



Mitchell
SERVICES

ASX RELEASE

(ASX: MSV)

2019 ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS

Dear Shareholders

The year ending 30 June 2019 was financially transformational for Mitchell Services with the business generating record revenues and earnings following a period of continued utilisation, productivity and pricing improvements.

The growth within the organisation over the past 12 months has been truly remarkable and was driven by a number of new contract wins and material contract extensions including:

- A major contract extension and scope increase in relation to our Underground-In-Seam drilling contract with Anglo American at Grosvenor and Moranbah North,
- A material expansion into the Western Australia market with the award of a major, five-year contract with KCGM, and
- An extension and scope increase of the BHP Olympic Dam contract with Mitchell Services providing up to eight rigs.

This growth has had an extremely positive impact on financial results with the business recording FY19 revenue, EBITDA and net profit after tax of \$120.2m, \$24.1m and \$17.4m respectively, all representing significant increases on FY18 numbers.

We are seeing a continual increase in demand for brownfield drilling services relating to most commodities and spanning across most geographies. We are also seeing early signs of more favourable contract terms and conditions including pricing.

Mitchell Services Limited

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By contrast, the demand for greenfield drilling services remains relatively subdued – although interest levels have certainly increased in this sector recently, perhaps demonstrating early signs of an improvement.

In 2018, I wrote (having experienced several industry cycles before) that the growth in the current cycle appeared to be more measured, deliberate and steady. Twelve months later, this is certainly what we are continuing to see. The barriers to entry for new competitors remain high and in general, market players have learnt from mistakes made in the past and are behaving in a rational manner amid geopolitical uncertainty. This bodes well for Mitchell Services because of our established market position and 50 years of industry experience.

I am extremely proud of the various safety and training initiatives that have been implemented in 2019 and of the excellent culture and safety performance that these initiatives have produced. We are a people business and the success of our culture and brand (especially now, in an improving market) is linked to our ability to train, retain and further develop our own drillers. I am delighted that our safety initiatives were recognised by the broader industry through the following awards:

- Winner 2018 Australian Mining Prospects Awards (Safety Advocate Award)
- Finalist 2018 Australian Mining Prospects Awards (Excellence in Mine Safety, OH&S)
- Finalist 2018 Safe Work and Return to Work QLD (Most Significant Improvement to Work Health and Safety Performance and Best Demonstrated Leadership in Work Health and Safety).

The Board's near-term focus at the start of the 2019 financial year was to utilise anticipated surplus cash to reduce debt and then to consider additional capital management options. I am pleased to report that during the 2019 financial year, the business generated approximately \$18.2m of operating cash flow, reduced gross debt from \$19.6m at 30 June 2018 to \$9.8m at 30 June 2019 and paid a special dividend of approximately \$1.8m in July 2019. We will continue to operate within a framework of prudent capital management aimed at maximising shareholder value and returns.

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I am delighted at our recently announced acquisition of Deepcore Drilling which, for various reasons is strategically, operationally and financially compelling. The acquisition (which is expected to be materially EPS accretive) will diversify and strengthen our market position by geography, commodity and by drilling type. The acquisition also significantly increases the combined tender pipeline and growth opportunities. It offers the ability to leverage different brands so that we are responsive to our customers and maintain strong relationships while taking advantage of potential synergies.

In closing, I would once again like to thank all shareholders for your continued patience and support. I would also like to thank every Mitchell Services employee for their ongoing dedication and commitment, every Mitchell Services supplier for their outstanding service and every Mitchell Services customer for their valuable and much appreciated support.

Our brand is built on the foundations of our people and their success and the mandate that they have to be sure, be safe and continually strive to find a better way. Our brand and culture date back to 1969 and this year celebrated their 50th anniversary.

50 years and spinning.

On behalf of the Board, thank you.

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