Schaffer Corporation Limited

SFC MAINTAINS DIVIDEND, HALF-YEAR NET PROFIT AFTER TAX[1] OF $5 MILLION

22 February 2023

Dear Shareholder,

Schaffer Corporation Limited (ASX: SFC) today reported 1H23 statutory net profit after tax (NPAT[1]) of $5.1 million (1H22[2]: $8.0 million). This result reflects a difficult first half for the Automotive Leather Division which was impacted by various challenges including the continued global semiconductor chip shortage, the delayed launch of a major renewed program in Europe, and extreme currency movements.

Delta returned to profitability, reporting NPAT[1] of $0.3 million. This compares to a loss of $0.3 million in the same period last year. Delta ended the half with a strong order book.

Group Investments contributed NPAT[1] of $1.8 million (1H22[2]: $2.3 million). The pre-tax net equity value of the Group's investments was $185.2 million or $13.59 per share. This compares to the June 2022 value of $187.7 million or $13.78 per share.

The Board has declared an interim dividend of $0.45 per share (fully franked), same as the prior period.

Half-Year ($ million)	1H23	1H22[2]	$ change
Revenue	**$83.5**	$73.2	$10.3
NPAT[1] from:			
Automotive Leather	**$4.8**	$7.5	($2.7)
Delta	**$0.3**	($0.3)	$0.6
Manufacturing NPAT[1]	**$5.1**	$7.2	($2.1)
Group Investments[2]	**$1.8**	$2.3	($0.5)
Corporate	**($1.8)**	($1.5)	($0.3)
Statutory NPAT[1]	**$5.1**	$8.0	($2.9)
EPS	**$0.38**	$0.58	
Ordinary Dividends (fully franked)	**$0.45**	$0.45	

1. Net Profit after tax and minority interests.
2. 1H22 results restated due to change in policy to recognise Investment Property at fair value

AUTOMOTIVE LEATHER

Half-Year ($ million)	1H23	1H22
Revenue	**$62.8**	$56.1
Segment NPAT[1]	**$4.8**	$7.5

1. Net Profit after tax and minority interests.

The Automotive Leather Division had a challenging first half. While 1H23 revenues increased 11.9% to $62.8 million, NPAT[1] decreased to $4.8 million (1H22: $7.5 million). The decrease in profit reflected the ongoing global semiconductor chip shortage and other challenges including:

- The slow ramp up of a major program due to chip shortages
- Inflationary cost pressures
- Adverse negative currency movements
- High energy costs in Europe
- Covid-related shutdowns in China and
- Elongated supply chains

The chip shortage has, in varying degrees, impacted on all Automotive Leather's Original Equipment Manufacturers (OEM's). The most significant impact has been on the launch of a major renewed program. The old model ended in March 2022. Since April 2022, the full serial production launch of the new model has been pushed out repeatedly. The "below-normal" launch volumes continued throughout 1H23 and impacted both profitability and cashflow generation. In support of our customer, Automotive Leather remained ready with sufficient inventory levels to meet full launch volumes, resulting in excess inventory. Demand for this vehicle remains strong. Automotive Leather anticipates the excess inventory will reduce in the second half as the program ramps up.

Another major effect was currency movements which negatively impacted NPAT[1] in the 1H23 by around $2.5 million after tax using currency rates consistent with 1H22:

- The Australian dollar strengthened against the Euro (bad for Automotive Leather) from an average rate of 0.63 (1H22) to an average rate of 0.66 (1H23) – this is our most important FX rate to translate revenue (around 75% of sales are currently in Euros).
- The Australian dollar weakened against the US Dollar (bad for Automotive Leather) from an average rate of 0.77 (1H22) to an average rate of 0.725 (1H23) – this our most important FX rate to translate expenses (hides + chemicals).

The Russia/Ukraine war increased energy costs for the Automotive Leather's European operations, with prices remaining at extremely elevated levels during the half. Those costs were 3 times higher than the long-term average and reduced NPAT by approximately $0.5 million compared to 1H22.

The prospects of the Automotive Leather division remain strong. Future growth in Europe should be supported by renewed major programs, and the previously won programs with Mercedes and Audi.

Our OEMs continue to report strong demand for new vehicles. Jaguar Land Rover recently announced a record order book of 215,000 vehicles, 5% higher than the previous record reported 3 months ago.

Several key risks may impact Automotive Leather, these include:

- Semiconductor shortages and other supply chain disruptions
- Ongoing currency volatility
- Global economic uncertainty, including the potential for a global economic slowdown.
- The ongoing energy crisis in Europe, which has the potential to impact on both OEM production volumes and the division's costs.
- Inflationary price pressures.
- Escalation of the Russia/Ukraine war.

Subject to the above risks, revenue and profitability for 2H23 should be higher than 1H23, as the semiconductor chip shortage is showing signs of improvement.

GROUP INVESTMENTS

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

We continue to invest 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 half at $185.2 million or $13.59 per share. This compares with the June 2022 value of $187.7 million or $13.78 per share.

Pre-Tax Net Equity Value	$m		$ per share	
	Dec 2022	Jun 2022	**Dec 2022**	Jun 2022
Property including Jandakot (*South Connect*) [1]	**$132.0**	$138.8	**$9.69**	$10.19
Equity investments at market value (excluding HTG, UPD)	**$20.7**	$9.8	**$1.52**	$0.71
Harvest Technology Group (HTG)	**$6.6**	$8.9	**$0.48**	$0.66
Updater Inc (UPD)	**$6.8**	$6.8	**$0.50**	$0.50
Fixed Income	**$-**	$0.6	**$-**	$0.04
Cash and term deposits	**$19.1**	$22.8	**$1.40**	$1.68
Overall investment portfolio	**$185.2**	$187.7	**$13.59**	$13.78

1. Group's share of fair value less Group's share of debt

Group Investments NPAT[1] was $1.8 million (1H22[2]: $2.3 million).

Half-Year ($ million)	1H23	1H22[2]
Revenue	**$6.6**	$8.7
Segment NPAT[1]	**$1.8**	$2.3

1. Net Profit after tax and minority interests
2. 1H22 results restated due to change in policy to recognise Investment Property at fair value

Past performance is not indicative of future results.

The result included the following relevant contributions:

- +$2.0 million from ongoing rent and distribution income (1H22: $1.9m) due to increased tenancy rates offset by higher interest rates charges.
- +$0.6 million from the completion of a local syndicate property development. This investment achieved an IRR of 38.5%.
- +$0.5 million from the sale of 3 lots at Beachside, North Coogee. Sales have slowed and in total we have now sold 46 of 52 single residential lots with 3 apartment sites also remaining.
- +$0.3 million non-cash, unrealised gain, from the increase in fair value of the Dixon Road, Rockingham bulky goods property.
- -$1.6 million non-cash, unrealised loss from the mark-to-market, revaluation of our investment in HTG (1H22: -$6.5 million). Our current valuation of HTG is $6.6m (June 30: $8.9 million) compared to our original investment of $3.3 million.

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): (market value $70.4 million; debt $8.2 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. Civil works are well underway with $4.4 million invested during the half. We expect completion of the civil infrastructure by the first quarter of FY24. A development application has recently been approved for the first phase development of logistics warehouses (5 tenancies, with an aggregate lettable area of 36,000 square meters).

- ***Syndicate properties ($47.2 million)***

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

- ***39 Dixon Road, Rockingham ($5.3 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 6.0 years.

- ***North Coogee - Beachside (remaining market value $4.1 million)***

  Realised NPAT of $0.5 million and proceeds of $1.4 million from lot sales in the half-year:

  - Stage 1 comprised 28 (28 sold and settled), medium-density 2/3 storey, single residential lots
  - Stage 2 comprises 24 (18 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

Half-Year ($ million)	1H23	1H22
Revenue	**$14.0**	$8.4
Segment NPAT	**$0.3**	($0.3)

Delta returned to profitability, reporting NPAT of $0.3 million. This compares to a loss of $0.3 million in 1H22. Revenue increased by 67%, reflecting the impact of project delays in 1H22. Delta continued to be impacted by engineering complexity on a large project, which negatively impacted profit margins and cash flow.

Delta is operating in a strong but challenging environment. Significant government investment has been directed to civil infrastructure projects to stimulate activity and jobs growth. Limited industry capacity to deliver these projects has resulted in severe labour shortages and rising costs. Delta is being selective of projects it will undertake to minimise and manage these risks.

Delta ended the half with a strong order book, despite the ongoing challenges of labour shortages and cost pressures. Given its strong order book and improving margins, SFC expects Delta to increase profitability during the second half.

The key risks to Delta's performance include:

- Skilled labour shortages
- Supply disruptions
- Inflationary cost pressures, including labour, steel, cement and aggregates.

GROUP OUTLOOK

The current environment remains volatile and challenging and the potential risks outlined above could impact SFC's outlook.

Automotive Leather

The outlook for the Automotive Leather division remains strong, with future growth in Europe supported by renewed major programs and previous program wins with Mercedes and Audi.

SFC expects revenue and profitability for the second half to be higher than the first half, as the semiconductor chip shortage is showing signs of improving.

Delta

SFC expects Delta to increase profits for the second half.

Group Investments

The accounting standards require SFC to revalue its investments each period. This revaluation 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 10 March 2023. The dividend will be paid on 17 March 2023.

Yours sincerely

John Schaffer AM
Chairman

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