SANDON CAPITAL

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15 October 2020

Shareholder virtual meeting presentation

Dear Shareholders,

Please find attached the presentation for the shareholder virtual meeting to be held at 12:00pm (Eastern Daylight Savings Time) on Thursday 15 October.

The virtual meeting will be interactive with questions able to be submitted online during the event. Please use the Chat button or raise your (virtual) hand to submit any question you would like addressed.

Questions can also be submitted prior to the event by emailing info@sandoncapital.com.au.

The dial in details for the virtual meeting are as follows:

Join Zoom Meeting by clicking below link:
https://us02web.zoom.us/j/89957258310
Meeting ID: 899 5725 8310

One tap mobile
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+61370182005,,89957258310# Australia

Dial by your location
+61 2 8015 6011 Australia
+61 3 7018 2005 Australia
+61 7 3185 3730 Australia
+61 8 6119 3900 Australia
+61 8 7150 1149 Australia
Meeting ID: 899 5725 8310

Please do not hesitate to get in contact should you have any questions, including how to participate in the virtual shareholder meeting.

A recording will be available on the Sandon Capital website shortly after the event.

Yours Sincerely,

Gabriel Radzyminski
Chairman
Sandon Capital Investments Limited

Further information:

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Sandon Capital

'Ever since 1934 we have argued in our writings for a more … energetic attitude by stockholders toward their management'

Ben Graham, The Intelligent Investor

Shareholder Presentation

15 October 2020

Important information

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

This presentation is prepared by Sandon Capital Investments Limited (SNC) for general information purposes only. The information contained in this presentation is for information purposes only and has been prepared for use in conjunction with a verbal presentation and should be read in that context.

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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 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 or does not provide any indication of future returns.

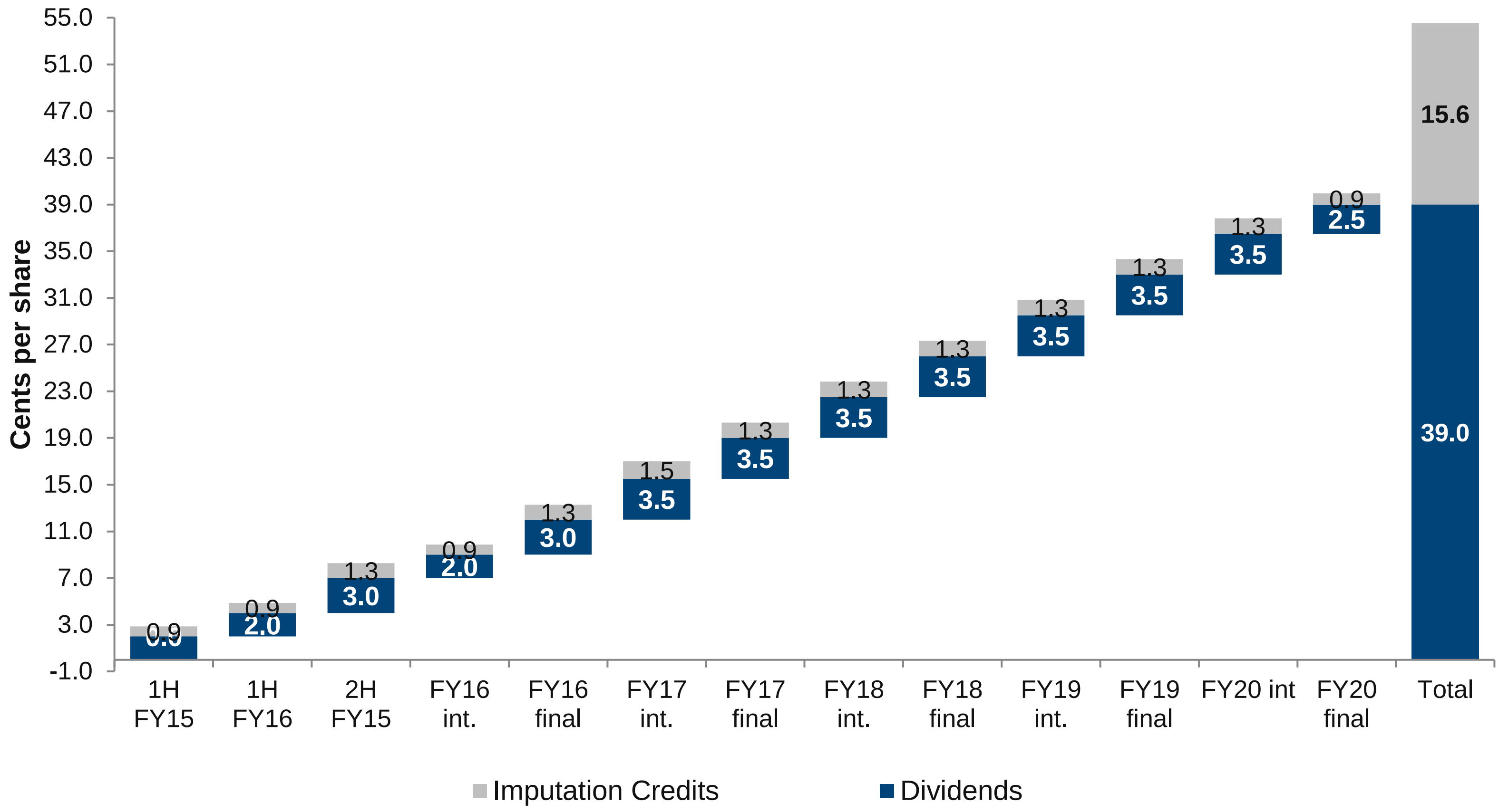
SNC FY20 Result highlights

- Revenue ($7,667,281) (predominantly unrealised losses)
- Net loss after tax ($8,663,844)
- Dividend yield of 6.9% (9.2% grossed up)[1]
- Board has declared a 2.5 cps fully franked final dividend
  - This will bring total fully franked dividends paid since listing to 39.0 cps
  - The Board anticipates paying an interim dividend for the first half of FY21 of a similar amount, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.
- As at 30 September 2020, SNC has:
  - profit reserves of 10.4 cents per share, from which directors can resolve to pay future dividends[2]
  - a franking account balance of 10.8 cents per share[2]

1. Assumes market price of $0.73 on 14 October 2020
2. Before payment of final FY20 dividend

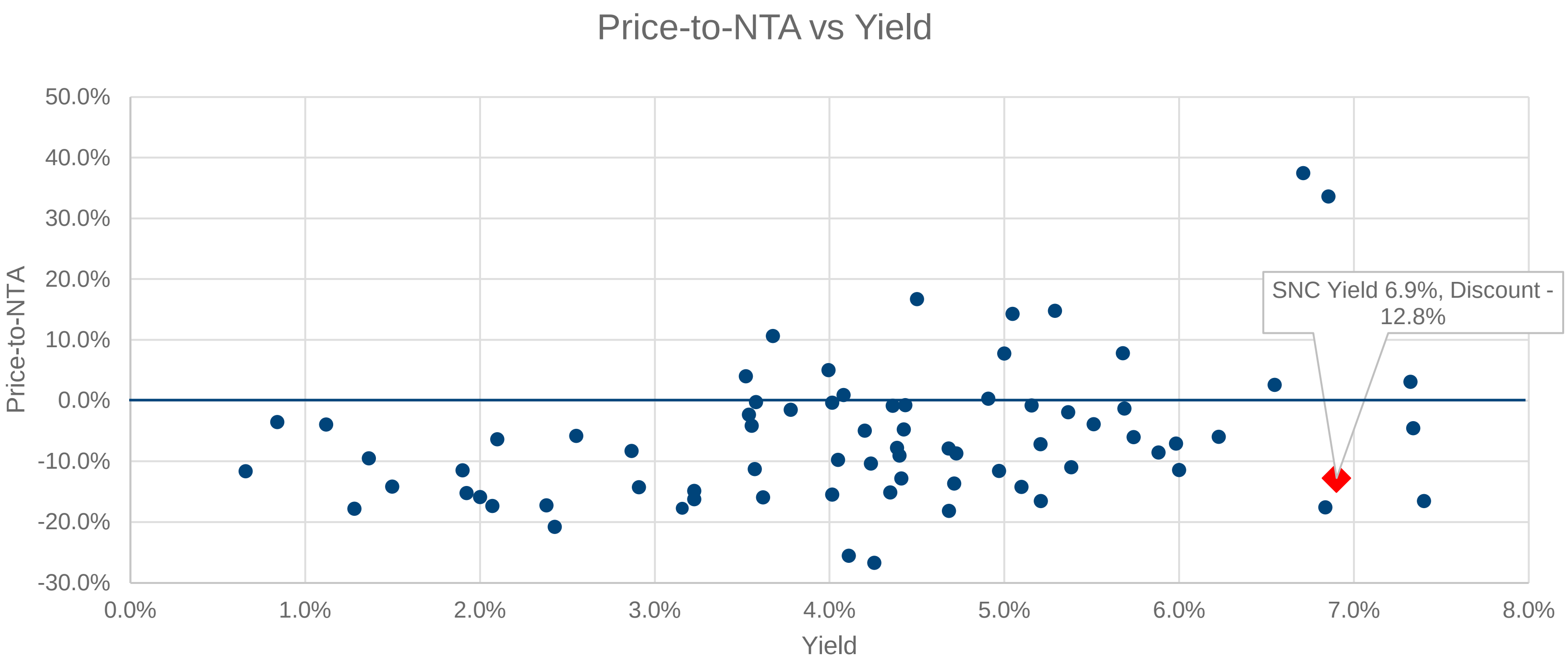
Dividends

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



High yield, discount to NTA – opportunity?

- SNC shares currently trade at yield of 6.9% (9.2% grossed up for franking) and a discount to NTA of 12.8%



Source: Bloomberg, Sandon Capital Analysis
n=75 dividend paying LICs

Investment performance to 30 September 2020

Gross Performance	1 Month	Financial YTD	1 yr	2 yr p.a.	3 yr p.a.	Since inception (annualised)
SNC[1,2]	1.5%	14.7%	-2.4%	-0.7%	5.0%	7.7%
All Ords Accum Index	-3.4%	1.1%	-8.8%	1.1%	5.5%	6.8%
outperformance	**+4.9%**	**+13.6%**	**+6.3%**	**-1.8%**	**-0.4%**	**+0.9%**

1. The SNC and index returns are before all fees and expenses and before any taxes. SNC returns are after brokerage expenses incurred. Dividends paid during the period are included when calculating SNC's gross investment performance.
2. Note: past performance is no indication of future returns.
3. Numbers may not add due to rounding

Sandon Capital

Our investment approach

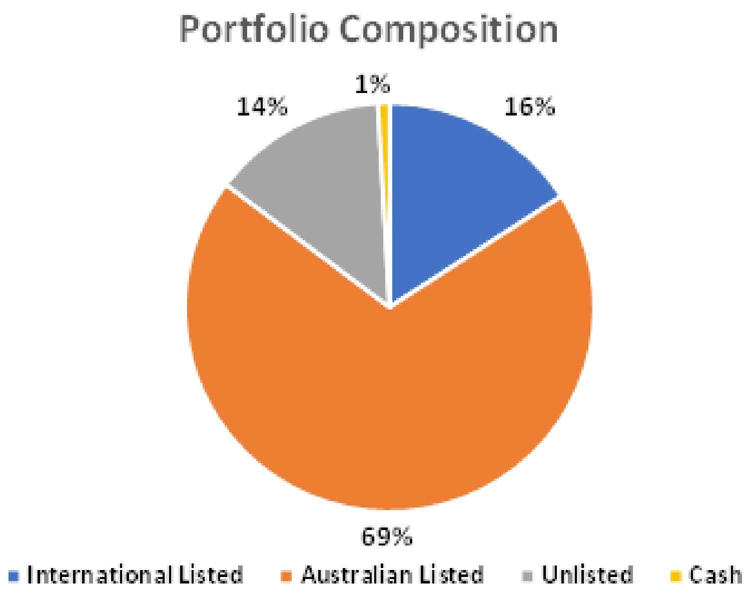
- We are a value investor. We seek to invest:
  - At prices below our assessment of their intrinsic value, and
  - Where we believe we can apply our activist techniques
- Many of our investments have had valuable assets that were hiding in plain sight
  - Iluka has its MAC Royalty
  - Boral has extensive property holdings, a landfill royalty and a high quality Australian construction materials business all overshadowed by the poor performing US operations
  - City Chic's omni-channel powerhouse was obscured by poor performing bricks-and-mortar brands
  - Infigen consistently traded well below private market comparators until two strategic bidders engaged in a bidding war
  - OneMarket consistently traded at less than half of its cash backing until the Board decided to liquidate the company
  - We are currently building positions in two companies that have extremely valuable assets that are underappreciated or even ignored by the market

Our activist approach

- When we invest our intention is to actively engage with the company
  - We don't try to passively predict the future. By engaging we are actively trying to shape the future
- There are many ways that a company can be transformed such that its value is better appreciated by the market
  - We apply a wide range of methods and techniques appropriate for each circumstance
  - Changing an underperforming Board
  - Selling non-core assets
  - Selling the entire company
  - Demerging high quality businesses
  - Implementing capital management initiatives such as dividends and/or buybacks
- We typically look for companies with consolidated registers
  - Convincing 5-10 large investors of the merits of our arguments is much easier than convincing hundreds of smaller shareholders

Portfolio snapshot

- SNC's main portfolio exposure is to Australia
- International exposure is to the United Kingdom, New Zealand & the United States
- Unlisted exposures include:
  - Foundation Life – life insurance run-off
  - MG Unit Trust – cash box in liquidation
  - IPE – private equity funds run-off



Gross Portfolio composition as at 30 September 2020. All figures are approximate

Portfolio snapshot – core positions

- Spectra Systems Corporation
- Fleetwood Corporation Ltd
- City Chic Collective Ltd
- Consolidated Operations Group Ltd
- BCI Minerals Ltd
- Iluka Resources Ltd
- Yellow Brick Road Ltd
- Coventry Group Ltd
- Boral Ltd

Investment – Spectra Systems Corporation (LSE:SPSY)

Portfolio Weighting	11.3% (at 30-Sep-20)
Description	Spectra provides advanced technology solutions for banknote cleaning, banknote and product authentication and gaming security. Its banknote customers are central banks around the world
Financial Status	Spectra reported a solid 1H20 result with revenue increasing 2% and operating cash flow improving by 14%. During the half, the company secured new business from a longstanding central bank client which should underpin the delivery of record revenues and earnings in CY20. At 30 June 2020, the company had a strong balance sheet with net cash of US$10.9m. This is after the payment of a record dividend of US$0.09 (US$4.1m) in June. Given the company's solid balance sheet and strong operational outlook, we expect a dividend of a similar magnitude (or greater) to be paid in June 2021.
COVID-19 Impact & Outlook	The pandemic has had a positive impact on Spectra's performance in the shorter term, and we expect the opportunity to grow over the next 12-24 months. Worldwide demand for banknotes has increased significantly this year and the company's Aeris banknote cleaning technology has attracted unprecedented attention from central banks and casinos. Looking into the medium and longer term, revenues are underpinned by well-founded and stable contracts with major global institutions. We estimate the company has a pipeline of opportunities in excess of US$100m with current and potential clients ranging from central banks, to tobacco and fragrance producers and electronic retailers. There are many new end markets that Spectra's inks and taggants can be applied to that will offset the inevitable decline in the banknote business as society becomes cashless over the long term.

Source: Spectra Systems Corp., Sandon Capital analysis

Investment – Fleetwood Corporation Ltd (ASX:FWD)

Portfolio Weighting	9.6% (at 30-Sep-20)
Description	FWD operates across 3 business divisions. (i) Building Solutions operates the largest modular construction business in Australia (ii) Accommodation Solutions owns and operates an accommodation village at Karratha (Searipple) and manages another in South Hedland (Osprey) (iii) RV Solutions provides parts, accessories and services to the recreational vehicle market.
Financial Status	FWD delivered another poor result in FY20, reporting its third consecutive statutory loss and fourth loss in five years. The segments where recent acquisitions have been made, Building Solutions and RV Solutions, have performed poorly, with earnings today lower than prior to the acquisitions of MBS and NRV. Despite the continued poor operating results, the balance sheet is sound with net cash of $65.7m at 30 June 2020. The cash balance was positively impacted by the accelerated payment of receivables which we expect to unwind in FY21.
COVID-19 Impact & Outlook	Whilst FWD's RV Solutions business was impacted in the short term by lockdown restrictions, the closure of international borders should lead to strong demand for the company's RV products as families embark on local holidays rather than heading interstate or overseas. On the contrary, the Accommodation Solutions business has been a strong beneficiary of COVID restrictions as modified mining rosters have resulted in improved occupancy at Searipple. We believe the most important driver for FWD is a refreshed Board that can set a clear strategy, allocate capital appropriately and hold management to account, all of which have been missing under the current Board. The opportunity for FWD remains large and we do not wish for it to be squandered.

Source: Fleetwood Corporation Ltd, Sandon Capital analysis

Investment – City Chic Collective Ltd (ASX:CCX)

Portfolio Weighting	5.2% (at 30-Sep-20)
Description	CCX is a global retailer specialising in plus-size women's apparel, footwear, and accessories. The company's omni-channel model comprises multiple websites in Australasia and the US, marketplace and wholesale partnerships with major US retailers and wholesale partners in Europe and the United Kingdom.
Financial Status	Despite the COVID-19 pandemic having a significant negative influence on the retail industry, CCX reported a strong set of FY20 results with same store sales growth of 0.4% and underlying EBITDA growth of 6.6%. The company successfully integrated the e-commerce assets of US plus sized retailer, Avenue, during the year. At 24 August 2020, CCX reported that it had net cash of $112.3m, placing it in a very strong position to acquire further e-commerce assets from distressed brick & mortar retailers.
COVID-19 Impact & Outlook	Approximately two thirds of CCX's revenues are generated online which placed the company in a good position to manage the temporary closure of its stores in Australia and New Zealand from late March through to mid-May. Throughout this period, the company's operations remained profitable. The company's nimble supply chain and ability to redeploy stock across channels and regions resulted in a clean inventory position at the end of the fiscal year. Disappointingly, CCX was recently outbid in the Court-run auction for the e-commerce assets of US plus sized retailer, Catherines. We were pleased that the company showed financial discipline and chose not to pursue the assets at any cost. We believe there will be further opportunities to acquire attractive e-commerce assets from distressed retailers in the US plus sized retail space.

Source: City Chic Collective Ltd, Sandon Capital analysis

Investment – Consolidated Operations Group Ltd (ASX:COG)

Portfolio Weighting	5.1% (at 30-Sep-20)
Description	COG provides equipment finance and also owns stakes in finance brokers specialising in small- and medium-size enterprise finance. Products brokered included asset leasing for business equipment and working capital product solutions such as invoice financing and factoring. COG's leasing business originates leases from a wide range of brokers. Key end markets include financing for commercial vehicles, industrial plant & equipment, fixtures & fittings and IT.
Financial Status	COG delivered a commendable FY20 result with underlying net profit after tax and before amortisation improving 6% on the previous year. The broker distribution network settled $4.5 billion of net asset finance (NAF) during the year, estimated by COG to represent 17% market share of broker originated NAF. COG declared an inaugural dividend of 0.152 cents per share, representing an annualised yield of approximately 5%.
COVID-19 Impact & Outlook	COG scaled back its finance lease activities as businesses around the country felt the impacts of lockdowns and social restrictions. The raft of government stimulus measures, including loans and incentives to businesses as well as infrastructure spending, are likely to provide significant tailwinds to the SME business customers of the COG broker network. COG increased its holding in Westlawn Finance to 51% and recently announced the acquisition, through its 56% owned QPF business, of 80% of Access Capital, the largest asset finance broker in South Australia and the Northern Territory. Westlawn provides the opportunity for MIS funding of loans and Access further diversifies the national network.

Source: Consolidated Operations Group Ltd, Sandon Capital analysis

Investment – BCI Minerals Ltd (ASX:BCI)

Portfolio Weighting	4.9% (at 30-Sep-20)
Description	BCI is developing its 100% owned Mardie Salt & Potash Project, a potential Tier 1 solar evaporation operation located on the West Pilbara coast of Western Australia. BCI also receives quarterly royalty payments from the Iron Valley iron ore mine.
Financial Status	Aided by a strong iron ore price, BCI reported record annual Iron Valley EBITDA of $23m in FY20. In line with its strategy to focus on the development of the Mardi project, the company continued to divest non-core assets, selling the Buckland Project for up to $20m in cash plus a 1% FOB royalty. Combined with the recent $48m equity raise to expedite the development of Mardi, BCI had proforma June 30 net cash in excess of $85m. We expect this to fund the early stage works of Mardi commencing in December. Additional capital will be required to fund full project construction commencing in the June 2020 quarter.
COVID-19 Impact & Outlook	There has been very little impact on BCI from the COVID-19 pandemic. Iron ore prices have remained robust, supporting strong earnings from the company's Iron Valley royalty. Much of the work being done on the definitive feasibility study for the Mardi project was at the desktop stage, resulting in limited impact on the timing of its release. Long term, we are excited about the opportunity that the Mardi project presents for BCI. It is a rare natural resources project that has an unlimited reserve (seawater) and requires minimal capital expenditure once project construction is complete. Whilst first product sales and cash flows won't be received until 2024, we are happy to patiently wait for the strong cash flows to emerge.

Source: BCI Minerals Ltd, Sandon Capital analysis

Investment – Iluka Resources Ltd (ASX:ILU)

Portfolio Weighting	4.8% (at 30-Sep-20)
Description	ILU is the major producer of zircon globally and largest producer of high-grade titanium dioxide products – rutile and synthetic rutile. The company also has an iron ore royalty associated with BHP Billiton's Mining Area C (MAC) province in Western Australia.
Financial Status	ILU reported a soft 1H20 result with revenue down 15% and net profit down 17.5% versus the prior corresponding period. Sales volumes across ILU's mineral sands products were down, particularly in zircon. Pleasingly, despite the weaker volumes, prices across ILU's suite of products held up well, increasing by an average of 1% against the June 19 half. The company's balance sheet is in a strong position with net cash of $47.4m at 31 July 2020. A robust balance sheet is important given the capital investment required by ILU to invest in growth projects over the next 3-5 years.
COVID-19 Impact & Outlook	ILU's zircon end markets have been most impacted by the pandemic, initially in China, and then followed by India, Europe and the US. An improvement in industrial activity has seen zircon demand improve, however it remains below the levels seen prior to the onset of the pandemic. Demand for TiO2 feedstocks has remained relatively strong, notwithstanding a single customer (Chemours) failing to adhere to take-or-pay contract terms. Improvement in TiO2 end markets has surprised to the upside over the past few months and industry commentators expect strong demand into 2021. Most important for ILU in the short term is the demerger of its MAC iron ore royalty into a new company named Deterra Royalties. Given the strong push by shareholders for the royalty to be demerged, we expect the Scheme to be overwhelmingly approved at the EGM on 16 October.

Source: Iluka Resources Ltd, Sandon Capital analysis

Investment – Yellow Brick Road Ltd (ASX:YBR)

Portfolio Weighting	4.7% (at 30-Sep-20)
Description	YBR is a mortgage broker and aggregator. The majority of its revenue comes from trailing commissions and upfront commissions on origination of new mortgages. YBR has also recently finalised an arrangement that has allowed it to commence providing its own mortgages via a wholesale warehouse and securitisation facility.
Financial Status	The majority of the value in YBR today, aside from its broker network, is in the rights to trailing commissions from existing mortgages. As at 30 June 2020, the net value of these trailing commissions was in excess of $44 million. YBR has a small corporate debt facility, most of which is non-current. It also reported net cash of approximately $11.3 million. It also has received an $18 million cash injection from Magnetar Capital for a 50% stake in Resi Wholesale Funding Pty Ltd, which places it in good stead for working capital and warehousing funding of its own mortgages when market conditions permit.
COVID-19 Impact & Outlook	As the economic effects of the pandemic become clearer, it appears those suffering finance stress have relied on loan deferrals while those not stressed have paid down their mortgages. Earlier in the year we wrote that we expected the life of the YBR mortgage book to extend, which it has, but the value has decreased slightly due to an increased share of trails being paid to brokers. The impact was negligible, though we did not see the increased in value we had expected. We expect that YBR's ambitions to issue its own mortgage products will be delayed as a result of the pandemic. Given the funding is in place, we expect they will be able to accelerate this programme when market conditions permit.

Source: Yellow Brick Road Ltd, Sandon Capital analysis

Investment – Coventry Group Ltd (ASX:CYG)

Portfolio Weighting	4.0% (at 30-Sep-20)
Description	CYG supplies industrial products and services to the mining, manufacturing, construction, agriculture and defence industries through two divisions: (i) Trade Distribution, which distributes fasteners and other industrial products through a network of branches in Australia and New Zealand (ii) Fluid Systems, which designs, manufactures, and supplies hydraulics, lubrication, fire suppression and refuelling systems and products in Australia
Financial Status	In FY20, CYG delivered its best performance for many years despite the backdrop of shutdowns arising from the COVID-19 pandemic. Underlying EBITDA improved 136% versus the previous year and the company reported its first underlying profit in six years. The company was also free cash flow positive for the first time in six years. The balance sheet is in good shape with net debt of $3.3m at 30 June 2020 and the company has a large degree of financial flexibility having recently increased its securitised trade receivables facility to $40m for a 3-year term.
COVID-19 Impact & Outlook	The major operational impact from COVID-19 on CYG in FY20 was the suspension of operations in New Zealand. Since recommencing operations, sales in New Zealand have rebounded to prior levels. CYG's exposures to the infrastructure, commercial construction and mining sectors stands it in good stead to continue to deliver improved financial performance into the medium term. Cost savings implemented in late FY20 and early FY21 should also positively augment earnings in the short term. The major non-operational impact has been the inability to close the H.I.S Hose acquisition due to the Victorian Government metropolitan Melbourne lockdown. We expect this acquisition to close when lockdown restrictions ease.

Source: Coventry Group Ltd, Sandon Capital analysis

Investment – Boral Ltd (ASX:BLD)

Portfolio Weighting	3.0% (at 30-Sep-20)
Description	BLD is an international building products and construction materials group with three divisions: the integrated construction materials business of Boral Australia; USG Boral, a plasterboard joint venture in Asia, Australia and the Middle East; and Boral North America, a building products and fly ash business. Employing more than 23,000 employees and contractors, BLD's operations span 783 operating and distribution sites globally
Financial Status	BLD reported a poor FY20 result. Whilst revenues held up reasonably well (down 1% YoY), net profit after tax, but before significant items, was down 57% YoY. All of Boral's divisions reported earnings down at least 25% with the North American segment being the worst performer. Despite having $2.2bn of net debt and taking a large impairment ($1.3bn) against the North American business, BLD remains well within banking covenants and has no plans to raise equity. Following the portfolio review announced by the new MD & CEO, we expect assets to be sold and proceeds used to pay down debt.
COVID-19 Impact & Outlook	Production curtailments and associated higher costs arising form the pandemic were key drivers of BLD's poor FY20 result. Performance has improved in early FY21 with less disruptions and improved margins, despite mildly weaker revenues. In our opinion, the results from the portfolio review (late October) are more important than the shorter term outlook for earnings. We expect asset sales, with many investors having already called for the North American assets to be sold. We believe BLD should also look at a functional separation of its property assets and landfill royalty to enable optimisation of these assets and for the market to value them appropriately.

Source: Boral Ltd, Sandon Capital analysis

Other Portfolio Investments

- A number of other portfolio positions have had material announcements over the past few months:
- Infigen Energy
  - Infigen was previously a core position for the portfolio. Similar to a number of other investments over the years, the company was undervalued by the equity markets before a strategic acquiror pounced. In the case of Infigen, a bidding war broke out with Spanish company, Iberdrola, ultimately being successful
- MG Unit Trust (4.7% of portfolio)
  - Liquidators were appointed to the company in late June and it was delisted from the ASX soon after. We expect to receive an interim distribution of 43cps in the near future

Outlook

- We expect volatility and uncertainty in global financial markets have become the new normal
- Key themes driving volatility:
  - COVID-19
  - US elections
  - China ambitions
- The pandemic has continued to drive a deeper divide between market valuations. Eye-watering prices are being paid for companies seen as offering potential revenue growth while many lower growth businesses are sold ever more cheaply
- We will continue to invest at prices below intrinsic value and apply our activist techniques
- We believe our fundamental approach will continue to uncover attractive opportunities with shareholder activism unlocking value

About us

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