



Mitchell
SERVICES

29 June 2022

**MITCHELL SERVICES LIMITED
(ASX: MSV)**

The Manager
Market Announcement Office
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Via electronic lodgement

CAPITAL MANAGEMENT POLICY & OPERATIONAL UPDATE

Mitchell Services Limited (ASX: MSV) (the Company) is pleased to announce its intention to commence dividend payments in FY23 and undertake an on market share buy-back, underpinned by the success of the Company's organic growth strategy which has delivered a substantial and expanding contract base, and capitalising on continuing strong growth in demand for specialised drilling services across a range of commodities.

High commodity prices are driving increasing demand for drilling services from large, multi-national Tier 1 mining clients and rapidly growing demand from mid-tier miners and junior explorers. Resulting constraints on the supply of drill rigs is supporting increases in utilisation and pricing, and improved contract terms. The Company's organic growth strategy of pre-ordering new drill rigs and upgrading technology ahead of the current supply chain constraints, and diversifying its fleet across drilling type and commodity, has positioned the business to capitalise on the increased demand for drilling services.

Chief Executive Officer, Andrew Elf said, "We foresaw the current resources upcycle and invested to expand our rig fleet before it impacted supply costs and lead times. Clients have seen the benefits of those investments in our ability to deploy state of the art equipment on their projects, and our pipeline of medium and long-term contracts is growing across drilling types and commodities.

Effectively delivering on our organic growth strategy puts Mitchell Services in a position to fund continued earnings growth and provide shareholders with sustainable long-term returns."

As part of its organic growth strategy that was announced in August 2021, the Company has taken delivery of 11 of the 12 new, state of the art LF160 drill rigs with the final rig expected to be delivered in the near future. The LF160 rigs have been deployed with several Tier 1 mining clients on long term contracts. Whilst these contracts are not individually material, the cumulative effect is material for

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the earnings of the business and as such, the Company expects both revenue and EBITDA to be materially greater in FY23 compared to that in FY22.

As part of its ongoing fleet management, the Company has also recently entered into an asset sale agreement to dispose of two of its older surface rigs. The disposed rigs were purchased in 2014 at the bottom of the market for a combined purchase price of approximately \$400,000. These rigs have operated and generated earnings for the Company since that time. In lieu of rebuilding these rigs at a cost of circa \$1,800,000 which would see them idle in a workshop for up to six months, the decision was made to sell the rigs in their current state. Under the terms of the sale agreement, the combined selling price for the two rigs is \$2,500,000 (excluding GST).

Mitchell Services now possesses one of the largest and highest quality fleets in Australia, with approximately 100 drill rigs, diversified by commodity and drilling type. The Company will continue to focus on improving rig utilisation and productivity.

Capitalising on buoyant market conditions and its significant investment in organic growth, the Company has increased confidence about future operating cash flows and its capacity to service debt, which underpins the decision to return surplus cash to shareholders.

CAPITAL MANAGEMENT POLICY

As it delivers on its organic growth strategy, the Company will emphasise a measured and structured approach to capital deployment to support future growth with a view to delivering long-term sustainable returns to shareholders whilst ensuring prioritisation and allocation of capital to the Company's balance sheet and shareholder returns through dividends and/or share buy-backs.

The Company will prioritise a portion of free cash flows to reduce leverage and has no present intention to raise equity to reduce leverage or for any other reason.

Maintenance capital will continue to be deployed as required to ensure the Company continues to provide world-class services to its clients. The Company will limit growth capital expenditure where it makes sense to do so during FY23 and FY24 and the focus of the Company's operations will be on utilisation and productivity of the existing fleet.

Dividend Policy

The Board is pleased to announce as part of its ongoing capital management strategy that it has introduced a formal dividend policy that will take effect from 1 July 2022.

The Company is committed to delivering cash returns to its shareholders and pursuant to the terms of the policy, up to 75% of the Company's reported post tax profits will be paid to shareholders in the form of a dividend.

Under the proposed dividend policy, an interim dividend will be declared with the Company's half year results (expected February 2023) with a final dividend to be declared at the Company's full year results (expected August 2023). The amount of each dividend will be up to 75% of reported after-tax profit for the corresponding six-month period.

Share buy-back

The Company is also pleased to confirm that it has initiated an on-market share buy-back. The proceeds from the sale of two drill rigs mentioned above will contribute towards the funding of the buy-back which is intended to commence on or about 14 July 2022.

In accordance with the ASX listing rules,

- the price paid for shares purchased under the buy-back will be no more than 5% above the volume weighted average price of the Company's shares over the five days of trading prior to the purchase, and
- the number of shares purchased under the buy-back will not exceed 10% of the Company's fully paid ordinary shares (approximately 22.5 million shares).

The Company reserves the right to suspend or terminate the buy-back at any time and there is no commitment or guarantee that the Company will purchase any or all of the 22.5 million shares. The timing and number of shares purchased will depend on the prevailing share price and other considerations, and all shares purchased under the buy-back will be cancelled.

Wilsons Stockbroking and Advisory Limited will act as the transaction broker in relation to the buy-back.

Nathan Mitchell, Executive Chairman of Mitchell Services, said, "It is imperative that we continue our disciplined approach to capital management and continue to focus on shareholder returns. The outlined capital management policy is a key enabler to strengthen our balance sheet, maximise shareholder value and create sustainable, long-term returns. The capital management policy helps Mitchell Services to live our vision of finding a better way to unlock resources for our customers, for the benefit of our shareholders, our people and the community."

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

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This announcement contains certain "forward-looking statements". Forward looking words such as "expect", "should", "could", "may", "will", "believe", "forecast", "estimate" and other similar expressions are intended to identify such forward-looking statements. Such statements are subject to various known and unknown risks, uncertainties and other factors that are in some cases beyond the Company's control. These risks, uncertainties and factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements and from past results, performance or achievements. The Company cannot give any assurance or guarantee that the assumptions upon which management based its forward-looking statements will prove to be correct or exhaustive beyond the date of its making, or that the Company's business and operations will not be affected by other factors not currently foreseeable by management or beyond its control. Such forward looking statements only speak as at the date of this announcement and the Company does not assume any obligation to update such information.