

Sandon Capital

*'Ever since 1934 we have argued in our writings for a more ...
energetic attitude by stockholders toward their management'*

Ben Graham, The Intelligent Investor

1H FY17 Results Presentation

Agenda

- Result highlights
- Dividends
- Investment performance
- Our shareholder activist approach
- Investment objectives and outcomes
- Current activities
- Activist highlights
- Case Studies
- Outlook

Important information

This presentation has been prepared for use in conjunction with a verbal presentation and should be read in that context.

This presentation is prepared by Sandon Capital Investments Limited (SNC) for general information purposes only. The information contained in this presentation is for information purposes only and has been prepared for use in conjunction with a verbal presentation and should be read in that context.

The presentation is not a recommendation, offer or invitation by any person or to any person to buy, sell or apply for securities or interests in any company. You should not construe the contents of this presentation as tax or investment advice. No financial product advice is provided in this presentation and nothing in it should be taken to construe a recommendation or statement of opinion that is intended to influence a person in making a financial product decision.

Neither SNC, its manager, Sandon Capital Pty Ltd (Sandon Capital), nor any related or associated companies guarantees the performance of SNC, the return of investor's capital or any specific rate of return. Nothing in this presentation takes into account any person's investment objectives, financial situation or particular needs. You should seek advice before making any investment decision. If you do not have an adviser, we can put you in touch with someone who can help.

The projected results and any forward-looking statements contained in this presentation are not historical facts. They are based on current expectations, speak only as of the date of this presentation, as the case may be, and are susceptible to a number of risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those expressed or implied by such projected results and statements. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of SNC and Sandon Capital. Although we believe that the assumptions underlying any projected results and forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this presentation will prove to be accurate.

In light of the significant uncertainties inherent in such forward-looking statements included herein, the inclusion of such information should not be regarded as a representation to future results or that the objectives and plans expressed or implied by such forward-looking statements will be achieved. We will not undertake and specifically decline any obligation to disclose the results of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. In addition, it is our policy generally not to make any projections as to future results, and we do not endorse any projections regarding future performance that may be made by third parties.

Any quoted performance is post fees and expenses but before tax and assumes distributions were reinvested. Dollars are AUD, unless otherwise stated. We are not responsible for the statements made by or attributed to others in this report. Past performance is no guarantee or does not provide any indication of future returns.

SNC 1HFY17 Result highlights

- Revenue up 101% to \$6,795,586
- NPAT up 103% to \$3,597,977
- Dividend yield of 6.2% (8.8% grossed up)¹
- 75% increase in interim fully franked dividend to 3.5 cents per share
 - SNC has paid 12.0 cents per share of fully franked dividends since listing
- 7% reduction in corporate costs
- 1 for 1 bonus option issue announced, exercise price of \$1.05 per share
 - SNC shares trade cum-bonus entitlement until 5 April 2015

1. Assumes closing market price of \$1.05 on 27 March 2017. Fully franked dividends include the 3.0 cps final dividend paid on 2 November 2016, and the 3.5 cps dividend that will be paid on 31 May 2017

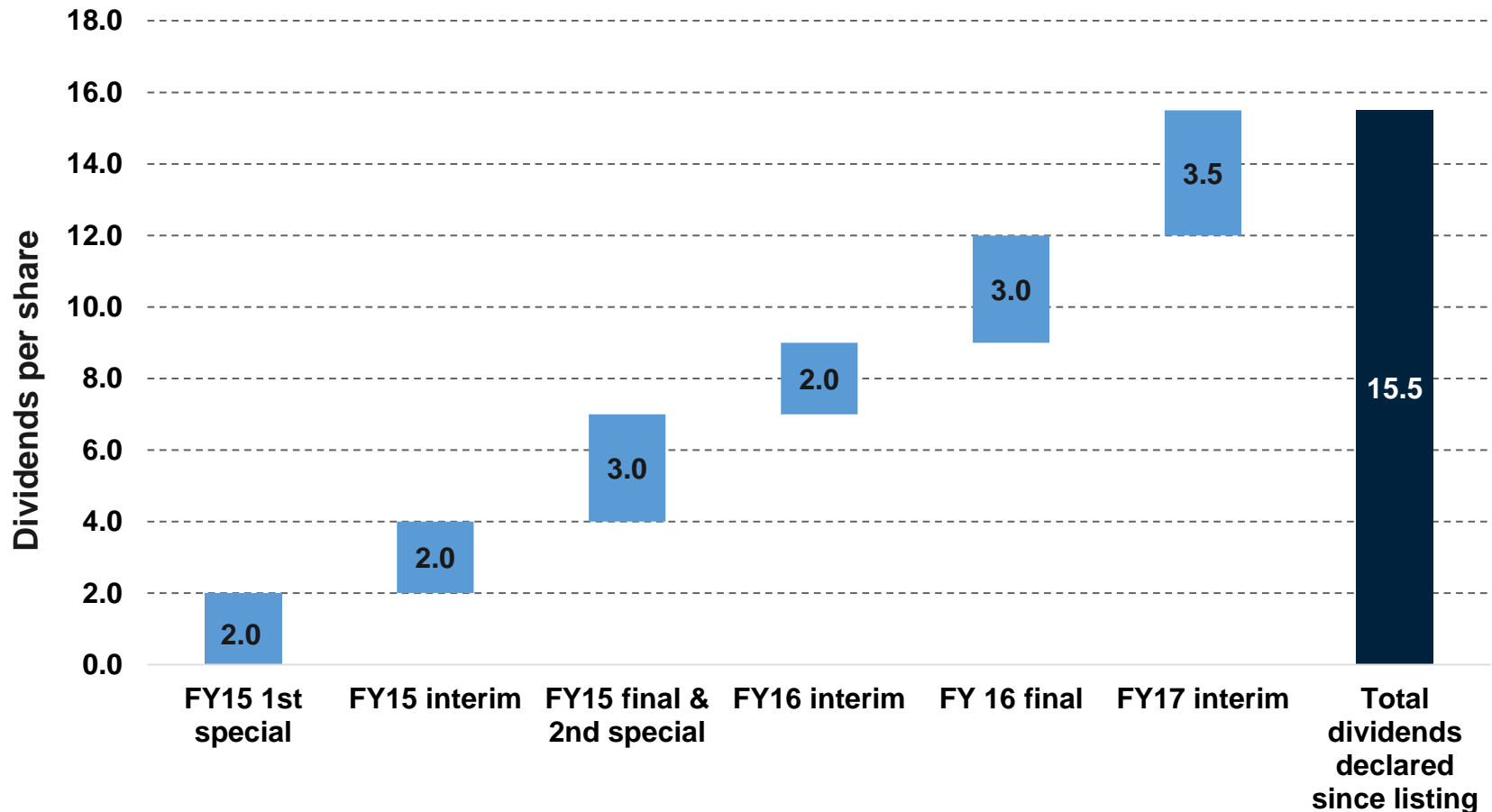
Dividends

- Strong financial results allowed directors to increase the interim fully franked dividend by 75% to 3.5 cents per share
- Directors intend declaring a final dividend of a similar amount to the interim dividend¹
- SNC has profit reserves of 10.4 cps as at 28 February 2017, from which directors can resolve to pay future dividends¹
- SNC retains franking credits of at least 4.6 cps available for further fully franked dividends¹
- SNC shares offer an attractive yield of 6.2% (8.8% grossed up for imputation credits)

1. In each case, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice

Dividends

➤ Dividend policy is to pay a growing stream of fully franked dividends



Investment performance to 28 February 2017

Gross Performance	Financial YTD	1 Year return	2 Years return (p.a.)	Since inception (p.a.)
SNC	19.2%	28.1%	14.5%	11.6%
All Ords Accumulation Index	11.4%	21.3%	3.2%	8.5%
Outperformance	+7.8%	+6.8%	+11.3%	+3.1%

➤ Return characteristics:

- Medium term returns above market
- Lower volatility than the market (8.4% vs 12.3%)

1. The SNC and index returns are before all fees and expenses and before any taxes. SNC returns are after brokerage expenses incurred. Dividends paid during the period are included when calculating SNC's gross investment performance.
2. Note past performance is no indication of future returns.

Our shareholder activist approach

- We are a 'Value Investor'
- We seek to purchase investments:
 - At prices below our assessment of their intrinsic value, and
 - Where we believe we can apply our activist techniques
- When we invest our intention is to actively engage with the company
 - We don't try to passively predict the future, by engaging we are actively trying to shape future
- Our investors capital is precious, we will not put it at risk for the sake of being fully invested
 - We typically hold a significant amount of cash in our portfolios
 - Cash allows us to take advantage of opportunities

Investment objectives and outcomes

➤ Sandon Capital Investments Limited's objectives are to:

- Provide an absolute positive return over the medium- to long-term
- Preserve shareholder capital
- Deliver regular and growing dividends, franked to the fullest extent possible¹

➤ Sandon Capital Investments Limited outcomes are:

- Positive absolute returns
 - Gross return of 11.6% per annum since inception during challenging market conditions²
- Capital preservation
 - Pre-tax/Post-tax NTA up 18.9% / 16.5% respectively³
- Regular and growing dividends paid
 - Declared 15.5 cents per share in fully franked dividends since inception

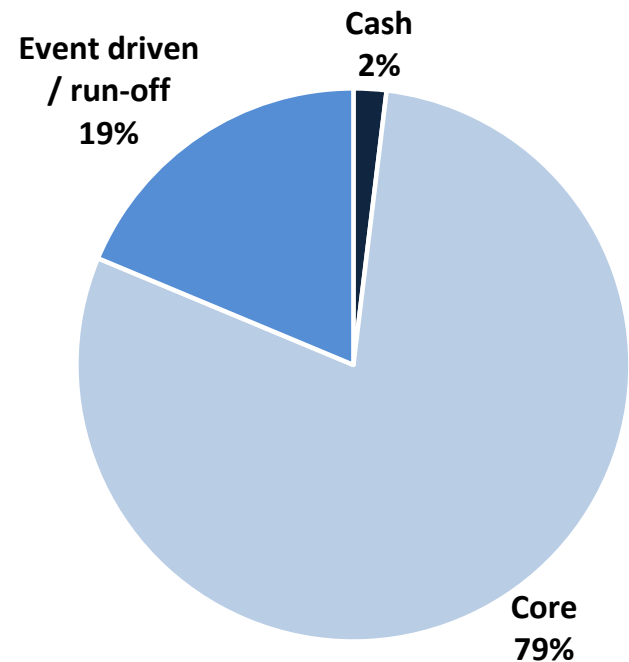
1. This is not intended to be a forecast. It is merely an indication of what SNC aims to achieve over the medium to long term (that is, 3 to 5 years). SNC may not be successful in meeting its objective. Any financial market turmoil or an inability by the Manager, Sandon Capital Pty Ltd, to find and make profitable investments will likely have an adverse impact on achieving this objective. Returns are not guaranteed

2. Gross returns to 28 February 2017.

3. Pre- and Post-tax NTA from 16 Dec 2013 to 28 February 2017, including dividends paid. This figure is not annualised. Annualised figures are 5.5% and 4.9% respectively.

Current activities

- Market conditions are fertile for our investment approach
- We are building positions in several companies where:
 - Shares are trading below:
 - cash backing, and/or
 - our assessment of intrinsic value
 - Strategic focus is needed
 - i.e. diverse companies that need to streamline and companies that need to spin-off valuable assets
 - Companies whose corporate governance & management could do with improvement



Activist highlights during the past 12 months

- Sandon Capital Investments Limited (SNC) has been engaging companies throughout 2016 and early 2017, both behind closed doors and publicly
- Public engagements include:

Name	Thesis/value outline	Engagement
Tatts Group Ltd Mkt Cap > \$5bn	Discount to sum-of-parts, demerger will result in focused businesses and will unlock value	Public release of Sandon Capital analysis, engagement with company, industry experts and shareholders. Third parties, including Tabcorp and the Pacific Consortium, have recognised the attributes of the Lotteries business. Work in progress.
Fleetwood Corporation Ltd Mkt Cap <\$150m	Discount to intrinsic value, need for board changes, strategic rationalisation	Public release of Sandon Capital analysis, engagement with company, industry experts and shareholders. Work in progress.
Iluka Resources Ltd Mkt Cap <\$3bn	Discounted asset (MAC royalty), which we believe would attract a premium value as a separately listed royalty vehicle.	Sandon Capital released a presentation and a white paper highlighting that Iluka's Mining Area C Royalty is the best asset in the Australian mining sector and also the cheapest. In order to have the market properly value the MAC Royalty, Sandon believes Iluka should demerge the royalty via an in-specie distribution to existing shareholders. Work in progress.
Warrnambool Cheese & Butter Holdings Ltd Mkt Cap > \$500m	Under-priced takeover offer	In January 2017, Saputo Inc. made an unsolicited takeover offer at \$8.85, recommended by the WCB Board. Sandon Capital believed the price being offered was well below WCB's true worth. Sandon Capital campaigned for a higher price. Our efforts were rewarded with an increase to \$9.05 cents per share, though still well below our estimate of value. The offer was accepted, reluctantly.

Case study – Tatts Group (ASX: TTS)

➤ Tatts Group Ltd (TTS)

- Our thesis:
 - Tatts Group individual parts are worth significantly more than the current market price (and Tabcorp Ltd's scheme proposal)
 - The Wagering business (24% FY16 EBIT) has strategic corporate appeal and should be separated from the Group
 - The Lotteries business (65% FY16 EBIT) has attributes that are very similar to infrastructure assets and should be valued accordingly
 - A free standing Lotteries business requires a focused Board and management that can exploit growth opportunities
- We believe the company is worth >A\$5.30 today if separated and potentially more if growth opportunities in Lotteries are pursued
- Tabcorp Ltd's Scheme proposal is well below our assessment of TTS's value.

Case study – Fleetwood Corporation (ASX: FWD)

- Fleetwood (FWD) is a manufacturer of modular accommodation, caravans and ute canopies and trays. The company also owns the Searipple village in Karratha and distributes caravan parts and accessories
- FWD sum-of-the-parts is worth significantly more than its current market value
- The growth in manufactured housing estates (MHEs) should provide a significant tailwind to the manufactured accommodation business for the medium term

Operator	Properties	Location	MHE (conversion)	MHE (greenfield)	DMF	Tourism	Mining
Gateway Lifestyle	53	NSW, QLD, VIC	✓				
Ingenia Communities	26	NSW, QLD, ACT	✓		✓	✓	
Hampshire Villages	7	NSW, VIC	✓	✓			
Aspen Group	5	NSW, WA	✓			✓	✓
Discovery Holiday Parks	54	Australia-wide	✓			✓	✓
Lifestyle Communities	11	VIC		✓	✓		
Living Gems	8	QLD		✓			
National Lifestyle Villages	12	WA, VIC		✓	✓		✓
Palm Lake Resort	25	NSW, QLD, VIC		✓			

Case study – Fleetwood Corporation (ASX: FWD)

- The caravan manufacturing business has been loss making for 3 years whilst competitors are profitable and growing. The status quo needs to change
- The W.A. manufactured accommodation business is also generating material losses. The business should be returned to profitability or closed
 - ❑ The recent National Lifestyle Villages contract win is the first step
- The Searipple accommodation village is a property asset housed within a manufacturing company. Consideration should be given as to whether this asset is retained or is worth more to a 'natural owner'
- The company has a strong Balance Sheet and \$25.7m (42cps) of franking credits, which would allow a significant amount of excess capital to be returned to shareholders tax efficiently
- More information and the full presentation on our thesis can be found at:
www.sandoncapital.com.au/site/images/pdfs/1606_FWD_AU_presentation.pdf

Case study – Iluka Resources

- Iluka Resources Ltd (ILU) is the major producer of zircon globally and largest producer of high-grade titanium dioxide products – rutile and synthetic rutile. The company also has an iron ore royalty associated with BHP Billiton's Mining Area C (MAC) province in Western Australia
- The company reports two operating segments:
 - Mineral Sands – 68% CY16 EBITDA
 - MAC Royalty – 32% CY16 EBITDA
- The company has a market capitalisation of ~A\$2.8bn¹
- The Balance Sheet is in good shape with manageable net debt (A\$442m²) and excess working capital of \$450m

1. Based on a closing share price of A\$6.64 on 14 March 2017

2. As at 31 January 2017, per the company's CY16 result presentation

Case study – Iluka Resources

- ILU has a number of assets that are not appropriately reflected in the current stock price
- The company has an undervalued iron ore royalty that will be considerably more valuable if and when BHP Billiton expands production at Mining Area C
 - This royalty should be demerged to ensure an appropriate valuation in the market
- The company is carrying A\$450m of excess working capital on its balance sheet that we believe will be liquidated over the next 1-2 years
- The outlook for the mineral sands market is promising, particularly titanium dioxide feedstocks
- Excess franking credits will allow tax efficient forms of capital management in the future

Case study – Iluka Resources

- We expect the size of Iluka's iron ore royalty to at least double within the next five years. We incorporate this in our valuation below
- We do not ascribe any value to the \$89m (21cps) of franking credits the company had at 31 December 2016

	Basis	Multiple Range		Value	
Excess working capital	Book Value	1.00	1.25	450.0	562.5
Iron ore royalty	EBIT multiple	16.0	18.0	1,661.7	1,869.4
Enterprise Value				2,111.7	2,431.9
Implied value of mineral sands 'stub'				721.7	401.5
CY17 'stub' EBITDA				296.8	296.8
Implied EV / EBITDA multiple				2.4x	1.4x
CY17 'stub' EBIT				99.9	99.9
Implied EV / EBIT multiple				7.2x	4.0x

Outlook

- We expect volatility and uncertainty in global financial markets have become the new normal
- Key themes driving volatility:
 - China – regional aims/boom/bust?
 - US – President Trump/rising interest rates?
 - Australia – residential property bubble/interest rates/commodity prices?
- This will provide SNC with significant investment opportunities
 - Cash (~2%) is a tool that allows us to capture opportunities
 - Run-off / event driven investments will also return cash over the next few months
- We will continue to invest at prices below intrinsic value and apply our activist techniques
- We believe our fundamental approach will continue to uncover attractive opportunities with shareholder activism unlocking value

About us

➤ Contacting us:

Enquiries about your shareholding:

Link Market Services:

1300 554 474 (toll free within Australia)

Investment and other general enquiries:

Gabriel Radzyninski:

(02) 8014 1188 or 0408 936 357

Notes:

Notes: