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ASX ANNOUNCEMENT

## Swick delivers earnings growth in 1H FY19

### 1H FY19 summary:

- Revenue and other income of \$75.3m, up 5.9% on 1H FY18
- Drilling Business EBITDA of \$16.2 million, up 101% on 1H FY18
- Group EBITDA of \$14.5m, up 103% on 1H FY18
- Group EBIT of \$4.0m, up from a \$0.9m EBIT loss in 1H FY18
- NPAT of \$1.9m, up from a \$1.3m NPAT loss in 1H FY18
- Earnings increased through targeting better performing contracts, reducing costs, and improved short-term rates on two contracts
- Increase in cash from operations to \$9.8m, up 98.3%, reflecting EBITDA growth
- Average fleet utilisation across 1H FY19 of 77%, up from 76% in 1H FY18
- Redeployment of rigs from some projects expected during 2H FY19
- Strong demand across Swick's existing markets for underground rigs, with a number of tenders submitted

**Western Australia – Swick Mining Services Limited ('Swick', ASX: SWK)**, a leading provider of high-quality underground and surface mineral drilling and mineral analysis services, has reported strong earnings growth in the six-month period ended 31 December 2018 (1H FY19).

Swick's Drilling Business reported EBITDA of \$16.2 million, more than double the prior corresponding period (1H FY18: \$8.1 million), as Swick delivered on its strategy of targeting better performing contracts and reducing costs. It also benefited from improved short-term rates on two contracts.

Swick Managing Director Kent Swick said the Company's strategy to drive margin growth in the Drilling Business enabled the group to return a net profit after tax.

"Over the past 18 months we have had a clear plan to renew rates or move rigs onto better performing sites so that each contract is profitable on a standalone basis and also deliver a reduction in operating costs and enhanced performance across the business to drive value for our clients," Mr Swick said.

“The benefits of this strategy are clear to see with earnings growth gaining momentum in the half, which has enabled the company to drive innovation to meet our clients’ needs.

“This has included establishing a dedicated deep exploration division, DeepEX, with clients looking for drillers to provide deep underground exploration capabilities.

“We have also been growing our mineral technology business, Oreplore, which increased the volume of commercial scans through the laboratory during the six-month period.”

## 1H FY19 FINANCIAL RESULTS

### Drilling business

A\$ million	1H FY19	1H FY18	Change
Revenue and other income	75.7	71.2	6%
EBITDA	16.2	8.1	101%
<i>EBITDA margin</i>	<i>21.4%</i>	<i>11.3%</i>	<i>1010 bps</i>
EBIT	6.7	(0.1)	NA
<i>EBIT margin</i>	<i>8.9%</i>	<i>(0.1%)</i>	NA

Swick’s Drilling Business principally performs Underground Diamond (UD) delineation and exploration drilling at operating mines, as well as some above ground reserve definition and exploration (Reverse Circulation or RC) performed at brownfield and greenfield sites. It operates across projects in Australia and overseas in the USA and Portugal.

In 1H FY19, Swick had 57 FTE rigs from a fleet of 76 operating in the field in the first half compared to 56 FTE rigs from a fleet of 75 in 1H FY18. Of the total rigs in work, the UD drilling division had 53 FTE rigs operating from a fleet of 69 (77% utilisation), compared to 52 rigs operating from a fleet of 68 (76% utilisation) in 1H FY18. Swick also secured campaign style contracts for the RC business, with 3 of the 7 rigs in work at the end of the period. Swick is in negotiations for a twelve-month extension to one of the RC projects which will require two rigs for most of the year, underpinning the ongoing operations for this division.

Swick’s Drilling Business reported total metres drilled of 561,694 metres, down 14.2% on 1H FY18. However, reduced metres drilled did not have a detrimental impact on revenue and margins as rigs were deployed to better performing contracts, with Swick increasing revenue per shift by 6.1% compared to 1H FY18 and reducing operating costs per shift by 4.5%. As previously advised, Swick also benefited from improved short-term rates at two existing underground drilling services contracts for Newmont (Tanami and Mt Charlotte) during 2Q FY19 and 3Q FY19 to enable a competitive tender process to take place (which Swick is participating in).

### Mineral Technology business (Orexplode)

A\$ million	1H FY19	1H FY18	Change
Revenue from core scanning	0.02	0.0	NA
Government grants	0.33	0.54	(36%)
EBITDA	(1.8)	(0.9)	(100%)
EBIT	(2.8)	(0.9)	(215%)

Since its launch in June 2018, Swick has been focused on developing the commercial business for its revolutionary GeoCore X10 scanning machine (for base metals core scanning), with seven customers signed up and numerous trials underway for a range of miners, explorers and consultants during 1H FY19 in Australia. This generated a small amount of revenue, with a number of trials being for on an initial free period.

The Orexplore Swedish research and development team, while continuing to improve the existing GeoCore X10 product, has also been progressing with the next generation gold spectrometer machine, which will also be able to scan other precious metals. The team is also working with joint venture partners in Europe to utilise the technology in a research consortium with a focus on flow scanning which could be a significant opportunity for a high value application for this world leading technology.

### Cash and balance sheet

A\$ million	1H FY19	1H FY18	Change
Net cash from operating activities	9.8	5.0	98%
Net cash used in investing activities	(8.7)	(5.3)	(64%)
Free cash flow	1.1	(0.4)	410%
Operating cash flow before interest and taxes	10.6	5.7	87%
A\$ million	31 Dec 18	30 Jun 18	Change
Cash	12.3	11.5	7%
Debt	30.0	29.2	3%
Net debt	17.7	17.8	(1%)
Gearing (Net debt/equity) (%)	20.7%	21.3%	(60 bps)

Swick generated more cash from operating activities during 1H FY19 as its EBITDA increased, leading to free cash flow in 1H FY19 of \$1.1 million (1H FY18: \$0.4 million free cash outflow). Total EBITDA cash conversion was 72.9% for the half, impacted by an increase in working capital and non-cash unrealised foreign exchange gains (1H FY18: 78.7%).

Swick maintained gearing in line with target levels during 1H FY18 and also renewed and increased its banking facilities by an additional \$8 million to provide flexibility for a potential increase in rig demand.

Meanwhile, capital expenditure for 1H FY19 was \$9.9 million, including plant and equipment acquired under finance leases (1H FY18: \$6.7 million), of which \$0.4 million related to the Mineral Technology business (1H FY18: \$0.9 million). The increase in spend came from growing new rig capacity (\$1.3 million) plus rig rebuild and upgrades (\$2.6 million, up from \$0.4 million in 1H FY18). This increased spend was a combination of the DeepEX roll out plus ongoing positive market sentiment and preparations for expected increase in rig demand. The reduced spend in the Mineral Technology business reflected the move to commercial operations and focus on refining the existing machines plus preparing for manufacturing operations as commercial activity increases.

## **OUTLOOK**

In addition to the two short-term rates ceasing by end 3Q FY19, as noted above, Swick is likely to experience some transition for its underground rigs during 2H FY19. Swick is likely to reduce rigs or withdraw from underperforming projects and mobilise rigs onto existing projects or new sites. The resultant short-term reduction in utilisation and cessation of the short-term rates is expected to result in lower margins for the Drilling Business during 2H FY19 compared to 1H FY19.

Mr Swick said: “We expect there to be some movement of our underground rigs during the second half of FY19, in line with our strategy to ensure rates on contracts are delivering at our target margins.

“While this short-term reduction in utilisation will contribute to a weaker result in the second half of FY19, compared to the first half, overall we are still expecting a significantly improved result compared to FY18 and look set to enter FY20 with strong momentum as new tenders are awarded.

“What’s pleasing is that we are experiencing strong demand across our existing markets for underground rigs that can deliver our target margins, with a number of tenders submitted at new projects both in Australia and the USA, particularly at producing gold mines.

“We are also seeing growing opportunities to deploy more rigs at existing projects.

“Furthermore, we are in discussions with potential clients to deploy Swick’s recently launched mineral scanning technology, Orexplore, onto sites, so they can get near real time assay and geology results on drilled metres to eliminate the time and costs with transporting ore off-site for destructing assay testing.”

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### About Swick Mining Services:

Swick Mining Services Ltd (ASX: SWK) is one of Australia's largest mineral drilling contractors, providing high quality underground and surface drilling services to a diverse group of mining houses and across a spread of commodities. The Company has a strong reputation for innovation in rig design and drilling practices that delivers improvements in productivity, safety, versatility and value. Swick has a global presence with Operational revenue from Australia, United States and Europe.

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