

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

19 November 2020

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

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SNC FY20 Result highlights

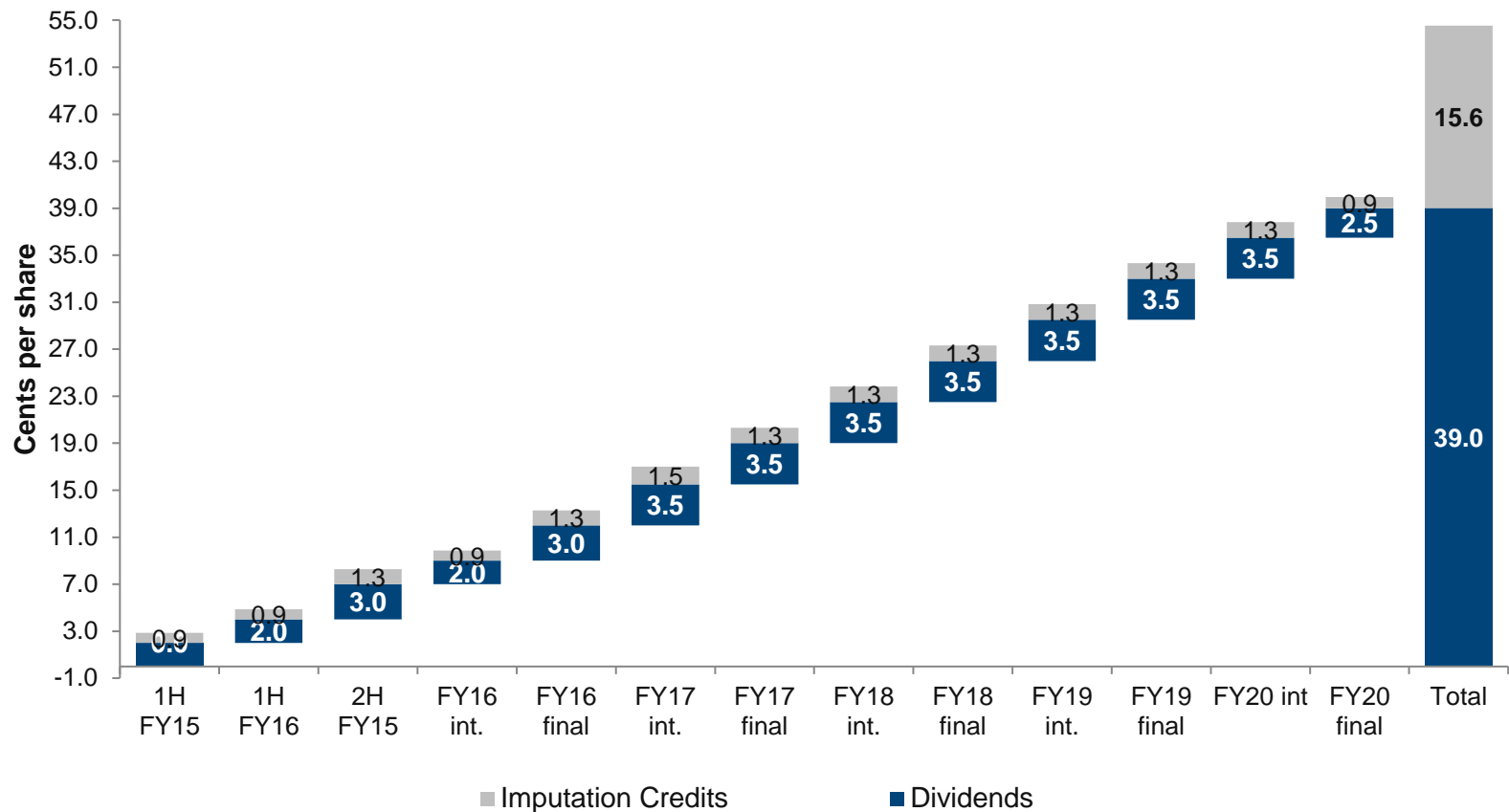
- Revenue (\$7,667,281) (predominantly unrealised losses)
- Net loss after tax (\$8,663,844)
- Dividend yield of 6.7% (9.2% grossed up)¹
- A 2.5 cps fully franked final dividend was paid on 12 Nov 2020
 - This brings total fully franked dividends paid since listing to 39.0 cps
 - The Board anticipates 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 31 October 2020, SNC has:
 - profit reserves of 9.6 cents per share, from which directors can resolve to pay future dividends²
 - a franking account balance of 9.8 cents per share²

1. Assumes market price of \$0.75 on 18 November 2020

2. After payment of final FY20 dividend and using 109,939,843 shares on issue

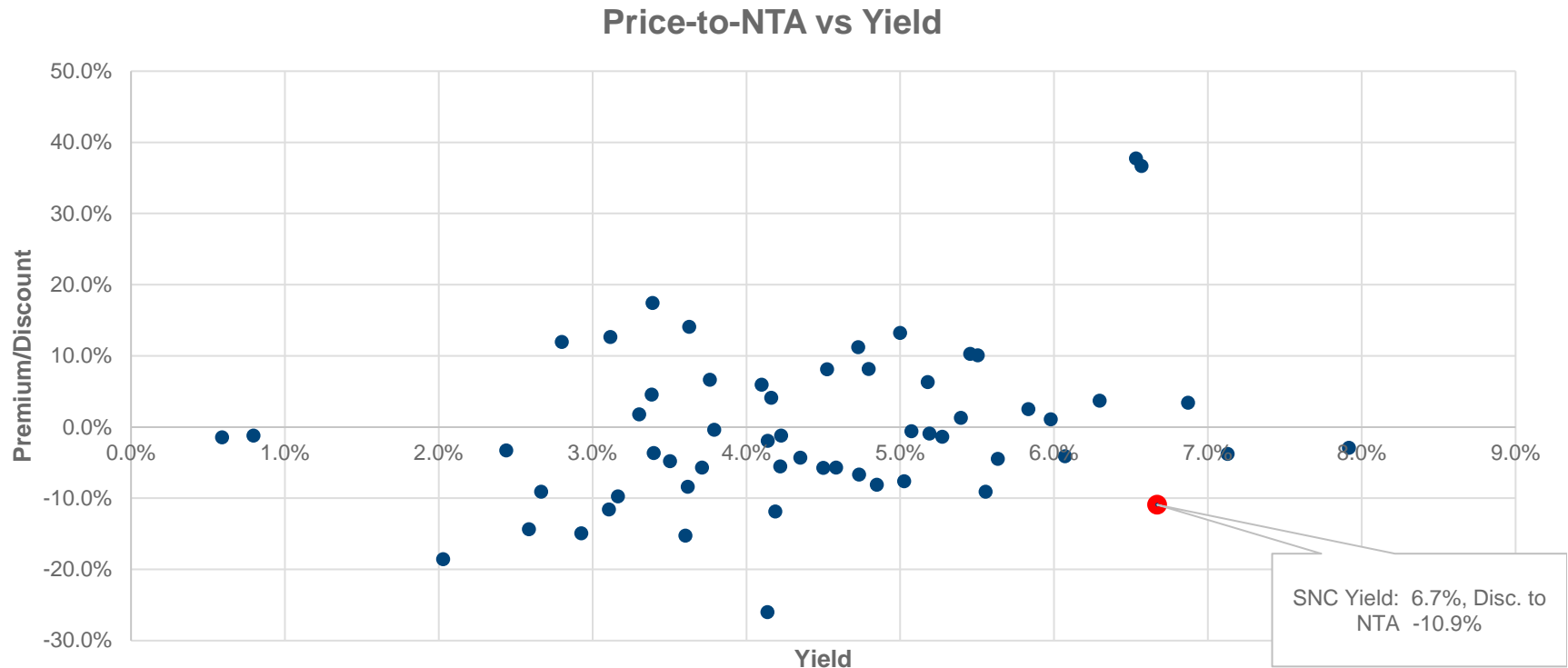
Dividends

➤ 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 6.7% (9.2% grossed up for franking) and a discount to NTA of 10.9%



Source: Bloomberg, Sandon Capital Analysis

n=58 dividend paying LICs investing in Australia listed investments, SNC Yield calculated using \$0.75 share price.

Investment performance to 31 October 2020

Gross Performance	1 Month	Financial YTD	Calendar YTD	2 yr p.a.	3 yr p.a.	Since inception p.a.
SNC^{1,2}	2.9%	18.0%	-3.8%	3.4%	6.1%	8.0%
All Ords Accum Index	2.1%	3.2%	--7.5%	5.7%	4.8%	7.0%
outperformance	+0.8%	+14.8%	+3.7%	-2.3%	1.3%	+1.0%

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

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

Current activities

➤ Demerger of Deterra Royalties Ltd (DRR)

- We began a campaign in November 2016 pushing for the demerger of the MAC Royalty from Iluka Resources Ltd (ILU)

➤ Boral Ltd (BLD)

- In September, we launched a public campaign highlighting the significant value of the property and royalty assets as well as the untapped potential of the Australia Construction Materials business

➤ Alterra Ltd (1AG)

- A long running campaign, largely conducted in private, has led to executive changes and recapitalisation to fund the company's new agribusiness strategy

➤ Private Campaigns

- We are currently conducting several campaigns in private, some of which may become public

➤ Accumulating new positions

- Recent market conditions have provided opportunities to build stakes in companies we consider very attractive

Portfolio snapshot – selected companies

- Spectra Systems Corporation
- Fleetwood Corporation Ltd
- Consolidated Operations Group Ltd
- BCI Minerals Ltd
- Coventry Group Ltd
- Boral Ltd
- Iluka Resources Ltd
- Monash Absolute Investment Company Ltd
- Tabcorp Ltd
- Deterra Royalties Ltd

Investment – Spectra Systems Corporation (LSE:SPSY)

Portfolio Weighting	11.3%
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%
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.
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 Australians embark on local holidays. In contrast, the Accommodation Solutions business has been a strong beneficiary of COVID restrictions as modified mining rosters have resulted in improved occupancy at Searipple. There have been a number of positive changes at FWD announced in the very recent past, including the announcement of the departure of the CEO/Managing Director. Furthermore, FWD announced its intention to appoint Mr John Klepec to the Board after the AGM. We believe Mr Klepec is an outstanding addition to the Board and support his appointment. The AGM will be held on 18 November 2020 and we expect the company to provide an update including on recent events.

Source: Fleetwood Corporation Ltd, Sandon Capital analysis

Investment – Consolidated Operations Group Ltd (ASX:COG)

Portfolio Weighting	5.1%
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% vs FY19. 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, an encouraging statement regarding the Board's confidence in the future direction of the company.
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 customers of the COG broker network. COG recently increased its holding in Westlawn Finance to 51% and announced the acquisition, of 80% of Access Capital, the largest asset finance broker in S.A. and the N.T. Westlawn provides the opportunity for MIS funding of loans and Access further diversifies the national network. In an update to the market in late October, COG noted that its NPATA grew 129% in the first quarter of FY21.

Source: Consolidated Operations Group Ltd, Sandon Capital analysis

Investment – BCI Minerals Ltd (ASX:BCI)

Portfolio Weighting	4.9%
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.

Investment – Coventry Group Ltd (ASX:CYG)

Portfolio Weighting	4.0%
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 also generated free cash flow 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 recently increased its securitised trade receivables facility to \$40m for a 3-year term.
COVID-19 Impact & Outlook	<p>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.</p> <p>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 in the next few weeks. In mid-October, CYG noted that the solid momentum in FY20 had continued into FY21 with 1Q sales up 7.7%.</p>

Source: Coventry Group Ltd, Sandon Capital analysis

Investment – Boral Ltd (ASX:BLD)

Portfolio Weighting	3.0%
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 sites globally
Financial Status	BLD reported a poor FY20 result. Whilst revenues held up reasonably well (down 1% YoY), net profit after tax, 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, we expect assets to be sold and proceeds used to pay down debt.
COVID-19 Impact & Outlook	Production curtailments and associated higher costs arising from 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. At its AGM in late October, BLD handed down the long awaited results from its portfolio review. The company announced the sale of its 50% share in the USG Boral plasterboard JV for a compelling price of US\$1.015bn. In Australia, BLD will aggressively attack its bloated cost base and will also look to realise greater value from its property portfolio. In North America, BLD will look to sell its underperforming building products business. Whilst it is only early days in the tenure of new Managing Director, Zlatko Todorovski, we have been impressed by some of the early moves that he has made.

Source: Boral Ltd, Sandon Capital analysis

Investment – Iluka Resources Ltd (ASX:ILU)

Portfolio Weighting	2.7%
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. Iluka recently demerged its royalty business (Deterra Royalties) and is now a standalone mineral sands company. We believe the company will allocate capital and operate more efficiently going forward without the safety blanket of the royalty buttressing its cash flows.

Source: Iluka Resources Ltd, Sandon Capital analysis

Investment – Monash Absolute Invest. Co. Ltd (ASX:MA1)

Portfolio Weighting	2.5%
Description	MA1 is a listed investment company (LIC). The strategy of the company is to invest in a portfolio of predominantly Australian listed securities, as well as some pre-IPO securities in order to target an absolute return.
Financial Status	Despite the pandemic induced volatility in equity markets, MA1 performed well in FY20 growing pre-tax Net Tangible Assets (NTA) by 6.1%. The company's high turnover and short duration holding period strategy was well suited to the volatile markets experienced in the first half of the calendar year. At 30 June 2020, the company had a portfolio of ~\$52.6m, which comprised listed investments of \$43.0m, unlisted investments of \$1.4m and cash of \$8.2m.
COVID-19 Impact & Outlook	As a result of persistently trading at a large discount to NTA, MA1 announced in August 2019 that it would be restructured into an exchange managed traded fund (ETMF) such that investors would be able to sell their holdings at NTA, rather than at the large discount that had prevailed since the company listed. Almost 15 months later, the ETMF conversion still has not occurred and at its recent AGM, the company could provide no definitive timetable as to when this conversion would occur. To expedite the process, Paul Jensen was added to the Board of MA1 in November 2020. Paul was formerly a director of Sandon Capital Investments Ltd, Sandon's own LIC and has significant experience on a number of LICs in the Australian market.

Investment – Tabcorp Ltd (ASX:TAH)

Portfolio Weighting	2.5%
Description	TAH is a diversified gambling group, employing more than 5,000 people. It is the largest provider of lotteries, Keno, wagering and gaming products and services in Australia.
Financial Status	TAH reported a weak FY20 result with EBITDA down 11.5% versus the prior corresponding period. The COVID-19 induced lockdowns causing significant disruption to TAH's Wagering and Gaming Services businesses in the second half. Importantly, the crown jewel Lotteries business performed very well throughout the year and demonstrated the resilience and durability of its business model, in contrast to other infrastructure businesses such as toll roads and airports. As a result of its weak earnings performance, TAH had to renegotiate covenants with its banks and was forced to cut its final FY20 dividend. Since then, the company has raised \$600m through an entitlement issue and sold its stake in Jumbo Interactive for gross proceeds of ~\$98m, thereby placing the balance sheet in a much stronger position.
COVID-19 Impact & Outlook	The COVID-19 pandemic induced disruption to TAH's Wagering and Gaming Services businesses looks to be quickly receding given Australia's success in suppressing coronavirus. We expect this to drive an improving earnings outlook in the second half of the fiscal year. There was recent speculation in the press that private equity was looking to acquire part or all of TAH. As a result of the improvements that have been seen at TAH in the past 6 months, we believe now is not the time to engage with an opportunistic private equity predator. Conversely, we believe a better way to reflect long-term sustainable value is to demerge the Lotteries business such that a standalone entity can be appropriately valued by the market.

Source: Tabcorp Ltd, Sandon Capital analysis

Investment – Deterra Royalties Ltd (ASX:DRR)

Portfolio Weighting	2.1%
Description	DRR, recently demerged from Iluka, is Australia's largest royalty company. It's cornerstone asset is an iron ore royalty associated with BHP Billiton's Mining Area C (MAC) province in Western Australia.
Financial Status	DRR was demerged from Iluka with net debt of A\$14m, a very manageable amount given the strongly cash generative nature of its royalty business model. The company also has a \$40m debt facility for working capital and general corporate purposes. Whilst production from BHP's MAC province is expected to more than double over the next few years, DRR does not have to contribute any capital expenditure for this growth. DRR's dividend policy is to pay out 100% of net profit after tax, commencing with the first set of results reported in February 2021.
COVID-19 Impact & Outlook	The onset of the COVID-19 pandemic had little impact on the timeframe for the demerger of DRR from Iluka and it was completed in October 2020. The iron ore price, and therefore DRR's earnings and cash flows, have been positively impacted by the impact that COVID-19 had on iron ore production, particularly in Brazil. We do not expect the iron ore price to be sustained above US\$100/t over the long term, and it appears neither does the market given an iron ore price of \$70/t or less looks to be capitalised in the DRR share price. DRR has stated that it will be looking to grow and build a portfolio of royalties focused on production or near production assets, primarily in Australia in the bulk commodities, precious metals, base metals, battery materials and energy sectors. DRR has a very conservative Board and management team so we expect the acquisition of royalties to be slow and considered.

Source: Deterra Royalties Ltd, Sandon Capital analysis

Outlook

- We expect volatility and uncertainty in global financial markets have become the new normal
- Key themes driving volatility:
 - COVID-19
 - US political environment
 - Global monetary and fiscal policy
 - 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 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

➤ Contacting us:

Enquiries about your shareholding:

Link Market Services

1300 554 474 (toll free within Australia)

Investment and other general enquiries:

Gabriel Radzynski

02 8014 1188 or 0408 936 357

info@sandoncapital.com.au