

# Macquarie WA Forum Presentation



**Andrew Bellamy, Chief Executive Officer**

**17 October 2013**



# Austal overview



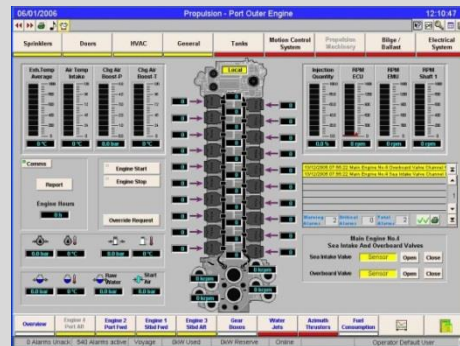
Austal is a leading prime defence contractor. Founded in 1988 and listed on the Australian Stock Exchange in 1998, Austal specialises in the design, construction and maintenance of revolutionary vessels for the United States Navy, as well as an extensive range of patrol and auxiliary vessels for defence forces and government agencies globally. Austal also constructs high performance vessels for the commercial ferry market.

- Austal has a global footprint with strategically located shipyards and service facilities:
  - Australia
  - United States
  - Europe
  - Caribbean
  - Middle East
  - Asia
- Austal comprises three business segments: Ships • Systems • Support

## Ships



## Systems



## Support



# Ships

Advanced design, construction, engineering and support are Austal's core competencies.

- 249 vessels constructed.
- Delivered globally.

## Defence

- Global defence prime contractor with significant programs in place.
  - US Navy's Littoral Combat Ship (LCS).
  - US Navy's Joint High Speed Vessel (JHSV).
  - Australian Customs and Border Protection Service's Cape Class Patrol Boat.
  - Patrol and auxiliary vessels for the US Navy, Royal Australian Navy and other defence forces and government agencies.

## Commercial

- 25 year record in vessels for commercial market.
- World leader in the design, construction and support of high performance aluminium vessels.

### Warships and Multi Role Vessels



### Patrol Vessels



### High Performance Vessels



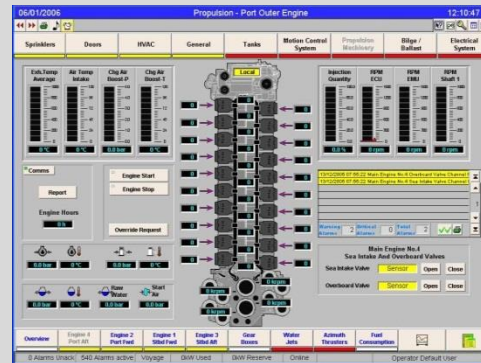
Austal's Systems division provides advanced integration, maintenance and command and control systems for defence and commercial applications.

- **Advanced Integration:** Radars, communications, command and control systems and user-interfaces.
- **Maintenance:** Through Life Support of machinery, radars, communications and other onboard systems through remote monitoring and Computerised Maintenance Management Systems.
- **Command and Control:** Proprietary, scalable, network solutions with common operating picture for global and local coordination of assets in a maritime and land environment.

## Advanced Integration



## Maintenance



## Command and Control



# Support

Austal has a large support offering through its regional centres:

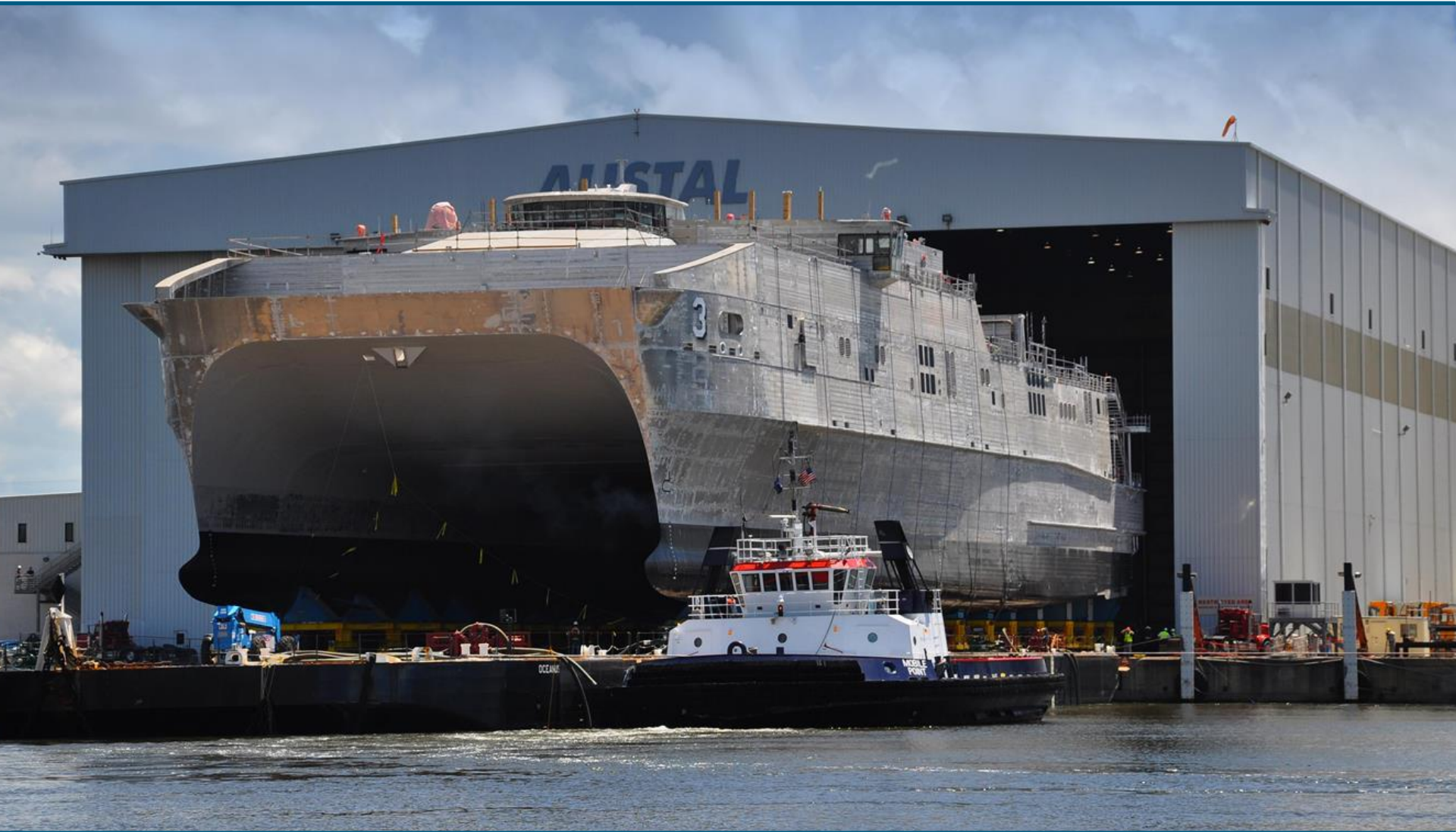


- Service products are tailored to address customer requirements, including:
  - Through life support, logistics support and systems maintenance.
  - Repair, retrofits, upgrades, vessel surveys and life-extension.
  - Conversion and modernisation.





# 2013 results



# Highlights



## Financial

- Record revenue of \$902.8 million, a 38% increase on FY2012.
- Earnings consistent with guidance:
  - \$62.6 million EBITDA.
  - \$35.7 million statutory NPAT.
- Balance sheet strengthened and simplified debt facility in place.

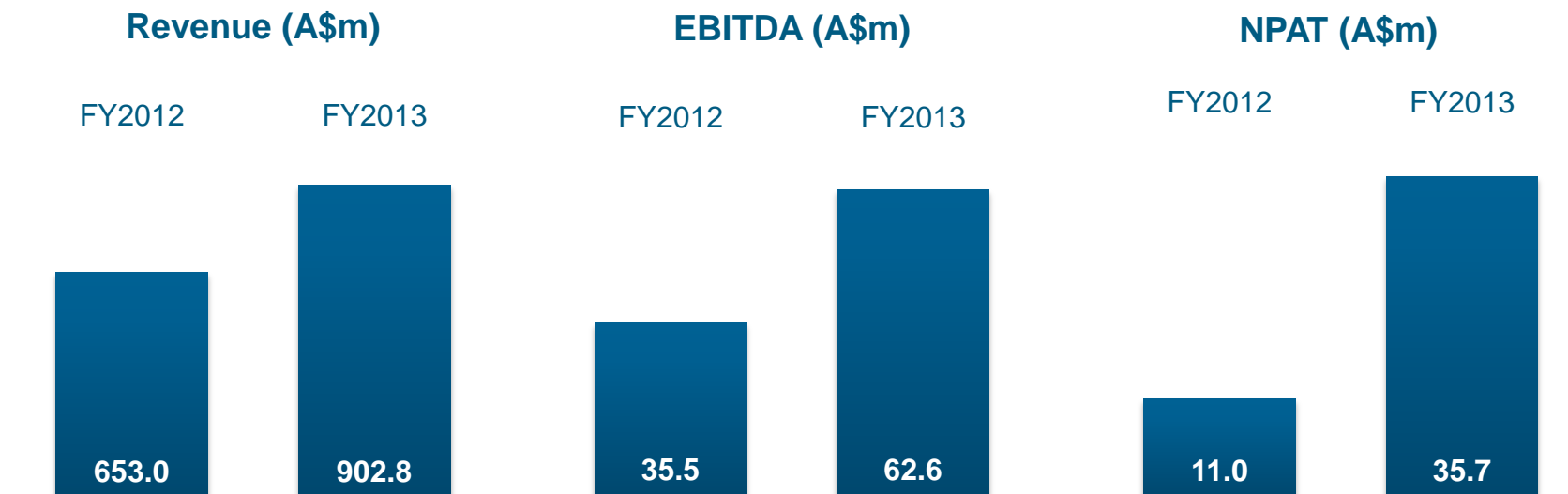
## Operational

- EBIT margin almost doubled at US – 5.2% for full year.
- Australia operations returned to small profit; Philippines delivering cost and performance advantages to Austal and customers.
- Streamlined geographical structure for service division.
- Record order book of \$2.6 billion, securing work through to 2017.

## People & Strategy

- Management team strengthened and Board renewal taking place.
- Cash management priority to deliver on record work in hand.
- Potential defence vessel exports into Asia and Middle East.
- Opportunities for support work with the expected deployment of US and Australian defence vessels in Asia Pacific.

# Financial growth targets met



- Strong improvement in earnings and revenue:
  - Revenue of \$902.8 million.
  - EBITDA of \$62.6 million.
  - NPAT of \$35.7 million.
- EBIT margins at USA operations grew as efficiencies from first-in-class vessels were implemented, from 2.7% in FY2012 to 5.2% in FY2013.



# Delivered on divisional outlook



## November 2012 outlook

## End FY2013

### USA

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Apply learnings to improve margins.</li> <li>• JHSV 10, LCS 14 &amp; LCS 16 contracts to be funded.</li> <li>• Revenue in excess of \$700m for FY2013.</li> </ul> | <ul style="list-style-type: none"> <li>• 5.2% EBIT margin for FY2013; \$39.2m EBIT.</li> <li>• All three contracts funded, with LCS contracts funded post-sequestration.</li> <li>• Strong revenue growth to \$749.4m for the year.</li> </ul> |
|--|--|

### Australia – Henderson Shipyard

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Execute Cape Class contract.</li> <li>• Pursue defence export opportunities.</li> <li>• Operate at break-even for FY2013.</li> </ul> | <ul style="list-style-type: none"> <li>• Cape St George (CCPB 1) delivered; phased increase in construction activity on subsequent CCPBs.</li> <li>• Pipeline development continuing.</li> <li>• \$0.5m EBIT in FY2013.</li> </ul> |
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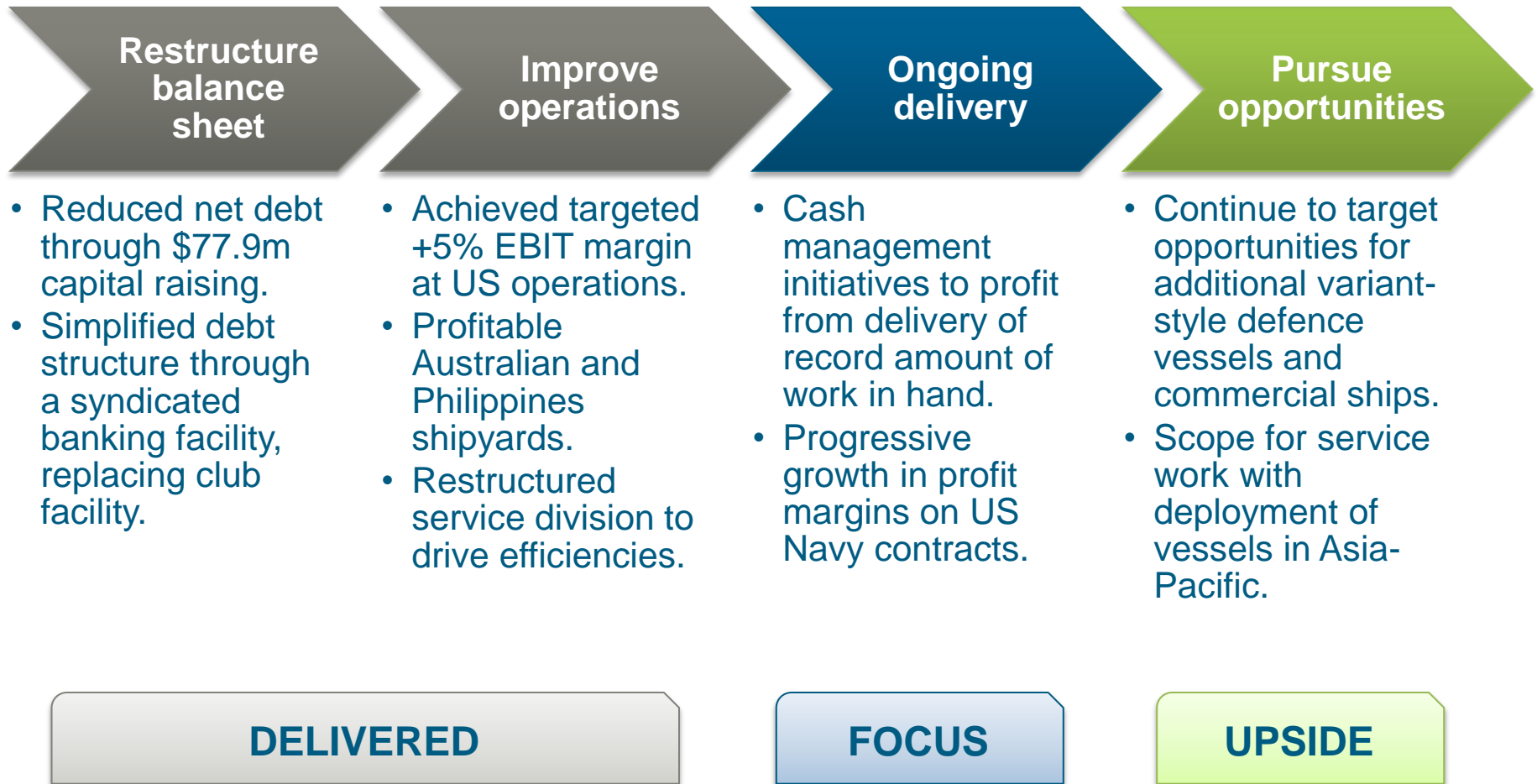
### Philippines Shipyard

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Complete mobilisation and ramp up.</li> <li>• Continue full capacity operations.</li> <li>• Operate profitably for FY2013.</li> </ul> | <ul style="list-style-type: none"> <li>• First ship delivered; staff mobilised to deliver on contracts.</li> <li>• Won additional wind farm vessel contract from repeat customer; continuing construction of 80 metre catamaran.</li> <li>• \$5.0m EBIT in FY2013.</li> </ul> |
|--|---|

### Service

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Continued growth, position to benefit from US Navy forward deployment.</li> </ul> | <ul style="list-style-type: none"> <li>• Realigned division to best service deployment of US Navy vessels in Asia-Pacific.</li> </ul> |
|--|---|

# Objectives for sustained growth



# Financials





# Earnings summary



Income statement	FY2013 (A\$m)	FY2012 (A\$m)	Increase (A\$m)
Revenue	902.8	653.0	249.8
EBITDA	62.6	35.5	27.1
EBIT	38.1	16.6	21.5
NPAT	35.7	11.0	24.7
EPS	12.03¢	4.62¢	8.35¢

Met original guidance	NPAT (A\$m)	EBITDA (A\$m)
Reported	35.7	62.6
R&D tax benefit	(11.0)	-
Loss on stock yacht	3.1	4.4
<b>Delivered</b>	<b>27.8</b>	<b>67.0</b>
<b>Nov 2012 forecast</b>	<b>23 – 26</b>	<b>65 – 71</b>

## FY2013 results:

- Met stated guidance for the year.
- Margin improvement in the USA, with EBIT margin at 5.2% in FY2013 vs 2.7% in FY2012.
- USA improvement lifted overall group EBIT margins to 4.2% vs 2.5% in FY2012.
- Australian operations returned to profit, with \$330m Customs contract providing sustainable workload through to H1 FY2016.
- Philippines shipyard profitable in its first full year of operations.
- Translation of profits from US is unhedged, therefore benefits from falls in Australian dollar.

# Segment breakdown



USA	FY2013 (A\$m)	FY2012 (A\$m)
Revenue	749.4	570.3
EBIT	39.2	15.8
EBIT margin (%)	5.2	2.7

- Delivered margin growth.
- JHSV 1 delivered and productivity lessons implemented, de-risking the program.
- LCS 14, LCS 16, and JHSV 10 contracts all funded by US Navy within expected timeline.

Philippines (PSO)	FY2013 (A\$m)	FY2012 (A\$m)
Revenue	40.0	1.9
EBIT	5.0	(0.8)
EBIT margin (%)	12.6	(0.8)

- Profitable in its first full year.
- Progressing with construction of wind farm and commercial ferry in the year.
- Technological capabilities transferred to deliver on contracts.

Australia (HSO)	FY2013 (A\$m)	FY2012 (A\$m)
Revenue	90.6	63.7
EBIT	0.5	(13.6)
EBIT margin (%)	0.6	n/a

- Small profit in FY2013 and forecast to remain profitable in FY2014, with improving efficiencies on Cape Class vessel.
- Customs Cape Class Patrol Boat work until H1 FY2016, underpinning operations.
- USD-AUD exchange rate improving export competitiveness.

Service & Systems	FY2013 (A\$m)	FY2012 (A\$m)
Revenue	59.0	19.4
EBIT	(0.5)	1.6
EBIT margin (%)	n/a	8.2

- Revenue growth through service work in Australia and US.
- Renewed charter of WestPac Express.
- Restructuring of division affected earnings but has been intended to improve efficiencies and ensure alignment with work opportunities.

# Balance sheet

Balance sheet	At 30 Jun 2013 (A\$m)	At 30 Jun 2012 (A\$m)
<b>Total assets</b>	<b>946.5</b>	<b>826.0</b>
Cash	38.0	51.8
Restricted cash	69.7	52.9
Receivables	102.7	96.2
Inventories	277.9	193.5
Property, plant & equipment	399.9	370.4
Other	58.3	61.2
<b>Total liabilities</b>	<b>539.3</b>	<b>548.9</b>
Trade creditors	133.8	128.6
Go Zone Bonds	205.0	219.4
Other interest bearing debt	39.8	46.0
Government grants	57.0	52.3
Other	103.7	102.6
<b>Net assets</b>	<b>407.2</b>	<b>277.0</b>

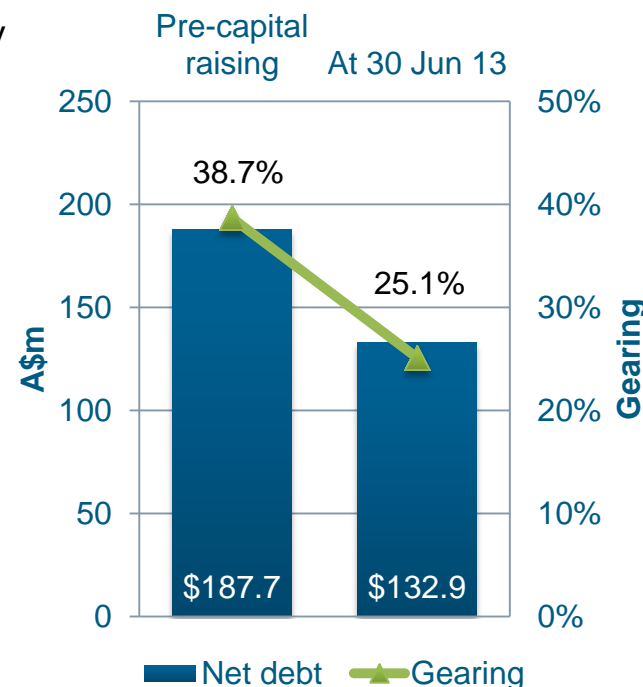
## Balance sheet summary:

- Growth in asset base, reflecting increasing scale of USA business.
- Balanced sheet strengthened by successful \$77.9m capital raising.
- Net debt reduced by \$54.8m since 30 Sept 2012, with gearing down from 38.7% to 25.1% over the same period.
- One of two stock vessels removed from balance sheet.
  - Funds from selling the remaining stock vessel would be used to reduce debt.
- Reduced capital expenditure on property, plant and equipment, totalling \$21.3m.
  - FY2014 capex at similar levels.



# Debt position

- Significant steps taken to reduce net debt and gearing, and simplify the company's debt profile.
- Net Debt/EBITDA at 2.12x, within Board's target range (1.5x-2.5x)
  - Ongoing debt reduction through disposal of excess assets (e.g. surplus land), sale of the stock boat, and use of earnings.
  - Debt will be project-specific.
- Completed \$77.9 million capital raising:
  - Board elected to use remaining US\$55 million of restricted cash to pay down further Go Zone debt in September 2013, simplifying debt structure and reducing interest payments for guarantees.
- US\$35 million of unutilised Go Zone Bonds retired in Feb 2013.
- New syndicated facility agreed with banks in Dec 2012 to replace club facility with simplified, common terms and extended maturity profile to Dec 2015.
  - This term sheet was ultimately executed after the balance date, on 17 July 2013, following ongoing negotiations and in line with new terms Austal was operating under.
  - As such, the majority of debt was classified as a current liability at 30 June, given the new facility agreement had not been closed at year end.
  - Syndicated agreement includes \$50 million, 3-year revolving credit facility for working capital.

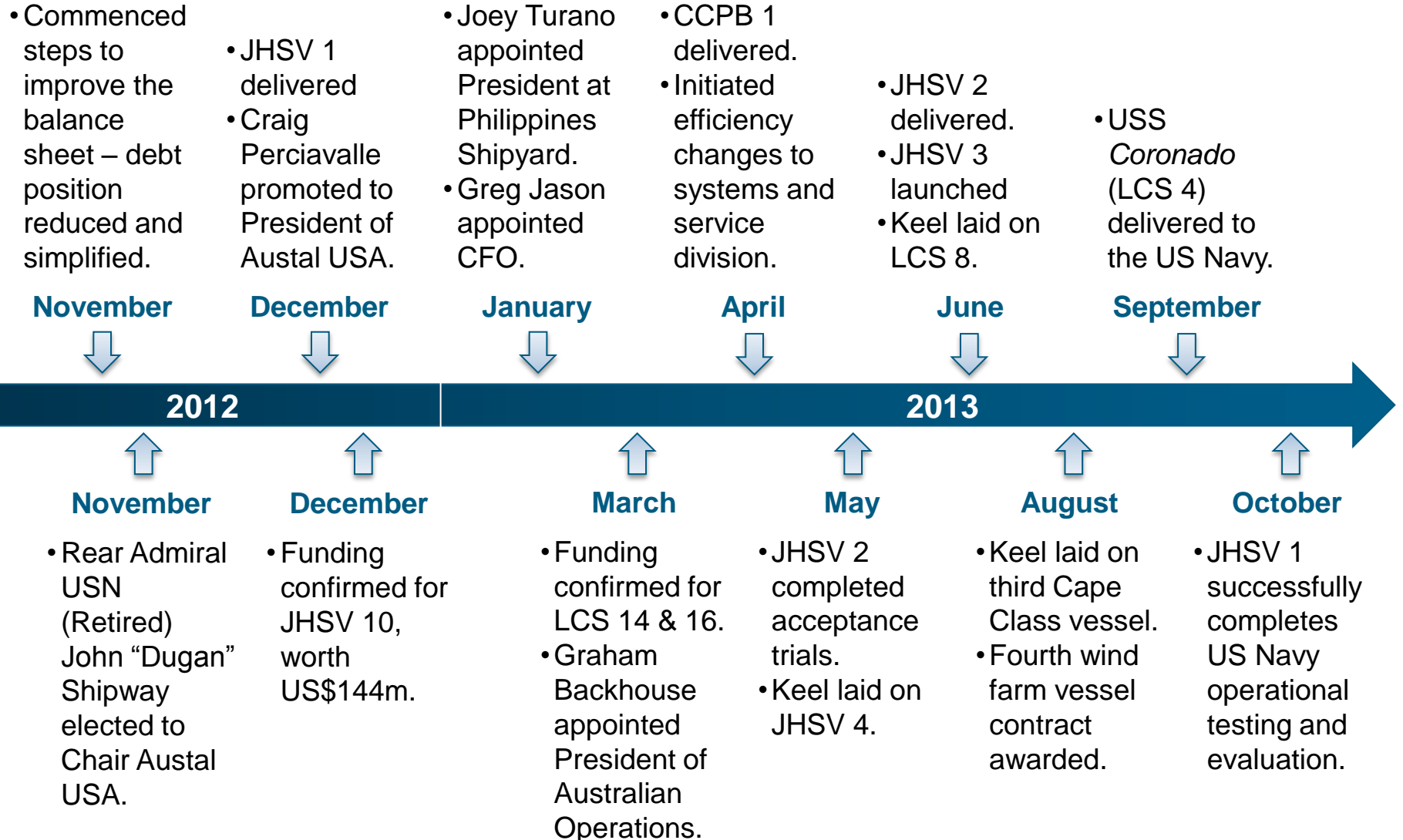


Note: Includes restricted cash components.

# Operations update



# Major progress across the business





# Order book

- Order book of \$2.2 billion secures revenue until 2017, including:
  - **Littoral Combat Ships for US Navy**  
x6 funded (out of 10 vessel contract)  
x2 delivered under 2 vessel contract from General Dynamics.
  - **Joint High Speed Vessels for US Navy**  
Fully funded, with x2 delivered (out of 10 vessel contract).
  - **Cape Class Patrol Boats for Australian Customs and Border Protection**  
Fully funded, with x1 delivered (out of 8 vessel contract), plus through-life support.
  - **Commercial vessels**  
x3 27 metre wind farm support catamarans.  
x1 21 metre wind farm support catamaran.  
x1 80 metre vehicle-passenger catamaran.



# Littoral Combat Ship

- 10 ship contract awarded as prime contractor, worth US\$3.5 billion:
  - 2 ships out of Austal's 10 contract award have been funded by US Navy each year, with the final 4 ships contracted to be funded in FY2014 and FY2015.
- 2 additional vessels constructed and delivered by Austal for General Dynamics (LCS 2 and LCS 4).
- 8 ships are fully funded, securing work until 2017:
  - LCS 2 – Delivered; undergoing operational testing.
  - LCS 4 – Delivered in September 2013.
  - LCS 6 – 70% complete, expected to be launched before end CY2013.
  - LCS 8 – Keel laid in June 2013; 40% complete.
  - LCS 10 – Commenced construction; 20% complete.
  - LCS 12 – Commenced construction in September.
  - LCS 14 & LCS 16 – Funded in March 2013.
- Opportunities exist beyond 10-ship award, including further LCS vessels in US and variants in Middle East.



*"The LCS is the weapon system that will close our littoral shortfalls and bridge the gap from conventional naval tactics to the future conflict."*

**Cdr Dale Heiken and Cdr Jeff Miller**

Authors of article 'The Right Ship at the Right Time', in well-known independent US Naval Institute magazine *Proceedings*  
June 2013

# Joint High Speed Vessel



- 10 ship award to Austal valued at US\$1.6 billion, with all vessels funded, securing work through to 2017.
- Program has been considerably de-risked, following lessons learnt in construction and delivery of JHSV 1.
- Progress:
  - JHSV 1 – Delivered in December 2012, with operational testing complete in October 2013.
  - JHSV 2 – Delivered in June 2013.
  - JHSV 3 – Vessel launched in June 2013, with main equipment commissioning underway.
  - JHSV 4 – Keel laid in May 2013; 70% complete.
  - JHSV 5 – Production commenced; 30% complete.
  - JHSV 6 & JHSV 7 – funded in February 2011.
  - JHSV 8 & JHSV 9 – funded in February 2012.
  - JHSV 10 – funded in December 2012.
- Austal well placed to secure a significant role in servicing the JHSV vessels through their life.
- Potential for program to be extended and technology adoption to penetrate new markets.



*"Flexible. That's probably the word I've heard more than anything. We can do a lot of things to it."*

**Mark Deskins**

Deputy Program Manager, Naval Sea Systems Command, as quoted in Navy League of the United States publication *Seapower Magazine* August 2013



# Austal well positioned in US



## Austal-built vessels have continued to be funded

- LCS 14 & LCS 16 funded in March 2013 – after budget sequestration.
- JHSV 10 funded in December 2012.
- Funded vessels and associated revenue is locked in – not affected by US government shutdown.
- Funding of vessels LCS 18 & 20 expected in FY2014 and LCS 22 & 24 in FY2015, as per the contract.

## US focused on Asia-Pacific defence strategy

- US Navy committed to maintaining an approximately 300-vessel naval fleet, with littoral vessel programs supporting that objective.
- Maiden deployment of Lockheed Martin-built LCS 1 in Southeast Asia provides a further indication that the US is committed to its Asia-Pacific strategy.
- LCS and JHSV are especially designed for the littorals.
- Austal has a strong presence in Asia-Pacific.

## Additional opportunities

- US Navy continuing to develop through-life support strategy for LCS & JHSV.
- Austal well placed for significant support role, providing annuity-style revenue.
- Future block-buy contracts beyond LCS 24 continues to be expected.

# Cape Class Patrol Boat

- \$330 million contract to design, manufacture and support 8 new Cape Class Patrol Boats, including \$50 million support work.
- Vessels are fully funded and underwrite activity at Henderson shipyard until H1 FY2016.
- Progress:
  - CCPB 1 – Delivered in April 2013; operational deployment in October 2013.
  - CCPB 2 – 80% complete.
  - CCPB 3 – Keel laid in Aug 2013; 40% complete.
  - CCPB 4 – 20% complete.
- Efficiencies and margins to improve in FY2014 following delivery of the first-in-class vessel.
- Proposing faster build of Cape Class vessels.
- Australian defence requirement for Cape Class-style vessel, including early replacement of Armidale fleet, with further opportunities for variant-type vessels existing offshore.



*"[Cape] is, in some ways, a more capable vessel than even the Armidale Class patrol boats deployed by the Navy."*

**Hon. Tony Abbott**  
Prime Minister of Australia  
11 October 2013

# Philippines



- Enables Austal to compete in the global commercial market (e.g. ferries, wind farm support vessels) – delivering cost and performance advantages to Austal and customers.
- Delivered a profit in its first full year of operations.
- First ship delivered December 2012; growth to 500 employees achieved as planned and technology transfer to improve competitive position.
- Full order book in short-term, with:
  - x3 27 metre wind farm vessels.
  - x1 21 metre wind farm vessel.
  - x1 80 metre vehicle-passenger catamaran.
- The 80m Aremiti ferry catamaran is one month behind schedule.
- Ongoing opportunities in wind farm vessel market.
  - Award of eighth wind farm vessel under fourth contract from repeat customer shows our ability to build vessels that meet customers' needs.



# Service and systems



- Provides long-term opportunity and stability for Austal through annuity-style work.
  - Potential for high margin contracts.
  - Low capital intensity.
  - Recurring revenue.
- Austal has been building its global footprint, especially in the Asia Pacific region, through shipyards, strategic partnerships and developing IP to provide through-life-support for vessels such as the LCS and JHSV.
  - Ships designed for 20 to 30 year life.
  - Support contracts expected to begin to be awarded in this financial year.
- Also work opportunities for Australian vessels, with Austal currently servicing the Armidale fleet.
- Streamlined geographical structure to improve efficiencies, drive margins, and create better alignment with expected work.

*"The JHSV could prove especially valuable in the Asia-Pacific region, where the distances make range and the ability to maintain good high speed key considerations in terms of deploying assets."*

**Daniel Taylor**

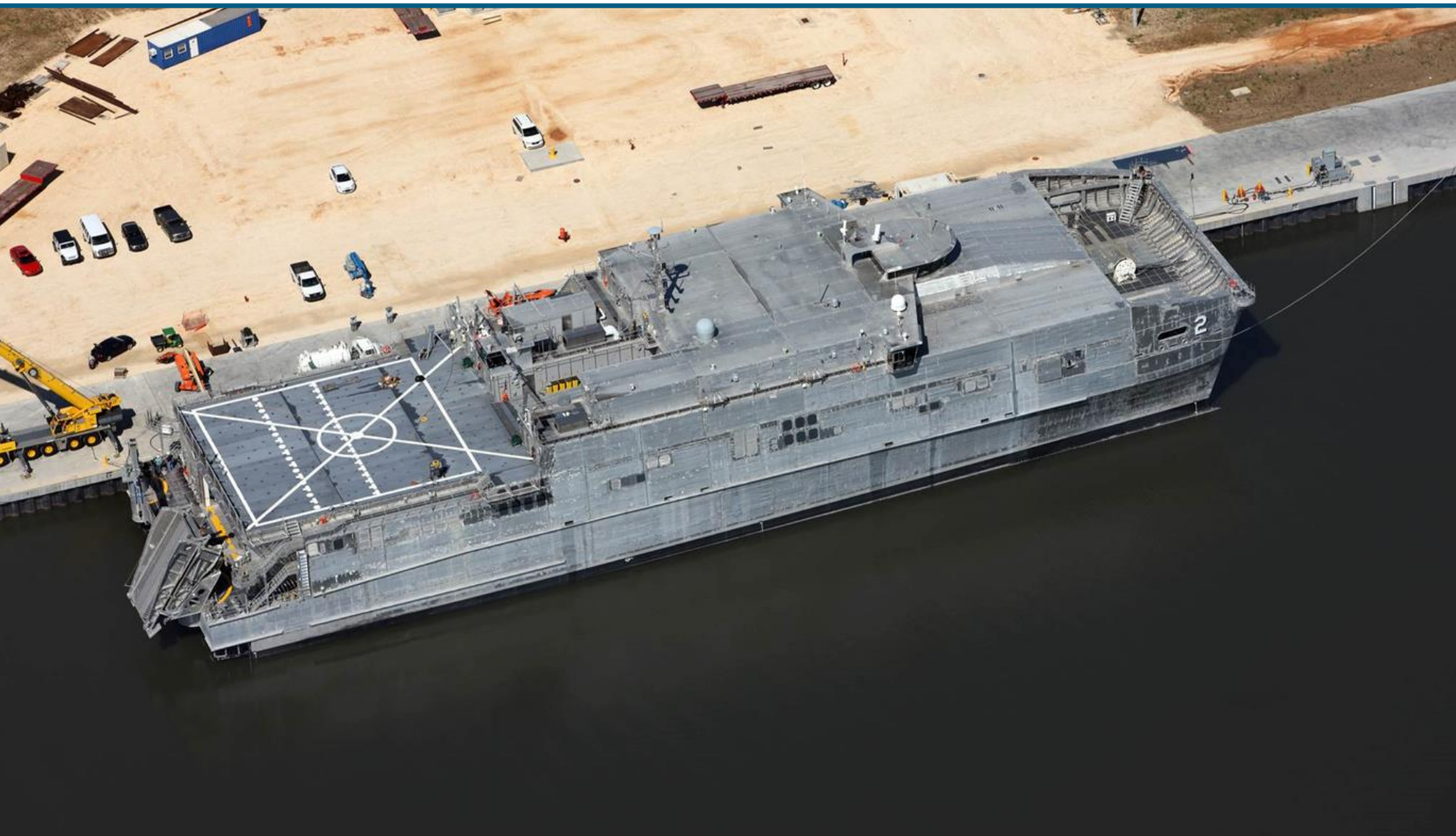
Special Correspondent for Navy League  
of the United States publication  
*Seapower Magazine*  
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*"The LCS is poised to engage with our allies and friends in the Western Pacific at a level not experienced since World War II."*

**Cdr Dale Heiken and Cdr Jeff Miller**

Authors of article 'The Right Ship at the  
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## United States

- Progressive growth in margins as vessel programs mature – delivered through stabilising the workforce, material cost reductions (less rework), and improved change management.
- Augment contracts with service and maintenance work.
- Extend pipeline beyond existing contract awards.

## Henderson

- Increase efficiencies on Cape Class Patrol Boats, following first-in-class vessel.
- Proposed faster build on vessels.
- Target construction and support opportunities in defence vessels to sustain the shipyard, including Australian defence requirement for Cape-style vessel.

## Philippines

- Continue building technological capabilities at the Philippines for commercial shipbuilding.
- Expand vessel construction capacity according to market potential.

## Support

- Utilise our service network to target service work in Asia Pacific in anticipation of US Navy and Australian Customs deployment.
- Leverage existing defence systems capabilities to pursue new opportunities.

**Strengthened balance sheet, simplified debt structure and prudent cash management practises in place to support record amount of work in progress**

Long term defence contracts provide visibility of revenue – expect revenue of approximately \$1 billion in FY2014.

Targeting eight per cent EBIT margin in three years.

Progressive growth in profit margins as vessel programs mature in the US and Australia, augmented by increase in service and systems work over time.

Prudent cash management in place to allow delivery on record amount of work in hand.

No dividend in the short-term.

Funds from potential sale of surplus assets and the remaining stock vessel would be used to reduce debt.

Weaker Australian dollar improving translation of profits from US operations and export competitiveness from Australian operations.

Pursuing variant-style defence vessel contracts in existing and new markets, such as in Asia and Middle East, opportunities in Australia, and ongoing scope to win higher-margin support work.

# Disclaimer

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