



Mitchell
SERVICES

12 February 2021

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records strong underlying FY21 Q2 operating and financial performance whilst reported EBITDA impacted by the recognition of an impairment of trade receivables.

- Revenue \$46.8m
- EBITDA \$2.1m
- Operating cash flow \$6.3m
- 12-month net debt reduction 39.2%

Dear Shareholder.

I provide the following investor update for the quarter ended 31 December 2020 (**FY21 Q2**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts. The Company has once again delivered a strong operational performance during FY21 Q2.

Noting that the 2nd quarter is typically seasonally slower than the 1st (primarily due to Christmas shutdowns over December), FY21 Q2 has seen significant improvements in most key operating metrics when compared to the same quarter last year (FY20 Q2) as the below tables illustrate. These improvements were generally derived from greater utilisation and productivity levels across the business and following the Deepcore Drilling acquisition that took place in November 2019.

Termination of contract and recognition of impairment of trade receivables

FY21 Q2 EBITDA performance was impacted by the recognition of a \$7.3m impairment of trade receivables. The Company refers to the ASX announcement made on 15 July 2019 which confirmed the award of a major five-year contract with a new client. The Company is disappointed to advise that it has today terminated the contract as a result of breach of contract by the client.

The decision to terminate was reached on the basis that the client had continually failed to pay invoices that were due and owing to the Company pursuant to the terms of the contract.

Based on the most recent activity levels at this site, it is anticipated that in the absence of other contract wins, the termination will result in a monthly revenue reduction of approximately \$1.2 million in the short term. Alternatively, the Company may determine to sell the relevant rigs.

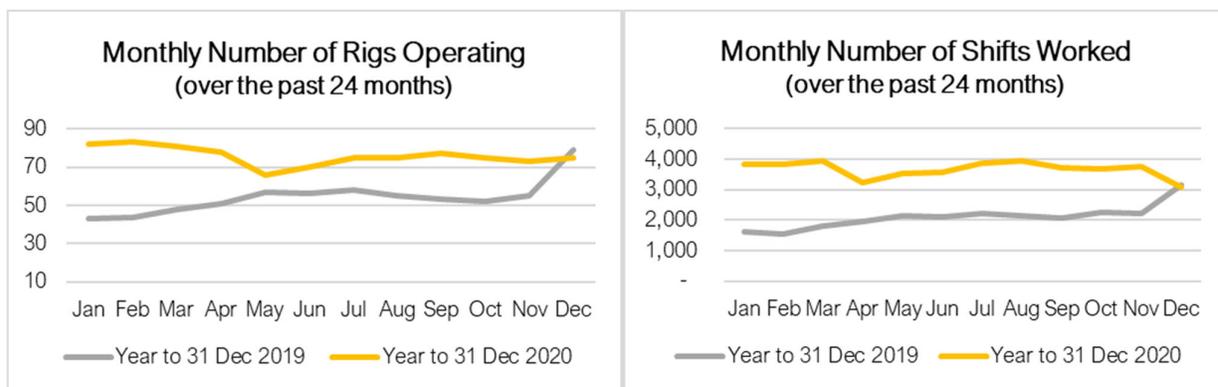
The Company is currently owed approximately \$8.5million in outstanding receivables under the contract which it is currently seeking to recover from the client. Given the early stages of this process and the uncertainty around the timing and quantum of the recovery, the Company has determined that it is prudent to provide for the outstanding amount. As such it is expected that the 31 December 2020 half year financial report will contain an impairment of trade receivables for approx. \$7.3m and the management accounts have been prepared on this basis.

Despite the take up of the provision for impairment, the recovery process has commenced with the aim to recover the full amount owing.

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	FY21 Q2	FY20 Q2	Movement	Movement %
Average operating rigs	74.3	62.2	12.1	19.5%
Number of shifts	10,467	7,642	2,825	37.0%
Revenue (\$'000s)	46,804	39,529	7,275	18.4%
EBITDA (\$'000s)	2,065	7,901	(5,836)	(73.9%)
Operating cash flow (\$'000s)	6,272	8,338	(2,066)	(24.8%)



The below table summarises the un-audited financial and operating results for the six months ended 31 December 2020 (1H21) vs the corresponding six months ended 31 December 2019 (1H20).

	6 months ended 31 Dec 20	6 months ended 31 Dec 2019	Movement	Movement %
Average operating rigs	75.0	58.8	16.2	27.6%
Number of shifts	21,996	14,069	7,927	56.3%
Revenue (\$'000s)	99,989	72,983	27,006	37.0%
EBITDA (\$'000s)	12,465	14,148	(1,683)	(11.9%)
EBITDA (%)	12.47	19.39		
Operating cash flow (\$'000s)	15,746	14,012	1,734	12.4%
Annualised revenue per rig (\$'000s)	2,666	2,485	181	7.3%
Net Debt (\$'000s)	23,379	38,449	(15,070)	(39.2%)

Despite the recognition of an impairment in relation to the overdue receivable, the Company has once again generated strong free cash flows in FY21 Q2 which it has primarily used to reduce debt. The Company's net debt figure of \$23.4m represents a quarterly decrease of approximately 9% and a 39% reduction when compared to the 31 December 2019 figure of \$38.5m. Had it not been for the impairment, EBITDA in 1H21 would have been approximately \$19.7m, and would have represented growth of approximately 39% vs 1H20.

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Industry overview

Mitchell Services remains one of the most diverse drilling businesses in Australia, offering both surface and underground drilling across a broad range of clients and commodities.

Whilst activity levels across the metallurgical coal industry have remained flat in recent times (noting that the Company has no exposure to thermal coal), we have seen a significant increase in the demand for drilling services within the gold and base metals sectors. With gold prices at or near historic highs and metal prices showing early signs of strengthening, industry experts are pointing to a positive long-term industry outlook. Gold is expected to remain a safe haven during times of global uncertainty whilst metal prices are generally linked to the underlying supply/demand fundamentals. Given the tightening in supply of these metals as reserves continue to decrease in conjunction with the emergence of new or increased global markets, the industry consensus would appear to be that these fundamentals remain strong in the long term.

It's a consensus that is validated by what we are seeing in our drilling business. Numerous new projects and exploration programs are commencing off the back of a significantly increased level of capital raising that took place in mid to late 2020. These raisings don't appear to be slowing down in 2021. We are also receiving indications from the majority of our Tier 1 gold and base metals clients that budgets and activity levels will increase in calendar year 2021 vs 2020. With approximately 70% of 1H21 revenue derived from the gold and base metal sectors, the Company is well placed to take advantage of any further uplift in these markets.

Outlook

Based on factors outlined in the industry overview above, our strong tender pipeline and what we are currently experiencing at an operational level with existing clients, the forecast demand for drilling services is strong.

In line with previous years, the Company intends to release FY21 revenue and EBITDA guidance in conjunction with a capital management update post the release of the half year financial statements in late February.

In closing I'd like to thank all employees for their hard work and dedication and all shareholders for their ongoing support.

Yours faithfully,



Andrew Elf
Chief Executive Officer
Mitchell Services Limited

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