

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 28 FEBRUARY 2021

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
\$0.91	\$0.95	\$0.89	\$0.76	10	\$0.16	5.92%

The above NTA figures are exclusive of the 1.25 cents per share fully franked Q2 FY21 dividend, which went ex-dividend on 26 February 2021 and will be paid on 18 March 2021.

Market Insight

The NSC Investment Portfolio returned +11.30% for the month of February, significantly outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +1.55%. All NSC investments released their 1H FY21 financial results, and pleasingly all either met or exceeded market expectations which drove the significant outperformance relative to the index. As we have said for some time, it is imperative as an investment team that we concentrate on what we can control when investing and not get caught up in the momentum of the market and its highly subjective views, which we believe can create significant mispricing events. There were numerous positive contributors to monthly performance with standout results coming from Eneo Group (ASX: EGG), COG Financial Services (ASX: COG) and Big River Industries (ASX: BRI), all of which have solid momentum moving into 2H FY21.

Investment Portfolio Performance Monthly and FY Returns*

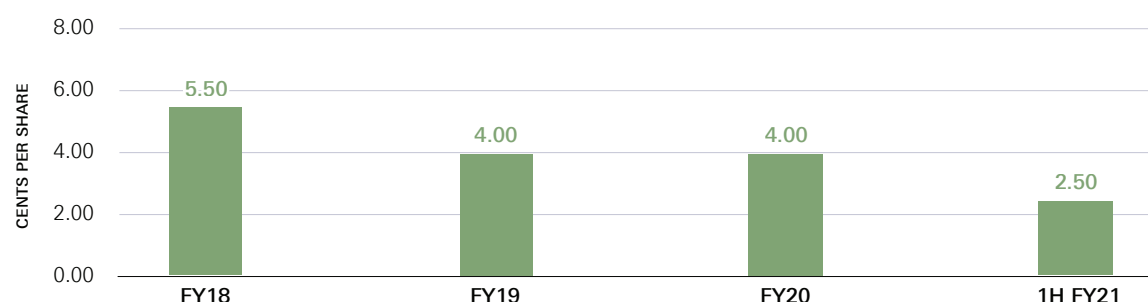
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+3.79%	+1.05%	+11.30%					+32.81%
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	+2.59%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+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, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

Firstly, EGG released what was by far the strongest result out of all the NSC investments. Net profit after tax was up +129.2% compared to the PCP, with EBITDA margins increasing by 13.8% to 30.0%, and this in-turn leading to the interim fully franked dividend increasing to \$0.105. All of EGG's PR and creative agency businesses have shown significant earnings resilience as most of their client base operates within the technology, healthcare and government sectors which have continued to operate relatively normally in a COVID affected environment. The other significant earnings driver for EGG was their 50.1% holding in US-based cutting edge ad-tech business OB Media. We believe that OB Media is on track to earn over AUD \$22 million EBITDA, compared to just a couple of million just a few years ago. After years of heavy reinvestment in people and technology together with fostering relationships with Google and Microsoft, OB is now reaping the benefits of this investment. On a standalone basis we believe OB Media could command an EBITDA multiple well into the mid-teens (i.e., a total valuation >\$300 million) given it is a high growth technology company that is highly profitable with a negative working capital balance.

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

COG released their 1H FY21 results after providing a very positive trading update in January. The company announced an inaugural HY fully franked dividend as the low capital intensity nature of the business has resulted in COG being in a strong net cash position with ample flexibility for both capital management and further acquisitions. Further clarity was provided around the imminent rollout of the COG insurance broking capability, which if successful we believe has the potential to generate earnings to match those of the finance broking divisions when taking a 3 – 5-year view.

Finally, BRI produced a strong result with EBITDA coming in +15% higher than the PCP, which was not affected by COVID. Notably, within the 1H release some new information was provided which we believe could potentially result in BRI more than doubling its current annualised NPAT run rate of \$6.2 million. The acquisition of Timberwood remains on track with the company trading well and forecast to contribute close to \$3 million NPAT based on the current run rate. The net cash inflow resulting from the closure of the Wagga Wagga facility and subsequent relocation to Grafton is expected to be ~\$10 million with net profit accretion of ~\$1.50 million. In addition, we continue to see the economic backdrop being beneficial for BRI which may further contribute to this growth in future earnings.

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.)	3 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	+11.30%	+26.79%	+24.15%	+15.46%	+4.63%	+4.14%	+14.08%
S&P/ASX Small Ordinaries Accumulation Index	+1.55%	+12.05%	+17.18%	+9.13%	+7.21%	+7.52%	+26.54%
Performance Relative to Benchmark	+9.75%	+14.74%	+6.97%	+6.33%	-2.58%	-3.38%	-12.46%


* Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. 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	\$178 million
Cash Weighting	2.3%
Standard Deviation of Returns (NSC)	19.08%
Standard Deviation of Returns (XSOAI)	20.43%
Downside Deviation (NSC)	12.18%
Downside Deviation (XSOAI)	13.89%
Shares on Issue	154,781,458
NSC Directors Shareholding (Ordinary Shares)	2,251,611

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>	 <p>Kookaburra Kids Foundation</p>
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