

# Schaffer Corporation Limited

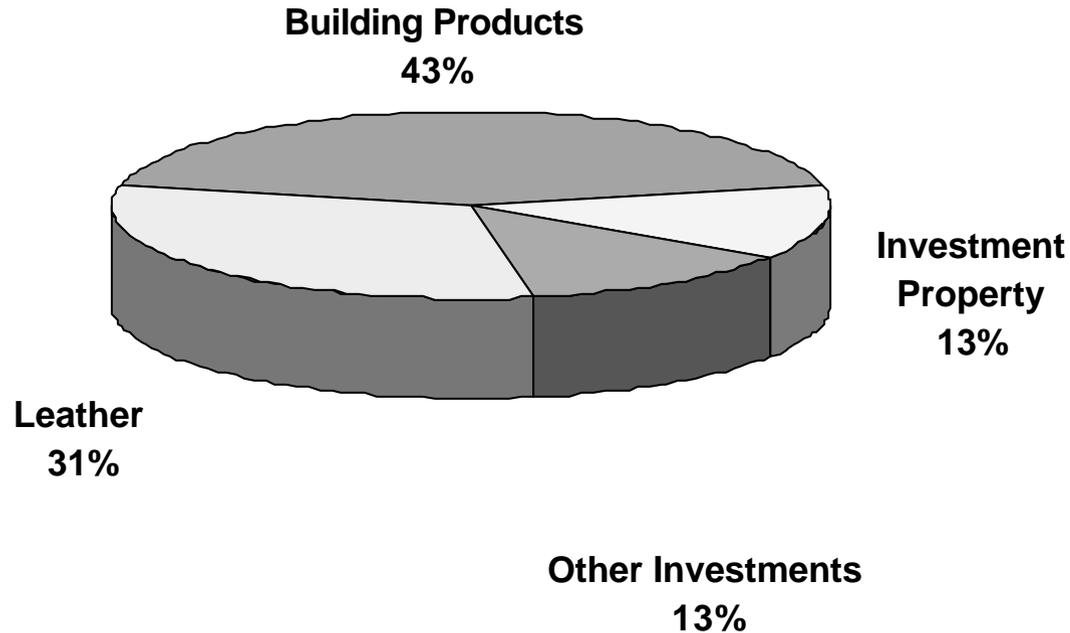


*Full Year Results – Jun 2006*

# Performance Summary

	2004/05	2005/06
Revenue (A\$m)	145	<b>145</b>
Net Profit (A\$m): Headline	9.4	<b>8.1</b>
Net Profit (A\$m): Excluding investment property disposals	8.7	<b>8.1</b>
EPS: Excluding investment property disposals	\$0.62	<b>\$0.58</b>
ROCE: Excluding investment property disposals	16%	<b>16%</b>
EBITDA (A\$m)	21.6	<b>21.1</b>
Cash Flow from Operating Activities (A\$m)	(1.5)	<b>16.2</b>
Cash Reserves	12.7	<b>13.6</b>
Net Interest Cover (EBIT)	5.9	<b>4.6</b>
Net Debt/Equity	81%	<b>89%</b>
Ordinary Dividend	\$0.75	<b>\$0.50</b>

# Jun 2006 EBIT Contribution



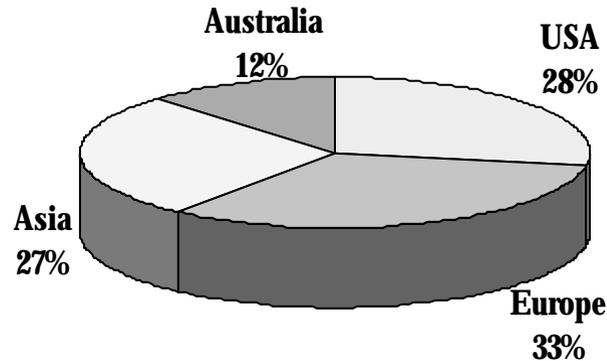
- Return on Capital Employed – 16%

# Operations – Leather (ALH)

(A\$m)	2004/05	2005/06
Automotive Revenue	98	<b>91</b>
Furniture Revenue	9	<b>7</b>
Automotive EBIT	8.3	<b>6.2</b>
ALH EBIT	8.3	<b>4.8</b>

- Automotive revenue.
  - European volume increased with Land Rover ramp up; despite BMW loss
  - Asian Volume increased; remains well down on pre-suspension peak
  - Lower North American demand
  
- ALH EBIT lower than FY2005 - impacted by:
  - Redundancy expense \$1.3m;
  - Gosh closure expenses \$1.0m;
  - Further margin compression – cost cutting programs at OEM level;
  - *Currency - A\$:€Euro 61.4 (pcp: 59.2) A\$:US\$ 74.8 (pcp:75.2);*
  
- Foreign Exchange EBIT impact:
  - \$Euro revenue: approx \$400k for every 1¢ appreciation in \$A
  - \$US revenue: approx \$250k per 1¢ appreciation in \$A

# Howe Sales by Region



- Asian OEM's impact on North America market
- Europe and Asia grew as % of total sales
- New cutting plants have strengthened Howe's position in the Europe and Asian markets
- Howe's sales focus is on growth opportunities in the European and Chinese markets.

# Competitive Advantages

- Access to a consistent supply of raw materials:
- Modern, global scale facilities:
- New cutting plants in low cost zones
- Quality Culture and accreditation:
- Established Global Customer Base:
  - Supplying GM, Ford, Audi, Land Rover, Mazda & Toyota

# Building Products



## ■ UrbanStone

- Premium paving products
- national distribution network

## ■ Delta

- pre-cast and pre-stressed products
- W.A. construction market

# Building Products (continued)



- **Limestone Resources (Jul-06)**
  - Largest WA producer of limestone products;
  - Large limestone reserves;
  - Complementary to UrbanStone;
  - Distribution potential through UrbanStone's national sales network
  - Services the
    - Commercial market
    - Residential market
    - Land Subdivision market

# Building Products Performance

(A\$m)	2004/05	2005/06
Sales	28.8	<b>39.0</b>
EBIT	2.9	6.6

- Significantly improved performance
- Driven by commercial and infrastructure projects
- Acquisition expected to add \$12m to \$14m per annum; but at lower margins than UrbanStone/Delta.
- New 4,800m<sup>2</sup> prestige showroom (UrbanStone & Limestone Resources display)

# Building Products – Competitive Advantages

- UrbanStone
  - plant design and flexibility
  - cost control culture
  - National distribution network
  - premium brand
  - Market leading product innovation
- Delta
  - Cost efficient product
  - Available capacity;
  - Strong industry relationships and distribution

# Building Products – Competitive Advantages

- Limestone Resources
  - Strong brand recognition
  - Unique product range
  - Working quarries - vast reserves and longstanding (EPA/CALM) approvals
  - Quarries are conveniently and well located; and
  - Leverage off the UrbanStone national distribution network



# Property

- JV interests in 7 properties
    - Valued at approximately \$32.5m; Debt: \$16.2m. \$14.9m in unrealised capital gains.
    - Leasing activities: \$2.0m of EBIT and \$1.1m of cash.
  
  - Mindarie
    - H2 EBIT contribution \$1.8m (v \$0.1m in H1); H2 stock releases were met with higher than expected demand;
    - Anticipate at least \$3.0m of EBIT and \$4.0m cash over the next two years.
  
  - SFC may consider further property acquisitions.
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# Jun 06 Debt Position

	Recourse	Non-Recourse	Total
Operating Businesses	0.3	40.0	40.4
Property	1.6	16.0	17.6
<b>Group Debt</b>	<b>1.9</b>	<b>56.1</b>	<b>58.0</b>
Cash on Deposit			13.6
<b>Net Debt</b>			<b>44.4</b>

- The ALH Subordinated Debt and the Investment Property Debt are effectively “structural” debt.
- ALH subordinated non-recourse debt facility - \$38.7m;
- 30-Jun-06 Group undrawn facilities - \$25m.

# Cash Flow

(A\$m)	2004/05	2005/06
EBITDA	21.6	21.1
Net Interest Paid	(2.8)	(3.4)
Tax Paid	(6.1)	(2.9)
ALH Change in Trade Working Capital	(8.5)	3.7
Other Changes in Working Capital	(2.1)	(2.3)
Other	0.9	(0.1)
<b>Total Cash Generated</b>	<b>3.0</b>	<b>16.1</b>
Debt Reduction	(1.7)	(1.6)
Capital Expenditure	4.8	4.5
Divestments	(4.4)	0.0
Dividends Paid	20.1	12.3
Increase/(Decrease) in Cash on deposit	(15.8)	0.9
<b>Total Cash Applied</b>	<b>3.0</b>	<b>16.1</b>

# Outlook – Earnings

## ■ **Automotive Leather:**

- Outlook subdued:
  - Supplier overcapacity
  - Rising hide prices
  - Aggressive pricing climate across the global automotive market.
- Margins consistently under pressure
- North America will continue to be difficult
- Focus on growth opportunities in the European and Asian markets.
- Significant progress in repositioning business - new cutting plants
- The Slovakia and China curing plants provided local presence and a growth platform
- Howe remains internationally competitive

# Outlook – Earnings (continued)

## ■ **Building Products**

- Project timing expected to reduce H1 revenue for Delta & UrbanStone
- Limestone Resources
  - \$12m-\$14m pa of additional revenue (at lower margins than UrbanStone/Delta).
  - \$1m to \$2m of CapEx for efficiency and capacity gains.

## ■ **Investment Property**

- Solid returns from leasing activities.

## ■ **Mindarie**

- Staging issues to (again) affect H1 contribution.
- Earnings should be biased to H2.

## ■ **At Group Level**

- Expect H1 result will not be less than the \$3.6 million NPAT achieved for the pcp to 31-Dec-05

# Outlook – Dividends

- SFC to pay 25¢/share fully franked final dividend
  - Ex Dividend date: 8 September 2006
  - Payment date: 19 September 2006

Totaling 50¢/share in fully franked dividends in for FY2005/06

- SFC intends to maintain a relatively high ordinary dividend payout ratio of at least 75%.

# Summary

- Financial and operating performance in line with expectations;
- Business repositioning has Howe well placed for medium term growth;
- New acquisition to drive Building Products revenue with CapEx to improve efficiency and capacity;
- Expect H1 performance to be no less than pcp;
- Corporate Objective: to provide strong dividend returns for shareholders;