

SCHAFFER HALF-YEAR PROFIT INCREASES TO \$12.7 MILLION

20 February 2019

Dear Shareholder

Schaffer Corporation Limited (ASX: SFC) today reported a \$12.7 million statutory net profit after tax (NPAT¹) for the first half of the 2019 financial year (H1 FY18: \$11.2 million). The Group's underlying profit² increased 25.8% to \$12.8 million (H1 FY18: \$10.1 million).

The significantly increased profit resulted from:

- Continued operational efficiencies and foreign currency gains at Automotive Leather
- A return to profitability at Delta Corporation

SFC achieved the result from revenue that was 8.5% lower than the prior period. In the half, Automotive Leather recorded lower revenue whilst Building Materials recorded increased revenue.

	Half-Year to	
	31-Dec-18	31-Dec-17
Revenue – continuing operations (\$m)	106.4	116.3
NPAT ¹ (\$m)	12.7	11.2
Earnings per share	\$0.92	\$0.80
Ordinary dividends per share	\$0.30	\$0.15
Underlying earnings		
Underlying Profit ² (\$m)	12.8	10.1
Underlying earnings per share	\$0.92	\$0.72

¹ Net Profit after tax and minority interests.

² Underlying Profit is NPAT excluding profit on sale of assets, impairment and non-recurring costs after tax. Please refer to SFC's most recent Investor Presentation for definitions of non-IFRS measures.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Half-Year to	
	31-Dec-18	31-Dec-17
Revenue (\$m)	91.0	105.0
Segment NPAT* (\$m)	12.2	10.9

* Net Profit after tax and 16.83% minority interests.

Automotive Leather's revenue decreased by 13%. During the half, global automotive sales volumes fell across most original equipment manufacturers (OEMs). In particular, Chinese domestic demand has been impacted by the ongoing trade issues with the United States. European automotive sales volumes also decreased, impacted by OEM's trying to meet new emission requirements.

Automotive Leather increased profitability despite lower revenue. The division's continuous efforts and focus on operational efficiencies drove that outcome. Management and staff are constantly assessing and implementing new processes and technology. Those enhancements have driven production efficiencies and improved customer service and responsiveness. An example is Computer Numerical Controlled (CNC) cutting machines, which Automotive Leather has brought into the production process alongside traditional leather cutting methods.

Automotive Leather's profitability was also favourably impacted from foreign exchange rate movements. Approximately 75% of the division's revenue is earned in Euro (EUR). During the first half, the average AUD:EUR rate depreciated by 5%. This increased revenue and margins in Schaffer Corporation's reporting currency of Australian dollars.

Automotive Leather's outlook for the second half is difficult to forecast. The uncertainties present during the first half are substantially ongoing. These include the Brexit process, slowing Chinese domestic demand, the trade issues between the United States and China, and currency volatility.

BUILDING MATERIALS

FINANCIAL PERFORMANCE SUMMARY	Half-Year to	
	31-Dec-18	31-Dec-17
Revenue – continuing operations (\$m)	11.6	8.2
Segment Underlying NPAT – continuing operations (\$m)	0.4	(0.6)*

* Dec-2017 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.

The Building Materials division's, Delta Corporation, produces pre-cast and pre-stressed concrete products, predominantly for the Western Australian market.

The first half saw Delta return to profitability on a 41% increase in revenue.

The increased revenue was largely associated with the completion of a large civil infrastructure project. A variety of factors meant that the margins achieved from the project were below expectations. They included high labour costs driven by increased complexity, project administration costs and tight production schedules. However, that and other projects contributed to the return to profitability.

Conditions in the Western Australian construction market remain challenging and competitive. Delta has recently won several new contracts, which has improved its order bank. Delta continues to tightly control costs to align with the level of production.

GROUP INVESTMENTS

Group Investments comprises investments made by SFC and SFC's 83% owned subsidiary, Gosh Capital.

The Group's investment portfolio (including SFC's share of Gosh Capital) has an estimated current net equity value before tax of \$130.4 million (30 June 2018: \$111.2 million).

Property assets are carried at depreciated book values. The exception is units in property unit trusts, which are carried at fair value. Market values are supported by ongoing, recent independent accredited valuations. The valuation detail is provided to improve transparency and reflect 'real world' values.

The difference between the Group's book and market values represents unrealised property value of \$74.1 million before tax and \$51.9 million after tax.

SFC INVESTMENTS

SFC Investments includes SFC's interests in syndicated property investments, Group-owned property for development and/or leasing activities, and equity investments.

The division contributed NPAT of \$0.8 million for the half (H1 FY18: \$0.4 million). The result was favourably impacted by \$0.3 million of unrealised gains from the revaluation of equity investments at December 2018.

SFC is continuing development planning for its property at Jandakot, Western Australia. The property's most recent valuation (on an 'as is' basis) was at \$37.2 million. The site has an approximate developable area of 33 hectares. This includes an allowance for internal roads and drainage, but excludes buffer zones and an area designated as "Bush Forever".

Jandakot Road borders the site. SFC has received subdivision application approval for the duplication of Jandakot Road and the establishment of a roundabout entrance to the site from Jandakot Road. SFC expects construction to commence during the 2020 calendar year.

SFC Investments has established a US based vehicle for US investment opportunities. During the half, SFC US invested a total of AUD3.3 million in three syndicated property investments. Those investments are operated by managers with good track records. The strategy for SFC US is similar to the Group's syndicated property investment activity in Australia. The three investments comprise a US multi-family residential project, a hotel refurbishment and repositioning opportunity, and a fund with a range of residential property investments.

SFC Investments invested \$12.0 million in property and equity investments during the half. It now has \$25.1 million as cash, short-term deposits and fixed income investments. At 31 December 2018, the net equity value of SFC Investments' portfolio before tax was \$108.0 million.

GOSH CAPITAL INVESTMENTS

SFC owns 83% of Gosh Capital. Gosh Capital continues to reinvest profits in a range of investments, including syndicated property trusts and equities.

Gosh Capital contributed NPAT of \$0.6 million (H1 FY18: \$0.2 million).

During the half, a syndicated property trust in which Gosh Capital was an investor sold the Ingham's facility in Burton, South Australia. The sale increased Gosh Capital's profit. Gosh Capital funded the investment in November 2014 and it achieved a 24% per annum internal rate of return.

Gosh Capital's profit also benefitted from \$0.3 million after tax of unrealised gains from the revaluation of equity investments at December 2018. In addition, Gosh Capital also made a \$1.7 million direct share investment.

At 31 December 2018, SFC's 83% share of the pre-tax net equity value of Gosh Capital's asset portfolio was \$22.4 million.

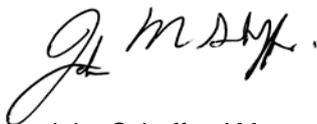
GROUP OUTLOOK

SFC anticipates NPAT for the full year to be similar to last year. This is subject to the factors noted above in the discussion regarding Automotive Leather. Those factors all have the potential to impact the Group's revenue and margins.

DIVIDENDS

The Board has declared a \$0.30 final ordinary dividend (fully franked), an increase of 100% compared to the same period last year. The record date for the dividend is 8 March 2019. The dividend is payable on 15 March 2019.

Yours sincerely



John Schaffer AM
Chairman