SANDON CAPITAL

Sandon Capital Pty Ltd
ABN 98 130 853 691
AFSL 331 663
Level 5, 139 Macquarie Street
Sydney NSW 2000
Tel 02 8014 1188 Fax 02 8084 9918

Mr Paul Oneile
Chairman
A2B Limited
9-13 O'Riordan Street
Alexandria NSW 2015

[redacted]

8 November 2021

Dear Mr Oneile,

Funds managed by Sandon Capital Pty Ltd (**Sandon Capital**) together own 6,989,435 shares of A2B Limited (**A2B** or **the Company**), equating to 5.8% of total shares outstanding.[1]

Over more than 12 years, our firm has established a track record of constructive discourse with most companies we engage with. Sometimes our engagements are focused on how to improve and enhance value. Sometimes our engagements are about preventing value destruction. Regrettably, we believe A2B fits into that latter category.

I am writing to inform you that we are voting all the shares we control against all three resolutions at the upcoming Annual General Meeting (AGM).

Resolution 1 – Your re-election

We are voting against your re-election because we do not have confidence in your leadership of the Board of the Company. While we had our concerns when we became a shareholder in August 2020, the recent strategy presentation has cemented our views. The presentation was full of naïve optimism and lacking in detail. We had hoped for better from A2B. In our opinion, the strategy endorsed by the Board is poorly considered, likely to deliver shareholders continued disappointment and lead to further value destruction.

Currently, A2B is a small player in the Australian payments landscape, with a negligible share of the market, yet has grand ambitions of growing that share. Payment products are dominated by the four major banks. Newer, well-capitalised, entrants such as Tyro Payments Ltd (**Tyro**), and more recently Square, Inc. (**Square**) and a plethora of smaller venture capital-backed providers are competing vigorously for market share. Your competitors, including the banks, Tyro and Square are not likely to cede their market shares to A2B without an aggressive fight. To think otherwise is naïve.

By signing off on the strategy presented by management, we wonder whether the Board has understood the consequences. Achieving the growth necessary to give a company the opportunity to succeed in the highly competitive and hotly contested payments industry requires an enormous commitment of capital, and a willingness by shareholders to support losses for many years. Yet this kind of financial commitment alone does not guarantee success.

As an example, Tyro has clearly had some success as a challenger to the payment offerings of the major banks. Last year, Tyro processed more than $25 billion of transactions on its payments

[1] As at the date of this letter.

platform, an increase of 26% on the prior year. Despite this incredible growth and volume of transactions, Tyro is yet to deliver a net profit in almost 20 years of operation, and in fact has delivered almost $120m of losses in the past five years alone. We do not cite this as a criticism of Tyro, rather as an example of the potential enormous financial cost of the Company's ambitions. Tyro's shareholders have signed on to such a strategy; we doubt a majority of A2B shareholders have.

Resolution 2 – Remuneration Report

We are voting against the remuneration report because it is clear to us that there is a complete misalignment between executive incentives and shareholder outcomes.

Since being appointed CEO in 2014, Mr Kevin Skelton enjoyed a nearly 100% increase in total annual remuneration to the end of the 2019 financial year, the last full year prior to the impact of the COVID-19 pandemic. Over the same period, shareholders suffered a 43% decline in revenues, a 68% decline in net profits after tax, and a 56% decline in the share price. The shareholder outcomes are considerably worse if we consider the most recent (pandemic impacted) results, yet Mr Skelton's 2021 financial year total compensation declined by only 5.5% from its peak in 2019.

The performance measures upon which short term incentives (STI) are based are for run-of-the-mill activities that should be covered under the executive's base salaries. Furthermore, hurdles for which STIs are paid appear to be in a race to the bottom with the company's ever dwindling earnings profile. The fact that key management personnel had FY21 incentive targets for EBITDA **losses** and were subsequently paid significant cash bonuses for delivering failure (i.e. losses) is both astounding and extremely disappointing. When the Board and Management target mediocrity, the only outcome is that shareholder returns will inevitably follow the same trajectory. Indeed, this has been the case for many years now at A2B.

By voting against the remuneration report we are sending a clear signal to all directors that they may face a spill motion at next year's AGM if the status quo prevails. We will be encouraging other shareholders to send the same signal.

Resolution 3 – Grant of performance rights to Mr Andrew Skelton, CEO and Managing Director.

We are voting against the grant of performance rights to Mr Skelton as we believe the proposal is not appropriate to the circumstances of A2B. With a share price that is not far above 20-year lows and substantially supported by the Company's property assets, applying Absolute Total Shareholder Return with threshold performance of 4% CAGR is far from challenging and is an insult to shareholders who have seen a significant erosion in the value of their shares over many years. At least last years' plan had a portion of the grant subject to Indexed Shareholder Returns. We also note that the CEO/MD's remuneration arrangements are heavily skewed towards STI rather than long term incentives.[2] Given the situation the Company finds itself in, we would have expected the Board to set far more ambitious performance metrics tied to the new strategy.

Other considerations

We became A2B shareholders in August 2020, so we've not suffered the many years of ever-declining returns of many other shareholders.

Before we invest, we try to understand what factors, or combination of factors, have led the company to the point where we would consider investing. In the case of A2B, there are several

[2] The notice of meeting for the AGM states: *"Mr Skelton's current total remuneration package comprises $825,000 total fixed remuneration (inclusive of superannuation), a short-term incentive with a maximum value of 72.6% and a long term incentive with a maximum value of 24.4%."*

factors to which we attribute its long-term underperformance. We believe a misalignment between Board and Management and the shareholders is a contributing factor. We note that Board and Management own less than 0.3% of the Company's shares. Shareholders must surely be asking themselves what directors and management really think of the Company's prospects.

This derisory figure is even more disappointing when one considers that A2B is generous when it comes to paying its directors and executives. If we begin with you, Mr Chairman, you have earned nearly $1 million in directors' fees since joining the Board, yet you own only 91,968 shares[3]. The CEO/MD, who has earned more than $10 million[4] since 2011, owns 66,799 shares worth less than $90,000 at current market prices.

We would welcome the opportunity to discuss our decisions regarding the voting at the AGM, especially if you believe we have overlooked some factors that might have led us to different conclusions. We plan to share our views with other A2B shareholders and will actively encourage them to vote against all three resolutions at the upcoming AGM.

Yours sincerely,

Gabriel Radzyminski
Director, Sandon Capital Pty Ltd
Investment manager of Sandon Capital Activist Fund, Sandon Capital Investments Ltd and Sandon Capital Master Fund.

[3] Source: ASX announcement, Change of Director's Interest Notice – Paul Oneile, 12 October 2021
[4] Sources: Annual Reports. This figure is based on total compensation disclosed as paid to Mr Skelton in financial years ended June 2011-June 2021.