

# SANDON CAPITAL

Sandon Capital Investments Limited

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**5 April 2016**

**The Manager**

**ASX Market Announcements**

## **Half Year Shareholder Presentation**

The following presentation will be used at the upcoming shareholder updates.

Presentation dates and locations are shown below:

<b>Canberra</b> Tuesday 5 April 2016 10.00am – 11.00am  Mantra on Northbourne 84 Northbourne Avenue Canberra ACT 2612	<b>Sydney</b> Tuesday 5 April 2016 3.00pm – 4.00pm  History House 133 Macquarie Street Sydney NSW 2000	<b>Melbourne</b> Wednesday 6 April 2016 10.00am – 11.00am  Morgans at 401 401 Collins Street Melbourne VIC 3000	<b>Brisbane</b> Friday 8 April 2016 10.00am – 11.00am  Morgans Level 29, Riverside Centre 123 Eagle Street Brisbane QLD 4000
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If you have any questions regarding the Company or its investments, please call Gabriel Radzynski on 02 8014 1188. If you have questions regarding your shareholding, please contact Link, whose details appear below.

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*

## Investment Manager Presentation

*5-8 April 2016*

## Important information

*This presentation 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.*

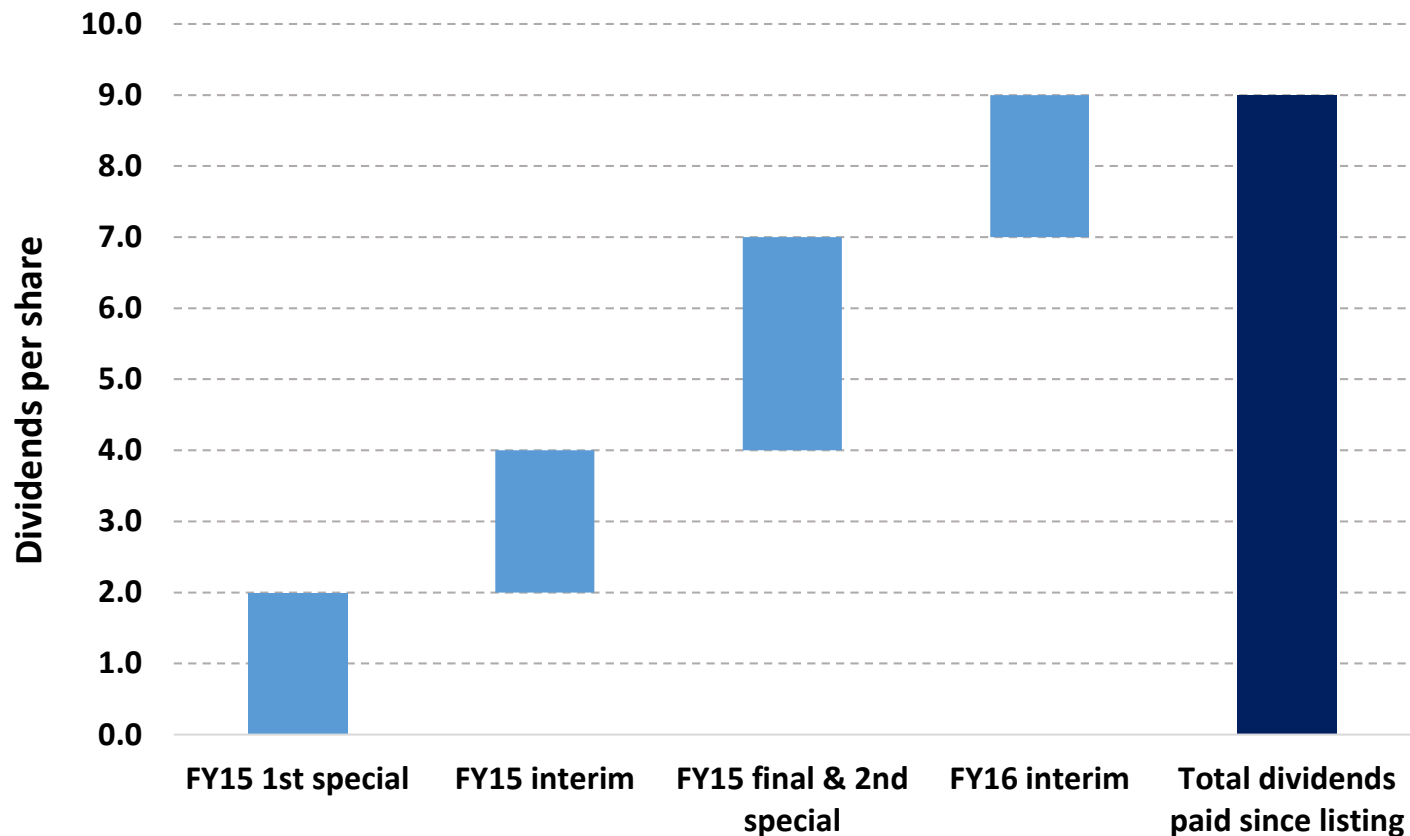
*Any quoted performance is post fees and expenses but before tax and assumes distributions were reinvested. Dollars are AUD, unless otherwise stated. We are not responsible for the statements made by or attributed to others in this report. Past performance is no guarantee or does not provide any indication of future returns.*

## SNC 1HFY16 Result highlights

- NPAT up 50% to \$1,775,024
- Declared interim dividend of 2.0 cps fully franked
  - Ex date 18 April 2016
  - Payment date 26 April 2016
- Dividend yield of 5.9% (8.4% grossed up) with fully franked dividends of 5.0 cps paid and/or declared in last 12 months<sup>1</sup>
- SNC retains franking credits of 5.8cps which can be used to pay further fully franked dividends, provided there are sufficient profits and the Board considers it prudent

1. Assumes market price of \$0.85 on 4 April 2016. Fully franked dividends include the 2.0 cps final dividend and 1.0 cps special dividend paid on 30 October 2015, and the 2.0 cps dividend declared on 25 February 2016 to be paid on 26 April 2016

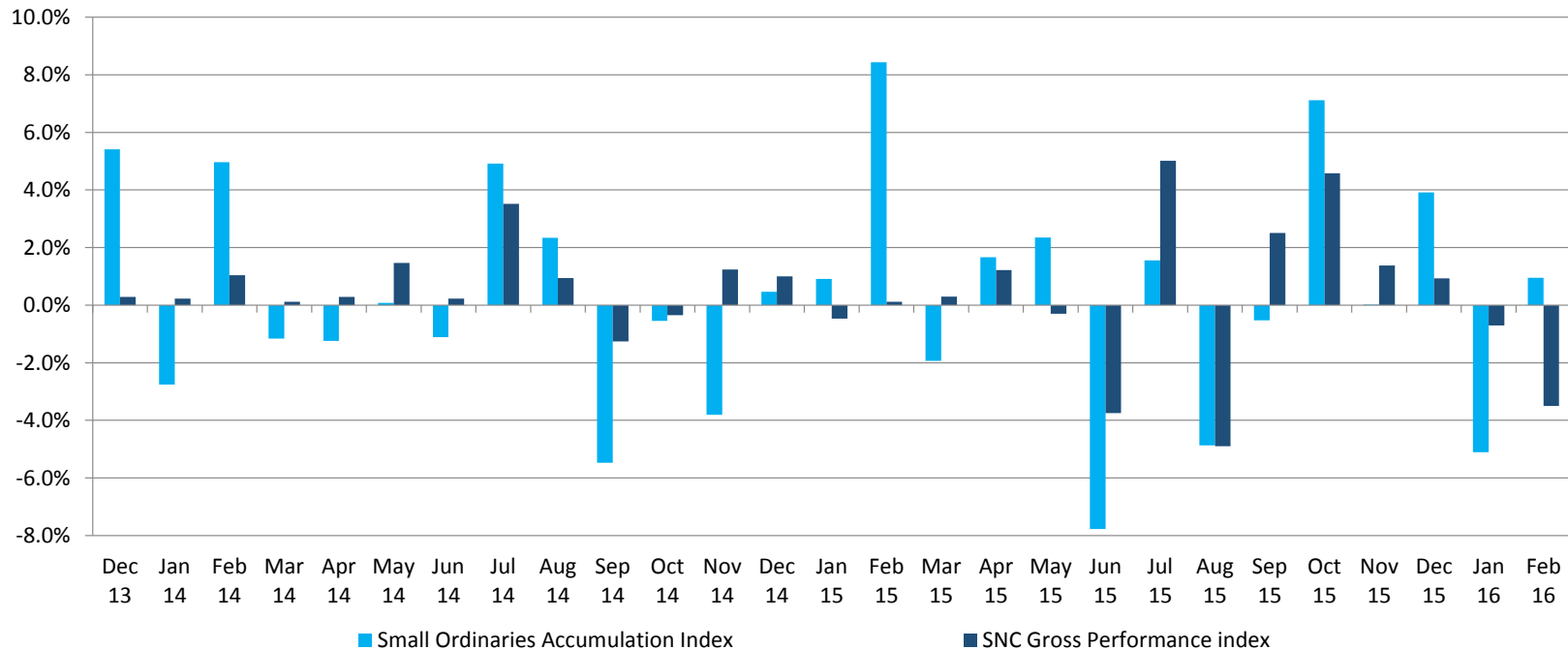
## Fully franked dividends since listing



Source: SNC ASX Releases

Notes: The FY15 interim, special and final dividends have been paid. The FY16 interim dividend declared on 25 February 2016 will be paid on 26 April 2016

## Investment Performance to 29 February 2016



Gross Performance to 29 Feb 2016 <sup>1</sup>	Financial YTD	Rolling 1 yr return	Since inception (annualised)
<b>SNC</b>	<b>5.0%</b>	<b>2.2%</b>	<b>4.9%</b>
Small Ordinaries Accumulation Index	2.5%	-3.6%	3.1%
Outperformance	<b>+2.5%</b>	<b>+5.8%</b>	<b>+1.8%</b>

1. The SNC and index returns are before all fees and expenses and before any taxes, except that SNC returns are after brokerage expenses incurred. 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 11.1% since inception during challenging market conditions<sup>2</sup>
- Preserved shareholder capital since inception
  - (Pre-tax/Post-tax NTA up 2.1% / 3.2% respectively)<sup>3</sup>
- Paid 7.0 cents per share in fully franked dividends since inception, with a further 2.0 cps to be paid on 26 April 2016

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

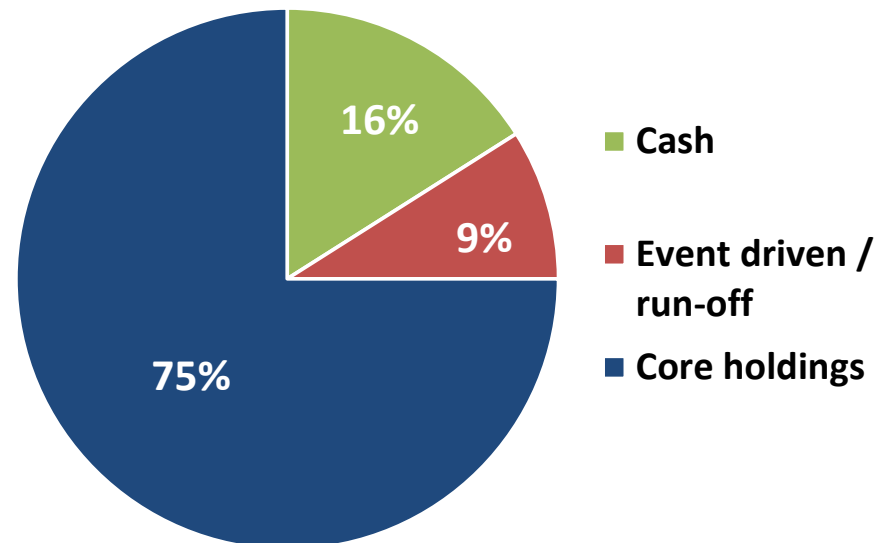
2. Gross returns to 29 February 2016. This figure is not annualised

3. Pre- and Post-tax NTA from 16 Dec 2013 to 29 February 2016, including dividends paid. This figure is not annualised



## 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
  - Companies whose corporate governance & management could do with improving



## 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. 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 (since resigned). Currently subject to non-binding, conditional offer. Work in progress.
Coventry Group Ltd Mkt Cap < \$50m	Discount to liquidation value, need to restructure and cut costs	Sandon Capital led campaign for removal of Executive Chairman. New board and management has the support of Sandon Capital. Work in progress.
Alchemia Ltd Mkt Cap < \$50m	Discount to intrinsic value, need for board changes	Campaigned for substantial board change. New Board negotiated sale of main asset for US\$17.5m with cash proceeds returned to shareholders. Exited.

## Case study – Tatts Group (ASX: TTS)

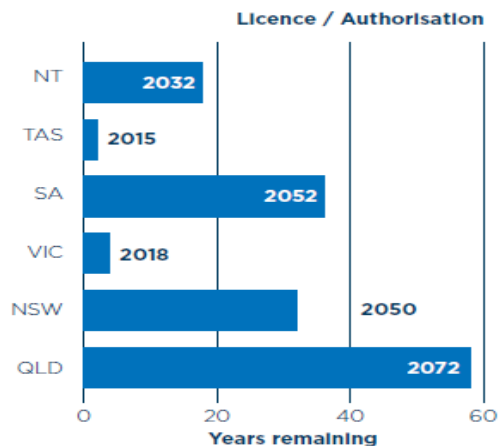
### ➤ Tatts Group Ltd (TTS)

- Our thesis:
  - Tatts Group individual parts are worth significantly more than the current market price
  - The Wagering business (28% FY15 EBIT) has strategic corporate appeal and should be separated from the Group
  - The Lotteries business (60% FY15 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\$5.50 today if separated and potentially more if growth opportunities in Lotteries are pursued

## Case study – Tatts Group (ASX: TTS)

	Infrastructure	Lotteries
Government authorised concession	✓	✓
Long dated licence authorisation	✓	✓
Monopoly asset	✓	✓
Large upfront capital requirements	✓	✓
Large ongoing capital requirements	✓	x
Low economic sensitivity	✓	✓
Easily forecastable cash flows	✓	✓

### LOTTERIES



- Approximately 75% of TTS Lotteries EBIT comes from licences that run for at least 35 years
- The cash flows from lottery concessions have low economic sensitivity, are dependable and easily forecastable
- The large amount of government taxes paid by concession holders ensures that the relationship between lottery regulator and the lottery operator is more like a partnership and both are incentivised to maximise lottery turnover

Source: Tatts Group, Sandon Capital analysis

## Case study – Alchemia Ltd (ASX: ACL)

### ➤ Alchemia Ltd

- Our thesis – Market price was significantly below our estimate of value (~9.0-10.0cps)
- SNC initial average purchase price of 5.4cps in late May / early June 2015
- Key themes of our analysis:
  - Main value lay in Fondaparinux, but this was a drug in decline
  - Dispute with Dr Reddy's Laboratories (DRL) was an asymmetric dispute – that is, the odds were against ACL
  - Sandon did not have confidence in the then Board – we sought to remove two directors
  - Board changes would act as circuit-breaker, facilitating an optimal outcome for ACL and its shareholders
- Sale to DRL at US\$17.3m falls within Sandon Capital's estimate of value (~7.4cps)<sup>1</sup>
- The company returned cash of 9.3cps on 24 February 2016
- SNC sold out of its position in late February 2016 for 0.8cps, bringing total realised proceeds to 10.1cps, a satisfactory outcome

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1. ACL announced sale at US\$17.5m less transaction costs of ~US\$0.2m. AUD/USD exchange rate of 0.72

## 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 (~16%) 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

### ➤ Contacting us:

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