



COMPANY ANNOUNCEMENT
28 FEBRUARY 2019

**STRONG RESULT WITH \$100M CASHFLOW,
RECORD \$5.2B ORDER BOOK**

FY2019 H1 Summary:

- Revenue of \$851.5 million (FY2018 H1: \$650.3 million), up 31%
- EBIT of \$40.4 million (FY2018 H1: \$26.5 million), up 52%
- NPAT of \$23.7 million (FY2018 H1: \$23.2 million), up 2%
 - FY2018 H1 benefited from lower tax expense as a result of restating deferred tax assets and liabilities due to US tax reform.
- Earnings growth driven by broad based performance improvement and underpinned by 7.1% shipbuilding margin on US Navy programs
- Strong cash generation, with positive operating cash flow of \$101.9 million (FY2018 H1: \$(16.9) million negative operating cash flow)
- Net cash¹ position of \$107.4 million (31 December 2017: \$(10.8) million net debt)
- Increased interim dividend to 3.0 cents per share, unfranked (FY2018 H1: 2.0 cents per share, unfranked)
- 47 vessels on order across five shipyards in the USA, Australia, Philippines, Vietnam, and China, plus 20 vessels currently under sustainment or refurbishment, supporting FY2019 revenue guidance of approximately \$1.9 billion
- Record \$5.2 billion order book securing work to 2025 (31 December 2017: \$3.4 billion)

Austal Limited (**Austal**) (ASX:ASB) has grown revenue and EBIT by more than 30 per cent and delivered strong operating cash generation of more than \$100 million for the six months ended 31 December 2018 (FY2019 H1).

¹ Note: excluding the impact of the Cape Class Patrol Boat 9 & 10 leasing program.

The half year result was driven by continuing improvements across the Company's US Navy shipbuilding programs, as well as greater throughput in commercial ferry contracts and, importantly, significant growth across Austal's US support business.

Austal generated \$851.5 million revenue across its shipyards, with Australasia making up 20 per cent of revenue – reflecting the benefit of investments made to expand capacity across the segment.

Earnings Before Interest and Tax (EBIT) was up 52 per cent, underpinned by US shipbuilding margin of 7.1 per cent (FY2018 H1: 6.3 per cent margin). Net Profit After Tax was \$23.7 million, slightly higher than the prior corresponding period, noting that FY2018 H1 included the benefit of a credit to USA deferred tax expense due to US tax reform that became effective 1 January 2018. The effective rate of income tax for FY2019 H1 was 35% however cash tax relating to the period is estimated to be lower than 10% as a result of utilising carry forward tax credits in the USA when the full year income tax return is completed.

Austal Chief Executive Officer David Singleton said: "Austal has delivered strong revenue and earnings in the half but what is even more pleasing is what lies beneath those headline numbers."

"For example, Austal generated more than \$100 million in operating cash flow, enabling us to increase interim dividends and provide scope to further invest in long-term business growth following the recent expansion of our commercial shipbuilding capabilities in Australasia. This includes targeting the significant opportunities to grow our service and sustainment support capabilities in the Pacific rim, as an increasing number of Austal designed and built US Navy vessels are deployed and operate for decades to come."

"We were awarded contracts for 4 additional LCS following a competitive tender process, bringing the total number of ships currently under construction or scheduled to be built to 47 and valuing our order book at a record \$5.2 billion, up more than 54 per cent from a year ago."

"Our US support business has continued to expand with 51 per cent revenue growth compared to FY2018 H1, continuing the momentum towards meeting our key strategic objective of building stable, long-term, annuity-style income that complements our shipbuilding business."

SEGMENT RESULTS

USA

The US segment continued to perform strongly, reporting revenue of \$687 million (FY2018 H1: \$555 million) and an EBIT of \$49.1 million (FY2018 H1: \$33.5 million). Austal USA was awarded contracts to construct four Independence-class LCS in FY2019 H1. This increases the total number of Austal LCS ordered by the US Navy to 19, of which 9 have been delivered. Austal was also awarded funding to procure long lead-time items for EPF 13 and 14.

The combined shipbuilding margin on the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) programs rose from 6.3 per cent in FY2018 H1 to 7.1 per cent in FY2019 H1, within the Company's FY2019 guidance of 7–8 per cent.

Australasia

Austal's Australasia segment reported revenue of \$169.7 million (FY2018 H1: \$98.4 million) and EBIT of \$4.1 million (FY2018 H1: \$(1.1) million EBIT loss).

Austal has combined financial reporting of its Australia and Asia segments given the integrated relationship of the shipyards in the region, with the number and nature of commercial shipbuilding contracts sharing design, component manufacturing, and construction processes across the region making separate division results impractical. Austal USA operates as a separate division of the Company and will continue to be reported as its own segment.

Throughput across Australasia increased during the period as the Company worked on ~ \$660 million of commercial ferry contracts. Austal delivered the first of 21 Guardian Class Patrol Boats (GCPB) in December 2018. Austal expects to generate increasing efficiencies as the program matures at full rate production. Austal also delivered its largest ever commercial ferry (by volume) from Henderson, Western Australia, in January 2019 under a A\$109 million contract.

Austal is scheduled to complete the construction of expanded facilities in the Philippines which have been focused on trebling construction capacity and to provide the capability to build the largest ferries (+100m) in Austal's portfolio. The expanded facilities at the Philippines yard are now in use with the upgrades being finalised. A new, purpose built, leased facility in Vietnam is now operating.

CASH AND CAPITAL MANAGEMENT

Austal generated significant operational cash flow of \$101.9 million in FY2019 H1 (FY2018 H1: \$(16.9) million negative operational cash flow), which supported an increased interim dividend of 3.0 cents per share (up from 2 cents per share in FY2018 H1). Importantly, Austal has now generated approximately \$342 million operating cash flow over the past five and a half years.

Austal expanded its cash at bank balance to \$233 million (30 June 2018: \$162 million) and ended the six-month period in a net cash position of \$107.4 million, a major improvement on a year earlier (31 December 2017: \$(10.8) million net debt). Austal's stated net cash position excludes the impact of the Cape Class Patrol Boat 9 & 10 leasing program, whereby the financial treatment of the residual value guarantee reduces the net cash by \$(53.0) million to a net cash position of \$54.4 million at 31 December 2018 (31 December 2018: \$(72.0) million net debt position).

Operating cash flow in FY2019 H1 benefited from the liberation of cash arising from the delivery of vessels in the USA, as well as the receipt of progress payments in advance for multiple commercial vessels on order. FY2019 H2 cash flow will be negatively impacted by the utilisation of those progress payments in vessel construction as well as the completion of the capital expenditures relating to the expansion of the Philippines. Austal anticipates that the cash balance at 30 June 2019 will be relatively unchanged from the 31 December 2018 balance, subject to typical fluctuations in working capital.

Austal refinanced a \$61.7 million tranche of the Company's Go Zone Bonds during FY2019 H1. The refinanced tranche represents 50% of the total Go Zone Bonds on issue. The refinancing was completed on the same terms as the existing syndicated facility agreement and extended maturity to 1 May 2021, in line with the maturity profile for a letter of credit securing the other 50% of the Company's Go Zone Bonds.

INTERIM DIVIDEND

Austal's Board has declared an interim dividend of 3 cents per share, unfranked. The franking position is in line with the FY2018 interim dividend and reflects the predominance of Austal's earnings being generated in the USA (which do not generate franking credits). In addition, the utilisation of carry forward losses and credits will offset tax liability in Australia for several years.

Details of key dates regarding the dividend are:

- Ex-dividend date: Tuesday, 19 March 2019
- Record date: Wednesday, 20 March 2019
- Payment date: Wednesday, 17 April 2019

Shareholders may reinvest dividends in accordance with the dividend reinvestment plan established in February 2015. Further details are set out later in this announcement.

CORPORATE UPDATE

Regulatory investigations

Austal advised investors on 24 & 29 January 2019 that it was co-operating with an ASIC investigation into market disclosures in late 2015 and mid-2016, and with US authorities on separate but related investigations and associated legal processes in relation to the LCS program.

In particular, ASIC is investigating the calculation of earnings from 2009 to 2017 and whether the Company sought to attribute cost increases to the additional construction costs required to meet US naval vessel rules and ability to withstand shock, when other factors such as adjustments to estimates at completion had a greater impact.

The US investigations appear to be principally focussed on cost allocation and profit reporting to the Australian parent, as well as certain procurement measures at its US shipyard. Some of these issues have been the subject of previous investigations and audits, with no adverse findings against the Company.

The Company rejects these assertions and will continue to engage with investigators, legal authorities and processes to resolve the matter.

Data breach

In November 2019 Austal advised that its Australian business had detected and responded to a breach of the company's data management systems by an unknown offender.

The matter was referred to the Australian Cyber Security Centre (ACSC) and the Australian Federal Police who have provided ongoing assistance and advice.

There remains no evidence to suggest that information affecting national security nor the commercial operations of the company have been stolen.

Since the detection of the breach Austal has conducted a thorough review of its IT systems and security arrangements using advice from the ACSC and additional consultants, and implemented a number of significant network improvements. Additional security layers are being progressively implemented.

OUTLOOK

Austal expects FY2019 group revenue of approximately \$1.9 billion (assuming that the USD / AUD exchange rate continues at the current level) in line with the Company's update on 4 February 2018. FY2019 US shipbuilding margin is projected to be in the range of 7–8 per cent.

The expected revenue growth in FY2019 H2 is not anticipated to result in a proportionate increase in FY2019 H2 earnings as previously advised, given that a significant portion of that revenue will be from early stage procurement and production for new vessel designs or existing designs that are undergoing material modifications or upgrades (particularly the LCS and EPF programs), and profit has been recognised at a lower level for revenue generated during those phases of construction.

The level of cash generation in the first half has been strong but includes a number of progress payments and a reduction of working capital which has skewed the full year performance into the period.

Austal Chief Executive Officer David Singleton said the significant increase in work won during the first half of the financial year – both across US Navy shipbuilding programs and support work – drove growth in FY2019 and is positioning the Company well beyond this.

“With a record \$5.2 billion order book, Austal has secured work out to 2025 that provides a strong foundation to grow the business further,” Mr Singleton said.

“We are also seeing the benefit of a lower exchange rate that is enhancing our revenue and earnings in Australian dollars, whilst making Austal more competitive in winning new commercial vessels and defence exports.”

-Ends-

Conference Call

Austal Chief Executive Officer David Singleton and Chief Financial Officer Greg Jason will hold an analyst and investor conference call to discuss the Company's FY2019 H1 results at the time listed below.

Conference call details:

Date: Thursday, 28 February 2019
Time: 7:30am Perth time (AWST) / 10:30am Sydney time (AEST) – participants are requested to dial in 5 minutes prior to the start time
Conference ID: 7396028

Dial-in details:

Domestic participants can dial either of the numbers below to join the call.

Toll free: 1800 123 296 or Toll: +61 2 8038 5221

International toll-free numbers are listed below. For countries not listed below, the Australian Toll number can be dialled.

Canada	1855 5616 766	New Zealand	0800 452 782
China	4001 203 085	Singapore	800 616 2288
Hong Kong	800 908 865	United Kingdom	0808 234 0757
India	1800 2666 836	United States	1855 293 1544
Japan	0120 994 669		

Archived Call: An archived copy of the call will be available shortly after the conclusion of the call via <http://www.openbriefing.com/CompanyProfile.aspx/4951>

Dividend Reinvestment Plan (DRP)

Austal invites all eligible shareholders to participate in the DRP subject to the DRP rules. The DRP will be available for the dividend payable on Wednesday, 17 April 2019 and apply for subsequent dividends unless notice is given of its suspension or termination.

The DRP allows eligible shareholders to elect to invest dividends in shares which rank equally with Austal ordinary shares. The DRP provides a convenient and cost-effective way for eligible investors to invest part or all dividends into new Austal ordinary shares, without incurring brokerage charges or commission.

Ordinary shares will be issued to participants to satisfy any ordinary shares to be issued under the DRP relating to the 17 April 2019 dividend. The allocation price for the shares to be issued under the DRP will be calculated as the volume weighted average market price of Austal shares traded on the ASX over a period of 5 business days from Monday, 25 March 2019 to Friday, 29 March 2019 (inclusive of those dates). No discount shall apply to the allocation price. Shares will be issued on Wednesday, 17 April 2019 following the payment of the dividend.

Participation in the DRP is open to all shareholders who have a registered address in Australia or New Zealand. A summary of the DRP rules and an application form for participation (Participation Notice) will be emailed to all shareholders. Shareholders who wish to participate in the DRP must return the Participation Notice to Austal's share registry, Link Market Services, by 5:00pm (WST) on Thursday, 21 March 2019. Details for Link Market Services are:

QV1 Building
Level 12, 250 St Georges Terrace
PERTH WA 6000
Enquiries: 1300 554 474 (Australia) or +61 1300 554 474 (international)

Shareholders may obtain a copy of the Participation Notice by contacting Link Market Services. A summary of the DRP rules and the rules are available on Austal's website at www.austal.com.

Key dates to note for the application of the DRP to the upcoming dividend are:

- Last date for receipt of elections to participation in DRP: Thursday, 21 March 2019.
- 5 trading day pricing period for DRP: Monday, 25 March 2019 – Friday, 29 March 2019.
- Date for issue of shares under DRP: Wednesday, 17 April 2019.

About Austal

Austal is an Australian shipbuilder and global defence prime contractor which designs constructs and sustains some of the world's most advanced commercial and defence vessels.

Austal successfully balances commercial and defence projects and celebrated 30 years of success in 2018. Austal has designed, constructed and delivered more than 300 commercial and defence vessels for more than 100 operators in 54 countries worldwide.

Austal is Australia's largest defence exporter and the only ASX-listed shipbuilder. Austal has industry leading shipyards in Australia, the United States of America, Philippines, a newly opened shipyard in Vietnam and service centres worldwide.

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.

Austal has grown to become the world's largest aluminium shipbuilder.

Further information

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