

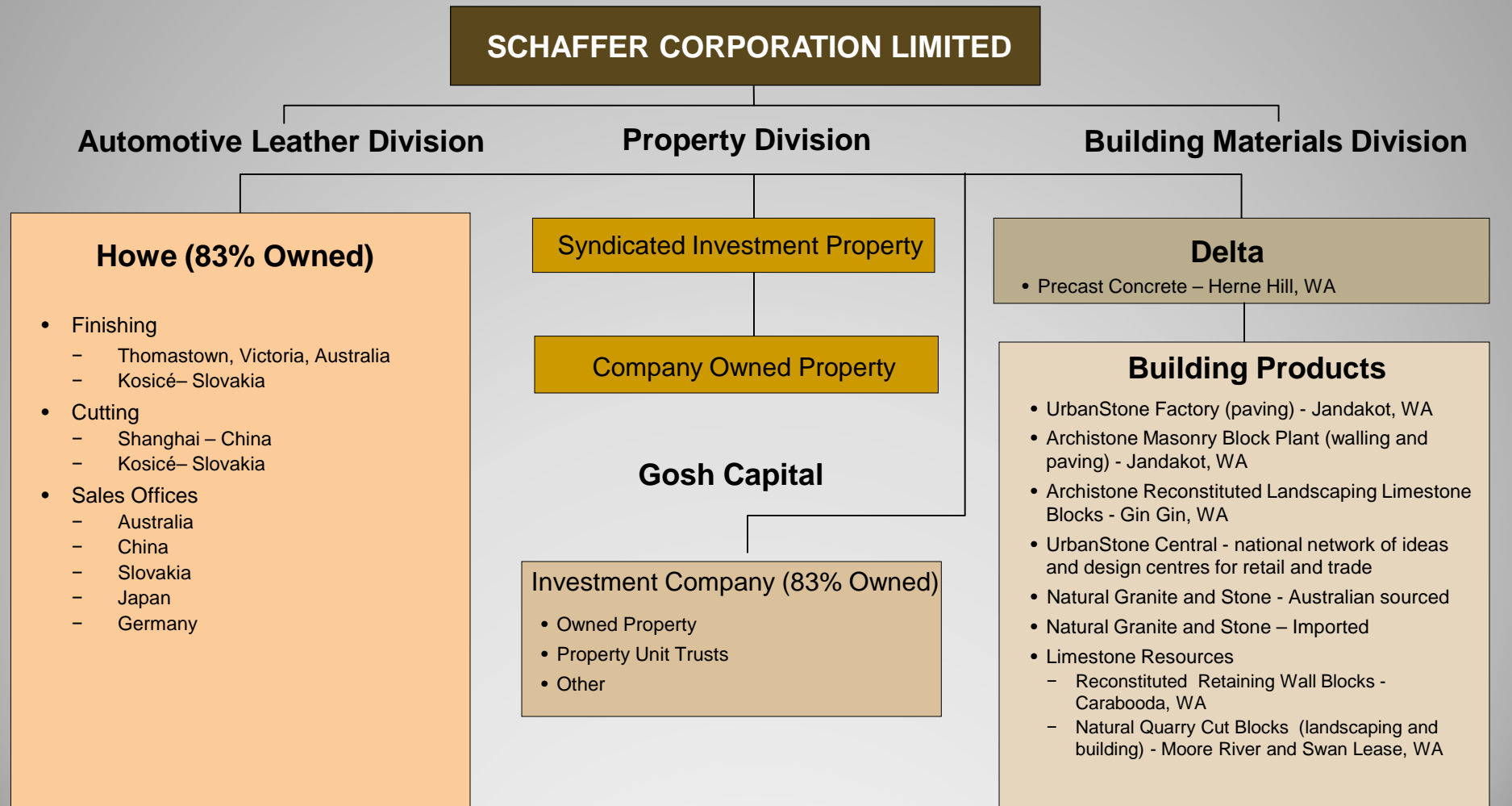


## Half Year Results Presentation December 2016

Creating long-term shareholder value through the efficient operation and growth of our core businesses and investments



# Organisation Chart (Core Businesses)



# Financial Performance

**Statutory first half NPAT<sup>3</sup> has reduced to \$2.4 million; Underlying Profit<sup>2</sup> improved 21% on the prior corresponding period (pcp)**

- Prior year statutory result included \$4.2 million NPAT<sup>3</sup> from the sale of property
- Underlying profit driven by improving profitability from Automotive Leather

Half-Year	Dec-2016 (current)	Dec-2015 <sup>1</sup> (pcp)	% change
Revenue (\$m)	\$102.3	\$103.5	(1%)
EBIT (\$m) <sup>2</sup>	\$5.7	\$11.4	(51%)
NPAT (\$m) <sup>3</sup>	\$2.4	\$6.7	(65%)
EPS	16.9	47.8	(65%)
Ordinary dividend (fully franked)	\$0.12	\$0.12	-
Underlying Profit <sup>2</sup> (\$m)	\$3.0	\$2.5	21%
Underlying EPS	21.2	17.5	21%

1. Dec-2015 includes \$4.0m profit after tax for the sale of SFC's share in the 616 St Kilda Road Syndicate, and \$0.2m from the sale of Space 207 by the Space 207 and Harbour Park Trust.
2. Refer to slide 20 for EBIT and Underlying Profit reconciliations.
3. Net profit after tax and minority interests.

# Cash Flow

## A significant increase in cash generation from a planned decrease in stock levels

Half-Year Ending (\$m)	Dec-2016 (current)	Jun-2016	Dec-2015 (pcp)
EBIT	5.7	2.5	11.4
Add depreciation	2.6	2.6	2.7
Non-recurring items	(1.1)	(2.7)	-
Loss/(profit) on disposal of assets	(0.1)	0.4	(6.1)
Net interest paid	(1.5)	(0.5)	(1.8)
Tax refunded/(paid)	(1.5)	(0.3)	0.3
Change in Howe trade working capital	14.0	(0.8)	(2.7)
Other changes in working capital	(2.4)	2.7	0.6
<b>Total operating cash generated</b>	<b>15.7</b>	<b>3.9</b>	<b>4.4</b>
Proceeds from divestments	0.3	-	10.7
Capital expenditure	(2.7)	(4.1)	(5.9)
Gosh Capital investments and developments	-	(1.0)	(0.7)
Dividends paid	(1.8)	(1.7)	(1.8)
<b>Net debt reduction/(increase)</b>	<b>11.5</b>	<b>(2.9)</b>	<b>6.7</b>

The establishment of the new Slovakian facility is virtually complete, with the majority of leather now being finished in Slovakia.

As expected, stocks have now decreased due to the shorter lead time to ship hides to Slovakia instead of via Australia. Also stock buffers required during the transition phase have now been eliminated.

CAPEX decreased as the majority of equipment required for the new Slovakian facility was completed in the prior year.

The Net Debt decrease of \$11.5m is represented by:

- Decrease in Howe Net Debt - \$14.8m.
- Increase in Corporate Net Debt - (\$3.4m).

# Group Net Debt

Net Debt has reduced by \$11.5 million during the first half

All amounts in \$m's	Automotive Leather	Building Materials & Corporate	Syndicate Investment Properties	Gosh Capital	Total 31 Dec 2016	Total 30 Jun 2016
<b>Type of Debt:</b>						
Bank debt – recourse	-	5.0	2.4	-	7.4	4.3
Bank debt - non-recourse	13.6	-	16.7	6.1	36.4	37.7
Govt loans - non-recourse	15.0	-	-	-	15.0	17.5
Equipment finance	6.9	0.4	-	-	7.3	5.7
	<b>35.5</b>	<b>5.4</b>	<b>19.1</b>	<b>6.1</b>	<b>66.1</b>	<b>65.3</b>
<b>Maturity Profile:</b>						
- FY17	5.2	0.2	-	-	5.4	16.7
- FY18	15.7	5.2	12.0	-	32.9	29.7
- FY19	4.0	-	-	-	4.0	3.6
- FY20 and beyond	10.6	-	7.1	6.1	23.8	15.3
	<b>35.5</b>	<b>5.4</b>	<b>19.1</b>	<b>6.1</b>	<b>66.1</b>	<b>65.3</b>
<b>Net Debt Position:</b>						
Gross debt	35.5	5.4	19.1	6.1	66.1	65.3
Cash and term deposits	(15.7)	(2.4)	(1.1)	(0.2)	(19.4)	(7.1)
<b>Net Debt/(Cash)</b>	<b>19.8</b>	<b>3.0</b>	<b>18.0</b>	<b>5.9</b>	<b>46.7</b>	<b>58.2</b>
% debt recourse to SFC		100%	12%	0%		

# Assets

**Market value of Group Net Tangible Assets \$7.43/share (June 2016: \$7.42/share)**

			Property			Total Property	Total 31 Dec 2016
			Property used by SFC Operations	Syndicate Investment Properties	Gosh Capital <sup>1</sup>		
Net assets (Book) (\$m)	<b>36.7</b>	<b>24.9</b>	10.0	(7.5)	7.2	<b>9.7</b>	<b>71.3</b>
Net assets (Market Value) (\$m)	<b>36.7</b>	<b>24.9</b>	18.7	10.7	14.4	<b>43.8</b>	<b>105.4</b>
Assets backing (NTA - Book) (\$/share)	<b>2.53</b>	<b>1.77</b>	0.71	(0.54)	0.52	<b>0.69</b>	<b>5.01</b>
Asset backing (NTA - Market Value) (\$/share)	<b>2.53</b>	<b>1.77</b>	1.34	0.76	1.03	<b>3.13</b>	<b>7.43</b>

1. SFC's 83% share of division's assets.

Estimated \$34.1 million after tax of unrealised property value (\$48.7 million before tax) included in Market Value.

# Automotive Leather





# Automotive Leather Results

Half-Year Ending (\$m's)	Dec-2016 (current)	Dec-2015 (pcp)	% Change
Revenue	77.5	71.4	9%
Segment EBIT	4.0	2.3	74%

- Revenue increased 9% compared to pcp - sales volume increased but partially offset by FX impact.
- Operating margin improvement
  - 13% reduction in average USD hide price compared to pcp.
  - Improving operational efficiency in Slovakia as the new facility and programs are bedded down.
  - Freight savings due to the decision to shift most of the leather finishing to Slovakia.
- Offset by:
  - Higher cost of value added processes (lamination, perforation etc.)
- The AUD strengthened 5% against the EUR and weakened 8% against the USD compared to pcp. This is a negative impact for both revenue and costs as we sell mainly in EUR and buy our raw materials (semi-processed hides, chemicals) in USD.



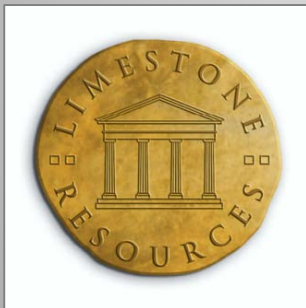
# Automotive Leather Outlook

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- Volumes are expected to continue trending upwards for the second half of FY17 due to the commencement of several new programs.
- Revenue and hide costs per sqm are expected to be similar to the first half, based on current FX rates.
- Further efficiency improvement is expected for Slovakian finishing and cutting.
- EBIT is expected to improve significantly compared to the first half of FY17 (subject to exchange rate volatility).

# Schaffer Building Materials

## Building Products



# Building Materials Results

Half-Year Ending (\$m's)	Dec-2016 (current)	Dec-2015 (pcp)	% Change
Revenue	21.7	28.4	(24%)
Segment EBIT	1.2	2.4	(50%)

- Overall revenue for Building Products was similar to pcp and margins were down resulting from a differing sales mix for the period. Urbanstone commercial granite revenue has increased based on current projects. Positive economic conditions and government spending in the Eastern States has maintained a similar result for manufactured product in those regions, but in Western Australia economic conditions have further declined. Thus, further cost reductions and production efficiency programs have been implemented.
- The West Australian precast concrete market remains intensely competitive and margins have been eroded. Delta's management team remain focussed on competing for profitable business while also managing the overall cost structure to meet lower levels of production.

# Building Materials Outlook

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- Building Materials continues to operate in a challenging West Australian environment for both the commercial and retail sectors. The slow down in these sectors continues to weigh on growth and profitability.
- However, Building Products on the east coast continues to show strength.
- Also, Natural Stone is gaining momentum.
- While prospects for commercial and infrastructure work are encouraging, the timing of these projects are uncertain, and competition (mainly precast concrete) remains particularly intense.
- Building Materials enters the second half of FY17 with a lower order bank than the first half.
- Management continue to focus on reducing costs where possible, aligning the cost base to the current economic environment.
- We expect a decrease in EBIT for the second half of FY17 compared to pcp.

# Property Portfolio (Total Group)

Address	Description	Ownership Structure	Land Size (sqm)	Current Lettable Area (sqm)	SFC Ownership %	SFC Share of Book Value (\$m)	SFC Share of Market Value* (\$m)	SFC Share of Debt (\$m)	Tax on Capital Gain (\$m)	Net Equity Value (\$m)
<b>Property used by SFC operations</b>										
218 Campersic Road, Herne Hill, WA	Delta	SFC Direct	134,305	-	100%	6.1	9.5		(1.0)	
Lot 101 Jandakot Road, Jandakot, WA	Urbanstone	SFC Direct	64,090	-	100%	3.5	8.5		(1.5)	
1305 Hay Street, West Perth, WA	Head Office	SFC Direct	413	-	100%	0.7	2.1		(0.4)	
50 Cutler Road, Carabooda, WA	Quarry House	SFC Direct	72,818	-	100%	1.0	0.9		0.0	
						11.3	<b>21.0</b>	(5.0)	(2.9)	<b>13.1</b>
<b>Rental Properties</b>										
IBM Centre, 1060 Hay Street, West Perth, WA	Office	Syndicate	5,797	8,466	22%	1.1	12.4	(7.1)	(3.4)	1.9
Hometown, 1480 Albany Hwy, Cannington, WA	Retail	Syndicate	59,319	20,637	25%	5.7	13.2	(7.2)	(2.3)	3.7
Parks Shopping Centre, Bunbury, WA	Retail	Syndicate	30,804	10,622	17%	2.1	6.7	(3.8)	(1.4)	1.5
39 Dixon Rd, Rockingham, Western Australia	Bulky Goods	Gosh Direct	12,047	5,434	83%	7.3	8.4	(5.0)	(0.3)	3.1
Inghams, Port Wakefield Rd, Burton, SA	Industrial	Gosh - Unit Trust	53,300	13,437	4%	0.8	0.8	-	-	0.8
Pacific Suites, Canberra, ACT	Hotel	Gosh - Unit Trust	-	16,045	2%	0.8	0.8	-	-	0.8
Auburn Megamall, 265 Parramatta Road, NSW	Bulky Goods	Gosh - Unit Trust	24,690	32,348	2%	0.4	0.4	-	-	0.4
						18.2	<b>42.7</b>	(23.1)	(7.4)	<b>12.2</b>
<b>Development sites</b>										
Lot 103 Jandakot Road, Jandakot, WA	Vacant	SFC Direct	466,240	-	100%	3.3	4.4	-	(0.3)	4.1
Lot 104 Jandakot Road, Jandakot, WA	Commercial	SFC Direct	42,680	500	100%	0.3	2.1	-	(0.5)	1.6
10 Bennett Avenue, North Coogee, WA	Residential	Gosh Direct	21,035	-	83%	2.2	11.3	-	(2.7)	8.6
170 Flynn Drive, Neerabup, WA	Industrial	Syndicate	26,000	-	20%	1.5	4.0	(1.0)	(0.8)	2.2
Lot 561 Paris Road, Australind, WA	Commercial	Gosh - Unit Trust	12,000	-	4%	0.4	0.4	-	-	0.4
Part Lot 602 Yanchep Beach Road, WA	Residential	Gosh - Unit Trust	42,600	-	3%	0.4	0.4	-	-	0.4
						8.1	<b>22.6</b>	(1.0)	(4.3)	<b>17.3</b>
<b>Total SFC Property Value</b>						37.6	<b>86.3</b>	(29.1)	(14.6)	<b>42.6</b>

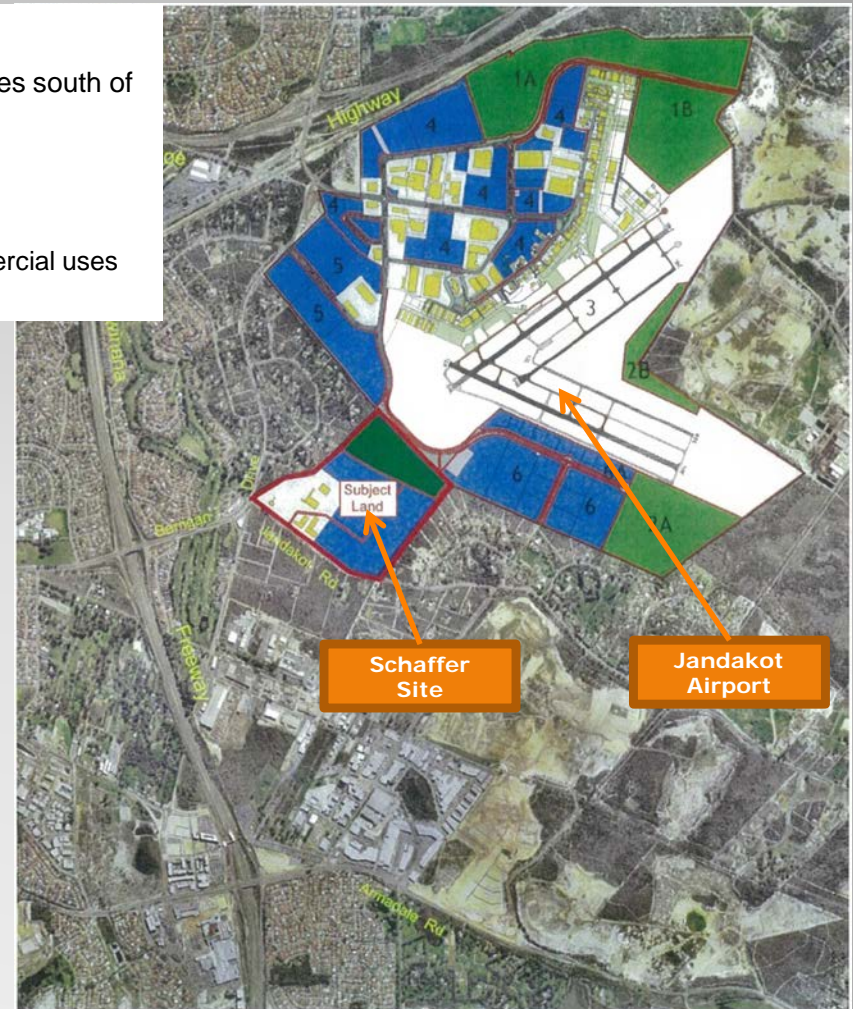


# Property – Lot 101, 103 and 104 Jandakot Rd

## Lot 101, 103 & 104 Jandakot Road

A strategic 57 ha property asset located between two freeways and 15 minutes south of the Perth CBD.

- 6.4 ha Urbanstone manufacturing (Lot 101).
- 6.8 ha special use Nursery and Showrooms (Lot 104 & part Lot 103).
- 44.1 ha currently zoned rural (including 13ha designated Bush Forever).
- Submission made for a Scheme Amendment to allow light industrial and commercial uses across all Lots (excluding Bush Forever).





# Investment Property (Syndicates)



IBM Building, Hay St, West Perth, WA



Hometown Cannington, WA



Parks Centre, Bunbury, WA



# Investment Property (Syndicates) Results & Outlook

Half-Year Ending (\$m's)	Dec-2016 (current)	Dec-2015 (pcp)	% Change
Revenue	2.3	3.0	(23%)
EBIT (excluding Property Sales)	1.0	1.3	(23%)
Property Sales EBIT <sup>1</sup>	-	5.7	
Total Segment EBIT	1.0	7.0	

1. Dec-15 includes the sale of SFC's share in the 616 St Kilda Road syndicate.

- Occupancy remained at approximately 95% for the first half.
- Incentives to retain tenants have slightly decreased profit.
- No property sales are expected.

# Gosh Capital

## 10 Bennett Avenue, North Coogee, WA

Land Area: 2.1 hectares

Zoned high density residential from industrial

Site can accommodate approximately 175 units



# Gosh Capital Results & Outlook

Half-Year Ending (\$m's)	Dec-2016 (current)	Jun-2016	Dec-2015 (pcp)
Revenue	0.7	0.5	0.7
Segment EBIT excluding sale of property	0.4	0.3	0.4
Profit from sale of trust property <sup>1</sup>	0.1	-	0.3
Segment EBIT	0.5	0.3	0.7

1. Share of trust profits from the property sales of Space 207 (Dec-15) and Harbour Park (Dec-16) by the Space 207 and Harbour Park Unit Trust.

- Profits are steadily increasing as a result of the reinvestment of returns into new investments.
- This trend is expected to continue.
- As an investment company, Gosh Capital actively evaluates investment opportunities to maximise the value of its assets and grow the profits of this division.

# Outlook – H2 FY17 Summary

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- For H2 FY17, compared to previous corresponding period, we estimate:
  - A significant increase in volume, revenue and profit for Automotive Leather (subject to exchange rate volatility).
  - A decrease in profit for Building Materials.
  - A modest decrease in profit for Syndicate Investment Property.
  - A modest increase in profit for Gosh Capital.
- Overall, a significant increase in revenue and profit due to the growth forecast from the Automotive Leather division.

## Dividends

- The Board has declared a final dividend of 12¢ per share fully franked, equal to prior corresponding period, payable on 17 March 2017.



# Non-IFRS Financial Information

EBIT Reconciliation (\$000's)	Half-Year Ending	
	Dec-16	Dec-15
Profit before income tax	3,150	9,615
Finance income	(29)	(39)
Finance costs	1,480	1,865
Restructuring costs	1,059	-
EBIT	5,660	11,441

Underlying Profit Reconciliation (\$000's)	Half-Year Ending	
	Dec-16	Dec-15
NPAT	2,372	6,692
Profit on sale of share in 616 St Kilda Rd Syndicate	-	(4,013)
Profit on sale of Space 207 trust assets	(56)	(230)
Restructuring costs	649	-
Underlying Profit	2,965	2,449

Restructuring costs (\$000's)	Half-Year Ending	
	Dec-16	Dec-15
Redundancies - Automotive Leather	783	-
Redundancies - Building Products	276	-
Total restructuring costs	1,059	-

Schaffer Corporation Limited results are reported under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company discloses certain non-IFRS financial measures. The non-IFRS measures should only be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with IFRS.

EBIT is a non-IFRS earnings measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to EBIT presented by other companies. EBIT represents earnings before interest and income taxes. This measure is important to management when used as an additional means to evaluate the Company's performance.

Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of Directors, the ongoing operating activities of Schaffer Corporation in a way that appropriately reflects its underlying performance.

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