



**Austal gives shareholders enough reason to not abandon ship!**

<b>Company/ASX Code</b>	Austal Limited/ASB
<b>AGM date</b>	Friday 1 November 2019
<b>Time and location</b>	3.00pm Fremantle Sailing Club, Marine Terrace, Fremantle. WA
<b>Registry</b>	Link Market Services Limited
<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, with Chair John Rothwell

	<b>Consideration of 2019 Annual Report</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

Austal designs and manufactures defence vessels for, mainly, the USA and Australian governments and commercial passenger and vehicle ferries for a world-wide audience. The company claims to be the largest aluminium shipbuilder in the world and the fifth largest shipbuilder in USA. The Company now operates from 7 shipyards and 6 service centres around the globe.

The current year produced a healthy improvement in all financial metrics over 2018. Revenue increased 33% to \$1.85 billion, net profit after tax rose 24% to \$61.4m, operating cash flow increased 250.5% to \$164m on 2018 financial year (FY18). The annual dividend was increased from 5c to 6c per share and the Company's share price almost doubled to finish the at \$3.41 by end of financial year. The US operating unit produced 80% of total revenues and the Australasia unit 20%, with 84% of revenues relating to shipbuilding and 16% to support services. In the USA, earnings before interest and tax (EBIT) to revenue margin improved and the same margin for Australasia turned from a negative value in 2018 to 3% this year. A notable achievement in 2019 was the fifth consecutive year of year-on-year improvement in rate of injuries experienced in USA, running at half the industry average.

The US Navy has announced that it is transitioning from the small surface combatant (LCS) program to a Fast Frigate program. Under the LCS program, 10 vessels have been delivered with 9 outstanding. Austal is one of 4 bidding for the new program, which the CEO says would grow the US business substantially. The Company enters 2020 with this opportunity, an order book of \$4.9 billion and EBIT guidance of not less than \$105m, an increase of 14%. The only small shadow is one cast by three regulatory investigations currently underway. Two out of the three are based in the USA and the other is based in Australia. Management maintains that the basis for the investigations is still not totally clear but has prudently set aside \$11m in 2019 to assist the authorities with their enquiries in the future.

The Board of five directors is acceptable for a company of this size but, with only one female, it does not meet ASA’s standard of a minimum 30% gender balance.

### **Summary**

(As at FYE)	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
NPAT (\$m)	61.38	37.53	15.35	-84.4	53.2
Share price (\$)	3.41	1.86	1.83	1.21	1.85
Dividend (cents)	6	5	4	4	4
TSR (%)	86.6	4.1	55.1	-32.7	45
EPS (cents)	17.6	10.8	4.4	-24	15
CEO total remuneration, actual (\$m)	3.157	2.35	2.1	N/A	N/A

Net profit after tax (NPAT), Underlying profit after tax (UPAT) and earnings per share (EPS) 2018 have been restated in accordance with AASB 15.

The CEO’s total actual remuneration for FY19 includes performance rights granted in 2017 which vested in 2019 and are valued at the 2017 grant price of \$1.10.

The total was **36 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

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

### **Summary of ASA Position**

After receiving a first strike in 2018, the Company carried out a comprehensive review of remuneration policies, practices and disclosures. This included the benchmarking of executive and non- executive remuneration and resulted in a reduction to the CEO’s total opportunity. All ASA concerns were addressed during the review with the exception of two long term incentive (LTI) issues; the performance period remains at 3 years whereas ASA prefers a minimum period of 4 years and rights are calculated by discounting the share price by an amount for anticipated but ineligible dividends (ASA prefers a later adjustment when dividend rates are known, if at all).

The Company must be complimented for the changes it has made to remuneration and also for the clear and informative presentation of the Remuneration Report in the Annual Report. The main incentive provisions are now as follows:

1. Short term. At least 50% of performance hurdles must be financial and, with the exception of the USA key management personnel (KMP) who receive 100% in cash, 50% of the reward must be in rights with a 3-year minimum holding period. A financial gateway of 85%

of EBIT budget is applicable. At present, financial hurdles for all KMP are set at 60% and details are provided for the non-financial ones with actual performance reported. However, for the non-financials, outcomes are reported but quantified targets are not provided.

- For the CEO, the STI target opportunity is 60% of the total fixed remuneration while the total possible stretch opportunity (maximum) is at 90% of the total fixed remuneration on offer.
2. Long Term. Performance is measured over a 3-year period and there are 3 equally weighted performance measures and a 1 year disposal restriction after rights have vested. Performance measures are as follows:
- Indexed total shareholder return (TSR), with 50% earned where the index is equalled rising to 100% where the index is exceeded by 6%. There is a positive TSR gateway to protect against a negative outcome.
  - Return on equity, with 25% earned at a 10% return increasing to 100% at a 15% return.
  - Earnings per share growth, with 25% earned at 6% growth rising to 100% at 19% growth.
  - The LTI opportunity for the CEO at target performance is at 40% of the total fixed remuneration and the maximum opportunity is 80% of the total fixed remuneration.

CEO remuneration opportunity:

	Target \$m	% of Total	Maximum \$m	% of Total
Fixed Remuneration	1.10	50	1.10	37
STI - Cash	0.33	15	0.49	16.5
STI - Equity	0.33	15	0.49	16.5
LTI	0.44	20	0.88	30
Total	2.20	100%	2.97	100%

Overall, the CEO remuneration target and maximum opportunities have been reduced from FY18 and the payment structure has been simplified and conveyed clearly in the remuneration report for FY19. Performance against key performance indicator targets for the achievement of LTI and STI rewards are also fairly clearly presented in the report and the realised remuneration disclosure provides stakeholders with a fair view of how CEO remuneration has been awarded for FY19.

In all, ASA appreciates the improvement Austal has made in remuneration disclosure since 2017 and directs proxies in favour for this resolution.

<b>Resolution 2</b>	<b>Board Spill meeting</b>
<b>ASA Vote</b>	<b>Against</b>

#### **Summary of ASA Position**

This resolution is contingent upon the Company receiving more than 25% of votes against resolution 1. Considerable progress has been made during 2019 with the remuneration structure to more closely align it with shareholder interests and therefore ASA would vote against this resolution if it should eventuate.

<b>Resolution 3</b>	<b>Re-election of Ms Sarah Adam-Gedge as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Ms Adam-Gedge was appointed an independent director in August 2017 and brings strong information technology and consulting skills and experience to the Company. Ms Adam-Gedge should be congratulated as Chair of the Nomination & Remuneration Committee for the considerable changes introduced to the remuneration structure during 2019. The value of Ms Adam-Gedge's share rights exceeds one year's Board fees.

<b>Resolution 4</b>	<b>Approval of Rights Plan for Long &amp; Short Term Incentives</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

The Austal Ltd Rights Plan was introduced during the year, under which the Board will nominate eligible employees to participate in the short- and long- term schemes and acquire equity in the Company. The provisions of the new plan have been commented above under resolution 1 and apply to all eligible participants. Whereas the opportunities and performance hurdles for KMP entitlement under the plan are clearly set out, no details are provided for non-KMP.

<b>Resolution 5</b>	<b>Approval of the Issue of Share Rights to Ms Sarah Adam-Gedge</b>
<b>ASA Vote</b>	<b>For</b>
<b>Resolution 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**

Non-executive directors are required to accumulate and maintain equity in the Company valued at one year's Board fees. Ms Adam-Gedge and Mr Indermaur are paid 75% in cash and the remainder in share rights. The other non-executive directors have accumulated shares in excess of this requirement and so do not need to participate.

<b>Resolution 7</b>	<b>Approval of the Issue of LTI Rights to Mr David Singleton</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Singleton was granted 492,402 long term rights in respect of 2019 and 229,231 rights in respect of 2020 under the new plan commented above under resolution 1. Both grants are based on a stretch opportunity of 80% of total fixed remuneration and vesting thereof will be tested against performance for the 3 years ending 30 June 2021 and 30 June 2022 respectively. The grant for 2020 is significantly lower than 2019 due to the substantial increase in the share price between the two year-ends.

<b>Resolution 8</b>	<b>Approval of the Issue of STI Rights to Mr David Singleton</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Singleton was granted 115,290 short term rights under the new plan in respect of actual performance for the year to 30 June 2019. The grant represents 50% of his total award and reflects an overall achievement of 72% of his maximum opportunity. The rights are subject to a 3-year holding lock.

The individual (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

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