ASX Announcement

29 August 2023

DDH1 delivers solid FY23 performance

Leading global specialist drilling company, DDH1 Limited (ASX: DDH1) (**DDH1** or **the Group**) is pleased to release its full year results for the 2023 financial year (**FY23**) ended 30 June. The Group demonstrated solid results and is positioned to benefit from strong long-term industry fundamentals.

FY23 Operational Highlights (percentages compared to FY22 unless indicated otherwise)

- Strong safety performance maintained, TRIFR of 8.64, in line with the prior year of 8.65
- Added 10 quality rigs to increase the fleet size to 193 rigs, with a further 10 rigs planned for FY24
- 86% of revenue generated from production and resource definition projects
- 49.7% of revenue generated from companies included in the S&P ASX 200 Index
- 69.2% of revenue from blue chip customers [1]
- Shifts increased 3.3% to 94,207
- Rig utilisation of 74.4%, down 3.9%
- Annual revenue per rig of $2.9m, up 1.2%
- Revenue per shift of $5,776, up 4.6%

FY23 Financial Highlights

$M (unless indicated otherwise)	FY23	FY22 [2]	VAR %
Revenue	550.4	506.9	8.6
Operating EBITDA [3]	119.4	111.4	7.1
Operating EBITDA (%)	21.7%	22.0%	(0.3)
EBITA	68.5	69.8	(1.8)
EBITA (%)	12.4%	13.8%	(1.4)
NPBT	54.6	53.4	2.2
NPAT	42.5	35.9	18.4
Net Assets (at 30 June)	341.0	342.0	(0.3)
Net (Debt) (at 30 June)	(7.0)	(16.6)	57.8

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FY23 Financial Highlights (continued)

$M (unless indicated otherwise)	FY23	FY22 [2]	VAR %
Cashflow from operating activities	123.1	100.4	22.6
Operating ROIC (%)	21.9%	25.9%	(4.0)
Fully Franked Interim Dividend (cps)	3.33	2.51	32.7
Fully Franked Final Dividend (cps)	1.96	2.65	(26.0)
Full Time Employees (No. at 30 June)	1,758	1,775	(1.0)

Commenting on the FY23 results, the group's Managing Director & CEO Sy Van Dyk said:

"It was a solid performance given the challenging operating environment. All of our teams should be acknowledged for their exceptional contributions, particularly in a relatively tight labour market.

Notwithstanding the short-term hurdles, we continued to strengthen the quality of our fleet, invest in our people, and position our business to benefit from long-term demand drivers. A highlight was the performance of Swick, which recorded its first full financial year as part of the DDH1 group. Swick continued to flourish and demonstrated significant operational and safety performance improvement.

FY24 will be another transformative year for DDH1 and its stakeholders. The proposed merger with Perenti will create the ASX's leading contract mining services group. The strategic fit between our group and Perenti is exceptional. Our combined expertise and service offering will provide additional value to clients and stronger growth opportunities for our businesses. Clients and employees stand to benefit from our shared commitment to safety, service excellent, innovation and sustainability. Following successful completion, I am looking forward with great enthusiasm to leading our strong brands under the new Perenti Drilling Services Division."

DDH1 Chairperson Diane Smith-Gander AO added:

"The combined DDH1 and Perenti group will be in a stronger position to leverage decarbonisation objectives and the substantial requirement for critical minerals. Similarly, the new group will be well placed to benefit from growing demand for specialised mining services as grades decline, and deposits increase in depth and geological complexity.

The proposed merger is expected to be highly synergistic and accretive, resulting in substantial value creation."

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Dividends and Capital Management

DDH1's Directors declared a final fully franked dividend of 1.96 cents per share, for a full year dividend total of 5.29 cents per share, in line with DDH1's historical 30% - 50% NPATA payout ratio. Dividend record and payment dates are 15 September and 28 September 2023, respectively.

Throughout the year, the Group successfully returned $21.7m to shareholders via the share buy-back program, which was announced on 1 July 2022. Total capital returned to shareholder through the buy-back and dividends for FY23 was $46.0m.

Operational Overview

Demand for the DDH1's full suite of services was solid across its four brands – DDH1 Drilling, Ranger Drilling (**Ranger**), Strike Drilling (**Strike**) and Swick Mining Services (**Swick**).

During FY23, DDH1 Drilling and Strike rig utilisation were impacted by heightened conservatism within the exploration market, most notably during the second half. Key drivers included capital market sentiment, inflation, protracted regulatory approvals and increasing compliance costs. As a result, some resource companies postponed projects while they reassessed drill locations to optimise productivity and high-cost operating environment mitigants.

Ranger's rig utilisation remained consistent with the prior year, despite some significant weather events during 1H23.

Demand for Swick's underground services significantly increased on FY22. Additional rigs were deployed in the field, a trend that is expected to continue with two new rigs already having entered the field.

At the end of July 2023, rig utilisation has increased to 77.5%, up from 74.4% at the close of FY23.

As a group, DHH1 added a net 10 rigs, to a fleet size of 193 rigs at the end of FY23. Group rig utilisation of 74.4% was down on FY22 by 3 percentage points (FY22: 77.4%). A further 10 rigs are currently on order, under build or due to be built or deployed throughout FY24 in line with expected demand for Swick services.

Inflationary pressures for the Group moderated throughout the year. The Group worked diligently to offset any elevated input costs while maintaining the quality of its fleet and skilled team.

During FY23 the Group remained focused on its growth strategy, successfully growing its fleet and revenue per rig year-on-year and maintaining its position as the largest operator in Australia with a significant and growing presence in North America.

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Perenti – Proposed Merger

As announced to the market on 26 June 2023, Perenti and DDH1 entered into a binding Scheme Implementation Agreement. On completion, DDH1 will combine with Perenti to create the ASX's leading contract mining services group.

Under the terms of the Proposed Transaction, DDH1 shareholders will receive consideration of $0.1238 cash plus 0.7111[4] Perenti Shares for each DDH1 Share held at the Record Date, unless an election is made. DDH1 shareholders will also be offered the ability to elect maximum scrip or maximum cash consideration alternatives[5]. DDH1 shareholders will own ~29% of the combined entity, which is expected to realise material synergies of $22 million (post-tax, annual), driving double digit EPS accretion.

The DDH1 Board is aware that the recent movements in the Perenti share price will give rise to questions around the implied value under the offer. The DDH1 Board has always considered the merits of the transaction based on the long-term value it will create for shareholders.

DDH1's Board unanimously recommends shareholders vote in favour[6]. The Independent Directors of DDH1 considered the transaction separately and also recommend the Scheme[6]. Directors of DDH1 controlling 13.1% of DDH1 shares intend to vote in favour of the Proposed Transaction[6]. Completion of the Proposed Transaction is anticipated to occur in early October 2023.

Should the merger be approved and implemented, DDH1 CEO, Sy Van Dyk, will become President of the newly formed Drilling Services Division, which will include DDH1 Drilling, Ranger, Strike, Swick and Perenti's Ausdrill. Each drilling business unit will continue to operate under their respective brand and focused management team.

Focus for FY24 and Outlook

The fundamentals driving demand long-term and increasing demand for DDH1's services remain compelling. Key drivers include:

- A strong need for exploration to maintain diminishing mining reserves;
- Demand for battery metals, which require commodities that DDH1 drill for and are found in abundance in DDH1's major geography of Australia; and
- Deeper drilling resulting in larger drilling programs and an increasing demand for specialist drilling.

DDH1 closed FY23 with a stronger fleet, quality people and an expanding global footprint. DDH1 is well-positioned to leverage long-term demand drivers.

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During FY24 DDH1 will remain focused on:

- The well-being and development of DDH1's global team;
- Maximising rig utilisation and pursuing disciplined organic growth via fleet expansion;
- Building long-term and exclusive contracts across the mining value chain, with most revenue derived from production and resource definition drilling programs;
- Leveraging Swick's underground drilling expertise in North America and further expanding our footprint in Europe; and
- Ongoing investment in innovation to deliver best-in-class drilling technologies and commercialisation of the Swick e-rig.

The outlook for FY24 is positive, and DDH1 currently forecasts FY24 Operating EBITDA of between $123m to $130m. Capital expenditure is forecasted to reduce to approximately $60m, of which $22m is growth capital.

Following successful completion of the proposed Perenti merger, DDH1 will work with Perenti to leverage the attractive revenue and cost synergies, while maintaining the strength of its quality brands.

This announcement has been approved for lodgement by the Board of Directors.

For further information, please contact:

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About DDH1 Limited

DDH1 is a quality global drilling company.

The Group has four strong and well-established brands: DDH1 Drilling, Ranger Drilling, Strike Drilling and Swick Mining Services. Together they create a global scale mineral drilling company with operations throughout Australia, North America and Western Europe.

The Group has 195 rigs and one of the top five largest fleets globally (approx. 60% surface and 40% underground). DDH1 maintains a modern fleet with best-in-class technology to deliver optimal productivity, value and safety for clients.

The Group offers a broad range of specialty drilling services across the mining value chain and has a reputation for quality and service delivery. Approximately 80% of DDH1's clients are repeat business.

DDH1's revenue is predominately derived from the production and resource definition phase, which is less cyclical. DDH1's drilling services are commodity agnostic and it has exposure to a diverse range of commodities including gold, iron ore, nickel, copper and other critical metals. DDH1 has no exposure to coal.

DDH1 prioritises safety and is investing in automation and rigs of the future to minimise perceived high-risk operations and impact on the environment.

The Group has an experienced leadership team and a best-in-class workforce. Together they maintain a quality-focused culture and are driving its organic and inorganic growth strategy for shareholders.

For more information, please visit www.ddh1.com.au

Notes:

[1] Blue chip customers defined as those customers that are listed, or are a 100% subsidiary of a listed parent, with an enterprise value greater than A$1 billion (per FactSet as at 24 August 2023). Select large private companies with estimated enterprise values in excess of A$1 billion have also been included

[2] FY22 results are on are on a proforma basis to provide a like for like view with the current reporting period, as they include Swick Mining Services' (Swick) Drilling Division for full twelve months. Swick was only acquired in February 2022, and therefore the statutory results for FY22 do not include a full year trading of Swick.

[3] Operating EBITDA equals Statutory EBITDA adding back acquisition / transaction costs and non-cash revaluation of listed investments.

[4] The exchange ratio is subject to adjustment, as outlined in the Scheme Booklet, for the dividend declared by DDH1.

[5] Subject to scale back arrangements based on a total available cash pool of $50 million. The consideration is subject to adjustment for any DDH1 or Perenti final FY23 declared dividend.

[6] Subject to no superior proposal emerging for DDH1 and the Independent Expert concluding that the Scheme is in the best interest of shareholders.

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