17 July 2024

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited delivers solid fourth quarter financial and operational performance

- Quarterly revenue of $56.0m
- Quarterly EBITDA of $9.9m
- FY24 EBT of $13.3m (up 29% vs FY23)
- Quarterly operating cashflow of $9.4m (95% EBITDA conversion rate)
- Further net debt reduction of 75% since 31 March 2024 to $1.9m
- Annual Return on Invested Capital of 16.5%

Dear Shareholder

I am pleased to provide the following investor update for the quarter ended 30 June 2024 (**FY24 Q4**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

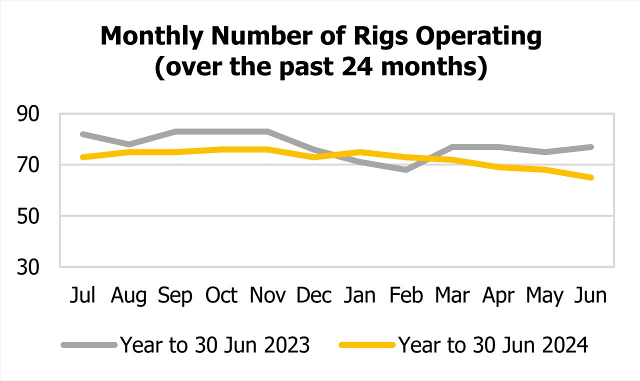
Quarterly results

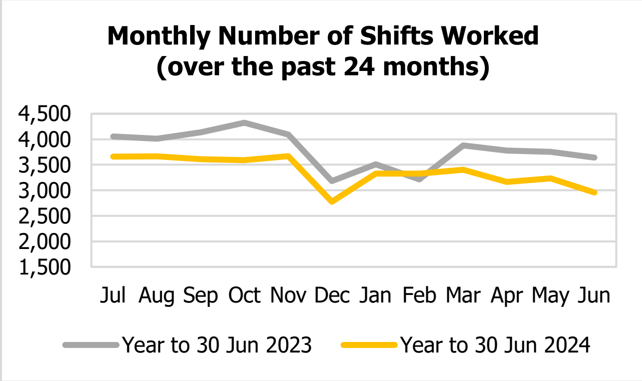
The Company has again delivered positive financial and operational results for FY24 Q4 as reflected in the table below which summarises key Q4 metrics vs the corresponding quarter in FY23 (FY23 Q4).

As highlighted in the FY23 Q4 report, the final quarter in FY23 benefited significantly from a favourable shift in the mix of revenue with a larger, unprecedented portion of the fleet providing highly technical specialist drilling services. Consistent with the Company's expectations, the mix of work in FY24 Q4 was in line with normalised levels which explains the revenue and EBITDA decreases in FY24 Q4 vs FY23 Q4. The decrease in utilisation was primarily driven by a reduction in operating rigs under various existing contracts. All of these longer-term contracts were retained and none expired in the quarter and the number of associated operating rigs generally increases and decreases in the ordinary course of business. Whilst the Company has been awarded new or expanding contracts in other areas, utilisation is expected to remain at current levels temporarily until the associated mobilisations for the new contracts are complete.

Notwithstanding the above, FY24 Q4 represented a solid quarter with the Company generating revenue and EBITDA of $56.0m and $9.9m respectively. The operating cash performance in FY24 Q4 was strong once again ($9.4m at an EBITDA conversion of 95%) and this has had another positive impact on net debt as outlined later in the capital management section.

	FY24 Q4	FY23 Q4	Movement	Movement %
Average operating rigs	67.3	76.3	(9.0)	(11.8%)
Number of shifts	9,353	11,171	(1,818)	(16.3%)
Revenue ($'000s)	56,029	65,791	(9,762)	(14.8%)
EBITDA ($'000s)	9,857	15,248	(5,391)	(35.4%)
EBITDA margin (%)	17.6	23.2	(5.6)	(24.1%)
Operating cash flow ($'000s)	9,373	22,895	(13,522)	(59.1%)
Operating cash conversion ratio (%)	95.1	150.2	(55.1)	(36.7%)





Year to date results

The table below summarises the un-audited financial and operating results for the 12 months ended 30 June 2024 (FY24) and the corresponding 12 months ended 30 June 2023 (FY23).

	FY24	FY23	Movement	Movement %
Average operating rigs	72.5	77.5	(5.0)	(6.5%)
Number of shifts	40,380	45,569	(5,189)	(11.4%)
Revenue ($'000s)	236,829	243,144	(6,315)	(2.6%)
EBITDA ($'000s)	40,384	41,167	(783)	(1.9%)
EBITDA margin (%)	17.1	16.9	0.2	1.2%
EBT ($000's)	13,269	10,281	2,988	29.1%
Annualised ROIC* (%)	16.5	12.3	4.2	34.1%
Operating cash flow ($000s)	43,119	35,628	7,491	21.0%
Operating cash conversion ratio (%)	106.8	86.6	20.2	23.3%
Annualised revenue per rig ($000s)	3,267	3,137	130	4.1%

*defined as annualised EBIT divided by (net PPE plus intangibles plus working capital)

The FY24 performance represents a solid result that saw the Company generate EBITDA of $40.4m. The cash performance in FY24 was outstanding with the business generating $43.1m of operating cash (at an EBITDA conversion of over 105%) representing a 21% increase vs $35.6m in FY23.

As depreciation and interest costs continue to decrease (given the normalised levels of capex and reducing debt), Earnings Before Tax (EBT) increased by approximately 29% from $10.3m in FY23 to $13.3m in FY24. Full year profit after tax for FY24 is expected to be approximately $9.2m which would represent an increase of 21% compared to the FY23 figure of $7.6m

Capital Management Update

Total capital expenditure for FY24 was $17.0m which is largely in line with expectations and slightly increased when compared to the figure of $12.6m in FY23. Maintenance capex continues to support high levels of availability across all equipment with breakdown rates remaining negligible.

Given the strong FY24 operating cashflows and the modest levels of capital expenditure, net debt at 30 June 2024 was $1.9m which represents a decrease of approximately 75% since 31 March 2023 ($7.6m) and an 89% decrease since 30 June 2023 ($17.6m).

The overall strategy of the Company is to optimise the long-term growth of the business and returns to shareholders by:

- Maintaining and, where possible, improving the profitability of the existing business
- Identifying opportunities in the domestic mining sector to provide new services to Tier 1 clients
- Identifying drilling opportunities offshore for existing clients.

With a significantly stronger balance sheet, the Company now has the advantage of optionality and will seek to optimise its capital allocation across the four pillars of dividends, buy backs, growth and debt management.

The Company has recently extended its on market buy back by a further 12 months (ending July 2025) and confirms its FY24 final dividend guidance of approximately 2cps.

In closing, I would like to specifically acknowledge the performance and achievements of our operational and support teams who do such a fantastic job. The Victorian Women in Resources Awards were held recently, and I am very pleased to announce that Deepcore Drilling employee, Alina Tyler was awarded the Outstanding Trade Operator or Technician Award. The award recognises the achievements of women currently working in trade, operational or technical roles across the entire Victorian resources industry. The award reflects Alina's dedication and also talks to the wonderful culture that exists within the Company.

Thank you again to 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