

THORNEY OPPORTUNITIES LTD

ACN 080 167 264

18 September 2019

Dear fellow TOP shareholder,

As foreshadowed in my last communication to you, I am writing to give you a post reporting season update on your company's continued progress.

Notwithstanding what has been a very challenging investment environment, I am happy with the financial performance of the key stocks in the TOP portfolio, with no major surprises on the downside.

This should not come as a surprise to TOP shareholders. TOP's investment management team is constantly monitoring our portfolio companies and the industries and environments in which they operate. Our long-established practice has been to identify companies which have a compelling business model plus the opportunity to grow, buy them at the right price, and then work with the incumbent or new management to help realise value for shareholders over the medium to long term. This means we are always in very regular contact with our investee companies, not just checking in after the reporting season.

Some of TOP's best profit performers for the year ended June 30, 2019 included Service Stream (SSM) which produced a 39% increase in net profit after tax (NPAT) and a 22% increase in final dividend; AMA which produced a 43.7% increase in NPAT and Money 3 (MNY), which produced a 9.4% increase in NPAT. TOP's serial underperformer Palla Pharma (PAL), formerly TPI Enterprises, reported improvements in revenue and gross margin but there is still a great deal of work to do.

We believe these and the other key companies in the TOP portfolio all have the ability and potential to continue to grow over the medium and long term and will continue to deliver ongoing strong returns for shareholders.

While we expect these and TOP's other main holdings will remain core assets for the foreseeable future, we will continue to trim the portfolio from time to time, taking profits and/or buying back in according to our detailed value models for each investment.

TOP's most recently disclosed Net Tangible Asset backing per share (NTA) after tax stood at 79.6 cents as at August 31, 2019 having been reduced by the fully franked dividend of 1.14 cents per share declared by directors on August 13, 2019. Dividends to be received from investee companies during this month and next will be reflected in future NTA calculations.

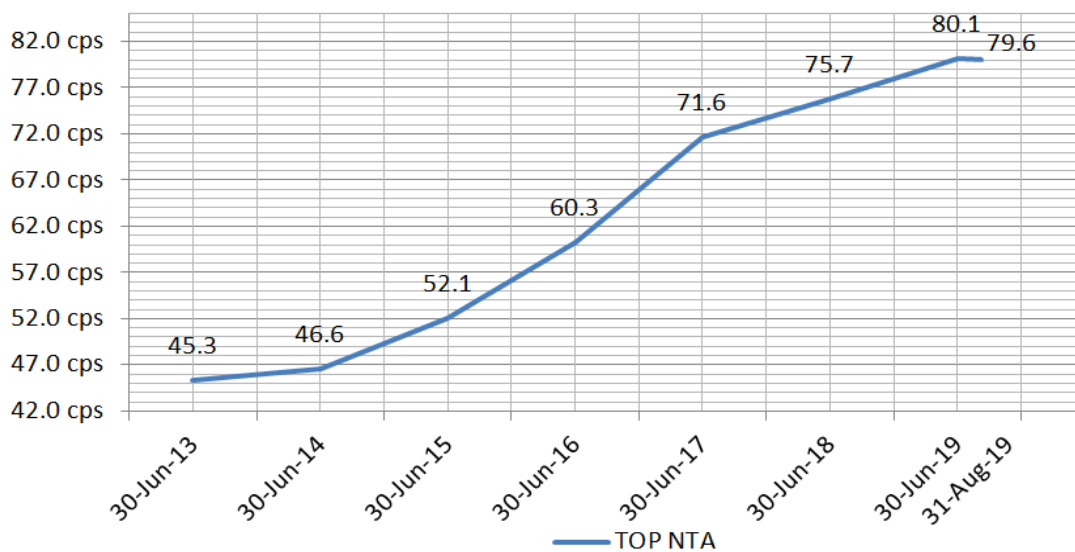
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The August NTA of 79.6 cents compares to the TOP share price on the same date of 70.5 cents, a discount of some 11%. I have mentioned TOP's share price discount to NTA in previous shareholder updates and I remain of the view that TOP still represents an exceptional buying opportunity.

I remain confident that TOP's continued outperformance will result in an upward rerating of TOP's share price over time and I have continued to add more TOP shares to my personal portfolio in the period since my last update.

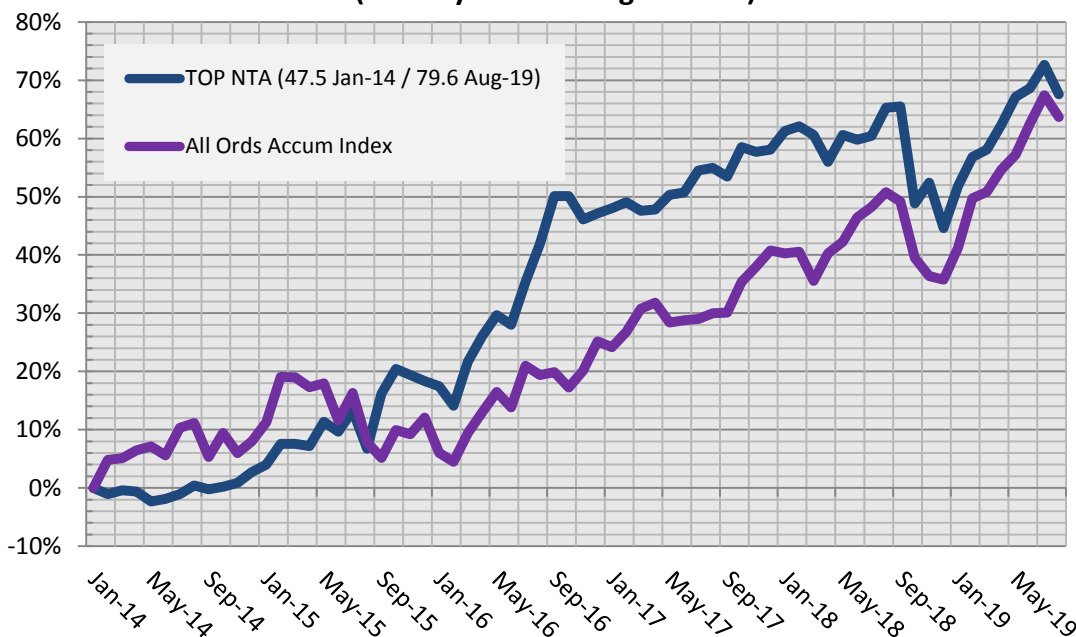
The graph below summarises the growth in TOP's NTA after costs and its share price since its inception more than five years ago:

TOP NTA Performance (after costs) since inception



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

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



TOP's investment manager Thorney has a 25-year record of consistent sharemarket outperformance and I am proud that since its inception as a Listed Investment Company, TOP has delivered the same level of superior results.

TOP shareholders are by now very familiar with the major companies which make up TOP's listed portfolio, so I will not go into detail about each listed company in this update.

However I do want to single out one company in which TOP has a comparatively small stake but where recent corporate activity appears likely to produce a highly unsatisfactory outcome for shareholders unless concerted action is taken.

That company is Aveo (AOG) which is one of Australia's largest retirement village operators, with close to 10,000 units across 90 communities. In mid-August the Aveo Board entered into a scheme of arrangement to sell out to the Brookfield Property Group at a price of \$2.15 per share ex-dividend, or some 40% below the company's NTA.

Such a steep discount to NTA is almost unheard of in a takeover offer. If the deal succeeds it will deprive minority shareholders of significant future value to which they should be entitled.

The proposed deal was announced after a lengthy strategic review which was begun when the AOG share price was \$2.21. The review was specifically aimed at reducing the difference between the then share price of \$2.21 and the then book value of \$3.83 a share.

Given the bid price of \$2.15 which eventuated was even lower than the \$2.21 share price at the time the strategic review was initiated, I believe the bid is highly opportunistic. It was made at the bottom of the housing price cycle and at the current price does not offer minority shareholders anywhere near the value they should be getting. This is especially so given the much improved housing price outlook and the growing importance of the retirement sector. In addition the bid does not reflect the full potential value of Aveo's very high quality land bank of development sites, many of which already have their permits.

I am quite shocked that Aveo's independent directors and the company's major shareholders are supporting the deal rather than actively working to secure a better return for all shareholders. Do the independent directors Walter McDonald, Jim Frayne, Diana Saw and Kelvin Lo not believe their own stated NTA? Do they not have confidence in their executive management team's ability? Perhaps they are worried that the company urgently needs a cash injection, in which case I am sure they would have been better placed to test the market to see if existing or new shareholders might want to invest at a discount.

Notwithstanding some negative media and what has been a challenging operating environment, I believe Aveo's existing management team is more than capable of overcoming any short-term problems the company may have and the company can deliver substantial future upside for all shareholders.

TOP's stake of only about 0.5% of AOG does not give us sufficient "weight" to mount an effective campaign against the AOG Brookfield deal, but we would urge all AOG shareholders to reject the deal when it goes to a vote in October.

In July this year I wrote to inform you that TOP had participated in the \$115 million acquisition of the Australian Community Media group from Nine Entertainment (NEC).

ACM is a leading Australian media company which comprises more than 170 publications including The Canberra Times, The Newcastle Herald, The Ballarat Courier, The Border Mail, The Launceston Examiner, The Illawarra Mercury, The Land, Queensland Country Life, plus a host of other influential regional newspapers and publications, as well as more than 130 associated community based websites and a substantial agricultural events business.

TOP has a 25% interest in the equity component of the acquisition and invested alongside its associated privately owned Thorney Investment Group which also took 25% equity. The remaining 50% equity was acquired by interests associated with media entrepreneur and former CEO of Domain, Antony Catalano.

The acquisition became effective on June 30, 2019. Since then as new owners we have been getting to know the ACM business and its people. We have identified a number of opportunities to create value and will be working hard on them in the months ahead. I will keep you informed of our progress.

In my last newsletter I mentioned TOP's focus on certain thematic as part of our investment strategies and explained how companies like SSM, Decmil (DCG), Southern Cross Engineering (SXE), MMA Offshore (MRM) and Cooper Energy (COE) fitted broadly into the thematic of infrastructure. Other TOP investments such as the turnaround situation Murray River Organics (MRG) are exposed to the healthy eating/organics trend within the agriculture thematic.

Another broad investment thematic that I would like to discuss this time is the widening "value gap" between non-tech small cap stocks and the larger stocks favoured by the majority of investment institutions.

One of the biggest trends in global investing in recent years has been the growth in passive investments such as index investing and exchange traded funds. This trend has led to an over emphasis on investment in large and very large cap stocks at the expense of the small to mid-cap segment of the market. If you exclude the usually tech-related growth stocks from the small to mid-cap sector of the market, then you are left with a bunch of traditional industrial type companies where in my view, extreme value is now starting to emerge. This area has always been Thorney's "home turf" and we are finding ourselves with comparatively fewer fellow travellers as more small-cap boutique funds close and/or experience higher redemptions.

Some of TOP's best performing companies over the past 12 months, like SSM and MNY, have been the result of careful due diligence and recapitalisation work over several years. This work is paying off and I believe it will continue to do so over coming years.

The TOP portfolio already contains the next wave of extreme value companies which I believe will be recognised by the market in their own right over the next one-to-three years. Companies I have already mentioned including SXE, DCG, MRM, MRG and COE and others like equipment finance broking enterprise Consolidated Operations Group (COG) all have the potential for significant upward rerating by the market. I am confident we will see this happen over the medium term thereby ensuring the continued growth of TOP's NTA.

Outlook

It's clear that markets in Australia and overseas remain at risk of high volatility with global geopolitical risk. Whether we are talking about Iran, North Korea, the state of US-China relations, Hong Kong, the impact of the Brexit scenario, the weakening economies of Europe or other factors, there are plenty of reasons to be concerned.

At the same time we are seeing what appears to be a global race to the bottom in terms of interest rates which in turn has huge currency and other economic implications. There are lots of signs of stress in a number of economies and, frankly, on investors within that environment.

Of course there are plenty of bulls who argue that given the lower interest rates, there is justification for an even higher value for equities, and arguably, that's the case. But on the other hand, we are not seeing enough great growth numbers coming through to give weight to that argument. There are just as many people who are calling a recession in the not-too-distant future. Those people say it has been more than a decade since we have had a recession, so one is overdue.

To invest in this environment you have to have a high conviction and you have to be flexible. You have to keep cash reserves today to take advantage of what might be some panic selling tomorrow and you have to work your investments as hard as you can to be more confident of the outcome in due course.

At Thorney we have always been focussed on playing a more dynamic role with all our investments and making sure we stay on top of them with continuing due diligence and interaction.

This has stood us in good stead for more than 25 years and we are continuing to work diligently to ensure that this remains the case.

Thanks for your support and I look forward to staying in touch.

Best regards

A handwritten signature in blue ink, appearing to read 'Alex Waislitz', with a long horizontal stroke extending to the right.

Alex Waislitz
Chairman

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