SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 28 February 2022

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 28 February were:

NTA before tax	$1.0111	-5.8%
Deferred tax asset	$0.0003	
Deferred tax liability on unrealised income and gains	($0.0389)	
NTA after tax	$0.9725	-4.7%

Investment Performance

Gross Performance to 28 Feb 2022[1]	1 Month	1 year	Since inception (p.a.)
SNC	-5.3%	16.0%	10.9%
All Ordinaries Accumulation Index	1.7%	10.0%	8.8%
Outperformance[2]	**-7.0%**	**6.0%**	**2.1%**

1. The SNC gross returns are after investment management fees and brokerage expenses but before performance fees and corporate expenses. 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. Figures may not tally due to rounding.

Dividends

SNC has declared 48 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 29.5 cents per share and there are 7.2 cents per share of franking credits.

SNC's FY22 interim dividend of 2.75cps was declared on 22 February 2022 and will be paid on 1 June 2022. The Board anticipates paying a final dividend for FY22 of 2.75cps, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

The table below shows the most recent SNC dividends. A full list of SNC dividends since the IPO in December 2013 can be found here.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
16 May 2022	2.75 cps	100%	25.0%	Interim
30 November 2021	1.00 cps	100%	25.0%	Special
19 October 2021	2.75 cps	100%	25.0%	Final
17 May 2021	2.50 cps	100%	26.0%	Interim
21 October 2020	2.50 cps	100%	26.0%	Final
5 May 2020	3.50 cps	100%	27.5%	Interim
21 October 2019	3.50 cps	100%	27.5%	Final
16 May 2019	3.50 cps	100%	27.5%	Interim
23 October 2018	3.50 cps	100%	27.5%	Final
8 May 2018	3.50 cps	100%	27.5%	Interim

Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets*	$167.1m
Market capitalisation	$115.7m
NTA before tax	$1.0111
Share price	$0.8600
Shares on issue	134,512,848
Options on issue	nil
Fully franked dividends	$0.055
Dividend yield (annualised)	6.4%
Profits reserve (per share)	29.5cps
Franking (per share)	7.2cps
Loan-to-assets (incl. MVTHA)	18%

*includes the face value of Mercantile 4.8% unsecured notes.

Company overview

Sandon Capital Investments Limited is a specialist 'Activist' listed investment company, managed by Sandon Capital. Sandon Capital devises and implements activist shareholder strategies that seek to unlock value inherent in securities held in our investment portfolios.

SNC provides investors with exposure to a portfolio of Australian companies that are typically not available to traditional investors. Through active engagement with the target company, Sandon Capital seeks to release the embedded value for shareholders. Target companies are likely to be in the small to mid cap market segment.

Sandon Capital has successfully employed its Activist investment strategy since September 2009. The wholesale Sandon Capital Activist Fund's investment performance since inception is 12.2% p.a. (after all fees and expenses).

Investment Objectives

- To provide absolute positive investment performance over the medium to long term, ensuring capital preservation, while providing capital growth.
- To provide an investment strategy that few investors have the capacity to implement themselves.
- To provide shareholders with a growing stream of fully franked dividends.

Portfolio commentary

The Portfolio was down 5.3% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to an increase of 1.7% for the All Ordinaries Accumulation Index.

The largest detractors for the month were City Chic Collective Ltd (**CCX**) and Fleetwood Ltd (**FWD**). The major positive contributor was Alliance Resources Ltd (**AGS**), which announced an intention by the major shareholder to make a takeover offer at 18 cents per share.

Last month we wrote *"(w)hilst the share prices of many of our largest positions suffered during the month, many of these same companies provided strong operating updates."* Despite our positive interpretation of corporate results, the share prices of two of our largest holdings were savaged, in particular CCX. Although CCX had flagged for some time that it was building inventories to ensure uninterrupted sales, it seems some shareholders and the market generally were taken by surprise and saw the inventory build as negative. Sentiment was also hurt by the company describing its forward sales growth as being "subdued". Perhaps a poor choice of word given sales growth is still expected to be in the 15%-20% range.

The inventory build is a quandary for many investors. Perhaps it is worth remembering a few axioms about retailing. One we might all know is *"the customer is always right"*, another less well known is *"stock-outs cause walkouts"*. This means that if a customer cannot find what they want, they will tend to leave, possibly never to come back. There is considerable research about the impact of stock-outs. Most estimates suggest that about one third of customers leave without buying anything. Availability of product usually figures in the top 2 or 3 issues that matter most to consumers around the world. In the online world, we understand those customers tend to leave and never return. The COVID pandemic has taught us many lessons, including the fragility of supply chains that businesses have built. For many, at the first signs of supply chain stress, lack of stock (aka "stock-outs") emerged. Businesses (and investors) who've become used to just-in-time supply chains and ever-decreasing inventories and working capital ratios have had to confront the reality that their rules of thumb may no longer apply, let alone be prudent.

CCX management was able to grasp the supply chain risks of COVID early on. They decided that having plentiful inventory was less risky than having a shortage of inventory. When they explained their reasons, building inventory seemed a reasonable move. Last year's results vindicated this decision. Following two acquisitions, which brought many more online customers to CCX, management decided to continue building inventory. While no guarantee of success, we again see the merits of doing this. For each dollar of inventory, we expect CCX should generate at least two dollars of sales. Furthermore, for each dollar of inventory we believe the company can earn net profits after tax of 15-20 cents. Assuming the inventory turns twice a year, this equates to a return on inventory investment of 30-40% per annum, a rate of return we would certainly be happy to earn as a CCX shareholder (or as an investor in anything for that matter). The proviso to all this arithmetic is that CCX needs to sell garments – given its track record, we rate the odds in its favour.

From its peak last year, CCX's share price has fallen by more than 50%. A frustrating and unpleasant experience, but more so because we consider the company continues to execute its business plan well. Interestingly, this will be the third time since we became shareholders that the share price has fallen by more than 50%. An unusually volatile ride, but still one of our most profitable. We remain convinced that CCX is an exceptional retailer with exceptional growth prospects. We expect the company will present full year results that vindicate the shorter-term inventory build.

A2B Australia Ltd (**A2B**) about which we wrote last week, announced the appointment of Mr Mark Bayliss as its new executive chairman. Mark has a demonstrated track record of turning around underperforming companies, including CSG Ltd and e-commerce company Gray's Online. Mark will oversee the previously announced strategic review. We look forward to the company announcing the results of this process.

Global events have once again overshadowed markets, with the Russian invasion of Ukraine. While conflict persists, we expect financial market volatility will continue. We have added to some positions and are attuned to new investment opportunities.

Investment Portfolio

	February 2022
Listed Australian Equities	83%
Listed International Equities	10%
Unlisted investments	6%
Cash or Cash Equivalents	1%

Contact

If you have any questions regarding the Company or its investments, please call Gabriel Radzyminski on 02 8014 1188. If you have questions regarding your shareholding, please contact Link, whose details appear below.

Further information:

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