

Thursday, April 26, 2017

Dear SRG Ltd directors,

I'm an SRG shareholder, shareholder advocate and director of the Australian Shareholders' Association (ASA) who has been campaigning for several years over the huge dilution that retail investors have suffered as a result of capital raising structures.

The ASA does not formally monitor SRG so please note I'm sending this letter in a personal capacity as an SRG shareholder who has applied to participate in the current SPP, which closes today. Specifically, I'm writing to encourage you to follow the lead of many other issuers and expand the proposed \$4 million cap, if warranted by demand.

After doing a \$20 million institutional placement, it would not be unreasonable for SRG to raise more than \$4 million from your circa 1100 eligible retail shareholders.

With a market capitalisation of \$120 million based on Tuesday's close, an expansion of the SPP to \$6-10 million would cause minimal dilution in the scheme of things and certainly far less than retail shareholders collectively suffered from the \$20 million institutional placement. Besides, with the share price up after the New Zealand acquisition, all shareholders will still be in front after the acquisition/capital raising exercise, even if the SPP is expanded to accept all applications.

If you are proposing to use board discretion to impose a scale back, could you please ensure that the formula and impact is carefully explained in an ASX announcement. This should include the data on the total value of applications from shareholders, the number of applicants and how different classes of shareholder are impacted. As an example of best practice, please see the way Macquarie Group [informed the market](#) about the outcome of its 2015 SPP.

If there is to be a scale back, from an equity point of view, larger retail shareholders should be given priority in terms of allocation. However, many companies in the past have scaled back SPPs by giving all shareholders the same allocation.

Another alternative is to give a minimum allocation to all applicants (such as \$5000 or the \$500 marketable parcel threshold if there is heavy over-subscription) and then pro-rata the rest based on size of shareholding, although this can get complicated and administratively burdensome.

Scale-backs can be contentious, so instead I'd encourage you to modestly expand the cap and accept all applications as the following issuers have done in similar situations to what SRG currently finds itself in.

## Examples of companies which lifted SPP caps to avoid scaling back

**ANZ 2009:** The [offer document](#) mentioned a cap of \$350 million following a \$2.5 billion placement at \$14.40 but the bank accepted all \$2.2 billion worth of applications from 178,000 holders or some 40% of the register. See [conclusion announcement](#).

**DUET Group 2014:** announced a \$30 million SPP cap in 2014 but then accepted all \$43 million in applications after representations from the ASA.

**Insurance Australia Group (IAG) 2014:** announced a \$200 million cap on SPP in 2014 but then accepted all \$236 million in applications after representation from the ASA.

**Automotive Holdings 2014:** announced \$10m SPP in conjunction with a \$115m institutional placement to fund an acquisition. ASA lobbied for the cap to be lifted and the board accepted all \$30m in applications after a healthy 2,000 of 3,000 shareholders participated in the offer.

**Dexus 2015:** announced a \$50 million SPP in conjunction with a \$400 million placement. Following receipt of \$80 million of applications, Dexus decided to accept all applications.

**Hansen Technologies 2015:** aimed to raise \$10 million under an SPP in conjunction with a \$15 million placement. The company accepted all \$12 million in applications.

**Independence Group, 2016:** announced \$30m cap on SPP, which followed a \$250m insto placement. Lifted the cap after receiving \$31.4m in subscriptions from shareholders.

**Automotive Holdings 2016:** announced a \$20 million cap on the SPP, following a \$90 million placement to institutional shareholders. 2,296 shareholders applied for shares totaling \$23 million under the SPP. The company lifted the cap and accepted all applications.

**Macquarie Atlas Roads, 2017:** announced a cap of \$15 million on the SPP, following \$185 million placement to institutional investors. The company lifted the cap after receiving \$22.2 million worth of applications from over 2,000 security holders.

**Charter Hall Group, 2017:** announced a \$15m cap on the SPP, following a \$275m placement. The company accepted all applications after \$15.76 million in applications were received.

Finally, please note that in circumstances where boards choose to discriminate against retail shareholders in capital raisings, I have run for their board at the subsequent AGM in order to maximise pressure for market reform in this area. This occurred with the likes of Santos, NAB, Ten Network Holdings, Macquarie Group and AWB – all of which either did placements without an SPP, unfairly constrained their SPP or restricted retail applications for “overs” in non-renounceable entitlement offers.

The SRG situation is a little different in that at least you have chosen to offer an SPP when there are still many smaller companies, especially in Perth, who only do placements. However, the \$4 million cap does seem unfairly constrained and if the board chooses to impose a heavy scale back, I reserve my right to run for a seat on your board at the 2018 AGM on a platform of fairer treatment for retail shareholders in capital raisings. It would be preferable for all concerned if it didn't come to that.

Yours Sincerely

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