THORNEY OPPORTUNITIES LTD

ACN 080 167 264

2 October 2017

Dear fellow shareholder

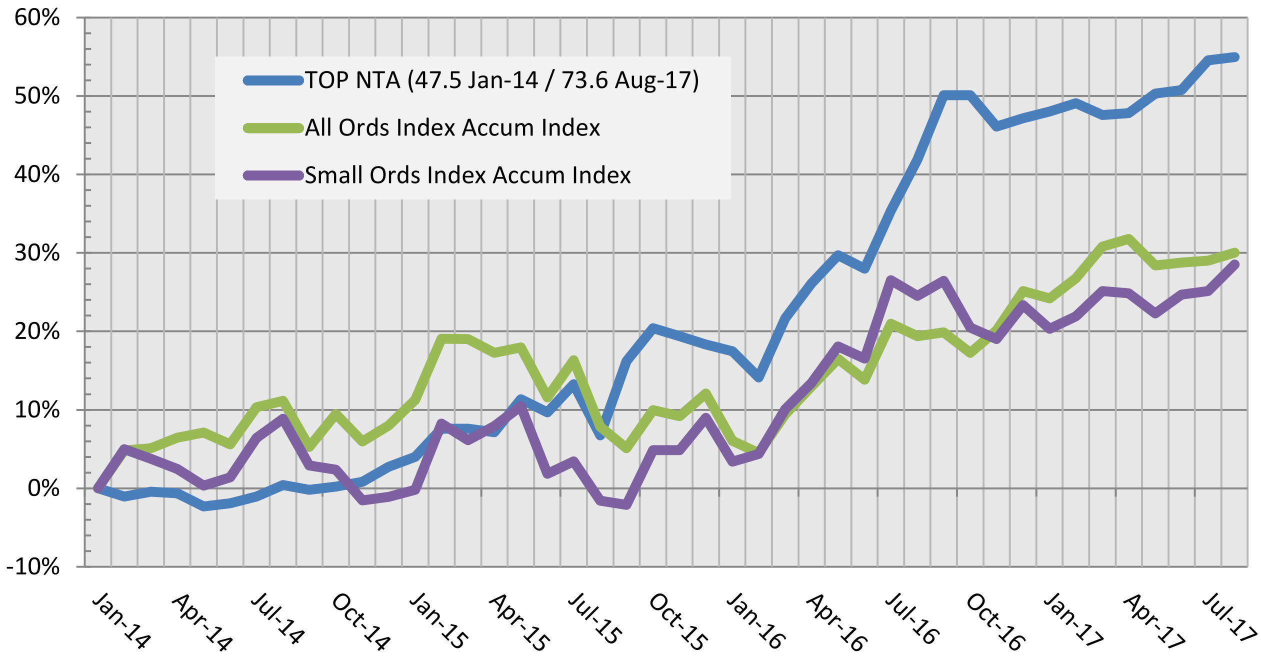
Welcome to another Thorney Opportunities Ltd (TOP) update.

At the time of writing I am pleased to report that TOP’s net assets are approximately $124 million, representing an increase of around $44 million since TOP first began operating as an ASX Listed Investment Company (LIC) in January 2014.

I am very proud of this strong performance which places TOP amongst the best performing LIC's on the ASX in recent years.

The graph below shows the growth in TOP's net tangible asset backing (NTA) after costs since January 2014 when compared to the performance of the ASX All Ordinaries Accumulation Index and the ASX Small Ordinaries Accumulation Index over the same period.

TOP NTA (after costs) vs All Ords and Small Ords Accumulation Indices (January 2014 to August 2017)



This sustained outperformance is further confirmation of the TOP management team's ability to identify companies which have the potential to deliver superior returns for shareholders and then work with them to unlock that value over the medium to long term.

Portfolio highlights:

An example of this investment strategy is TOP's largest holding:

SERVICE STREAM LIMITED (SSM):

In early 2014, TOP helped drive and subsequently anchor a capital restructure of SSM at around 20 cents a share. Along with other shareholders we pushed for change at board and management level, thus enabling the new team to use its stronger capital base to focus on turning SSM into a highly successful service provider to Australia's essential communications, energy and water infrastructure networks.

SSM has gone from strength to strength and last month turned in another stellar profit performance with a record result for the 12 months to 30 June. Net profit after tax (NPAT) was up 42% while the full year dividends were up 80% to 4.5 cents a share. Even after the recent acquisition which is being integrated well, SSM maintains a robust balance sheet with a positive cash balance.

The SSM share price at time of writing was around $1.48, up more than 7 times TOP's initial investment less than four years ago, even before including dividends.

This outstanding performance makes SSM TOP's best investment to date, for which Chairman, Brett Gallagher, and Managing Director, Leigh Mackender, deserve credit for creating considerable shareholder value.

We believe that SSM can continue to perform strongly.

MONEY3 CORPORATION LIMITED (MNY):

MNY is TOP's second largest holding, held through a combination of shares and bonds.

MNY reported an excellent result for the year ended 30 June with a record NPAT of $29.1 million which was 44.5% higher than the previous year, was above market guidance and was coupled with an increased final dividend.

MNY’s management are doing a good job of extracting cost efficiencies and achieving operating margin improvements, however, I believe that further work is required to better communicate its compelling investment thesis to the market.

For example, the evolutionary change in the composition of MNY’s loan book, to almost 80% secured auto loans, is significant and likely to drive further improved performance with a lower risk profile.

The market is still waiting for news on MNY’s plans for the refinance of $30 million of bonds which mature in May 2018 and, once plans are in place, there is no reason why impressive growth cannot continue.

AMA GROUP LIMITED (AMA):

This automotive panel repair and accessories group continues to expand through both the development of greenfield sites and new acquisitions. AMA produced very solid full year results for 2017, with EBITDA increasing by 28.7% over the prior year, and above guidance to $41.1 million.

Despite an increased dividend and a very bullish forward outlook statement, the AMA share price has been weak. We saw this weakness as a buying opportunity as we believe AMA has an excellent consolidation and growth strategy and a proven ability to extract synergies. However, it needs to better explain the payback economics of the greenfield development sites especially given some investors have been concerned about the scale of capital committed to these opportunities. We have been pleased to see the share price recover somewhat more recently.

The Australian smash repair business is still highly fragmented but consolidation is being encouraged by the large insurance companies. We believe AMA is ideally placed and will continue to flourish over the medium to long term.

AUSTIN ENGINEERING LIMITED (ANG):

Like a number of mining services providers, ANG was not appropriately capitalised to manage during the downturn in the resources sector following the reduction in new and replacement capex expenditure. At Thorney, we recognised this position and took a lead role in anchoring a recapitalisation of ANG at 8 cents a share. We actively supported a change in leadership and with a stabilised balance sheet and operational integrity, encouraged this mining and earthmoving equipment manufacturer to recommence the pursuit of growth.

During the recent reporting season, it was pleasing to see ANG's much improved EBITDA result being at the top end of market expectations as well as its positive outlook statement for 2018. This confirmed the welcome turnaround in ANG's fortunes and with a strong order book and the disciplines introduced by Chairman, Jim Walker, and Managing Director, Peter Forsyth, we are optimistic about the future.

The investment community has taken notice and ANG shares are now trading at around 23 cents.

ONEVUE HOLDINGS LIMITED (OVH):

OVH operates in the increasingly relevant 'fintech' sector, announcing strong profit growth in its latest results. However, this superannuation administration and trustee services company has yet to capture the market's attention in the same way as some other market participants.

We believe this will change as the market starts to acknowledge the strong growth and profit capabilities which OVH possesses.

We have been impressed by how well OVH's fund services, platform services and trustee services are regarded by its customers. For example the fund services division which provides unit registry and other administration services to fund managers and super funds, has key relationships with most of the major global custodians which combined represent more than $500 billion under management.

We retain a significant holding in OVH and believe our confidence will prove to be justified.

TPI ENTERPRISES LIMITED (TPE):

You will recall that I have regularly described TPE as the most disappointing company in the TOP portfolio. I have said that this opium poppy growing and processing company came to market too early and has poorly managed the transition from private company to public company.

At the same time, I have acknowledged that TPE has been slowly achieving milestones and still has the potential to become one of the world's leading suppliers of legal narcotic materials to the global pharmaceutical industry.

Since my last newsletter TPE has announced a strategic acquisition in Europe and a number of new contracts which should help take it closer to delivering on its promise. TPE is now a fully integrated business, from the growing and processing of opium poppies through to narcotics manufacture and distribution. Thus, everything is now in place for positive earnings to manifest.

We will continue to engage with TPE and monitor developments with keen interest.

ARDENT LEISURE GROUP LIMITED (AAD):

Both TOP and the private Thorney group have small holdings in AAD which, in recent months, was subject to activist interest from Dr Gary Weiss's Ariadne Australia (ARA). Dr Weiss is a director of TOP. We note that the private Thorney Group has a shareholding of approximately 10% in ARA.

We were pleased to see our support for Dr Weiss's call for changes at board level justified as he has been recently appointed to join the AAD Board. We have a strong view of Dr Weiss's capabilities and thus support ARA in its endeavours to effect constructive change at AAD.

FAIRFAX MEDIA LIMITED (FXJ):

Having begun my last newsletter in June discussing FXJ, it seems appropriate to end the portfolio section of this latest newsletter with it. You may recall that when I last wrote to you we were watching developments in the private equity bidding process for FXJ very closely, but we were also strongly encouraging the company not to give up on its own strategic objectives.

With private equity interest withdrawn for the time being, the onus is clearly on FXJ's Board and management to deliver the Domain spin off in a way that creates value for all shareholders. In my view, there is $1-2 billion of potential value uplift available in the medium term should Domain be spun off successfully and allowed to grow. Domain continues to be very entrepreneurial under Chief Executive Officer, Antony Catalano, and recently announced an expansion into insurance and mortgage broking.

The recent passing of legislation relating to new media ownership laws have resulted in FXJ being well positioned to play a role and pursue value-adding opportunities in the changing media landscape. With this flexibility, deals could potentially be done with a number of other media organisations, including the free-to-air television networks, as well strategic transactions involving other assets.

We remain supportive of FXJ's board and management under Chairman, Nick Falloon, and Chief Executive Officer, Greg Hywood, who produced a very strong profit turnaround in the company's recent full year results notwithstanding an anticipated decline in revenue. We believe clarity around issues such as debt levels, dividend policy and capital management initiatives should be forthcoming in the lead up to completion of the Domain spin-off in order to encourage investors to remain as shareholders in FXJ.

OUTLOOK

I am currently in the USA where it appears the market is becoming more confident that, behind all the distracting rhetoric, the Trump Administration will deliver a meaningful degree of tax reform.

However, while the strong run in the US equity market continues on the back of economic growth and business optimism, there are significant potential geo-political and economic risks which perhaps are not fully priced in.

Any one of them, including failure to deliver on tax reform, has the potential to provide a level of external shock sufficient to cause a sell down from current record US share price levels.

Notwithstanding this, I believe the quality of the TOP portfolio, combined with our continued vigilance puts us in a strong position to take advantage of such a situation. Whilst we remain high conviction investors, we will remain tactically cautious and will adjust our portfolio holdings accordingly.

Thank you for your continuing support and I invite you to join us at our forthcoming Annual General Meeting where we will have some of our investee companies present.

Best regards

Alex Waislitz
Chairman