

SANDON CAPITAL

Sandon Capital Investments Limited

ABN 31 107 772 467

Level 5, 139 Macquarie Street

Sydney NSW 2000

T: 02 8014 1188 F: 02 8084 9918

ASX Announcement

12 August 2019

Sandon Mercantile Merger Presentation

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

A presentation from Sandon and Mercantile is attached. This document will also be released to ASX by Mercantile.

Further information:

Sandon Capital Investments Limited
Tel: 02 8014 1188
Fax: 02 8084 9918
Website: www.sandoncapital.com.au

Share registry:
Link Market Services
Tel: 1300 554 474 (toll free within Australia)
Email: registrars@linkmarketservices.com.au
Fax: +61 2 9287 0303
Postal Locked Bag A14, Sydney
Address: South NSW 1235

**Mercantile Investment Company Limited
(ASX: MVT)**

**Sandon Capital Investments Limited
(ASX:SNC)**

SNC Mercantile Merger Presentation

August 2019

Important information

This presentation is prepared by Mercantile Investment Company Limited (Mercantile) and Sandon Capital Investments Limited (SNC) for general information purposes only. The information contained in this presentation is for information purposes only.

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

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

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

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

Any quoted performance is post fees and expenses but before tax and assumes distributions were reinvested. Dollars are AUD, unless otherwise stated. We are not responsible for the statements made by or attributed to others in this report. Past performance is no guarantee of, nor does not provide any indication of future, returns.

SNC – Mercantile Merger Proposal

- On 3 June 2019, Sandon Capital Investments Limited (SNC) announced its intention to make an off-market scrip takeover offer to acquire all of the shares in Mercantile Investment Company Limited (Mercantile)
- The Offer is NTA for NTA (*on a pre-tax basis*)
- The exchange ratio is 0.2043 SNC Shares for each share
 - The ratio was determined using the 31 May 2019 pre-tax NTA for the each company
- If successful, the merger will create a listed investment company (LIC) with ~\$100 million of Net Assets
- The Independent Board Committee of Mercantile have recommended Mercantile Shareholders accept the Offer¹
- The Independent Expert appointed by Mercantile has concluded the Offer is “**fair**” and therefore “**reasonable**”

1. In the absence of a superior proposal and provided SNC Shareholders have passed the necessary resolutions at the 12 August Extraordinary General Meeting.

SNC 12 August 2019 EGM

- SNC Shareholders have been asked to consider and approve a number of resolutions pertaining to the Mercantile Offer¹
- These include:
 - The acquisition of remaining shares from Siblow Pty Ltd (an associate of Sir Ron Brierley)
 - The issue of SNC Shares to Mercantile Shareholders
 - The acquisition of unlisted Mercantile Options from Sandon Capital executives, including Gabriel Radzynski
- The Independent Board Committee of SNC has recommended SNC Shareholders vote FOR each of the resolutions
- The Independent Expert (BDO) has concluded the acquisition of shares from Siblow is “***fair***” and therefore “***reasonable***”
- The Mercantile Options are being acquired at a price determined by an independent valuation commissioned by the IBC

1. Full details are contained in SNC's Notice of Meeting and Explanatory Memorandum dated 9 July 2019.

2. The SNC IBC comprises Mr Peter Velez and Ms Melinda Snowden. Sir Ron and Mr Radzynski have not participated in its deliberations.

Mercantile recommends the Offer

➤ Mercantile's Independent Board Committee¹ has recommended shareholders accept the Offer². Some of the reasons they have cited for their recommendation include³:

- The Independent Expert has determined that the Offer is “***fair***”, and therefore “***reasonable***”
- The Merged Group will likely benefit from increased scale
- The Offer provides Mercantile with a succession plan
- Sir Ron supports the Offer
- The all scrip Offer provides an opportunity to retain exposure to the Mercantile business, albeit diluted as part of the SNC business

1. The MVT IBC comprises Mr James Chirnside, Ms Katrina Langley and Mr Daniel Weiss. Sir Ron and Mr Radzynski have not participated in its deliberations.

2. In the absence of a superior proposal.

3. Please refer to the Mercantile Target Statement for detailed reasons for the Independent Board Committee's recommendations.

Mercantile Director intentions

- Sir Ron has stated that entities he controls will accept the Offer¹
 - These entities currently represent 24.7% of Mercantile's Shares on issue
- Each Mercantile Director who holds Mercantile shares currently intends to accept the Offer provided SNC Shareholders pass the necessary resolutions at the SNC EGM on 12 August 2019
 - Directors (other than Sir Ron) and entities in which they have an interest represent a further 6.2% of MVT's shares on issue
- If all Directors and related entities accept the Offer, SNC will hold 49.8% of Mercantile (all other things remaining equal)

1. In the absence of a superior offer, within 21 days of the date of the Offer.

Reasons to Accept the Offer

➤ Sir Ron supports the Offer

- A company he controls has already sold Mercantile Shares representing 18.9% of the issued capital of Mercantile to SNC in exchange for SNC Shares and has indicated its intention to accept the Offer in respect of its remaining Mercantile Shares (presently representing a further 24.7% of Mercantile's issued shares) in the absence of a superior offer¹
- He has also joined the Board of SNC as a non-executive director

➤ The Merged Entity will provide continuity of investment management

- Gabriel Radzyninski has had day-to-day responsibility for Mercantile's engagement with a number of its key investments. This unique position provides Mr Radzyninski with the knowledge and skills to continue to manage the Mercantile portfolio as part of the Merged Entity
- Furthermore, with Sir Ron having joined the SNC Board as a non-executive director, SNC will have access to his knowledge in relation to the Mercantile portfolio and his considerable investment experience more generally

1. Within 21 days of the date of the Offer.

Reasons to Accept the Offer

- SNC's Investment Manager has a track record of long term out-performance¹
- The Offer represents a premium to Mercantile's recent share prices²
- SNC has a history of paying fully franked dividends. Mercantile does not³
 - Since listing in 2013, SNC Shareholders have received 29.5 cents per SNC Share of fully franked dividends and 12.0 cents per SNC Share of imputation credits. Over the same period Mercantile Shareholders have not been paid any dividends
- SNC Shares have had greater liquidity than Mercantile Shares and SNC Shares have historically traded at lesser discounts to NTA than Mercantile Shares⁴
- The Merged Group will have greater scale and a larger capital base with which to pursue investment opportunities⁵

1. Please refer to section 1.4 of the Bidder's Statement.
2. Please refer to section 1.5 of the Bidder's Statement.
3. Please refer to section 1.6 of the Bidder's Statement.
4. Please refer to section 1.7 of the Bidder's Statement.
5. Please refer to section 1.8 of the Bidder's Statement.

Conditions to the Offer

- The Offer is subject to a number of conditions that remain outstanding:
 - SNC Shareholder approval – *EGM convened for 12 August 2019*
 - minimum acceptance condition – *80% threshold*
 - no early redemption of Mercantile Notes – *an application will be made to ASX to continue MVTHA's listing under SNC if Mercantile is delisted*
 - no change in management arrangements
 - no fall in announced NTA
 - no change in NTA calculation methodology
 - no regulatory intervention
 - no prescribed occurrences

- Please refer to section 13.8 of the Bidder's Statement for full details of the Offer Conditions

Key features of an enlarged SNC

➤ If successful, the merger will create an LIC with:

- ~\$100 million of Net Assets
- Mercantile provides SNC with access to more than \$10 million of franking credits and more than \$37 million of reserves from which to declare dividends¹
- A more diverse portfolio than either SNC or Mercantile alone
 - By number of investments
 - Geographically – international investments will account for approximately 20%
 - Both shareholder groups will retain exposure to existing positions, albeit in a diluted proportion, and will each at the same time gain exposures to some new investments
- For existing SNC Shareholders, the merger will introduce leverage
 - \$22.3 million of Mercantile 8% Notes due July 2021
- For Mercantile Shareholders, the larger scale of the Merged Group may, all other things being equal, facilitate the repayment of the Mercantile 8% Notes

1. There is no guarantee that any dividends will be paid in the future. Payment of any future dividends will be subject to the availability of sufficient profit reserves, franking credits and the directors considering it prudent to do so.

Highlights of the Merged Portfolio

- The merger will bring together two portfolios of prospective, undervalued investments
- The table below shows the top 5 holdings of both companies and illustrates the portfolio as if the merger had occurred on 30 June 2019:

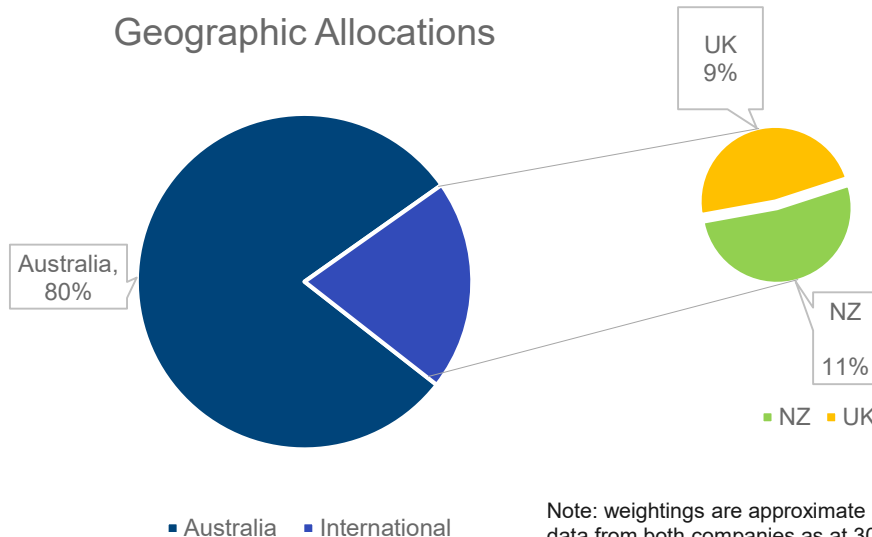
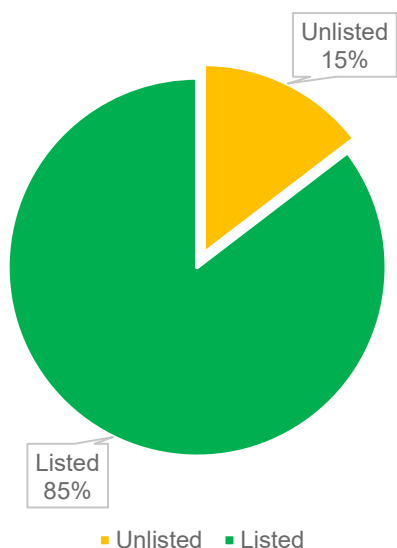
SNC		Mercantile		Merged Group	
Name	Weighting	Name	Weighting	Name	Weighting
Mercantile Investment Company Limited ¹	15.4%	Ingenia Communities Group	14.7%	Ingenia Communities Group	9.0%
Consolidated Operations Group Ltd	13.1%	Spectra Systems	12.8%	Spectra Systems plc	8.6%
Fleetwood Corporation Ltd	10.2%	Foundation Life	9.3%	Fleetwood Corporation Ltd	7.2%
Iluka	10.1%	Stanmore Coal Limited	6.0%	Consolidated Operations Group Ltd	6.2%
Spicers Ltd	7.2%	Fleetwood Corporation Ltd	5.2%	Foundation Life	5.8%

1. If the Offer is successful, SNC will report investments held by Mercantile on a look through basis, hence the investment in Mercantile itself is not shown in the illustrative portfolio for the Merged Group.

Note: portfolio weightings calculated as at 30 June 2019 using gross assets, excluding assets held by Richfield Maritime Agencies Pte Ltd, are approximate. These comparisons are for illustrative purposes only and should not be taken as representative of the portfolio should the merger proceed.

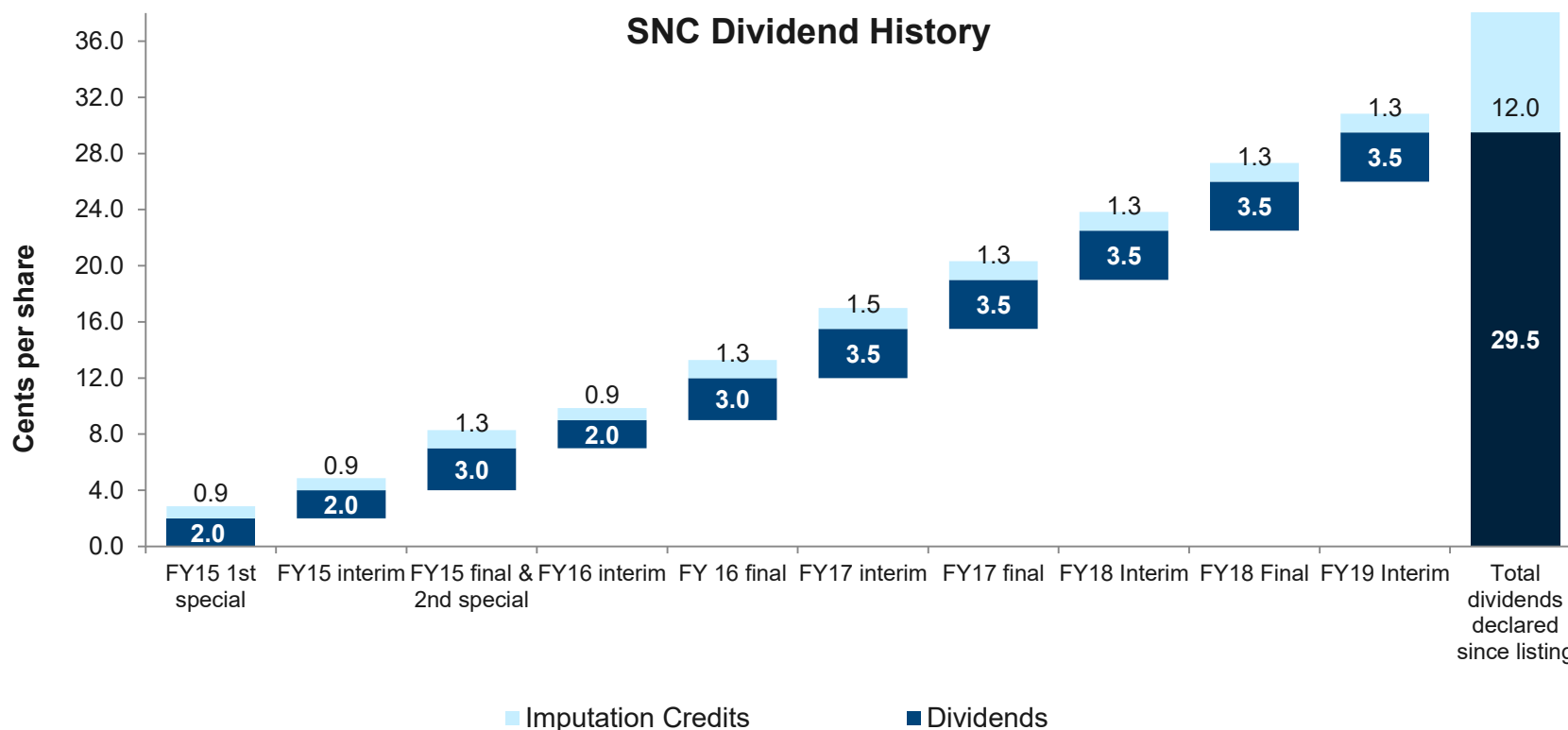
Highlights of the Merged Portfolio

- The merged portfolio will be more diverse than the portfolios of either SNC or Mercantile alone
 - Largest position will be Ingenia Communities Group (a Mercantile investment) – large and liquid
 - Largest unlisted investment will be Foundation Life (currently held by both)
 - Largest international investment will be Spectra Systems plc (a Mercantile investment)



Note: weightings are approximate and illustrated using data from both companies as at 30 June 2019. If the Offer is successful, actual weightings and investments may vary.

SNC intends to continue building on its dividend history



Any future dividends will be at the discretion of the SNC Directors, having regard to the availability of profit reserves and franking credits. The SNC Directors will also consider whether the payment of a dividend is prudent.

Risks

- If the Offer becomes unconditional, Mercantile Shareholders who accept the Offer will become shareholders in SNC. In that event, Mercantile Shareholders will:
 - continue to be indirectly exposed to the risks associated with having an interest in Mercantile's assets and general economic, share market and industry risks
 - become exposed to additional risks, through their holding of SNC Shares, which are specific to SNC and its current operations
- Please read Section 10 entitled “Risk Factors” of the Bidder’s Statement dated 18 July 2019 for a summary of the risk factors associated with owning SNC Shares, risks relating to the SNC businesses, risks relating to the Offer and general investment risks.

Risks

- Accepting into a Conditional Offer presents Mercantile Shareholders with a number of additional risks. These include possibly minority ownership consequences
- There are also risks specific to Mercantile, including succession plan risks, given Sir Ron's impending retirement as Chairman
- Please read section 9 entitled "Risk" of the Target Statement dated 1 August 2019 for a summary of the risk facing Mercantile Shareholders, including those of becoming an SNC Shareholder, risks specific to Mercantile and general investment risks.

About us

➤ Contacting us:

Enquiries about your shareholding:

Link Market Services:

1300 554 474 (toll free within Australia)

Investment and other general enquiries:

Gabriel Radzyninski:

(02) 8014 1188 or 0408 936 357

Notes: