Schaffer Corporation Limited

SFC ANNOUNCES NET PROFIT AFTER TAX[1] OF $26 MILLION

24 August 2022

Dear Shareholder,

The 2022 financial year was yet another good year for Schaffer Corporation Limited (SFC) and I am pleased to confirm that the Board has approved a fully franked $0.45 per share final dividend, matching last year's final dividend.

Our investment operations continue to grow in importance to the Group. As such, the Board decided to change the accounting policy used to value our investment property. The move to fair value (and away from depreciated cost) is consistent with the valuation of the Group's other investments, which are already carried at fair value. It should also make it simpler for shareholders and market participants to assess the value of the company's investments. The change required the 2021 financial year results to be restated.

Net profit (NPAT[1]) excluding specific fair value revaluations[3] (specified below) was $26.4 million (FY21: $29.6 million). This reflects a good result from Automotive Leather and most of our investments, despite a demanding environment. The pre-tax net equity value of the Group's investments was $187.7 million (FY21: $191.7 million) or $13.78 per share (FY21: $14.04 per share).

Statutory net profit (NPAT[1]) was $26.2 million (FY21: $41.0 million[2]). The prior year – which was a record – included a $7.6 million after tax, non-cash, unrealised increase in fair value relating to our investment in Harvest Technologies Limited (ASX:HTG). That compared with a $13.2 million non-cash, unrealised decrease in the 2022 financial year. The overall swing of -$20.8 million in two years reflects the recent volatility in global equity markets and particularly listed technology companies. Importantly, the HTG investment remains above our cost price.

Full-Year ($m)	FY22	FY21[2]	$ change
Revenue	**$170.4**	$196.3	($28.9)
NPAT[1] from:			
Automotive Leather	**$18.1**	$24.4	($6.3)
Delta	**($0.6)**	$1.0	($1.6)
Manufacturing NPAT[1]	**$17.5**	$25.4	($7.9)
Group Investments (excluding fair value revaluations below)	**$11.7**	$6.8	$4.9
Corporate	**($2.8)**	($2.6)	($0.2)
NPAT[1] excluding specific fair value revaluations below	**$26.4**	$29.6	($3.2)
Jandakot revaluation	**$11.0**	-	$11.0
Other Investment Property revaluations[2]	**$4.2**	$2.1	$2.1
HTG revaluation	**($13.2)**	$7.6	($20.8)
Updater revaluation	**($2.2)**	$1.7	($3.9)
Statutory NPAT[1]	**$26.2**	$41.0	($14.8)
EPS	**$1.91**	$3.01	
Ordinary Dividends (fully franked)	**$0.90**	$0.90	

1. Net Profit after tax and minority interests.
2. FY21 results restated due to change in policy to recognise Investment Property at fair value
3. FY22 excluding revaluations associated with Jandakot, Other Investment Property, HTG and Updater

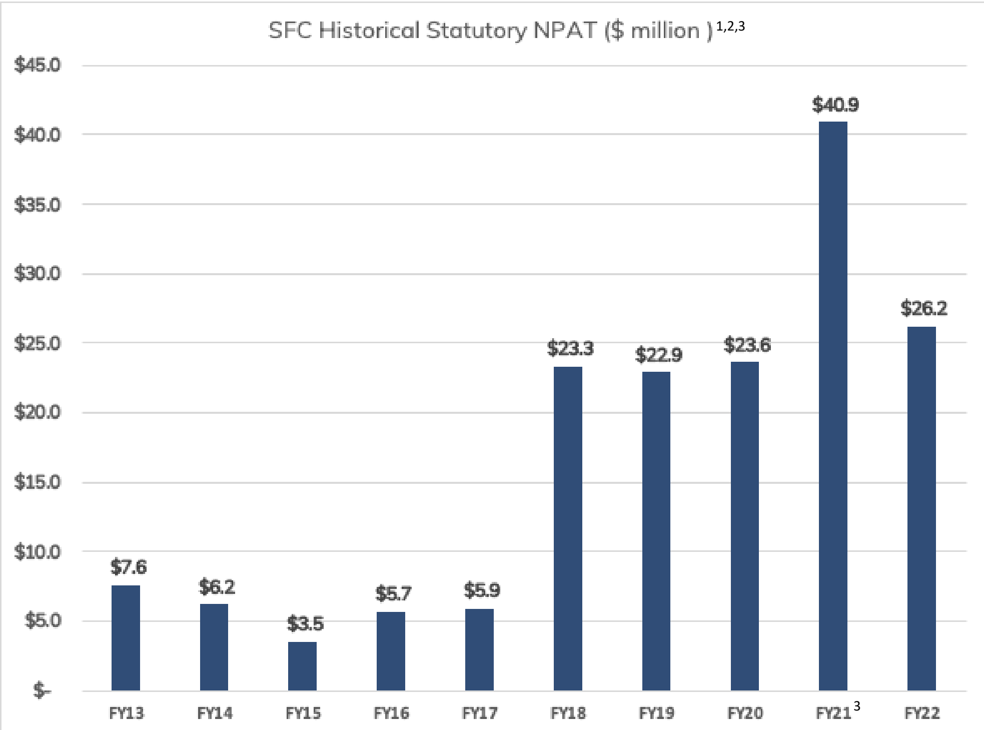
Statutory profit includes specific non-cash, unrealised, fair value revaluations of a net -$0.2 million after tax. These comprise:

- An increase of $15.2 million in the valuation of investment property with the transition to fair value accounting. This includes an $11.0 million increase in the valuation of the Jandakot site (now branded as *South Connect, Jandakot Logistics Estate*) and a $4.2 million increase in the valuation of other investment property. Those revaluations are now included in NPAT in accordance with the change in accounting policy
- A decrease of $13.2 million in the carrying value of SFC's investment in HTG.
- A decrease of $2.2 million in the carrying value of SFC's investment in Updater Inc (UPD).

NPAT[1] from our manufacturing operations was $17.5 million (FY21: $25.4 million). This result reflects a strong underlying performance by the Automotive Leather division despite the negative impact of currency in the second half and a complex and challenging environment. Delta incurred a small loss due to project delays and complexity.

Group Investments, excluding the specific detailed revaluations, contributed NPAT[1] of $11.7 million (FY21: $6.8 million) due to the strong performance of the Group's other investments.

The table below reflects our 10-year history of statutory net profit (NPAT[1]). As you can see from the table, the past five years have been consistently strong and reflect the continued strong performance from Automotive Leather and the continued evolution of the group with the increasing role of investments.



1. Net Profit after tax and minority interests.
2. Including discontinued operations of the Building Products division, sold in FY18.
3. FY21 restated to include change in accounting policy relating to Jandakot and other Investment Property

AUTOMOTIVE LEATHER

($ million)	1H22	2H22	FY22	FY21
Revenue	$56.1	$79.9	**$136.0**	$165.2
Segment NPAT[1]	$7.5	$10.6	**$18.1**	$24.4

[1] Net Profit after tax and minority interests.

The Automotive Leather division performed well in an environment with many challenges. While revenues fell to $136 million (FY21: $165 million), the second half saw a recovery as the global semiconductor chip shortage started to ease. Profitability improved in the second half, with full year profit of $18.1 million (FY21: $24.4 million).

The second half saw new challenges, including:

- The war in Ukraine
- Negative currency movements
- A two-month Covid lockdown in Shanghai
- The delayed start of a major program despite its predecessor program finishing on time
- Continued inflationary pressures
- Supply chain challenges.

As mentioned previously, our European operations successfully renewed key programs with Jaguar Land Rover and won new programs with Mercedes and Audi. These programs should result in higher volumes from the 2023 financial year onwards. In anticipation, management increased capacity to meet higher volumes. Those initiatives included:

- Purchasing and installing additional CNC cutting machines
- Increasing hide inventory levels to meet increased sales expectations for the 2023 financial year
- Using that increase to also maintain Covid-19 buffer inventory to mitigate the impacts from elongated supply chains
- Maintaining key skilled staff to ensure that we retain core skills.

Our original equipment manufacturers (OEMs) have recently reported their quarterly results. All expect further improvement in the global semiconductor chip shortage. Demand for new vehicles remains strong, particularly in the higher-end luxury segment. As an example, Jaguar Land Rover recently announced a record order book of 200,000 vehicles, which was 19% higher than their order book reported 3 months ago.

The environment continues to be volatile and challenging, with risks including:

- Continued currency volatility
- Current global economic uncertainties, including a global economic slowdown
- The energy crisis in Europe and potential impact on OEM production volumes and our costs
- Inflationary pressures, particularly on raw materials, labour and energy
- Supply chain disruptions and the global semiconductor shortages
- Further China Covid-related lockdowns
- Escalation of the Ukraine/Russia war.

While revenues should be higher than the comparable period last year, profitability for 1H23 should be similar to 1H22. Sales and profitability continue to be impacted by the slow start of a new program (short term challenge) and the continued currency headwinds. If currency rates for 1H23 were similar to 1H22, profitability would be higher than 1H22.

We will provide further guidance at the Annual General Meeting in November.

GROUP INVESTMENTS

Group Investments represents a growing proportion of the Group's underlying assets and valuation.

We continue to grow the division opportunistically with the objective of maximising shareholder value over the medium and long-term. The pre-tax net equity value of Group Investments ended the financial year at $187.7 million (FY21: $191.7 million) or $13.78 per share (FY21: $14.04 per share). Over 5 years, this represents an annual compounded increase of 14.5% per year. Over the same 5-year period, pre-tax net equity value of Group Investments has increased by $92 million, after having paid out $51 million of fully franked dividends and having bought back around $8 million in shares.

Pre-Tax Net Equity Value	$m		$ per share	
	Jun 2022	Jun 2021	**Jun 2022**	Jun 2021
Property including Jandakot (*South Connect*) [1]	**$138.8**	$114.7	**$10.19**	$8.40
Equity investments at market value (excluding HTG, UPD)	**$9.8**	$18.9	**$0.71**	$1.40
Harvest Technology Group (HTG)	**$8.9**	$26.9	**$0.66**	$1.97
Updater Inc (UPD)	**$6.8**	$10.5	**$0.50**	$0.76
Fixed Income	**$0.6**	$3.2	**$0.04**	$0.24
Cash and term deposits	**$22.8**	$17.5	**$1.68**	$1.27
Overall investment portfolio	**$187.7**	$191.7	**$13.78**	$14.04

[1] Group share of fair value less Group share of debt

Group Investments NPAT[1] before specific revaluations[3] shown below was $11.6 million (FY21: 6.8 million), an increase of $4.8 million. That reflected a strong performance including:

- The sale of 23 lots at Beachside, North Coogee
- The sale of various syndicated properties managed by Ascot Capital at ~30% IRR
- The sale of Centuria shares (return of 81%[4] over 2 years)
- Our internally managed global equity portfolio (42% gross return[4] over 20 months)
- Unrealised gains across the Group's portfolio of other syndicate property investments.

Full-Year ($m)	FY22	FY21[2]
Revenue	**$17.2**	$14.6
NPAT[1,3] excluding fair value revaluations below	**$11.6**	$6.8
Jandakot revaluation	**$11.0**	-
Other Investment Property revaluation[2]	**$4.2**	$2.1
HTG revaluation	**($13.2)**	$7.6
Updater revaluation	**($2.2)**	$1.6
Segment NPAT[1]	**$11.4**	$18.1

1. Net Profit after tax and minority interests
2. FY21 results restated due to change in policy to recognise Investment Property at fair value
3. FY22 Excluding revaluations associated with Jandakot, Other Investment Property, HTG and Updater
4. Past performance is not indicative of future results.

Property

The Group's property investments comprise the following (SFC's share of pre-tax net equity values in parentheses):

- ***Jandakot (branded as South Connect): ($66.0 million, FY21: $45.2 million)***

  The property has an approximate net developable area of 34 hectares. It is well located to benefit from the increased demand for showrooms and logistic warehousing driven by the rapid growth in ecommerce. During the year, the pre-tax value of *South Connect* increased by $20.7 million. The land value increased $15.6 million, and we invested $5.2 million in clearing, earthworks and surrounding roadworks. The contract for civil works has commenced and we expect completion in April 2023. We have obtained construction finance of $14.2 million to fund the initial development phase of the site. That finance is secured against 9.3 hectares of the site.

- ***Syndicate properties ($48.7 million)***

- ***Other directly owned property ($13.2 million)***

- ***39 Dixon Road, Rockingham ($5.7 million)***

  The property is a large format retail site, comprising three tenancies. The site is at full occupancy with three national tenants and a weighted average lease expiry of 6.5 years.

- ***North Coogee - Beachside (market value $5.2 million)***

  The property is a 2.1-hectare high-density residential subdivision. The Group realised NPAT of $2.5 million and proceeds of $8.9 million from lot sales in the 2022 financial year:
  - Stage 1 comprised 28 (28 sold and settled), medium-density 2/3 storey, single residential lots
  - Stage 2 comprises 24 (15 sold and settled), medium-density 2/3 storey lots
  - Stage 3 comprises 3 apartment sites that could accommodate approximately 110 dwellings. These Stage 3 sites are on hold until demand for this type of product improves.

DELTA

Full-Year ($m)	FY22	FY21
Revenue	**$17.3**	$16.5
Segment NPAT	**($0.6)**	$1.0

Delta incurred a small loss for the year. The loss resulted from delays, complexity and design changes associated with a large project.

Delta is operating in a challenging environment. Significant government investment has been directed to civil infrastructure projects to stimulate activity and jobs growth. However, there have been program delays, severe labour shortages and rising costs. Delta is being selective of projects it will undertake to minimise risk.

Given its strong order book, we expect Delta to return to profitability during the first half.

The key risks to Delta's performance include:

- Skilled labour shortages
- Further impacts from Covid-19
- Supply disruptions
- Inflationary cost pressures, including labour, steel, cement and aggregates.

OUTLOOK

The current environment remains volatile and challenging. The many potential risks mentioned above could impact our outlook.

Automotive Leather

The current and longer-term prospects of the Automotive Leather division remain strong. As announced previously, our European operations have successfully renewed key programs with Jaguar Land Rover and won new programs with Mercedes and Audi. These should see our European sales volumes grow from 2023 onwards. Our OEMs continue to report strong demand for new vehicles, particularly in the luxury segment.

While revenues should be higher than the comparable period last year, profitability for 1H23 is likely to be similar to 1H22. Sales and profitability continue to be impacted by the slow start of a major new program (short term challenge) and the continued currency headwinds. If currency rates for 1H23 were similar to 1H22, profitability would be higher than 1H22.

Delta

We expect Delta to return to profit for the first half.

Group Investments

Our investments are revalued each period. This may result in profit volatility, both up and down.

DIVIDENDS

The Board has approved a fully franked final dividend $0.45 per share. The record date is 9 September 2022. The dividend will be paid on 23 September 2022.

I look forward to seeing as many shareholders as possible at our upcoming Annual General Meeting in November.

Yours sincerely

John Schaffer AM
Chairman

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