Schaffer Corporation Limited

SCHAFFER'S FULL YEAR PROFIT INCREASES TO $5.9 MILLION

16 August 2017

Dear Shareholders,

Schaffer Corporation Limited (ASX: SFC) has today reported statutory full year net profit after tax (NPAT) for the financial year ended 30 June 2017 of $5.9 million, a 3% increase over the prior year. The prior year result included a non-recurring $4.0 million in NPAT from the sale of Schaffer Corporation's 20% interest in the 616 St Kilda Road property syndicate.

Underlying Profit increased by more than 160% to $8.2 million (2016: $3.1 million) after excluding a $1.6 million after-tax, non-cash impairment of assets and $0.8m of restructuring costs.

During the financial year, Schaffer Corporation generated $22.4 million in operating cash flow – an increase of nearly 170% that reduced net debt by $14.4 million.

The Board has declared a $0.01 per share increase for the final ordinary dividend to $0.14 per share (fully franked), an increase of 8% period on period. The total dividend for the 2017 financial year is $0.26 per share (fully franked), a $0.01 per share increase from the previous financial year. The record date for the dividend is 1 September 2017; payment will be made on 15 September 2017.

FINANCIAL SUMMARY

	Financial Year to		
	30-Jun-17	30-Jun-16	% Change
Revenue ($m)	**215.0**	213.6	1%
EBIT[2] ($m)	**16.4**	13.9	18%
NPAT[1] ($m)	**5.9**	5.7	3%
Earnings per share	**$0.42**	$0.41	3%
Ordinary dividends per share	**$0.26**	$0.25	4%
Underlying Profit[3] ($m)	**8.2**	3.1	162%
Underlying earnings per share	**$0.58**	$0.22	162%

1 Net Profit after tax and minority interests.
2 EBIT excludes non-recurring costs.
3 Underlying Profit excludes asset impairments, property sales and non-recurring costs.
Refer to most recent Investor Presentation for definitions of non-IFRS measures

DIVISIONAL REVIEW

AUTOMOTIVE LEATHER

Automotive Leather's EBIT increased to $13.5 million with revenue growth of 10% to $170.9 million.

The improved profit performance reflected increased margins from operational efficiencies, with the Slovakian finishing operations reaching operational maturity and 'steady state' volumes.

In December 2016, Automotive Leather completed the transfer of hide processing for all European customers to Slovakia. This has resulted in lower hide processing costs, lower freight costs and a reduction in the quantity and value of inventory required to be held by the operations.

The cutting operations in Slovakia also achieved a significant operational improvement. The team has bedded down the large number of new programmes introduced during the prior financial year. Profitability increased as these new programmes reached ongoing volumes and improved cutting yields.

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With the successful transfer of those processes, Automotive Leather has continued to assess the scale of operations in Australia. As a result, during the financial year, Howe incurred pre-tax non-recurring costs of $0.9 million associated with redundancies.

Automotive Leather is a multicurrency business that is impacted by currency movements. Sales are predominately in Euro and input costs (hides and chemicals) are principally in US dollars. A strengthening of the Australian dollar against the Euro negatively impacted the division's reported revenue. Similarly, in Australian dollar terms, hide costs expensed in the year were negatively impacted because of the strengthening of the US dollar against the Euro over the financial year.

Automotive Leather anticipates overall volumes will increase in the 2018 financial year. With steady state volumes and operational efficiencies now achieved, Automotive Leather should have a significant period-on-period increase in revenue and profitability in the current half (at current exchange rates).

The AUD:EUR exchange rate is currently similar to the prior year average of AUD:EUR 0.69. If the rate remains at these levels, it will have minimal effect on Australian dollar denominated revenue.

BUILDING MATERIALS

The Building Materials division's revenues decreased by 27% to $38 million resulting in a break-even EBIT for the 2017 financial year (prior year: $2.9 million).

The division's result was split between a profitable contribution from Building Products and a loss at Delta Corporation.

Building Products supplies paving and walling products to residential and commercial building sectors. Continuing weakness in the Western Australian economy impacted the business, which nonetheless benefited from its focus on the commercial building materials sector. Its exclusive Australian-sourced natural stone product continues to have good penetration. Management remain focused on cost reductions, business simplification and production efficiencies, while seeking profitable revenue opportunities in these difficult market conditions.

Delta Corporation produces pre-cast and pre-stressed concrete products. Economic weakness impacted the business and revenue declined sharply. With intense competition and aggressive pricing behaviours continuing, Delta recorded a loss for the year. Delta is well positioned for a cyclical upturn in construction in Western Australia.

On 15 August 2017, Building Products completed the sale of its limestone quarry tenements and property, plant and equipment associated with the production of limestone products. The assets were sold for $5.0 million. An associated $2.3 million non-cash pre-tax impairment has been brought to account at 30 June 2017. Schaffer Corporation took the decision to realise value for assets that were operating below profitable production volumes, and sell to a major industry participant who can make synergistic benefits.

Schaffer does not expect significantly improved conditions in the current year, however management have successfully managed costs in line with business levels and will continue to adjust to the changing business environment. Weak conditions, especially in Western Australia, make forecasting particularly difficult. Accordingly, Building Material's forecasts are conservative. The order books for Building Products and Delta are both strong. Schaffer Corporation expects revenue to be higher for the 2018 financial year, however the first half is expected to record a decrease in profit compared to the prior corresponding period.

PROPERTY

The Group's property portfolio, including Gosh Capital, has an estimated current market value of $90.5 million.

Schaffer Corporation carries those assets in its accounts at their depreciated book values, bar units in property unit trusts, which are at fair value. The market values (which are universally higher) are supported by ongoing, recent independent accredited valuations. The difference between book and market values represents $52.4 million before tax ($36.7 million after tax) of unrealised property value.

Among the assets is land at Jandakot, Western Australia, which is occupied by the Urbanstone manufacturing operations. The site has substantial development potential. The Group has made a submission for a Scheme Amendment to increase the scope and area of light industrial and commercial uses on 38.8 hectares of the land. The submission has been approved by the local Council and is in progress with the West Australian Planning Commission.

Investment Property

The Investment Property business unit comprises Schaffer Corporation's interests in syndicated property investments. EBIT (excluding property sales) decreased to $1.9 million (prior year: $2.3 million) following the sale in the prior year of SFC's share in the 616 St Kilda Road syndicate. Weak market conditions in Western Australia have led to high rental incentives, which has impacted EBIT from the IBM Building syndicate.

The overall portfolio occupancy is at 96% and the Group expects 2018 financial year revenue and EBIT to be similar to 2017.

Gosh Capital

Schaffer Corporation owns 83% of Gosh Capital. It continues to reinvest profits in a range of investments. At 30 June 2017, the market value of the asset portfolio was $30.7 million ($24.6 million net of debt).

Late in the financial year, Gosh Capital made a $0.25 million investment in a managed fund with exposure to global mining and energy companies, providing further diversification to its portfolio.

Gosh Capital forecasts similar profit for the 2018 financial year.

OUTLOOK

The Automotive Leather division has the largest impact on Schaffer Corporation's profitability. The benefits of economies of scale from increased volumes, lower hide finishing costs and improved cutting yields will continue in the 2018 financial year.

Automotive Leather is exposed to foreign currency movements, which are not within its control. Volatility in foreign exchange rates has impacted both positively and negatively in recent years.

While the current global economic conditions continue to improve from last year's volatility, geopolitical risks and their potential impact on the global economy have increased. Subject to no significant geopolitical event and at current exchange rates, Schaffer Corporation forecasts an improvement in Automotive Leather's first half profits.

Schaffer Corporation Limited

Further, Group underlying performance for the first half should show a significant improvement compared to the prior year, at current foreign exchange rates. That expectation is driven by:

- A significant improvement in profit for Automotive Leather.
- A decrease in profit for Building Materials.
- Similar profit for Investment Property.
- Similar profit for Gosh Capital.

The 2017 financial year has presented us with various opportunities and challenges. I commend and congratulate our more than 1,600 employees, including management and workforce, for their talent, dedication and effort. Their efforts are ensuring that we continue to maximise our opportunities, address our challenges and maximise shareholder value.

John Schaffer
Chairman