

# Mercantile Investment Company Limited

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1 August 2019

The Manager  
ASX Market Announcements

## Target Statement

We refer to the off-market takeover bid from Sandon Capital Investments Limited (**SNC**) to acquire all of the ordinary shares in Mercantile Investment Company Limited (**Company**) that it does not already own (**Offer**).

In accordance with section 633(1) item 14 of the *Corporations Act 2001 (Cth)* we **attach** a copy of the target statement dated 1 August 2019 prepared by the Company in respect of the Offer, as well as a copy of the independent expert's report prepared by Titan Partners Corporate Finance Pty Limited (**Target Statement**).

The Target Statement was lodged with the Australian Securities & Investments Commission and will be sent to SNC today.

The Target Statement will be sent to the Company's shareholders in due course. The Company will make a further announcement once the Target Statement has been dispatched.

ENDS

## **Target Statement**

by

**Mercantile Investment Company Limited (Mercantile)**

(ACN 121 415 576)

(ASX Code: MVT)

in relation to the Offer by

**Sandon Capital Investments Limited (SNC)**

(ACN 107 772 467)

(ASX Code: SNC)

to acquire all the ordinary Shares in Mercantile Investment Company Limited

**The Mercantile Independent Board Committee**

**unanimously recommend that you**

# **ACCEPT THE OFFER**

**in the absence of a superior proposal**

**This is an important document and requires your immediate attention.**

If you are in any doubt as to how to deal with it, you should consult your financial or other professional adviser.

# **MONT**

**L A W Y E R S**

**Legal adviser**

# Letter from the Independent Board Committee Chairman

## Mercantile Investment Company Limited

1 August 2019

ABN 15 121 415 576  
Level 5, 139 Macquarie Street  
Sydney NSW 2000  
Tel 02 8014 1188  
Fax 02 8084 9918

Dear Shareholders,

On 3 June 2019, Sandon Capital Investments Limited announced its intention to make an off-market takeover offer to acquire all of the issued Shares in Mercantile Investment Company Limited (**Offer**).

The Independent Board Committee of Mercantile unanimously recommends that you **ACCEPT** the Offer.

### *The Takeover Bid*

The Offer is a takeover bid for all of the issued Mercantile Shares that SNC does not already own in exchange for shares in SNC. Mercantile Shareholders who accept the Offer will be entitled to receive 0.2043 SNC Shares for every 1 Mercantile Share held. This exchange ratio was set by reference to the pre-tax NTA backing per share of Mercantile as at 31 May 2019 (\$0.1942) divided by the pre-tax NTA backing per share of SNC as at 31 May 2019 (\$0.9507), as reported by each of Mercantile and SNC on ASX.

An Independent Board Committee of the Directors independent of SNC has been formed due to shared interests on the boards of SNC and Mercantile. The Independent Board Committee comprises Ms Katrina Langley, Mr Daniel Weiss and me as Chairman. Each member of the Independent Board Committee is considered to be independent of SNC. For further details about the formation of the Independent Board Committee, see Section 2.1 of this Target Statement.

The Independent Board Committee has carefully considered the Offer on the terms outlined in this Target Statement and the Bidder's Statement and has agreed to promote the merits of the Offer. In the absence of a superior proposal and provided the shareholders of SNC have passed the resolutions necessary for the Offer to proceed on 12 August 2019, each Mercantile Non-Associated Director currently intends to **ACCEPT** the Offer for all of the Mercantile Shares they or their associates own or control.

This Target Statement sets out in detail the Independent Board Committee's response to the Offer, its reasons for recommending that you accept the Offer (in the absence of a superior proposal for Mercantile) along with other important information to help you decide whether to accept the Offer.

The Independent Board Committee recommends that you **ACCEPT** the Offer for the following key reasons:

- The Independent Expert determined that the Offer is fair and therefore reasonable.
- The Merged Group will likely benefit from increased scale.
- Given the impending retirement of Sir Ron Brierley as Chairman of Mercantile, the Offer provides Mercantile with a succession plan.
- The Offer represents an opportunity to exit Mercantile Shares.
- Sir Ron supports the Offer.

- The all scrip Offer provides an opportunity to retain an exposure to the Mercantile business, albeit diluted as part of the SNC business.
- There is currently no superior proposal.
- You will not pay any brokerage fees.

See Section 3 of this Target Statement for further details of the reasons for the Independent Board Committee's recommendation.

The Independent Board Committee has engaged Titan Partners Corporate Finance Pty Limited to prepare an Independent Expert's Report in response to the Offer. The Independent Expert has concluded that the Offer is fair and therefore reasonable to Mercantile Shareholders. Mercantile Shareholders should read the Independent Expert's Report in its entirety, a copy of which is attached as Appendix A to this Target Statement.

The Offer opens on 1 August 2019. Unless extended or withdrawn beforehand, the Offer will expire at 7.00pm (Sydney time) on 2 September 2019.

The interests of the Directors in Mercantile Shares are detailed in Section 2.3 of this Target Statement.

The Independent Board Committee strongly recommends that you read this Target Statement and the Bidder's Statement in their entirety, and consider the Offer having regard to your personal circumstances, before deciding whether to accept the Offer.

If you wish to accept the Offer, you should follow the instructions in the Bidder's Statement and on the Acceptance Form.

#### *Shareholder enquiries*

If you have any queries regarding the Offer, please contact Mercantile on (02) 8014 1188 between 9am and 5pm (Sydney time) Monday to Friday or submit your query in writing to Level 5, 139 Macquarie Street, Sydney NSW, 2000, or consult your financial or other professional advisor.

The Company, via your Independent Board Committee, will continue to keep you informed of all material developments relating to the Offer.

Thank you for your continued support of Mercantile.

Yours sincerely,



**James Chirnside**  
Chairman of Independent Board Committee  
Director of Mercantile Investment Company Limited

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## **Important information**

### **Nature of this document**

This is a Target Statement dated 1 August 2019 given under Part 6.5 of Chapter 6 of the Corporations Act by Mercantile in response to the Bidder's Statement dated 18 July 2019 and lodged by SNC with ASIC and served on Mercantile on 18 July 2019.

### **ASIC and ASX disclaimer**

A copy of this Target Statement has been lodged with ASIC and ASX. Neither ASIC nor ASX nor any of their respective officers takes any responsibility for the contents of this Target Statement.

### **No account of personal circumstances**

The recommendations of the Non-Associated Directors of Mercantile contained in this Target Statement do not take into account the individual investment objectives, financial situation or particular needs of each Shareholder. You may wish to seek independent professional advice before making a decision as to whether to accept or reject the Offer.

### **Defined terms**

Defined terms used in this Target Statement are capitalised. Definitions of these terms are set out in Section 11. Unless the contrary intention appears, the context requires otherwise or words are defined in Section 11, words and phrases in the Target Statement have the same meaning and interpretation as in the Corporations Act.

### **Forward-looking statements**

Except for historical information contained in this Target Statement, there may be matters discussed in this Target Statement that are forward-looking statements. Such statements are only predictions and are subject to inherent risks and uncertainty. Those risks and uncertainties include factors and risks specific to the industry in which Mercantile and SNC operate as well as general economic conditions and prevailing exchange rates and interest rates. Actual events or results may differ materially. For a discussion of important risk factors which could cause actual results to differ materially from such forward-looking statements, refer to Section 8 of this Target Statement.

None of the Mercantile Directors, any person named in this Target Statement with their consent or any person involved in the preparation of this Target Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, except to the extent required by law.

The forward-looking statements in this Target Statement on behalf of Mercantile only reflect views held as at the date of this Target Statement.

### **Notice to foreign shareholders**

The distribution of this Target Statement may, in some countries, be restricted by law or regulation. Persons who come into possession of this Target Statement should inform themselves of and observe those restrictions.

### **Sources of Information**

Information included in this Target Statement relating to SNC and its business has been derived from the Bidder's Statement and publicly available sources published by SNC. Information regarding any other listed company included in this Target Statement has also been derived solely from publicly available sources published by those companies.

Subject to the foregoing and to the maximum extent permitted by law, Mercantile and its Directors disclaim all liability for any information concerning SNC including in this Target Statement. Shareholders should form their own views concerning SNC from publicly available information.

### **Privacy**

Mercantile has collected your personal information from the register of Mercantile Shareholders for the purposes of providing you with this Target Statement. The type of information that Mercantile has collected about you includes your name, contact details and information on your shareholding in Mercantile. The Corporations Act requires the names and addresses of Mercantile Shareholders to be held in a public register.

Mercantile has also provided or will provide personal information about its Shareholders to SNC in accordance with the Corporations Act and ASX Settlement Operating Rules.

# **1. Summary of the Offer**

This Section sets out a summary of the main features of the Offer.

## **1.1. The Offer**

The Offer is being undertaken by way of an off-market takeover bid. The Offer is a takeover offer for all of the issued Shares of Mercantile. The proposed consideration is 0.2043 SNC Shares for every 1 Mercantile Share held.

The exchange ratio was set by reference to the pre-tax net tangible asset (**NTA**) backing per share of Mercantile as at 31 May 2019 (\$0.1942) divided by the pre-tax net tangible asset backing per share of SNC as at 31 May 2019 (\$0.9507), as reported by each of Mercantile and SNC on ASX on 13 June 2019 in accordance with Listing Rule 4.12.

Unless extended or withdrawn beforehand, the Offer will expire at 7.00pm (Sydney time) on the Closing Date (being 2 September 2019 unless extended by SNC).

## **1.2. Assessment of the Offer**

Before making a decision whether to accept or reject the Offer, you should read this Target Statement, including the report by the Independent Expert engaged by Mercantile to assess the Offer, Titan Partners Corporate Finance Pty Limited, in Appendix A. You should also seek independent financial and taxation advice.

Shareholders should also consider the risks associated with owning SNC Shares, the risks relating to the SNC business and the Offer which are set out in Section 10 of the Bidder's Statement.

## **1.3. Terms and Conditions of the Offer**

The full terms and conditions of the Offer are set out in Section 13.8 of the Bidder's Statement and are considered in Section 6 of this Target Statement.

## **1.4. What are the tax consequences if I accept the Offer?**

Please consult your financial, tax or other professional adviser on the tax implications of accepting the Offer. A general summary of the likely Australian tax consequences is set out in Section 11 of the Bidder's Statement.

## **1.5. How to Accept**

You may choose to accept the Offer for your Mercantile Shares. You are only able to accept the Offer in respect of all, and not some, of the Mercantile Shares that you hold at the time of acceptance.

Details of how you can accept the Offer are contained in Section 2.6 of the Bidder's Statement.

Acceptances must be received by 7.00pm (Sydney time) on the Closing Date (expected to be 2 September 2019 unless the Offer is extended or withdrawn).

If you accept the Offer you are prevented from selling your Mercantile Shares to anyone else. Once you accept you cannot withdraw your acceptance except in limited circumstances.

## **1.6. Can I withdraw my acceptance?**

Under the terms of the Offer, you cannot withdraw your acceptance unless a withdrawal right arises under the Corporations Act. Such a withdrawal right will arise if, after you have accepted the Offer, SNC varies the Offer in a way that postpones for more than 1 month the time when SNC has to pay you under the Offer (for example if SNC extends the Offer for more than 1 month while the Offer remains conditional).

### **1.7. Can SNC withdraw the Offer?**

SNC may withdraw the Offer in limited circumstances (refer to Section 13.9 of the Bidder's Statement for more details).

### **1.8. If I accept the Offer, when do I receive the Offer consideration?**

You will only receive the Offer Consideration if each of the Conditions of the Offer is either satisfied or waived within the prescribed periods.

If you accept the Offer, you will not be able to sell any of your Mercantile Shares unless SNC withdraws the Offer or you have the right to withdraw your acceptance and you exercise that right.

If the Conditions are not satisfied before the Offer closes or are not waived in the prescribed period, then the Offer will lapse, and your acceptance of the Offer will be void. If this occurs, you will continue to hold your Mercantile Shares and you will be free to deal with them as if the Offer had not been made.

### **1.9. How to Reject**

If you wish to reject the Offer, you need not take any action.

If you choose not to accept the Offer, SNC will not be able to acquire your Mercantile Shares unless the Offer is declared unconditional and SNC has acquired a relevant interest in at least 90% of the Mercantile Shares on issue as at the end of the Offer period.

In that event, SNC will be entitled to compulsorily acquire all Mercantile Shares that it and its associates do not already own. See Section 6.12 of this Target Statement for further information regarding Compulsory Acquisition.

In addition, if you choose not to accept the Offer and the following circumstances occur:

- (a) the minimum acceptance condition is satisfied or waived by SNC and the Offer is declared unconditional; and
- (b) SNC has acquired a relevant interest in at least 50.01% but less than 90% (in number) of all Mercantile Shares by the end of the Offer Period,

you will be exposed to the risks associated with being a minority Mercantile Shareholder. Some of these risks are explained in Section 9.3 of this Target Statement.



## 2. Directors' recommendations and intentions

### 2.1. Your Non-Associated Directors recommend that you **ACCEPT** the Offer

Each of Mr James Chirnside (Chairman of the Independent Board Committee), Ms Katrina Langley and Mr Daniel Weiss recommends that you **ACCEPT** the Offer.

Each Non-Associated Director of the Independent Board Committee is considered to be independent of SNC.

Gabriel Radzynski is a director of both SNC and Mercantile and entities associated with him hold Mercantile Shares, Mercantile Options, Mercantile Notes, SNC Shares and the majority of Sandon Capital Pty Ltd (**Sandon**) shares. Sir Ron Brierley is a director of both SNC and Mercantile and entities associated with him hold Mercantile Shares, Mercantile Notes and SNC Shares. Accordingly, Sir Ron and Mr Radzynski are not considered independent for the purposes of considering the Offer.

Sir Ron has publicly stated that entities he controls will accept the Offer in the absence of superior proposal. Mr Radzynski has formed the view, given his role on the board of SNC, that it is inappropriate for him to make a recommendation.

Other than informing the other Non-Associated Directors of their intentions, neither Sir Ron nor Mr Radzynski has been involved in the response to the Offer.

### 2.2. Summary of reasons the Non-Associated Directors recommend that you **ACCEPT** the Offer

Your Non-Associated Directors consider the Offer to be fair and reasonable and recommend that Shareholders **ACCEPT** the Offer.

The Non-Associated Directors make the recommendation to **ACCEPT** the Offer for the following reasons:

- The Independent Expert determined that the Offer is fair and therefore reasonable.
- The Merged Group will likely benefit from increased scale.
- Given the impending retirement of Sir Ron as Chairman of Mercantile, the Offer provides Mercantile with a succession plan.
- The Offer represents an opportunity to exit Mercantile Shares.
- Sir Ron supports the Offer.
- The all scrip Offer provides an opportunity to retain an exposure to the Mercantile business, albeit diluted as part of the SNC business.
- There is currently no superior proposal.
- You will not pay any brokerage fees.

These reasons are explained further in Section 3 below.

### 2.3. Interests and dealings of Mercantile Directors in securities of Mercantile

As at the date of this Target Statement, the Directors and their Associates have interests in the following Mercantile Shares and Options:

Name of Director	Number of Options	Number of Mercantile Shares	Number of Mercantile Notes
Sir Ron Brierley <sup>1</sup>	Nil	69,430,338	300,000
Mr Gabriel Radzynski <sup>1,2</sup>	33,250,000	1,803,171	500
Mr James Chirnside	Nil	175,000	Nil
Ms Katrina Langley	Nil	Nil	Nil
Mr Daniel Weiss	Nil	15,455,001 (indirect)	Nil
Dr Gary Weiss – alternate director for Daniel Weiss	Nil	15,455,001 (indirect)	Nil

1. Sir Ron and Mr Radzynski are directors of SNC. As at the date of the Target Statement SNC holds 18.9% of Mercantile Shares.
2. Mr Radzynski is also a director of SNC investment manager, Sandon and entities associated with him own a majority of Sandon shares currently on issue.

### 2.4. Directors' intentions in relation to the Offer

Each Director who holds Mercantile Shares currently intends to accept the Offer in respect of all of those shares except in the case of a superior proposal and provided the shareholders of SNC have passed the resolutions necessary for the Offer to proceed on 12 August 2019.

In addition, Mr Daniel Weiss has confirmed that the entity that holds the shares in which he has an indirect interest has indicated it intends to accept the Offer on the same basis.

The interests of each Mercantile Director in Mercantile Shares are set out in Section 2.3 above. There are risks in accepting the Offer before the SNC Shareholder approval condition has been satisfied, and the Offer remains conditional. See Section 9 for details.

### 2.5. Interests and dealings of Mercantile Directors in securities of SNC

As at the date of this Target Statement, the Directors and their Associates have interests in the following SNC Shares:

Name of Director	Number of SNC Shares
Sir Ron	10,823,974
Mr Gabriel Radzynski	434,859
Mr James Chirnside	Nil
Ms Katrina Langley	Nil
Mr Daniel Weiss	Nil
Dr Gary Weiss – alternate director for Daniel Weiss	Nil

## 2.6. No benefits to Directors

Section 8.3 of the Bidder's Statement provides, as part of conducting a general review of the business, that the Bidder will consider the Mercantile Board composition. The action to be taken will depend on the Bidder's shareholding following the Offer. The Bidder will consider the most appropriate steps going forward, including appointing nominee director(s) to the Board or reconstituting the Board in circumstances where the Bidder proceeds to compulsory acquisition.

As far as the Non-Associated Directors are aware, no benefit is proposed to be given to a Mercantile Director (or anyone else) in connection with that director's retirement as a director or executive of Mercantile.

As explained elsewhere in the Target Statement, Mr Radzynski is interested in the outcome of the Offer through his interest in Sandon, the investment manager of SNC (Mr Radzynski is a director of Sandon and its entities associated Mr Radzynski hold the majority of Sandon's issued capital).

## 2.7. Agreements or Arrangements with Mercantile Directors

### (a) *Recent disposals and agreements to dispose*

In the four months prior to the date of this Target Statement, the following agreements were entered into in relation to the disposal of Mercantile Securities:

- On 3 June 2019, Siblow Pty Limited (**Siblow**), an entity controlled by Sir Ron, entered into an agreement with SNC, pursuant to which SNC acquired 52,980,782 Mercantile Shares (representing up to 18.9% of the issued share capital of Mercantile) in exchange for the issue of Shares in SNC. This sale completed on 14 June 2019. On this date SNC issued 10,823,974 new fully paid Shares to Siblow. The exchange ratio was set by reference to the pre-tax net tangible asset backing per share of Mercantile as at 31 May 2019 (\$0.1942) divided by the pre-tax net tangible asset backing per share of SNC as at 31 May 2019 (\$0.9507), as reported by each of Mercantile and SNC on ASX on 13 June 2019 in accordance with Listing Rule 4.12. The same ratio is used for the purpose of the Offer.
- Gefare Pty Limited, a company controlled by Gabriel Radzynski, agreed to sell SNC 33,250,000 Mercantile Options and Glen Brae Capital Pty Limited, a company controlled by Campbell Morgan (an employee of Sandon) agreed to sell SNC 16,750,000 Mercantile Options. See Section 6.7 of the Bidder's Statement for details of the Option Acquisition.

As far as the Non-Associated Directors are aware there is no other agreement or arrangement made between a director of Mercantile and any other person in connection with or conditional upon the outcome of the Offer.

### 3. Reasons For and Against Accepting the Offer

Your Mercantile Non-Associated Directors consider that the following considerations are relevant to your decision as to whether to accept or not to accept the Offer.

#### 3.1. Reasons FOR accepting the Offer

##### (a) ***The Independent Expert determined that the Offer is fair and therefore reasonable***

Your Non-Associated Directors engaged Titan Partners Corporate Finance Pty Limited to independently assess the Offer.

A copy of the Independent Expert's report is included in this Target Statement as Appendix A.

The Independent Expert has determined that the Offer is fair and therefore reasonable.

The Independent Expert compared the fair value of Mercantile Shares (on a controlling basis) to the value of the Offer consideration, being 0.2043 SNC Shares per Mercantile Share (see Sections 8 to 10 of the IER for details and the summary in Section 2.2 of the IER). The Independent Expert concluded that the Offer is fair *"as the valuation of consideration offered in SNC shares on a minority basis, is within the assessed valuation range of Mercantile shares on a controlling basis"*.

The Independent Expert considered the advantages and disadvantages of the Offer, and other qualitative factors it considers relevant, and concluded that as the Offer is fair it is therefore reasonable. Section 10 of the IER details the various factors that the Independent Expert had regard to in reaching the conclusion that the Offer reasonable.

##### (b) ***The Merged Group will likely benefit from increased scale***

The merger of Mercantile and SNC would result in a LIC with significantly greater scale. Your Non-Associated Directors consider that the Merged Group's increased scale will likely provide increased liquidity.

The Merged Group is expected to have net assets in excess of \$100 million. This is far larger than either SNC or Mercantile alone. SNC and Mercantile have already collaborated on a number of investments, where they have formed associations to increase their power to influence those investments.

##### (c) ***Given the impending retirement of Sir Ron as Chairman of Mercantile, the Offer provides Mercantile with a succession plan***

On 6 June 2019, Sir Ron announced his imminent retirement as Chairman of Mercantile. Mercantile's executive director, Gabriel Radzynski, is also chairman of SNC and the Chief Investment Officer of, and entities associated with him control, SNC's investment manager, Sandon.

Mr Radzynski has worked with Sir Ron since he became Chairman of Mercantile. As the only executive director, Mr Radzynski's role involves managing the day to day operations of Mercantile as well as managing Mercantile's investments in conjunction with Sir Ron. Since 2012, Mercantile's investments have been managed by its Investment Committee, comprising Sir Ron and Mr Radzynski.

Mr Radzynski has day to day responsibility for managing a number of Mercantile's key investments. This unique position provides him with specific knowledge which enables him to continue to manage the Mercantile portfolio as part of the Merged Group. Furthermore, following Sir Ron's appointment to the SNC Board as a non-executive director, SNC has indicated it expects to continue to have access both to his knowledge of the Mercantile portfolio and more generally to his considerable investment experience.

SNC has indicated its present intention to continue the investment activities of Mercantile. Please refer to Section 7 of the Bidder's Statement for further details.

(d) ***The Offer represents an opportunity to exit Mercantile Shares***

Each Mercantile Shareholder will receive 0.2043 new SNC Shares for every 1 Mercantile Share held.

Based on the last closing price of SNC Shares prior to the announcement of the Offer, the Offer Consideration is equivalent to \$0.1685. The Offer price represents a premium of:

- 8.7% to the last closing price of Mercantile Shares prior to the announcement of the Offer (\$0.1550).
- 2.1% to the last closing price of Mercantile Shares on 1 August 2019 being the date of this Targets Statement (\$0.1650).
- 6.1% to the 1-month VWAP of Mercantile Shares prior to the announcement of the Offer (\$0.1589).
- 16.9% to the 3-month VWAP of Mercantile Shares prior to the announcement of the Offer (\$0.1442).
- 15.1% to the 6-month VWAP of Mercantile Shares prior to the announcement of the Offer (\$0.1464).

Based on the last closing price of SNC Shares on 1 August 2019, the date of this Targets Statement, the Offer Consideration is equivalent to \$0.1716. The Independent Expert considers one of the advantages of the Offer is that it provides Mercantile Shareholders with an opportunity to exit their investment in Mercantile above the prevailing market price. In Section 10.4 of the IER the Independent Expert concluded that the Offer provides:

*“existing Mercantile shareholders the opportunity to exit an investment in Mercantile at a value above the current share price, as the value of consideration offered in SNC shares exceeds our assessed value of Mercantile shares. Whilst we have assessed the value of Mercantile using the Quoted Share Price and Net Tangible Assets approaches, Mercantile shareholders have been unable to realise this value, due to the historically low levels of liquidity as noted above and in Section 8.3, and that Mercantile shares have consistently traded well below the value of underlying net tangible assets.”*

(e) ***Sir Ron supports the Offer***

SNC currently owns 18.9% of the issued share capital of Mercantile.

On 20 June 2019 Siblow, an entity controlled by Sir Ron, announced its intention to accept the Offer, within 21 days of the Offer opening, in respect of all shares in Mercantile held by it or on its behalf at that time, in the absence of a superior offer.

Siblow is currently the beneficial owner of 69,430,338 shares in Mercantile<sup>1</sup>, representing 24.7% of the issued capital of Mercantile. If all of these Mercantile Shares are transferred to SNC, SNC will hold 43.6% of the shares in Mercantile.

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<sup>1</sup> Siblow is the registered holder of 50,783,852 Mercantile Shares, representing 18.09% of the issued capital of Mercantile. McNeil Nominees Pty Ltd (ACN 003 207 592) is registered holder of 18,646,486 Mercantile shares, representing 6.64% of the issued capital of Mercantile, and holds these Mercantile shares on behalf of Siblow (the entity controlled by Sir Ron Brierley).

(f) ***The all scrip Offer provides an opportunity to retain an exposure to the Mercantile business, albeit diluted as part of the SNC business***

Subject to the satisfaction or waiver of all Conditions you will retain an interest in the Mercantile business through your holding in SNC Shares.

SNC's investment manager, Sandon, has stated that its current expectation (which will be reviewed as the Offer progresses) is that the Merged Group will continue to hold the core investments of the Mercantile portfolio. Section 8 of the Bidder's Statement indicates that Sandon's current expectation is that those investments considered core by Mercantile's Investment Committee will become core investments in the Merged Group.<sup>1</sup>

(g) ***Currently no superior proposal***

Your Non-Associated Directors have also considered the Offer in relation to other possible courses of action following Sir Ron's retirement as Chairman.

Your Non-Associated Directors have formed the view that the Offer from SNC is currently the proposal that provides the most compelling opportunity, offering a sufficiently certain and advantageous outcome for all Mercantile Shareholders. As at the date of this Target Statement, your Non-Associated Directors have not received a superior proposal, nor are they aware of any party with an intention to make such a proposal.

Your Non-Associated Directors note that, given SNC's current holding in Mercantile is 18.9%, the receipt of a superior proposal is considered to be unlikely.

(h) ***You will not pay any brokerage fees***

There are no brokerage fees on disposal of Mercantile Shares if you accept the Offer. Brokerage fees would usually be incurred if you sell your Mercantile Shares either on ASX or otherwise.

### **3.2. Why you may decide to reject the Offer**

Although the Offer is recommended by your Non-Associated Directors, Shareholders should be aware of potential disadvantages of the Offer, which may be relevant to their decision to reject the Offer. Some factors that may lead you to reject the Offer are set out below.

(a) ***Disagree with Non-Associated Directors and the Independent Expert***

You may consider the proposed takeover by SNC and the consideration offered by SNC is not in your best interests, or not in the best interests of all Mercantile Shareholders.

(b) ***As a Shareholder of SNC, the costs of managing your investment will increase***

If SNC's Offer is successful, Mercantile will become a subsidiary of SNC and Mercantile Shareholders (then SNC Shareholders) will be subject to the management and performance fees of Sandon which for SNC are: a 1.25% Management Fee and a Performance Fee of 20% outperformance over the 1 month bank bill swap rate.

Mercantile's current investment management costs are not reflective of its likely future investment management costs given Sir Ron's imminent retirement and has been managing the portfolio without being remunerated as a director or as chairman of the Mercantile Investment Committee. There is no succession plan in place as at the date of this Target Statement.

However in its Bidder's Statement at Section 7.7(c) SNC indicates that, if the Offer is successful, any management and performance fees payable by Mercantile to Sandon as investment manager will be

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<sup>1</sup> The IBC understand that the "core investments" represent most of the largest holdings in the portfolio by value.

rebated against management and performance fees payable by SNC to Sandon. It is not clear how this arrangement will be implemented in practice. Mercantile has no further detail in this regard.

If the Offer does not proceed, or if the Offer does proceed but Mercantile does not become a wholly owned subsidiary of SNC, the Mercantile Board will need to assess how the Mercantile portfolio will be managed should Sir Ron retire from Mercantile's Investment Committee.

(c) ***Inability to accept a superior proposal if one were to emerge***

Except in the limited circumstances provided for in the Corporations Act, accepting the Offer will preclude those Mercantile Shareholders from accepting a superior offer for Mercantile from a Third Party in respect of the Mercantile Shares the subject of that acceptance, should one emerge during the Offer Period. Your Non-Associated Directors note that as at the date of his Target Statement, no alternative proposal which is capable of acceptance by Mercantile Shareholders has been received by Mercantile.

(d) ***Having regard to your personal circumstances***

In making a decision whether to accept the Offer you should carefully consider your personal circumstances and have regard to the following matters:

- you may believe that the Offer Consideration is inadequate;
- the nature and terms of the Offer and your own assessment of the value of the Offer;
- your view on SNC;
- your view on other possible courses of action for Mercantile including continuing with current expansion plans;
- you may believe that a superior proposal will emerge for Mercantile;
- you may believe that the Offer will not be successful;
- taxation implications (refer to Section 11 of the Bidder's Statement); and
- risks associated with investing in SNC Shares (refer to Section 10 of the Bidder's Statement).

These matters are not an exhaustive statement of all factors which may have an impact on your personal circumstances. If one or more of the factors above are relevant to you it may be that you decide it is appropriate to reject the Offer.

**Recommendation**

After considering the reasons for accepting the Offer and the reasons against accepting the Offer, Mercantile's Non-Associated Directors unanimously recommend that Mercantile Shareholders **ACCEPT** the Offer in the absence of a superior proposal for Mercantile.

## 4. Frequently asked questions about the Offer

Question	Answer
<b>What is the Offer?</b>	SNC is making an offer to acquire all your Mercantile Shares.
<b>What will I receive if I accept the Offer?</b>	<p>If you are not a Foreign Ineligible Shareholder, and you accept the Offer, then subject to satisfaction of the Conditions you will receive 0.2043 SNC Shares for every 1 Mercantile Share that you own.</p> <p>If you are a Foreign Ineligible Shareholder and you accept the Offer, then subject to satisfaction of the Conditions, the SNC Shares that you would have received will be sold and you will receive the proceeds less selling expenses.</p>
<b>What is the value of the Offer?</b>	<p>If you are not a Foreign Ineligible Shareholder then because you are being offered SNC Shares for your Mercantile Shares, the “value” of the Offer depends on the value or price of SNC Shares from time to time. By way of example, using the closing price of \$0.8250 for SNC Shares traded on ASX on the last day before the Announcement Date, results in an implied value of the Offer of \$0.1685 for each Mercantile Share.</p> <p>SNC believes that its Offer represents an attractive premium to the price at which Mercantile Shares were trading prior to the Announcement Date. However, the implied value of the Offer may change as a consequence of changes in the market price of SNC Shares and or Mercantile Shares after the Announcement Date.</p> <p>If you are a Foreign Ineligible Shareholder, then because the SNC Shares that you would have received will be sold, the amount of cash that you receive will depend on the price received for those SNC Shares on the day that they are sold less selling expenses. There is no certainty as to what that price may be and this will affect the amount of cash that you might receive.</p>
<b>What choices do I have as a Mercantile Shareholder?</b>	<p>As a Mercantile Shareholder, you have the following choices in respect of your Shares:</p> <ul style="list-style-type: none"> <li>(a) accept the Offer;</li> <li>(b) sell Mercantile Shares on ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); or</li> <li>(c) do nothing, thereby rejecting the Offer.</li> </ul> <p>There are several implications in relation to each of the above choices. A summary of these implications is set out in Sections 5 and 8 of this Target Statement.</p>
<b>Do the Mercantile Directors support the Offer?</b>	The Non-Associated Mercantile Directors have recommended that Mercantile Shareholders <b>ACCEPT</b> the Offer and all the Directors have indicated their intention to do so for the Mercantile Shares that they own or control after SNC shareholders pass the resolutions necessary for the Offer to proceed, unless there is a superior proposal.
<b>Is there an Independent Expert's Report?</b>	Yes. Your Non-Associated Directors commissioned Titan Partners to prepare an Independent Expert's Report on the Offer for the benefit of Shareholders. The Independent Expert's Report is included as the Appendix to this Target Statement.
<b>What did the Independent Expert conclude?</b>	The Independent Expert has determined that the Offer is fair and therefore reasonable.
<b>How long is the Offer open for?</b>	The Offer opens on 1 August 2019 and is scheduled to close at 7.00pm (Sydney time) on 2 September 2019 (unless extended).
<b>Who is SNC?</b>	Refer to Section 3 of the Bidder's Statement.



Question	Answer
<b>What are the conditions of the Offer?</b>	<p>The Offer is subject to certain Conditions. By way of summary, these Conditions include:</p> <ul style="list-style-type: none"> <li>(a) <b>(Customary conditions)</b> The Offer is subject to customary conditions and other conditions including a minimum acceptance condition, no regulatory intervention, no change in management arrangements and no early redemption of the Mercantile Convertible Notes. Under the minimum acceptance condition, the Offer is conditional on minimum acceptance of the Offer by Mercantile Shareholders such that, when taken together with Mercantile Shares already held by SNC, SNC would have a relevant interest in at least 80% of Mercantile Shares;</li> <li>(b) <b>(SNC Shareholder approval)</b> SNC Shareholders in general meeting pass all resolutions (including under the Listing Rules) necessary to permit SNC to complete the acquisition of all Mercantile Shares under the Offer;</li> <li>(c) <b>(no fall in Announced NTA)</b> the Announced NTA of Mercantile not declining by 10% or more below the Bid NTA of Mercantile;</li> <li>(d) <b>(no change in NTA calculation methodology)</b> 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;</li> </ul> <p>Further information on all the Offer Conditions can be found in Section 13.8 of the Bidder's Statement.</p>
<b>Are there any risks of accepting the Offer while it is still Conditional?</b>	<p>Yes. If you accept the Offer while the Offer is subject to Conditions, there are significant consequences for you including that:</p> <ul style="list-style-type: none"> <li>(a) you will give up your rights to sell your Mercantile Shares on ASX or to otherwise deal with them (for example, by accepting a superior proposal from another bidder if one is made), subject to your right to withdraw your acceptance of the Offer in certain limited circumstances; and</li> <li>(b) you will relinquish control of your Shares and the rights attaching to them to SNC with no guarantee of payment until the Offer becomes unconditional, subject to your right to withdraw your acceptance of the Offer in certain limited circumstances. Essentially if you accept the Offer while it remains Conditional you will not be able to deal with your Mercantile Shares until the Conditions are satisfied or waived (in which case you will receive the Offer Consideration in accordance with the payment terms as set out above) or the Offer lapses in which case you will be able to deal with your Shares as you see fit.</li> </ul> <p>In light of these risks, the Non-Associated Directors recommend that you do not Accept until the SNC Shareholder approval condition has been satisfied (on or around 12 August 2019).</p>
<b>What happens if the Conditions of the Offer are not satisfied or waived?</b>	<p>If the Conditions are not satisfied or waived before the Offer closes, the Offer will lapse. You would then be free to deal with your Mercantile Shares even if you had accepted the Offer.</p>
<b>How will I know when the Offer is unconditional?</b>	<p>SNC is required to inform Mercantile and ASX as soon as any Conditions are satisfied or waived. Notices from SNC will be available on the ASX website at <a href="http://www.asx.com.au">www.asx.com.au</a> (ASX code: SNC). These notices will also be available on SNC's website (<a href="https://www.sandoncapital.com.au/listed-investment-company">https://www.sandoncapital.com.au/listed-investment-company</a>). SNC has set 26 August 2019 as the date on which it will give Mercantile and ASX a notice required by law on the status of the Conditions. This date may be extended if the Offer Period is extended.</p>

Question	Answer
<b>I am an overseas Shareholder. How does SNC's Offer affect me?</b>	If you are a Foreign Ineligible Shareholder and accept the Offer, you will not be entitled to receive SNC Shares. Instead the SNC Shares to which you would otherwise be entitled will be sold by a nominee approved by ASIC and the net proceeds of sale paid to you.
<b>What should I do?</b>	<p>You should:</p> <ul style="list-style-type: none"> <li>(a) read the SNC Bidder's Statement in full;</li> <li>(b) read this Target Statement in full;</li> <li>(c) consult your broker, financial or other professional adviser if you are in any doubt as to what action to take; and</li> <li>(d) make a decision to accept or reject the Offer.</li> </ul> <p>If you have any queries regarding the Offer, please contact Mercantile on (02) 8014 1188 between 9am and 5pm (Sydney time) Monday to Friday or submit your query in writing to Level 5, 139 Macquarie Street, Sydney NSW, 2000.</p>
<b>How do I accept the Offer?</b>	To accept the Offer you should follow the instructions set out in Section 13.5 of the Bidder's Statement and on your personalised Acceptance Form which accompanies the Bidder's Statement.
<b>Can I accept the Offer for part of my holding?</b>	No, you cannot accept the Offer for part of your holding.
<b>If I accept the Offer can I withdraw my acceptance?</b>	You cannot withdraw or revoke your acceptance unless a withdrawal right arises under the Corporations Act. A withdrawal right will arise if, after you have accepted the Offer, SNC varies the Offer in a way that postpones for more than one month (the time that SNC has to meet its obligations under the Offer - for example, if SNC extends the Offer for more than one month while the Offer remains subject to any of the Conditions).
<b>If I accept the Offer when will I receive my SNC Shares?</b>	<p>This depends on whether you are an Eligible Shareholder or a Foreign Ineligible Shareholder. If you accept the Offer and you are not a Foreign Ineligible Shareholder, and all necessary documents are provided by you to SNC, then SNC will issue to you the SNC Shares that you are entitled to on or before the earlier of:</p> <ul style="list-style-type: none"> <li>(a) one month after the later of the Offer being validly accepted by you and the Offer (or the contract resulting from acceptance of the Offer) becoming unconditional; and</li> <li>(b) 21 days after the end of the Offer Period, provided that the Offer has become unconditional.</li> </ul> <p>If you are a Foreign Ineligible Shareholder, then you will receive the net cash proceeds from the sale of the SNC Shares that you would have otherwise received.</p>
<b>Will I need to pay brokerage if I accept the Offer?</b>	<p>If your Mercantile Shares are registered in an Issuer Sponsored Holding in your name and you deliver them in accordance with the instructions set out on the Acceptance Form, you will not incur any brokerage connected with you accepting the Offer.</p> <p>If your Mercantile Shares are in a CHESS Holding or you hold your Mercantile Shares through a bank, custodian or other nominee, you should ask your Controlling Participant (usually, your Broker or the bank, custodian or other nominee) whether it will charge any transaction fees or service charges connected with you accepting the Offer.</p> <p>If you are a Foreign Ineligible Shareholder the cash proceeds that you will be sent (following the sale of the SNC Shares that you would otherwise have been entitled to receive under the Offer) will be net of transaction costs and will be paid by cheque in Australian dollars.</p>

Question	Answer
<b>What rights will my SNC Shares have?</b>	<p>The SNC Shares issued under the Offer will be fully paid and will rank equally for dividends and other rights with existing SNC Shares. A detailed explanation of the rights and liabilities attaching to SNC Shares is set out in Section 4.5 of the Bidder's Statement.</p>
<b>Will my SNC Shares be listed on ASX?</b>	<p>SNC has indicated it will make an application within seven days after the start of the Offer Period to ASX for official quotation of the SNC Shares to be issued under the Offer. Quotation of the SNC Shares to be issued under the Offer will not be automatic but will depend on ASX exercising its discretion to admit them to the official list.</p> <p>However, SNC is already admitted to the official list of ASX and shares in SNC in the same class or on the same terms as those to be issued under the Offer are already quoted.</p>
<b>What happens if I accept the Offer?</b>	<p>If you accept the Offer and it becomes or is declared unconditional, you will be issued SNC Shares within the time specified above.</p> <p>Once you accept the Offer (even while it remains subject to Conditions) you will not be able to sell your Mercantile Shares on market or otherwise deal with the rights attaching to your Mercantile Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.</p>
<b>What happens if I do not accept the Offer?</b>	<p>You will remain the holder of your Mercantile Shares if you do not accept the Offer.</p> <p>If you do not accept the Offer and SNC acquires a relevant interest in at least 90% of Mercantile Shares and the other Conditions of the Offer are satisfied or waived, SNC intends to proceed to compulsorily acquire the outstanding Mercantile Shares for the Offer Consideration. You will receive the Offer Consideration sooner if you accept the Offer, rather than having your Mercantile Shares compulsorily acquired.</p> <p>If the Offer becomes or is declared unconditional but SNC does not become entitled to compulsorily acquire your Mercantile Shares under the Corporations Act, unless you sell your Mercantile Shares, you will remain a shareholder in Mercantile.</p> <p>In these circumstances and, depending on the number of Mercantile Shares acquired by SNC, you may be a minority shareholder in what may be a less liquid stock.</p> <p>Furthermore, if it is entitled to do so, SNC will make an application to remove Mercantile from the official list of ASX. For further information see Section 7.7(b) of the Bidder's Statement.</p>
<b>What are the tax implications of accepting the Offer?</b>	<p>Section 11 of the Bidder's Statement contains an overview of the Australian taxation implications of accepting this Offer.</p> <p>SNC recommends you seek independent professional advice in relation to your own particular circumstances.</p> <p>Tax consequences of non-resident Australian Mercantile Shareholders are not included in the Bidder's Statement. Non-resident Australian Mercantile Shareholders are urged to seek their own advice as to their tax consequences of accepting the Offer.</p> <p>Mercantile Shareholders should be aware that if SNC does not acquire ownership of 80% of Mercantile Shares, then rollover relief will not be available to Mercantile Shareholders for the portion of any capital gain that is made from the receipt of SNC Shares as consideration.</p>
<b>What are the significant risks of the Offer?</b>	<p>You should carefully consider the risk factors that could affect the performance of SNC or the Merged Group comprising SNC and Mercantile before deciding whether to accept the Offer. Many of these risks are outside the control of SNC and its directors and cannot be mitigated. A summary of the key risks is set out in Section 10 of the Bidder's Statement and Section 9 of this Target Statement.</p>

## 5. Your choices as a Shareholder

Mercantile Shareholders should seek professional advice if they are unsure as to whether **ACCEPTANCE** of the Offer is in their best interests, taking into account their individual circumstances.

The Bidder's Statement contains important information which Mercantile Shareholders are urged to read carefully. Mercantile Shareholders should note that Mercantile has not undertaken investigations to verify the accuracy or completeness of the information contained in the Bidder's Statement and neither Mercantile nor its Non-Associated Directors or advisers makes any representation as to the accuracy or completeness of information contained in the Bidder's Statement. To the fullest extent permitted by law, each of those parties disclaims liability to any person who acts in reliance on that information.

Mercantile Shareholders who would like further information on Mercantile or SNC before making a decision about the Offer are encouraged to exercise their rights under the Corporations Act to obtain copies of all documents lodged by Mercantile or SNC with ASIC or ASX. Alternatively, you can visit the websites of Mercantile or SNC.

During the Offer Period, Mercantile Shareholders may either:

(a) ***ACCEPT the Offer***

Details of how you can accept the Offer are contained in Section 13 of the Bidder's Statement.

Acceptances must be received by 7.00pm (Sydney time) on 2 September 2019 unless the Offer is extended. If you accept the Offer you are prevented from selling your Mercantile Shares to anyone else unless you withdraw your acceptance when you have the right to do so. The right to withdraw an acceptance of the Offer is limited.

**OR**

(b) ***Sell your Mercantile Shares on market***

You can sell your Mercantile Shares on market at any time if you have not already accepted the Offer. If you sell your Mercantile Shares on market, you:

- (i) will not receive the benefits of (noting that these events are not guaranteed):
  - any future growth potential of Mercantile;
  - any potential higher competing offer for your Mercantile Shares; or
  - any potential improvement in consideration under the Offer;
- (ii) may incur brokerage; and
- (iii) may be liable for capital gains tax or income tax on the sale.

You should seek your own specific professional advice regarding the taxation consequences of selling your Mercantile Shares on market.

**OR**

(c) ***Reject the Offer***

If you wish to retain your Mercantile Shares, you need take no action in relation to the Offer.

You should note that if SNC acquires 90% of Shares and the compulsory acquisition provisions of the Corporations Act are satisfied, it will be entitled to compulsorily acquire the Shares that it does not already own. You should also note that if SNC acquires more than 50% but less than 90% of Shares, you will be exposed to the risks associated with being a minority Shareholder.

## **6. Conditions and other Offer information**

### **6.1. Conditions of the Offer**

SNC's Offer is subject to a number of Conditions. These Conditions are outlined in Section 13.8 of the Bidder's Statement.

Your Non-Associated Directors are not currently aware of any reason why any of the Conditions may not be fulfilled.

### **6.2. Implications of Conditions not being satisfied**

If the Offer does not proceed as contemplated by this Target Statement because the Conditions to the Offer are not satisfied or waived then all contracts resulting from acceptance are void and you will remain the holder of your Shares.

In the event that SNC does not proceed with the Offer, for whatever reason, your Non-Associated Directors intend to assess all possible alternatives and keep the market informed of their investigations. Specific risks relating to Mercantile are outlined in Section 9.4 of this Target Statement.

### **6.3. Notice of Status of Conditions**

The Bidder's Statement indicates that the date for SNC to give a Notice of Status of Conditions to ASX and Mercantile as required by Section 630(1) of the Corporations Act is 26 August 2019.

SNC is required to set out in its Notice of Status of Conditions:

- (a) whether the Offer is free of any or all of the Conditions;
- (b) whether, so far as SNC knows, any of the Conditions have been fulfilled; and
- (c) SNC's voting power in Mercantile.

If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, SNC is required, as soon as practicable after the extension, to give a notice to ASX and Mercantile that states the new date for the giving of the Notice of Status of Conditions. If a condition is fulfilled (so that the Offer becomes free of that condition) during the Offer Period but before the date on which the Notice on Status of Conditions is required to be given, SNC must, as soon as practicable, give ASX and Mercantile a notice that states that the particular condition has been fulfilled.

### **6.4. Foreign Ineligible Shareholders**

The manner in which foreign shareholders are to be treated under the Offer is set out in Section 13.7(c) of the Bidder's Statement.

You will be a Foreign Ineligible Shareholder if you are a holder of Mercantile Shares with an address as shown in the Mercantile's register of members in a jurisdiction other than Australia and its external territories or New Zealand (unless SNC determines otherwise).

Foreign Ineligible Shareholders of Mercantile Shares will not be entitled to receive SNC Shares on accepting the Offer.

Foreign Ineligible Shareholders who accept the Offer will be paid the net cash sale proceeds of SNC Shares which they would otherwise have received (see Section 13.7(c) of the Bidder's Statement for Offer Period).

For the avoidance of any doubt holders of Mercantile Shares with a registered address in New Zealand are eligible to participate in the Offer.

## **6.5. Extension of the Offer Period**

Unless SNC's Offer is extended or withdrawn, it is open for acceptance from 1 August 2019 until 7.00pm Sydney time on 2 September 2019.

SNC may extend the Offer Period at any time before it gives the Notice of Status of Conditions while the Offer is subject to Conditions. If the Offer is unconditional (that is, all the Conditions are fulfilled or freed), SNC may extend the Offer Period at any time before the end of the Offer Period.

SNC may only extend the Offer Period after it gives the Notice of Status of Conditions in limited circumstances.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period, SNC improves the consideration offered under the Offer.

If this event occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

## **6.6. Withdrawal of Offer**

SNC's Offer may only be withdrawn with ASIC's written consent (which may be subject to any conditions ASIC chooses to impose). See Section 13.9 of the Bidder's Statement for further details of the limited circumstance where SNC may withdraw the Offer.

## **6.7. Effect of Acceptance**

The effect of acceptance of the Offer is set out in Section 13.6 of the Bidder's Statement. Mercantile Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the Rights (as defined in the Bidder's Statement) attaching to their Mercantile Shares and the representations and warranties which they give by accepting of the Offer.

## **6.8. Your Ability to Withdraw Your Acceptance**

You only have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if SNC varies the Offer in a way that postpones, for more than one month, the time when SNC needs to meet its obligations under the Offer. This will occur if SNC extends the Offer Period by more than one month and the Offer is still subject to Conditions.

## **6.9. When Will You Receive Your Consideration if You Accept the Offer?**

In the usual case, unless you are a Foreign Ineligible Shareholder, you will be issued your consideration on or before the later of:

- (a) one month after the date you validly accept the Offer if the Offer is, at the time of acceptance, unconditional; and
- (b) one month after the date the Offer becomes or is declared unconditional,

but, in any event (assuming the Offer becomes or is declared unconditional), no later than 21 days after the end of the Offer Period.

However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be issued your consideration are set out in Section 13.7 of the Bidder's Statement.

## **6.10. Effect of an Improvement in Consideration on Shareholders who have already accepted the Offer**

If SNC improves the consideration offered under its takeover bid, all Mercantile Shareholders, whether

or not they have accepted the Offer before that improvement in consideration, will be entitled to the benefit of that improved consideration.

#### **6.11. Lapse of Offer**

The Offer will lapse if the Offer Conditions are not freed or fulfilled by the end of the Offer Period; in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Mercantile Shares as you see fit.

#### **6.12. Compulsory Acquisition**

SNC has indicated in its Bidder's Statement (refer to Section 7.4 of the Bidder's Statement) that it intends to compulsorily acquire outstanding Mercantile Shares under the Corporations Act, if it becomes entitled to do so.

If compulsory acquisition occurs, Mercantile Shareholders who have their Mercantile Shares compulsorily acquired are likely to be issued their consideration approximately 5 to 6 weeks after the compulsory acquisition notices are dispatched to them.

#### **6.13. Taxation implications**

A general description of the taxation treatment for certain Australian resident Mercantile Shareholders accepting the Offer is set out in Section 11 of the Bidder's Statement.

You should not rely on that description as advice for your own affairs.

You should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to accept the Offer for your Mercantile Shares.

Mercantile Shareholders should be aware that if SNC does not acquire ownership of 80% of Mercantile Shares, then rollover relief will not be available to Mercantile Shareholders for the portion of the capital gain that is made from the receipt of SNC Shares as consideration.

## 7. Information on Mercantile

### 7.1. Overview of Mercantile and its principal activities

The principal activities of the Mercantile Group are investments in cash and securities (which are expected to provide attractive risk adjusted returns, including by way of short term trading, profit making ventures and holding of shares for dividend yield/long term capital appreciation, as deemed appropriate), consumer finance and shipping services.

### 7.2. Mercantile Directors

The Directors of Mercantile are:

- Sir Ron Brierley – Non-executive Chairman;
- Mr James Chirnside – Independent non-executive director;
- Ms Katrina Langley – Independent non-executive director;
- Mr Gabriel Radzynski – Executive director;
- Mr Daniel Weiss – Non-executive director; and
- Dr Gary Weiss – Alternate director for Daniel Weiss.

#### *Independent Board Committee of Non-Associated directors*

The Independent Board Committee is comprised of Mr James Chirnside (Chairman of the Independent Board Committee), Ms Katrina Langley and Mr Daniel Weiss. Each member of the Independent Board Committee is considered to be independent of SNC.

Gabriel Radzynski is a director of SNC, Sandon and Mercantile and entities associated with him hold Mercantile Shares, Mercantile Options, Mercantile Notes, SNC Shares and the majority of Sandon shares. Entities associated with Sir Ron hold Mercantile Shares, Mercantile Notes and SNC Shares. Accordingly, Sir Ron and Mr Radzynski are not independent for the purposes of considering the Offer and accordingly neither is a member of the Independent Board Committee.

### 7.3. Capital structure

(a) *Issued capital - Mercantile currently has the following securities on issue:*

Mercantile securities on issue	Number on issue	Face value
Mercantile Shares	280,700,000	
Mercantile Notes	223,087	\$22,308,700
Mercantile Options <sup>1</sup> :		
Mercantile Options expiring 31/12/20 at an exercise price of 20 cents per option	15,000,000	
Mercantile Options expiring 31/12/21 at an exercise price of 23 cents per option	15,000,000	
Mercantile Options expiring 31/12/22 at an exercise price of 24 cents per option	20,000,000	

1. Gefare Pty Limited, a company controlled by Gabriel Radzynski, a director of SNC, Mercantile and Sandon, holds a total of 33,250,000 Mercantile Options and Glen Brae Capital Pty Limited, a company controlled by Campbell Morgan (an employee of Sandon) holds a total of 16,750,000 Mercantile Options.



(b) *Substantial Holders*

The below table sets out the substantial holders of Mercantile as at 31 July 2019, the last practicable trading day prior to the date of this Target Statement (based on substantial shareholder notices lodged with ASX and registry data):

Holder	Mercantile Shares	Voting Power
Sir Ron Brierley <sup>1</sup>	69,430,338	24.7%
SNC	52,980,782	18.9%
Geoff Wilson <sup>2</sup>	35,250,522	12.6%
Phoenix Portfolios Pty Ltd	21,434,071	7.6%
Dr Gary Weiss <sup>3</sup>	15,455,001	5.3%

1. Sir Ron's shareholding includes 50,783,852 shares held by Siblow and 18,646,486 shares held by McNeil Nominees Pty Ltd (ACN 003 207 592) on behalf of Siblow. On 20 June 2019, Siblow provided SNC with written notice of its intention to accept the Offer, within 21 days of the Offer opening, in respect of all Mercantile Shares held by it or on its behalf at that time, in the absence of a superior offer. See Section 3.1(e) for further details.
2. Geoff Wilson holds the Mercantile Shares either directly or indirectly through the holdings of GW Holdings Pty Limited (ACN 102 329 377) and Dynasty Peak Pty Limited (ACN 058 458 067).
3. Includes 14,915,001 Mercantile Shares held by Portfolio Services Pty Ltd.

(c) *Treatment of Options*

SNC has entered into agreements with the holders of the Mercantile Options to acquire the Mercantile Options in consideration for the issue of 601,457 SNC Shares and the payment of \$337,895, subject to SNC Shareholders approving the terms of transfer and all defeating conditions to the Offer being satisfied or SNC freeing the Offer from such defeating conditions and Mercantile giving its consent in writing to the acquisition by the Company of these Mercantile Options (**Option Acquisition**). See Sections 6.7 and 9 of the Bidder's Statement for details of the Option Acquisition.

## 7.4. Share Trading

Set out below is trading data regarding the price at which fully paid Mercantile Shares have traded on ASX on various dates prior to the Announcement Date:

Date / Period	Open	High	Low	Close	VWAP	Volume
Last day of trading prior to Announcement Date	\$0.1550	\$0.1550	\$0.1550	\$0.1550	\$0.1550	3,334
1 month period prior to the Announcement Date	\$0.1550	\$0.1600	\$0.1550	\$0.1550	\$0.1589	1,654,561
6 month period prior to the Announcement Date	\$0.1750	\$0.1750	\$0.1550	\$0.1550	\$0.1464	19,396,302
12 month period prior to the Announcement Date	\$0.1700	\$0.1800	\$0.1550	\$0.1550	\$0.1532	26,281,499

## 7.5. Borrowings and Convertible Notes

(a) *Revolving Funding Facility*

Mercantile has a short term debt facility that Sir Ron has provided. As at 30 June 2019, the amount outstanding (including interest) was \$6,164,055. As at the date of this Target Statement, the maturity date for this facility has been extended to 31 December 2019. See Mercantile's ASX 16 July 2019 announcement for further details.

(b) *Mercantile Notes*

You should note that the Offer does not extend to the Mercantile Notes. The impact of the Offer on the Mercantile Notes is set out in Section 6.6 of the Bidder's Statement. Mercantile does not presently intend to exercise any right to redeem or repurchase the Mercantile Notes. See Mercantile's ASX 16 July 2019 announcement for further details.

Mercantile is currently admitted to the Official List of ASX as a standard ASX listing. If it is delisted (which will occur if the Offer is successful), the Mercantile Notes will cease to be quoted on ASX unless Mercantile applies for, and is granted, admission as an ASX debt listing. Mercantile announced on ASX on 16 July 2019 that it intends to apply to ASX and request that ASX exercise its discretion to change Mercantile's admission category (to a debt listing) at completion of the Offer (conditional on the Offer being successful). This would enable the Mercantile Notes to remain quoted on ASX if Mercantile becomes a wholly owned subsidiary of SNC following the Offer. There is no guarantee that this will occur and there is a risk that the Mercantile Notes will be removed from quotation on the ASX.

See Section 7.5 of the Bidder's Statement for further details regarding SNC's intentions relating to the Mercantile Notes.

## 7.6. Financial performance

On 28 February 2019 Mercantile released its interim financial statements for the half-year ending 31 December 2018 for the consolidated Mercantile Investment Company Limited. You should refer to all of the information released to ASX, including the notes to those financial statements.

A summary of Mercantile's current investments as at 30 June 2019 can be found in Section 5.5 of the Bidder's Statement.

On 12 July 2019 in accordance with Listing Rule 4.12 Mercantile reported its pre-tax NTA value as at 30 June 2019 of 20.04 cents per share, an increase from the 31 May 2019 pre-tax NTA used to calculate the exchange ratio under the Offer. The increase in the Mercantile NTA was predominately due to an overall positive movement in the value of the portfolio's investments in the month. Mercantile Shareholders should note that fluctuations in Mercantile's NTA will continue to occur during the Offer Period.

A summary of the historical consolidated financial performance of Mercantile since 1 July 2015 is set out below:

	1HFY19	FY18	FY17	FY16
	\$	\$	\$	\$
<b>Income</b>				
Revenue from continuing operations	3,990,298	7,650,872	5,505,311	6,015,143
Other income	(546,555)	7,894,862	7,760,530	423,629
Gain / (loss) on acquisition	(1,049,386)	-	-	-
<b>Total Income</b>	<b>2,394,357</b>	<b>15,545,734</b>	<b>13,265,841</b>	<b>6,438,782</b>
<b>Expenses</b>				
Accounting fees	163,505	212,606	223,676	157,580
Audit fees	136,276	174,326	215,976	169,470
Taxation service fees	65,366	177,176	262,848	99,095
Finance costs	976,491	1,951,407	2,051,535	100,426
Service agreement fees	233,750	330,000	330,558	202,670
Company secretary fees	18,963	41,206	63,955	42,039
Share registry fees	166,998	74,249	138,764	119,207
Brokerage	22,528	56,779	120,548	53,623
Impairment charges	1,047,281	859,776	9,011,841	1,653,415

	1HFY19	FY18	FY17	FY16
Loan recovery costs	-	-	-	295,925
Legal and professional fees	323,853	530,057	782,363	329,988
ASIC & ASX charges	82,683	97,649	82,218	67,115
Share based payments	310,000	112,000	517,500	164,000
Employee benefits expense	1,071,159	1,712,123	1,529,885	333,841
Insurance	-	43,602	92,176	167,348
Other operating costs	785,938	656,326	851,963	175,722
<b>Total Expenses</b>	<b>5,404,791</b>	<b>7,029,282</b>	<b>16,275,806</b>	<b>4,131,463</b>
<b>Profit/(Loss) before income tax</b>	<b>(3,010,434)</b>	<b>8,516,452</b>	<b>(3,009,965)</b>	<b>2,307,319</b>
Income tax expense	464,317	(1,729,072)	(2,101,167)	(657,726)
<b>Profit/(Loss) for the period</b>	<b>(2,546,117)</b>	<b>6,787,380</b>	<b>(5,111,132)</b>	<b>1,649,593</b>
<b>Other comprehensive income</b>				
Movement in fair value of long term equity investments, net of tax	1,255,291	2,758,387	2,935,499	4,598,327
<b>Total comprehensive Income / (Loss) for the year</b>	<b>(1,290,826)</b>	<b>9,545,767</b>	<b>(2,175,633)</b>	<b>6,247,920</b>
<b>Total comprehensive Income / (Loss) for the year attributable to:</b>				
Members of the parent entity	(1,190,128)	9,387,233	(1,878,200)	6,503,421
Non-controlling interest	(100,698)	158,534	(297,433)	(255,501)
	<b>(1,290,826)</b>	<b>9,545,767</b>	<b>(2,175,633)</b>	<b>6,247,920</b>

Source: The above information has been drawn from the audited financial statements for Mercantile and associated disclosures included in Mercantile's Annual Financial Reports for the years ended 30 June 2018, 30 June 2017 and 30 June 2016 and the audit reviewed financial statements for Mercantile and associated disclosures included in Mercantile's Half-Year Report for the half year ended 31 December 2018.

A summary of Mercantile's historical financial performance is summarised at Section 5.6 of the Independent Expert's report.

## 7.7. Material litigation

As at the date of this Target Statement, neither Mercantile nor any of its controlled entities, is involved in any material litigation and is not aware of any pending material legal action to which it may be adversely exposed.

## 7.8. Publicly Available Information and Disclosures about Mercantile

Mercantile is a listed "disclosing entity" for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, Mercantile is subject to the listing rules of ASX which require continuous disclosure of any information Mercantile has concerning it that a reasonable person would expect to have a material effect on the price or value of its securities (subject to some exceptions).

ASX maintains files containing publicly disclosed information about all listed companies. Mercantile's files are available for inspection on the ASX website ([www.asx.com.au](http://www.asx.com.au)). In addition, Mercantile is required to lodge various documents with ASIC.

Copies of documents lodged with ASIC in respect of Mercantile may be obtained from, or inspected at, an ASIC office.

## **8. Information on SNC and the Merged Group**

### **8.1. Disclaimer**

The following description of SNC and the financial information concerning SNC contained in this Section has been prepared by Mercantile primarily using publicly available information and information provided by SNC. Information in this document concerning SNC's business has not been independently verified and Mercantile has not conducted due diligence on SNC's business. To the extent permitted by law, Mercantile does not make any representation or warranty, express or implied, as to the currency, accuracy or completeness of such information.

The primary sources of information about SNC's business used by Mercantile are as follows:

- (a) SNC's annual and half-year financial reports;
- (b) SNC's ASX announcements; and
- (c) SNC's website.

The information on SNC in this Target Statement should not be considered comprehensive. You should refer to SNC's ASX announcements and SNC's Bidder's Statement, which SNC must provide to all Mercantile Shareholders.

### **8.2. Overview of SNC**

SNC is an ASX listed investment company (**LIC**) trading under ASX code SNC.

SNC's objectives are to preserve shareholder capital, deliver a positive absolute return over the medium term and to provide shareholders with a growing stream of fully franked dividends.

#### *Investment Manager: philosophy, strategy and terms of appointment*

SNC's investment portfolio is managed by an external investment manager, Sandon. Gabriel Radzynski, is a director of Sandon, SNC and Mercantile and entities associated with him own the majority of Sandon shares.

Sandon is an activist value investment manager. In its capacity as Investment Manager to SNC, Sandon seeks to buy investments at prices it considers are below the intrinsic value of those investments. Sandon deploys a range of activist strategies aimed at realising the intrinsic value of those investments. Sandon may also take advantage of other market opportunities where it considers there are reasonable prospects for a satisfactory return. Details of SNC's investment philosophy and strategy are contained in Section 3.2 of the Bidder's Statement.

The terms on which SNC has engaged Sandon to act as SNC's investment manager are contained in a management agreement dated 11 November 2013, and these are summarised in Section 3.3 of the Bidder's Statement.

#### *SNC's portfolio*

A summary of SNC's listed investments as at 30 June 2019 is set out in Section 3.4 of the Bidder's Statement and Section 6.1 of the IER contains details of SNC's portfolio of investments as at 31 May 2019.

### **8.3. Information on SNC Shares**

As at the date of the Target Statement SNC has 59,259,401 SNC Shares on issue. There are no other securities or convertible notes on issue in SNC.

The rights attaching to the SNC Shares are summarised in Section 4.5 of the Bidder's Statement.

Details of the Substantial shareholders in SNC and recent trading of SNC Shares is contained in Sections 4.2 and 4.3 of the Bidder's Statement and Section 9.3 of the IER.

#### 8.4. SNC's Financial Results

A summary of the historical consolidated financial performance of SNC since 1 July 2015 is set out below:

	1H FY19	FY18	FY17	FY16
	\$	\$	\$	\$
<b>Income</b>				
Net realised and unrealised gains on financial assets	(1,301,469)	4,375,864	6,094,424	3,719,972
Other Income from operating activities	232,944	1,676,846	728,260	933,815
<b>Total Income</b>	<b>(1,068,525)</b>	<b>6,052,710</b>	<b>6,822,684</b>	<b>4,653,787</b>
<b>Expenses</b>				
Management fees <sup>2</sup>	(314,501)	(632,703)	(606,639)	(515,961)
Performance fees <sup>2</sup>	-	(977,993)	(1,079,084)	(651,728)
Directors' fees	(35,198)	(63,357)	(71,638)	(62,463)
Company secretarial fees	(24,234)	(44,226)	(40,015)	(33,991)
Brokerage expense	(29,043)	(40,744)	(84,899)	(83,876)
Custody fees	(11,192)	(20,850)	(20,989)	(20,893)
ASX listing and chess fees	(30,338)	(46,182)	(42,041)	(40,228)
Share registry fees	(21,475)	(41,798)	(46,751)	(50,094)
Accounting fees	(31,886)	(47,810)	(46,270)	(44,521)
Audit fees	(43,748)	(37,000)	(45,618)	(52,799)
Taxation fees	(32,309)	(61,578)	(80,567)	(55,120)
Legal fees	(9,490)	(10,281)	(18,604)	(6,336)
Other operating expenses	(43,937)	(55,603)	(40,324)	(55,220)
<b>Total Expenses</b>	<b>(627,351)</b>	<b>(2,080,125)</b>	<b>(2,223,439)</b>	<b>(1,673,230)</b>
<b>Profit / (loss) before income tax</b>	<b>(1,695,876)</b>	<b>3,972,585</b>	<b>4,599,245</b>	<b>2,980,557</b>
Income tax expense	523,111	(616,142)	(1,250,337)	(767,909)
<b>Profit / (loss) for the period</b>	<b>(1,172,765)</b>	<b>3,356,443</b>	<b>3,348,908</b>	<b>2,212,648</b>

Notes:

1. The above information has been drawn from the audited financial statements for SNC and associated disclosures included in SNC's Annual Financial Reports for the years ended 30 June 2018, 30 June 2017 and 30 June 2016 and the auditor-reviewed financial statements for SNC and associated disclosures included in SNC's Half-Year Report for the half year ended 31 December 2018.
2. Management and performance fees are fees paid to Sandon (as investment manager of SNC) in accordance with the management agreement between Sandon and SNC dated 11 November 2013. Gabriel Radzynski, is a director of Sandon, SNC and Mercantile and entities associated with him own the majority of Sandon shares.

The financial performance of SNC for the two most recent financial years being FY2017 and FY2018, and six months period to 31 December 2018 ("1H2019") are summarised in Section 6.4 of the IER.

#### 8.5. Merged Group and Impact of the Offer on SNC

Mercantile Shareholders should consider Section 8 of the Bidder's Statement which presents the impact of the completion of the Offer on SNC. The precise impact of the Offer on SNC will depend on the level of acceptances received from Mercantile Shareholders under the Offer.

The Offer is subject to a minimum acceptance condition of 80%. If SNC achieves this minimum acceptance condition but does not receive acceptances for 90% or more of the issued Mercantile Shares, Mercantile will become a subsidiary of SNC but will not be a wholly owned subsidiary. Section 8 outlines the position of SNC and the Merged Group in the event that SNC achieves acceptances of not less than 90% of the issued Mercantile Shares.

The Non-Associated Directors highlight the following matters for Mercantile Shareholder consideration:

- (a) SNC's investment manager, Sandon, has stated that its current expectation (which will be reviewed as the Offer progresses) is that the Merged Group would continue to hold the majority of the investments currently in Mercantile's portfolio. Section 8 of the Bidder's Statement indicates that Sandon's current expectation is that those investments considered core by Mercantile's Investment Committee will become core investments in the Merged Group.
- (b) Section 8 of the Bidder's Statement includes pro forma financial information for SNC to illustrate the effect of the Offer, the acquisition of the initial 18.9% stake from Siblow and the Option Acquisitions on SNC assuming that these transactions occurred as at 31 December 2018. The pro forma balance sheets are presented as two illustrative scenarios:
  - (i) completion of the Offer with SNC acquiring 80% of the issued Mercantile Shares (Scenario 1); and
  - (ii) completion of the Offer with SNC acquiring 100% of the issued Mercantile Shares (Scenario 2).
- (c) Mercantile's current investment management costs are not reflective of its likely future investment management costs given that Sir Ron has been managing Mercantile's portfolio without being remunerated as a director or as chairman of the Mercantile Investment Committee. His imminent retirement means the ongoing management costs will increase (albeit they may be less than the costs that may be paid absent the participation by Sir Ron on the Investment Committee). If SNC's Offer is successful, Mercantile will become a subsidiary of SNC and Mercantile Shareholders (then SNC Shareholders) will be subject to the management and performance fees of Sandon paid by SNC are: a 1.25% Management Fee and a Performance Fee of 20% outperformance over the 1 month bank bill swap rate. Please refer to Section 3.3 of the Bidder's Statement for further details of SNC's investment management arrangements.

## **9. Risks**

### **9.1. Overview**

Section 10 of the Bidder's Statement outlines the risks that SNC Shareholders may face. If Mercantile Shareholders do not accept the Offer and SNC is unable to proceed to compulsory acquisition the risks associated with being a Mercantile Shareholder remain as they are today with one proviso – SNC may be the majority shareholder of Mercantile and this could change the risks associated with holding Mercantile Shares.

Please read this information carefully. If you require further information in order to decide whether or not to accept the Offer, please contact your professional adviser.

There are a number of risks, some specific to Mercantile, some specific to SNC and some of a general nature, which may either individually or in combination materially and adversely affect the future operating and financial performance of a merged SNC/Mercantile entity, its investment returns and the value of the Shares. Many of these risks are outside the control of SNC, Mercantile and their respective directors and cannot be mitigated.

There can be no guarantee that SNC, Mercantile or the Merged Group will achieve its objectives or that any forward-looking statements or forecasts will eventuate. Section 10 of the Bidder's Statement describes the major risks associated with an investment in SNC (integrating Mercantile).

Section 8 of the Bidder's Statement explains the effect of the Offer on SNC and profile of the Merged Group.

### **9.2. Accepting into a Conditional Offer**

If you accept the Offer while the Offer is subject to Conditions, there may be significant consequences for you. You will give up your rights to sell your Mercantile Shares on ASX or to otherwise deal with them (for example, by accepting a superior proposal from another bidder if one is made), subject to your right to withdraw your acceptance of the Offer in certain limited circumstances.

Additionally, you will relinquish control of your Mercantile Shares and the rights attaching to them to SNC with no guarantee of payment until the Offer becomes unconditional, subject to your right to withdraw your acceptance of the Offer in certain limited circumstances.

Essentially if you accept the Offer while it remains Conditional you will not be able to deal with your Mercantile Shares until the Conditions are satisfied or waived (in which case you will receive the Offer Consideration in accordance with the payment terms as set out above) or the Offer lapses in which case you will be able to deal with your Mercantile Shares as you see fit.

### **9.3. Minority Ownership Consequences**

SNC will be entitled to compulsorily acquire all outstanding Mercantile Shares if it acquires 90% or more of the issued Mercantile Shares.

The Offer is subject to a minimum acceptance condition of 80%. If SNC achieves this minimum acceptance condition but does not receive acceptances for 90% or more of the issued Mercantile Shares, Mercantile will become a subsidiary of SNC but will not be a wholly owned subsidiary.

If SNC and its Associates acquire less than 90% of the Mercantile Shares, they will not be entitled to acquire the Mercantile Shares that have not been accepted into the Offer. Any increase to this existing majority shareholding could have a number of possible implications, including:

- (a) the Mercantile share price may fall immediately following the end of the Offer Period and it is unlikely that the Mercantile Share price will contain any takeover premium;

- (b) the liquidity of Mercantile Shares may be lower than at present;
- (c) SNC has indicated in the Bidder's Statement that it will seek to have Mercantile removed from the official list of ASX. If this occurs, Mercantile Shares will not be able to be bought or sold on ASX;
- (d) if SNC and its Associates acquire 75% or more of the Mercantile Shares it will be able to pass a special resolution of Mercantile. This will enable SNC and its Associates to, among other things, change Mercantile's constitution;
- (e) if SNC does not acquire 80% of the Mercantile Shares, rollover relief will not be available to Mercantile Shareholders for the portion of the capital gain (if any) that is made from the receipt of SNC Shares as consideration; and
- (f) it may be unlikely that a subsequent takeover bid for Mercantile will emerge at a later date from a third party.

#### **9.4. Risks specific to Mercantile**

SNC may acquire the ability effectively to control all decisions regarding Mercantile's future operations. This will be dependent upon the level of acceptances of the Offer and the number of other Mercantile Shares that may be acquired by SNC on-market or otherwise in accordance with the Corporations Act.

SNC's shareholding is already of such a size that a third party would not be able to make a successful takeover bid for Mercantile without its support. This means that it may be less likely that the Mercantile Share price will reflect a control premium in the future.

##### *Succession Plan Risks*

In June 2019, Sir Ron, the Chairman and largest indirect shareholder of Mercantile, announced his plans to resign as Chairman. Sir Ron has played the major role in management of the portfolio. His impending retirement requires Mercantile and its shareholders to consider the future of the company and how best to retain value for the portfolio. Since 2013, the Mercantile portfolio has been managed by Sir Ron, with the assistance of Mercantile's executive director, Mr Radzyminski.

If the Offer does not proceed, or if the Offer does proceed but Mercantile does not become a wholly owned subsidiary of SNC, the Mercantile Board will need to assess how the Mercantile portfolio will be managed should Sir Ron retire from Mercantile's Investment Committee. There is no succession plan in place as at the date of this Target Statement.

There would also be some uncertainty as to what the costs of managing the portfolio would be moving forward. SNC in its Bidder's Statement at Section 7.7(c) indicates that any management and performance fees payable by Mercantile to Sandon as investment manager will be rebated against management and performance fees payable by SNC to Sandon. It is not clear how this arrangement will be implemented in practice. Mercantile has no further detail in this regard.

#### **9.5. Taxation considerations and risks**

Tax liabilities are the responsibility of each individual investor, and Mercantile is not responsible either for taxation or penalties incurred by Mercantile Shareholders. Mercantile Shareholders should consult their own taxation advisers to ascertain the tax implications of their investment.

A general description of the taxation treatment for certain Australian resident Mercantile Shareholders accepting the Offer is set out in Section 11 of the Bidder's Statement. You should not rely on that description as advice for your own affairs.



You should consult your taxation adviser for detailed taxation advice before making a decision as to whether or not to accept the Offer for your Mercantile Shares.

Mercantile Shareholders should be aware that if SNC does not acquire ownership of 80% of Mercantile Shares, then rollover relief will not be available to Mercantile Shareholders for the portion of the capital gain that is made from the receipt of SNC Shares as consideration.

#### **9.6. Risks specific to the SNC business and the Merged Group**

Refer to Section 10.1 of the Bidder's Statement for risks specific to SNC Shares and Section 10.2 of the Bidder's Statement for risk specific to SNC's business.

Mercantile Shareholders will be exposed to higher investment management costs as a result of Sandon's investment management agreement. Sir Ron has historically performed the role of investment manager for Mercantile. He has not received any director's fees or other fees for acting as chief investment officer and chairman of the Mercantile Investment Committee.

SNC considers market rates for an external manager performing this function are in the order of 1.25% to 1.50% of gross assets per annum plus performance incentives. Sandon receives a management fee of 1.25% of gross assets per annum and a performance fee of 20% for returns in excess of the Cash Benchmark. Please refer to Section 3.3 of the Bidder's Statement for further details of SNC's investment management arrangements.

#### **9.7. Risks associated with holding shares**

##### *Share market conditions*

Share market conditions may affect the value of SNC Shares (or Mercantile Shares) regardless of each entity's operating performance. Share market conditions are affected by many factors such as:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment toward particular market sectors;
- (e) the demand for, and supply of, capital; and
- (f) terrorism or other hostilities.

The market price of the Shares can fall as well as rise.

##### *Economic conditions*

The operating and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, international share markets, interest rates and exchange rates and regulatory policies. A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, could be expected to have a material adverse impact on Mercantile's or SNC's business or financial situation.

##### *Government*

Changes in government, monetary policies, taxation and other laws can have a significant influence on the outlook for companies and investor returns.

## 10. Other Material Information

### 10.1. Consents

Mont Lawyers Pty Limited (ACN 631 930 937) (**Mont Lawyers**) has given and before lodgement of this Target Statement has not withdrawn its written consent to be named as legal adviser to the Offer in the form and context in which it is named.

Link Market Services Limited has given and before lodgement of this Target Statement has not withdrawn its written consent to be named as share registry to the Offer in the form and context in which it is named.

Each of Mont Lawyers and Link Market Services Limited:

- (a) has not authorised or caused the issue of the Target Statement;
- (b) does not make, or purport to make, any statement in this Target Statement other than as specified in this Section; and
- (c) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for, any part of this Target Statement other than the reference to its name and the statements (if any) included in this Target Statement with the consent of that party as specified in this Section.

In addition, this Target Statement includes statements which are made in, or based on statements made in documents lodged with ASIC or given to ASX. Under ASIC Class Order CO 13/521, the makers of those statements are not required to consent to, and have not consented to, inclusion of those statements in this Target Statement. Any Shareholders who would like a copy of any of those documents may obtain a copy (free of charge) during the Offer Period.

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target Statement may include or be accompanied by certain statements:

- (a) fairly representing a statement by an official person; or
- (b) from a public official document or a published book, journal or comparable publication.

Pursuant to this ASIC Instrument, the consent of such persons to whom statements or documents are attributable is not required for the inclusion of those statements in this Target Statement.

In addition, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target Statement contains share price trading data sourced from IRESS without its consent.

### 10.2. Other material information

The Directors are of the opinion that there is no other information that Shareholders or their professional advisers would reasonably require to make an informed assessment whether or not to accept an Offer, being information which:

- (a) is contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target Statement);
- (b) it is reasonable for Shareholders and their professional advisers to expect to find in this Target Statement; and
- (c) is known to any Director.

In deciding what information should be included in this Target Statement, your Non-Associated Directors have had regard to, amongst other things, the matters which Shareholders (or their professional advisers) may reasonably be expected to know, including information contained in

documents previously sent to Shareholders and information available from public sources such as ASX ([www.asx.com.au](http://www.asx.com.au)), ASIC or the Mercantile website.

The Non-Associated Directors of Mercantile have assumed, for the purposes of preparing this Target Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target Statement). However, the Non-Associated Directors of Mercantile do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

## 11. Definitions

The following defined terms are used throughout this Target Statement unless the context otherwise requires. These terms are used throughout this Target Statement.

<b>\$</b>	means Australian Dollars.
<b>Acceptance Form</b>	means the form of acceptance and transfer accompanying the Offer or any replacement or substitute acceptance form provided by or on behalf of SNC.
<b>Announcement Date</b>	means 3 June 2019 being the date of announcement of the Offer.
<b>ASIC</b>	means Australian Securities and Investments Commission.
<b>ASX</b>	means ASX Limited (ABN 98 008 624 691) or the financial products market, Australian Securities Exchange, as the context requires.
<b>ASX Settlement</b>	means ASX Settlement Pty Limited (ACN 008 504 532), the body which administers the CHESS system in Australia.
<b>ASX Settlement Operating Rules</b>	means the settlement rules of ASX Settlement, a copy of which is available at <a href="http://www.asx.com.au">www.asx.com.au</a> .
<b>Bidder or SNC</b>	means Sandon Capital Investments Limited (ACN 107 772 467).
<b>Bidder's Statement</b>	means the bidder's statement of SNC dated 18 July 2019, being the statement of SNC under Part 6.5 Division 2 of the Corporations Act relating to the Offer.
<b>Board</b>	means the board of Directors of Mercantile.
<b>Broker</b>	means a person who is a share broker and a participant in CHESS.
<b>Closing Date</b>	means the date the Offer closes, expected to be 2 September 2019 unless extended or withdrawn by SNC.
<b>Conditions</b>	means each and all of the Conditions of the Offer which are set out in Section 13.8 of the Bidder's Statement.
<b>Consolidated Group</b>	has the same meaning as in the <i>Income Tax Assessment Act 1997</i> (Cth).
<b>Control</b>	has the meaning given in Section 50AA of the Corporations Act.
<b>Controlling Participant</b>	means a Broker or Participant who is designated as the controlling participant for shares in a CHESS Holding in accordance with ASX Settlement Operating Rules.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Director</b>	means a director of Mercantile.
<b>Eligible Shareholder</b>	means all Mercantile Shareholders who are not Foreign Ineligible Shareholders.
<b>Foreign Ineligible Shareholder</b>	means a Mercantile Shareholder: (a) who is (or is acting on behalf of) a citizen or resident of a jurisdiction other than Australia and its external territories or New Zealand; or

- (b) whose address shown in the Register is a place outside Australia and its external territories or New Zealand or who is acting on behalf of such a person,

unless SNC determines that:

- (c) it is not unduly onerous or unduly impracticable to issue that Mercantile Shareholder with SNC Shares on completion of the Offer; and
- (d) it is lawful for that Mercantile Shareholder to participate in the Offer by the law of the relevant place outside Australia and its external territories.

<b>Governmental Agency</b>	means any government, semi-government, administrative, fiscal, judicial or regulatory body, department, commission, authority, tribunal, agency or entity.
<b>Independent Expert (IE)</b>	Titan Partners Corporate Finance Pty Limited (AFSL 427275)
<b>Independent Expert Report (IER)</b>	The Independent Expert Report prepared by Titan Partners Corporate Finance Pty Limited on instruction from the Independent Board Committee.
<b>Issuer Sponsored Holding</b>	means a holding of Mercantile Shares on Mercantile's issuer sponsored sub-register.
<b>Investment Committee</b>	the investment committee responsible for managing Mercantile's investments, comprised of Sir Ron and Mr Radzyminski.
<b>Mercantile Notes</b>	means the unsecured notes issued by Mercantile quoted on ASX with ASX code "MVTHA".
<b>Mercantile Options</b>	means the 50,000,000 share options issued on the terms summarised in Section 7.3 of this Target Statement.
<b>Mercantile Group</b>	means Mercantile and each of its Subsidiaries.
<b>Mercantile Option or Option</b>	means an option to subscribe for Mercantile Shares.
<b>Mercantile Share</b>	means fully paid ordinary shares in the capital of Mercantile.
<b>Mercantile Shareholder</b>	means a registered holder of Mercantile Shares.
<b>Non-Associated Directors</b>	means the directors of Mercantile not associated with SNC or Sandon: Mr James Chirnside, Ms Katrina Langley and Mr Daniel Weiss.
<b>Offer</b>	means the offer by SNC dated 1 August 2019 to acquire Mercantile Shares (and for the avoidance of doubt includes each such offer made to an individual Mercantile Shareholder pursuant to that offer).
<b>Offer Consideration</b>	Means 0.2043 SNC Shares for every 1 Mercantile Share held by Mercantile Shareholders that accept the Offer (subject to the Conditions of the Offer being satisfied or waived).

<b>Offer Period</b>	means the period commencing on 1 August 2019 and ending 7:00pm (Sydney time) on 2 September 2019, or such later date to which the Offer has been extended.
<b>Option</b>	means an option to subscribe for Mercantile Share.
<b>Participant</b>	means a non-broker participant under ASX Settlement Operating Rules.
<b>Register</b>	means the Mercantile Share register.
<b>Relevant Interest</b>	has the same meaning given to that term in Sections 608 and 609 of the Corporations Act.
<b>Sandon</b>	means Sandon Capital Pty Limited (ACN 130 853 691).
<b>Share</b>	means a fully paid ordinary share in Mercantile.
<b>Shareholder</b>	means a holder of one or more Shares.
<b>SNC Shares</b>	means the SNC Shares to be issued as Offer Consideration.
<b>Subsidiaries</b>	has the same meaning given to that term in Section 9 of the Corporations Act.
<b>Target or Mercantile</b>	means Mercantile Investment Company Limited (ACN 121 415 576).
<b>Target Statement</b>	means this Target Statement, being the statement of Mercantile under Part 6.5 Division 3 of the Corporations Act.
<b>Voting Power</b>	means has the same meaning given to that term in Section 610 of the Corporations Act.
<b>VWAP</b>	means the volume weighted average price for Mercantile Shares or SNC Shares, as the case may be, traded on ASX over a specified period.

## 12. Interpretation

In this Target Statement, unless the context requires otherwise:

- (a) a reference to a word includes the singular and the plural of the word and vice versa;
- (b) a reference to a person in this Target Statement or any other document or agreement includes its successors and permitted assigns;
- (c) a reference to a gender includes any gender;
- (d) a reference to an item in a Section, Schedule, Annexure or Appendix is a reference to an item in the Section of or schedule, annexure or appendix to this Target Statement and references to this Target Statement include its schedules and any annexures;
- (e) if a word or phrase is defined, then other parts of speech and grammatical forms of that word or phrase have a corresponding meaning;
- (f) a term which refers to a natural person includes a company, a partnership, an association, a corporation, a body corporate, a joint venture or a Governmental Agency;
- (g) headings are included for convenience only and do not affect interpretation;
- (h) a reference to a document or agreement including this Target Statement, includes a reference to that document or agreement as amended, novated, supplemented, varied or replaced from time to time;

- (i) a reference to a thing includes a part of that thing and includes but is not limited to a right;
- (j) the terms “included”, “including” and similar expressions when introducing a list of items do not exclude a reference to other items of the same class or genus;
- (k) a reference to a statute or statutory provision includes but is not limited to:
  - (i) a statute or statutory provision which amends, extends, consolidates or replaces the statute or statutory provision;
  - (ii) a statute or statutory provision which has been amended, extended, consolidated or replaced by the statute or statutory provision; and
  - (iii) subordinate legislation made under the statute or statutory provision including but not limited to an order, regulation, or instrument;
- (l) a reference to “\$”, “A\$”, “Australian Dollars” or “dollars” is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia; and
- (m) a reference to an asset includes all property or title of any nature including but not limited to a business, a right, a revenue and a benefit, whether beneficial, legal or otherwise.

### **13. Authorisation of the Directors**

The Directors of Mercantile have approved the contents of this Target Statement and its lodgement with ASIC.

**Dated: 1 August 2019**

Signed for and on behalf of Mercantile Investment Company Limited

A handwritten signature in blue ink, appearing to read 'James Chirnside', is shown within a light blue rectangular box.

**James Chirnside**

Chairman of Independent Board Committee

Director of Mercantile Investment Company Limited



## **14. Appendix A – Independent Expert’s Report**

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# **Mercantile Investment Company Limited**

(ASX: MVT)

ACN 121 415 576

## **Independent Expert's Report**

Report to Shareholders on the proposed takeover Offer from  
Sandon Capital Investments Limited for all the issued shares in Mercantile Investment Company Limited

Report Issued: 31 July 2019

31 July 2019

The Directors  
Mercantile Investment Company Limited  
Level 5  
139 Macquarie Street  
Sydney NSW 2000

Dear Directors,

**Titan Partners Corporate  
Finance Pty Limited**  
Australian Financial Services  
Licence Number: 427275  
ABN 38 177 095 636  
Level 3, 7 Macquarie Place  
Sydney NSW 2000  
PO Box R415  
Royal Exchange NSW 1225  
Australia  
T +61 2 9268 3300  
www.titanpartners.com.au

## INDEPENDENT EXPERT'S REPORT – MERCANTILE INVESTMENT COMPANY LIMITED

### 1. Introduction

Titan Partners Corporate Finance Pty Limited ("**Titan Partners Corporate Finance**", "**we**") was appointed by the Directors of Mercantile Investment Company Limited ("**Mercantile**", "**MVT**" or the "**Company**") as an independent expert, to provide an opinion on whether the proposal by Sandon Capital Investments Limited ("**SNC**" the "**Bidder**") to acquire all the issued ordinary shares in the Company is fair and reasonable to MVT Shareholders.

On 3 June 2019, SNC announced to the Australian Securities Exchange Limited ("**ASX**") that it had written to the Mercantile board, advising that SNC proposes to make an off-market takeover offer to acquire all of the shares in Mercantile it does not own, in exchange for newly issued shares in SNC (the "**Offer**", or the "**Proposed Transaction**").

To assist the shareholders of Mercantile (the "**Shareholders**") in making an informed decision on whether to accept or reject the takeover offer from SNC, we have been appointed by the Directors of Mercantile to prepare an Independent Expert's Report to express an opinion on whether or not the Proposed Transaction is fair and reasonable to Shareholders. Under Section 640 of the *Corporations Act 2001*, the Company is required to commission an independent expert for the Proposed Transaction, as there are common directors on the Boards of both Mercantile and the Bidder. The Directors of Mercantile not associated with SNC or the Proposed Transaction (the "**Non-Associated Directors**") have commissioned Titan Partners Corporate Finance to provide an independent opinion on whether the Proposed Transaction is fair and reasonable, to assist shareholders in understanding the offer from Mercantile, and to assist their decision on whether to accept or reject the Proposed Transaction. Our findings are presented in the Independent Expert Report (the "**Report**") herein.

Titan Partners Corporate Finance is independent of Mercantile and SNC, with no interest or involvement in the outcome of the Proposed Transaction, other than the preparation of this Report.

### 2. Summary of Opinion

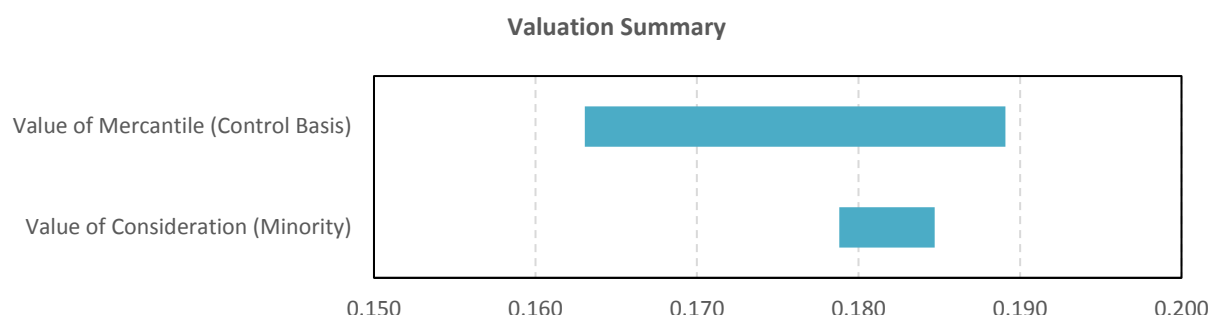
#### 2.1 Opinion

We conclude, based on the assessment outlined in the remainder of this Report, that the Proposed Transaction is considered to be **fair** to the Shareholders. The principal factors that we have considered in forming our opinion are summarised below.

#### 2.2 Assessment of Fairness

In determining whether the Proposed Transaction is fair to the Shareholders, we have compared the assessed fair value of a share in Mercantile on a controlling basis to the value of consideration offered, being an all equity consideration of 0.2043 SNC Shares per Mercantile share. This exchange ratio for the Offer is based on the pre-tax monthly Net Tangible Assets ("**NTA**") per share of the respective companies as at 31 May 2019 ("**Exchange Ratio**").

Our analysis is set out in Sections 8 through 10, as summarised in the following diagram and table.



Mercantile Investment Company Limited Valuation Summary		
Cents per Share	Low	High
Value of MVT per share on a Controlling Basis	0.1630	0.1891
Value of Consideration (in SNC shares) offered for every MVT share	0.1788	0.1847

**Source:** Titan Partners Corporate Finance Analysis

In accordance with Regulatory Guide 111 *Content of expert reports* (“**RG111**”), the above valuation analysis indicates that, in the absence of any other relevant information, the Proposed Transaction is deemed to be fair to Shareholders as the valuation of consideration offered in SNC shares on a minority basis, is within the assessed valuation range of Mercantile shares on a controlling basis. Therefore, we must conclude the Proposed Transaction is fair.

### 2.3 Assessment of Reasonableness

RG111 of the Australian Securities and Investments Commission (“**ASIC**”) considers an Offer to be reasonable if:

- The Offer is fair; or
- Despite not being fair, but considering other significant factors, shareholders should accept the Offer in the absence of any higher bid before the close of the Offer.

We have considered the analysis set out in Section 10 of this Report, in terms of advantages and disadvantages of the Proposed Transaction. In forming our opinion, we have also considered the following relevant qualitative factors:

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Consistency in investment management team post the Proposed Transaction.</li> <li>• Retention of existing investment exposure to the same assets currently held by Mercantile, without a premature realisation of investments required to facilitate the Proposed Transaction, limiting disruption to shareholders.</li> <li>• Potential increase in market liquidity, where SNC shares currently experience greater trading volumes than Mercantile shares, with 13% of issued SNC shares traded over the 12 months to 3 June 2019 compared to 9% for Mercantile.</li> <li>• Opportunity to exit an investment in Mercantile at a value above the current share price, which has historically experienced low levels of liquidity and traded well below the value of underlying NTA.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum acceptance condition is set at relevant interests of at least 80% in SNC shares, inclusive of the 18.9% acquired on the date the Proposed Transaction was announced. Should less than 80% of Mercantile shareholders accept the Offer as proposed and the condition is not waived, those shareholders would be unable to exit their interest in Mercantile for an investment in SNC.</li> <li>• Taxation implications may arise for individual Mercantile Shareholders from acceptance of the Proposed Transaction. Shareholders should seek independent taxation advice if required.</li> <li>• Deterrence of alternative offers from other parties.</li> </ul>

- Potential improvement in quoted share price, where SNC shares have historically traded on the ASX at a value closer to the underlying NTA compared to Mercantile shares, where in the 12 months to 3 June 2019 the discount of share price over NTA for SNC was 1% to 9%, compared to 9% to 22% for Mercantile.
- Economies of scale of operations by effectively combining two listed investment companies, with the potential to reduce costs, whilst having greater ability to diversify investments, investment in larger entities, or hold more substantial positions in investments.
- No brokerage costs payable by Shareholders to accept the Offer and exchange their current Mercantile shareholding into an interest in SNC (except where costs are incurred by Shareholders whom instruct their Controlling Participant to accept the Offer from SNC on their behalf).
- No alternative offers received.

In our opinion, as the Proposed Transaction is assessed as fair, it is also reasonable. Our assessment of the above advantages and disadvantages supports our opinion that the Proposed Transaction is reasonable to Mercantile Shareholders.

## 2.4 Other Factors

The above summary of our opinion and conclusion should be read in conjunction with the remainder of this Report and Appendices as attached herein.

Titan Partners Corporate Finance has prepared a Financial Services Guide as required by *Corporations Act 2001* and is attached at Appendix 1. This Report is for general financial advice only and was prepared without taking into account the objectives and circumstances of individual Shareholders of the Company. Our Report herein should be read in conjunction with the Target's Statement which it accompanies.

Unless the context requires otherwise, references to "we", "our" and similar terms refer to Titan Partners Corporate Finance.

Yours faithfully

**Titan Partners Corporate Finance Pty Limited**



**BRAD HIGGS**

Director

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### 3. Scope of Report

#### 3.1 Purpose of the Report

Titan Partners Corporate Finance has been engaged by the Directors of Mercantile to prepare an Independent Expert's Report with respect to the Proposed Transaction.

In accordance with Section 640 of the *Corporations Act 2001*, the Directors of Mercantile are required to commission an Independent Expert's Report in relation to the Proposed Transaction with SNC, as Sir Ron Brierley ("**Sir Ron**") and Mr Gabriel Radzyninski ("**Mr Radzyninski**") currently serve as directors of both the Company and the Bidder. Therefore, the Non-Associated Directors of Mercantile have requested that Titan Partners Corporate Finance act as Independent Expert to opine on whether the Proposed Transaction is fair and reasonable to existing Mercantile Shareholders, to ensure those shareholders are provided with full and proper disclosure.

This Report has been prepared to assist Shareholders to consider, if appropriate, whether to accept or reject the Proposed Transaction as proposed by SNC and summarised at Section 4. The Report herein sets out our approach, analysis and opinion as to whether the Proposed Transaction is fair and reasonable to Mercantile shareholders.

Our Report is to be included in the Target's Statement to be issued to Shareholders and has been prepared for the exclusive purpose of assisting the Shareholders in their consideration of the Proposed Transaction.

#### 3.2 Basis of Assessment

In preparing the Report herein, we consider RG111 dated March 2011 which sets out requirements of expert reports.

The ASIC regulations require an independent expert to consider takeover proposals under the concepts of "fairness" and "reasonableness". We therefore separately consider whether the Proposed Transaction is "fair" and "reasonable" from the perspective of the Shareholders.

RG111 indicates the principles and matters which it expects an expert person preparing an independent expert report to consider, including:

- 'fair and reasonable' is not regarded as a compound phrase;
- an offer is 'fair' if the value of the consideration offered is equal to or greater than the value of the securities subject to the offer;
- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash;
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison;
- an offer is 'reasonable' if it is 'fair'; and
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

In accordance with the requirements of RG111, we have compared the fair value of a share in Mercantile on a controlling basis to the value of consideration offered (in SNC shares).

### 3.3 Sources of Information

In forming our opinion on the Proposed Transaction and preparing the Report herein, we have considered, adopted and relied upon certain information prepared by the management of Mercantile, the management of SNC, and external parties. Refer to Appendix 4 for a list of our sources of information.

### 3.4 Limitations and Reliance on Information

Our opinions are based on economic, financial, operational and other conditions and expectations prevailing at the date of this Report. These conditions can change significantly over relatively short periods of time and, if such material change occurs, the opinions expressed in this Report could differ.

Titan Partners Corporate Finance has no obligation to, nor does it undertake to, advise any person of any change in circumstances that has come to its attention after the date of this Report or to review, revise or update this Report or the opinions contained herein.

We have evaluated the information set out in Section 3.3 through analysis, enquiry and review, as appropriate for the purposes of preparing this Report and forming our opinion on the Proposed Transaction. Titan Partners Corporate Finance do not warrant that our evaluation has identified or verified all of the matters that an audit, extensive examination or due diligence investigation may disclose.

We have relied on certain representations and relevant information provided by the Directors of Mercantile and SNC. This information was evaluated through analysis, enquiry and review. However, such information is often not capable of external verification or validation and has therefore not been independently verified.

To the extent that there are any legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Titan Partners Corporate Finance:

- assumes no responsibility and offers no legal opinion or interpretation on any issue; and
- has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so.

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## 4. Summary of Proposed Transaction

### 4.1 Acquisition

On 3 June 2019, SNC announced to the ASX that it had entered into an agreement with Siblow Pty Limited (“**Siblow**”) to acquire up to 52,980,782 shares in Mercantile, representing up to 18.9% of the issued capital of the Company. At the time, Siblow held the largest shareholding in the Company and is controlled by Sir Ron, the current Chairman and Non-Executive Director of Mercantile. Following the transaction between Siblow and SNC, entities associated with Sir Ron hold a total beneficial interest of 24.73% in Mercantile<sup>1</sup>, in addition to the 18.9% interest sold to SNC, as set out further in Section 5.2 below.

### 4.2 Offer

Later on 3 June 2019, the Mercantile board was advised that SNC proposed to make an off-market takeover offer to acquire the remaining shares in Mercantile, in exchange for newly issued shares in SNC under the Offer, as announced to the ASX. The Company then formed a committee of Mercantile Directors independent of SNC<sup>2</sup>, to consider the SNC proposal.

#### **Exchange Ratio**

As stated in the Terms and Conditions of the Offer accompanying the ASX announcement, SNC set an Exchange Ratio for Mercantile shares, with reference to the pre-tax net tangible assets (“**NTA**”) backing per share as at 31 May 2019, as announced by both companies in accordance with ASX Listing Rule 4.12. SNC subsequently confirmed this Exchange Ratio to be 0.2043 SNC shares per Mercantile share, in an announcement to the ASX on 17 June 2019.

The terms of consideration under the Offer from SNC are the same as those adopted in its transaction with Siblow.

#### **Terms and Conditions**

The Proposed Transaction will be subject to a number of conditions as announced by SNC, including:

- SNC Shareholders pass all resolutions necessary to permit SNC to complete the Proposed Transaction to acquire all Mercantile Shares;
- SNC achieving a relevant interest in at least 80% of the shares of Mercantile during or before the end of the Offer period;
- Mercantile either discharges or extends the revolving credit facility<sup>3</sup>;
- Mercantile does not redeem or repurchase the Company’s Unsecured Notes (MVTHA) on issue;
- Mercantile does not implement any changes in management arrangements;
- The announced NTA of Mercantile does not decline by 10% or more below the 31 May 2019 level;
- No change in the NTA calculation methodology adopted by Mercantile to that adopted for the 30 April 2019 NTA and announced to the ASX on 10 May 2019;
- No regulatory intervention occurs which materially adversely affects the making of the Offer, the acquisition of Mercantile shares by SNC, the rights of SNC or the operation of the Mercantile business; and
- No prescribed occurrences<sup>4</sup>.

<sup>1</sup> As announced in an ASX announcement dated 20 June 2019, Siblow retains 50,783,852 shares (18.09% of issued capital) after the sale to SNC and is also the beneficial owner of 18,646,486 (6.64%) Mercantile shares held by McNeil Nominees Pty Limited on behalf of Siblow.

<sup>2</sup> The committee comprised the Non-Associated Directors, Mr James Chirnside, Mr Daniel Weiss and Ms Katrina Langley.

<sup>3</sup> We are advised by Mercantile Management that this facility from Siblow, an entity controlled by Sir Ron, has since been extended until at least 31 December 2019.

<sup>4</sup> We note the “Prescribed Occurrences” are defined in clause 2(f) of the Terms and Conditions of the Offer which accompanied the ASX announcement by Mercantile and Sandon dated 3 June 2019.

## 5. Profile of Mercantile

### 5.1 Background

#### *Overview*

Mercantile is a Sydney-based investment company listed on the ASX under the code 'MVT'. It was formerly known as India Equities Fund Limited.

The primary activities of Mercantile are investment in cash and securities, which provide risk adjusted returns including by way of short term trading, profit making ventures and holding shares for dividend yield and/or long term capital appreciation. Mercantile derives revenue from trust distributions, dividend income, interest income and proceeds from the sale of its investments. In addition, it majority owns business investments in the consumer finance and shipping services industries.

The investments of Mercantile may be broadly classified into four types:

- Australian listed securities
- Foreign-listed securities
- Australian unlisted investments
- Overseas unlisted investments

As outlined in the Company's most recent financial report for the year to 30 June 2018 and management reports to 31 May 2019, Mercantile held investments in Australia, New Zealand, Singapore and the United Kingdom.

Mr Gabriel Radzynski is the sole Executive Director on the board of Mercantile. The investment committee of Mercantile comprises Mr Radzynski and Sir Ron. Certain administrative functions of the Company are undertaken by Sandon Capital Pty Limited, the investment manager of the Bidder and an entity associated with Mr Radzynski, which provides general consulting, corporate advisory and accounting services to Mercantile.<sup>5</sup>

In addition to holding the positions of Chairman and Non-Executive Director, Sir Ron is also a major shareholder in Mercantile with a total beneficial interest of 24.73% of the issued shares in Mercantile, via his related entities Siblow and McNeil Nominees Pty Limited, as set out in Section 5.2 below.

As set out in the Company's Interim Financial Report for the Half-year to 31 December 2018 ("**1H2019**") and summarised in Section 5.5 below, the Company's performance has deteriorated in the most recent interim financial period. Mercantile experienced significant decreases in unrealised gains for the 1H2019 period compared to the six months to 31 December 2017 ("**1H2018**"). However, the company held significant cash reserves in excess of \$8.972 million, as set out further in Section 5.6 below, which it has identified as "provides ample capacity to deploy should suitable investment opportunities arise"<sup>6</sup>.

The NTA per share of Mercantile has declined over the 11 months to 31 May 2019 to 19.4 cents per share, from 20.5 cents per share as at 30 June 2018, as set out further in our analysis at Section 8.4 below.

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<sup>5</sup> As disclosed in the Mercantile Financial Report for 30 June 2018 and Interim Financial Report for the half year to 31 December 2018.

<sup>6</sup> Directors' Report in Mercantile Interim Financial Report for 1H2019.

Set out below are the investments in the Mercantile portfolio as at 31 May 2019.

Mercantile Investment Company Limited Portfolio Investments as at 31 May 2019		
\$'000s	Value	%
<b>Top 15 Mercantile Investments</b>		
Ingenia Communities Group	12,335	19.5%
Spectra Systems Corporation	10,155	16.1%
Fleetwood Corporation Limited	4,900	7.8%
Stanmore Coal Limited	4,673	7.4%
Yellow Brick Road Limited	4,255	6.7%
Mg Unit Trust	3,900	6.2%
Bauxite Resources Limited	1,989	3.1%
Fitzroy River Corporation Limited	1,704	2.7%
Joyce Corporation Limited	1,520	2.4%
Tower Limited	1,487	2.4%
Smiths City Group Limited	1,441	2.3%
Chalmers Limited	1,224	1.9%
BCI Minerals Limited	1,110	1.8%
Dawney & Co Limited	1,090	1.7%
NZX Limited	988	1.6%
<b>Subtotal</b>	<b>52,771</b>	<b>83.6%</b>
Other Investments	10,374	16.4%
<b>Total Portfolio</b>	<b>63,145</b>	<b>100.0%</b>
<b>Unlisted Entities</b>		
IPE Private Equity Investment Portfolio	7,276	
Dawney Holdings Pty Limited	19	
NZ Foundation Life (shares and notes)	6,521	
<b>Total</b>	<b>76,960</b>	

Source: Management Reports

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## 5.2 Ownership Structure

The following table sets out the shareholding structure of Mercantile as at 6 June 2019, adjusted for the acquisition of an 18.9% interest in the Company by SNC from Siblow as described in Section 4.1 above.

Mercantile Investment Company Limited Current Ownership Structure		
Name	Shares	%
<b>Major Shareholders</b>		
Sandon Capital Investments Limited <sup>7</sup>	52,980,782	18.87
Siblow Pty Limited <sup>8</sup>	50,782,852	18.09
G W Holdings Pty Ltd	23,000,522	8.19
McNeil Nominees Pty Limited <sup>9</sup>	18,646,486	6.64
J P Morgan Nominees Australia Pty Limited	17,450,020	6.22
Portfolio Services Pty Ltd	14,915,001	5.31
Gw Holdings Pty Limited	9,500,000	3.38
Treasure Island Hire Boat Company Pty Ltd	8,788,147	3.13
Lic Investments Pty Ltd	5,900,000	2.10
National Nominees Limited	4,032,954	1.44
Abbawood Nominees Pty Ltd	3,909,849	1.39
HSBC Custody Nominees (Australia) Limited	2,425,701	0.86
Mercantile Investment Company Limited New Zealand Control Account	2,425,350	0.86
Investment Custodial Services Limited	1,960,000	0.70
Mr Edward James Dally & Mrs Selina Dally	1,770,334	0.63
BNP Paribas Nominees Pty Ltd	1,577,377	0.56
Australian Minerals Corporation Pty Ltd	1,537,478	0.55
Mr Edward James Stephen Dally & Mrs Selina Dally	1,420,000	0.51
Avenue 8 Pty Limited	1,117,100	0.40
Glen Brae Capital Pty Ltd	1,105,977	0.39
<b>Top 20 Shareholders</b>	<b>226,314,367</b>	<b>80.62</b>
<b>Other Shareholders</b>	<b>54,385,633</b>	<b>19.38</b>
<b>Total Shares Issued</b>	<b>280,700,000</b>	<b>100.00</b>

*Source: Share Register as at 06 June 2019, ASX Announcements dated 03 June 2019 and 17 June 2019*

Following the transaction outlined in Section 4.1 above, the largest holder of Mercantile is SNC, which currently controls approximately 18.9% of the issued ordinary shares of the Company. These shares were formerly held by Siblow prior to completion of that transaction on 14 June 2019, whose shareholding reduced from 36.97% to 18.09% as a result of transaction with Siblow. However, we note the McNeil Nominees Pty Limited shareholding is held on behalf of Siblow, therefore Siblow continues to hold the largest beneficial interest in Mercantile totalling 24.73%.

There are also outstanding options issued to executive management as at 3 June 2019 totalling 50 million with an exercise price between \$0.20 and \$0.24 and expiring on 31 December in the years 2020, 2021 and 2022. In addition to ordinary shares and options, Mercantile also have Unsecured Notes on issue, which are set out further in the summary balance sheet set out at Section 5.6 below. We note on 24 June 2019, SNC announced to the ASX it offered to acquire the options in Mercantile for \$337,895 in cash and 601,457 shares in SNC.

<sup>7</sup> Acquisition of Mercantile shares by Sandon from Siblow, announced on the same day as the Proposed Transaction and completed on 14 June 2019 (as announced on 17 June 2019 in an ASX announcement by Sandon).

<sup>8</sup> Total beneficial interest in Mercantile post the transaction with SNC completed on 14 June 2019, including shares held on its behalf by McNeil Nominees Pty Limited, total 69,430,338 shares or 24.73%.

<sup>9</sup> Interest in Mercantile held on behalf of Siblow, as confirmed in ASX announcement of Mercantile on 20 June 2019.

### 5.3 Market Announcements

The following table sets out the recent announcements released by Mercantile to the ASX. In addition to the announcement of the Proposed Transaction on 3 June 2019 and release of periodic financial reports (half year and full year), the Company also reports its Net Tangible Asset Backing on a monthly basis as required under ASX Listing Rules. The full list of announcements since 1 January 2019 by the Company is set out at Appendix 5

Mercantile Investment Company Limited Recent Company Announcements	
Announcement Date	Title
12/07/2019	Net Tangible Asset (NTA) Value as at 30 June 2019
24/06/2019	SNC: Sandon to acquire Mercantile options
20/06/2019	Sandon proposed takeover offer - update
20/06/2019	SNC: Siblow indicates intention to accept MVT takeover offer
18/06/2019	Change in substantial holding from Siblow
18/06/2019	Change of Director's Interest Notice - Sir Ron Brierley
17/06/2019	SNC: completes acquisition of MVT stake- sets exchange ratio
17/06/2019	SNC: Sandon issue to Siblow - LR 7.1A information
13/06/2019	Interest Payment - MVTHA
13/06/2019	Net Tangible Asset (NTA) Value as at 31 May 2019
06/06/2019	Chairman's intention to retire
03/06/2019	Intention to make takeover offer received from SNC
03/06/2019	SNC: Acquisition of stake in Mercantile Investment Co Ltd
03/06/2019	SNC: Intention to make takeover offer for MVT
03/06/2019	Trading Halt

*Source: Australian Securities Exchange*

### 5.4 Industry Overview

Mercantile operates in the Financial Asset Investing industry in Australia<sup>10</sup> as defined by IBISWorld. The industry consists of a range of investment vehicles, however industry operators principally pool together investor funds and invest them on their own account. The majority of companies in the industry do not provide funds management services for a fee and instead, benefit from capital gains and bear the losses. The companies predominantly invest in various financial assets, including ASX listed companies, bonds and others. In comparison, Mercantile is an ASX-listed investment company which invests in both listed and unlisted investments based in Australia and overseas. We consider that the core business model of Mercantile is similar to the companies in Financial Asset Investing industry, therefore we further highlight the key observations by IBISWorld on this industry below.

#### Industry Customers

The industry's major markets are made up of the various investors holding funds with the different investment vehicles in the industry. These investors include financial corporations, foreign investors, pension funds, family offices and households (or retail investors). Institutional investors represent an overwhelming majority of funds held in industry products.

#### Demand for Industry Services

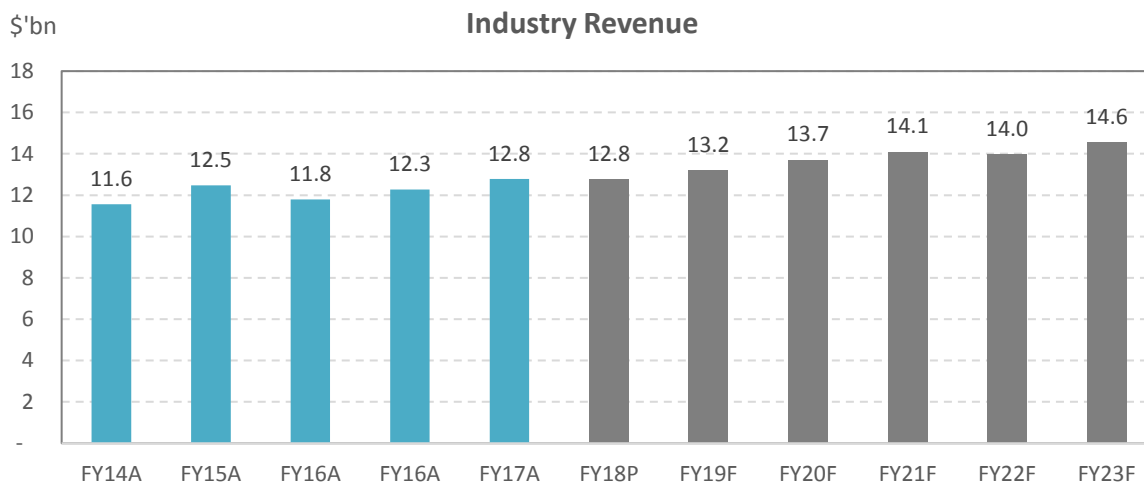
Demand for industry services is driven by the volume of household savings, which is affected by economic activity, growth in real wages, and consumer sentiment. Household savings (the residual of disposable income after

<sup>10</sup> IBISWorld industry report K6240 Financial Asset Investing in Australia Industry

consumption expenditure) are negatively affected by consumption and investments in non-financial assets. Tax treatment of gains and income generated on industry products also influences demand for various investment vehicles and their substitutes.

## **Historical and Forecast Performance of the Industry**

Despite the lingering effects of the global financial crisis, a strong domestic sharemarket performance over the past five years has supported growth in the Financial Asset Investing industry. Because most industry funds are invested in equities, industry revenue depends on the performance of global share markets. Due to a strong domestic share market performance and a significant flow of funds from foreign investors for Australian investment vehicles, IBISWorld projects industry revenue is expected to grow at an annualised 4.0% over the five years through FY2018, to reach \$12.8 billion, with revenue expected to increase by 4.2% in the current year as more funds from overseas investors boost the value of industry assets.



The industry's operating environment is anticipated to become less volatile over the next five years. Rising household discretionary incomes, combined with a projected recovery in consumer sentiment, are anticipated to lead to a greater inflow of funds, contributing to industry asset growth. These factors are likely to fuel industry revenue growth. Projected by IBISWorld, industry revenue is forecast to rise at an annualised 2.7% over the five years to FY2023, to reach \$14.6 billion.

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## 5.5 Historical Financial Performance

The financial performance of Mercantile for the two most recent financial years being FY2017 and FY2018, and six months period to 31 December 2018 ("1H2019") are summarised in the table below.

Mercantile Investment Company Limited							
Historic Operating Results							
\$'000s	Notes	FY2017		FY2018		1H2019	
		Actual	%	Actual	%	Actual	%
Revenue	1	5,505	41.5%	7,651	49.2%	3,990	166.7%
Other Income/(Expenses)	2	7,761	58.5%	7,895	50.8%	(1,596)	(66.7%)
<b>Total Income</b>		<b>13,266</b>	<b>100.0%</b>	<b>15,546</b>	<b>100.0%</b>	<b>2,394</b>	<b>100.0%</b>
Compliance Fees	3	615	4.6%	543	3.5%	502	21.0%
Employee Benefit		2,047	15.4%	1,824	11.7%	1,381	57.7%
Finance Costs		2,052	15.5%	1,951	12.6%	976	40.8%
General & Other		1,065	8.0%	757	4.9%	808	33.8%
Impairment charges	4	9,012	67.9%	860	5.5%	1,047	43.7%
Professional Fees	5	1,485	11.2%	1,094	7.0%	689	28.8%
<b>Total Expenses</b>		<b>16,276</b>	<b>122.7%</b>	<b>7,029</b>	<b>45.2%</b>	<b>5,405</b>	<b>225.7%</b>
<b>Reported Profit Before Tax</b>		<b>(3,010)</b>	<b>(22.7%)</b>	<b>8,516</b>	<b>54.8%</b>	<b>(3,010)</b>	<b>(125.7%)</b>
Income Tax		2,101	15.8%	1,729	11.1%	(464)	(19.4%)
<b>Reported NPAT</b>		<b>(5,111)</b>	<b>(38.5%)</b>	<b>6,787</b>	<b>43.7%</b>	<b>(2,546)</b>	<b>(106.3%)</b>

Source: Historical Financial Statements

We note the following with respect to the historical financial performance of Mercantile:

1. Revenue comprises dividends and trust distributions received, interest income and shipping services income<sup>11</sup>. The increase in revenue from \$5.505 million in FY2017 to \$7.651 million in FY2018 is driven by increase in dividends received and shipping services income.
2. Other income comprises realised and unrealised gains on trading equities. Other income remained on a comparable level in FY2017 and FY2018. Other expenses of \$1.595 million in 1H2019 comprise \$1.049 million loss on acquisition of IPE and \$546,555 realised/unrealised loss on trading equities (compared to \$6.496 million 1H2018).
3. Compliance fees comprise service agreement fees, company secretary fees and share registry expenses. Compliance fees have increased in 1H2019 compared to 1H2018 due to increases in service agreement expenses<sup>12</sup> and share registry fees.
4. Impairment charges comprise impairment of Goodwill and Loans and Advances. The majority of impairment loss relates to the loan portfolio held by subsidiary company to Ask Funding Limited which is now in run-off.
5. Professional fees comprise expenditure relating to accounting fees, audit fees and taxation services.

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<sup>11</sup> Derived from the Company's 100% held investment in Singapore-based Richfield Marine Agencies (S) Pte Limited.

<sup>12</sup> Service Agreement Expenses are fees billed to Mercantile by Sandon Capital Pty Limited for services provided by its employees in respect of investments held by the Company.

## 5.6 Financial Position

The financial position of Mercantile as at 30 June 2018, 31 December 2018 and 31 May 2019 is summarised below.

Mercantile Investment Company Limited						
Historic Reported Balance Sheet						
\$'000s	Notes	30/06/2018 Actual	31/12/2018 Actual	31/05/2019 Actual	Adj	31/05/2019 Pro Forma
<b>Current Assets</b>						
Cash		11,744	8,972	7,078		7,078
Receivables	1	2,337	1,963	1,797		1,797
Net Loans	2	3,533	3,442	3,442		3,442
Financial Assets	3	25,716	37,128	38,269	(11)	38,258
Other Current Assets		89	95	98		98
<b>Total Current Assets</b>		<b>43,420</b>	<b>51,600</b>	<b>50,683</b>		<b>50,673</b>
<b>Non-Current Assets</b>						
Financial Assets	3	47,735	45,243	38,691		38,691
Property, plant & equipment		23	25	40		40
Deferred tax assets	4	184	612	329		329
<b>Total Non-Current Assets</b>		<b>47,941</b>	<b>45,880</b>	<b>39,060</b>		<b>39,060</b>
<b>Total Assets</b>		<b>91,361</b>	<b>97,480</b>	<b>89,744</b>		<b>89,733</b>
<b>Current Liabilities</b>						
Payables	5	4,928	6,082	11,126		11,126
Loan Payable		5,000	14,000	-		-
Current tax liability		3,726	1,139	1,712		1,712
<b>Total Current Liabilities</b>		<b>13,654</b>	<b>21,221</b>	<b>12,838</b>		<b>12,838</b>
<b>Non-Current Liabilities</b>						
Unsecured notes	6	21,825	21,886	22,672		22,672
Deferred tax liabilities		703	-	(432)		(432)
<b>Total Non-Current Liabilities</b>		<b>22,528</b>	<b>21,886</b>	<b>22,240</b>		<b>22,240</b>
<b>Total Liabilities</b>		<b>36,182</b>	<b>43,107</b>	<b>35,078</b>		<b>35,078</b>
<b>Net Assets</b>		<b>55,178</b>	<b>54,374</b>	<b>54,665</b>		<b>54,655</b>

*Source: Historical Financial Statements, Management Financial Reports*

We note the following with respect to the financial position of Mercantile and key material balance sheet items:

1. Receivables comprises trade and other receivables related to subsidiary company Richfield Marine Agencies (S) Pte Limited, a wholly owned Singapore based shipping agency business. Management advised that there is no indication of impairment of the receivable balances as at 31 May 2019.
2. Net Loans comprise a loans portfolio held by subsidiary company Ask Funding Limited. We reviewed the loan portfolio supplied to us and note that \$3.441 million comprises four individual loans. Management advised that Ask Funding Limited is not issuing new loans and there are no indication that the current loan portfolio will not be repaid by the borrowers.



3. Mercantile management advised one of the investments<sup>13</sup> were marked to market at an incorrect share price as at 31 May 2019, hence we have applied the above \$11,000 adjustment for the difference. We set out a further breakdown of the combined current and non-current financial assets held by the Company below:

Mercantile Investment Company Limited Financial Assets 31 May 2019		
\$'000s	Note	
Mercantile Investment Portfolio	A	51,796
IPE Private Equity Portfolio	B	7,276
Dawney Holdings Pty Limited	C	19
Foundation Life (NZ) Limited (shares and notes)	D	6,521
<b>Total</b>		<b>76,960</b>

*Source: Management Financial Reports*

- We reviewed the Mercantile portfolio which comprises investments in trading Australian and foreign companies, as well as investments in unlisted companies. We note Mercantile utilises the trading share price as at 31 May 2019 to value the investments in listed securities. For the purposes of this report, we cross-checked the share prices utilised by the Company. We note that some investments in listed entities have low liquidity, such as American Patriot Oil & Gas Limited (ASX:AOW) and Aurora Minerals Limited (ASX:ARM), which indicates that such securities could only be sold at a discount to the market value. Further, Mercantile values investments in unlisted companies based on net tangible assets value reported by the respective companies.
  - The IPE Private Equity Portfolio comprises investments in unlisted private equity funds which are valued based on net tangible assets method which in turn is based on information supplied by private equity funds managers. MVT does not have an access to funds from these investments until fund managers decide to sell its holdings and redeem the holding, which again can impact liquidity.
  - Dawney Holdings Pty Limited is an unlisted investment company, where Mercantile converted the majority of its interest into shares of an underlying listed security.
  - The value of Mercantile's investment in Foundation Life (NZ) Limited, an insurance company comprises equity and debt (notes) securities. We reviewed supporting calculations and confirmed with management the valuation methodology adopted for this investment is based on the company's reported net assets and face value of the debt securities held.
6. Payable balance as at 31 May 2019 comprises a loan payable to the Chairman, trade and other payables related to subsidiary company Richfield Marine Agencies (S) Pte Limited, unsettled trades balances and other payables.
7. The balance of Unsecured Notes comprises the face value of ASX-listed unsecured notes (ASX: MVTHA) in Mercantile of \$22.308 million, accrued interest expense of \$738,326 and capitalised costs of issuing the notes totalling \$374,802 as at 31 May 2019. Interest is scheduled to be paid semi-annually at a rate of 8% per annum with the first interest payment made on 31 December 2016. The maturity date of the notes is 10 July 2021.

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<sup>13</sup> Portfolio investment in Bauxite Resources Limited.

## 6. Profile of SNC

### 6.1 Background

Sandon Capital Investments Limited is an ASX-listed investment company managed by Sandon Capital Pty Limited (“Sandon”), a private investment and advisory firm founded and led by Mr Gabriel Radzynski<sup>14</sup> in June 2008. Sandon is also the investment manager of a wholesale fund.<sup>15</sup>

Mr Radzynski devises and implements activist shareholder strategies that seek to unlock value inherent in securities held in SNC’s investment portfolios. Through active engagement with the target company, SNC seeks to release the embedded value for shareholders. Target investment companies of SNC are likely to be in the small to mid-cap market segment. We note Sir Ron is also appointed a Non-Executive Director of SNC.

SNC’s investment objectives are:

- To provide absolute positive investment performance over the medium to long term, ensuring capital preservation, while providing capital growth.
- To provide an investment strategy that few investors have the capacity to implement themselves.
- To provide shareholders with a growing stream of fully franked dividends.

Set out below are the portfolio investments of SNC as at 31 May 2019.

Sandon Capital Investments Limited Portfolio Investments as at 31 May 2019		
\$'000s	Value	%
<b>Top 15 Investments</b>		
Consolidated Operations Group Limited	7,264	15.7%
Fleetwood Corporation Limited	6,155	13.3%
Iluka Resources Limited	4,844	10.5%
Spicers Limited	3,718	8.0%
City Chic Collective Limited	3,207	6.9%
Coventry Group Limited	2,817	6.1%
Onemarket Limited	2,300	5.0%
AIMS Property Securities Fund	2,084	4.5%
IDT Australia Limited	1,877	4.1%
BCI Minerals Limited	1,691	3.7%
Smiths City Group Limited	1,434	3.1%
Universal Coal PLC	1,193	2.6%
Monash Absolute Investment Company	1,148	2.5%
Infigen Energy Limited	1,103	2.4%
Heron Resources Limited	829	1.8%
<b>Subtotal</b>	<b>41,663</b>	<b>90.2%</b>
Other Investments	4,524	9.8%
<b>Total Investments</b>	<b>46,187</b>	<b>100.0%</b>

**Source:** Management Reports

<sup>14</sup> As noted at Section 5.1 above, Mr Radzynski is also an investment committee member on Mercantile, together with Sir Ron.

<sup>15</sup> Sandon Capital website. <https://www.sandoncapital.com.au/>

## 6.2 Ownership Structure

Sandon Capital Investments Limited Current Ownership Structure		
Name	Shares	%
<b>Major Shareholders</b>		
Mr Victor John Plummer	2,752,823	5.68
HSBC Custody Nominees (Australia) Limited	2,564,574	5.29
Dynasty Peak Pty Ltd	2,361,048	4.87
Navigator Australia Ltd	1,884,920	3.89
Heathers Super Pty Ltd	1,374,090	2.84
Donwood Pty Ltd	1,034,091	2.13
English Family Super Fund Pty Ltd	564,109	1.16
Investment Custodial Services Limited	504,698	1.04
Robert Nairn Pty Ltd	500,000	1.03
Robyn Robinson Holdings Pty Ltd	397,045	0.82
Mr John Stephen Michael Heathers & Ms Margaret Jean Heathers	392,345	0.81
Mr William Blomfield	384,110	0.79
Great D Pty Ltd	350,000	0.72
Mrs Robyn Robinson	327,045	0.68
Guys Investments Pty Ltd	305,853	0.63
Australian Executor Trustees Limited	290,000	0.6
Hidiga Pty Limited	272,364	0.56
Henggeler Super Pty Ltd	260,000	0.54
Kerway Investments Pty Ltd	257,163	0.53
GNR Holdings Pty Ltd	253,731	0.52
<b>Top 20 Shareholders</b>	<b>17,030,009</b>	<b>35.13</b>
<b>Other Shareholders</b>	<b>31,405,418</b>	<b>64.87</b>
<b>Total Shares Issued</b>	<b>48,435,427</b>	<b>100.00</b>

*Source: SNC Share Register as at 13 June 2019*

We note the above shareholding structure does not include shares issued to Siblow Pty Limited as consideration for the acquisition of the 18.9% interest Mercantile outlined in Section 4.1 above, which was completed on 14 June 2019 per an SNC announcement to the ASX on 17 June 2019.

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### 6.3 Market Announcements

The following table sets out the recent announcements released by SNC to the ASX. In addition to the announcement of the Proposed Transaction on 3 June 2019 and release of periodic financial reports (half year and full year), the Company also reports its Net Tangible Asset Backing on a monthly basis as required under ASX Listing Rules. The full list of announcements by the Bidder since 1 January 2019 is set out at Appendix 5.

Sandon Capital Investments Limited Recent Company Announcements	
Announcement Date	Title
12/07/19	Net Tangible Assets as at 30 June 2019
09/07/19	Notice of General Meeting/Proxy Form
28/06/19	Notice of ceasing to be a substantial holder
25/06/19	Initial Director's Interest Notice - Sir Ron Brierley
25/06/19	Appointment of Director
24/06/19	Sandon to acquire Mercantile options
20/06/19	MVT: Sandon proposed takeover offer - update
20/06/19	Siblow indicates intention to accept MVT takeover offer
18/06/19	Notice of initial substantial holder from Siblow
17/06/19	Cleansing Notice
17/06/19	Appendix 3B
17/06/19	Sandon issue to Siblow - LR 7.1A information
17/06/19	SNC completes acquisition of MVT stake - sets exchange ratio
13/06/19	Net Tangible Assets as at 31 May 2019
6/06/19	MVT: Chairman's intention to retire
3/06/19	MVT: Intention to make takeover offer received from SNC
3/06/19	Intention to make takeover offer for MVT
3/06/19	Acquisition of stake in Mercantile Investment Company Ltd
3/06/19	Trading Halt
3/06/19	Pause In Trading

**Source:** Australian Securities Exchange

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#### 6.4 Historical Financial Performance

The financial performance of SNC for the two most recent financial years being FY2017 and FY2018, and six months period to 31 December 2018 ("1H2019") are summarised in the table below.

Sandon Capital Investments Limited Historic Operating Results							
\$'000s	Notes	FY2017 Actual	%	FY2018 Actual	%	1H2019 Actual	%
<b>Net Realised &amp; Unrealised Gain on Financial Assets</b>		6,094	89.3%	4,376	72.3%	(1,301)	121.8%
Other Income/(expense)	1	728	10.7%	1,677	27.7%	233	(21.8%)
<b>Total Income</b>		<b>6,823</b>	<b>100.0%</b>	<b>6,053</b>	<b>100.0%</b>	<b>(1,069)</b>	<b>100.0%</b>
ASX Listing & Register		89	1.3%	88	1.5%	52	(4.8%)
Brokerage expense		85	1.2%	41	0.7%	29	(2.7%)
Company secretarial fees		40	0.6%	44	0.7%	24	(2.3%)
Custody fees		21	0.3%	21	0.3%	11	(1.0%)
Directors Fees		72	1.0%	63	1.0%	35	(3.3%)
Management Fees	2	607	8.9%	633	10.5%	315	(29.4%)
Other		40	0.6%	56	0.9%	44	(4.1%)
Performance Fees	2	1,079	15.8%	978	16.2%	-	-
Professional Fees	3	191	2.8%	157	2.6%	117	(11.0%)
<b>Total Expenses</b>		<b>2,223</b>	<b>32.6%</b>	<b>2,080</b>	<b>34.4%</b>	<b>627</b>	<b>(58.7%)</b>
<b>Reported Profit Before Tax</b>		<b>4,599</b>	<b>67.4%</b>	<b>3,973</b>	<b>65.6%</b>	<b>(1,696)</b>	<b>158.7%</b>
Income Tax		(1,250)	(18.3%)	(616)	(10.2%)	523	(49.0%)
<b>Reported PAT</b>		<b>3,349</b>	<b>49.1%</b>	<b>3,356</b>	<b>55.5%</b>	<b>(1,173)</b>	<b>109.8%</b>

*Source: Historical Financial Statements*

We note the following with respect to the historical financial performance of SNC:

1. Other revenue comprise dividend income, trust distribution and interest income.
2. The remuneration of the directors is not linked to the performance of the Bidder. The manager ("Sandon Capital Pty Limited") is a director related entity which received a management fee of \$678,998 in FY2018 (FY2017: \$651,027), performance fee of \$1.049 million in FY2018 (FY2017: \$1.158 million) and fees for accounting and administration totalling \$51,308 in FY2018 (FY2017: \$49,656). We note these values are inclusive of GST.
3. Professional Fees comprise accounting fees, audit fees, taxation fees and legal fees.

## 6.5 Financial Position

The financial position of Sandon as at 30 June 2018, 31 December 2018 and 31 May 2019 is summarised below.

Sandon Capital Investments Limited Historic Reported Balance Sheet				
\$'000s	Notes	30/06/2018 Actual	31/12/2018 Actual	31/05/2019 Actual
<b>Assets</b>				
Cash		1,807	3,135	175
Receivables	1	400	217	44
Financial Assets	2	47,752	41,596	46,634
Deferred tax assets		60	50	60
<b>Total Assets</b>		<b>50,020</b>	<b>44,998</b>	<b>46,914</b>
<b>Liabilities</b>				
Payables	3	1,215	136	711
Current tax liability		1,967	1,060	-
Deferred tax liabilities		-	207	1,222
Financial Liabilities		374	-	-
<b>Total Liabilities</b>		<b>3,557</b>	<b>1,403</b>	<b>1,933</b>
<b>Net Assets</b>		<b>46,464</b>	<b>43,596</b>	<b>44,981</b>

**Source:** Historical Financial Statements, Management Financial Reports

We note the following with respect to the financial position of SNC and key material balance sheet items:

1. Receivables comprise prepayments, receivables on outstanding short trades and accrued income.
2. Financial assets comprise investments in publicly listed companies. We reviewed SNC's portfolio investments as at 31 May 2019 and note that SNC is utilising the closing share prices as at 31 May 2019 to recognise the current value of investments.
3. Payables comprise \$567,624 performance fee payable as at 31 May 2019 and other payables.

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## 7. Valuation Methodology

### 7.1 Overview

The best determinant of value is the price at which a business or a comparable business has been bought or sold in an arm's length transaction. In its absence, estimates of value are made using methodologies that infer value from other available evidence. These methodologies are discussed below.

### 7.2 Asset Based Methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- **Net assets & net tangible assets** : Net assets method is based on the value of the assets of the business less certain liabilities, at book values, adjusted to market value, while the Net Tangible Assets (NTA) of the business is a similar calculation but with an additional adjustment to exclude intangible assets from the calculation;
- **Orderly realisation of assets** : Orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders assuming the company is wound up in an orderly manner realising a reasonable market value for assets; and
- **Liquidation of assets** : Liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter period, under a "distressed seller" scenario.

These approaches ignore the possibility that a company's value could exceed the realisable value of its assets. Asset based methods are appropriate when companies are not profitable (and are not expected to be profitable in the short to medium term), not actively trading or a significant proportion of a company's assets are liquid or held in investments that could be realised, or the business achieves lower profits than typical returns required by equity holders.

Asset based methods are typically considered in valuing Listed Investment Companies.

### 7.3 Market Based Methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- **Analysis of a company's recent share trading history** : Most recent share trading history provides strong evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. Importantly to rely on this methodology, a company's shares require sufficient liquidity;
- **Capitalisation of maintainable earnings** : Capitalisation of maintainable earnings method estimates fair market value by multiplying the company's future maintainable earnings by an appropriate capitalisation multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable and comparable companies have similar cost structures. This methodology is used for trading companies and is typically not applicable for Listed Investment Companies; and
- **Industry specific methods** : Industry specific methods estimate market value using industry benchmarks. These methods generally provide less persuasive evidence on the market value of a company, as they may not account for company specific factors. Industry specific methods are only used as a cross check to the primary valuation methodology.

### 7.4 Discounted Cash Flow Method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence for a period of at least 5 years. The discounted cash flow method is commonly used to value early stage companies; projects with a finite life; or businesses with comprehensive and reliable cash flow forecasts.

## 7.5 Selection of Methodologies

Our selection of the valuation methodology is guided by RG111 and specifically RG111.64 which states that “an expert should use its skill and judgment to select the most appropriate methodology in its report. The expert must have a reasonable (or tenable) basis for choosing the valuation methodology”. Further, RG111.65 states that “an expert should, when possible, use more than one valuation methodology”.

In selecting our valuation methodology to value Mercantile and SNC, we have considered:

- existing trading operations of Mercantile;
- existing trading operations of SNC;
- existing operations of the investments currently majority held by Mercantile and SNC;
- the historical results and current performance levels including revenue and earnings for both companies;
- actual performance for the six-months to 31 December 2018;
- unaudited net tangible asset backing of Mercantile and SNC on a monthly basis for the current financial year, up to and including as at 31 May 2019 as announced to the ASX on 13 June 2019;
- representations by management in terms of the current and future trading performance of the underlying assets held by Mercantile, and strategic direction of the Company;
- our understanding of the competitive position of the Company in the industry;
- access to publicly available valuation benchmarks, comparable company information and comparable company transactions; and
- Share price and volumes traded for Mercantile shares and SNC shares.

As a publicly listed security on the ASX, one available methodology is a market-based valuation using the recent share price trading history of quoted shares.<sup>16</sup> We have considered this methodology as appropriate for determining the market value of the shares in Mercantile and the consideration shares in SNC. In our view, a liquid stock would typically be characterised by having 25%-50% of its total number of shares being traded over the course of a year, or about 0.5%-1.0% per week. As set out further in Section 8.3 and 9.3, we do not consider there is sufficient liquidity in the recent share trading history of either Mercantile or SNC to solely rely on this methodology as a primary method to determine the value of shares, as neither company meet these guidelines of an active market. Nonetheless, we still consider that the liquidity is sufficient for the quoted share price of Mercantile and SNC shares to be a potential indicator of their value. However, levels of liquidity are lower than what we would like to observe in a larger company with a broader shareholder base, we consider it prudent to utilise other methodologies along with the quoted share price as our cross-check methodology, in determining our primary valuation approach.

We have adopted a Net Realisable value approach based on the Net Tangible Assets of each company as our primary valuation methodology. Given the nature of both the Company and Bidder as listed investment companies, and the monthly frequency with which NTA is reported in accordance with ASX Listing Rules, which itself is calculated based on the market values of the underlying investments, we consider the NTA is the most appropriate valuation methodology.

While the capitalisation of future maintainable earnings methodology is a commonly utilised methodology, we do not consider the application of this methodology as appropriate as:

- Mercantile currently holds interests in over 30 listed and unlisted investments, the market values of which are updated and available on a monthly basis;
- SNC similarly holds interests in 30 listed securities with monthly NTA reporting;
- There is not a consistent level of earnings from which maintainable earnings could be determined.

We consider that the use of a discounted cash flow methodology is not appropriate due to the lack of available forecast cash flows, and the inherent uncertainty with respect to the timing and process that Mercantile will undertake to exit its current investments.

<sup>16</sup> RG 111.69 states that an expert should consider “the quoted price for listed securities, where there is a liquid and active market”.



## 8. Value of Mercantile

### 8.1 Valuation Summary

We have determined the market value of an ordinary share in Mercantile on a controlling interest basis to be 16.30 cents to 18.91 cents per share. In determining this range of value, we specifically relied upon the results of two methodologies, as summarised below.

Mercantile Investment Company Limited Equity Value Summary (Cents per share)		
	Low	High
<b>Asset-Based Valuation</b>		
Value per Share on a Controlling Basis (cents per share)	18.91	18.91
<b>Market-Based Valuation – Quoted Share Price</b>		
Value per Share on a Controlling Basis (cents per share)	16.30	17.19
<b>Assessed Value of Mercantile on a Controlling Basis (cents per share)</b>	<b>16.30</b>	<b>18.91</b>

Source: Titan Partners Corporate Finance Analysis

The remainder of this section sets out our assessment of the above values for Mercantile shares.

### 8.2 Net Tangible Assets / Net Realisable Value Valuation

We have adopted the value of Mercantile shares on controlling basis using an asset based methodology as our primary valuation methodology.

In determining the asset value of Mercantile, we have relied on public information with respect to share prices of the portfolio companies held by the Company as at 31 May 2019, reports on net asset values of investments in unlisted companies held by Mercantile and information on the value of other investments held by the Company.

We re-calculated the total value of net tangible asset in Mercantile as at 31 May 2019, by multiplying the NTA value per share (as announced by Mercantile to the ASX) by the total number of outstanding shares of Mercantile (280,700,000 shares). Based on our review and analysis of the nature of the assets and liabilities held and discussions with management, we have included an allowance for non-controlling interest, adjustment for difference between the cash balance in trial balance and bank statement, estimated selling costs and other adjustments. Set out below is our valuation assessment of Mercantile based on NTA methodology.

Mercantile Investment Company Limited Net Tangible Assets Value		
\$'000s	Note	
Net Tangible Assets (31 May 2019)		54,665
Less Non-Controlling Interest	1	-959
<b>Net Assets Attributable to MVT Shareholders</b>		<b>53,706</b>
Less: Accounting Difference	2	-49
Less: Estimated Selling Costs	3	-109
Less: Other Adjustments	4	-475
<b>Adjusted Net Assets Value</b>		<b>53,073</b>
Shares Outstanding (thousands)		280,700
<b>Net Tangible Assets per Share (\$) – Controlling Basis</b>		<b>0.1891</b>

Source: Titan Partners Corporate Finance Analysis

We note the following with respect to the net tangible assets per share calculation above:

1. Adjustment for non-controlling interest based on management calculations supplied to us;
2. Adjustment for the difference between the cash balance of Company's subsidiary Richfield Marine Agencies (S) Pte Limited in the trial balance and bank statement based on management information supplied to us;
3. Adjustment for selling costs of the investments currently held in the portfolio trading companies estimated at 0.3% of the value of investments;
4. Other Adjustments comprise a \$100,000 estimate for transaction costs associated with the Proposed Transaction, based on our experience with similar transactions; and a \$374,801 adjustment for capitalised costs relating to Mercantile notes issued which we are advised by Mercantile management represents an asset which is unlikely to be realised as it is not recoverable in the event the Mercantile notes are redeemed.

We have determined the value of Mercantile on a net tangible asset basis is \$0.1891 per share.

Further, we note the Company has since announced to the ASX (in accordance with ASX Listing Rule 4.12) the NTA per share as at 30 June 2019. While the value of Mercantile's investment portfolio has changed from the May 2019, changes in asset values occur from time to time and are expected for a Listed Investment Company. We do not consider the change in NTA per share of Mercantile between May 2019 and June 2019 to be material.

### **8.3 Market-Based Valuation – Recent Share Price**

As a cross check to the calculation of the value of Mercantile shares above based on net asset value, we have reviewed the value of Mercantile shares on a minority basis using a recent share price and applied a control premium to derive the value of a Mercantile share on controlling basis. The market value of a company's shares as quoted on public exchange such as the ASX is reflective of a minority interest. Typically, a minority interest does not have significant control for the holder to have influence in the operations and value of that company. RG111.11 states that when considering the value of a company's shares for the purposes of a takeover bid, the expert should assume 100% ownership of the target and it is inappropriate to apply a discount for a minority or portfolio parcel of shares. Accordingly, a premium for control is expected to be paid by the purchaser of those shares due to advantages they will receive should they obtain control of the company. These advantages can include:

- Control over operational decision making and the strategic direction of the company;
- Ability to deal with the company assets as the purchaser sees fit;
- Access to underlying cash flows through control over dividend policies; and
- Access to potential tax losses.

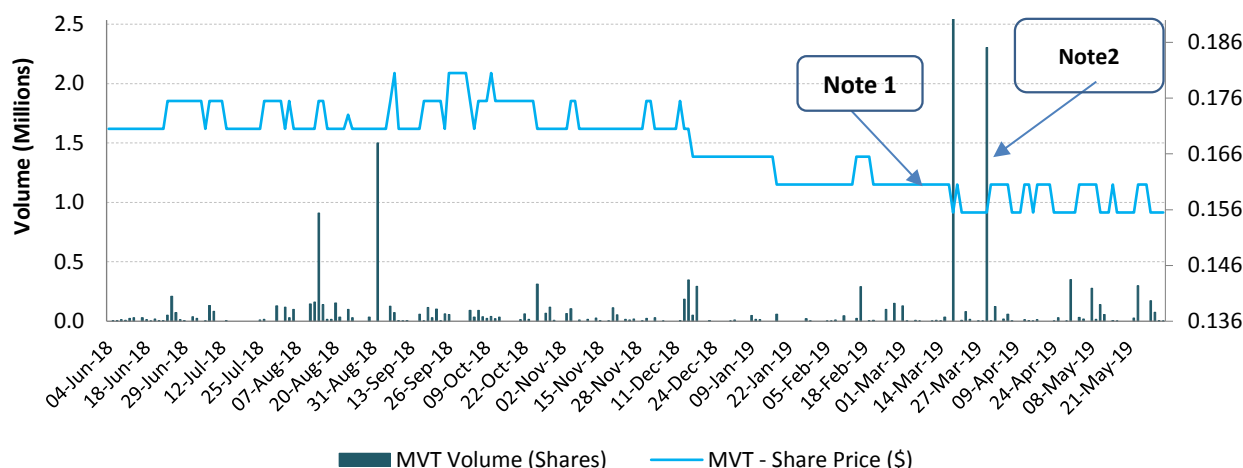
Based on the requirements of RG111, we have calculated the market price of a Mercantile share by including a premium for control. Firstly, we calculated the quoted market price on a minority interest basis based on share prices quoted on the ASX, then added a premium for control to calculate the market price value on a controlling basis or one that includes a premium for control.

#### ***Quoted Share Price – Minority Interest Basis***

The determination of a market price of a listed share is typically based on the share price prior to the announcement of a transaction. The ASX announcement of the Proposed Transaction was filed and released on 3 June 2019, hence our analysis is as at 2 June 2019, being the day before the announcement. As 2 June 2019 falls on a weekend, the last trading day on the ASX prior to the announcement is 31 May 2019.

To determine whether recent share price is an appropriate methodology to value Mercantile shares, we analysed the recent share trading history and specifically the liquidity in respect of the trading in those shares. Set out below is the trading performance of Mercantile shares for the twelve months to 2 June 2019. Mercantile shares are regularly traded on the ASX, with trades being recorded on 151 days during the 365 day period.

The following chart summarises the share price movements and volume traded over the year to 2 June 2019.

**MVT - Share Price and Trading Volume**


The daily price of Mercantile shares over the past 12 months has ranged from a low of \$0.155 in March 2019 to a high of \$0.18 in October 2018. During this period a number of announcements were made to the market as well as distributions to Shareholders. The key announcements are set out in Section 5.3 and full list of all announcements since 1 January 2019 are set out at Appendix 5. We note the below with respect to the observed trading history:

1. There was a block trade of 12.5 million shares in Mercantile on 19 March 2019, as confirmed by Mercantile management.
2. There was significant trading in Mercantile shares on 29 March 2019, with over 2.304 million shares traded. We note the Company announced to the market 4 days prior that it increased its holding in a portfolio investment US Residential Fund stapled security (ASX: USR) from 15.9% to 16.9%.

At the close of trading on 31 May 2019, the last ASX trading day prior to the announcement of the Proposed Transaction on 3 June 2019, the share price was \$0.155.

Given the observed movements in the Mercantile share price around the announcement of the Proposed Transaction, we calculated and assessed the volume weighted average price (“VWAP”) of the shares over a period of 1, 3, 6 and 12 months prior to the announcement date of 3 June 2019. The following tables summarises our VWAP calculations for each of these periods.

Mercantile Investment Company Limited						
VWAP and Liquidity Analysis						
Period	Volume (Shares)	Volume (% of issue)	VWAP	Price (Low)	Price (High)	Days Traded
1 Month (3 May 2019 to 2 June 2019)	1,132,035	0.4%	0.158	0.155	0.160	14
3 Months (3 March 2019 to 2 June 2019)	16,844,867	6.0%	0.155	0.155	0.160	41
6 Months (3 December 2018 to 2 June 2019)	18,712,731	6.7%	0.156	0.155	0.175	68
12 Months (3 June 2018 to 2 June 2019)	25,242,540	9.0%	0.160	0.155	0.180	151

**Source:** S&P Capital IQ, Titan Partners Corporate Finance Analysis

For us to rely upon the ASX listed share price as a primary methodology as an indication of market value, there needs to be a ‘deep’ market in the shares. RG111.69 indicates that a ‘deep’ market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company’s securities;
- Approximately 25% to 50% of a company’s securities are traded on an annual basis;

- There must be a sufficiently large spread of shareholders to enable the shares to trade on the stock exchange in an orderly manner; and
- There are no significant but unexplained movements in share price.

As shown above in the recent share trading history, there was limited liquidity in Mercantile shares with 9.0% of shares on issue being traded over a twelve month period and 6.7% of the Company's current issued capital being traded over six months period. This reduces to 4% to 9% respectively if the block trade on 19 March 2019 was excluded.

In our opinion, the trading of Mercantile's shares does not fully meet the above criteria of a 'deep' market, therefore we utilised this market-based valuation methodology as a complement to our NTA valuation. Based on our analysis of the share trading history of Mercantile and with reference to the above characteristics, we note;

- Mercantile shares have been traded on 151 days (and 68 days of the six month period to 2 June 2019) out of 250 trading days in the year;
- With over 9.0% of Mercantile shares traded on an annual basis and over 6.7% traded over a six month period, we consider that there is no sufficient liquidity to rely solely on the share price as an indicator of value;
- As set out in Section 5.2, there is a limited spread of shareholders due to the large shareholders in the Company, and in our opinion this spread is not broad enough to facilitate a free float and regular trading of the Company's shares; and
- We do not consider that there have been unexplained significant movements in the share price of the period observed, where such movements occurred around the announcement of new developments or financial results, or capital and dividend distributions.

Based on the analysis above and given the share price of Mercantile shares has decreased over the period from January 2019 to June 2019, we have determined the value of Mercantile shares, based on quoted market pricing is between \$0.155 (being the 3 month VWAP to 2 June 2019) to \$0.156 (being the 6 month VWAP to 2 June 2019). This range, by definition, represents the value of shares on a minority basis.

### **Control Premium**

As discussed above, we are required under RG111 to assess the Proposed Transaction assuming 100% ownership of Mercantile. Accordingly a premium for control must be applied, which reflects the additional value that attaches to a controlling interest in the Company over a minority or portfolio interest as represented by the share price.

The control premium varies from transaction to transaction and is subject to a number of factors, including:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of business opportunities not currently being exploited;
- Level of pre-announcement speculation of the transaction; and
- Level of liquidity in the trade of the target's securities.

In our assessment of control premium for Mercantile, we have reviewed recent corporate transactions involving Australian Listed Investment Companies ("LIC"). We note the industry is not particularly active with respect to corporate mergers and acquisitions activity, with three of the four transactions we examined having been announced within the past 3 years, two of which involved the same LIC.

Date Announced	Target	Bidder	Offer Consideration	
			Low	High
13/12/2016	Century Australia Investments	Century Australia Investments <sup>17</sup>	0.9081	0.9127
30/08/2018	Wealth Defender Equities	WAM Capital	0.96	1.00
13/11/2018	Century Australia Investments	WAM Leaders	0.91	1.02
20/12/2018	Watermark Market Neutral Fund	Watermark Funds Mgmt.	0.87	0.87

<sup>17</sup> Century Australia Investments Limited ("CYA") was approached by Wilson Asset Management and proposed to implement a number of transactions comprising a share buy-back, special dividend, capital raising by way of new equity issue and change in investment manager.

Target	Assessed Value of Target		Target VWAP		Target NTA		Takeover Premium (High Value)
	Low	High	Low	High	Low	High	
Century Australia Investments (Dec 2016)	0.9108	0.9426	0.827	0.848	0.9108	0.9426	7.6%
Wealth Defender Equities	0.9474	0.9474	0.84	0.87	0.9274	0.9474	14.9%
Century Australia Investments (Nov 2018)	0.95	1.02	0.95	1.02	0.95	1.00	0.0%
Watermark Market Neutral Fund	0.83	0.87	0.82	0.85	0.83	0.91	2.4%

**Source:** ASX Announcements, S&P Capital IQ, Titan Partners Corporate Finance Analysis

We note at the upper end of the value ranges set out above, all except one of the identified transactions were announced with an offer consideration at a premium to the share price (VWAP) prior to announcement of the respective transaction, with the remaining transaction consideration being offered at the target's VWAP. The observed premiums thus ranged from 2.4% to 14.9% for those transactions where a takeover premium was offered by the respective bidder.

With respect to the LIC industry, we consider that there should not be a significant premium to be paid for control of such listed vehicles, due to:

- The relative ease with which an investor could recreate the investment portfolio of the LIC based on publicly available information; and
- Minimal cost in replicating the LICs portfolio, particularly with respect to ASX listed securities.

For Mercantile, the portfolio comprises unlisted investments as well as the ASX or foreign-listed securities typically found in an LIC. In addition, the Company also holds a controlling interest in a shipping services business located in Singapore (Richfield Marine Agencies (S) Pte Limited). Further, we consider that the private equity investments in the IPE portfolio, which ultimately form part of controlling interests in trading businesses held by the respective private equity fund would command some premium for control. Therefore, we consider there is some value in the ability to exercise control over these investments, and accordingly should be reflected in the control premium adopted in assessing the value of Mercantile shares on a controlling basis.

Based on the above, we have assessed and adopted a control premium of 5% to 10% for Mercantile, being below that typically applied to trading businesses are not LICs, which are in the order of 25% to 40% based on recent Australian market studies conducted by industry advisors<sup>18</sup>. In contrast, we consider a lower control premium for SNC of between 2.5% to 5% is appropriate, given its operations comprise entirely of Australian listed equities with no controlling interests in its portfolio investments.

#### **Valuation – Controlling Basis**

We applied the above control premium to our assessed value of Mercantile shares on a minority basis, to derive the control basis valuation as set out below.

Mercantile Investment Company Limited Market-based Valuation per Share (Controlling Basis)		
	Low	High
Value per Share on a Minority Basis	0.1553	0.1563
Control Premium	5%	10%
Value per Share on a Controlling Basis	0.1630	0.1719

**Source:** Titan Partners Corporate Finance Analysis

<sup>18</sup> Halligan & Co, a specialist business valuation and forensic accounting firm, published "Control Premium Research 2014". RSM Australia, the Australian member firm of international profession services firm RSM, published "Control Premiums Study 2017".

### Assessed Valuation of Mercantile Shares

Based on our analysis set out in Section 8.2 and 8.3 above, we have assessed the value of the Mercantile shares, on a controlling basis using a combination of both the NTA and Quoted Share Price approaches. Whilst we consider the Quoted Share Price to be a relevant indicator of value, there is only limited liquidity in the Mercantile shares on the ASX as set out above. We therefore also consider the findings of our NTA approach, to derive our assessed value of shares in Mercantile as follows:

Mercantile Investment Company Limited Assessed Value per Share (Controlling Basis)		
	Low	High
Value per Share - Net Tangible Assets	0.1891	0.1891
Value per Share - Quoted Share Price	0.1630	0.1719
<b>Assessed Value per Share on a Controlling Basis</b>	<b>0.1630</b>	<b>0.1891</b>

Source: Titan Partners Corporate Finance Analysis

### 8.4 Review of NTA to Share Price

The following schedule shows the movements of Mercantile's share price and Mercantile's NTA for the 12 month period from June 2018 to May 2019.

Mercantile Investment Company Limited Share Price compared to NTA per share analysis												
\$	2018							2019				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
NTA per share <sup>19</sup>	0.205	0.210	0.208	0.213	0.194	0.198	0.182	0.193	0.194	0.197	0.198	0.194
Monthly VWAP	0.173	0.175	0.173	0.171	0.172	0.171	0.168	0.163	0.163	0.155	0.159	0.157
Premium (discount) to NTA	-15%	-17%	-17%	-20%	-11%	-13%	-8%	-16%	-16%	-21%	-19%	-19%
Month End Share Price	0.175	0.175	0.170	0.180	0.170	0.175	0.165	0.160	0.160	0.155	0.155	0.155
Premium (discount) to NTA	-15%	-17%	-18%	-16%	-13%	-11%	-9%	-17%	-18%	-21%	-22%	-20%

Source: S&P Capital IQ, Titan Partners Corporate Finance Analysis

As shown above, the Company's shares have consistently traded on the ASX at a discount to its reported net tangible assets per share in the period analysed. On average, the month end share price of Mercantile is approximately 16% lower than the corresponding month's reported NTA per share. When compared to monthly VWAP of Mercantile shares, the discount is in the range from 9% to 22%. Therefore, the above monthly observations in the month end closing price of Mercantile shares, monthly VWAP, and NTA per share, are consistent with our valuation set out in Section 8.2 above.

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<sup>19</sup> Net tangible assets per share before tax

## 9. Value of SNC

### 9.1 Valuation Summary

We have determined the market value of the Offer consideration in ordinary shares in SNC, on a minority interest basis, to be in the range of \$0.1788 to \$0.1847. In determining this range of value, we specifically relied upon the results of two methodologies, as summarised below.

Sandon Capital Investments Limited Value of Offer Consideration Summary (Cents per share)		
	Low	High
<b>Asset-Based Valuation</b>		
Value per Share on a Minority Interest Basis	92.67	92.67
Value of Offer in SNC Shares at Exchange Ratio (Minority)	18.03	18.47
<b>Market-Based Valuation – Recent Share Price</b>		
Value per Share on a Minority Interest Basis	87.52	88.55
Value of Offer in SNC Shares at Exchange Ratio (Minority)	17.88	18.09
<b>Assessed Value of Offer in SNC Shares for each Mercantile Share (Minority)</b>	<b>17.88</b>	<b>18.47</b>

*Source: Titan Partners Corporate Finance Analysis*

The remainder of this section set outs our assessment of the above values for SNC shares.

### 9.2 Net Tangible Assets / Net Realisable Value Valuation

We have reviewed the value of SNC shares using an asset based methodology as a primary valuation methodology. In determining the asset value of SNC, we have relied on public information with respect to share prices of the portfolio companies held by the Bidder as at 31 May 2019.

We recalculated the total value of Net Tangible Assets in SNC as at 31 May 2019 by multiplying the NTA value per share (as announced by SNC to the ASX) by the total number of outstanding shares in SNC (48,435,427 shares). Based on our review and analysis of the nature of the assets and liabilities held and discussions with management, we have included an allowance for estimated selling cost of portfolio companies. Set out below is our valuation assessment of SNC based on an asset methodology.

Sandon Capital Investments Limited Net Tangible Assets Value (Controlling Basis)		
\$'000s	Note	
Net Tangible Assets (31 May 2019)		44,981
Less: Estimated Selling Cost	1	(97)
<b>Adjusted Net Assets Value</b>		<b>44,884</b>
Shares Outstanding (thousands)		48,435
<b>Net Tangible Assets per Share (\$) – Controlling Basis</b>		<b>0.9267</b>

*Source: Titan Partners Corporate Finance Analysis*

We note the following with respect to the Net Tangible Assets per share calculation above:

1. Adjustment for selling costs of the investments in the portfolio trading companies estimated at 0.3% of the value of the investments, consistent with the adjustment in Section 8.2 for the Mercantile portfolio;

We have determined the value of SNC on a net tangible asset basis is \$0.9267 per share on a controlling basis.



Further, to derive the value of SNC shares on minority basis, we applied a discount for control premium to the value of SNC based on NTA per share on a controlling basis calculated above. Next, we applied the Exchange Ratio between Mercantile and SNC shares based on information in the ASX Announcements, to derive the value of the consideration in SNC shares on minority basis as set out below:

Sandon Capital Investments Limited Net Tangible Assets Value (Controlling Basis)			
Cents per Share	Note	Low	High
SNC NTA per Share (\$) – Controlling Basis		92.67	92.67
Less: Control Premium	1	5.00%	2.50%
SNC NTA per Share (\$) – Minority Basis		88.26	90.41
Exchange Ratio	2	0.2043	0.2043
<b>Value of Offer Consideration in SNC Shares - Minority Basis</b>	<b>3</b>	<b>18.03</b>	<b>18.47</b>

**Source:** Titan Partners Corporate Finance Analysis

We note the following with respect to the net tangible assets per share calculation above:

1. We applied a minority discount in the range of 2.44% to 4.76%, being the inverse of the control premium of 2.5% to 5%, to derive the value of SNC shares on minority interest basis. Our analysis on control premiums is set out in above Section 8.3.
2. Exchange Ratio of 0.2043 is calculated by dividing the pre-tax NTA value of Mercantile shares of \$0.1943, by pre-tax NTA value of SNC shares of \$0.950, as set out in Section 4.2.
3. We derived the value of consideration in SNC shares (on a minority interest basis) by multiplying the NTA value of SNC shares on a minority interest basis by the exchange ratio of 0.2043.

We have determined the value of SNC under a net tangible asset methodology is from between \$0.1803 to \$0.1847 per share on minority basis. Similar to the valuation of Mercantile using this methodology in Section 8.2 above, we note SNC has since released June 2019 NTA per share via an ASX announcement however do not consider there is any material impact to our valuation findings set out above.

### 9.3 Market-Based Valuation – Recent Share Price

As a cross check to the calculation of the value of SNC shares above based on net asset value, we have reviewed the value of SNC shares on a minority basis using a recent share price methodology. As noted in Section 8.3 above, the market value of a company's shares as quoted on public exchange such as the ASX is reflective of a minority interest.

#### **Quoted Share Price – Minority Interest Basis**

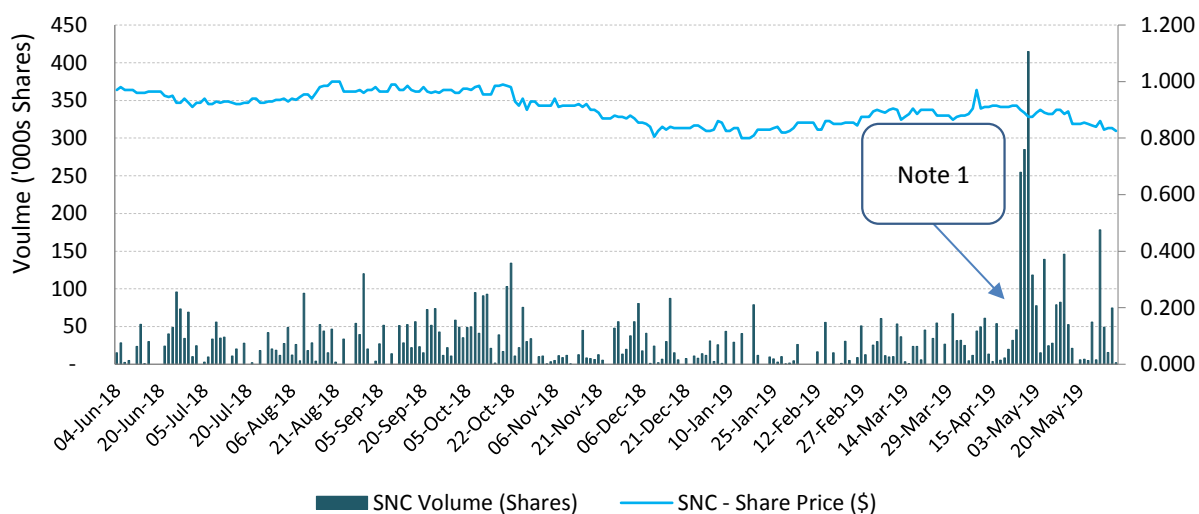
The determination of a market price of a listed share is typically based on the pricing prior to the announcement of a transaction. The ASX announcement of the Proposed Transaction was filed and released on 3 June 2019, hence our analysis is as at 2 June 2019, being the day before the announcement.

To determine whether the recent share price is an appropriate methodology to value SNC shares, we analysed the recent share trading history and specifically the liquidity in respect of the trading in those shares. Set out below is the trading performance of SNC shares for the twelve months to 2 June 2019. SNC shares are frequently traded on the ASX, with trades being recorded on 211 days during the period.

The following chart summarises the share price movements and volume traded over the year to 2 June 2019.



### Sandon - Share Price and Trading Volume



The daily price of SNC shares over the past 12 months has ranged from a low of \$0.80 in January 2019 to a high of \$1.00 in August 2018. During this period a number of announcements were made to the market as well as distributions to Shareholders. The key announcements are set out at Section 5.3. We note the below:

1. There was significant trading in SNC shares over the four trading days from 29 April 2019 to 2 May 2019, with over 1.072 million shares traded. We note SNC announced to the market around the same period it become a substantial shareholder (5.1%) in a portfolio company Monash Absolute Investment Company Ltd (ASX:MA1) and increased its holding in another Alliance Resources Limited (ASX:AGS) from 5.2% to 11.1%.

At the close of trading on 31 May 2019, the last ASX trading day prior to the announcement of the Proposed Transaction on 3 June 2019, the share price was \$0.825.

Given the observed movements in the SNC share price around the announcement of the Proposed Transaction, we calculated and assessed the VWAP of the shares over a period of 1, 3, 6 and 12 months prior to the announcement date of 3 June 2019. The following tables summarises our VWAP calculations for each of these periods.

Sandon Capital Investments Limited VWAP and Liquidity Analysis						
Period	Volume (Shares)	Volume (% of issue)	VWAP	Price (Low)	Price (High)	Days Traded
1 Month (3 May 2019 to 2 June 2019)	1,064,924	1.8%	0.8743	0.825	0.900	20
3 Months (3 March 2019 to 2 June 2019)	3,102,856	5.2%	0.8850	0.825	0.970	58
6 Months (3 December 2018 to 2 June 2019)	4,084,997	6.9%	0.8752	0.800	0.970	102
12 Months (3 June 2018 to 2 June 2019)	7,682,284	13.0%	0.9110	0.800	1.000	211

**Source:** S&P Capital IQ, Titan Partners Corporate Finance Analysis

As shown in the above recent share trading history, there was some liquidity in SNC shares with 13.0% of shares on issue being traded over a twelve month period and 6.9% of the Company's current issued capital being traded over six months period. For us to rely upon the ASX listed share price as an indication of market value, there needs to be a 'deep' market in the shares. RG111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 25% to 50% of a company's securities are traded on an annual basis;

- There must be a sufficiently large spread of shareholders to enable the shares to trade on the stock exchange in an orderly manner; and
- There are no significant but unexplained movements in share price.

In our opinion, SNC's shares do not fully meet the above criteria of a 'deep' market therefore we utilised this market-based valuation methodology in conjunction with our NTA valuation rather than as the sole primary methodology. Based on our analysis of the share trading history of SNC and with reference to the above characteristics, we note;

- SNC shares have been traded on 211 days (and 102 days of the six month period to 2 June 2019) out of 250 trading days in the year;
- With over 13.0% of SNC shares traded on an annual basis and over 6.9% traded over a six month period, we consider that there is not sufficient liquidity to rely on the share price as an indicator of value;
- As set out in Section 5.2, there is a considerable spread of shareholders with the largest shareholder having less than a 6% of the total issued shares, and in our opinion this spread is broad enough to facilitate some free float and regular trading of the Company's shares; and
- We do not consider that there have been unexplained significant movements in the share price of the period observed, where such movements occurred around the announcement of new developments or financial results, or capital and dividend distributions.

Based on the analysis above we have determined the value of SNC shares based on Quoted Share Price is from \$0.8752 (being the 6 month VWAP to 2 June 2019) to \$0.8855 (being the 3 month VWAP to 2 June 2019), being the value of shares on a minority basis.

#### ***Valuation of Consideration – Quoted Share Price***

We applied the Exchange Ratio of 0.2043 to derive the value of consideration to Mercantile on a minority basis below.

Sandon Capital Investments Limited Value of Consideration – Quoted Share Price (Cents per Share)		
	Low	High
Value per Share on a Minority Basis	87.52	88.55
Exchange Ratio	0.2043	0.2043
<b>Value of Consideration on a Minority Basis</b>	<b>17.88</b>	<b>18.09</b>

*Source: Titan Partners Corporate Finance Analysis*

#### ***Assessed Valuation of Consideration in SNC Shares***

Based on our analysis set out in Section 9.2 and 9.3 above, and consistent with our approach above for the valuation of Mercantile shares, we have assessed the value of the SNC shares offered as consideration for the existing shareholders' shares in Mercantile based on both the NTA and Quoted Share Price valuation approaches, as follows:

Sandon Capital Investments Limited Assessed Value of Consideration		
	Low	High
Net Tangible Assets Valuation	0.1803	0.1847
Market-Based Valuation - Quoted Share Price	0.1788	0.1809
<b>Assessed Value of Consideration - Minority Basis</b>	<b>0.1788</b>	<b>0.1847</b>

*Source: Titan Partners Corporate Finance Analysis*

## 9.4 Review of NTA to Share Price

The following schedule shows the movements of SNC's share price and SNC's NTA for the 12 month period from June 2018 to May 2019.

Sandon Capital Investments Limited Share Price compared to NTA per share analysis												
\$	2018							2019				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
NTA per share <sup>20</sup>	0.994	1.006	1.029	1.050	0.975	0.963	0.919	0.907	0.944	0.950	0.965	0.951
Monthly VWAP	0.943	0.927	0.962	0.968	0.964	0.893	0.848	0.822	0.859	0.892	0.899	0.875
Premium (discount) to NTA	-5%	-8%	-7%	-8%	-1%	-7%	-8%	-9%	-9%	-6%	-7%	-8%
Month End Share Price	0.925	0.935	0.970	0.970	0.915	0.870	0.835	0.820	0.875	0.880	0.890	0.825
Premium (discount) to NTA	-15%	-7%	-7%	-6%	-8%	-6%	-10%	-9%	-10%	-7%	-7%	-8%

**Source:** S&P Capital IQ, Titan Partners Corporate Finance Analysis

As shown above, SNC has traded at a discount to its net tangible assets per share in the period analysed. On average NTA price per share is approximately 8% lower compared to month end share price of SNC. When compared to monthly VWAP of shares the discount is in the range from 1% to 9%. Therefore, the above monthly observations in the month end closing price of SNC shares, monthly VWAP, and NTA per share, are consistent with our valuation set out in Section 9.2 above.

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<sup>20</sup> Net tangible assets per share before tax

## 10. Evaluation of Proposed Transaction

### 10.1 Approach

We have adopted the guidelines set out in Regulatory Guides issued by ASIC including RG74 and RG111, which govern the content and use of experts' reports in corporate transactions.

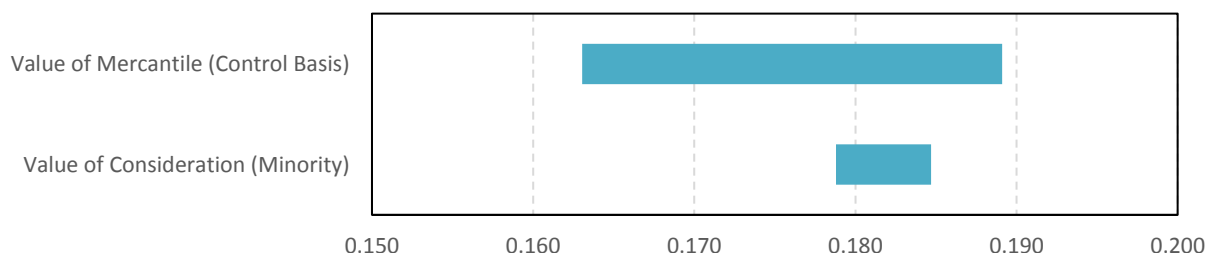
The ASIC regulations require an independent expert to consider takeover proposals under the concepts of "fairness" and "reasonableness", in accordance with RG111.10. We therefore separately consider whether the Proposed Transaction is "fair" and "reasonable" from the perspective of the Shareholders.

### 10.2 Fair

RG111 considers that a transaction is fair if the value of the offer price or consideration received is greater than the value of the securities subject to the offer. The comparison should be undertaken assuming a knowledgeable, willing but not anxious buyer and knowledgeable, willing but not anxious seller, where both parties act on an arm's length basis.

As summarised in the following table, the assessed value per Mercantile share on a controlling basis is between 16.30 and 18.91 cents. The value of the consideration offered by SNC is 17.88 to 18.47 cents, being wholly in SNC shares. As the value of the consideration offered is within our assessed range of value for Mercantile shares on a controlling basis, we therefore consider the Proposed Transaction is 'fair' for the Shareholders.

Valuation Summary



Mercantile Investment Company Limited Fairness Assessment		
	Low	High
Assessed Value per Mercantile Shares	0.1630	0.1891
Offer Consideration (per Mercantile share)	0.1788	0.1847

Source: Titan Partners Corporate Finance Analysis

### 10.3 Reasonable

RG111 states that a transaction is also “reasonable” if it is “fair”. It also states a transaction may be considered “reasonable” if not “fair”, where an expert concludes there are sufficient reasons to proceed with a transaction in the absence of a higher offer.

Whilst we have assessed the Proposed Transaction as “Fair” per Section 10.2 above, we are therefore able to conclude that it is “reasonable” under guidelines set out in RG111. To assist Mercantile shareholders, we have also reviewed the advantages and disadvantages of the Proposed Transaction below.

### 10.4 Advantages

In accordance with RG111, we assess the qualitative aspects of the Proposed Transaction to identify the advantages and disadvantages to the Shareholders upon Completion.

#### ***Consistency of Investment Management***

Mr Radzynski currently serves as the sole Executive Director for Mercantile, with the remaining board members being non-executives in the Company. In addition, certain administrative functions continues to be undertaken by Sandon on behalf of Mercantile, including general consulting, corporate advisory and accounting services.<sup>21</sup> As noted in Section 6 above, Mr Radzynski is also the Founder and Managing Director of Sandon Capital and Executive Chairman of SNC. Further, Sir Ron who serves on the investment committee with Mr Radzynski, is also a current director on the board of SNC. Therefore from the perspective of Mercantile Shareholders, their existing investments held indirectly via Mercantile would continue to be managed and overseen under Mr Radzynski’s direction, should the Proposed Transaction proceed and the Mercantile assets ultimately form part of SNC. Retention of the same investment manager, as led by Mr Radzynski, would result in Mercantile Shareholders being part of a new investment Company under a familiar management style and investment approach.

#### ***Retain ability to participate in future returns from existing investments***

As an all equity-based Offer, Mercantile Shareholders under the Proposed Transaction would retain an interest in investments currently held by the Company, by way of a holding in SNC shares upon completion. Therefore, current shareholders would continue to participate in the benefit of future returns generated from the existing investments held by Mercantile. The Proposed Transaction does not require a premature disposal or realisation of any investments currently held by the Company to facilitate completion of the Offer, which may have otherwise impacted current or future potential returns on those investments.

#### ***Potential increase in market liquidity***

Under the Proposed Transaction, current Mercantile shareholders would retain an investment in an ASX-listed company upon completion as their Mercantile shares are exchanged for SNC shares which are also listed on the ASX. As set out in Section 8.3, Mercantile shares have been thinly traded during the 12 month period to 3 June 2019 with 9% of shares traded. In comparison, SNC shares have higher trading volumes with 13% of total issued shares traded over the same period, as set out in Section 9.3. Therefore, the combination of Mercantile and SNC in an enlarged company could result in increased trading volumes compared to the current volumes for Mercantile as a standalone listed entity.

#### ***Opportunity to exit Mercantile above share price***

The Proposed Transaction offers existing Mercantile shareholders the opportunity to exit an investment in Mercantile at a value above the current share price, as the value of consideration offered in SNC shares exceeds our assessed value of Mercantile shares. Whilst we have assessed the value of Mercantile using the Quoted Share Price and Net Tangible Assets approaches, Mercantile shareholders have been unable to realise this value, due to the historically low levels of liquidity as noted above and in Section 8.3, and that Mercantile shares have consistently traded well below the value of underlying net tangible assets.

<sup>21</sup> Mercantile Interim Financial Report for 1H2018, page 13.

***Potential improvement in quoted share price over NTA value***

Under the Proposed Transaction, Mercantile shareholders will receive SNC shares as consideration for their current holdings in the Company. As set out in Section 8.4, Mercantile shares have historically traded on the ASX at a discount to NTA over the 12 months to May 2019, ranging from between 9% to 22%. In comparison, SNC shares have traded at prices closer to the respective NTA value of SNC's assets, where the discount to NTA has ranged between 1% to 9% over the same period as set out in Section 9.4. Therefore, should Mercantile shareholders accept the Offer from SNC, they may experience an uplift in the ASX quoted price of their investment which more closely reflects the underlying NTA value (as is experienced by SNC shareholders).

***Economies of Scale***

If the Proposed Transaction proceeds, there would be an effective merger between Mercantile and SNC which would continue to trade under the SNC name. The resultant enlarged business would potentially reduce operating costs which are potentially duplicated or complementary, particularly by sharing of certain expenses amongst a larger combined investment asset base. Such expenses include reduced listing costs, compliance costs, audit and board costs.

The increased scale of combining the existing Mercantile and SNC assets would also enable existing Mercantile shareholders to participate in investments involving larger entities or require a more substantial holding post completion of the Proposed Transaction, whilst having greater ability to diversify investment holdings.

***No Brokerage Costs***

Shareholders will not incur any additional transaction or brokerage costs from their brokers in order to receive the proceeds of 0.2043 SNC shares for each of their shares currently held in Mercantile. Conversely, brokerage may be charged by their respective broker for the on-market sale of that Shareholders' current holding in Mercantile under normal trading conditions. We note however brokerage or other costs may be incurred where a Shareholder instructs their Controlling Participant to accept the Offer from Mercantile on their behalf.

***Exchange Ratio consistent with largest shareholder***

As disclosed to the ASX and summarised at Section 4 above, SNC acquired an 18.9% shareholding in Mercantile from an entity associated with the Company's Chairman, Sir Ron, on the same day as the intention to lodge a takeover for Mercantile was announced. This transaction was completed under the same basis as the consideration proposed in the Offer to existing Mercantile shareholders. Therefore, all existing shareholders in Mercantile regardless of the size of their holding in the Company, will participate in the Proposed Transaction under the same transaction metrics as those offered to the largest shareholder.

***No alternative offers***

At the date of this Report, there are no alternative offers received from other parties with respect to Mercantile. Accordingly, the Proposed Transaction offers an opportunity to shareholders that is otherwise unavailable.

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## 10.5 Disadvantages

### *High Acceptance Condition*

For the Proposed Transaction to proceed, SNC has specified that its Offer is subject to a minimum acceptance condition where it receives acceptances from at least 80% of relevant interests in the Company (and other qualitative conditions summarised at Section 4.2 above are satisfied). This acceptance condition is set at a high level and may be an onerous requirement on Mercantile shareholders collectively, however is not uncommon for acquisitions comparable to the Proposed Transaction. Should less than 80% of Mercantile shareholders accept the Offer as proposed, those shareholders would be unable to exit their interest in Mercantile for an investment in SNC, if SNC at its sole discretion does not waive the acceptance condition. We note SNC had already agreed to acquire an 18.8% shareholding in the Mercantile (which has since completed on 14 June 2019), prior to the proposed terms of the Offer being announced. Further, the remaining shareholdings in Mercantile associated with Sir Ron representing an additional 24.7% interest in the Company, having publicly indicated its intention to accept the Offer when formally launched by SNC, thereby reducing somewhat the acceptance required from other Mercantile shareholders.

### *Taxation Implications*

The Proposed Transaction may result in certain tax consequences for Mercantile Shareholders, particularly with respect to their initial investment in the Company, should shareholders elect to accept the Proposed Transaction from SNC. We note that such taxation implications may not be different to those arising where a Shareholder's holdings in the Company are sold on the ASX. Shareholders should seek independent taxation advice to understand the taxation implications of accepting the Proposed Transaction.

### *Deters alternative offers*

Announcement and acceptance of the Proposed Transaction by Shareholders may prevent alternative offers or proposals from being lodged by other parties. There is always the possibility that a higher offer will be submitted for the shares in Mercantile, creating a larger return for the Shareholders. In our opinion this is unlikely, given that Mercantile is not actively seeking offers, the directors have not advised that there are any other bidders currently seeking to make a counter offer. Further, the existence of SNC as a new 18.9% shareholder in Mercantile may act as a further deterrent for any third parties to lodge an alternative offer for the Company.

## 10.6 Conclusion

Based on our assessment of the factors outlined above, in our opinion, the Proposed Transaction is considered to be **fair and reasonable** to the Shareholders.

The decision of any individual shareholder to accept or reject the Proposed Transaction is subject to and influenced by his or her individual circumstances. Titan Partners Corporate Finance strongly advises Shareholders to consult their independent advisors if in doubt.

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Australia  
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**Financial Services Guide**

Titan Partners Corporate Finance Pty Limited ABN 38 177 095 636 ("**Titan Partners Corporate Finance**", "**we**", "**us**") has been engaged to prepare general financial product advice in the form of an Independent Expert's Report to be provided to you.

In this circumstance we are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). This FSG is designed to assist retail clients to make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

The FSG herein contains information with regards to:

1. who Titan Partners Corporate Finance is and how we can be contacted;
2. services we authorised to provide under our Australian Financial Services Licence;
3. remuneration that we, our staff and any associates receive in connection with the general financial product advice provided; and
4. our complaints handling process and the avenues available to lodge a complaint.

***Titan Partners Corporate Finance***

Titan Partners Corporate Finance is the corporate finance arm of Titan Partners, which provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports concerning mergers and acquisitions, takeovers and capital reconstructions.

Titan Partners Corporate Finance holds Australian Financial Services Licence Number 427275.

***Financial services we are licensed to provide***

The Australian Financial Services Licence we hold authorises us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities (including debentures, shares and bonds), derivatives and interests in managed investment schemes.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

***General Financial Product Advice***

In our Report, we provide general financial product advice. It was prepared without taking into account your personal objectives, financial circumstances or needs.



You should consider your own personal objectives, financial circumstances or needs in assessing the appropriateness of the general advice we provide and may wish to seek personal advice from the holder of an Australian Financial Services Licence.

***Fees, commissions and benefits we may receive***

We charge fees to provide reports, including the IER provided herein. These fees are negotiated and agreed with the entity which engages us to provide a report. Our fees are determined on either a fixed amount or charged on an hourly time cost basis. Titan Partners Corporate Finance are expected to receive a fee of approximately \$33,000 for the preparation of this Report. The fee is not affected by whether the Shareholders approve or reject the Proposed Transaction. Except for such fees, Titan Partners Corporate Finance nor any of its directors, officers or associates receive any commissions or further benefits in connection with the report provided.

All of our employees receive a salary. Our employees do not receive any commissions or benefits arising directly from services provided to our clients.

We do not pay commissions or provide any other benefits to any party for referring clients to us in connection with the services that we are licensed to provide.

***Complaints***

As the holder of an Australian Financial Services Licence, we are required to have a complaints handling system for persons to whom we provide financial product advice. All complaints must be in writing, addressed to Titan Partners Corporate Finance Pty Ltd, PO Box R415, Royal Exchange NSW 1225.

In the event we are unable to satisfactorily resolve your complaint within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited ("**FOS**"), an independent external complaints resolution service established to provide advice and assistance to consumer to assist in resolving complaints relating to the financial services industry. You will not be charged for using the FOS service.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll Free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

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**Appendix 2 – Qualifications, Declarations and Consents****Qualifications and Responsibilities**

Titan Partners Corporate Finance Pty Limited is the corporate finance arm of Titan Partners, which provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports concerning mergers and acquisitions, takeovers and capital reconstructions.

Mr Brad Higgs, *B.Com, CA, F.Fin* is responsible for this Report. Mr Higgs has a significant number of years' experience in relevant business advisory and corporate finance matters.

Mr Higgs is acting as a Representative of Titan Partners Corporate Finance pursuant to its Australian Financial Services Licence (No. 427275) held under Part 7 of the *Corporations Act 2001* (Cth) to provide advice on the valuation of securities.

**Disclaimers**

This Report has been undertaken in accordance with the instructions from the Directors of Mercantile. In performing this assignment we have accepted all information as presented to us as being free of material misstatement. We have relied on information provided, as set out in Section 3.3. We have evaluated this information through analysis, enquiry and review as appropriate. We do not warrant that our evaluation has identified or verified all of the matters that an audit, extensive examination or due diligence investigation may disclose.

The purpose of this Report, as set out in Section 3.1, is to opine on the Proposed Transaction, although there is no requirement under the *Corporations Act 2001*. We understand that the Directors of Mercantile wish to obtain an Independent Expert's Report to assist the Shareholders in their decision to accept or reject the takeover offer from SNC.

This report has been prepared solely to assist the Shareholders in considering their decisions with respect to the Proposed Transaction. We do not assume any responsibility or liability for any losses suffered by any party as a result of the circulation, publication, reproduction or other use of this report contrary to the provisions of this paragraph.

This Report has been prepared by Titan Partners Corporate Finance with care and diligence and that statements and opinions given by Titan Partners Corporate Finance in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Titan Partners Corporate Finance or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Titan Partners Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

**Declarations**

Our Report has been prepared in accordance with *Regulatory Guide 111 Content of Expert Reports* issued by ASIC, professional standard *APES 225 Valuation Services*, issued by the Accounting Professional and Ethical Standards Board ("**APESB**") and any other applicable professional standards and statutory requirements, including the *Corporations Act 2001*.

Titan Partners Corporate Finance nor its Representatives or staff have at the date of this Report nor has ever had any shareholding in or other relationship with Mercantile that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

Titan Partners Corporate Finance will receive a fee based on time costs for the preparation of this Report. This fee is not contingent on the outcome of the valuation report. Titan Partners Corporate Finance will receive no other benefit for the preparation of this Report.

Mercantile have agreed that to the extent permitted by law to indemnify Titan Partners Corporate Finance employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this Report; including any claim arising from or in connection with its reliance on information or documentation provided by or on

behalf of Mercantile which is false, misleading or omits material information. This indemnity will not apply in respect of any conduct involving negligence or wilful misconduct or fraud. Mercantile have also agreed to indemnify Titan Partners Corporate Finance and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Titan Partners Corporate Finance or its employees and officers are found liable for or guilty of conduct involving negligence or wilful misconduct or fraud in which case Titan Partners Corporate Finance shall bear such costs.

### ***Consents***

Titan Partners Corporate Finance consents to the inclusion of this Report in the form and context in which it is included in the Target's Statement to be issued to Shareholders with respect to the Proposed Transaction. Other than this Report, none of Titan Partners Corporate Finance or its affiliates has been involved in the preparation of the Target's Statement.

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**Appendix 3 – Glossary of Key Terms**

Term	Definition
<b>Financial Periods</b>	
<b>FY2016</b>	Audited financial information for financial year ended 30 June 2016
<b>FY2017</b>	Audited financial information for financial year ended 30 June 2017
<b>FY2018</b>	Audited financial information for financial year ended 30 June 2018
<b>1H2019</b>	Reviewed financial information for six-months ending 31 December 2018
<b>YTD2019</b>	Unaudited Interim information for 11-months ending 31 May 2019
<b>Transaction Terms</b>	
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	Australian Securities Exchange Limited
<b>EBITDA</b>	Earnings before interest and tax, depreciation and amortisation
<b>Exchange Ratio</b>	Per Paragraph 1.1 of the Terms and Conditions of the Offer, calculated by dividing the bid NTA of Mercantile by the bid NTA of SNC, being 0.2043
<b>Mercantile, the “Company”</b>	Mercantile Investment Company Limited, ACN 107 843 381
<b>NPAT</b>	Net Profit After Tax
<b>NTA</b>	Net Tangible Assets
<b>Proposed Transaction</b>	Proposed offer by SNC to acquire Mercantile based on the reported pre-tax net tangible assets of both companies as at 31 May 2019
<b>Mr Radzynski</b>	Gabriel Radzynski, Executive Director of Mercantile and Chairman of SNC
<b>SNC, the “Bidder”</b>	Sandon Capital Investments Limited, ABN 31 107 772 467
<b>Sandon</b>	Sandon Capital Pty Limited, investment manager of SNC
<b>Siblow</b>	Siblow Pty Limited, an entity controlled by Sir Ron
<b>Sir Ron</b>	Sir Ron Brierley, Chairman and Non-Executive Director of Mercantile and Non-Executive Director of SNC
<b>the “Report”</b>	This Independent Expert’s Report on the Proposed Transaction
<b>Titan Partners Corporate Finance, “we”</b>	Titan Partners Corporate Finance Pty Limited, AFSL: 427275.
<b>VWAP</b>	Volume Weighted Average Price of listed securities

**Appendix 4 – Sources of Information**

The information set out below was considered, adopted and relied upon by us in forming our opinion and preparing the report herein:

- Audited Financial Statements of Mercantile and SNC for the years ended 30 June 2017 (“FY2017”) and 30 June 2018 (“FY2018”), with comparative information for the year ended 30 June 2016 (“FY2016”);
- Reviewed Interim Financial Report for the half-year to 31 December 2018 (“1H2019”) of Mercantile and SNC;
- ASX announcements by both Mercantile and SNC on 3 June 2019 in respect of the Proposed Transaction;
- Management information with respect to the business operations of Mercantile;
- Management information with respect to the business operations of SNC;
- Other ASX announcements issued by Mercantile and SNC;
- Corporate transaction data and other market data as sourced from S&P Capital IQ;
- Industry Research Reports published by IBISworld Australia;
- Discussions with directors, management and advisors of Mercantile, including Mr Radzynski in his capacity as an Executive Director of Mercantile, as well as provision of internal accounting work papers and analysis.

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**Appendix 5 – Recent ASX Announcements**

<b>Mercantile Investment Company Limited</b> <b>Company Announcements for the period from 1 January 2019 to 30 June 2019</b>	
<b>Announcement Date</b>	<b>Title</b>
24/06/2019	SNC: Sandon to acquire Mercantile options
20/06/2019	Sandon proposed takeover offer - update
20/06/2019	SNC: Siblow indicates intention to accept MVT takeover offer
18/06/2019	Change in substantial holding from Siblow
18/06/2019	Change of Director's Interest Notice - Sir Ron Brierley
17/06/2019	SNC: completes acquisition of MVT stake- sets exchange ratio
17/06/2019	SNC: Sandon issue to Siblow - LR 7.1A information
13/06/2019	Interest Payment - MVTHA
13/06/2019	Net Tangible Asset (NTA) Value as at 31 May 2019
06/06/2019	Chairman's intention to retire
03/06/2019	Intention to make takeover offer received from SNC
03/06/2019	SNC: Acquisition of stake in Mercantile Investment Co Ltd
03/06/2019	SNC: Intention to make takeover offer for MVT
03/06/2019	Trading Halt
28/05/2019	Ceasing to be a substantial holder for GIB
27/05/2019	Change in substantial holding for REF
23/05/2019	Change in substantial holding for REF
10/05/2019	Net Tangible Asset (NTA) Value as at 30 April 2019
07/05/2019	Change in substantial holding for REF
03/05/2019	Change in substantial holding for REF
03/05/2019	Transition to New NZX Listing Rules
02/05/2019	Change in substantial holding for REF
30/04/2019	Becoming a substantial holder for REF
12/04/2019	Net Tangible Asset (NTA) Value as at 31 March 2019
02/04/2019	Change of Director's Interest Notice - Mr G Radzynski
27/03/2019	Change in substantial holding for USR
22/03/2019	Change in substantial holding
21/03/2019	Change in substantial holding from Mr Geoff Wilson
13/03/2019	Net Tangible Asset (NTA) Value as at 28 February 2019
01/03/2019	Change in substantial holding for GIB
28/02/2019	Appendix 4D - Half Year Results - 31 December 2018
14/02/2019	Net Tangible Asset (NTA) Value as at 31 January 2019
01/02/2019	Change in substantial holding for USR
11/01/2019	Net Tangible Asset (NTA) Value as at 31 December 2018

Source: ASX

Sandon Capital Investments Limited	
Company Announcements for the period from 1 January 2019 to 30 June 2019	
Announcement Date	Title
28/06/19	Notice of ceasing to be a substantial holder
25/06/19	Initial Director's Interest Notice - Sir Ron Brierley
25/06/19	Appointment of Director
24/06/19	Sandon to acquire Mercantile options
20/06/19	MVT: Sandon proposed takeover offer - update
20/06/19	Siblow indicates intention to accept MVT takeover offer
18/06/19	Notice of initial substantial holder from Siblow
17/06/19	Cleansing Notice
17/06/19	Appendix 3B
17/06/19	Sandon issue to Siblow - LR 7.1A information
17/06/19	SNC completes acquisition of MVT stake - sets exchange ratio
13/06/19	Net Tangible Assets as at 31 May 2019
6/06/19	MVT: Chairman's intention to retire
3/06/19	MVT: Intention to make takeover offer received from SNC
3/06/19	Intention to make takeover offer for MVT
3/06/19	Acquisition of stake in Mercantile Investment Company Ltd
3/06/19	Trading Halt
3/06/19	Pause In Trading
14/05/19	Change of Director's Interest Notice - M Snowden
8/05/19	Net Tangible Assets as at 30 April 2019
3/05/19	Change in substantial holding for AGS
29/04/19	Notice of Initial Substantial Holder for MA1
10/04/19	Net Tangible Assets as at 31 March 2019
10/04/19	Notice of Initial Substantial Holder for OMN - correction
10/04/19	Notice of Initial Substantial Holder for OMN
18/03/19	Shareholder Presentation March 2019
13/03/19	Net Tangible Assets as at 28 February 2019
11/03/19	Change in substantial holding for IDT
7/03/19	Shareholder Presentation Invitation March 2019
27/02/19	Change in substantial holding for CYG
27/02/19	SNC declares fully franked interim dividend of 3.5cps
27/02/19	Dividend/Distribution - SNC
27/02/19	Appendix 4D - Half Year Results - 31 December 2018
12/02/19	Net Tangible Assets as at 31 January 2019
11/01/19	Net Tangible Assets as at 31 December 2018

Source: ASX