Schaffer Corporation Limited

17 November 2021

ASX Market Announcements
ASX Limited
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

SCHAFFER CORPORATION LIMITED (ASX:SFC) ANNUAL GENERAL MEETING CHAIRMAN'S ADDRESS

Please find attached the Chairman's Address to the Annual General Meeting of SFC.

The Chairman has authorised the document to be released to the ASX.

For further information, please contact:

Mr John Schaffer
Chairman
Schaffer Corporation Ltd
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Mr Ralph Leib
Chief Financial Officer
Schaffer Corporation Ltd
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Yours sincerely

Jason Cantwell
Company Secretary

Good Morning, Ladies and Gentlemen.

My name is John Schaffer. I am the Chairman and Managing Director of Schaffer Corporation. It is my pleasure to welcome you all to the 67th Annual General Meeting of Schaffer Corporation Limited.

For the second year, we are webcasting the meeting due to Covid restrictions, which are making travel difficult, so I also welcome those shareholders who are attending virtually.

As it is now the nominated start time and we have a quorum, I declare today's Annual General Meeting open.

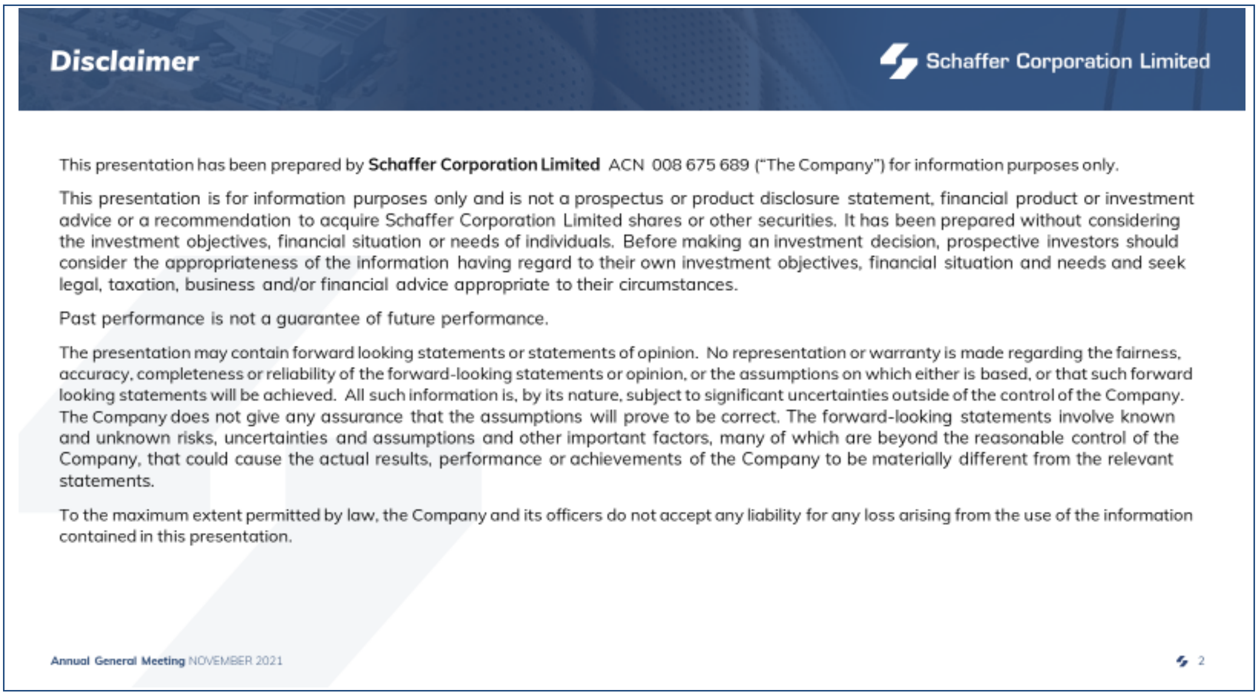
Firstly, I would like to present the Board of Directors and Senior Executives of the company to you beginning with my fellow Executive Director, Mr Anton Mayer. Mr Mayer is Executive Chairman of the Automotive Leather division and joins us today via videoconference from Florida.

Next, I would like to introduce the Company's Non-executive Directors:
Mrs Danielle Blain AM;
Mr David Schwartz; and
Mr Michael Perrott AM.

I would also like to introduce our Chief Financial Officer, Mr Ralph Leib, and our Company Secretary, Mr Jason Cantwell.

Today, we are also joined virtually from Melbourne by our General Manager of Automotive Leather, Mr Dan Birks. And in person from Delta Corporation are our Executive Director, Mr Matt Perrella, and our General Manager, Mr Jason Walsh. I also welcome Mr Todd Schaffer of TJS Advisory, who manages our major property assets.

Finally, I would like to introduce our company auditor from EY, Mr Philip Teale. Mr Teale is rotating off our audit and being replaced by Mr Timothy Dachs, who will be our new audit partner.



Schaffer Corporation's Annual Report, including reports of the Directors and the Auditors, for the year ended 30 June 2021 have been in members' hands for the statutory period.

Following my Chairman's address, I will invite questions and comments from members.

I am pleased to share the results for the 2021 financial year with you, my fellow shareholders. The profit results are a record for the company. They were achieved despite the impacts of the Covid-19 pandemic on the global economy and our businesses.

For the Automotive Leather division, the first two months of the financial year started slowly. This was followed by a strong increase in sales volumes from our customers. The management team quickly adjusted the business to meet that increase.

Our investments experienced a volatile start to the year. They recovered strongly in November as global equity markets responded to the announcement of vaccines for Covid-19.

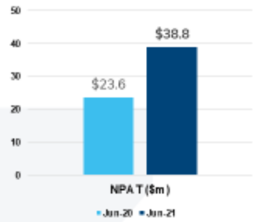
We were also ready to take advantage of the changes in the domestic residential property market and bring our North Coogee development to market.

In the second half, a global semiconductor chip shortage emerged. That ongoing shortage is reducing production volumes of our OEMs and, as a result, is reducing the sales volumes of our Automotive Leather division. That impact continues in the 2022 financial year and is something we will discuss in detail later in the presentation.

Group Consolidated Financial Performance

Schaffer Corporation Limited

Full Year Ending	June 2021	June 2020	% change
Revenue ($m)	**$196.3**	$155.6	26%
NPAT[1] ($m)	**$38.8**	$23.6	65%
EPS (cents per share)	**284.9**	171.9	66%
Ordinary dividends (fully franked)	**$0.90**	$0.80	12%



NPAT[1] up $15.2 million, +65%

- 38% increase in Automotive Leather profit compared to Covid-19 impacted FY20
- Unrealised, non-cash net gains for the Group's equity investments of $10.7m after tax (FY20: $8.5m)
- Realised profit on sale of land at North Coogee of $1.5m after tax and minority interest
- Realised investment gains of $1.9m after tax (FY20: $0.3m loss after tax)

Full year dividends up 12.5%

- FY21 fully franked dividends of $0.90 is 12.5% higher than the FY20 dividends

Value of group investments up $29.1 million, +18%

- Group investments pre-tax net equity market value[2] increased to $191.7m from $162.6m
  - unrealised pre-tax gains (equities): $15.3m
  - unrealised pre-tax gains (property): $5.3m

1. Net profit after tax and minority interests.
2. Market value refers to pre-tax net equity value excluding minority interests.

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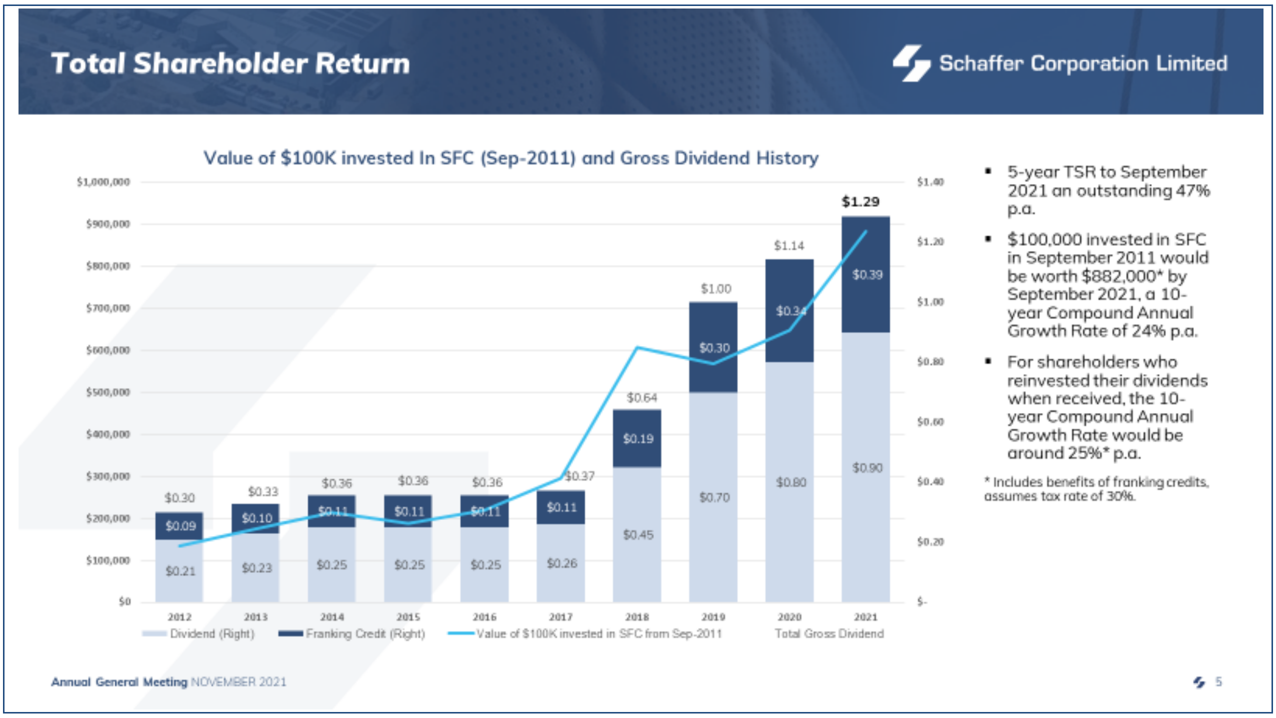
As mentioned, the Group achieved record profit for 2021.

In addition:

- Revenues were up 26% to $196 million, primarily from Automotive Leather's strong recovery;
- Net profit after tax (NPAT[1]) was up 65% to $39 million;
- NPAT included $11 million after tax of unrealised non-cash net gains from the Group's equity investment portfolio;
- For the first time, NPAT also included realised profit from the sale of residential land at North Coogee of $1.5 million after tax and minority interests;
- Earnings per share were up 66% to $2.84 per share;
- Annual dividends increased to 90 cents per share, a 12.5% increase compared to the prior year; and
- Our Group Investments' net equity value before tax increased 18% to $192 million, up from $163 million last year.



Total Shareholder Return (TSR*) measures the combined returns to shareholders from share price movements, dividends, and dividend imputation credits.

Over the last five years, Schaffer Corporation's average annual TSR is 47% per year.

Taking a long-term perspective, if an investor had invested $100,000 in Schaffer Corporation in September 2011, that investment would have grown to approximately $882,000 at September 2021.

That reflects a compound annual growth rate of 24% per year.

Use of Cash and Net Debt Overview

Schaffer Corporation Limited

Full-Year Ending ($m)	June-2021	June-2020
Total Cash Generated[1]	59.9	22.9
Less: Cash Paid to SFC Shareholders & Minorities	(14.2)	(20.0)
Dividends paid to SFC Shareholders	(10.9)	(11.7)
Dividends paid to Minorities	(3.7)	(5.5)
(Share Buy-Back) / Exercise of options	0.4	(2.8)
Cash Available After Shareholder Payments	45.7	2.9
Less: Cash used for Investments & Capex	(28.4)	(24.9)
New Investments Made	(16.1)	(17.6)
Capital Expenditure and Property Development	(12.3)	(7.3)
Net Debt[2] Decrease/(Increase)	17.3	(22.0)

1. Cash generated includes cash from operating activities, proceeds from divestments and lease payments for leases previously classified as operating leases prior to the adoption of AASB16.
2. Net Debt presented excludes lease liabilities for leases previously classified as operating leases prior to the adoption of AASB16 on 1 July 2019.

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Cash generation for the financial year was remarkable. It benefitted from the Automotive Leather division's strong operational performance and the reduction in the Covid-related excess inventory that was held at 30 June 2020.

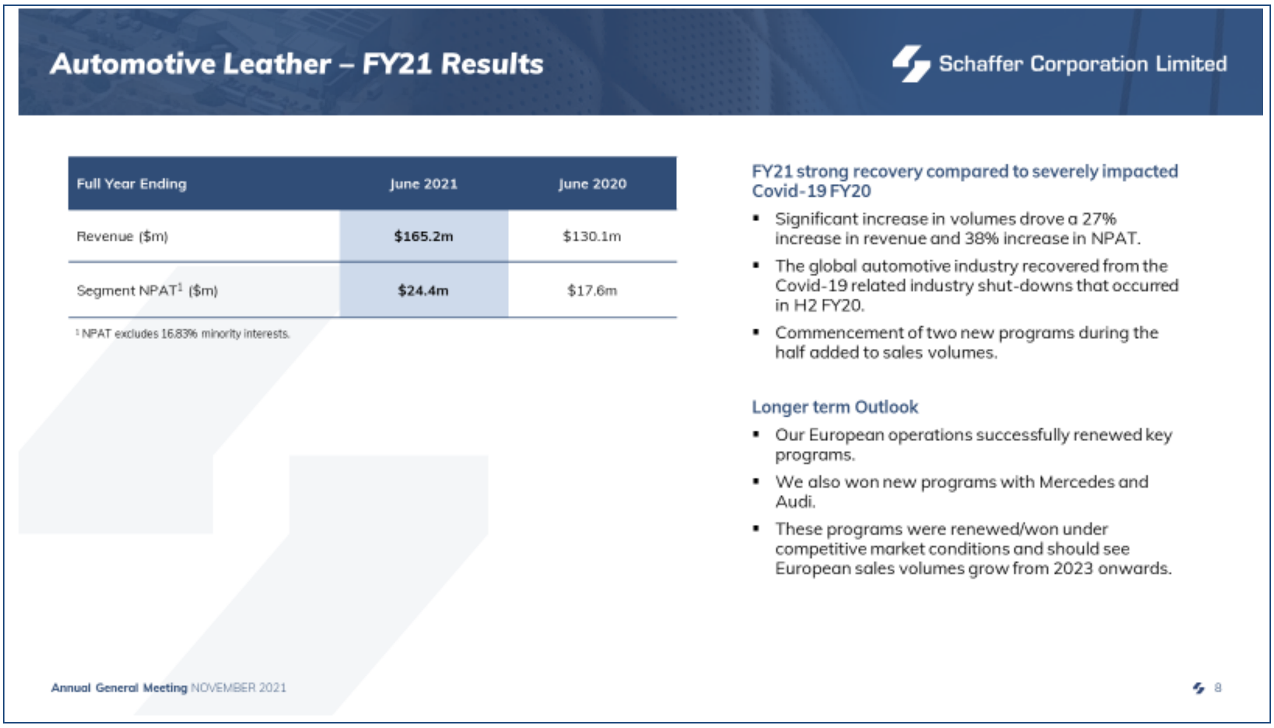
For the financial year, our businesses generated $60 million of operating cash flow.

We utilised this cash as follows:

- We paid $11 million of shareholder dividends and a further $4 million to our partners in the Automotive Leather business
- We invested $16 million in new investments and made $12 million of capital expenditure, including $5 million to prepare North Coogee residential lots for sale

With the remaining $17 million, we paid down debt to make our balance sheet even stronger.

I now handover to Ralph Leib. Ralph is both Schaffer Corporation's and Automotive Leather's Chief Financial Officer and will review the financial performance of the Automotive Leather division.

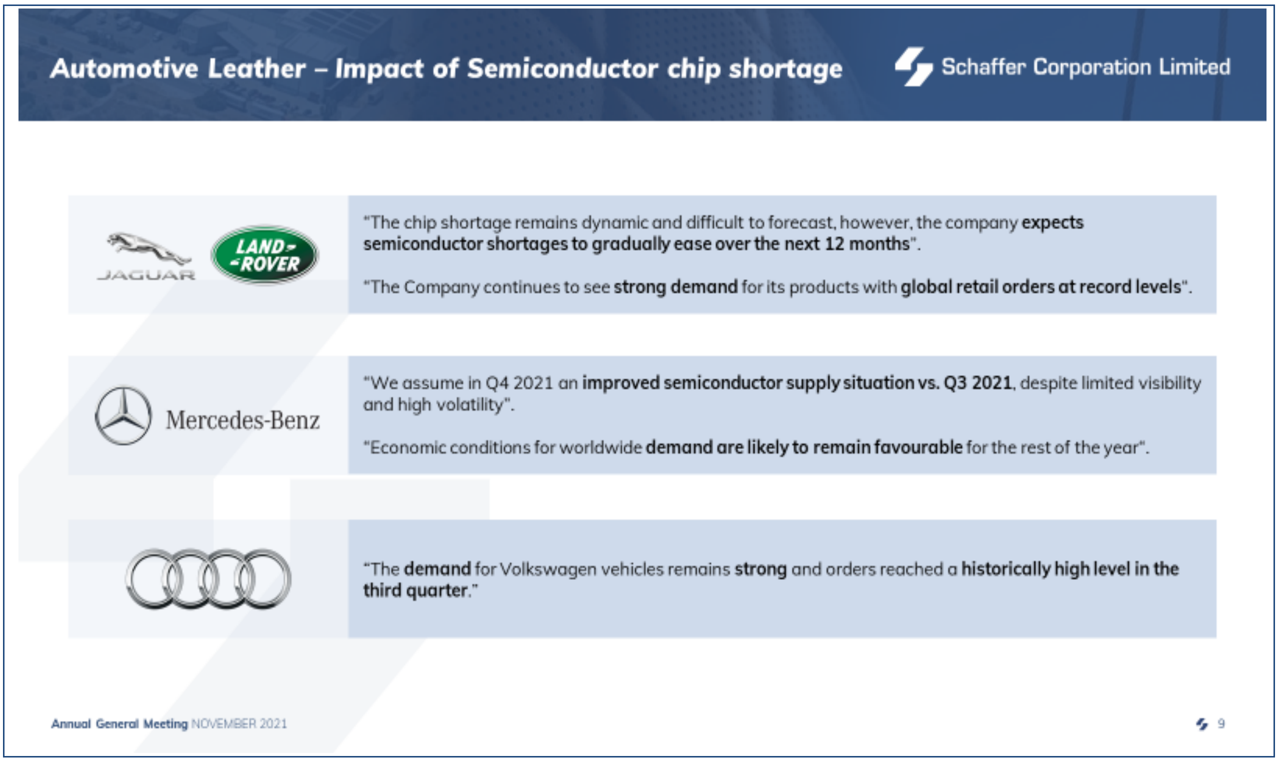


Thank you, Chairman, and good morning, ladies and gentlemen.

Automotive Leather

The Automotive Leather division delivered a strong financial year. Revenues increased by 27% and profits increased by 38%. I note that the previous financial year was significantly impacted by Covid-19.

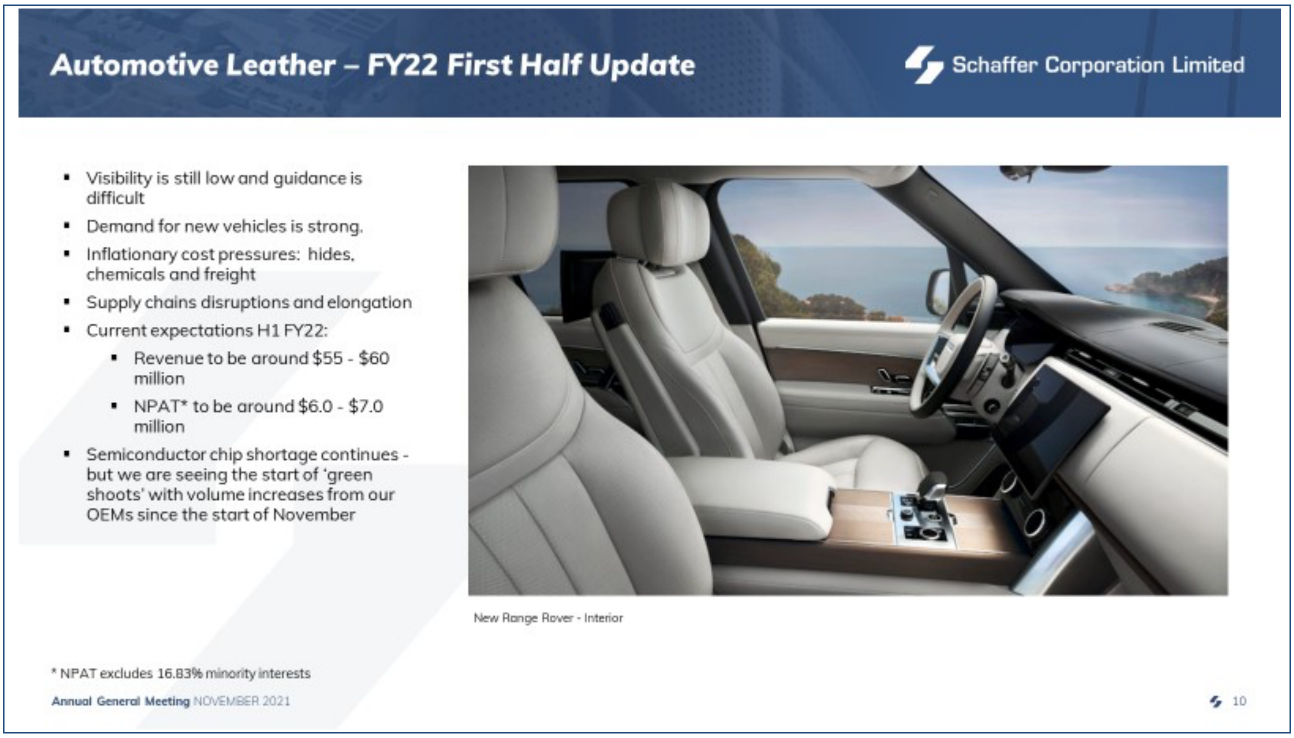
The division benefitted from a turnaround in demand from our customers, particularly in the first half of the financial year. The results included an increase in sales volumes associated with the successful launch of two new programs in Europe during the financial year: the Mercedes S-Class and Audi A3/Q4 programs. In China, sales volumes increased from Nissan, where an updated model included more leather.



Automotive Leather Division Update for Financial Year 2022 – Chips! Chips! & Ships!

As noted in our results released in August 2021, the global automotive industry is being negatively impacted by the semiconductor chip shortage and other supply chain issues. While demand for new vehicles remains strong, OEMs are unable to produce vehicles to meet this demand.

Recent public announcements by our OEMs highlight that the chip shortage is causing them to shut down production lines and prioritise production between their various models. At the same time, our OEMs have been advising suppliers, such as us, to be ready to meet demand whenever it may occur.



Automotive Leather Financial Year 22 first-half update

In addition to the chip shortages, we are experiencing inflationary pressure on our costs, including hide costs, chemicals, and freight costs. We are also seeing supply chain disruptions and elongation. To mitigate supply chain risks, we are currently holding additional buffer inventory for hides and chemicals. This will ensure that we are able to deliver product to our customers on time. The buffer inventories and additional inventories resulting from lower sales volumes will impact cash generation from the Automotive Leather division during the first half.

As set out by our OEMs, visibility remains low and, as such, providing guidance remains difficult.

For the first half of the 2022 financial year, we expect revenues for Automotive Leather of around $55-60 million.

Further, we expect net profit after tax and minority interests to be around $6-$7 million.

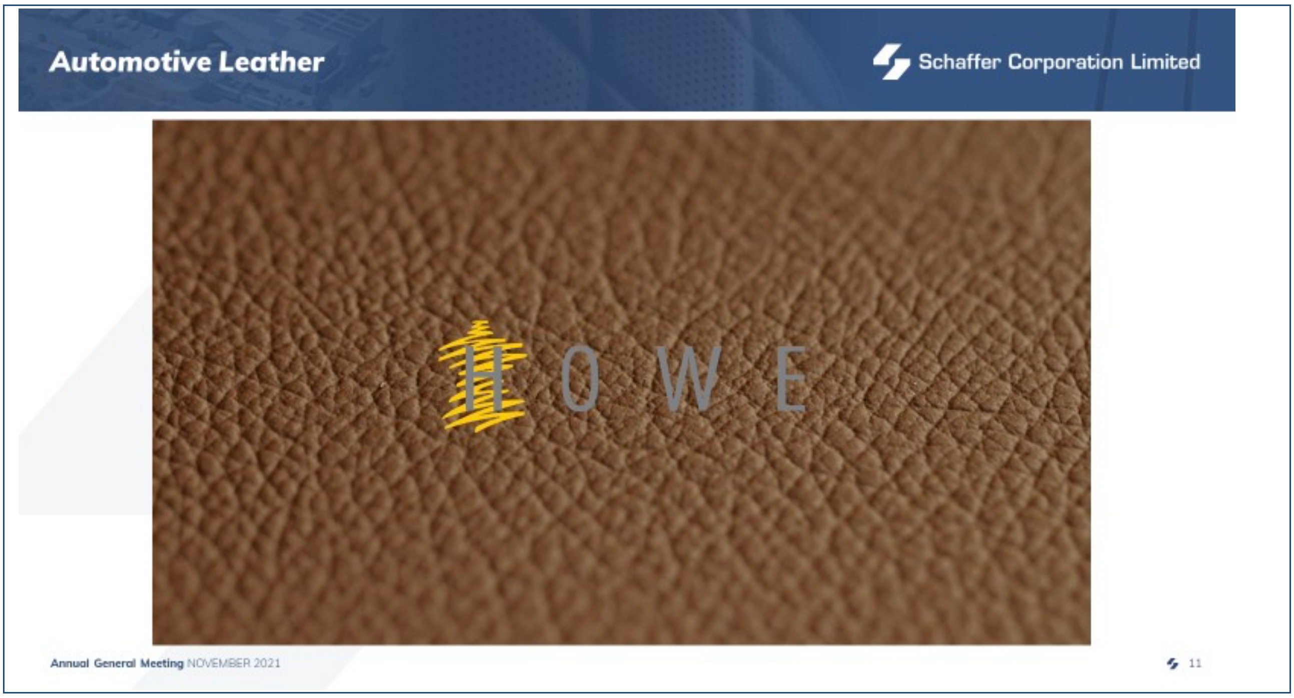
We note that our OEMs are requesting that we remain ready and able to meet increased production volumes, as they intend to make-up lost production to meet strong demand. We are starting to see the early 'green shoots' of this with volume increases from our OEMs since the start of November.

Our management team remains focused on:

- Minimising the financial impact on the business;
- Aligning cost, as much as possible, to the current level of sales; and
- Ensuring that we meet our customer requirements

Looking ahead, the medium and longer-term prospects of the Automotive Leather division remain strong. Our European operations successfully renewed key programs with Jaguar Land Rover. We also won new programs with Mercedes and Audi. While these programs were renewed or won under competitive market conditions, we should see European sales volumes grow from 2023 onwards.

At this juncture, I invite Dan Birks to join us from Melbourne. Dan is the General Manager of Automotive Leather and will present some of the latest developments.



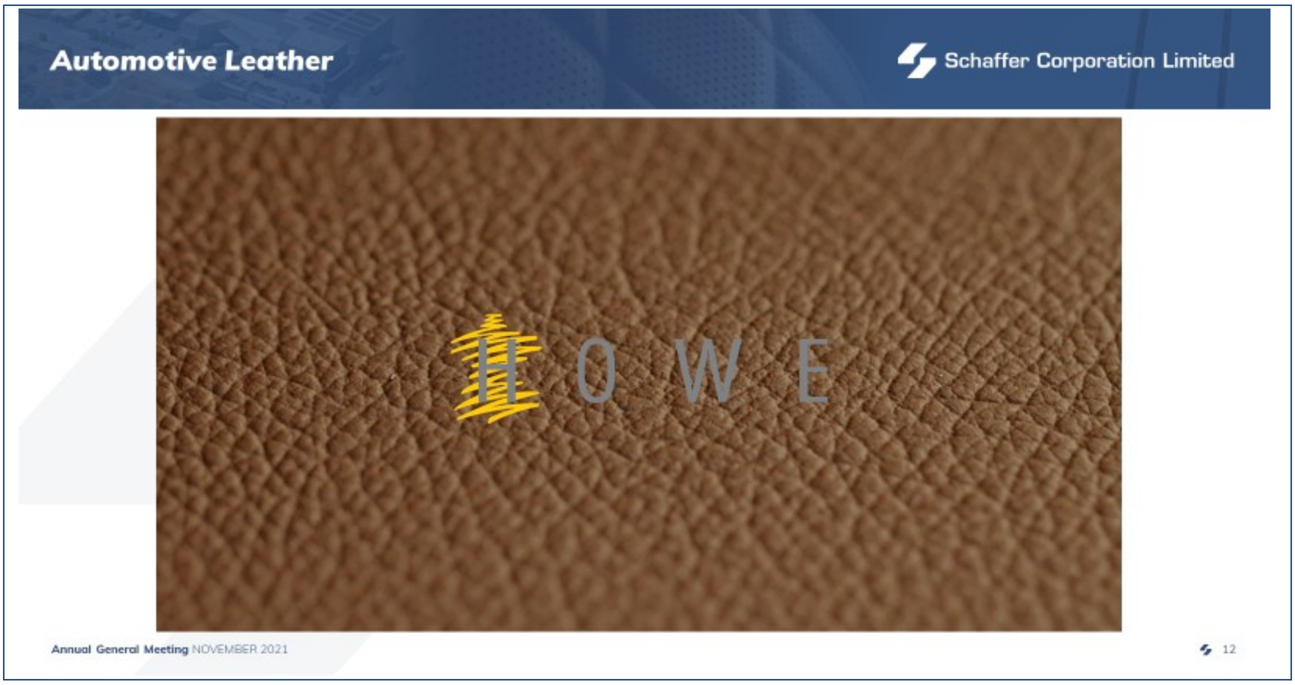
Thanks Ralph.

Good morning to all. Unfortunately, due to Covid travel restrictions for the second year, I am unable to attend the AGM in person.

On a similar note, due to the travel constraints, it has been almost two years since any of the Australian management team has visited any of our international manufacturing sites or customers.

Through this period, we have extensively used videoconferencing and benefitted from our excellent management information systems. Our global management team has performed well and it is specifically pleasing to see the maturity and capability of both our Slovakia and China teams.

In addition, our global sales team, directed from Australia, has secured major programs with our key customers during the past 12 months that should support volumes towards the end of this decade.

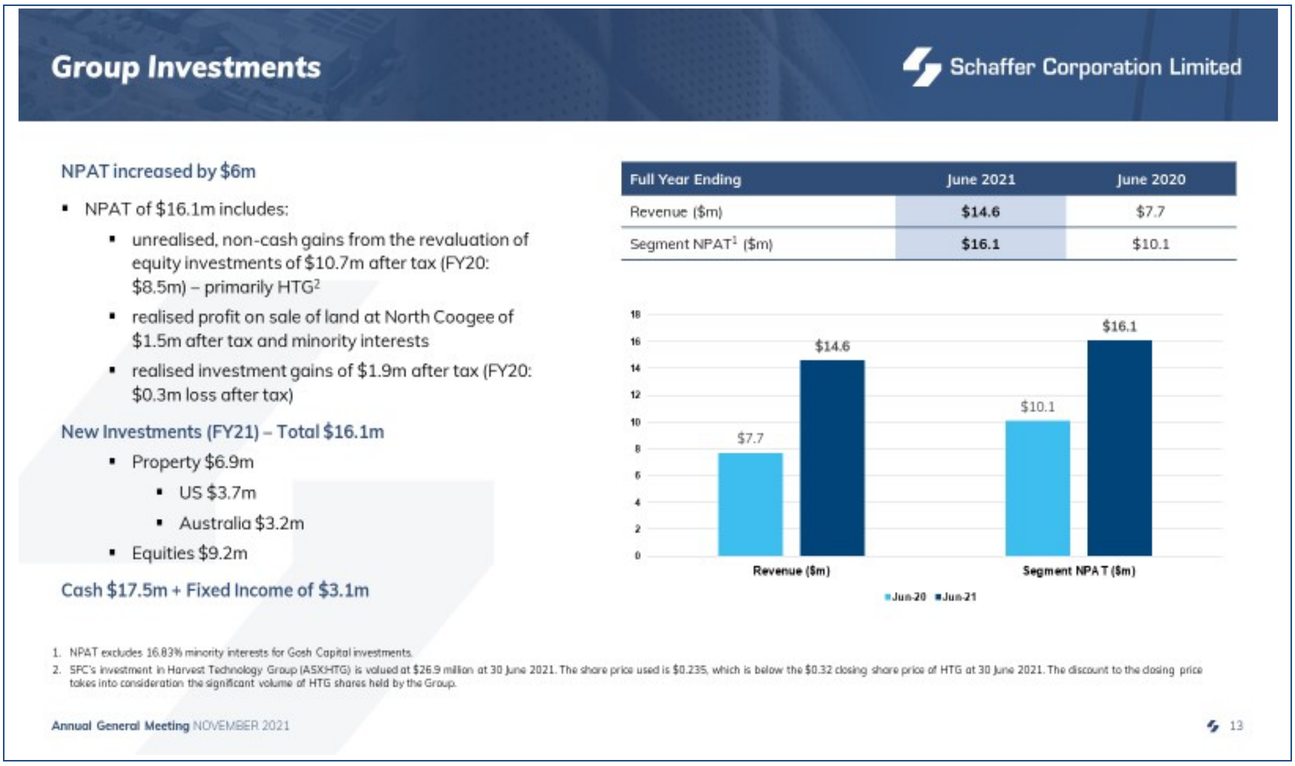


As outlined in previous years, our focus remains on high specification products of the premium OEM market with increasingly complex value-added features, such as perforation designs, lamination, and logo embossing. The new Range Rover has recently been launched to which the Automotive Leather Division will supply a high-end Aniline product with unique perforation styles for both the Core version and Special Vehicle versions.

Despite the challenges we have faced since the start of 2020, we feel confident that with the premium mix of customers and talent in our organization, we will continue to succeed in the current challenging global market.

I look forward to seeing you in 2022.

I now hand back to Ralph.



Thank you Dan.

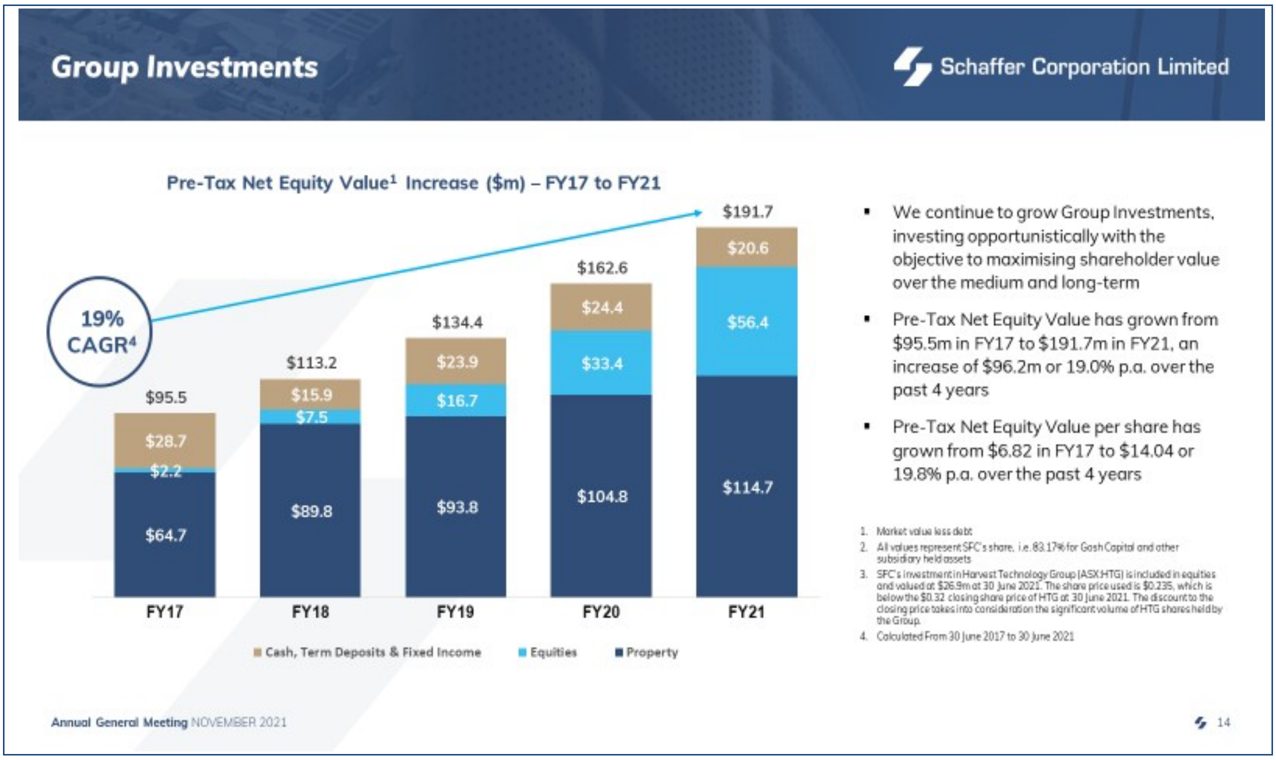
Group Investments

Group Investments aims to maximise shareholder value over the medium and long-term by:

- Continuing to grow our investment portfolio;
- Accessing unique investment opportunities for shareholders;
- Investing in businesses and people with proven track records; and
- Remaining flexible and opportunistic

During the financial year, Group Investments contributed NPAT of $16 million. This included significant non-cash, unrealised gains of $11 million after tax. The gains were primarily from the revaluation of our investment in Harvest Technology Group (ASX:HTG). It also included realised gains after tax and minority interests of $1.5 million from the sale of land at North Coogee.

At North Coogee, Stage 1 has sold out and 24 out of 28 blocks have now settled. Stage 2 comprises 24 blocks. Civil works are now complete, and Stage 2 sales have commenced.



Schaffer Corporation's underlying valuation continues to be underpinned by tangible assets.

As at 30 June 2021, the Group's investment portfolio (including our share of subsidiaries) had an estimated pre-tax net equity market value of $192 million, compared to $163 million for the prior year. That is $14.04 per share. The $192 million value comprises approximately:

- Cash and fixed income investments of $21 million;
- Property investments of $115 million; and
- Equity and other investments of $56 million (including $27 million related to our investment in Harvest Technology Group)

Our cost of the Harvest Technology Group investment is around $2.5 million.

Since 2017, pre-tax net equity market value has increased 19% per year. This increase includes additional funds retained by us and market movements of our investments.

Among the investment managers with whom Schaffer Corporation invests, is Ascot Capital. Ascot recently announced the sale of the majority of its syndicated property assets. We have six investments that are part of this transaction.

The original cost of these investments was around $5 million. The deal is now unconditional, but settlement has not occurred. Exact net proceeds and profits are not yet known. We expect to announce final details of this transaction with our first half results in February. Our estimate is that we should realise around $2.5 million in net profits after tax.

I now hand you back to the Chairman.

Jandakot Road Property

Schaffer Corporation Limited

A large strategic property asset located between two freeways and 15 minutes south of the Perth CBD.

- Approximate developable lot area of 34ha after allowing for internal and external roads, drainage, buffers and the Bush Forever area.
- Allowable uses are Warehouses, Showrooms, Storage, Masonry Production and Nurseries. This area includes the 6.2ha currently leased to Austral Masonry Holdings.
- Land has been ceded during FY21 to allow the duplication of Jandakot Road and construction of a new roundabout entrance to our site. This project has commenced and is due to be completed by early 2022.
- Clearing and earthworks for the developable area should be completed in December.
- Currently valued at $45.2 million on an "as is" basis.

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Thank you Ralph.

Our Jandakot property is a strategic property asset that we are currently developing.

It is located between two freeways and 15 minutes south of the Perth CBD.

The site has approximately 34 hectares of developable land with allowable uses including warehouses, showrooms, storage, masonry production and nurseries.

This area includes 6.2 hectares currently leased to Austral Masonry Holdings.

Clearing and earthworks on the site is now well underway and is expected to be mostly complete by December.

As at 30 June 2021, the site was valued at $45.2 million on an 'as is' basis.

Delta

Schaffer Corporation Limited

Summary

- Delta returned to profit for H1 and was close to break even for H2.
- A large infrastructure project, Evolve Bayswater Station, that was due to commence during H2 was delayed.
- The temporary border controls that have continued in Western Australia associated with Covid-19 have made it difficult to source labour. This has increased the cost of labour.

Outlook

- Evolve Bayswater Station project is now underway
- Prospects for industry improving
  - Government expenditure on infrastructure projects forecast to rise from $1.6 billion p.a. to $3.5 billion p.a. for the next 5 years.
  - Delta's capacity being increased to embrace the opportunity
- Expect labour and material shortages to continue

Full Year Ending	June 2021	June 2020
Revenue ($m)	**$16.5m**	$17.8m
Segment Underlying NPAT[1] ($m)	**$1.0m**	($0.6m)

1. Underlying NPAT excludes ($1.0m) impairment of assets after tax in FY20

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<u>Delta</u>

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

Delta returned to profit for the first half and was close to break-even for the second half.

A large infrastructure project, Evolve Bayswater Station, was due to commence in the second half but was delayed.

In the Covid-19 environment, delays have become common. This makes scheduling difficult, increases downtime and reduces profitability. Additionally, the ongoing border controls in Western Australia due to Covid-19 have made it difficult to source labour, putting upward pressure on our labour costs.

Prospects for the industry appear to be improving, with Main Roads WA, the Public Transit Authority and government expenditure on infrastructure projects forecast to rise from $1.3 billion per year to $3.5 billion per year for the next five years. The increase is welcome, but we expect it to result in both labour and material shortages, along with market capacity constraints.

Delta is increasing capacity and improving production efficiency to be ready to take advantage of the improved operating environment.

I thought it would be useful to share some of the complex production capabilities Delta is able to deliver.

Delta focuses on working with designers and major contractors to develop innovative, cost-effective precast solutions.

It can take two-to-three years of preliminary budgets, conceptual design refinement and in-depth tendering support with a major contractor before a project becomes a reality.

The new Bayswater Station is an example. It forms a significant, high-profile part of the State Government's $4.1 billion Metronet program. The design is a first for WA with the State Government opting for an integrated elevated rail platform. This maximises public utility while significantly reducing the impact to vehicle movements around an extremely busy precinct. It is complex architecturally and in terms of cutting-edge engineering design.

Delta first started working with the Evolve Bayswater alliance on the development in 2017. This resulted in Delta being awarded the precast concrete package to produce the columns, headstocks and beams required for the project. We developed beam types that have never been used in WA. They are likely to be incorporated in future rail projects throughout the Perth rail network.

<u>Conclusion</u>

In conclusion, we live in interesting and volatile times.

The first half of the current year has been impacted by chip shortages. Nonetheless, recent announcements from our OEMs indicate the position should incrementally improve over the next 12 months – we are starting to see the beginning of these ‘green shoots’ with volume increases from our OEMs this month.

It is worthwhile to remind shareholders of the medium-term prospects of our Automotive Leather division.

Global demand for new cars remains strong. Many order books are at record levels, while inventory levels of cars at our OEMs and dealerships are low. In addition, we have renewed our key programs with Jaguar Land Rover and have also won new programs with Mercedes and Audi.

Our finishing and cutting plants have industry-leading equipment, allowing us to competitively win new business and produce leather for the global automotive industry.

Most significantly, we have experienced employees and a seasoned management team. They have proven themselves over the challenging past 20 months. As the chip shortage reduces, volumes should greatly improve, and Automotive Leather is positioned well to benefit.

For Group Investments, we remain opportunistic and are focused on generating long term shareholder value. Our opportunities include the development of Group properties at Jandakot and the sale of Stage 2 residential lots at North Coogee.

The Board remains conscious of the risk factors for the Group.

These include:

- The ongoing economic impacts of Covid-19
- Further waves of the pandemic, especially during the winter months in Europe and China, which could further disrupt raw material and finished product supply chains
- The semiconductor chip shortages
- Labour shortages and higher wage costs, particularly for Delta in Western Australia
- Currency volatility, which remains high and could impact Automotive Leather's revenues and profitability in Australian-dollar terms
- Equity market volatility, which could impact the value of our investment portfolio.

Dividends

While we acknowledge the short-term challenges, particularly the chip shortage affecting the Automotive Leather division, subject to Board approval In February, we expect to pay a 45c fully franked dividend, the same as the last two halves.

On behalf of the board and all shareholders, we would like to sincerely thank our employees for their hard work and perseverance during these difficult times.

In closing, I would like to say special thank you to you, our shareholders. We appreciate your support.

That concludes my Chairman's Address and I now return to the statutory business before us today as set out in the Notice of Meeting.

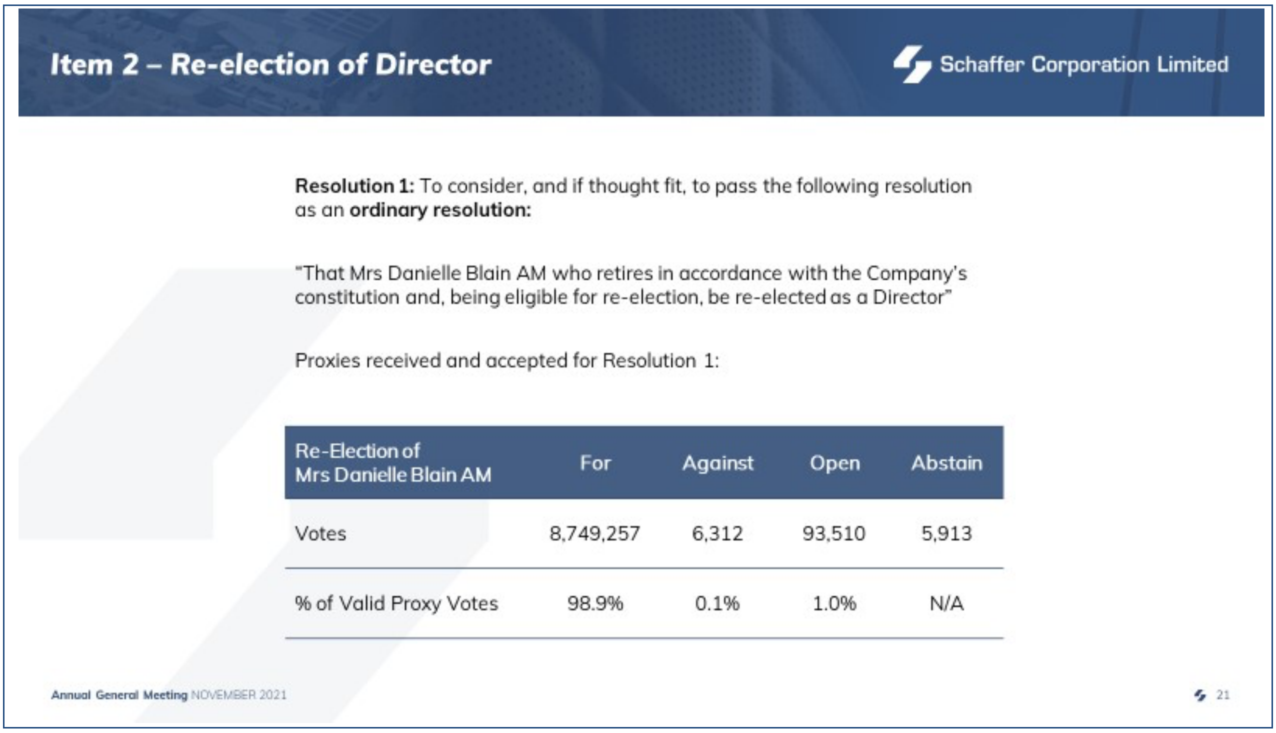
I now invite questions or comments from members regarding the accounts and reports, and the management of the company. Members are also invited to ask our auditors questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

I now turn to the first item of ordinary business in the Notice of Meeting

“To receive and consider the annual financial statements and reports of the directors and the auditors for the period ended 30 June 2021”

The Corporations Act requires that the Annual Financial Report, including the Directors’ declaration for the year ended 30 June 2021 and the related Directors’ Report and Audit Report be received and considered at the AGM. However, this does not require voting by shareholders.

Assuming there are no further comments or questions from shareholders, I will move on to the next item of business.


Item 2 – Re-election of Director

Schaffer Corporation Limited

Resolution 1: To consider, and if thought fit, to pass the following resolution as an **ordinary resolution:**

"That Mrs Danielle Blain AM who retires in accordance with the Company's constitution and, being eligible for re-election, be re-elected as a Director"

Proxies received and accepted for Resolution 1:

Re-Election of Mrs Danielle Blain AM	For	Against	Open	Abstain
Votes	8,749,257	6,312	93,510	5,913
% of Valid Proxy Votes	98.9%	0.1%	1.0%	N/A

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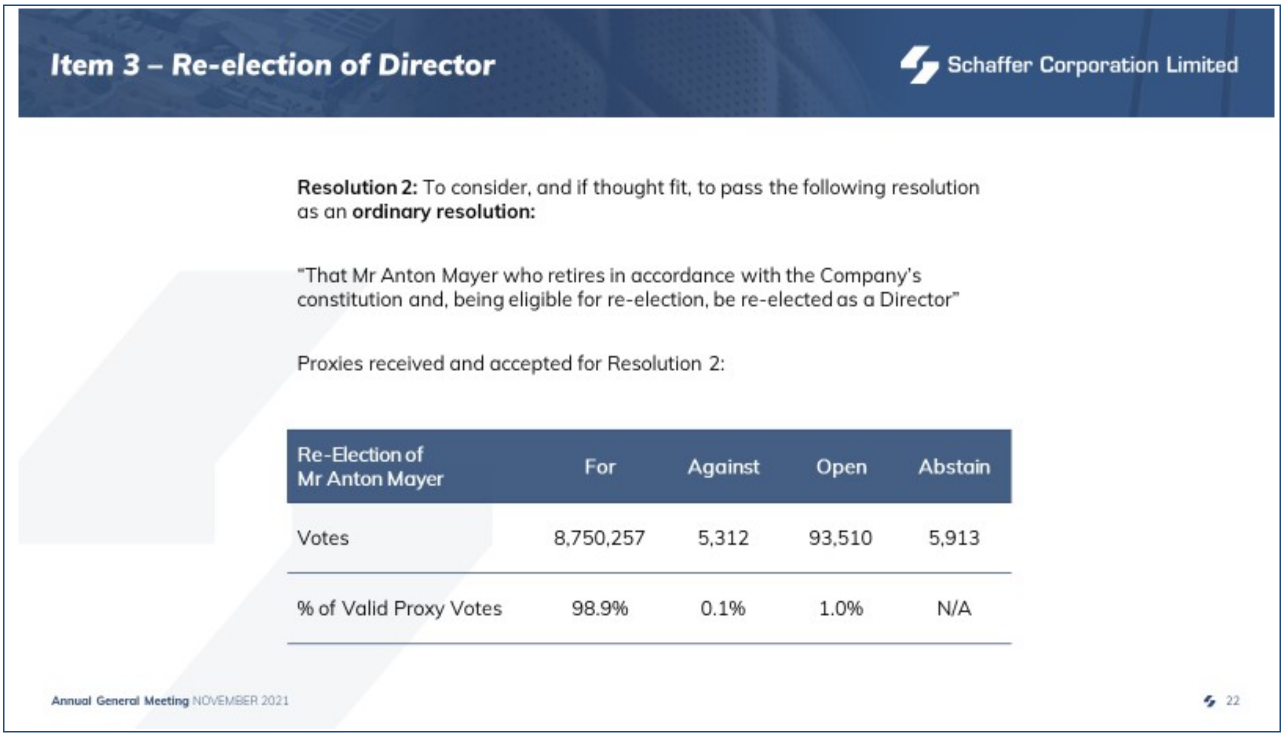
I would now like to move to Resolution 1, Re-election of Director

"That Mrs. Danielle Blain AM, who retires in accordance with the Company's constitution and, being eligible for re-election, be re-elected as a Director"

A total of 8,854,992 proxies were received, which represents 64.5% of the Company's issued capital.

Proxies submitted for Resolution 1 are shown on the screen.

Proxies at the Chairman's discretion will be voted in favour of the resolution and the Board supports the re-election of Mrs. Danielle Blain.



I would now like to move to Resolution 2, Re-election of Director

“That Mr Anton Mayer, who retires in accordance with the Company’s constitution and, being eligible for re-election, be re-elected as a Director”

Proxies submitted for Resolution 2 are shown on the screen.

Proxies at the Chairman’s discretion will be voted in favour of the resolution and the Board supports the re-election of Mr Anton Mayer.

Item 4 – Remuneration Report

Schaffer Corporation Limited

Resolution 3: To consider, and if thought fit, to pass the following resolution as a non-binding **ordinary resolution:**

"That the Remuneration Report for the period ended 30 June 2021 be adopted"

Proxies received and accepted for Resolution 3

Adopt Remuneration Report	For	Against	Open	Abstain
Votes	3,688,864	18,949	12,851	47,552
% of Valid Proxy Votes	99.1%	0.5%	0.4%	N/A

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I would now like to move to Resolution 3, Remuneration Report

"That the Remuneration Report for the period ended 30 June 2021 be adopted"

Full details of the Company's approach to remuneration for Directors and Senior Executives are included in our Remuneration Report contained within this year's Annual Report.

As provided for in the Corporations Act and as noted in our Notice of Meeting, the vote is of a non-binding nature.

A reminder that Key Management Personnel and closely related parties of Key Management Personnel are excluded from voting on this resolution as outlined in the Notice of Meeting.

Also, there are no proxies to be voted at the Chairman's discretion on Resolution 3 as outlined in the Notice of Meeting and Proxy Form.

A total of 3,768,216 proxy votes were received.

Proxies submitted for Resolution 3 are shown on the screen.
Are there any questions from shareholders on the Remuneration Report?

As there is no further business to be transacted and the formal proceedings have been completed, I declare the meeting closed.