

### Q2 FY24 revenue beat our estimates due to ad-hoc work

Human services company Millennium Services Group Ltd (ASX:MIL) has released its Q2 FY24 cash-flow report and a Q2/H1 FY24 revenue update. Total Q2 FY24 revenue increased 17.7% on the pc, accelerating from Q1 FY24 and above RaaS estimates with ad-hoc revenue the key surprise, up 40% due to additional extended trading hours at retail malls and new security project work. MIL is on track to achieve its FY24 revenue guidance of \$300m to \$305m. Adding back taxes, interest expense, one-offs, and a 'material investment' in working capital to reported H1 FY24 operating cash outflow suggests MIL is likely to achieve its EBITDA guidance of \$12.2m-\$13.2m, which is important for the current scheme of arrangement with Softbank Robotics. RaaS estimates the \$1.15/share bid price represents ~4.5x our FY24f EBITDA against a peer average of ~4.3x using FY23 actuals. The company expects the scheme book to be despatched late February and the implementation date, assuming shareholders vote in favour, by mid-April.

### Business model

MIL is a human services business with a focus on the essential services of cleaning and security, bidding for predominantly long-term contracts that have annual contract adjustments to protect MIL from movements in labour resource costs. Additional volumes over and above those contracted can be gained from ad-hoc services, which represent ~10% of group revenue at a higher average margin. Satisfying contractual obligations utilising a vast workforce and procuring consumables for the jobs within the contracted price is key to profitability, in our view. Historically focusing on cleaning and security services within major shopping centres, MIL says it is looking to de-risk the retail exposure by moving into new sectors including aviation, aged care, education, and government. An increased focus on compliance (Fair Work, Modern Slavery Act, and Labour Hire regulations), and robotics will be keys in this push, in our opinion.

### A strong Q2 supportive of guidance

MIL has delivered 15.1% total sales growth for H1 FY24 (or \$149.2m), with growth in Q2 FY24 accelerating to 17.7% from the 12.6% in Q1 FY24. MIL now requires growth of 10.5%-14.5% over H2 FY24 to achieve FY24 revenue guidance of \$300m-\$305m. From an EBITDA perspective FY24 guidance of \$12.2m-\$13.2m looks to us on track when considering the revenue momentum, and adding back tax, interest, one-offs, and material working capital investment associated with new contracts to H1 FY24 cash outflows.

### \$1.15/share bid price reflective of FY23 peer multiples

Our assessed peer group average FY23 EV/EBITDA multiple is 4.3x. Applying this multiple to MIL's FY24 RaaS estimates (given they are well above FY23) implies a valuation of \$1.10/share, in-line with the \$1.15/share bid price. We have said for some time that we see no reason why MIL does not trade in line with the peer average multiple given average contract length (three-five years), relatively low working capital, low capex intensity, and market consolidation opportunities. [See here for the full details of the company announcement regarding the offer.](#)

### Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue	Adj. EBITDA	NPAT adj.	P/E adj. (x)	EV/adj. EBITDA (x)	Yield (%)
06/22a	260.6	11.1	3.9	12.9	4.9	0
06/23a	265.8	7.9	1.4	36.0	6.8	0
06/24f	302.2	12.6	4.4	11.6	4.0	2.7
06/25f	314.3	13.7	5.4	9.4	3.4	3.6

Source: Company data, RaaS estimates for FY24f and FY25f

### Human Services

29 January 2024

#### Share Details

ASX code	MIL
Share price (25-Jan)	\$1.10
Market capitalisation	\$50.5M
Shares on issue	45.9M
Net debt at 31-Dec-23 (excl. debtor finance)	\$3.1M
Free float	~31.5%

#### Share Performance



#### Upside Case

- New contract wins
- Successfully diversify industry exposure to include government, education, and aged care
- EPS accretive/complementary acquisitions

#### Downside Case

- Competitive margin pressures re-emerge
- Sizable contract loss
- Timing of wages growth vs contracts clauses

#### Board of Directors

Darren Perry	Chairman
Royce Galea	CEO
Rohan Garnett	Non-Executive Director

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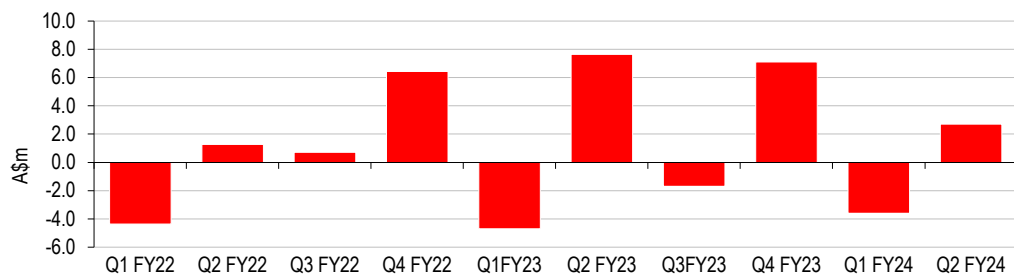
\*The author owns shares

## Q2 FY24 Revenue/Cash Flow Update

Key takeaways from the Q2 FY24 4C cash-flow release include:

- **Positive cash flow of \$2.7m**, which was an improvement on the \$3.6m outflow reported for Q1 FY24. Q1 was affected by the timing of prior quarter collections and the payment of an extra fortnight's wages, while Q2 saw some reversal of this but included material investment in working capital in-line with the 17.7% revenue growth. MIL's quarterly cash-flow numbers are volatile quarter to quarter as the chart below demonstrates.

**Exhibit 1: MIL quarterly cash-flow history**



Source: Company announcements

- **Net debt (excluding debtor financing) of \$3.1m**, or \$8.8m including the \$5.7m debtor financing facility used to fund any timing mismatches for wages quarter to quarter.
- **Improved contract revenue growth of 15.4%** against the 14.3% delivered in Q1 FY24 on the back of new contract wins.
- **Stronger ad-hoc revenue was the surprise of the quarter**, up 40% on the back of extended Christmas trading hours at retail malls and new security project business.
- **Total revenue growth of 17.7% for Q2 FY24**, an acceleration on the 12.6% growth of Q1 FY24 and H1 FY24 revenue of \$149.2m. **To achieve FY24 revenue guidance of \$300m-\$305m MIL needs to deliver H2 FY24 revenue of \$150.8m-\$155.8m, or growth of +11%+14.5% on H2 FY23.**
- Adding back tax, interest, one-offs, and working capital to cash outflow from operating activities suggests **MIL is on-track to achieve H1 FY24 EBITDA of ~\$5.5m-\$5.9m, and therefore appears likely to achieve its \$12.2m-\$13.2m FY24 EBITDA guidance.**

**Exhibit 2: MIL quarterly sales history (in A\$m unless otherwise stated)**

	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
<b>Sales</b>	<b>66.2</b>	<b>68.2</b>	<b>68.0</b>	<b>71.3</b>	<b>77.9</b>
Contract	60.2	62.4	62.7	66.5	69.5
Ad hoc	6.0	5.8	5.3	4.8	8.4
% growth on pcp	0.1	3.5	8.1	12.6	17.7
<b>Sales mix (%)</b>					
Contract	91	91	92	93	89
Ad hoc	9	9	8	7	11

Source: Company announcements and RaaS estimates

## Scheme of Arrangement Details

Key details and dates surrounding the Scheme of Arrangement are detailed below:

- **\$1.15/share cash price.**
- **Based on the company's FY24 guidance and RaaS end-of-year debt estimates, the bid implies an EV/EBITDA of 4.5x and PER of 12.2x (vs peer group average 4.3x EV/EBITDA and peer group PER of 9.0x)**
- **An entity controlled by Softbank Robotics Singapore Pte Ltd is the bidder.**
- **Eligible shareholders have an option to take a mix of cash and scrip in the new unlisted entity, representing a proportion of between 40% and 100% of their holdings.**
- **Certain management have committed to take no less than 30% of the stock in the new entity (from a combined total shareholding in MIL of ~45%).**
- **The scheme book is due to be dispatched late February, which among other information will incorporate an independent valuation and opinion on whether the scheme is fair and reasonable for shareholders.**
- **Assuming a positive shareholder vote the scheme is set to be implemented mid-April.**
- There is a break fee of \$526k for both parties.

## Relative Peer Group Valuation

We compare MIL to other listed small-cap players that rely heavily on human resources and to a lesser extent equipment to deliver their services to typically larger clients.

The table below summarises actual FY23 metrics across a wide range of variables. We also provide our MIL FY24 estimates given the magnitude of forecast EBITDA uplift relative to peers.

MIL currently trades in-line with peer FY23(a) metrics using forecast MIL FY24 metrics.

**Exhibit 3: Peer group financial comparison – FY23a (in A\$m unless otherwise stated)**

Company name	Ticker	Share price (cps)	Mkt. cap.	Net debt (cash) (Jun-23)	Adj. EBITDA	Revenue	GP%	Working capital/sales %	EV/Sales (x)	EV/EBITDA
GR Engineering	GNG	2.35	364	(78.9)	42.1	551	11	0	0.52	6.8
PeopleIn	PPE	1.13	114	73.3	61.1	1,186	8	8	0.16	3.1
Licopodium	LYL	11.51	457	(81.7)	73.0	328	20	10	1.15	5.1
Southern Cross Electrical	SXE	0.91	237	(77.6)	35.4	465	16	3	0.34	4.5
Ashley Services	ASH	0.38	55	5.7	18.9	549	16	3	0.11	3.2
BSA Limited	BSA	0.59	42	2.1	14.0	240	26	(3)	0.18	3.2
<b>AVERAGE</b>							<b>16</b>	<b>4</b>	<b>0.41</b>	<b>4.3</b>
<b>Millennium (FY24f) *</b>	<b>MIL</b>	<b>1.10</b>	<b>51</b>	<b>3.3</b>	<b>12.6</b>	<b>302</b>	<b>14</b>	<b>1</b>	<b>0.18</b>	<b>4.3</b>

Sources: Company financials, Refinitiv, RaaS estimates – share prices as at 25 January 2024 \* RaaS estimates

**Exhibit 4: MIL Financial Summary (in A\$m unless otherwise stated)**

Millennium Services (ASX.MIL)						Share price (25 January 2024)						A\$	1.100					
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223A	H124F	H224F	
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Revenue	131.7	128.9	129.6	136.1	149.2	153.0						
Revenue	273.7	260.6	265.8	302.2	314.3	EBITDA	6.7	4.4	2.8	5.1	5.7	6.9						
Gross profit	40.8	39.8	37.7	43.6	45.6	EBIT	4.4	2.3	0.7	3.0	3.6	4.8						
GP margin %	14.9%	15.3%	14.2%	14.4%	14.5%	NPAT (adjusted)	2.7	1.2	(0.0)	1.4	1.8	2.6						
Underlying EBITDA	11.6	11.1	7.9	12.6	13.7	Adjustments	(0.8)	(0.9)	(0.7)	(0.2)	0.0	0.0						
Depn	(4.9)	(4.6)	(4.3)	(4.5)	(4.3)	NPAT (reported)	1.9	0.2	(0.7)	1.2	1.8	2.6						
Minorities (AT)	0.0	0.1	0.2	0.2	0.2	EPS (normalised)	0.060	0.025	(0.001)	0.030	0.038	0.057						
EBIT	6.8	6.7	3.8	8.3	9.6	EPS (reported)	0.041	0.005	(0.016)	0.026	0.038	0.057						
Interest	(1.8)	(1.2)	(1.9)	(2.2)	(2.0)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.015						
Tax	(1.6)	(1.6)	(0.5)	(1.8)	(2.2)	Imputation												
NPAT (adj)	3.4	3.9	1.4	4.4	5.4	Operating cash flow	na	na	na	na	na	na						
Adjustments	(1.2)	(1.6)	(0.8)	0.0	0.0	Free Cash flow	na	na	na	na	na	na						
NPAT	2.2	2.3	0.6	4.4	5.4	Divisionals	H122A	H222A	H123A	H223A	H124F	H224F						
Abnormals (net)	15.2	0.0	0.0	0.0	0.0	Cleaning	99.6	103.5	107.7	113.1	123.5	126.5						
NPAT (reported)	17.4	2.3	0.6	4.4	5.4	Security	32.1	25.3	21.9	23.1	25.6	26.5						
Cash flow (A\$m)						(Other)	-	-	-	-	-	-						
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Total Revenue	131.7	128.9	129.6	136.1	149.2	153.0						
EBIT DA (inc cash rent/JK)	29.3	10.0	6.8	11.5	12.5													
Interest	(1.8)	(1.2)	(1.9)	(2.2)	(2.0)	Gross profit	21.0	18.8	18.1	19.6	21.6	22.0						
Tax	(0.1)	(2.4)	(2.9)	(1.8)	(2.2)	Underlying GP Margin %	15.9%	14.6%	14.0%	14.4%	14.5%	14.4%						
Working capital changes	12.9	(1.6)	3.8	0.0	0.0	Operating Costs												
Operating cash flow	40.3	4.8	5.9	7.6	8.4	Employment	8.8	8.9	9.7	9.0	10.1	9.4						
Mtce capex	(2.2)	(1.8)	(2.6)	(2.4)	(2.3)	Other	5.5	5.5	5.6	5.5	5.8	5.7						
Free cash flow	38.1	3.0	3.3	5.2	6.1	Exceptional	-	-	-	-	-	-						
Growth capex	0.0	0.0	0.0	0.0	0.0	Total costs	14.3	14.4	15.3	14.5	15.9	15.1						
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	Underlying EBITDA	6.7	4.4	2.8	5.1	5.7	6.9						
Other	(2.1)	(2.2)	(1.5)	(1.0)	(1.0)	EBITDA margin %	5.1%	3.4%	2.2%	3.8%	3.8%	4.5%						
Cash flow pre financing	36.0	0.8	1.8	4.2	5.1	Margins, Leverage, Returns		FY21A	FY22A	FY23A	FY24F	FY25F						
Equity	0.0	0.0	0.0	0.0	0.0	EBITDA margin %		4.3%	4.3%	3.0%	4.2%	4.4%						
Debt drawdown/(repay)	(21.4)	(2.0)	(1.2)	(3.0)	(1.0)	EBIT margin %		2.5%	2.6%	1.4%	2.8%	3.0%						
Net Dividends paid	0.0	0.0	0.0	(0.7)	(1.6)	NPAT margin (pre significant items)		0.8%	0.9%	0.2%	1.4%	1.7%						
Net cash flow for year	14.6	(1.2)	0.5	0.5	2.4	Net Debt (Cash)		0.3	4.0	3.3	-0.1	-3.5						
Balance sheet (A\$m)						Net debt/EBIT DA (x)	(x)	0.0 x	0.4 x	0.4 x	0.0 x	-0.3 x						
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	ND/ND+Equity (%)	(%)	11.5%	111.7%	169.6%	2.1%	32.3%						
Cash	7.3	1.9	3.3	3.7	6.1	EBIT interest cover (x)	(x)	0.3x	0.2x	0.5x	0.3x	0.2x						
Accounts receivable	18.0	17.3	16.0	18.1	18.8	ROA		11.6%	13.1%	7.8%	15.7%	16.6%						
Inventory	1.1	1.2	1.6	1.8	1.9	ROE		nm	nm	nm	nm	nm						
Other current assets	2.3	1.9	2.3	5.4	7.1	ROIC		nm	nm	nm	nm	nm						
Total current assets	28.8	22.3	23.2	29.0	34.0	NTA (per share)		-0.21	-0.15	-0.13	-0.07	0.00						
PPE	7.0	6.8	7.7	6.7	5.8	Working capital		1.9	3.5	-0.3	-0.4	-0.4						
Goodwill	7.5	7.5	7.5	7.5	7.5	WC/Sales (%)		0.7%	1.3%	(0.1%)	(0.1%)	(0.1%)						
Right of use asset	3.0	1.7	2.7	2.7	2.7	Revenue growth		(2.9%)	(4.8%)	2.0%	13.7%	4.0%						
Deferred tax asset	8.5	7.8	8.0	8.0	8.0	EBIT growth pa		nm	(1.1%)	(42.9%)	118.6%	14.5%						
Equity accounted Investee	0.0	1.3	1.5	1.5	1.5	Pricing		FY21A	FY22A	FY23A	FY24F	FY25F						
Total non current assets	26.0	25.0	27.4	26.4	25.5	No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9						
Total Assets	54.9	47.4	50.6	55.4	59.5	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9						
Accounts payable	17.3	15.0	17.9	20.3	21.1	EPS Reported	cps	0.379	0.049	0.013	0.095	0.117						
Short term debt	5.5	4.7	4.4	1.4	0.4	EPS Adjusted	cps	0.074	0.085	0.031	0.095	0.117						
Provisions	22.6	20.0	19.8	22.6	23.5	EPS growth (norm/dil)		nm	14%	-64%	211%	23%						
Lease liabilities/other	5.5	3.4	1.2	1.2	1.2	DPS	cps	0.000	0.000	0.000	0.030	0.040						
Total current liabilities	50.9	43.1	43.4	45.5	46.2	DPS Growth		n/a	n/a	n/a	n/a	33%						
Long term debt	2.1	1.2	2.2	2.2	2.2	Dividend yield		0.0%	0.0%	0.0%	2.7%	3.6%						
Other non current liabs	4.1	2.7	3.7	3.7	3.7	Dividend imputation		30	30	30	30	30						
Total long term liabilities	6.2	3.9	5.9	5.9	5.9	PER Adjusted (x)		14.8	12.9	36.0	11.6	9.4						
Total Liabilities	57.1	47.0	49.2	51.3	52.0	PE market		15	15	15	15	15						
Net Assets	(2.3)	0.4	1.4	4.1	7.4	Premium/(discount)		(1.5%)	(13.8%)	139.9%	(22.8%)	(37.1%)						
Share capital	19.1	19.1	19.2	19.2	19.2	EV/EBITDA		4.4	4.9	6.8	4.0	3.4						
Reserves	(8.3)	(7.9)	(7.6)	(7.6)	(7.6)	FCF/Share	cps	83.0	4.9	14.2	11.3	13.2						
Retained Earnings	(13.1)	(10.8)	(10.2)	(7.4)	(4.1)	Price/FCF share		1.3	22.5	7.8	9.7	8.4						
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield		75.5%	4.4%	13.3%	10.3%	12.0%						
Total Shareholder funds	(2.4)	0.4	1.4	4.1	7.4													

Source: RaaS estimates



# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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