

Mercantile Investment Company Limited

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3 June 2019

The Manager
ASX Market Announcements

Intention to make takeover offer received from Sandon Capital

Today Sandon Capital Investments Limited (Sandon) advised Mercantile Investment Company Limited (ACN 121 415 576) (Mercantile) of its proposal to make an offer to acquire all of the shares in Mercantile that it does not already own in exchange for an issue of shares in Sandon under an off-market takeover bid pursuant to Chapter 6 of the Corporations Act 2001 (Offer).

Sandon will issue new fully paid ordinary shares as consideration for Mercantile shares acquired under the Offer. The exchange ratio in the Offer will be set by reference to the pre-tax net tangible asset backing per share as at 31 May 2019 as announced by Mercantile and Sandon under Listing Rule 4.12.

Earlier today, Sandon announced an agreement to acquire up to 52,980,782 Mercantile shares (up to 18.8% of the issued share capital of Mercantile) from Siblow Pty Limited, an entity controlled by Sir Ron Brierley. The terms of the consideration offered by Sandon under the Offer and its agreement with Siblow are the same.

A committee of Mercantile directors independent of Sandon has been formed and is considering Sandon's proposal to make the Offer.

At the date of this announcement, Sandon's proposal is incomplete. Full terms and conditions on which the Offer will be made, will be contained in a bidder's statement for the Offer. Sandon expects to issue this bidder's statement before 30 June 2019.

Mercantile shareholders are advised to take no action at this stage. Further information will be announced to the ASX when it is available.

The letter from Sandon is attached to this announcement.

3 June 2019

Sir Ron Brierley
Chairman
Mercantile Investment Company Limited
Level 5, 139 Macquarie Street
Sydney NSW 2000

By email: rab@mercinv.com.au

Dear Sir Ron

Intention to make takeover offer

On behalf of Sandon Capital Investments Limited (**Sandon**), I wish to advise you that Sandon proposes to make an offer to acquire all of the shares in Mercantile Investment Company Limited (ACN 121 415 576) (**Mercantile**) in exchange for an issue of shares in Sandon under an off-market takeover bid pursuant to Chapter 6 of the *Corporations Act* 2001 on the terms set out in the schedule to this letter (**Offer**).

The exchange ratio will be set by reference to the pre-tax net tangible asset backing per share as at 31 May 2019 as announced by Mercantile and Sandon under Listing Rule 4.12. This represents an attractive premium for Mercantile shareholders given its shares have historically traded at substantial discounts to its published net tangible asset backing per share (**NTA**).

We believe the combination of Sandon and Mercantile has the potential to create value for each of Sandon and Mercantile and our respective shareholders. Key benefits for shareholders in the merged entity may include:

- a potential increase in market liquidity of shares due to the larger capital and shareholder base;
- an increase in scale with a greater opportunity to diversify investments as well as to hold more substantial positions or to hold investments in larger entities;
- greater investor interest which may result in a market price closer to NTA than has been experienced historically by Mercantile; and
- economies of scale, and the reduction or possibly the elimination of duplicated costs and expenses.

As at the date of this letter, Sandon has not yet formed a view on whether to offer to acquire the Mercantile listed unsecured notes or Mercantile unlisted options. Nor has a decision been made regarding the composition of the board of the merged entity following completion of the Offer. These issues will be addressed in the bidder's statement for the Offer.

To comply with its continuous disclosure obligations, Sandon will be releasing an ASX announcement relating to this proposal and attaching a copy of this letter. We recognise that Mercantile will be required to disclose this proposal and that upon disclosure by Sandon or Mercantile, this proposal will constitute a proposal to make a takeover bid for the purposes of section 631 of the *Corporations Act 2001 (Cth)*, thereby requiring Sandon to make the Offer within 2 months.

Notwithstanding this, Sandon's preference is to implement an agreed transaction with the support of the Board of Mercantile and we would welcome the opportunity to discuss this proposal with Mercantile at its earliest convenience.

Sandon has commenced to prepare the bidder's statement for the Offer as well as a notice of meeting to its shareholders. These documents will be released as soon as practicable and in any event are likely to be available by the end of June 2019.

We look forward to discussing our proposal with you at your earliest convenience.

Yours faithfully

Sandon Capital Investments Limited

A handwritten signature in black ink, appearing to read 'P. Velez', with a stylized flourish at the end.

Peter Velez
Independent Director

Schedule

Terms and Conditions of the Offer

1. Consideration

- 1.1. The consideration under the Offer for each Mercantile Share will be the number of Sandon Shares calculated by dividing the Bid NTA of Mercantile by the Bid NTA of Sandon, rounded to the nearest hundredth of a Sandon Share.
- 1.2. If you accept the Offer and are entitled to receive a fraction of a Sandon Share, the number of Sandon Shares you are entitled to under the Offer will be rounded up to the next whole number of Sandon Shares if it is 0.5 or more, and rounded down to the nearest whole number if it is less than 0.5. If Sandon reasonably believes that you have manipulated your holding of Mercantile Shares to take advantage of rounding up, then any fractional entitlement will be aggregated or rounded down to the next whole number of Sandon Shares.

2. Conditions

- 2.1. The Offer and the contract that results from acceptance of the Offer are each subject to the fulfilment of the following conditions:
 - (a) **Sandon Shareholder approval:** Sandon Shareholders in general meeting pass all resolutions (including under the Listing Rules) necessary to permit Sandon to complete the acquisition of all Mercantile Shares under the Offer;
 - (b) **minimum acceptance condition:** during, or at the end of the Offer Period, Sandon has Relevant Interests in at least 80% of the Mercantile Shares;
 - (c) **repayment of revolving credit facility:** Mercantile either:
 - (i) procures that all indebtedness owed by Mercantile or any subsidiary of it to each Relevant Lender is discharged and extinguished in full and announces on ASX that it has done so on or before 30 June 2019; or
 - (ii) announces that the due date for payment of all indebtedness owed by Mercantile or any subsidiary of it to each Relevant Lender has been extended to 31 December 2019 or a later date and that the Relevant Lender has undertaken not to take any action to demand repayment of that debt prior to 31 December 2019;
 - (d) **no early redemption of MVTHA:** between the Announcement Date and the end of the Offer Period (each inclusive), Mercantile does not:
 - (i) exercise its right to redeem MVTHA in accordance with clause 6.7 of the MVTHA Terms; or
 - (ii) repurchase any MVTHA in accordance with clause 6.8 of the MVTHA Terms;
 - (e) **no change in management arrangements:** between the Announcement Date and the end of the Offer Period (each inclusive), no Service Agreement is terminated, amended or assigned, Mercantile does not grant any person any rights to manage Mercantile or any of its assets, and no proposal to terminate, amend or assign any

Service Agreement or grant any rights to manage Mercantile or any of its assets is made (in each case, other than by or to Sandon or its Associates);

- (f) **no fall in Announced NTA:** the Announced NTA of Mercantile not declining by 10% or more below the Bid NTA of Mercantile;
- (g) **no change in NTA calculation methodology:** each of the Bid NTA and each Announced NTA is calculated in accordance with the same principles, policies and practices adopted by Mercantile in calculating the NTA of Mercantile as at 30 April 2019 as reported on ASX by Mercantile on 10 May 2019;
- (h) **no regulatory intervention:** during the period from the Announcement Date to the end of the Offer Period (each inclusive):
 - (i) no preliminary or final decision, order or decree is made or issued;
 - (ii) no action, proceeding or investigation is announced, commenced or threatened; and
 - (iii) no application is made (other than by Sandon or its Associates),
by or to any regulatory organisation or Governmental Agency which is likely to or threatens to restrain, prohibit, impede or otherwise materially adversely affect the making of the Offer, the acquisition of the Mercantile Shares by Sandon, the rights of Sandon in respect of Mercantile and the Mercantile Shares or the continued operation of the businesses of Mercantile or its subsidiaries (other than any action or decision by or application to ASIC or the Takeovers Panel in exercise of the powers or discretions conferred by the Corporations Act);
- (i) **no prescribed occurrences:** during the period from the date on which the Bidder's Statement is given to Mercantile and the end of the Offer Period (each inclusive), none of the following events occur:
 - (i) Mercantile converts all or any of its shares into a larger or smaller number of shares;
 - (ii) Mercantile or a subsidiary of Mercantile resolves to reduce its share capital in any way;
 - (iii) Mercantile or a subsidiary of Mercantile:
 - (A) enters into a buy-back agreement; or
 - (B) resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;
 - (iv) Mercantile or a subsidiary of Mercantile issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;
 - (v) Mercantile or a subsidiary of Mercantile issues, or agrees to issue, convertible notes;
 - (vi) Mercantile or a subsidiary of Mercantile disposes, or agrees to dispose, of the whole or a substantial part of its business or property;

- (vii) Mercantile or a subsidiary grants, or agrees to grant, a security interest over the whole or a substantial part of its business or property;
- (viii) Mercantile or a subsidiary resolves to be wound up; or
- (ix) Mercantile makes or declares, or announces an intention to make or declare, any distribution (whether by dividend, capital reduction or otherwise and whether in cash or in specie); and
- (j) **no prescribed occurrences between Announcement Date and date of Bidder's Statement:** during the period beginning on the Announcement Date and ending on the day before the Bidder's Statement is given to Mercantile (each inclusive), none of the events listed in sub-paragraphs (i) to (ix) of paragraph 2(i) occur.

3. Definitions

Announced NTA means the NTA of Mercantile as at any date as reported by Mercantile on ASX in accordance with Listing Rule 4.12.

Announcement Date means the date of announcement of Sandon's intention to make the Offer on ASX.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the market it administers being Australian Securities Exchange (as the context requires).

Bidder's Statement means the bidder's statement to be prepared in relation to the Offer and includes any supplementary or replacement bidder's statement.

Bid NTA, in respect of Mercantile or Sandon, means the NTA of Mercantile or Sandon (as applicable) as at 31 May 2019 as reported on ASX by Mercantile or Sandon (as applicable) in June 2019 in accordance with Listing Rule 4.12.

Corporations Act means the *Corporations Act* 2001 (Cth).

Governmental Agency means any government, semi-government, administrative, fiscal, judicial or regulatory body, department, commission, authority, tribunal, agency or entity.

Listing Rules means the listing rules of ASX.

Mercantile Shares means fully paid ordinary shares in Mercantile.

Mercantile Shareholder means a person who is the registered holder of one or more Mercantile Shares.

MVTHA means the unsecured notes issued by Mercantile quoted on ASX with ASX code MVTHA.

MVTHA Terms means the terms of issue of the MVTHA.

NTA means the unaudited pre-tax net tangible asset backing per share as at a particular date.

Offer means an off-market takeover offer to be made by Sandon under Chapter 6 of the Corporations Act to acquire all of the Mercantile Shares not owned by Sandon, including as varied or extended in accordance with the Corporations Act.

Offer Period means the period during which the Offer remains open for acceptance by Mercantile Shareholders.

Relevant Interest has the same meaning given to that term in sections 608 and 609 of the Corporations Act.

Relevant Lenders means each of Sir Ron Brierley and any person connected with or associated with him whom is owed money by Mercantile or any subsidiary of it.

Sandon Shareholder means a person who is the registered holder of one or more Sandon Shares.

Sandon Shares means fully paid ordinary shares in Sandon.

Services Agreements means the agreements between Mercantile and the Manager under which the Manager provides general management and accounting services to Mercantile.

Takeovers Panel means the Australian Government Takeovers Panel.