



# Swick Mining Services Ltd

FY18 Results Investor Presentation

28<sup>th</sup> August 2018

**ASX: SWK**

[www.swickmining.com](http://www.swickmining.com)

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Unless otherwise stated all the currency disclosures in this presentation are Australian Dollars.

Information included in this presentation is dated 28 August 2018.

# FY2018 overview

## Operational

- Successfully executed strategy to reprice or exit below target margin contracts and redeploy rigs to better contracts.
- >1.1m metres drilled globally by underground diamond drilling segment.
- Launched GeoCore X10 (Orexplore's core scanning technology) and secured first paying customers.
- Simplified and streamlined management structure to reduce overhead costs.

## Financial

- Drilling Business return to profitability – \$19.1 million EBITDA, up 43% on FY17.
- Group revenue and other income of \$138 million, up 6% on FY17.
- Result driven by strategy of shifting drill rigs onto better performing contracts or new projects, reducing operational costs, and increasing fleet utilisation and volume.

## Outlook

- Entered FY19 with strong optimism:
  - Drilling Business delivered strongest quarter in FY18 in Q4.
  - Lower cost base set across the business.
- Continued commercialisation of the Mineral Technology Business – converting Orexplore trials into contracts.

# Drilling Business highlights



## Fast Facts

Drilling:	Underground Delineation
Rig Type:	Swick Mobile Drill
Range:	+ 1,500m
Fleet Size:	69 Rigs (54 Asia Pacific & 15 International)
FY18 Revenue:	\$130.9 million

## Underground Diamond division (69 Rigs)

- Drilled in excess of 1,100,000 metres in FY17.
- Successfully renewed 8 out of 10 UD contracts.
- Demobilised from Golden Grove, Kensington (USA) and Rosebery contracts releasing 12 rigs – all below target margin contracts.
- Ramped up operations at Fosterville and Cosmo (Kirkland Lake Gold) projects (11 rigs).
- Won new work with Barrick Nevada at Turquoise Ridge mine and mobilized 5 rigs at year-end with a further 2 rigs mobilized post year-end.



## Fast Facts

Drilling:	Reserve Definition & Expl.
Rig Types:	Swick RC Drills
Range:	+ 400m
Fleet Size:	7 Rigs (6 Swick & 1 tracked Schramm)
FY18 Revenue:	\$5.9 million

## Surface RC division (7 Rigs)

- Completed contract at Groote Eylandt (2 rigs).
- Won new work at Fosterville (1 rig).
- 5 rigs in work at the peak, down to 2 rigs at year end.
- RC demand is very high reflected by new work won post year-end.
- 3 rigs in work at Aug-18 and expected to increase based on tender activity.

# Mineral Technology Business highlights

## Orexlore technology

- GeoCore X10 core scanning machine and technology – world first, unique mineral scanning technology that is non-destructive, immediate, on-site.
- 3D Visualization of inside the core: Structure, Mineralogy and Lithology.
- Geochemistry to 100ppm in 10 minutes per metre.
- Significantly reduced sampling error and large volume analysis – analyse kilograms rather than grams of material.

## Commercial achievements

- Launched in May 2018 – signed first commercial agreement with Saturn Metals within one month, contributing revenue in June 2018.
- Already secured a further 4 core scanning commercial agreements in FY19 with Calidus Resources, Kirkland Lake Gold, Gold Fields and Newmont.
- Secured X-mine (European Union project) grant of EUR1.1 million.
- Two machines based in Perth providing ongoing trial scans for clients as well as scanning core for revenue.

## Technological achievements

- Development of gold spectrometer on track – prototype currently being tested in Sweden, expected release FY19.

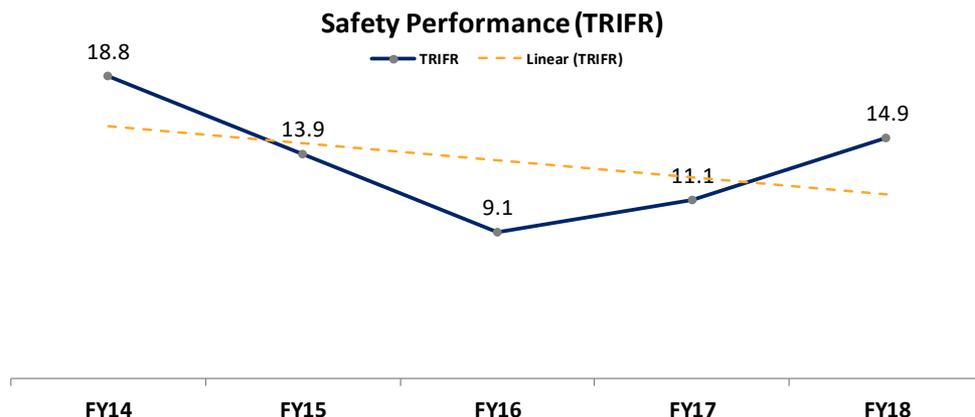


*Orexlore's GeoCore X10 Machine*

# Safety – Towards Zero Harm

- All new starters inducted through award winning training facility in Perth HQ.
- Safety performance normalising in an expected range given exposure and workforce size.
- 100% implementation of iPad technology with HSE tools and training videos.
- Targeting improvements in in-field access to instructional videos.
- Early Intervention program well established and leading to reduced long term injuries.

*Swick Training & Induction Facility*





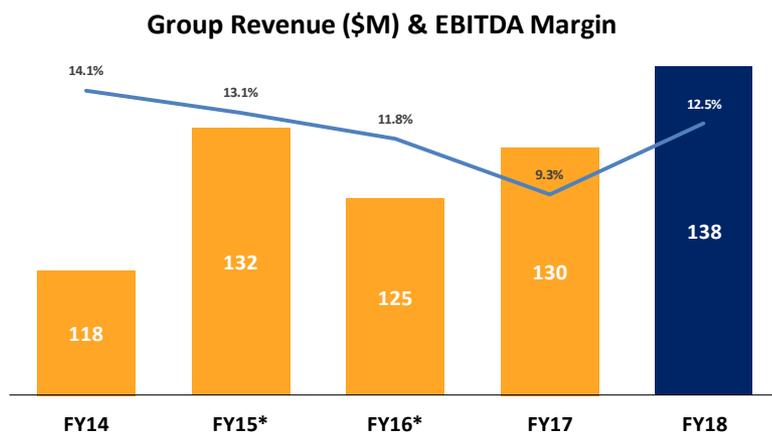
# Financial results

Chief Financial Officer – Jitu Bhudia

# Group – financial performance

A\$ million	FY18	FY17	Change
<b>Revenue &amp; other income</b>	<b>138.2</b>	<b>130.0</b>	<b>6%</b>
EBITDA	17.3	12.1	44%
<i>EBITDA margin</i>	<i>12.5%</i>	<i>9.3%</i>	<i>320 bps</i>
EBIT	0.4	(3.6)	112%
<i>EBIT margin</i>	<i>0.3%</i>	<i>(2.8%)</i>	<i>310 bps</i>
<b>NPBT</b>	<b>(0.9)</b>	<b>(4.6)</b>	<b>80%</b>
<b>NPAT</b>	<b>(1.0)</b>	<b>(4.6)</b>	<b>79%</b>

- Revenue up 6%.
- EBITDA up 44%.
- Strong fourth quarter for Drilling Business – Q4 EBIT of \$1.9 million out of FY18 EBIT of \$2.4 million.
- Improved earnings and margins by executing on strategy.
- Group EBIT of \$0.4 million.
- Narrow NPAT loss of \$1.0 million, a 79% improvement on FY17.
- Group earnings impacted by investment in revolutionary Orexplore mineral scanning technology.



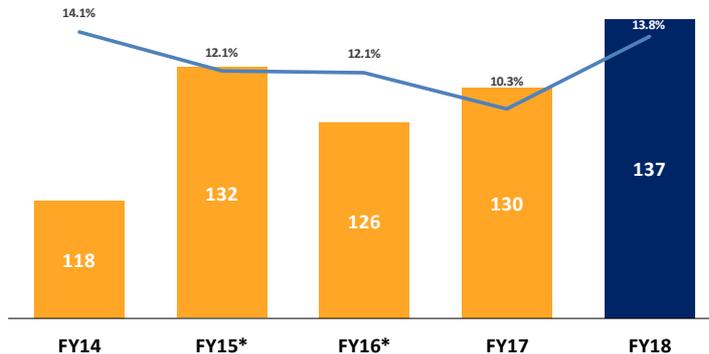
\* before significant items

# Drilling Business – financial performance

A\$ million	FY18	FY17	Change
<b>Revenue &amp; other income</b>	<b>137.1</b>	<b>129.9</b>	<b>6%</b>
EBITDA	19.1	13.4	43%
<i>EBITDA margin</i>	<i>13.8%</i>	<i>10.3%</i>	<i>350 bps</i>
EBIT	2.4	(2.3)	203%
<i>EBIT margin</i>	<i>1.7%</i>	<i>(1.8%)</i>	<i>350 bps</i>

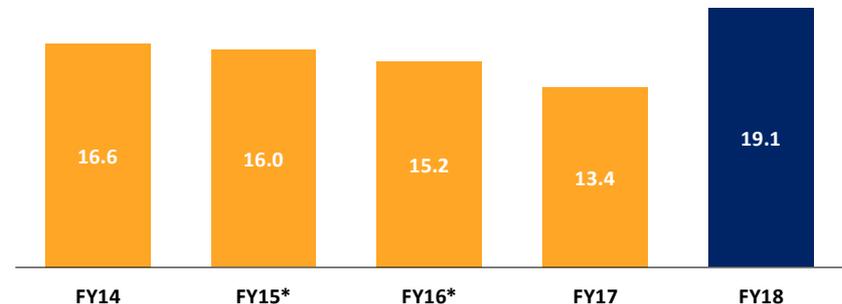
- Improved margins in FY18 a result of:
  - strategy to remove rigs from lower margin contracts and redeploying to better margin contracts;
  - increased volumes from Turquoise Ridge (USA) contract – fixed shift rate; and
  - cost reductions both at corporate overheads and operational costs.
- 4Q18 EBIT of \$1.9 million at margin of 6%.

**Drilling Business Revenue (\$M) & EBITDA Margin**



\* before significant items

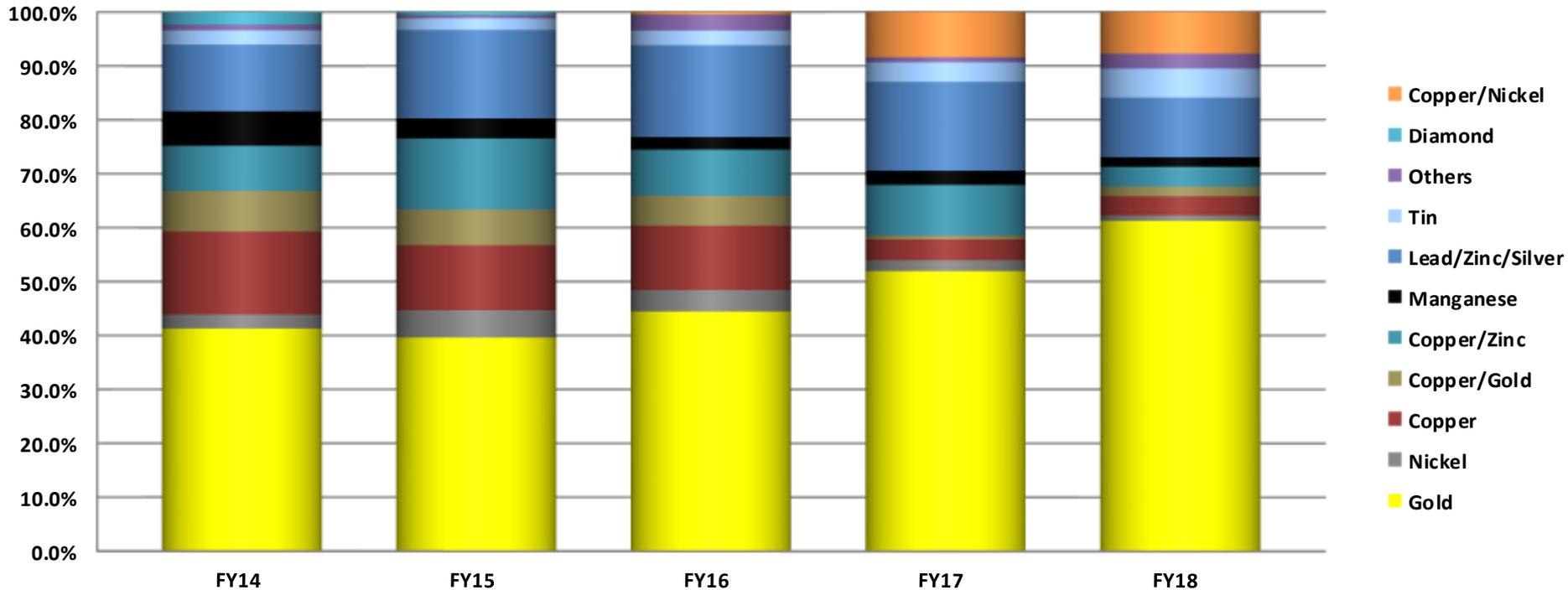
**Drilling Business EBITDA (\$M)**



\* before significant items

# Drilling Business – commodity breakdown

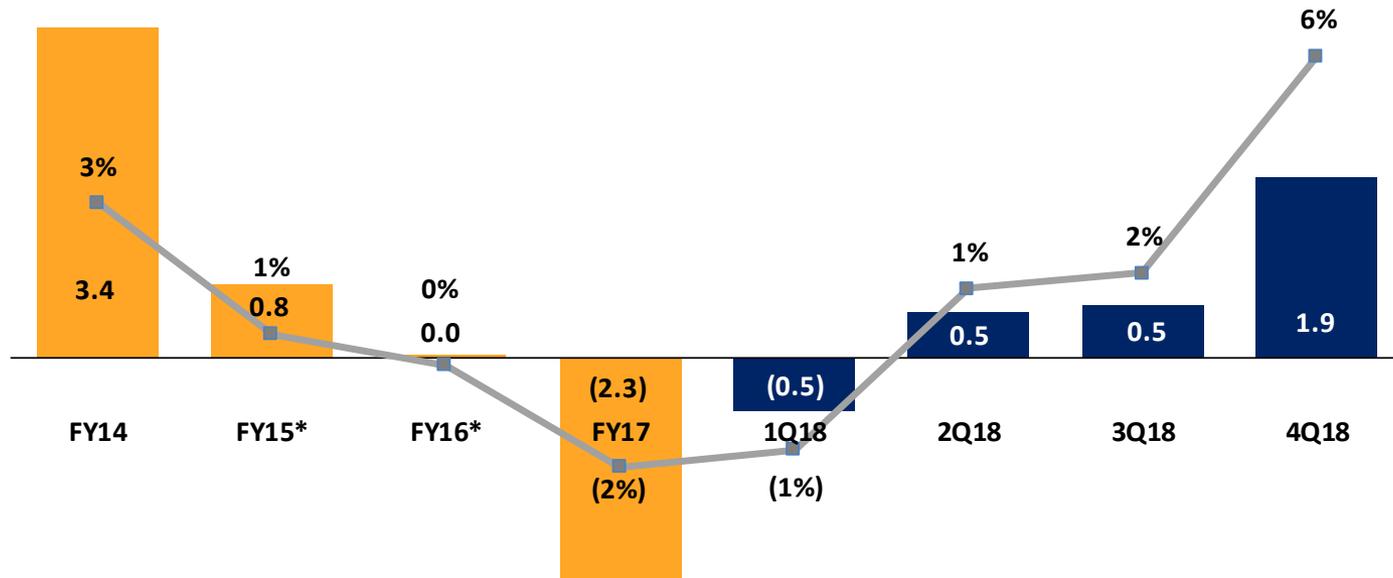
## Drilling Revenue by Commodity



# Drilling Business – historical performance

Drilling Business profitability and margins improved during the year, culminating in strong 4Q18 earnings that provides strong momentum into FY19.

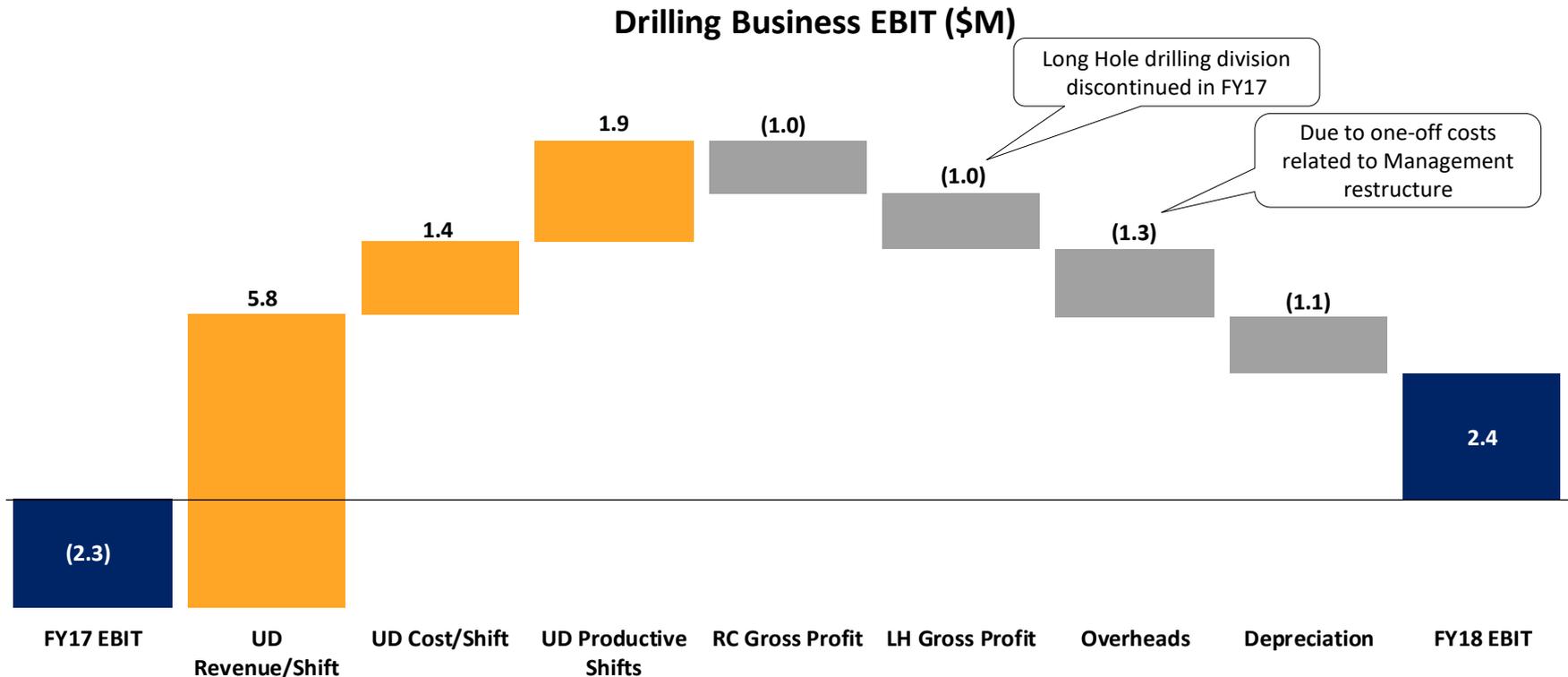
## Drilling Business EBIT (\$M) and Margin



\* before significant items

# Drilling Business – EBIT waterfall

34% increase in gross profits from the core Underground Drilling (UD) division from a mix of price increase (revenue/shift), cost reduction (cost/shift) and increase in volumes (productive shifts).



# Mineral Technology Business – Financial Performance



A\$ million	FY18	FY17	Change
Revenue from Core Scanning	0.0*	-	-
Government Grants	0.9	0.1	800%
EBITDA	(1.9)	(1.3)	(47%)
EBIT	(2.1)	(1.3)	(58%)

- First Commercial Agreement executed with Saturn Metals in June 2018.
- \* First core scanning revenue of \$3,000 earned in last week of June 2018 following launch of the GeoCore X10 core scanning machine and technology in May 2018.
- Increase in expenditure in relation to increased development activity and launch of the GeoCore X10 core scanning machine.
- Subsequent to year-end, executed additional commercial core scanning agreements with Calidus Resources, Kirkland Lake Gold, Gold Fields and Newmont.
- Revenue expected to be small in early stages of commercialisation.
- Potential to disrupt the minerals analysis industry – Swick has track record with mobile rigs disrupting the underground diamond drilling.

# Group – cashflow

A\$ million	FY18	FY17	Change
<b>EBITDA</b>	<b>17.3</b>	<b>12.1</b>	<b>44%</b>
Working capital improvement	(0.1)	3.4	103%
<b>Operating cash flow before interest and tax</b>	<b>17.2</b>	<b>15.5</b>	<b>11%</b>
<i>EBITDA cash conversion</i>	<i>100%</i>	<i>129%</i>	
Tax refund	0.2	1.7	(88%)
Net interest paid	(1.3)	(1.0)	30%
<b>Operating cash flow after interest and tax</b>	<b>16.2</b>	<b>16.3</b>	<b>(1%)</b>
Cash used in investing activities *	(14.1)	(17.9)	(21%)
<b>Free cash flow generated</b>	<b>2.1</b>	<b>(1.6)</b>	<b>231%</b>
Cash from/(used in servicing) debt	0.7	5.9	(88%)
Cash from/(used in servicing) equity	(0.2)	0.0	
<b>Net cash flow</b>	<b>2.6</b>	<b>4.2</b>	<b>(38%)</b>

- Generated free cash flow of \$2.1 million
- FY18 capex spend (including PP&E acquired under finance leases) of \$16.6 million, below FY17 capex spend of \$17.9 million.
- Limited working capital investment despite 6% increase in revenue.

Note: Totals may not add due to rounding

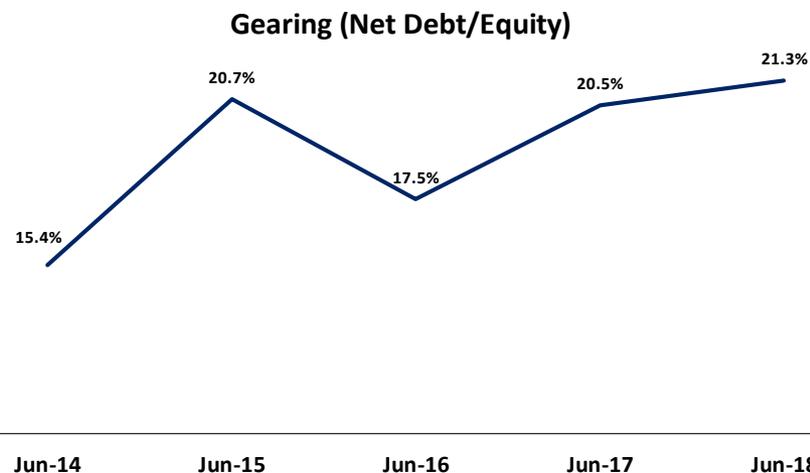
\* Excludes PP&E acquired under finance leases of \$2.5M in FY18 (FY17: nil)

# Group – financial position

A\$ million	FY18	FY17
Cash	11.5	8.8
Receivables	16.0	16.7
Inventories	13.8	15.1
Property, plant and equipment	77.4	77.8
Intangible assets	12.7	12.2
Other assets	3.2	3.9
<b>Total assets</b>	<b>134.6</b>	<b>134.5</b>
Payables	15.4	19.3
Borrowings	29.2	26.0
Employee obligations	6.0	5.4
Other liabilities	0.7	0.1
<b>Total liabilities</b>	<b>51.3</b>	<b>50.8</b>
<b>Shareholders' equity</b>	<b>83.3</b>	<b>83.7</b>

Note: Totals may not add due to rounding

- Strong balance sheet provides flexibility and liquidity.
- Increase in debt to fund capital requirements to put new rigs to work.
- Net debt increased marginally from \$17.2 million to \$17.7 million.
- Gearing (Net Debt/Equity) increased from 20.5% to 21.3%.
- Net tangible assets (NTA) per share of 30.5 cents.





# Outlook

Managing Director – Kent Swick

# Drilling Business

## 1. Leveraged to mine operations and volume, not exploration

- Providing underground core drilling services to operating mines.
- Clients drilling more complex and deeper ore bodies meaning more underground drilling.

## 2. Positive market outlook

- Commodity prices have remained strong over the last financial year and are expected to stay strong.
- Increased demand for rigs in the last quarter an early indicator of growth.
- Plenty of well-funded companies across the wider spectrum increasing their exploration and development drilling budgets predominantly in brownfield areas.

## 3. Global market leading status in underground coring

- Entered FY19 with key drilling contract renewals.
- Operational Performance unmatched – Safety, Productivity, Quality, Reliability.
- Competitive Advantage continues to widen – technology, power, automation.

## 4. Establishing new product offering in USA

- Developing underground RC capability to be interchangeable with UD feed rails on same rig (Multi Purpose).
- Established in Nevada with opportunities in a world class mining district.

## 5. Rates – appetite for production over costs

- Targeting better rates for drill rigs and maintaining strong utilisation of UD rigs.

# Mineral Technology Business



## ➤ **R&D is in our DNA**

- Despite the downturn in the last few years, Swick continued its R&D investment in the Orexplora technology – this is now expected to reap benefits.
- Proven track record with mobile underground diamond rigs.

## ➤ **Disruptive Technology – Orexplora Mineral Analysis**

- Swick disrupted the underground core drilling industry in 2004 with the development and successful launch of the Swick Underground Mobile Rig – we are now ready to disrupt the Mineral Analysis industry with the launch of the Orexplora mineral analysis technology.

## ➤ **R&D Business that is well funded and already generating revenue**

- Orexplora technology funded by buoyant Drilling Business.
- Already earning revenues from commercial core scanning agreements with 5 clients – achieved commercialization in less than two months from launch.
- Development of gold spectrometer on track – expected release FY19.
- Progress commercialisation of Orexplora and ensure product development meets client requirements.

# Summary

- Taking good momentum from Drilling Business into FY19 after strong Q4 FY18:
  - Improved rates across the majority of our rig fleet (one legacy contract being renegotiated in H1 FY19).
  - New contract from Sandfire Resources and several contract extensions secured entering FY19.
  - Two sided approach to better financials – reset contract rates and reduce the direct costs of operations.
- High potential from Orexplore technology to materially benefit holders in medium term, with five contracts already secured since May 2018 launch.
- Large footprint of clients and sites (19) – heavily exposed to drilling budget rebounds.
- Strong balance sheet – delivered cash generation and debt reduction through down cycle.
- Ability to reset mix of drilling income and rig utilisation rates in FY18 expected to drive increased profitability and cashflow in FY19.

Thank You