

SANDON CAPITAL

# SNC Half year Shareholder Presentation

February 2024



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SANDON CAPITAL

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# Strong investment returns in 6-months to 31 Dec 2023

## GROSS PORTFOLIO RETURN

17.5%<sup>1</sup>

## TOTAL SHAREHOLDER RETURNS

23.4%<sup>2</sup>

## NET PROFIT AFTER TAX

\$14.85 million

1. Gross portfolio return is after management fees but before performance fees, corporate expenses and taxes.

2. Total shareholder return is calculated using SNC's closing share price on 30 June 2023 (\$0.625) and 31 December 2023 (\$0.74) and assumes reinvestment of the final dividend paid on 8 November 2023

## Highlights

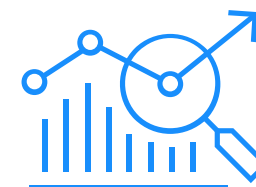
- The SNC portfolio delivered strong returns in the 6 months to 31 Dec 23
- Largest contributions were delivered by A2B and Spectra Systems
- The majority of other holdings delivered positive returns
- Our patience was amply rewarded, despite markets and pundits throughout the year indicating otherwise

## Outlook

- Higher interest rates impose stricter capital discipline
- Stabilised interest rates can provide greater certainty
- Economic activity may temper

## Opportunity remains attractive

- Last year's results bear out our approach of bottom-up, value-based investing
- We are aware of what happens around us, but we do not seek to make investments predicated on macro bets
- General market anxiety creates opportunities for mis-pricing



# Opportunity – sustainable yield at a discount to NTA

## ATTRACTIVE DIVIDEND YIELD

7.9%<sup>1</sup>

## DISCOUNT TO NTA

16.3%<sup>2</sup>

## SOLID PROFITS RESERVES & FRANKING<sup>3</sup>

31.5 cps profits reserve

8.5 cps franking balance

## Highlights

- SNC shares trade at an attractive yield of 7.9% (10.5% grossed up for franking)<sup>1</sup>
- The SNC portfolio can be bought at a 16.3% discount to NTA<sup>2</sup>
- Many of SNC's investments trade at meaningful discounts to our estimate of their intrinsic value
- Investors buying SNC today are buying a “discount at a discount”
- Current profit reserves and franking balance allow SNC to sustain the current dividend for ~4.6 years, all else held equal<sup>3</sup>

## 2.75cps fully franked interim dividend

- Board expects similar final dividend

## Portfolio companies

- The bulk of the portfolio remains exposed to resilient, performing sectors of the economy
- The majority of our investments have very strong balance sheets, leaving them well placed to deal with any economic headwinds and rising interest rates, as well as undertaking capital management initiatives

## Turnaround opportunities

- Board and management changes over the last two years at some companies are expected to lead to better financial and operational performance



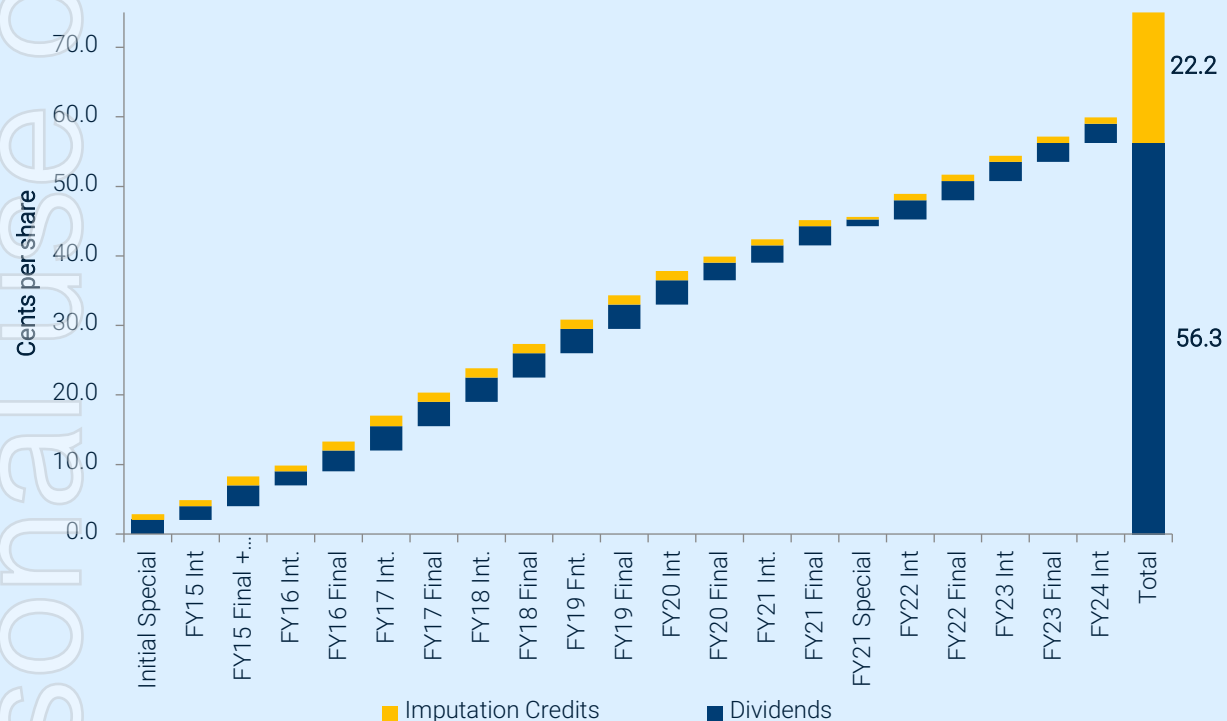
1. Based on SNC closing share price on 19 Feb 24 (\$0.70).

2. Based on pre-tax NTA as at 31 Jan 2024 and SNC closing price on 19 Feb 2024

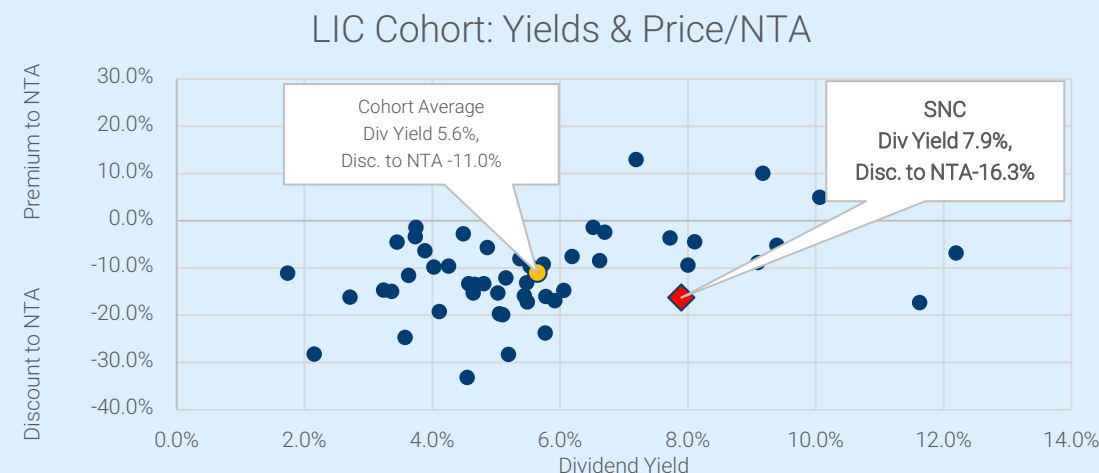
3. As at 31 Jan 2024

# Investment Highlights

- More than 56cps of dividends and more than 22cps of imputation credits since inception



- Attractive yield, at a discount



Gross Performance to 31 Jan 2024	1 yr return	3 yr return (p.a.)	Since inception (annualised)
SNC	18.1%	6.1%	8.5%
Small Ordinaries Accumulation Index	2.1%	1.3%	6.6%
<b>outperformance</b>	<b>16.1%</b>	<b>4.8%</b>	<b>1.9%</b>
All Ordinaries Accumulation Index	7.3%	9.2%	8.7%
<b>outperformance</b>	<b>10.9%</b>	<b>-3.1%</b>	<b>-0.2%</b>

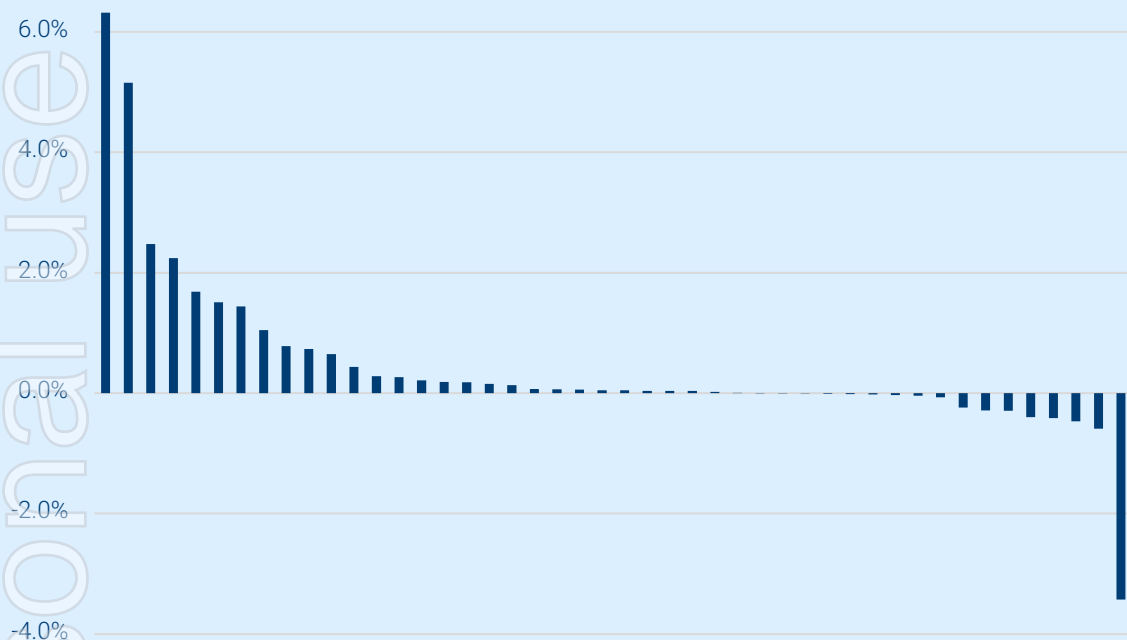
Source: Sandon Capital Investments Ltd

Source: Bloomberg, Sandon Capital analysis. LIC price data is as of 19 Feb 2024  
 Note: SNC Gross performance is after management fees but before performance fees, corporate expenses and taxes

# Investment highlights

- Win/loss ratio ~63% highlights investment selection and portfolio discipline

Gains vs Losses  
(in the 6 months to 31 Dec 2023)



## Top 5

Name	Contribution
A2B Australia	6.3%
Spectra Systems	5.2%
Nuix Ltd	2.5%
Coventry Group Ltd	2.2%
BCI Minerals Ltd	1.7%
<b>Top 5 Total</b>	<b>17.9%</b>

## Bottom 5

Name	Contribution
Foundation Life	-0.4%
Alterra Ltd	-0.4%
Fitzroy River Corp.	-0.5%
Sierra Rutile Ltd	-0.6%
Fleetwood Ltd	-3.4%
<b>Top 5 Total</b>	<b>-5.3%</b>

Source: Sandon Capital. Win/Loss ratio is calculated as gross return (realised & unrealised) before all fees and expenses for those investments owned during the 6 months ended 31 Dec 2023. 46 investments owned during the period.

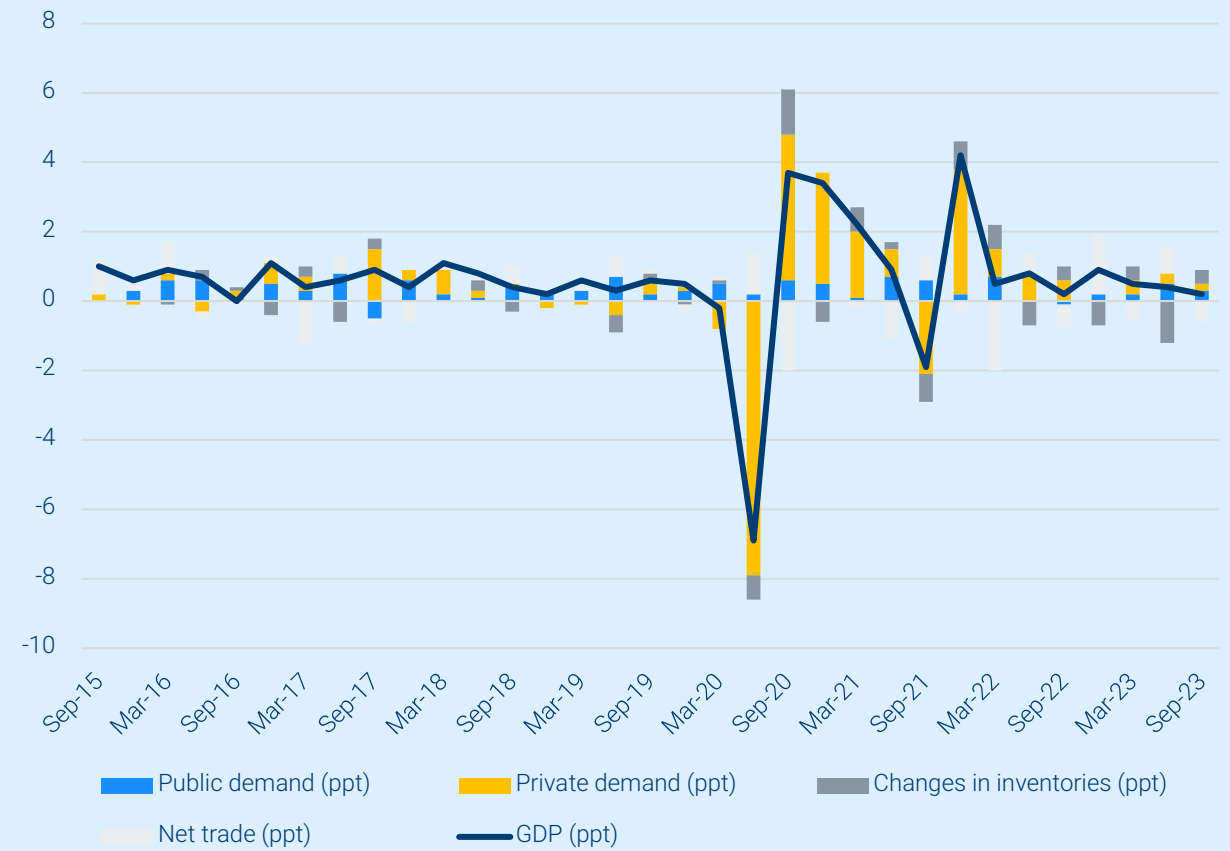
# Market observations

ASX20, ASX100, Small Ordinaries Total Returns



Source: Bloomberg  
 Note: all indices are total return measures, normalised to base 100  
 Past performance is no indication of future returns

GDP Contributors



Source: Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product September 2023

# Portfolio Composition

- Selected holdings represent ~59% of the portfolio
- These companies provide exposure to:
  - SME financial services (COG)
  - Industry rationalisation (A2B, COG, CYG)
  - Infrastructure, resources, agriculture (COG, FWD, CYG)
  - Unique technologies (SPSY)
  - Explosion in data consumption (GDC)
  - Strategic and operational turnarounds (A2B, FWD, CYG, MFG)
  - Capital management opportunities (A2B, SPSY, FWD, MFG)
- All operate in growing markets

## Selected holdings

Spectra Systems Inc. (SPSY)	12.1%
COG Financial Services Ltd (COG)	10.9%
Fleetwood Ltd (FWD)	10.1%
Coventry Group Ltd (CYG)	7.0%
A2B Australia Ltd (A2B)	6.8%
BCI Minerals Ltd (BCI)	5.7%
Magellan Financial Group Ltd (MFG)	3.6%
Global Data Centres Group (GDC)	3.1%
<b>Total Weighting</b>	<b>59.3%</b>



# A2B Australia Ltd (A2B)

- A2B operates taxi networks and provides taxi payment services
- July 2022 “*Better before bigger*” strategy was announced by new Executive Chairman
- Property Sales totalling \$105m:
  - December 2022 – Bourke Road, NSW sold for \$19m
  - December 2023 – O’Riordan Street, NSW sold for \$78m
  - November 2023 – Downing St, VIC sold for \$8m
- 2023 AGM “*From better to best*” strategy unveiled:
  - Improve profitability
  - Grow core business
  - Expand into new markets
- A2B paid net proceeds of ~\$73m (60cps) from property sales in January 2024
- Scheme of arrangement will consider sale of company for \$1.45 per share (expected to complete in April 2024, if approved)

Sources: A2B Financial Reports, ASX Announcements, Bloomberg, Sandon Capital analysis.

# COG Financial Services Ltd (COG)

- COG operates across two business segments:
  - Financial Broking and Aggregation (FB&A), and
  - Funds Management (FM)
- FB&A owns finance brokerages as well as an aggregator, which connects brokers with third party financial services providers.
- As FB&A grows so too does its “network effect” – distribution footprint is almost impossible to replicate
- COG estimates it has a ~21% market share of SME brokered financing
- We expect brokers will gain greater share of SME lending from banks
- FM is growing a credit funds management platform. This provides access to additional non-bank funding sources to satisfy client requirements. COG earns both management fees on funds under management and brokerage on the products.
- COG is growing organically and by way of acquisition
  - Recent purchase of 19.9% stake in Centrepoint Alliance Ltd
- 1HFY24 unaudited trading results reported a 6% increase in NPATA prior to EarlyPay Ltd and Centrepoint Alliance Ltd results

# Spectra Systems, Inc. (SPSY LN)

- SPSY is a US based technology company listed on the London Stock Exchange
- Its core business is the authentication and cleaning of bank notes, with central banks as its major customers
- Its authentication products are also used in products such as coffee pods, perfume and tobacco packaging and it also provides software for gaming security
- SPSY offers highly attractive financial characteristics:
  - High revenue growth (18% in CY2022)
    - Embedded growth in existing contracts
  - High margins (>40%)
  - High growth in earnings per share (~30% p.a. since 2016 )
  - Astute capital management – buy-backs, dividends, acquisitions
  - Strong free cash flows given its minimal capex requirements
- Cash and cash-flow generation capacity allows SPSY to consider further bolt-on acquisitions, which we support

## Financial Summary

Share price (GBP)	228
Market Capitalisation (USD)	\$136.8m
Net debt / (cash) (USD)	(\$4.4m)
Dividend Yield	4.0%

Sources: SPSY Financial Reports, LSE Announcements, Bloomberg, Sandon Capital analysis. Share price and market capitalisation is as at 19 Feb 2024

# Magellan Financial Group Ltd (MFG)

- Sandon Capital identified MFG as materially undervalued and in need of change. We articulated a 5-point plan:

Recommendation	Result
1. Return excess capital to shareholders	WIP
2. Prioritise the existing business	✓
3. Review the cost base	✓
4. Provide further Share Purchase Plan relief	✓
5. Accelerate Board renewal and improve Board diversity	✓

- Recent developments include resolution of MGF Options and pathway to solution of MGF Closed Class discount
- Appointment of new MAM CEO, continuation of Executive Chair role for transition
- Moderation of outflows
- Recently announced 29.4 cps interim dividend, 50% franked

## Financial Summary

Share price	\$9.19
Market capitalisation	\$1,663m
Net debt / (cash)	(\$259.5m)
Non-core Investments	(\$727.8m)
Enterprise value	\$676.4m

Sources: MFG ASX Announcements, Bloomberg, Sandon Capital analysis Share price and market capitalisation is as at 19 Feb 2023. Net cash is after payment of interim dividend and estimated \$15m outflow for MGF options post 31 December 2023

SANDON CAPITAL

About us

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# We seek change to create or enhance value



Pre-eminent and unique track record of shareholder activism



We have unrivalled experience in >40 public and private campaigns



Our track record and investor base allows us to be careful and patient

Long, established track record of outperformance, with an investor base that supports us to play a long game with investments.

## Extensive contacts



We build coalitions of like-minded investors



Stakeholders include institutional investors, directors, proxy advisers, investment bankers, journalists and ultimate owners



Built and nurtured over many years



When public, our analysis is widely circulated and read

# We invest in undervalued companies

As value investors, we look for undervalued assets, where:

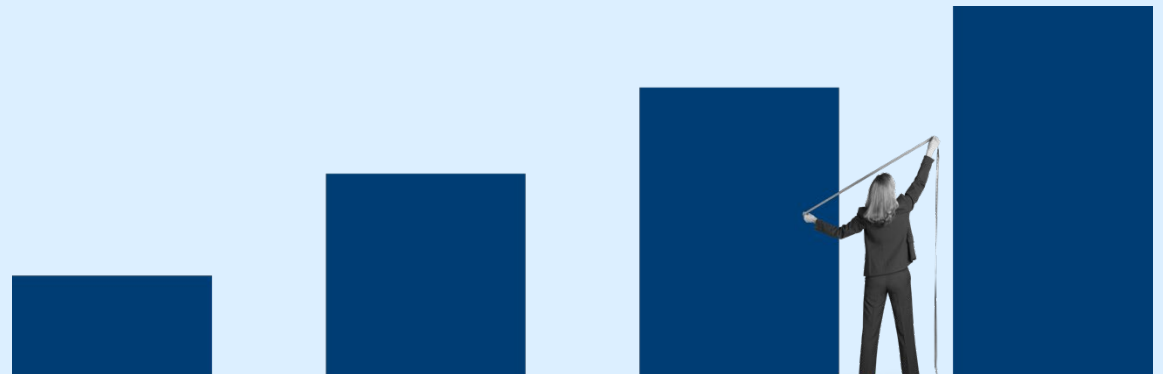


Prices are below their intrinsic value



We can encourage positive changes

Human nature creates attractive investment opportunities that require shareholders to liberate or create value.



# We actively engage with companies to promote positive changes



**Identify** companies that are mispriced and where there are opportunities to promote positive changes, and shape the future.



**Transform** a company so its value is better appreciated by the market.



**Takes time** for our approach to bear fruit. Capital we manage is similarly aligned. Allows us to be patient and persistent.



**Use rigorous analysis** to build shareholder consensus.

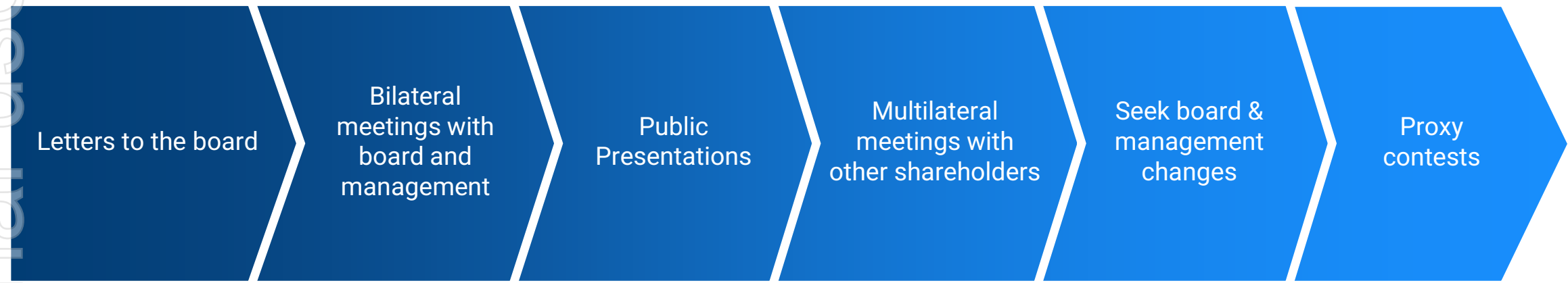


# We unlock value by taking a proactive approach

We focus on engaging to maximise the certainty of our value creation strategies

We adapt to each unique situation, employing both a range of visible and less visible techniques

Discount ..... (Asset Value) ..... Intrinsic Value



Less Visible ..... (Opportunity) ..... More Visible

# Led by a team with decades of success

## Gabriel Radzynski

Founder, CIO & Portfolio Manager

+20 YRS EXPERIENCE



As the founder of Sandon Capital, Gabriel has been involved in the financial services sector for more than 20 years. Gabriel is Chairman of Sandon Capital Investments Limited (ASX:SNC). He is a non-executive director of Future Generation Investment Company Limited (ASX:FGX). From time to time he takes on Board positions as part of Sandon Capital's engagements. Gabriel has a BA(Hons) and MCom both from the University of New South Wales.

## Campbell Morgan

Portfolio Manager

+15 YRS EXPERIENCE



Campbell joined Sandon Capital in 2014 and has more than 15 years of experience in both Australian and international financial markets. Prior to joining Sandon Capital, Campbell managed a Global Materials portfolio for Millennium, a New York based hedge fund with US\$25bn under management. Preceding this, he was a Senior Analyst for a Global Industrials portfolio at Citadel Investment Group, a US\$30b Chicago based hedge fund. Campbell started his career in Australia, working in the Investment Bank at ANZ and after that as an Equity Research Analyst for Merrill Lynch before moving overseas in 2007 to work in Alternative Funds Management.

## Derek Skeen

Chief Operating Officer

+25 YRS EXPERIENCE



Derek is the Chief Operating Officer of Sandon Capital and has over 25 years experience in the asset management industry. Derek commenced his career at Macquarie Bank in 1995 and over the proceeding 25 years held increasingly senior roles in the Macquarie Asset Management division as the business grew organically and through acquisition. Derek has deep operational, risk management and product experience where he has led significant business strategy and transformation programs. Derek has worked in and across a variety of regions for Macquarie Asset Management including in his role as Chief Operating Officer – APAC and, most recently, as Global Head of Investment Operations. Derek has a Master of Business Administration from the University of New South Wales, Australian Graduate School of Management business school.

# SANDON CAPITAL

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