

27 April 2023

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited delivers record third quarter revenue and strong EBITDA

- FY23 Q3 Revenue of \$57.1m
- FY23 Q3 EBITDA of \$9.3m
- FY23 year to date Gross Debt reduction of \$4.9m

Dear Shareholder

I am pleased to provide the following investor update for the quarter ended 31 March 2023 (**FY23 Q3**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

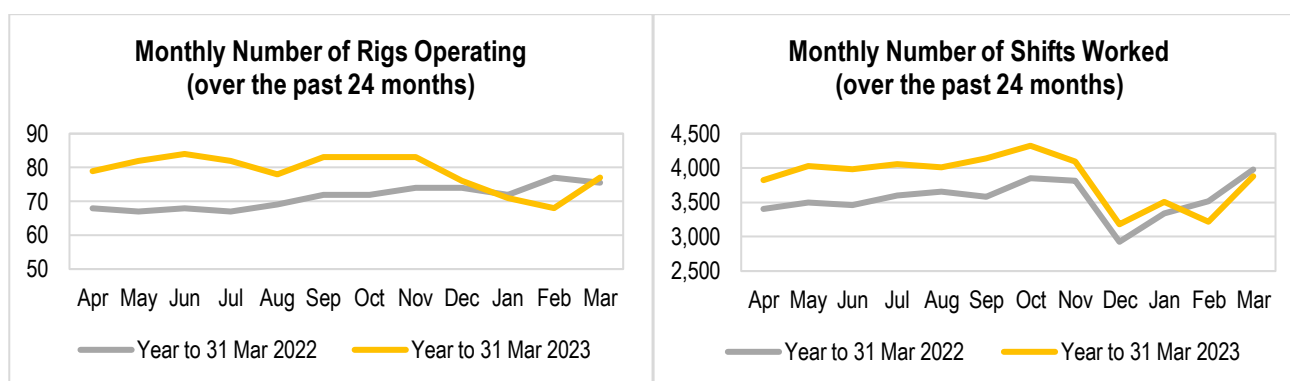
Quarterly results

It is pleasing to note that the Company recorded its highest ever revenue for any third quarter. Revenue for FY23 Q3 was \$57.1m which represents a 4.7% increase when compared to the FY22 Q3 figure of \$54.5m. It is also extremely encouraging to note that revenue for the month of March 2023 was \$22.9m which represents the highest revenue (for any one month period across any quarter) in the Company's history.

The significant revenue increase was driven by a combination of increased productivity and pricing as well as a favourable shift in the mix of revenue from a drilling type perspective. The average operating rig count in FY23 Q3 was 72.0 compared to 75.0 in FY22 Q3. Despite this temporary decrease in utilisation, revenue per rig and revenue per shift increased significantly compared to FY22 Q3 levels as the table below demonstrates. This highlights the improvements in productivity and pricing but also the favourable shift in the revenue mix. In the FY23 Q2 investor update, I highlighted that (for the first time in 8 years) three specialist large diameter rigs were utilised. This high level of utilisation was a key driver of the favourable revenue per rig and revenue per shift statistics.

This increase in revenue has translated into an increase in EBITDA, with the Company recording FY23 Q3 EBITDA of \$9.3m representing an 8.4% increase vs FY22 Q3 (\$8.6m) and an increase of 42% vs the previous quarter (FY23 Q2) EBITDA of \$6.6m.

	FY23 Q3	FY22 Q3	Movement	Movement %
Average operating rigs	72.0	75.0	(3.0)	(4.0%)
Number of shifts	10,600	10,835	(235)	(2.2%)
Revenue (\$'000s)	57,122	54,539	2,583	4.7%
EBITDA (\$'000s)	9,311	8,591	720	8.4%



Included in the FY23 Q3 EBITDA figure of \$9.3m is an impairment loss of approximately \$2.0m in relation to a receivable from long term Deepcore Drilling client, Balmaine Gold Pty Ltd (**Balmaine**).

Balmaine was placed into voluntary administration in March. At the date of the appointment of the administrators Balmaine owed Deepcore Drilling approximately \$2.0m (net of GST) and this amount has been fully impaired/provided for in FY23 Q3 given the uncertainty of its recoverability. Whilst the quantum and timing of any potential recovery is uncertain, the Company is hopeful of a recovery to some extent. Given the debt has been fully provided for in these quarterly figures, any such recovery would represent upside in the reported EBITDA.

Balmaine is currently operating under the control of the appointed administrators. Pursuant to communication between the administrators and the Company, the administrators are committed to continuing trading activities and are determined to do so throughout the convening period on a business as usual basis. On this basis, Deepcore Drilling has continued to operate on this site and is committed to providing support during the administration period (noting that all debts incurred during the administration period are effectively guaranteed by the appointed administrators).

YTD Results

The table below summarises the un-audited financial and operating results for the nine months ended 31 March 2023 and the corresponding nine months ended 31 March 2022.

	9 months ended 31 March 2023	9 months ended 31 March 2022	Movement	Movement %
Average operating rigs	77.9	72.6	5.3	7.3%
Number of shifts	34,398	32,249	2,149	6.7%
Revenue (\$'000s)	177,353	157,423	19,930	12.7%
EBITDA (\$'000s)	25,920	26,136	(216)	(0.8%)
Operating cash flow (\$'000s)	12,733	18,719	(5,986)	(32.0%)
Annualised revenue per rig (\$'000s)	3,036	2,893	143	4.9%

The Company's revenue and EBITDA for the 12 months ended 30 June 2022 (FY22) were \$213.4m and \$32.2m respectively. The Company expects that both revenue and EBITDA for the 12 months ended 30 June 2023 (FY23) will be materially greater than FY22 levels.

The Company is confident that the impact on operating cashflow performance is temporary, noting that the softer performance was largely driven by:

- An increase in trade and other receivables as revenue continues to increase;
- An increase in inventory to ramp up for new and expanding contracts;
- The strong FY23 Q3 performance being significantly skewed to the back end (EBITDA for the month of March 2023 was over \$4m); and
- The non-collection of the \$2m receivable from Balmaine

The business is in outstanding shape. The strong momentum from the March result has continued into April and I am extremely excited with the prospects for the FY23 Q4 result.

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 performance for the 9 months ended 31 March 2023 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 31 March 2023 was \$38.0m which represents a reduction of 11.4% since 30 June 2022. The Company remains on track to reduce debt to its target of \$15m by June 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 for the 9 months ended 31 March 2023 was \$10.3m which represented a reduction of 65.8% when compared to the FY22 corresponding 9-month figure of \$30.1m. Maintenance capex (while lower than 2022 levels) continues to support 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 remains on track 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

As at 31 March 2023 the Company had purchased approximately 5.2m shares at a total cost of approximately \$1.9m (\$0.37 per share) under the current share buy-back. It is the Company's intention to continue to purchase its shares under the current buy-back arrangement.

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