

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

MONTHLY INVESTMENT REPORT & NTA UPDATE

AS AT 30 SEPTEMBER 2020

Net Tangible Asset Value Breakdown

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings	Cumulative Fully Franked Dividends	Fully Franked Dividend Yield
\$0.71	\$0.75	\$0.75	\$0.565	9	\$0.135	7.08%

Market Insight

The NSC Investment Portfolio returned -0.09% for the month of September, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which fell by -2.82%. The significant amount of news flow for the portfolio continued in September and is likely to be maintained into October and November as AGM season kicks into gear. Stock specific updates came from BSA Limited (ASX: BSA), Consolidated Operations Group (ASX: COG) and Over The Wire (ASX: OTW), which announced a significant acquisition on 1st October.

COG announced the appointment of Peter Rollason as a new Independent Director. Peter was formerly the CFO of Liberty Financial as well as a former Partner of Deloitte Australia within their M&A advisory division. We believe Peter is an ideal Director to assist with the growth of Westlawn Finance of which COG has now moved to a majority ownership position. Interestingly, as a rough comparison, Plenti (ASX: PLT) listed in October with a market capitalisation of \$200 million. Although PLT provides loans to a more consumer focused target market than COG, they fund their loans through a managed funds model, which COG now have access to following the Westlawn acquisition. PLT is still loss making, whereas Westlawn has a \$240 million debenture book and has historically made \$4-\$6 million NPBT and was acquired by COG for an implied value of \$38 million of which \$14 million consists of regulatory capital on the Westlawn balance sheet.

Investment Portfolio Performance Monthly and FY Returns*

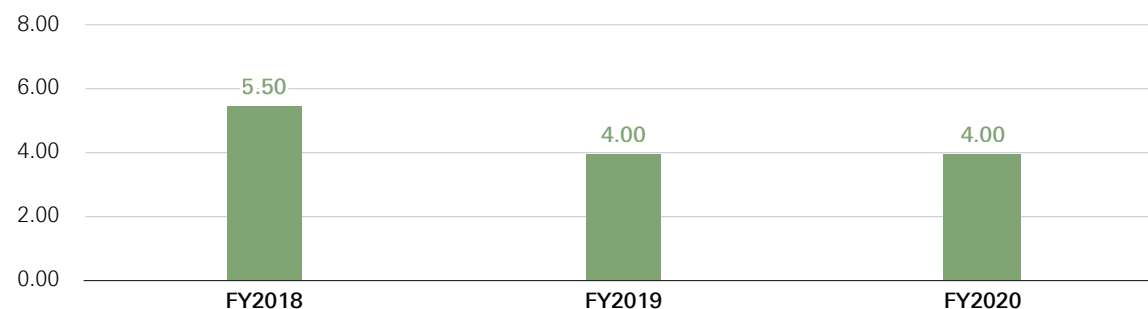
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+1.53%	+3.17%	-0.09%										+4.65%
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	+2.59%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
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.

Although no company specific announcement was released by BSA, the National Broadband Network (NBN), their largest customer, announced plans to upgrade the existing network by spending up to \$4.50 billion over the next 2-3 years. The upgrade will focus on providing fibre to homes that are currently on Fibre to the Node (FTTN) technology as well as spending ~\$400 million on upgrading HFC connections. We believe this is a significant opportunity for BSA to secure further works with NBN, as the vast majority of all BSA work with NBN to date has been around the so called 'last mile' between the node and the connection to the home. If BSA can secure some of this work, it is not inconceivable that it could represent a \$100-\$250 million p.a. opportunity over the next 2-3 years. Just as importantly we believe that the renewal process for the Operations and Maintain Master Agreement (OMMA) is underway and an outcome is expected prior to Christmas. If BSA can secure an extension to this contract as well as new works under the upgrade plan, then in our view there is potentially a period of significant revenue growth ahead.

Fully Franked Dividend Profile (Cents Per Share)

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



Conviction. Long Term. Aligned

NAOS

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







Constructive Engagement

Market Insight Continued

Finally, OTW announced the acquisition of cloud business Digital Sense Hosting, which provides most of its services to Enterprise and Government clients. We believe this is an excellent strategic fit for the OTW business for numerous reasons. Firstly, the founders of Digital Sense will be taking a significant portion of OTW scrip; the business has a revenue profile that is >90% recurring in nature; and the offering of Digital Sense will increase OTW's capability in that sector of the market and bring with it a sophisticated client base. OTW has now made two significant acquisitions in a short period of time which in our view could potentially increase the EBITDA by \$14 million over the next 24 months. We firmly believe that on a normalised run-rate OTW has the potential to generate >\$35 million EBITDA in FY22, which together with significant free cash flow generation should see OTW command a premium EBITDA multiple.

Core Investment Portfolio Examples

 <p>MNF Group ASX: MNF</p> <p>MNF is a founder led software company, which specialises in proprietary digital network infrastructure for voice communications. With 'next generation' networks in Australia, NZ and Singapore, MNF provides voice carriage and value-added software services to some of the world's largest software companies and wants to expand further into the APAC region.</p>	 <p>Over The Wire ASX: OTW</p> <p>Over The Wire is a founder led B2B provider for IT & telecommunication systems. OTW's purpose is to simplify technology to empower business through service offerings such as a national voice network, public cloud, PaaS/IaaS, cyber security services and on demand cloud connectivity.</p>	 <p>Eureka Group ASX: EGH</p> <p>Eureka Group is a provider of quality and affordable rental accommodation for independent seniors within a community environment. EGH owns 30 villages and manages a further 9 villages with a total of 2,147 units across Queensland, Tasmania, South Australia, Victoria and New South Wales.</p>	 <p>BSA ASX: BSA</p> <p>BSA is a solutions focussed technical services organisation. BSA assist clients in implementing their physical assets, needs and goals in the areas of Building Services, Infrastructure and Telecommunication. BSA clients include National Broadband Network (NBN), Aldi Supermarkets, Foxtel and the Fiona Stanley Hospital.</p>
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Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	-0.09%	+20.04%	-11.89%	-4.49%	-3.69%	-10.11%
S&P/ASX Small Ordinaries Accumulation Index	-2.82%	+30.93%	-3.33%	+0.24%	+3.34%	+9.75%
Performance Relative to Benchmark	+2.73%	-10.89%	-8.56%	-4.73%	-7.03%	-19.86%

* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Returns compounded for periods greater than 12 months. 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	\$152.4 million
Cash Weighting	1.64%
Standard Deviation of Returns (NSC)	18.83%
Standard Deviation of Returns (XSOAI)	21.07%
Downside Deviation (NSC)	12.84%
Downside Deviation (XSOAI)	14.73%
Shares on Issue	156,949,276
NSC Directors Shareholding (Ordinary Shares)	2,232,113

NAOS Asset Management Giving Back

NAOS Asset Management Limited, the Investment Manager, donates approximately 1% of all management fees to the following charities.

 <p>Greening Australia</p>	 <p>Royal Flying Doctor Service</p>	 <p>BUSH HERITAGE AUSTRALIA</p>
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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

Chief Financial/Operating Officer

Richard Preedy

Business Development Manager

Nina Dunn

Compliance Officer

Julie Coventry

Marketing & Communications Manager

Angela Zammit

NAOS

Enquiries

(02) 9002 1576

enquiries@naos.com.au

www.naos.com.au