

# Sandon Capital

*'If you want to have...better performance than the crowd,  
you must do things differently from the crowd'*

*John Templeton*

## Annual General Meeting Investment Manager Presentation

*10 November 2015*

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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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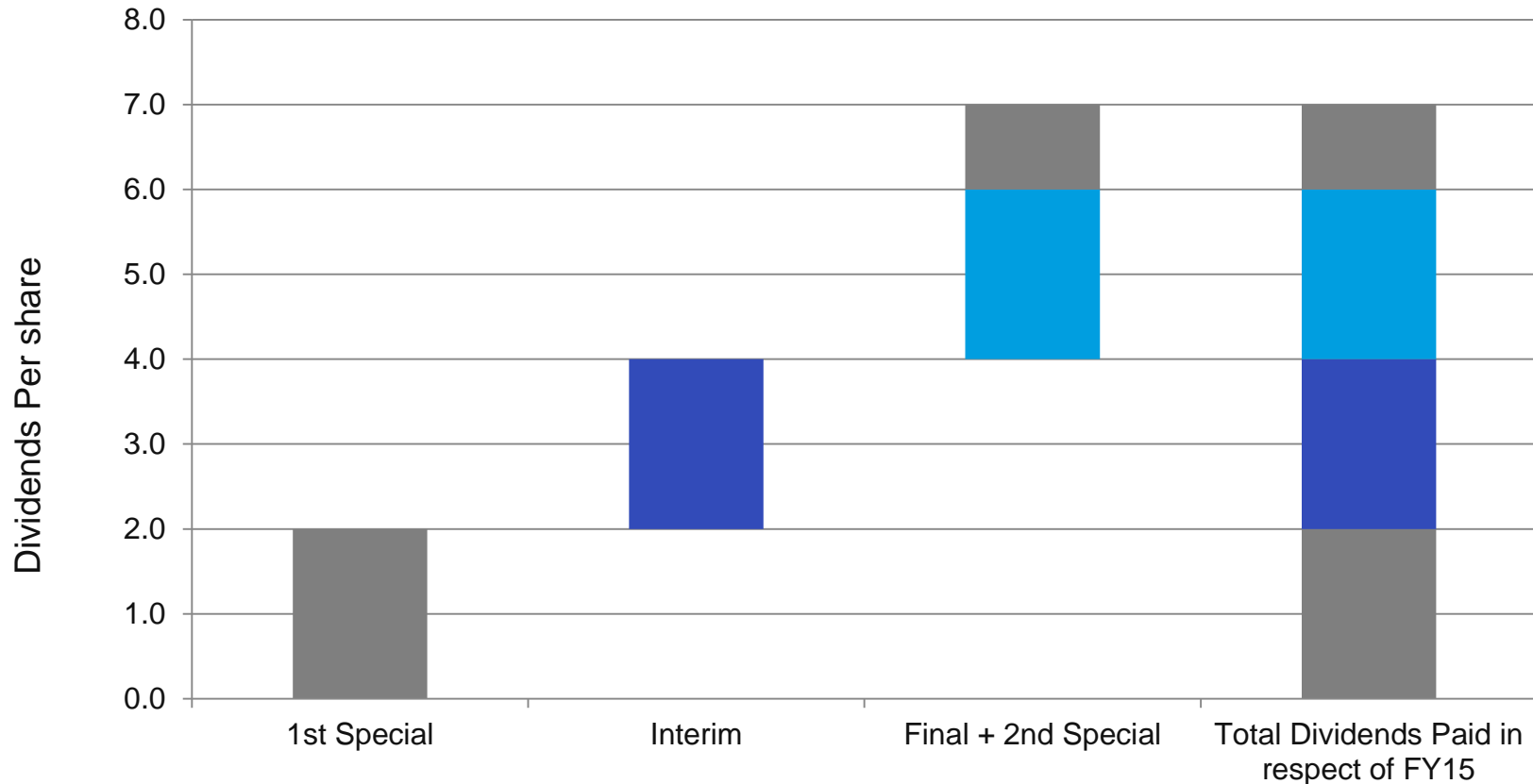
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## SNC FY15 Result highlights

- NPAT up 74% to \$521,188
- Declared final dividends totalling 3.0 cps fully franked, comprising:
  - 2.0 cps Fully Franked final dividend
  - 1.0 cps Fully Franked special dividend
- Dividend yield of 8.3% (11.9% grossed up) with fully franked dividends of 7.0 cps paid in respect of FY 2015<sup>1</sup>
- SNC can pay further fully franked dividends<sup>2</sup>
  - Profit reserves so far this year allow for a further 2.4 cps
  - Franking credits of 6.6 cps<sup>3</sup>

1. Assumes market price of \$0.84 on 9 November 2015. Fully franked dividends include 2.0 cps special dividend paid in November 2014, 2.0 cps interim dividend paid in June 2015 plus the 2.0 cps final dividend and 1.0 cps special dividend paid on 30 October 2015.
2. The Company current has sufficient profit reserves to pay up to 2.4 cents per share fully franked dividends based on the current ordinary shares on issue. Any payment of dividends will be subject to the Company having sufficient profit reserves and the Directors being satisfied it is within prudent business practices.
3. Following the payment of the 2.0 cps final dividend and 1.0 cps special dividend. Refer to Note 6 of the Appendix 4E for details.

## 2015 Fully franked dividends



Source SNC, ASX Releases.

Notes: The 1<sup>st</sup> Special dividend was declared on 29 Aug 2014, paid on 6 November 2015, the Interim dividend was declared on 25 February 2015, paid on 3 June 2015, the Final Dividend and 2<sup>nd</sup> Special Dividend were declared on 25 August 2015 and were paid on 30 October 2015.

## Investment Performance to 31 October 2015

	Pre-tax	Post-tax
<b>NTA as at 31 October 2015</b>	\$0.9567	\$0.9578

The October NTA is after the payment of 3.0 cps of dividends.  
The full monthly NTA report will be issued separately.

<b>Gross Performance to 31 October 2015<sup>1</sup></b>	<b>Financial YTD</b>	<b>Rolling 1 yr return</b>	<b>Since inception (annualised)</b>
<b>SNC</b>	<b>7.1%</b>	<b>6.3%</b>	<b>6.9%</b>
Small Ordinaries Accumulation Index	2.9%	2.4%	3.9%
Outperformance (figures do not tally due to rounding)	<b>+4.1%</b>	<b>+3.8%</b>	<b>+3.0%</b>

### **SNC NTA Performance** (including dividends)

Pre-tax	<b>4.3%</b>	<b>2.2%</b>	<b>3.2%</b>
Post-tax	<b>2.5%</b>	<b>2.4%</b>	<b>3.3%</b>

*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.*

## 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 possible<sup>1</sup>
  
- Sandon Capital Investments Limited has:
  - Provided an absolute positive gross return of 13.3% since inception during challenging market conditions<sup>2</sup>
  - Preserved shareholder capital since inception
    - (Pre-tax/Post-tax NTA up 6.5% / 6.5% respectively)<sup>3</sup>
  - Paid 7.0 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.

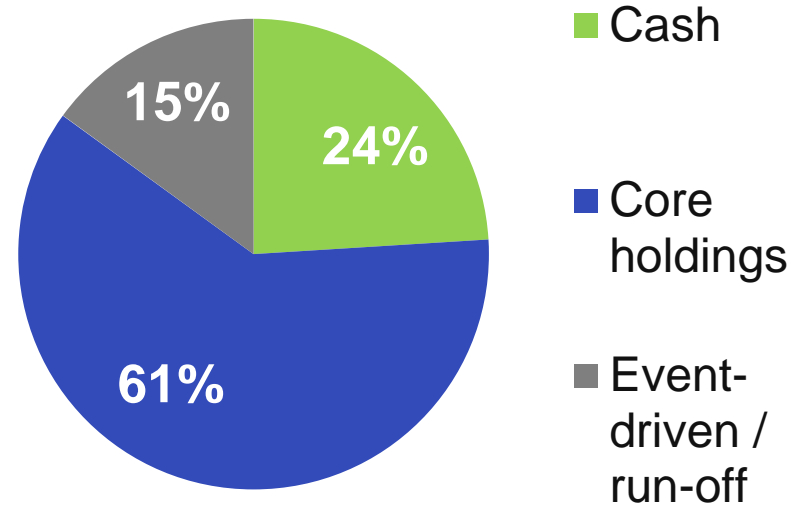
2. Gross returns to 30 October 2015. This figure is not annualised.

3. Pre- and Post-tax NTA from 16 Dec 2013 to 31 October 2015, including dividends paid. This figure is not annualised.

4. The Company current has sufficient profit reserves to pay up to 3.0 cents per share fully franked based on the current ordinary shares on issue. Any payment of dividends will be subject to the Company having sufficient profit reserves and the Directors being satisfied it is within prudent business practices.

## 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
    - ie diverse companies that need to streamline
  - Companies whose corporate governance & management could do with improving





## Activist highlights during FY15

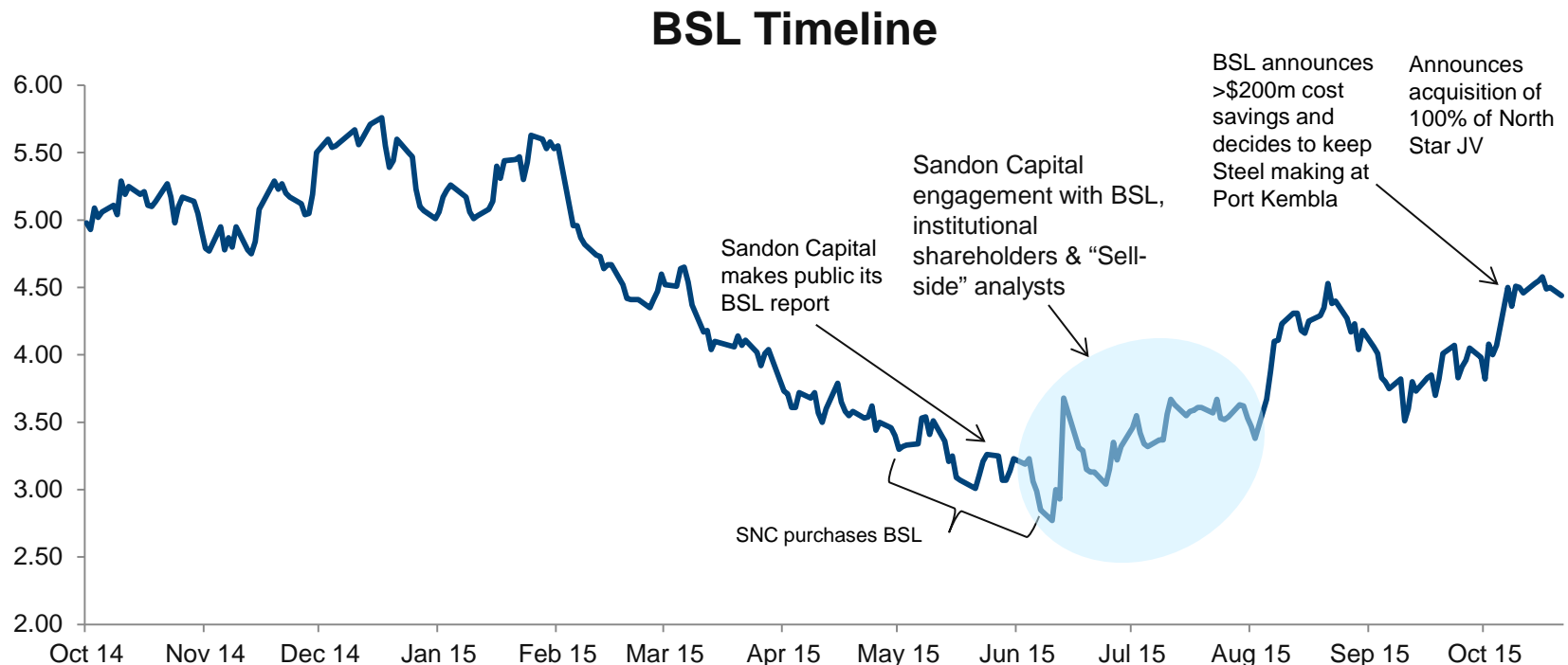
- Sandon Capital Investments Limited (SNC) has been engaging companies throughout 2015, both behind closed doors and publicly.
- Public engagements include:

Name	Thesis/value outline	Engagement
BlueScope Steel Ltd	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. Work in progress.
Onthefhouse Holdings Ltd	Discount to intrinsic value of core business, need for board change	Campaigned for substantial board changes, including appointment of Sandon Capital (and other) nominees (since resigned). New board has the support of Sandon Capital. Work in progress.
Coventry Group Ltd	Discount to liquidation value, need to restructure and cost cuts	Sandon Capital led campaign for removal of Executive Chairman. New board has the support of Sandon Capital. Work in progress.
Alchemia Ltd	Discount to intrinsic value, need for board changes.	Campaigned for substantial board change, Sandon Capital nominee now Chairman. New Board has negotiated sale of main asset for USD17.3m, subject to shareholder approval. Work in progress.
Chesser Resources Ltd	Discount to cash, need for change in strategy	Campaigned for substantial board change, Sandon Capital nominee appointed. Equal access buy-back completed. Work in progress.

## Case study

### ➤ BlueScope Steel Ltd (BSL)

- We began the engagement campaign in June 2015
- Below we illustrate a timeline of our engagement to date



## Case study - continued

- Our June 2015 Presentation focused on 5 issues
- Some have been addressed by the Company's actions
  - Others remain outstanding

Our five questions to BSL	Outcome	Comment
Closure/mothballing of Port Kembla Blast Furnace	> \$200m cost savings target on track	BSL announcement is a significant positive result.
Value of North Star JV	BSL exercised right of last refusal to acquire Cargill's 50% stake	Third party validation of North Star value.
Sale of Global Building Solutions	Nil action by BSL	Our view remains the same.
Sale of surplus Westernport land	Nil action by BSL	Our view remains the same.
Capital management	Acquisition of North Star	Post-North Star acquisition, paying down debt should be priority. Expect divestments.

## Case study

### ➤ Alchemia Ltd (ACL AU)

- Our thesis – Market price is significantly below our estimate of value (~9.0-10.0cps).
- SNC average purchase price 5.4 cents per share
- Key themes of our analysis:
  - Main value lies in Fondaparinux, but this is a drug in decline.
  - Dispute with Dr Reddy's Laboratories (DRL) is an asymmetric dispute – that is odds are against ACL
  - Sandon did not have confidence in the then Board – we sought to remove two directors
  - Board changes could act as circuit-breaker, facilitating an optimal outcome for ACL and its shareholders
- Sale to DRL at USD17.3m falls within Sandon Capital's estimate of value (~AUD7.4cps)<sup>1</sup>
- Subject to exchange rate on completion/repatriation, we estimate cash backing of ACL to be in the range of 9.0-10.0 cents per share<sup>2</sup>
- We expect ACL to return the bulk of this cash to shareholders

1. The sale is subject to ACL shareholder approval. ACL announced sale at USD17.5m less transaction costs of ~USD0.2m. Cents per share used AUD/USD exchange rate of 0.72

2. This estimate includes net sales proceeds from DRL, cash reported by ACL as at 30 Sep 15 and R&D tax rebate, net of known and estimated expenses.

## Outlook

- We expect volatility and uncertainty in global financial markets to continue
- Key themes driving volatility:
  - China – boom or bust?
  - US – rising interest rates?
  - Europe – Germany vs the rest of EU?
  - Australia – residential property bubble/resources/commodity prices?
- This will provide SNC with significant investment opportunities
  - Cash (~24%) 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 shareholder activism will continue to uncover attractive opportunities

## About us

### ➤ Contacting us:

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