

Macquarie Western Australia Forum



Andrew Bellamy, Chief Executive Officer

15 October 2015

Overview – about Austal



Founded in 1988, publicly listed since 1998, and now an ASX-200 company, Austal is a leading defence prime contractor specialising in the design, construction and maintenance of high performance vessels for defence and commercial purposes with 250+ ships designed, built and delivered.

- Austal has a global footprint with strategically located shipyards and service facilities:
 - Australia
 - United States
 - Philippines
 - Europe
 - Middle East
 - Asia
- Austal's focus is on the delivery of three product platforms: Ships • Systems • Support

SHIPS



SYSTEMS



SUPPORT



Overview – corporate snapshot



Share price (2 years)



Corporate details

| | |
|----------------------------------|-------------|
| ASX Code | ASB |
| Issued Shares | 347,420,634 |
| Share Price (at 13 October 2015) | \$2.11 |
| Market Capitalisation | \$733.1m |
| PE ratio | 13.19 |

Board and management

| | |
|------------------|-------------------------|
| John Rothwell AO | Non Executive Chairman |
| David Singleton | Independent Director |
| Giles Everist | Independent Director |
| Jim McDowell | Independent Director |
| Andrew Bellamy | Chief Executive Officer |
| Greg Jason | Chief Financial Officer |

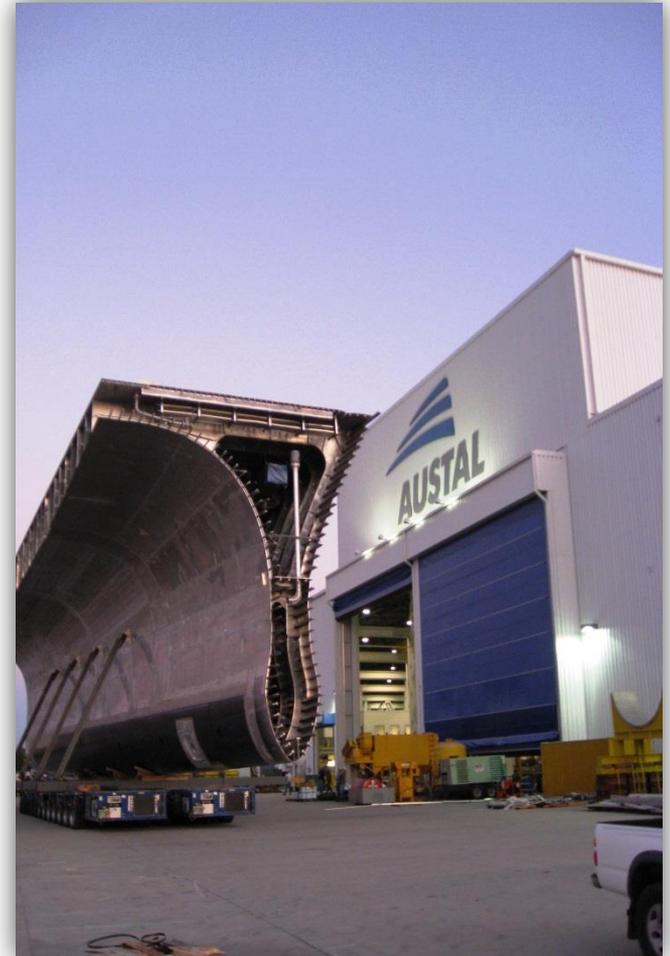
Financial overview (FY2015)

| | |
|------------------------------|------------|
| Revenue | \$1.4b |
| EBIT | \$84.8m |
| NPAT | \$53.2m |
| Net debt | \$6.1m |
| Interim dividend | 1.0cps, ff |
| Final dividend | 3.0cps, ff |
| Order book (at 30 Sept 2015) | \$3.0bn |

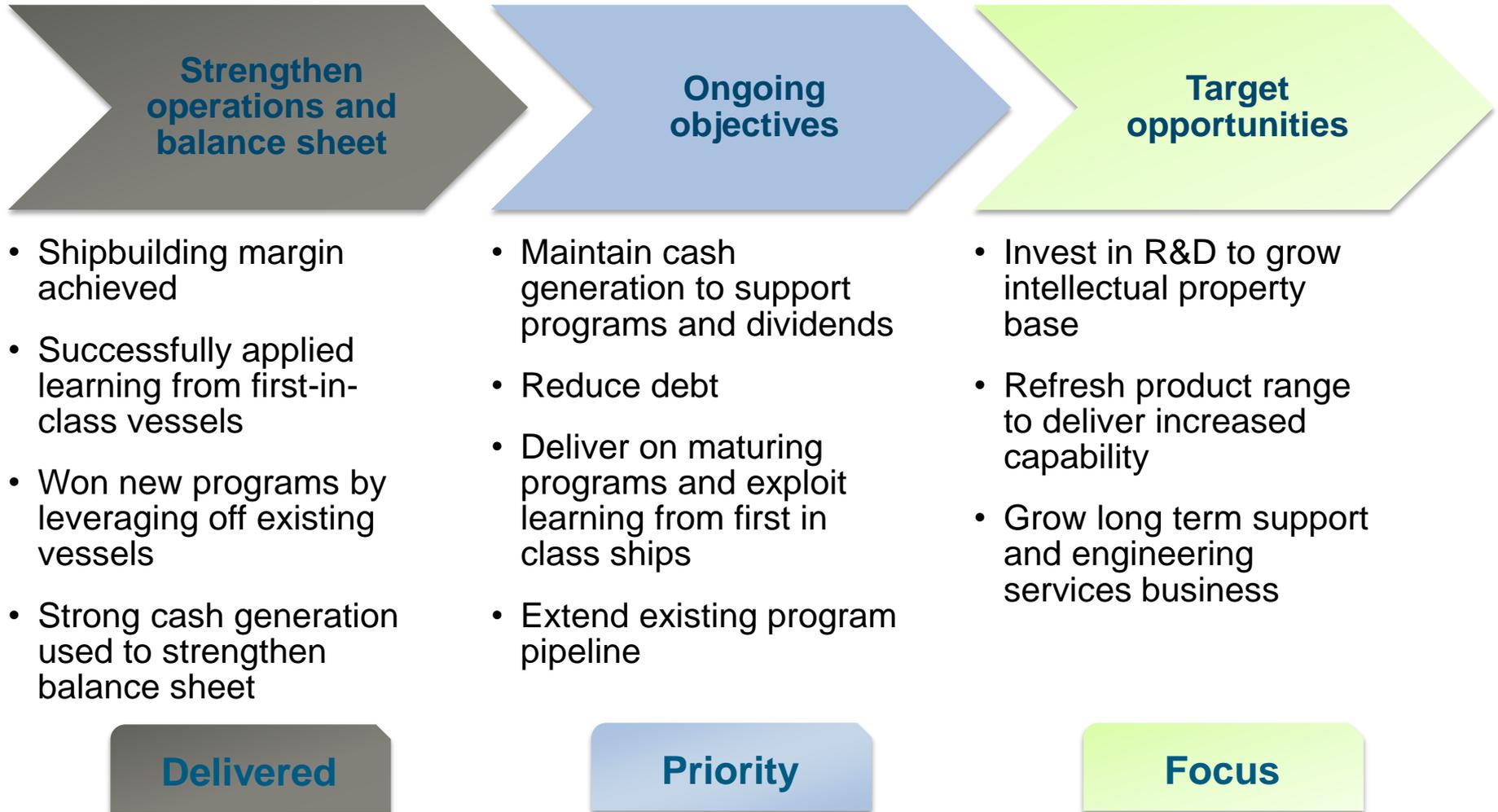
Overview – shipbuilding programs



- Order book of \$3.0 billion as at 30 September 2015 secures revenue through CY2020, including:
 - **11 Littoral Combat Ships for US Navy**
10 funded, with 1 delivered, funding expected in FY2016 for eleventh vessel
 - **10 Expeditionary Fast Transports (formerly Joint High Speed Vessel) for US Navy**
Fully funded, with 5 delivered
 - **8 Cape Class Patrol Boats for Australian Border Force**
Fully funded, with all 8 vessels delivered, plus through-life support
 - **2 High Speed Support Vessels for Royal Navy of Oman**
Fully funded
 - **Commercial vessels**
2 high speed catamaran crew boats



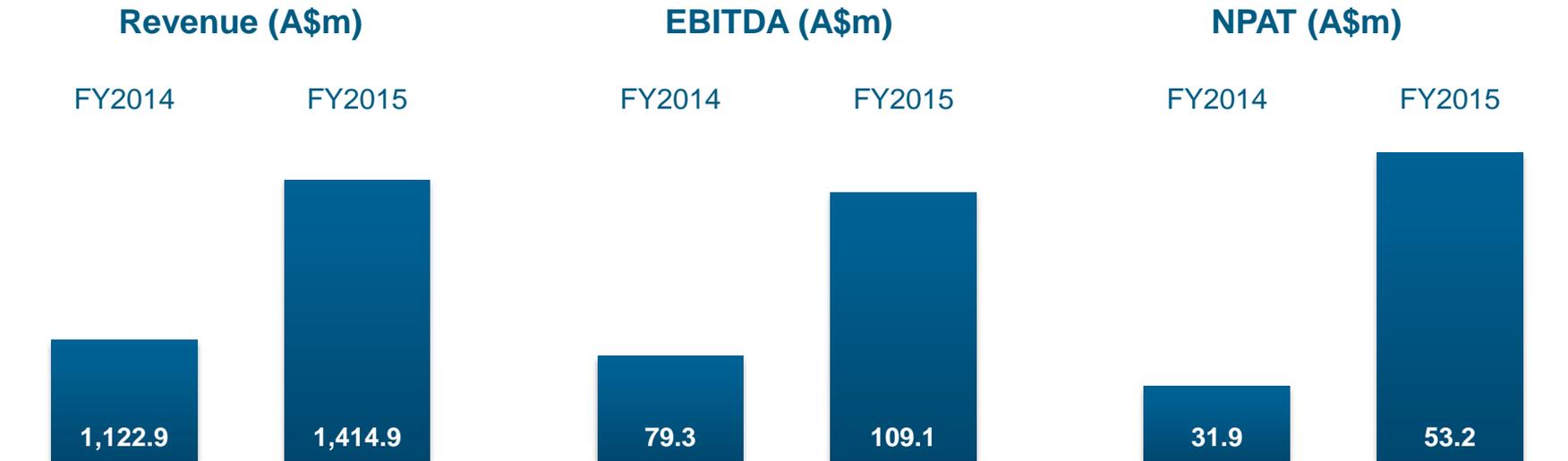
Objectives for sustained growth



Financials



Record revenue driving performance



- Record revenue, with 26.0% increase over FY2014 driven by growing work on major navy defence and patrol boat programs and relative depreciation of AUD
- Record profit, with 66.8% increase in NPAT over FY2014
- Headline earnings include some non-cash benefit from mark-to-market revaluation on intercompany loans to reflect currency movements

Segment breakdown



| | (\$m) | Ships | Systems | Support | Other ¹ | Total |
|--------------------|--------------|-------|---------|---------|--------------------|---------|
| USA | Revenue | 914.2 | 160.0 | 45.5 | - | 1,119.7 |
| | EBIT | 59.6 | 2.0 | 4.3 | (7.5) | 58.4 |
| | EBIT Margin% | 6.5 | 1.3 | 9.5 | - | 5.2 |
| Australia | Revenue | 171.2 | - | 40.6 | - | 211.8 |
| | EBIT | 26.3 | - | 5.7 | (0.2) | 31.8 |
| | EBIT Margin% | 15.4 | - | 14.0 | - | 15.0 |
| Philippines | Revenue | 29.3 | - | 9.4 | - | 38.7 |
| | EBIT | 2.3 | - | (1.3) | - | 1.0 |
| | EBIT Margin% | 8.0 | - | (14.2) | - | 2.6 |

- **USA:** Schedule pressure on LCS 6 (now delivered), and a significant growth in profitability of the Support business
- **Australia:** Significant margin improvement from efficiencies on Cape Class Patrol Boat program
- **Philippines:** Delivering commercial vessels at profitable margin

¹ unallocated overhead targeting growth

Cash and debt

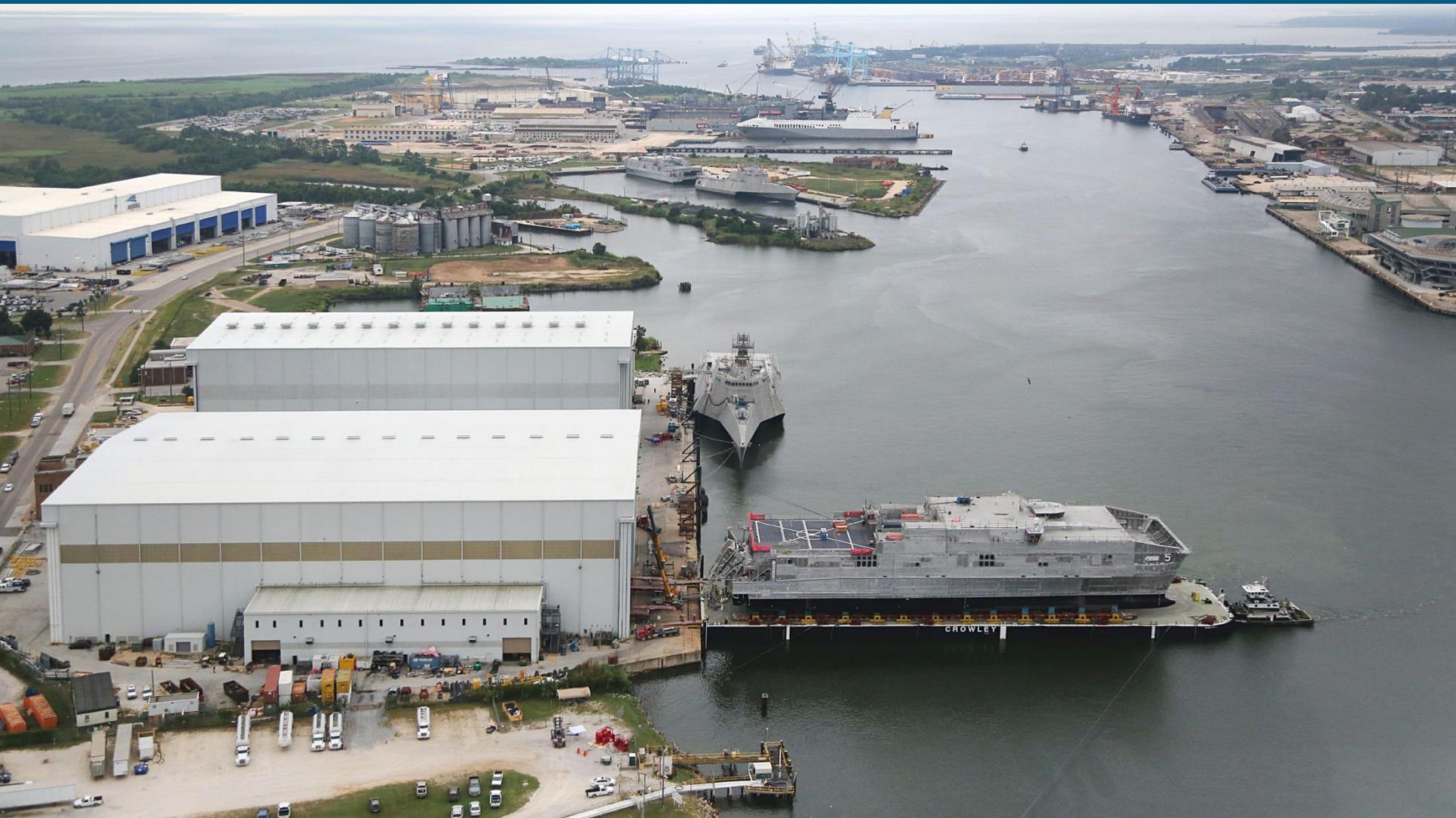


| Cash flow | FY2015 (A\$m) | FY2014 (A\$m) | Change |
|--------------|---------------|---------------|--------|
| Operating | 110.4 | 41.6 | 68.8 |
| Investing | (21.8) | 19.0 | (40.8) |
| Financing | (24.1) | (84.3) | 60.2 |
| Net increase | 64.5 | (23.7) | 88.2 |

- Strong operating cash flow which was enhanced by the sale of Hull 270 trimaran stock vessel
- Significant reduction in net debt
- Maintained low sustaining capital expenditure
- Extension to banking facility agreement progressing

| Debt | At June 2015 | At June 2014 | At June 2013 |
|----------------|--------------|--------------|--------------|
| Net debt (\$m) | (6.1) | (71.5) | (137.1) |
| Leverage ratio | 0.06 | 0.90 | 2.19 |

Operations update



US Navy – Littoral Combat Ship



- 10 ship contract awarded as prime contractor, worth US\$3.5 billion and additional 1 ship option
- Margin and schedule pressure on LCS 6, first in the block-buy contract. Austal implementing experience from LCS 6 to incrementally grow margin on subsequent vessels
 - LCS 8 preparing for trials in late CY2015
 - LCS 10 launched and christened
 - LCS 12, 14, 16 & 18 under construction
- LCS program expected to be 52 ships
 - Later ships (LCS 33 – 52) will be “upgunned” as future frigate



US Navy – Expeditionary Fast Transport



- Formerly Joint High Speed Vessel (JHSV), renamed by US Navy to Expeditionary Fast Transport (EPF)
- 10 ship award to Austal valued at US\$1.6 billion (fully funded), securing work through to CY2017
- Program progressing well – matured into a phase of efficient production and predictable delivery
 - EPF 1, 2, 3, 4 & 5 – delivered
 - EPF 6 – launched & christened
 - EPF 7, 8 & 9 – under construction
- US Navy interested in growing size and role of EPF fleet (strong potential for program expansion), while variants are gaining traction in the Middle East
- Confident of extension to program beyond existing block buy – EPF 11 funded by Congress (not yet contracted)



Austal strongly positioned in US



Austal-built vessels have continued to be funded and programs are maturing well

US Foreign Policy remains focused on Asia-Pacific defence strategy

Winning service contracts on LCS and investing in support business to best position Austal for additional work

US Navy committed to upgrading final 20 LCS as future frigates and meet 52 vessel target – rate of acquisition to be decided by Congress

Option awarded to Austal on LCS 26 (can be exercised in CY2016), while EPF 11 approved by Congress (yet to be contracted)

LCS variants attractive to international market through US Foreign Military Sales

Australia – Cape Class Patrol Boats



- \$330 million contract for the design, construction and through-life support of 8 Cape Class Patrol Boats for the Australian Border Force (formerly Australian Customs and Border Protection Service)
- Program matured significantly, delivering significant efficiency gains that drove margin expansion
- Final vessel delivered in August 2015
- Austal now performing through-life support on completed vessels
- Opportunities exist for new contracts at home and abroad, with Austal able to deliver efficiencies gained from first block contract



Australia – High Speed Support Vessels



- US\$124.9 million contract for the design, construction and integrated logistics support of two 72 metre High Speed Support Vessels for the Royal Navy of Oman
- Construction is progressing well at Henderson shipyard
 - Completion of keel laying for both vessels in December 2014
 - Final vessel to be delivered in late CY2016
- Deployed with a similar mission to the EPF program
- Strategy demonstrated of leveraging Austal's intellectual property and technology to new defence markets



Australian defence shipbuilding



- The Federal Government's plan for a strong and sustainable naval shipbuilding industry was announced 4 August 2015

| Initiative | Impact on Austal |
|---|--|
| The Government will invest over \$89 billion in ships and submarines for the Navy over the next 20 years. | A large, long-term order book of work available to naval shipbuilders in Australia. Austal in a competitive position to win a large portion as Australia's only global, prime defence contractor. |
| The Government will implement a continuous build of surface warships in Australia. | Replacement of project-based orders with continuous build program offers long-term operational and revenue stability and efficiencies. |

Australian defence shipbuilding



| Initiative | Impact on Austal |
|--|--|
| <p>Bringing forward the Future Frigate programme to replace the ANZAC class frigates from 2023 to 2020.</p> <p>The Future Frigates will be built in South Australia based on a Competitive Evaluation Process (CEP), which will begin in October 2015.</p> | <p>Variant of Austal's LCS a potential platform for future frigate. (Upgunned LCS soon to be classed as a frigate by US Navy)</p> <p>Early CEP provides early revenue potential if successful.</p> <p>Possible expansion to South Australia to utilise Common User Facility at Techport, South Australia, in response to Government's geographic requirement for the vessels' construction.</p> |
| <p>Bringing forward construction of Offshore Patrol Vessels (SEA1180) to replace the Armidale class patrol boats by two years, with a continuous onshore build commencing in 2018 following a Competitive Evaluation Process.</p> | <p>Early CEP provides early revenue potential if successful plus revenue stability through continuous build.</p> <p>Austal will submit a competitive proposal:</p> <ul style="list-style-type: none">• It has built all of the patrol boats for Australian Navy and Customs for the past 17 years• Company's export competitiveness demonstrates cost competitiveness• Capacity constraints in SA may limit construction to one class of vessel (future frigate) <p>Capability requirements of Offshore Patrol Vessel expected in Government Defence White Paper to be released later this year.</p> |

Philippines



- Delivered two 45 metre high speed catamaran ferries to Abu Dhabi National Oil Company in August 2015 under a \$30 million design and construct contract
- Completed customisation of Hull 270 and delivered wind farm vessel to Turbine Transfers
- Commenced construction on two crew boats, to be delivered in Q3 CY2016:
 - 70 metre catamaran under US\$34 million contract
 - 58 metre catamaran under US\$20 million contract
- Targeting new commercial vessel contracts, including fielding growing interest from the European ferry market



Systems and Support



- Austal is steadily adding experience and capability to deliver a growing portfolio of Naval sustainment contracts
- US expanding activity beyond own vessels:
 - Prime contractor for Post Shakedown Availability (PSA) and other post delivery test and trial programs on all Independence Class LCS
 - Teamed with GD awarded Planning Yard services contract for the entire LCS fleet
- Australia transitioned Cape Class from construction phase to support phase, demonstrating value of Austal's integrated design, build and sustainment products
- Footprint spanning Darwin, Henderson, Oman and Philippines well positioned to support increasing regional forward deployment of LCS and EPF



Strategy and Outlook



Sustain the business

- Maintain current annual revenue in medium to long-term through new contracts
- Additional defence vessel contracts in existing markets
- Export variant defence vessels
- Capture new opportunities in commercial vessels

Strengthen the business

- Improve margins by driving efficiencies / productivity in procurement and labour without impacting safety and quality

Diversify the business

- Grow annuity-style revenue by building on existing expertise, including sustainment work on Austal-built vessels
- Focus on strategic partnerships, investments in infrastructure and IT, upskilling staff, and differentiating from competitors

Scale the business

- Position Austal for future Navy programs in Australia
- Organic and acquisitive growth opportunities

Growth strategy to be supported by maturing vessel programs, significant order book, strong financial position and effective risk management

Pipeline for vessel programs



- Pursuing opportunities to deliver on strategy by growing Austal's order book and securing additional long-term revenue

Target markets

- **US:** strong potential to extend existing LCS and EPF programs
- **Australia:** replacement of Navy vessels including patrol boats and future frigates under continuous shipbuilding program
- **Middle East:** opportunity for frigates, support vessels and patrol boats
- **Europe and Asia Pacific:** commercial vessels and work boats

Vessels

- Future frigate evolved from modified Littoral Combat Ship
- Expeditionary Fast Transports for US Navy
- Patrol boats developed from experience with Bay, Armidale and Cape Class vessels
- Variant high speed support vessels developed from Westpac Express and EPF
- Commercial vessels: potential new market for LNG-powered ferries and crew transfer vessels

Margin improvement at US operations as lessons learnt from LCS 6 are applied – greatest effect to be on vessels at early stage construction

Good opportunity for award of additional LCS and EPF in addition to existing block buy contracts

Best position Austal for Pacific Patrol Boat replacement, Future Frigate, and OPV, and seek extension of Cape Class Patrol Boat program

Target export opportunities from Australia shipyard through variant-style defence vessels

Pursue organic and acquisition opportunities to grow support business in US, with sustainment on vessels reaching critical mass

Net cash position by end of FY2016 to support growth opportunities and underpin dividends

Disclaimer



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For further information visit www.austal.com

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