



Twiggy Forrest builds a stake in shipbuilder Austal

Company/ASX Code	Austal Ltd/ASB
AGM date	Wednesday 23 November 2022
Time and location	2.00 pm WST Fremantle Sailing Club, 151 Marine Terrace, Fremantle
Registry	Link Registry Services
Type of meeting	Physical
Poll or show of hands	Poll on all items
Monitor	Geoff Read and Keith Mellis
Pre AGM Meeting?	No

One of the people who prepared this voting intention has a shareholding in the company

Summary of issues for meeting

The company has effectively weathered another COVID year with only minor disruptions to delivery schedules. The international passenger ferry market remains subdued due to reduced travel and tourism. The USA operation continues to win contracts from the US government but they are smaller than the large LCS and EPF contracts which are nearing completion. In Australia the company continues to win contracts from the Australian government but these are modest in size. In the Philippines Austal was not successful in a tender to the Philippines Navy.

The challenge ahead for management is to secure sizeable long term shipbuilding programmes in USA and Australia to replace those in wind-down mode and to underpin sustainable growth.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Re-election of Ms Sarah Adam-Gedge	For
3	Approval of performance rights plan	For
4	Approval of the issue of share rights to Ms Sarah Adam-Gedge	For
5	Approval of the issue of share rights to Mr Chris Indermaur	For
6	Approval of the issue of share rights to Mr Giles Everist	For
7	Approval of the issue of STI rights to Mr Patrick Gregg	For
8	Approval of the issue of LTI rights to Mr Patrick Gregg	For
9	Approval of the issue of Austal shares for vested FY2020 LTI rights to Mr Patrick Gregg	For

Summary of ASA Position

Governance and culture

Austal's Corporate Governance Statement is structured with reference to the ASX Corporate Governance Council's Principles and Recommendations and can be located on the Company's website. With the exception of the non-independent chairman Austal has confirmed compliance with the principles in full for the whole of the year. However, the Board skills matrix does not evaluate directors against the designated skill requirements. It should be noted that the AR starting on page 103 refers to financial risk management only with environmental and social risks being referred to in the ESG report from page 44.

The board comprises the CEO, four independent non-executive directors and the Chair who is no longer classified as independent because of his tenure. The Board continues to have only one female and has targeted 30/6/23 to have increased representation to 40%.

Financial performance

Despite a 9% decrease in revenue to \$1.43b, EBIT of \$120.6m was the second highest in Austal's history following a gross margin increase from 7.3% to 8.4%. USA revenue was down \$121m due to the LCS programme wind down whilst Australasia was down \$22m mostly as a result of the pandemic effect on the ferry market.

NPAT decreased \$1.5m to \$79.6m due mainly to a \$6.7m increase in taxation charge which was mostly attributable to temporary timing differences and a \$3.7m unrecognised tax loss. The dividend for FY22 remained at 8 cents. The TSR was negative for the third consecutive year although the share price jumped from \$1.80 on 30 June to \$2.25 on 1 July following the announcement of the OPC contract referred to under key event 2 below and has remained above this level since.

Key events

1. Opening of the steel shipbuilding facility in Mobile, Alabama at a total cost of US\$100m, funded equally with USA government. Austal deserve compliments for their speed in establishing this new facility.
2. Award of 3 steel shipbuilding contracts in USA. The first was for 2 Towing, Salvage & Rescue vessels for US Navy, subsequently increased to 4 vessels, followed by a US Coast Guard contract for 1 Offshore Patrol Cutter (OPC) with an option for a further 10 vessels (potential total value of A\$4.3b over 10 years).
3. Expansion of support capability to 8 Service centres with the acquisition in San Diego of a ship repair facility.
4. All 4 shipyards remained operational despite the pandemic impacts.
5. ASIC litigation against Austal has been resolved. The Federal Court has ordered Austal to pay a penalty of \$650,000 after finding the company contravened continuous disclosure laws. The Court also found Austal's former CEO, David Singleton, was knowingly involved in the disclosure failures.

Mr Singleton has been ordered to pay a penalty of \$50,000. Austal and Mr Singleton have been ordered to jointly contribute to ASIC's legal and investigation costs in the amount of \$500,000. However, the investigation by US Dept. of Justice and SEC continues.

6. Order book up from \$2.5b to \$3b.

7. Guidance of \$100m EBIT for FY23

8. The Andrew (Twiggy) Forrest family company Tattarang has acquired a 17% stake in Austal. There are no Tattarang backed candidates proposed for election at this AGM.

Key Board and senior management changes

There were no Board changes this year. Rusty Murdaugh was appointed president of USA operations on a permanent basis in September 2021 after temporarily filling the role. After 15 years with Austal the CFO Greg Jason resigned halfway through the year. Whilst Austal has an interim CFO they are yet to appoint a permanent replacement.

ASA focus issues not covered elsewhere

ESG

The 2022 ESG report can be found on Austal's website. Observations therefrom are as follows:

1. Adoption of the Global Reporting Initiatives standards during the year.
2. Focus continues on fuel efficiency, emissions reduction and materials usage.
3. The Mobile, Alabama shipyard, with 50% of the workforce, was again awarded for its safety record.
4. Scope 1-3 emissions to be reduced 50% by 2030. Page 19 details FY22 emissions and the initiatives to reach the targets on page 20.
5. Established sustainability committees.
6. Targets set to increase female participation across the workforce.
7. Corporate values statement set out on pages 8 & 9.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	79.6	81.06	88.98	61.38	39.03
UPAT (\$m)	79.6	81.06	88.98	61.38	39.03
Share price (\$)	1.80	2.05	3.23	3.41	1.86
Dividend (cents)	8	8	8	6	5
Simple TSR (%)	-8.3	-34	-3.6	86.6	4.1
EPS (cents)	22	22.6	25	17.6	11.3
CEO total remuneration, actual (\$m)	1.673	0.989	3.03	3.15	2.38

There was a change of CEO on 1/1/2021. The current CEO served only half of 2021 in that role.

For 2022 the CEO's total actual remuneration was 17.5 times the annualised Australian Full time Adult Average Weekly Total Earnings (based on May 2022 data from the Australian Bureau of Statistics.)

Adoption of Remuneration Report

A summary of the remuneration framework is set out in Appendix 1. The Report is clear and comprehensive and includes a table of take-home pay. The main exception to ASA guidelines continues to be the Long Term Incentive (LTI) measurement period of 3 years and not the minimum of 4 years required by ASA.

There were 3 Key Management Personnel (KMP) entitled to the Short Term Incentive (STI) for FY22 and 1 for part year and paid a cash incentive only. The 3 KMP achieved between 80% and 83% of their stretch entitlement and the total cost for all 4 KMP was \$1,492,228.

There were 2 KMP entitled to the FY20 LTI award at the end of the year. Both CEO and USA President achieved 45% of the rights originally granted, with total rights awarded of 64,080 and a value of \$244,613 based on share price of \$3.82 at grant date. If the share price at 30 June 2022 was applied to the rights awarded the value would have been \$115,344. The award was significantly affected by the negative TSR.

There were no meaningful changes to the remuneration plan or to basic entitlements, including directors' fees. The performance of Austal supports remuneration payments and therefore ASA will vote in favour of this resolution.

Re-election of Ms Sarah Adam-Gedge

Ms Adam-Gedge was appointed a director in 2017 and deputy Chair in 2019. Sarah is Chair of Nomination & Remuneration committee and a member of Audit & Risk committee. Sarah is responsible for the very well presented Remuneration Report and her shareholding in Austal is above target. Sarah's biography is set out in AR page 13. ASA supports her re-election.

Approval of performance rights plan

In 2019 the Company established the Austal Limited Rights Plan (the Plan). The Plan is used to grant equity to eligible employees under the STI and STI provisions. The Plan was approved at Company's 2019 Annual General Meeting. This resolution is required to enable the Company to continue with the grant of Rights under the Plan without using up any of its 15% Placement Capacity under ASX listing rules. ASA supports this resolution.

Approval of the issue of share rights to Ms Sarah Adam-Gedge, Mr Chris Indermaur and Mr Giles Everist

These share rights form part of the NED remuneration plan and assist directors to build a stake in the Company up to the target shareholding equal to annual base Board fees. Shares are purchased at market prices. ASA supports this resolution.

Approval of the issue of STI rights to Mr Patrick Gregg

Approval is sought for the award of 149,153 rights to the CEO/MD representing the 50% equity component of the total FY22 STI valued at \$543,443. The award is based on the achievement of 83% of the maximum opportunity of 68% of fixed remuneration of \$970,000 and the relevant market based share price of \$1.82. ASA supports this resolution.

Approval of the issue of LTI rights to Mr Patrick Gregg

Approval is sought for the grant of up to 416,862 rights to the CEO/MD in respect of the LTI for the 3 years ending 30/6/25. The grant is based on Mr Gregg's fixed remuneration of \$1,008,800 for FY23 (FY22 \$970,000) at the maximum opportunity of 100% and the relevant market based share price of \$2.42. ASA supports this resolution.

Approval of the issue of Austal shares for vested FY2020 LTI rights to Mr Patrick Gregg

Mr Gregg was COO when he was granted rights under the FY20 LTI covering the 3 years to 30/6/22. Patrick achieved 45% of the grant and is entitled to 41,831 shares, the issue of which must be approved in his position now as a director. ASA supports this resolution.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Appendix 1 Remuneration framework

The framework is the traditional mix of fixed and at risk remuneration. A summary of the framework is as follows and the table below sets out the exposure mix for the CEO:

Fixed pay (FR)

Short term incentive (STI)-awarded for the achievement of annual hurdles (set out in AR page 33), paid equally in cash and performance rights, with the equity component subject to a 12 month holding period (the USA President is paid wholly in cash)

Long term incentive (LTI)- awarded with performance rights against hurdles over a 3 year period, with a 12 month holding period. The 3 equally weighted hurdles are Indexed Total Shareholder Return, Earnings per Share Growth and Return on Equity

The incentive awards are determined as a percentage of FR and entitlements are calculated at market price.

No STI is paid unless EBIT is at least 85% of budget.

CEO rem. Framework for FY2022	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	0.970	51	0.970	37.4
STI - Cash	0.218	11.5	0.327	12.6
STI - Equity	0.218	11.5	0.327	12.6
LTI	0.485	26	0.970	37.4
Total	1.891	100.0%	02.594	100%