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AUSTAL TRACKING WELL AROUND THE GLOBE



US NAVY
Joint High Speed Vessel

Tracking 2014-15 revenue of \$1.2 billion, Austal is Australia's largest domestically-based defence contractor but its attributes have tended to fly below the radar in its home country. This is not particularly surprising, given that the majority of the company's facilities, workforce and earnings are US-based.

Nevertheless Austal's corporate headquarters, design authority and concept development teams remain at Henderson just south of Fremantle along with about 600 construction staff, and the company's sole stock exchange listing – since 1998 – is on the ASX.

Twenty-seven years after building its first rock lobster boat, the company has not only attained significant profitability but is now also arguably the global leader in the design and manufacture of high performance aluminium vessels.

Of the anticipated 2014-15 turnover of \$1.2 billion, 95 per cent will be derived from defence contracts, with about \$900 million flowing from the construction at Austal's wholly-owned shipyard subsidiary in Mobile, Alabama, of Joint High Speed Vessels (JHSVs) for the US Navy's (USN's) Military Sealift Command, and Littoral Combat Ships (LCS) for the USN.

The 4,500 staff employed at the Mobile facility make Austal one of southern Alabama's largest employers. Last year the company also opened a satellite office and warehouse in San Diego, home port for the USN's LCS Squadron Number One and one of the four JHSVs that have already been delivered.

A further 300 personnel man a shipyard acquired in 2011 in the Philippines' Cebu province as part of the company's strategy to regionalise its manufacturing base for commercial vessels such as fast ferries and support vessels for the oil and gas industries.

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Under a \$330 million contract the Henderson workforce has now delivered four 58 metre Cape class aluminium patrol boats to the Australian Customs and Border Protection Service. Two others are being fitted out alongside, and the final two are still to launch.

The Cape class is evolved from and slightly longer than the RAN's 14 Armidale class patrol boats, designed and built by Austal for prime contractor and design authority DMS. This has created a situation in which Austal CEO Andrew Bellamy maintains the company has been unable to defend itself following the discovery of structural cracks in some of the hard-worked Armidale fleet.

"We're just a sub-contractor so I get somewhat irritated when my brand is getting damaged in the marketplace yet I don't have the ability to directly influence or receive performance feedback on operations, maintenance and what happens next," he said to ADM.



AUSTRALIAN BORDER FORCE
Cape Class Patrol Boat

"...ARGUABLY THE GLOBAL LEADER IN THE DESIGN AND MANUFACTURE OF HIGH PERFORMANCE ALUMINIUM VESSELS."



ROYAL NAVY OMAN
High Speed Support Vessel

Unlike the Armidale situation, Austal is responsible for through-life support of the Cape Class fleet via an initial eight-year contract.

Work is also underway at Henderson on a US\$125 million contract for two 72-metre aluminium High Speed Support Vessels for the Omani navy based on the JHSVs. Both will be delivered in late 2016.

Construction meanwhile continues in Mobile on ships 5, 6 and 7 of the 10 Austal-designed Spearhead class JHSVs being procured under a US\$1.6 billion contract for the Military Sealift Command. These 103-metre catamarans, used for fast intra-theatre transport, can carry up to 312 troops in airline-style seats over 1,200 nautical miles (2,222 kms) at 35 knots (65 km/h).

Their design draws heavily on that of the Austal-designed and built Westpac Express.

The former ferry, chartered by Austal since 2001 under a turnkey arrangement with its banker-owner, carries US Marines to and from Okinawa and Guam.

"We've done that for 13 years now with an operational availability of more than 99.5 per cent, which is unheard of," Bellamy comments.

Understandably, the spotlight at Mobile continues to focus on the US\$5 billion contract under which Austal is the designated designer and constructor of 12 Independence-class variants – trimarans with aluminium hulls – of the US Navy's Littoral Combat Ship (LCS).

The current USN LCS program currently comprises 24 ships – 12 Independence class ships built by Austal, and 12 Freedom class steel monohulls produced by Lockheed Martin, with total acquisition capped at 32 platforms.

The trimaran construction of the 127-metre Independence ships, two of which have been delivered, one of which is about to begin trials and seven are under construction, is unique to the USN and provides the largest flight deck of any current USN surface combatant.

The LCS itself is a 40 knot, shallow draft platform with interchangeable anti-submarine warfare (ASW), surface warfare, and mine countermeasures mission modules.

Long-standing concerns about the type's relatively light armament and vulnerability in an evolving threat environment resulted in a USN requirement under the 52-ship Small Surface Combatant (SSC) program, of which the LCS is part, for a more lethal and survivable platform.

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Last December's decision by then US Defence Secretary Chuck Hagel to furnish this capability for the foreseeable future with upgunned developments of both the Independence and Freedom classes – now redesignated by the USN as frigates - may have been noted with little comment in Australia, but for Austal it foreshadows the continuation of its major revenue stream out to at least 2025.

The USN has until May to finalise its strategy for the acquisition of 20 such frigates and at least partial upgrading of completed and under construction LCS, for inclusion in the FY2016 US defence budget.

This is intended to effect delivery in 2019 of the lead ships of both new designs, although initial priority may well be given to the upgrading of some existing platforms to derisk frigate construction. Either way, schedule and cost will benefit from sequential production.



US NAVY
Littoral Combat Ship

According to Assistant Secretary of Navy Sean Stackley, current LCS seaframes cost about US\$360 million, plus government-furnished equipment of about US\$25-28 million. Upgrading the current LCS to frigate capability would involve an additional US\$60-75 million.

"The secret to being competitive in shipbuilding is to have a level of ongoing work, because that allows you to produce things efficiently," comments Bellamy. "We may well be adding lethality to ships prior to 2019 and the USN is already talking about how that might be accomplished, but to have a pretty good idea of what we're going to be building in the US through 2025 is a big deal."

Austal and Lockheed Martin each produced two separate, impressive proposals for seaframe and sub-systems and weapons upgrades.

Although the USN has yet to decide on final configurations, enhancements will include an upgraded 3D air surveillance radar, an unspecified over-the-horizon surface-to-surface missile, Hellfire missile launchers, Mk 38 25mm guns, increased armour for vital areas, a SeaRAM anti-ship missile system on the Freedom class similar to that already on Independence ships, an improved electronic warfare suite, and the addition to the surface warfare and mine countermeasures modules of the multifunction towed array sonar and torpedo countermeasures capability that are currently part only of the ASW modules.

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Although Austal's proposal for inclusion of a Mk41 vertical missile launcher was not adopted, Bellamy points out that the concept illustrated the extent of the real estate available on the Independence seaframe.

"If you're looking at future proofing, then you've got more design flexibility and design margin on an aluminium multi-hull compared to a steel mono-hull because aluminium is lighter and has more volume," he explained to ADM.

"But arguments about aluminium and steel are stupid; it should really be about what capability is needed. Write the requirement, design and build a ship that meets that requirement, operate the ship within that envelope and maintain it properly."



US NAVY
Littoral Combat Ship

Austal is taking a close interest in both the Sea 1000 Future Submarine and Sea 5000 Future Frigate programs, and the company has already begun some conceptual work to demonstrate how an extended version of its LCS platform could meet Future Frigate requirements.

"That's not to say I think we can build submarines and with Sea 5000 we're agnostic about materials, design and location, but I'm saying we're an Australian company that knows something about government contracting, we know something about delivering projects to demanding customers on time and on budget, and therefore we should be in the mix," Bellamy said.

His comments are bolstered by the expected increase in 2014-15 revenue, an as yet undisclosed improvement over the 2013-14 operating profit of \$65 million, and an 8.3 per cent margin on US activities.

Cost overruns in the air warfare destroyer (AWD) program were inevitable because of the overly complicated structure of the AWD Alliance grouping ASC, Raytheon Australia and the Defence Materiel Organisation, Bellamy believes.

"We ensure our efficiency and low overheads by competing in the international market – sometimes against another Austal business unit. We're free market people, we invest a lot in our intellectual property and market development and make sure our approach is differentiated from the pack," he said.

As Australia's primary national security asset, ASC should not be managed, operated or owned by a foreign company, he states.

"If the government decides to sell that asset or hand over operating responsibility, we would of course be interested in looking at it."

Bellamy is confident of more orders from the Middle East but says the company's international focus continues to be on the US – "selling more of the same or similar ships to an existing customer, such as the US government, is usually more productive than finding new customers".

Underpinning construction revenue is a stronger focus on support, including service bases in Oman, and in Trinidad and Tobago to support the six 30-metre patrol boats built for that country's Coast Guard.

But the main objective remains the ability to comprehensively support US and Australian ships in the Asia-Pacific region.

"There's a triangle if you think about it – we have a teaming agreement with Sembawang Shipyards in Singapore, we have our own shipyard in the Philippines, and we have a marine engineering facility in Darwin," Bellamy outlined to ADM.

"When those ships we're building for the US Navy and the Australian government are deployed forward we intend to be there, either directly or through fly-away teams from Mobile and Henderson, to meet those ships' operational requirements.

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