NAOS EMERGING
OPPORTUNITIES
COMPANY LIMITED

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NAOS Emerging Opportunities Company Limited – Annual General Meeting – Chairman’s Address

Dear Fellow Shareholders,

The Board would like to thank all our shareholders for their continued support, and we welcome the new shareholders who have joined the Company during the past financial year.

For the financial year ended 30 June 2020, the Company recorded an after-tax loss of $598,000. The Company declared 7.25 cents per share of fully franked dividends for the year, maintaining the previous year’s dividend, and representing a 9.1% yield on the 30 June 2020 share price. Since listing, the Company has declared an aggregate 50 cents per share of fully franked dividends.

The Board continue to be mindful of providing shareholders with a sustainable stream of growing fully franked dividends over the long term and maintaining profit reserves to enable the Company to pay dividends during periods where it is more difficult to generate significant performance. The profit reserve balance at 30 June 2020 was $19.1 million.

The investment portfolio produced a return of -0.54% for the financial year ended 30 June 2020, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index which delivered a return of -5.67%.

It proved to be an incredibly unstable year for equity markets, marked by the events of the COVID-19 global pandemic. ASX listed micro-cap companies were not immune to the volatile environment and unfortunately, the strong 1H FY20 investment performance was all but eradicated during the period of broader market uncertainty in the second half of FY20. It remains the opinion of the Board that the companies held in the portfolio offer appealing long-term risk adjusted value and we are confident that shareholders can look forward to further outperformance through maintaining a disciplined approach that does not deviate from the NAOS investment philosophy.

The pre-tax net tangible asset backing (‘NTA’) per share of the Company fell from $1.02 at beginning of the year, to finish at $0.90. The majority of this movement was made up of the 7.25 cents per share of fully franked dividends paid to shareholders during the year, and 2.5 cents per share of corporate tax payments. The franking credits attached to these corporate tax payments are available to be distributed to shareholders through fully franked dividends. The remainder of the NTA movement can be attributed to portfolio performance, management fees of 1.25% and other operating expenses of the Company.

Total shareholder return (TSR), which measures the change in the share price and dividends paid over the financial year, was -3.47%. This measure does not include the benefit of franking credits received by shareholders. The share price started the year trading at a 13.24% discount to pre-tax net tangible asset backing and traded on average closer to NTA for most of the year, and closed at $0.795 on 30 June, representing a discount to pre-tax NTA of -11.67%.

As always, the Board remains committed to managing the capital base of the Company in a manner that provides the most suitable framework for maximising potential shareholder return. Throughout FY20 over 1.5 million of the bonus options issued in June 2019 were exercised, continuing to grow the size of the Company whilst not placing undue pressure on its short-term performance and dividend reserves of the Company.

In addition, we continue to believe that growing the size of the Company to between $125 million to $150 million is optimal as it scales the Company to an appropriate size that lowers fixed costs on a per share basis. To ensure no dilution for existing shareholders, the Dividend Reinvestment Plan (DRP) capital management initiative issues DRP shares only when the Company is trading at a premium and buys shares on-market when the Company's shares are trading at a discount to post-tax NTA.

The Company maintained a focus on the quality and transparency of our investment communications notwithstanding the impact of COVID-19 on these activities. These initiatives contributed to record shareholder numbers, with 277 new shareholders added to the register. As at 30 June 2020 the Company had 2,415 shareholders which represented a 13% increase from the end of the previous financial year. Generally, a larger shareholder base corresponds to stronger liquidity which correlates to a lower discount to NTA.

Directors increased their holdings over the financial year whilst also taking advantage of the Dividend Reinvestment Plan, and now hold a cumulative 4.29 million shares, continuing to align their interests with those of shareholders.

On behalf of the Board I would like to thank all the staff of the Investment Manager for their continued efforts and dedication throughout the year.

David Rickards

Chairman

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