

# Annual General Meeting Presentation

## David Singleton, CEO



- Financial Headlines
- 2018 Key Facts
- Ships in Build
- Business Priorities FY 2018-19
- Operations Overview

Good afternoon to everybody and thank you for attending today.

This picture has been selected as the introduction slide because it gives a really good overview of what is happening down the road at Henderson.

Our largest ever fast ferry.

The first of the Guardian Class Patrol Boats.

2 Cape vessels in for maintenance activities.

It's a busy time with over 850 people working across 2 sites in Henderson who are supporting hundreds more overseas.

# Financial Headlines

		CHANGE <sup>1</sup>	
• Profit before Tax	\$65m	43%	↑
• Net Profit after Tax	\$39m	155%	↑
• Dividend	3¢ per share	50%	↑
• Operating Cash Flow	\$65.3m	up\$103.2m	↑
• Net Cash <sup>2</sup>	\$33.8m	up\$44.6m	↑

1. Comparison is to full year FY17

2. Excludes Capes 9 & 10 operating lease

We continue to maintain the outlook guidance that we made during the full year results and is contained in that presentation.

The key elements of that was guidance on revenue, USA shipbuilding margin, order intake and profitability in the non USA business. We have had a solid start to the year on all fronts and would particularly point to the USA which continues to perform well. Our key risk over the next 18 months is managing the very rapid increase of revenue particularly in the Philippines at the same time that we are completing a major facility upgrade. This will tax the management team during this period.

# 2018 Key Facts

**30**  
1988  
2018



**\$1.35B**  
REVENUE



**~\$3.4B**  
ORDER BOOK



**16**  
NEW SHIPS  
ORDERED



**48**  
SHIPS UNDER  
CONSTRUCTION  
OR SCHEDULED



**5**  
SHIPS  
DELIVERED



**5,250**  
EMPLOYEES



**3**  
SERVICE CENTRES



**5 SHIPYARDS**



**32**  
VESSELS UNDER  
SUSTAINMENT OR  
REFURBISHMENT

- >A\$1.35 billion in revenue.
- >A\$3.4 billion order book.
- >5,250 employees worldwide and growing.
- 5<sup>th</sup> shipyard established (Vietnam).

## Ships delivered in FY2018 - 5

- 4 x USA – 3 x LCS and 1 x EPF.
- 1 x Philippines – Hull 418 (FRS Halunder Jet).
- Nil vessels delivered from Australia.

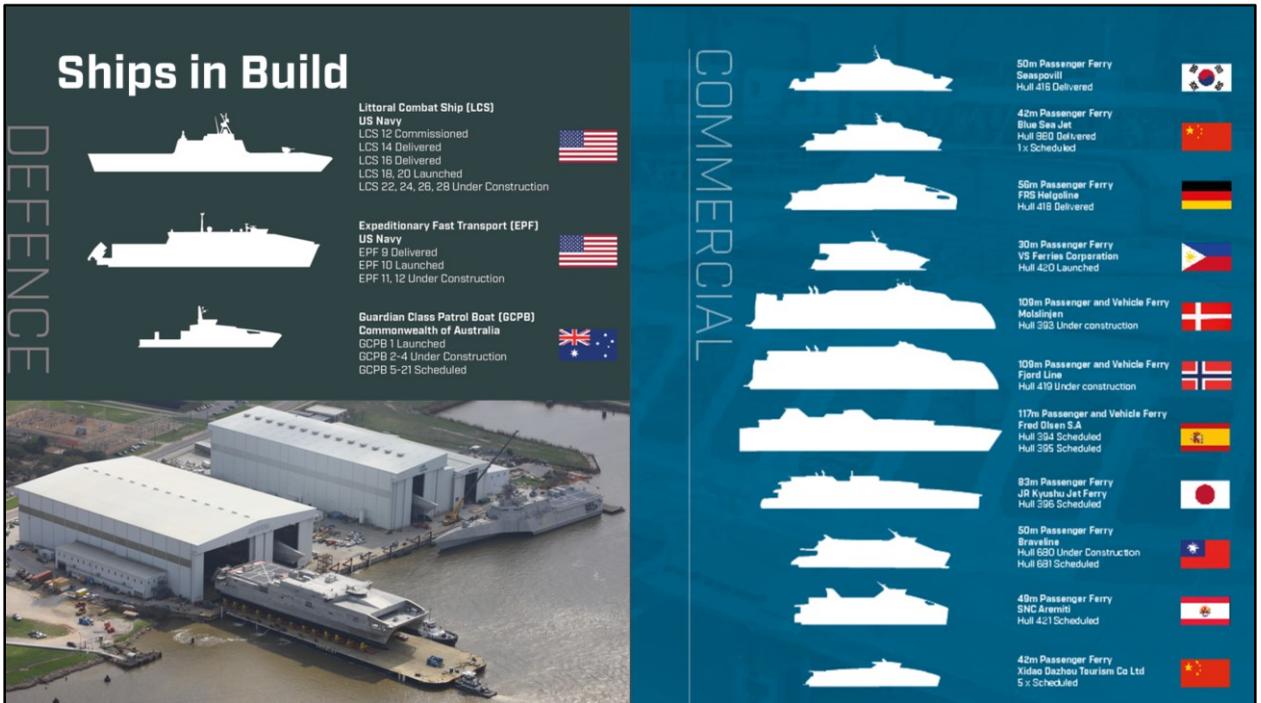
## Ships Under Construction as at FY2018 Reporting – 48

- 10 x USA (7 x LCS, 3 x EPF).
- 6 x Philippines (Hulls 419, 420, 680, 681, 421, 395).
- 24 x Australia (21 x PPB-R, H393, H394, H396).
- 5 x Aulong (China).
- 3 x Vietnam (1 x 94 metre Ferry, 2 x CCPB's).

## New Ships Ordered – 16

- 1 x VS Grand Ferries 30 metre catamaran (H420).
- 1 x Fjordline 109 metre catamaran (H419).

- 2 x Braveline 50 metre catamarans (H680, 681).
- 2 x additional PPB-R (from 19 to 21 vessels).
- 2 x Fred Olsen SA 117 metre Trimarans (H394, 395).
- 1 x SNC Aremiti 49 metre catamaran (H421).
- 1 x JR Kyushu 83 metre Trimaran (H396).
- 1 x Blue Sea Jet 35 metre catamaran (AL002).
- 4 x Xidao Dazhou Tourism Co 42 metre catamarans (AL003 – AL006).
- 1 x LCS30 for US Navy.



Austal is constructing a diverse range of defence and commercial vessels, including trimaran littoral combat ships, high speed military catamarans, and patrol boats - and passenger and vehicle passenger ferries for operators in 12 countries around the world including;

- USA
- Australia
- South Korea
- China
- Germany
- Philippines
- Denmark
- Norway
- Spain
- Japan
- Taiwan
- French Polynesia

# Business Priorities 2019

Develop **US Market**

- FFG-X
- EPF Variants

Complete **Philippines expansion** and  
**Vietnam establishment**

Henderson **shipyards expansion**

Continued investment in **product development**



USA



- LCS Deliveries in FY2018 – 3 (LCS12, 14, 16).
- LCS Orders in FY2018 – 1 (LCS30).
- Funding for an additional 2 x LCS (LCS32 and LCS34) was announced Sept 2018 (so 3 in last 12 months effectively).
- USFY19 budget signed into law in October 2018 includes 3 more LCS which we will be bidding for in the next few months.
- LCS12 and 14 were *commissioned* during FY2018.

USA



- EPF 9 City of Bismarck was delivered Dec 2017.
- EPF's 10, 11 and 12 under construction.
- EPF13 long lead materials ordered (Contract US\$57M received Oct 2018).
- EPF's deployed around the globe;
  - EPF1 Spearhead - USA
  - EPF2 Choctaw County – Bahrain
  - EPF3 Millinocket – Philippines
  - EPF4 Fall River – Philippines
  - EPF5 Trenton – Italy
  - EPF6 Brunswick – Singapore
  - EPF7 Carson City – Italy
  - EPF8 Yuma - Greece



The attached delivery profile is a reproduction of data put together by one of the companies that analyses Austal. It shows how Austal has progressively improved the rate of delivery against reported data from our competitor and gives a good comparative. This is only one data point and may not be entirely accurate but nonetheless an important one.

# Develop US Market

## 'FFG-X' Multi-Mission Guided Missile Frigates

- Successor to the LCS program.
- One of 5 companies / designs under consideration, announced 16 Feb 2018.
- Austal believed to be the most economical (affordable) solution.
- Proposals will be submitted 2019 for a contract award in 2020.
- 20 ships to be purchased; 1 in 2020, 1 in 2021 and then 2 every year after that.

### Prime Contractor - Shipyard - Design

- Austal USA - Austal USA - Austal Frigate based on the Independence-class littoral combat ship .
- Fincantieri Marine Group - Marinette Marine - Fincantieri FREMM multipurpose frigate.
- General Dynamics - Bath Iron Works - Navantia Álvaro de Bazán-class F100 frigate.
- Huntington Ingalls Industries - Ingalls Shipbuilding - Patrol Frigate based on the National Security Cutter.
- Lockheed Martin - Marinette Marine - Freedom-variant Frigate based on the Freedom-class littoral combat ship.



Austal USA discussing possibilities of an EPF Hospital Ship variant with USN; to provide medical services in austere coastal environments, intra-theatre operations and missions.

Other EPF options under discussion with the US Navy.

Original requirement when EPF was developed was circa 20 ships and with the expansion of the US Navy to 355 ships we continue to believe that EPF or derivatives of it will be built for many years to come.



Delivered FY2018;

- Hull 418 (Halunder Jet) to FRS.

Recently delivered (FY2019);

- H420 (Seacat) to VS Grand Ferries.

Currently constructing;

- 2 x 50 metre ferries for Braveline Taiwan.
- 1 x 49 metre ferry for SNC Aremiti.
- 1 x 109 metre ferry for Fjordline.

New A\$20m shipyard expansion underway, expected completion Jan 2019.

# Philippines



## VS Grand Ferries 'Seacat' delivered Sept 2018

- First new passenger ferry to be operated in the Philippines that meets the highest 'Pioneer' standard under Bureau Veritas Class Certification.

# Philippines Shipyard expansion



New expansion will treble shipbuilding capacity, including new 120 metre assembly bay.

Largest Austal assembly bay outside of the USA capable of building our biggest ships both now and as conceived in the future.

Revenue will rise from an average over the last few years of circa \$30+m to over \$100m.

This facility will allow us to have 2 very large vessels in final build at the same time (1 also in Henderson). The expansion has been made on the basis of the current order book of 5 large vessels (Mols, Fjordline 2x FOSA and JRK) plus what we see as a very strong order pipeline in the future driven by a looming replacement cycle and new route development in Europe.

The investment is also intended to ensure that we remain cost competitive. Build costs in Philippines are equivalent to China and the experience being developed in the shipyard on smaller vessels has shown us that we can get good quality standards. Build efficiency is improving continuously and whilst not yet as good as Henderson (in man hour per tonne metrics) gives us a significant cost advantage.

# Philippines Shipyard expansion



Philippine Navy DPV Animation Video



### Hull 419 Fjordline

- Under construction, plate cutting conducted 14 March 2018.
- Will be the largest aluminium vehicle passenger ferry ever constructed in the Philippines and the largest vessel by volume ever built by Austal (succeeding the 109m Mols vessel now in build in Henderson).
- When completed in 2020 will double the capacity on the Norway-Denmark route, offering capacity for 1200 pax and 400 cars, travelling at 38 knots.

### About Fjordline

- In 2016, the shipping company transported 213,000 passengers on the route, between Kristiansand and Hirtshals divided into 576 sailings.
- Fjord Line is a modern shipping company that offers safe and comfortable maritime transport between Norway, Denmark and Sweden.
- In addition to passenger traffic, Fjord Line offers freight carrying capacity for all types of freight vehicles and goods.
- Fjord Line was started in 1993 and currently has about 750 FTE's. Of them, 300 are employed in the shore organizations in Bergen, Stavanger, Egersund, Langesund, Kristiansand, Sandefjord, Strömstad and Hirtshals, while 450 are seagoing.

## Establish Vietnam Shipyard



Some months ago we announced the intention to build a new shipbuilding facility in Vietnam. Our rationale for this location was primarily based on the availability of a very experienced aluminium shipbuilding team several of whom have previously worked for Austal and have been building catamarans in Vietnam for years. We have been able to secure the Team and are now building a shipyard in Vung Tau which is about 2 hours drive south of Ho Chi Minh City. Vung Tau is a major shipbuilding, ship repair and oil and gas hub and has direct access to a good quality trained workforce and local supply base.

The facilities are brand new and built to Austal's requirements but are leased which avoids the upfront capital charge. The minimum lease period is 2 years extendable in 1 year increments. We believe that this is a low risk and very flexible arrangement which will give us the ability to respond to changes in volume of ship orders both up (by increasing the extent of the facilities over time) or down by terminating the lease if the order book does not justify retention.

Vietnam is already contributing to Austal's build program by fabricating some of the early modules for the Fjordline vessel being built in the Philippines (in other short term rented facilities). The new facilities will cut first plate on 1<sup>st</sup> November this year and will be fully operational early in the new year.



#### Aulong joint venture with Jianglong Shipbuilding of Guangdong

- Delivered 42 metre ferry to Blue Sea Jet, China - January 2018.
- 5 additional ferries under construction / scheduled.
  - 1 x 35 metre ferry for Blue Sea Jet.
  - 4 x 42 metre ferries for Xidao Dazhou Tourism Co Ltd.
  - Beibi Gulf.
- Austal expats overseeing tech transfer of Austal designs for construction locally.
- Targeting mainland China opportunities / customers only.

The Aulong JV (in which we are a 40% partner) has been going 24 months and has won 7 ships in total. Austal has a strong brand in China and we believe that the ongoing association with the business will add value over time as the size and complexity of the vessels gets larger. The association is also giving us valuable experience and insight into the Chinese supply chain which can add value to our broader business.



### Hull 393 (Express 4) for Molslinjen of Denmark

- Construction commenced 26 April 2017.
- Rolled out 18 August 2018.
- Launched 16 October 2018.
- Largest (by volume) vessel Austal has built.
- Capacity for over 1000 passengers, 425 cars, travelling at c 38 knots.

### **PLAY Mols Lift + Rollout Video**

The outcome of the OPV program for Australia was clearly a disappointment. A program of that nature would have provided a backbone of work for this facility for the next 15 years or more. That backbone would then have been the basis of long term build of commercial ships. Today our workforce is dominated by hundreds of people working on high speed ferries and there is no doubt that the outcome of OPV will make this area of our business tougher. We believe that a decision some years ago not to allow the development of a new larger and steel version of the successful Cape class vessel to be offered into this competition gave us a tremendous disadvantage. Given that we design several ships a year sometimes of high complexity (like the LCS for the US Navy designed in Henderson) we believe that an 80m OPV was well within our capacity. It is interesting to note that we are offering

an 80m steel evolved Cape into the Philippines requirement and it is getting some very solid support. Austal could not have understood the preferred third party design for the OPV for RAN and were disappointed of course that the Fassmer vessel was deemed as unacceptable especially given that it would have been a much cheaper option for CoA.

Over the last 12 months activity at Henderson has been dominated by the 109m high speed passenger car ferry for Mols the largest by volume ever built by Austal although that record will soon be superseded by the Fjordline vessel. The ferry is to a new highly efficient design in which we invested significant R&D expenditure which we expensed last year. That investment has proven its value as we subsequently won the Fjordline vessel which is of a similar design but with a larger passenger area. The vessel is the basis for the Trinidad 94m vessel which we believe will be signed shortly (schedule protection monies have been paid by GOTT) and we believe that there is the possibility of another 109m vessel to be ordered over the coming months.

The Mols vessel was launched in October and will commence sea trials in December with delivery required in mid January 2019.

## Australia



### Hull 394 – the next big project at Henderson shipyard

- 117 metre trimaran for Fred Olsen SA.
- 2 x identical vessels to be built under contract valued at A\$190million.
  - 2<sup>nd</sup> trimaran (H395) to be built at Austal Philippines.
- Plate cutting for H394 conducted 20 August 2018.

The Austal trimaran design is our most important product. It is clearly a product for which we are the only credible designer and builder of large vessels in the world. The original trimaran was also sold to FOSA and has been in service for 13 YEARS AND HAS NOT MISSED A SAILING through bad weather or reliability and sails when catamarans and monohulls do not. The vessel is optimised for heavy sea conditions and reduces sea sickness substantially (FOSA reports by 80%). The vessel has been so successful that FOSA have ordered 2 more vessels the first of which is now in production in Henderson with the second due for build in AP post MOLS. This last period has been the first time that we have sold more trimarans than large catamarans as the vessel is getting greater acceptance around the world. The trimaran for FOSA of course led to the LCS program in the USA which has been worth billions of dollars to Austal.

The trimaran is a great example of Austal's technical leadership and why we have

been so successful in shipbuilding for the past 30 years.



# Henderson shipyards expansion

## Pacific Patrol Boat Production Facility for Guardian Class

- Constructing 21 x 39.5m steel hull patrol boats for the Commonwealth of Australia.
- PPB#1 (Hull 521) launched May 2018, delivery scheduled for 30 November 2018.
- PPB#2 (Hull 522) to be launched 26 November 2018.
- PPB#3,4 (Hulls 523 and 524) under construction.
- 180 employees on site.



- Hull 521 (PPB-R#1) – First Guardian-class Patrol Boat constructed under Commonwealth of Australia’s Pacific Patrol Boat Replacement Program (PPB-R) - launched May 2018.
- Construction commenced April 2017 at dedicated PPB-R shipbuilding facility at 51 Hope Valley Road, Naval Base Western Australia.
- PPB-R program comprises 21 x 39.5 metre steel hull patrol boats, designed and constructed by Austal.
- Total contract over \$330million (original contract for 19 vessels was added to in Dec 2018 with 2 vessels to be constructed for Timor Leste).
- Vessels to be gifted to 13 Pacific Island nations from 2018 – 2023.
- Austal to provide support services upon delivery of first vessel (30 Nov 2018), from dedicated service centre based in Cairns, Queensland.

### **PLAY PPB-R Launch Video**

Construction of the Guardian Class vessel is now well underway with the first vessel due for delivery at the end of November this year and 3 more vessels now in production with the next launch in November. First of class vessels are always difficult as we iron out all of the issues during the build and test phase and this project has been no different which is why we elected 2 years ago not to trade profit

on this program until the first vessel was delivered. Production productivity improvements have however been excellent and a great credit to the operations team. The vessels are being built in a big facility in Naval Base about 10 minutes from Henderson in what is turning into a showcase for Australian shipbuilding. They said we couldn't build steel ships-well we are now!

# Disclaimer

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