

12 November 2020

NAOS Small Cap Opportunities Company Ltd (ASX: NSC) – Chief Investment Officer’s AGM Investor Update

Good morning fellow Shareholders,

Pleasingly, the NSC Investment Portfolio has made a sound start to FY21, returning +7.14% for the first four months of the financial year¹. It has clearly been a slow start from a performance point of view in the short life of NSC, but myself and the investment team at NAOS believe that all of the investments within the NSC portfolio have the potential to deliver significant positive absolute returns over the medium term. Clearly, when investing in small and micro-cap businesses there always exists a significant number of risks and unknown variables, but we believe the opportunities that exist in these businesses appropriately compensates for these risks.

Looking forward, I believe there are several key value inflection points that may eventuate over the remainder of the financial year which may potentially drive a re-rating of some of the positions in the portfolio. I have briefly touched on those which we believe are the most significant for the continued performance of the NSC Investment Portfolio over the remainder of FY21.

Without a doubt one of the most notable events for the remainder of FY21 will relate to BSA Limited (ASX: BSA). A key catalyst will be the potential renewal of the agreement with the National Broadband Network (NBN) for the Operations Activations & Assurance work (OMMA). The other major catalyst will revolve around the ability of BSA management to diversify their current client list by winning new clients in their existing markets or by entering adjacent markets, i.e. mobile.

Over The Wire Holdings (ASX: OTW) has started FY21 with a pleasing amount of momentum after posting a solid FY20 result. After completing two sizeable acquisitions, we will be looking for OTW to deliver a respectable organic growth profile of at least 10%, and for EBITDA margins to increase back to historical levels after a year of significant investment. We will also be looking for the OTW interconnect to be completed which will give them a national voice network (just one of 7), and off this platform we expect OTW to deliver wholesale client wins with tier-one technology companies.

One company we believe has a significant amount of both organic and inorganic growth potential is Eureka Group Holdings (ASX: EGH). For EGH to continue to grow it is imperative that a funding model is used that ensures shareholder returns are not diluted. We believe that once such a funding model can be developed and implemented it may provide a significant re-rating to the EGH equity. We will also be looking for the cap rate applied to the EGH asset portfolio to be reduced significantly over time, as has been the case with other property asset classes (such as storage units), which have seen cap rates reduce from ~10% to closer to 5% over the last few years.

Finally, Enero Group (ASX: EGG) has potentially had the strongest start to FY21 across the NSC investment portfolio, with Q1 FY21 earnings being almost double those of the prior comparable quarter. Even so, the stock remains well below the levels that it was at 12 months ago, and we believe this must be addressed. We will be watching closely for capital management strategies to maximise shareholder value given EGG has the flexibility of a significant net cash balance sheet. We will also be looking for more detailed releases around AdTech business OB Media, which is 51% owned by EGG and has close business relationships with Google and Microsoft. We believe OB Media is a highly profitable business and is worth more to others than it is under the EGG umbrella.

As always, myself and the whole team at NAOS are very grateful for the support of all shareholders in NSC and we remain as aligned as ever through our NSC shareholdings, which we expect to continue to add to over the remainder of FY21.

I look forward to providing you with another detailed update at the end of 1H FY21.

Sebastian Evans

Chief Investment Officer

NAOS Asset Management Limited

¹ Investment Portfolio performance is post all operating expenses, before fees, interest and taxes. Figures as at 31 October 2020.