20 October 2022

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records its highest ever quarterly revenue and continues to deliver on its organic growth strategy

- Record quarterly revenue
- FY23 Q1 Revenue of $61.1m
- FY23 Q1 EBITDA of $10.1m
- All new LF160 rigs operational
- Quarterly Gross Debt reduction of 10.6%
- 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 September 2022 (**FY23 Q1**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

Organic Growth Strategy Update

As previously communicated, the organic growth strategy and investment program of pre-ordering 12 new, state of the art drill rigs ahead of supply chain constraints has positioned the business to capitalise on increased demand for specialised drilling services across a range of different commodities.

The completion of the investment program has delivered a substantial and expanding contract book and I am delighted to inform shareholders that all new LF-160 drill rigs are now operational across a diverse range of projects with global mining majors.

Quarterly results

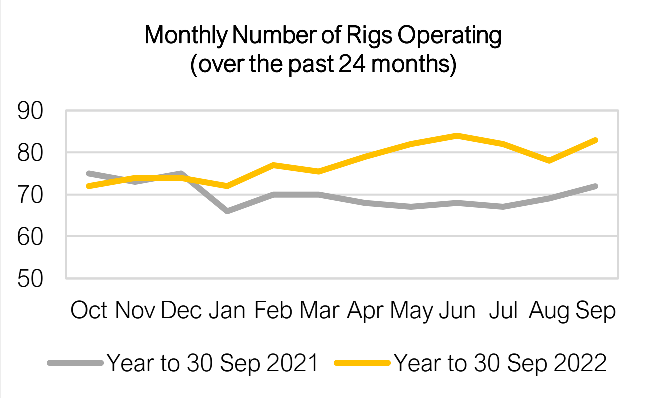
I am pleased to report that the Company recorded its highest ever quarterly revenue. Revenue for FY23 Q1 was $61.1m which represents a 16.0% increase when compared to the FY22 Q1 figure of $52.7m.

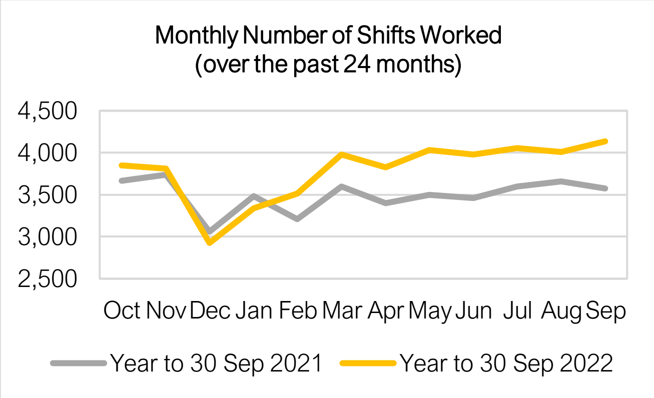
The significant revenue increase was driven by a combination of increased utilisation and pricing. The average operating rig count in FY23 Q1 was 81.0 compared to 69.3 in FY22 Q1 with the increase largely attributable to new or expanding contracts (predominantly with Tier 1 global mining majors).

FY23 Q1 saw the Company deliver EBITDA of $10.1m which represents a 24% increase when compared to the FY22 Q1 figure of $8.1m. Whilst the majority of this increase was due to the aforementioned increase in revenue, it is pleasing to note that the EBITDA margin is showing early signs of normalisation (16.5% in FY23 Q1 compared to 15.4% in FY22 Q1). As stated in previous quarterly updates, unseasonal rainfall, ramp up impacts associated with new contract wins and COVID-19 related absenteeism temporarily restricted revenue growth and operating margins during FY22 and I am encouraged by signs that suggest that these are beginning to ease.

The below table summarises key operational and financial metrics for the current (FY23 Q1) and corresponding prior year (FY22 Q1) quarterly reporting periods.

	FY23 Q1	FY22 Q1	Movement	Movement %
Average operating rigs	81.0	69.3	11.7	16.9%
Number of shifts	12,199	10,829	1,370	12.7%
Revenue ($'000s)	61,105	52,659	8,446	16.0%
EBITDA ($'000s)	10,055	8,109	1,946	24.0%
EBITDA (%)	16.5	15.4		





Capital Management Update

As previously announced (and based on the Company's increased confidence levels about future operating cashflows and debt service capacity) the Company intends to return surplus cash to shareholders under a recently implemented capital management policy. Below is a summary of the capital management policy's key items and (where relevant) a measurement of the FY23 Q1 performance against the policy:

The Company will prioritise a portion of free cash flow to reduce leverage
Gross debt peaked at $42.9m at 30 June 2022 following the completion of the capital investment program. Gross debt at 30 September 2022 was $38.8m and represents a reduction of 10.6% since 30 June 2022.

Maintenance capital expenditure will continue to be deployed as required with growth capital expenditure limited where it makes sense to do so.
Capital expenditure during FY23 Q1 was $3.6m and represents a quarterly reduction of 47.1% when compared to the FY22 Q1 figure of $6.8m.

Dividends
Under the recently implemented dividend policy, up to 75% of the Company's reported post tax profits are intended to 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).

Share buy backs
As announced in June 2022, the Company sold two drill rigs for combined sales proceeds of $2.5m. The sale of these older rigs (which were purchased for a combined price of $0.4m at the bottom of the market in 2014) negated the need to spend approximately $1.8m 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, the Company has now purchased back 2,765,481 shares at a combined cost of $1,018,810 ($0.368 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. The FY23 Q1 results have provided the Company with a strong foundation as it looks to build on the strong momentum heading into Q2 and beyond.

Yours faithfully,

Andrew Elf
Chief Executive Officer
Mitchell Services Limited