

## SCHAFFER FULL-YEAR PROFIT INCREASES TO \$23.3 MILLION

15 August 2018

Dear Shareholder

Schaffer Corporation Limited (ASX: SFC) today reported a \$23.3 million statutory net profit after tax (NPAT<sup>1</sup>) for the 2018 financial year (FY17: \$5.9 million). Underlying profit<sup>2</sup> increased to \$22.5 million (FY17: \$8.2 million).

	Financial Year to	
	30-Jun-18	30-Jun-17
Revenue – continuing operations (\$m)	227.0	188.5
NPAT <sup>1</sup> (\$m)	23.3	5.9
Earnings per share	\$1.67	\$0.42
Ordinary dividends per share	\$0.45	\$0.26
Underlying Profit <sup>2</sup> (\$m)	22.5	8.2
Underlying earnings per share	\$1.61	\$0.58

<sup>1</sup> Net Profit after tax and minority interests.

<sup>2</sup> Underlying Profit is NPAT excluding profit on sale of assets, impairment and non-recurring costs after tax. Refer to most recent Investor Presentation for definitions of non-IFRS measures.

The underlying profit figure excludes two substantial non-recurring items:

- A \$4.4 million after-tax contribution from the sale of the Building Products division
- A \$3.2 million after-tax non-cash impairment of the Delta precast business assets.

The Board has declared a \$0.30 final ordinary dividend (fully franked). That is an increase of 114% period on period. The record date for the dividend is 31 August 2018. SFC will pay the dividend on 14 September 2018.

The full year dividend totals \$0.45 per share (fully franked), a 73% increase from the previous year.

In the year, the Group decreased net debt by \$42.5 million. At 30 June 2018, net debt was \$1.3 million. SFC utilised the proceeds from the sale of the Building Products division and the strong operational cash generation to pay down debt.

The exceedingly low gearing level provides significant balance sheet capacity to fund future growth opportunities. They include the development of Group properties at Jandakot and North Coogee, Western Australia, and other investments.

### AUTOMOTIVE LEATHER

The Automotive Leather division remains the primary driver of increased profit at the Group level, with continued operational performance and significant favourable foreign currency movements.

FINANCIAL PERFORMANCE SUMMARY	Full-Year to	
	30-Jun-18	30-Jun-17
Revenue (\$m)	203.4	170.9
Segment NPAT* (\$m)	23.7	7.9

\* Net Profit after tax and 16.83% minority interests.

# Schaffer Corporation Limited

Over the last two years, Automotive Leather grew both its number of manufacturer programs and volumes within those programs. This growth was facilitated by establishing additional leather finishing and cutting facilities in Slovakia.

The expanded Slovakian facilities have now been operating at 'steady state' levels for more than a year, delivering the awarded programs. As a result, cost efficiency via economies of scale is improving profitability.

Automotive Leather is also implementing new processes and technology to further enhance operational efficiencies and improve customer service and responsiveness.

During the second half, Automotive Leather deployed Computer Numerical Controlled or CNC cutting machines in production alongside current leather cutting methods. The CNC technology is realising yield and cost saving benefits. The division is evaluating further roll out of the technology.

Automotive Leather's results was favourably impacted throughout the year by foreign exchange rate movements. SFC reports in Australian Dollars (AUD). However, approximately 80% of the division's revenue is earned in Euro (EUR). In addition, approximately 60% of costs are incurred in US Dollars (USD), including semi-finished hides and chemicals. The division converts EUR to USD to settle those purchases.

During the year:

- The average AUD:EUR rate depreciated by 6%, increasing AUD revenue and margins.
- The average EUR:USD rate appreciated by 9%, decreasing costs in EUR terms.

For the first half of the 2019 financial year, SFC expects Automotive Leather's profit performance to be similar to the prior corresponding period, subject to the impact of exchange rate movements.

## BUILDING MATERIALS

Following the sale of the Building Products business unit, the division comprises Delta Corporation, which produces pre-cast and pre-stressed concrete products predominantly for the Western Australian market.

FINANCIAL PERFORMANCE SUMMARY	Full-Year to	
	30-Jun-18	30-Jun-17
Revenue – continuing operations (\$m)	17.0	11.5
Segment Underlying NPAT* – continuing operations (\$m)	(1.0)	(0.6)

\* Underlying NPAT excludes (1) \$4.4m net profit after tax on sale of the Building Products divisions; and (2) \$3.2m impairment of Delta assets after tax.

The Western Australian market remains depressed in terms of work volumes. As a result of increased competition, margins fell and impacted Delta's profitability. At the half year, the Directors impaired the carrying value of Delta's assets. The \$3.2 million after-tax impairment is a non-cash item and was recorded at 31 December 2017.

Delta's revenue increased with the inclusion of a large civil infrastructure project. The project experienced increased complexity, project administration and compliance requirements, and challenging production schedules. As a result, Delta's costs increased and profits declined compared to the prior year.

At this time, Delta's order bank is satisfactory and includes a larger number of projects than at the same time last year. SFC expects that Building Materials' profit performance will improve in the first half from the loss reported in the prior corresponding period.

## **PROPERTY PORTFOLIO**

The Group's property portfolio, including SFC's share of Gosh Capital, has an estimated current market value of \$111.7 million (FY17: \$90.5 million).

The increase in value relates primarily to a recent valuation of the property at Jandakot, Western Australia. The valuation follows the gazettal of a local Scheme Amendment. The Scheme Amendment increases the scope and area of light industrial and commercial uses on 38.8 hectares of the land. The local Council subsequently approved a Local Development Plan, which added an additional native vegetation buffer on one boundary. This restricts development on 5.5 hectares.

The valuation on the property on an 'as is' basis increased to \$37.2 million (previously \$19.1 million).

SFC carries property assets at depreciated book values. The exception is units in property unit trusts, which are carried at fair value. Market values are supported by ongoing, recent independent accredited valuations. SFC provides the valuation detail to improve transparency and reflect 'real world' values.

The difference between book and market values represents unrealised property value of \$73.8 million before tax (\$51.5 million after tax).

## **SFC INVESTMENTS**

SFC Investments includes SFC's interests in syndicated property investments, group-owned property for development and/or leasing activities, and equity investments.

The division contributed NPAT of \$1.1 million (FY17: \$0.7 million).

SFC retained the Jandakot land and building assets that are occupied by the UrbanStone manufacturing business (Lot 701 Jandakot Road). SFC has leased on a long-term basis that site to the purchaser of the UrbanStone business.

SFC expects divisional profit to modestly increase in the first half compared to the prior corresponding period. The half will include a full six months of contribution from the Lot 701 Jandakot Road lease.

## **GOSH CAPITAL INVESTMENTS**

SFC owns 83% of Gosh Capital.

Gosh Capital has interests in direct owned property, including land at North Coogee. The North Coogee site was formerly the location of the Gosh Leather business.

Gosh Capital continues to reinvest profits in a range of investments, including syndicated property trusts and equities.

At 30 June 2018, the market value of its asset portfolio was \$31.9 million (\$25.9 million net of debt) including minority interest.

Gosh Capital contributed NPAT of \$0.4 million (2017: \$0.4 million).

SFC anticipates similar profit for the first half compared to prior corresponding period.

## **OUTLOOK**

In the first half, potential foreign exchange rate changes are the most significant variables to SFC's reported revenue, costs and profit.

With stable foreign exchange rates, SFC anticipates that Group underlying performance for the first half will be similar to the first half of last year. This result depends on the continued strong performance at Automotive Leather.

Additionally, SFC anticipates:

- An improvement for the continuing operations of Building Materials
- A modest increase in profit for SFC Property Investments
- Similar profit for Gosh Capital.

In the 2018 financial year, the Group continued its focus on maximising ongoing value for shareholders.

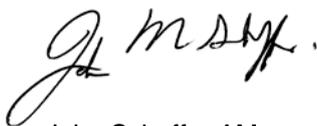
The transformation of the Automotive Leather division over several periods has now culminated in improved profits and valuable cash generation.

Having divested Building Products, the Group can now focus on other value creating opportunities.

The current balance sheet capacity allows the Group to be flexible and fund development projects or take advantage of value creating opportunities as they arise.

We sincerely thank our management and employees. It is they who enabled us to achieve our current position. Our people are focused and incentivised to drive for more value in our existing businesses and also new opportunities.

We look forward to another successful year for our shareholders.



John Schaffer AM  
**Chairman**