

# THORNEY OPPORTUNITIES LTD

ACN 080 167 264

3 April 2020

Dear fellow TOP shareholder,

In the few short weeks since I last wrote to you, global share markets have continued to be “downwardly volatile” experiencing some of the worst and best individual trading days in history. We’ve seen days of both panic selling and panic buying as investors try to gauge the long-term impact of this unprecedented global health and economic crisis.

TOP has not been immune to these market gyrations. At the end of March, TOP’s Net Tangible Assets per share (NTA) stood at 53.7 cents compared to 70.4 cents a month earlier.

I am acutely aware that many TOP shareholders are feeling the stress that comes from periods of negative progress, however brief they may eventually turn out to be. I have every confidence that in the medium to long term, TOP will revert to our established track record of delivering superior investment returns and NTA growth.

This is one of the reasons that unlike some companies, TOP directors have decided to proceed with the payment to shareholders this week of TOP’s record interim dividend of 0.73 cents a share fully franked. However, my personal investment company, Thorney Holdings Pty Ltd will defer receipt of the dividend on its 26.3% stake for six months. This will further boost TOP’s existing cash reserves, and therefore making more money available to take advantage of some of the compelling investment opportunities we are beginning to see.

At TOP we can’t predict with any certainty when the COVID-19 crisis will end or exactly what the long-term economic impacts will be, however, what we can do is practice what we preach. That means maintaining our discipline, staying in touch with our existing and potential portfolio companies, understanding the impact on them, analysing their financial and managerial ability to weather the storm and stress testing our models under various scenarios.

I’m pleased but not surprised to say that as we continue with this process we remain confident that the vast majority of TOP’s portfolio companies are in good shape to withstand the very considerable pressures that almost all businesses are experiencing in the current circumstances.

As I mentioned, we have cash reserves to deploy and we have topped up on many of our core portfolio holdings at prices which we would have considered bargain basement only a few months ago. Some of these, like Service Stream Limited (SSM) and Money3 Corporation Limited (MNY) are companies on which we were taking profits last year, because we judged then that they were approaching “over bought” levels.

Now we regard them, and others in the TOP portfolio, being “over sold” albeit that we cannot rule out further price falls as we work through this crisis.

We regard SSM, with its strong management, strong balance sheet and exposure to spending in key infrastructure areas like broadband internet, utilities and other essential services, as one of our best placed portfolio companies to recover quickly.

We view MNY the same way. Its share price has suffered because of predictions of lower demand for car loans and higher defaults as the economy goes into recession and unemployment rises. In contrast, the combination of MNY’s strong management and significant available funding lines, combined with the various stimulus and job protection measures announced by Government, leads us to believe that the long-term impact on MNY may not be as severe as many first thought.

Many other companies in the TOP portfolio are in the same position. AMA Group Limited (AMA) has established itself as the clear market leader in automotive smash repairs and is considered an essential service

Palla Pharma Ltd (PAL) now has an integrated production-to-market model for its licensed narcotics operations and one we believe can recover quickly. Southern Cross Electrical Engineering Limited (SXE) continues to win contracts many of which are in the essential services area which will see even further expenditure due to the government’s stimulus and infrastructure spending programs.

Another of TOP’s infrastructure related holdings, Decmil Group Limited (DCG) came out of a long trading halt this week reporting a \$75 million half-year loss mainly due to a major contract being terminated in NZ. The company has also suffered from delayed payments on a major solar farm project. Again, TOP believes DCG can get through this difficult time and we have been buying more shares this week at historically low levels.

We have also added to our holdings in other TOP portfolio companies including MMA Offshore Limited (MMA), OneVue Holdings Limited (OVH) and a new position in Carbon Revolution Limited (CBR).

While TOP has stepped up both our buying and trading activities in recent weeks this does not mean we are calling the bottom of the market. There will be more volatility ahead and we will continue to be both prudent and opportunistic in our approach.

TOP’s only unlisted holding, our share of the regional newspaper and digital media group, Australian Community Media (ACM) is facing some very difficult challenges as is the rest of the Australian media industry. ACM’s advertising revenues have suffered this year, firstly by the impact of the bushfires and now by the COVID-19 downturn.

As always, we are working closely with ACM management to address the situation and examining a number of cost reduction and revenue generating options. One positive is that more and more readers have been turning to ACM's digital pages in recent months. I remain committed to this investment and the vital role ACM plays in servicing regional Australia.

With ACM and with all our listed investments, TOP will keep its nose to the grindstone and eye on the horizon, looking beyond the immediate environment to ensure that we are as well placed as possible to emerge even stronger and more successful than before.

This is not a short-term project. The world is fighting a war against two enemies - one of them is an invisible virus and the other is its economic consequences which may prove even more devastating than the virus itself.

But I would remind shareholders of the often used adage that the Chinese Hanzi character for the word "crisis" is made up of the characters for the words "danger" and "opportunity".

This is indeed a dangerous time, but it is also a time of great opportunity. Thorney cut its teeth and established its reputation as a value investor in the years that followed the 1987 share market crash. We cemented that reputation after the collapses in 2000 and 2008.

We understand company capitalisations well and we have already participated in a number of capital raises this time around that I believe will prove to deliver marked uplifts in value when markets and economies recover.

I have been encouraging all TOP's investee companies to ensure that they respond swiftly and determinedly to the current environment in a way that results in long-term productivity improvements and value creation well after this crisis has passed.

It is an ongoing process and I will be in touch again in the near future to report on our progress.

Yours sincerely,



**Alex Waislitz**  
Chairman