COMPANY ANNOUNCEMENT
25 FEBRUARY 2022

AUSTAL DELIVERS RECORD HALF YEAR EBIT, PIVOTED FOR LONG-TERM GROWTH

SUMMARY:

- Revenue of $722.4 million (FY2021 H1: $840.3 million), down 14%
- EBIT of $71.1 million (FY2021 H1: $70.5m), up 1% and a record half year result
- Robust earnings driven by a combination of enhanced EBIT margins and accelerated release of contingency reserves after consistently achieving key shipbuilding milestones
- NPAT of $45.1 million (FY2021 H1: $52.4m), down 14% due to a higher effective tax rate arising from the recognition of tax losses in the prior period and deferred R&D tax credits in the current period, as well as asset impairment arising from the Philippines typhoon.
- Earnings per share of 12.5 cents (FY2021 H1: 14.6cps), down 15%
- Healthy net cash position of $188.7 million (30 June 2021: $199.7m net cash), even after substantial steel expansion construction works and San Diego dry dock acquisition
- Maintained interim dividend of 4.0 cents per share, unfranked
- Sustainment growth targeted with major contracts and business expansions secured during the half
- Significant shipbuilding opportunities in USA and Australasia available in near and medium term
- FY2022 revenue guidance of $1.4 billion and EBIT guidance of minimum $107 million.

Austal Limited (**Austal**) (ASX:ASB) achieved a record earnings before interest and tax (EBIT) result for the six months ended 31 December 2021 (FY2022 H1) released by the Company today.

Austal Chief Executive Officer Paddy Gregg said: "We have delivered our highest interim EBIT figure, bettering the record result in the prior corresponding period despite the expected decrease in revenue. The earnings result affirmed Austal's ability to continuously enhance our shipbuilding processes to efficiently achieve key milestones and successfully deliver shipbuilding and sustainment programs across our US and Australasia operations.

“Our guidance of a minimum EBIT of $107 million for FY22 reflects our confidence in the efficient delivery of our ongoing shipbuilding programs. There is more upside this year and a strong basis for future years if we secure additional orders, a goal we are intent on achieving.”

“The Company increased its shipbuilding margins in the USA offsetting a decline in revenue that stemmed predominately from COVID-related impacts on shipbuilding throughput and the maturity of the Littoral Combat Ship (LCS) shipbuilding program.

“Additionally, with 37 vessels under sustainment contracts by the end of the half; Austal is establishing a sustainable, substantial and geographically diverse revenue base.”

“Pleasingly, we’ve retained a strong cash position, even amid enhanced capital expenditure relating to our San Diego expansion and USA steel transition, giving us the optimal platform for growth.”

FINANCIAL RESULTS

Austal generated $722.4 million revenue in FY2022 H1 (FY2021 H1: $840.3m). The decrease in Group revenue was driven by the maturing LCS construction program as well as approximately 300,000 fewer employee hours worked due to COVID-19 related restrictions on work schedules, COVID-19 absenteeism and temporary staff shortages with the implementation of vaccination mandates.

Continued restrictions on sustainment activity due to COVID-19 related travel impacts, and the appreciation in the AUD:USD exchange rate from $0.725 to $0.732 also contributed to the revenue reduction.

Austal’s USA shipyard accounted for 73 per cent per cent of total revenue, with Australasia at 27 per cent (FY2021 H1: USA 76 per cent, Australasia 24 per cent). Shipbuilding accounted for ~75 per cent of total revenue and support ~25 per cent (FY2021 H1: shipbuilding ~84 per cent, support ~16 per cent).

Despite the decline in revenue, Austal generated an increase in earnings before interest and tax (EBIT) to $71.1 million (FY 2021 H1: $70.5m), which was driven by an accelerated release of contingency reserves after consistently achieving key shipbuilding milestones, as well as improved US shipbuilding margins.

Net profit after tax (NPAT) narrowed to $45.1 million (FY 2021 H1: $52.4m), as a result of carry forward tax losses in Australia recognised in the prior period as well as deferred tax on R&D tax credits in the current period, together with a $6.7 million asset impairment related to Typhoon Odette in the Philippines. The assets affected were insured and Austal is confident of receiving insurance proceeds net of deductibles.

USA SEGMENT

Austal's USA segment reported revenue of $531.9 million (FY2021 H1: $641.6m) and EBIT of $76.7 million (FY2021 H1: $69.4m).

EBIT margin from Austal USA increased to 14.4 per cent, compared to 10.8 per cent in the prior corresponding period, reflecting the segment's increasing proficiency in achieving key milestones efficiently during production of the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) programs. The Company delivered its 15th LCS during the period.

EBIT from support work decreased to $3.8 million from $13.0 million in FY2021 H1. As previously flagged in Austal's FY2021 H1 results announcement, the FY2021 H1 result was aided by the approval of US Navy incentives, additional funding that related to work undertaken in FY2020, and the reversal of a doubtful debt. Additionally, the FY2022 H1 result was weakened by COVID-19 restrictions impacting support dockings.

The Company anticipates that these COVID-19 impacts will gradually ameliorate during the current half and beyond, with a LCS sustainment contract worth up to ~A$298.9 million secured late in the reporting period (see ASX announcement 24 November 2021), and further growth anticipated following significant development of the Company's USA service and support business throughout the half.

During the period, Austal announced it completed the purchase of a long-term lease of the Marine Group Boat Works facilities in the Port of San Diego, USA (see ASX announcement 16 December 2021).

When combined with the Company's recent inclusion on the United States Navy's Sustainment Execution Contract West (SEC West – see ASX announcement 5 August 2021), Austal's new, long-term presence in San Diego is a critical enabler to winning new maintenance contracts from the US Navy, US Coast Guard and US Military Sealift Command.

AUSTRALASIA SEGMENT

Austal's Australasia segment reported revenue of $196.7 million (FY2021 H1: $205.9 million), a 4.4 per cent decrease on the prior corresponding period. This marginal revenue contraction emanated from the completion of commercial ferries, however it was offset by increased longer-term Australian Defence contract work.

EBIT from Austal's Australasia segment declined from $12.0 million in the prior corresponding period to $5.0 million. EBIT shipbuilding margin from the segment was negatively impacted by the Philippines typhoon impairment, reducing from 6.4 per cent to 3.2 per cent.

Support revenue decreased from $52.7 million in FY2021 H1 to $44.5 million in FY2022 H1 as support dockings fell with lower emergent work, which then cascaded through to EBIT falling to breakeven (FY2021 H1: $2.2m).

These negative impacts masked the benefits of Austal's continuously improving operational excellence in delivering the Guardian-class Patrol Boat (GCPB) vessels as the 21-vessel programme matures. Austal delivered its 12th and 13th GCPBs during the period.

Austal expects both support revenue and EBIT margin to improve during H2 FY2022 and beyond with higher projected dockings, as COVID-19 restrictions are lifted in conjunction with greater overall CCPB vessel activity.

CASH AND CAPITAL MANAGEMENT

Austal's cash at bank reduced to $306.8 million (30 June 2021: $346.9 million), largely due to Austal making significant enhancing capital investments ($73.6 million) with the San Diego lease purchase and steel shipbuilding expansion, as well as the timing of some milestone payment receipts.

Austal did not take out any new borrowings in the period. Gross debt increased marginally to $118.1 million (30 June 2021: $115.0 million), due only to FX translation. Even with a strong level of capital investment during the period Austal's net cash position remained healthy at $188.7 million (30 June 2021: $346.9 million).

During the half, Austal was able to derecognise a $32.2 million liability and corresponding asset (as at 30 June 2021) from the Company's balance sheet, after the National Australia Bank formally advised the Company it will not trigger Austal's residual buyback guarantee for Cape Class Patrol Boats (CCPB) 9 & 10.

The Company also refinanced its Go Zone Bonds ($118.1m at 31 December 2021) at end of the half, extending the maturity date for the letters of credit to December 2024 while retaining an attractive rate.

Austal reported operating cash flow of $43.1 million (FY2021 H1: $83.5 million). As always, cash generation is influenced by the timing of milestone cash payments from customers so is prone to fluctuation. Austal's 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.

INTERIM DIVIDEND

Austal's Board has declared an interim dividend of 4 cents per share, unfranked, in line with FY2021 H1. The franking position continues to reflect 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.

As noted in the Company's August FY2021 results announcement, the Austal 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: Wednesday 16 March 2022
- Record date: Thursday 17 March 2022
- Payment date: Thursday 21 April 2022

OUTLOOK

Austal's revenue guidance for the 2022 financial year is approximately $1.4 billion at a USD/AUD exchange rate of $0.73 with EBIT of a minimum $107 million.

A portion of expected FY2022 revenue will shift into FY2023, following temporary COVID-19 impacts during the first half.

The Company anticipates continued strong EBIT margin for the remainder of FY2022, particularly underpinned by increased operational efficiencies and risk mitigation across Austal's USA shipbuilding and support segments, facilitating a strong conversion of earnings from the Company's $2.2 billion order book. However, as occurred in the prior financial year, EBIT is weighted towards the first half in line with accelerated contingency releases and milestone achievements.

The baseline revenue guidance includes contracted shipbuilding, as well as support revenue at the FY2022 H1 run rate.

Austal has strong additional latent potential from its support business following expansion of its sustainment facilities during the half, potential add-ons relating to its Singapore LCS sustainment contract, and improvement of the COVID-19 situation.

Austal Chief Executive Officer Paddy Gregg said the Company has a solid platform with significant potential upside from numerous major shipbuilding and support opportunities set to materialise in the short-to-medium-term, which should ensure future sustainability of Austal's EBIT.

"We are on the cusp of a new phase of growth for the Company; we will be steel ready in the USA by April 2022, with numerous USA steel shipbuilding contracts about to be awarded, such as the US Coast Guard Offshore Patrol Cutter and T-AGOS ocean surveillance ships, and we have already taken the critical step of getting our foot in the door to win steel contracts with the award of the US$144m T-ATS towing and salvage ship contract during the half," Mr Gregg said.

"Austal is also primed to build upon the initial design contract for the US Navy's NGLS Program we also secured during the half, while in Australasia, discussions continue with the Philippines government following allocation of funding for the Philippines Navy OPV programme in December 2021 and the development of a clearly defined vessel construction runway for the Australia Force Structure Plan is highly promising".

"Crucially, we are methodically growing our sustainment business, emphasised by the strategically significant San Diego lease purchase, enabling Austal to fully capitalise on our inclusion to both the SEC West and East panels, which has already borne fruit with the Singapore LCS sustainment contract award in November."

This announcement was approved by Austal's Board of Directors.

-Ends-

CONFERENCE CALL

Austal Chief Executive Officer Patrick Gregg and Interim Chief Financial Officer Geoffrey Buchanan will hold an analyst and investor conference call to discuss the Company's FY2022 H1 results at the time listed below.

Conference call details:

Conference call details:

Date:	Friday, 25 February 2022
Time:	7:30am Perth time (AWST) / 10:30am Sydney time (AEDT)
Conference ID:	10018913
Pre-Registration Link:	https://s1.c-conf.com/diamondpass/10018913-am22xs.html

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/4535.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. Austal is the only foreign-owned prime contractor designing, constructing and sustaining ships for the US Navy.

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