

NAOS SMALL CAP
OPPORTUNITIES
COMPANY LIMITED
(ASX: NSC)

ABN 47 107 617 381



Level 34
25 Martin Place
Sydney NSW 2000
T (02) 9002 1576
F (02) 8215 0037
E enquiries@naos.com.au
www.naos.com.au

1 February 2024

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

Q2 FY24 Investor Update and Q&A – Presentation Materials

Please find attached the presentation materials for the Q2 FY24 Investor Update and Q&A to be held by NAOS Asset Management Limited today at 10:30am (AEDT).

Authorised by:

Rajiv Sharma
Company Secretary



NAOS

ASSET MANAGEMENT

Thursday 1 February 2024 | 10:30am (AEDT)

[Click Here to Register](#)

Q2 FY24 Investor Update and Q&A

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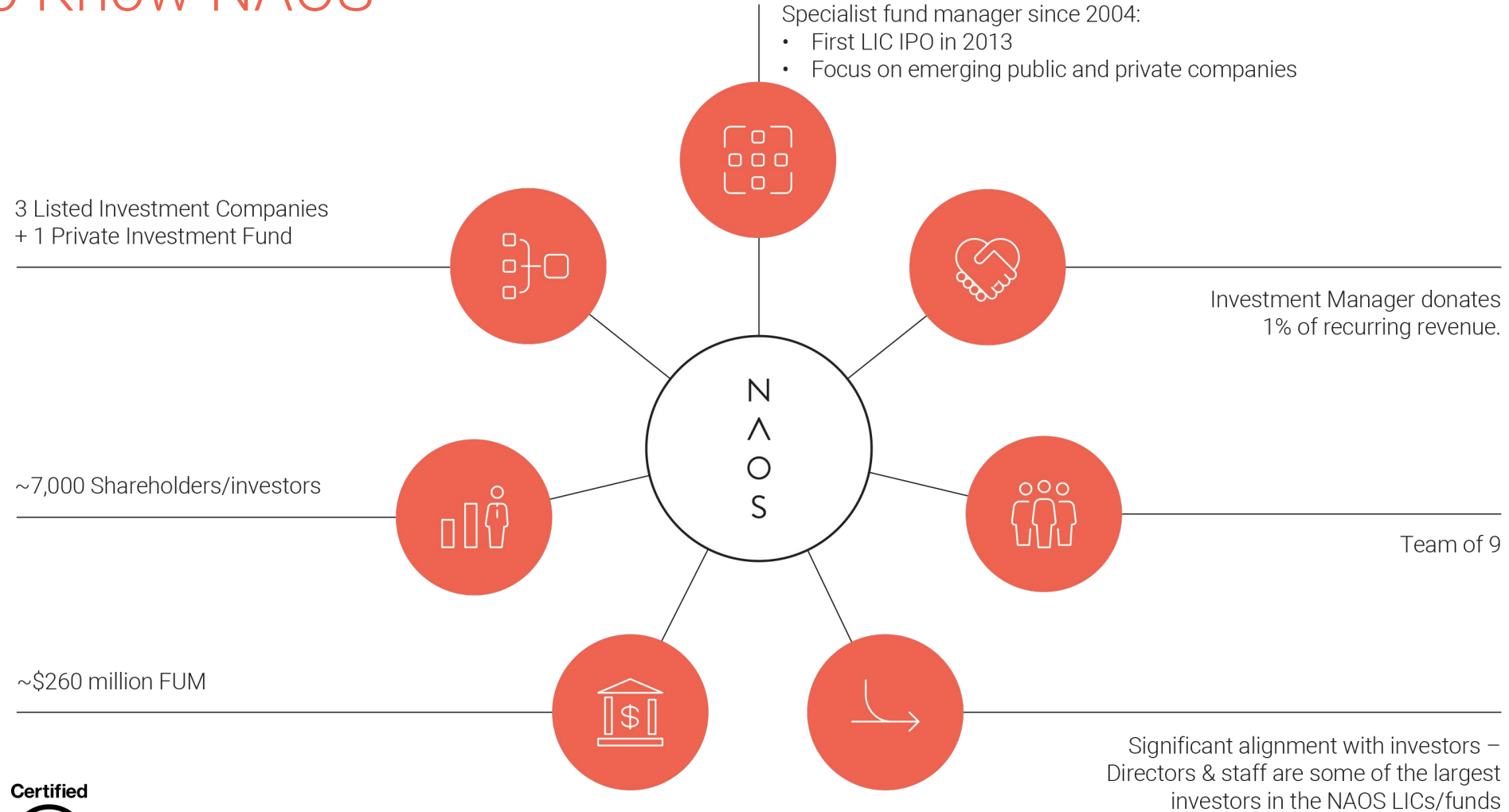
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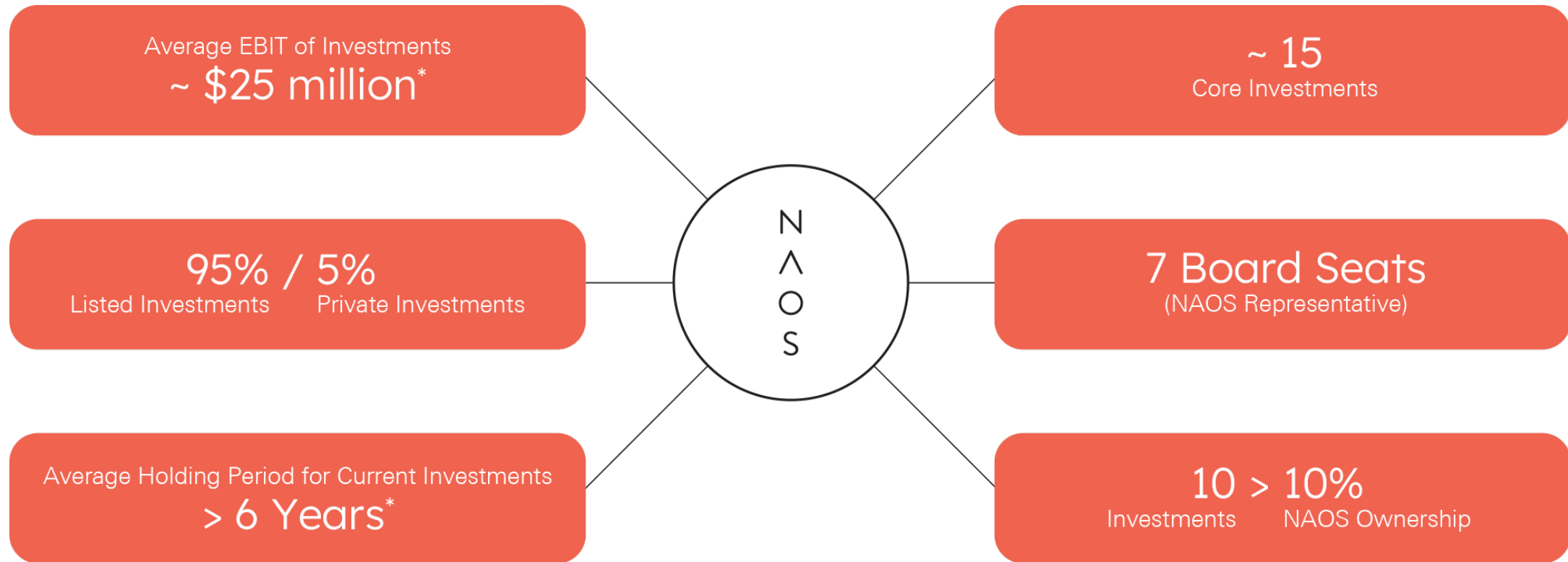
Get to Know NAOS



Signatory of:



How We Invest & Why We Are Different



*Portfolio Weighted Average Calculations as at 31 December 2023

Reasons Not to Invest with NAOS

Our LICs are not for everyone. Some reasons why you may not choose to invest with NAOS include:

- Concentrated portfolios (0-15 investments & shareholdings often >20%)
- Long-term investment philosophy (5+ years)
- Focus on emerging companies (\$20 million - \$500 million market capitalisation)
- Benchmark unaware (no current NAOS investments are within the XSOAI)
- Industrial focus (no exposure to resources or very early-stage businesses)
- Smaller fund size (increases ability to gain a meaningful exposure to smaller businesses)
- ESG aware with a focus on positive impact
- LICs can often trade at discounts and premiums to their underlying net-asset backing

Investment Portfolio Performance Summary

	Q2 Performance FY24		1 Year Performance		3 Year Performance (p.a.)		5 Year Performance (p.a.)		Inception Performance (p.a.)	
	NAOS LIC	Benchmark [^]	NAOS LIC	Benchmark [^]	NAOS LIC	Benchmark [^]	NAOS LIC	Benchmark [^]	NAOS LIC	Benchmark [^]
NCC Investment Portfolio Performance*	-3.38%	+8.52%	-8.56%	+7.82%	-2.53%	+0.95%	+2.56%	+6.40%	+7.76%	+5.06%
NAC Investment Portfolio Performance*	-2.93%	+8.44%	+11.44%	+12.18%	+0.79%	+7.22%	+9.08%	+8.69%	+9.86%	+7.06%
NSC Investment Portfolio Performance*	-0.43%	+8.52%	+0.47%	+7.82%	+3.62%	+0.95%	+5.81%	+6.40%	+2.08%	+4.21%

*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes, initial IPO commissions and all subsequent capital raising costs. Performance has not been grossed up for franking credits received by shareholders. Since inception (P.A. and Total Return) includes part performance for the month of February 2013 (NCC), November 2014 (NAC) and December 2017 (NSC). Returns compounded for periods greater than 12 months. All figures as at 31 December 2023.

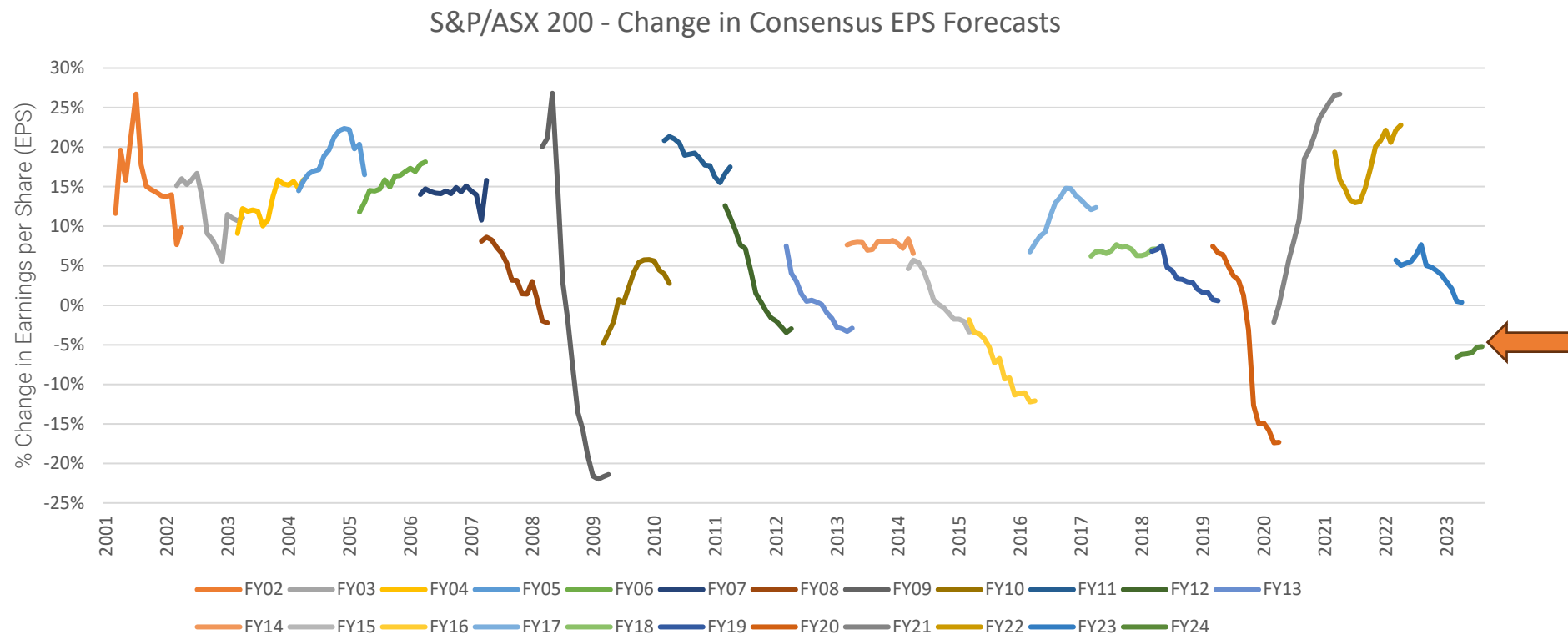
[^]NAC Benchmark= S&P/ASX 300 Industrials Accumulation Index, NCC & NSC Benchmark= S&P/ASX Small Ordinaries Accumulation Index.

Q2 FY24 Summary

- Q2 FY24 was a highly volatile period with the S&P/ASX All Ordinaries Index returning +8.7%, despite November and December returning +5.2% and +7.4% respectively.
- US Core PCE (Personal Consumption Expenditures) prices rose just +0.06% m/m in November, smallest increase in 33 months. Interest rate expectations dropped significantly towards the end of the CY with expectations for six cuts in CY24 in the US vs. just two in Australia.
- Domestically, overseas migration added a record 518,000 people for the year which assisted in ensuring consumption remained strong within the economy. This ensured Q3 (Jul-Sep) real GDP remained positive (just) at +0.2% or +2.1% y/y.
- Company earnings expectations for FY24 and FY25 remained depressed (and continue to fall) therefore share price rises were a result of increases in valuations and not earnings.
- Corporate activity continues to be ever present, numerous takeover bids including Link Administration (ASX: LNK), Pacific Smiles (ASX: PSQ), Adbri (ASX: ABC), Pact Group (ASX: PGH), and Chemist Warehouse reverse takeover of Sigma Healthcare (ASX: SIG).

Negative Earnings Expectations for FY24

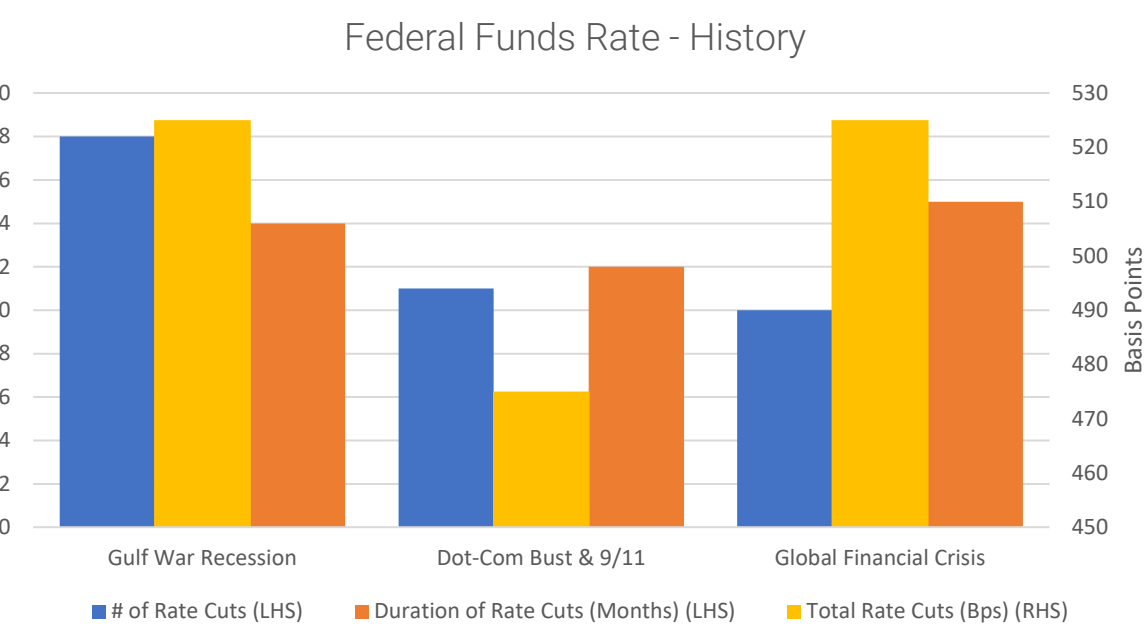
Investors expect profit growth to be negative for FY24 with minimal growth in FY25. Capital growth will be driven by valuations, which are impacted by interest rates and the longer-term economic backdrop.



The green line depicts EPS estimates for FY24, which are negative (-5%) and even with rate cut expectations changing of late, estimates remain negative.

US Rate Cut Cycles – Magnitude & Duration

Relative to the last 3 major interest rate cutting cycles the US Federal Reserve expects the number of rate cuts to be of a similar magnitude, with 6 cuts forecast in CY24, although over a longer timeframe there are discrepancies in opinion.



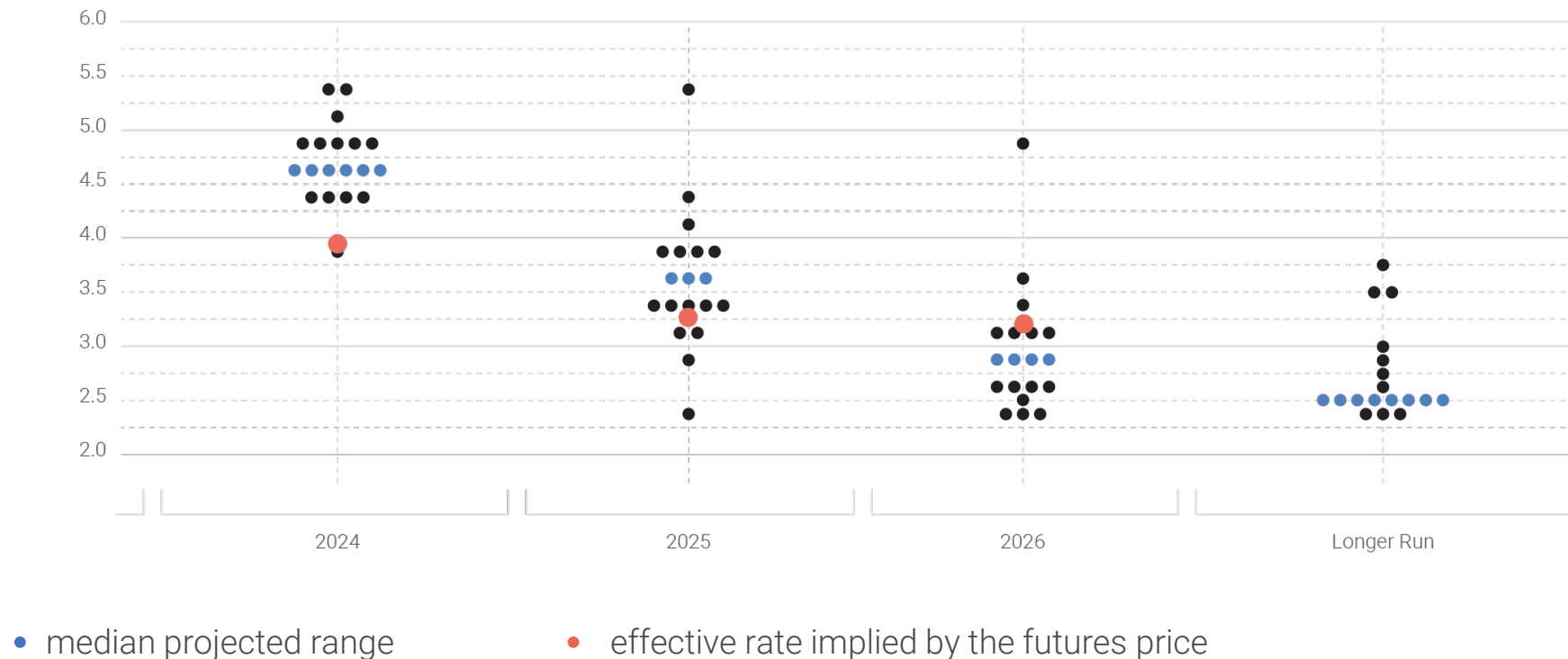
CME Group - Fed Rate Futures*			
Meeting Date	Ease	No Change	Hike
31/01/2024	2.07%	97.93%	0.00%
20/03/2024	43.69%	56.31%	0.00%
01/05/2024	86.72%	13.28%	0.00%
12/06/2024	99.84%	0.16%	0.00%
31/07/2024	99.98%	0.02%	0.00%
18/09/2024	100.00%	0.00%	0.00%
07/11/2024	100.00%	0.00%	0.00%
18/12/2024	100.00%	0.00%	0.00%

* As at 2pm on Wednesday 31st January 2024

Source – US Federal Reserve, CME Group

Expectations For Interest Rate Reductions Have Sharpened

Economists appear to be well ahead of the US Federal Reserve in terms of expectations for rate cuts in 2024 and 2025, but given what we have seen historically, the Fed could surprise on the pace over the next three years given their view in 2026.



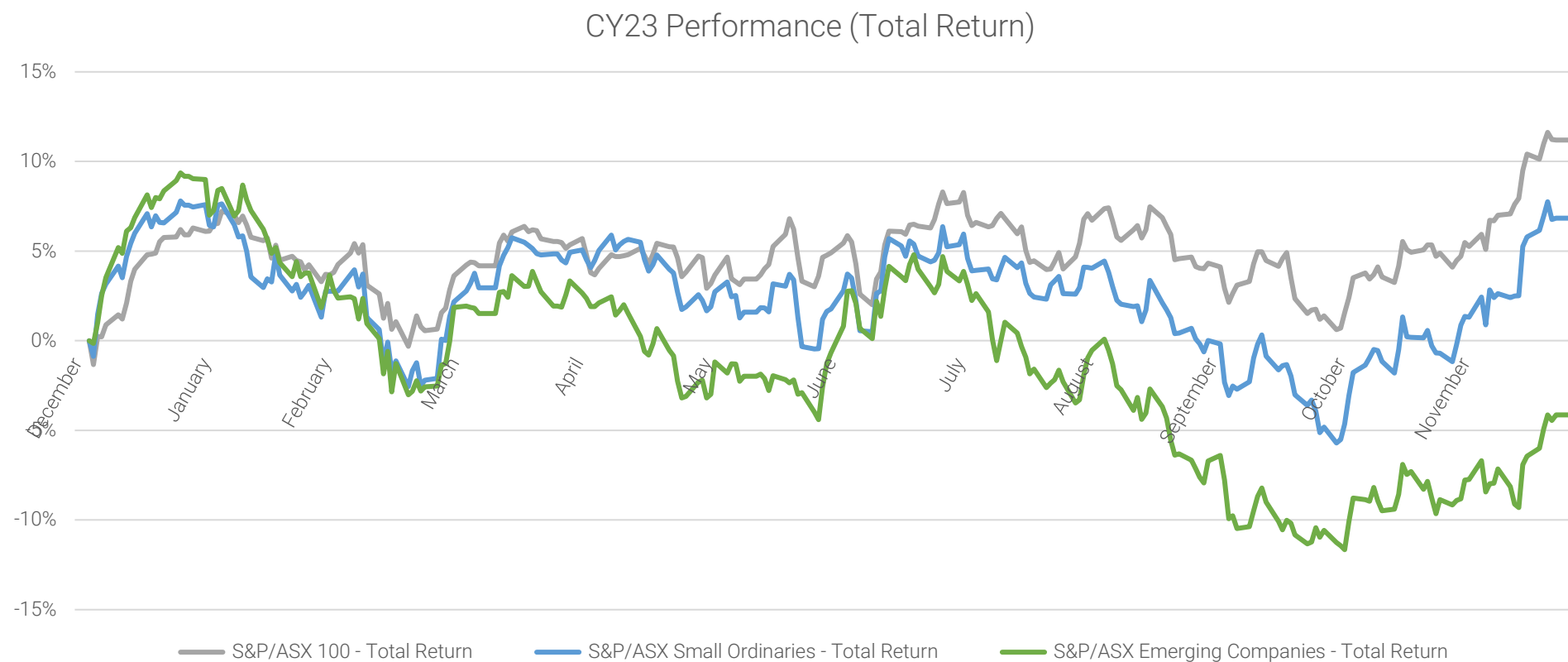
Source – CME Group (as at 31/1/24)

CY23 in Review

- Total return for the S&P/ASX Small Ordinaries Index of +7.8% vs. +12.6% for the S&P/ASX-100.
- In the US, technology stocks roared back into vogue with the Nasdaq returning +43.4% for CY23, compared to the S&P-500 return of +24.2% and Russell 2000 return of +16.9%.
- Notable corporate activity involving numerous industrial-type businesses such as Invocare (ASX: IVC), Blackmores (ASX: BKL), Estia Health (ASX: EHE), Costa Group (ASX: CGC), Adbri (ASX: ABC), Pental (ASX: PDL) & Link Administration (ASX: LNK).
- Liquid stocks generally recorded the strongest gains as investors sought to reduce risk via liquidity, resulting in significant underperformance of the smallest listed businesses.
- Little correlation in stock performance and trading results from companies operating in similar industries, as evidenced by recent trading updates, e.g. KMD Brands (ASX: KMD) vs. Premier Investments (ASX: PMV) and Nick Scali (ASX: NCK).

CY23 Emerging Company Underperformance

Emerging companies underperformed significantly in CY23. The S&P/ASX Emerging Companies Index underperformed the S&P/ASX 100 Index by -14% and the S&P/ASX Small Ordinaries Index by -4%.



Source – FactSet



Peter Loimaranta

Chief Executive Officer and Managing Director





**Commercial Vehicle Parts
Industry Drivers and Trends**

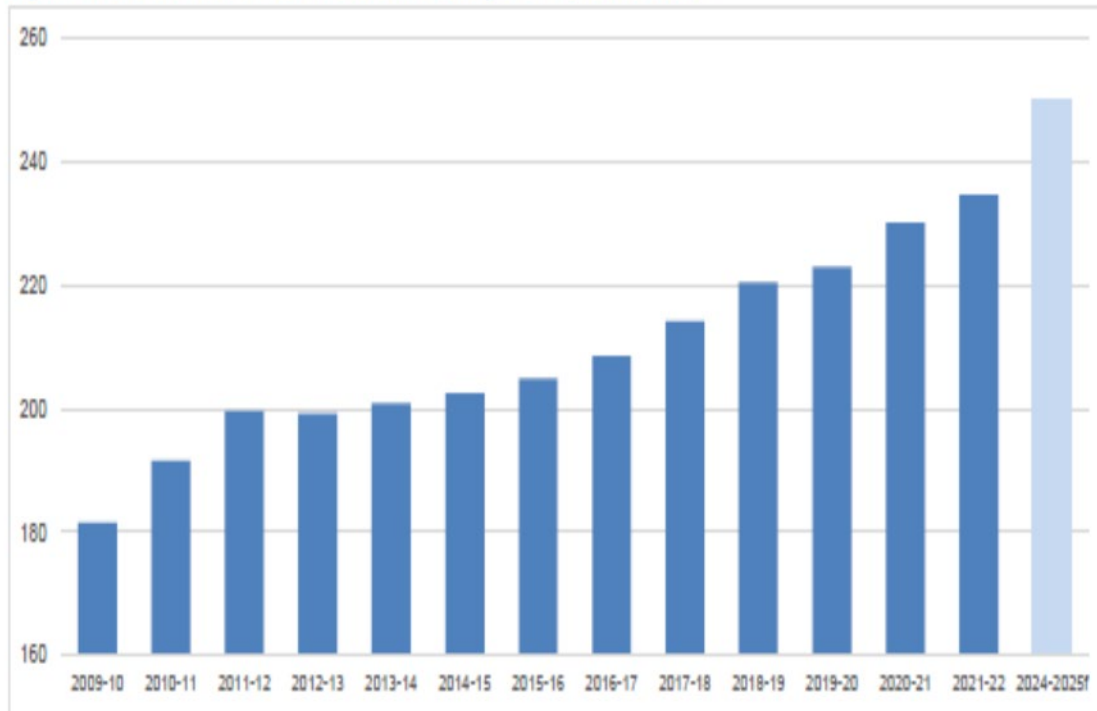


Market Drivers

The background is a dynamic, abstract composition. It features a series of bright, glowing light trails in shades of red, orange, and yellow, which appear to be moving rapidly across the frame. These trails are set against a dark, deep red background. In the lower right portion, there is a perspective view of a road or track, with white dashed lines receding into the distance. The overall effect is one of high speed and technological advancement.

Primary market driver links to overall road freight task

Figure 7: Australian total domestic freight by road (billion t/km)



Source: Bureau of Infrastructure, Transport and Regional Economics (BITRE), Ord Minnett Limited estimates

- Road freight has been consistently growing and is the largest driver of the commercial parts industry
- Historically consistent through various economic cycles
- Wide variety of economic drivers contributing to the overall road freight task including
 - Retail
 - Essential services (Grocery)
 - Mining
 - Manufacturing
 - Agriculture
 - Construction



Other Influences

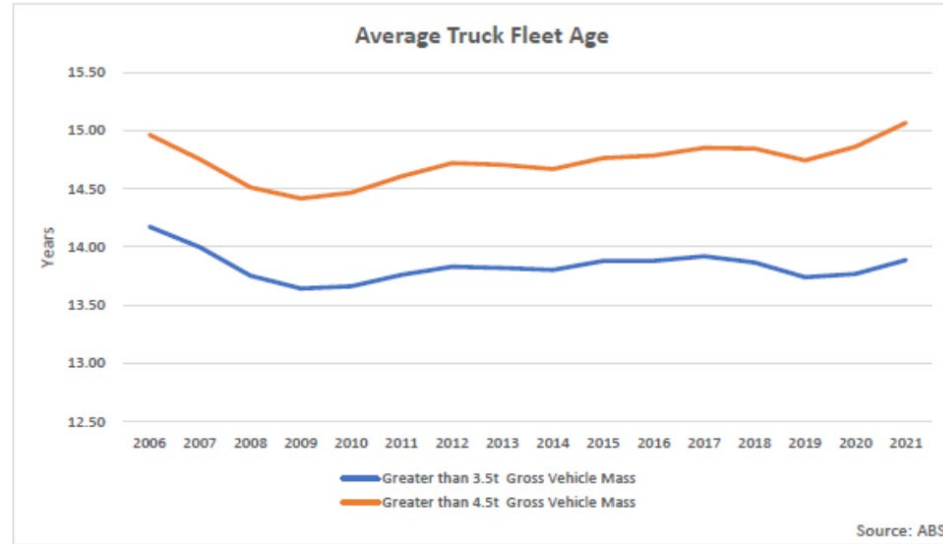
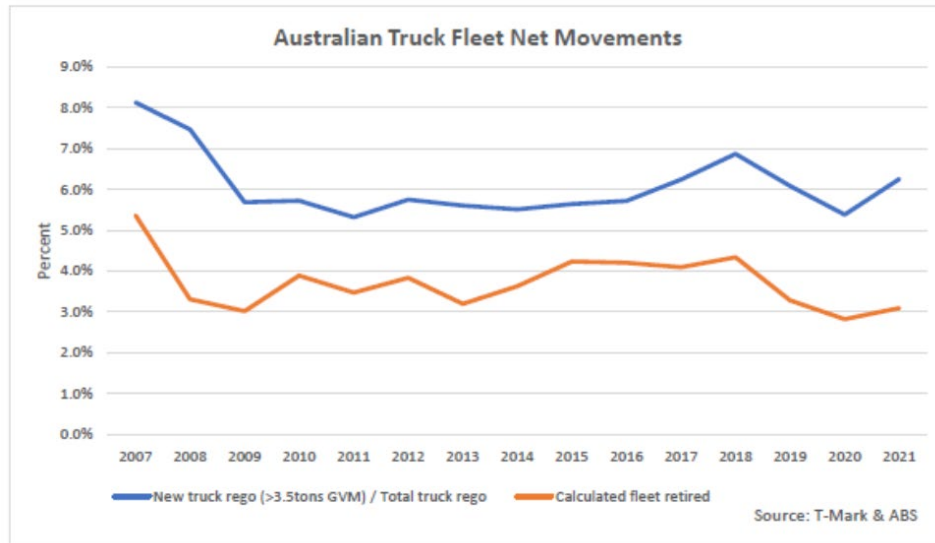
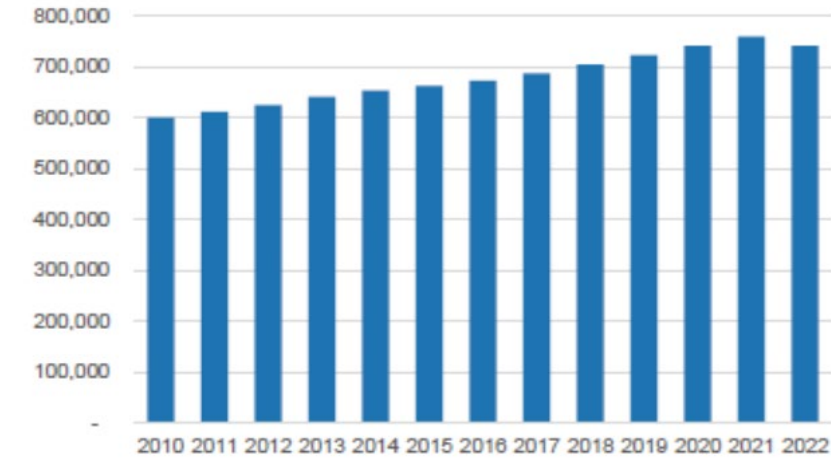
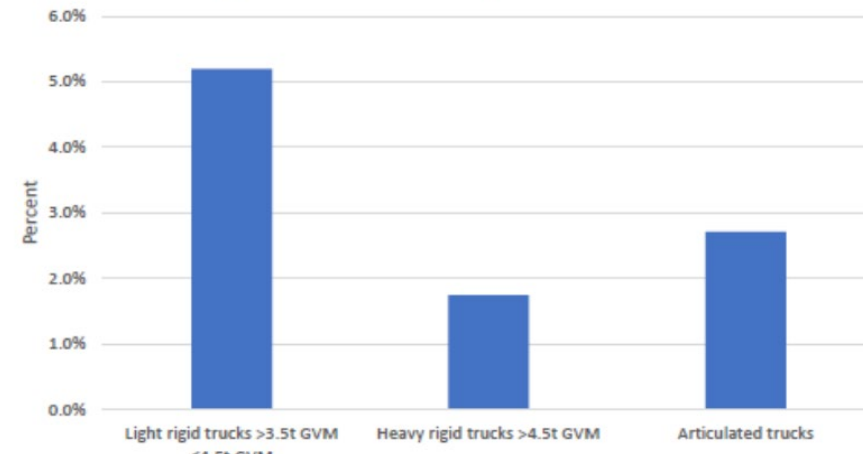


Figure 8: Number of Heavy/Commercial vehicles registered ('000)



5yr CAGR Aus Truck Registrations 2021

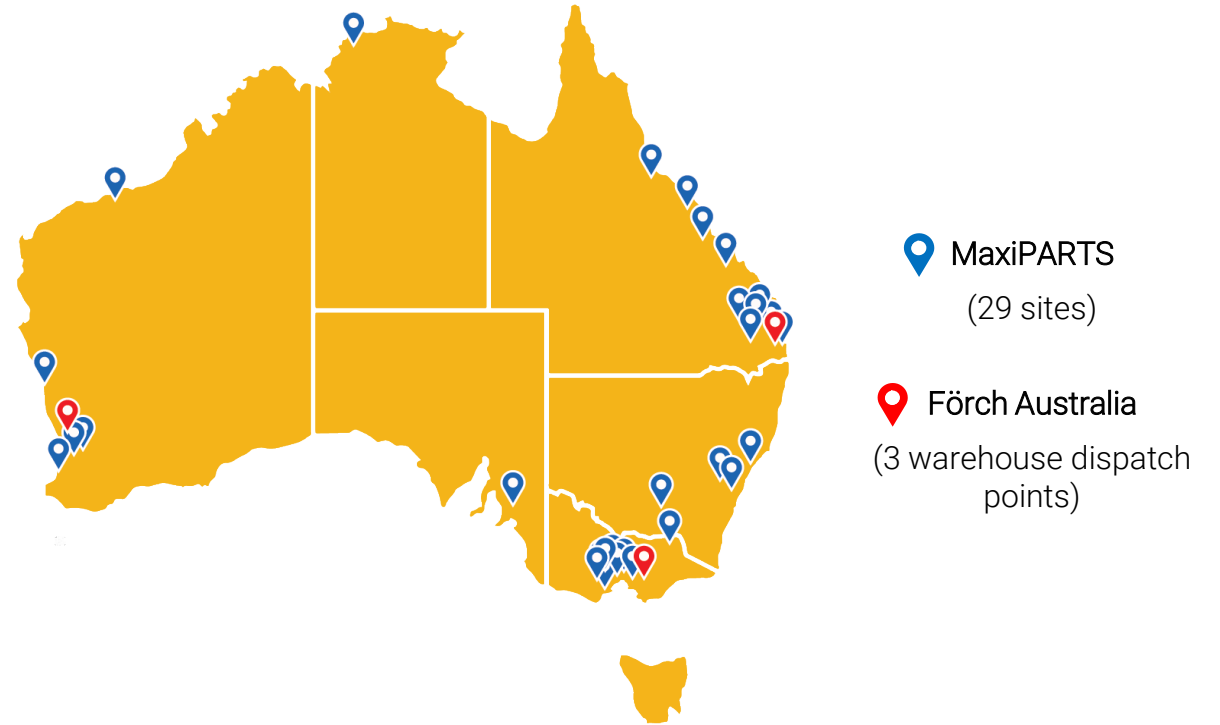


Other Trends

A long-exposure photograph of a highway at sunset or sunrise, with a large semi-truck in the foreground and other vehicles in the distance. The image is overlaid with a red tint and the text 'Other Trends'.

Other Trends

- Industry consolidation
 - Customers
 - Suppliers
- Growth of aftermarket product / customer specific solutions
- Alternative Powered Vehicles
 - Timing and initial challenges
 - Initial movements in light to Medium applications
 - Electric vs Hydrogen







NAOS Investee Companies - Key Events Q2 FY24

HOLDING	INDUSTRY	Q2 UPDATE
 <p>(ASX: MXI)</p>	Automotive	<ul style="list-style-type: none"> Acquisition of leading Western Australian truck/trailer parts distributor Independent Parts for \$27m. Provides geographical benefits and a unique 'on customer site' operating model with expansion opportunities. Acquisition of Förch Queensland operations for \$1.9m. All Förch territories in Australia now under MXI ownership allowing for more efficient operations. Q1 FY24 trading update delivered like for like organic revenue growth of 15.5%, in line with full year FY24 guidance.
 <p>(ASX: MOV)</p>	Transport & Logistics	<ul style="list-style-type: none"> 1H FY24 trading update provided, with normalised EBITDA expectations of \$11.5-12.5m. Challenging economic and sector conditions continuing in New Zealand impacting customer demand. 'Project Blueprint' company reset initiatives are impacting 1H FY24 results but provide expectations for a business model with improved margins in the short term. Outlook for 2H FY24 is expecting to benefit from new business sales initiatives especially in LCL (less than container load) sales.

NAOS Investee Companies - Key Events Q2 FY24

HOLDING	INDUSTRY	Q2 UPDATE
 <p>(ASX: SND)</p>	Engineering	<ul style="list-style-type: none"> Contract completion of Project Caymus (US Dept of Defence project in Darwin) resulting in normalisation of cash balance to \$39m (as at 10th October 2023). Acquisition of Piping Solutions for \$20m incl. earn outs expected to be EPS accretive in FY24. Provides SND with a specialist business unit and strong client base in a complimentary area of operations. Board renewal process continues.
 <p>(ASX: COG)</p>	Financial Services	<ul style="list-style-type: none"> Withdrawal of non-binding indicative offer for Diverger Ltd (ASX: DVR). Purchase of 19.9% shareholding in Centrepont Alliance Ltd (ASX: CAF) for \$13m. Aligns with COG's strategic focus of owning interests in financial services distribution businesses. AGM commentary stated that good levels of activity continue across all areas of the business, with a particular strength in Novated Leasing and Funds Management.

NAOS Investee Companies - Key Events Q2 FY24

HOLDING	INDUSTRY	Q2 UPDATE
 (ASX: BTC)	Health Care	<ul style="list-style-type: none">Commercial activity continues – entered into two new exclusive product distribution agreements with European medical device suppliers (Morpheus AG & Euroset).Regulatory approvals received for re-usable infusion pump product offering, which will be used to replace Ambit.Q1 FY24 results delivered improved operating profit margins and positive EBITDA.
 (ASX: BSA)	Solutions & Services	<ul style="list-style-type: none">Q1 FY24 EBITDA of \$4.4m from continuing operations (76% growth vs pcp). Business focus has shifted to a more sustainable operating model, now delivering consistent earnings.Building out capability in Smart Meters and EV charging, which are expected to be future growth drivers.Reiterated target of double-digit EBITDA (currently ~7%).

NCC Overview

as at 31 December 2023

\$0.67
Pre-Tax NTA

\$0.75
Post-Tax NTA

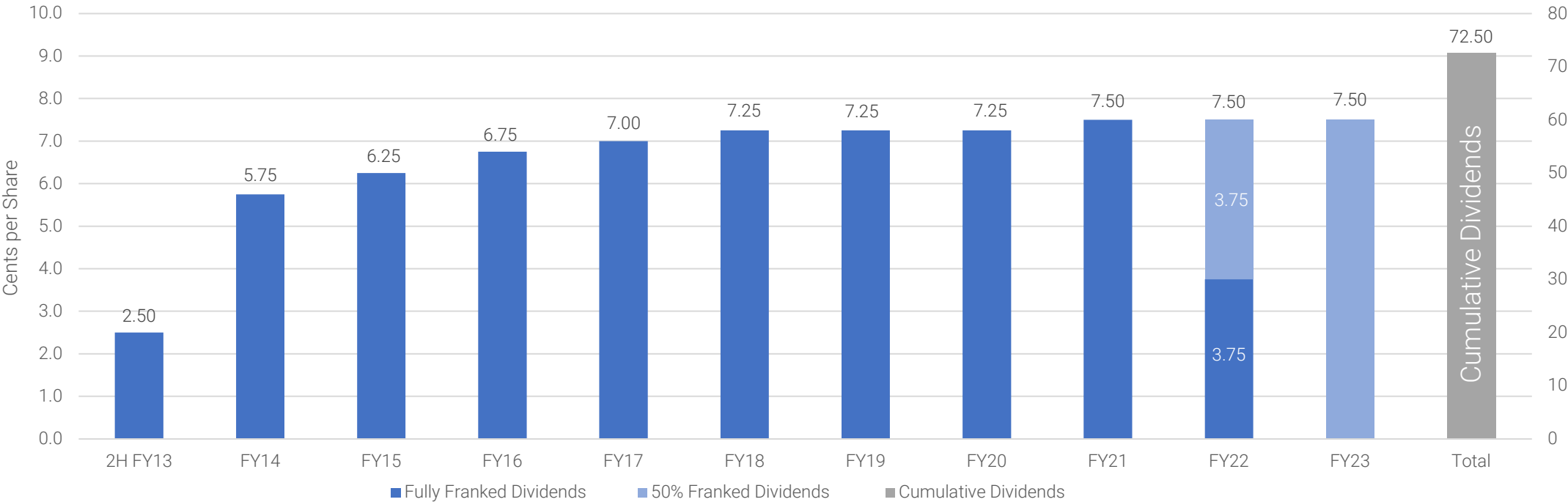
\$0.655
Share Price

11.45%
Dividend Yield

10
Number of
Holdings

\$143.11m
Weighted Average
Market Capitalisation
of the Investments

FRANKED DIVIDEND HISTORY



NAC Overview

as at 31 December 2023

\$0.90
Pre-Tax NTA

\$0.94
Post-Tax NTA

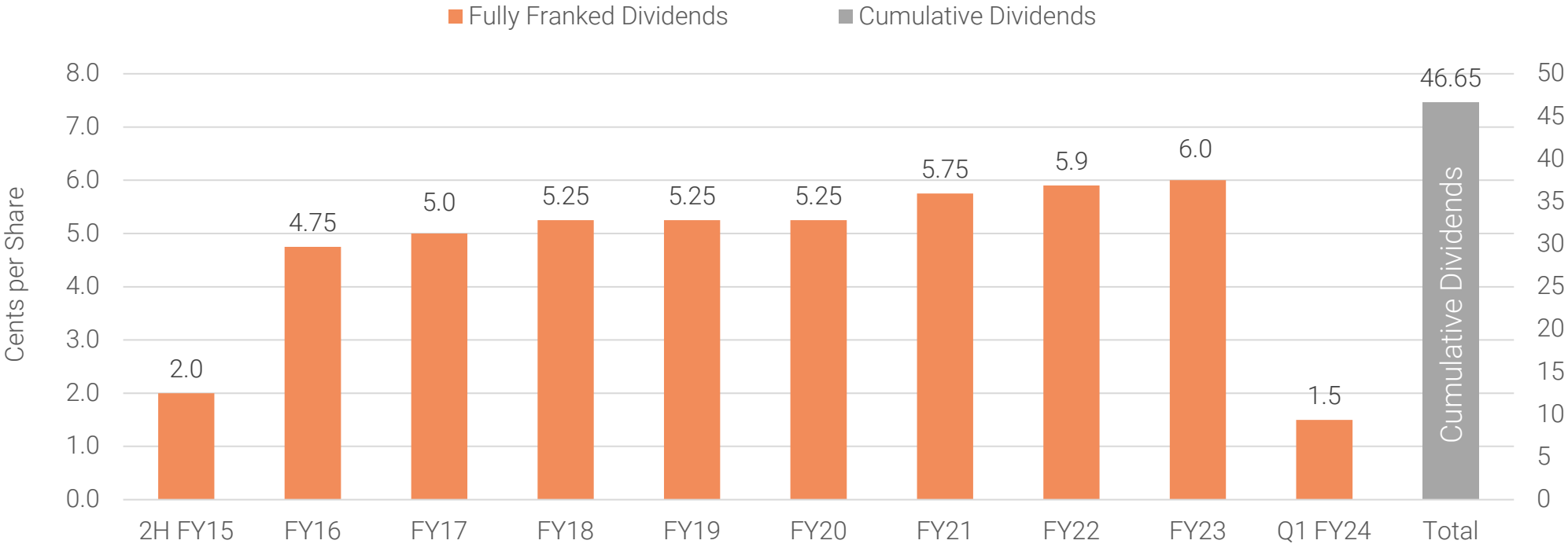
\$0.845
Share Price

7.10%
Fully Franked
Dividend Yield

10
Number of
Holdings

\$162.9m
Weighted Average
Market Capitalisation
of the Investments

FULLY FRANKED DIVIDEND HISTORY



NSC Overview

as at 31 December 2023

\$0.72
Pre-Tax NTA

\$0.75
Post-Tax NTA

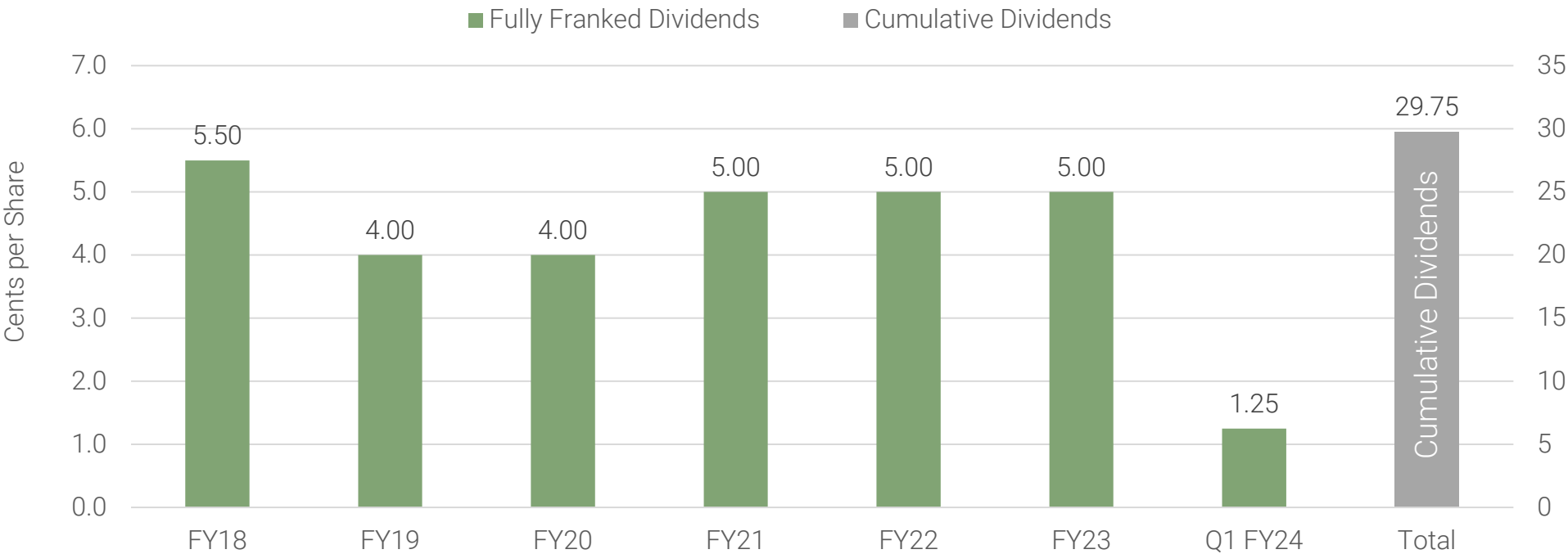
\$0.665
Share Price

7.52%
Fully Franked
Dividend Yield

9
Number of
Holdings

\$187.8m
Weighted Average
Market
Capitalisation of the
Investments

FULLY FRANKED DIVIDEND HISTORY



Our Learnings from CY23

- **Timing of the Sale of Investment in Gentrack (ASX: GTK):**
 - Gentrack was a significantly profitable investment over CY23, although we exited too early.
 - Majority of the proceeds were used to build positions in Maxiparts (ASX: MXI) and Move Logistics Group (ASX: MOV).
- **Exposure to Very Small and/or Illiquid Businesses:**
 - Small business have the propensity to stay 'cheap' for many years.
 - Strategy to exit or take an active approach to realise value.
- **Entry into Urbanise.com (ASX: UBN) and Move Logistics (ASX: MOV) too early:**
 - Both MOV and UBN have reset their strategies, which has taken significantly longer than anticipated.
 - Internal focus of these businesses resulted in poor financial results in FY22 and FY23.

We Remain Highly Confident in the Outlook for Our Portfolios.

- **Earnings per Share (EPS) Growth:**

- We expect EPS growth for most of our core investments in FY24, despite a volatile demand environment.
- Mixture of organic growth and strategic inorganic initiatives.

- **Valuations (and Expectations) at Very Low Levels:**

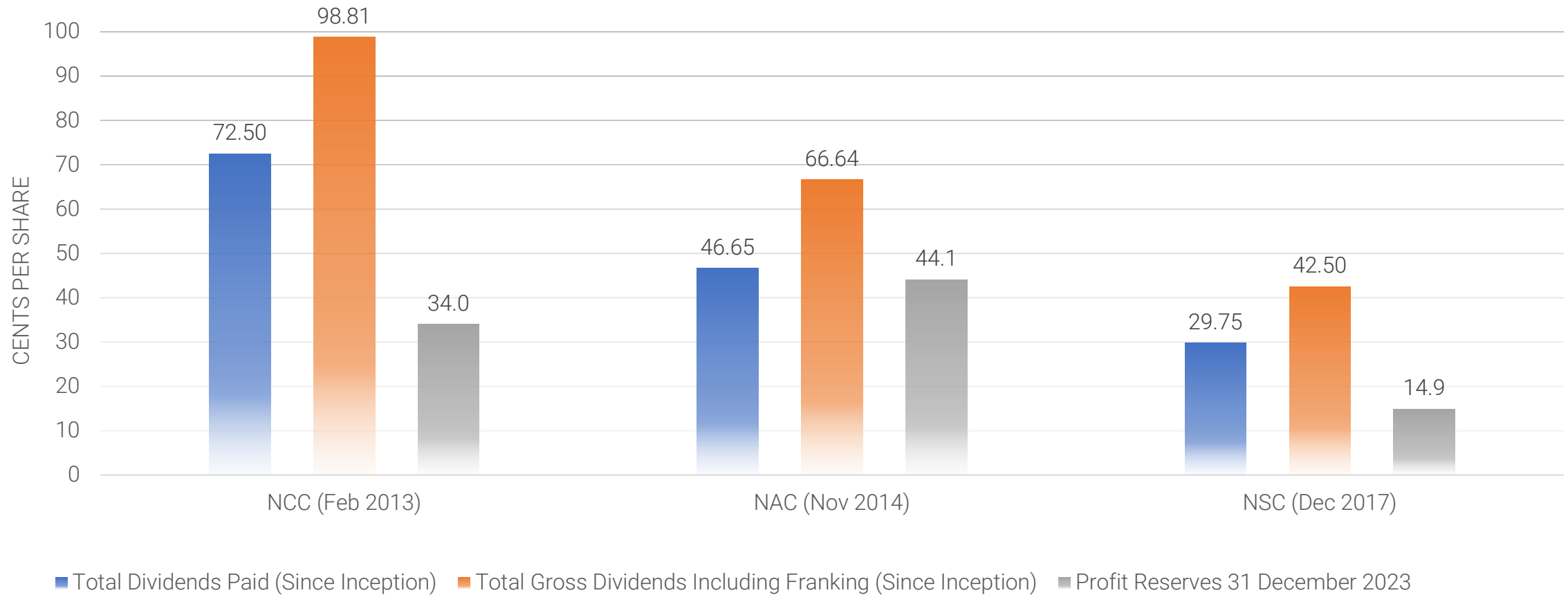
- Record low valuations for many small but profitable businesses due to reduced investor exposure.
- Many holdings trading on forward P/E multiples of <10x, vs average forward P/E of ASX-100 of 16.7x.

- **Structural Growth Exposure**

- Exposure to industries with structural growth tailwinds, which should limit any short-term downside in earnings.
- Significant opportunity for long-term earnings growth.

NAOS LICs Franked Dividend History and Profit Reserves

Each LIC has consistently paid dividends and holds healthy profit reserves



All figures as at 31 December 2023

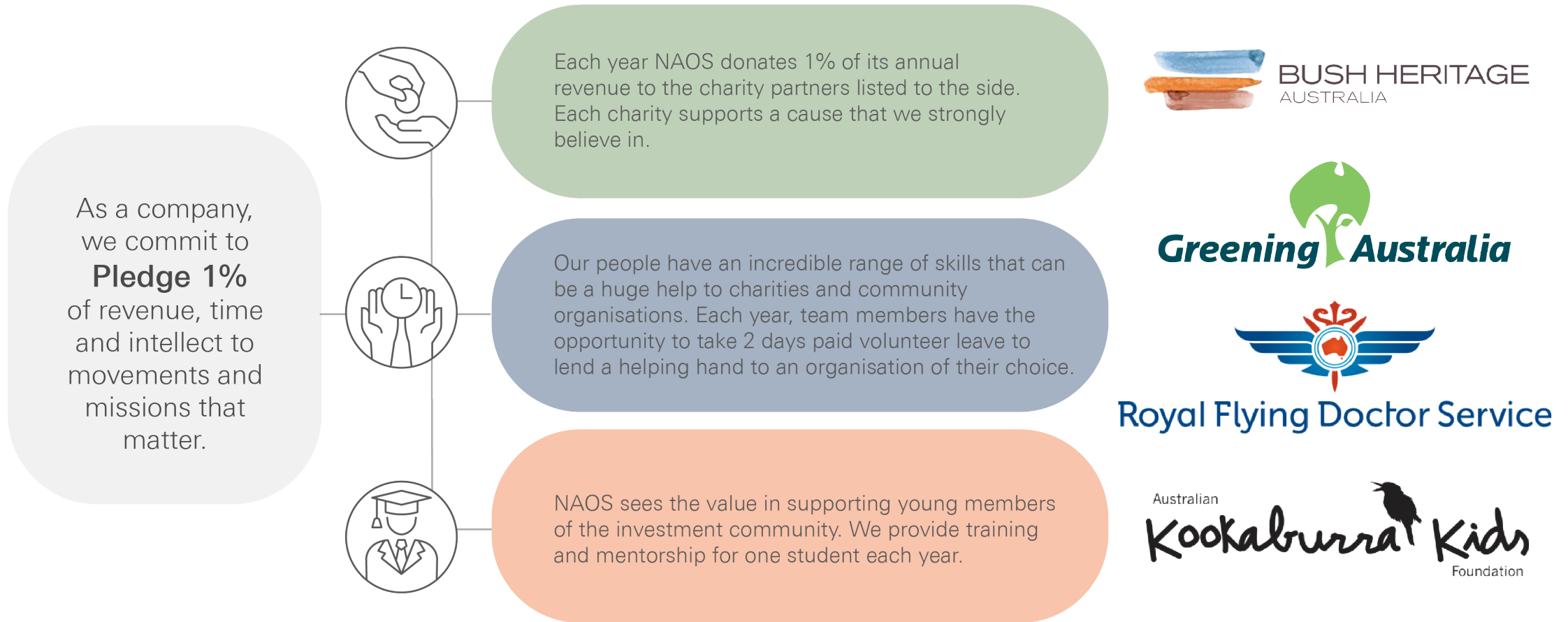
Q&A

Thank you for your continued support.

“Selling out at the bottom – and thus failing to participate in the subsequent recovery – is the cardinal sin of investing. The ability to persevere requires consistent adherence to a well-thought-out approach; control over emotion; and a portfolio built to withstand declines.”

Howard Marks

NAOS Asset Management 1% Pledge



An aerial photograph of a river with a waterfall, surrounded by dense forest with vibrant autumn foliage in shades of orange, yellow, and green. The river is a milky turquoise color, and the waterfall is a white, frothy cascade. A paved road is visible in the lower-left corner.

NAOS

ASSET MANAGEMENT

Appendix

NAOS Directors and Team

OUR DIRECTORS



Sebastian Evans
Managing Director, NAOS Asset Management Limited & Director NCC, NSC & NAC



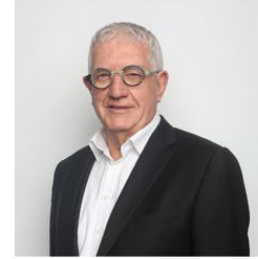
Warwick Evans
Chairman, NAOS Asset Management Limited & Director NCC, NSC & NAC



Sarah Williams
Independent Chair of NCC, NAC and Independent Director NSC



David Rickards OAM
Independent Chair of NSC and Independent Director of NCC & NAC



Trevor Carroll
Independent Director NSC



Matthew Hyder
Director, NAOS Asset Management Limited

OUR TEAM



Sebastian Evans
Chief Investment Officer



Robert Miller
Portfolio Manager



Brendan York
Portfolio Manager



Jared Tilley
Senior Investment Analyst



Nelson DeMestre
Associate Analyst



Richard Preedy
Chief Financial and Operating Officer



Rajiv Sharma
Head of Legal and Compliance



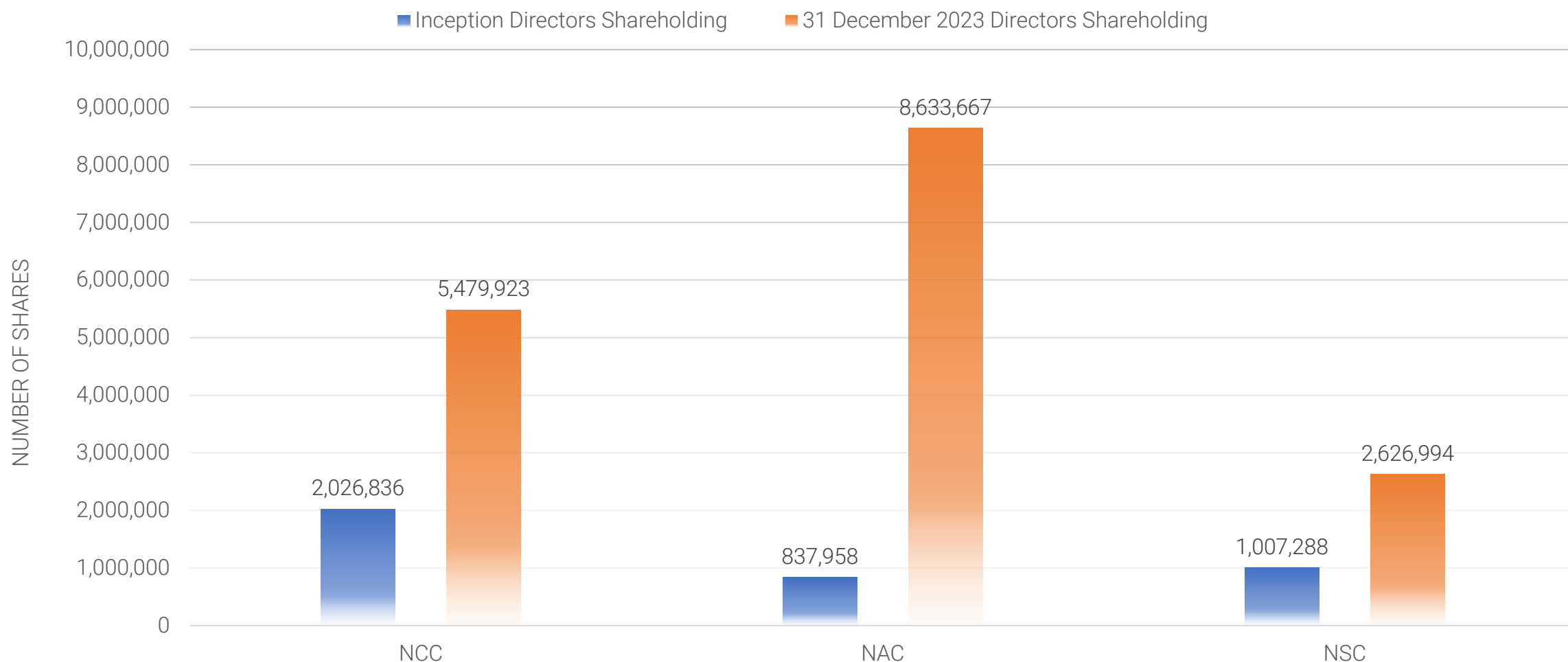
Angela Zammit
Marketing & Communications Manager



Julie Coventry
ESG Officer

NAOS LICs Director Alignment

Directors' shareholdings have significantly increased since the inception of each LIC



Capital Management Initiatives

Performance	<ul style="list-style-type: none"> Maintain a focus on long term performance without deviating from the NAOS investment philosophy.
Dividends	<ul style="list-style-type: none"> Continue to focus on a growing stream of dividends, franked to the maximum extent possible, whilst maintaining an adequate reserve balance.
Alignment	<ul style="list-style-type: none"> Continue to be aligned with shareholders as Directors and Staff are some of the largest shareholders across all 3 of the LICs.
Communication	<ul style="list-style-type: none"> Maintain a very high standard of marketing materials and communications so all current and prospective shareholders have a clear understanding of the NAOS offering.
NSC	<ul style="list-style-type: none"> The share buyback remains active. 33.7 million shares, or 20% of shares on issue, have been bought back on market since the buyback commenced in April 2019.
NAC	<ul style="list-style-type: none"> The share buyback remains active. 25% of shares on issue have been bought back on market since the buyback commenced in June 2019 to date, which has been significantly accretive for shareholders. One-for-four bonus Options (ASX: NACO) were issued in December 2023, allowing shareholders to acquire fully paid ordinary shares exercisable at \$0.90 per Option on or before 31 December 2026.
NCC	<ul style="list-style-type: none"> One-for-five bonus Options (ASX: NCCO) were issued in December 2023, allowing shareholders to acquire fully paid ordinary shares exercisable at \$0.67 per Option on or before 31 December 2026.
DRP	<ul style="list-style-type: none"> Shares purchased on-market to satisfy DRP requirements when shares are trading at a discount to NTA, thus eliminating any dilution for shareholders.

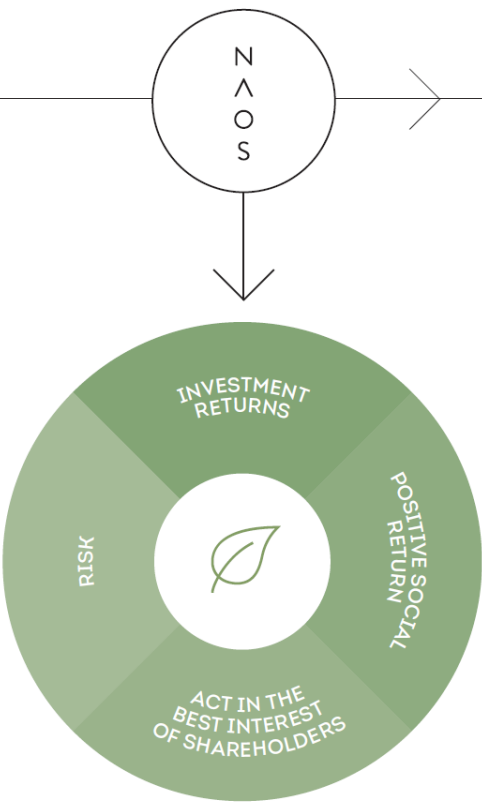
NAOS ESG Framework

01 OUR COMMITMENT TO RESPONSIBLE INVESTMENT

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of shareholders. We believe that a high standard of business conduct and a responsible approach to environmental, social and governance (ESG) factors is associated with a sustainable business model over the longer term that benefits not only shareholders but also the broader economy.

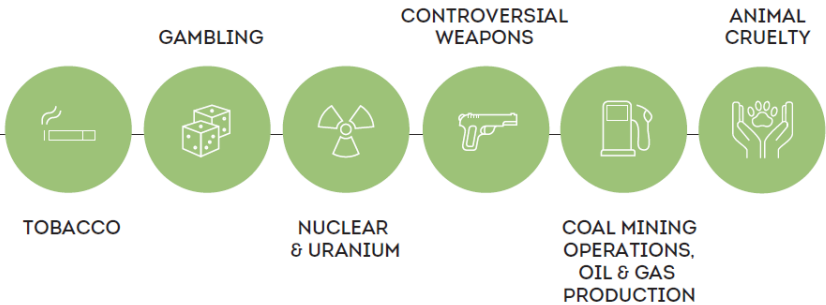
We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving a positive social return.

NAOS is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and is guided by these principles in incorporating ESG into its investment practices.



02 NEGATIVE SCREENS

NAOS systematically excludes investing in specific industries and companies that do not align with our responsible investment goals.



03 ESG FRAMEWORK

The types of ESG factors we consider are represented by the following, although from time to time we will consider factors outside this group.



04 THE INCORPORATION OF ESG

The incorporation of ESG considerations into the investment process applies across all NAOS investments and involves regular discussions and engagement with companies over material ESG issues.

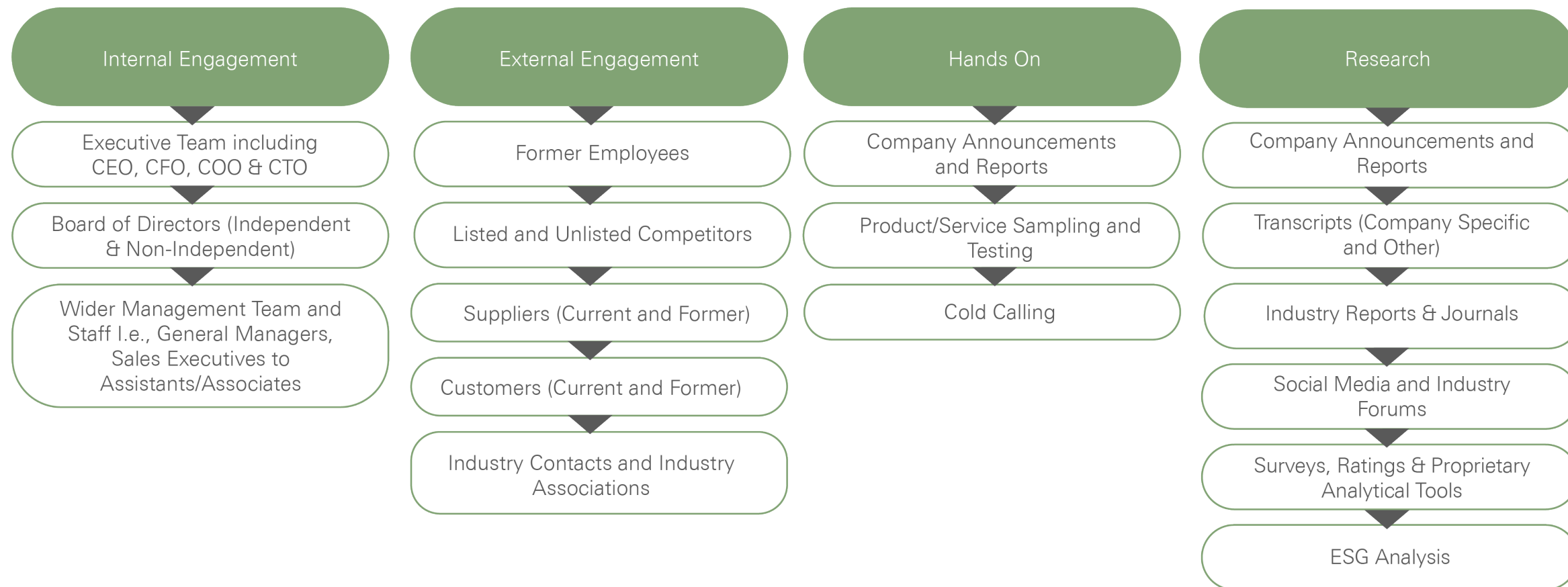
ESG considerations rest at the core of the NAOS investment process. While the investment team screens all prospective investments on an ESG basis, NAOS also ensures that all its investee companies abide by the same principles. NAOS seeks to ensure investee companies are acting in a responsible manner, are setting clear targets and are having a positive impact on their respective stakeholders (i.e. employees, clients, community). Their impact on the environment is foremost among these priorities. As part of this process, NAOS has continued to evolve its ESG questionnaire it provides to all investee companies. This questionnaire provides NAOS with transparent, consistent and granular data on how these companies are both performing and improving upon these focus points.

Signatory of:



What Qualitative Information Sources Does NAOS Use?

The NAOS Investment Team undertakes fundamental analysis on potential and current investments. Some examples of our key focus areas include:



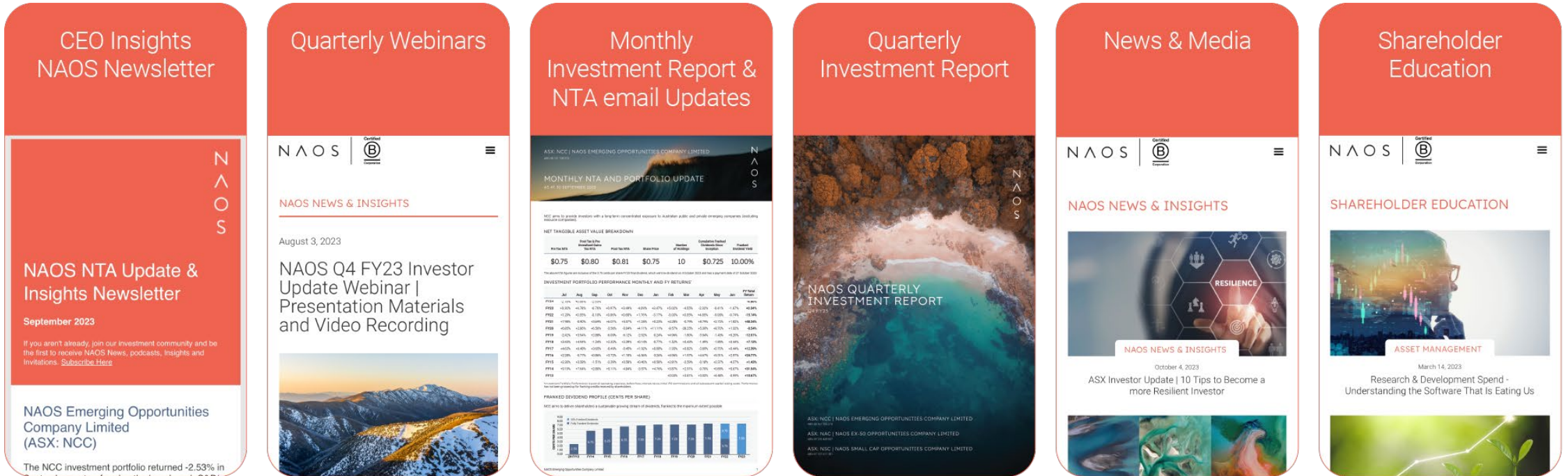
Why Invest via a Listed Investment Company?

We strongly believe LICs are a highly effective structure to give investors the highest quality exposure to specific asset classes, which in the case of NAOS is emerging businesses.

A Listed Investment Company structure:

- Allows the investment manager to build a concentrated portfolio of high-quality investments **without needing to worry about short-term liquidity requirements**.
- **Fund size is generally limited** to the upside, allowing investors to maintain a significant exposure to the underlying investments and not be diluted by new investors, which may occur in an open-ended fund.
- Enables a **smoother distribution profile** as profits can be retained, as opposed to managed funds which distribute all taxable income annually. Dividends from a LIC may also be fully franked.
- Can provide **access to a range of alternative asset classes** which may not be suited to an open-ended structure.

Investor Awareness and Communication



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NAOS Asset Management



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