3 February 2023

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records strong FY23 Q2 revenue and a material gross debt reduction.

- FY23 Q2 Revenue of $59.1m
- FY23 Q2 EBITDA of $6.6m
- EBITDA and operating cash headwinds in FY23 Q2
- 6-month Gross Debt reduction of $5.7m

Dear Shareholder

I am pleased to provide the following investor update for the quarter ended 31 December 2022 (**FY23 Q2**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

Quarterly results

Solid operating performance drove continued material increases in revenue (17.7%), operating rigs (10.1%) and shifts (9.6%) for FY23 Q2 versus FY22 Q2. This performance was underpinned by the recent completion of the Company's organic growth strategy and capital investment program which has delivered a substantial and expanding contract book. The increase in volumes did not translate to an increase in EBITDA driven by three key factors.

Wet Weather

Significant wet weather events have impacted operations throughout FY23 Q2 and led to longer than anticipated seasonal shutdowns in some locations over the Christmas period.

Contracts

In addition to the normal scheduled variations to drilling contracts in the second quarter, changes in client requirements led to unplanned variations to a number of contracts in December. While demand remains strong and the majority of these rigs have been assigned to new or expanding contracts, utilisation was lower than expected in December. Budgeted demobilisation and ramp-up costs associated with re-locating rigs were brought forward after the unplanned contract changes, negatively impacting EBITDA in the short term.

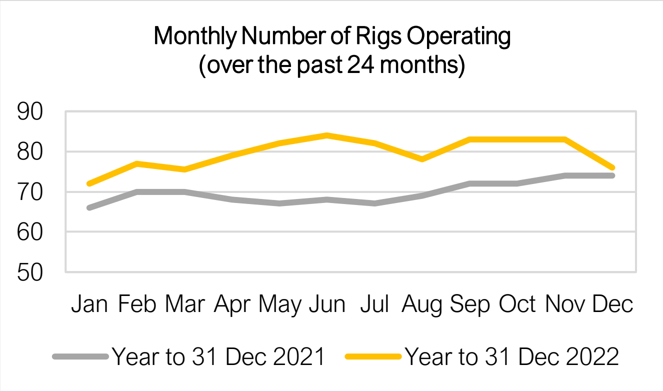
Health & Safety

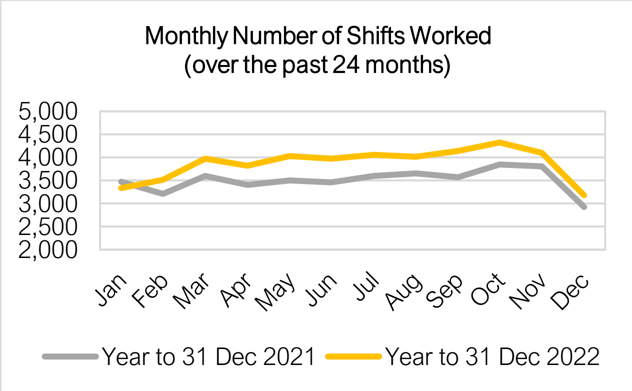
The FY23 Q2 result was impacted by a safety incident that took place on a site where the Company currently operates pursuant to a multi-year multi-rig contract. An employee sustained a serious hand injury but thankfully, he is expected to make a full recovery. As a result of the injury and associated investigation, operations of five drill rigs were suspended for approximately one month. Whilst this incident was extremely disappointing, we remain extremely proud of our safety culture and performance. On a pleasing note, COVID impacts on the business in FY23 Q2 were much reduced when compared to FY22 Q2 levels.

The table below summarises key operational and financial metrics for the current (FY23 Q2) and corresponding prior year (FY22 Q2) quarterly reporting periods. Whilst EBITDA performance was affected by events largely beyond the Company's control, the outlook to the end of the financial year remains positive with demand for specialist drilling services remaining strong. For the first time in eight years, the Company's three large diameter rigs, which generate the highest margins of the fleet, are fully utilised at present and are expected to remain fully utilised until at least the end of this financial year.

Notwithstanding the significant impact of January rain events, mobilisations for new contracts were largely completed by the end of January 2023 and are expected to be EBITDA accretive for the balance of the financial year.

	FY23 Q2	FY22 Q2	Movement	Movement %
Average operating rigs	80.7	73.3	7.4	10.1%
Number of shifts	11,599	10,585	1,014	9.6%
Revenue ($'000s)	59,127	50,225	8,902	17.7%
EBITDA ($'000s)	6,554	9,436	(2,882)	(30.5%)
Operating cash flow ($000s)	8,029	8,157	(128)	(1.6%)





Half Year Results

The table below summarises the un-audited financial and operating results for the six months ended 31 December 2022 (1H23) and the corresponding six months ended 31 December 2021 (1H22).

From an operating cashflow perspective, the softer performance was primarily driven by an increase in trade and other receivables. This increase was due to increased revenue and significant delays in payments from one of the Company's larger clients. This global mining major experienced temporary delays as part of a global upgrade to its accounts payable processes. The significant majority of these unpaid invoices have been received as at today's date.

	1H23	1H22	Movement	Movement %
Average operating rigs	80.8	71.3	9.5	13.3%
Number of shifts	23,798	21,414	2,384	11.1%
Revenue ($'000s)	120,231	102,884	17,347	16.9%
EBITDA ($'000s)	16,609	17,545	(936)	(5.3%)
Operating cash flow ($000s)	11,015	12,657	(1,642)	(13.0%)
Annualised revenue per rig ($000s)	2,976	2,885	91	3.2%

Capital Management Update

As previously announced, 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 1H23 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 recent capital investment program. Gross debt at 31 December 2022 was $37.2m which represents a reduction of 13.3% since 30 June 2022. The Company remains on track to reduce debt to its target of $15m by December 2024.

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 1H23 was $8.8m which represented a reduction of 51.1% when compared to the 1H22 figure of $18.0m. The Company expects 2H23 capital expenditure to be less than 1H23. Maintenance capex, while lower than 1H22 continues to provide high levels of availability across all equipment with breakdown rates remaining negligible.

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.

The Company expects to pay a full year dividend this year, with the intention in the following years to pay both interim and full year dividends.

Share buy backs

By way of an update, the Company has now purchased approximately 4.1m shares at a combined cost of approximately $1.5m ($0.37 per share) under the current share buy-back.

Board of Directors update

The Company wishes to advise that Scott Tumbridge will step down in his capacity as an executive director. Mr Tumbridge joined the Company's board of directors (in an executive capacity) in late 2019 following the Deepcore acquisition and has played a vital role in ensuring a smooth and effective transition and integration over a three-year period.

Mr Tumbridge will remain a director of the Company in a non-executive capacity. As a result of this change Mr Tumbridge's fixed remuneration will change from $180,000 (plus superannuation) per annum to $70,000 (plus superannuation) per annum.

In closing, I would like to again 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