

NAOS SMALL CAP
OPPORTUNITIES
COMPANY LIMITED

(ASX: NSC)

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ASX Market Announcements

ASX Limited

20 Bridge Street

Sydney

NSW 2000

4 February 2021

NAOS Q2 FY21 Investor Update Webinar

Please find attached presentation materials for the Q2 FY21 NAOS Investor Update Webinar.

Laura Newell

Company Secretary

Approved for ASX release by Sebastian Evans, Director, NAOS Small Cap Opportunities Company Limited.

Q2 FY21 INVESTOR UPDATE WEBINAR

Thursday 4 February 2021 | 11:00 am (AEDT)

Audio Dial In: +61 2 8355 1054

Audio Pin: 660-399-616

PRESENTED BY NAOS ASSET
MANAGEMENT



NAOS

Important information

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NAOS Asset Management

Our Mission

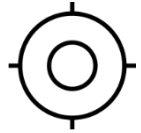
To provide investors genuine long-term, concentrated exposure to Australian undervalued listed micro, small and mid-cap companies with an industrial focus.

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

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

We believe that demonstrating leadership in ESG is ultimately a differentiating factor that benefits all parties. At NAOS we strive to create a positive impact on social, environmental and governance issues. We choose our investments based on a long list of criteria which include their ability to grow their revenue base, their pricing power, scalability, as well as their capability to internally fund their expansion.

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



Management
Alignment



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, animal
cruelty, controversial weapons, coal
mining operations or oil and gas
production companies.



Constructive
Engagement

Reasons not to invest with NAOS

Our LICs are not for everyone. Some reasons why you may not choose to invest with NAOS include:

- Concentrated portfolios (0-15 investments)
- Long-term investment philosophy (5+ years)
- Focus on smaller companies (\$20 million - \$500 million)
- Benchmark unaware (No NSC or NCC investments are within the XSOAI)
- Industrial focus (No exposure to resources or very early-stage businesses)
- Smaller fund size (increases ability to gain a meaningful exposure to smaller businesses)
- ESG aware

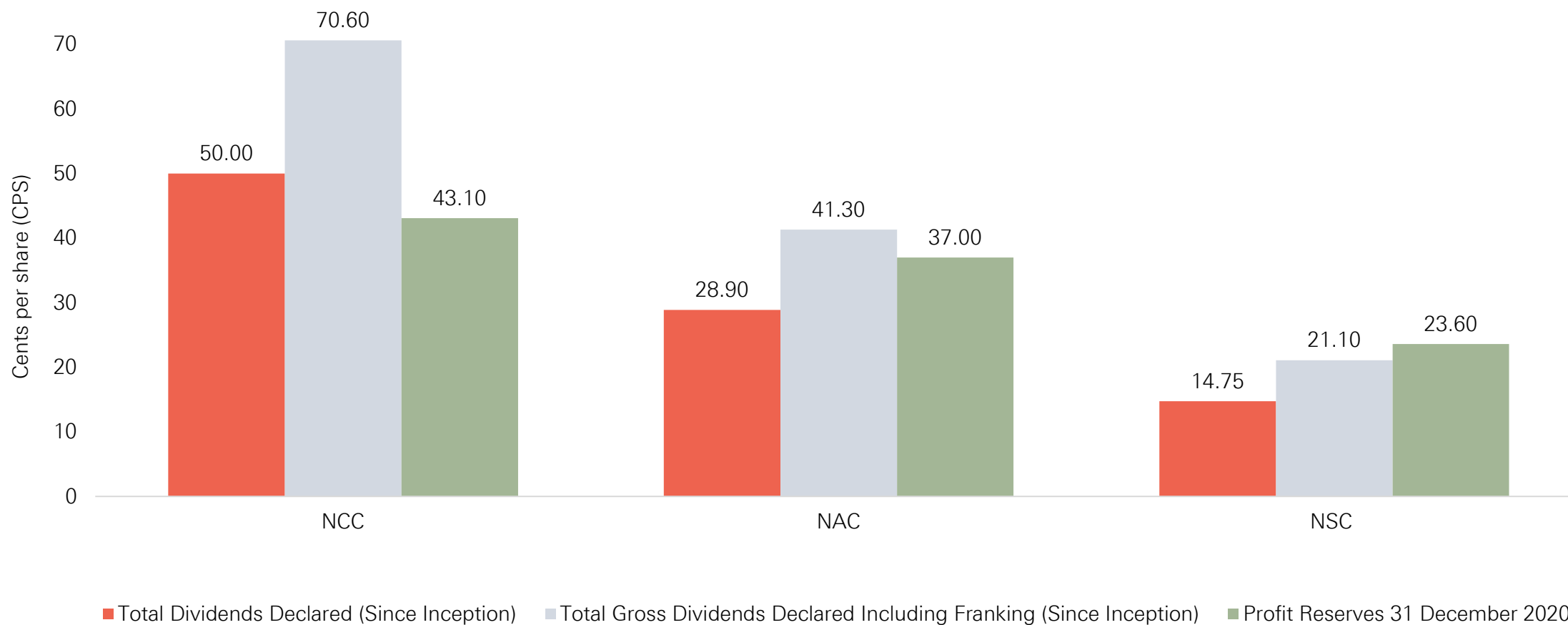
NAOS LICs investment portfolio financial year returns*



* Investment Portfolio Performance is post all operating expenses, before fees, taxes, interest and initial IPO and subsequent capital raising costs. Returns compounded for periods greater than 12 months. 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).

NAOS LIC Fully Franked Dividend History and Profit Reserves

Each LIC has consistently paid dividends and holds healthy profit reserves



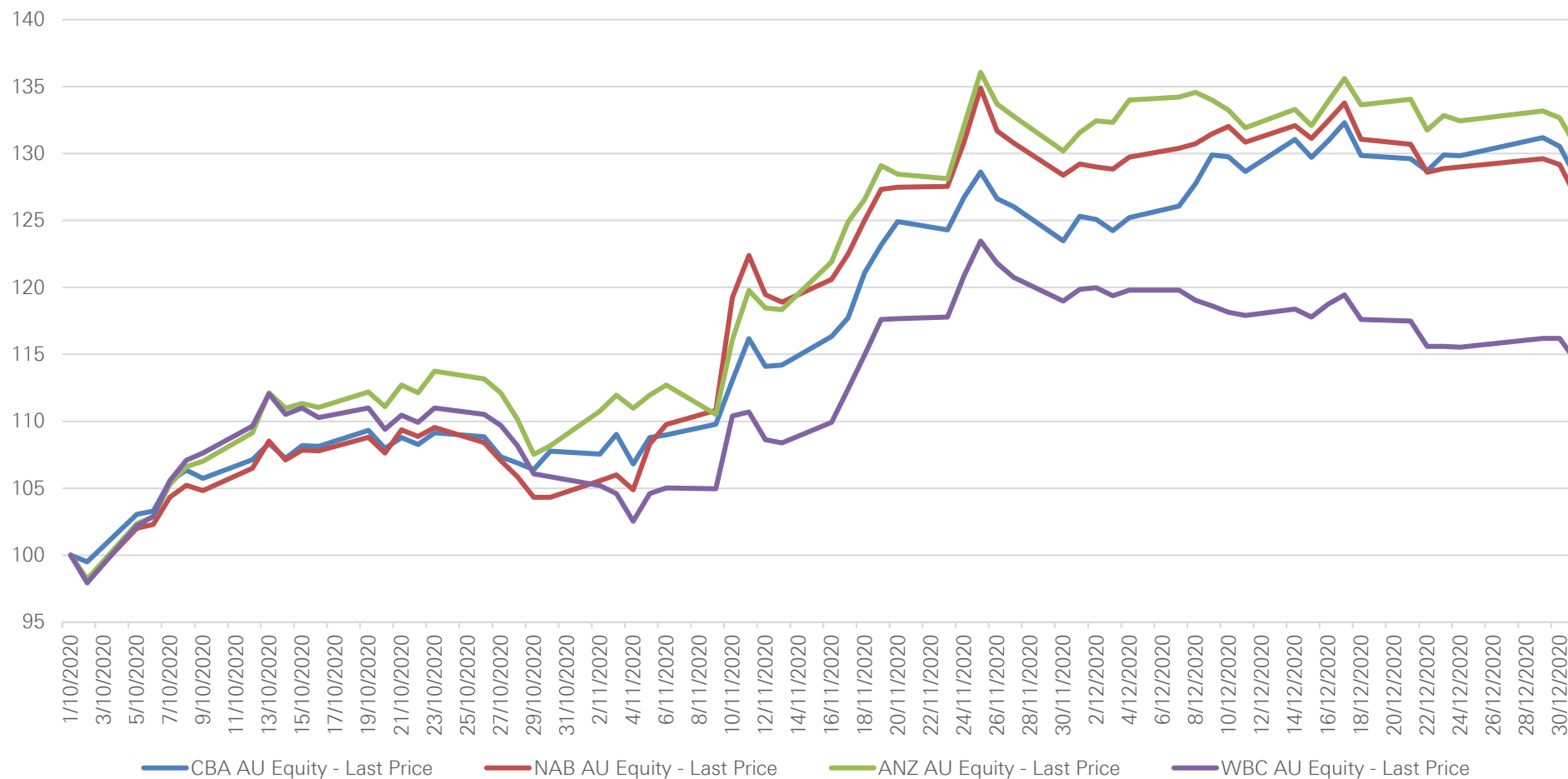
All figures as at 31 December 2020

Summary of Q2 FY21

- Annual General Meeting (AGM) season provided the opportunity for companies to update the market on current trading conditions.
- There was the beginning of a market rotation, surprisingly leading this rotation were the Big-4 banks, which made a significant rally from October to December, with CBA up +31%.
- Business that operate in industries such as retail and e-commerce continued to provide strong trading updates, yet on average their share prices have failed to break through levels they reached earlier in the year.
- In December, uncertainty increased due to the increase in COVID-19 cases within Australia, leading to domestic border closures.
- Two vaccine candidates were approved for use in the US, one or both of the vaccines are expected to be available in Australia in early March.

Summary of Q2 FY21

Big-4 bank share prices Oct - Dec 2020



Source: Bloomberg

Concerns & Opportunities Post Q2 FY21

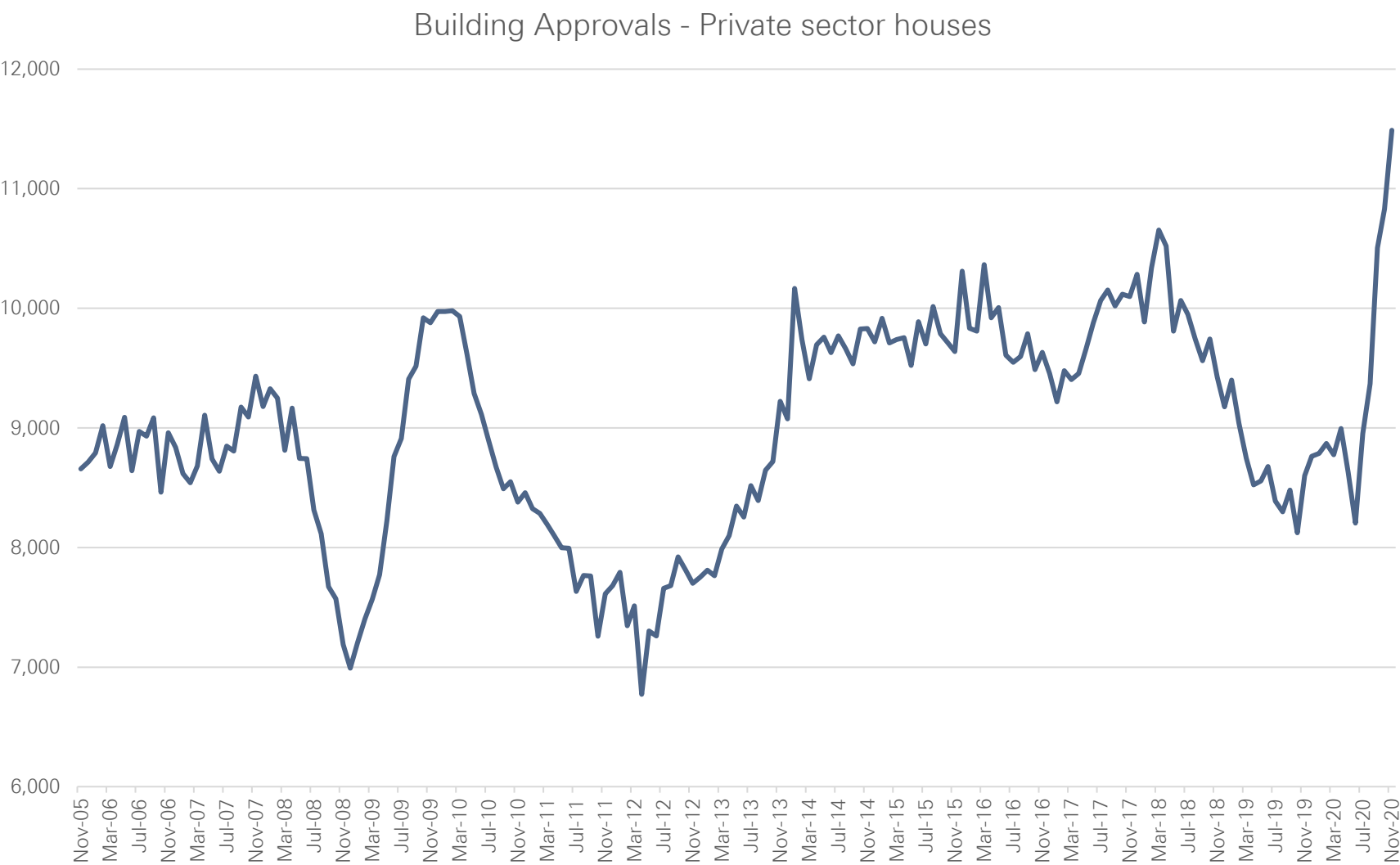
Concerns

- US 10 Year Bond Yields have risen from 0.69% at the start of October to approximately 1.10%.
- Unexpected border closures continue to place significant pressure on businesses exposed to domestic tourism, with little visibility on a coherent state strategy.
- JobKeeper and Job Seeker payments will cease at the end of March, which to some extent will affect discretionary spend and business confidence until much of the population is vaccinated.

Opportunities

- Public businesses should be well placed to capitalise on private businesses that do not have the same access to liquidity, especially post March.
- Corporate activity in the small/microcap space continues to build for quality businesses. Recent examples include Redflex Holdings (ASX: RDF), WPP AU NZ (ASX: WPP) and Think Childcare (ASX: TNK) which have received bids at significant premiums to their current share prices.

Concerns & Opportunities (Continued)



Source: Australian Bureau of Statistics, Building Approvals, Australia November 2020

Opportunities Post Reporting Season

ASX 100 PE vs. Aust Gov 10 Year Bonds Yields



Source: Bloomberg

Focus on the controllable

NAOS will continue to focus on the controllable to maximise risk adjusted returns

Can Control

Investing with proven management teams based on value/price and stock specific fundamentals on a 3-5-year view

Can't Control

Market noise and timing of short-term market movements



Key business & industry traits for maximising long-term performance and reducing the risk of permanent capital loss events

Industry Tailwinds Supporting Long Term Revenue Growth

A growing revenue base provides companies with a number of competitive advantages such as the ability to scale their fixed cost base and increase margins, the opportunity to reinvest to improve their product or service offering, or the chance to enter new markets and compete on a number of considerations other than just price.

Pricing Power

Certain products and/or services around the globe can charge a price that is largely irrelevant to the consumer, due to the simple fact that it provides such a sound consumer experience.




Scalability

Ideally, a business structure is built from the ground up and is structured in such a way that it has the systems and processes to handle significant scaling without an equivalent dollar of cost being added to the cost base. Businesses that can demonstrate a trend of increasing profits over the long term have generally been able to increase margins as well.

Capability to Internally Fund Expansion Opportunities

The ability to invest in organic business initiatives such as research and development, new product or service launches into adjacent markets, or small bolt on acquisitions that bring with them a new capability.

NCC key portfolio events Q2 FY21

HOLDING	INDUSTRY	Q2 UPDATE
 <p>(ASX: BSA)</p>	Commercial & Professional Services	<ul style="list-style-type: none"> Secured an extension for their current NBN agreement for Unified Field Operations (Services) for up to 8 years. BSA were also able to increase their overall share of NBN related revenue relative to their previous market share. A new contract was secured with Telstra for up to 5 years with services related to major telecommunication works in VIC & TAS.
 <p>(ASX: EGG)</p>	Media & Entertainment	<ul style="list-style-type: none"> Provided a trading update for Q1 FY21 with revenue up +11% and operating EBITDA up +81%. The result highlights EGG's exposure to technology, healthcare and government related clients. Ad tech business OB Media continues to grow organically at a significant rate.
 <p>(ASX: CGA)</p>	Diversified Financials	<ul style="list-style-type: none"> Partnered with Coolabah Capital to launch a listed income focused product. FUM is on track to reach \$1 billion in Q3 FY21. We expect the half-year results to show that CGA is now cash flow positive from its ordinary activities.

NCC overview as at 31 December 2020

\$1.09

Pre Tax
NTA

7.04%

Fully Franked
Dividend Yield

\$1.03

Share Price

10

Number of
Holdings

11.97%

Performance
since
Inception[^] p.a.

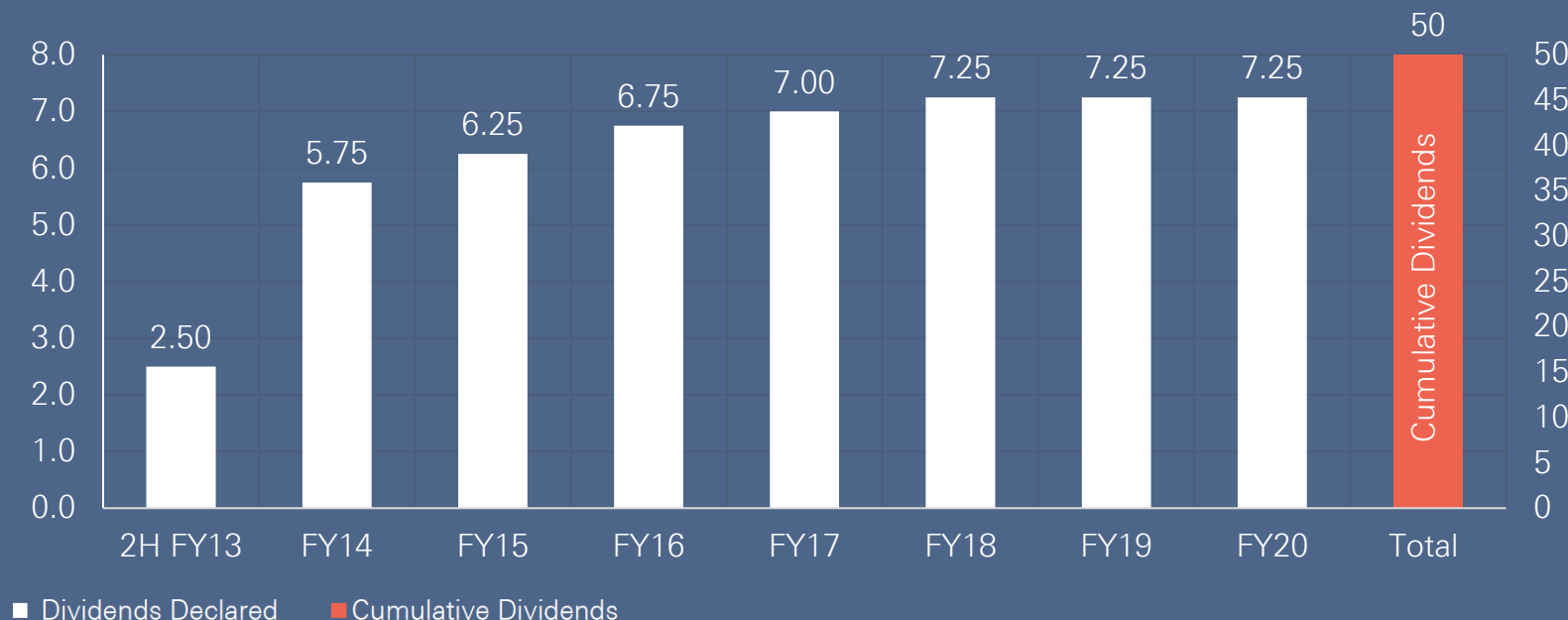
142.67%

Performance
since Inception[^]
(Total Return)

\$85.4m




Weighted
Average Market
Capitalisation of
the Investments

FULLY FRANKED DIVIDEND (CENTS PER SHARE)



[^]Investment Performance is post all operating expenses, before fees, taxes and initial IPO commissions. Performance has not been grossed up for franking credits received by shareholders and returns are compounded for periods greater than 12 months. Inception date February 2013.

NSC key portfolio events Q2 FY21

HOLDING	INDUSTRY	Q2 UPDATE
 BigRiver (ASX: BRI)	Materials	<ul style="list-style-type: none"> ▪ Announced the acquisition of Timberwood (a highly regarded building materials distribution business and manufacturer of niche panel products). ▪ BRI also announced that earnings will be >10% higher than that of 1H FY20. ▪ A \$20.4 million placement to fund the acquisition was completed.
 OvertheWire (ASX: OTW)	Software & Services	<ul style="list-style-type: none"> ▪ Provided 1H FY21 EBITDA guidance which was below market expectations predominantly due to the non-recurring division which represents <10% of group earnings. ▪ We expect a strong 2H due to organic growth in the recurring business driven by wins such as the Eagers Automotive Ltd (ASX: APE) contract. ▪ We expect OTW to be a \$35 million EBITDA business in FY22.
 eureka <small>GROUP HOLDINGS</small> (ASX: EGH)	Real Estate	<ul style="list-style-type: none"> ▪ EGH provided FY21 EBITDA guidance of \$9.80 - \$10.20 million compared to \$8.70 million in FY20. ▪ Significant progress was made on non-core asset sales with just 23 Terranora units remaining. This capital is expected to be used to fund strategic acquisitions.

NSC overview as at 31 December 2020

\$0.81

Pre Tax
NTA

6.03%

Fully Franked
Dividend Yield

\$0.705

Share Price

11

Number of
Holdings

0.46%

Performance
since
Inception[^] p.a.

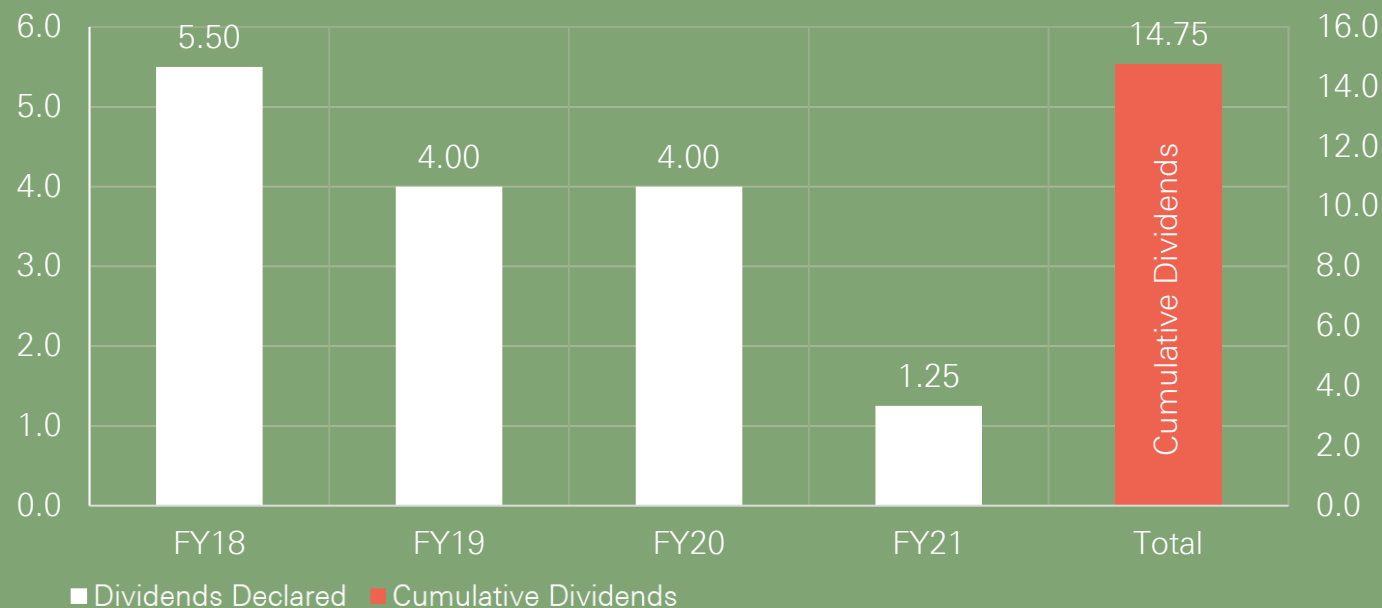
1.43%

Performance
since
Inception[^]
(Total Return)

\$162.7m




Weighted
Average Market
Capitalisation of
the Investments

FULLY FRANKED DIVIDEND (CENTS PER SHARE)



[^]Investment Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders and returns are compounded for periods greater than 12 months. Inception date December 2017.

NAC key portfolio events Q2 FY21

HOLDING	INDUSTRY	Q2 UPDATE
 Objective (ASX: OCL)	Software & Services	<ul style="list-style-type: none"> Acquired iTree - a complementary regulation technology specialist with a public sector focus, now successfully integrated within OCL. Reaffirmed the FY21 outlook of a 'material lift in revenue and profitability' 1H FY21 headline results released, reporting strong revenue and margin growth, despite significant growth in R&D spend.
 OvertheWire (ASX: OTW)	Software & Services	<ul style="list-style-type: none"> Provided EBITDA guidance which was below market expectations predominantly due to the non-recurring division which represents <10% of group earnings. We expect a strong 2H due to organic growth in the recurring business driven by wins such as the Eagers Automotive Ltd (ASX: APE) contract. We expect OTW to be a \$35 million EBITDA business in FY22.
 PEOPLE INFRASTRUCTURE (ASX: PPE)	Commercial & Professional Services	<ul style="list-style-type: none"> Compound growth of over 20%, across revenue, EBITDA, NPATA and earnings per share over last 5 years. Acquired a small technology staffing business to grow their NSW presence. In a strong position to continue their strategic acquisition strategy with the ability to complete \$80m in acquisitions while maintaining a strong balance sheet position. Successfully integrated First Choice Care, Carestaff and Halcyon Knights.

NAC overview

as at 31 December 2020

\$1.26

Pre Tax
NTA

4.93%

Fully Franked
Dividend Yield

\$1.075

Share Price

9

Number of
Holdings

14.59%

Performance
since
Inception[^] p.a.

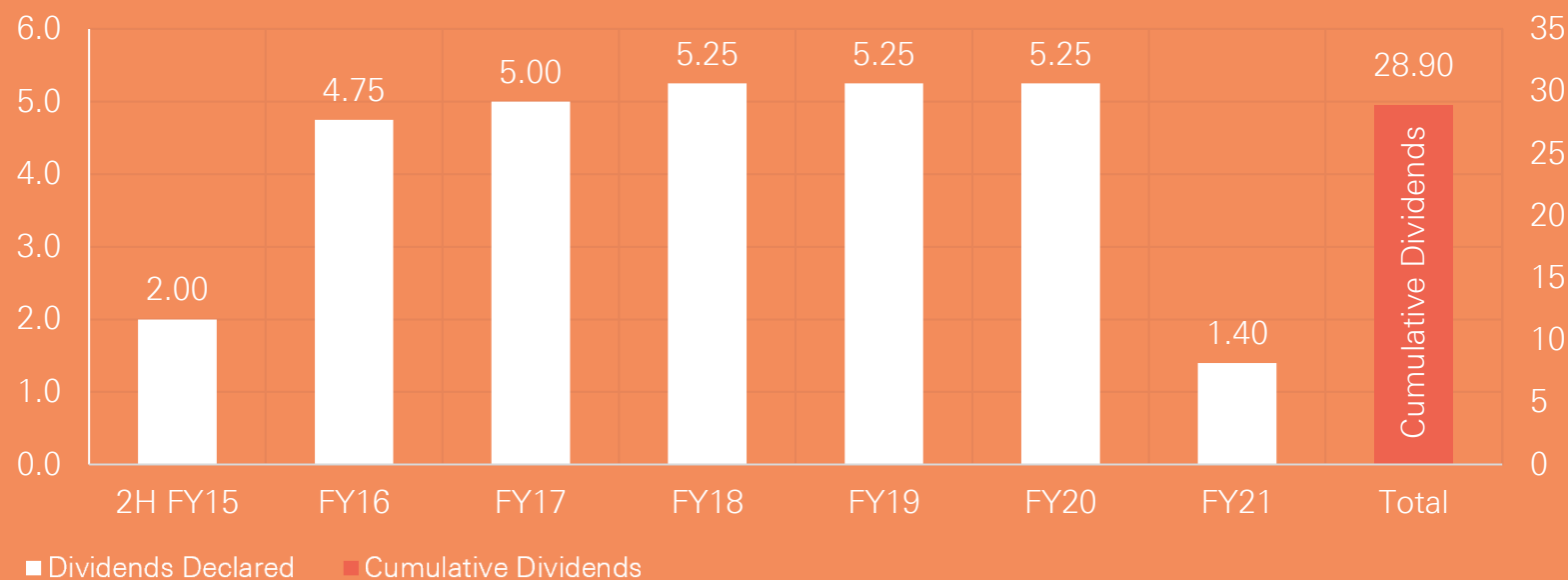
130.62%

Performance
since Inception[^]
(Total Return)

\$422m

Weighted
Average Market
Capitalisation of
the Investments

FULLY FRANKED DIVIDEND (CENTS PER SHARE)



[^]Investment Performance is post all operating expenses, before fees, interest, taxes, initial IPO commissions and all subsequent capital raising costs. Performance has not been grossed up for franking credits received by shareholders and returns are compounded for periods greater than 12 months. Inception date November 2014.

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.
NSC	The share buyback has continued throughout FY21 and remains active, 13.8 million shares, or 8% of shares on issue, have been bought back on market since the buyback commenced in April 2019.
NAC	<p>The share buyback remains active. Close to 15% of shares on issue have been bought back on market since the buyback commenced in June 2019 to date, which has been significantly accretive for shareholders.</p> <p>NAC listed convertible notes (ASX: NACGA) issued in November 2020, paying a fixed coupon of 5.5% p.a. and enabling the Company to increase in size with no dilutionary impact on equity holders.</p>
DRP	Shares purchased on-market to satisfy DRP requirements when shares are trading at a discount to NTA, thus eliminating any dilution for shareholders.

Overview and Outlook Q3 FY21

- February will provide an excellent insight into the performance of NAOS investments with most expected to release their 1H FY21 results.
- Some of the more notable results and updates we will be looking for include:
 - **OTW** - Further clarity on the integration of recent acquisitions, and an update on the organic growth profile of the recurring revenue business.
 - **EXP** – How the business has managed through the recent border closures, together with an update around further efficiency gains and potential acquisitions.
 - **EGG** – Post a very strong Q1 update, we will be looking for EGG to take this momentum into Q3, together with an update on capital management initiatives.
 - **BSA** – After two significant long-term contract wins with NBN and Telstra, the focus will be on the earnings trajectory of the APS (Advanced Property Solutions) business post the easing of lockdowns and the integration of recently acquired Catalyst ONE.
 - **BRI** – Following the recent earnings upgrade, continuing this momentum into 2H FY21 will be key, along with an update regarding both the Wagga facility and Timberwood acquisition.

Q&As

Thank you for your continued support.

“Games are won by players who focus on the playing field - not by those whose eyes are glued to the scoreboard.”

Warren Buffett

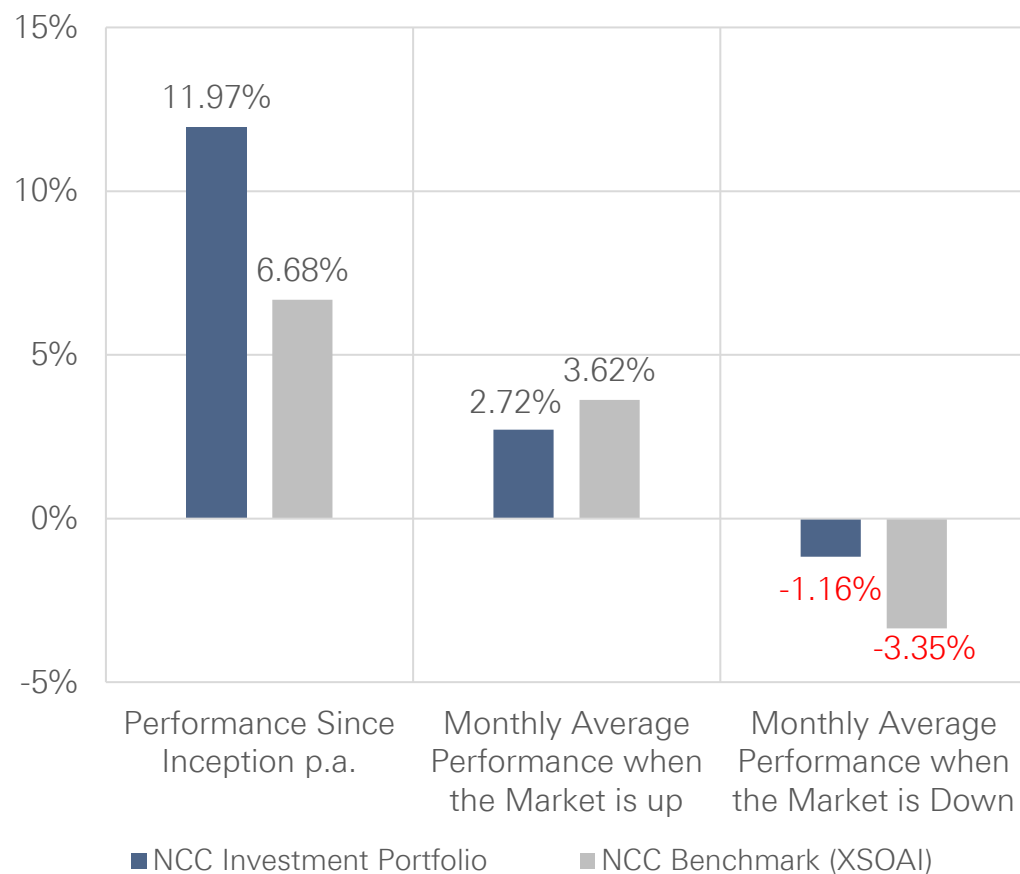
APPENDIX



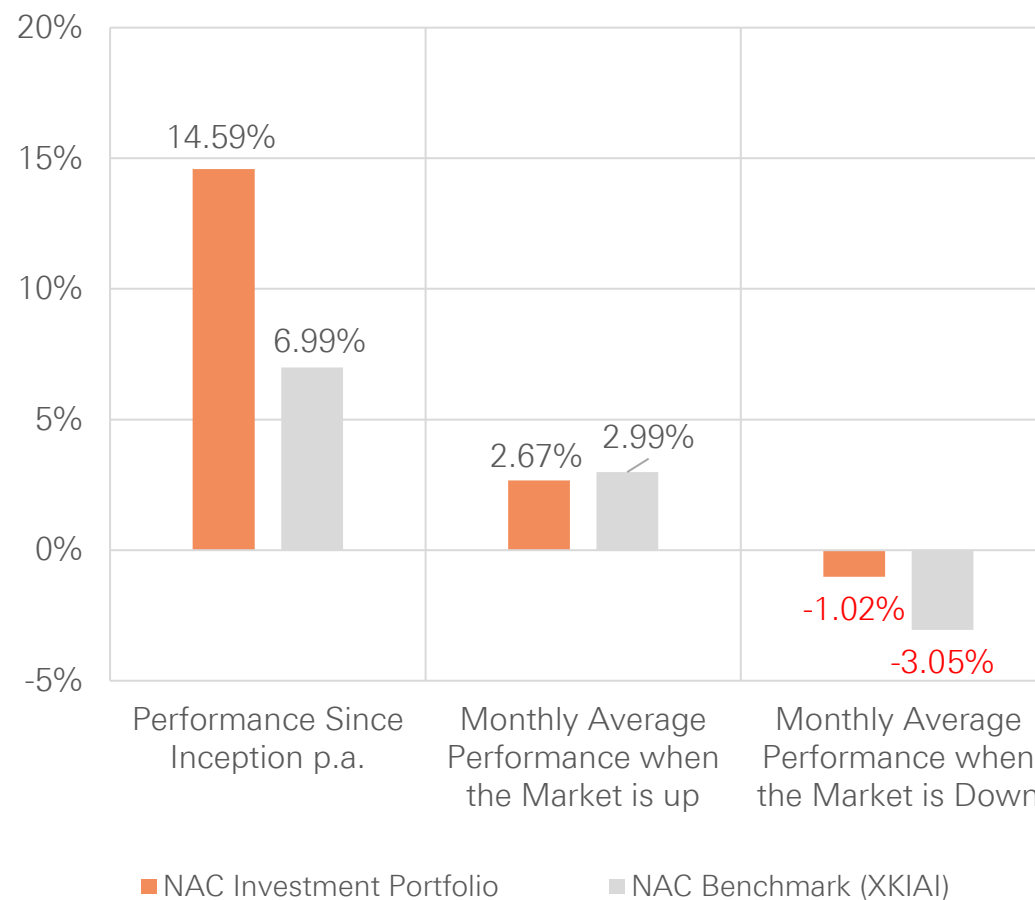
N
V
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S

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, interest, taxes, initial IPO commissions and all subsequent capital raising costs. 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 2020. Since NCC's inception (94 months) there have been 61 positive months for the market and 33 negative months and since NAC's inception (74 months) there have been 49 positive months for the market and 25 negative months.

The benefits of a LIC structure



Closed-end structure
No applications or redemptions



Long-term
Investment decisions



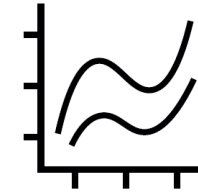
Intra-day Liquidity
Trades on the ASX



Corporate Governance
Public companies provide accountability of Directors



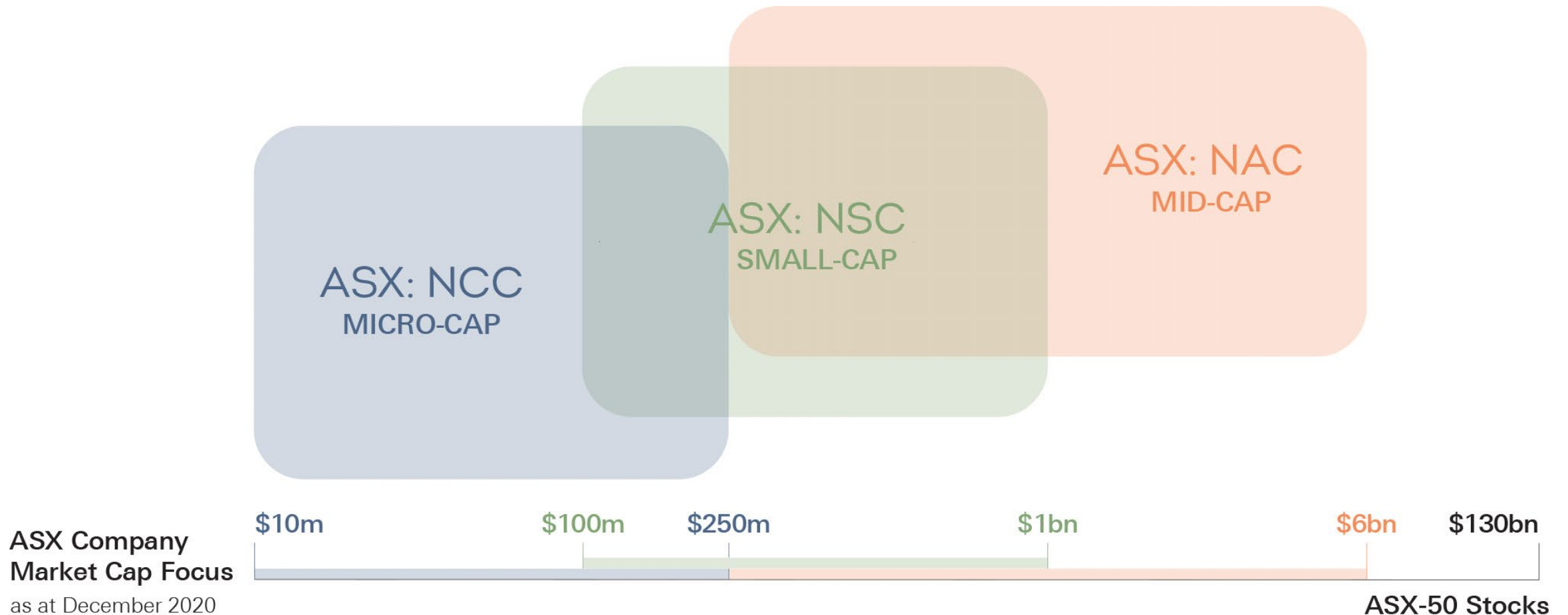
Dividends
Stream of fully franked dividends



Opportunity
Trade at discount to assets

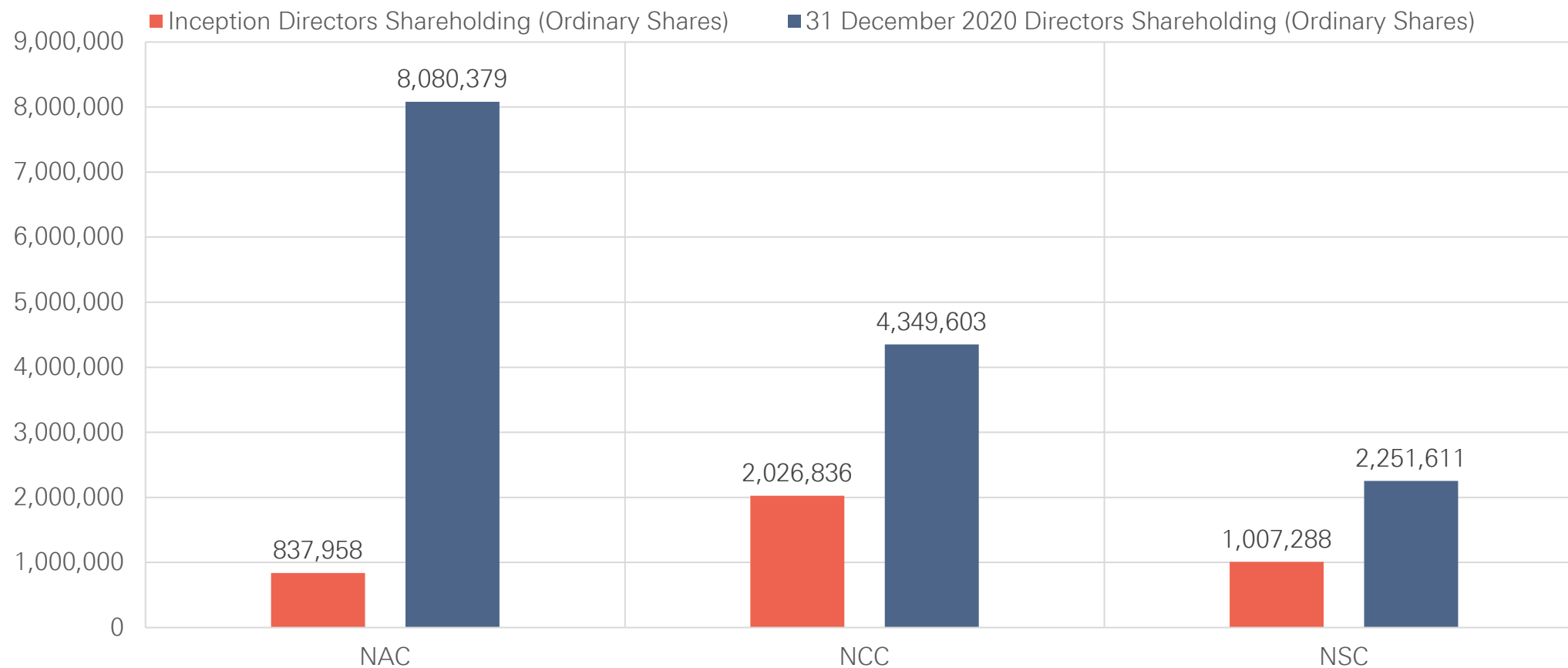
NAOS Listed Investment Companies

Each of our LICs target a concentrated portfolio of 0-20 companies



NAOS management alignment

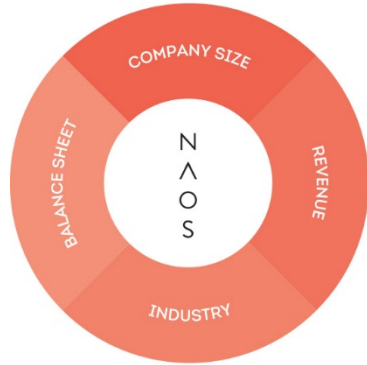
NAOS Director's shareholdings have significantly increased since the inception of each LIC



NAOS investment process

01

INVESTMENT UNIVERSE SCREEN CRITERIA

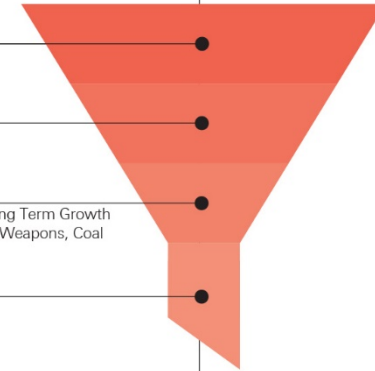


2463
TOTAL ASX
LISTED COMPANIES*

02

INVESTMENT UNIVERSE FUNNEL

- 996 COMPANY SIZE**
Remove: ASX Top 50, <\$10m Market Cap
- 652 REVENUE AND CASH FLOW**
Remove: No Substantial Revenue and/or Significantly Operating Cash Flow Negative
- 130 INDUSTRY**
Remove: Industries in Structural Long Term Decline and Not Conducive to Long Term Growth
ESG Negative Screen: Tobacco, Gambling, Nuclear & Uranium, Controversial Weapons, Coal Mining Operations, Oil & Gas Production
- 416 BALANCE SHEET**
Remove: Unsustainable Debt Levels



04

THE NAOS LICs

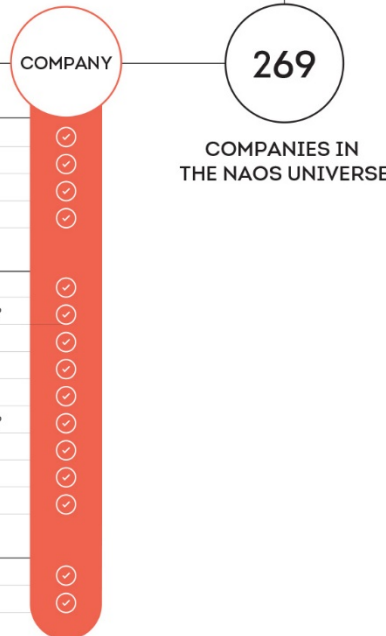
- 0-20 ASX:NCC**
NAOS EMERGING OPPORTUNITIES COMPANY LIMITED
NCC generally invests in 0-20 ASX listed **MICRO-CAP** industrial companies with a target market cap of <\$250m
- 0-20 ASX:NSC**
NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED
NSC generally invests in 0-20 ASX listed **SMALL-CAP** industrial 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 the company have a proven and sustainable competitive advantage?
 - Can the company scale efficiently without a significant increase in overheads?
 - 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 there the potential for an increase in the valuation multiple?
- ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)**
 - Does the Company comply with our ESG Framework?
 - Adequate answer provided to the NAOS ESG Questionnaire?



* Source: Bloomberg Data June 2020

NAOS ESG framework

01

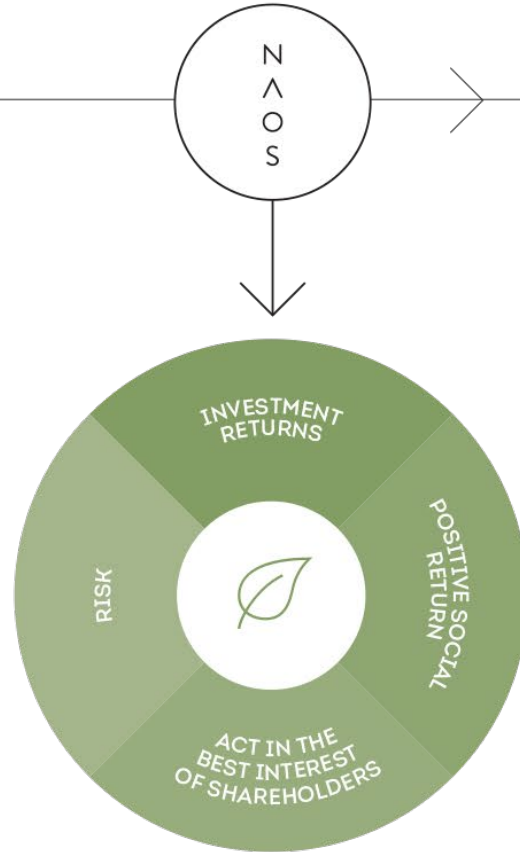
OUR COMMITMENT TO RESPONSIBLE INVESTMENT

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of shareholders. We believe that a high standard of business conduct and a responsible approach to environmental, social and governance (ESG) factors is associated with a sustainable business model over the longer term that benefits not only shareholders but also the broader economy.

We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving a positive social return.

NAOS is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and is guided by these principles in incorporating ESG into our investment practices.

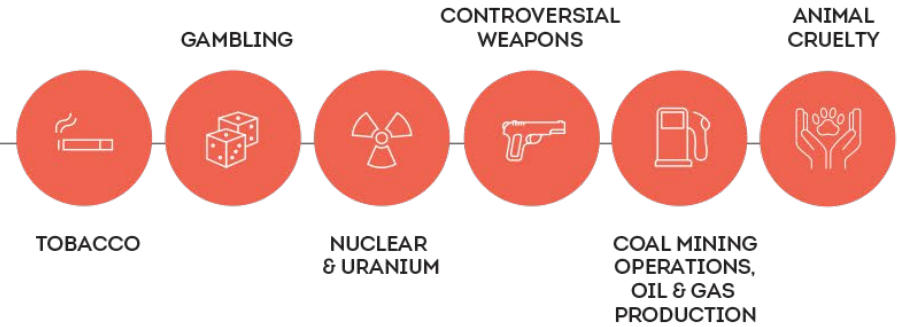
Signatory of:



02

NEGATIVE SCREENS

NAOS systematically excludes investing in specific industries and companies that do not align with our responsible investment goals.



03

ESG FRAMEWORK

The types of ESG factors we consider are represented by the following, although from time to time we will consider factors outside this group.



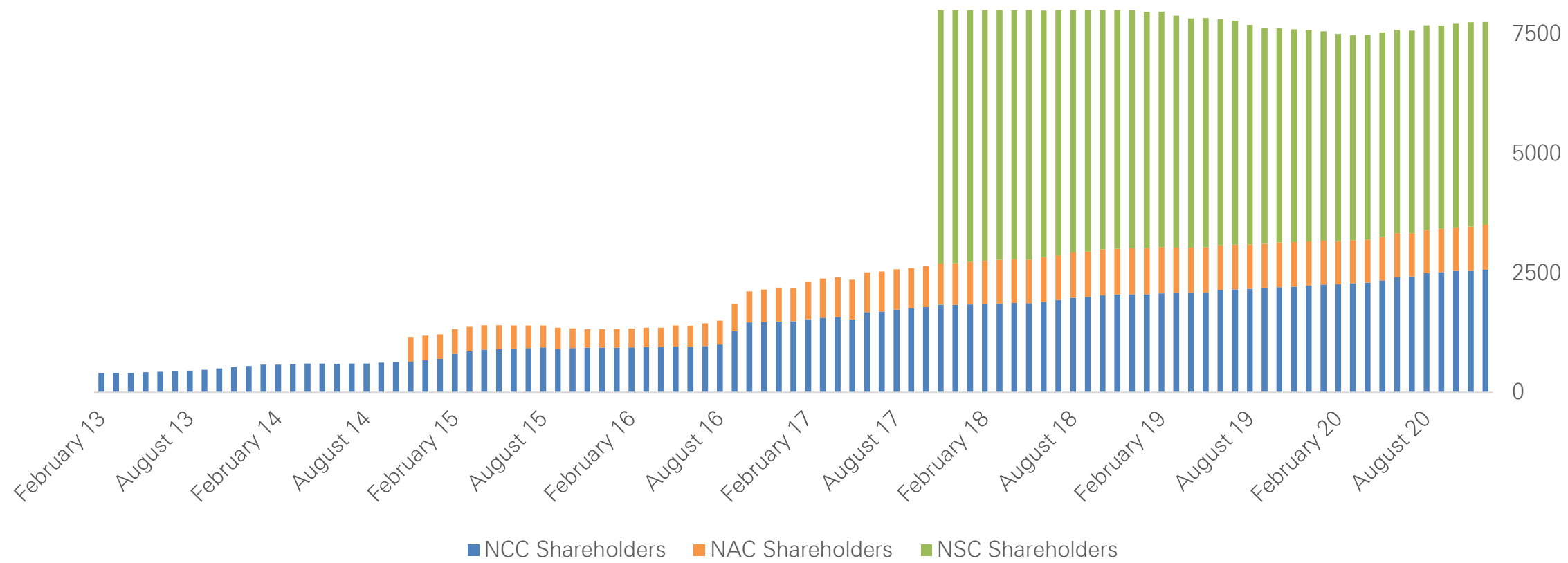
04

THE INCORPORATION OF ESG

The incorporation of ESG considerations into the investment process applies across all NAOS investments, and involves regular discussions and engagement with companies over material ESG issues.

NAOS supports the adoption of a responsible investment strategy, and is committed to ensuring that this is an integral part of the NAOS investment process.

Historical shareholder numbers



Investor awareness and communication



CEO Insights, NAOS
Newsletter,
subscribe via our
website
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Shareholder
Conference
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our website
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subscribe](https://naos.com.au/subscribe)



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



Quarterly Webinars

FOLLOW NAOS



NAOS Asset Management 1% Pledge

As a company, we commit to Pledge 1% of revenue, time and intellect to movements and missions that matter.



1% Revenue

Each year NAOS donates 1% of its annual revenue to the charity partners below. Each charity supports a cause that we strongly believe in.



1% Time

Our people have an incredible range of skills that can be a huge help to charities and community organisations. Each year, team members have the opportunity to take 2 days paid volunteer leave to lend a helping hand to an organisation of their choice.



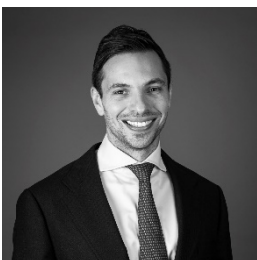
1% Intellect

NAOS sees the value in supporting young members of the investment community. We provide training and mentorship for one student each year.

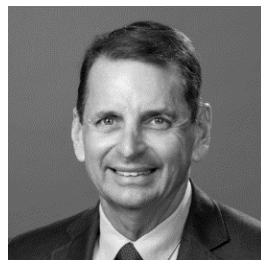


NAOS Directors and Team

OUR DIRECTORS



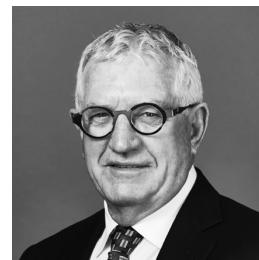
Sebastian Evans
Managing Director, NAOS Asset Management Limited & Director NCC, NSC & NAC



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

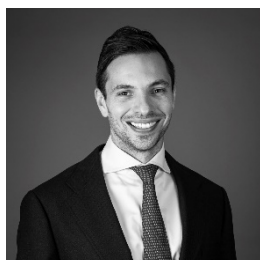


David Rickards
Independent Chairman & Director, NCC and NAC & Independent Director NSC

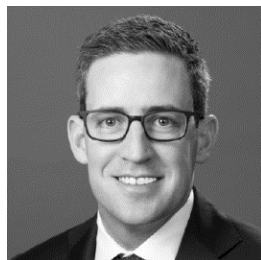


Sarah Williams
Independent Director, NCC and NAC

OUR TEAM



Sebastian Evans
Chief Investment Officer



Ben Rundle
Portfolio Manager



Robert Miller
Portfolio Manager



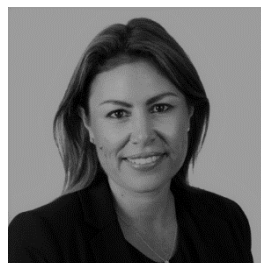
Richard Preedy
Chief Financial and Operating Officer



Rajiv Sharma
Head of Legal and Compliance



Angela Zammit
Marketing & Communications Manager



Nina Dunn
Business Development Manager



Julie Coventry
Business Sustainability Analyst



Julia Stanistreet
Business Development Manager



Nelson DeMestre
Associate Analyst