

SCHAFFER REPORTS FY21 HALF-YEAR PROFIT OF \$23.1 MILLION

17 February 2021

Dear Shareholder,

Schaffer Corporation Limited (ASX: SFC) today reported a half-year statutory net profit after tax (NPAT*) of \$23.1 million (H1 FY20: \$13.9 million).

The result included approximately \$10.0 million NPAT (H1 FY20: \$3.2 million) in unrealised, non-cash gains on the Group's equity investments. The increase in NPAT also reflected strong performance from the Automotive Leather division, which increased profits by 13% over the same period last year.

The Group's investments at market value increased 11% during the half. The pre-tax net equity value¹ was \$181.0 million (30 June 2020: \$162.6 million). This includes \$7.3 million of new investments and \$21.6 million in cash deposits.

The Board has declared an interim fully franked ordinary dividend of \$0.45 per share. The interim dividend matches that of last year.

	Half-Year to	
	31-Dec-20	31-Dec-19
Revenue (\$m)	102.1	92.7
NPAT* (\$m)	23.1	13.9
Earnings per share	\$1.70	\$1.02
Interim dividend per share (fully franked)	\$0.45	\$0.45

* Net Profit after tax and 16.83% minority interests.

AUTOMOTIVE LEATHER

	Half-Year to	
	31-Dec-20	31-Dec-19
Revenue (\$m)	88.8	78.5
Segment NPAT* (\$m)	12.6	11.0

* Net Profit after tax and 16.83% minority interests.

The Automotive Leather division performed strongly during the first half. Both revenue and profit increased 13%. The division's performance was assisted by the commencement of two new programs and a strong recovery in sales volumes across auto manufacturers.

Schaffer Corporation anticipates continued sales volume improvement in the second half. Nonetheless, the Group remains cautious due to key risks that could impact the division:

- Ongoing impacts from Covid-19, particularly in Europe
- Increasing hide prices
- Disruptions in the automotive industry supply chain
- Strengthening of the Australian dollar against the Euro, which negatively impacts the division's revenues
- Overall economic uncertainty.

Taking the above risks into consideration, Schaffer Corporation expects second half profits to be marginally lower than the strong result achieved during the first half.

¹ SFC's share of market value less SFC's share of debt

GROUP INVESTMENTS

Group Investments comprises investments owned by the Group and its 83%-owned subsidiary Gosh Capital. The division represents a growing proportion of the Group's underlying assets and valuation.

	Half-Year to	
	31-Dec-20	31-Dec-19
Revenue (\$m)	4.4	4.1
Segment NPAT* (\$m)	10.7	4.4

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

During the half, net equity value pre-tax increased to \$181.0 million. That represents an 11% increase over the value at 30 June 2020 (\$162.6 million).

The increase in value included:

- Unrealised pre-tax gain on revaluation of equity investments of \$14.3 million
- Unrealised pre-tax losses on revaluation of syndicate properties of \$0.9 million
- Pre-tax gains on properties (held at cost) of \$1.3 million.

On a per share basis, net equity pre-tax increased to \$13.29. This compares to the 30 June 2020 figure of \$11.94.

Net Equity Value Pre-Tax (\$m) ¹	As at	
	31-Dec-20	30-June-20
Property ¹	105.7	104.8
Equity Investments Assets ¹ at market value (excluding HTG)	23.5	17.4
Harvest Technology Group (HTG)	26.9	16.0
Fixed Income	3.3	1.8
Cash and term deposits	21.6	22.6
Overall investment portfolio ¹	181.0	162.6

¹ SFC's share of market value less SFC's share of debt

During the financial year, SFC made new investments totalling \$7.3 million, including \$3.7 million in equities and \$3.6 million in property.

The division contributed NPAT of \$10.7 million, including significant non-cash, unrealised gains of \$10.0 million (after tax). The unrealised gains were primarily from the revaluation of the equity investment in Harvest Technology Group (ASX:HTG).

Property

The Group's property assets comprise:

- **Jandakot Road, Jandakot (owner: Schaffer Corporation; market value: \$45.2 million)**

The property has allowable uses including warehouses, showrooms, storage and masonry production. It has an approximate developable area of 33 hectares for which the Western Australian Planning Commission has approved a subdivision application. The Group is progressing plans to develop the site. The duplication of Jandakot Road, including the construction of a new roundabout entrance to the site, should commence in the second half.

- **Bennett Avenue, North Coogee (owner: Gosh Capital; Group share of market value: \$8.7 million)**

The property is a 2.1-hectare high-density residential site. 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. Civil works for Stage 1 (28 single residence lots) are almost complete. Land sales contracts for 18 lots (subject to title) had been signed at 31 December. Settlements are expected to occur from April 2021.

Civil works for the remaining single residential lots are expected to be completed during this calendar year.

The overall site will include a mix of 2-to-3-storey single residences (50 sites) and 3 apartment sites, each of 3-to-5-storeys (approximately 110 units).

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

The property is a large format retail site, comprising three tenancies. During the half, Gosh Capital leased a tenancy, which was unoccupied by the previous lessee, to national retailer Road Tech Marine. The site is at full occupancy with 3 national tenants and a weighted average lease expiry of 8 years.

- **Syndicate properties (market value: \$57.7 million, debt: \$21.7 million)**
- **Other directly-owned property (market value: \$12.1 million)**

All market values and debt amounts reflect Schaffer Corporation's share excluding other interests.

Each financial half-year, 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

	Half-Year to	
	31-Dec-20	31-Dec-19
Revenue (\$m)	8.9	10.1
Segment NPAT (\$m)	1.0	(0.2)

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

Delta returned to profit for the first half, despite revenue decreasing by 12%. While profitability improved for projects performed during the half, the conditions in the Western Australian construction market remain challenging, including regular project delays. Additionally, the temporary border controls introduced in Western Australia due to Covid-19 have made it difficult to source labour, putting upward pressure on labour costs.

There is some optimism going forward as Delta will commence a large project during the second half. Civil infrastructure projects are increasing, in part due to government stimulus in response to Covid-19. SFC anticipates Delta to continue to deliver moderate profitability during the second half.

GROUP OUTLOOK

The ongoing global economic uncertainty caused by the impact of Covid-19 makes forecasting difficult and adds to potential volatility in key risks such as currency.

Schaffer Corporation expects second half earnings from the Automotive Leather division to be marginally lower than the strong first half, with Delta remaining profitable.

The commencement of settlements of Stage 1 residential block sales at North Coogee should realise cash and profits for the Group Investments division.

DIVIDENDS

The interim fully franked \$0.45 per share ordinary dividend has a record date of 5 March 2021. The dividend is payable on 12 March 2021.

Yours sincerely



John Schaffer AM
Chairman

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