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

FY21 Interim Results Presentation

29 March 2021

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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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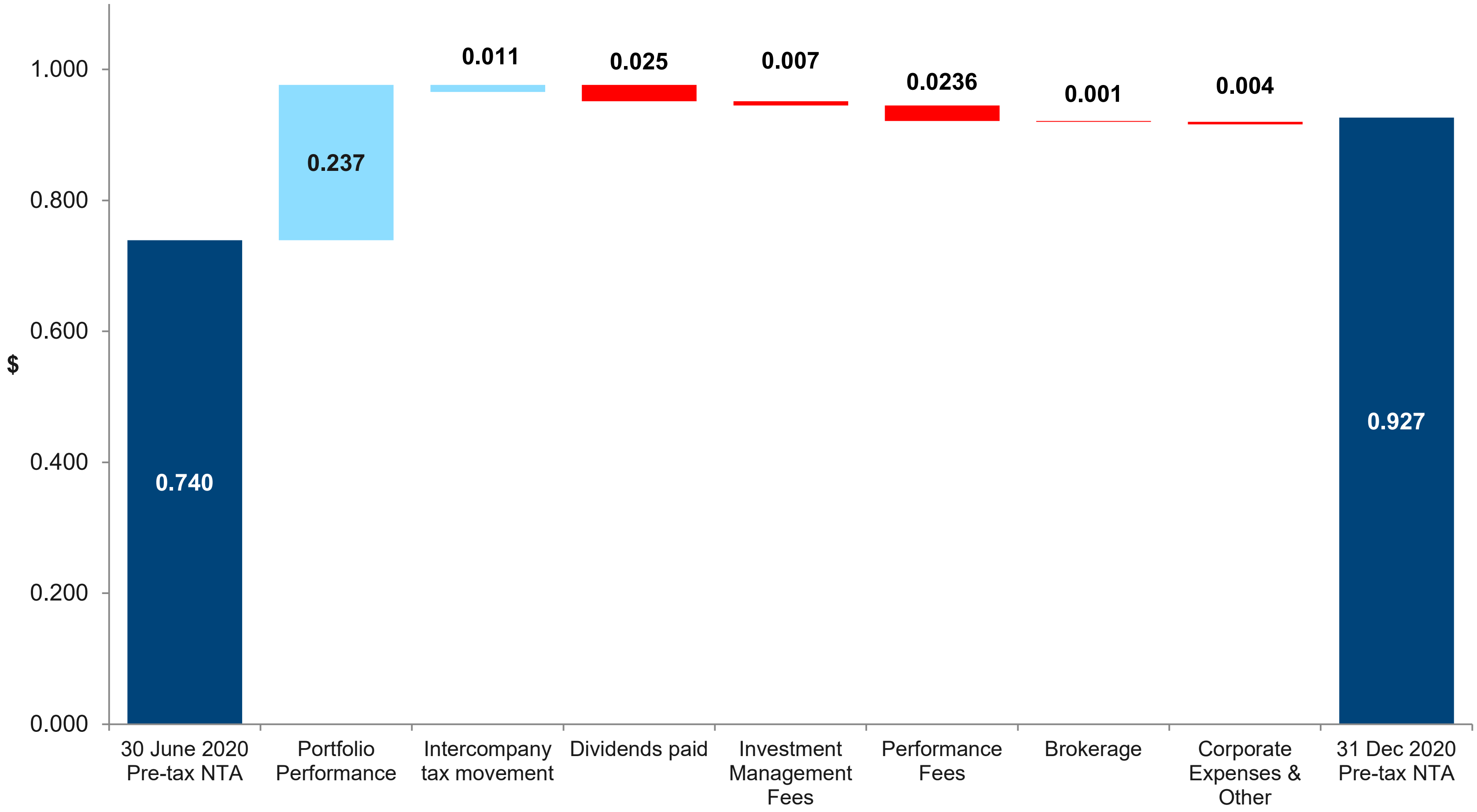
SANDON CAPITAL

SNC FY21 Interim Result highlights

- Revenue $26,066,578 up 145%
- Net profit after tax $18,628,985 up 153%
- Board has announced a 2.5 cps fully franked interim dividend
  - total dividends since listing to 41.5 cps [1]
- Dividend yield of 5.6% (7.6% grossed up)[1]
- SNC has strong dividend paying prospects:
  - profit reserves of 19.4 cps, equivalent to 3.9 years of dividends[2]
  - a franking account balance of 10.1 cps[3]
- Current dividend level strikes a balance between paying dividends and retaining capital for reinvestment and growth

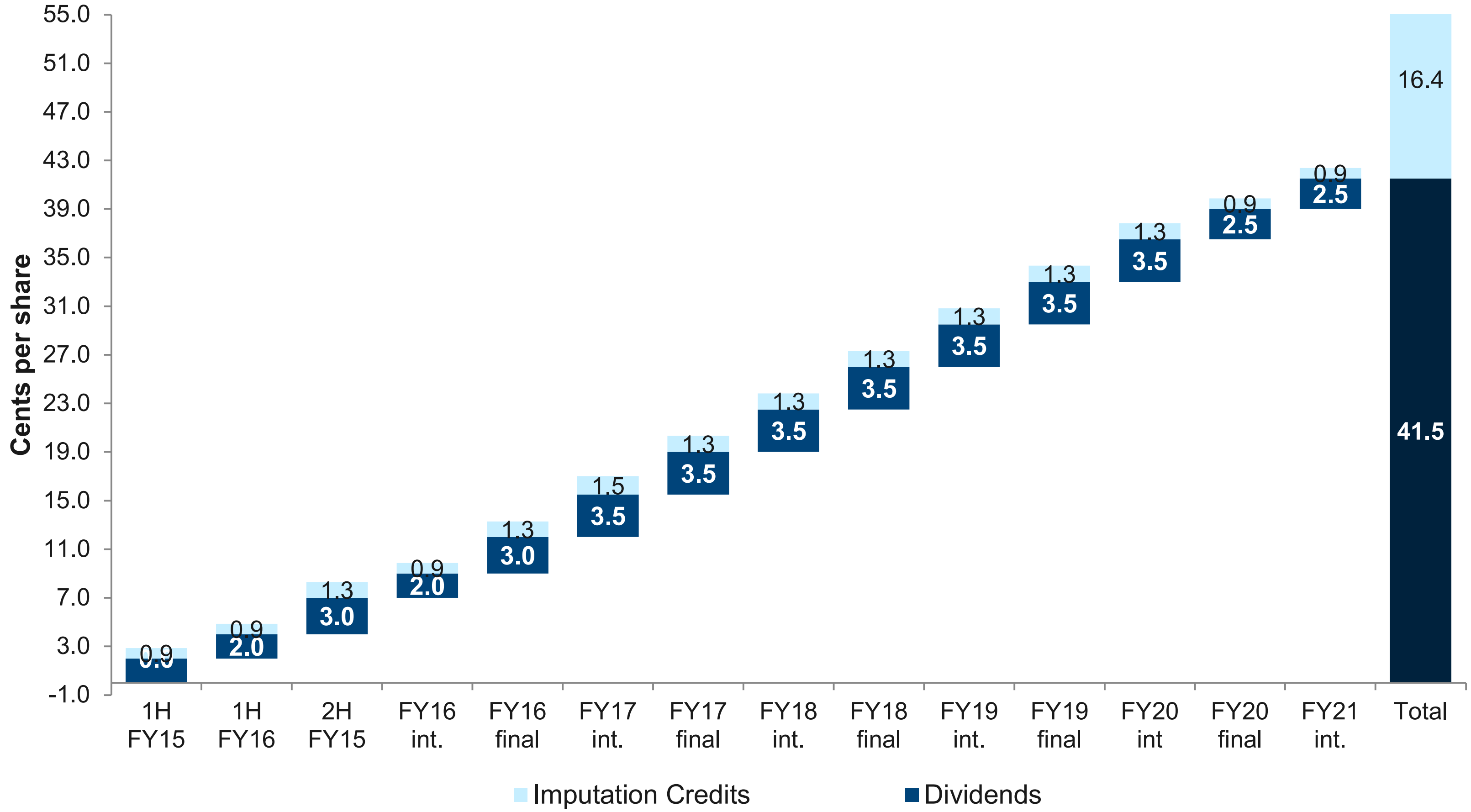
1. Paid and including the interim dividend just announced.
2. At the current 26.0% tax rate. Assumes market price of $0.89 on 26 March 2021
3. As at 28 February 2021, prior to payment of FY21 interim dividend and receipt of December half dividends from portfolio companies. Assumes annual dividend of 5 cps. Directors can resolve to pay future dividends from the profits reserve.

Result composition



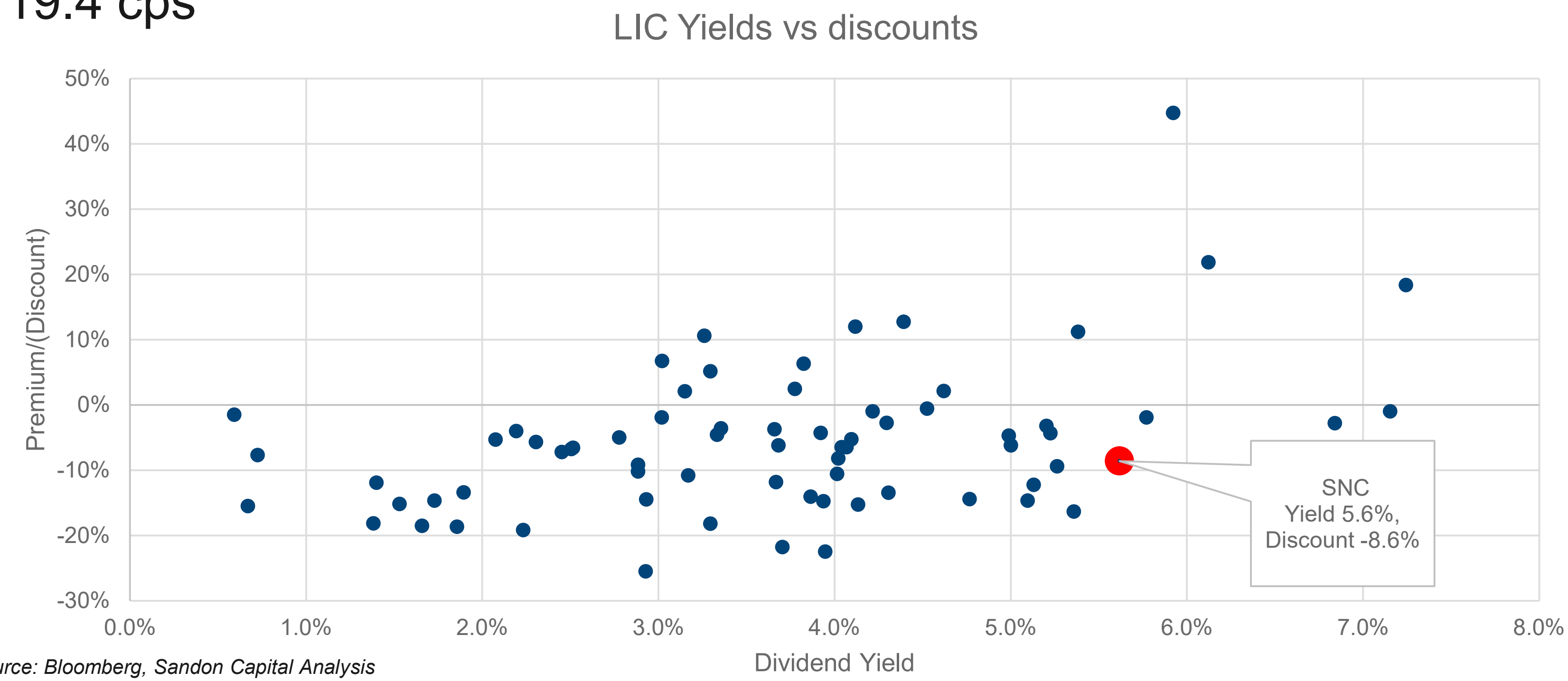
Dividends

- 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 5.6% (7.6% grossed up for franking) and a discount of 8.6% to 28 Feb 21 pre-tax NTA
- SNC has franking credits equivalent to 10.1 cps and profits reserves of 19.4 cps



Source: Bloomberg, Sandon Capital Analysis
Data as at 15 March 2021, N=72

Investment performance to 28 February 2021

Gross Performance[1,2]	1 Month	Financial YTD	1 yr	2 yr p.a.	3 yr p.a.	Since inception (annualised)
SNC[1,2]	**5.2%**	**39.2%**	**21.2%**	**12.9%**	**10.8%**	**10.2%**
All Ordinaries Accumulation Index	1.4%	17.7%	9.6%	8.9%	8.1%	8.6%
outperformance	**+3.8%**	**+21.5%**	**+11.7%**	**+4.0%**	**+2.7%**	**+1.5%**

1. The SNC are after investment management fees and brokerage but before performance fees and corporate expenses and taxes. Index returns are before all fees and expenses and before any taxes. 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 sum due to rounding

Our shareholder activist 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

- 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

- 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 – but not currently
  - We have ~8% of the portfolio in cash, event-driven and run-off opportunities – these will turn to cash in due course
  - That cash will allow us to take advantage of opportunities

Recent and current activities

- **Boral Ltd (BLD) – September 2020**
  - 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
- **Demerger of Deterra Royalties Ltd (DRR) – October 2020**
  - We began a campaign in November 2016 pushing for the demerger of the MAC Royalty from Iluka Resources Ltd (ILU)
- **Fleetwood (FWD) – November 2020**
  - A long running campaign has seen much needed changes at the Board and executive level announced in November 2020
- **Alterra Ltd (1AG) – late 2020/early 2021**
  - A long running campaign, largely conducted in private, has led to Board and executive changes and a recapitalisation to fund the company’s new agribusiness strategy
- **Tabcorp (TAH) – January 2021**
  - We launched a public campaign pushing for TAH to optimise its structure by demerging its world class Lotteries business

Portfolio snapshot

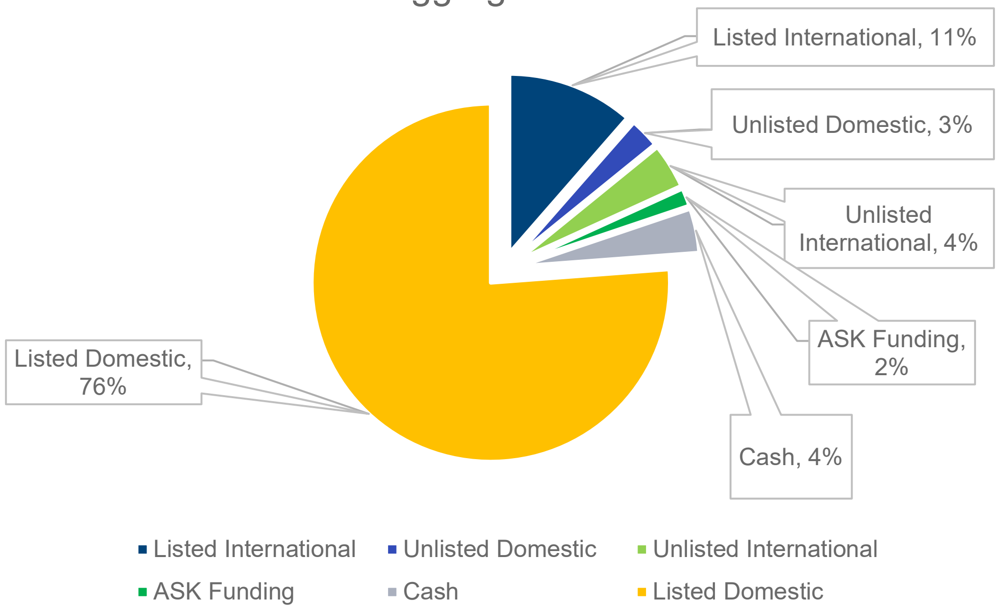
Top 5 Listed positions:

- Fleetwood Corporation Ltd (14.2%)
- Spectra Systems plc (11.2%)
- COG Financial Services Ltd (9.0%)
- BCI Minerals Ltd (7.0%)
- Coventry Group Ltd (4.3%)

Unlisted exposures include:

- Foundation Life – life insurance run-off
- RMA – Singapore shipping agency
- ASK Funding – loan run-off
- IPE – private equity funds run-off

SNC Aggregate Portfolio



Gross portfolio composition as at 31 December 2020. All figures are approximate.

Investment – Fleetwood Corporation Ltd (ASX:FWD)

- FWD has seen changes to senior leadership roles. The CEO/MD has resigned and recently the Chairman retired. Mr John Klepec was announced as new Chairman. Sandon Capital is supportive of these changes
- FWD is now better placed than before to realise its full potential
- FWD operates across three divisions:
  - Building Solutions – Australia's largest pre-fab constructor
  - Accommodation Solutions – owner of Searipple village and operator of Osprey village
  - RV (or Recreational Vehicle) Solutions – we expect this business will be sold
- Operational improvements have potential to yield big improvements in financial performance
- We believe FWD has strong economic tailwinds and remains undervalued

Investment – IDT Australia Ltd (ASX:IDT)

- IDT is a pharmaceutical manufacturing company, including early stage active pharmaceutical ingredient (API) development through to finished drug formulation
- IDT has been loss making and cash consuming for the past decade. Despite this, the company has some highly strategic assets that have significant sovereign importance, being one of the few remaining independent API manufacturers in Australia
- IDT announced last week that it had been requested by the Australian Government to undertake "*a feasibility assessment to assess the possibility of utilising the Company's sterile manufacturing facility to supplement the production capability for a COVID-19 vaccine*"
- There are also longer term opportunities around the re-shoring of API production

Investment – IDT Australia Ltd (ASX:IDT)

- Over the last 20 years, much of Australia's API manufacturing has been shifted offshore to lower cost jurisdictions such as China and India
- Today, Australia imports 90% of its medicines and is particularly vulnerable to any supply chain disruptions. The COVID-19 pandemic has brought these risks to light
- In their recent 1HFY21 result presentation, IDT highlighted the Sovereign Manufacturing Initiative, a broad and strategically significant issue
- IDT has actively participated to highlight these risks and is an advocate for developing a sovereign manufacturing capacity
- We believe this is an important, yet overlooked issue facing Australia and IDT can benefit if the government takes appropriate steps to address the issue

Investment – Tabcorp Ltd (ASX: TAH)

- In our 2016 campaign, we made the case for Tatts Group Ltd (TTS) to demerge the Lotteries and Wagering businesses
- At the time, we argued the Lotteries business was being undervalued by the market and was a globally unique business with infrastructure-like characteristics
- Unfortunately, TTS was acquired by TAH, with great expectations of a Wagering turnaround.
- Fast forward to today, TAH has failed to deliver many of the promises of the merger and is in the midst of a changing of the guard
- We believe the time has come for TAH to accept that Lotteries and Wagering are fundamentally different businesses facing different challenges and opportunities that are incompatible

Investment – Tabcorp Ltd (ASX: TAH)

- A demerger would ensure existing TAH shareholders have the choice to retain exposure to the Lotteries business
- We believe the impending departure of the CEO is an appropriate juncture for the Board to take this decision before any new appointment
- The company recently announced that it had received a number of unsolicited approaches in respect of potential transactions involving its Wagering and Media (W&M) business
- In our opinion, these reported approaches highlight the logic in TAH separating its two main businesses
- Importantly, a demerger would not preclude any future sale of W&M. If a sale is being considered now, we believe such a transaction should be compared against what TAH would be worth under a demerger scenario

Investment – Boral Ltd (ASX: BLD)

- In September 2020, we made public a presentation that outlines our investment thesis for BLD
- We argued that while most investor attention is focused on the sale of BLD's underperforming US assets, the Australian businesses contain significant hidden value
- We believe the Australian constructions materials business, which includes aggregates used in making concrete, holds a unique and privileged position in its key markets which affords it the opportunity for pricing power
- We also believe there is significant value in BLD's property assets and its landfill royalty. In our opinion, the company should consider a functional separation of these assets with a view to ultimately demerging them at an appropriate time

Investment – Spectra Systems plc (LSE: SPSY LN)

- SPSY develops and provides software and advanced materials for use in banknotes, product authentication and gaming
- Its clients include:
  - Central banks and bank note printing companies
  - Lottery operators
  - Consumer product manufacturers
- SPSY is a highly cash generative company and pays solid dividends
- Last week, SPSY reported an increase in CY20 adjusted EPS of 14%, as well as an increased dividend and buyback extension
- Earnings are expected to continue to improve until at least 2027, supported by long term contracts with embedded growth options and credible counterparties (central banks)

Investment – City Chic Collective Ltd (ASX: CCX)

- CCX continues to hold a place in the portfolio, despite its share price appreciation
- CCX was bought for an average of 47.5 cents per share, when it was known as Specialty Fashion Group Ltd
  - In March 2018, we stated we thought the company was worth up to $0.73-$1.04, on the basis it could generate $25m-$30m EBITDA, applying a 5x multiple
  - Recently, CCX reported $23.3m EBITDA for the 1st half of FY21
- Over time, we have sold down approximately half the position
- We hold CCX as it continues to demonstrate its ability to navigate challenging retail conditions and deliver growth
- Given the long term opportunities, current valuation is undemanding. CCX is well-placed to benefit as US and UK economies recover

Outlook

- We expect volatility and uncertainty in global financial markets have become the new normal
- Key themes driving volatility:
  - China – regional aims/boom/bust/trade wars
  - US – China/trade wars/COVID
  - Australia – China/US/trade wars
- 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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