

ASX RELEASE

14 November 2019

MITCHELL SERVICES LIMITED ANNOUNCES ACQUISITION OF DEEPCORE DRILLING**Mitchell Services Limited today announced:**

- **A binding agreement¹ to acquire Deepcore Drilling**
- **The acquisition is strategically, operationally and financially compelling**
- **The acquisition implies an enterprise value for Deepcore Drilling of \$44 million (based on an acquisition multiple of 3.52 x Deepcore's FY20 forecast EBITDA)**
- **The acquisition is expected to be 38.5% EPS accretive²**
- **Cash component required to complete acquisition will be debt funded.**

Acquisition diversifies and strengthens Mitchell Services' market position

Mitchell Services Limited (ASX:MSV) (**Mitchell Services**) today announced that it has entered into an agreement to acquire 100% of the equity in Deepcore Holdings Pty Ltd (**Deepcore Drilling**). Deepcore Drilling is a privately-owned drilling business that provides services to the mining and infrastructure industries, specialising in highly technical underground mobile drilling, diamond drilling, acoustic and deep directional drilling.

Mitchell Services will acquire 100% of the equity in Deepcore Drilling in exchange for \$15 million cash and 250 million fully paid ordinary Mitchell Services shares at an agreed issue price of \$0.068 per share. This purchase consideration is on the basis that Deepcore Drilling's net debt at settlement will be no greater than \$12 million which equates to an equity acquisition price of \$32 million³ and an enterprise value of \$44 million and represents an acquisition multiple of 3.52 times Deepcore Drilling's FY20 forecast consolidated EBITDA of \$12.5 million.

The acquisition is strategically and financially compelling for Mitchell Services. Given Deepcore Drilling's specialist product offerings and its strong exposure to gold in Victoria, the combination of the two businesses will make Mitchell Services one of the largest and most diversified drilling services providers in Australia. The acquisition will further strengthen Mitchell Services' market position with regard to diversity of drilling type, commodity and geography whilst maintaining a high proportion of "Tier 1" clients on operating mine sites.

¹ Subject to a number of required conditions precedent

² Based on FY19 underlying Mitchell Services results and FY20 forecast Deepcore Drilling results

³ The purchase price will be subject to normal working capital adjustments and a \$4 million loan currently payable by the Deepcore vendors to Deepcore Drilling will be novated to Mitchell Services.

Mitchell Services Limited

ABN 31 149 206 333

112 Bluestone Circuit
Seventeen Mile Rocks Qld 4073 Australia
PO Box 3250 Darra Qld 4076 Australia

t +61 7 3722 7222 f +61 3722 7256
e info@mitschellservices.com.au w www.mitchellservices.com.au



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Year on year growth for FY20

Mitchell Services anticipates both FY20 revenue and EBITDA to be improved on its FY19 results, and Deepcore Drilling is forecasted to deliver a circa 50% increase in revenue from FY19 at an improved EBITDA of \$12.5 million. As part of our review, Deepcore Drilling's forecasts are based on operating rigs for existing contracts and do not include additional upside from its current tender pipeline. Both businesses are currently on track year to date to deliver on FY20 growth expectations. Mitchell Services is currently trading at an EV/FY19 EBITDA multiple of 4.7 times⁴ with the acquisition to be completed on a 3.52 times⁵ basis.

Transaction structure creates alignment between Mitchell Services and Deepcore Drilling

Pursuant to the share purchase agreement between Deepcore Drilling and Mitchell Services, Deepcore Drilling will operate under an earn out arrangement for a period of three years post settlement. Under this earn out arrangement, any portion of EBITDA generated from Deepcore Drilling in excess of \$12.5 million per annum will be shared equally between Mitchell Services and the Deepcore Drilling vendors.

At completion of the transaction, Deepcore Drilling vendors will own approximately 12.5% of the enlarged Mitchell Services, with the consideration shares escrowed for periods of between 6 and 12 months. In addition, founder and current executive director of Deepcore Drilling, Scott Tumbridge, who will own approximately 7.2% of Mitchell Services shares following completion of the transaction, will be invited to join the Mitchell Services board. With over 20 years' experience in the Australasian mining and drilling industry and with a proven track record in business development, innovation and operational excellence, Mr Tumbridge brings a wealth of specialist industry knowledge to the Mitchell Services board.

The brand and current operating structure of Deepcore Drilling will remain largely unchanged. Mitchell Services believes that the quality and expertise of the existing management team will continue to provide an invaluable contribution to the ongoing performance of the business.

New banking facility with sufficient headroom

Completion is subject to several conditions precedent but is expected to occur by the end of this calendar year. Key conditions precedent include Mitchell Services securing funding for the \$15 million cash consideration. It is anticipated that this \$15 million will be funded through an appropriate debt instrument which will bring consolidated net debt to approximately \$41 million (representing approximately 1.1 x EBITDA on a pro forma basis).

Mitchell Services has received credit approval from its current senior lender, National Australia Bank Limited (**NAB**) to fund the acquisition (subject to certain conditions precedent⁶). The new debt facility with NAB (who is also Deepcore's senior lender) is complementary to the existing facilities that both companies currently have in place with NAB and means that no equity raising is required in relation to the acquisition.

⁴ Based on the 11 November 2019 closing share price of \$0.058 and net debt of \$12.7 million

⁵ Based on FY20 Deepcore Drilling forecast EBITDA of \$12.5 million

⁶ NAB conditions precedent include the finalisation of due diligence

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Approved terms from NAB include:

- A new 3 year \$16 million debt facility at an indicative all-inclusive funding cost of less than 4.5% per annum (based on current interest rates) with 60% of the facility amortising over the three year period
- An increased \$10 million working capital facility limit (limit currently \$5 million)
- Circa \$7 million headroom remaining in existing equipment finance facility

In announcing the acquisition, Mitchell Services Executive Chairman Nathan Mitchell said, “The culture and values of Deepcore Drilling are aligned with those of Mitchell Services with a strong focus on safety and the provision of high quality services to clients. We are delighted at the prospect of welcoming the Deepcore Drilling team to Mitchell Services and are excited at the growth opportunities that exist across the business.”

For more information, contact:

Andrew Elf – Chief Executive Officer
Telephone +61 7 3722 7222 or 0413 608 018

Important information

This announcement contains certain ‘forward-looking statements’ within the meaning of the securities laws of applicable jurisdictions. Forward-looking statements can generally be identified by the use of forward-looking words such as ‘may’, ‘should’, ‘expect’, ‘anticipate’, ‘estimate’, ‘scheduled’ or ‘continue’ or the negative version of them or comparable terminology. Any forecasts or other forward looking statements contained in this announcement are subject to known and unknown risks and uncertainties and may involve significant elements of subjective judgment and assumptions as to future events which may or may not be correct. There are usually differences between forecast and actual results because events and actual circumstances frequently do not occur as forecast and these differences may be material. Mitchell Services does not give any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur, and you are cautioned not to place undue reliance on forward-looking statements.

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