

Bid implies an EV/EBITDA multiple in-line with peers

Human services company Millennium Services Group Ltd (ASX:MIL) has entered a Scheme of Arrangement with an entity associated with Softbank Robotics Singapore for the acquisition of 100% of shares at \$1.15/share cash. Shareholders also have the option to accept a mix of cash and scrip in the new unlisted entity, with certain management committing not less than a total of 30% for this option. The bid price represents an 89% premium to the last RaaS update note (October 23) and 360% premium from July 1, 2023. The board unanimously recommends MIL shareholders vote in favour of the Scheme in the absence of a superior offer. Using FY23(a) peer EBITDA multiples and MIL FY24(f) multiples (which broadly assume guidance) the implied bid price is in-line with peers at ~4.5x against a peer average of ~4.3x. Given this low multiple and lack of premium relative to peers, a superior proposal may still emerge although there is a \$526k break-fee. The Scheme book is expected to be despatched late February and implementation date assuming shareholders vote in favour 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. Historically focusing on cleaning and security services within major shopping centres, MIL 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 utilising the ASX-listed nature of the business to demonstrate transparency in these important areas (which most large private companies can't achieve), will be keys in this push.

Scheme of Arrangement metrics

Overlaying management revenue and EBITDA guidance for FY24 with key RaaS assumptions around debt, interest, and tax we estimate an implied FY24 EV/EBITDA bid multiple of 4.5x. This compares to a RaaS-selected-peer FY23(a) EV/EBITDA multiple estimate of 4.3x currently. Guidance looks on track with management reiterating expectations for EBITDA of \$12.2m to \$13.2m at the company's AGM in late November. Q1 FY24 total revenue growth was 12.6% (the highest since H2 FY18), and in-line with the 12.8%-14.8% growth forecasts implied in FY24 revenue guidance.

Relative EV/EBITDA implies a \$1.08/share valuation

Our assessed peer group average FY23 EV/EBITDA multiple is now 4.3x, down from 4.8x in August 2023. Applying this multiple to MIL's FY24 RaaS estimates (given they are well above FY23) implies a valuation of \$1.08/share. We have said for some time we see no reason why MIL does not deserve a multiple in-line with the peer average given average contract length (three-five years), relatively low working capital, low capex intensity, and market consolidation opportunities.

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	12.8	4.8	0
06/23a	265.8	7.9	1.4	35.5	6.7	0
06/24f	301.0	12.6	4.3	11.5	4.0	2.8
06/25f	313.0	13.7	5.4	9.3	3.4	3.7

Source: Company data, RaaS estimates for FY24f and FY25f

Human Services

8 January 2024

Share Details

ASX code	MIL
Share price (5-Jan)	\$1.085
Market capitalisation	\$49.8M
Shares on issue	45.9M
Net debt at 30-Sep-23 (excl. debtor finance)	\$3.1M
Free float	~31.5%

Share Performance – 12 months



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

Company Contacts

Royce Galea (CEO)	+61 412 660 006
royce.galea@millenniumsg.com	

RaaS Contacts

John Burgess*	+61 410 439 723
john.burgess@raasgroup.com	
Finola Burke	+61 414 354 712
finola.burke@raasgroup.com	

*The author owns shares

Scheme of Arrangement Details

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

- **\$1.15/share cash price.**
- **Based on FY24 guidance and RaaS end of year debt estimates the bid implies and EV/EBITDA of 4.5x and PER of 12.2x.**
- **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.

Recent Trading Updates

Management has provided detailed guidance at the FY23 result with a relatively narrow range for FY24 across several line items and has provided a Q1 FY24 revenue update which we discuss below.

- **Revenue** guidance is for \$300m-\$305m, implying 12.8%-14.8% growth on FY23.

New contract wins (including Amazon, Baby Bunting, new security contracts, and first-time business in Darwin), material contract extensions (\$310m), and wage inflation/cost put-throughs are all key reasons for this growth. Importantly, 95% of the forecast revenue is contracted for FY24.
- **Total Q1 FY24 revenue growth was 12.6%, the highest since H2 FY18.** Contract revenue growth was 14.3% on the back of new contract wins and wage cost inflation. Ad-hoc revenues were down 6% to be 7% of revenue.
- **EBITDA guidance is between \$12.2m-\$13.2m,** again a relatively narrow range and implying underlying growth of 54%-67%. This guidance was reiterated at the AGM on 22 November 2023.
- **Dividends were flagged to resume in FY24** at 30%-40% of sustainable NPAT. Using RaaS estimates for NPAT of \$4.4m, a 30% payout implies a dividend of 3cps implying a yield of 3% at the current share price.

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 MIL FY24 estimates given the magnitude of forecast EBITDA uplift relative to peers.

MIL currently trades in-line with peer FY23 metrics using forecast MIL FY24 metrics despite the Scheme of Arrangement.

Exhibit 1: 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	2.28	354	-78.9	42.1	551	11	0	0.50	6.5
PeopleIn	PPE	1.25	126	73.3	61.1	1,186	8	8	0.17	3.3
Licopodium	LYL	11.90	472	-81.7	73.0	328	19	10	1.19	5.4
Southern Cross Electrical	SXE	0.85	221	-77.6	35.4	465	16	3	0.31	4.0
Ashley Services	ASH	0.37	53	5.7	18.9	549	16	3	0.11	3.1
BSA Limited	BSA	0.60	43	2.1	14.0	240	26	(3)	0.19	3.2
AVERAGE							16	4	0.41	4.3
Millennium (FY23a)	MIL	1.09	50	3.3	7.9	266	14	1	0.20	6.7
Millennium (FY24f)	MIL	1.09	50	3.3	12.6	301	14	1	0.18	4.2

Sources: Company financials, Refinitiv, RaaS estimates – share prices as at 5 January 2024

Exhibit 2: MIL Financial Summary (in A\$m unless otherwise stated)

Millennium Services (ASX:MIL)						Share price (5 January 2024)						AS	1.085				
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	148.0	153.0					
Revenue	273.7	260.6	265.8	301.0	313.0	EBIT DA	6.7	4.4	2.8	5.1	5.5	7.1					
Gross profit	40.8	39.8	37.7	43.6	45.6	EBIT	4.4	2.2	0.6	2.9	3.3	4.8					
GP margin %	14.9%	15.3%	14.2%	14.5%	14.6%	NPAT (adjusted)	2.7	1.0	(0.1)	1.3	1.5	2.6					
Underlying EBITDA	11.6	11.1	7.9	12.6	13.7	Minorities (AT)	0.0	0.1	0.1	0.1	0.1	0.1					
Depn	(4.9)	(4.6)	(4.3)	(4.5)	(4.3)	NPAT (reported)	1.9	0.2	(0.7)	1.1	1.5	2.6					
Minorities (AT)	0.0	0.1	0.2	0.2	0.2	EPS (normalised)	0.041	0.005	(0.016)	0.024	0.033	0.056					
EBIT	6.8	6.7	3.8	8.3	9.6	EPS (reported)	0.041	0.005	(0.016)	0.024	0.033	0.056					
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	4.3	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	4.3	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	122.4	126.5					
NPAT (reported)	17.4	2.3	0.6	4.3	5.4	Security	32.1	25.3	21.9	23.1	25.6	26.5					
						(Other)	-	-	-	-	-	-					
Cash flow (A\$m)						Total Revenue	131.7	128.9	129.6	136.1	148.0	153.0					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Gross profit	21.0	18.8	18.1	19.6	21.4	22.2					
EBIT DA (inc cash rent/JK)	29.3	10.0	6.8	11.5	12.5	Underlying GP Margin %	15.9%	14.6%	14.0%	14.4%	14.5%	14.5%					
Interest	(1.8)	(1.2)	(1.9)	(2.2)	(2.0)	Operating Costs											
Tax	(0.1)	(2.4)	(2.9)	(1.8)	(2.2)	Employment	8.8	8.9	9.7	9.0	10.1	9.4					
Working capital changes	12.9	(1.6)	3.8	0.0	0.0	Other	5.5	5.5	5.6	5.5	5.8	5.7					
Operating cash flow	40.3	4.8	5.9	7.6	8.3	Exceptional	-	-	-	-	-	-					
Mtce capex	(2.2)	(1.8)	(2.6)	(2.4)	(2.3)	Total costs	14.3	14.4	15.3	14.5	15.9	15.1					
Free cash flow	38.1	3.0	3.3	5.2	6.0	Underlying EBITDA	6.7	4.4	2.8	5.1	5.5	7.1					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBIT DA margin %	5.1%	3.4%	2.2%	3.8%	3.7%	4.6%					
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)	EBIT DA margin %		4.3%	4.3%	3.0%	4.2%	4.4%					
Cash flow pre financing	36.0	0.8	1.8	4.2	5.0	EBIT margin %		2.5%	2.6%	1.4%	2.8%	3.1%					
Equity	0.0	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		0.8%	0.9%	0.2%	1.4%	1.7%					
Debt drawdown/(repay)	(21.4)	(2.0)	(1.2)	(3.0)	(1.0)	Net Debt (Cash)		0.3	4.0	3.3	0.0	-3.5					
Net dividends paid	0.0	0.0	0.0	(0.7)	(1.6)	Net debt/EBIT DA (x)	(x)	0.0 x	0.4 x	0.4 x	0.0 x	-0.3 x					
Net cash flow for year	14.6	(1.2)	0.5	0.5	2.4	ND/ND+Equity (%)	(%)	11.5%	111.7%	169.6%	1.2%	32.1%					
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%	15.7%	16.7%					
Cash	7.3	1.9	3.3	3.6	6.1	ROE		nm	nm	nm	nm	nm					
Accounts receivable	18.0	17.3	16.0	18.0	18.8	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	-0.07	0.00					
Other current assets	2.3	1.9	2.3	5.3	7.0	Working capital		1.9	3.5	-0.3	-0.4	-0.4					
Total current assets	28.8	22.3	23.2	28.8	33.7	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%	13.3%	4.0%					
Goodwill	7.5	7.5	7.5	7.5	7.5	EBIT growth pa		nm	(1.1%)	(42.9%)	117.3%	15.2%					
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	0.094	0.117					
Total Assets	54.9	47.4	50.6	55.2	59.2	EPS Adjusted	cps	0.074	0.085	0.031	0.094	0.117					
Accounts payable	17.3	15.0	17.9	20.2	21.0	EPS growth (norm/dil)		nm	14%	-64%	208%	24%					
Short term debt	5.5	4.7	4.4	1.4	0.4	DPS	cps	0.000	0.000	0.000	0.030	0.040					
Provisions	22.6	20.0	19.8	22.5	23.4	DPS Growth		n/a	n/a	n/a	n/a	33%					
Lease liabilities/other	5.5	3.4	1.2	1.2	1.2	Dividend yield		0.0%	0.0%	0.0%	2.8%	3.7%					
Total current liabilities	50.9	43.1	43.4	45.3	46.0	Dividend imputation		30	30	30	30	30					
Long term debt	2.1	1.2	2.2	2.2	2.2	PER Adjusted (x)		14.6	12.8	35.5	11.5	9.3					
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)		(2.8%)	(14.9%)	136.7%	(23.3%)	(38.0%)					
Total Liabilities	57.1	47.0	49.2	51.1	51.9	EV/EBIT DA		4.3	4.8	6.7	4.0	3.4					
Net Assets	(2.3)	0.4	1.4	4.0	7.4	FCF/Share	cps	83.0	4.9	14.2	11.2	13.2					
Share capital	19.1	19.1	19.2	19.2	19.2	Price/FCF share		1.3	22.2	7.7	9.7	8.2					
Reserves	(8.3)	(7.9)	(7.6)	(7.6)	(7.6)	Free Cash flow Yield		76.5%	4.5%	13.4%	10.3%	12.1%					
Retained Earnings	(13.1)	(10.8)	(10.2)	(7.4)	(4.2)												
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	(2.4)	0.4	1.4	4.1	7.4												

Source: RaaS estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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