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# HALF YEAR RESULTS PRESENTATION

December 2020

Mitchell SERVICES

50 YEARS AND SPINNING
MITCHELL 50

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# MITCHELL SERVICES MARKET PROFILE

## ASX Information

| | |
|---|---|
| ASX Stock Symbol | MSV |
| Shares Issued | 199,238,740 |
| Share Price (at 23/02/2021) | A$0.415 |
| Market Capitalisation | A$82.68m |

## Major Shareholders

| | |
|---|---|
| Mitchell Group | 17.9% |
| Scott Tumbridge | 7.2% |
| Other Directors & Management | 3.4% |
| Institutions | 21.0% |
| Other Shareholders | 50.5% |

## Board of Directors

Nathan Mitchell
Executive Chairman

Scott Tumbridge
Executive Director

Peter Miller
Non-Executive Director

Robert Douglas
Non-Executive Director

Neal O'Connor
Non-Executive Director

Peter Hudson
Non-Executive Director

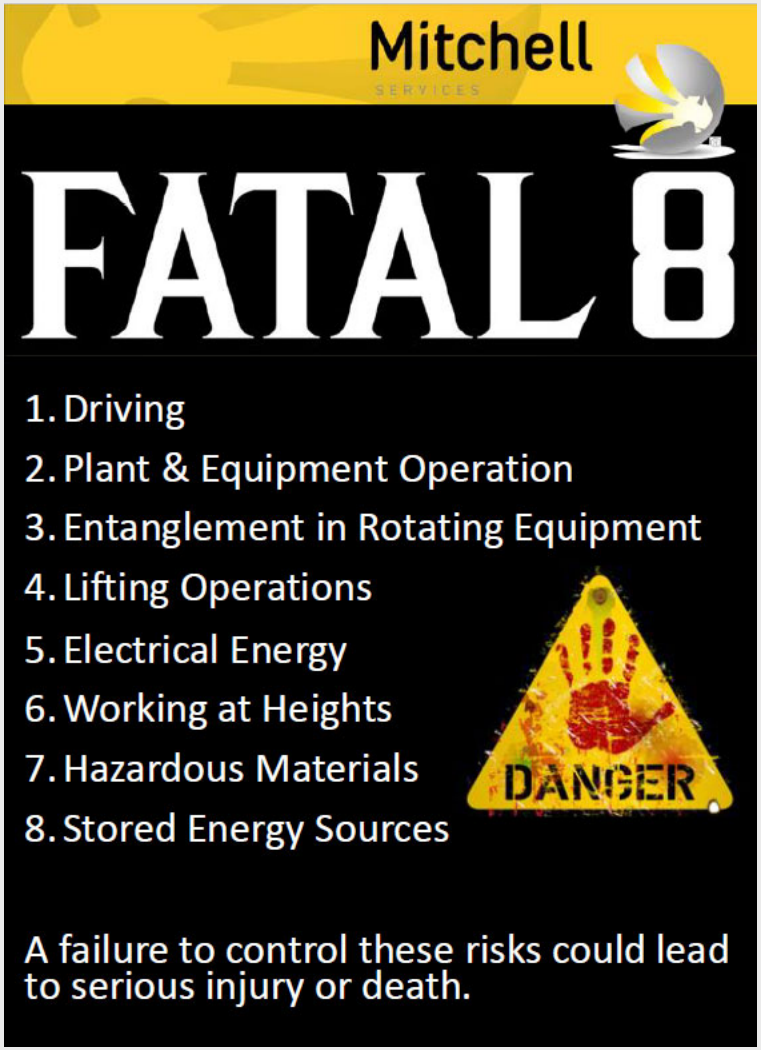
## Executive Management Team

Andrew Elf
Chief Executive Officer

Greg Switala
CFO & Company Secretary

# PEOPLE, RISK AND SUSTAINABILITY

- Implemented critical risk management program. Infield program designed to verify the presence and effectiveness of critical control measures to prevent life changing injuries and fatalities.
- Covid 19 has continued to present logistical changes but credit to our entire team who have continued to deliver safe and efficient services to our clients.
- Developed and released a Modern Slavery Statement.
- Mitchell Services Foundation has now been registered as a Charity.



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# 1H2021 BUSINESS OVERVIEW

Revenue of $100m

↑37%

from 1H2020

Underlying EBITDA of $19.8m

↑40%

from 1H2020

Net Debt of $23.4m

↓39%

reduction from Dec 19

Revenue guidance FY2021

$190m-$200m

Underlying EBITDA guidance FY2021

$38m-$42m

Statutory EBITDA guidance

$29m-$33m

Significant improvement in **key operating metrics**



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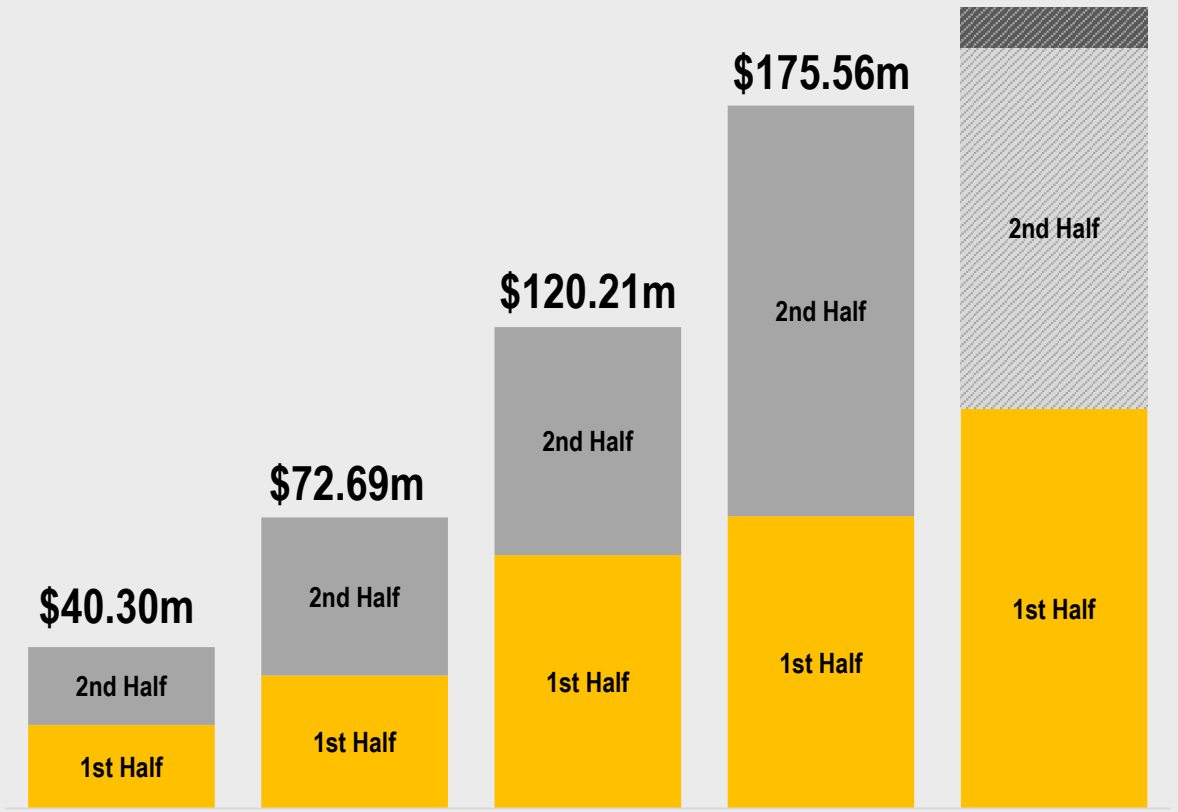
# OPERATIONAL HIGHLIGHTS

- **Strong underlying performance** excluding impairment loss on trade receivables. Solid operating base to move forward on in a strong market.
- Rig utilisation was marginally impacted by COVID-19 but **utilisation is now increasing** again.
- **Revenue diversity** continues to improve by commodity, geography and drilling type.
- Approximately 80% of revenue is derived from **Tier 1 clients** at the mine site resource definition, development and production stage which is a critical service in the mining lifecycle.

# IMPACT OF INCREASED UTILISATION ON REVENUE




| FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|
| 21.6 | 37.1 | 48.2 | 67.7 | 75 (1H2021) |

Average Operating Rig Count

- **Revenue guidance FY2021 $190m-$200m**
- Average operating revenue per rig continued to increase due to improved productivity, pricing and drilling mix
- Mitchell Services anticipates further increases in operating rig count in FY2021
- Operating rig count subject to change due to seasonality or other factors
- 99 rigs in fleet



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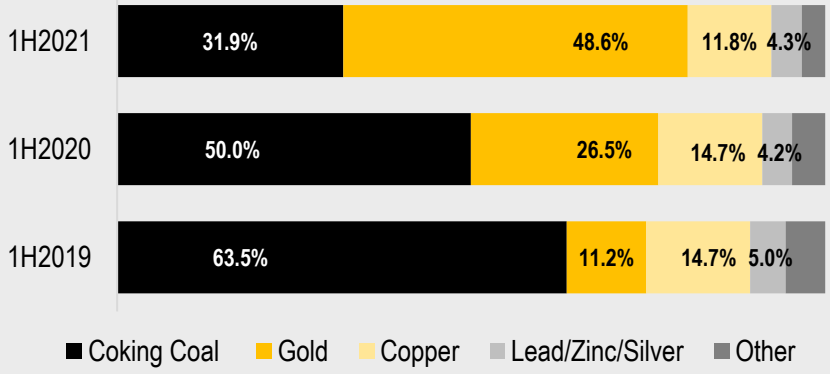
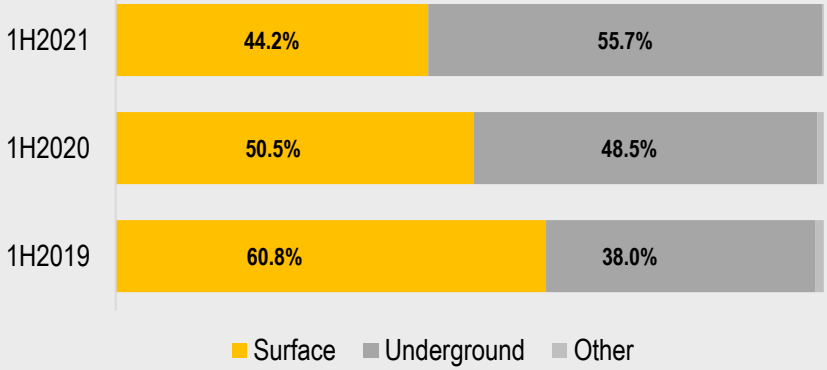
# REVENUE DIVERSITY

## Diversity in revenue streams sets Mitchell Services apart from competitors

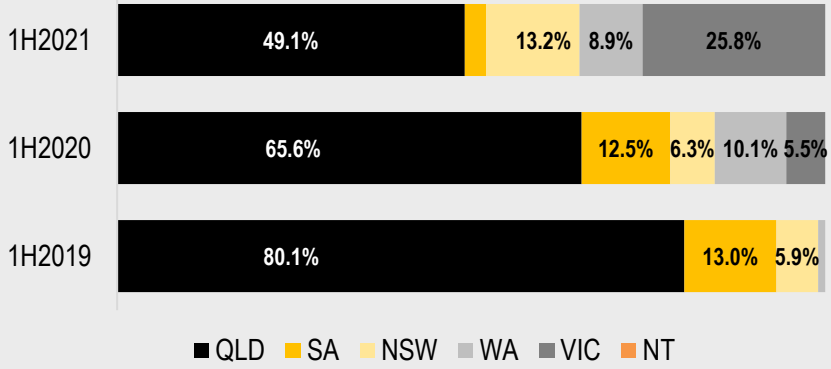
### Revenue by Commodity




### Revenue by Drilling Type

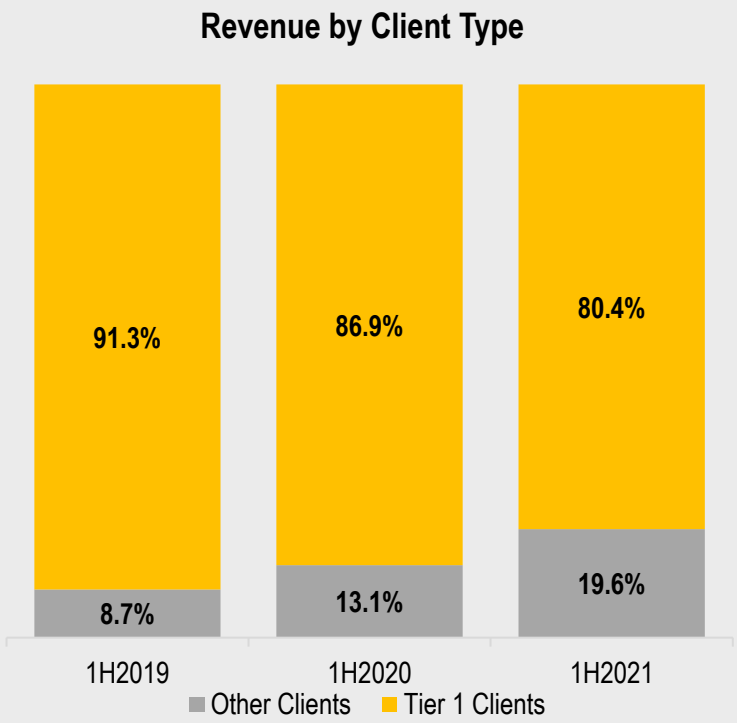



### Revenue by Geography




- Coal is circa 30% of group revenue with zero exposure to thermal coal. It is not our intention to drill in the thermal coal market sector in the future.
- Base metals now represents circa 70% of group revenues and we are positioned strongly to capitalise on the strength in this market sector, particularly in Victoria.
- The Victorian revenue and underground revenue increases are driven by the Deepcore acquisition.
- Management remain mindful of diversity in revenue streams.

# HIGH QUALITY REVENUE STREAMS




- Tier 1 Clients are large / multinational mining & energy companies.
- A majority of Mitchell Services revenue comes from Tier 1 Clients operating on long life, low cost mine sites. Approximately 80% of revenue is at the mine site resource definition, development and production stage which is a critical service in the mining lifecycle.
- The strength of the base metals sector and attractive returns has driven the revenue increase from other clients and we expect this percentage to remain fairly similar in the second half.
- We maintain our focus on production related services but have exited the drill and blast sector. We may choose to re-enter this market sector in the future should an appropriate opportunity arise.

**Revenue by Stage in the Mine Lifecycle**

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# SMS UPDATE

- Whilst entities controlled by the Mitchell family (collectively the Mitchell Group) have a shareholding in the company that owns the Kirkalocka Gold Project of approximately 18%, it has no shareholding in SMS nor any liabilities to SMS.
- Failure to recover amounts invoiced during 1H2021 was considered objective evidence of an impairment event under the requirements of AASB 9.
- The company will continue to vigorously pursue the outstanding debt.
- Application received to set aside the statutory demand in the Melbourne Supreme Court on 10 March 2021.

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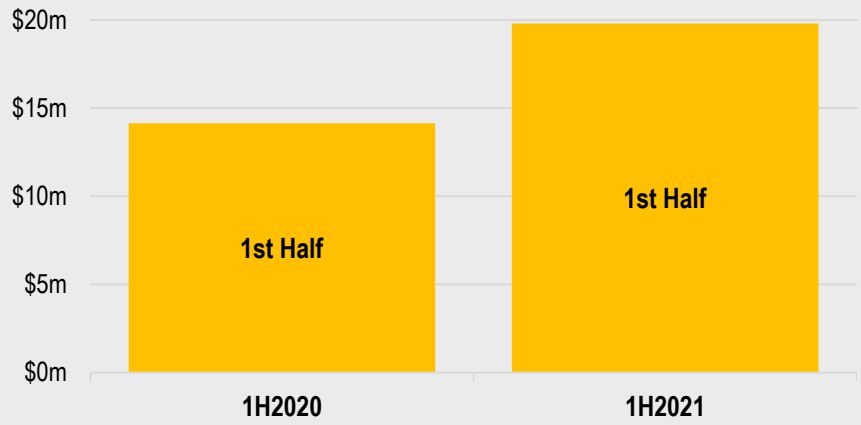
# PROFIT AND LOSS

## Strong underlying EBITDA performance

### Underlying Profit & Loss

| | 1H2020 | 1H2021 | Change |
|---|---|---|---|
| | $000's | $000's | % |
| Revenue | 72,983 | 100,035 | 37% |
| **EBITDA** | **14,140** | **19,794** | **40%** |
| EBIT (before Amortisation) | 7,887 | 8,754 | 11% |
| NPBT (before Amortisation) | 7,195 | 7,387 | 3% |
| **NPAT (before Amortisation)** | **4,867** | **5,104** | **5%** |

### Underlying EBITDA




- At an underlying level, revenue and EBITDA have continued to grow due to improved utilisation, productivity, pricing and drilling mix.
- Underlying EBITDA margins remain strong (1H2021 margin of 19.8% up slightly on 1H2020).
- At an underlying level, Mitchell Services expects that FY2021 EBITDA will represent growth of approximately 25% when compared to FY2020 levels.

Figures in this slide are underlying and exclude significant one-off items and acquisition related amortisation as disclosed on slide 21.

# BALANCE SHEET

## Strong balance sheet provides flexibility

| | 31-Dec-20 | 30-Jun-20 | Change |
|---|---|---|---|
| | $000's | $000's | % |
| ***Balance Sheet Summary*** | | | |
| Current assets | 42,765 | 58,553 | (27%) |
| Non-current assets | 81,209 | 83,491 | (3%) |
| **Total assets** | **123,974** | **142,044** | **(13%)** |
| Current liabilities | 40,774 | 49,459 | (18%) |
| Non-current liabilities | 28,693 | 35,124 | (18%) |
| **Total liabilities** | **69,467** | **84,583** | **(18%)** |
| **Net assets** | **54,507** | **57,461** | **(5%)** |
| ***Working Capital Summary*** | | | |
| Trade and other receivables | 22,020 | 33,076 | (33%) |
| Prepayments & other assets | 1,590 | 1,811 | (12%) |
| Inventories | 4,193 | 4,094 | 2% |
| Trade & other payables | (18,043) | (21,699) | (17%) |
| Premium funding | (816) | (1,214) | (33%) |
| **Net Working Capital** | **8,944** | **16,068** | **(44%)** |

- The $7.3m impairment of trade debtors has seen the current ratio reduce from 1.18 to 1.05 and Net Working Capital reduce by 44%.
- MSV remains well funded to take advantage of potential growth opportunities with access to a $15m revolving equipment finance facility ($10m drawn at 31 December 2020).
- Strong liquidity coverage
  - cash of $9.6m at 31 December 2020
  - access to further $10m (currently undrawn working capital facility).



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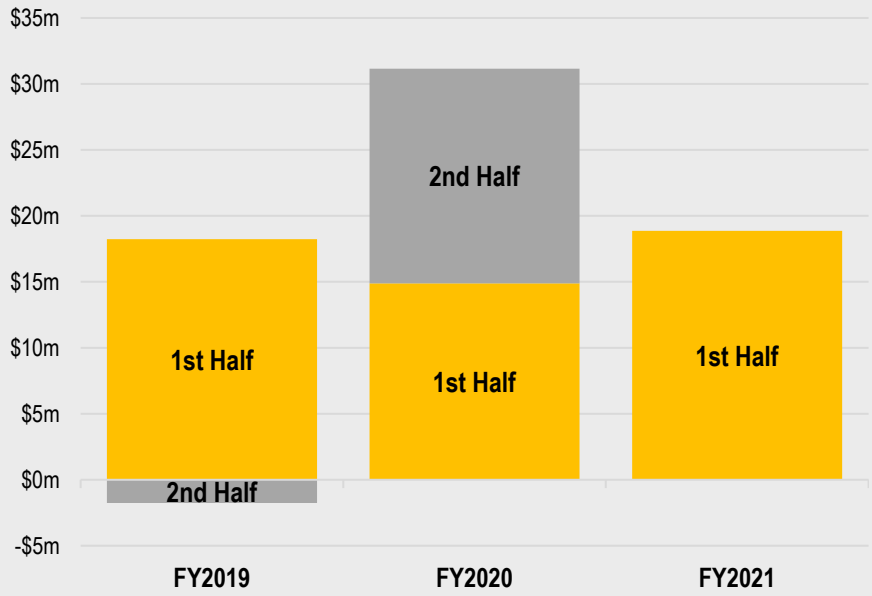
# CASH FLOW

## Strong operating cash flows and Cash Conversion Ratio

### Operating Cash Flow Summary

| | 1H2019 | 1H2020 | 1H2021 |
|---|---|---|---|
| | $000's | $000's | $000's |
| Receipts from customers | 63,807 | 74,502 | 104,196 |
| Payments to suppliers / employees | (47,342) | (59,624) | (85,333) |
| **Cash generated from operations** | **16,465** | **14,878** | **18,863** |
| Interest & other financing costs | (671) | (867) | (916) |
| Income tax paid | (484) | - | (2,201) |
| **Cash flow from operating activities** | **15,310** | **14,011** | **15,746** |
| EBITDA | 14,229 | 14,140 | 12,465 |
| **Cash Conversion Ratio** | **108%** | **99%** | **126%** |




Despite the $7.3m impairment, operating cash flow was up on pcp

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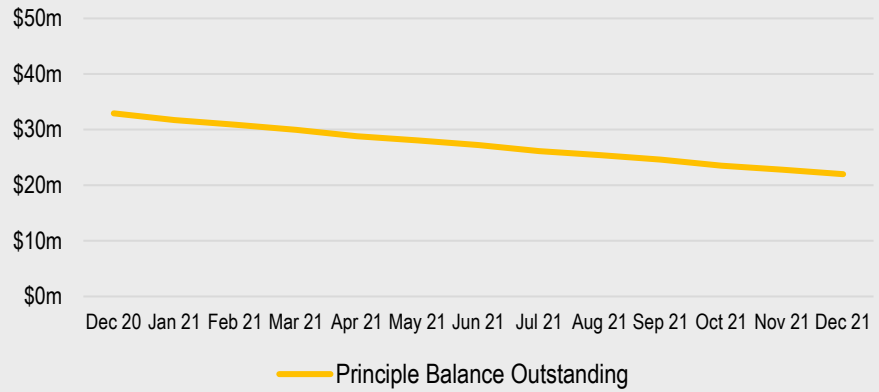
# NET DEBT

## Net debt to EBITDA approximately 0.7 times

**Net Debt Summary**

| | 31-Dec-20 | 30-Jun-20 |
|---|---|---|
| | $000's | $000's |
| Equipment finance | 20,422 | 25,323 |
| Acquisition loan | 12,556 | 14,169 |
| **Gross debt** | **32,978** | **39,491** |
| Cash on hand | 9,599 | 11,906 |
| **Net debt** | **23,379** | **27,585** |

**Amortisation Profile of Debt Facilities at 31 Dec 2020**




- Despite provision for impairment, Net Debt reduced by 15% from 30 June 2020 and 39% from 31 December 2019.
- All debt facilities are structured to include minimum principle repayments and have relatively short amortisation profiles.
- On a rolling 12-month historical basis, 31 December 2020 Net Debt to EBITDA (Operating Leverage Ratio) approximately 0.7 times.

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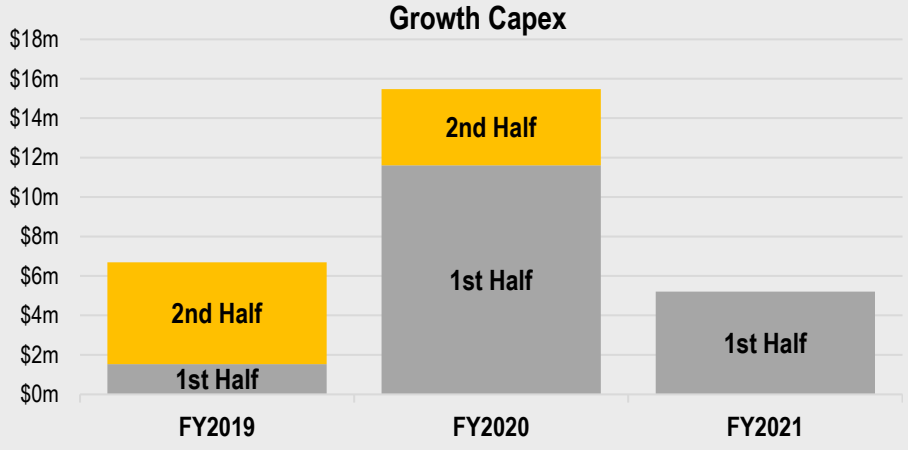
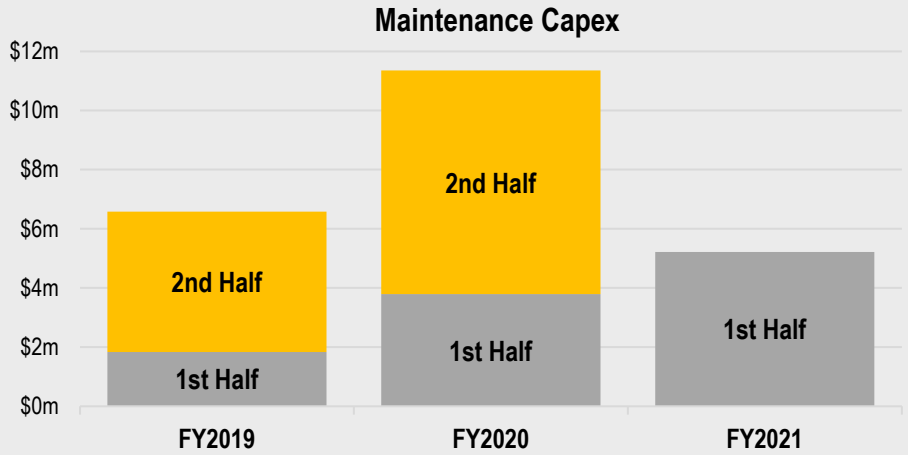
# CAPITAL EXPENDITURE

## Accelerated innovation program maximises tax benefit

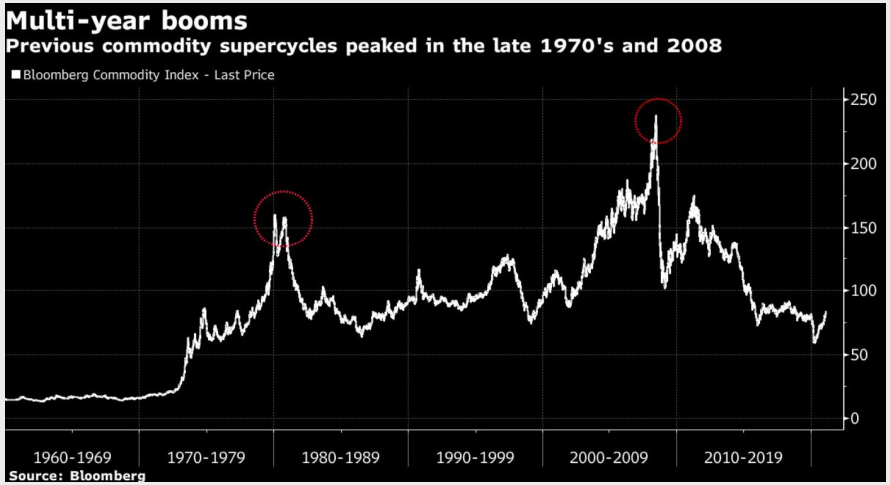



- Maintenance Capex typically trends in line with P&L depreciation multiplied by utilisation rates.
- 1H2021 maintenance capex represents approximately 45% of 1H2021 depreciation implying expected increase in 2H2021 maintenance capex.
- Growth Capex relates to new rigs to service new or extended contracts.
- Growth Capex in 1H2021 includes the commissioning of a next generation large diameter surface rig as part of a broader upgrade and innovation program.
- Will receive the benefit of the Federal Government Instant Asset Write-Off Scheme on approximately all Capex through to 30 June 2022.

# INDUSTRY OVERVIEW

- Significant increase in demand in the gold and base metals sectors with a positive long-term industry outlook.
- Government stimulus and subsequent investment into infrastructure and other projects will drive demand for copper and other base metals.
- In a world where reserves and grades of some commodities are reducing Australia is seen as a high quality, low risk jurisdiction in which to operate.
- Increase in new projects and exploration programs due to significantly increased level of capital raising during 2020 and 2021.
- With approximately 70% of 1H2021 revenue derived from the gold and base metal sectors, the Company is well placed to take advantage of any further uplift in these markets.




"We believe that the last supercycle peaked in 2008 (after 12 years of expansion), bottomed in 2020 (after a 12-year contraction) and that we likely entered an upswing phase of a new commodity supercycle"

*JP Morgan macro and quantitative strategist Marko Kolanovic*

Market conditions are the strongest we have seen since 2008



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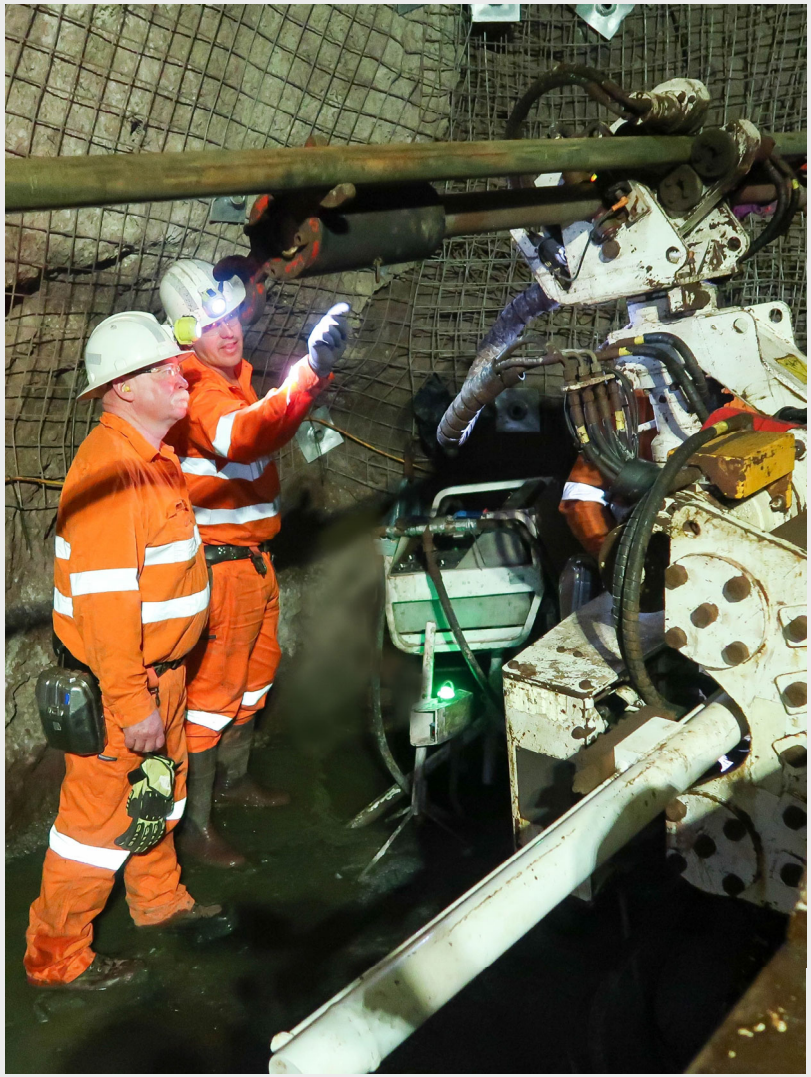
# OUTLOOK

- Pipeline of identified opportunities remains strong as does the demand for drilling services particularly from Tier 1 clients.
- Demand for drilling services in gold is very strong and gold as a percentage of revenue has increased in FY2021.
- Based on current market conditions, commodity prices, current contracts, and strong opportunity pipeline, Mitchell Services expects opportunities to exceed available rigs.
- Mitchell Services expects to generate full year FY2021 revenue and underlying EBITDA of $190m-$200m and $38-$42m respectively.
- These guided revenue and underlying EBITDA levels consider expected utilisation levels from existing contracts subject to normal operating conditions.
- Mitchell Services is covered by Morgans.



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# CAPITAL MANAGEMENT

- The $7.3m impairment of trade receivables has created uncertainty in regard to the capital management strategy.
- A final decision on potential dividends and share buy backs in the short term will be made once this uncertainty is resolved.
- Debt reduction will continue to be a focus however we will take advantage of a strong drilling market, increase in demand and accelerated asset innovation program.
- It is the intention of members of board and management to purchase shares in MSV in the short term.

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# SUMMARY

- Mitchell Services' vision is to be **Australia's leading provider of drilling services** to the global exploration, mining and energy industries.
- Mitchell Services has a **diversified revenue stream** by different drilling types and commodities.
- Mitchell Services has a **high quality client base** with a majority of work related to mine site resource definition, development and production.
- Underlying EBITDA guidance FY2021 of $38m-$42m.
- Maintain a **strong balance sheet** to provide flexibility to take advantage of strategic opportunities in a strong market.

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# APPENDIX A

## Definitions

| | |
|---|---|
| **Capex** | Capital expenditure |
| **Cash Conversion Ratio** | The ratio of A to B; where A is the reported cash flows from operating activities (excluding interest and income tax paid) and B is the reported EBITDA |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation; calculated as NPAT plus income tax expense plus finance charges plus depreciation expense plus amortisation of intangibles |
| **EBITDA Margin** | EBITDA divided by reported revenue expressed as a percentage |
| **EBIT** | Earnings before interest and tax; calculated as NPAT plus income tax expense plus finance charges |
| **EBIT Margin** | EBIT divided by reported revenue expressed as a percentage |
| **Gross Debt** | Total principle balances outstanding on all bank loans, equipment finance facilities, hire purchase agreements, working capital facilities and overdrafts |
| **Net Debt** | Gross Debt less cash and cash equivalents on hand |
| **NPAT** | Net profit after tax; calculated as statutory reported profit before income tax less income tax expense |
| **NPBT** | Net profit before tax; calculated as NPAT plus income tax expense |
| **pcp** | Previous corresponding period |
| **SMS** | SMS Innovative Mining Pty Ltd |
| **Underlying** | Measurement of performance metric (e.g. EBITDA) adjusted for the impact of once-off and/or non-recurring adjustments |

# APPENDIX B

## 1H2020 and 1H2021 reconciliation of statutory to underlying results

| 1H2020 | EBITDA | EBIT | NPBT | NPAT |
|---|---|---|---|---|
| | $000's | $000's | $000's | $000's |
| **Statutory Results** | **14,140** | **7,063** | **6,371** | **4,290** |
| Impairment of trade receivables [1] | - | - | - | - |
| Acquisition related amortisation of customer contracts [2] | - | 824 | 824 | 824 |
| Net tax effect [3] | - | - | - | (247) |
| **Underlying Results** | **14,140** | **7,887** | **7,195** | **4,867** |

| 1H2021 | EBITDA | EBIT | NPBT | NPAT |
|---|---|---|---|---|
| | $000's | $000's | $000's | $000's |
| **Statutory Results** | **12,465** | **(3,011)** | **(4,378)** | **(3,131)** |
| Impairment of trade receivables [1] | 7,329 | 7,329 | 7,329 | 7,329 |
| Acquisition related amortisation of customer contracts [2] | - | 4,436 | 4,436 | 4,436 |
| Net tax effect [3] | - | - | - | (3,530) |
| **Underlying Results** | **19,794** | **8,754** | **7,387** | **5,104** |

1. Impairment loss in relation to the SMS trade receivable owing.
2. Amortisation of separate customer contracts measured at fair value per the acquisition of Deepcore Drilling in November 2019.
3. Adjustment to derive underlying tax expense related to pre-tax underlying adjustments.



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