Schaffer Corporation Limited

SCHAFFER HALF-YEAR PROFIT INCREASES TO $11.2 MILLION.

21 February 2018

Dear Shareholder

Schaffer Corporation Limited (ASX: SFC) today reported statutory net profit after tax (NPAT*) of $11.2 million for the first half of the 2018 financial year.

Underlying profit** increased to $10.1 million (H2 FY17: $5.2 million). That figure excludes the following non-recurring items:

- A $4.4 million after tax contribution from the sale of the Building Products division
- A $3.2 million after tax non-cash impairment of the Delta precast business assets.

SFC also announced that it would increase its interim dividend by 25% to $0.15 per share (fully franked).

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to	
	31-Dec-17 (current)	**30-Jun-17**
Revenue – continuing operations ($m)	**116.3**	99.7
NPAT* ($m)	**11.2**	3.5
Earnings per share	**$0.80**	$0.25
Ordinary dividends per share	**$0.15**	$0.14
Underlying Profit ** ($m)	**10.1**	5.2
Underlying EPS	**$0.72**	$0.37

* Net Profit after tax and minority interests.
** Underlying Profit is NPAT excluding profit on sale of assets, impairment and restructuring costs after tax.
Refer to most recent Investor Presentation for definitions of non-IFRS measures.

The Automotive Leather division was the primary driver of increased profit. The profit was significantly enhanced by favourable foreign currency movements.

Proceeds from the sale of the Building Products division and improved operating profits saw Group net debt decrease by $36.4 million to $7.4 million, almost 80%. The Group's low gearing provides capacity to fund future growth opportunities. Those opportunities include the development of Group properties at Jandakot, Western Australia, and other investments.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to	
	31-Dec-17 (current)	**30-Jun-17**
Revenue ($m)	**105.0**	93.4
Segment NPAT* ($m)	**10.9**	6.4

* Net Profit after tax and 16.83% minority interests.

Movements in foreign exchange rates significantly impacted the half-year result. SFC reports the segment's results in Australian dollars (AUD) but 80% of its revenues are denominated in euro (EUR). During the half, the average AUD:EUR rate depreciated by 5%. This had a significant positive impact on AUD-denominated revenue and margins.

Additionally, approximately 60% of segment costs are priced in US dollars (USD). Those inputs include semi-finished hides and chemicals. Automotive Leather converts EUR to USD to pay for these purchases. During the half, the average EUR:USD rate appreciated by 9%. This resulted in significantly less EUR being required to make those purchases.

Over the past two years, Automotive Leather's volumes have nearly doubled. The decision to set up additional leather finishing and cutting capacity in Slovakia was primarily driven by that growth opportunity. Production at the new facilities commenced during the 2016 financial year. The Slovakian operations are now operating at 'steady-state' levels. The economies of scale provided by the Slovakian operations have increased profitability.

Automotive Leather incurred substantial costs in prior periods to enable the establishment of the new Slovakian facilities and the transition of all European customer leather finishing to Slovakia. Similarly, it experienced costs and reduced efficiencies while new programmes were introduced and skills development and training occurred.

Management have now bedded down one of the most significant strategic changes in the Automotive Leather division's history. More recently, management has focused on improvements, including process efficiencies and cost management. They are evaluating, amongst other things, CNC (Computer Numerical Controlled) cutting machines with a view to implementing the technology alongside current leather cutting methods.

SFC expects Automotive Leather's volumes, revenue and profit performance for the second half to be similar to the first half. This expectation is subject to the impact of movements in exchange rates.

BUILDING MATERIALS

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to	
	31-Dec-17 (current)	**30-Jun-17**
Revenue – continuing operations ($m)	**8.2**	4.7
Segment Underlying NPAT* – continuing operations ($m)	**(0.6)**	(0.8)

* Underlying NPAT excludes (1) $4.4m net profit after tax on sale of the Building Products divisions; and (2) $3.2m impairment of Delta assets after tax.

During the half SFC sold the Building Products business unit in two transactions. The unit supplied paving and walling products to the residential and commercial building sectors.

On 15 August 2017, SFC sold the limestone quarry tenements and production assets.

On 22 November 2017, SFC sold the UrbanStone paving, masonry and natural stone manufacturing and distribution business. SFC retained the land and buildings of the UrbanStone factory at Jandakot, Western Australia. SFC leased those premises for a 10-year initial term at over $0.6 million a year.

SFC sold the businesses for higher than book value. This resulted in a contribution of $4.4 million after tax to the first half result. The sales will enable SFC to focus on Automotive Leather, the Delta precast business and its growing portfolio of property assets and investments.

Delta Corporation produces pre-cast and pre-stressed concrete products. The Western Australian market remains depressed in terms of work volumes. As a result, there are intense price and margin pressures from increased competition between suppliers. This resulted in the Directors' decision to impair the carrying value of Delta's assets. The $3.2 million after tax impairment is a non-cash item and was recorded at 31 December 2017.

Delta's order bank is currently satisfactory, as a result of a large civil infrastructure project. That project commenced midway through the first half. SFC expects the continuation of this project during the second half to reduce the loss recorded during the first half.

INVESTMENT PROPERTY

The Investment Property division includes SFC's interests in syndicated property investments and Group-owned property for development and/or leasing activities.

The division contributed NPAT of $0.5 million for the first half.

Tenancy at the IBM Building syndicate improved. However, incentives to attract and retain tenants across the portfolio remain high. SFC retained the Jandakot land and building assets occupied by the UrbanStone manufacturing business. As indicated above, Lot 701 Jandakot Road has been leased to the purchaser.

SFC expects profit of the division to modestly increase in the second half, with a full six months contribution from the lease of Lot 701 Jandakot Road.

During the first half, Lots 701, 702 and 703 Jandakot Road were the subject of a Minister-approved Scheme Amendment. The Amendment increases the scope and area of the Additional Uses on the property. It now permits warehouses, showrooms, storage, masonry production and nurseries on approximately 39 hectares.

A condition of the Amendment is that SFC cedes to the Crown (free of cost) a "Bush Forever" site designated on SFC's property. This Bush Forever site, plus a wetland buffer excluded from the Additional Use zone, represents a combined area of approximately 15 hectares.

As part of a future application for subdivision and/or development, SFC will also be required to cede (free of cost) land for the upgrade of Jandakot Road and construct one additional carriageway to Jandakot Road.

The current book value of SFC's share of the division's assets is $18.0 million. During the current half, SFC will commission a further independent market valuation for Lots 701, 702 and 703 Jandakot Road. Given the Scheme Amendment and subsequent gazettal by the Western Australian Government, SFC reasonably anticipates that the market value of the division's assets will substantially exceed the book value.

GOSH CAPITAL

SFC owns 83% of Gosh Capital. It continues to reinvest profits in a range of investments.

At 31 December 2017, the market value of its asset portfolio was $32.4 million ($26.4 million net of debt).

During the half, Gosh Capital made a $0.5 million investment in an industrial property trust and invested $0.5 million in a managed equities fund.

SFC forecasts a modest increase in profit (from a low base) for the second half.

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SFC CAPITAL

SFC is forming a new investment vehicle with a focus on equity investments in global listed and unlisted investment opportunities to apply the proceeds of the Building Products sale and cash generated by Automotive Leather.

The division is intended to comprise a combination of internally-managed funds and portfolios managed externally by experienced fund managers.

OUTLOOK

Assuming static foreign exchange rates, SFC anticipates that Group underlying performance for the second half will be similar to first half. This outcome is largely dependent on the expected results of Automotive Leather.

More broadly, the expectation is driven by:

- Similar profit for Automotive Leather (subject to exchange rate volatility)
- A reduction of the loss from continuing operations for Building Materials
- A modest increase in profit for Investment Property
- A modest increase (from a low base) in the profit for Gosh Capital.

DIVIDENDS

On 16 March 2018, SFC will pay a fully franked interim ordinary dividend of $0.15 per share. This represents a 25% increase over the previous corresponding period. The record date for the dividend is 9 March 2018.

John Schaffer
Chairman