COMPANY ANNOUNCEMENT
26 FEBRUARY 2021

STRONGER SHIPBUILDING MARGINS DRIVE AUSTAL H1 EARNINGS TO $70.5 MILLION EBIT

AND CONFERENCE CALL DETAILS

SUMMARY:

- Revenue of $840.3 million (FY2020 H1: $1,038.8 million), down 19.1%
- EBIT of $70.5 million (FY2020 H1: $59.9 m), up 17.6%
- NPAT of $52.4 million (FY2020 H1: $40.8 m), up 28.7%
- Earnings growth driven by stronger shipbuilding margins in USA and Australasia
- Earnings per share of 14.6 cents (FY2020 H1: 11.5 cps), up 27.7%
- Retained strong net cash position[1] of $260.2 million (30 June 2020: $272.4 m net cash), even after $42.8 million of enhancing capital expenditure and $16.9 million in dividends
- Increased interim unfranked dividend to 4.0 cents per share (FY2020 Interim 3.0 cps)
- Numerous USA steel shipbuilding and maintenance support tender opportunities
- Growing pipeline of new defence vessel contracts across USA and Australasia
- FY2021 Revenue guidance of ~$1.65 billion[2] (previously ~$1.8 billion)
- Maintain FY2021 EBIT guidance of $125 million[2]

Austal Limited (**Austal**) (ASX:ASB) achieved another strong half of earnings, according to financial results for the six months ended 31 December 2020 (FY2021 H1) that were released by the Company today.

[1] Excluding the $(36.6) million notional debt of the Cape Class Patrol Boat 9 & 10 leasing program.
[2] Assumes USD / AUD of 0.77 for FY2021 H2

Austal Chief Executive Officer Paddy Gregg said: “The strong interim financial results were driven by excellent shipbuilding operating margins in both of our USA and Australasia operations, which flowed through to an enhanced bottom line.”

“This highlights the success of the pragmatic initiatives Austal has implemented to increase our efficiency, reduce our cost base and set the business up for sustained profitability.”

“Revenue was lower compared to the prior corresponding period, which was a product of a higher USD / AUD exchange rate, lower throughput in the USA, a reduction in Australasia commercial shipbuilding volume following the delivery of three large ferries and some COVID-19 delays.”

“Crucially, we have translated our robust earnings into strong operating cash flow, and maintained a healthy balance sheet, even as we invested cash into the future of our business through the MARRS acquisition in Mobile, conversion to steel shipbuilding in the United States, purchase of a dry dock launch facility for the Philippines and the BSE Maritime Solutions Group (BSE) acquisition in Australia.”

“Austal’s balance sheet strength has underpinned investments in new infrastructure and capabilities. We are now in an optimal position to pivot the business to capture new opportunities in USA steel shipbuilding and additional maintenance support contracts.”

“Our Australasia segment achieved an excellent financial result for the half, but needs to win new contracts to sustain that performance. It was pleasing to see Austal Vietnam successfully deliver its first vessel during the half, as well as the commencement of construction of another six Cape Class Patrol Boats for the Royal Australian Navy in Henderson, WA.”

FINANCIAL RESULTS

Austal generated $840.3 million revenue in FY2021 H1 (FY2020 H1: $1,038.8 million).
As noted above, Group revenue declined due to a number of factors, including an appreciation in the average USD / AUD exchange rate from 0.684 in FY2020 H1 to 0.724 in FY2021 H1, a reduction in USA throughput, a reduction in commercial shipbuilding following the delivery of three large ferries and COVID-19 travel impacts dampening sustainment activity in the USA and delaying the commissioning and delivery of vessels in Australasia.

Austal USA accounted for 76% of total revenue, with Australasia at 25%[3] (FY2020 H1: USA 77%, Australasia 23%). Shipbuilding accounted for ~ 84% of total revenue and support ~17%[3] (FY2020 H1: shipbuilding ~ 85%, support ~15%).

Austal reported a 17.6% increase in EBIT to $70.5 million (FY 2020 H1: $59.9 million), notwithstanding the decline in Revenue. The EBIT improvement was driven by improved shipbuilding margins in both the USA and Australasia, some of which are ongoing and others which were confined to this particular half. This was also reflected in the NPAT result of $52.4 million (FY2020 H1: $40.8 million), an increase of 28.7%.

Austal continues to navigate challenges created by COVID-19 which have included some short duration shutdowns; restrictions on the mobility of commissioning engineers; delays in supply chain logistics channels which ultimately resulted in delays to vessel deliveries; and travel restrictions which limited the ability to conduct maintenance support activities.

USA SEGMENT

Austal's USA segment reported revenue of $641.6 million down 20% (FY2020 H1: $804.6 million) and EBIT of $69.4 million up 6% (FY2020 H1: $65.6 million).

EBIT margin from USA grew to 10.8%, compared to 8.1% in the prior corresponding period, reflecting the segment's increasing proficiency in delivering the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) programs. The Company delivered its 13th LCS (LCS 26) and its 12th EPF (EPF 12) during the period.

EBIT from support work increased to $13.0 million in FY2021 H1, up by 6.2% on the prior corresponding period. FY2021 H1 EBIT margin was aided by the approval of US Navy incentives and additional funding that related to work undertaken in FY2020, and the reversal of a doubtful debt.

Austal acquired land, buildings and dry dock facilities from MARRS to expand its Mobile, Alabama, shipyard in August 2020 (refer to the ASX announcement dated 21 August 2020). The asset acquisition was funded by cash reserves for a consideration under US$10 million. The property and facilities on the Mobile River include a dry dock capable of launching heavier steel ships, which will support Austal's program to invest approximately US$100 million in building steel shipbuilding capability, up to US$50 million of which will be co-funded by the United States Government.

[3] Consolidation & Elimination entries account for (1%) to equal 100% in total.

AUSTRALASIA SEGMENT

Austal's Australasia segment reported revenue of $205.9 million down 15% (FY2020 H1: $240.7 million) and EBIT of $12.0 million up 45% (FY2020 H1: $8.2 million).

The decline in revenue reflected a reduction in throughput following the completion of three large ferries, all of which were delivered during the half.

Two large ferries were delivered from Henderson, WA, and Austal's Vietnam shipyard achieved a significant milestone during the half with the delivery of its first vessel, a 97 metre high speed ferry for Trinidad & Tobago.

Whilst overall segment revenue declined, EBIT increased as a result of improved shipbuilding margin from 2.4% in FY2020 H1 to 6.4% in FY2021 H1 as our Philippines and Vietnam operations matured and lower margin commercial vessels were completed in Australia.

The EBIT and EBIT margin increase in Australasia was propelled by improved efficiencies in the Guardian Patrol Boat Program (GCPB), operational excellence in constructing the Cape Class Patrol Boats (CCPB) and 97 m ferry for Trinidad & Tobago, and ramp of activities for the six new CCPB which will be constructed for the Royal Australian Navy. Austal delivered the 8th GCPB during FY2021 H1.

Support revenue increased 71.2%, from $30.8 million in FY2020 H1 to $52.7 million in FY2021 H1, stemming primarily from emergent work related to support of CCPB 1 – 10 and a small contribution from the BSE acquisition on 30 November 2020.

Austal announced an agreement to acquire the Australian-based BSE in October 2020. BSE is a leading ship repair and support business for defence, commercial, tourism, and luxury vessel customers, operating in Cairns and Brisbane. This aligns with Austal's strategy of continuing to build the Company's maintenance support business.

The broader macroeconomic and travel effects of the pandemic have dampened demand for commercial ferries in the past 12 months and the Company's sustainment services in the short to medium term.

The Company does however have a number of 'live' enquiries, principally from operators of Government-backed routes where logistics, rather than tourists, form the backbone of the vessels' operations.

CASH AND CAPITAL MANAGEMENT

Austal's cash at bank declined to $371.9 million (30 June 2020: $396.7 million), largely due to foreign exchange translation, with operating cash flow funding sustaining and enhancing capital expenditure and 5 cps of dividends paid within the half. This decrease in cash at bank was offset by a decrease in gross debt to $111.7 million (30 June 2020: $124.3 million) due to foreign exchange translation, resulting in Austal maintaining a strong net cash position of $260.2 million (30 June 2020: $272.4 million). This excludes the notional debt associated with the CCPB 9 & 10 leasing program as per reporting in prior periods.

This continued strong cash position and prudent capital management has enabled the ongoing payment of dividends, whilst ensuring Austal retains capacity to invest in the business for its next phase of growth.

Austal reported substantially higher operating cash flow of $93.5 million (FY2020 H1: $22.1 million). Cash generation is influenced by the timing of milestone cash payments from customers and therefore is prone to fluctuation between periods.

INTERIM DIVIDEND

Austal's Board has declared an interim unfranked dividend of 4 cents per share, which is a 33% increase over the FY2020 interim dividend. The franking position continues to reflect the predominance of Austal's earnings being generated in the USA (which do not generate franking credits).

The Board has determined to suspend the operation of the Company's Dividend Reinvestment Plan (DRP) until further notice in light of the Company's strong cash position. The DRP will therefore not apply to this interim dividend.

Details of key dates regarding the dividend are:

- Ex-dividend date: 17 March 2021
- Record date: 18 March 2021
- Payment date: 22 April 2021

OUTLOOK

Austal has maintained its October 2020 guidance for FY2021 EBIT of $125 million[4] and reduced revenue guidance to approximately $1.65 billion[4] as a result of the appreciating AUD, reduced USA Support activities and COVID-19 related program delays in Australasia.

Note that further appreciation of the USD / AUD exchange rate would likely require Austal to reassess its revenue and EBIT guidance.

Austal estimates that revenue associated with existing shipbuilding contracts plus the commencement of work on EPF 15 (funds recently appropriated but contract not yet awarded) plus Support revenue at FY2021 levels will total ~$1.4 billion in FY2022[4]. New shipbuilding contracts will add to that total.

Austal Chief Executive Officer Paddy Gregg said: "The Company has deployed capital in FY2021 H1 to make strategic investments in capability that will enhance Austal's ability to add to its healthy $2.9 billion order book in the short to medium-term".

"We are currently in an important phase in the continuing evolution of our business, with our balance sheet strength and emphasis on operational efficiency enabling us to expand our capabilities in tandem with growing existing segments."

"We have a strong balance sheet supporting investment in both organic and inorganic growth opportunities, the capability to build in both steel and aluminium, and we can deliver both shipbuilding and sustainment contracts. We are investing in R&D and are shaping the future of vessel manufacturing with concept vessels such as the Volta electric ship and exciting developments opportunities in advanced digital systems that not only make us more efficient but provide an opportunity to sell these systems to other customers."

"These initiatives are important as we seek to replace the LCS shipbuilding program which completes in 2024, and expand our sustainment business, particularly in the USA."

"COVID has caused some uncertainty in the Commercial ferry market but this is a relatively small component of our revenue base. We are well placed to be very competitive on the pipeline of opportunities being pursued after transferring our commercial shipbuilding operations to the Philippines and Vietnam."

[4] Assumes USD / AUD of 0.77 for FY2021 H2

"One of our key investments is the creation of steel shipbuilding capability in the United States, after the US Government agreed in June 2020 to invest up to US$50 million in Austal USA's manufacturing facilities, matching our own expenditure. We look forward to seeing a return on the steel shipbuilding investment with numerous major steel shipbuilding programs included in the US Navy's shipbuilding plan."

-Ends-

This announcement was approved for release by the Austal Limited Board of Directors.

CONFERENCE CALL

Austal Chief Executive Officer Paddy Gregg and Chief Financial Officer Greg Jason will hold an analyst and investor conference call to discuss the Company's FY2021 H1 results.

Conference call details:

Date:	Friday, 26 February 2021
Time:	7:30am Perth time (AWST) / 10:30am Sydney time (AEDT)
Pre-Registration Link:	https://s1.c-conf.com/diamondpass/10012225-clk9cr.html
Conference ID:	10012225

Dial-in details:

Please click on the pre-registration link and follow the steps to enter your details. A calendar invite will then be sent to you with dial in details and a unique code to be quoted when dialling into the call. Preregistration gives you immediate access on the day with no need to wait for an operator.

An archived copy of the call will be available shortly after the conclusion of the call via http://www.openbriefing.com/OB/4130.aspx

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About Austal

Austal is Australia's global shipbuilder and defence prime contractor designing, constructing and sustaining some of the world's most advanced commercial and defence vessels. For more than 30 years Austal has contracted more than 300 vessels for over 100 commercial and defence operators in 54 countries, worldwide. Austal is Australia's first ASX-listed shipbuilder and the world's largest aluminium shipbuilder. Austal has industry-leading shipyards in Australia, the United States of America, Philippines and Vietnam with service centres worldwide, including the Middle East. Austal delivers iconic monohull, catamaran and trimaran commercial vessel platforms – including the world's largest trimaran ferry and multiple defence programs such as the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) for the United States Navy.