31 January 2022

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records its highest ever revenue for any second quarter period as the Company begins to deliver on its previously announced material organic growth strategy.

- Revenue $50.2m
- EBITDA $9.4m
- Operating cash flow $8.2m
- 6-month net debt reduction 12.4%

Dear Shareholder,

I am pleased to provide the following investor update for the quarter ended 31 December 2021 (**FY22 Q2**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

Business strategy update

Consistent with our organic growth strategy and given the continuing strong level of demand for drilling services (as anticipated), the Company has recently exercised its option to acquire all twelve LF160 state of the art surface drill rigs. To date, the Company has taken delivery of five rigs with two currently operating, and three undergoing preparations to move to client sites. The remaining seven rigs will arrive at various times during the next five months with the final rig scheduled for delivery in June 2022.

Nine of the twelve rigs have been assigned to existing drilling contracts with Tier 1 Global miners with strong customer interest received from existing and potential new clients for the remaining three.

Once our capital commitments for these new rigs have been met in June 2022, the business will limit further significant growth capital expenditure (to the extent it makes sense to do so) and focus on generating strong cash flows with the world class fleet that the Company has invested in.

Quarterly Results

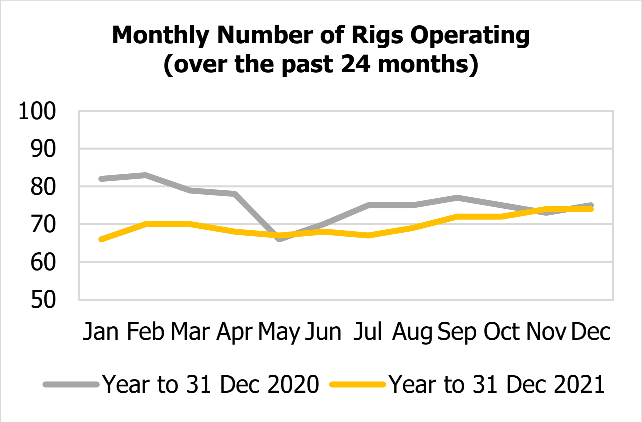
It's pleasing to note that the Company has had multiple contract wins and re-wins (predominately with Tier 1 global mining majors) during the quarter. The cumulative impact of these wins is extremely positive and the business is well positioned to benefit from these wins post the usual mobilisation and ramp up costs which traditionally result in a short-term delay between contract win and when the Company benefits from the full expected financial and operational performance.

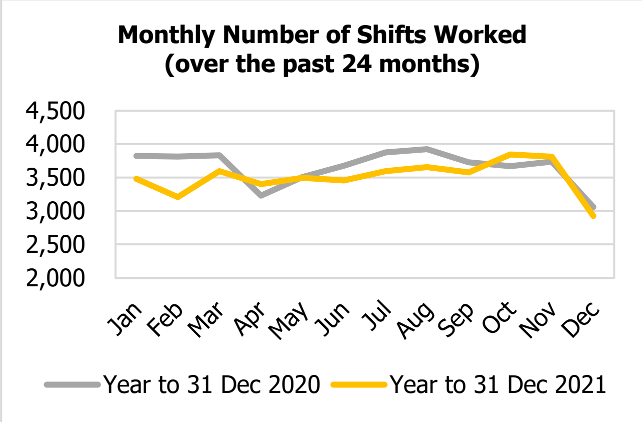
Whilst there were numerous positives in FY22Q2, it was not free from operational challenges beyond our expectations with performance impacted to a greater degree than expected by the emergence of the Omicron variant and excessive wet weather events across the country. I could not be prouder of all our teams and how well they have managed these challenges however we estimate the combined EBITDA impact of COVID-19 and the excessive wet weather events was approximately $1.0m for the quarter.

To mitigate against a La Nina weather pattern, supply chain impacts from COVID-19 and the material increases in demand for drilling services, inventory levels were proactively increased across the business. Orders were placed further in advance and for larger quantities than usual to reduce supply chain risk. The Company is beginning to see evidence of supply chain normalisation and if this materialises, it is likely that inventory levels will be run down to more normal levels in the future.

The factors outlined above, have resulted in both the EBITDA and cash conversion percentages being lower than the expected longer-term levels as the below financial tables illustrate.

	FY22 Q2	FY21 Q2	Movement	Movement %
Average operating rigs	73.3	74.3	(1.0)	(1.3%)
Number of shifts	10,585	10,467	118	1.1%
Revenue ($'000s)	50,225	46,804	3,421	7.3%
EBITDA ($'000s)	9,436	2,065	7,371	356.9%
Operating cash flow ($'000s)	8,157	6,272	1,885	30.1%





Half Year Results

The below table summarises the un-audited financial and operating results for the six months ended 31 December 2021 (1H22) vs the corresponding six months ended 31 December 2020 (1H21).

	6 months ended 31 Dec 21	6 months ended 31 Dec 2020	Movement	Movement %
Average operating rigs	71.3	75.0	(3.7)	(4.9%)
Number of shifts	21,414	21,996	(582)	(2.6%)
Revenue ($'000s)	102,884	99,989	2,895	2.9%
EBITDA ($'000s)	17,545	12,465	5,080	40.8%
EBITDA (%)	17.05	12.47		
Operating cash flow ($'000s)	12,657	15,746	(3,089)	(19.6%)
Annualised revenue per rig ($'000s)	2,885	2,666	219	8.2%
Net Debt ($'000s)	22,229	23,379	(1,150)	(4.9%)

The safety performance of the business on a rolling annual basis to the end of December was the best it has ever been. This is a testament to our culture and the quality of our teams and is particularly pleasing given COVID-19 and the continued growth of the business.

The reported 6-month EBITDA figure of $17.5m includes a profit and loss benefit of approximately $1.9m being a reduction to the provision in relation to the Deepcore Drilling earn out. The COVID-19 and wet season EBITDA factors impacted both the Mitchell Services and Deepcore businesses and as such, we expect that the total earn-out payment in relation to Deepcore will be lower than previously provided for. We are very pleased with the overall performance of the Deepcore business and I note that the second year earnout (in relation to calendar year 2021 just passed) will be very much in line with the first year earnout payment. Calendar year 2021 represented the second year of a three year earn out that will cease at the end of calendar year 2022.

I am also pleased to inform shareholders that all three tranches under the SMS Innovative Mining (SMS) settlement deed ($5.0m) have now been received and that this matter is now closed. The reported 6-month EBITDA figure includes a $2.0m benefit being the combined funds received from SMS under the deed between August 2021 and December 2021.

Industry update

Mitchell Services remains one the most diverse drilling businesses in Australia, offering specialist and highly technical surface and underground drilling services across a broad range of clients and commodities.

The broader industry outlook for drilling services demand remains the strongest that we have seen since 2008 against a backdrop of extremely positive industry fundamentals which include strong and, in many cases, increasing commodity prices as a result of:

- Global government stimulus and subsequent infrastructure spending
- Reducing grades and reserves
- Growing demand for future facing minerals including copper
- Australia being perceived as an attractive region to invest due to its high quality, low risk jurisdiction in which to operate
- An increase in new projects and exploration programs following increased levels of capital markets activity
- Increased budgets amongst larger Tier 1 producers
- Significant barriers to entry for new service providers including rig lead times/availability, their access to start-up funding and a highly regulated and complex operating environment
- Further consolidation within the drilling services sector

When discussing the half year performance with Executive Chairman Nathan Mitchell he stated "The FY22 half year performance was impressive given the various operational challenges the business faced from COVID-19 and an incredible and prolonged wet season. The business was well managed to navigate these challenges whilst delivering best practice safety performance. I am extremely pleased with the efforts and performance of all of our teams and thank them for their hard work. With both the supply and demand fundamentals so strong for the business it's really starting to get exciting. If the business can deliver on its strategy to reduce growth capex levels post the successful implementation of the current organic growth strategy, then the cash returns to investors could be significant."

Outlook and FY22 guidance

Based on the actual 6-month performance to date and factors outlined in the industry update above, the Company maintains its FY22 revenue and EBITDA guidance of $200m-$220m and $40m-$44m respectively. These guidance levels are based on an anticipated operating rig count of approximately 85 rigs by June 2022. Based on the size of the fleet (which is forecast to be 103 rigs by 30 June 2022) the business will have the capacity to generate EBITDA of between $50m and $60m and to deliver material EPS growth to its shareholders.

In closing I'd like to thank all employees for their hard work and dedication and all shareholders for their ongoing support.

Yours faithfully,

Andrew Elf
Chief Executive Officer
Mitchell Services Limited