zealand and Western Australia, the Company is on target to have these locations completed prior to 30<sup>th</sup> June 2021. The automated system provides management and our clients, confidence that staff are rostered and paid correctly. This is a critical area of compliance for the Company.

During 1H21 the Company commenced the process of implementing an off-the-shelf Human Resources Information System (HRIS). This strategic initiative will introduce a single automated platform to support the recruitment, induction and training of its 5,000 strong workforce. It will further strengthen the Board's focus on compliance and supporting the most efficient employment methods. The HRIS project will commence roll out in Q3 and be completed within 12 months.

Millennium continues to implement strategies to strengthen its systems and processes to improve its performance in both public liability risk and to improve Health and Safety performance. Systems and processes continue to be enhanced with a safety-first culture at the centre of all initiatives. The Company is pleased to report that both the public liability and Health and Safety lead indicators continue to track towards ongoing improved performance.

Pleasingly, the business Loss Time Injury Frequency Rate (LTIFR) is 48% below the same period in 1H20 and 52% below the industry benchmark. The Company continues to enhance its staff awareness program and implement strategies for further improvement.

The continued focus on a strong compliance program positions Millennium to be a market leader in providing confidence to customers and staff that the Company is meeting its obligations in areas including the Modern Award, Labour Hire and Modern Slavery legislation.

In accordance with the Board's desire to de-risk the business, an organic growth strategy has been developed with a strong short, medium and long-term pipeline of opportunities in the process of being qualified. The implementation of this strategy has been impacted in 1H21 due to some customers delaying contract tender processes and/or showing a reluctance to change providers in an uncertain environment. Millennium is seeing signs of this improving in 2H21 and anticipates growth in FY22. The increased demand in 1H21 for COVID-19 related project and ADHOC services has also provided the opportunity to build relationships with target clients in the Commercial, Government and Health sectors that we are seeking to convert to longer term contracts.

While each of these objectives remain a priority, the Company is now focused on growth.

### Financing

During 1H21 the Company continued to deliver significant improvement in the financial strength of the business.

The greatly improved underlying trading profitability of the business associated with the completion of the Profit Improvement Plan, together with the net impact of the COVID-19 pandemic have allowed the business to significantly improve its financial position across 1H21.

Borrowings reduced by \$26m or 71% and Net Debt has decreased to \$7.1m from \$34.6m at June 2020. Net Asset Deficiency has reduced from \$19.9m to \$2.7m during the reporting six-month period. Banking covenants associated with the 2-year extension of facilities announced in October 2020 have all been met.

In February 2021, the business refinanced its trade finance facility with a new provider which will substantially reduce the effective cost of the facility whilst maintaining a similar level of facility size.

### Outlook

The Board, the CEO, and the Executive Management team are focused on ensuring the gains delivered through the Profit Improvement Plan are sustained. We expect the higher margin COVID-19 project and ADHOC services to reduce to closer to 10% -12% of total monthly revenue, down from the current 14% in Q2. The core contract revenue has returned to the pre-COVID-19 monthly value and with the business improvement initiatives, less the impact of the reducing ADHOC services, we expect Gross Margins to return to the target 14.0% - 14.5% by the end of 2H21.

The impact of COVID-19 on the economic environment continues to present challenges and while the Company is well placed to respond to these challenges, the different State Governments actions to lockdown with limited notice and the speed and effectiveness of the vaccine rollout will continue to present a degree of uncertainty.

Millennium is however, now a much stronger and profitable business, fully compliant with all Awards and Legislation. The Company is now focused on delivering organic growth and capitalising on its market position to further improve earnings and Shareholder value.

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*For further details, refer to the Investor Presentation and 1H21 accounts which is available from the investor section of the Company's website ([www.millenniumsg.com](http://www.millenniumsg.com)).*

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