

NAOS Asset Management Limited

Q2 FY20 Investor Conference Call

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Wednesday 5th February 2020 10.30am AEDT

Dial-in Number: 1300 264 804 International Dial-in Number: +61 2 9696 0874

Guest Access Code: 10842873 #

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NAOS Asset Management

Our Mission

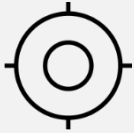
To provide investors with genuine long-term, concentrated exposure to Australian undervalued listed micro, small and mid-cap companies with an industrial focus.

NAOS established its first Listed Investment Company (LIC) in 2013 with 400 shareholders, today NAOS manages approximately \$300 million across three LIC vehicles for more than 7,500 shareholders.

Our directors and employees have a significant interest in all three LICs, this means we are invested alongside our shareholders creating a strong alignment of interests.

NAOS is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and is committed to a responsible investment strategy, ESG considerations are incorporated into our investment process and apply across all NAOS investments.

NAOS investment beliefs provide a competitive advantage



Value with Long Term Growth



Quality over Quantity



Invest for the Long Term
5+ years



Performance v Liquidity Focus

The closed end LIC structure removes application and redemption risk.



Ignore the Index



Pure Exposure to Industrials



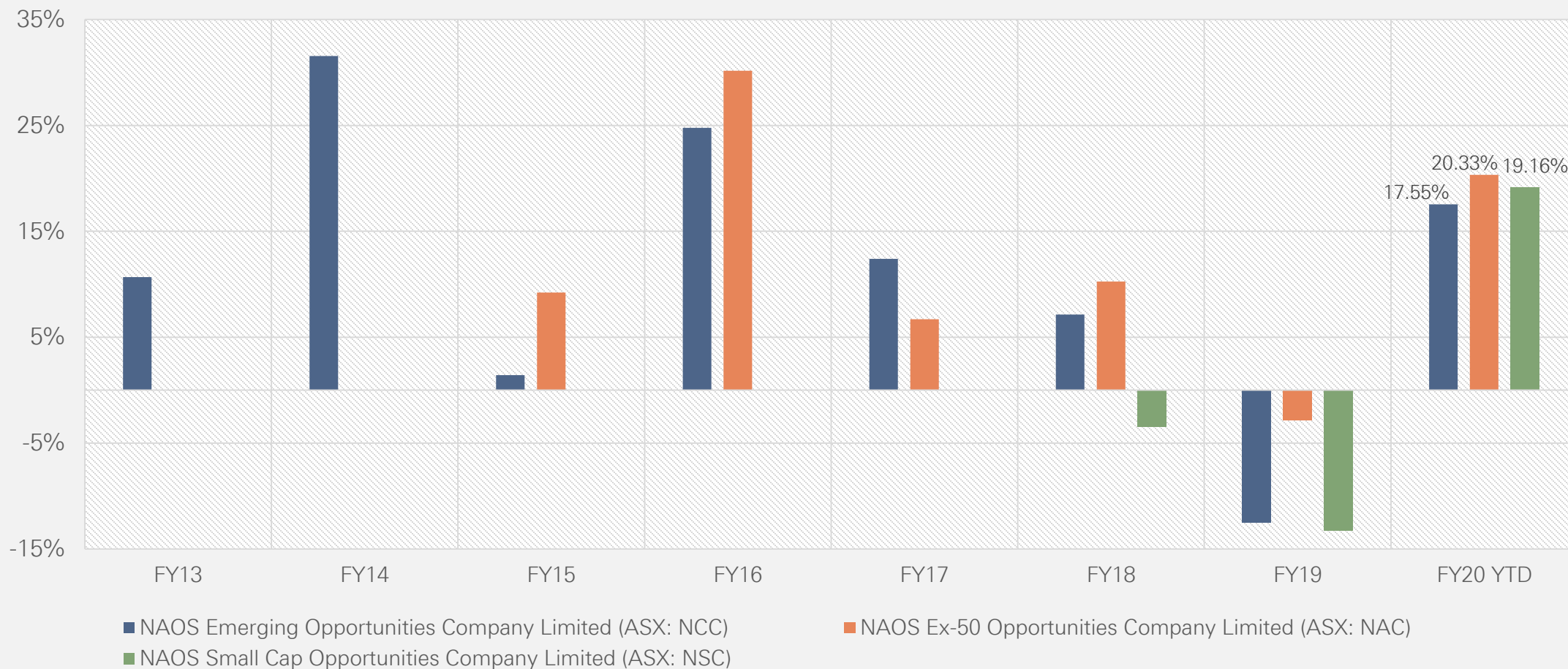
Environmental, Social and Governance (ESG)

We do not invest in businesses that are directly related to the production or sale of tobacco, gambling, nuclear, uranium, coal or iron ore, controversial weapons, coal mining operations or oil and gas production companies.



Management Alignment

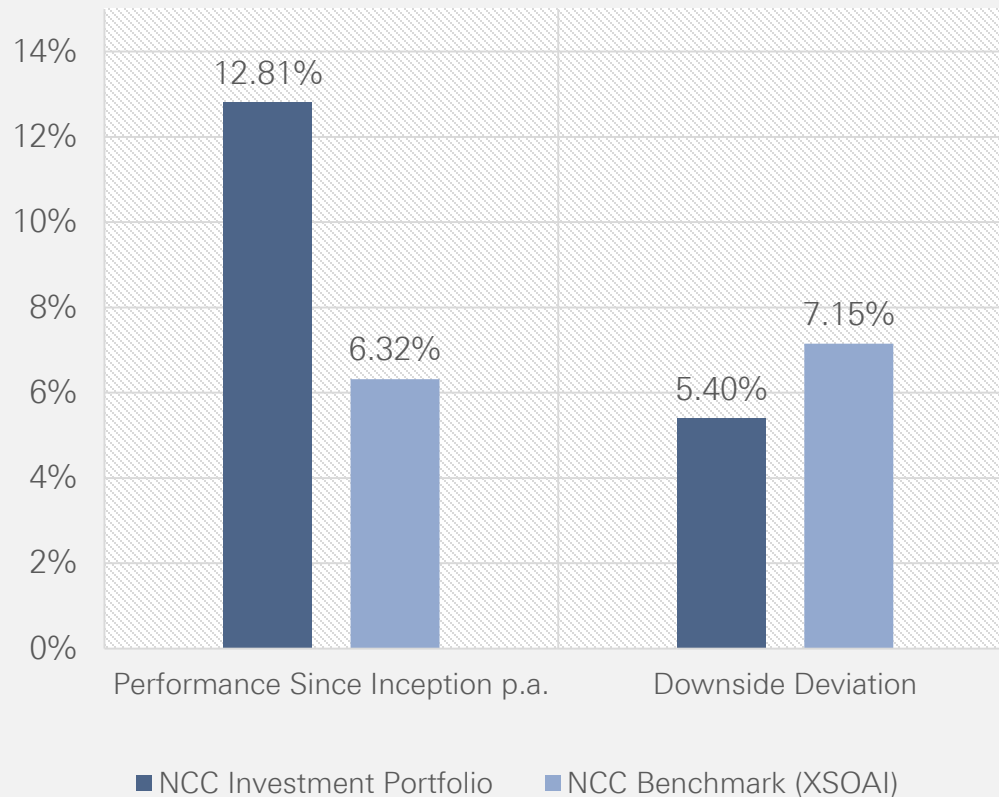
NAOS investment portfolio financial year returns*



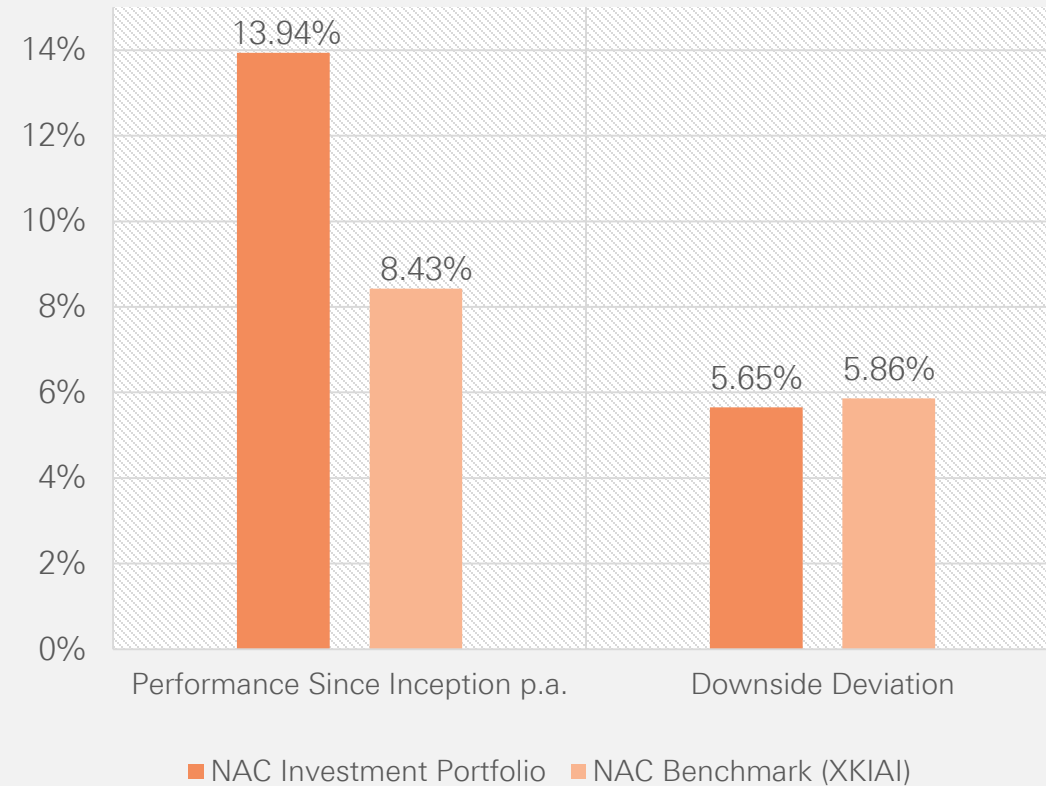
* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Inception dates are February 2013 (NCC), November 2014 (NAC) and December 2017 (NSC). FY20 YTD performance to 31 December 2019.

NAOS strong long term (5 years+) risk-adjusted returns*

NCC Investment Portfolio Risk and Performance Metrics



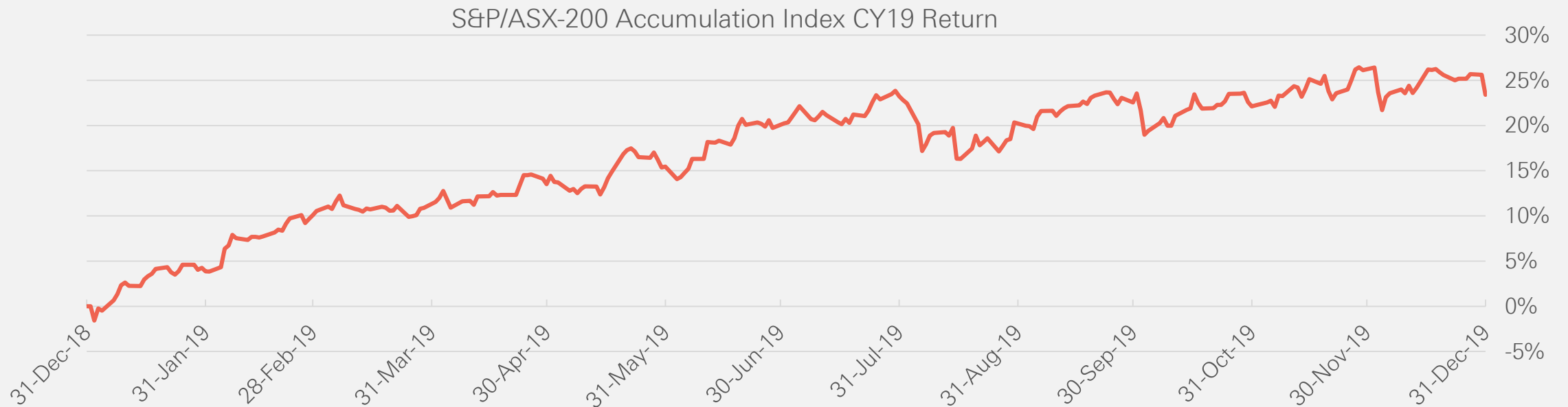
NAC Investment Portfolio Risk and Performance Metrics



* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a.) includes part performance for the month of February 2013 (NCC) and November 2014 (NAC). Returns compounded for periods greater than 12 months. All risk metrics are calculated from the inception date of each portfolio. All Figures are as at 31 December 2019.

Market commentary

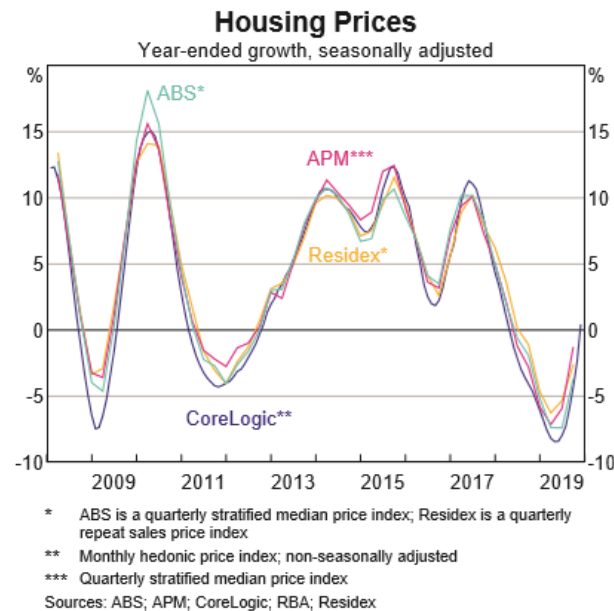
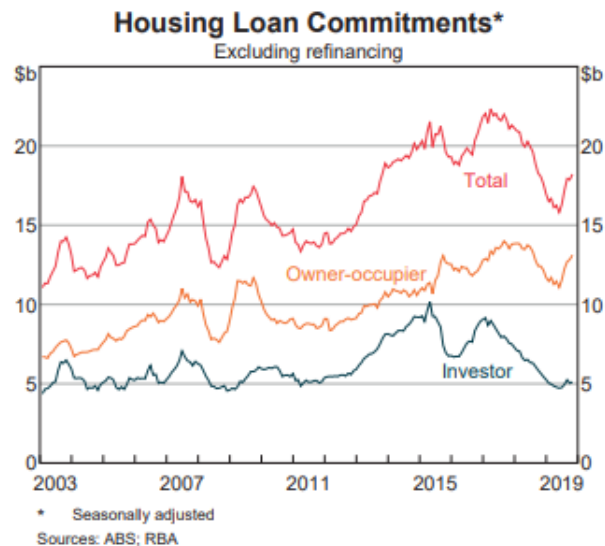
- The S&P/ASX-200 Accumulation Index (XJOAI) returned +23.4% for CY19.
- However earnings per share growth (EPS) was just +1.0%
- The P/E of the XJOAI excluding resources has increased from a low of 13.80 times in late CY18 to almost 22 times at the end of CY19.
- The P/E of the XJOAI excluding resources and financials is now over 24 times.
- Clearly the market and investors continue to grapple with record low cash rates and investment opportunities that represent a fair risk/reward opportunity.



Source: Bloomberg Data

Market commentary

- Credit contraction in housing loans has eased with loan commitments increasing from \$15.5 billion to \$17.5 billion, led purely by owner-occupier loans.
- Resultant sharp rebound in house prices with capital city prices almost completely erasing the 9% fall in CY19.
- The unemployment rate released by the Australian Bureau of Statistics in January stated +28.9k jobs were filled during December 2019 against expectations of just +10k, with the unemployment rate falling to 5.07%.
- Both the iron ore price and export volumes remain elevated which may provide the federal government with increased funds to stimulate the economy after May 2020.



Sources: Reserve Bank of Australia; Australian Bureau of Statistics

Market outlook

- Reporting season commences for 1H FY20 company results in early February.
- Significantly elevated valuation levels place increased pressure on companies to deliver reasonable results to avoid being punished considerably, as seen with Cimic Group Limited (ASX: CIM), Kogan.com Limited (ASX: KGN), NIB Holdings Limited (ASX: NHF), Mosaic Brands Limited (ASX: MOZ) and Nearmap Limited (ASX: NEA).
- The companies that we will be looking at closely for updates within our portfolios include:
 - BSA Limited (ASX: BSA) – Continuation of organic earnings growth and any update on contract negotiations.
 - Over the Wire Limited (ASX: OTW) – Focus on organic growth rates post the poorly received FY19 result.
 - Smartgroup Corporation Limited (ASX: SIQ) – Organic growth rates relative to the wider market as well as clarification on potential earnings changes from contract or legislative changes.

Stock	Downgrade Date	Share Price Day Prior to Downgrade	Share Price at 30.01.2020	Move
ASX: CIM	23.01.2020	\$34.98	\$28.41	-18.78%
ASX: NHF	20.01.2020	\$6.54	\$5.39	-17.58%
ASX: MOZ	14.01.2020	\$2.26	\$1.75	-22.57%
ASX: KGN	20.01.2020	\$7.94	\$5.25	-33.88%
ASX: NEA	30.01.2020	\$2.43	\$1.71	-29.63%

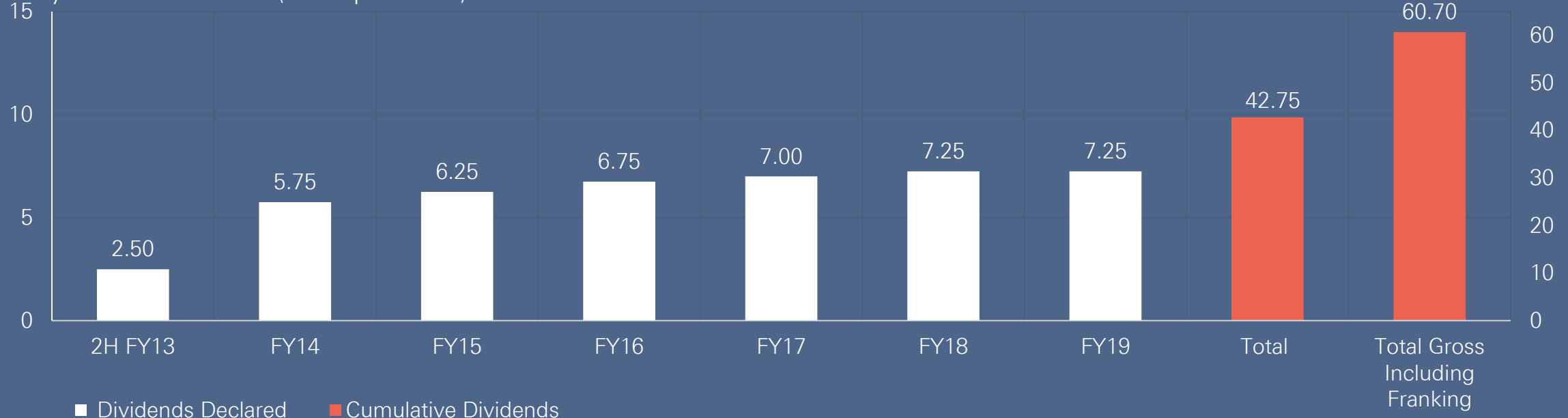
NCC Key Portfolio Events Q2 FY20

Company	Industry	Q2 Update
CML Group Limited (ASX: CGR)	Financial Services	<ul style="list-style-type: none"> Received an indicative, non-binding proposal from Scottish Pacific at \$0.60 per share, competing with the ongoing scheme of arrangement with Consolidated Operations Group (ASX: COG). Scottish Pacific due diligence progressing with an update expected in the 1st week of February. CML Directors have stated they believe the indicative proposal from Scottish Pacific would constitute a superior offer to the existing COG scheme of arrangement.
Saunders International Limited (ASX: SND)	Infrastructure Services	<ul style="list-style-type: none"> From guidance provided at the Annual General Meeting (AGM) we expect an improved HY result compared to the prior period. One of the three major competitors to SND, being CB&I, has run into financial difficulty with their parent company McDermott entering Chapter 11 bankruptcy. SND have recently announced a \$15 million contract with Sydney Water, their 1st major contract win in over 18 months.
BTC Health Limited (ASX: BTC)	Medical Product Distribution	<ul style="list-style-type: none"> Reaffirmed revenue guidance growth of +15% p.a. with a steady gross margin. Are in a range of discussions to secure exclusive rights to unique hospital products that could add \$1-\$3 million p.a. in revenue per product. Following the successful integration of the Infusion business BTC will continue to assess complementary bolt-on acquisitions in the healthcare space.

NCC portfolio update as at 31 December 2019

\$1.12 Pre Tax NTA	\$1.035 Share Price	4.30% Cash Weighting	+0.37% FY20 Q2 Performance	\$90.4m Average Market Cap. of Portfolio	11 Holdings	7.00% Dividend Yield	25.0 Cents per Share Profits Reserve
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Fully Franked Dividend (cents per share)



NSC Key Portfolio Events Q2 FY20

Company	Industry	Q2 Update
MNF Group (ASX: MNF)	IT Software and Services	<ul style="list-style-type: none"> Completed a \$50 million institutional placement at \$5.00 per share to pay down all debt and fund international growth initiatives. Tailwinds for MNF remain significant, for example Spoke Phone, an MNF customer which is a mobile based voice company, recently announced the successful tender for a large commercial insurance provider.
Enero Group (ASX: EGG)	Marketing and Communications	<ul style="list-style-type: none"> CEO Matthew Melhuish announced his intention to resign by the end of March 2020, even though this is a significant loss for EGG, we believe the risk is mitigated as all of the large agencies have their own management teams and also there is depth in the EGG management team. We believe the tailwinds for EGG remain significant, particularly for Hotwire and Orchard as they operate in the technology and healthcare space.
Eureka Group (ASX: EGH)	Senior Living/Property	<ul style="list-style-type: none"> Announced their first acquisition in over 2 years, acquiring a 124 unit facility in Bundaberg. The acquisition was internally funded as the company continues to sell legacy non-core assets and reduce debt through cash flow resulting in a potential EBITDA uplift of over 15%. We believe the company has a significant runway for growth as the market remains highly fragmented with a significant demographic tailwind.

NSC portfolio update as at 31 December 2019

\$0.85
Pre Tax NTA

\$0.755
Share Price

4.50%
Cash
Weighting

-2.20%
FY20 Q2
Performance

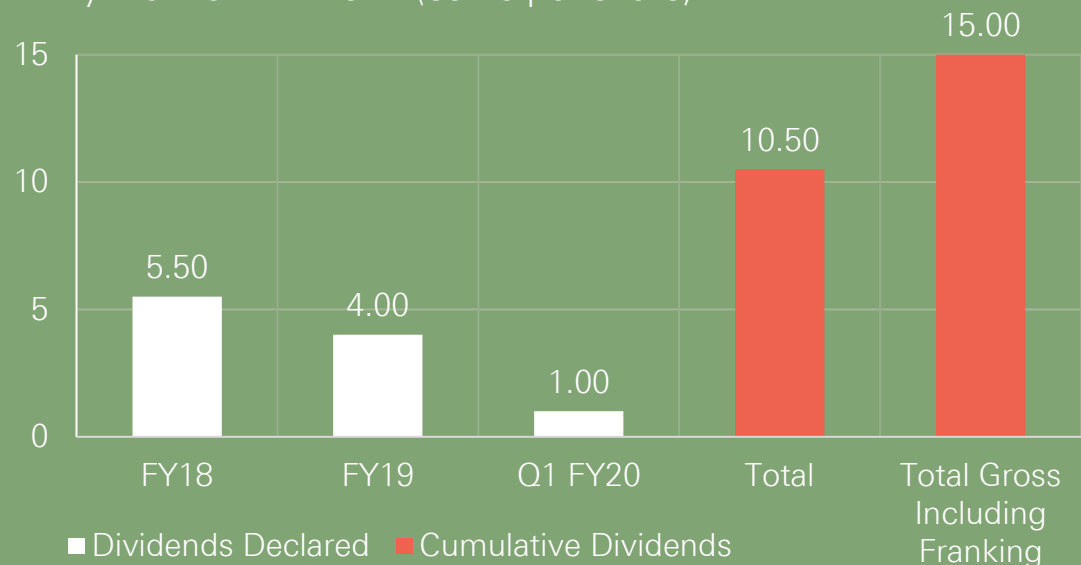
\$192.6m
Average
Market Cap.
of Portfolio

9
Holdings

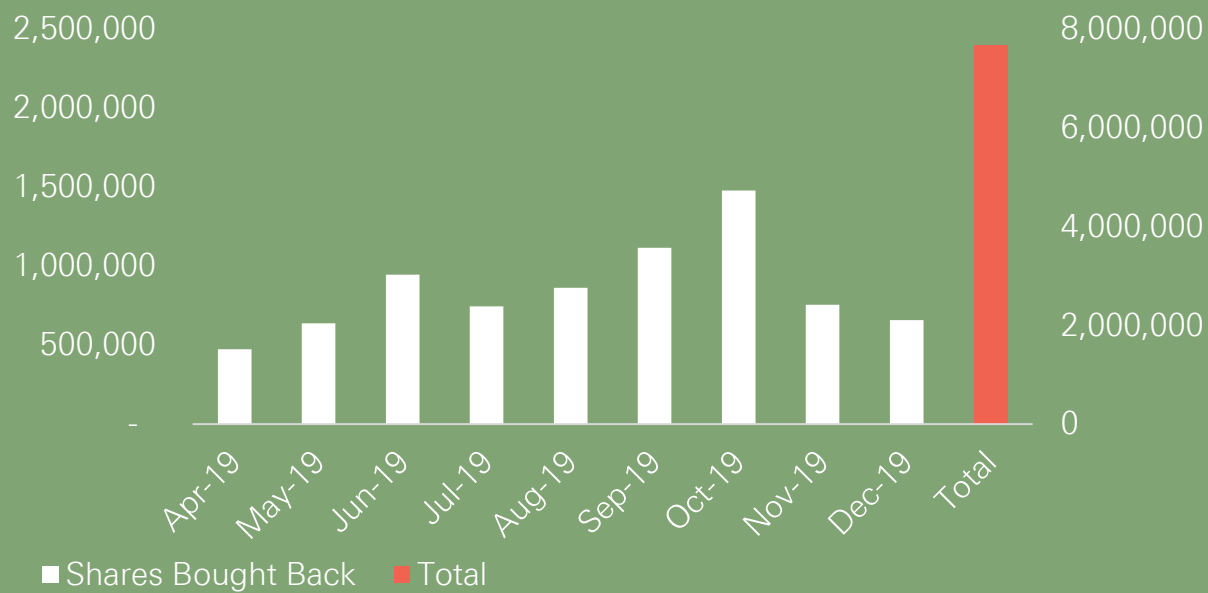
5.30%
Dividend
Yield

16.5
Cents per
Share
Profits
Reserve

Fully Franked Dividend (cents per share)



Buy-Back Program



NAC Key Portfolio Events Q2 FY20

Company	Industry	Q2 Update
Objective Corporation Limited (ASX: OCL)	IT Software and Services	<ul style="list-style-type: none"> Operating Profit is expected to increase by close to 24%, and importantly recurring revenue increase to 75% of 1H FY20 total revenue. 100% of the research and development spend continues to be expensed through the profit and loss statement as incurred. At the AGM management provided more commentary around potential acquisitions which could be funded out of the \$34 million net cash balance sheet and debt facilities.
Moelis Australia Limited (ASX: MOE)	Asset Management	<ul style="list-style-type: none"> Announced the acquisition of a 50% stake in South Australia's largest shopping centre for \$670 million which will be allocated to one large institutional client. Completion of a special purpose vehicle to acquire the freehold and operating rights to the Beach Hotel in Byron Bay. We believe FUM will be close to \$5 billion with corporate and advisory also performing strongly.
Smartgroup Corporation Limited (ASX: SIQ)	Salary Packaging	<ul style="list-style-type: none"> Recent addition to the investment portfolio after share price retracted from a high of ~\$12.50 to a low of \$6.80 over the past 3 months. SIQ announced the resignation of their highly regarded Managing Director, the exit of a large founding shareholder together with a ~10% earnings downgrade due to changes with their insurance provider. SIQ remains a capital light and high free cash flow generating business.

NAC portfolio update as at 31 December 2019

\$1.18
Pre Tax NTA

\$0.965
Share Price

5.00%
Cash
Weighting

3.88%
FY20 Q2
Performance

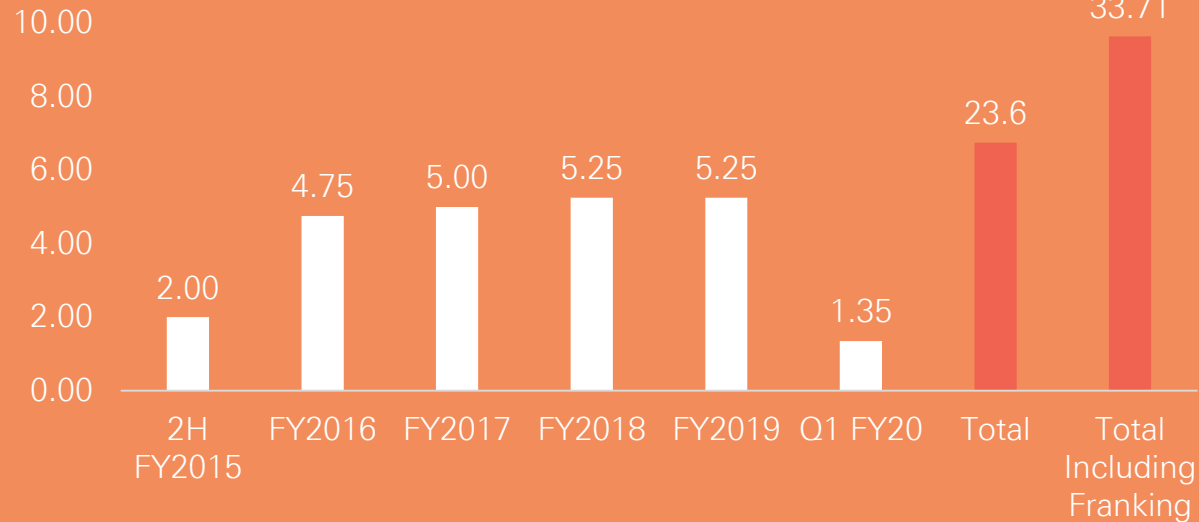
\$397.2m
Average
Market Cap.
of Portfolio

9
Long
Holdings
1
Short
Holding

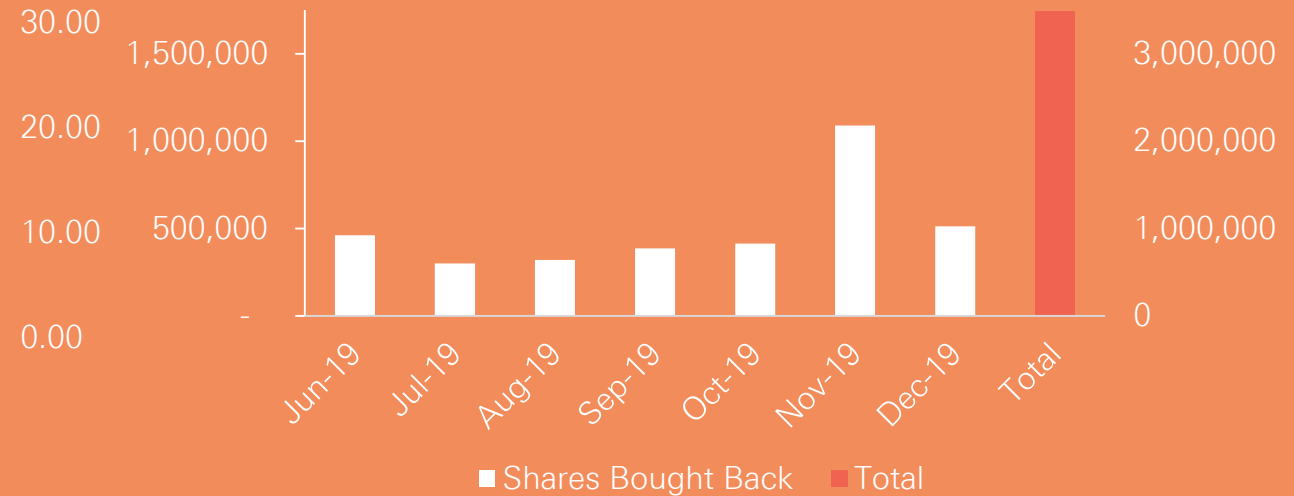
5.44%
Dividend
Yield

16.3
Cents per
Share
Profits
Reserve

Fully Franked Dividend (Cents Per Share)



Buy-Back Program



Capital management initiatives

Performance	Maintain a focus on long term performance without deviating from the NAOS investment philosophy.
Dividends	Continue to focus on maintaining a growing stream of fully franked dividends whilst maintaining an adequate reserve balance.
Alignment	Continue to be aligned with shareholders as Directors and Staff are some of the largest shareholders across all 3 of the LIC's
Communication	Maintain a very high standard of marketing materials and communications so all current and prospective shareholders have a clear understanding of the NAOS offering.
NCC	Over 10% of the NCC listed options (ASX: NCCOB) have been exercised* and we expect NCC to soft close at a FUM of \$100 million.
NSC	The buyback remains active with 7.7m shares bought back* together with the repayment of the NSCG listed convertible notes via a lower cost and non-dilutionary unlisted note offering.
NAC	Continue to buy back shares on market (over 7% of SOI bought back*) which has been significantly accretive for shareholders given the CY19 investment portfolio return of +27.83%.

* As at 31 December 2019

NAOS 2020 investor roadshow dates

EVENT DETAILS

CANBERRA

11:00am-12:30pm
Tuesday, March 17

Hyatt Hotel Canberra
120 Commonwealth
Avenue
Canberra, ACT 2600

MELBOURNE

11:00am-12:30pm
Thursday, March 19

The Westin Melbourne
205 Collins Street
Melbourne, VIC 3000

SYDNEY

11:00am-12:30pm
Tuesday, March 24

State Library of NSW
Corner of Macquarie Street
and Shakespeare Place
Sydney, NSW 2000

PERTH

11:00am-12:30pm
Thursday, March 26

DoubleTree by Hilton
Perth Northbridge
100 James Street
Perth, WA 6000

ADELAIDE

11:00am-12:30pm
Tuesday, March 31

Pullman Adelaide
16 Hindmarsh Square
Adelaide, SA 5000

TOOWOOMBA

9.30am-11.30am
Wednesday, April 1

St Bart's Anglican Church
103 Stenner Street
Toowoomba, QLD 4350

BRISBANE

11:00am-12:30pm
Thursday, April 2

Customs House
399 Queen Street
Brisbane, QLD 4000

HOBART

11:00am-12:30pm
Monday, April 6

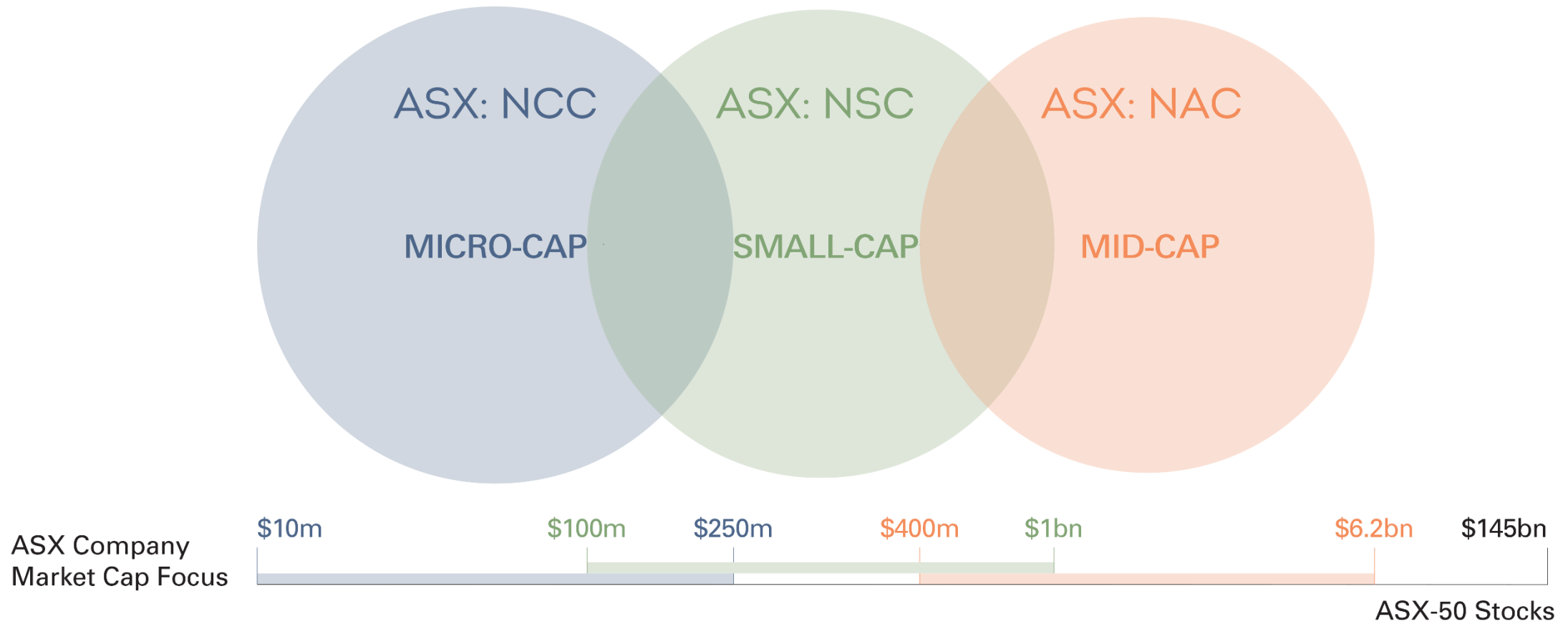
Tasmanian Museum
and Art Gallery
Dunn Place
Hobart, TAS 7000

RSVP

To register for the event please visit our website naos.com.au or email enquiries@naos.com.au noting the city you would like to attend and the number of attendees.

Appendix

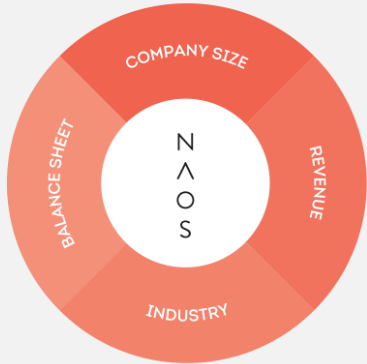
NAOS investment universe



NAOS investment process

01

INVESTMENT UNIVERSE SCREEN CRITERIA

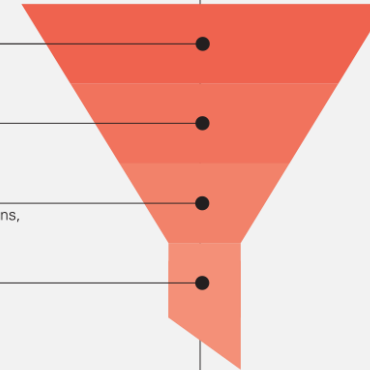


2568
TOTAL ASX LISTED COMPANIES*

02

INVESTMENT UNIVERSE FUNNEL

- 1168 COMPANY SIZE**
Remove: ASX Top 50, <\$10m Market Cap
- 504 REVENUE**
Remove: No Substantial Revenue
- 200 INDUSTRY**
Remove: Tobacco, Gambling, Nuclear & Uranium, Controversial Weapons, Coal Mining Operations, Oil & Gas Production
- 400 BALANCE SHEET**
Remove: Unsustainable Debt Levels



04

THE NAOS LICs

- 0-15 ASX:NCC**
NAOS EMERGING OPPORTUNITIES COMPANY LIMITED
NCC generally invests in 0-15 ASX listed **MICRO-CAP** industrial companies with a target market cap of **<\$250m**
- 0-30 ASX:NSC**
NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED
NSC generally invests in 0-30 ASX listed **SMALL-CAP** industrial companies with a target market cap of **<\$100m-\$1b**
- 0-20 ASX:NAC**
NAOS Ex-50 OPPORTUNITIES COMPANY LIMITED
NAC generally invests in 0-20 ASX listed **MID-CAP** industrial companies with a target market cap of **<\$400m-\$1b+**

50-80
NAOS ACTIVE INVESTMENT UNIVERSE WATCHLIST

03

INVESTMENT CRITERIA

MANAGEMENT & CULTURE

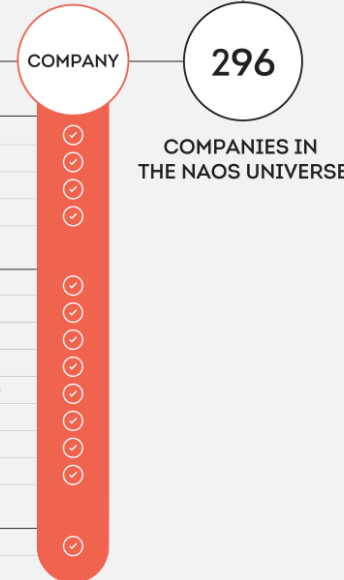
- Does the management team have a long term proven track record?
- Are the management team aligned with shareholders?
- Is there management team depth?
- Does the culture support a sustainable competitive advantage?

VALUATION, GROWTH & MARGIN OF SAFETY

- Does long term valuation meet a 20% p.a. return hurdle?
- Can the balance sheet support future growth?
- What is the trend and future of return on invested capital (ROIC)?
- Is the industry conducive to revenue growth?
- Does free cash flow allow for both organic growth and growth by acquisition?
- Are the earnings drivers transparent to shareholders?
- Is there a clear plan and a history of earnings growth?
- Is the company developing processes and services to increase sales?

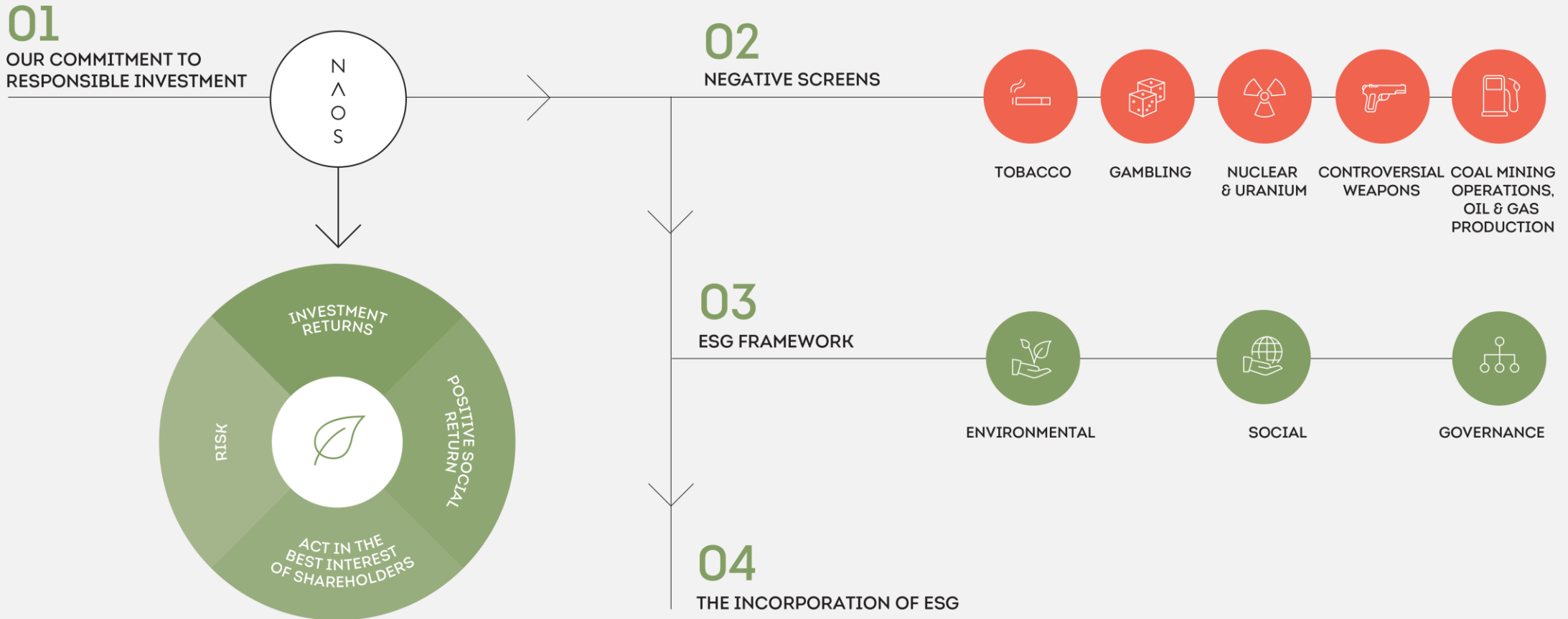
ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

- Does the Company comply with our ESG Framework?



* Source: Bloomberg Data as at June 2019

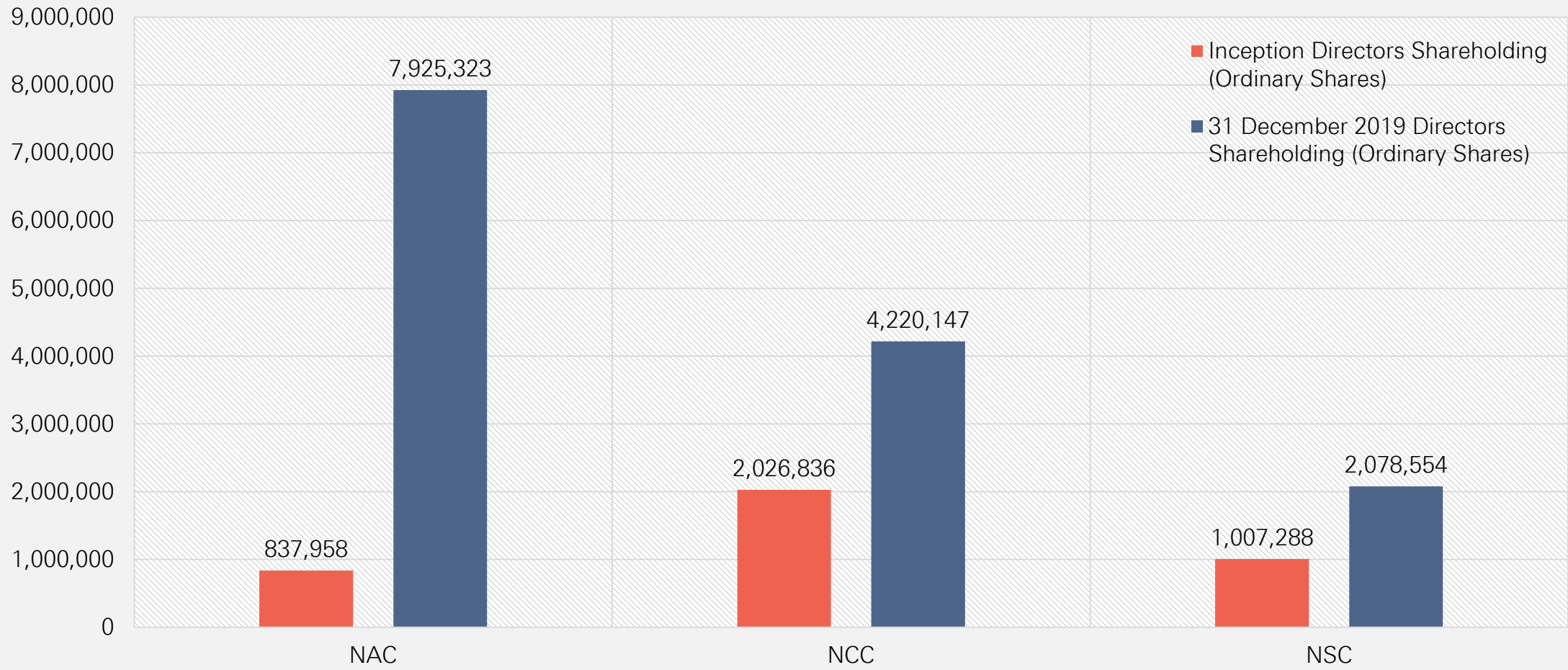
NAOS ESG framework



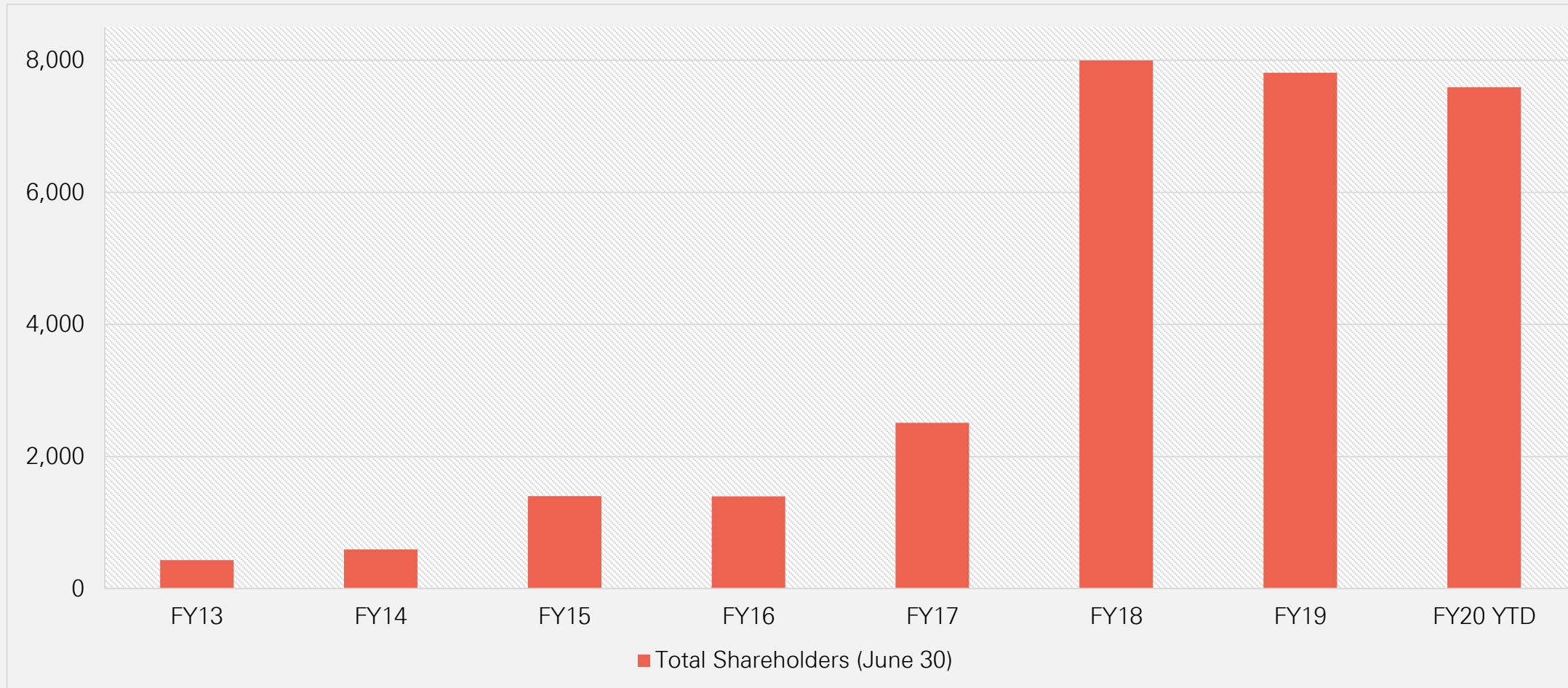
Signatory of:



NAOS management alignment

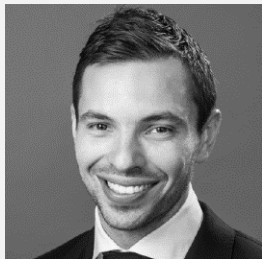


NAOS Shareholder Numbers as at 31st December 2019

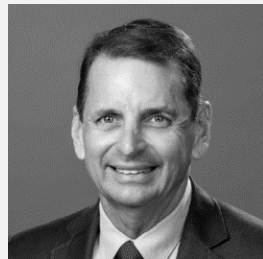


NAOS Directors and Team

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



Mark Bennett
Director, NAOS Asset Management Limited



Trevor Carroll
Independent Chairman NSC



Matthew Hyder
Director, NAOS Asset Management Limited



David Rickards
Independent Chairman & Director, NCC and NAC & Independent Director NSC

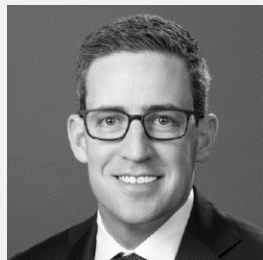


Sarah Williams
Independent Director, NCC and NAC

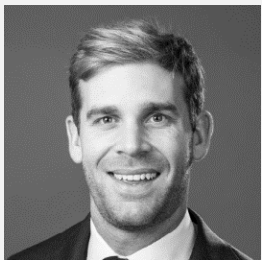
OUR TEAM



Sebastian Evans
Chief Investment Officer



Ben Rundle
Portfolio Manager



Robert Miller
Portfolio Manager



Rachel Cole
Investment Analyst



Richard Preedy
Chief Financial and Operating Officer



Julia O'Brien
Business Development Manager



Julie Coventry
Compliance Officer

Investor awareness and communication



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The news and media section of our website is updated regularly naos.com.au



Twice yearly National Roadshow

FOLLOW NAOS



NAOS giving

NAOS Asset Management, the management company, is proud to be giving back ~ 1% of recurring income to the following charities



'Golden Shouldered Parrot' threatened species project, in partnership with Bush Heritage



'Reef Aid' campaign, in partnership with Greening Australia



RFDS, dedicated to providing healthcare to Australians in remote communities

A&O

Thank you for your continued support

NAOS