

27 August 2021

**VYSARN FINANCIAL RESULTS FOR FY2021**

**Hydrogeological drilling service provider Vysarn Limited (ASX:VYS) (Vysarn or the Company) announces its financial results for the twelve (12) months to 30 June 2021 (FY2021).**

**Summary of group results for FY2021:**

- Revenue \$26.37 million (\$25.82 million from operations)
- EBITDA \$5.00 million
- NPBT \$1.14 million
- Net Tangible Assets \$24.76 million
- Net Current Assets \$3.93 million
- Cash and Cash Equivalents \$6.56m

**Results Commentary**

Vysarn's revenue from operations to 30 June 2021 of \$25.82 million exceeded previous corresponding period revenue from operations by \$13.91 million.

Revenue from operations represented an average of seven out of the Company's twelve drill rigs being deployed at any one time during the twelve months to 31 June 2021. Drill rig deployment peaked at ten rigs in the June quarter as final contracts were secured to enable 100% drill rig deployment entering the new financial year. While secured contracts enabled full drill rig deployment late in the period, timing and availability of third-party critical services (for rig modifications and upgrades) and supply chain constraints resulted in delays in rig readiness and subsequent actual mobilisations. These delays adversely affected anticipated revenue, particularly in the June quarter.

Average monthly corporate overheads for the period were approximately \$0.37 million per month. Monthly corporate overheads peaked at \$0.45 million in the June quarter as the Company prepared for full deployment of Company drilling assets and drilling staff. Maintainable consolidated corporate overheads (excluding interest and depreciation) are anticipated to stabilise at approximately \$0.44 million per month other than cost increases associated with future growth initiatives.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) were \$5.00 million as guided in May 2021. Earlier (February 2021) the Company had guided FY2021 EBITDA to be \$6.00 million. As previously disclosed, the Company made a deliberate and strategic decision during the June quarter to attract and retain key drilling employees in a highly competitive labour market. This decision was to ensure the availability of guaranteed labour in anticipation of full rig utilisation in early FY2022. Subsequently, the labour overhead in the June quarter was disproportionately high compared to the average number of rigs utilised in the same period.

The consequential difference of approximately \$1.0 million EBITDA was a result of not having all rigs operational from early in the June quarter as forecast and the additional drilling labour costs incurred pertaining to these rigs.

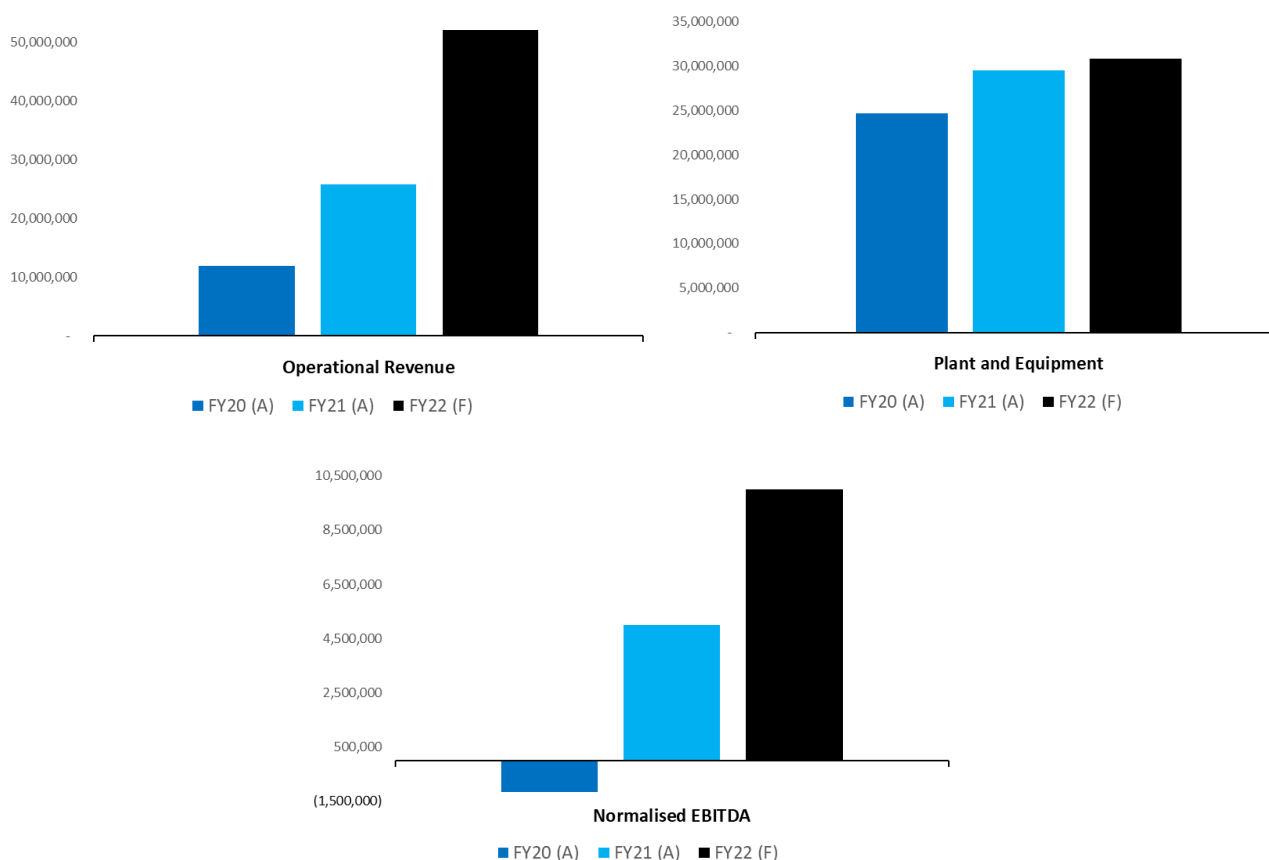
Net Profit Before Tax (NPBT) was \$1.14 million for the 12 months to 30 June 2021. In the period the Company utilised the ATO’s instant asset write-off which increased the Company’s existing deferred tax liability and subsequently created an income tax expense of \$0.79 million (which was non-cash). The Company is currently carrying tax losses of \$9.2 million that can be used to offset future taxable income.

The Company’s balance sheet shows Net Tangible Assets of \$24.76 million and Net Current Assets of \$3.93 million. Cash and Cash Equivalent position was \$6.56 million and net debt was \$6.24 million as at Balance Sheet date of 30 June 2021.

<b>Key Financial Metrics</b>			
<b>Description</b>	<b>FY20 (A) (\$)</b>	<b>FY21 (A) (\$)</b>	<b>FY22 (F) (\$)</b>
Operational Revenue	11,912,589	25,824,506	52,000,000
Normalised EBITDA	(1,166,073)	5,001,161	10,000,000
Plant and Equipment	24,707,782	29,548,656	30,800,000

**Notes:**

1. FY20 EBITDA is normalised noting it was inclusive of a \$7.2 million gain on bargain purchase (non-cash)
2. FY22 (F) is the Company's budget which is subject to maintaining 100% rig utilisation. Earnings are conditional upon wet weather, unforeseen repairs and maintenance and other unbudgeted operational expenses



## Operations Commentary

Throughout FY2021 Vysarn's wholly owned subsidiary Pentium Hydro Pty Ltd (Pentium) primarily focussed on positioning itself to reach an operational and earnings steady state where all staff and equipment is deployed and fully utilised.

Pentium successfully executed significant Master Service Agreement extensions in FY2021 with key clients Fortescue Metals Group (3 years plus a 2 year option) and Roy Hill Iron Ore (3.5 years and 1 year option). These two contracts are anticipated to provide long term utilisation for up to 75% of the Pentium fleet for the mid to long term.

Pentium also executed a 12 month scope of work contract with Australian Potash, a 6 month scope of work contract with past client Iluka Resources and extended a dry hire agreement with Easternwell Minerals in the period.

The contract pipeline established in FY2021 now gives the Company the opportunity to deploy and maintain 100% utilisation of Pentium's entire fleet of 12 Company owned drill rigs and ancillary equipment in the 2022 financial year. Contracted work is currently in excess of Company fleet capacity; subsequently Pentium has supplemented rig numbers via rental arrangements to meet the demand. Pentium is on the cusp of having 13 rigs deployed and has established short term capacity to deploy up to 14 rigs should further demand materialise.

The domestic labour market for hydrogeological drilling professionals continues to be challenging. Despite this backdrop the Company has been able to grow employee headcount during FY2021 from 55 staff members to in excess of 100 staff members across hydrogeological operations management and drilling contractors.

Pentium has now successfully completed the rebuild of two Foremost Dual Rotary rigs purchased from New Zealand in 2020 and upgraded a Schramm T130XD from a casing advance/conventional drill rig to Dual Tube Flooded Reverse. The most recent rig improvement has meant that Pentium has become one of the largest pure hydrogeological drilling companies in Australia and to the Company's knowledge is the only domestic hydrogeological drilling company that can provide three drilling services across Dual Rotary, Dual Tube Flooded Reverse and Conventional drilling. Strategically this positions Pentium with the ability to service any client in any geography, commodity or ground setting across Australia subject to the availability of equipment.

While the Dual Rotary component of Pentium's fleet has proven to be a significant competitive moat for the Company with sustained high demand for this equipment, the upgrade of a rig to Dual Tube Flooded Reverse has attracted considerable industry interest from both current and prospective clients. The Company is in a position to consider two further upgrades of Pentium owned T130XDs should there be a continued level of interest from current and prospective clients for Dual Tube Flooded Reverse drilling services.

Pentium formally achieved ISO accreditation in occupational health and safety management systems (ISO 45001:2018), quality management systems (ISO 9001:2015) and environmental management systems (ISO 14001:2015) in the financial year. As anticipated, this has proven to



be invaluable in helping the Company to position itself as a preferred contractor for all tiers of current and prospective clients across multiple industry sectors requiring hydrogeological drilling services.

Leading into the new financial year Pentium is positioned to meet the continued demand for water well services. Management anticipates that Pentium's current contractual arrangements in hand with an identified future tender pipeline for hydrogeological drilling services will help support opportunities for ongoing full asset utilisation and sustained steady state earnings.

## **Outlook**

The hydrogeological drilling market continues to experience strong trading conditions which is reflected in the Company's current contract pipeline. Current contracts in hand underpin the opportunity to maintain full utilisation of Pentium's rig fleet throughout FY2022. As such, subject to maintaining 100% rig utilisation the Company is budgeting FY2022 EBITDA (earnings before interest, tax, depreciation and amortisation) to be between \$10.0 million and \$11.0 million, noting that earnings are also conditional upon wet weather, unforeseen repairs and maintenance and other unbudgeted operational expenses.

In addition to Pentium targeting sustained full asset utilisation, the Company's broader strategic focus is to now move from being a hydrogeological drilling specialist in FY2021 to becoming a vertically integrated whole of life end to end water service provider in FY2022 and beyond. In line with this strategy, the board and management of Vysarn are actively looking to execute organic or acquisitive entries into services upstream and downstream of hydrogeological drilling.

The ongoing strength in the mine related water thematic and the continued interest from current and prospective clients to offer them a broader range of water related services than just hydrogeological drilling has the potential to provide Vysarn with a unique growth opportunity.

The Company has subsequently refined its expansion strategy over the last 12 months to focus on four broad stages of the water vertical that varying water related mining services fall into. These stages cover services in design, extraction, transfer and storage (use) of mine related water. While the Pentium business unit currently operates in only one small band of the water vertical, management has identified a range of services adjacent to hydrogeological drilling that could provide the Company with an initial entry point into becoming a multi-faceted water service provider.

Driving an increase in shareholder value remains a key focus of Vysarn's board and management. A successful execution of a vertical integration strategy would provide shareholders with a reduction in the concentration risk currently associated with the capital intensive, single service nature of hydrogeological drilling. Providing multiple services also provides the Company a broader and differentiated competitive moat by being able to better service clients across multiple fronts as well providing cross selling opportunities across commodities, projects and specific clients. With diversification also comes the opportunity for



an expansion in valuation multiples as the market recognises a diverse portfolio of services across water, diversified revenue streams and a balanced mix of capital light and capital intensive business units.

Vysarn is well positioned entering FY2022. The Company is sufficiently funded, budgeting sustainable steady state earnings in its core business, has a clearly defined strategy with multiple growth prospects and is well placed to deliver long term, sustainable value for its shareholders.

This ASX announcement has been authorised for release by the Board of Vysarn Limited.

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