SCHAFFER CORPORATION REPORTS NET PROFIT OF $10.5M

Schaffer Corporation Limited (ASX: SFC) today announced net profit after tax (NPAT) of $10.5 million for the year ended 30 June 2009.

The headline NPAT figure was 4% lower than the previous year. Excluding property sales during the 2008 financial year, NPAT increased by 31%. SFC achieved that result despite a 13% reduction in group revenue, during an extraordinary period of foreign exchange volatility and global economic upheaval. The Building Materials and Automotive Leather divisions each grew EBIT strongly, while rental income from the Property division increased by 50%. Property's overall EBIT result decreased with the absence of any property sales.

SFC will pay a fully franked final ordinary dividend of $0.20 per share, bringing dividends for the year to $0.45 per share (fully franked). The $0.05 per share decrease in total dividends over the previous year, reflects the Board's decision to pursue a prudent approach in the face of continuing uncertainty in global financial markets.

FINANCIAL PERFORMANCE SUMMARY

	30-Jun-09	30-Jun-08	% Change
Revenue ($m)	169.5	195.9	-13%
EBITDA ($m)	27.5	27.9	-1%
EBIT ($m)	21.3	22.1	-3%
NPAT ($m)	10.5	10.9	-4%
NPAT excluding property sales ($m)	10.5	8.0	31%
Earnings per Share (EPS)	$0.74	$0.77	-4%
Ordinary Dividends per share	$0.45	$0.50	
Return on avg. capital employed	16%	17%	

BUILDING MATERIALS

Building Materials substantially increased profitability with EBIT rising by 15% to $10.0 million, while revenue increased by only 1% to $66.0 million.

The value of investing in the Building Materials division was typified by Delta Corporation. During the last two financial years, SFC has invested $5.8 million of capital expenditure at Delta. In the 2009 financial year, Delta achieved record activity levels with major projects including the Perth-Bunbury highway project, the Bishop's See and Century City office towers in the Perth CBD and infrastructure work for the Woodside Pluto LNG project.

In contrast, and as SFC highlighted in its review of the first half of the financial year, trading conditions for the Building Products group (paving and walling products) were more difficult. A national decline in new home starts and a significant softening in the commercial property construction market negatively impacted revenue. Nonetheless, there was some underlying improvement in performance during the second half. Management continues to implement a three-phase strategic plan: reduce costs; improve efficiency across all manufacturing sites; and build brand equity through the national network of Urbanstone Central retail outlets. Accordingly, the division is well positioned to benefit from increased building activity that may be associated with the government stimulus package or an increase in consumer confidence.

AUTOMOTIVE LEATHER

Automotive Leather also recorded increased profitability, with EBIT rising by 8% to $9.6 million, despite a 19% decline in revenue to $96.6 million.

The global automotive industry has been one of the hardest hit by the financial crisis, as typified by the failure/restructuring of both General Motors and Chrysler. All major manufacturers have reported a significant drop in automobile sales. Demand for automotive leather fell correspondingly, resulting in a significant decrease in revenue for the division.

With the investments made in operational flexibility, Automotive Leather has been able to respond to the changing demand conditions, at both its finishing plant in Melbourne and its international cutting plants. When combined with the depreciation of the Australian dollar against the US dollar, the division was able to improve profitability in the second half despite a double digit decline in revenue.

PROPERTY

The financial crisis also resulted in a marked decrease in sales across the property sector. With no material property sales during the year, Property EBIT declined by 46% to $3.6 million and revenue declined 34% to $6.5 million. By comparison, in the previous year, EBIT from property sales was $4.2 million.

Rental income increased by 50% to $3.2 million, following rent reviews during the 2007 and 2008 financial years.

The few remaining lots available for sale at the Mindarie Keys Marina residential development in Western Australia will not make a material contribution to future earnings.

After year end, SFC entered into sale and leaseback contracts over two of the smaller suburban Urbanstone Central retail properties in Western Australia. The profit from those sales will be immaterial in the current financial year and SFC utilised the sale proceeds to reduce bank debt.

CASH FLOW

Operating cash flow decreased to $6.7 million, from $23.5 million in the previous year. In the first half, an operating cash outflow of $10.2 million was primarily associated with increased inventory at Automotive Leather, as the automotive market rapidly deteriorated and as a result of the long lead time in raw materials ordering. In the second half, SFC dramatically reversed operating cash flow with a $16.9 million surplus, when more favourable exchange rates combined with the operational flexibility resulting from business investment enabled SFC to improve profitability and significantly decrease Automotive Leather inventory.

OUTLOOK

The broad economic environment makes forecasting future performance for SFC's operating divisions extremely difficult. Nonetheless, the investments in recent years in SFC's business processes have enabled the group to respond rapidly to changes in demand for its products.

In the first half, revenue and EBIT for Building Materials are likely to be materially lower than for the previous corresponding period. SFC anticipates a reduced activity at Delta Corporation following the completion of several large construction projects. Substantial new work is being tendered but is unlikely to have a material impact in the first half. SFC anticipates improved performance at Building Products in the first half. However, material improvement will depend upon increased new home starts, increased commercial property construction and flow through of the Government stimulus package.

Given the state of the global automotive industry, further restructuring and reorganisation appears inevitable, creating threats and opportunities for Automotive Leather. Foreign exchange volatility makes forecasting even more challenging. However, in the absence of any further material decline in global automobile sales and with relatively stable exchange rates, SFC expects revenue and EBIT in the first half to improve over the prior year when EBIT was materially impacted due to foreign exchange losses. Automotive Leather has won new supply contracts from a leading international automobile manufacturer but those contracts are unlikely to materially impact the first half.

SFC anticipates that revenue and net rental income for Property will increase slightly in the first half. No further property sales are expected before the second half.

As always, the Board will consider the group cash and debt positions, capital expenditure requirements and general business and economic decisions in determining dividends for the 2010 financial year. At this time and subject to reasonably favourable trading conditions and stable foreign exchange rates, the Board expects to declare fully franked dividends totalling $0.40 per share for the year.

John Schaffer
Chairman

26th August 2009