

Supportive M&A activity in the quarter

Millennium Services Group Ltd (ASX:MIL) has released its Q4 FY22 and FY22 activities report. Q4 FY22 revenues were \$62.9m, 4% below forecast due to lower ad-hoc revenues. Contract revenues remained steady between \$55m and \$56m through each of the four quarters of FY22. Net debt finished the year at ~\$4.0m while there was \$14.9m in unused credit facilities providing solid growth options. Net cash from operating activities was ~\$4m (25% of Mkt cap) while company adjusted (for one-offs and timing) 'net analytical cashflow' was closer to \$10m (50% of mkt cap). We have taken the opportunity to adjust numbers for 1) higher one-off's in FY22, 2) lower ad-hoc revenues in Q4 FY22 and into FY23, and 3) lower depreciation. The result is a ~3% reduction in revenues over the forecast period and 5%-7% reduction in NPAT. MIL continues to trade at a material discount to peers at a forecast 1.8x FY22 EV/EBITDA. Valuation has been further supported this quarter by the acquisition of cleaning/facilities management business BIC by Bidvest (JSE:BVT) for \$140m or a forecast 8.8x FY22 EBITDA.

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 ~15% of group revenues 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.

Supportive M&A activity through the quarter

Two acquisitions over the last quarter provide further valuation support for MIL given business similarities. 75% of oil and gas personnel provider Linc Personnel was acquired by Ashley Services (ASX:ASH) for 3.4x EBITDA. A similar multiple for MIL would imply a share price of \$0.84/share. Commercial cleaning services business BIC was acquired by Bidvest (JSE:BVT) for A\$140m. A similar multiple for MIL would imply a share price of \$2.11/share.

Relative EV/EBITDA implies a \$1.25/share valuation

Our assessed peer group average FY22 EV/EBITDA multiple implies a \$1.25/share valuation for MIL (5.2x EV/EBITDA), and we see no reason why this business does not deserve multiples closer to the peer average given average contract length (three-five years), relative working capital intensity and market opportunities. Selected peers include Service Stream (ASX:SSM), GNG Engineering (ASX:GNG), Lycopodium (ASX:LYL), Southern Cross Electrical (ASX:SXE) and Ashley Services (ASX:ASH). Recent M&A activity further supports these multiples.

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

Year end	Adj. revenues	Und. EBITDA	NPAT (rep.)	EPS (rep.) (c)	P/E (x)	EV/EBITDA (x)
06/20a	273.7	11.6	2.2	0.05	7.1	1.4
06/21a	260.6	11.0	2.2	0.05	7.2	1.8
06/22e	265.8	11.4	5.1	0.11	3.1	1.4
06/23e	276.4	12.4	6.0	0.13	2.6	0.9

Source: Company data, RaaS estimates for FY22e and FY23e

Human Services

27th July 2022

Share Details

ASX code	MIL
Share price	\$0.34
Market capitalisation	\$15.6M
Shares on issue	45.9M
Net debt at 30-Jun-22	\$4.0M
Free float	~31.5%

Share Performance



Upside Case

- Converting a portion of the tender pipeline over the next 18 months
- 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
- Wages growth above contracts clauses

Board of Directors

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

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Q4FY22 Trading Update

Key takeaways from the June quarter 4C include:

- Q4 FY22 revenues were 4% or \$2.3m below RaaS estimates due to lower ad-hoc revenues. Compared to Q4 FY21 revenues were 9.1% lower due to the loss of the QIC contract which will cycle out of the numbers from August 2022.
- Contracted revenues were steady at \$55.9m and in a tight band between \$54.8m and \$55.9m over the year, highlighting the consistency of revenues.
- Reported cashflow from operating activities was \$6.4m for the quarter and \$4.0m for the year. Company analysis suggests cashflow from activities was closer to \$10m for the year of adjusted for one-offs and timing issues relating to wages. Cashflow varies significantly quarter to quarter due to the timing of wage payments.

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

	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Sales	69.3	65.6	66.1	65.9	62.9
Contract	60.1	55.9	54.8	55.4	55.9
Ad hoc	9.2	9.7	11.4	10.5	7.0
% growth		2.0	(6.5)	(5.0)	(9.1)
Cash receipts	81.0	68.2	70.6	74.6	75.1
Net cash from operations	10.0	(3.6)	1.3	0.8	6.4

Source: Company announcements and RaaS estimates

Earnings adjustments

We have taken the opportunity to fine tune numbers on the back of lower ad-hoc revenues into FY23 cycling the strong FY22 base, lower depreciation expectations and further one-off transaction & project costs in 2H FY22 (albeit not captured in our adjusted NPATA).

The result is a ~3% reduction in revenues, ~9% reduction in EBITDA due to negative FY operating leverage and ~5%-7% reduction in adjusted NPAT due to lower depreciation assumptions.

Exhibit 2: RaaS earnings adjustments (\$m unless stated)

Variable	FY22	FY23	FY24	FY25	Comments
Revenue					
Old	263.2	273.7	284.7	296.1	Lower ad-hoc
New	260.6	265.8	276.4	287.5	
% CHG	-1.0%	-2.9%	-2.9%	-2.9%	
EBITDA					
Old	11.0	12.6	13.7	14.7	Negative leverage
New	11.0	11.4	12.4	13.4	
% CHG	0.1%	-9.5%	-9.1%	-8.8%	
EBIT					
Old	6.5	8.2	9.3	10.5	Lower depreciation
New	6.5	7.6	8.8	10.0	
% CHG	0.2%	-7.3%	-5.8%	-4.7%	
Adj. NPATA					
Old	4.0	5.5	6.3	7.2	Excludes one-offs
New	4.0	5.1	6.0	6.8	
% CHG	0.3%	-7.6%	-6.0%	-4.8%	

Source: Company announcements and RaaS estimates

Supportive M&A During The Quarter

There have been two M&A transactions during the quarter that provide valuation support for MIL.

Linc Personnel

Ashley Services (ASX:ASH) acquired 75% of Linc Personnel Pty Ltd for a 100% equivalent of \$4.8m at an FY22 EBITDA multiple of 3.4x (EBITDA \$1.4m). Disclosed FY22 revenues of \$14m implies a revenue acquisition multiple of 0.35x.

Linc Personnel is a Western Australia-based company providing professional labour hire and recruitment services to the oil and gas industry.

An equivalent multiple for MIL would imply a share price of \$0.84 based on RaaS FY22 EBITDA forecasts.

BIC

Bidvest (JSE:BVT) out of South Africa acquired commercial cleaning business BIC for A\$160m in July 2022. RaaS understands BIC derives revenues of around \$140m and EBITDA of \$18m, implying a purchase price of 8.8x EBITDA and 1.1x revenues.

BIC is predominantly a commercial cleaning business operating in Sydney with contracts to clean ~50% of the commercial buildings in the Sydney CBD, according to its website. The group also offers educational services and a customer experience platform for compliance tracking. The group has 2,500 employees across 3,250 sites.

While known as a food services business in Australia, Bidvest has been expanding its offshore facilities management operations beginning with the purchase of Noonan in the UK (2018) and followed by a number of bolt-on acquisitions. BIC is the first move into facilities management in Australia.

An equivalent multiple for MIL would imply a share price of \$2.11 based on RaaS FY22 EBITDA forecasts.

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 current FY22 metrics across a wide range of variables. MIL currently trades at a material (75%) discount to the FY22 EV/EBITDA peer average of 5.2x despite generally better contract terms, similar gross margins, and generally lower working capital requirements. Since 31 March 2022, the peer group has risen an average of 4% against a 30% decline in the MIL share price.

Exhibit 3: Peer group financial comparison – FY22 (in A\$m unless otherwise stated)

Company name	Ticker	Share price (cps)	Mkt. cap.	FY22 net debt	Adj. FY22 (f) EBITDA	FY22 (f) revenues	GP%	Working capital/sales %	EV/Sales (x)	EV/EBITDA
Service Stream *	SSM	1.04	641	47.0	123.0	1,750	22.7	(7.2)	0.39	5.6
GR Engineering	GNG	2.11	327	(93.6)	48.5	590	12.1	(3.0)	0.40	4.8
Licopodium	LYL	6.15	244	(63.6)	29.0	245	33.0	9.5	0.74	6.2
Southern Cross Electrical	SXE	0.65	169	(49.9)	31.0	500	13.2	12.8	0.24	3.8
Ashley Services	ASH	0.73	105	4.0	19.0	400	16.0	4.5	0.27	5.7
AVERAGE							19.4	3.3	0.41	5.2
Millennium	MIL	0.34	16	3.8	11.0	261	15.1	0.7	0.07	1.8

Sources: Company financials, RaaS estimates; *Pro-forma (Prices at 26 July 2022)

Outlook And Investment Case

- The group operates in markets worth an estimated \$11.7b (cleaning) and \$9.8b (investigation and security services), according to IBISWorld. In the cleaning business (~70% of MIL revenues) MIL has less than 2% market share in a market where the top-four largest players have less than 10% of the market, offering significant market-share opportunities.
- A recent IBISWorld report on the Australian cleaning sector suggests following CAGR growth of -0.5% between FY17 and FY21f, the cleaning sector will grow by a CAGR of 3.6% between FY22 and FY26 on the back of a COVID recovery and a trend to more regular and comprehensive cleans.
- The group's three-year growth strategy will look to use the current balance sheet, ASX listing and trading history to increase "value-add" services, participate in industry rationalisation, and use technology such as rostering and traffic-flow systems and robotics to improve operating efficiencies.
- The acquisition of 49% of Codee Cleaning Services in December 2021 overlays industry consolidation with an increasing focus on ESG.
- Net debt was just \$4.0m as at June 2022 (including trade finance), providing a solid base from which to grow and/or acquire while looking at capital management options. MIL has undrawn banking facilities of \$14.9m.
- Gross margins are back to "targeted" levels and based on historical and peer analysis we feel these margins are sustainable at ~15% and EBITDA margins 4.5%-5.0%.
- A change in debt covenants would pave the way for the resumption of dividends. Based on FY22 RaaS adjusted EPS forecasts, a 50% pay-out ratio at current prices would imply a dividend yield of 12%.
- Recent M&A transactions of similar businesses add valuation support to MIL, namely the 75% purchase of Linc Personnel by Ashley Services for 3.4x EBITDA, and the 100% acquisition of BIC by Bidvest for ~8.8x EBITDA.

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

Millennium Services (ASX:MIL)						Share price (26 July 2022)						A\$	0.340				
Profit and Loss (A\$m)						Interim (A\$m)						H120	H220	H121	H221	H122F	H222F
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	135.1	146.8	159.7	138.7	131.7	128.8					
Revenue	257.3	273.7	260.6	265.8	276.4	EBITDA	2.4	1.7	7.0	4.7	6.7	4.3					
Gross profit	30.8	40.8	39.4	39.9	41.5	EBIT	(0.0)	(1.8)	4.7	2.0	4.4	2.1					
GP margin %	12.0%	14.9%	15.1%	15.0%	15.0%	NPAT (normalised)	(1.7)	2.0	2.5	0.9	2.7	1.2					
Underlying EBITDA	4.0	11.6	11.0	11.4	12.4	Minorities (AT)	0.0	0.0	0.0	0.0	0.0	0.1					
Depn	(5.9)	(4.9)	(4.5)	(3.8)	(3.7)	NPAT (reported)	(0.8)	2.8	1.9	0.3	1.9	0.2					
Minorities (AT)	0.0	0.0	0.1	0.1	0.1	EPS (normalised)	nm	0.061	0.041	0.007	0.041	0.004					
EBIT	(1.9)	6.8	6.5	7.7	8.9	EPS (reported)	nm	0.061	0.041	0.007	0.041	0.004					
Interest	(3.2)	(1.8)	(0.8)	(0.5)	(0.4)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
Tax	5.3	(1.6)	(1.7)	(2.1)	(2.5)	Imputation											
NPAT (adj)	0.3	3.4	4.0	5.1	6.0	Operating cash flow	na	na	na	na	na	na					
Adjustments	1.7	(1.2)	(1.8)	0.0	0.0	Free Cash flow	na	na	na	na	na	na					
NPAT	2.0	2.2	2.2	5.1	6.0	Divisionals	H120	H220	H121	H221	H122F	H222F					
Abnormals (net)	14.5	15.2	0.0	0.0	0.0	Cleaning	111.4	102.0	107.9	109.0	99.6	98.9					
NPAT (reported)	16.5	17.4	2.2	5.1	6.0	Security	23.7	20.2	27.2	29.7	32.1	30.0					
Cash flow (A\$m)						(Other)	-	24.6	24.7	-	-	-					
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Total Revenue	135.1	146.8	159.7	138.7	131.7	128.8					
EBITDA (inc cash rent/JK)	19.4	29.3	10.1	10.5	11.5	Gross profit	17.0	13.8	21.7	19.1	21.0	18.4					
Interest	(3.2)	(1.8)	(0.8)	(0.5)	(0.4)	Underlying GP Margin %	12.6%	11.3%	16.1%	13.8%	15.9%	14.3%					
Tax	0.5	(0.1)	(2.4)	(2.1)	(2.5)	Operating Costs											
Working capital changes	(16.6)	12.9	(3.1)	(0.1)	(0.2)	Employment	8.3	16.4	15.9	9.4	8.8	8.6					
Operating cash flow	0.1	40.3	3.7	7.8	8.3	Other	5.5	4.9	6.2	5.0	5.5	5.5					
Mtce capex	(2.2)	(2.2)	(1.8)	(1.9)	(1.9)	Exceptional	0.9	9.2	7.3	-	-	-					
Free cash flow	(2.1)	38.1	1.9	5.9	6.4	Total costs	14.7	12.1	14.8	14.4	14.3	14.1					
Growth capex	0.0	0.0	0.0	0.0	0.0	EBITDA	2.4	1.7	7.0	4.7	6.7	4.3					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	1.7%	1.1%	4.4%	3.4%	5.1%	3.4%					
Other	(2.5)	(2.1)	(2.0)	(2.0)	(2.0)	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F					
Cash flow pre financing	(4.6)	36.0	(0.1)	3.9	4.4	EBITDA margin %		1.6%	4.3%	4.2%	4.3%	4.5%					
Equity	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(0.7%)	2.5%	2.5%	2.9%	3.2%					
Debt drawdown/(repay)	1.6	(21.4)	(2.0)	(3.0)	0.0	NPAT margin (pre significant items)		0.8%	0.8%	0.8%	1.9%	2.2%					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		34.6	0.3	3.8	0.0	-4.4					
Net cash flow for year	(3.0)	14.6	(2.1)	0.9	4.4	Net debt/EBITDA (x)	(x)	8.6 x	0.0 x	0.3 x	0.0 x	-0.4 x					
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	63.5%	11.5%	97.2%	0.9%	34.8%					
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	EBIT interest cover (x)	(x)	n/a	0.3x	0.1x	0.1x	0.0x					
Cash	1.8	7.3	1.9	2.7	7.0	ROA		(6.0%)	11.6%	12.5%	15.0%	16.1%					
Accounts receivable	29.8	18.0	19.8	20.2	21.0	ROE		nm	nm	nm	nm	nm					
Inventory	1.2	1.1	1.0	1.0	1.1	ROIC		nm	nm	nm	nm	nm					
Other current assets	2.5	2.2	2.2	2.2	2.2	NTA (per share)		-0.60	-0.21	-0.19	-0.08	-0.01					
Total current assets	35.3	28.7	24.9	26.1	31.3	Working capital		14.8	1.9	5.0	5.1	5.3					
PPE	8.6	7.0	5.2	4.2	3.4	WC/Sales (%)		5.7%	0.7%	1.9%	1.9%	1.9%					
Goodwill	7.5	7.5	8.5	8.5	8.5	Revenue growth		(12.7%)	6.4%	(4.8%)	2.0%	4.0%					
Right of use asset	2.9	3.0	3.0	3.0	3.0	EBIT growth pa		nm	(463.7%)	(3.4%)	18.1%	15.0%					
Deferred tax asset	7.4	8.5	8.5	8.5	8.5	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F					
Other	0.1	0.1	0.0	2.6	2.8	No of shares (y/e)	(m)	45.9	45.9	45.9	45.9	45.9					
Total non current assets	26.5	26.2	25.2	26.8	26.2	Weighted Av Dil Shares	(m)	45.9	45.9	45.9	45.9	45.9					
Total Assets	61.9	54.9	50.1	52.9	57.4	EPS Reported	cps	0.359	0.379	0.047	0.111	0.130					
Accounts payable	16.3	17.3	15.8	16.1	16.8	EPS Normalised/Diluted	cps	0.043	0.048	0.047	0.111	0.130					
Short term debt	36.4	5.5	3.5	0.5	0.5	EPS growth (norm/dil)		nm	11%	-2%	136%	17%					
Provisions	22.4	22.6	19.7	20.1	20.9	DPS	cps	0.000	0.000	0.000	0.000	0.010					
Lease liabilities/other	0.8	5.5	4.9	4.9	4.9	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	76.0	50.9	44.0	41.7	43.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	2.9%					
Long term debt	0.0	2.1	2.1	2.1	2.1	Dividend imputation		30	30	30	30	31					
Other non current liabs	5.8	4.1	4.0	4.0	4.0	PE (x)		nm	7.1	7.2	3.1	2.6					
Total long term liabilities	5.8	6.2	6.2	6.2	6.2	PE market		15	15	15	15	15					
Total Liabilities	81.8	57.1	50.1	47.8	49.3	Premium/(discount)		nm	(52.6%)	(51.7%)	(79.5%)	(82.5%)					
Net Assets	(19.9)	(2.3)	(0.1)	5.0	8.2	EV/EBITDA		12.4	1.4	1.8	1.4	0.9					
Share capital	19.0	19.1	19.1	19.1	19.1	FCF/Share	cps	(4.535)	83.023	(0.784)	12.878	13.962					
Reserves	(8.5)	(8.3)	(8.3)	(8.3)	(8.3)	Price/FCF share		(7.497)	0.410	(43.362)	2.640	2.435					
Retained Earnings	(30.3)	(13.1)	(10.8)	(5.7)	(2.5)	Free Cash flow Yield		(13.3%)	244.2%	(2.3%)	37.9%	41.1%					
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	(19.9)	(2.4)	(0.1)	5.0	8.2												

Source: RaaS



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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

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