Schaffer Corporation Limited

SCHAFFER FULL-YEAR PROFIT $22.9 MILLION

20 August 2019

Dear Shareholder

Schaffer Corporation Limited (ASX: SFC) today reported a $22.9 million statutory net profit after tax (NPAT[1]) for the 2019 financial year (FY18: $23.3 million). The Group's underlying profit[2] increased 6.2% to $23.9 million (FY18: $22.5 million).

The Board has declared a $0.40 final ordinary dividend (fully franked). The full year dividend totals $0.70 per share (fully franked), a 56% increase from the previous year. The final dividend is an increase of 33% compared to the same period last year. The record date for the dividend is 6 September 2019. The dividend is payable on 20 September 2019.

	Full-Year to	
	30-Jun-19	**30-Jun-18**
Revenue – continuing operations ($m)	**203.6**	227.0
NPAT[1] ($m)	**22.9**	23.3
Earnings per share	**$1.66**	$1.67
Ordinary dividends per share	**$0.70**	$0.45
Underlying earnings		
Underlying Profit[2] ($m)	**23.9**	22.5
Underlying earnings per share	**$1.72**	$1.61

1 Net Profit after tax and minority interests.
2 Underlying Profit is NPAT excluding profit on sale of the Building Products divisions, impairments and non-recurring costs after tax. Please refer to SFC's most recent Investor Presentation for definitions of non-IFRS measures.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Full-Year to	
	30-Jun-19	**30-Jun-18**
Revenue ($m)	**176.3**	203.4
Segment NPAT* ($m)	**23.4**	23.7

* Net Profit after tax and 16.83% minority interests.

Automotive Leather's revenue decreased by 13% compared to the previous financial year. Despite this, Automotive Leather achieved only marginally lower profit.

During the year, global automotive sales volumes fell across most original equipment manufacturers (OEMs). European automotive sales volumes were impacted by OEMs attempting to meet new emission requirements and also concerns over Brexit. Chinese domestic demand also slowed, impacted by the ongoing trade issues with the United States.

The management team and employees continue to focus on operational efficiencies constantly assessing and implementing new processes and technology. Automotive Leather has expanded its investment in Computer Numerical Controlled (CNC) cutting machines. The CNC machines have been introduced into the production process alongside traditional leather cutting methods. The positive impact of this investment is reflected in the improved profitability.

Head Office: 1305 Hay Street, West Perth WA 6005 **Postal Address**: PO Box 770, West Perth WA 6872
Telephone: +61 8 9483 1222 **Facsimile**: +61 8 9481 0439 **Website**: www.schaffer.com.au
Schaffer Corporation Limited **ABN** 73 008 675 689

Approximately 75% of the division's revenue is earned in Euro (EUR). The division's profitability was favourably impacted by foreign exchange rate movements. During the year, the average AUD:EUR exchange rate depreciated by 4%. This increased revenue and margins in the Group's reporting currency of Australian dollars.

Automotive Leather anticipates the first half profit of the current financial year to be significantly lower than the prior corresponding period. The result will be driven by lower forecast sales volumes for existing programs and the delayed start of a material new program. That program will now commence serial producton in the second half of the financial year and should increase sales volumes.

Global automotive sales continue to be negatively impacted by the current uncertainties and risks. These include Brexit, the US/China trade war and European emission regulations. All major manufacturers are citing reduced sales volumes and profitability.

BUILDING MATERIALS

FINANCIAL PERFORMANCE SUMMARY	Full-Year to	
	30-Jun-19	**30-Jun-18**
Revenue – continuing operations ($m)	**19.5**	17.0
Segment Underlying NPAT – continuing operations ($m)	**0.0**	(1.0)*

* 2018 financial year Underlying NPAT excluded (1) $4.4 million net profit after tax on sale of the Building Products divisions; and (2) $3.2 million after tax impairment of Delta assets.

The Building Materials division's Delta Corporation produces precast and prestressed concrete products, predominantly for the Western Australian market.

Delta recorded a 15% increase in revenue. The bulk of that increase was achieved in the first half. The second half of the financial year presented both opportunities and challenges. Overall, Delta was able to achieve a break-even result compared with a prior year loss.

The increased revenue was largely associated with the completion of a large civil infrastructure project. The margins achieved were below expectations for a variety of reasons. These included high labour costs driven by increased complexity, project administration costs and tight production schedules. However, that and other projects contributed to the return to profitability during the first half.

During the second half, Delta's margin was impacted by project schedule delays. This resulted in revenue and production being lower than expectations.

Conditions in the Western Australian construction market remain challenging and competitive. Revenue and profit are expected to improve for the first half of the current financial year compared to the preceding six months, supported by Delta's order bank. Delta continues to tightly control costs to align with the level of production.

GROUP INVESTMENTS

Group Investments comprises investments made by SFC and its 83%-owned subsidiary Gosh Capital.

At 30 June 2019, the Group's investment portfolio (including SFC's share of subsidiaries) had an estimated net equity value before tax of $134.4 million (30 June 2018: $110.6 million).

Property assets are carried 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.

The difference between the Group's book and market values represents unrealised property value of $74.0 million before tax and $51.1 million after tax.

SFC INVESTMENTS

SFC Investments includes its interests in syndicated property investments, Group-owned property, equities, fixed income investments and cash.

The division contributed NPAT of $1.4 million (FY18: $1.1 million). The result was favourably impacted by $0.3 million of unrealised gains at 30 June 2019 from the revaluation of equity investments.

SFC's property at Jandakot, Western Australia was independently valued (on an 'as is' basis) at $37.2 million. SFC is continuing development planning for the property. The site has an approximate developable area of 29 hectares. This is after exclusion of planned internal and external roads, drainage, buffer zones and an area designated as "Bush Forever".

SFC has received subdivision application approval to cede sufficient land for the duplication of Jandakot Road and the establishment of a roundabout entrance to the site. SFC expects this construction to commence during the 2020 calendar year. Jandakot Road borders the site and currently carries over 15,000 vehicles per day. SFC also has a subdivision application in progress with the West Australian Department of Planning, Land and Heritage for the remaining developable area.

For the year ended 30 June 2019, SFC Investments has invested $15.3 million in property and equity investments. It also retained $21.1 million of short-term cash deposits.

SFC Investments has established a US-based vehicle for US investment opportunities. During the year, SFC US invested a total of $4.1 million in four syndicated property investments. Those investments are operated by managers with good track records. The strategy for SFC US is similar to the Group's syndicated property investment activity in Australia. The four investments comprise a US multi-family residential project, two hotel refurbishment and repositioning opportunities and a fund with a range of residential property investments.

At 30 June 2019, the net equity value before tax of SFC Investments' portfolio was $110.5 million.

GOSH CAPITAL INVESTMENTS (83% OWNED)

Gosh Capital continues to reinvest profits in a range of investments, including syndicated property trusts and equities. Gosh Capital contributed underlying NPAT of $0.7 million (FY18: $0.4 million).

This result excludes a $0.9 million after tax impairment of its bulky goods retail property at Dixon Road, Rockingham. Gosh Capital's directors chose to impair the carrying value given the decline in the bulky goods property market in the region and the likely requirement for significant capital investment and incentives to fully tenant the property.

Gosh Capital owns 2.1 hectares of high-density residential land in North Coogee, Western Australia. Prior to rezoning, the site was the Gosh Leather manufacturing facility. Gosh Capital has recently completed a land rationalisation to square up the properties with neighbouring sites. The business has engaged consultants to produce conceptual plans that assess the best opportunity to maximise the value to be realised from the land in the medium-term.

At 30 June 2019, SFC's 83% share of the pre-tax net equity value of Gosh Capital's asset portfolio was $23.9 million.

GROUP OUTLOOK

For the first half of the 2020 financial year, SFC anticpates Group profit to be significantly lower than the prior corresponding period.

The anticipated lower profit is due to lower forecast sales volumes for Automotive Leather. Those volume decreases reflect the challenging macro and geopolitical backdrop, as well as the delay in commencement of a material new program. That program is now scheduled to start serial production during the second half.

SFC's business cash flows remain strong, as are its balance sheet and financial position. The Group continues to be backed by significant tangible assets. These factors contribute to the Directors' intention of increasing the level of the interim dividend to 40 cents per share (fully franked).

The Directors and I wish to sincerely thank our management and employees for another outstanding year. Their relentless focus and drive achieved these excellent results. They give us confidence in addressing the challenges of the future.

We look forward to another year of maximising value for our shareholders.

Vale – Michael Falconer

It with great sadness that I advise of Michael Falconer's sudden recent passing.

Mike was a dedicated, passionate and highly-valued member of Schaffer Corporation for 34 years.

His contribution to the Group was remarkable. He was a man of great integrity, insight and versatility. Mike started with us in 1985 at Calsil Bricks. In 1989, he was appointed General Manager of Raffles Paints. He was also involved with Gosh Leather and Howe Leather.

In 1993, Mike founded the UrbanStone paving business. The business was highly successful and demonstrated Mike's business acumen and creative abilities. His legacy can be seen at many prominent urban hardscapes in Western Australia and nationwide.

Following the sale of UrbanStone, Mike returned to part-time consulting at head office.

Mike was my close friend for more than 30 years. I will miss him dearly, as will the rest of the Schaffer Corporation team.

Yours sincerely

John Schaffer AM
Chairman

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