

SWICK MINING SERVICES

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ASX ANNOUNCEMENT

Swick delivers strong quarter, sets platform for further earnings growth in FY20

Highlights:

- Unaudited Drilling Business 3Q FY19 revenue of \$35.1 million, EBITDA of \$7.3 million, and EBIT of \$2.5 million (EBIT margin of 7.2%)
- Continued strong earnings driven by strategy of resetting market rates and targeting lower operating costs, plus short-term rates on two contracts through to end 3Q FY19
- Translating earnings into cash, with \$7.0 million cash from operations in 3Q FY19
- Total metres drilled of 265,634 in 3Q FY19
- Average fleet utilisation of 71% across the quarter
- Providing full year FY19 Drilling Business guidance:
 - Revenue of \$138-\$143 million (FY18: \$137.1 million)
 - EBITDA of \$27.5-\$29.5 million (FY18: \$19.1 million)
- \$210 million in renewals and new contracts awarded in H2 FY19 has set a strong platform to drive earnings growth and enhanced cash generation in FY20

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 delivered strong unaudited results for the three months ended 31 March 2019 (3Q FY19).

Swick's Drilling Business has reported earnings before interest, tax, depreciation and amortisation (EBITDA) of \$7.3 million, up 58% over the prior corresponding period (3Q FY18: \$4.6 million), and revenue of \$35.1 million, up 7% (3Q FY18: \$32.9 million).

The continuation in Swick's earnings turnaround reflects the ongoing success in its strategy of shifting drill rigs onto better performing contracts or new projects and reducing operating and non-operating costs, ensuring each contract is profitable on a standalone basis.

Swick Managing Director Kent Swick said the most pleasing aspect was Swick's ability to secure \$210 million in contracts that were being pursued in the March quarter. This included new work at Northern Star's Pogo gold mine in Alaska, rig expansion at BHP's Olympic Dam in South Australia, and contract extensions at Kirkland Lake Gold's Cosmo gold mine and Newmont Australia's Tanami gold mine.

“The recent award of \$210 million in work has provided a strong base for the business, with many rigs moving from low margin, long-term work to target margin, long-term work,” Mr. Swick said.

“Our ability to secure rate adjustments where necessary as well as locking in fixed shift contract rates at projects where production may be at risk for various reasons has been key in significantly de-risking the business on a commercial basis.

“Each mine site is unique, which means we sometimes look at fixed shift contract rates to ensure we do not overpromise to clients. For example, fixed shift rates are quoted when productivity cannot be accurately predicted, such as in deep drilling or challenging ground conditions. What we can guarantee is mechanical uptime, crew utilisation, safe and skilled crews, and the most powerful and versatile drill rigs. We have had good feedback from many clients on this approach, although we appreciate that it is not necessarily applicable to all drilling situations.”

Outlook

Swick has provided full year FY19 guidance for its Drilling Business, with revenue of \$138-\$143 million and EBITDA of \$27.5-\$29.5 million expected.

As previously advised, with the transition of rigs taking place during 4Q FY19 plus short-term rates concluding as planned at two prior contracts at the end March 2019, Swick’s 2H FY19 earnings will be lower than 1H FY19.

Looking ahead, the \$210 million in secured work announced on 8 April 2019 has expanded Swick’s order book to \$295 million at target margins, providing Swick with a strong platform to deliver earnings growth in FY20. In addition, Swick has recently mobilised two rigs at the Telfer project for Newcrest on a short six-month contract, with an opportunity to tender for longer term work towards the end of the short-term contract.

Mr. Swick said: “The eight-rig contract for Northern Star at the Pogo mine near Fairbanks in Alaska is really exciting for the company. We have built four new Gen II mobile drill rigs for the first time in years and these are already being shipped, with another four rigs being rebuilt to new standards. We will be ready to commence work at Pogo in mid to late May with the initial rigs and be fully mobilised by August. We are very confident our mobile rigs and our patented drilling techniques will deliver excellent productivity to the Pogo mine.

“Meanwhile, transition to the other new projects has progressed well and Swick’s recent award at the Telfer project demonstrates our ability to target additional opportunities at brownfield operating mines, particularly as producers look to increase output in response to strong gold prices and solid metal prices.”

“We are also positioning Swick to ensure we have the capacity to meet clients’ changing requirements, such as the expected delivery of three DeepEX rigs in the current quarter.

“With the significant amount of work in hand and additional projects being targeted, Swick is well positioned to generate stronger cash flows in FY20 that would enable the Company to further enhance its balance sheet position and provide capital returns to shareholders.”

3Q FY19 financial summary

Drilling Business (Unaudited)	3Q FY19	3Q FY18	% Change	YTD FY19	YTD FY18	% Change
Operational Performance						
Total Metres Drilled	265,634	270,489	-2%	827,329	924,940	-11%
Total Rigs in Fleet (period end)	77	75	3%	77	75	3%
Total Fleet Utilisation (FTE)	71%	73%	-3%	74%	74%	0%
UD Metres Drilled	257,998	261,053	-1%	791,085	862,043	-8%
UD Rigs in Fleet (period end)	70	68	3%	70	68	3%
UD Fleet Utilisation (FTE)	74%	76%	-2%	77%	76%	1%
Financial Performance (A\$'000)						
Revenue	35,091	32,896	7%	109,502	103,907	5%
EBITDA	7,253	4,582	58%	23,558	12,645	86%
EBITDA Margin (%)	20.7%	13.9%	48%	21.5%	12.2%	77%
EBIT	2,509	550	356%	9,312	499	1766%
EBIT Margin (%)	7.2%	1.7%	328%	8.5%	0.5%	1671%

Consolidated Group (Unaudited)	3Q FY19	3Q FY18	% Change	YTD FY19	YTD FY18	% Change
Financial Performance (A\$'000)						
Revenue	35,248	33,154	6%	109,998	104,689	5%
EBITDA	6,364	4,017	58%	20,904	11,198	87%
EBITDA Margin (%)	18.1%	12.1%	49%	19.0%	10.7%	78%
EBIT	1,155	(16)	N/A	5,168	(951)	N/A
EBIT Margin (%)	3.3%	0.0%	N/A	4.7%	-0.9%	N/A
Operating Cash Flow (before interest & tax)	7,000	3,951	77%	18,069	9,507	90%
EBITDA Cash Conversion (%)	110.0%	98.4%	12%	86.4%	84.9%	2%

* FTE - Full Time Equivalent

At a Group level, Swick reported consolidated 3Q FY19 EBITDA of \$6.4 million (unaudited), up 58% (3Q FY18: \$4.0 million), and EBIT of \$1.2 million (unaudited), up from a small loss in 3Q FY18. The Group result includes Swick's Mineral Technology business (Orexlore). Cash from operations for 3Q FY19 was \$7.0 million, up 77% (3Q FY18: 4.0 million), representing a 110% conversion of EBITDA to cash at the Group level.

Orexlore is progressing well with both software and hardware developments, adding value to outputs from the GeoCore X10 scanning machine technology. A recent focus on discriminating structural information as well as measuring density variations in the core samples and allowing that to be readily exported to conventional geological software has yielded, adding value to the data set generated.

Currently the Perth-based Orexplore team is establishing a field deployable laboratory with the intent of providing in-field pilot projects to demonstrate the value of the GeoCore X10 product at brownfield operating mines where not only the data sets and imaging will be of great value but also by providing near-real time (i.e. next shift after drilling) results, without the need to cut core. The objective of the pilot program is to provide clients confidence over a short time period (nominally three months) that current, traditional assaying techniques can be replaced in full with a more complete set of geological data available from the Orexplore equipment and its software application.

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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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