

# 2021 HALF YEAR RESULTS PRESENTATION

26 FEBRUARY 2021

**Kent Swick**

MANAGING DIRECTOR

**Jitu Bhudia**

CHIEF FINANCIAL OFFICER

# DISCLAIMER



This presentation has been prepared by Swick Mining Services Ltd ("the Company") for the sole purpose of providing corporate, financial, operational and other information to enable recipients to review the Company and its business activities. The information provided is in summary format and is not intended to provide a full and complete picture of the Company and its business activities.

This presentation is not intended as an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities.

Nothing in this presentation should be construed as financial product advice, whether personal or general, for the purposes of section 766B of the Corporations Act 2001.

This presentation may contain forward looking information, statements or forecasts that are subject to risks and other factors outside of the control of the Company. Any forward looking information, statements or forecasts provided is/are considered reasonable in the circumstances and has/have been prepared in good faith and with all due care, but may differ materially from actual future results and performance. The Company and its affiliates or any of its directors, agents, officers or employees do not make any representation or warranty, express or implied, as to or endorsement of, the accuracy or completeness of any information, statements or forecasts contained in this presentation, and they do not accept any liability for any statement made in, or omitted from, this presentation.

This presentation should not be relied upon as a representation of any matter that an investor should consider in evaluating the Company or its business activities. Investors must make and rely upon their own enquiries and due diligence in relation to the subject matter of this presentation and an investment in the Company. A potential investor must assess the merits or otherwise of an investment in the Company having regard to their own personal, financial and other circumstances.

Unless otherwise stated all the currency disclosures in this presentation are Australian Dollars.

Information included in this presentation is dated 25 February 2021.

# 1H FY21 FINANCIAL HIGHLIGHTS

<b>Drilling Business Revenue</b>  <b>\$72.7M</b>	<b>Drilling Business EBITDA</b>  <b>\$14.9M</b>  Drilling Business EBITDA Margin of 20.5%	<b>Drilling Business EBIT</b>  <b>\$7.2M</b>  Drilling Business EBIT Margin of 9.9%	<b>NPAT</b>  <b>\$0.9M</b>  After \$3.6 million (EBIT) investment in Orexplore
<b>Operating Cash Conversion</b>  <b>55%</b>  Increased debtors balance due to increased monthly revenue run-rate	<b>Drilling Business Order Book</b>  <b>\$330M</b>  In excess of 2.2x annual revenue	<b>Net Debt</b>  <b>\$9.5M</b>  Gearing of 10.5% and Net leverage of 0.8x	<b>Interim Dividend Per Share</b>  <b>0.45 cents</b>  Up 50% on pcg

# 1H FY21 OVERVIEW

## GROUP

### WELL POSITIONED TO DELIVER SHAREHOLDER VALUE IN FY21

- Strong order book of \$330m at end of 1H FY21, entering 2H FY21 with high fleet utilisation.
- Strong Balance Sheet with the sale of the surface RC Division and free cash generation providing a significant boost to the balance sheet.
- Improved market outlook for exploration and mining with opportunities for growth.
- Swick Engineering has commenced as a commercial entity for the Group as it is now selling the world class Swick GenII mobile drill rig to customers globally.
- Swick Engineering has potential to be a significant division supporting the global drilling market with an initial four rig orders in 1H FY21 to large international drillers.
- Remain vigilant on COVID-19 whilst prioritising employee safety and working closely with clients, however impacts have reduced to minor levels at present.
- Orexplora - ongoing investment with intention to commercialise as a standalone business.

## DRILLING

### IMPROVED PROFITABILITY AND FOCUS ON UNDERGROUND SPECIALTY

- Drilling business performance is strong with 1H FY21 EBITDA of \$14.9m from revenue of \$72.7m at a 20.5% margin.
- 61 (56 FTE) drill rigs in use at the end of 1H FY21 with a solid outlook ahead for rig utilisation at existing contracts and a large tender pipeline.
- DeepEX equipment and specialist teams performing well delivering target margins on complex and deep hole drilling that otherwise would be dilutive to the business.
- Swick Engineering constructing four underground mobile rigs for external sales, with a strong outlook for the world class drill rig as the global market trends away from skid rigs.
- Surface RC Drilling Business sold effectively making Swick the world's largest specialist underground diamond core driller.

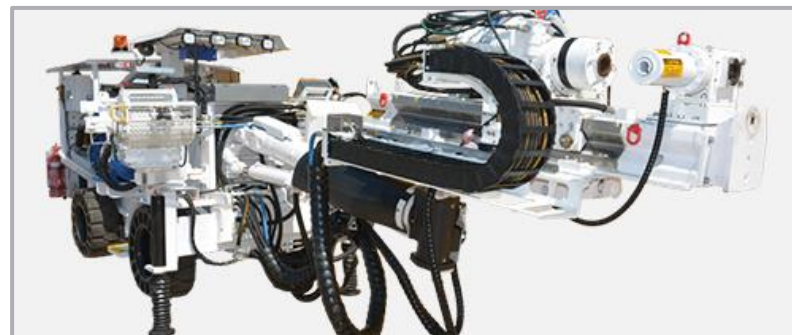
# OPERATIONAL HIGHLIGHTS

## DRILLING



### UNDERGROUND DIAMOND DRILLING (UD)

- Swick's world class UD division generated 1H FY21 revenue of \$68.7m and EBITDA of \$13.5m, up 7.5% from pcp, following improved profitability from contract extensions and new work.
  - Step change in utilisation with mobile fleet approaching maximum utilisation and at target rates.
  - FY21 contracts awarded at Jundee, Olympic Dam, Broken Hill, MATSA (Spain) and Aurelia Metals.
  - Internationally, Pogo was de-risked in 1H FY21, achieving material cost reductions and productivity enhancements with ten rigs deployed at site.
- Fleet of 69 mobile, 5 Nevada skid and 3 DeepEX rigs with 61 mobile rigs deployed at end of 1H FY21:
  - 14 rigs operating internationally, 25 in Western Australia and 22 across the rest of Australia.



### SURFACE REVERSE CIRCULATION DRILLING (RC)

- RC Division sold comprising 6 rigs, sold for \$6.4m in cash to allow Swick to focus on its strength.
- Surface Drilling 1H FY21 Revenue of \$4.0m and EBITDA of \$1.4m (includes profit on sale of equipment of \$0.5m).

# OPERATIONAL HIGHLIGHTS

## DRILLING – BUILDING NEW EARNINGS SOURCES



### DEEPEX AND SWICK ENGINEERING

- Leading the way with innovation and revenue diversification with the launch and early commercialisation of DeepEX and the ramp up of Swick Engineering division.
- DeepEX early commercialisation:
  - Launched in FY20, representing the world's most powerful underground mobile drills.
  - Rigs designed to drill up to 2,000 metres NQ2 vertically down and up to 3,000m horizontal.
  - Three rigs built.
  - Favourable conditions entering 2H FY21.
- Swick Engineering ramp up:
  - Strong in-house engineering capability building rigs since 2004.
  - Growing demand for Swick's drills has led to the manufacturing and sale of GenII rigs to the open market.
  - Four GenII rigs ordered by two large global drilling contractors for use outside of Australia. Two built and ready for delivery and two currently in build.
  - New hires including experienced Production Manager and Sales Engineer made to scale up Engineering operations.



*UD4501: First DeepEX build c/w rod handler*

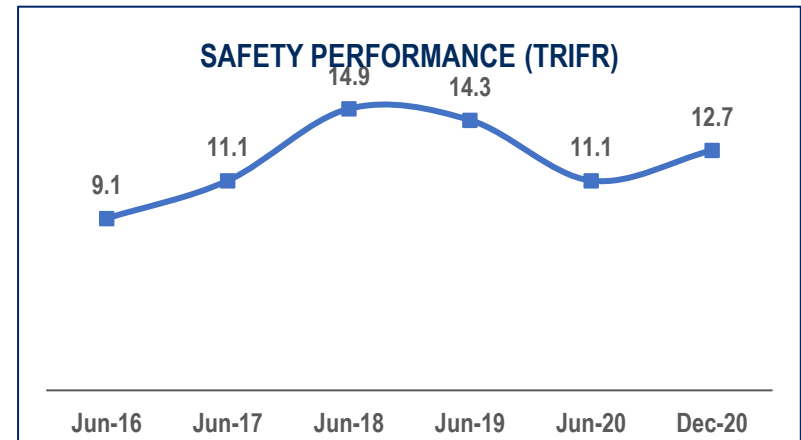


*The first two Swick GenII mobile drills constructed for third parties – destined for Canada*

# SAFETY

## SAFETY IS AN ONGOING PRIORITY

- Safety innovations are continuing to be released at Swick with a focus on tube and rod handling equipment to lower the exposure and total weight borne by the crew.
- 17% increase in UD rig shifts per month over first half (2,875 in Jun-20, 3,446 in Dec-20) indicates a high number of new starters.
- High utilisation of training facility in Perth seeing up to six offsiders per week in training.



*Operators undergoing training at Swick's custom build training facility in South Guildford, WA*

# 1H FY21 RESULTS

## FINANCIAL OVERVIEW



# GROUP RESULTS

- Decrease in group revenue reflects reduction in volume of work from the Barrick Nevada contract in USA.
- Drilling Business EBITDA improved due to improved productivity and cost management across all sites.
- Group earnings and margins reflect ongoing strategic investment in Mineral Technology Business. Renewed focus on cost and capital management in 2H FY21.
- Group EBITDA margin improvement assisted by a reduction of over \$1.6m in corporate salaries and wages from restructure undertaken strategically.
- Improved conversion of EBITDA to EBIT due to accounting for drilling rods as consumable expense instead of long-life consumable asset – move from depreciation expense to operating expense.

A\$ million	1HFY21			1HFY20 <sup>1</sup>	Change
	Drilling Business <sup>1</sup> & Other Segment	Mineral Tech Business	Group <sup>1</sup>		
Revenue	72.7	0.03	72.8	80.3	↓ 9.4%
EBITDA	14.6	(2.8)	11.8	10.8	↑ 9.2%
<i>EBITDA margin</i>	20.0%	na	16.2%	13.4%	↑ 280bps
EBIT	6.8	(3.6)	3.2	(1.8)	↑ 276%
EBIT margin	9.4%	na	4.4%	(2.3%)	↑ 670bps
NPAT	4.1	(3.2)	0.9	(2.9)	↑ 130%
Dividend	na	na	0.45cps	0.30cps	↑ 50%

Notes:

Numbers may not add due to rounding.

<sup>1</sup> Includes discontinued operations (RC Drilling business)

# BUSINESS RESULTS

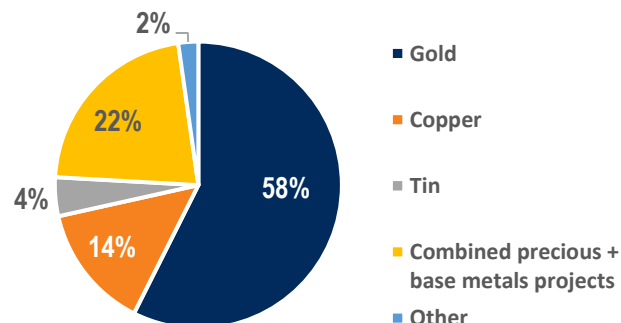
## DRILLING

- Revenue decrease to \$72.7m reflects reduction in volume of work from the Barrick Nevada contract in USA.
- EBITDA increased by 23% and EBIT rebound to \$7.2m:
  - Follows significantly higher profitability from contract extensions and new work.
  - Stronger rig performance and increased utilisation at target rates coupled with operational cost management.
- Margins at Pogo improved during the period and expected to achieve target margins in 2H FY21.
- Australian Underground Drilling business EBIT margin of 13.0% compared to 9.7% pcp.

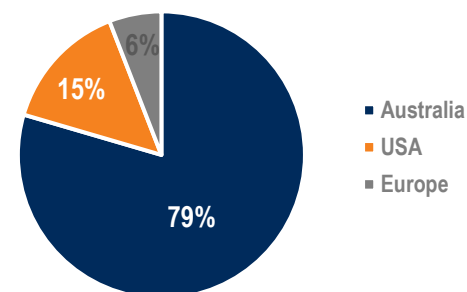
A\$ million	1H FY21 <sup>1</sup>	1H FY20 <sup>1</sup>	Change
Revenue	72.7	80.3	↓ 9.5%
EBITDA	14.9	12.1	↑ 23.1%
<i>EBITDA margin</i>	20.5%	15.1%	↑ 540 bps
EBIT	7.2	0.7	↑ 929%
<i>EBIT margin</i>	9.9%	0.9%	↑ 900 bps

Notes:  
Numbers may not add due to rounding.  
<sup>1</sup> Includes discontinued operations (RC Drilling business)

### REVENUE BY COMMODITY



### REVENUE BY GEOGRAPHY



# BUSINESS RESULTS

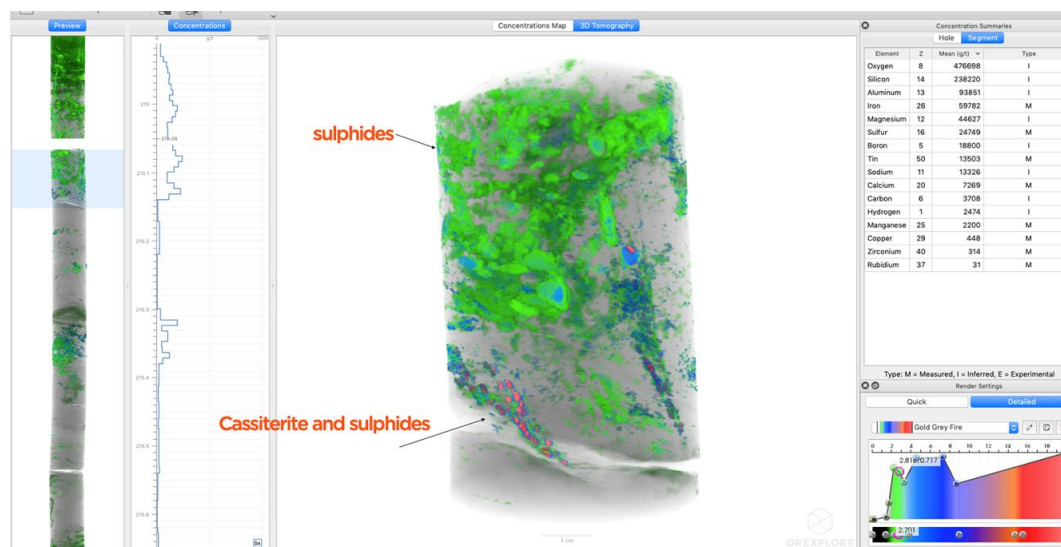
## MINERAL TECHNOLOGY BUSINESS



- Ongoing EBITDA investment of \$2.8m (1H FY20: \$2.0m EBITDA loss) in refining and testing the technology for commercial adoption.
- Promising laboratory testing work with a pipeline of customers is expected to drive market confidence and uptake of the technology.
- Additional insights being developed with in house Geoscience acumen added to the development team.

A\$ million	1H FY21	1H FY20	Change
Revenue from core scanning	0.03	0.05	↓ 40%
Government grants	0.2	0.2	-
EBITDA	(2.8)	(2.0)	↓ 40%
EBIT	(3.6)	(3.2)	↓ 12.5%

Note: numbers may not add due to rounding



# CASH FLOW

- Operating cash flow was \$6.5m, up on 1H FY20. This was after Orexplore expenses.
- EBITDA cash conversion of 55%.
- Increase in working capital due to increase in monthly revenue run-rate with 17% growth in rig shifts in last six months.
- Total capex of \$4.3 including growth capex of \$1.4m (Drilling \$0.8m, Mineral Technology \$0.6m).
- Reduction in stay-in-business capex as drilling rods now treated as consumable expense instead of capital expenditure depreciated over two years.
- Drilling Business generated \$7.3m of free cashflow.
- Interim dividend of 0.45c per share representing 18% of Drilling Business free cash flow.

A\$ million	1H FY21			1H FY20 <sup>1</sup>	Change
	Drilling Business <sup>1</sup> & Other Segment	Mineral Tech Business	Group <sup>1</sup>		
<b>EBITDA</b>	<b>14.6</b>	<b>(2.8)</b>	<b>11.8</b>	<b>10.8</b>	<b>↑ 9.2%</b>
Working capital movement	(4.7)	(0.6)	(5.3)	(6.1)	↓ 13.1%
<b>Operating cash flow before interest and tax</b>	<b>9.9</b>	<b>(3.4)</b>	<b>6.5</b>	<b>4.6</b>	<b>↑ 41.3%</b>
<i>EBITDA cash conversion</i>	68%	na	55%	43%	↓ 1200bps
Interest & tax paid	(0.8)	-	(0.8)	(0.9)	↓ 11.1%
<b>Operating cash flow after interest and tax</b>	<b>9.1</b>	<b>(3.4)</b>	<b>5.7</b>	<b>3.7</b>	<b>↑ 54.1%</b>
Capital expenditure	(3.7)	(0.6)	(4.3)	(8.0)	↓ 46.3%
Asset sales & investment income	1.9	-	1.9	0.1	↑ 1800%
<b>Free cash flow</b>	<b>7.3</b>	<b>(4.0)</b>	<b>3.3</b>	<b>(4.2)</b>	<b>↑ 179%</b>
Proceeds/(repayment) of debt	(1.2)	-	(1.2)	(10.0)	↓ 88.0%
Proceeds/(purchase) of equity	(1.4)	-	(1.4)	14.7	↓ 110%
<b>Increase/(decrease) in cash</b>	<b>4.6</b>	<b>(4.0)</b>	<b>0.6</b>	<b>0.4</b>	<b>↑ 50.0%</b>

Notes:

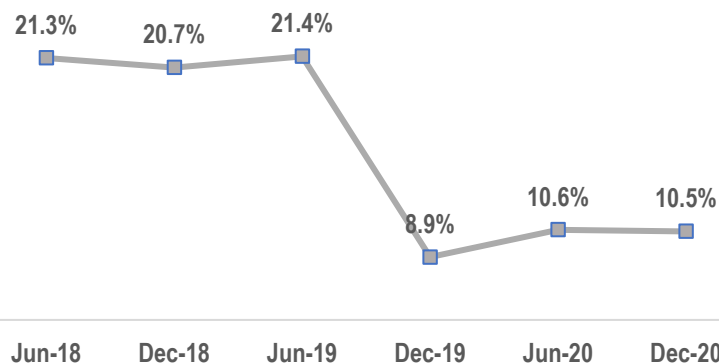
Numbers may not add due to rounding.

<sup>1</sup> Includes discontinued operations (RC Drilling business)

# BALANCE SHEET

- Enhanced balance sheet position with gearing of 10.5% and Net Debt/EBITDA of 0.8x at 31 December 2020.
- Group reset to low gearing provides flexibility to target additional work and returns to shareholders.
- \$15m of available undrawn debt facilities providing funding for growth.

**GEARING (NET DEBT / EQUITY)<sup>1</sup>**



<sup>1</sup> Excludes lease liabilities defined under AASB 16

A\$ million	31 Dec 20	30 Jun 20	Change
Cash	13.3	12.7	↑ 4.7%
Receivables	22.8	16.2	↑ 40.7%
Inventories	18.8	19.3	↓ 2.6%
Property, plant and equipment	64.6	74.4	↓ 13.2%
Intangible assets	12.7	12.2	↑ 4.1%
Other assets	17.1	13.1	↑ 30.5%
<b>Total assets</b>	<b>149.3</b>	<b>147.9</b>	<b>↑ 0.9%</b>
Payables	13.7	13.4	↑ 2.2%
Borrowings – Bank & HP	22.7	22.5	↑ 0.9%
Borrowings – AASB16 Liabilities	9.4	10.0	↓ 6.0%
Employee obligations	6.1	6.1	-
Other liabilities	7.4	3.5	↑ 111%
<b>Total liabilities</b>	<b>59.3</b>	<b>55.6</b>	<b>↑ 6.7%</b>
<b>Shareholders' equity</b>	<b>89.9</b>	<b>92.4</b>	<b>↓ 2.7%</b>

Note: numbers may not add due to rounding

# STRATEGY AND OUTLOOK

# GROWTH STRATEGY

## DRILLING - UNDERGROUND

### Current work: Execute safely and efficiently

- Ongoing focus on higher rig utilisation and cost efficiency from rigs.
- Opportunity for further rig deployments on existing contracts.
- Remain vigilant of potential impacts from COVID-19 while staying flexible to client demands.
- Maintain high safety performance.
- Focus on retention of staff in highly competitive space.

### Growth

- Refocus on core Drilling Business.
- Entered 2H FY21 with strong order book of \$330m from new and extended contracts secured from existing clients and markets.
- Capitalise on strong tender pipeline with many opportunities for growth into new projects.
- Continue construction of GenII drill rigs to cater for internal demand and significant new external revenue stream from the Engineering business.



*DeepEX prototype drill in use – capable of >2,000m diamond core holes from underground*

# GROWTH STRATEGY

## DRILLING – INNOVATION

### DeepEX

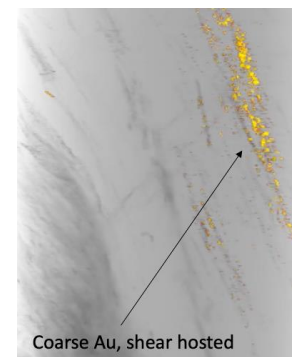
- Excellent deep drilling performance has potential to create additional market for Swick.
- Clients becoming aware of the opportunity to undertake low cost, deep hole drilling from underground stations.
- DeepEX crews proving that targeted, deep exploration is achievable from a small, underground mobile drill rig and not the sole domain of large and expensive surface rigs.

### Swick Engineering

- The sale of GenII rigs to the open market provides Swick with a significant additional revenue opportunity and after market support will be ongoing business.
- There is a global trend towards mobile underground rigs and the Swick GenII rig is a world leader in technology and power with the smallest footprint available – a successful combination for underground.

## MINERAL TECHNOLOGY – OREEXPLORE

- Focus of Orexlore will be on commercialisation activities
  - Continue to build portfolio of test results to demonstrate competitive advantage relative to existing mineral analysis technology.
  - Focus on initial commercial agreements with early commercialisation clients/partners.
- Swick remains committed to implementing the recommendations of the FY20 strategic review - separating the Drilling and Orexlore businesses to maximise shareholder value. Demerger to occur once commercialisation runway is established.
- Geoscience acumen employed to assist in the interpretation of the detailed data set and creation of unique insights designed to add significant value to mining operations.





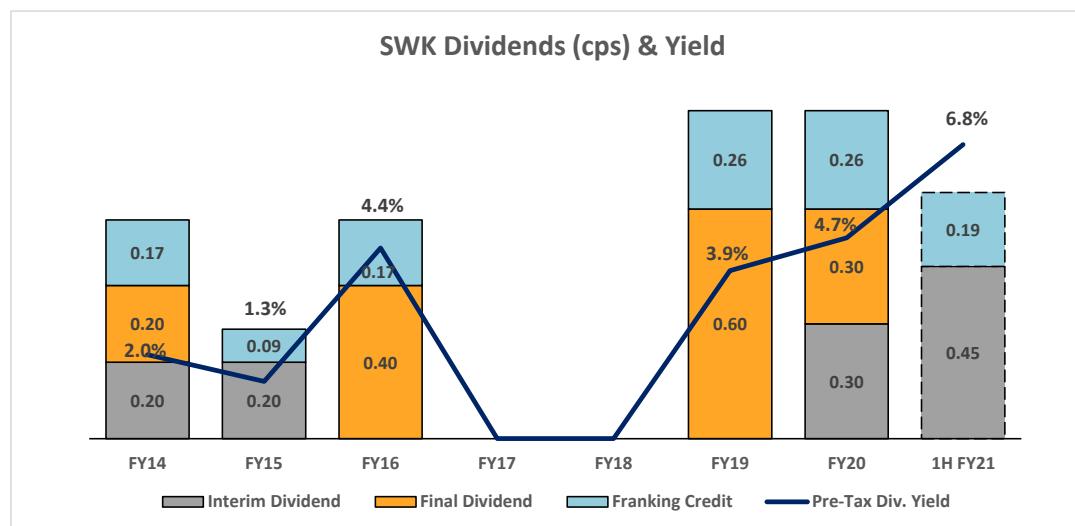


- Entering 2H FY21 with strong order book of \$330m from secured work.
- Focus on high fleet utilisation and at target rates.
- Additional revenue stream from DeepEX and Swick Engineering.
- Improved market outlook for exploration and mining resulting in improved tender pipeline for Swick.
- Proven ability to generate strong cash flow, providing returns to shareholders.
- 2H FY21 Underground Drilling business performance expected to be as strong as 1H FY21.
- Ongoing investment in Orexplore to define a commercialisation pathway.

# INVESTMENT SUMMARY

## Investment highlights

- World class underground driller.
- Safety is our #1 priority.
- Contractor of choice to many of the world's tier one mining operations.
- Substantial market share in low risk jurisdictions (Australia, USA and Europe).
- Attractive EBITDA margins of c.20%.
- Strong balance sheet – low gearing and ability to fund growth while maintaining cash returns to shareholders.
- Track record of cash returns to shareholders through regular dividends and share buybacks.



Note: FY14 - FY20 yield based on VWAP for the respective year. 1H FY21 yield is annualised and based on VWAP for financial year-to-date.

# 1H FY21 Reconciliation of Statutory to Reported

A\$ million	Revenue	EBITDA	EBIT
Statutory Results	68.7	10.4	2.3
Discontinued Operations (RC Drilling business)	4.1	1.4	0.9
Reported Results	72.8	11.8	3.2
Margin (%)		16.2%	4.4%

# QUESTIONS