

BIL | Bethunes Investments Limited

HISTORICAL REVIEW AND THE WAY FORWARD

31 July 2015

Bethunes Investments Limited - BIL:NZX
formerly Mowbray Collectables Limited - MOW:NZX

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BETHUNES INVESTMENTS LIMITED

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FORWARD-LOOKING STATEMENTS / FORECASTS

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BETHUNES INVESTMENTS LIMITED

FORMERLY MOWBRAY COLLECTABLES LIMITED

Bethunes Investments Limited ("Bethunes") is a NZX listed company (BIL.NZX) previously called Mowbray Collectables Limited (MOW.NZX) a philatelic business that was floated by founder Mr. John Mowbray on the New Capital Market (NCM) in April 2000 and ultimately listed on the NZX main board on 9 December 2002. The performance of Mowbray Collectables failed to reach expectations over the 15 years since listing. In 2014, the Board initiated a divestment program to retire debt that culminated in the sale of the Stamp, Note and Coin business on 30 June 2015 to an investor group led by Mr. Mowbray. The company was renamed Bethunes Investments Limited on 17 July 2015 and embarked on a plan to transform to an investment company and raise additional capital led by Independent Director -

Christopher Swasbrook, who was appointed to the Board on 18 November 2013. The name Bethunes was selected as the continuing name for the Company, as it has been associated with Mowbray Collectables and Webb's for many years. In 1999, John Mowbray formed Bethunes Rare Books Limited to acquire the rare book auction business of JH Bethune, Limited initially established in 1877. Bethunes had earned a worldwide reputation auctioning rare books, prints and antique maps. Auctioning rare books continues as a business under the Bethunes name at Webb's to this day. It therefore seemed entirely appropriate when re-naming the company to maintain this link to the company's history while establishing a new vision and modus operandi.

MOWBRAY COLLECTABLES

HISTORY & PERFORMANCE

HISTORY

April 2000

Mowbray Collectables Limited was first listed on the New Capital Market (NCM) on 20 April 2000 and moved to the NZX Main Board on 9 December 2002.

March 2003

Purchased 33.33% of Peter Webb Galleries Limited

October 2004

Purchased a further 16% of Peter Webb Galleries Limited

December 2004

Purchased 20% of First East Auction Holdings Pty Ltd (trading as Bonhams & Goodman)

January 2011

Purchased 20% of SA Unit Trust that owned a company trading as Sotheby's Australia, that increased to 25% in 2012 upon the cancellation of a 20% holding

31 October 2013

Acquisition of 51% of Peter Webb Galleries Limited completed

30 September 2014

Divestment of interest in Sotheby's Australia

30 June 2015

Sale of Stamp, Note and Coin business completed

PERFORMANCE

Since listing, Mowbray Collectables has underperformed significantly:

- » Mowbray Collectables total return **-7.6% Per Annum***
- » RBNZ Consumer price inflation of **+2.3% Per Annum***
- » Elevation Capital Value Fund **+7.7% Per Annum**** with **~30% cash balance at all times**

Reasons for under performance:

- » No systems investment and antiquated methodologies have resulted in disproportionately high costs
- » High levels of inventory and low stock turnover = low return on assets
- » Volatile free cash flow generation and no analysis of returns
- » Businesses operating in mature and declining markets
- » An inability to influence and effect changes within minority investments

*Data from 26/1/2001 to 29/7/2015 Thomson Reuters Eikon

**Since Inception to 30/6/2015 / Average Cash balance = 29.6%

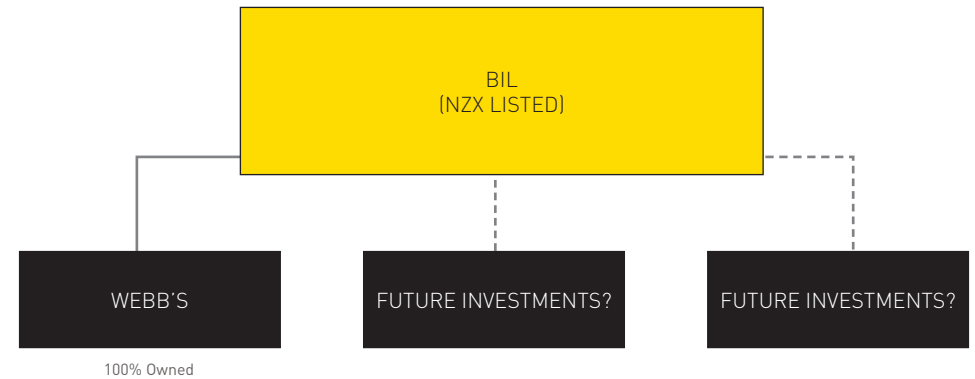
BETHUNES INVESTMENTS

FOLLOWING THE SALE OF THE STAMP, NOTE & COIN BUSINESS

FOLLOWING THE SALE OF THE STAMP, NOTE & COIN BUSINESS

The company, after the sale of the Stamp, Note and Coin Business has only one trading subsidiary - Peter Webb Galleries Limited - trading as "Webb's".

BETHUNES INVESTMENTS CURRENT STRUCTURE



WEBB'S

INHERITED POSITION - CHANGE REQUIRED

The acquisition of the controlling interest in Webb's (dating back to October 2013) has been particularly disappointing for the company as forecasts provided to the independent valuer used to calculate the purchase price (plus the assumption of debt) have proven to be overly optimistic

There can also be no doubt that a focus on short term profitability versus investment for the future by both Mowbray management and its directors compounded the issues within not only Webb's but also legacy businesses

Substantial issues revealed once control changed

Staff, systems and internal reporting have all suffered from a lack of investment over many years. This has required a substantial review from the bottom-up.

Resulting Restructuring and Investment Program focused on:

- » Discontinuation of Decorative Arts and Antiques Business which were declining businesses
- » Cultural change across whole business
- » Relocation to New Premises
- » Overhead Reduction (ongoing)
- » Advertising & Marketing optimisation
- » Development and phasing in of online auctions and research content
- » Accounting System and Auction Management System Management upgrade to reduce unit labour costs
- » Reclassification of Art Categories - Online/Affordable, Discovery, Vision and Paramount to tackle what is a highly competitive marketplace, saturation and a lack of differentiation of Webb's auctions versus principal competitors

WEBB'S

UNANTICIPATED IMPACT - LEGISLATIVE CHANGE
UNDERESTIMATED IMPACT - PREMISES MOVE

LEGISLATION CHANGE

On 17 June 2014, changes to the Fair Trading Act and Consumer Guarantees Act, relating to auctions, came into effect. The impact of these changes has proven to be much greater than the directors thought (at the time of purchasing of control of Webb's)

WEBB'S HAMMER SALES

- » 10 year Average Hammer Sales (excluding Decorative Arts & Antiques)

NZ\$ 11 MILLION
PER ANNUM

- » FY2015 Hammer Sales
(excluding Decorative Arts & Antiques)

NZ\$ 7.5 MILLION

- » FY2016 Hammer Sales Forecast

NZ\$ 5.9 MILLION

COST SAVING INITIATIVE

OVERHEAD REDUCTION

-NZ\$ 800,000

-29%

Cost reductions in response to declining hammer sales, have reduced fixed overheads by -\$800,000 or 29% to 31 March 2015. Further reductions available in the current financial year and will be executed on.

WEBB'S

SIGNS OF A TURNAROUND BUT TIME REQUIRED

Signs of a Turnaround...but time is required

Webb's requires at least 18 months of further investment in people and systems to see a significant turnaround; initial results are encouraging:

- » Revenue is increasing as a proportion of hammer sales;
- » Margins per category are improving;
- » Post Auction results continue to improve as evidenced by the recent "Jewels" Auction (this is an increasing feature within the business as a result of the legislation change - refer page 6)
- » Total overheads have significantly decreased (with scope for additional reductions);
- » New business lines being investigated;
- » Design, marketing and category classification improvements initiated

New Initiatives

- » Valuations and Cataloguing Service
- » Finance and Insurance (in final stages)
- » Website, Online Research Content and Online Auctions
- » AMS - New Auction Management System to increase administration efficiencies

Auction	Date	Sell-through Rate*	Sell-through Rate**	Lots offered	Lots Sold	Hammer Sales***
JEWELS	Saturday 7 March, 2015	73%	72%	358	260	\$277,830
PARAMOUNT SERIES	Thursday 9 April, 2015	37%	33%	41	15	\$729,500
FINE JEWELLERY & WATCHES	Saturday 23 May, 2015	37%	15%	172	63	\$251,345
ART ONLINE / AFFORDABLE ART	Tuesday 12 May, 2015	94%	NA - No Reserve Sale	174	164	\$38,703
FINE & RARE WINE	Tuesday 19 May, 2015	78%	27%	622	486	\$104,548
DISCOVERY SERIES	Thursday 28 May, 2015	50%	43%	113	57	\$118,910
PHOTOGRAPHY	Thursday 11 June, 2015	58%	58%	83	48	\$69,775
FINE & RARE WINE	Tuesday 7 July, 2015	57%	36%	400	227	\$61,475
ART ONLINE / AFFORDABLE ART	Tuesday 14 July, 2015	66%	115%	164	109	\$66,095
JEWELS****	Saturday 25 July, 2015	54%	27%	358	191	\$132,270
JEWELS*****	Saturday 25 July, 2015	68%	57%	358	242	\$280,510

* Sell through-rate by lots offered

** Sell through-rate by Value Consigned

*** Hammer Sales are presented excluding Buyers Premium and GST

**** Preliminary sale data at 27 July 2015

***** Results After post sale negotiations as at 30 July 2015

WEBB'S

THE FUTURE...

- » Webb's in the first instance will be held as an operating business with a view to provide the cash to run Bethunes
- » Webb's is now forecast (as at 29 July 2015) to deliver a break-even result for FY2016 and return to profitability in FY2017
- » Further cost reductions of up to \$250,000 targeted in these assumptions of which the full benefit will not flow through until FY2017
- » It is important to highlight that our current FY2017 forecasts assumes no growth in sales from arguably a "very interrupted base". The principle risk remains the volatility in the art market and this is very difficult to predict having regard to potentially changing economic conditions and personnel change
- » However, should an acceptable offer be received for Webb's based on the cash committed to Webb's post recapitalisation / rights issue then Webb's in all likelihood would be divested
- » Currently, Bethunes is in discussion with two parties domiciled offshore who have expressed an interest in a potential acquisition of Webb's

BETHUNES INVESTMENTS

RIGHTS ISSUE TO RE-CAPITALISE WEBB'S AND POSITION FOR THE FUTURE

RIGHTS ISSUE - TERMS

15:1 renounceable rights issue at NZ\$ 0.015cps.
Bethunes Current Shares on Issue = 12,755,523
Rights to be offered = 191,332,845
If all rights were fully subscribed the company will raise NZ\$ 2.87 M

INDICATIVE OFFER TIMELINE (SUBJECT TO NZX APPROVAL)

Rights trading commences on NZX - 17 August 2015*
Record Date - 19 August 2015
Offer Opens - 20 August 2015
Rights Cease Trading on NZX - 2 September 2015
Closing Date for Applications & Renunciation of Rights - 8 September 2015
Allotment Date - 15 September 2015
Shortfall Placements until - 8 December 2015

**Indicative only and may be changed by the NZX*

PROCEEDS WILL BE USED FOR - WEBB'S

If the minimum is raised under the rights issue (NZ\$ 1.5 Million) proceeds of the issue will be applied to re-capitalise Webb's eliminating term debt of approximately NZ\$ 0.9 Million and trade creditors totaling approximately NZ\$ 375,000.
The balance of the proceeds will be retained at Bethunes to satisfy trade creditors and for working capital needs at the holding company

PROCEEDS WILL ALSO BE USED FOR - FUTURE INVESTMENTS

Should the rights issue raise in excess of NZ\$ 1.75 Million, there will be proceeds available to execute on Bethunes "New Vision" to *"Acquire a portfolio of assets over time that generate high free cash flow margins enabling the creation of attractive per share returns through disciplined capital allocation and operational excellence"*

BETHUNES INVESTMENTS

BETHUNES AS AN INVESTMENT COMPANY PROVIDES A HUGE ADVANTAGE FOR LONG TERM MINDED INVESTMENT DUE TO THE PERMANENCE OF CAPITAL

NEW VISION

"Acquire a portfolio of assets over time that generate high free cash flow margins enabling the creation of attractive per share returns through disciplined capital allocation and operational excellence"

OUR KEY INVESTMENT PHILOSOPHY WILL BE TO SEEK

- » Understandable businesses with category leading positions in niche markets with defensible moats around their business
- » Recurring revenue streams with margin expansion opportunities
- » Strong cash flow characteristics

POTENTIAL FUTURE INVESTMENTS

Future investments will be guided and dictated by our key investment philosophy and will be driven by substance over form.

Bethunes has already explored...

- » The Storage Industry in NZ
- » Subset of Food Processing Industry

No opportunities have been forthcoming to date

However, there is a business cycle and Bethunes will need to apply a contrarian philosophy and be patient

BETHUNES INVESTMENTS

WHAT A FUTURE INVESTMENT MAY LOOK LIKE...



Is a consumer goods manufacturer with iconic Australian and New Zealand brands with annual sales revenue of AU\$ 80.7 million*.



Pears®



* FY2014 Sales Revenue

BETHUNES INVESTMENTS

WHAT A FUTURE INVESTMENT MAY LOOK LIKE



Key Statistics

Cost of acquiring 5% of Pental*: AU\$ 3.1M

Estimated Dividend Yield*: 6.0%

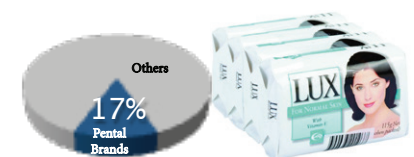
Estimated Intrinsic Value Range:
AU\$ 0.70 – AU\$ 0.75 cents per share

Current Price:
AU\$ 0.46 cents per share

Potential Acquirers:



STRONG MARKET POSITIONS



BETHUNES INVESTMENTS

WILL NOT BE A “FEE DRIVEN” VEHICLE - IT WILL BE ONE DRIVEN BY AN ALIGNMENT OF INTERESTS

The relationship between management and shareholders should be a simple one

Our objective is to maximise value for shareholders

The relationship that will exist between the company and its shareholders is as follows:

1. Corporate in form Partnership in attitude

2. Investment Objective

Our investment objective is to preserve capital and seek maximum, long-term growth with reasonable risk. We define risk as the probability of a permanent loss of capital, rather than price volatility

3. Use of Leverage

We will adopt a conservative approach to utilising debt

4. Alignment of Interests

Our goal is to maximise the annual growth rate of per share value. We will have meaningful shareholdings that align management and investor interests and ensure we “eat our own cooking”

5. Director Compensation

Compensation is often a point of contention in the relationship between a company and shareholders. Our compensation will be based on increasing revenue, net income and cash flow and increasing value for all shareholders. There are no management fees, no performance fees, or options to be issued. Our remuneration will be by way of modest directors fees and an ownership interest in the company, on the same terms as all other shareholders

6. Dividends

We propose to only pay dividends or return capital to shareholders when this is the best use of capital

You can read our full Shareholder Principles at www.bethunesinvestments.co.nz

LISTED INVESTMENT COMPANIES	MANAGEMENT FEE	PERFORMANCE FEE
MARLIN GLOBAL	Y	Y
BARRAMUNDI	Y	Y
PERPETUAL EQUITY	Y	N
AUSTRALIAN FOUNDATION INVESTMENT	Y	N
DJERRIWARRH INVESTMENTS	Y	N
WAM ACTIVE	Y	Y
TEMPLETON GLOBAL GROWTH	Y	N
HUNTER HALL VALUE	Y	Y
MERCANTILE INVESTMENTS	N	N
ARIADNE AUSTRALIA	N	N
BETHUNES INVESTMENTS	N	N

BETHUNES INVESTMENTS

CURRENT BOARD & BIOGRAPHIES

ACTING INDEPENDENT CHAIRMAN - CHRISTOPHER SWASBROOK

Biography

Christopher Swasbrook is currently the Managing Director and a shareholder of Elevation Capital Management Limited a company he founded in 2007. He was previously a Partner of Goldman Sachs JBWere Pty Limited and Co-Head of Institutional Equities at Goldman Sachs JBWere (NZ) Limited. Christopher is a member of the NZX Listing Sub-Committee and a member of the NZ Markets Disciplinary Tribunal. Since the 15th November 2013, he has also been a director of NZX listed - Bethunes Investments Limited [BIL.NZX]. Mr. Swasbrook is independently recognised as a global value investor. He was most recently referenced in a book published on a number of global value investors - "The Manual of Ideas" by John Mihaljevic.

INDEPENDENT DIRECTOR - IAN HALSTED

INDEPENDENT DIRECTOR - MURRAY RADFORD

NEW DIRECTOR - TBA

A new director has been identified to replace Mr Radford post the completion of the rights issue

BETHUNES INVESTMENTS

FORECAST OPERATING COSTS

The forecast operating costs for Bethunes Investments as an investment company are as follows on a per annum basis:

Directors Fees:	NZ\$ 65,000
BDO - Accountancy:	NZ\$ 30,000
Audit	NZ\$ 45,000 (estimate)
NZX Listing Fees:	NZ\$ 25,000
Other / Contingency	NZ\$ 35,000 (incl. legals, insurance, etc)

Total NZ\$ 200,000 + GST

This is a significantly lower cost structure than in the past and will be reflective of our disciplined focus on costs

BETHUNES INVESTMENTS

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