

# 2017 half year results



**David Singleton, Chief Executive Officer**  
**Greg Jason, Chief Financial Officer**

27 February 2017

## Financial

- **Revenue:** \$649.2 million
- **EBIT Headline** \$18.1 million
- **EBIT Underlying:** \$31.2 million
- **USA Shipbuilding EBIT margin:** 6.6%
- **NPAT:** \$9.3 million
- **NPAT Underlying:** \$18.6 million
- **Order book:** \$3.1 billion, securing work through FY2021

## Operational

### ➤ **Maturing major programs:**

- EPF production in USA performing exceptionally well
- LCS stabilised and improving. Remains a key area of management attention
- Pacific Patrol Boats (PPB) on schedule and cost. Major design milestone met-on-time. Construction commences April 2017, first vessel delivery October 2018
- Cape Class Patrol Boats 9 & 10 launched and nearing delivery to Royal Australian Navy under 3 year charter.
- Mols Linien ferry (c\$90m) commences construction in April 2017 with 21 month construction phase
- 4 ferries under construction in Philippines
- 1<sup>st</sup> Armidale remediation ( of 7 planned) completed on time and handed back to Navy. 2<sup>nd</sup> vessel underway and a 3<sup>rd</sup> starts end February.

## Orders

- **Strongest ever pipeline being tendered:**
  - LCS program extension bid in February for up to 13 ships. Expect one in FY2017 (circa \$500 million)
  - OPV bid submission end March with down select due August 2017 (\$3 billion with circa \$1 billion for construction)
  - Middle East defence opportunities continue but with no clear timelines for completion
  - Commercial ferry market strengthening with 6 ferries signed in CY2016 and more being currently bid

## Capital

- **Cash:**
  - Net cash volatility continues as seen in previous years
  - Gross debt impacted by Cape charters counted as debt
  - Strong cash at bank

# LCS program update



## Shock trials completed

- USS Jackson (LCS 6) successfully completed Full Ship Shock Trials in July 2016
- US Navy data analysis underway, no significant issues identified
- USS Gabrielle Giffords (LCS 10) successfully delivered in December 2016
- Subsequent vessels are improving due to major action on cost reductions

## Profitability

- Year end forecast supports guidance profitability
- LCS is expected to be profitable over the remaining life of the program

## Future vessels

- Submitted tender for 13 additional LCS in February 2017
- US Navy appears likely to place one LCS order with Austal in US Government fiscal year 2017

# Financials



# Earnings in line with guidance



Income statement	FY2017 H1 A\$m	FY2016 H1 A\$m	Change
Revenue	649.2	747.4	(98.2)
EBITDA	33.3	41.8	(8.5)
- Underlying	46.5	41.8	4.7
EBIT	18.1	29.0	(10.9)
- Underlying	31.2	29.0	2.2
NPAT	9.3	16.8	(7.5)
- Underlying	18.6	16.8	1.8
Reported EPS (CPS)	2.7	4.8	(2.1)

- **Revenue** decrease was driven by
  - Higher Australian dollar
  - Lower throughput in USA
  - Lower activity in Australia following CCPB 1 – 8 and Oman HSSV delivery
  - CCPB 9 & 10 – no profit recognition in FY2017 H1 under financing arrangement
- Primary driver of **Headline EBIT** reduction; \$13.1 million provision for settlement of a latent defect claim under arbitration

FY2017 H1 underlying earnings removes the impact of providing for a settlement of arbitration relating to a latent defect claim.

# Segment breakdown



	(\$m)	Ships	Systems	Support	Other	Total
<b>USA</b>	Revenue	440.7	97.7	55.8	-	<b>594.3</b>
	EBIT	29.2	0.7	7.0	4.2	<b>41.1</b>
	EBIT Margin %	6.6%	0.7%	12.5%	-	<b>6.9%</b>
<b>Australia</b>	Revenue	24.3	-	23.1	-	<b>47.4</b>
	EBIT	2.8	-	(1.0)	-	<b>1.7</b>
	EBIT Margin %	11.5%	-	(4.5%)	-	<b>3.7%</b>
<b>Philippines</b>	Revenue	12.7	-	-	-	12.7
	EBIT	(2.8)	-	-	-	(2.8)
	EBIT Margin %	(22.0%)	-	-	-	(22.0%)

- **USA:** Shipbuilding in guidance range, support continues growth. US support includes benefit of FY2016 profit awarded during FY2017 H1
- **Australia:** Transition from CCPB 1-8 & RNO to Mols & PPB with zero or initial low profit take up as planned
- **Philippines:** Inadequate throughput in FY2017 H1, growth plan in development

# Cash and debt

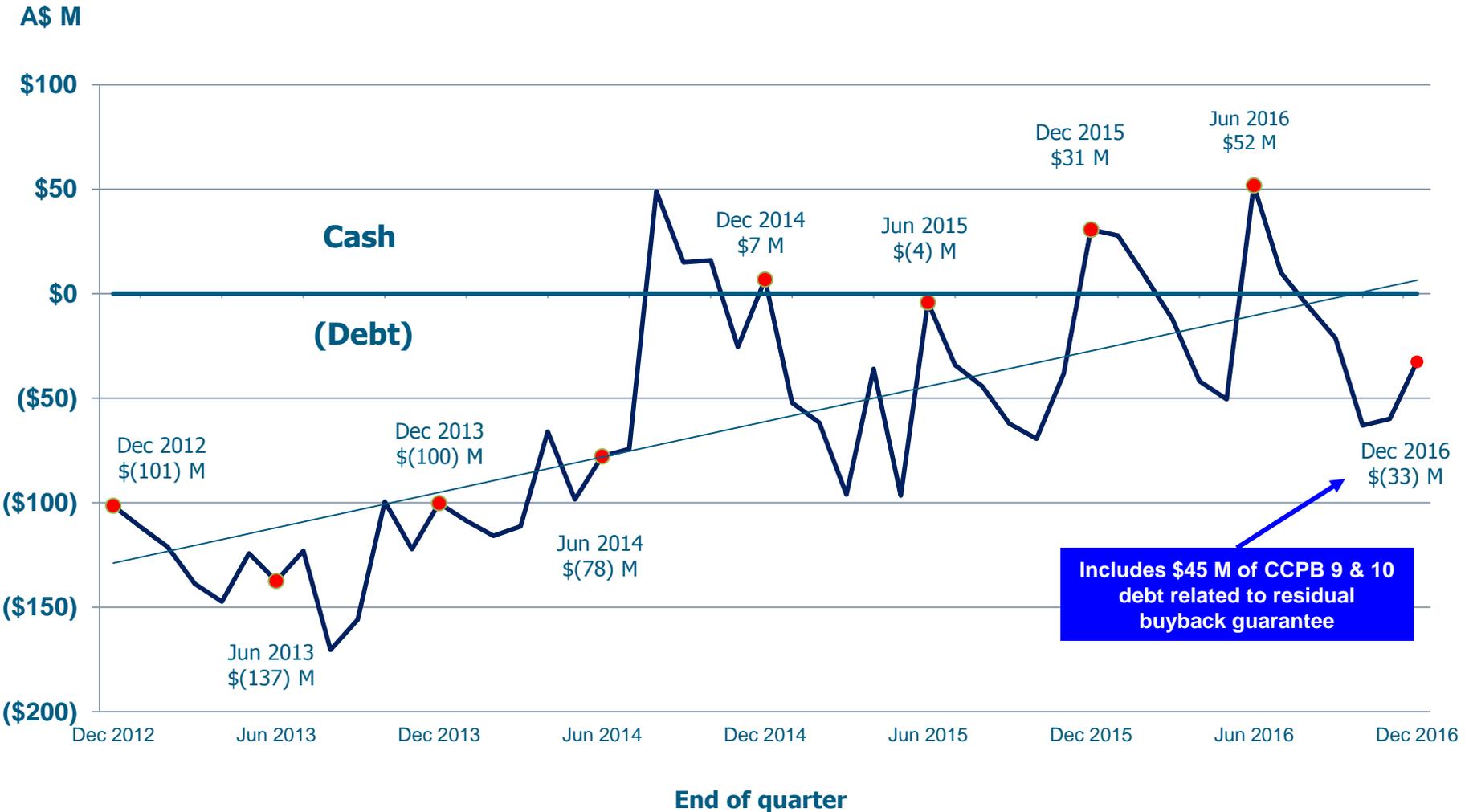


Cash flow	FY2017 H1 \$m	FY2016 H1 \$m	Change
Operating	(43.8)	51.8	(95.6)
Investing	(32.8)	(2.4)	(30.4)
Financing	5.8	(16.4)	(1.4)
Net movement	(70.9)	33.0	103.9

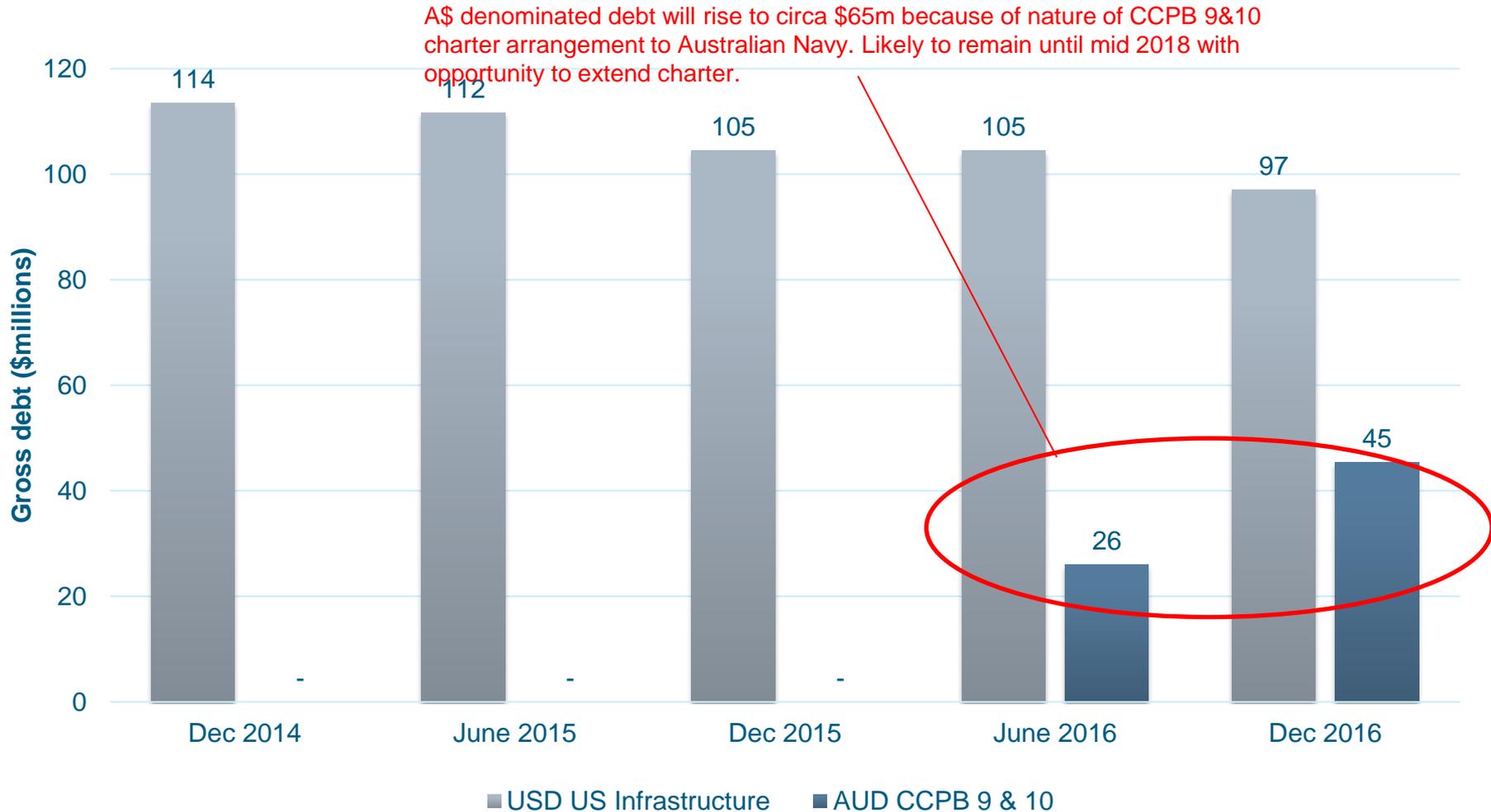
Cash (Debt)	Dec 2016	June 2016	Dec 2015
Net cash (debt) (\$m)	(32.6)	51.7	30.6

- Negative H1 operating cash flow
  - Working capital movements in USA based on timing of billings and change to project retentions
- Investing includes \$30 million of CCPB 9 & 10 under financing accounting.
- Financing includes:
  - ~ \$(6) million of dividends paid
  - ~ \$(10) million of US infrastructure debt reduction
  - ~ \$19 million CCPB 9 & 10 finance drawn
- Net Debt
  - Includes \$46 M CCPB 9 & 10 notional debt related to residual buyback guarantee in CY2020

# Net cash / (debt) – subject to volatility in working capital



# Continued reduction in long-term US denominated debt



# Operations update



# Overview – shipbuilding programs

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- Order book of \$3.1 billion at 31 December 2016 secures revenue through CY2021, including:
  - **11 Littoral Combat Ships for US Navy**  
11 funded, with 3 delivered
  - **12 Expeditionary Fast Transports vessels for US Navy**  
12 funded, with 7 delivered
  - **10 Cape Class Patrol Boats for Australian Government**  
8 vessels delivered, plus through-life support  
2 vessels nearing completion for lease to Royal Australian Navy
  - **2 High Speed Support Vessels for Royal Navy of Oman**  
2 delivered final acceptance in Oman only outstanding
  - **Commercial vessels**  
2 oil & gas crew transfer vessels delivered  
6 passenger ferries on order (1 Australia, 4 Philippines and 1 China)
  - **Armidale Remediation & Upgrades (approximately 4 months per vessel)**  
7 vessels due for remediation by circa end CY2017  
2 vessels underway (1 nearing completion)  
3rd vessel expected February 2017

# LCS program continuing to mature

- Physical shock trials completed with analysis by US Navy continuing as expected
- Ship modification program stabilising focus is on reducing costs of implementation vessel by vessel
- More progress necessary to give full confidence that LCS will meet costs to completion
- Cost claims have been submitted and are being progressed by Navy. Guidance is that any settlement will take at least 2 years



170103-N-WV703-159 CHANGI, Singapore (Jan. 3, 2017) Sailors assigned to the littoral combat ship USS Coronado (LCS 4) conduct small boat operations and manoeuvring tactics while the ship is pier side. The ship is on a rotational deployment in support of the Asia-Pacific Rebalance. (U.S. Navy photo by Mass Communication Specialist 2nd Class Amy M. Ressler/Released)

# Significant Milestones last 6 months



- Awarded contract to design and construct two expeditionary fast transport vessels (EPF 11 & EPF 12)
- Delivery of third-party-designed 70m vessel to Azerbaijan
- Delivery of second high speed support vessel to Royal Navy of Oman
- USS *Gabrielle Giffords* (LCS 10) completed acceptance trials
- Delivery of high speed crew transfer vessel to Swire Pacific Offshore
- Support business expands operations in Singapore, Darwin and Cairns

**September**

**November**

**January**

**2017**

**October**

**December**

**February**

- Awarded post shakedown availability contract for USS *Gabrielle Giffords* (LCS 10)
- Awarded Armidale Class Patrol Boat remediation work for up to 7 ships.

- Delivery of USS *Gabrielle Giffords* (LCS 10)
- Awarded 56m commercial ferry contract with FRS of Germany

- Austal USA bids up to 13 additional LCS vessels
- USS *Tulsa* (LCS 16) christened
- USNS *Yuma* (EPF 8) completed acceptance trials
- Completed PPBR Detailed Design Review on schedule
- Austal partners with Fassmer to bid Offshore Patrol Boats for Australian Navy

# US Navy – Littoral Combat Ship



- 11 ship contract awarded as prime contractor, worth approximately US\$4.8 billion
  - LCS 6, 8 & 10 delivered
  - LCS 12 & 14 preparing for sea trials
  - LCS 16, 18, 20 & 22 under construction
  - LCS 24 & 26 funded
- Additional 2 LCS constructed and previously delivered by Austal for General Dynamics (LCS 2 and LCS 4)
- Tender submitted mid February for additional ships. Expectation is a minimum of 1 ship will be ordered in FY2017
- US Navy supportive of 52 ship LCS program
  - Later ships likely to be “upgunned” as fast frigate, Austal is undertaking design work to modify LCS



# US Navy – Expeditionary Fast Transport



- 12 ship award to Austal valued at US\$2.2 billion (fully funded), securing work through to CY2022
- Program progressing well – matured into a phase of efficient production and predictable delivery
  - EPF 6 & 7 – delivered in FY2016
  - EPF 8 – completed acceptance trials
  - EPF 9 & 10 – under construction
  - EPF 11 & 12 – contract placed in September 2016
- US Navy interested in growing size and role of EPF fleet (strong potential for program expansion)



# Austal remains strongly positioned in US



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

Force structure review proposes to increase US Navy by 30% to 355 ships. New administration support strengthens LCS position.

Support business for LCS growing and likely to exceed \$100m revenue in FY2017. Margin improvement now apparent.

US Navy and Congress commitment appear to be focused on transition of vessel from LCS platform to frigate configuration. Will deal with criticism of lack of offensive capability on LCS.

FY2017

Appropriation of 3 additional LCS by Congress is likely post competition (between Austal and Lockheed Martin).

Alabama yard is most modern in the USA and directly employs circa 4500 people. Facility supports major fleet expansion ambitions of Navy & Congress.

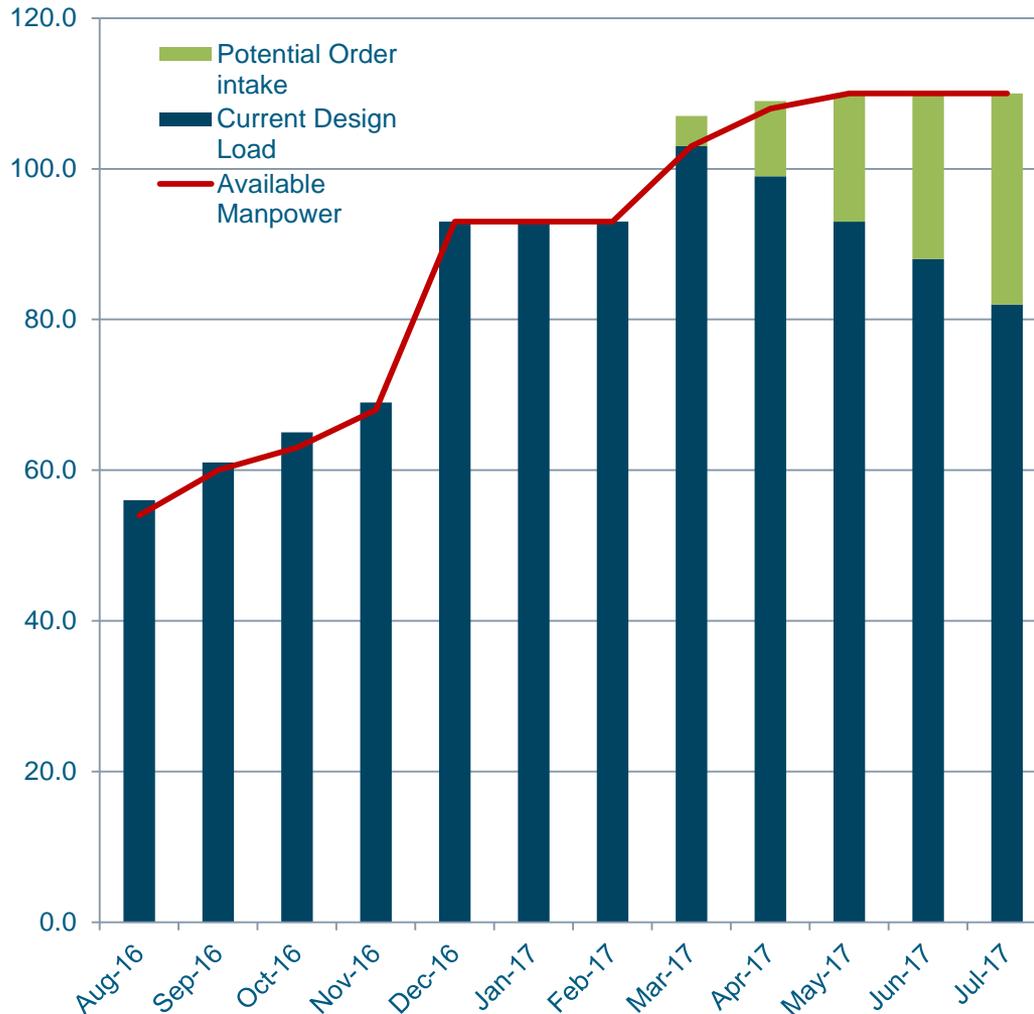
# Australia & Export Defence Contracts



# Design work load continues to increase for Australia and Philippines as new contracts are won



Full Time Equivalent Design personnel



- Design workload for new vessels has nearly trebled in last 12 months which is a strong lead indicator for shipyard activity
- Workload driven by new orders including PPB, 6 new ferry orders & sustainment increases
- Ferry enquiries at highest level since before GFC and further orders likely
- Preparing for potential pre contract design work on OPV as a schedule protection activity

# Pacific Patrol Boat (PPB) contract for Australia Government



- 19 x 37m Patrol Boats to be provided by Australia to 12 Pacific Island Nations
- Contract value \$305 million includes 5 years support awarded May 2016. Building Cairns base to deliver support
- Austal's first steel ship program extends company capability prior to bidding Offshore Patrol Vessels (OPV)
- Program successfully passed Defence department Detailed Design Review in February 2017 on time and to specification. Key transition to production
- Production commences in April 2017 with first delivery in October 2018 and final deliveries in 2023
- Austal is not recognising profit on this program until it matures.



# Offshore Patrol Vessels (OPV) contract for Royal Australian Navy



- Part of Royal Australia Navy re-equipping program, contract value circa \$3 billion (c \$1bn vessels plus support) over 12 years
- 60-80m steel patrol vessels of circa 2000 tonnes
  - Follows on from PPB steel making experience
- Constant base load for Henderson for 10 years (potentially 20 years with other opportunities) commencing CY2020 at approximately 50% current workload level
  - First 2 vessels to be built in South Australia commencing CY2018 with next 10 in Henderson from CY2020
- Henderson will also build defence exports and highly specified commercial vessels. OPV provides strong financial base on which to compete
- Austal has teamed with Fassmer of Germany who provide the high level design. Austal will carry out detail design, most procurement and all shipbuilding and testing
- Contract currently being bid with tender response end March 2017. Down select due August 2017, contract award December 2017. Construction start H1 CY2018 in Adelaide



# Military Export vessel pipeline reasonable although limited to Middle East



- Austal has been down selected in 2 overseas contracts and is actively engaged in one other major campaign in Middle East
- Nature of contracts makes predicting actual contractual order intake timing difficult
- HSSV vessel (EPF variant) developing as a strong product line and gaining support
- Government has significantly increased support for Australian defence exports. This is having an immediate impact and likely to improve Austal's ability to win



# Frigate Contract for Royal Australian Navy



- 9 Frigates to be built in existing site in South Australia commencing 2020 at circa 1 per year
- 3 foreign designs being considered from Navantia (Spain), Fincantieri (Italy) and BAE Systems (UK)
- Initial contract value circa \$10 billion plus support
- Shipbuilder could be the design company, ASC or Austal but government focus on building a 'Sovereign' shipbuilding capability suggests an Australian solution preferred
- Major opportunity for Austal to build on steel shipbuilding capability of PPB and OPV to become significant 'new world' defence shipyard
- Down select to 1 bidder expected early CY2018



**Future Frigate**

**BAE SYSTEMS**

**FINCANTIERI**



# Commercial Pipeline at strongest level since before 2008



- Six ferries sold in CY2016 exceeds 5 previous years combined
- Current fast ferry bidding pipeline now the strongest since before 2008
- Philippines needs throughput in excess of US\$60 million p.a. but ramp up means below that in FY2017
- Philippines shipyard getting high degree of focus based on near term potential
- Potential yard upgrades with additional build and launch facilities as pipeline materialises (reasonable confidence)
- Mols Linien ferry (circa \$90 million) commences build in Henderson in April 2017 delivery due early CY2019
- Austal investing in vessel R&D to continue to lead market. Mols Linien ferry sets new standard in weight and efficiency



# Systems and Support



- Austal has invested extensively in sustainment capability in USA, Australia and overseas with new people, facilities and systems. EBIT increasing to circa 15% of group total.
- USA:
  - Revenue expected to exceed \$100 million for the first time in FY2017
  - Margin on programs trending up as expected
- Australia:
  - CCPB sustainment for Border Force covers 8 ships plus 2 for Navy
  - PPB sustainment for Navy won and will start late 2018 for initial 5 years
  - Armidale Remediation (7 vessels) won and worth circa \$50 million until end 2017
  - Austal Darwin revenue has increased 26% year on year with near perfect on-time & cost performance. Austal Cairns also being developed to increase capability and to support PPB
- Footprint spanning Darwin, Henderson, Oman, Philippines and Singapore well positioned to support increasing regional forward deployment of LCS and EPF
- Turnover across group continues to increase significantly



# Strategy and Outlook



## Sustain the business

- Deliver our current programs to the high quality our customers expect from Austal
- Maintain a strong pipeline of future work for Austal's existing businesses based upon our industry leading Defence and Commercial product portfolio

## Strengthen the business

- Improve margins through procurement and production efficiencies without impacting safety and quality
- Invest in IT, upskilling staff, R&D and selected infrastructure to continue to differentiate Austal's shipbuilding model from competitors

## Diversify the business

- Grow annuity-style revenue by expanding our global support offering for Austal-built vessels
- Expand into selected new market segments where Austal quality and performance is a differentiator, e.g., high speed Oil & Gas crew transfer vessels

## Scale the business

- Position Austal for a leading role in upcoming major Navy programs in Australia including OPV & Frigate
- Increase export success by working with Australian government to engage purchasers

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

# Pipeline



## 1 United States Defence



- Strong potential to continue extending the LCS and EPF programs

## 2 Middle East Defence



- Exports from Austal's portfolio of aluminium high performance naval vessels including HSSV and CCPB variants

## 3 Australia Defence



- Steel vessels for the RAN's fleet renewal programs; PPB, OPV & Frigate including Austal build of 3<sup>rd</sup> party designs

## 4 Global Commercial



- Many opportunities in a resurgent global high speed ferry market
- Innovative new offering in the Oil & Gas crew transfer market

LCS program to stabilise and mature

Good opportunity for award of additional LCS and EPF

OPV for Australia being bid now, award expected end CY2017

Frigate programme is the major Australian opportunity

Export opportunities from Australian and Philippines shipyards at record levels compared to past decade

Naval support business in Australia & USA continuing to grow at double digit rates

Strong cash position funds growth in Australia (OPV), Philippines (commercial) and working capital (USA)

# Disclaimer

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