29 January 2024

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited delivers strong second quarter financial and operational performance

- Quarterly revenue of $56.8m
- Quarterly EBITDA of $8.4m
- Quarterly operating cashflow of $14.1m (168% EBITDA conversion rate)
- Net Debt reduction of 48% since 30 June 2023 to $9.1m
- Expects 1H24 profit after tax between $4.0m and $4.5m
- Expects 1H24 interim dividend of between 1.5cps and 2.0cps

Dear Shareholder

I am pleased to provide the following investor update for the quarter ended 31 December 2023 (**FY24 Q2**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

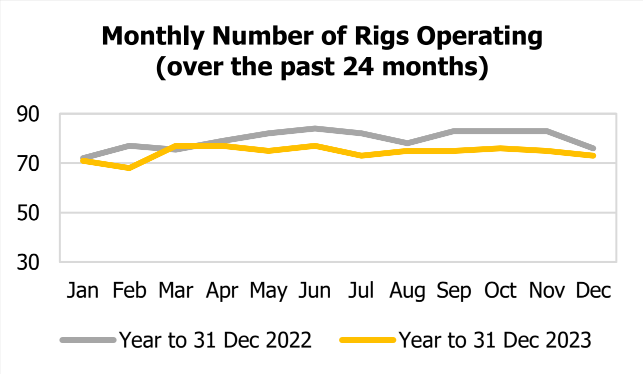
Quarterly results

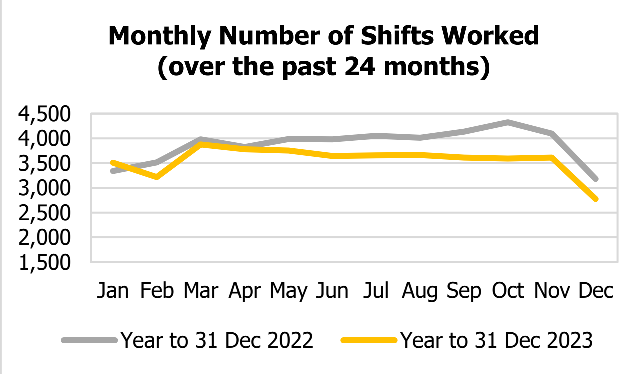
The Company delivered positive financial and operational results for FY24 Q2 as reflected in the table below which summarises key Q2 metrics vs the corresponding quarter in FY23 (FY23 Q2). In our industry, the second quarter of a financial year generally reflects softer revenue and utilisation numbers given customary, client-initiated seasonal shutdowns for Christmas, New year and the wet season.

EBITDA increased by nearly 30% in FY24 Q2 vs FY23 Q2 ($8.4m vs $6.6m). This increase was driven by an improvement in EBITDA margins (from 11.1% in FY23 Q2 to 14.8% in FY24 Q2) rather than increases in volume/utilisation. The decrease in utilisation (average operating rig count) from FY23 Q2 to FY24 Q2 primarily relates to the underground sector of the business with the largest portion of this reduction coming from the Victorian goldfields. The Company's customer base in Victoria remains strong with drilling contracts in this region remaining on foot albeit with fewer operating rigs in recent times. The number of operating rigs associated with these longer-term contracts will generally increase and decrease in the ordinary course of business throughout the contract term. This reduction has been offset to a degree by increases in the surface sector which is now effectively fully utilised. This shift in the mix of work (by drilling type) means that revenue from surface rigs now accounts for approximately 57% of total revenue (this was previously closer to 50%).

Given this positive EBITDA performance and the relatively stable number of operating rigs in recent reporting periods (and the resultant lack of any material increase in working capital requirements), the cashflow performance of the business in FY24 Q2 has been exceptional. The Company produced $14.1m in operating cash (at an EBITDA conversion rate of 168%) in FY24 Q2 which represents a 76% increase when compared to FY23 Q2 ($8.0m at 122%). This result brings the operating cash performance to just over $24.0m for the 6 months ended 31 December 2023 and has had a significantly positive impact on net debt as highlighted in the capital management section of this update.

	FY24 Q2	FY23 Q2	Movement	Movement %
Average operating rigs	75.0	80.7	(5.7)	(7.1)
Number of shifts	10,036	11,599	(1,563)	(13.5)
Revenue ($'000s)	56,804	59,127	(2,323)	(3.9)
EBITDA ($'000s)	8,401	6,554	1,847	28.2
EBITDA margin (%)	14.8	11.1	3.7	33.3
Operating cash flow ($'000s)	14,100	8,029	6,071	75.6
Operating cash conversion ratio (%)	167.8	122.5	45.3	37.0





Half Year Results

The table below summarises the un-audited financial and operating results for the six months ended 31 December 2023 (1H24) and the corresponding six months ended 31 December 2022 (1H23).

	1H24	1H23	Movement	Movement %
Average operating rigs	74.7	80.8	(6.1)	(7.5)
Number of shifts	20,972	23,798	(2,826)	(11.9)
Revenue ($'000s)	121,644	120,231	1,413	1.2
EBITDA ($'000s)	20,009	16,609	3,400	20.5
EBITDA margin (%)	16.4	13.8	2.6	18.8
EBT ($000's)	6,202	253	5,949	2,351.4
Annualised ROIC* (%)	13.7	2.7	11.0	407.4
Operating cash flow ($000s)	24,374	11,015	13,359	121.3
Operating cash conversion ratio (%)	121.8	66.3	55.5	83.7

*defined as annualised EBIT divided by (net PPE plus intangibles plus working capital)

The 1H24 performance represents a positive result that saw the Company deliver material improvements across all earnings/profitability metrics when compared to 1H23. 1H24 EBITDA (of $20m) represents an increase of 20% vs the 1H23 figure whilst EBT increased twenty-fold over the same period ($6.2m vs $0.3m). This significant improvement in EBT was driven by the increase in EBITDA and reduced levels of depreciation and finance costs as capex and debt levels continue to reduce. Given this increase in EBT and the reduced capex levels, annualised ROIC for 1H24 was 13.7%, representing a five-fold increase when compared to the 1H23 figure of 2.7%.

From a cashflow perspective the half year EBITDA performance, stable operating rig count and lack of any significant increase in working capital requirements have driven an exceptionally strong cash flow performance in 1H24. Operating cash flow in 1H24 was $24.4m which represents a record for the Company for any 6-month period ending 31 December and an improvement of over 100% when compared to the 1H23 figure of $11.0m.

Based on the un-audited management accounts, the Company expects that its reported post tax profit for 1H24 will be between $4.0m and $4.5m. This represents a significant improvement versus the 1H23 figure of $0.2m. The Company also expects that its full year FY24 post tax earnings will exceed FY23 levels ($7.6m).

Capital Management Update

The Company remains committed to maximising cash returns to shareholders, applying sensible limits to growth capital expenditure and operating within a target net debt parameter of no more than $15.0m by 30 June 2024.

Given the anticipated 1H24 post tax profit, the Company expects that the 1H24 interim dividend (which will be un-franked and declared in February 2024) will be between 1.5cps and 2.0cps.

Total capital expenditure for 1H24 was $9.7m which was largely in line with expectations and slightly increased when compared to the to the 1H23 figure of $8.9m. Maintenance capex continues to support high levels of availability across all equipment with breakdown rates remaining negligible.

Given the strong 1H24 operating cashflows and the modest levels of capital expenditure, net debt at 31 December 2023 ($9.1m) is a decrease of approximately 48% since 30 June 2023 ($17.6m). This result is particularly pleasing given that the Company made cash payments to shareholders (via dividends and share-buy backs) of approximately $6.3m during that six-month period.

The Company remains on track to achieve its 30 June 2024 target net debt of $15.0m, noting that net debt will likely increase in the short term given the expected interim dividend payment in the coming months and the expected increase in working capital requirements as rigs ramp up again following the recent, seasonal shut down period.

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