

SCHAFFER RAISES DIVIDEND 50%; INCREASES PROFIT

14 February 2020

Dear Shareholder

Schaffer Corporation Limited (ASX: SFC) today reported a 10% increase in statutory net profit after tax (NPAT*) to \$13.9 million for the first half of the 2020 financial year (H1 FY19: \$12.7 million).

The Board has declared an interim ordinary dividend of \$0.45 per share (fully franked). That dividend is 50% higher than the interim dividend from last year.

	Half-Year to	
	31-Dec-19	31-Dec-18
Revenue (\$m)	92.7	106.4
NPAT* (\$m)	13.9	12.7
Earnings per share	\$1.02	\$0.92
Ordinary dividends per share	\$0.45	\$0.30

* Net Profit after tax and minority interests.

The NPAT result included a non-cash unrealised gain on the Group's non-property investments of \$3.2 million after tax (H1 FY19: \$0.2 million).

Investments at market value increased during the half to pre-tax net equity value of \$147.2 million (June 2019: \$134.4 million) after investing \$15.1 million in new opportunities and paying \$5.5 million in SFC dividends and buying back \$2.3 million of SFC shares.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Half-Year to	
	31-Dec-19	31-Dec-18
Revenue (\$m)	78.5	91.0
Segment NPAT* (\$m)	11.0	12.2

* Net Profit after tax and 16.83% minority interests.

Automotive Leather's revenue decreased by 14% compared to the previous corresponding period.

The decrease in revenue resulted from lower sales volumes in both European and Asian markets. Global automotive sales continued to be impacted by slowing demand in Europe and ongoing trade issues between the US and China.

The division's management has actively managed the cost base. It has implemented changes to mitigate the profit impact of the lower sales volumes. The management team and employees continue to focus on operational efficiencies, and are constantly assessing and implementing new processes and technology. The division continues to invest in Computer Numerical Controlled (CNC) cutting machines.

Automotive Leather anticipates profit in the second half to be similar to the first half, subject to the continuing uncertainties including the potential impact of the emerging Coronavirus epidemic on China and the global economy, Brexit, the US/China trade war and currency fluctuations.

GROUP INVESTMENTS

FINANCIAL PERFORMANCE SUMMARY	Half-Year to	
	31-Dec-19	31-Dec-18
Revenue (\$m)	4.1	3.8
Segment NPAT* (\$m)	4.4	1.4

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

Portfolio summary - net equity value pre-tax¹: \$147.2m (June 2019: \$134.4m)

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

The division contributed NPAT of \$4.4 million (H1 FY19: \$1.4 million), including non-cash unrealised gains of \$3.2 million (after tax) arising from the revaluation of equity investments.

The increase in value also included \$15.1 million of investments during the half, comprising \$9.3 million property investments and \$5.8 million equity investments offset by SFC shareholder dividends of \$5.5 million and \$2.3 million of share buybacks.

Property - net equity value pre-tax¹: \$101.3m (June 2019: \$93.8m)

In line with the accounting standards, SFC carries property assets at depreciated book values. The exception is units in property unit trusts, which are carried at fair value. The Group supports its estimates of market values with ongoing, recent independent accredited valuations.

The difference between book value and market value across the directly owned property investments represents unrealised gains of \$74.8 million before tax and \$52.8 million after tax.

- *Jandakot Road, Jandakot (market value²: \$37.2m)*

SFC's property at Jandakot, Western Australia has an approximate developable area of 29 hectares. Jandakot Road borders the site and carries over 15,000 vehicles per day. The Department of Planning, Land and Heritage (DPLH) has approved SFC's subdivision application to cede sufficient land for the duplication of Jandakot Road and the establishment of a roundabout entrance to the site. SFC expects these works will commence during the second half of the 2020 calendar year. SFC has a subdivision application in progress for the remaining developable area. SFC is hopeful that DPLH will approve the application during the second half.

- *Bennett Avenue, North Coogee (market value²: \$11.3m)*

Gosh Capital owns 2.1 hectares of high-density residential land in North Coogee, Western Australia. SFC commissioned conceptual plans that assess the best opportunity to maximise the value to be realised from the land in the medium term. SFC has made an application to change to the design guidelines pertaining to the site to allow a mix of residential options, including medium density single lots. Local Government has advertised the application. Approval of the application would allow those concept plans to progress.

- *39 Dixon Road, Rockingham (market value²: \$7.3m, debt³: \$5.0m)*

Gosh Capital also owns a large format retail property at Dixon Road, Rockingham, Western Australia. During the half, Gosh Capital leased a vacant tenancy at Dixon Road to a national tenant for an initial 10-year term. Gosh Capital made capital expenditure of \$1.0 million to secure the tenant. The property is now fully leased.

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

- *Syndicate properties (market value²: \$58.2m, debt³: \$21.4m)*
- *Other directly owned property (market value²: \$13.7m)*

Equities, Fixed Income and Cash – market value²: \$45.9m (June 2019: \$40.6m)

- *Direct Equity Investments (market value²: \$21.3m)*
- *Managed Funds (market value²: \$6.3m)*
- *Fixed Income Investments and Cash (market value²: \$18.3m)*

BUILDING MATERIALS

FINANCIAL PERFORMANCE SUMMARY	Half-Year to	
	31-Dec-19	31-Dec-18
Revenue (\$m)	10.1	11.6
Segment NPAT (\$m)	(0.1)	0.3

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

Delta recorded a 13% decrease in revenue compared to prior corresponding period and profit decreased to near breakeven.

Conditions in the Western Australian construction market remain challenging and competitive. For the second half, SFC expects Delta to achieve a similar result to the first half. The quantity of upcoming industry projects is improving off a low base. However, SFC does not expect those projects to benefit the current year's results.

GROUP OUTLOOK

NPAT for the full financial year is likely to be similar to the 2019 financial year.

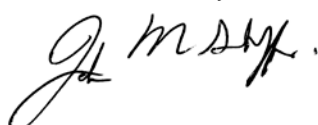
SFC's expectation of full-year NPAT is subject to potential impacts from the Coronavirus, US/China trade war, the commencement of the Brexit transition period, the ongoing economic slowdown in Europe and China, and currency fluctuations.

Each half year, the accounting standards require that the Group revalues its investment portfolio (other than directly owned property). This requirement can increase or decrease profit. It is a non-cash impact but adds to the prospective volatility of the Group's reported earnings.

DIVIDENDS

As noted above, the Board has declared a \$0.45 per share interim ordinary dividend (fully franked). The record date for the dividend is 6 March 2020. The dividend is payable on 13 March 2020.

Yours sincerely



John Schaffer AM
Chairman

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