AUSTAL
LIMITED

COMPANY ANNOUNCEMENT
24 FEBRUARY 2023

AUSTAL DELIVERS STRONG REVENUE IN TRANSITION TO NEW PROGRAMS THAT WILL UNDERPIN LONG-TERM GROWTH

SUMMARY:

- Revenue of $775.0 million (FY2022 H1: $722.4 million).
- Increased revenue result supported by strong growth in the sustainment business, with revenue from the segment rising 67% from FY2022 H1 to $194.6 million.
- EBIT loss of ($2.0) million (FY2022 H1 profit: $71.1m), due to full recognition of US Towing, Salvage and Rescue Ships (T-ATS) loss provision [FY2022 H1 profit was also enhanced as a result of the positive impact of the accelerated contingency release].
- Net Loss After Tax of ($7.3) million (FY2022 H1 profit: $45.1m).
- Net cash position of $58.1 million (30 June 2022: $115.6m), reflecting the timing of key milestone payments being weighted towards FY2023 H2, as well as the ramp up of new contract awards.
- Interim dividend of 4.0 cents per share, unfranked.
- Positioned for long-term growth with Offshore Patrol Cutter (OPC) contract worth up to $US3.3 billion (AUD $4.4 billion), continued broader steel shipbuilding progression and successful delivery of the first autonomous vessel.
- Further growth is being driven by the sustainment business, which delivered $11.4 million EBIT for the half (FY2022 H1: EBIT of $4.0m).
- FY2023 EBIT guidance of $58 million maintained.
- Order book, inclusive of unexercised contract option agreements, stands at $6.9 billion, remaining at a historically high level.

Austal Limited (**Austal**) (ASX:ASB) has today released its financial results for the six months ended 31 December 2022 (FY2023 H1).

Austal recorded an Earnings Before Interest and Tax (EBIT) loss of $2.0 million (FY2022 H1: $71.1m profit), which stemmed from the recognition of T-ATS loss provisions relating to the T-ATS program in FY2023 H1 result. As disclosed to the ASX on 17 January 2023, Austal is progressing Requests for

Equitable Adjustment (REAs), which if not resolved during FY2023, will result in forecast losses of $US41.2 million for FY2023.

While the REAs may be favourably resolved in the future, Austal has prudently decided to fully provision the forecast losses in its FY2023 H1 results in accordance with the requirements of relevant accounting standards to remove future uncertainty in regard to its financial position.

Austal Chief Executive Officer Patrick Gregg said: “The negative impact of provisioned losses provided on the T-ATS program to our half year result is disappointing, as it masks what would otherwise have been a good result underpinned by robust EBIT margins. Whilst management has submitted REAs and is making every effort to mitigate these losses, it is too early to form a view on whether and to what extent these losses can be reduced.

“We have proactively taken learnings from T-ATS to our recent key projects, such as the Offshore Patrol Cutter (OPC) project, which have been contracted on different terms with greater cost escalation protections for Austal.

“Beyond the T-ATS program, Austal continues to successfully deliver shipbuilding and sustainment programs across its US and Australasia operations.

“Our sustainment business is growing substantially, as Austal continues to demonstrate a growing and sustainable, large-scale and geographically diverse revenue base. The successful opening of the San Diego maintenance facility earlier this month marks another major milestone in our sustainment growth strategy.

“The Australasian sustainment business complements our growing operational excellence in the delivery of the Guardian-class Patrol Boats and Evolved Cape-class Patrol Boats, which helped generate a nearly threefold rise in Australasia EBIT to $14.4 million.

“We are at the forefront of building the vessels of the future by leveraging rapidly evolving Systems capabilities. To this end, Austal completed acceptance trials of EPF 13, the largest vessel in the United States Navy with autonomous capability, entered a strategic partnership with Saildrone to build autonomous uncrewed surface vessels, and in Australia made progress on the Patrol Boat Autonomous Trial (PBAT) for the Royal Australian Navy.”

FINANCIAL RESULTS

Austal delivered revenue of $775.0 million in FY2023 H1 (FY2022 H1: $722.4m). The rise in revenue was supported by an increase in sustainment revenue from $116.7 million to $194.6

million. The depreciation in the AUD:USD exchange rate from $0.732 to $0.653 also contributed to the revenue rise.

Austal's USA segment accounted for 73 per cent per cent of total revenue, with Australasia at 27 per cent, in line with the prior corresponding period. Shipbuilding accounted for ~75 per cent of total revenue and support ~25 per cent (FY2022 H1: shipbuilding ~84 per cent, support ~16 per cent).

Despite the increase in revenue, Austal delivered an earnings before interest and tax (EBIT) loss of ($2.0) million (FY 2022 H1 profit: $71.1 million), which was driven by the loss provision on T-ATS.

Austal subsequently delivered a net loss after tax (NPAT loss) of ($7.3) million (FY 2022 H1 profit: $45.1 million).

USA SEGMENT

Austal's USA segment reported revenue of $569.6 million (FY2022 H1: $531.9m) and an EBIT loss of ($4.1 million) (FY2022 H1 profit: $76.7 million).

EBIT margin from Austal USA reduced to a (0.7) per cent loss, compared to a 14.4 per cent margin in the prior corresponding period, due to the impact of the forecast T-ATS losses. As noted in the FY 2022 H1 results announcement, Austal USA shipbuilding margins benefitted from the accelerated release of contingencies in FY2022 H1. It is worth noting that if the impact of the T-ATS forecast losses is added back, an EBIT margin of 9.7 per cent would have been achieved.

The Company delivered its 16th Littoral Combat Ship, the future USS Santa Barbara (LCS 32) to the US Navy during the period, as well as completing acceptance trials of the Expeditionary Fast Transport USNS Apalachicola (EPF 13) – the largest vessel in the United States Navy that will have autonomous capability for unmanned missions.

The protest by Eastern Shipbuilding of the award to Austal on 30 June 2022 of the Offshore Patrol Cutters (OPC) program has been relocated to the US Court of Federal Claims. This allows the company to proceed with the design phase of the project, as well as procurement of long lead time items.

EBIT from support work increased to $7.9 million from $3.8 million in FY2022 H1, driven by greater throughput from increased availabilities post COVID-19 and strong utilisation of the San Diego facility, especially on LCS sustainment contracts. Austal's new, long-term presence in San Diego remains a critical enabler to winning new maintenance contracts from the US Navy, US Coast Guard and US Military Sealift Command.

During the period, Austal announced a number of new design and construction contracts to further diversify the business, including a 'undefinitised contract action' (UCA) with the US Navy to resolve the design for three fully funded Emergency Medical Ships (EMS), a partnership with L3 Harris Technologies to construct and modify autonomous capabilities, a concept design for the US Navy's Large Unmanned Surface Vessels (LUSV), and the Company's appointment as the exclusive manufacturer of Saildrone Inc.'s wind and solar-powered Surveyor USV.

AUSTRALASIA SEGMENT

Austal's Australasia segment reported revenue of $208.7 million (FY2022 H1: $196.7 million), a 6.1 per cent increase on the prior corresponding period. This revenue increase was propelled by a significant rise in support revenue from $44.5 million to $77.8 million, as Austal grew its commercial maintenance footprint and continued to expand its maintenance workload with the Royal Australian Navy (RAN).

Subsequently, support EBIT rose from breakeven to $3.6 million and shipbuilding EBIT grew from $5.0 million to $10.8 million. The shipbuilding EBIT result reflected Austal's continuously improving operational excellence in delivering the Guardian-class Patrol Boat (GCPB) vessels as the 22-vessel programme matures, as well as the eight-vessel Evolved Cape-class Patrol Boat (ECCPB) programme.

Additionally, the EBIT shipbuilding margin in the prior corresponding period had been negatively impacted by the Philippines typhoon impairment booked in FY2022 H1.

Austal delivered two ECCPBs to RAN and received an order for an additional GCPB during the reporting period. The Company has delivered a total of four ECCPB's and 15 GCPBs for RAN.

The Company is also conducting a trial with RAN on a decommissioned patrol boat modified for autonomous operation, whilst our asset management capability has been extended into the air domain with the introduction of our 'ALFI' technology.

Construction of high-speed commercial ferries continued in Austal's Philippines and Vietnam shipyards, with *Express 5* – the largest vessel by volume to be built by an Austal shipyard – expected to be delivered in the coming days.

As COVID-19 restrictions continue to be lifted in conjunction with greater overall CCPB vessel activity and commercial maintenance activity, the Australasian sustainment business is well positioned to help the broader Group achieve its goal of delivering $500 million of annual sustainment revenue by FY2027.

CASH AND CAPITAL MANAGEMENT

Austal's cash at bank reduced to $184.9 million (30 June 2022: $240.1 million), largely due to the Company's continued spend on the San Diego floating dock - a key enabler for future sustainment contracts - as well as the timing of key milestone payment receipts.

The Company's US operations also proactively took advantage of the strong USD exchange rate to forward purchase long lead time materials from European suppliers.

Austal did not take out any new borrowings in the period. Gross debt increased marginally to $126.8 million (30 June 2022: $124.5 million), due only to FX translation. Even with a strong level of capital investment and delayed timing of some milestone payment receipts, Austal maintained a healthy net cash position at $58.1 million (30 June 2022: $115.6 million).

Austal reported a net operating cash outflow of ($8.0) million (FY2022 H1: $43.1 million positive cashflow). 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.

Austal is anticipating a return to positive cash flows in FY2023 H2, and as the support business increasingly becomes a larger part of Austal's revenue base in the future then cashflow is expected to be more consistent.

INTERIM DIVIDEND

Austal's Board has declared an interim dividend of 4 cents per share, unfranked, in line with FY2022 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 FY2022 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 15 March 2023
- Record date: Thursday 16 March 2023
- Payment date: Thursday 20 April 2023

OUTLOOK

Following the T-ATS loss provision, Austal's EBIT guidance for the 2023 financial year was reduced to around $58 million on 17 January 2023, from previous guidance of around $100 million.

The Company anticipates continued efficiencies on the remaining vessels in the LCS and EPF programs during the second half of FY2023, and will continue to look to maximise conversion of earnings from the Company's $2.6 billion order book ($6.9 billion including as yet-unexercised OPC option agreements), which is at historically high levels for the Company. This work pipeline spans both the US and Australasia, across aluminium and steel, and increasingly utilises Austal's extensive range of capabilities. This is particularly evidenced by the autonomous vessel projects and non-prime module work on major naval vessels.

The non-prime work includes the construction of aircraft carrier elevators for Huntington Ingalls and submarine modules for General Dynamics Electric Boat, which were awarded during the half and are set to be a major enabler for Austal to secure further contracts in that space.

Austal Chief Executive Officer Patrick Gregg said the Company continues to see significant potential upside from numerous major shipbuilding and support opportunities and a strong pipeline of orders expected to materialise in the short-to-medium-term that would underpin improved earnings.

"The US Coast Guard Offshore Patrol Cutter (OPC) and Auxiliary Floating Dock Medium (AFDM) awards offer Austal the opportunity to leverage the full benefits of the new steel panel line, and we are well-placed for success in our recent bid for eight T-AGOS ocean surveillance ships," Mr Gregg said.

“We are also hopeful that the soon to be completed Australian Defence Review will set out a clearly defined roadmap for Defence vessel construction in Australia.

“Alongside shipbuilding, we continue to methodically grow our sustainment business as evidenced by the significantly increased revenue and EBIT from this business.

“While the recovery of the commercial shipbuilding market remains gradual, the commercial support business in Australasia is generating considerable positive momentum in line with Austal’s broader support business. For example, Austal’s support yard in Brisbane is operating at near full capacity.

“The Company is well on track to achieve it strategic growth target of $500 million annual support revenue by FY2027.

“Austal also has a clear capacity to play an active role in the AUKUS partnership and development of defence assets for the US and Australia, opening the door to another potential avenue of significant growth.”

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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.