AUSTAL LIMITED

COMPANY ANNOUNCEMENT
30 AUGUST 2024

AUSTAL REPORTS IMPROVED EBIT OF $56.5 MILLION IN FY2024, WITH ORDER BOOK WORTH UP TO $12.7 BILLION

SUMMARY:

- Earnings in line with FY2024 guidance on lower revenue
  - Revenue of $1,468.9 million (FY2023: $1,585.0 million), down marginally YoY, primarily on lower contribution from shipbuilding as programs transition
  - EBIT of $56.5 million (FY2023: -$4.8 million) on improved contribution from USA programs and a strong result from the support business. EBIT included exceptional items of:
    - $57 million for legal costs/fine related to the resolution of US regulatory investigations, and
    - $54 million from the sale of land in the US
  - Net Profit After Tax of $14.9 million (FY2023 Net Loss After Tax: $13.8m)
- Cash position
  - Cash at bank: $173.5 million (30 June 2023: $179.2 million)
  - Net cash position of $3.9 million (30 June 2023: $49.7m)
  - Net operating cash outflow of $13.0 million (FY2023 $86.7 million inflow)
  - No dividend to maintain balance sheet strength ahead of capex program to increase shipbuilding capacity and capability
- Record order book of $12.7 billion (contracted + options) with 10+ year horizon
  - Order book of $12.7 billion at 30 June 2024, with additional +$120 million in subsequent awards
  - Well positioned to add further defence project opportunities in both USA, and in Australia through Strategic Shipbuilding Agreement (SSA)

Austal Limited (Austal) (ASX:ASB) has today released its financial results for the financial year ended 30 June 2024 (FY2024).

The Company recorded Earnings Before Interest and Tax (EBIT) of $56.5 million (FY2023: loss of $4.8m), on Revenue of $1,468.9 million. EBIT was in line with the market guidance range (3% to 4% EBIT margin on targeted 8% to 10% growth in FY2023 revenue), despite FY2024 revenue declining by around 7%. The turnaround in earnings reflected improved earnings performance from USA shipbuilding operations as well as a strong contribution from Austal's support business.

Austal Chief Executive Officer Patrick Gregg said "Austal delivered an improved financial result in FY2024 as our transition from existing to new programs continues. Our record order book continues to grow and will grow further once the Australian Government announced programs are contracted through the Strategic Shipbuilding Agreement later this year. These orders will add billions of dollars of work to our Australian operations, and coupled with recent commercial wins, means a recovery in Australasian financial results is expected.

"The Company delivered Earnings Before Interest and Tax in line with market guidance, despite lower revenue for the year. While Australasia underperformed financially due to fewer commercial shipbuilding awards and later than expected defence awards, we are well positioned for a long runway of Australian defence vessel build programs. The support business was a strong earnings contributor across both the USA and Australasia. We had predicted support revenue would reach $500 million by FY2027. At $467 million we were very close to getting there three years early.

"We remain confident Austal has a positive outlook which is underpinned by a record order book and more diverse revenue base from our growing support business, expanding technology business, and a large and increasing number of defence construction programs."

The Company also announced key changes to the Board and management during the year. Former US Secretary of Navy Richard Spencer joined the board of Austal USA and Austal Limited and replaced John Rothwell as Chairman on 1 July 2024. Mr Rothwell was the Company's inaugural Chairman and retired from the position to continue serving on the Board as a non-executive director. Michelle Kruger was appointed as President of Austal USA in April 2024, after being appointed to the role on an interim basis in August 2023.

FINANCIAL RESULTS

Austal delivered revenue of $1.47 billion for FY2024. This was down around 7% on the FY2023 result of $1.59 billion due to lower shipbuilding revenue. Shipbuilding revenue reduced 18% on the prior year due to slower progress on USA programs, as the build program wound-down on Littoral Combat Ships and Expeditionary Fast Transports and moved to other programs, and delayed awards and lack of commercial work in Australasia. The growing support business was a strong contributor to FY2024 revenue, delivering 27% growth to $466.6 million.

Shipbuilding accounted for ~68% of total revenue and support grew to ~32% (FY2023: shipbuilding ~77%, support ~23%).

Austal delivered a $61.3 million turnaround in EBIT to $56.5 million before exceptional items (FY2023 EBIT loss of $4.8 million), despite the lower revenue, and equated to an EBIT margin of 3.8%. Reported EBIT was impacted by a net increase of $29.2 million in contract provisions related to the Auxiliary Floating Dry Dock (AFDM) program in the USA. No additional provisions were recorded for the Towing, Salvage and Rescue Ships (T-ATS) program, and the prior year provision was fully utilised together with an assessment of the increased expected probable recovery for the Request for Equitable Adjustment (REA) from the US Navy.

EBIT included exceptional items of $57 million provision for legal costs/fine related to ongoing US regulatory investigations and a $54 million profit from the sale of land in Mobile in the US.

Net Profit After Tax was $14.9 million (FY2023 Net Loss After Tax: $13.8m).

USA SEGMENT

Austal's USA segment reported revenue of $1.17 billion (FY2023: $1.23 billion) and an EBIT of $92.9 million (FY2022: EBIT of $5.2 million), with strong EBIT improvement from both Shipbuilding and Support. Revenue declined as a result of a greater proportion of design phase work (new programs), impact of onerous contracts, and lower construction hours and materials (mature programs), which consequently resulted in a lower level of revenue recognition.

This will change as vessels progress to build phase.

Shipbuilding EBIT recovered to $25.1 million (FY2023 $9.5 million EBIT loss) on revenue of $853.9 million, reflecting an improved EBIT margin of 2.9%. The improvement was on the back of strong contributions from the advanced LCS and EPF programs and increased value of the assessment of the expected probable REA recovery from the Company's external expert consultant, offsetting additional onerous contract labour hours incurred on T-ATS and the Auxiliary Floating Dock Medium. Deliveries during the year included EPF-14 and LCS-36.

Austal is starting to move onto larger programs which were bid very differently to the T-ATS and AFDM programs. These new programs possess greater cost inflation protections as well as increased labour hour metrics per vessel.

Austal USA was successful in securing $1.4 billion of new contracts (LCU and EMS) during FY2024, plus a further $779 million contract modification for the construction of the lead ship of the T-AGOS (ocean surveillance) program, T-AGOS 25. The contract modification exercises an option for ordering long lead time materials to continue/complete the design and construction of the lead ship.

EBIT from US support work increased from $14.7 million in FY2023 to $67.8 million in FY2024 on higher revenue of $320.4 million (FY2023 $226.9 million). The increase in EBIT was driven by strong contributions from Austal Advanced Technologies and the Singapore operations. The new floating dock in San Diego is currently undergoing further environmental requirements before it is commissioned. The demand outlook for the dock is positive, and once commissioned it will allow the company to more efficiently service larger vessels such Littoral Combat Ships for the US Navy and grow revenue.

AUSTRALASIA SEGMENT

Austal's Australasia segment reported lower revenue of $ 302.9 million, compared to $366.4 million in FY2023. The 17.3% decline was primarily due to a reduction in shipbuilding activity during the period from fewer commercial contract awards and builds, and delays in the award of key Government programs.

EBIT consequently declined to a loss of $12.6 million in FY2024, compared to a profit of $15.8 million in the prior year. Support activities were steady, contributing revenue of $148.1 million and EBIT of $9.9 million in FY2024 compared to $144.1 million and $9.1 million respectively in the prior year.

The shortfall in shipbuilding revenue has since been addressed with the award during the year of two additional Evolved Cape-Class Patrol Boats, two Guardian-Class Patrol Boats, a 71 metre RoRo passenger cargo vessel at Austal Vietnam, and a July 2024 contract award to design and construct a new 66 metre wind-powered, aluminium cargo trimaran.

In addition, Austal signed a Heads of Agreement with the Commonwealth of Australia ("the Commonwealth") to establish a Strategic Shipbuilding Agreement ("SSA"). Establishing an SSA would result in Austal being selected as the Commonwealth's strategic shipbuilder at Henderson, Western Australia, and would underpin the long term order book for the shipyard.

This was followed by the recent execution of a Memorandum of Understanding (MOU) with Civmec Limited to form a Joint Venture (JV) to submit a proposal to the Commonwealth to support the LAND8710 Phase 2, Landing Craft Heavy (LC-H) project. The JV will form part of Austal's supply chain that will deliver the Landing Craft Heavy program through the Strategic Shipbuilding Agreement.

CASH AND CAPITAL MANAGEMENT

Austal's cash at bank was $173.5 million (FY2023 $179.2 million). The cash balance included a $40 million draw down of the $65 million working capital facility, with $25 million undrawn as at 30 June 2024.

Capital expenditure during the year was $66.4 million versus $126.6 million incurred in FY2023. This investment primarily related to the San Diego facilities and some design work on the Final Assembly 2 buildings and ship lift planned in Mobile. Significant capex is not expected in Henderson as part of the SSA, as development of the Defence Precinct is anticipated to be owned by the Commonwealth in a similar fashion to South Australia. The Landing Craft Medium vessels can be built in existing Austal facilities and the JV with Civmec enables a build solution for the Landing Craft Heavy.

Austal reported a net operating cash outflow of $13.0 million (FY2023: $86.7 million inflow). Cash generation is influenced by the timing of milestone cash payments from customers so is prone to fluctuation.

Austal did not take out any new borrowings in the period. Gross debt increased to $169.6 million, primarily as a result of the $40 million draw down of its working capital facility. Long term debt remained steady at $129.6 million (30 June 2023: $129.5 million).

In line with the Board's prudent capital management approach, no dividends were declared for FY2024 to support Austal's capacity to invest in the business for its next phase of growth. The cash position and current facilities are deemed sufficient for operations and the Company will inform the market about how it will fund the investment in Mobile. Now the US regulatory matter has been resolved it will allow finalisation of discussions.

OUTLOOK

Austal continued to grow its record order book over the past 12 months with contract awards plus options increasing by $1.1 billion to $12.7 billion. The company remains well positioned in the USA to support Navy and Coast Guard shipbuilding and support requirements.

In addition, if ultimately signed, an SSA with the Commonwealth would see Austal selected as its strategic shipbuilder at Henderson, Western Australia, underpinning the long-term order book in Australia. As part of an initial pilot program under the Heads of Agreement with the Commonwealth, Austal is working with designer Birdon and the Government to establish arrangements for Austal to construct and deliver the Landing Craft Medium, and subject to further negotiation and performance, Landing Craft Heavy capability. Neither are currently included in Austal's order book. Looking longer term, the Commonwealth has also announced a plan to build 11 General Purpose Frigates (8 to be built in Western Australia) and 6 Optionally Crewed Surface Vessels in Western Australia.

"With the independent analysis of the lethality of Australia's surface fleet providing an open statement on more Evolved Capes in addition to the frigates and optionally crewed vessels, we have never seen such a potential pipeline and a real opportunity for continuous naval shipbuilding to provide greater stability to our workforce and revenue," Mr Gregg said.

"The commercial contracts won by Austal in the past six months will ensure our Australasian yards will be busier in FY2025 than they were in FY2024.

"Looking ahead, further opportunities for growth through AUKUS in submarine modules and technology are also being pursued by the Company to add to its increasing work in these two strategically important areas."

A substantial capital expenditure program focusing on Austal's US facilities is planned to support delivery of the record order book and future revenue and earnings growth, which is expected to commence in FY2025.

The capital investment planned for Mobile includes three consolidation sheds with the capability to assemble large steel vessels such as T-AGOS and OPC. This facility will include a ship lift capable of launching and recovering vessels, if maintenance activities are nominated for this location in the future.

EBIT Guidance will be provided at or in advance of Austal's Annual General Meeting, but with recovery in Australasia operations, EBIT growth is anticipated.

"Austal is now working on 14 different vessel programs, providing the company with diversity and long runway of work and revenue. Our focus is now on executing these programs safely and efficiently, while adding to our order book as opportunities arise," Mr Gregg said.

This ASX announcement has been approved and authorised for release by Austal Limited Chief Executive Officer, Paddy Gregg.

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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.

In its 36 years of operations, Austal has built more than 350 vessels for 122 commercial and defence operators in 59 countries.

Austal is Australia's largest defence exporter and first ASX-listed shipbuilder. The Company has industry-leading shipyards in Australia, the United States of America, Philippines and Vietnam, and service centres worldwide.

Austal delivers iconic monohull, catamaran and trimaran commercial and defence vessel platforms.

Although the Company's roots are in aluminium shipbuilding – it is the world's largest aluminium shipbuilder – Austal builds conventional and autonomous ships in both steel and aluminium, as well as a range of other bespoke maritime build programs such submarine modules.

Austal was the first, and remains one of only two, foreign-owned prime contractors designing, constructing and sustaining ships for the US Navy.