

Guidance and scheme of arrangement on track

Human services company Millennium Services Group Ltd (ASX:MIL) has released its H1 FY24 interim result, with both revenue (pre-disclosed) and EBITDA in line with RaaS estimates. Adjusted H1 FY24 EBITDA increased ~100% on the back of 15% revenue growth, a 20bps increase in gross margin and a well-controlled cost base. Management has reiterated both revenue and EBITDA guidance for FY24 which are reflected in current RaaS estimates. The rationale for the Softbank Robotics Scheme of Arrangement can be seen in management comments around the impending rollout of the 'largest Robotic Fleet in Australia to commence May 2024 through-to late 2025'. RaaS estimates the \$1.15/share bid price represents ~4.5x our FY24f EBITDA against a peer average of ~4.4x using FY23 actuals. The company now expects the scheme booklet (including an independent valuation report) to be despatched early March 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.

New contract wins and readying for robotics investment

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 adjusted EBITDA perspective FY24 guidance of \$12.2m-\$13.2m remains intact with \$6.5m H2 FY24 EBITDA required to achieve the bottom-end of guidance (+~25%) against the ~100% growth over H1 FY24. Post the scheme of arrangement with Softbank Robotics, MIL is preparing for the rollout of the 'largest Robotic Fleet in Australia to commence May 2024 through-to late 2025', providing an insight into the rationale for investment.

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

Our assessed peer group average FY23 EV/EBITDA multiple is 4.4x. Applying this multiple to MIL's FY24 RaaS estimates (given they have been guided substantially 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	13.2	5.0	0
06/23a	265.8	7.9	1.4	36.6	6.9	0
06/24f	302.2	12.5	4.2	12.1	4.1	0
06/25f	314.3	13.8	5.4	9.5	3.3	0

Source: Company data, RaaS estimates for FY24f and FY25f

Human Services

26 February 2024

Share Details

ASX code	MIL
Share price (23-Feb)	\$1.12
Market capitalisation	\$51.4M
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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H1 FY24 Result Commentary

Key takeaways from the H1 FY24 MIL result include:

Revenue

- **Total revenue growth of 15.2%**, with growth accelerating from Q1 (+12.6%) to Q2 (+17.7%) on the back of a ~40% increase in ad-hoc work (predominantly Security) in Q2 relative to the pcp (previous corresponding period).
- **Contract revenue growth of 14.9%**, with growth also accelerating from Q1 (+14.3%) to Q2 (+15.4%) on the back of a range of new contract wins.
- **Ad-hoc revenue growth of 18.9%**, with Q2 the surprise, up 40% on the pcp due to new security project business and extended Christmas trading hours at retail malls.
- **Cleaning revenue growth 11.2%**, the highest since H1 FY18 boosted by new contract wins; and
- **Security revenue growth of 34%**, cycling a decline of 32% and benefiting from new ad-hoc projects.

Exhibit 1: MIL quarterly sales history (in A\$m unless otherwise stated)

	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Total revenue	66.2	68.2	68.0	71.3	77.9
Contract	60.2	62.4	62.7	66.5	69.5
Ad hoc	6.0	5.8	5.3	4.8	8.4
% growth					
Total	0.1	3.5	8.1	12.6	17.7
Contract	8.1	12.6	12.2	14.3	15.4
Ad-hoc	(47.4)	(44.8)	(24.2)	(5.9)	40.0
Sales mix (%)					
Contract	91	91	92	93	89
Ad hoc	9	9	8	7	11

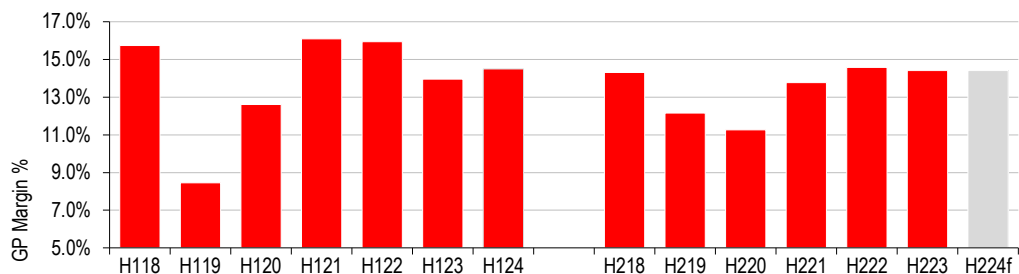
Source: Company announcements

Gross margin

H1 FY24 group margin of 14.2%, 20bps above the H1 FY23 margin of 14.0%. Cleaning margins increased 20bps to 14.5% and Security margins increased 110bps to 13.3% on the back of the higher margin ad-hoc work.

A history of half-yearly gross margins and forecasts for H2 FY24 is presented below.

Exhibit 2: MIL gross margin history/forecast



Source: Company announcements and RaaS estimates (H2 FY24)

Adjusted EBITDA/PBT

- Adjusted EBITDA excluding Codee (49% owned cleaning business) was \$5.5m, in line with the \$5.7m RaaS estimate.
- Codee contributed a further \$0.2m in company-owned EBITDA which is included in the company's reported \$5.7m adjusted EBITDA;
- Unusual items totalled \$0.6m, reducing reported EBITDA to \$4.9m;
- Net interest expense was \$1.1m, predominantly relating to the invoice financing facility;
- **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; and
- **Working capital increased ~\$5.7m** on the back of investment required to support new contracts.

Exhibit 3: MIL H1 FY24 underlying earnings summary (A\$m unless specified)

Variable (A\$000')	H1 FY23	H1 FY24	% CHG	Comments
Sales	129.6	149.2	15	Already reported
Cleaning	107.7	123.5	11	
Security	21.9	25.6	34	
Gross profit	18.1	21.3	18	
GP%	14.0	14.2	20bps	
Operating costs	15.3	15.7	3	
EBITDA	2.8	5.5	98	
Depreciation	2.2	2.2	3	
EBIT	0.6	3.3	436	
Minorities	0.1	0.1		
Adjustments	-0.6	-0.5		
Adjusted NPAT	-0.1	1.5	nm	
Reported NPAT	-0.7	1.1		
Net debt (ex-invoice facility)	-0.3	3.1	nm	

Source: Company announcements

Outlook

Completion of the Scheme of Arrangement (see details below) dominates the near-term outlook, but from an earnings perspective:

- To achieve FY24 revenue guidance of \$300m-\$305m MIL needs to deliver H2 FY24 revenue of \$150.8m-\$155.8m, or total growth of +11%+14.5% on H2 FY23 compared to the 15.2% growth in H1 FY24, which looks achievable to us given Q2 contract revenue growth of 15.4%.
- To achieve FY24 adjusted EBITDA guidance of \$12.2-\$13.2m (including Codee) MIL needs to deliver H2 FY24 EBITDA of \$6.5m-\$7.5m, or total growth of +20%+40% on H2 FY23 compared to the ~100% growth in H1 FY24.
- The rationale for the Softbank Robotics Scheme of Arrangement can be seen in management comments around the impending rollout of the 'largest Robotic Fleet in Australia to commence May 2024 through to late 2025'.
There are also plans to accelerate and update the major equipment used to service client's needs, which is expected to improve profitability.
- We make no changes to our estimates, with leverage from new contract wins at the revenue line and stable gross margins expected to flow through to EBITDA in H2 FY24.

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 4.4x 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 members of 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 in the first half of March, 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.

Exhibit 4 summarises actual FY23 metrics across a wide range of variables. We also provide our MIL FY24 estimates given the magnitude of our forecast EBITDA uplift relative to peers.

MIL currently trades in-line with peer FY23a metrics using our forecast MIL FY24 metrics.

Exhibit 4: 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	2.33	361	-78.9	42.1	551	11	0	0.51	6.7
PeopleIn	PPE	1.29	130	73.3	61.1	1,186	8	8	0.17	3.3
Licopodium	LYL	12.30	488	-81.7	73.0	328	19	10	1.24	5.6
Southern Cross Electrical	SXE	0.94	244	-77.6	35.4	465	16	3	0.36	4.7
Ashley Services	ASH	0.38	55	5.7	18.9	549	16	3	0.11	3.2
BSA Limited	BSA	0.69	49	2.1	14.0	240	26	(3)	0.21	3.7
AVERAGE							16	4	0.43	4.5
Millennium (FY24f) *	MIL	1.12	51	3.3	12.5	302	14	1	0.18	4.4

Sources: Company financials, Refinitiv, RaaS estimates – share prices as at 23 February 2024 * RaaS estimates

Exhibit 5: MIL Financial Summary (in A\$m unless otherwise stated)

Millennium Services (ASX:MIL)						Share price (23 February 2024)						A\$	1.120						
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223A	H124A	H224F		
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Revenue	131.7	128.9	129.6	136.1	149.2	153.0	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	5.5	6.9	EBITDA	6.7	4.4	2.8	5.1	5.5	6.9
Gross profit	40.8	39.8	37.7	43.3	45.5	EBIT	4.4	2.3	0.7	3.0	3.4	4.8	EBIT	4.4	2.3	0.7	3.0	3.4	4.8
GP margin %	14.9%	15.3%	14.2%	14.3%	14.5%	NPAT (adjusted)	2.7	1.2	(0.0)	1.4	1.6	2.6	NPAT (adjusted)	2.7	1.2	(0.0)	1.4	1.6	2.6
Underlying EBITDA	11.6	11.1	7.9	12.5	13.8	Adjustments	(0.8)	(0.9)	(0.7)	(0.2)	(0.5)	0.0	Adjustments	(0.8)	(0.9)	(0.7)	(0.2)	(0.5)	0.0
Depn	(4.9)	(4.6)	(4.3)	(4.5)	(4.3)	NPAT (reported)	1.9	0.2	(0.7)	1.2	1.1	2.6	NPAT (reported)	1.9	0.2	(0.7)	1.2	1.1	2.6
Minorities (AT)	0.0	0.1	0.2	0.2	0.2	EPS (normalised)	0.060	0.025	(0.001)	0.030	0.036	0.057	EPS (normalised)	0.060	0.025	(0.001)	0.030	0.036	0.057
EBIT	6.8	6.7	3.8	8.2	9.7	EPS (reported)	0.041	0.005	(0.016)	0.026	0.025	0.057	EPS (reported)	0.041	0.005	(0.016)	0.026	0.025	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	0.000	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000
Tax	(1.6)	(1.6)	(0.5)	(1.7)	(2.2)	Imputation							Imputation						
NPAT (adj)	3.4	3.9	1.4	4.2	5.4	Operating cash flow	na	na	na	na	na	na	Operating cash flow	na	na	na	na	na	na
Adjustments	(1.2)	(1.6)	(0.8)	(0.5)	0.0	Free Cash flow	na	na	na	na	na	na	Free Cash flow	na	na	na	na	na	na
NPAT	2.2	2.3	0.6	3.7	5.4	Divisionals	H122A	H222A	H123A	H223A	H124A	H224F	Divisionals	H122A	H222A	H123A	H223A	H124A	H224F
Abnormals (net)	15.2	0.0	0.0	0.0	0.0	Cleaning	99.6	103.5	107.7	113.1	119.8	126.5	Cleaning	99.6	103.5	107.7	113.1	119.8	126.5
NPAT (reported)	17.4	2.3	0.6	3.7	5.4	Security	32.1	25.3	21.9	23.1	29.4	26.5	Security	32.1	25.3	21.9	23.1	29.4	26.5
						(Other)	-	-	-	-	-	-	(Other)	-	-	-	-	-	-
Cash flow (A\$m)						Total Revenue						131.7	128.9	129.6	136.1	149.2	153.0		
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Gross profit						21.0	18.8	18.1	19.6	21.3	22.0		
EBITDA (inc cash rent/JK)	29.3	10.0	6.8	11.4	12.6	Underlying GP Margin %						15.9%	14.6%	14.0%	14.4%	14.2%	14.4%		
Interest	(1.8)	(1.2)	(1.9)	(2.2)	(2.0)	Operating Costs						8.8	8.9	9.7	9.0	9.6	9.4		
Tax	(0.1)	(2.4)	(2.9)	(1.7)	(2.2)	Employment						5.5	5.5	5.6	5.5	6.1	5.7		
Working capital changes	12.9	(1.6)	3.8	0.0	0.0	Other						-	-	-	-	-	-		
Operating cash flow	40.3	4.8	5.9	7.4	8.4	Exceptional						-	-	-	-	-	-		
Mtce capex	(2.2)	(1.8)	(2.6)	(2.4)	(2.3)	Total costs						14.3	14.4	15.3	14.5	15.7	15.1		
Free cash flow	38.1	3.0	3.3	5.0	6.1	Underlying EBITDA						6.7	4.4	2.8	5.1	5.5	6.9		
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA margin %						5.1%	3.4%	2.2%	3.8%	3.7%	4.5%		
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns						FY21A	FY22A	FY23A	FY24F	FY25F			
Other	(2.1)	(2.2)	(1.5)	(1.0)	(1.0)	EBITDA margin %						4.3%	4.3%	3.0%	4.1%	4.4%			
Cash flow pre financing	36.0	0.8	1.8	4.0	5.1	EBIT margin %						2.5%	2.6%	1.4%	2.7%	3.1%			
Equity	0.0	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)						0.8%	0.9%	0.2%	1.2%	1.7%			
Debt drawdown/(repay)	(21.4)	(2.0)	(1.2)	(3.0)	(1.0)	Net Debt (Cash)						0.3	4.0	3.3	-0.6	-5.7			
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)						(x)	0.0 x	0.4 x	0.4 x	0.0 x	-0.4 x		
Net cash flow for year	14.6	(1.2)	0.5	1.0	4.1	ND/ND+Equity (%)						(%)	11.5%	111.7%	169.6%	10.8%	35.2%		
Balance sheet (A\$m)						EBIT interest cover (x)						(x)	0.3x	0.2x	0.5x	0.3x	0.2x		
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	ROA						11.6%	13.1%	7.8%	15.3%	16.3%			
Cash	7.3	1.9	3.3	4.2	8.3	ROE						nm	nm	nm	nm	nm			
Accounts receivable	18.0	17.3	16.0	17.9	18.6	ROIC						nm	nm	nm	nm	nm			
Inventory	1.1	1.2	1.6	1.8	1.9	NTA (per share)						-0.21	-0.15	-0.13	-0.05	0.07			
Other current assets	2.3	1.9	2.3	5.9	8.0	Working capital						1.9	3.5	-0.3	-0.3	-0.3			
Total current assets	28.8	22.3	23.2	29.8	36.8	WC/Sales (%)						0.7%	1.3%	(0.1%)	(0.1%)	(0.1%)			
PPE	7.0	6.8	7.7	6.7	5.8	Revenue growth						(2.9%)	(4.8%)	2.0%	13.7%	4.0%			
Goodwill	7.5	7.5	7.5	7.5	7.5	EBIT growth pa						nm	(1.1%)	(42.9%)	114.2%	18.2%			
Right of use asset	3.0	1.7	2.7	2.7	2.7	Pricing						FY21A	FY22A	FY23A	FY24F	FY25F			
Deferred tax asset	8.5	7.8	8.0	8.0	8.0	No of shares (yle)						(m)	45.9	45.9	45.9	45.9	45.9		
Equity accounted Investee	0.0	1.3	1.5	1.5	1.5	Weighted Av Dil Shares						(m)	45.9	45.9	45.9	45.9	45.9		
Total non current assets	26.0	25.0	27.4	26.4	25.5	EPS Reported						cps	0.379	0.049	0.013	0.082	0.118		
Total Assets	54.9	47.4	50.6	56.2	62.3	EPS Adjusted						cps	0.074	0.085	0.031	0.093	0.118		
Accounts payable	17.3	15.0	17.9	20.0	20.8	EPS growth (norm/dil)						nm	14%	-64%	203%	28%			
Short term debt	5.5	4.7	4.4	1.4	0.4	DPS						cps	0.000	0.000	0.000	0.000	0.000		
Provisions	22.6	20.0	19.8	22.6	23.5	DPS Growth						n/a	n/a	n/a	n/a	n/a			
Lease liabilities/other	5.5	3.4	1.2	1.2	1.2	Dividend yield						0.0%	0.0%	0.0%	0.0%	0.0%			
Total current liabilities	50.9	43.1	43.4	45.2	45.9	Dividend imputation						30	30	30	30	30			
Long term debt	2.1	1.2	2.2	2.2	2.2	PER Adjusted (x)						15.0	13.2	36.6	12.1	9.5			
Other non current liabs	4.1	2.7	3.7	3.7	3.7	PE market						15	15	15	15	15			
Total long term liabilities	6.2	3.9	5.9	5.9	5.9	Premium/(discount)						0.3%	(12.2%)	144.3%	(19.3%)	(36.9%)			
Total Liabilities	57.1	47.0	49.2	51.0	51.7	EV/EBITDA						4.4	5.0	6.9	4.1	3.3			
Net Assets	(2.3)	0.4	1.4	5.2	10.6	FCF/Share						cps	83.0	4.9	14.2	11.0	13.3		
Share capital	19.1	19.1	19.2	19.2	19.2	Price/FCF share						1.3	22.9	7.9	10.2	8.4			
Reserves	(8.3)	(7.9)	(7.6)	(7.6)	(7.6)	Free Cash flow Yield						74.1%	4.4%	13.0%	9.8%	11.9%			
Retained Earnings	(13.1)	(10.8)	(10.2)	(6.4)	(1.0)														
Minorities	0.0	0.0	0.0	0.0	0.0														
Total Shareholder funds	(2.4)	0.4	1.4	5.1	10.5														

Source: RaaS estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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

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If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

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

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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