

SANDON CAPITAL

Sandon Capital Investments Limited
ACN 107 772 467

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Monthly Report

As at 31 May 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 May 2020 were:

| | | |
|---|-------------------|-------------|
| NTA before tax (ex div) | \$0.7742 | 2.9% |
| Deferred tax asset | \$0.0007 | |
| Deferred tax liability on unrealised income and gains | (\$0.0001) | |
| NTA after tax (ex div) | \$0.7748 | 2.9% |

Investment Performance

| Gross Performance to 29 May 2020 ¹ | 1 Month | Financial YTD | Since inception ² |
|---|--------------|---------------|------------------------------|
| SNC | 4.5% | -10.8% | 6.1% |
| All Ordinaries Accumulation Index | 5.0% | -9.3% | 6.6% |
| Outperformance³ | -0.5% | -1.5% | -0.5% |

1. The SNC and index returns are before all fees and expenses and before any taxes, except that SNC returns are after incurred brokerage expenses. Dividends paid during the period are included when calculating SNC's gross investment performance.

2. Annualised.

3. Note figures may not tally due to rounding.

Dividends

SNC has declared 36.5 cents per share of fully franked dividends since listing in December 2013.

SNC has profits reserves equivalent to 1.1 cents per share and franking of approximately 11.3 cents per share (in each case, after the payment of the most recent dividend).

The table below shows SNC's recent dividend history.

| Ex-date | Dividend Amount | Franking | Corporate Tax Rate | Type |
|-----------------|-----------------|----------|--------------------|---------|
| 5 May 2020 | 3.5 cps | 100% | 27.5% | Interim |
| 21 October 2019 | 3.5 cps | 100% | 27.5% | Final |
| 16 May 2019 | 3.5 cps | 100% | 27.5% | Interim |
| 23 October 2018 | 3.5 cps | 100% | 27.5% | Final |
| 8 May 2018 | 3.5 cps | 100% | 27.5% | Interim |
| 23 October 2017 | 3.5 cps | 100% | 27.5% | Final |
| 18 May 2017 | 3.5 cps | 100% | 30.0% | Interim |
| 21 October 2016 | 3.0 cps | 100% | 30.0% | Final |
| 18 April 2016 | 2.0 cps | 100% | 30.0% | Interim |

Sandon Capital Investments Limited

| | |
|-----------------------------|--------------------|
| ASX Code | SNC |
| Listed | 23 Dec 2013 |
| Gross assets* | \$106.9m |
| Market capitalisation | \$70.1m |
| NTA before tax | \$0.7742 |
| Share price | \$0.6450 |
| Shares on issue | 108,624,261 |
| Options on issue | nil |
| Fully franked dividends | \$0.035 |
| Dividend yield (6-mths) | 5.6% |
| Profits reserve (per share) | 1.1 cps |
| Franking (per share) | ~11.3 cps |

*includes face value of Mercantile 8% unsecured notes.

Company overview

Sandon Capital Investments Limited is a specialist 'Activist' listed investment company, managed by Sandon Capital. Sandon Capital devises and implements activist shareholder strategies that seek to unlock value inherent in securities held in our investment portfolios.

SNC provides investors with exposure to a portfolio of Australian companies that are typically not available to traditional investors. Through active engagement with the target company, Sandon Capital seeks to release the embedded value for shareholders. Target companies are likely to be in the small to mid cap market segment.

Sandon Capital has successfully employed its Activist investment strategy since September 2009. The wholesale Sandon Capital Activist Fund's investment performance since inception is 9.6% p.a. (after all fees and expenses).

Investment Objectives

- 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.

Portfolio commentary

The Portfolio was up 4.5% for the month, on a gross basis, before all fees and expenses, compared to an increase of 5.0% for the All Ords Accumulation Index.

The portfolio continued to recover some of its recent mark-to-market losses, although there is still much work to do to recover this drawdown. Gains in the portfolio this month were more concentrated than last month. The main contributors to the positive performance were Coventry Group Ltd (CYG) (+1.3%), City Chic Collective Ltd (+1.1%), Alliance Resources Ltd (AGS) (+0.9%) and Fleetwood Corporation Ltd (FWD) (+0.9%). The main detractor was Smiths City Group Ltd (SCY) (~-1.6%), which we discuss below.

CYG's share price continued to recover during May. The only announcement from the company was that it was renewing its on-market share buy-back. CYG provided a trading update in June 2019 prior to the end of the fiscal year and we would expect a similar update this year given the turbulent environment in the Australian & New Zealand economies arising from the COVID-19 pandemic. Since the onset of the pandemic, CYG has noted that sales performance in Australia has been in line with pre-COVID-19 expectations, although the same cannot be said for New Zealand as a result of the mandated suspension of operations in the company. Now that the New Zealand economy has been re-opened, we expect a reasonably quick return of sales and profits. The company's predominant exposure to the industrial economy (commercial construction, infrastructure and mining) should mean that sales have held up reasonably well during the worst of the pandemic in Australia.

AGS rose strongly after announcing an entitlement offer to help fund further exploration, resource definition and feasibility study work at its Weednanna gold deposit in the Gawler Craton in South Australia. The entitlement offer, priced at 8 cents per share, followed earlier announcements of drilling results at Weednanna and soil sampling at its Nepean nickel-gold project near Coolgardie in Western Australia. The share price promptly rose from 8.4 cents to close the month at 18 cents per share. Needless to say, we exercised all entitlements to shares at the 8 cent subscription price.

The FWD share price continued to rise, though there were no operational or performance updates. Late in the month, FWD announced the appointment of a new COO of the Building Solutions divisions. It also announced the appointment of a new director, Martin Monro. Mr Monro's most recent executive role was as CEO of construction company Watpac Ltd (WTP). WTP had been the focus of a campaign by Sandon Capital due to its poor operating performance and acceptance of a lowball takeover offer from BESIX Group. Our campaign focusing on WTP can be found on our website under the "Campaigns" tab.

Our investment in Smiths City Group Limited (SCY) was written down to nil during the month after we halted our efforts to lead a recapitalisation. This is our only COVID-19 related fatality. SCY has been facing difficulties for some years. Despite a renewed Board, the long-standing issues of under-investment in technology, poor product selection, poor capital allocation, an ill-timed acquisition and a highly competitive marketplace combined with factors outside the company's control brought the company to its knees. These external factors most recently included COVID-19 shutdowns and a bank lender that simply wanted more equity to stand ahead of it. We worked with the SCY Board and its advisers on a recapitalisation proposal, but we concluded that the capital sought would be insufficient to sate the bank's desires, nor would it provide a sufficient margin of safety to successfully execute a turnaround plan. Though brimming with potential, none of it came to fruition and SCY has proven a very unsatisfactory investment.

COVID-19 restrictions in Australia continue to ease and businesses are resuming activities. There remain some interstate travel restrictions, which will impinge on Australia-wide economic activity, especially tourism. As restrictions are lifted, close attention is being paid to whether any "second wave" of infections emerges.

We continue to accumulate shares in a number of new companies which we look forward to discussing at some point in the future.

Investment Portfolio

| | May 2020 |
|-------------------------------|----------|
| Listed Australian Equities | 69% |
| Listed International Equities | 12% |
| Unlisted investments | 16% |
| Cash or Cash Equivalents | 3% |

Contact

If you have any questions regarding the Company or its investments, please call Gabriel Radzyninski on 02 8014 1188. If you have questions regarding your shareholding, please contact Link, whose details appear below.

Further information:

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