



**Austal profit up 26%, has \$3.0 billion in forward orders**

<b>Company/ASX Code</b>	Austal/ASB
<b>AGM date</b>	Friday 26 October 2018
<b>Time and location</b>	3.00 pm (WST) Fremantle Sailing Club, Marine Terrace, Fremantle. WA
<b>Registry</b>	Link Market Services
<b>Webcast</b>	No
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Geoff Read assisted by Keith Mellis
<b>Pre AGM Meeting?</b>	Yes, teleconference with CEO David Singleton and CFO Greg Jason

<b>Item</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

2018 marked the 30 anniversary of Austal’s beginnings as a builder of small aluminium boats at one site. Austal now has 5 shipyards and 3 service centres and is a prime defence contractor and supplier of large vessels to operators all around the world.

After a disappointing result in 2017, net profit after tax (NPAT) rose by 26% to \$39m in 2018. Earnings before interest tax depreciation and amortisation (EBITDA) rose by 33% to \$102m this year from \$77m in the prior year. The dividend increased from 4 cents (2017) to 5 cents (2018) but was unfranked due to little tax being paid in prior years. The ASB share price was steady over the year, and with the modest dividend, this produced the total shareholder return of 4.1%.

Unfortunately, the company was unsuccessful in the tender for the RAN offshore patrol boat contract. However it has \$3.0 billion of forward orders and has 47 ships scheduled or under construction including new orders for the US Navy and many commercial ferries. These orders extend to 2023.

Austal has established a shipyard in Vietnam and is tripling the size of the shipyard in the Philippines. Austal USA acquired a company named Electrawatch in Virginia. This company specialises in non-destructive testing of aluminium.

Non-Executive director Jim McDowell resigned to take up a full time job elsewhere and a new NED, Chris Indermaur was appointed on a casual basis. He is standing for election at this AGM.

Austal is a tightly held stock with the top 20 shareholders owning almost 90% of the shares.

ASA Focus issues—remuneration is adequately discussed although the actual take home pay of the key management personnel (KMP) is not disclosed. All the directors either have or are building a

meaningful position in company shares, albeit rather slowly. The board composition after the AGM will be Chair, CEO, and 3 non-executive directors (NEDs). Only one of the NEDs is female and she was first elected at the last AGM. This is below the female representation sought by ASA. It is a small board, appropriate for a company of this size.

### **Summary**

(As at FYE)	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
NPAT (\$m)	39.03	15.35	-84.4	53.2
UPAT (\$m)	39.03	15.35	-84.4	53.2
Share price (\$)	1.86	1.83	1.21	1.85
Dividend (cents)	5	4	4	4
TSR (%)	4.1	55.1	-32.7	45
EPS (cents)	11.3	4.4	-24	15
CEO total remuneration, actual (\$m)	2.38	2.1	N/A	N/A

For 2018 the CEO's total actual remuneration was 27 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

<b>Item 1</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

The Austal remuneration policy has been transformed over the past two years. In a series of steps which brings it closer to ASA guidelines. It has the usual components of fixed pay, short-term incentive (STI) and long-term incentive (LTI). The remuneration committee was chaired by Jim McDowell during 2018.

The STI performance period is 12 months and it is paid in cash. ASA prefers 50% in cash and 50% paid in shares with a 2 year holding lock. The key target areas are disclosed in the annual report but the precise targets are not. Business confidentiality is cited as the reason. In the case of the CEO for the 2018 year the STI consists of 40% financial measures, 20% new vessel orders, 30% group strategy development and execution, 10% business improvement initiatives. This has changed marginally for 2019.

The CEO achieved an STI of 85% of target in 2018. Other executives achieved STI in the range 50-60%.

The LTI plan is measured over a three year performance period followed by a one year holding lock. ASA prefers a four year performance period. The plan is assessed against two measures. 40%

is awarded based on total shareholder return relative to the S&P all ordinaries accumulation index and 60% is awarded on an internal measure of return on invested capital. For 2018 the LTI criteria provide for 50% of the relative total shareholder return (RSTR) award to be made if Austal achieves the 50<sup>th</sup> quartile rising to 100% of the award if Austal achieves the 75<sup>th</sup> quartile. In the case of the return on invested capital (ROIC) criteria the award begins at 6.6% ROIC and increases to 50% of the award at 7.4% ROIC and closes at 100% for achieving ROIC of 8.3%.

In the year ended 30 June 2018 the LTI plan for 2016 was tested. The results failed to meet both the TSR and ROIC Targets and thus the rights lapsed. No awards were made to the 2 KMP still in this plan.

The amounts paid to the key management personnel are reasonable and close to market norms. NED fees were almost the same as the prior year.

There is no resolution proposed this year to vote on a grant share rights for the CEO. The company proposes to review the LTI plan significantly because of a desire to retain scarce shipbuilding talent at a time when competition for this talent is increasing in Australia.

On balance because of all the above factors we believe the company makes it across the line to justify our FOR vote.

<b>Item 2</b>	<b>Re-election of Giles Everist as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Everist joined the board in 2013. He is an experienced executive and director and has a background in engineering, contracting and the resources sectors. He has another role as a director with Norwood systems and is the CFO of McMahan Holdings. He is an independent director and he chairs the audit committee and serves on the remuneration committee. He holds 10,000 shares and 9000 share rights.

<b>Item 3</b>	<b>Election of Chris Indermaur as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Indermaur is a new director to Austal and he has extensive experience in large Australian engineering companies in commercial and engineering roles. He appears to have the appropriate qualifications and experience for the role.

He also holds the following directorships:- Chairman of Medibio, director of Centrex Metals and Austin Engineering.

Since joining the board of Austal he has resigned from the role of Chairman at Poseidon Nickel and undertakes to resign soon as the Chairman of Medibio.

Given these resignations we believe has a reasonable workload and support his election to the board.

<b>Item 4</b>	<b>Approval of the issue of share rights to Ms Sarah Adam-Gedge</b>
<b>ASA Vote</b>	<b>For</b>
<b>Item 5</b>	<b>Approval of the issue of share rights to Mr Giles Everist</b>
<b>ASA Vote</b>	<b>For</b>
<b>Item 6</b>	<b>Approval of the issue of share rights to Mr Chris Indermaur</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Resolutions 4, 5, and 6 propose to replace 25% of the non-executive directors' (NEDs) fees with share rights to an equivalent value. The ASA likes directors to show their faith in a company by owning a meaningful shareholding. In fact we asked about the company's policy on NED shareholding at previous AGM's. Since 2017 the company has listened to feedback and has modified this share rights scheme so that the NEDs experience the same rise and fall in the company's share price as ordinary shareholders. The pricing calculation using VWAP has also been improved. This year we are pleased to support these 3 resolutions.

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

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