19 July 2023

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited delivers record fourth quarter financial and operational performance

- Record quarterly revenue of $65.8m
- Record quarterly EBITDA of $15.3m
- Q4 EBITDA margin of 23%
- Q4 Operating cashflow $22.9m (150% EBITDA conversion rate)
- Net Debt reduction of 55% since June 2022 to $17.6m
- Expects FY23 full year profit after tax between $6.5m and $7.5m
- Expects FY23 final dividend of approximately 2 cps

Dear Shareholder

I am delighted to provide the following investor update for the quarter ended 30 June 2023 (**FY23 Q4**) 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 single quarter in its history. Revenue for FY23 Q4 was $65.8m which represents a 17.6% increase when compared to the FY22 Q4 figure of $56.0m.

The significant revenue increase was driven by a combination of increased productivity and pricing as well as the continuation of a favourable shift in the mix of revenue by drilling type with a larger portion of the fleet now providing highly technical specialist drilling services.

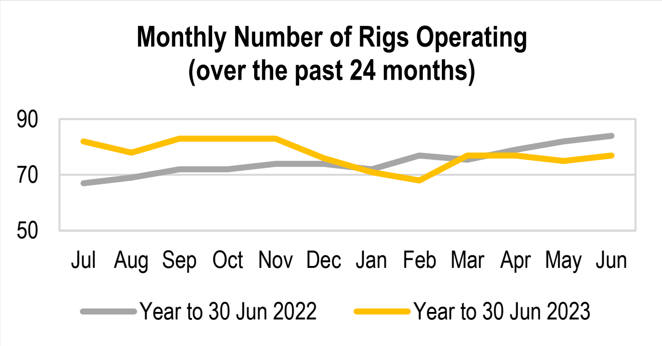
It is exceptionally pleasing to note that the Company also recorded its highest ever EBITDA for any single quarter. EBITDA for FY23 Q4 was $15.3m (at an EBITDA margin of 23%) representing an increase of 155% when compared to the FY22 Q4 figure of $6.0m.

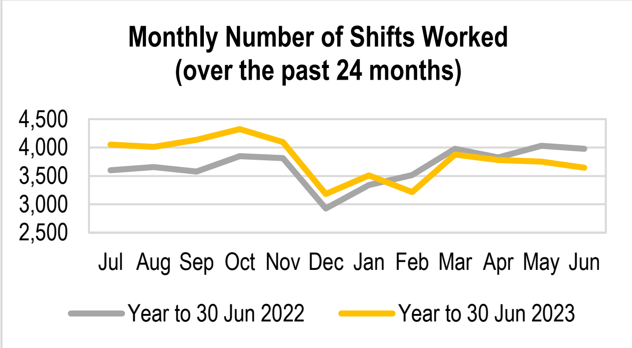
The EBITDA performance is reflective of what the business can achieve when trading conditions are not negatively affected by material mobilisations and demobilisations, COVID, wet weather or unplanned contract variations, even with a drop in the average number of operating rigs when compared to FY22Q4 (76 v 82).

The tables below summarise the FY23 Q4 performance and demonstrate the financial improvement when compared to FY22 Q4 levels. As the tables demonstrate, revenue per rig and revenue per shift figures increased significantly despite a temporary decrease in the average number of operating rigs.

In the FY23 Q3 investor update I highlighted that the softer operating cashflow performance was temporary and driven by working capital requirements that were necessary to fund growth in revenue and new contract inventory. FY23 Q4 saw the business deliver operating cashflows of $22.9m, representing a cashflow to EBITDA conversion ratio of over 150% and a fivefold improvement on FY22 Q4. This result was aided by the reduction in Q4 working capital requirements and also by favourable timing differences whereby a portion of debtor receipts were received in late June as opposed to early FY24 Q1 when we would ordinarily have expected to receive them.

	FY23 Q4	FY22 Q4	Movement	Movement %
Average operating rigs	76.3	81.7	(5.4)	(6.6)
Number of shifts	11,171	11,837	(666)	(5.6)
Revenue ($'000s)	65,791	55,946	9,845	17.6
EBITDA ($'000s)	15,248	6,017	9,231	153.4
EBITDA margin (%)	23.2	10.8		
Operating cash flow ($'000s)	22,895	3,497	19,398	554.7
Operating cash conversion ratio (%)	150.2	58.1		





YTD Results

The table below summarises the un-audited financial and operating results for the 12 months ended 30 June 2023 (FY23) and the corresponding 12 months ended 30 June 2022 (FY22).

	FY23	FY22	Movement	Movement %
Average operating rigs	77.5	74.8	2.7	3.6
Number of shifts	45,569	44,086	1,483	3.4
Revenue ($'000s)	243,144	213,369	29,775	14.0
EBITDA ($'000s)	41,167	32,153	9,014	28.0
EBITDA margin (%)	16.9	15.1		
Operating cash flow ($000s)	35,628	22,216	13,412	60.4
Operating cash conversion ratio (%)	86.6	69.1		
Annualised revenue per rig ($000s)	3,137	2,851	286	10.0
Gross Debt	28,750	42,922	(14,172)	(33.0)
Net Debt	17,643	39,180	(21,537)	(55.0)

As the table demonstrates, FY23 has seen material improvements across all operational and financial metrics. The full year revenue and EBITDA of $243.1m and $41.2m respectively are record numbers for the Company.

Based on the un-audited management accounts, the Company expects that its reported post tax profit for FY23 will be between $6.5m and $7.5m. Given the Company reported a profit of $0.1m for the first half of FY23, this is an outstanding result and talks to the strength of the second half and the Company's full year earnings potential.

Capital Management Update

The Company intends to continue to return surplus cash to shareholders under the Capital Management Policy announced in June 2022. Below is a summary of the policy's key items and (where relevant) a measurement of the FY23 performance against the policy.

Dividends

Under the 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.

Given the expected FY23 post tax profit of $6.5m-$7.5m, the Company expects that the final dividend (to be declared in August 2023) will be between $4.5m and $5.0m which would equate to approximately 2cps. The dividend will be partially franked with the franking percentage subject to available franking credits.

The Company remains committed to this dividend policy.

The Company will prioritise a portion of free cash flow to reduce leverage

Net debt peaked at $39.2m on 30 June 2022 following the completion of the FY22 capital investment program. I am proud to report that given the exceptional cash generation in FY23 Q4, net debt on 30 June 2023 was $17.6m which represents a 12-month reduction of 55%. Allowing for the continuation of shareholder returns the Company remains on track to meet its net debt target of $15.0m 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.

Total capital expenditure for FY23 was $12.6m which represented a reduction of 71% when compared to the FY22 corresponding figure of $44.0m. Maintenance capex (while lower than FY22 levels) continues to support high levels of availability across all equipment with breakdown rates remaining negligible. This lower maintenance capex spend is also a function of the lower average age of the fleet given the recent LF160 purchases and the sale of older equipment in advance of upcoming capital overhauls.

Share buy backs

The Company will continue to apply proceeds from any equipment sales towards the on market buy back that is currently active. To date the Company has purchased approximately 7.0m shares at a total cost of approximately $2.6m ($0.37 per share). On the basis that there were 224.9m ordinary shares on issue at the time the buyback was implemented, the 7.0m shares bought back represents a capital reduction of approximately 3%.

In closing, I would like to again thank all employees for their hard work and dedication and all shareholders for their ongoing support. As I reflect on what a challenging but successful year FY23 has been, I am extremely excited to enter the new financial year. Underpinned by a highly skilled workforce of over 750 valued employees, and with one of Australia's largest and highest quality fleets, the Company is extremely well placed to generate increased earnings year on year and continue to return surplus cash to shareholders in accordance with a disciplined capital management policy.

Yours faithfully,

Andrew Elf
Chief Executive Officer
Mitchell Services Limited