

27 April 2022



Mitchell
SERVICES

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records its highest ever revenue for any third quarter period and its highest ever revenue for any single month as the Company continues to deliver on its material organic growth strategy.

- FY22 Q3 revenue **\$54.5m**
- March 2022 revenue **\$20.2m**
- FY22 Q3 EBITDA **\$8.6m**
- FY22 Q3 Operating cash flow **\$6.1m**

Dear Shareholder,

I am pleased to provide the following investor update for the quarter ended 31 March 2022 (**FY22 Q3**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

Business strategy update

By way of an update in relation to the purchase of twelve state of the art LF-160 drill rigs pursuant the organic growth strategy currently underway, the Company has now taken delivery of seven rigs with four currently operating, and three undergoing preparations to move to client sites. The remaining five rigs will arrive at various times during the remainder of the financial year with the final rig scheduled for delivery in June 2022.

Nine of the twelve rigs have been assigned to existing drilling contracts with Tier 1 Global miners with strong customer interest received from existing and potential new clients for the remaining three.

Once our capital commitments for these new rigs have been met in June 2022, the business will limit further significant growth capital expenditure (to the extent it makes sense to do so) and focus on generating strong cash flows with the world class fleet that the Company has invested in.

Quarterly Results

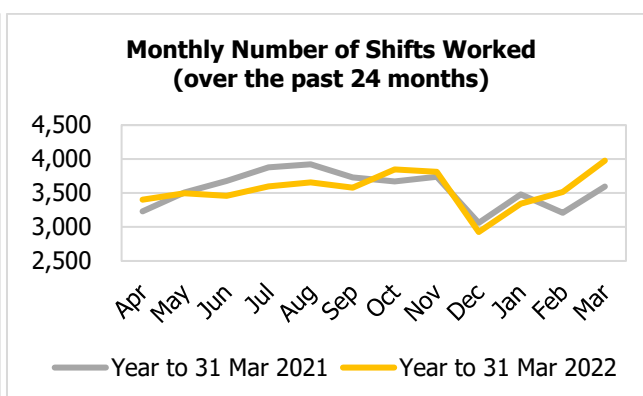
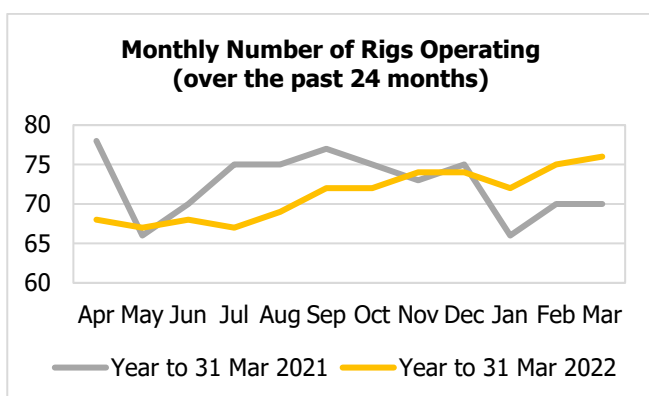
It is pleasing to note that the Company recorded its highest ever revenue for any third quarter period. Revenue for FY22 Q3 was \$54.5m which represents a 20.8% increase when compared to the FY21 Q3 figure of \$45.2m. It is also extremely encouraging to note that revenue for the month of March 2022 was \$20.2m which represents the highest revenue (for any one-month period across any quarter) in the Company's history.

The significant revenue increase was driven by a combination of increased utilisation, productivity, and pricing. The average operating rig count in FY22 Q3 was 75.0 compared to 68.7 in FY21 Q3 with the increase largely attributable to multiple contract wins and re-wins (predominately with Tier 1 global mining majors). Based on the expected scope of these contracts the Company expects that the average operating rig count on 30 June 2022 will be approximately 85. The cumulative impact of these wins is extremely positive and the business is well positioned to benefit from them post the usual mobilisation and ramp up costs which traditionally result in a short-term delay between contract win and when the Company benefits from the full expected financial and operational performance.

The operational narrative in FY22 Q3 was very similar to that in FY22 Q2 in that there were numerous positives as well as operational challenges that were beyond our control and initial expectations. These included excessive wet weather events across the country and an increase in the number of lost shifts due to COVID-19 related isolation requirements. Given these operational headwinds, I must once again thank all staff for their incredible efforts. To deliver a quarterly result to this extent and amid these challenges is a testament to their operational capabilities.

It is extremely pleasing to note the significant improvement across almost all key operational and financial metrics from FY21 Q3 to FY22 Q3. It is also worth noting that certain factors outlined earlier (ramp up, weather and COVID-19) have resulted in both the EBITDA and cash conversion percentages being lower than the expected longer-term levels as the below financial tables illustrate.

	FY22 Q3	FY21 Q3	Movement	Movement %
Average operating rigs	75.0	68.7	6.3	9.2%
Number of shifts	10,835	10,283	552	5.4%
Revenue (\$'000s)	54,539	45,157	9,382	20.8%
EBITDA (\$'000s)	8,591	5,789	2,802	48.4%
Operating cash flow (\$'000s)	6,062	6,416	(354)	(5.5%)



YTD Results

The below table summarises the un-audited financial and operating results for the nine months ended 31 March 2022 vs the corresponding nine months ended 31 March 2021.

	9 months ended 31 March 2022	9 months ended 31 March 2021	Movement	Movement %
Average operating rigs	72.6	72.9	(0.3)	(0.5%)
Number of shifts	32,249	32,279	(30)	(0.1%)
Revenue (\$'000s)	157,423	145,146	12,277	8.5%
EBITDA (\$'000s)	26,136	18,254	7,882	43.2%
EBITDA (%)	16.6	12.6		
Operating cash flow (\$'000s)	18,719	22,162	(3,443)	(15.5%)
Annualised revenue per rig (\$'000s)	2,893	2,655	238	9.0%
Net Debt (\$'000s)	29,230	27,127	2,103	7.8%

The decrease in operating cash flows (of 15.5%) is driven largely from the increase in working capital requirements associated with the significantly increased revenue (particularly in the month of March 2022) with the below table summarising the movement in trade and other receivables and inventory from 31 March 2021 to 31 March 2022. To mitigate against supply chain impacts from COVID-19 and the material increases in demand for drilling services, inventory levels were proactively increased across the business. The Company is beginning to see evidence of supply chain normalisation and if this materialises, it is likely that inventory levels will be run down to more normal levels in the future notwithstanding the increase in operating rig count.

	31 Mar 2022	31 Mar 2021	Movement	Movement %
Trade and other receivables (\$'000s)	32,530	24,876	7,654	30.8%
Inventory (\$'000s)	7,165	4,449	2,716	61.1%

Industry update

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

This broad exposure has served as a natural hedge particularly with regards to commodity exposure and risks around commodity price fluctuations. The commodity pricing peaks and troughs have generally occurred at different times and across different commodities. Our portfolio approach has therefore resulted in a lower overall risk to commodity price fluctuations given the balanced nature of our commodity exposure.

What we are currently seeing however, is that commodity prices are remaining strong (and in most cases increasing) across almost all the commodities that we are exposed to which is driving increases in demand levels from all of our existing and potential clients concurrently and across all commodities and geographies. This increase in demand is driven by various factors including:

- Global government stimulus and subsequent infrastructure spending
- Growing demand for future facing minerals including copper
- Australia being perceived as an attractive region to invest due to its high quality, low risk jurisdiction in which to operate
- An increase in new projects and exploration programs following increased levels of capital markets activity
- Increased budgets amongst larger Tier 1 producers

Conversely, supply side constraints are continuing to tighten as we continue to see:

- Significant barriers to entry for new service providers including rig lead times/availability, their access to start-up funding and a highly regulated and complex operating environment
- Further consolidation within the drilling services sector
- Reducing grades and reserves
- Accelerating commodity deficits
- Resource nationalisation
- The current situation in Russia/Ukraine

With a forecast operating rig count of approximately 85 rigs by June and a world class fleet that the company has invested in, Mitchell Services is extremely well positioned to take advantage of these favourable market conditions.

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