Macquarie Western Australia Forum

Andrew Bellamy, Chief Executive Officer

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Austal overview

Founded in 1988 and listed on the Australian Stock Exchange in 1998, Austal is a leading defence prime contractor, specializing in the design, construction and maintenance of high performance vessels for defence and commercial purposes.

- Austal has a global footprint with strategically located shipyards and service facilities:
  - Australia
  - United States
  - Europe
  - Caribbean
  - Middle East
  - Asia

- Austal comprises three product platforms: Ships • Systems • Support
Highlights

Financial

- **Revenue**: $1.1 billion, exceeding guidance
- **EBIT**: $56m ($65m underlying)
- **NPAT**: $32m ($39m underlying)
- **Net Debt**: Reduced by 50% in FY2014 to be below $70m

Operational

- **Diversity**: Stronger earnings contribution across the business reducing reliance on any one vessel program, with group underlying EBIT margin growing to 5.8%
- **Maturity of programs**: Supported by further operational improvements and strong asset utilisation
- **Order book**: $2.6bn as at 30 September 2014

Outlook

- **Strategy**: Margin growth, securing vessel pipeline for long-term revenue, and expand service and systems
- **Growth opportunities**: Targeting the Middle East
- **Cash**: Payment profile on long-term programs expected to provide strong cashflow and near term dividend
**Underlying results**

<table>
<thead>
<tr>
<th></th>
<th>FY2013</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (A$m)</td>
<td>899.5</td>
<td>1,122.9</td>
</tr>
<tr>
<td>EBITDA (A$m)</td>
<td>67.0</td>
<td>89.1</td>
</tr>
<tr>
<td>NPAT (A$m)</td>
<td>27.8</td>
<td>38.7</td>
</tr>
</tbody>
</table>

*Underlying results exclude items related to stock vessels, land sales and other abnormal activities.*
Objectives for sustained growth

Strengthen operations and balance sheet

- Shipbuilding margin achieved
- Successfully delivered first-in-class vessels
- Won new programs by leveraging off existing vessels
- Strong cash position used to strengthen balance sheet

Delivered

Ongoing objectives

- Maintain cash generation to support programs and dividends
- Deliver on maturing programs
- 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
Financials
Underlying earnings summary

<table>
<thead>
<tr>
<th>Income statement</th>
<th>FY2014 (A$m)</th>
<th>FY2013 (A$m)</th>
<th>Change (A$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,122.9</td>
<td>899.5</td>
<td>+223.4</td>
</tr>
<tr>
<td>EBITDA</td>
<td>89.1¹</td>
<td>67.0²</td>
<td>+22.1</td>
</tr>
<tr>
<td>EBIT</td>
<td>65.3¹</td>
<td>42.5²</td>
<td>+22.8</td>
</tr>
<tr>
<td>NPAT</td>
<td>38.7³</td>
<td>27.8⁴</td>
<td>+10.9</td>
</tr>
<tr>
<td>Underlying EPS</td>
<td>11¢ per share</td>
<td>9¢ per share</td>
<td>+2¢ per share</td>
</tr>
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</table>

- Underlying EBITDA grew 33% to $89.1m from $67.0m in FY2013
- **USA:** EBIT margin was 8.3% in FY2014 after excluding Systems and Support activities.
- **Australia:** Strong improvement in EBIT margin from 0.0% FY2013 to 6.9% FY2014 through maturing of Cape Class program and consolidation of service division
- **Philippines:** Remains sensitive to throughput – productivity improvements at shipyard and scope to support other divisions

¹ FY2014 underlying EBIT and EBITDA excludes write down of WIP ($13.4 million) and profit on sale of Henderson facility ($3.6 million).
² FY2013 underlying EBIT and EBITDA excludes the loss on the stock yacht ($4.4 million).
³ FY2014 underlying NPAT excludes write down of WIP ($9.4 million) and profit on sale of Henderson facility ($2.5 million).
⁴ FY2013 underlying NPAT excludes research and development tax benefit ($11 million) and loss on stock yacht ($3.1 million).

SHIPS • SYSTEMS • SUPPORT
## Segment breakdown

<table>
<thead>
<tr>
<th></th>
<th>($m)</th>
<th>Ships</th>
<th>Systems</th>
<th>Support</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td><strong>USA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>744.3</td>
<td>144.9</td>
<td>44.4</td>
<td></td>
<td>933.6</td>
</tr>
<tr>
<td>EBIT</td>
<td>61.5</td>
<td>(0.8)</td>
<td>1.0</td>
<td></td>
<td>61.7</td>
</tr>
<tr>
<td>EBIT Margin%</td>
<td>8.3</td>
<td>-</td>
<td>2.3</td>
<td></td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>192.9</td>
<td>1.0</td>
<td>48.0</td>
<td></td>
<td>241.9</td>
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<tr>
<td>EBIT</td>
<td>9.2</td>
<td>(1.1)</td>
<td>8.6</td>
<td></td>
<td>16.7</td>
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<tr>
<td>EBIT Margin%</td>
<td>4.8</td>
<td>-</td>
<td>17.9</td>
<td></td>
<td>6.9</td>
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<tr>
<td><strong>Philippines</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>33.4</td>
<td>-</td>
<td>0.4</td>
<td></td>
<td>33.8</td>
</tr>
<tr>
<td>EBIT</td>
<td>2.7</td>
<td>-</td>
<td>0.0</td>
<td></td>
<td>2.7</td>
</tr>
<tr>
<td>EBIT Margin%</td>
<td>8.1</td>
<td>-</td>
<td>0.0</td>
<td></td>
<td>8.0</td>
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</table>

- USA ship building margin grew from 7% to 8.3% year on year. Revenue increased from $600.3 million to $744.3 million.
Cash generation bolstering balance sheet

- $44.6m cash generated from operations in FY2014
- Net debt reduced by $68.5m in FY2014 increasing balance sheet strength
- Higher EBITDA and lower net debt has significantly reduced the leverage ratio
- Surplus asset sales generating additional cash
  - Sale of satellite service base in Henderson – funds reduced debt by $17.1m in FY2014
  - Sale of stock boat completed in August 2014. Net proceeds (after tax) will be used to pay down debt
- Capex limited to $13.2m in FY2014. Forecast approximately $20m in FY2015

Leverage ratio = Net debt / last 12 months EBITDA
Discipline in long-term debt reduction

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<tr>
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<th>AUD Denominated (AUD)</th>
<th>USD Denominated (USD)</th>
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<tbody>
<tr>
<td>Dec 2012</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Jun 2013</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Dec 2013</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Jun 2014</td>
<td>1</td>
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Gross debt ($millions)

Dec 2012: 19
Jun 2013: 9
Dec 2013: 4
Jun 2014: 1
Order book of $2.6 billion as at 30 September secures revenue through CY2018, including:

- **10 Littoral Combat Ships for US Navy**
  x8 funded (out of 10 vessel contract)

- **10 Joint High Speed Vessels for US Navy**
  Fully funded, with x4 delivered (out of 10 vessel contract)

- **8 Cape Class Patrol Boats for Australian Customs and Border Protection**
  Fully funded, with x3 delivered (out of 8 vessel contract), plus through-life support

- **2 High Speed Support Vessels for Royal Navy of Oman**
  Fully funded, construction commencing this year

- **Commercial vessels**
  x2 45 metre high speed catamaran ferries
Progress across the business

- **March**
  - Contract for two HSSV for Royal Navy of Oman
  - Funding for Austal’s seventh and eighth LCS appropriated
  - **USNS Millinocket** (JHSV 3) delivered to US Navy

- **April**
  - Awarded $30 million contract to design and construct two 45m high speed catamaran ferries for Abu Dhabi National Oil Company

- **May**
  - **Cape Byron** (CCPB 2) delivered early to the Australian Customs and Border Protection Service
  - **USNS Fall River** (JHSV 4) completes acceptance trials ahead of delivery
  - Keel laid on **Cape Wessel** (CCPB 7)

- **June**
  - LCS & JHSV participated in RIMPAC

- **July**
  - Sale of Hull 270 stock boat
  - GD/Austal team wins LCS Planning Yard contract

- **August**
  - US Navy extends charter of Austal High Speed Vessel, **Westpac Express**
  - Awarded x2 LCS service contracts valued at approximately US$15 million

- **September**
  - **Cape Nelson** (CCPB 3) delivered to the Australian Customs and Boarder Protection Service
  - **USNS Fall River** (JHSV 4) delivered to US Navy

- **October**
  - GD/Austal team wins LCS Planning Yard contract
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 Q1 CY15

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

- Program maturing well:
  - LCS 6 launched and christened – first vessel as prime contractor
  - LCS 8, 10, 12, and 14 under construction

- LCS program expected to be 52 ships-acquisition plan to become clear in medium term
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 - launched
  - JHSV 6 & 7 – under construction

- Performance is generating interest in the US (strong potential for program expansion), while variants are gaining traction in Middle East
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, with Austal-built LCS and JHSV involved in 2014 US Rim of the Pacific naval exercise
- Additional opportunities for through-life support on LCS and JHSV (e.g. support contract on LCS 6) Planning Yard Contract
- LCS program expected to be 52 ships – speed and quantum will be decided by Congress
- US Navy examining upgrade to LCS that enhance capability of vessel
- LCS variants attractive to US Navy and international market
Australia – Cape Class

- $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 expected to drive margin growth:
  - Delivery between March 2013 and August 2015
  - Delivered CCPB 1, 2 & 3
  - Remaining vessels all under construction

- Opportunities exist for new contracts at home and abroad
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:
  - Final vessel to be delivered in CY2016

- Deployed with a similar mission to the JHSV

- 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; 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
Austal has established a global footprint, strategic partnerships and the IP to provide through life support for defence vessels such as the LCS, JHSV and CCPB.

US support business growing profitably and will benefit from Planning Yard agreement with General Dynamics:

- Planning Yard contract awarded to GD/Austal team in August 2014 with potential value of US$100 million
- x2 LCS service contracts awarded in October 2014
Outlook
Strategy

United States
- Vessel programs maturing and stabilised work force
- Augment contracts with service and support work
- Extend pipeline beyond existing contract awards

Australia
- Maturing of Cape Class Patrol Boats program
- Target construction and support opportunities in defence vessels, including in Australia and variants for export markets
- Progress made in integration of supply chain with Philippines – opportunity to develop further

Philippines
- Build commercial shipbuilding capability to position Austal for market opportunities
- Upskilling of workforce to be more productive and remain flexible according to market potential
- 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

- Austal pursuing opportunities to grow order book and secure additional long-term revenue – focus on medium-term shipyard capacity

## Target markets

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<tr>
<td><strong>US</strong>: potential to extend existing LCS and JHSV programs</td>
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<tr>
<td><strong>Australia</strong>: replacement of Navy and Pacific and patrol boats</td>
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<tr>
<td><strong>Middle East</strong>: opportunity for small frigates, support vessels and patrol boats</td>
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<tr>
<td><strong>Europe and Asia Pacific</strong>: Commercial vessels and work boats</td>
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## Vessels

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<tbody>
<tr>
<td>Small frigate evolved from modified Littoral Combat Ship</td>
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<td>Patrol boats developed from experience with Bay, Armidale and Cape class</td>
<td></td>
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<tr>
<td>High speed support vessels developed from Westpac Express and JHSV</td>
<td></td>
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<tr>
<td>Commercial vessels: potential new market for LNG-powered ferries</td>
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</table>
Austal’s design of a smaller frigate-size multi-mission combatant that has significant capability and lethality.
Cape-variant patrol boat for Australian Navy
Outlook

- $1.2bn revenue guidance for FY2015
- Continue progressive growth in profit margins on ship construction, 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 financial structure – ongoing strong cashflow provides dividend potential in near-term
- Pursuing variant-style defence vessel contracts in export markets, with particularly strong opportunities in the Middle East
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