SANDON CAPITAL

MONTHLY REPORT

Sandon Capital Investments Limited (ASX:SNC)

MARCH 2023

NTA Before Tax	NTA After Tax
$0.7592	$0.7746

INVESTMENT PERFORMANCE

Gross Performance to 31 Mar 2023[1]	1 month	1 year	Since inception (p.a.)
SNC	-0.6%	-20.9%	7.1%
All Ordinaries Accum. Index	-0.2%	-1.1%	8.4%
Outperformance[2]	**-0.4%**	**-19.8%**	**-1.3%**

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 SIN's gross investment performance.
2. Figures may not tally due to rounding,

SANDON CAPITAL INVESTMENTS LIMITED

ASX Code	SNC
Gross assets*	$136.7m
Market capitalisation	$88.6m
Share price	$0.645
Fully franked dividends	$0.055
Dividend yield (annualised)	8.5%
Profits reserve (per share)	27.0cps
Franking (per share)	8.5cps
Loan-to-assets (incl. MVTHA)	18%

*Includes the face value of Mercantile 4.8% unsecured notes

PORTFOLIO COMMENTARY

The Portfolio was down 0.6% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to a decrease of 0.2% for the All Ordinaries Accumulation Index.

The largest contributors to the performance were A2B Australia Ltd (A2B) (+1.2%), Spectra Systems plc (SPSY LN) (+0.8%). These were offset by Australian Silica Quartz (ASQ) (-0.7%), BCI Minerals Ltd (BCI) (-0.5%) Joyce Corporation (JYC) (-0.4%) and Fleetwood Ltd (FWD) (-0.4%).

In what came as a positive surprise, A2B announced that they had exchanged contracts for the sale of its O'Riordan St property in Alexandria for $78m. This price is in line with the independent valuation undertaken by Jones Lang Lasalle in May 2022, and comes after A2B had announced a halt to the sales process in November 2022. Given the softness that has been seen in commercial property markets over the past ~12 months, we regard this as an exceptional outcome.

The net proceeds from the announced sales of the two Alexandria properties are expected to be $73m, net of costs, tax payments and debt repayments, with the A2B Board expecting to distribute the proceeds by the end of 2023 as a fully franked dividend, subject to the usual caveats. With an operating business returning to profitable growth, a strong balance sheet allowing significant capital management opportunities and an attractive valuation, A2B remains a core holding for the portfolio.

Whilst the release did not materially impact the share price, Consolidated Operations Group Ltd (COG) announced the acquisition of salary packaging business, Paywise and the simultaneous partial divestment of its FleetNetwork business to EML Group (EML).

Paywise complements COG's growing novated lease and salary packaging services to government and private sector customers around Australia and gives the company additional exposure to the rapidly growing electric vehicle sector.

The rationale for the simultaneous acquisition and partial divestment is to allow COG to expand its novated lease offering to salary packaging while partnering with an established organisation that has many decades of experience in the provision of services to employers (who are clients of EML) and their staff. EML has provided a range of services including workers' compensation, general insurance and life insurance claims management since 1910. According to COG, the partnership with EML will facilitate a new distribution network for its financial service products and enable it to participate in larger government tenders for novated leasing services.

Spectra Systems plc reported its CY22 result during the month. Consistent with last month's newsletter, we provide a more detailed update on the result, the company's prosects and our investment view below.

Spectra Systems plc (LSE:SPSY)

Share price (GBP)	185.0
Shares on issue	45.2m
Market Capitalisation (USD)	$102.8m
Net debt / (cash) (USD)	($18.0m)
Dividend Yield	5.1%

Sources: Company reports, LSE announcements, Sandon Capital analysis

SPSY is a US based technology company listed on the London Stock Exchange specialising in authentication and cleaning technologies for bank notes, as well as having a burgeoning platform in gaming security software. Its clients include a number of the world's central banks.

SPSY reported a very strong CY22 result with revenues increasing 18%, driven by sales of covert materials and the provision of services to aid a central bank customer with supply chain issues. This growth was augmented by milestone payments from the sensor development program with a long-standing central bank customer. The strong revenue growth translated to even stronger earnings growth with adjusted earnings per share increasing by 21%. This is the sixth consecutive year of earnings per share growth, compounding at a rate of 30% over that time period. SPSY's business requires very little capital, which has resulted in very strong free cash flow generation. These cash flows have been used to buy back stock, pay dividends and buttress the company's balance sheet, with almost 20% of the current market capitalisation underpinned by net cash.

SPSY has a number of near and longer term organic opportunities, which we believe will continue to drive earnings growth for the next 5+ years. Organic growth will come from selling more products to existing customers, as well as opening the sales channel to new customers. The strong cash balance provides the opportunity to supplement organic growth with mergers and acquisitions (M&A). Larger M&A opportunities will become viable over the next 12-24 months as strong cash flows are generated from the delivery of the major central bank sensor contract. Once SPSY reaches a certain scale, we believe a listing on the NASDAQ will be more appropriate than the current listing on the LSE AIM.

During the month, funds managed by Sandon Capital announced a substantial shareholding (>5%) in GDC. In February's newsletter, we detailed our investment thesis for GDC. As there was no specific news related to the company's operations during the month, we have no further comments to add.

We have identified some new investment opportunities which we've begun accumulating. We expect to report on these in future periods.

DIVIDENDS

SNC has declared 53.5 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 27.0 cents per share and there are 8.5 cents per share of franking credits. These franking credits support the payment of 25.5 cents per share of fully franked dividends.

SNC's FY23 interim dividend of 2.75cps will be paid on 2 June 2023. The Board anticipates paying a final dividend for FY23 of 2.75cps, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

A full list of SNC dividends since the IPO in December 2013 can be found here.

TOP 5 POSITIONS

COG Financial Services	12%
A2B	11%
Spectra Systems PLC	10%
Fleetwood	8%
BCI Minerals	6%

INSTRUMENT EXPOSURE

Listed Australian Equities	82%
Listed International Equities	13%
Unlisted Investments	5%
Cash or Cash Equivalents	0%

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 9.3% 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.

SANDON CAPITAL

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