

28 July 2022

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records solid FY22 Q4 operating and financial performance

- Record fourth quarter revenue
- Record fourth quarter average operating rig count
- Challenging operating conditions due to multiple wet weather events and COVID-19
- Material capital investment program effectively complete
- Well positioned to generate strong cashflows and deliver on capital management strategy

Dear Shareholder

I am pleased to provide the following investor update for the quarter ended 30 June 2022 (**FY22 Q4**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

Organic Growth Strategy Update

Except for a small number of ancillary assets that are expected to settle in the coming weeks, the implementation of the material capital investment program pursuant to the Company's organic growth strategy is effectively complete. The organic growth strategy and investment program (that was previously announced in August 2021) of pre-ordering 12 new, state of the art drill rigs ahead of the current supply chain constraints has positioned the business to capitalise on increased demand for specialised drilling services across a range of different commodities.

I am delighted with the timing of the completion of the investment program which is beginning to deliver a substantial and expanding contract base. We foresaw the current resources upcycle and invested to expand our rig fleet before it impacted supply costs, lead times and funding costs. Clients have seen the benefits of this investment in our ability to deploy state of the art equipment on their projects and as such, all LF160 rigs are now assigned to client projects pursuant to new or expanding contracts and all 12 of these rigs will be operating in the near future. Whilst each new contract may not be individually material, the cumulative effect of these contracts is material for 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.

Quarterly results

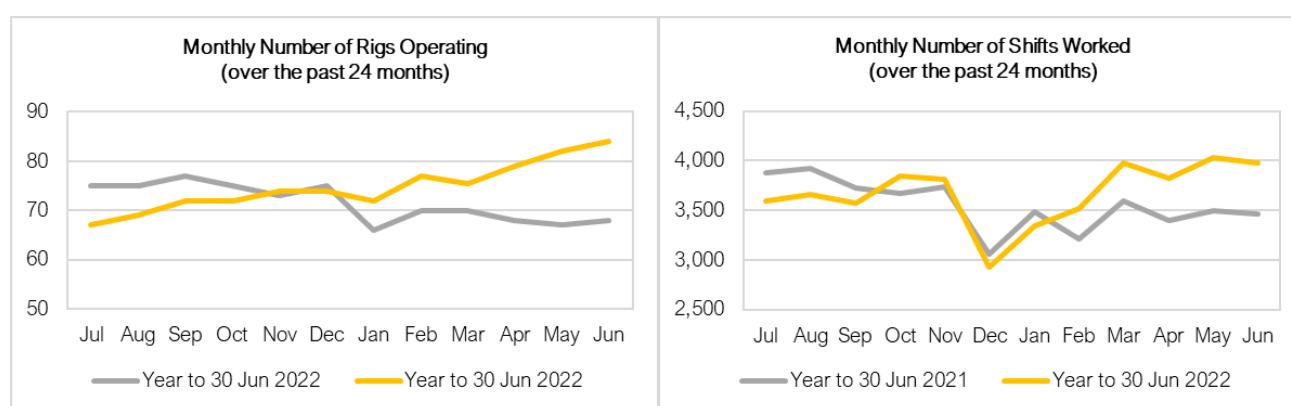
It is pleasing to note that the Company recorded its highest ever revenue for any fourth quarter period. Revenue for FY22 Q4 was \$55.9m which represents a 21.0% increase when compared to the FY21 Q4 figure of \$46.2m.

The significant revenue increase was driven by a combination of increased utilisation and pricing. The average operating rig count in FY22 Q4 was 81.7 compared to 67.7 in FY21 Q4 with the increase largely attributable to new or expanding contracts (predominantly with Tier 1 global mining majors).

FY22 Q4 saw a significant amount of unseasonal rainfall across most of the regions in which the Company operates whilst COVID-19 related absenteeism due to illness or close contact isolation requirements was the highest since the start of the global pandemic. In some ways it was unfortunate that these factors coincided with a period during which a significant number of rigs were being deployed. This is illustrated in the graphs below that depict the significant increase in operating rigs from March to June whilst demonstrating the relatively flat level of shifts during the same period. The difference between the expected number of shifts for 81.7 rigs (using historical levels of shifts per rigs) and the actual number of worked shifts in FY22 Q4 represents the approximate combined impact of these interruptions that temporarily restricted further revenue growth and operating margins. These interruptions, together with normal levels of ramp up costs associated with the significant rig deployment saw a temporary reduction in the operating

margin percentage with the business generating EBITDA in FY22 Q4 of \$6.0m. These factors, in addition to temporarily increased working capital requirements resulted in the quarterly cash conversion ratio being lower than the expected longer-term levels as the below tables illustrate. The increased working capital requirements were as a direct result of the significant mobilisations as well as increasing revenue levels in FY22 Q4. The heavy lifting is behind us and the Company is very well positioned heading into FY23.

	FY22 Q4	FY21 Q4	Movement	Movement %
Average operating rigs	81.7	67.7	14.0	20.6%
Number of shifts	11,837	10,354	1,483	14.3%
Revenue (\$'000s)	55,946	46,238	9,708	21.0%
EBITDA (\$'000s)	6,017	7,621	(1,604)	(21.0%)
Operating cash flow (\$'000s)	3,497	7,895	(4,398)	(55.7%)



YTD Results

The below table summarises the un-audited financial and operating results for the 12 months ended 30 June 2022.

	FY22 Q1	FY22 Q2	FY22 Q3	FY22 Q4	FY22 YTD	FY21
Average operating rigs	69.3	73.3	75.0	81.7	74.8	71.6
Number of shifts	10,829	10,585	10,835	11,837	44,086	42,633
Revenue (\$'000s)	52,659	50,225	54,539	55,946	213,369	191,384
EBITDA (\$'000s)	8,109	9,436	8,591	6,017	32,153	25,875
EBITDA (%)	15.4%	18.8%	15.8%	10.8%	15.1%	13.5%
Operating cash flow (\$'000s)	4,500	8,157	6,062	3,497	22,216	30,057
Annualised revenue per rig (\$'000s)	3,040	2,740	2,909	2,740	2,851	2,673
Net debt (\$'000s)	18,360	22,229	29,230	39,180	39,180	25,373
Gross debt (\$'000s)	27,466	32,592	36,190	42,922	42,922	29,609

Capital Management Update

The Company now possesses one of the largest and highest quality fleets in Australia, with approximately 100 drill rigs, diversified by commodity and drilling type. Capitalising on buoyant market conditions and its significant investment in organic growth, the Company has increased confidence about future operating cashflows and debt service capacity which underpins the recent decision to return surplus cash to shareholders. Under the recently implemented dividend policy, up to 75% of the Company's reported post tax profits are intended be paid to shareholders in the form of a dividend. Under the policy, an interim dividend is intended to be declared with the Company's half year results (in February 2023) with a final dividend intended to be declared with the Company's full year results (in August 2023).

As previously announced, the Company has completed the sale of two drill rigs for combined sales proceeds of \$2,500,000. The sale of these older rigs (which were purchased for a combined price of \$400,000 at the bottom of the market in 2014) negated the need to spend approximately \$1,800,000 on rebuilds. The proceeds from these sales as well as proceeds from further sales (if any) will contribute towards the funding of the recently announced on-market share buyback.

By way of an update in relation to the buy-back (which is in very early stages), the Company has now purchased back 389,733 shares at a combined cost of \$148,533 (\$0.381 per share). At the Company's current equity price (which is low vs its net tangible assets and low vs traditional earnings multiples) the buy-back represents outstanding value for the Company.

In closing, I would like to again thank all employees for their hard work and dedication and all shareholders for their ongoing support. As I reflect on what an extremely busy and challenging year FY22 has been, I am extremely excited to enter the new financial year. Underpinned by a highly skilled workforce of over 750 valued employees, and with one of Australia's largest and highest quality fleets, the Company is extremely well placed to capitalise on buoyant market conditions, generate increased earnings year on year and return surplus cash to shareholders in accordance with a disciplined capital management policy.

Yours faithfully,



Andrew Elf
Chief Executive Officer
Mitchell Services Limited