# Schaffer Corporation

December 2008 Half Year Results Presentation


# Devaluation of the AUD had a short term negative impact on Dec half year profitability, but a lower AUD improves margins in the Automotive Leather Division

| Half Year ($m's) | to Dec-07 | to Dec-08 | % change |
|---|---|---|---|
| Revenue | **91.1** | **85.5** | *-6%* |
| EBITDA | **13.8** | **10.4** | *-25%* |
| EBIT | **11.2** | **7.6** | *-32%* |
| Net profit after tax | **5.8** | **3.4** | *-41%* |
| *Net profit excluding property sales* | ***4.3*** | ***3.4*** | *-21%* |
| EPS | **$0.41** | **0.24** | *-41%* |
| Interim ordinary dividend declared (fully franked) | **$0.25** | **$0.25** | |

Dec 08 result includes $5.0m (after tax) of foreign exchange losses for the Automotive Leather Division due to the devaluation of the AUD (pcp $0.6m FX gain). These FX losses incorporate both realized and unrealized losses mainly related to (a) payments for imported raw materials, and (b) the settlement and mark-to-market adjustments on forward rate currency hedge contracts.

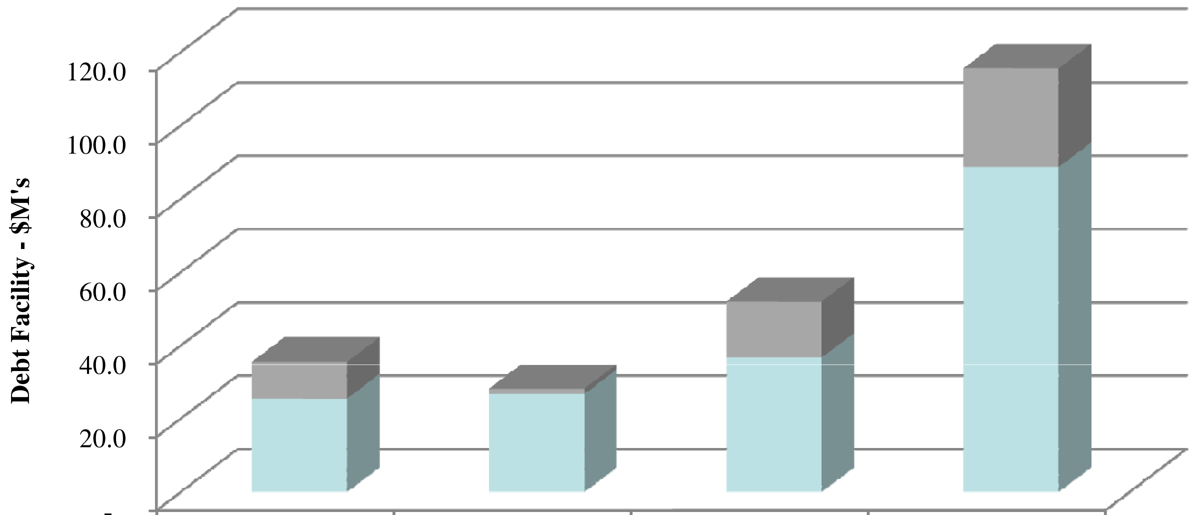
# Cash flow

| **Half Year Ending (A$m)** | **Dec-07** | **Dec-08** |
|---|---|---|
| EBITDA | **13.8** | **10.4** |
| Net interest paid | **(2.6)** | **(2.8)** |
| Tax paid | **(3.3)** | **(1.1)** |
| Howe change in trade working capital ('08 - *mainly pmts for raw materials*) | **9.6** | **(20.1)** |
| Other changes in working capital | **(1.3)** | **1.0** |
| Unrealized loss on foreign currency hedge contracts | **-** | **3.1** |
| Other | **(0.3)** | **(0.4)** |
| **Total operating cash generated** | **15.9** | **(9.9)** |
| Net Debt reduction/(increase) | **(9.3)** | **(0.9)** |
| Capital expenditure | **4.3** | **3.9** |
| Acquisitions (incl. retail property sites) | **9.4** | **-** |
| Proceeds from divestments | **(2.3)** | **(0.1)** |
| Dividends paid | **3.5** | **3.5** |
| Increase (decrease) in cash on deposit | **10.3** | **(16.3)** |
| **Total cash applied** | **15.9** | **(9.9)** |

# Group Debt Profile

| | Build. Mat. + Corporate | JV Invest. Properties | Howe Leather | Total at 31/12/08 |
|---|---|---|---|---|
| **Type of Debt :-** | | | | |
| Bank Debt - recourse | 21.3 | 3.1 | - | 24.4 |
| Bank Debt - non-recourse | - | 23.5 | - | 23.5 |
| Govt. Loans - non-recourse | - | - | 36.6 | 36.6 |
| Equipment Finance | 1.9 | - | - | 1.9 |
| Other Debt | - | - | - | - |
| | $ 23.2 | $ 26.6 | $ 36.6 | $ 86.4 |
| **Interest Type :-** | | | | |
| Fixed rate | $ 1.9 | $ 1.2 | $ 13.6 | $ 16.7 |
| Variable rate | $ 21.3 | $ 25.0 | $ 23.0 | $ 69.3 |
| **Maturity Profile :-** | | | | |
| Maturing in - FY09 (H2) | $ 0.2 | $ - | $ 2.0 | $ 2.2 |
| - FY10 | $ 0.5 | $ 7.5 | $ 2.0 | $ 10.0 |
| - FY11 | $ 0.5 | $ 7.7 | $ 2.0 | $ 10.2 |
| - FY12 | $ 14.4 | $ 3.8 | $ 30.6 | $ 48.8 |
| - FY13 & beyond | $ 7.6 | $ 7.6 | $ - | $ 15.2 |
| | $ 23.2 | $ 26.6 | $ 36.6 | $ 86.4 |

# Debt Utilization at 31 Dec. 2008




| | Bldg Materials & Corp. | JV Inv. Properties | Howe Leather | Total Group |
|---|---|---|---|---|
| Unutilized | 10.1 | 1.5 | 15.3 | 26.9 |
| Utilized | 25.4 | 26.6 | 36.6 | 88.6 |

# Interest Cover & Debt to NTA Ratio

| | Build. Mat. + Corporate | JV Invest. Properties | Howe Leather | Total |
|---|---|---|---|---|
| EBIT (millions) | $ 5.0 | $ 1.5 | $ 1.1 | $ 7.6 |
| EBITDA (millions) | $ 6.5 | $ 1.7 | $ 2.2 | $ 10.4 |
| Interest Cover | 6.5 | 1.7 | 1.8 | 3.3 |
| Gross Debt (millions) | $ 23.2 | $ 26.6 | $ 36.6 | $ 86.4 |
| NTA (property at valuation) | $ 86.1 | $ 44.4 | $ 59.8 | $ 190.3 |
| Debt/NTA ratio | 26.9% | 59.9% | 61.2% | 45.4% |

*NB :- Property adjusted to latest independent valuation, not net book value per balance sheet.*

# Schaffer Building Materials

## Building Products

DELTA
CORPORATION LIMITED

URBANSTONE
CENTRAL

ARCHISTONE™

LUMEAH
LIMESTONE
HANDCRAFTED POURED PAVING

# Building Materials Results

| Building Materials | | | |
|---|---|---|---|
| $M’s | Dec-07 | Dec-08 | % change |
| Revenue | 33.0 | 37.9 | +15% |
| Segment EBIT | 5.1 | 5.7 | +11% |
| Margin | 15.6% | 15.0% | |

- Strong earnings growth boosted by record activity levels for Delta Corporation.
- Trading conditions for paving and walling products remain difficult.
- Integration of recent acquisitions has created economies of scale for production, marketing, distribution and administration functions.

# Automotive Leather

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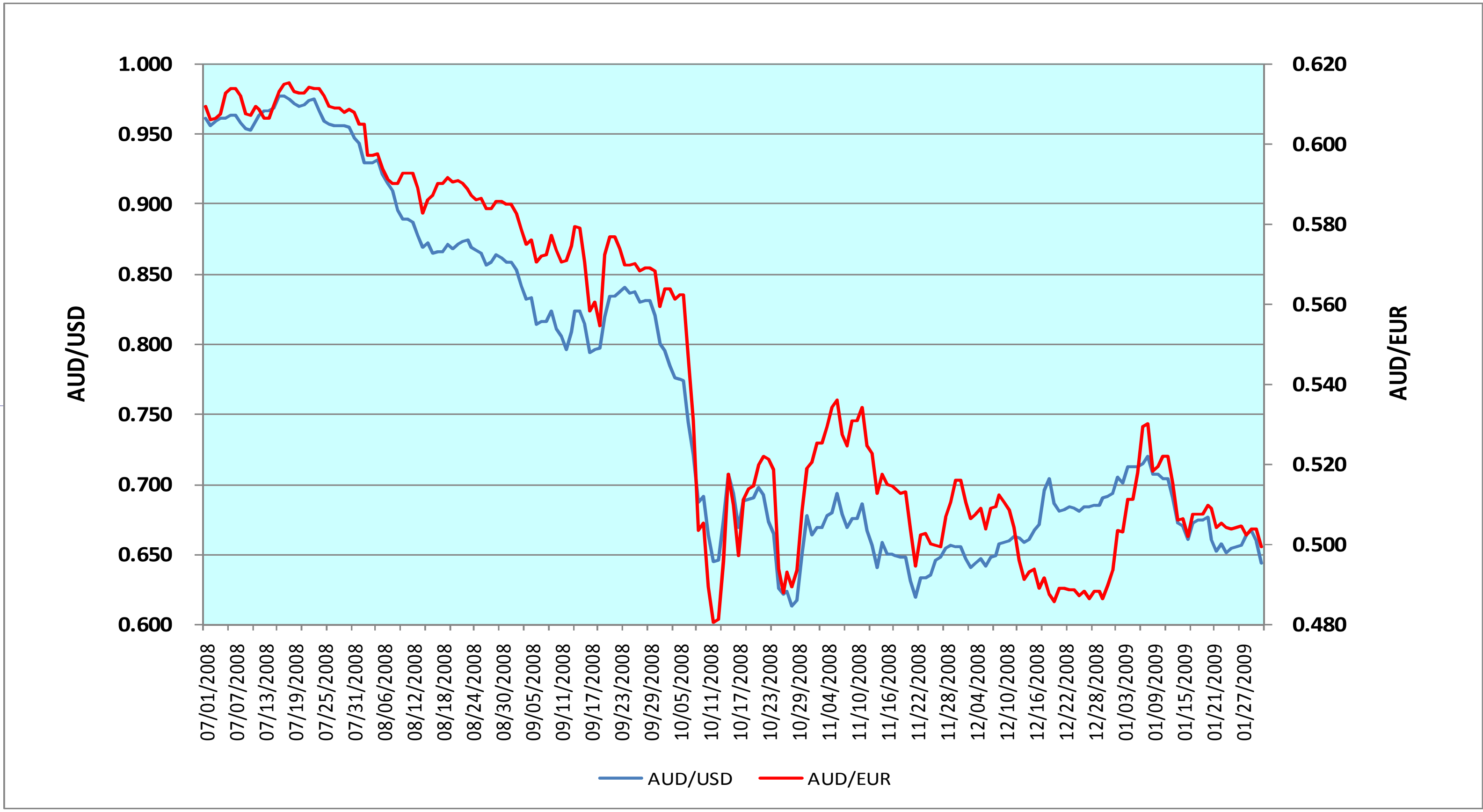
THE PROMISE OF AUSTRALIA'S BEST LEATHER™.

# Exchange Rates :- AUD vs USD & EUR July 08 – January 09




- Sharpest devaluation of the AUD versus USD since the currency was first fully floated in 1983.
- Extreme short term volatility in exchange rates makes forecasting very difficult.

# Automotive Leather Results

| $M's | Dec-07 | Dec-08 | % change |
|---|---|---|---|
| Revenue | 54.3 | 44.2 | -19% |
| Segment EBIT | 3.8 | 1.1 | -71% |
| EBIT exc. FX gains/losses | 3.0 | 8.2 | +273% |
| Margin | 7.1% | 2.6% | |
| Margin exc. FX gains/losses | 5.5% | 18.6% | |

- Pre-tax FX losses of $7.1m during H1 had a negative impact on earnings. ($3.7m realized losses and $3.4m of unrealized losses).
- Nevertheless the devaluation of the AUD, has significantly improved margins and global cost competitiveness.
- Sales volumes declined during the half due to the global decrease in automobile sales.

# Property


IBM Building, Hay St, West Perth

616 St Kilda Rd, Melbourne


89 St Georges Tce, Perth

# Property

| $M's | Dec-07 | Dec-08 | % change |
|---|---|---|---|
| Revenue | 3.5 | 3.1 | -11% |
| Net rental income | 1.1 | 1.5 | +36% |
| Profit on property sales | 2.0 | - | n/a |
| Segment EBIT | 3.1 | 1.5 | -50% |

- Strong growth in net rental income due to rent increases.
- Prior period earnings positively impacted by property sales (Melbourne office building & Mindarie Keys residential lots).
- Average LVR across investment portfolio at 31 Dec-08 was 47.5%, and average vacancy rate was less than 0.5%.

# Outlook – H2 FY09

- **Building Materials**
  - Trading conditions for Building Products (paving & walling products) are expected to remain difficult, and production levels at Delta are expected to be lower due to the completion of some major contracts. Consequently earnings for the Building material division are expected to be lower in the second half compared to the first half.
- **Leather**
  - The lower AUD is expected to materially improve operating margins in the second half, provided current exchange rates remain relatively stable. Therefore subject to maintaining reasonable sales volumes, earnings for the Automotive Leather division are expected to be materially higher in the second half.
- **Property**
  - Net rental income is expected to be positively impacted by lower interest rates in the second half, however in the current economic environment there is an increased risk of higher vacancy rates. No specific property sales are under consideration at present.

# Outlook – H2 FY09 cont.

- **General**
  - Management will continue to remain focused on managing operating expenses with a view to maintaining an adequate return to shareholders, minimizing working capital requirements, and ensuring an efficient and safe working environment for all employees.
  - As always the Board will continue to consider options to divest investment properties, provided any such sales generate an adequate return to shareholders.

# Outlook - Dividends

- The Board had declared an unchanged interim dividend of 25c per share fully franked, and payable in March 2009.

- The final dividend for FY09 will not be decided until the full year financial results are available, and will be paid based upon the cash position at financial year end, and the projected future cash position beyond this date having regard to capital expenditure requirements, retained earnings, franking credits, debt levels and business and economic conditions generally.