



# MITCHELL SERVICES ACQUISITION - DEEPCORE DRILLING

November 2019



**Mitchell**  
SERVICES



# DISCLAIMER

This presentation has been prepared by Mitchell Services Limited ("the Company"). Information in this presentation is of a general nature only and should be read in conjunction with the Company's other periodic and continuous disclosure announcements to the ASX, which are available at: [www.asx.com.au](http://www.asx.com.au).

This presentation contains statements, opinions, projections, forecasts and other material ("forward-looking statements") with respect to the financial condition, business operations and competitive landscape of the Company and certain plans for its future management. The words *anticipate*, *believe*, *expect*, *project*, *forecast*, *estimate*, *likely*, *intend*, *should*, *could*, *may*, *target*, *plan* and other similar expressions are intended to identify forward-looking statements. Such forward-looking statements are not guarantees of future performance and include known and unknown risks, uncertainties, assumptions and other important factors which are beyond the Company's control and may cause actual results to differ from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. Any forward-looking statements contained in this document are qualified by this cautionary statement. The past performance of the Company is not a guarantee of future performance. None of the Company, or its officers, employees, agents or any other person named in this presentation makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statements or any of the outcomes upon which they are based.

The information contained in this presentation does not take into account the investment objectives, financial situation or particular needs of any recipient and is not financial product advice. Before making an investment decision, investors should consider their own needs and situation and, if necessary, seek independent professional advice.

Mitchell Services Limited's financial statements comply with International Financial Reporting Standards (IFRS). This presentation may include certain non-IFRS performance measures including EBITDA, EBIT, Gearing ratio, Gross Debt, Net Debt and Return on Invested Capital (ROIC). These measures are used internally by management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review and should not be considered as an alternative to an IFRS measure of profitability, financial performance or liquidity.

The pro forma financial information contained in this presentation is for illustrative purposes only and is not represented as being indicative of the Company's views on its future financial condition and/or performance. Pro forma profit and loss statements have generally been prepared using the Company's underlying FY19 (the 12 months ending 30 June 2019) results and Deepcore Holdings Pty Ltd internal forecasts for FY20 (the 12 months ending 30 June 2020) using an assumed effective tax rate of 30% for both entities. The Company is required to undertake an assessment of the fair value of the tangible and intangible assets acquired as well as the actual and contingent liabilities of Deepcore Holdings Pty Ltd at the date of acquisition. Accounting standards provide twelve months from completion for this assessment to be finalised. Any reference to intangible assets and goodwill in this presentation are indicative only and subject to change upon finalisation of the acquisition and purchase price accounting in the first twelve months. Pro-forma financial information contained in this presentation therefore excludes any purchase price accounting related amortization of intangibles. It also excludes any finance costs associated with the acquisition funding.

To the maximum extent permitted by law, the Company and its directors and advisers of both give no warranty, representation or guarantee as to the accuracy, completeness or reliability of the information contained in this presentation. Further, none of the Company, its officers, agents or employees accepts, to the extent permitted by law, any liability for any loss, claim, damages, costs or expenses arising from the use of this presentation or its contents or otherwise arising out of, or in connection with it. Any recipient of this presentation should independently satisfy themselves as to the accuracy of all information contained herein.

# TABLE OF CONTENTS

Transaction Summary	4
Deepcore Drilling Overview	9
Strategic Rationale	12
Strength Through the Cycle	19
Financial Impact	20
Summary	23



# TRANSACTION SUMMARY

**Deepcore Drilling is  
a compelling  
acquisition for  
Mitchell Services**

**... strategically**

**... financially**

**... operationally**

- ✓ The acquisition of Deepcore Holdings Pty Ltd (“Deepcore Drilling”) will make Mitchell Services Limited (“MSV”) one of the largest and most diversified pure play drilling services companies in Australia
- ✓ The acquisition is expected to be 38.5% EPS accretive based on pro forma financials\*
- ✓ MSV is currently trading at an EV/FY19 EBITDA multiple of 4.7 times (based on an 11 Nov 2019 closing share price of \$0.058 and net debt of \$12.7 million) with the acquisition to be completed on a 3.52 times (based on FY20 Deepcore Drilling forecast EBITDA of \$12.5 million) basis
- ✓ Diversifies and strengthens market position by:
  - ✓ Drilling type: Deepcore Drilling offers complementary drilling services through surface and underground operations with specialty acoustic drilling that MSV does not currently provide
  - ✓ Commodity: Deepcore Drilling is primarily gold & copper focussed thereby balancing existing MSV commodity mix
  - ✓ Geography: Deepcore Drilling is primarily in Victoria and New South Wales where MSV has a small presence
- ✓ The acquisition significantly increases tender pipeline and growth opportunities
- ✓ Leverage of different brands to maintain strong nimble relationships with customers and employees while taking advantage of consolidation synergies
- ✓ The acquisition is expected to be completed by the end of this calendar year

\*Based on FY19 underlying MSV results and FY20 forecast Deepcore Drilling results

# TRANSACTION SUMMARY (CONT)

<b>Deepcore Drilling Overview</b>	<ul style="list-style-type: none"> <li>• Leading provider of specialist underground and surface drilling</li> <li>• 32 rigs to service Eastern Australia with strong exposure to gold and to Victoria</li> </ul>
<b>Transaction Summary</b>	<ul style="list-style-type: none"> <li>• MSV to acquire 100% equity of Deepcore Drilling (excludes Papua New Guinea operations) for purchase consideration of \$32 million*</li> <li>• Consideration comprises 250 million fully paid MSV ordinary shares at an issue price of \$0.068 and \$15 million cash (post completion MSV will have 1.99 billion shares)</li> <li>• Based on FY20 forecasts Deepcore Drilling will add at least \$70 million revenue and \$12.5 million EBITDA to MSV on a per annum basis</li> <li>• An earn out period of three years post completion will apply under which any portion of EBITDA above \$12.5 million will be shared equally by Deepcore Drilling vendors and MSV</li> <li>• The purchase consideration is on the basis that Deepcore Drilling's net debt at settlement will not be greater than \$12 million</li> </ul>
<b>Transaction Metrics</b>	<ul style="list-style-type: none"> <li>• The acquisition implies an enterprise value for Deepcore Drilling of \$44 million (based on an acquisition multiple of 3.52 x FY20 forecast EBITDA)</li> <li>• MSV is currently trading at an EV/FY19 EBITDA multiple of 4.7 times (based on an 11 Nov 2019 closing share price of \$0.058 and net debt of \$12.7 million) with the acquisition to be completed on a 3.52 times (based on FY20 Deepcore Drilling forecast EBITDA of \$12.5 million) basis.</li> </ul>

\* 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 MSV.

# TRANSACTION SUMMARY (CONT)

<b>Deepcore Drilling Shareholding</b>	<ul style="list-style-type: none"> <li>• At acquisition completion, Deepcore Drilling vendors will own approximately 12.5% of post-acquisition MSV shares</li> <li>• Consideration shares will be escrowed for periods of between 6 and 12 months</li> <li>• Scott Tumbridge will be invited to join MSV's board as an Executive Director following completion and will hold 7.2% of MSV shares</li> </ul>
<b>New Debt Facility</b>	<ul style="list-style-type: none"> <li>• The cash component of purchase consideration (\$15 million) is expected to be debt funded</li> <li>• MSV has received credit approval from NAB to fund the cash component (subject to certain conditions precedent*) under the below terms: <ul style="list-style-type: none"> <li>• 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</li> <li>• An increased \$10 million working capital facility limit (currently \$5 million limit)</li> <li>• Circa \$7 million headroom remaining in existing equipment finance facility</li> </ul> </li> </ul>
<b>Integration</b>	<ul style="list-style-type: none"> <li>• Well developed integration plan to manage the transition and assist in realising expected integration synergies</li> <li>• The brand and current operating structure of Deepcore Drilling will remain largely unchanged</li> <li>• MSV 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</li> </ul>

\*NAB conditions precedent include the finalisation of due diligence



## TRANSACTION SUMMARY (CONT)

### Conditions Precedent

- Acquisition subject to customary conditions precedent including no material adverse change to Deepcore Drilling or MSV, required change of control consents and MSV obtaining necessary funding to complete the transaction

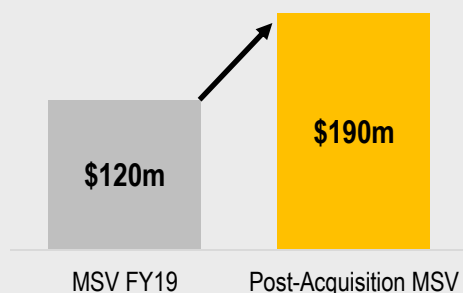
### Financial Impact

- The acquisition is expected to be 38.5% EPS accretive for MSV shareholders based on FY19 underlying MSV results and FY20 forecast Deepcore Drilling results
- Longer term transaction benefits are expected to include supply chain pricing, shared support costs, shared IP & technology and back office economies of scale
- Opportunity to leverage complementary client base

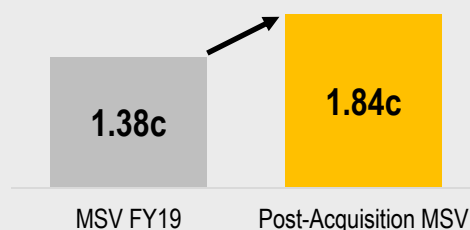
# TRANSACTION SUMMARY (CONT)

Pro forma financials demonstrate strong financial position post-acquisition

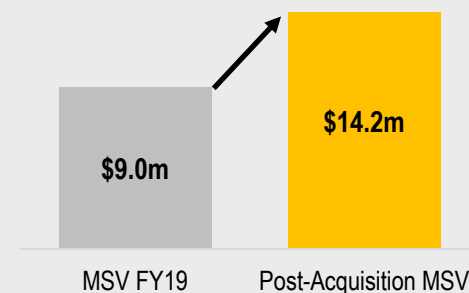
Pro forma Revenue



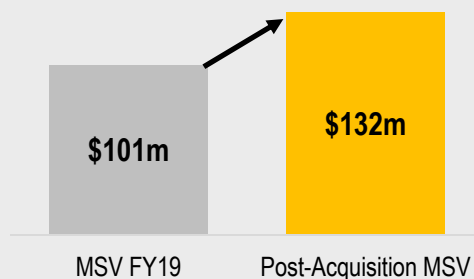
Pro forma EBITDA Per Share



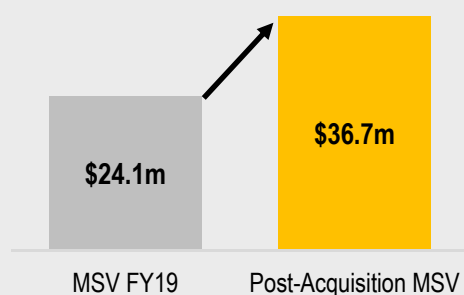
Pro forma Net Profit



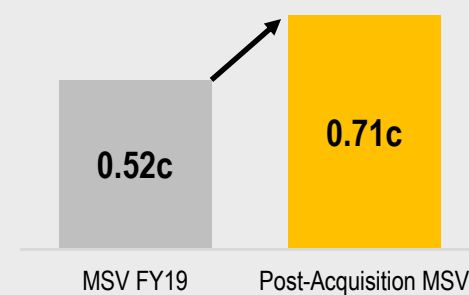
Theoretical Market Cap



Pro forma EBITDA



Pro forma EPS



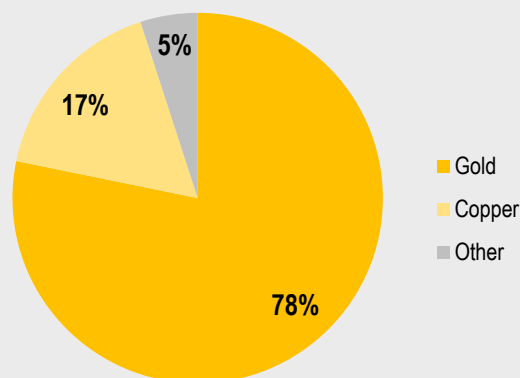
Based on FY19 underlying MSV results and FY20 forecast Deepcore Drilling results



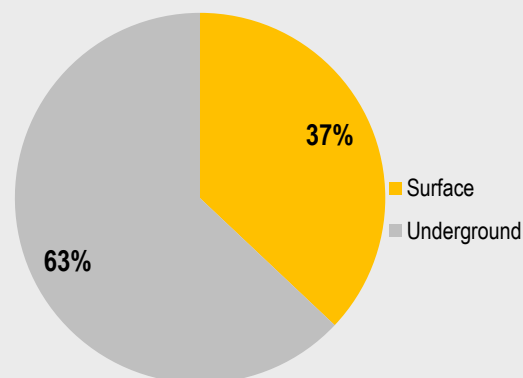
# DEEPCORE DRILLING OVERVIEW

## Overview

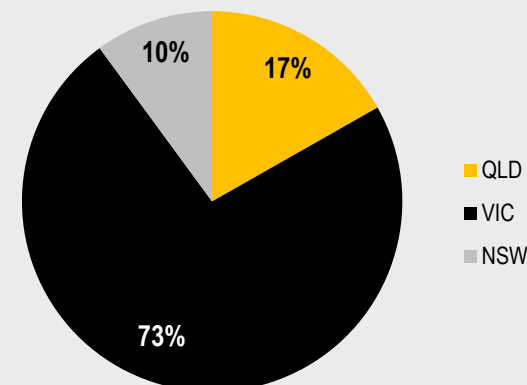
FY20 Revenue by Commodity



FY20 Revenue by Drilling Type



FY20 Revenue by Geography



- Founded in 2005, Deepcore Drilling provides surface, underground and specialised acoustic drilling services to the mining and infrastructure industries
- Headquartered in Bendigo, Victoria
- Deepcore Drilling services Australia's east coast
- Majority owned by founder Scott Tumbridge who will be invited to join the MSV board as an Executive Director
- Long-term client base, near mine production related work
- 32 high-quality underground and surface drill rigs at an anticipated utilisation\* of 90%+ in FY20
- Values and culture aligned to MSV with strong historic safety record

\* Utilisation is calculated as rigs located on operating mine sites during the month

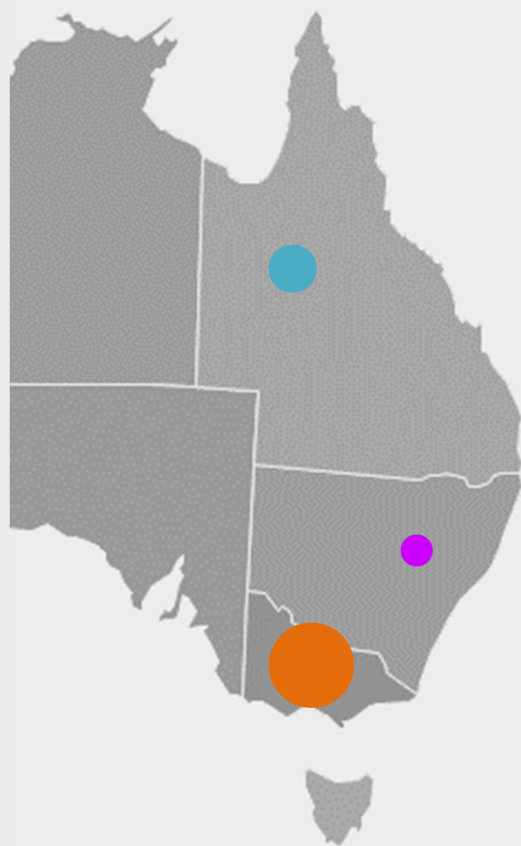
# DEEPCORE DRILLING OVERVIEW (CONT)

## Unique Client Offering

- 32 rigs including latest generation mobile underground rigs
- Underground and surface operations
- Operations in Victoria, Tasmania, New South Wales and Queensland
- Long term clients
- Extensive capacity and experience, yet flexible and responsive
- Strong focus on culture, safety and customer satisfaction
- Industry experts in deep hole directional diamond core drilling
- Provide customised equipment for specialised drilling in house
- Industry experts in underground mobile and specialised surface, acoustic (noise suppression) drilling
- Engaged on some of Australian's major mining and infrastructure projects



## DEEPCORE DRILLING OVERVIEW (CONT)



Client	Client Type	Commodity	State	% of Consolidated Pro forma*
Client 1	Other	Gold	● VIC	4%
Client 2	Tier 1	Gold	● NSW	4%
Client 3	Tier 1	Copper/Zinc	● QLD	2%
Client 4	Tier 1	Gold	● VIC	18%
Client 5	Tier 1	Copper/Zinc	● QLD	4%
Client 6	Other	Other	● VIC	2%
Client 7	Other	Gold	● VIC	2%

**Diverse Portfolio of Contracts with high quality Tier 1 clients on mine sites**

\* Deepcore Drilling represents circa 36% of total consolidated pro forma revenue based on FY19 actual MSV results and FY20 forecast Deepcore Drilling results

# STRATEGIC RATIONALE

**The acquisition will make MSV one of the largest and most diversified pure play drilling services companies in Australia**

## **Stronger Product Offerings**

- Adds: geotechnical / infrastructure
- Adds: further mobile underground capacity
- Adds: surface acoustic (noise suppression)
- Adds: 'upsell' and 'cross-sell' opportunities
- Adds: additional deep hole directional diamond core drilling
- Adds: stable, local workforce

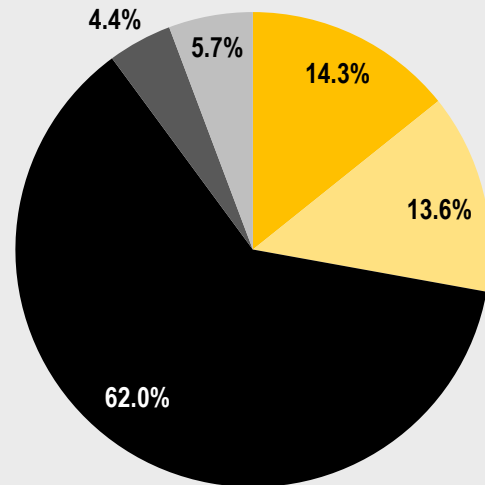


The brand and cultures of MSV and Deepcore Drilling are aligned:

Strong safety focus, quality over quantity, emphasis on customer service, leading technology and systems, nimble organisation, people drive success

# STRATEGIC RATIONALE (CONT)

MSV FY19 Actual Revenue by Commodity: \$120m

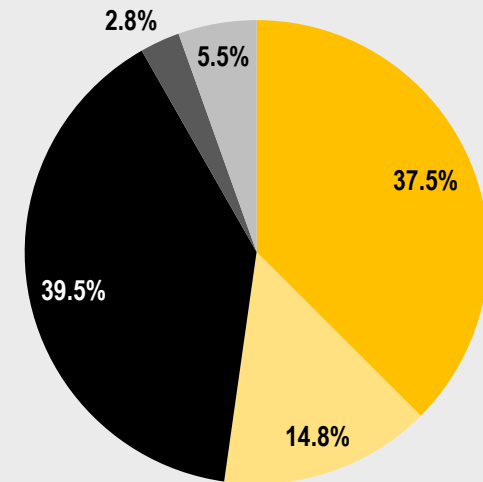


■ Gold ■ Copper ■ Coking Coal ■ Lead/Zinc/Silver ■ Other

Deepcore Drilling FY20 Forecast Revenue: \$70m



Pro forma Revenue by Commodity: \$190m



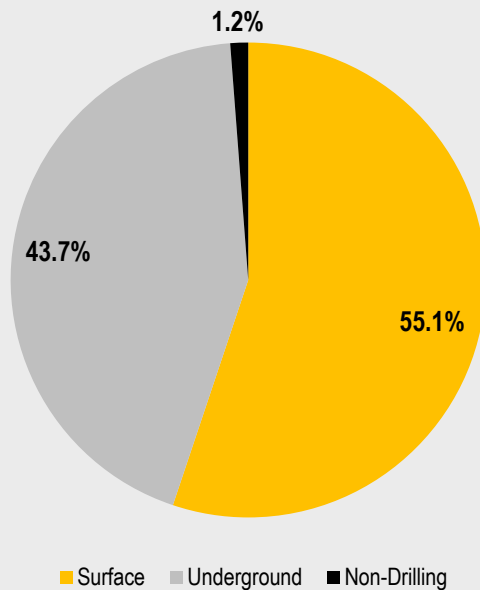
■ Gold ■ Copper ■ Coking Coal ■ Lead/Zinc/Silver ■ Other

**Increase in revenue diversity by commodity**

Based on FY19 actual MSV results and FY20 forecast Deepcore Drilling results

## STRATEGIC RATIONALE (CONT)

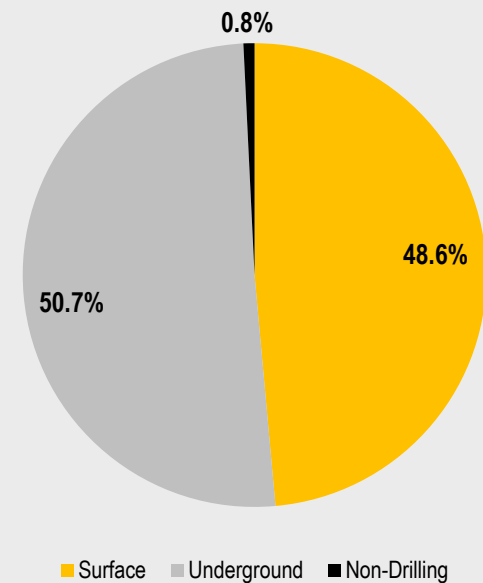
MSV FY19 Actual Revenue by  
Drilling Type: \$120m



Deepcore Drilling FY20  
Forecast Revenue: \$70m



Pro forma Revenue by  
Drilling Type: \$190m



**Maintains diversity by drilling type**

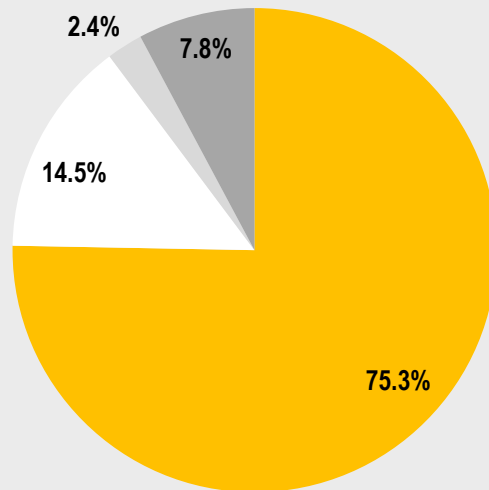
Based on FY19 actual MSV results and FY20 forecast Deepcore Drilling results



# STRATEGIC RATIONALE (CONT)

## Increase in revenue diversity by geography

MSV FY19 Actual Revenue by Geography: \$120m

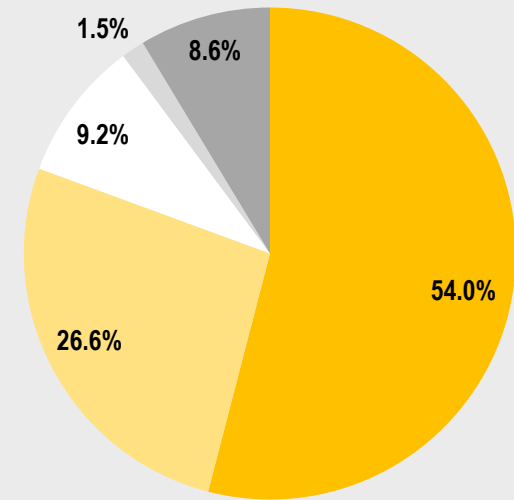


■ QLD ■ VIC ■ SA ■ WA ■ NSW

Deepcore Drilling FY20  
Forecast Revenue: \$70m



Pro forma Revenue by Geography: \$190m



■ QLD ■ VIC ■ SA ■ WA ■ NSW

Increased exposure to southern Australia reduces business seasonality (wet season impact)

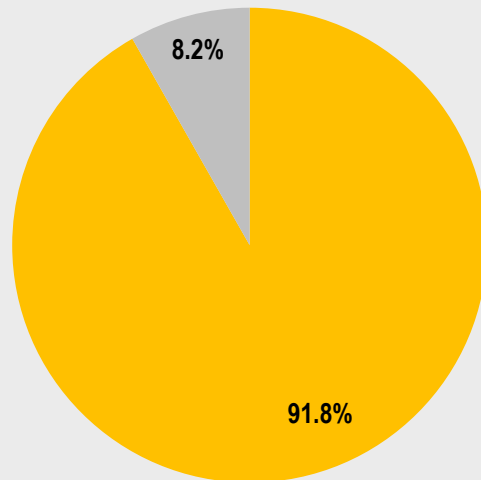
Based on FY19 actual MSV results and FY20 forecast Deepcore Drilling results



# STRATEGIC RATIONALE (CONT)

## Tier 1 client base increase in size and diversity

MSV FY19 Actual Revenue by Client Type: \$120m

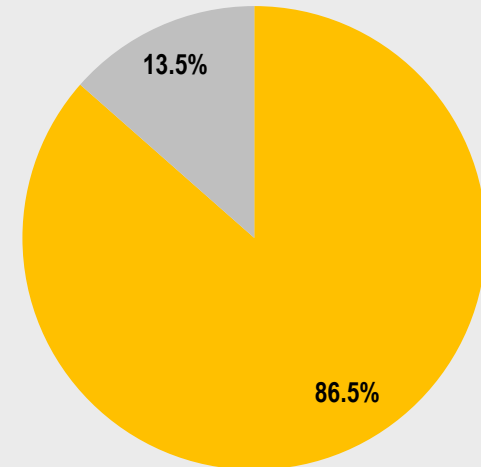


■ Tier 1 Clients ■ Other Clients

Deepcore Drilling FY20 Forecast Revenue: \$70m



Pro forma Revenue by Client Type: \$190m



■ Tier 1 Clients ■ Other Clients

Tier 1 Clients are large / multinational mining & energy companies

Based on FY19 actual MSV results and FY20 forecast Deepcore Drilling results

## STRATEGIC RATIONALE (CONT)

### Current brands



Mitchell Services



Radco Technologies

### Future brand strategy



Mitchell Services



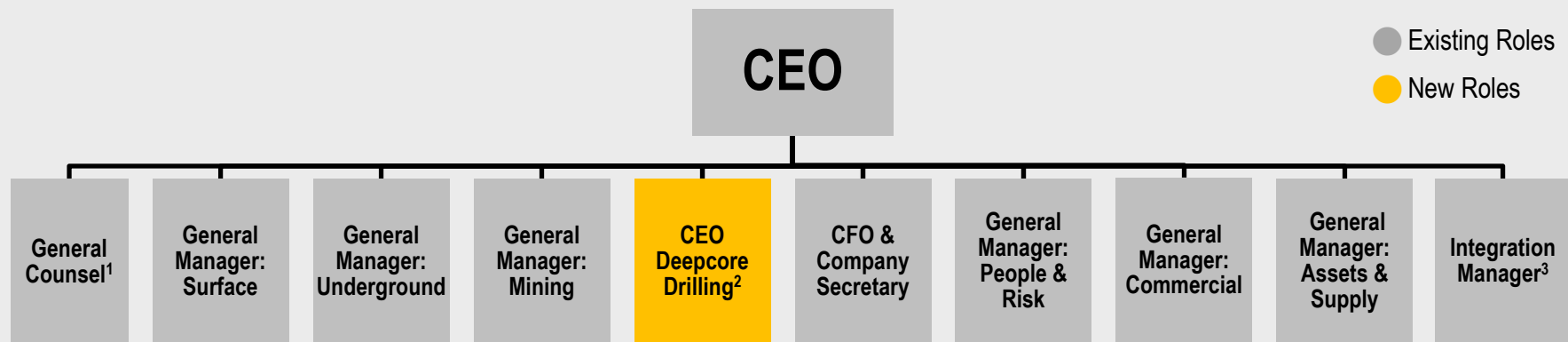
Radco Technologies



Deepcore Drilling

**Leverage of brands to maintain strong nimble relationships with customers and employees while taking advantage of consolidation synergies**

## STRATEGIC RATIONALE (CONT)



Organisation structure focus on drilling types and commodity to allow **streamlined processes** and systems driving **efficiency and safety for customers**

Shared services consolidated into MSV to support business and **deliver synergies** via procurement and key initiatives

Integration Manager to focus on key elements of integration and delivery of consolidation synergies

1. part time
2. existing Deepcore CEO
3. temporary role

# STRENGTH THROUGH THE CYCLE – OUR PLAN ON A PAGE

## OUR VISION

To be Australia's leading provider of drilling services to the global exploration, mining and energy industries

## OUR PROMISE

Be Sure. Be Safe.  
Our People are Your Success.  
Find a Better Way.

	SAFETY & SUSTAINABILITY	PEOPLE	OPERATIONAL PERFORMANCE	TECHNOLOGY & INNOVATION	PROFITABLE GROWTH
	Finish each day without harm to our people, the community and the environment	A culture of trust, support, respect and recognition	Quality service through effective strategy, structure and systems	Continuously improve and find a better way	Grow the value of the business
WHAT WE WILL DO	<ul style="list-style-type: none"><li>Safety leadership</li><li>Safety differently</li><li>Health, hygiene, wellbeing</li><li>Environmental management</li><li>Social performance</li></ul>	<ul style="list-style-type: none"><li>Best person for the job</li><li>Performance management</li><li>Leadership development</li><li>Skills training</li></ul>	<ul style="list-style-type: none"><li>Management operating system</li><li>Asset management</li><li>Material risk management</li><li>Analytics</li><li>Integrated planning</li></ul>	<ul style="list-style-type: none"><li>Leaders in safe rig spread design</li><li>External partnerships</li><li>Research and development</li><li>Innovation pipeline</li></ul>	<ul style="list-style-type: none"><li>Growth pipeline</li><li>Disciplined capital allocation</li><li>Operational execution</li><li>Mergers &amp; acquisitions</li></ul>
MEASURES	<ul style="list-style-type: none"><li>Zero fatalities &amp; life changing injuries</li><li>LTIFR</li><li>Nil above occupational exposure limits</li><li>Compliance with Mitchell Services &amp; client standards</li></ul>	<ul style="list-style-type: none"><li>Organisational health</li><li>Retention rates</li><li>Productivity</li><li>Training and development</li></ul>	<ul style="list-style-type: none"><li>Productivity</li><li>Operating cash flow</li><li>Equipment availability</li><li>Client feedback</li></ul>	<ul style="list-style-type: none"><li>Innovation pipeline delivery</li><li>Asset optimisation delivery</li><li>Step change market leader</li></ul>	<ul style="list-style-type: none"><li>Return on capital employed</li><li>Earnings per share</li><li>EBIT%</li><li>Debt to EBITDA</li></ul>
HOW WE WILL DO IT	<div> Treat our people as a solution not a problem</div> <div> Care about and support our people</div>	<div> Keep it simple</div> <div> Management of capital allocation</div>	<div> Operational discipline</div>	<div> Humble yet strong leaders</div> <div> Talent development</div>	<div> Operations is king</div> <div> Bottom up innovation</div>

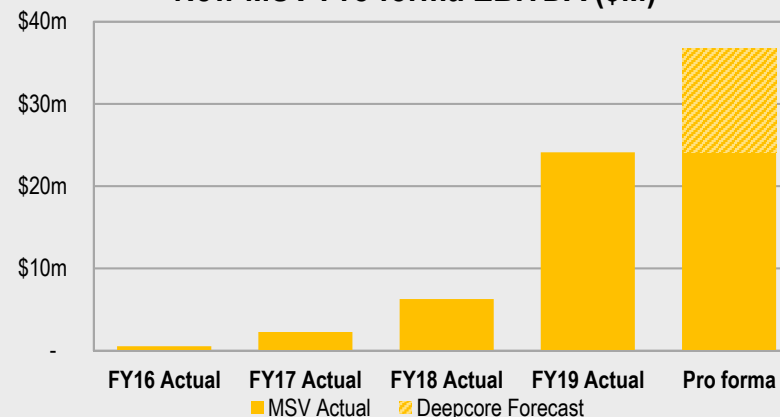
# FINANCIAL IMPACT

## Pro forma Profit & Loss

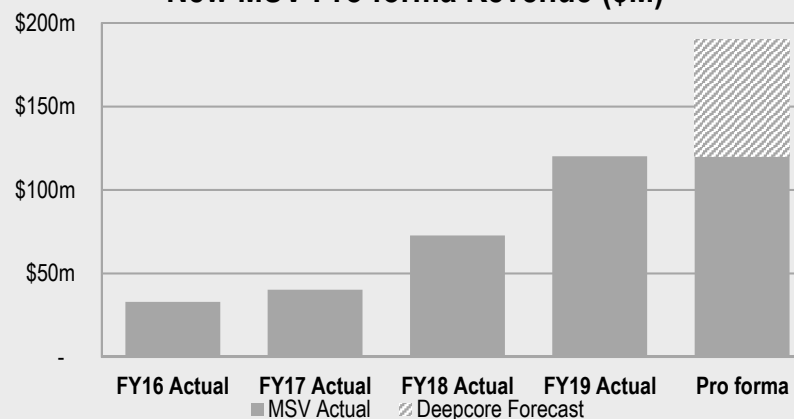
	MSV FY19	Deepcore FY20 Forecast	MSV Post- Acquisition
	\$000's	\$000's	\$000's
Revenue	120,205	69,916	190,121
<b>EBITDA</b>	<b>24,112</b>	<b>12,573</b>	<b>36,685</b>
<b>EBITDA %</b>	<b>20.1%</b>	<b>18.0%</b>	<b>19.3%</b>
EBIT	13,894	8,214	22,108
<b>Underlying NPAT</b>	<b>8,980</b>	<b>5,242</b>	<b>14,223</b>

- Deepcore Drilling FY19 Revenue \$46.5 million and EBITDA \$6.3 million (unaudited)
- Increase in Deepcore Drilling into FY20 relates to mobilisations of additional rigs to existing clients with ramp up costs from FY19 converting to earnings in FY20 (similar to MSV from FY18 to FY19)
- MSV anticipates both revenue and EBITDA to be improved on FY19 results
- Pipeline for future growth is strong and both companies are on track to meet revenue and EBITDA expectations

New MSV Pro forma EBITDA (\$M)



New MSV Pro forma Revenue (\$M)



# FINANCIAL IMPACT (CONT)

## Pro forma Balance Sheet

30-Sep-19	MSV	Deepcore	Trans. Adj	New MSV
	\$000's	\$000's	\$000's	\$000's
Cash and cash equivalents	2,242	338		2,580
Receivables	22,762	8,229		30,991
Inventories	3,131	599		3,730
PPE	44,765	18,625	2,000 <sup>1</sup>	65,390
Intangibles	-	-	28,293 <sup>2</sup>	28,293
Deferred tax assets	3,865	732		4,598
Other assets	2,788	1,065		3,853
<b>Total assets</b>	<b>79,554</b>	<b>29,588</b>	<b>30,293</b>	<b>139,435</b>
Payables	16,469	5,399		21,869
Deferred tax liabilities	-	-	7,890 <sup>3</sup>	7,890
Current tax liabilities	-	-		-
Employee provisions	4,498	2,230		6,728
Other liabilities	3,740	-		3,740
Interest bearing debt	14,936	12,361	16,000 <sup>4</sup>	43,298
<b>Total liabilities</b>	<b>39,643</b>	<b>19,991</b>	<b>23,890</b>	<b>83,524</b>
Share capital	54,519		17,000 <sup>5</sup>	71,519
Reserves	-			-
Retained earnings	(14,608)		(1,000)	(15,608)
<b>Shareholders Equity</b>	<b>39,911</b>	<b>-</b>	<b>16,000</b>	<b>55,911</b>

The impact of the Purchase Price Accounting (PPA) has not been completed, pro forma transaction adjustments are illustrative only subject to change upon finalisation of PPA. MSV is required to undertake an assessment of the fair value of the tangible and intangible assets acquired and the actual and contingent liabilities of Deepcore Drilling at acquisition date. The outcome of the assessment could give rise to different values being applied than those used in the pro forma financial information in this presentation.

1. Indicative adjustment to recognise the fair value of property, plant and equipment at acquisition.
2. Indicative intangible assets such as customer contracts, goodwill and any other acquired unrecognised intangibles to be recognised on acquisition.
3. Deferred tax liabilities in respect of the customer intangibles recognised as part of PPA.
4. MSV will acquire \$16 million additional debt to fund the cash consideration (\$15 million) and transaction / integration costs.
5. MSV will issue approximately 250 million fully paid ordinary shares as part of the purchase consideration.

# FINANCIAL IMPACT (CONT)

## Pro forma Capitalisation

30-Sep-19	MSV	Deepcore	Trans. Adj	New MSV
	\$000's	\$000's	\$000's	\$000's
Equipment finance	14,936	12,361	-	27,298
Acquisition Funding Facility	-	-	16,000	16,000
<b>Gross Debt</b>	<b>14,936</b>	<b>12,361</b>	<b>16,000</b>	<b>43,298</b>
Cash	2,242	338	-	2,580
<b>Net Debt</b>	<b>12,695</b>	<b>12,023</b>	<b>16,000</b>	<b>40,718</b>
<b>Shareholders Equity</b>	<b>39,911</b>	<b>n/a</b>	<b>16,000</b>	<b>55,911</b>
Net Debt to Pro forma EBITDA	0.5 x	1.0 x	n/a	1.1 x

- MSV to utilise strong balance sheet and fund the \$15 million cash consideration through debt.
- This will bring consolidated net debt to \$40.7 million representing approximately 1.1 x EBITDA on a pro forma basis.
- MSV considers this level of leverage to be appropriate at the current time and will remain strategically focused to reduce debt.
- Strong support from NAB with a new finance facility offering:
  - 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 increase (from \$5 million to \$10 million) on MSV's working capital facility which is currently undrawn
  - Circa \$7 million headroom remaining in existing equipment finance facility



# SUMMARY

- Mitchell Services' vision is to be **Australia's leading provider of drilling services** to the global exploration, mining and energy industries
- **Earnings per share accretive** for shareholders
- Acquisition **increases diversity** by commodity and geography
- Post acquisition a larger and more diversified **high quality client base**
- Diverse portfolio of **multi-year, multi rig contracts** with "Tier 1" clients on operating mine sites
- **Increased tender pipeline** and opportunities from broader client base
- **Deepcore Drilling founder** to be invited to join the MSV board and become substantial MSV shareholder

