

**SWICK MINING SERVICES**

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ASX ANNOUNCEMENT

**Swick confirms significant improvement in FY21 earnings and enters FY22 with expectations of further growth supported by order book**

**Highlights:**

- **Drilling Business improved earnings**
  - Revenue of \$154.1m (FY20: \$149.4m), increase of 3.2%
  - EBITDA of \$30.4m (FY20: \$25.5m), increase of 19.1%
  - EBIT of \$15.1m (FY20: \$4.2m), increase of 260%
- **Group level (including Orexplora) FY21 results include EBITDA of \$26.0m, EBIT of \$9.2m and Profit Before Tax of \$8.0m**
- **Strong balance sheet with low net debt of \$2.6m (excluding liabilities related to right-of-use assets), and year end cash balance of \$15.1m**
- **Final FY21 dividend of 1.0cps declared by the Board for a total FY21 dividend of 1.45cps, high dividend expected to continue**
- **Strong foundation entering FY22 as a result of strong order book of \$284m, revenue diversification opportunities and positive macro environment**
- **Orexplora on track to demerge by end of CY21**

**Western Australia – Swick Mining Services Limited ('Swick', ASX: SWK)**, a leading provider of high-quality underground mineral drilling, analysis services, and mobile drilling equipment, is pleased to announce its results for the year ended 30 June 2021 (FY21).

**FY21 FINANCIAL RESULTS**

Swick's Drilling Business performed strongly in FY21 on the back of an increased order book, volume of rigs at work and revenue diversification. The Drilling Business (including the new Swick Engineering and the discontinued Reverse Circulation divisions) delivered revenue of \$154.1m, EBITDA of \$30.4m and EBIT of \$15.1m. The Drilling Business generated free cash flow of \$22.1m (including \$6.0m cash from operations and sale of the RC division) in FY21.

Rig utilisation reached 80% at end of the year with 56 Full Time Equivalent (FTE) Underground Diamond (UD) rigs operating globally (42 in Australia and 14 internationally), and Underground Diamond (UD) metres drilled increased to 1,180,615 metres, up 4.4%.

The Surface RC Drilling business was sold (ASX announcement 22 December 2020) in line with the strategy to focus on the core Underground Diamond Drilling division, which has historically contributed to around 96% of the Company's annual revenue.

At a Group level (including Orexplora), Swick delivered EBITDA of \$26.0m, EBIT of \$9.2m and Profit Before Tax of \$8.0m. The Group reported a Net Profit After Tax of \$4.9m.

Of the \$22.1m free cash flow generated by the Drilling Business, Swick invested \$5.6m in operating and capital expenditure in Orexplora, paid down debt by \$7.7m and returned \$5.5m to shareholders in the form of share buy backs and dividend payments during the year. Swick ended the year with a cash balance of \$15.1m and net debt (excluding liabilities related to right-of-use assets) of \$2.6m.

The Company's strong balance sheet position and positive Group cash flow supported the declaration of a fully franked FY21 final dividend of 1.0cps for a total dividend of 1.45cps for the year. This is a significant increase on the FY20 total dividend of 0.6cps, and the Swick Board expects the Drilling Business to be able to maintain this level of strong dividend payout going forward.

**Swick's Managing Director, Mr. Kent Swick, commented:** "FY21 was a strong year for Swick with the Drilling Business delivering improved earnings on the back of our current projects and new work won.

"I am proud of the whole team for navigating through challenging times during the pandemic, maintaining the continuity of our operations, while keeping staff safety our top priority.

"We continue to successfully manage emerging challenges faced by the sector, around skilled employee and equipment shortages. We are very well positioned to deal with these issues with our comprehensive training & development programs and unique rig manufacturing capability.

"Our positive earnings and cash flow resulted in a strengthened balance sheet with, close to zero net debt. This has enabled us to declare a total dividend of 1.45cps for FY21, a substantial rise compared to FY20, and we are well positioned to meet the expected growing market demand.

"Innovation and revenue diversification remain a priority for Swick, as we continued to invest in technology advancements with DeepEX, Swick Engineering and our most recent ESG focused Futures division. These solutions will set a new benchmark for best practice drilling, providing platforms for increased revenue diversification. The interest we have received so far is extremely encouraging and we see this only growing.

"Our key focus remains the successful operation of our Drilling Business, as we also work towards the demerger of Orexplora by the end of this calendar year. We expect this will maximise value to shareholders as each business can independently pursue growth opportunities in each of their respective sectors without competing for capital from the parent.

"Heading into FY22, we expect high utilisation from our fleet to continue, growing from an average of 55 FTE rigs in work in FY21 to 62 FTE rigs utilised in FY22 based on work in hand, and we are well placed to take advantage of the macro economic outlook as drilling demand and commodity prices are on the rise."

## **FY21 DEVELOPMENTS**

### **Underground Drilling**

Swick's core Underground Drilling division's profitability in FY21 was driven by higher rig utilisation in Australia and with Pogo, the Company's largest international site, performing in

line with the rest of the business as planned. Revenue from overseas contributed 23% of FY21 revenue, with Swick gaining increased market share in Europe.

The Company secured significant contracts during FY21 including the renewal of Northern Star Resources' Jundee Gold operations and BHP's Olympic Dam. The Jundee renewal for 14 rigs where Swick has operated since 2007, represents Swick's largest contract to date and is one of the largest underground drilling contracts in the world. After an extensive trial against other incumbent contractors, BHP awarded Swick a new five-year drilling contract at BHP's Olympic Dam for eight rigs, Swick's second largest Australian contract. In addition, renewals and awards included four rigs deployed at Perilya's Broken Hill operation, four rigs at Aurelia Metals at Peak and Hera and internationally two rigs deployed at MATSA in Spain.

DeepEX, which is a specialist division within the Swick business that was established with specialised high-powered equipment and crewed by the Company's most experienced drillers, has been performing exceptionally well drilling deep and complex drill holes that otherwise were dilutive to the business. DeepEX now has three rigs operating across two sites in Western Australia and a fourth has been mobilised to the Company's Portuguese contract. Swick is currently constructing three more DeepEX rigs in its Engineering department based on increased demand expected in FY22. DeepEX is providing the market with an alternative to deep surface drilling with an underground solution that can achieve exceptional productivity at depth compared with standard underground rigs, and at a lower overall cost per metre than surface programs.

Swick also managed well the challenges faced in the overall mining sector with emerging shortages of skilled employees and increasing equipment costs. The Company has a strong training and development program that has allowed it to better manage its human capital needs. This, and the Company's unique rig manufacturing capability, allows it to be very well placed to manage these issues into the future.

### **Swick Engineering**

In response to increased inbound enquiries for its rigs, and to capitalise on its extensive experience in rig manufacturing, Swick commenced the manufacture and sale of its underground GenII mobile drill rigs to third party customers via its newest in-house engineering business, Swick Engineering. This reflects the global trend towards mobile drill rigs and to enter new regions where Swick would otherwise have no participation in.

The Company ramped up the division in FY21, building the team and investing in additional inventory. The division already commenced adding value to the group, with four rigs sold and operational in the first six months since inception, in Canada and Tanzania respectively.

Swick is receiving growing inbound enquiries, with the Company targeting 8-12 external sales in FY22.

### **Future of Drilling 'Futures' (ESG focus)**

As the pioneers of the market's first commercial mobile underground diamond drill rig, Swick has always applied a strong engineering acumen to its underground drilling services. To this extent, the Company recently established the Future of Drilling 'Futures' department. Futures provides clients with significant ESG (Environmental, Social and Governance) solutions, to lower the carbon footprint of drilling and improve safety through automation. This is to respond to the market's needs as mining companies are moving towards decarbonization as part of their strategy, and as part of its ESG responsibility, Swick has no exposure to the coal mining industry.

As part of the division, the Company is building its Gen3 E-Rig which will be the first fully electric mobile diamond drill in the global market, reducing the carbon footprint of underground core drilling by around 50% per metre drilled.

In October, the first prototype of the Gen3 E-Rig will be tested at a Western Australian client's site. The fully proven Gen3 E-Rig is expected to be available for Swick's Engineering department to construct in volumes by the start of FY23.

As underground mines continually get deeper and more complex, Futures is also developing a Remote Control Drilling (RCD) system, allowing drillers to operate rigs remotely through video linked controls from surface effectively and safely for up to 24 hours a day of productive time. RCD will allow for additional drilling time by taking non-productive time during the start and end of shift crew changes, blasting and mine clearance delay and converting that to drilling time. On average that could see an additional four hours out of 24 hours a day converted to productive time.

The key inputs of the RCD program are automation, surface to underground high speed communication, and semi-autonomous rod handling. The automation software developed in house has been delivered and optimised during FY21 and is now ready for application and communication architecture is now available from third parties, leaving the semi-autonomous rod handling as the last key system design to work on. Although the benefits of RCD are evident, Swick expects the implementation of RCD to ramp up over time as the mines get deeper and non-productive time increases and the working environments get more challenging for personnel due to temperature gradients at depth.

## **Orexplore**

Swick remains committed to completing the separation of the Mineral Technology Business (Orexplore) from the Drilling Business to maximise shareholder value.

The recent appointment of Mr Brett Giroud as Managing Director of Orexplore Technologies Limited is an important step as the business progresses towards the demerger, which is on track to complete by the end of calendar year 2021.

Mr Giroud's extensive experience in technology development through to commercial integration will be of great benefit to Orexplore.

Swick continued to keep costs down for Orexplore with operating and capital expenditure spend of \$5.6m in FY21. Expenditure for the year included consultants and advisors' costs related to the demerger process.

To support Orexplore for its first two years as an independent entity on the ASX, Swick will invest a further \$12m upon the demerger approval. The Swick Board continues to believe that the demerger should unlock significant value for Swick shareholders and enable the market to more easily compare Swick with other listed mining services and contractors. Pro-forma financials for the Swick Drilling Business are addressed in the investor presentation.

Upon the demerger of Orexplore and the listing of Orexplore Technologies Limited (OXT) the Swick ownership in the demerged entity will be assigned 100% to its shareholders, with Swick Mining Services Ltd holding no further investment in the demerged entity. Post demerger, Swick shareholders will continue to own their shares in Swick and also own shares in Orexplore Technologies Limited. Under the current timetable, the shareholder vote is planned to be held in December 2021. Shareholders will be updated as the process progresses.

## **OUTLOOK**

Swick enters FY22 with a strong order book of \$284m representing approximately two years of revenue in hand.

The Company expects increased utilisation from its fleet to continue, from the 55 Full Time Equivalent (FTE) rigs in work in FY21, to an average of 62 FTE rigs for FY22 based on work in hand.

Swick is well positioned to take advantage of the positive macro environment in FY22, with improving market sentiment in the resources sector for the commodities in which Swick operates. The Company envisages economic activity to continue to improve, and with commodity prices on the rise following the pandemic.

The Company will remain cognisant of the ongoing potential impacts from COVID-19 and will continue to work closely with clients and suppliers to minimise disruption and ensure strong rig utilisation. The Company notes that border restrictions and quarantine requirements have affected the Australian operations in FY22 to date. Swick will continue to closely review the situation and implement additional measures where necessary responding to recommendations made by relevant health authorities and actions taken by state governments to limit the spread of COVID-19.

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This ASX announcement was authorised for release by the Board of Swick Mining.

### **About Swick Mining Services:**

Swick Mining Services Ltd (ASX: SWK) is one of Australia's largest mineral drilling contractors, providing high quality underground mineral drilling and mineral analysis services, and underground mobile drilling equipment 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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#### **Disclosure Statement:**

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