

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 FY19 Results Presentation

March 2019

Agenda

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

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

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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 FY18 Result highlights

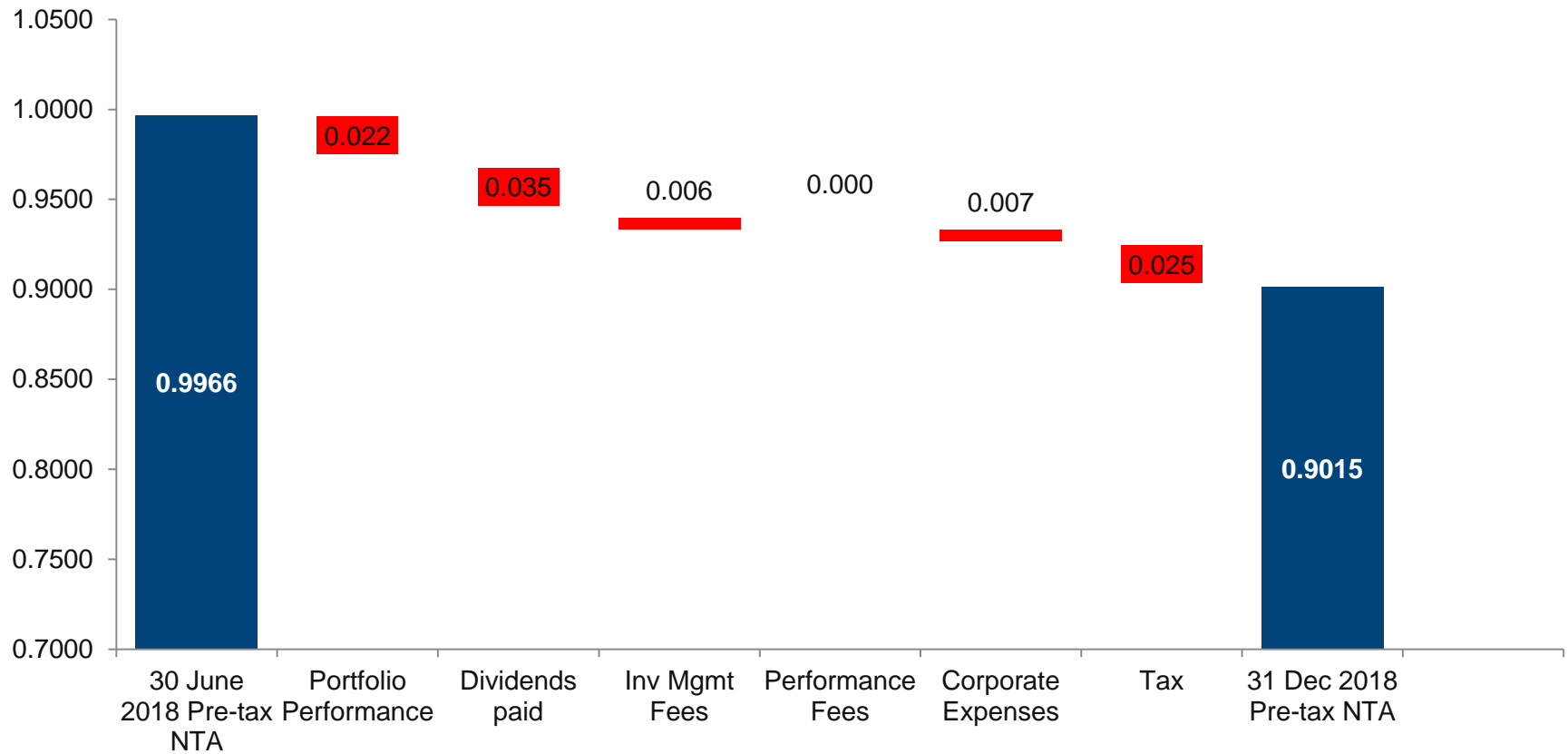
- Revenue (\$1,068,525)
- Net loss after tax (\$1,172,765)
- Dividend yield of 7.9% (10.9% grossed up)¹
- Interim fully franked dividend of 3.5 cents per share declared and paid
 - SNC has declared 29.5 cents per share of fully franked dividends since listing
- Key dates for interim dividend:

Ex-date	16 May 2019
Record date	17 May 2019
Date payable	28 May 2019

1. Assumes market price of \$0.885 on 15 March 2019. Fully franked dividends declared include the 3.5 cps interim declared paid on 26 February 2019.

1H FY19 result composition

Movement in cents per share for the period



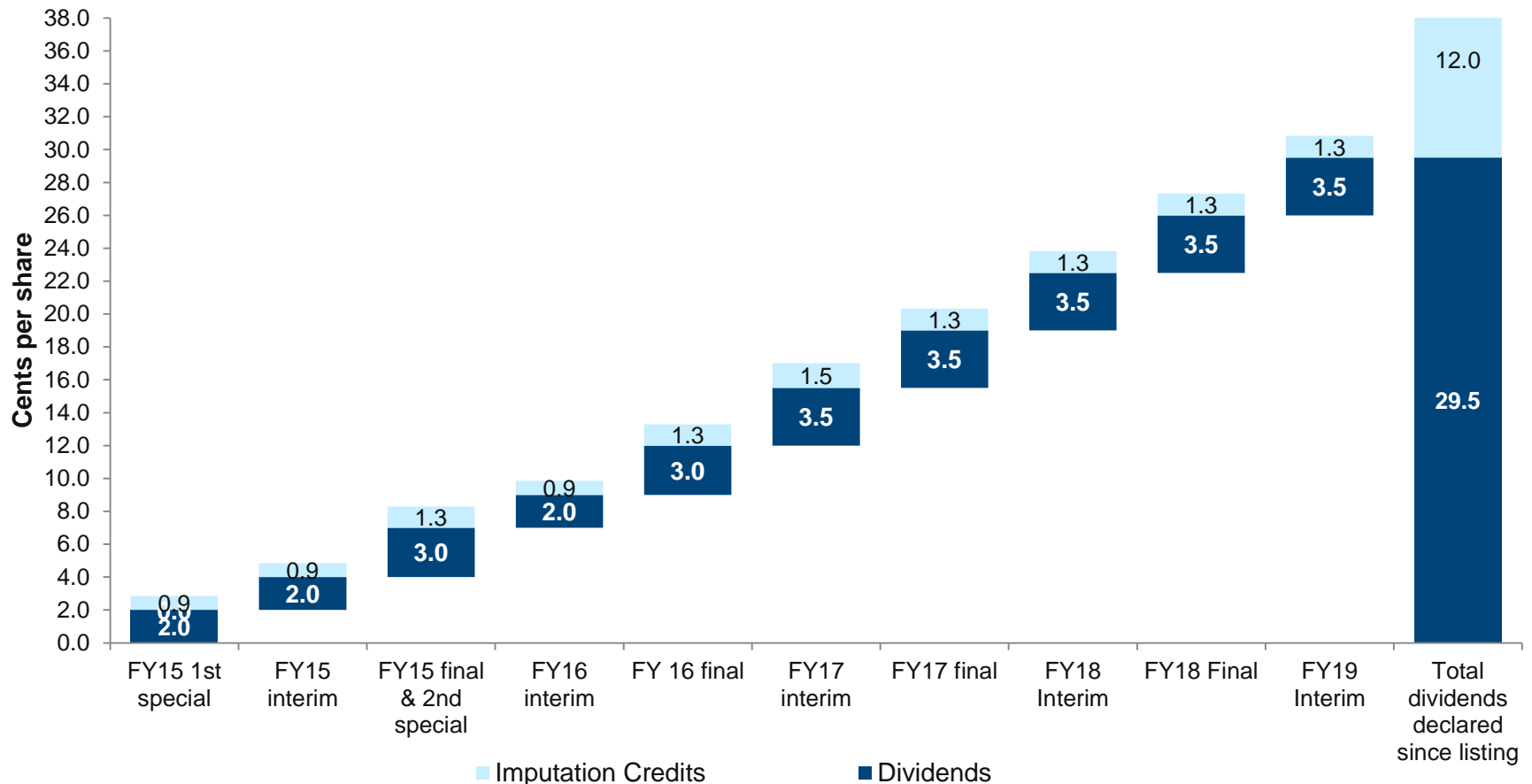
Dividends

- Directors have maintained the interim dividend at 3.5 cents per share
- Directors intend declaring a final dividend of a similar amount to the interim dividend¹
- SNC has profit reserves of 6.2 cps as at 28 February 2019, from which directors can resolve to pay future dividends¹
- SNC will have franking of at least 2.1 cps by the end of FY19²
- SNC shares offer an attractive yield of 7.9% (10.9% grossed up for imputation credits)³

1. Prior to payment of 3.5 cps interim dividend. Future dividends may be paid provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.
2. Including existing franking and franking that will arise from payment of the FY2018 tax return, and does not include franking that will arise from receipt of fully franked dividends.
3. Assumes SNC share price of \$0.885 on 15 March 2019.

Dividends

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



Investment performance to 28 February 2019

Gross Performance ^{1,2}	1 Month	Financial YTD	1 yr	2 yr p.a.	3 yr p.a.	Since inception (annualised)
SNC^{1,2}	4.0%	0.6%	6.9%	5.2%	12.4%	9.1%
All Ordinaries Accumulation Index	6.1%	2.3%	6.6%	6.6%	10.0%	8.6%
outperformance	-2.1%	-1.7%	0.3%	-1.4%	2.4%	0.6%

➤ Return characteristics:

- Long term returns above market
- Lower volatility than the market 9.1% vs 11.0%

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 invest:
 - 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 the 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 – but not currently
 - We have ~15% of the portfolio in event-driven and run-off opportunities – these will turn to cash in due course
 - That cash will allow 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 9.1% per annum since inception during challenging market conditions²
- Capital preservation
 - Pre-tax/Post-tax NTA up 20.1% / 18.9% respectively³
- Regular and growing dividends paid
 - Declared 29.5 cents per share in fully franked dividends since inception

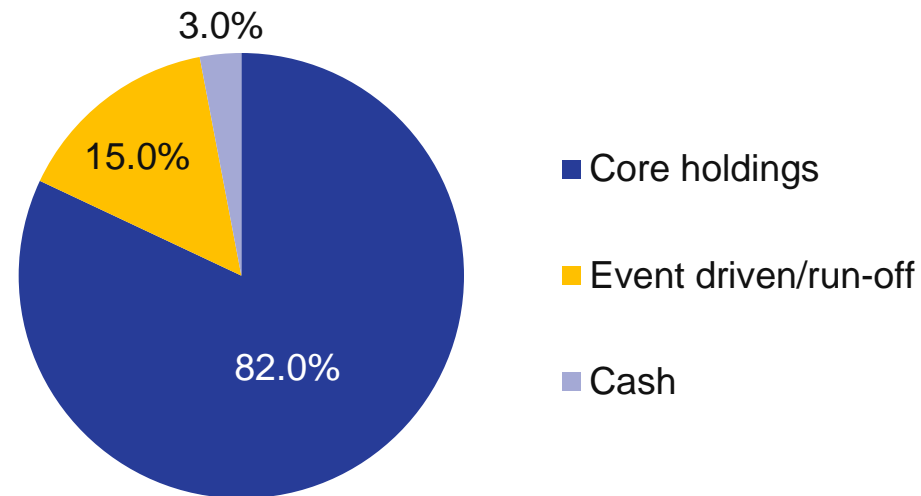
1. This is not intended to be a forecast. It is merely an indication of what SNC aims to achieve over the medium to long term (that is, 3 to 5 years). SNC may not be successful in meeting its objective. Any financial market turmoil or an inability by the Manager, Sandon Capital Pty Ltd, to find and make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

2. Gross returns to 28 February 2019.

3. Pre- and Post-tax NTA from 16 Dec 2013 to 28 February 2019, including dividends paid. This figure is not annualised. Annualised figures are 4.3% and 4.0% 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 6 months

- Sandon Capital Investments Limited (SNC) has been engaging companies throughout 2018, both behind closed doors and publicly
- Public engagements include:

Name	Thesis/value outline	Engagement
Fleetwood Corporation Ltd Mkt Cap >\$200m (FWD)	Discount to intrinsic value, need for board changes, strategic rationalisation	A long-running campaign, FWD has enacted most of the changes we have called for, though far too slowly and not before losing significant amounts of money. We remain sceptical of the current board and management. Work in progress.
Watpac Ltd <\$200m (WTP)	Discount to intrinsic value, need for board and executive changes	Sandon Capital accumulated a stake in WTP with a view to seeking board and management changes. We also saw merit in disposing of WTP's underperforming mining services division. Largest shareholder BESIX's proportional takeover attempt forced us to pivot to prevent their low-ball offer from succeeding. The scheme was voted down. BESIX returned with a full unconditional takeover offer at the same price (\$0.92). We were disappointed with WTP's independent directors' recommendation to accept the offer. We reluctantly accepted the offer. Exited.

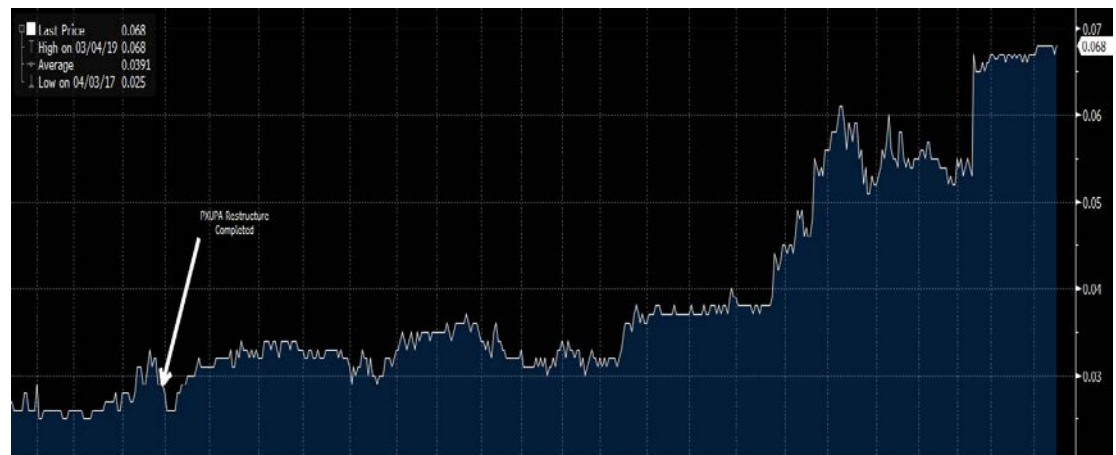
Case Study – City Chic Collective Limited (ASX: CCX)

- CCX, formerly known as Specialty Fashion Group
- In a little over a year, CCX has gone from ugly duckling to soaring swan
- CCX today is a focused omni-channel (online and bricks & mortar) retailer.
- It generates strong free cash flow and has been able to grow sales 9.6% in what is described as a tough retail environment



Case Study – Spicers Limited (ASX: SRS)

- Spicers is the phoenix that has risen from the ashes of PaperlinX
- Following the sale of the Asian business announced in September 2018, corporate activity at SRS has continued unabated
- Property sales of Burnie and Wesley Vale (both in Tasmania) and Singapore have been announced
- In January 2019, SRS entered into a transaction with Kokusai Pulp & Paper Co., Ltd (KPP) expected to deliver 7.0cps to SRS shareholders
- Board & Management at SRS has done an outstanding job of realising value for shareholders from a challenging situation



Case Study – Coventry Group Limited (ASX: CYG)

- CYG has been a long standing and a poor investment for Sandon
- A significant amount of damage was inflicted on the business as a result of poor management in the early-to-mid part of this decade
- Performance of the Cooper Fluids and Trade Distribution NZ business has been steadily improving. Unfortunately this has been masked by the poor performance of the key Trade Distribution Australia (TDA) business
- New management finally look to be righting the ship at TDA, although much work remains to be done
- The recent purchases of Torque Industries (November 2018) and Nubco (March 2019) look to be good acquisitions
- After 5 years of losses, we expect CYG to return to profitability in FY20
- A solid balance sheet, strong cash flow and the availability of franking credits should allow for the reinstatement of dividends in the not too distant future

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/inflation?
 - Australia – change of government/fallout from Royal Commission/property prices?
- 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

info@sandoncapital.com.au

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