

8 October 2024

Sandon Capital Investments Ltd Shareholder update

Dear Fellow Shareholders,

The 2024 reporting season was a good one for most of our investments. Those that have demonstrated consistent operational and financial performance over the past few years continued that trajectory.

The ability to buy mispriced or undervalued assets typically arises because their status quo is not working. Our investment approach seeks to change the status quo of such businesses. Changes at board level are usually required. Once such changes are made it can take time for change to flow down into strategy and management. These changes, which can include people and objectives, can then take time to deliver results. Some, like Global Data Centres, can deliver quite rapid results once those changes occurred. Others, like Fleetwood Ltd, need to work carefully and methodically through people and operational issues over a number of years.

The 2024 results confirm that a number of portfolio companies that had been dealing with such longer-term legacy issues, have now put those in the rear-view mirror and look set to reward us with improved performance moving forward.

This letter provides some brief comments from reporting season for some of our largest positions. Combined, these comprise 61% of the current portfolio. All share prices are as at 20 September 2024 and all earnings estimates are broker consensus figures obtained from Bloomberg.

Spectra Systems plc (LSE:SPSY)

Share price (GBP)	235.0
Market capitalisation (USD)	\$151.0m
Net debt/(cash) (USD)	(\$1.7m)
CY25E P/E	8.1x

Sources: Bloomberg, Company reports, LSE announcements, Sandon Capital analysis

SPSY is a US based technology company listed on the London Stock Exchange specialising in security technology that includes software and advanced materials for use in banknotes, tax and postage stamps, product authentication and gaming. Its clients include a number of the world's central banks.

SPSY reported a solid 1HCY24 result with revenues increasing 25%, adjusted EBITDA increasing 33% and adjusted earnings per share (EPS) up 4%. The improvement was driven by the recent acquisition of Cartor (completed in late CY23), organic growth from the existing business and initial revenue recognition from the recently announced sensor manufacturing contract with an existing central bank customer. EPS growth is set to accelerate in the second half of the year, with the company stating it is comfortable with current consensus earnings estimates, implying ~60% EPS growth for the full year.

SPSY has a number of near- and longer-term organic growth opportunities, which we believe will continue to drive earnings growth for the next 5+ years. Organic growth will come from selling more products to

existing customers, as well as opening the sales channel to new customers. The strong balance sheet provides the opportunity to supplement organic growth with mergers and acquisitions (M&A). Larger M&A opportunities will become viable over the next 12-24 months as strong cash flows are generated from the existing business as well as the delivery of the major central bank sensor contract (commencing 2Q25). Once SPSY reaches a certain scale, we believe a listing on the NASDAQ will be more appropriate than the current listing on the LSE AIM.

Global Data Centres (ASX: GDC)

Share price	\$3.25
Market capitalisation	\$251.1m
Fair value NAV	~\$3.55

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

GDC languished for years as an ASX-listed vehicle. Its share price in early 2023 reflected a more than 40% discount to its reported net assets per share. Once GDC announced its “value realisation” strategy in April 2023, the monetisation of data centre assets in its portfolio has moved quickly. GDC has been able to realise its investments at a significant premium to the net asset values reported prior to the change in strategy. Highlights included the sale of its stake in French data centre business, Etix Everywhere, for \$175 million, a 52% premium to the reported carrying value, and the sale of hyperscale data centre company AirTrunk, in which GDC has an indirect stake of ~1%. This is expected to yield GDC ~\$123 million, a 68% premium to the reported carrying value. We expect GDC will distribute most of the sale proceeds to its unitholders over coming months, though the timing is yet to be determined.

GDC has been an exceptional investment for Sandon Capital Investments and is a very good example of the outcomes that can be achieved when the interests of a management team and investors are aligned. We congratulate David Yuile and his team at Lanrik Partners Pty Ltd, the investment manager of GDC, on their pragmatic approach which has resulted in an outstanding outcome for unitholders.

Fleetwood Ltd (ASX: FWD)

Share price	\$1.805
Market capitalisation	\$169.9m
Net debt/(cash)	(\$39.3m)
Enterprise value (EV)	\$130.6m
Perth property value	(\$25.0m)
EV adjusted for Perth property	\$105.6m
FY25E P/E multiple (ex-cash, property)	~5.5x
FY25E dividend yield	~11%

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

FWD has three business units: (i) Building Solutions is Australia’s largest modular builder, (ii) Community Solutions owns and manages accommodation facilities in Karratha (Searipple) and Port Hedland (Osprey) in Western Australia, and (iii) RV Solutions supplies parts, accessories and services to the recreational vehicle market.

After returning to profitability at the Group level in FY23, FWD continued to build upon the solid foundations that have been put in place. The Building Solutions business returned to profitability in FY24 following two years of losses arising from legacy contracts entered into under previous management. It signed some important contracts with various state government agencies towards the end of the fiscal year

that should help deliver continued earnings growth for the foreseeable future. We expect FWD to be a significant beneficiary as the cost, efficiency and environmental benefits of modular construction become better known and the building technique is adopted more broadly. The education, retirement lifestyle, affordable housing and defence sectors are likely to provide significant tailwinds to this segment over the medium term.

The Community Solutions business delivered strong and growing earnings despite average occupancy of only 34% at Searipple in FY24. FY25 occupancy at Searipple is already contracted at 65% (nearly twice that of FY24) and is underpinned at high levels for a number of years. Demand from projects across the fertiliser, energy and infrastructure sectors in addition to existing plant shutdowns/turnarounds that occur on a regular basis could increase occupancy further.

If the trends in these two businesses continue, we expect to see earnings and cash flow grow strongly for at least the next three years. By virtue of the company's 100% dividend payout ratio, we also expect fully franked dividend income to grow in line with earnings. After a number of years resolving legacy issues and resetting the business, we consider FWD is now extremely well placed to deliver for shareholders.

COG Financial Services Ltd (ASX: COG)

Share price	\$0.925
Market capitalisation	\$180.7m
Net debt / (cash) ¹	(\$43.5m)
FY25E P/E multiple (ex-cash)	~5.2x
FY25E dividend yield	~9.4%

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

COG has three business segments – Finance Broking & Aggregation (**FB&A**), Asset Management & Lending (**AM&L**) and Novated Leasing (**NL**). The company is Australia's largest asset finance broker and aggregator to small-to-medium enterprises (**SME**) and has a truly national footprint with a meaningful presence in each state and territory. COG's position has allowed it to become more attractive to brokers and their customers by offering a wider range of products at more attractive prices.

COG's awful share price performance is in direct contrast to its operational results. COG's underlying businesses demonstrated another year of resilient growth in FY24 with core net profit before amortisation (NPATA) up 12%. Exceptionally strong performance in the NL business was partially offset by some softness in the FB&A and AM&L businesses. Rapidly rising interest rates affect parts of those businesses as re-pricing takes time to pass through the portfolio. Now that rates appear to have stabilised, we expect those headwinds to dissipate in the next 6-12 months. If interest rates fall, tailwinds should emerge.

The cash generative nature of COG's business model was again on show in FY24 with the company paying out a large dividend (current yield >9%), investing in bolt-on acquisitions and increasing its cash balance, which now stands at >\$67m (proportionate, unrestricted). The company also has headroom under its acquisition finance facility. This sets the company up well to make further acquisitions in the year ahead, increasing its scale and making it even more attractive to brokers and customers. The "network effect" in COG's business is very powerful and the distribution footprint that it has built is almost impossible to replicate.

¹ Proportionate share of unrestricted cash less drawn amount of corporate acquisition finance facility

Coventry Group Ltd (ASX: CYG)

Share price	\$1.215
Market Capitalisation	\$141.9m
Net debt / (cash)	\$47.3m
Enterprise Value	\$189.2m

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

CYG supplies industrial products and services to the mining, infrastructure, energy, manufacturing, construction, agriculture and defence industries through its two divisions: (i) Trade Distribution, which distributes fasteners and other industrial products through a network of 57 branches in Australia and 22 branches in New Zealand, and (ii) Fluid Systems, which designs, manufactures, and supplies hydraulics, lubrication, fire suppression and refuelling systems and products through 15 branches in Australia.

CYG reported its 7th consecutive year of revenue and earnings growth in FY24, with revenue up ~3% and EBITDA up ~22%, each on the prior corresponding period (pcp).

The company is now demonstrating positive operating leverage, with earnings growing significantly faster than revenues. This has been a long time coming and is a function of two initiatives:

- (i) the improved service proposition allowing the company to raise prices (sell side), and
- (ii) the increased size of the company allowing it to extract better prices and working capital terms from its suppliers (buy side).

We expect another year of revenue and earnings growth in FY25, supported by the aforementioned buy and sell side initiatives as well as the recent acquisition of Steelmasters Group (Steelmasters). Steelmasters is a leading Australasian manufacturer and supplier of industrial and speciality fasteners through its network of 12 branches (four in New Zealand and eight in Australia). We consider Steelmasters to be extremely complementary to CYG's existing operations and expect the acquisition to have a materially positive impact on CYG's earnings, cash flow and value.

CYG has also become better at managing working capital, so is now generating solid free cash flows. The multi-year costs of implementing a companywide Enterprise Resource Planning (ERP) upgrade have masked this improvement. With this project set to complete in December, we expect CYG to generate in excess of \$15 million of annual free cash flow. We expect this money to be used for debt reduction, dividend increases and acquisitions.

Magellan Financial Group Ltd (ASX: MFG)

Share price	\$9.61
Market capitalisation	\$1,737.0m
Net debt / (cash) ²	(\$185.7m)
Investments ²	(\$894.5m)
Enterprise value	\$656.7m
FY25E P/E multiple (ex-cash, investments)	~4.6x
FY25E dividend yield	~5.8%

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

² Adjusted for the purchase of a 29.5% stake in Vinva Asset Management

MFG is an Australian-based global funds manager that invests across three strategies: Global Equities, Infrastructure Equities and Australian Equities. MFG was established in 2006 and became a leading asset management franchise in Australia, especially among retail investors and independent financial advisers.

We identified MFG as materially undervalued and in need of change in early 2023. After having engaged with management, we released a presentation that articulated a 5-point plan in June 2023:

Recommendation	Outcome
1. Return excess capital to shareholders	WIP
2. Prioritise the existing business	✓
3. Review the cost base	✓
4. Provide further Share Purchase Plan relief	✓
5. Accelerate Board renewal and improve Board diversity	✓

We conducted a very public campaign in the lead-up to the 2023 AGM, which galvanised shareholder opposition to the then board and strategy. Prior to the release of the notice of meeting, the company announced board and management changes. The AGM still dealt a rebuke with more than 58% of shares cast against the remuneration report.

Since then, much of what we recommended was enacted by new management. This has led to a stabilisation of operational performance at MFG and a reset of investor perceptions. We applaud the new board and management for tackling these issues. The rapid outflow in Assets Under Management (AUM) that commenced in late 2021 has been cauterised, with AUM now >10% above the levels seen in late 2023. Many of the legacy issues that were impacting the company are now in the rear-view mirror and the refreshed board and management team has significant experience in running successful funds management businesses.

Capital management remains a point of contention for us. MFG owns a number of non-core investments that we believe the equity market materially undervalues; shareholders would be best served if these assets were monetised. Nevertheless, we have been encouraged by the recent increase in the tempo of the on-market share buyback and look forward to the outcome of the capital management review, expected with the 1HFY25 result in February 2025.

IDT Australia (ASX: IDT)

Share price	\$0.12
Market Capitalisation	\$51.6m
Net debt / (cash)	(\$2.8m)
Enterprise Value	\$48.7m
NTA per share (statutory) ³	\$0.070
NTA per share (replacement value) ³	\$0.228

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

IDT owns strategically valuable (and underutilised) pharmaceutical manufacturing assets in Melbourne. The company's strategy was reset in late 2022 by the reconstituted Board and new CEO, Paul McDonald. The new team decided to focus on the legacy active pharmaceutical ingredient (**API**) market as well as two growth opportunities:

- i) Advanced Therapies, which includes the fast-growing mRNA and cancer-targeting antibody drug conjugation (**ADC**) technologies, and

³ Adjusted for the Entitlement Offer completed in July 2024

- ii) the burgeoning medicinal cannabis and psychedelic markets to treat mental health problems.

We have continued to support IDT by participating in capital raisings, the first in June 2023 (at 6 cents per share) and the most recent in June 2024 (at 9 cents per share). Concurrent with the latest capital raising, IDT disclosed it had received a non-binding indicative offer at a price of 15 cents per share from Myndbio Pty Ltd. The Board provided the proponent with non-exclusive access to conduct due diligence enquiries. To date, no firm offer has been made and there is no guarantee one will be made.

The announcement of a number of important contract wins over the past 6 months augurs well for the company meeting its target of delivering positive net operating cash flow before the end of calendar 2024. In the meantime, we expect the company's value to be underpinned by its pharmaceutical manufacturing assets. In a recent market update, IDT disclosed the replacement value of its facility was \$88.8 million, equating to a value of almost 23 cents per share for the entire company. Importantly for us, the cost of replacing the physical facilities does not include the time and cost that would be incurred obtaining TGA and US FDA manufacturing licenses. We remain confident in the potential at IDT.

BCI Minerals Ltd (ASX: BCI)

Share price	\$0.285
Market capitalisation	\$822.1m
Net debt / (cash)	(\$145.8m)
Net (cash) from asset sale	(\$60.1m)
Investments	(\$6.7m)
Enterprise value	\$609.4m
NTA per share	\$0.274

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

BCI is developing the world class Mardi salt and potash project in Western Australia, having invested over \$690 million in the project to 30 June 2024. Mardi is rare amongst resources projects, having an inexhaustible resource (seawater) that requires minimal capital expenditure once construction of the project is complete and production has commenced.

The last 12 months have seen a number of significant achievements at BCI, including:

- Securing full funding for the salt-first Mardie Project, comprising \$981 million in debt and \$400 million in new equity
- Divesting the Iron Valley iron ore royalty assets for a good price
- Concluding binding offtake agreements for the sale of the Mardie Project's premium-grade salt to Wanhua Chemicals in China and Chandra Asri Petroleum in Indonesia
- \$218 million of construction spend, with the salt-first project 44% complete as at 30 June 2024

BCI continues to achieve regulatory and operational milestones. It remains on track for the first shipment of salt in the December quarter of 2026. As a producer, the company should become a significant supplier of high-quality industrial salt to global markets for many decades to come. Over the next 12 months, we look forward to further progress on the construction of the salt-first project, as well as progress towards a final investment decision on the sulphate of potash (SOP) plant.

Midway Ltd (ASX: MWY)

Share price	\$0.90
Market capitalisation	\$78.6m
Net debt / (cash) ⁴	(\$6.4m)
Net (cash) from asset sales	(\$32.4m)
Enterprise Value	\$39.8m
NTA per share ⁴	\$1.48

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

MWY is one of Australia's largest wood fibre processors and exporters with mills in Geelong, Myamyn, Brisbane, Bell Bay and Melville Island. The company owns ~14 hectares of land at Geelong Port and is developing an asset management business specialising in the management of forests for voluntary carbon offsets.

FY24 was a year where MWY finally delivered some long-standing objectives. The long-awaited grain strategy will help to defray the punitive take-or-pay agreement with the Geelong Port. As part of the grain strategy, the company monetised around a quarter of its valuable land at Geelong Port. The most pleasing aspect of the result was the strong turnaround in financial performance with the company returning to profitability after four years of losses. The profit was augmented by strong free cash flows, with the company reducing inventory to more normalised levels and receiving further proceeds from the historical plantation estate sale. This allowed the company to resume paying normal dividends, as well as announcing special, fully franked dividends of 19.5 cents per share.

Shareholders have also begun to see more clearly the opportunities in the company's burgeoning forestry and carbon management business. Whilst this business is in its formative stages and not yet profitable, we did see some important progress during the year. In addition to managing in excess of 10,000 hectares of forestry projects for Munich Re, one of the world's largest insurance companies, MWY announced that it has been appointed by Rio Tinto, one of the world's largest mining companies, to develop and manage 3,000 hectares of Pongamia seed farms to test its viability as a sustainable renewable diesel feedstock. With MWY's legacy problems now well and truly in the rear-view mirror, we are encouraged with what the future holds for the company.

Karoo Energy Ltd (ASX: KAR)

Share price	\$1.515
Market capitalisation	\$1,213.9m
Net debt/(cash)	US\$67.8m
Enterprise Value	\$1,315.1m
CY24 P/E multiple	~3.6x

Sources: Bloomberg, Company reports, ASX announcements, Sandon Capital analysis

KAR is an Australian domiciled oil and gas producer with offshore operations in Brazil (Santos Basin) and the United States (Gulf of Mexico). For most of its 20 years as a listed company, KAR was an explorer. The company is now a fully-fledged oil and gas producer. We believe this evolution requires changes to how the company manages its capital. It should leave its explorer's heritage behind and instead deliver cash returns to its shareholders, as do many producers around the world.

⁴ Net cash and NTA per share have been adjusted for the declaration of \$0.161 per share FY24 final and special dividends

KAR began its change from explorer to producer with the acquisition of a Brazilian oilfield. This provided much needed cashflows. If KAR had stopped there, we consider KAR could have become a small profitable oil company – there being nothing wrong with that. But its ambitions were far greater. In December 2023, KAR announced the acquisition of the Who Dat assets in the Gulf of Mexico. We believe they significantly overpaid for the assets and the associated capital raising was poorly executed.

In April 2024, Sandon Capital formed an association with another KAR shareholder. The first phase of our campaign was to encourage a first strike on remuneration at the 2024 Annual General Meeting. Voting at AGMs can be an effective means of communicating dissatisfaction with how a board is stewarding the shareholder's company. At KAR, shareholders sent a very clear message with a "first strike" against the remuneration report and a large protest vote against some of the other resolutions.

In July 2024, KAR released its revised capital allocation framework that included a principle to *"deliver annual capital returns to shareholders of 20-40% of underlying Net Profit After Tax via cash dividends and/or share buybacks"*. KAR also announced a US\$25m on-market share buyback. A maiden dividend of 4.5 cents per share was announced with the 1HCY24 result in late August. Given the low-cost nature and relatively low capital intensity of KAR's oil producing assets, we believe the company has the potential to return significantly more capital to shareholders than the current framework advocates. We consider this, along with sporadic operating performance, to be the key reasons why KAR trades at a significant discount to almost every other oil producing company in the world.

We have been applying our investment approach for more than 15 years. The table below shows calendar year returns for SNC since inception. We believe our approach of sound financial analysis combined with activist techniques to preserve or enhance value, will continue to deliver satisfactory results for our investors. At this point, we're obliged to remind you that past performance is no guarantee, nor indication of, future returns.

Annual Returns (unless otherwise stated)	SNC Gross	S&P/ASX200 Accumulation	Small Ords Accumulation
Calendar 2014	8.7%	5.6%	-3.8%
Calendar 2015	6.3%	2.6%	10.2%
Calendar 2016	27.2%	14.7%	24.7%
Calendar 2017	8.3%	11.8%	20.0%
Calendar 2018	0.0%	-2.8%	-8.7%
Calendar 2019	17.9%	23.4%	21.4%
Calendar 2020	6.7%	1.4%	9.2%
Calendar 2021	34.5%	17.2%	16.9%
Calendar 2022	-25.5%	-1.1%	-18.4%
Calendar 2023	22.4%	12.4%	7.8%
Calendar YTD to 31 Aug 2024	9.0%	9.1%	4.2%

Note: SNC Gross return is after management fees but before performance fees and corporate expenses.

Sources: SNC, Bloomberg

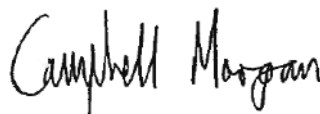
We are grateful for your continued support, confidence and patience, without which we could not do what we do.

On behalf of Campbell Morgan and myself, if you have questions or would like to discuss SNC or the portfolio, please do not hesitate to contact me at 0408 936 357.

Yours sincerely,



Gabriel Radzynski
Chief Investment Officer
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