

SCHAFFER FY20 PROFIT \$23.6 MILLION; TOTAL DIVIDENDS UP 14%

19 August 2020

Dear Shareholder

Schaffer Corporation Limited (ASX: SFC) today reported \$23.6 million statutory net profit after tax (NPAT*). The result was higher than the prior year result (FY19: \$22.9 million).

The Board has declared a final fully franked ordinary dividend of \$0.35 per share. The total dividend for the 2020 financial year is \$0.80 per share (fully franked), which is a 14% increase over the prior year.

	Full-Year to	
	30-June-20	30-June-19
Revenue (\$m)	155.6	203.6
NPAT* (\$m)	23.6	22.9
Earnings per share	\$1.72	\$1.66
Total dividends per share (fully franked)	\$0.80	\$0.70

* Net Profit after tax and minority interests.

Revenue decreased by 24%, largely due to the decrease in revenue at Automotive Leather. However, SFC achieved an increase in NPAT with a substantial unrealised, non-cash gain on the Group's investment portfolio. That gain of \$7.7 million after tax compares with a \$0.7 million gain in the prior financial year.

The Group's investments at market value increased during the year to a pre-tax net equity value of \$162.6 million. That includes \$22.6 million cash and new investments of \$17.6 million. The market value at 30 June 2019 was \$134.4 million.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Full-Year to	
	30-June-20	30-June-19
Revenue (\$m)	130.1	176.3
Segment NPAT* (\$m)	17.6	23.4

* Net Profit after tax and 16.83% minority interests.

The Covid-19 pandemic severely impacted Automotive Leather's sales volumes in the second half. For two months from late January, the virus impacted China operations. Then, from March to late May, European vehicle production ceased. As a result, Automotive Leather had limited sales in that time. Chinese demand has now stabilised. Since late May, European production has slowly reopened. Sales volumes in Europe are encouraging but remain below pre-pandemic levels.

Automotive Leather's management responded swiftly to right size the business, reducing costs and matching production to the decreased sales demand.

While the outlook remains uncertain due to the ongoing pandemic, SFC expects volumes to continue to recover from the production shutdowns in the second half. In the first half of the current financial year, Automotive Leather will benefit from the commencement of new vehicle programs in Europe and China.

The Group anticipates that Automotive Leather's first half profit will be higher than that achieved during the second half of FY20.

GROUP INVESTMENTS

Group Investments comprises investments owned by SFC and its 83%-owned subsidiary Gosh Capital. The division represents a growing proportion of the Group's underlying assets and valuation, contributing NPAT of \$10.1 million, including significant non-cash, unrealised gains of \$7.7 million (after tax) primarily from the revaluation of the equity investment in Harvest Technology Group (ASX:HTG).

FINANCIAL PERFORMANCE SUMMARY	Full-Year to	
	30-June-20	30-June-19
Revenue (\$m)	7.7	7.8
Segment NPAT* (\$m)	10.1	1.8

* Net Profit after tax and 16.83% minority interests for Gosh Capital investments

	As at	
	30-June-20	30-June-19
Overall investment portfolio – net equity value pre-tax (\$m) ¹	162.6	134.4
Property – net equity value pre-tax (\$m) ¹	104.8	93.8
Equities at market value (\$m) ²	33.4	16.7
Cash and fixed income	24.4	23.9

1. SFC's share of market value less SFC's share of debt
2. SFC's share of market value excluding other interests

The increase in value of the overall investment portfolio included:

- Dividends received from Automotive Leather division of \$27.4 million
- Revaluations of investments totalling \$15.0 million (pre-tax)
- Dividends paid to Group shareholders of \$11.7 million
- Purchases under SFC's share buy-back program totalling \$3.2 million.

During the financial year, SFC made new investments totalling \$17.6 million, including \$11.7 million in property and \$5.9 million in equities.

Property

The Group's property assets comprise the following: (All market values and debt amounts reflect SFC's share excluding other interests)

- *Jandakot Road, Jandakot (owner: SFC; market value: FY20: \$45.2 million, FY19: \$37.2 million)*
The property has an approximate developable area of 33 hectares. The developable area increased from 29 hectares following a revised local development plan with a reduced development buffer. During the second half, the Western Australian Planning Commission approved SFC's subdivision application for the remaining developable area. SFC is progressing plans to develop the site.
- *Bennett Avenue, North Coogee (owner: Gosh Capital; market value: \$8.7 million)*
The property is a 2.1 hectare high-density residential site. During the second half, the City of Cockburn approved Gosh Capital's application to change the design guidelines pertaining to the site. This now allows a mix of residential options, including medium density single lots. Gosh Capital has lodged a subdivision application based on the revised guidelines.

Schaffer Corporation Limited

The stimulus announced by the State and Federal Governments to boost the housing construction market during the Covid-19 pandemic has positively impacted the demand for residential land in Western Australia. Accordingly, Gosh Capital is accelerating plans to develop the site. By March 2021, it aims to have titles for Phase 1 of the subdivision in place. Groundworks will commence following the approval of the subdivision application.

- *39 Dixon Road, Rockingham (owner: Gosh Capital; market value: \$9.1 million; debt: \$5.5 million)*

The property is a large format retail site, comprising three tenancies. During the year, Gosh Capital leased a vacant tenancy to Anaconda and extended the term for the existing Spotlight tenancy to 2029. The weighted average lease expiry on the site has increased to 7.5 years from 3.5 years. The property is now fully leased. At 30 June 2020, SFC reversed a previous impairment of \$0.9 million after tax.

- *Syndicate properties (market value: \$56.8 million, debt: \$21.6 million)*
- *Other directly-owned property (market value: \$12.1 million).*

Equities, Fixed Income and Cash

(All market values reflect SFC's share excluding other interests)

- *Direct equities with a market value of \$29.1 million*
- *Managed funds with a market value of \$4.3 million*
- *Fixed income of \$1.8 million*
- *Cash of \$22.6 million.*

SFC does not provide an outlook for its investments.

Each half, in line with the Accounting Standards, the Group revalues its investment portfolio (other than directly-owned property). The required revaluations can increase or decrease earnings. The revaluations are non-cash and could increase the prospective volatility of the Group's reported earnings.

DELTA

FINANCIAL PERFORMANCE SUMMARY	Full-Year to	
	30-June-20	30-June-19
Revenue (\$m)	17.8	19.5
Underlying Segment NPAT* (\$m)	(0.6)	0.0

* Underlying Segment NPAT excludes impairment of assets

Delta produces precast and prestressed concrete products, predominantly for the Western Australian market.

Conditions in the Western Australian construction market remain challenging and competitive. Delta's management continues to maintain efficient cost structures relative to its quantity of work. This process is made more difficult by project delays that have become usual in the construction industry.

There is a number of large pending infrastructure projects in Western Australia. There is also potential for government policies and stimulus to help lift the economy during the Covid-19 pandemic. However, the potential future impact of the pandemic makes forecasting difficult.



COVID-19

Covid-19 has created challenges for our businesses. Our priority is the health and wellbeing of our people. The impacts from Covid-19 operationally and financially continue to be difficult to anticipate.

I would like to thank all our employees and our management team for all their efforts during this challenging time.

GROUP OUTLOOK

Given the pandemic, the outlook for Automotive Leather remains uncertain. SFC however expects earnings in the first half of the financial year to be higher than in the second half of last financial year.

The Group is also cautiously optimistic regarding an improvement in Delta's profitability, subject to potential risks created by the pandemic.

As noted above, investments other than directly-held property are revalued each period. This may result in profit volatility.

DIVIDENDS

The final fully franked \$0.35 per share ordinary dividend has a record date of 8 September 2020. The dividend is payable on 18 September 2020.

Yours sincerely

A handwritten signature in black ink, appearing to read "John Schaffer AM".

John Schaffer AM
Chairman

The Board has authorised this document to be released to the ASX.