

# THORNEY OPPORTUNITIES LTD

ACN 080 167 264

22 March 2019

Dear fellow TOP shareholder

Welcome to another TOP Chairman's Update.

I'm pleased to report that the recently completed 2018/19 half year profit reporting season once again saw strong results from key holdings in the TOP portfolio, with most meeting or exceeding market expectations.

The continued strong performance of our top four major holdings, summarised in the tables below, highlights one of the fundamental operating principles of the Thorney management team - identify companies with a compelling business model with opportunity to grow and then work with the incumbent or new management to help realise value for shareholders over the medium to long term.

TOP's current four largest holdings, Service Stream (SSM), Money3 (MNY), AMA Group (AMA) and Austin Engineering (ANG) account for about 60% of the TOP portfolio by value.

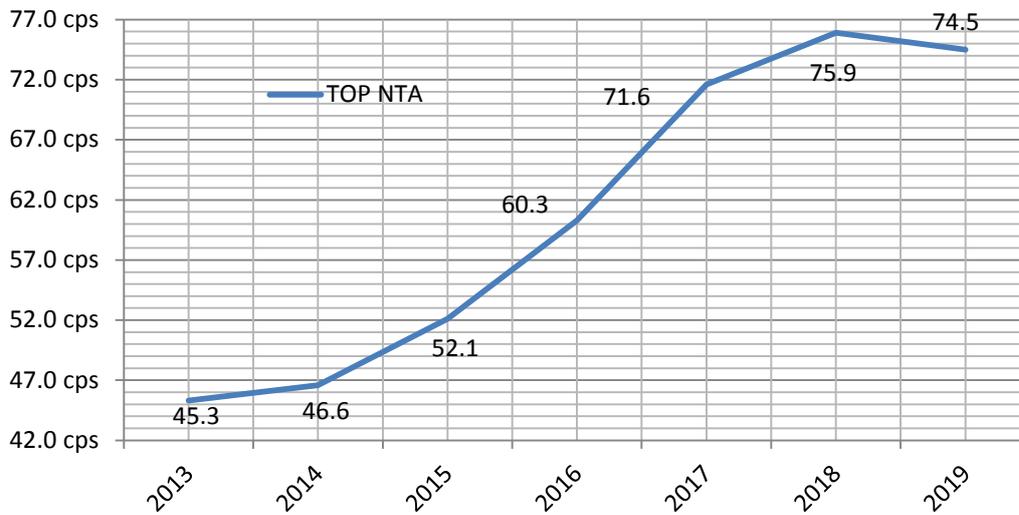
As you can see from the table below, these companies performed well across most key metrics and we continue to believe they have the potential and the ability to keep doing so.

Portfolio Company	% increase H1 2019 vs H1 2018	
	EBITDA	EPS
SSM	↑21%	↑24%
MNY	↑13%	↑1%
AMA	↑18%	↑27%
ANG	↑19%	↑16%

I expect that ongoing strong profit performance of SSM, MNY, AMA, ANG and the majority of the other 15 or so companies in the current TOP portfolio will result in continued appreciation over time in TOP's net tangible assets (NTA) which at the time of writing stood at 74.5 cents per share. This compares to TOP's current share price of 62.5 cents per share.

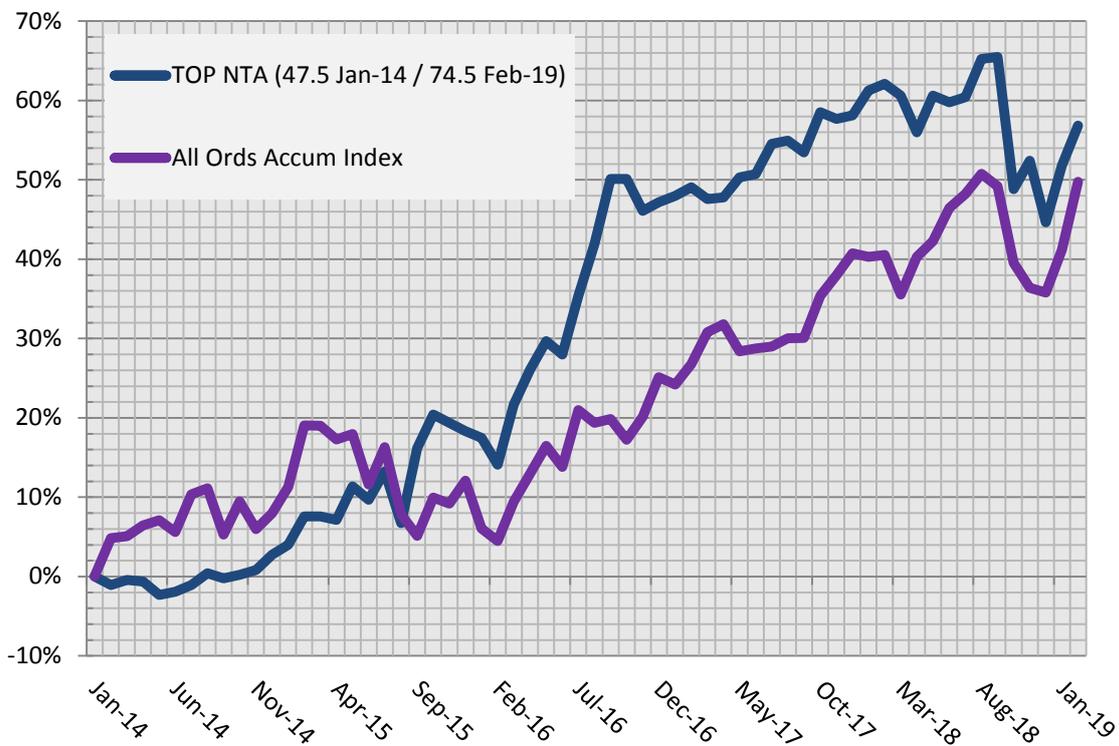
The following graph below summarises the growth in TOP's NTA after costs since its inception more than four years ago:

### TOP NTA Performance (after costs) since inception



The following graph below compares TOP's NTA performance since inception with All Ordinaries Index over the same period:

### TOP NTA (after costs) vs All Ords Accum. Index (January 2014 to February 2019)



I remain very pleased with TOP's proven and ongoing ability to deliver strong NTA growth, increased dividends including a 10% increase most recently, and share market outperformance over time. Naturally, I remain disappointed at the approximate 16% discount to NTA at which TOP shares are trading.

The stockmarket investor in me sees this as a strong buying opportunity and I have been steadily adding more TOP shares to my personal portfolio to take advantage of the discount.

The discount to NTA is one of the main topics I get asked about when I speak to TOP investors and other interested parties. So, for a change of pace this update I have decided to address that, and several other questions I am regularly asked.

I hope you enjoy the change of format.

### *Why should people invest in TOP?*

Ultimately, they should invest because of the management team and the professionals we've got working on the TOP portfolio. We have many decades of collective experience and we've been successful over an extended period of time. We have depth in the management team, knowledge of various sectors and we have access to expertise in all fields which makes us a consistent, solid and successful performance based management team.

### *Why are TOP shares trading at a discount to NTA?*

That's a very good question. I think there can be aberrations in the market from time to time and following some distress in the LIC market last year, broadly most of the LICs are trading at a discount. Is that appropriate and does that reflect fair value? I would argue not and that the performance of our key companies over time will justify that discount being reduced and eventually trading at a premium to NTA to reflect the management team's skill. Whilst TOP is trading at a discount I would say to each and every investor out there that it's an opportunity to buy. I've been doing just that myself - buying additional shares and taking advantage of what I think is a non-justified discount.

### *What is the outlook for TOP's key portfolio companies?*

If you look at the recent half year reports we have had some terrific results for the major companies we've invested in.

Service Stream which is our largest investment had strong increases in all their financial metrics. It made a key acquisition last December which looks to be performing well. They increased their dividend, have net cash even after the acquisition and they're looking increasingly solid as a much more diversified business with an excellent management team and strong Board of Directors.

Money3 which is our next largest position, also reported increases in all its financial metrics and announced two strategically fabulous outcomes: one is the sale of its short term, small amount lending business for an attractive price. The sale has cleared the deck of the only sector of the Money3 business that was criticised by regulators and the media and was also a source of hesitation for the commercial banks to fund the group. The second deal they did was an expansion by acquisition into New Zealand, buying a local automotive loan book there. At face value that looks very attractive as well. The whole company is now a much more focussed and targeted business with a clear path for growth and opportunities in their market segments. They are led by a very good team and following changes at board level recently they have a much stronger board of directors at the helm.

### *Why have your key holdings remained largely unchanged for so long?*

The mandate we sought from investors was for us to be mid to long term investment managers. We're not traders by nature although we do a little bit of trading around our core positions. Basically what we're always looking for is good businesses that are well managed and have a pathway to growth and expansion on a profitable basis. When some of those characteristics are lacking we will push and shove and be active to, for example, get the right management in place or get the company to focus on its core business and not get distracted by side businesses or problem areas that they should cut because they are not giving them an acceptable return on capital.

In the case of our portfolio these are companies that we've worked hard on and that are producing results or on the cusp of producing results. There's no reason to change that. We need to let them flourish and grow and let the share price grow along with that success. We go on the journey with them having helped them achieve the right structural integrity so that they can go forward. So if you look at Service Stream, Money3, Austin Engineering to name a few of our core investments that's exactly what they've got going for them. There's no need to change. They will perform. We would only sell small amounts or adjust if their share price growth saw them become too big a weighting in our portfolio.

On the other hand when we identify a thematic and opportunities to grow we will change or add to the portfolio. In recent times two of the thematic we've liked have been mining services and infrastructure, the latter of which has been boosted by strong spending by both state and federal governments. As a result we've introduced to the portfolio companies such as Decmil Group, Southern Cross Electrical, MMA Offshore and Austin Engineering as part of that mix over the last two or three years. We believe they've got great opportunities to grow over the next few years.

### *Are there any disappointments in the portfolio?*

There are always disappointments in the investment world. Companies that don't grow as fast as they should or even go backwards. The major disappointment that we have is one that we have been dealing with for some years and agitating for change: Tasmanian Poppy Enterprises which was down again during the course of the year and currently represents our single biggest disappointment and paper loss. But it could also be our biggest opportunity if we can help turn it around. There has been a change of chairman recently and we believe the new chairman is much more focused on the business and demanding much more accountability than was the case in the past. Whilst some of the numbers - including revenue - are beginning to look far more attractive, they are still not at a point which is satisfactory. We believe that there are still key issues of transparency and credibility around this company. We don't believe the current leadership has yet to adequately address some of those issues for the future and I would say that they probably only have one more reporting period to turn this situation around and if not then I think shareholders should seek further changes in line with the initiatives of the new chairman and his strengthened board.

*How do you see the outlook in the wider context?*

Overall, I think the results for the half year just ended were quite solid. However, companies which delivered disappointing results were punished quite severely.

In periods when share markets are volatile there is always confusion but in addition there's added uncertainty when we approach an election period such as now where companies and individuals can tend to delay their investment decisions.

So, overall I think the outlook for Australia is one of caution. One of my main concerns is the attitude and the practices of the banks as a result of the Banking Senate Inquiry.

We've seen the practice of the banks recently in reducing the lending they're doing to the investment community and certainly to the consumer, in particular in the property sector, which is obviously experiencing a downward correction. It's hard to see an economy thriving when the key financial engine for lending is being constrained. As a result I feel that we're only going to have muted growth in Australia, and the implications could be for several years.

But notwithstanding that, at the moment I am still very positive on a few key metrics. For example with the weaker Australian dollar, tourism is one, and the agricultural sector and food sector are others. Resources sector exports in particular to the Asian markets is another very strong thematic with the proviso that any downturn in China, could make Australia vulnerable.

As I said earlier I'm also very positive on the infrastructure sector regardless of who wins the election and we are therefore making some investments in that sector.

Internationally of course, we are still subject to many geopolitical risks at the moment.

So overall it's a time to be cautious but also to remain active and committed.

With Thorney's deep knowledge of the companies we're investing in, I remain confident that we can continue to perform well for our shareholders throughout this and subsequent cycles for the foreseeable future.

Thank you for your continuing support of TOP and I look forward to communicating with you again soon.

Best regards



**Alex Waislitz**  
Chairman