29 April 2021

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records solid underlying FY21 Q3 operating and financial performance whilst reported EBITDA impacted by the final SMS impairment in relation to January and February revenue.

- Revenue $45.2m
- Reported EBITDA $5.8m
- Operating cash flow $6.4m
- 12-month gross debt reduction 29.6%
- Revised FY21 EBITDA guidance of $25m-$29m

Outlook and guidance

There is no change to the FY21 revenue guidance levels previously provided of between $190m and $200m, however Mitchell Services Limited (the Company) wishes to revise its FY21 EBITDA guidance levels from $29m-$33m to $25m-$29m. After adding-back the $9.6m impairment in relation to the SMS receivable, the Company expects FY21 underlying EBITDA to be $34.6m-$38.6m.

The updated guidance level reflects a decision to reduce asset sales based on strong forecast demand for drilling services. Drill rigs and other ancillary equipment are bought and sold in the ordinary course of business based on business requirements. Whilst the Company regularly makes gains and losses on asset recycling, the value of various asset classes including drill rigs has increased significantly in recent times given the strength of the market, notwithstanding the fact that the Company purchased many of its assets at cents in the dollar at the bottom of the market from companies in receivership.

The long-term industry outlook is positive, capital raisings in the resource sector are continuing, commodity prices remain strong and the Company's tender pipeline is increasing as is demand from existing clients. The tender pipeline has continued to increase to the point that, based on current conversion rates, rig utilisation is likely to reach capacity at some stage in calendar year 2021. Based on the strong forecast demand for drilling services, the Company expects that any recycling of existing assets (and resultant gains on asset sales) will be kept to a minimum (if at all) while demand for drilling services remains strong.

FY21 Q3 Update

The Company provides the following update for the quarter ended 31 March 2021 (FY21 Q3) based on its un-audited consolidated management accounts.

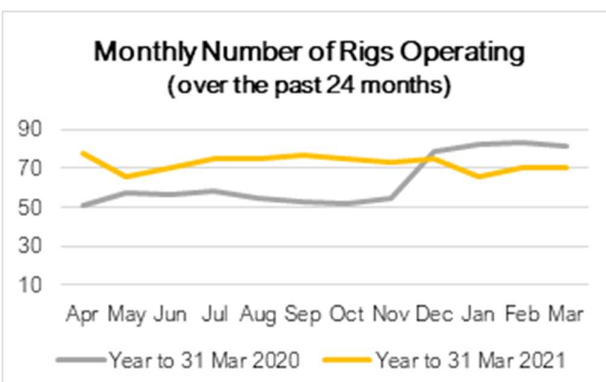
In the previous quarterly investor update, the Company noted a significant increase in demand for drilling services within the gold and base metals sectors whilst also noting that activities within the metallurgical coal sector of the business had remained relatively flat. Whilst this remains the case, and whilst the business and industry outlook remain positive, FY21 Q3 saw a reduction in activity levels compared to the same quarter last year (FY20 Q3) as the below tables illustrate. This reduction was primarily due to the slower rate at which Q3 activity levels within the metallurgical coal sector ramped up after the traditional Christmas holidays, the BHP Olympic Dam contract loss (in July 2020) and the recent SMS contract termination.

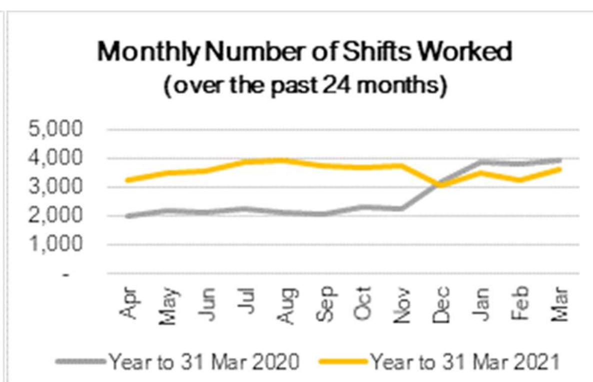
Recognition of final impairment in relation to the SMS trade receivable

FY21 Q3 reported EBITDA performance was impacted by the recognition of the final $2.3m impairment in relation to the SMS receivable (being the amount of revenue recognised between 1 January 2021 and the contract termination date of 12 February 2021). This brings the final total cumulative impairment loss recognised to date for the SMS receivable to $9.6m. The Company believes these amounts are due and payable and will continue to pursue our claim vigorously.

By way of an operating update in relation to the Kirkalocka site, the Company can advise that the demobilisation was completed safely and professionally. It can also advise that the associated idle drill and blast rigs were sold in April as part of a successful sales process and that the proceeds (approximately $3.5m) were used to repay related equipment finance debt. This brings total gross debt, as at today, to approximately $26.7m which represents the lowest level of gross debt since the Deepcore acquisition in late 2019.

	FY21 Q3	**FY20 Q3**	**Movement**	**Movement %**
Average operating rigs	68.7	81.3	(12.6)	(15.5%)
Number of shifts	10,283	11,472	(1,189)	(10.4%)
Revenue ($'000s)	45,157	51,806	(6,649)	(12.8%)
Reported EBITDA ($'000s)	5,789	10,045	(4,256)	(42.4%)
Operating cash flow ($'000s)	6,416	7,351	(935)	(12.7%)





The below table summarises the un-audited financial and operating results for the nine months ended 31 March 2021.

Un-audited FY21 year-to-date information as at 31 March 2021

	FY21 Q1	FY21 Q2	FY21 Q3	FY21 YTD
Average operating rigs	75.7	74.3	68.7	72.9
Number of shifts	11,529	10,467	10,283	32,279
Revenue ($'000s)	53,185	46,804	45,157	145,146
EBITDA ($'000s)	10,400	2,065	5,789	18,254
EBITDA (%)	19.6%	4.4%	12.8%	12.6%
Operating cash flow ($'000s)	9,474	6,272	6,416	22,162
Annualised revenue per rig ($'000s)	2,810	2,520	2,629	2,655
Net Debt ($'000s)	25,557	23,379	27,127	27,127
Gross debt ($'000s)	36,061	32,978	30,256	30,256

Commenting on the FY21 Q3 performance and the outlook, Chief Executive Officer Andrew Elf said, "Whilst the Company has faced some short-term challenges, the outlook is the strongest it has been since we re-entered the Australian market back in late 2013. Our teams in the field continue to work hard and are operating safely and productively for our clients. We are looking forward to an improved Q4 and profitable FY22".

This announcement has been authorised by the Company's Board of Directors.

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.