

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

November 2016

Agenda

- Result highlights
- Dividends
- Investment performance
- Our shareholder activist approach
- Investment objectives and outcomes
- Current activities
- Activist highlights
- Case Studies
- Outlook

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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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FY16 Result highlights

- Revenue up 376% to \$4,653,787
- NPAT up 325% to \$2,212,648
- Dividend yield of 5.4% (7.8% grossed up) with fully franked dividends of 5.0 cps paid in last 12 months¹
- Declared and paid a final fully franked dividend of 3.0 cps
 - SNC has paid 12.0 cents per share of fully franked dividends since listing

1. Assumes closing market price of \$0.92 on 18 November 2016. Fully franked dividends include the 3.0 cps final dividend paid on 2 November 2016, and the 2.0 cps dividend paid on 26 April 2016

Dividends

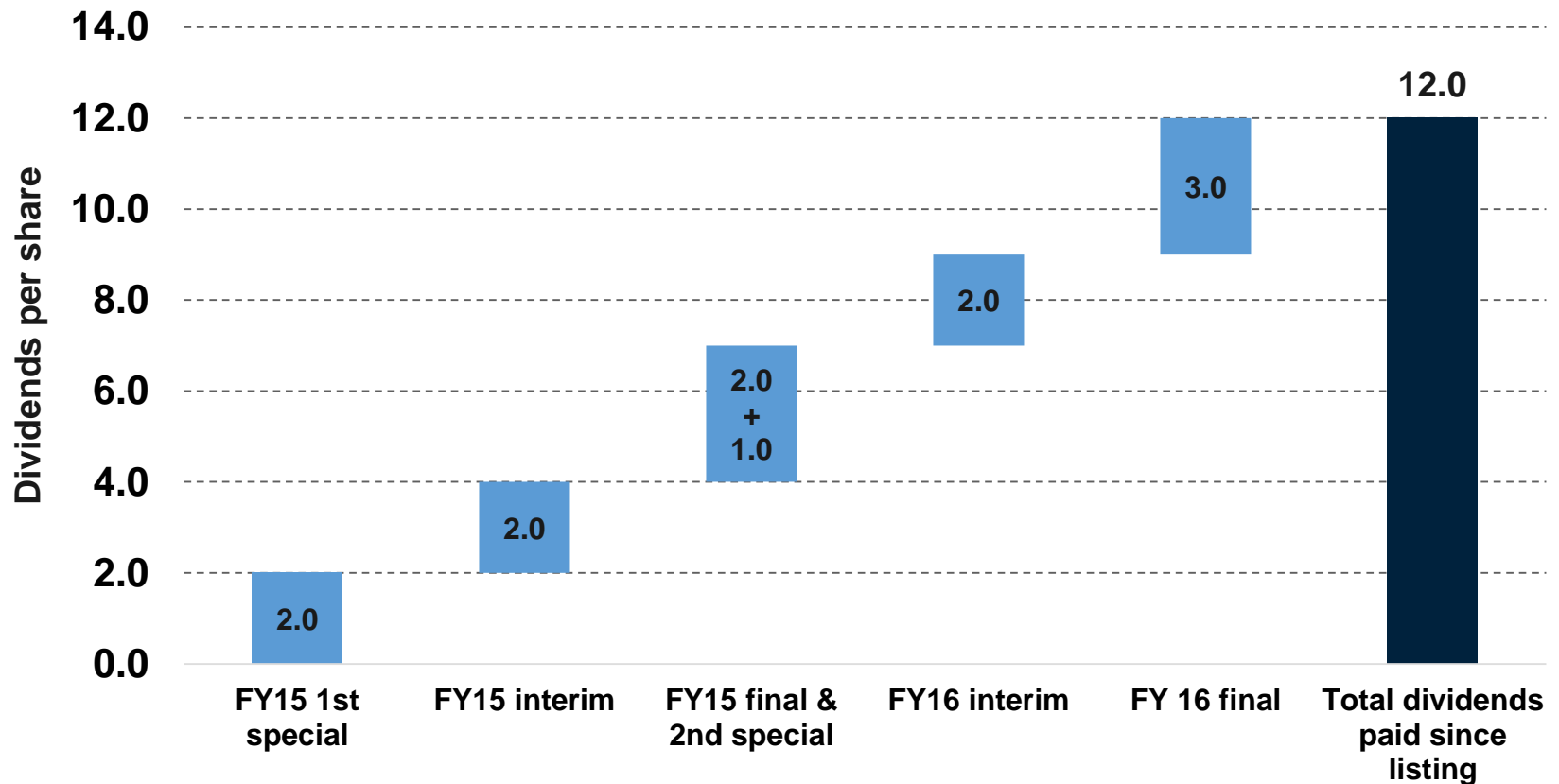
- SNC Directors intend to declare, in early 2017, a fully franked interim dividend of at least 2.0 cents per share¹
- SNC has profit reserves of 5.2 per share as at 30 Oct 2016, from which directors can resolve to pay future dividends¹
- SNC retains franking credits of approximately 4.6 cps available for further fully franked dividends¹

1. In each case, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice

Dividends

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

Fully franked dividends since listing (Dec-13)



Investment performance to 31 October 2016

Gross Performance	October 2016	Financial YTD	1 Year return	2 Years return (p.a.)	Since inception (p.a.)
SNC	2.0%	12.1%	18.1%	12.0%	10.7%
All Ords Accumulation Index	-2.2%	3.0%	6.6%	3.5%	6.6%
Outperformance	+4.1%	+9.1%	+11.6%	+8.5%	+4.1%

➤ Return characteristics:

- Medium term returns above market
- Lower volatility than the market (7.7% vs 12.6%)

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.

Our shareholder activist approach

- We are a 'Value Investor'

- We seek to purchase investments:
 - At prices below our assessment of their intrinsic value, and
 - Where we believe we can apply our activist techniques

- 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 future

- Our investors capital is precious, we will not put it at risk for the sake of being fully invested
 - We typically hold a significant amount of cash in our portfolios
 - Cash allows us to take advantage of opportunities

Investment objectives and outcomes

➤ Sandon Capital Investments Limited's objectives are to:

- Provide an absolute positive return over the medium- to long-term
- Preserve shareholder capital
- Deliver regular and growing dividends, franked to the fullest extent possible¹

➤ Sandon Capital Investments Limited outcomes are:

- Positive absolute returns
 - Gross return of 10.7% per annum since inception during challenging market conditions²
- Capital preservation
 - Pre-tax/Post-tax NTA up 15.8% / 14.1% respectively³
- Regular and growing dividends paid
 - Paid 12.0 cents per share in fully franked dividends since inception

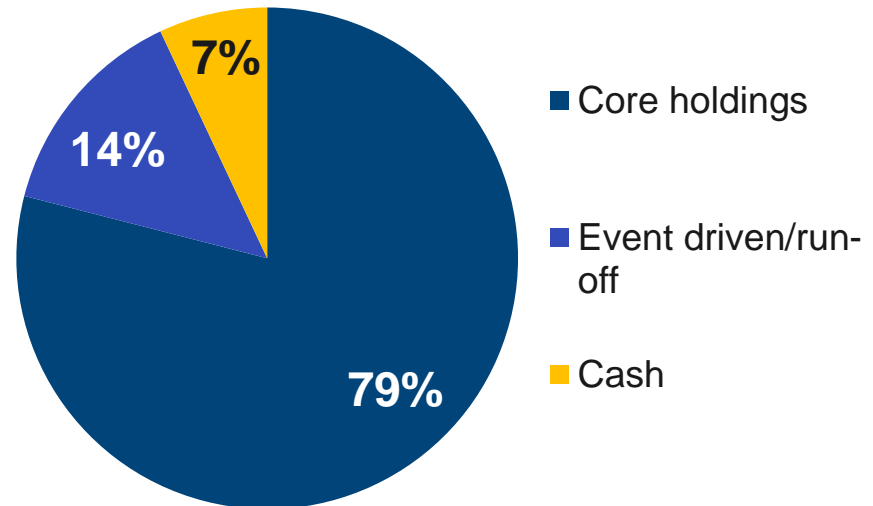
1. This is not intended to be a forecast. It is merely an indication of what SNC aims to achieve over the medium to long term (that is, 3 to 5 years). SNC may not be successful in meeting its objective. Any financial market turmoil or an inability by the Manager, Sandon Capital Pty Ltd, to find and make profitable investments will likely have an adverse impact on achieving this objective. Returns are not guaranteed

2. Gross returns to 31 October 2016.

3. Pre- and Post-tax NTA from 16 Dec 2013 to 31 October 2016, including dividends paid. This figure is not annualised. Annualised figures are 5.2% and 4.7% respectively.

Current activities

- Market conditions are fertile for our investment approach
- We are building positions in several companies where:
 - Shares are trading below:
 - cash backing, and/or
 - our assessment of intrinsic value
 - Strategic focus is needed
 - i.e. diverse companies that need to streamline and companies that need to spin-off valuable assets
 - Companies whose corporate governance & management could do with improvement



Activist highlights during the past 12 months

- Sandon Capital Investments Limited (SNC) has been engaging companies throughout 2015 and early 2016, both behind closed doors and publicly
- Public engagements include:

Name	Thesis/value outline	Engagement
Tatts Group Ltd Mkt Cap > \$5bn	Discount to sum-of-parts, demerger will result in focused businesses and will unlock value	Public release of Sandon Capital analysis, engagement with company, industry experts and shareholders. Now subject of a scheme proposal from Tabcorp Ltd, a proposal we believe undervalues the Tatts lotteries business. Work in progress.
Fleetwood Corporation Ltd Mkt Cap <\$150m	Discount to intrinsic value, need for board changes, strategic rationalisation	Public release of Sandon Capital analysis, engagement with company, industry experts and shareholders. Work in progress.
BlueScope Steel Ltd Mkt Cap > \$2bn	Discount to sum-of-parts, need for significant business changes to deal with industry changes	Public release of Sandon Capital analysis, engagement with company and shareholders. Despite tough industry conditions, management have done a good job of improving operations. Work in progress.
Onthehouse Holdings Ltd Mkt Cap < \$100m	Discount to intrinsic value of core business, need for board change	Campaigned for substantial board changes, including appointment of Sandon Capital (and other) nominees. OTH shareholders recently approved the sale to a consortium at 85 cents per share. Exited (reluctantly)

Case study – Tatts Group (ASX: TTS)

➤ Tatts Group Ltd (TTS)

- Our thesis:
 - Tatts Group individual parts are worth significantly more than the current market price (and Tabcorp Ltd's scheme proposal)
 - The Wagering business (24% FY16 EBIT) has strategic corporate appeal and should be separated from the Group
 - The Lotteries business (65% FY16 EBIT) has attributes that are very similar to infrastructure assets and should be valued accordingly
 - A free standing Lotteries business requires a focused Board and management that can exploit growth opportunities
- We believe the company is worth >A\$5.30 today if separated and potentially more if growth opportunities in Lotteries are pursued
- Tabcorp Ltd's Scheme proposal is well below our assessment of TTS's value.

Case study – Armidale Investment Corporation Ltd (ASX: AIK)

➤ Armidale Investment Corporation Ltd

- Sandon Capital has been a shareholder in AIK since 2009.
- AIK has today evolved into a growing financial services firm, specialising in equipment leasing and asset finance brokerage. It has also become a “platform company” that is consolidating (or “rolling up”) asset finance brokers.
- Asset financing is a large (\$42bn p.a.), yet fragmented industry. Brokers represent approximately 60% of this market. AIK is the largest independent participant, with market share estimated at 6-7%.
- AIK offers significant growth potential and remains, in our opinion, undervalued.
- There are a number of listed companies that share analogous characteristics to AIK,

Growth opportunities	FY16 growth	Analogues
TL Rentals – SME equipment finance	48.4% increase in lease origination	FlexiGroup
Asset finance aggregator/broker (Platform)	23.2% growth in PBT	Smart Group, Eclipx, MacMillan Shakespeare, Austbrokers, Steadfast
Aggregator/broker roll-up	TBA but 2017 is likely to be a big year	All of the above and more

Case study – Fleetwood Corporation (ASX: FWD)

- Fleetwood (FWD) is a manufacturer of modular accommodation, caravans and ute canopies and trays. The company also owns the Searipple village in Karratha and distributes caravan parts and accessories
 - Manufactured Accom. – 100% FY16 EBITDA, Rec. Vehicles – loss making in FY16
- FWD sum-of-the-parts is worth significantly more than its current market value
- The growth in manufactured housing estates (MHEs) should provide a significant tailwind to the manufactured accommodation business for the medium term

Operator	Properties	Location	MHE (conversion)	MHE (greenfield)	DMF	Tourism	Mining
Gateway Lifestyle	53	NSW, QLD, VIC	✓				
Ingenia Communities	26	NSW, QLD, ACT	✓		✓	✓	
Hampshire Villages	7	NSW, VIC	✓	✓			
Aspen Group	5	NSW, WA	✓			✓	✓
Discovery Holiday Parks	54	Australia-wide	✓			✓	✓
Lifestyle Communities	11	VIC		✓	✓		
Living Gems	8	QLD		✓			
National Lifestyle Villages	12	WA, VIC		✓	✓		✓
Palm Lake Resort	25	NSW, QLD, VIC		✓			

Case study – Fleetwood Corporation (ASX: FWD)

- The caravan manufacturing business has been loss making for 3 years whilst competitors are profitable and growing. The status quo needs to change
- The W.A manufactured accommodation business is also generating material losses. The business should be returned to profitability or closed
 - ❑ The recent National Lifestyle Villages contract win is the first step
- The Searipple accommodation village is a property asset housed within a manufacturing company. Consideration should be given as to whether this asset is retained or is worth more to a ‘natural owner’
- The company is in a net cash position and has \$25.7m (42cps) of franking credits, which would allow a significant amount of excess capital to be returned to shareholders tax efficiently
- More information and the full presentation on our thesis can be found at:
www.sandoncapital.com.au/site/images/pdfs/1606_FWD_AU_presentation.pdf

Case study – Smiths City Group Ltd (NZX: SCY)

- SCY is a New Zealand furniture retailer, operating mainly in the South Island. It also owns a consumer finance company that offers financing solutions to its retail customers
- SCY shares have traded below net assets for quite some time. SNC began acquiring shares in August 2015 at under NZ\$0.55. Last reported net assets stand at NZ\$0.954 cents per share
- SCY has faced a number of challenges in recent years, including Christchurch earthquakes, low growth in the South Island economy and a decline in finance company assets
- Under the leadership of a new CEO who was appointed in May 2015, SCY has begun to take positive steps to turn the business around
- There has been significant renewal amongst management ranks and we believe the same needs to occur at Board level
- SCY currently trades at NZ\$0.74¹

¹ As at 18 Nov 2016

Outlook

- We expect volatility and uncertainty in global financial markets have become the new normal
- Key themes driving volatility:
 - China – regional aims/boom/bust?
 - US – President-elect Trump/rising interest rates?
 - Australia – residential property bubble/interest rates/resources/commodity prices?
- This will provide SNC with significant investment opportunities
 - Cash (~7%) is a tool that allows us to capture opportunities
- 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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Notes:

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