

# Austal Limited FY2015 H1



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**Andrew Bellamy, Chief Executive Officer**  
**Greg Jason, Chief Financial Officer**

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# Highlights



## Financial

- **Revenue:** \$680.2 million
- **EBIT:** \$45.0 million (\$33.7 million underlying)
- **NPAT:** \$28.9 million (\$21.0 million underlying)
- **Cash:** \$118.0 million of operating cash flow with net cash position of \$15.6 million at 31 December 2014
- **Dividend:** Interim dividend of 1.0 cent per share fully franked

## Operational

- **Diversity:** All business units grew revenue with Australia delivering significantly improved margin performance
- **Maturity of programs:** Supported by further operational improvements and strong asset utilisation
- **Order book:** \$2.6 billion, securing work through CY2018

## Outlook

- **Strategy:** Stabilise shipbuilding margins, extend vessel pipeline for long-term revenue, and expand service business
- **Growth opportunities:** Middle East and Australia focus

# Objectives for sustained growth



## Strengthen operations and balance sheet

- Shipbuilding margin achieved
- Successfully applied learning from first-in-class vessels
- Won new programs by leveraging off existing vessels
- Strong cash generation used to strengthen balance sheet

**Delivered**

## Ongoing objectives

- Maintain cash generation to support programs and dividends
- Reduce debt
- Deliver on maturing programs and exploit learning from first in class ships
- Extend existing program pipeline

**Priority**

## Target opportunities

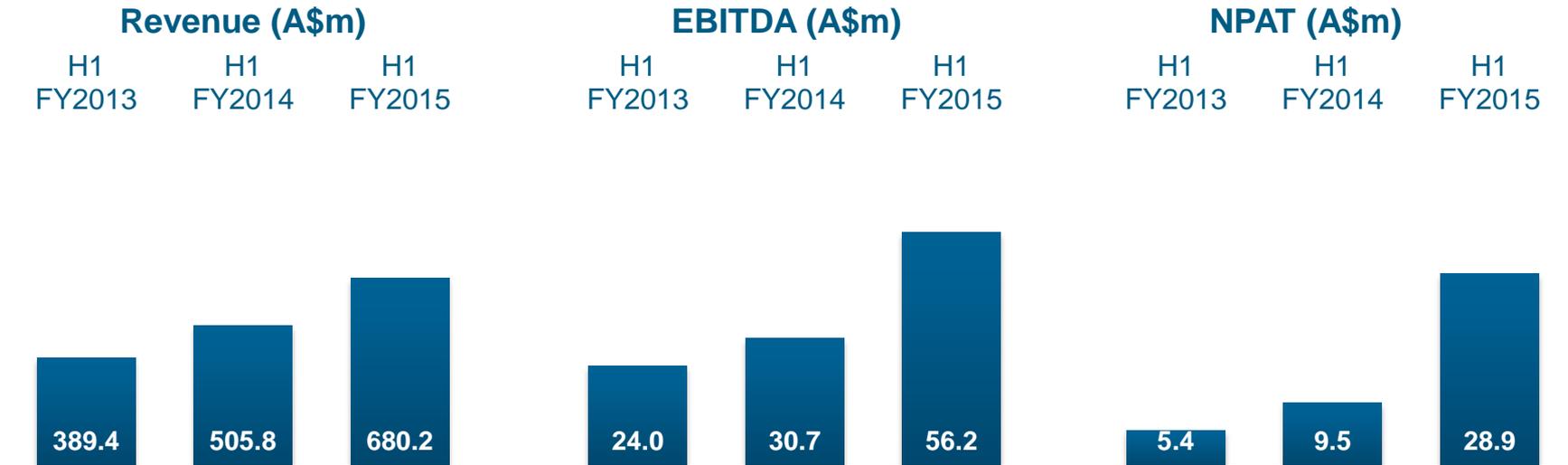
- Invest in R&D to grow intellectual property base
- Refresh product range to deliver increased capability
- Grow long term support and engineering services business

**Focus**

# Revenue and earnings growth



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On track to meet revenue guidance of \$1.2 billion

FY2015 H1 earnings included non-cash foreign exchange in relation to revaluation of intercompany loans

# Financials



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# Earnings summary



Income statement	H1 FY2015 (A\$m)	H1 FY2014 (A\$m)	H1 FY2013 (A\$m)
Revenue	680.2	505.8	389.4
EBITDA	56.2	30.7	24.0
- Underlying	44.9	37.7	28.4
EBIT	45.0	18.7	12.6
- Underlying	33.7	25.7	17.0
NPAT	28.9	9.5	5.4
- Underlying	21.0	14.4	8.5

- Record revenue grew 34% over Prior Corresponding Period driven by increased production throughput and favourable foreign exchange translation of USA and Philippines results
- Underlying EBITDA was \$44.9 million after excluding non cash foreign exchange gains from revaluation of intercompany loans
- EBIT margin increased from 3.7% PCP to 6.6%
- 57% reduction in net interest expense as balance sheet strengthened by debt reduction

# Foreign exchange considerations



## Competitiveness

- Appreciation of the USD increases competitiveness
  - Reduces the cost of foreign inputs in the USA for future contracts
  - Reduces price of Australian exports

## Hedging policy

- Austal hedges 100% of committed foreign currency exposures including cost inputs and contracted receipts
  - Volatility in exchange rates has no impact on contracted projects

## Profit translation

- Appreciation of the USD increases profit translation to AUD
  - FY2015 H1 effective translation rate was 0.8725 due to time phasing of earnings

## Inter-company loans

- USD 64.4 million of USD inter-company loans to USA
  - FY2015 H1 non cash mark to market EBIT benefit of \$11.3 million
  - Considering conversion of inter-company debt to equity

# Cash and debt



Cash flow	FY2015 H1 (A\$m)	FY2014 H1 (A\$m)	FY2013 H1 (A\$m)
Operating	118.0	43.6	(20.9)
Investing	(3.6)	(2.0)	(6.6)
Financing	(38.4)	(34.2)	86.5
Net increase	76.0	7.4	59.0

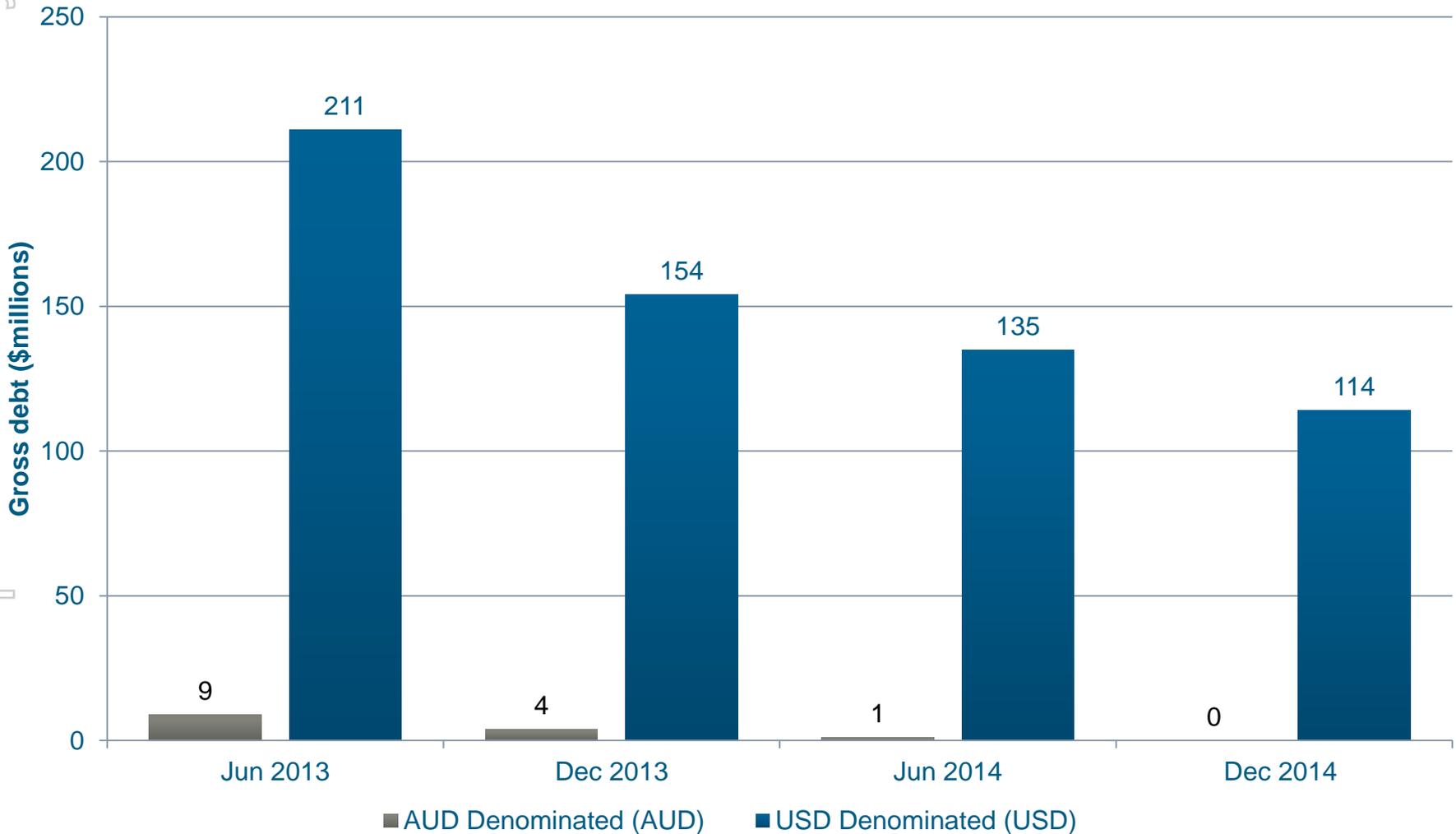
Cash / (debt)	Dec 2014	June 2014	Dec 2013
Net cash / (debt)	15.6	(68.6)	(100.3)

- Operating cash flow was 170% higher than the PCP
- Finalisation of the sale of Hull 270 contributed \$54.1 million to operating cash flow
- Significant repayment of debt
- \$84.2 million improvement in net debt / cash to close the period in a net cash position
- Austal does not expect to consistently maintain a net cash position due to timing differences between progress payment profiles on vessel contracts and cash costs of construction

# Discipline in long-term debt reduction



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# Segment breakdown



	(\$m)	Ships	Systems	Support	Other <sup>1</sup>	Total
<b>USA</b>	Revenue	400.8	80.4	17.2	-	<b>498.4</b>
	EBIT	31.4	1.2	(1.6)	(3.6)	<b>27.4</b>
	EBIT Margin%	7.8	1.5	(9.7)	-	<b>5.5</b>
<b>Australia</b>	Revenue	87.8	-	22.2	-	<b>110.0</b>
	EBIT	11.8	-	2.9	(0.2)	<b>14.5</b>
	EBIT Margin%	13.4	-	13.1	-	<b>13.2</b>
<b>Philippines</b>	Revenue	14.9	-	5.4	-	<b>20.3</b>
	EBIT	1.6	-	0.3	-	<b>1.9</b>
	EBIT Margin%	10.5	-	6.0	-	<b>9.3</b>

- **Ships:** Margins within or exceeding target range with very strong performance in Australia
- **Systems:** USA sub-contracts most system integration activity at low margin
- **Support:** Australia margin normalised. USA impacted by write-down of obsolete parts

<sup>1</sup> unallocated overhead targeting growth

# Operations update



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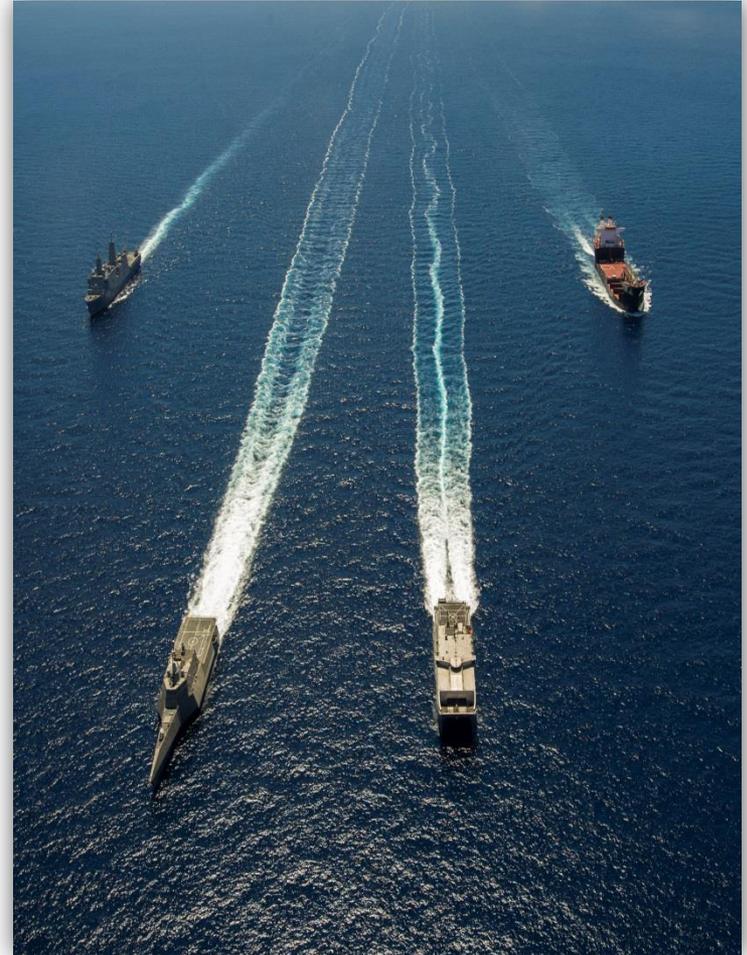


# Order book



Order book of \$2.6 billion as at 31 December 2014 secures revenue through CY2018, including:

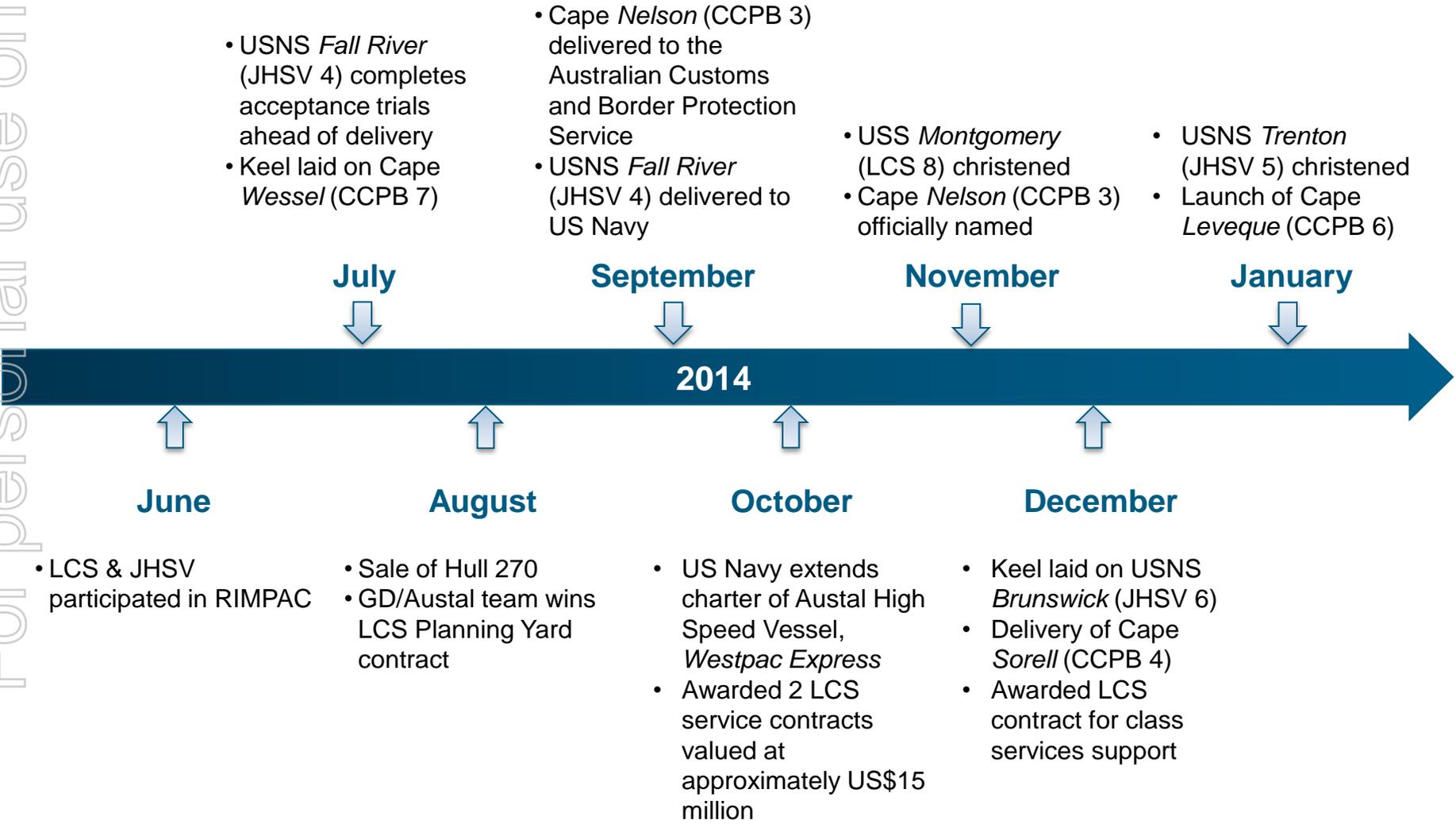
- **10 Littoral Combat Ships for US Navy**  
8 funded (out of 10 vessel contract)
- **10 Joint High Speed Vessels for US Navy**  
Fully funded, with 4 delivered (out of 10 vessel contract)
- **8 Cape Class Patrol Boats for Australian Customs and Border Protection**  
Fully funded, with 4 delivered (out of 8 vessel contract), plus through-life support
- **2 High Speed Support Vessels for Royal Navy of Oman**  
Fully funded, construction commenced this year
- **Commercial vessels**  
2 high speed catamaran ferries



# Progress across the business



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# US Navy – Littoral Combat Ship

10 ship contract awarded as prime contractor, worth US\$3.5 billion – 8 fully funded, with at least 1 more expected to be funded in CY2015 Q1

2 LCS constructed and delivered by Austal for GD (LCS 2 and LCS 4)

Program maturing

- LCS 6 launched and christened – first vessel as prime contractor
- Schedule pressure on LCS 6
- LCS 8, 10, 12, and 14 under construction

LCS program expected to be 52 ships

- Later ships will be “upgunned” as future frigate
- Dual source acquisition strategy likely to continue



# US Navy – Joint High Speed Vessel



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

- JHSV 1, 2, 3 & 4 – delivered
- JHSV 5 christened
- JHSV 6 & 7 – under construction

Performance is generating interest in the US (strong potential for program expansion), while variants are gaining traction in the Middle East

Potential for JHSV 11 to be awarded in CY2015



# 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

Additional opportunities for through-life support on LCS and JHSV continue to develop

US Navy confirmed intent to upgrade LCS beyond ship 32 as future frigate

LCS and future frigate program expected to be 52 ships – rate of acquisition will be decided by Congress

LCS variants attractive to international market through US Foreign Military Sales

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# 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 Customs and Border Protection Service

➤ Program has matured significantly, with efficient productions driving margin growth

- Delivery between March 2013 and August 2015
- Delivered CCPB 1, 2, 3 & 4
- Remaining vessels all under construction

➤ Opportunities exist for new contracts at home and abroad



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# 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 has commenced 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 JHSV program

Strategy demonstrated of leveraging Austal's intellectual property and technology to new defence markets



# Philippines

\$30 million contract from the Abu Dhabi National Oil Company to design and construct two 45 metre high speed catamaran ferries

- Construction has commenced with delivery expected in CY2015

Contract for customisation of Hull 270 worth approximately \$6 million

21 metre windfarm vessel delivered to Turbine Transfers in October 2014

Small components supply to Australian operations

New contract required in FY2015 H2 to ensure follow on work



# Systems and Support

▶ Austal has established a global footprint, strategic partnerships and the IP to provide through life support for defence vessels

▶ Australian support business delivering consistent performance

▶ US support business growing but ongoing investment needed

- Planning Yard contract awarded to GD/Austal team in August 2014 with potential value of US\$100 million
- 2 LCS service contracts awarded in October and x1 in December 2014
- LCS sustainment contract decision delayed until FY2015 H2



# Outlook



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## United States

- Leverage off learning from first in class vessels
- Augment contracts with service and support work
- Extend pipeline beyond existing contract awards

## Australia

- Maturing of Cape Class Patrol Boat program
- Target construction and support opportunities in defence vessels for export markets
- Develop home market strategy towards future Navy programs

## Philippines

- Build commercial shipbuilding capability to position Austal for market opportunities
- Establish design capability
- Explore further integration of supply chain with other divisions, including providing small components

**Operational improvements, diversity of vessel programs, and longevity of contracts providing strong cash generation and increasing return on capital**

# Pipeline for vessel programs



Pursuing opportunities to grow order book and secure additional long-term revenue

## Target markets

- **US:** potential to extend existing LCS and JHSV programs
- **Australia:** replacement of Navy vessels including patrol boats and future frigates
- **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
- Patrol boats developed from experience with Bay, Armidale and Cape class vessels
- High speed support vessels developed from Westpac Express and JHSV
- Commercial vessels: potential new market for LNG-powered ferries

\$1.2bn revenue guidance for FY2015

Focus on ship construction profit margins, augmented by an increase in support work

Diversity and long-term nature of vessel programs provides visibility on earnings and strong cash outlook

Research and development to increase platform capability to drive new demand for current ships and variant models

Prudent cash management to ensure appropriate capital structure supported by refinancing in CY2015

Pursuing variant-style defence vessel contracts in export markets, with particularly strong opportunities in the Middle East

# Disclaimer



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