SFC ANNOUNCES NET PROFIT AFTER TAX[1] OF $13.6 MILLION

23 August 2023

Dear Shareholder,

Schaffer Corporation Limited (ASX: SFC) reported statutory net profit after tax (NPAT[1]) for the 2023 financial year of $13.6 million (FY22: $26.2 million). SFC's result reflects a difficult year for the Automotive Leather Division, which was impacted by challenges including the delayed launch of a major renewed supply program in Europe, high energy costs and volatile adverse currency movements. Automotive Leather generated profits[1] of $11.1 million (FY22: $18.1 million).

Delta returned to profitability, reporting NPAT[1] of $2.0 million. This compares to a loss of $0.6 million during the 2022 financial year. Revenues remained strong during the second half.

SFC's largest investment, South Connect Jandakot, marginally increased its pre-tax net equity value to $65.3 million from $65 million, reflecting the capital investment in civil works funded mainly by debt (FY23 debt of $12.2 million compared with FY22 of $1 million). Civil works are well underway with their completion expected during the first half of this financial year.

Group Investments contributed NPAT[1] of $3.2 million (FY22: $11.5 million). Last year's profit included one-off realised gains from the sale of various investments.

At 30 June 2023, the pre-tax net equity value of the Group's investments was $186.5 million or $13.73 per share. This compares to the 2022 value of $187.7 million or $13.78 per share.

SFC bought back $0.7 million of shares during the financial year.

The Board has declared a final fully franked dividend of $0.45 per share, matching last year's final dividend.

Full Year ($ million)	FY23	FY22	$ change
Revenue	**$183.6**	$170.4	$13.2
Net Profit After Tax (NPAT) [1] from:			
Automotive Leather	**$11.1**	$18.1	($7.0)
Delta	**$2.0**	($0.6)	$2.6
Manufacturing NPAT[1]	**$13.1**	$17.5	($4.4)
Group Investments	**$3.2**	$11.5	($8.1)
Corporate	**($2.7)**	($2.8)	($0.1)
Statutory NPAT[1]	**$13.6**	$26.2	($12.6)
EPS	**$1.00**	$1.91	
Ordinary Dividends (fully franked)	**$0.90**	$0.90	

1. Net Profit after tax and minority interests.

AUTOMOTIVE LEATHER

($ million)	1H23	2H23	FY23	FY22
Revenue	$62.8	$80.0	**$142.8**	$136.0
Segment NPAT[1]	$4.8	$6.3	**$11.1**	$18.1

1. Net Profit after tax and minority interests.

Automotive Leather had a challenging year, as the division was impacted by multiple negative factors. While revenues increased 5% to $143 million (FY22: $136 million), NPAT was down 39% to $11.1 million (FY22: $18.1 million). Revenues, operating margins, productivity and cashflow were impacted by:

- The delayed launch of a major renewed program
- Higher input costs due to inflationary pressures, including hide prices, chemical prices, rent, electricity, and other key consumables
- Adverse currency movements (-$2.3 million impact)
- High energy costs in Europe (-$1.0 million impact versus pre-Ukraine war)
- Semiconductor chip shortages in the first half
- Covid-19 lockdowns in Shanghai during January and February 2023
- Raw material supply chain disruptions and supply chain elongation.

The most significant impact has been the delayed launch of a major renewed program. The old model ended in March 2022. The 'below normal' launch volumes continued throughout the first half and most of the second half. This impacted profitability, productivity and cashflow generation.

Automotive Leather experienced a stronger second half, as sales volumes progressively increased, particularly for the major renewed program. Volumes for this program ended the financial year close to 'normal' expected levels. The second half also produced significantly improved cash flow generation, as management focused on reducing excess hide inventory that occurred during the first half. Cash from operations during the second half was an inflow of $10.6 million compared to the first half outflow of $9.6 million. The stronger cash generation should continue during the first half of FY24, as further hide reductions are expected to occur.

The Automotive Leather division's Management team took the necessary strategic actions to ensure that the business navigated the abovementioned challenges during the year and to ensure the business is ready for the 2024 financial year.

Our four main luxury automotive customers in Europe have recently reported their quarterly results. Demand for new vehicles remains good, particularly in the higher-end luxury segment. As an example, Jaguar Land Rover recently announced a strong order book across its models of 185,000 vehicles.

As mentioned in our previous announcements to investors, our European operations successfully won new programs with Mercedes, Audi and Porsche. During the first half of this financial year, the new Mercedes E-Class and Porsche programs should launch, adding initially limited but positive incremental sales volume.

While it is too early to provide guidance for the second half of the financial year, we highlight to investors that the previously mentioned launches and the additional launches of multiple new Audi programs expected during the second half of the financial year should lead to further increases in sales volumes and profitability.

Risks for the first half include:

- Slower-than-expected or delayed new program launches
- Continued adverse currency volatility
- Global economic uncertainties, including a global economic slowdown
- Inflationary pressures, particularly labour and energy.

Subject to the abovementioned risks, revenues and profitability for the first half should be higher than the second half of last year. Cashflow generation should be strong as excess hides continue to reduce. We will provide further guidance for the first half at the Annual General Meeting in November.

DELTA

Full-Year ($ million)	FY23	FY22
Revenue	**$28.7**	$17.3
Segment NPAT	**$2.0**	($0.6)

Delta returned to profitability, reporting NPAT of $2.0 million on higher revenue of $28.7 million (FY22: $17.3 million). This compares to a loss of $0.6 million during the 2022 financial year.

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

The key risks to Delta's performance include:

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

Given its current order book, we expect Delta to remain profitable during the first half.

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.

SFC successfully launched the SFC Global Equity Fund, which ended the financial year up 7.6%[4] net of fees with funds under management of $18.7 million.

The pre-tax net equity value of Group Investments ended the financial year at $186.5 million (FY22: $187.7 million) or $13.73 per share (FY22: $13.78 per share). Over 5 years, this represents an annual compounded increase of 12.9% per year. Over the same 5-year period, pre-tax net equity value of Group Investments has increased by $73 million, after having paid out $55.4 million of fully franked dividends and having bought back around $6.5 million in shares.

Pre-Tax Net Equity Value[1]	Jun 2023 $m	Jun 2022 $m	Jun 2023 $/Share	Jun 2022 $/Share
Jandakot (*South Connect*) [1]	**$65.3**	$65.0	**$4.81**	$4.77
Other Property Investments	**$76.1**	$73.8	**$5.60**	$5.42
Equity investments at market value (excluding HTG, UPD)	**$19.9**	$9.8	**$1.47**	$0.71
Harvest Technology Group (HTG) [2]	**$4.4**	$8.9	**$0.32**	$0.66
Updater Inc (UPD)[3]	**$12.1**	$6.8	**$0.89**	$0.50
Fixed Income	**-**	$0.6	**-**	$0.04
Cash and term deposits	**$8.7**	$22.8	**$0.64**	$1.68
Overall investment portfolio	**$186.5**	$187.7	**$13.73**	$13.78

1. Group share of fair value less Group share of debt.
2. SFC's investment in Harvest Technology Group (ASX:HTG) is valued at $4.4m at 30 June 2023. The value per share used is $0.03, which is below the $0.042 closing share price of HTG at 30 June 2023. The discount to the closing price takes into consideration the significant volume of HTG shares held by the Group.
3. SFC group invested a further US$2.5 million in Updater during FY23.
4. Past performance is not indicative of future results.

Group Investments NPAT[1] was $3.8 million (FY22: $11.6 million), a decrease of $7.8 million. The prior year results included one-off realised gains from:

- The sale of 23 lots at Beachside, North Coogee
- Various syndicated properties managed and sold by Ascot Capital
- Centuria (ASX:CNI) shares.

Full-Year ($ million)	FY23	FY22
Revenue	**$12.1**	$17.2
NPAT[1,2] excluding fair value revaluations below	**$4.2**	$11.7
Jandakot revaluation	**-**	$11.0
Other Investment Property revaluation	**-**	$4.2
HTG revaluation	**($3.2)**	($13.2)
Updater revaluation	**$2.2**	($2.2)
Segment NPAT[1]	**$3.2**	$11.5

1. Net Profit after tax and minority interests.
2. Excluding revaluations associated with Jandakot, Other Investment Property, HTG and Updater.

Group Investments results also includes the following non-cash, unrealised, gains/(losses):

- +$2.2 million NPAT[1] from our investment in Updater. Our current valuation of Updater, excluding minorities interests, is $13.3m which is higher than our cost of ~$9.5m. During the year, SFC and Gosh Capital participated in a capital raise, investing a further US$2.5 million.

- -$3.2 million net loss after tax from our investment in HTG. We valued HTG using $0.028 per share, which is below the $0.04 per share closing price at 30 June 2023. The discount to the closing price takes into consideration the significant volume of HTG shares held by the Group. Our current valuation of HTG is $4.4 million compares to our original investment of $3.3 million (being $2 million in a convertible note earning 9% per annum and $1.3 million in shares).

Property

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

- ***Jandakot - South Connect: ($65.3 million, FY22: $65.0 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 net equity value of Jandakot *South Connect* increased by $0.3 million. The land value increased $11.5 million to $77.5 million due to the investment in civil works that are due to be completed in the first half of this financial year. This was offset by $11.2 million debt drawn down against a construction finance facility.

  We received Development Application approval for our first 'superlot' of 36,000 square metres over three buildings. We are currently performing detailed design for the first warehouse of 12,000 square metres, which could be divided into three tenancies.

- ***Syndicate properties ($52.9 million)***

- ***Other directly owned property ($13.7 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 six years.

- ***North Coogee - Beachside (market value $4.2 million)***

  At commencement of sales, the property was a 2.1 hectare high-density residential subdivision. The Group realised NPAT of $0.5 million and proceeds of $1.4 million from the sale of three lots in the 2023 financial 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.

OUTLOOK

While the current environment has many potential risks, we see opportunity for our manufacturing operations during the first half of the 2024 financial year.

Automotive Leather

Revenue and profitability for the first half of this financial year should be higher than in the second half of the 2023 financial year.

Delta

We expect Delta to remain profitable 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 of $0.45 per share. The record date is 8 September 2023. The dividend will be paid on 22 September 2023.

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.