ASX:NSC

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

ABN 47 107 617 381

NSC GENERALLY INVESTS IN SMALL-CAP INDUSTRIAL COMPANIES WITH A MARKET CAP OF $100M-$1B

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MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 30 NOVEMBER 2019

NET TANGIBLE ASSET VALUE BREAKDOWN

PRE TAX NTA	POST TAX & PRE UNREALISED GAINS TAX NTA	POST TAX NTA	SHARE PRICE	PREMIUM/ (DISCOUNT) TO NTA (PRE TAX)	FULLY FRANKED DIVIDEND YIELD
$0.86	$0.88	$0.86	$0.735	(14.53%)	5.44%

MARKET INSIGHT

For the month of November, the NSC Investment Portfolio produced a negative return of -1.80%, underperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +1.56%. As at the end of November the Investment Portfolio was made up of 11 long positions, with a portfolio weighted average market capitalisation of $193.5 million. The major negative contributor to performance was MNF Group (ASX: MNF) which fell by close to -7% after the company raised $50 million at $5.00 per share. The only significant positive contributor was Eureka Group (ASX: EGH), which increased by over +17% for the month. November was a very busy month for company announcements with Consolidated Operations Group (ASX: COG) announcing a merger with CML Group (ASX: CGR), Experience Co (ASX: EXP) releasing the outcome of their strategic review, and finally BSA Group (ASX: BSA) reaffirming FY20 guidance.

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

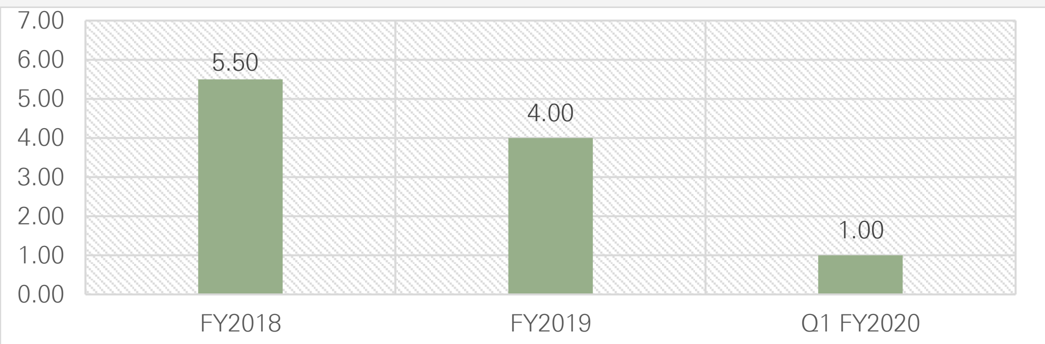
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%								+19.84%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	-3.44%

* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders.

The most notable event that occurred in November was the announcement of the merger between COG and CGR. As a substantial investor in both companies we must view the merits of the merger from both perspectives, and post reviewing the deal we believe it is firmly positive for both sets of shareholders. The main reasons for this are fourfold 1) the revenue synergies over the next 3-5 years have the potential to be significant as COG has a broker network that CGR can now access more effectively; 2) it will increase the depth of the management team; 3) the listed entity will become significantly larger and more liquid therefore more relevant for potential investors; and 4) the ability for the combined group to access more flexible and lower cost funding structures will lower cost but can also assist in growing the revenue base. Based on the disclosure to date the combined entity would have made a pro-forma NPATA of $17 million in FY19. Looking forward, when taking into account several factors such as the CGR acquisition of Classic Funding in FY20, the potential cost savings within the merged entity, and organic growth potential through FY20 and FY21, we believe an NPATA figure of $25 million in FY21 is readily achievable. Assuming an initial P/E multiple of 14 times this equates to a valuation of $0.14 per share. Pleasingly, a dividend payout ratio of a minimum of 50% of statutory NPAT will be applied to the combined entity, which places the company on a 5% fully franked yield. The key challenge going forward will

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

NSC aims to deliver shareholders a sustainable growing stream of fully franked quarterly dividends.



INVESTMENT BELIEFS

VALUE WITH LONG TERM GROWTH

QUALITY OVER QUANTITY

INVEST FOR THE LONG TERM

PERFORMANCE V LIQUIDITY FOCUS

IGNORE THE INDEX

PURE EXPOSURE TO INDUSTRIALS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

MANAGEMENT ALIGNMENT

MARKET INSIGHT CONTINUED

be how the management team communicates the strategy to current and potential investors without overcomplicating the narrative. During the month EXP held their AGM where they announced the outcomes of their strategic review to refocus the business. This involves divesting non-core and poor returning assets, in particular their helicopter business which will not only release significant capital upon sale but will also reduce the heavy capex burden that business segment required, improving EXP’s financial strength. The benefits should also flow through to earnings via a reduction in depreciation as well as interest savings through debt repayment. In our view, the businesses being retained generate strong free cash flow and have significant barriers to entry. With a complete management team overhaul, EXP is now well positioned to execute on their strategic plan moving forward. Pleasingly the employee incentives structures finalised at the AGM are well aligned with shareholder interests. Add to this a backdrop of a long-term industry growth trend, and we are of the belief that EXP will be able to generate strong returns over the long term. Finally, BSA reaffirmed guidance of expected profit growth and revenue in the order of $500 million. The company also announced a new contract win within their Maintain division to be a national asset maintenance provider for Aldi and their >500 stores around Australia. This is a significant win of a Tier-1 client and illustrates the service that BSA can provide to clients with property portfolios nationwide, in addition to demonstrating an ability to diversify the earnings away from NBN related activities.

STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception, December 2017. The stocks listed below may or may not be current holdings within the portfolio.

TOP 5 POSITIVE CONTRIBUTORS	CONTRIBUTION TO RETURN (%NAV)
Enero Group Limited (ASX: EGG)	6.51%
Broadcast Services Australia Limited (ASX: BSA)	4.75%
Over The Wire Limited (ASX: OTW)	2.81%
Service Stream Limited (ASX: SSM)	1.46%
360 Capital Total Return Fund (ASX: TOT)	1.05%

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	-1.80%	+21.44%	+13.66%	+0.17%	+0.35%
S&P/ASX Small Ordinaries Accumulation Index	+1.56%	+5.14%	+16.62%	+7.11%	+14.71%
Performance Relative to Benchmark	**-3.36%**	**+16.30%**	**-2.96%**	**-6.94%**	**-14.36%**

* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders. Inception performance (P.A. and Total Return) is from 1 December 2017.

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	$193.5 million
Number of Holdings	11 Long Positions
Cash Weighting	3.90%
Standard Deviation of Returns (NSC)	14.33%
Standard Deviation of Returns (XSOAI)	11.97%
Downside Deviation (NSC)	6.84%
Downside Deviation (XSOAI)	7.38%
Percentage of Positive Months (NSC)	46%
Percentage of Positive Months (XSOAI)	54%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	$101.80
Shares on Issue	161,978,167
NSC Directors Shareholding (Ordinary Shares)	2,078,554

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OUR TEAM

Chairman
Trevor Carroll (Independent)

Directors
Warwick Evans
Sebastian Evans
David Rickards (Independent)

Chief Investment Officer
Sebastian Evans

Portfolio Managers
Robert Miller
Ben Rundle

Investment Analyst
Rachel Cole

Chief Financial/ Operating Officer
Richard Preedy

Business Development Manager
Julia Stanistreet

Compliance Officer
Julie Coventry

ENQUIRIES

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