Schaffer Corporation Limited

SCHAFFER REPORTS FULL-YEAR PROFIT OF $38.8 MILLION

18 August 2021

Dear Shareholder,

Schaffer Corporation Limited (ASX: SFC) today reported a full-year statutory net profit after tax (NPAT*) of $38.8 million. This was a 65% increase over the NPAT result for the prior year ($23.6 million).

Full-Year Ending	June 2021	June 2020	% change
Revenue ($m)	**$196.3**	$155.6	26%
NPAT* ($m)	**$38.8**	$23.6	65%
EPS (cents per share)	**284.9**	171.9	66%
Ordinary dividends (fully franked)	**$0.90**	$0.80	12%

* Net Profit after tax and minority interests.

The increased NPAT reflected strong performance from the Automotive Leather division, increasing profits by 38% over the prior year. In the prior year, the division's profits were significantly impacted by OEM factory closures caused by Covid-19. The NPAT result also included approximately $10.7 million in unrealised, non-cash gains on the Group's equity investments (2020 financial year: $8.5 million).

During the year, the pre-tax net market value of the Group's investments increased by 18% to $191.7 million (30 June 2020: $162.6 million). The increased figure includes $16.1 million of new investments and $17.5 million in cash deposits that were held at 30 June 2021.

The Group's net debt fell from $26.3 million to $9.0 million, mainly due to Automotive Leather reducing working capital.

The Board has declared a final ordinary dividend of $0.45 per share (fully franked), a 29% increase over the previous final dividend. Total ordinary dividends for the year increased to $0.90 per share (fully franked), a 12.5% increase on the prior year.

AUTOMOTIVE LEATHER

Full-Year Ending	June 2021	June 2020
Revenue ($m)	**$165.2**	$130.1
Segment NPAT* ($m)	**$24.4**	$17.6

* Net Profit after tax and minority interests.

The Automotive Leather division had a strong performance in comparison to the 2020 financial year. The second half of the prior year was severely impacted by Covid-19, which resulted in global automotive industry shutdowns. This year, revenue increased by 27% and profit by 38%.

The division's performance was assisted by the commencement of two new programs and a strong recovery in sales volumes by our customers.

The division's European operations successfully renewed key programs and also won material new programs with Mercedes and Audi. These programs were renewed/won under competitive market conditions but should see European sales volumes grow materially from 2023 onwards. This provides confidence in the medium and long-term fundamentals of the Automotive Leather division.

From a short-term perspective, since February 2021, a global semiconductor chip shortage has progressively worsened, leading to sporadic production line shutdowns of most European OEM's. Our customers are warning of further volatility and reduction in production volumes, notwithstanding strong global demand for new cars. The shortage of semiconductors is expected to continue. It is likely to negatively impact on sales volumes and profitability in the first quarter of the 2022 financial year. We anticipate having additional clarity during the second quarter. Accordingly, we will update shareholders at the Annual General Meeting in November.

The Group also notes other key risks that could impact the division:

- Ongoing impacts from Covid-19
- Increased hide and chemical prices
- Disruptions in the automotive industry supply chain
- Currency volatility, which can impact both revenues and input costs, and
- Overall economic uncertainty.

GROUP INVESTMENTS

The division represents a growing proportion of the Group's underlying assets and valuation. We continue to grow Group Investments opportunistically with the objective of maximising shareholder value over the medium and long-term.

Full-Year Ending	June 2021	June 2020
Revenue ($m)	**$14.6**	$7.7
Segment NPAT* ($m)	**$16.1**	$10.1

* Net Profit after tax and minority interests

The division contributed NPAT of $16.1 million. That figure includes significant non-cash, unrealised gains of $10.2 million (after tax). Those unrealised gains included $7.6 million (after-tax) from the revaluation of the Group's investment in Harvest Technology Group (ASX:HTG). During the financial year, the Group made new investments totalling $16.1 million, including $9.2 million in equities and $6.9 million in property.

During the financial year, pre-tax net equity value increased by $29.1 million to $191.7million. That represents an 18% increase over the value at 30 June 2020 ($162.6 million).

Pre-Tax Net Equity Value *	$m		$ per share	
	June 2021	June 2020	**June 2021**	June 2020
Property	**$114.7**	$104.8	**$8.40**	$7.69
Equity investments at market value (excluding HTG)	**$29.4**	$17.4	**$2.16**	$1.30
Harvest Technology Group (HTG)	**$26.9**	$16.0	**$1.97**	$1.17
Fixed Income	**$3.20**	$1.8	**$0.24**	$0.13
Cash and term deposits	**$17.5**	$22.6	**$1.27**	$1.66
Overall investment portfolio	**$191.7**	$162.6	**$14.04**	$11.95

* Group share of market value less Group share of debt

The pre-tax net equity value per share increased to $14.04. This compares to the 30 June 2020 figure of $11.95.

Property

The Group's property investments comprise (showing the owner and pre-tax net equity values in parentheses):

- ***Jandakot Road, Jandakot (Schaffer Corporation; $45.2 million)***

  The property has an approximate developable area of 34 hectares. It has allowable uses including warehouses, showrooms, storage and masonry production. The Western Australian Planning Commission has approved a subdivision application. Clearing and earthworks for the developable area should be completed by November 2021. By the first half of calendar 2022, the duplication of Jandakot Road, including the construction of a new roundabout entrance to the site, should be completed.

- ***Bennett Avenue, North Coogee (Gosh Capital; Group share of market value of remaining land inventory: $9.3 million*)**

  The property is a 2.1-hectare high-density residential subdivision. Stage 1 comprises 28 medium-density, 2-3 storey, single residential lots, which have now been fully sold. By 30 June, 20 settlements had completed. From those lots that settled during the financial year, the Group realised $6.2 million cash and $1.5 million profit after tax and minority interests.

  We have completed civil works for Stage 2. Stage 2 encompasses an additional 24 single residence lots and titling of some of these blocks has commenced. In addition, there are three apartment sites which would accommodate approximately 110 dwellings. These sites are on hold until demand for that type of product improves.

- ***39 Dixon Road, Rockingham (Gosh Capital; $5.1 million)***

  The property is a large format retail site, comprising three tenancies. During the year, Gosh Capital leased the remaining tenancy to national retailer Road Tech Marine. The site is at full occupancy with three national tenants and a weighted average lease expiry of 8 years.

- ***Syndicate properties ($43.0 million)***

- ***Other directly-owned property ($12.1 million)***

Note: In accordance with the Australian Accounting Standard, each financial half-year the Group revalues its investment portfolio. This excludes directly-owned property and investments in equity accounted syndicates. The required revaluations can increase or decrease earnings. While revaluations are non-cash, they may increase volatility and impact the Group's reported earnings.

Note: Schaffer Corporation owns 83% of Gosh Capital.

DELTA

Full-Year Ending	June 2021	June 2020
Revenue ($m)	**$16.5**	$17.8
Segment NPAT* ($m)	**$1.0**	($0.6)

* Underlying Segment NPAT excludes impairment of assets in the 2020 financial year

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

Delta was profitable in the first half; it was close to break-even for the second half, as a large infrastructure project due to commence was delayed. While such delays are common, it makes scheduling difficult, increasing downtime and reducing profitability. The ongoing and varying border controls in Western Australia due to Covid-19 make it difficult to source labour, which is putting upward pressure on labour costs.

We expect Delta to maintain moderate profitability during the first half of the 2022 financial year, based on the current orderbook. There is also optimism regarding several larger infrastructure projects in Western Australia that are currently being tendered or proposed by State Government.

GROUP OUTLOOK

While the medium and long-term fundamentals remain strong for Automotive Leather, forecasting is difficult due to the ongoing global semiconductor chip shortages and Covid-19.

We anticipate having additional clarity on the impact of the shortage on automotive production (and therefore sales volumes and profitability) during the second quarter. We will update shareholders at the Annual General Meeting.

We expect Delta to be moderately profitable.

While we do not provide an outlook for Group Investments, we note the settlement of the remainder of Stage 1 residential block sales at North Coogee and the commencement of sales from Stage 2 should realise cash and profits for the Group Investments division.

DIVIDENDS

The record date for the final $0.45 per share ordinary dividend (fully franked) is 3 September 2021. The dividend will be paid on 17 September 2021.

Yours sincerely

John Schaffer AM
Chairman

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