

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 31 OCTOBER 2022

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
\$0.79	\$0.80	\$0.81	\$0.70	8	\$0.2475	7.14%

The above NTA figures are inclusive of the 1.25 cents per share fully franked Q1 FY23 dividend, which has an ex-dividend date of 9 November 2022 and a payment date of 30 November 2022.

Market Insight

The theme of heightened market volatility continued in October, although somewhat unexpectedly, this volatility was to the upside with the S&P/ASX Small Ordinaires Accumulation Index (XSOAI) posting a rise of +6.46%, and its larger counterpart the S&P/ASX 200 Accumulation Index (XJOAI) increasing by +6.04%. It felt like a month when the NSC investment portfolio should have increased significantly based on the positive portfolio company updates released in October, but the share prices did not react accordingly and subsequently the investment portfolio fell by -4.66%, frustratingly giving up the outperformance generated in the previous month. There were numerous updates provided by the investee companies with COG Financial Services (ASX: COG), Big River Industries (ASX: BRI), MOVE Logistics (NZX: MOV) and Maxiparts (ASX: MXI) all providing trading updates or reaffirming guidance. Eureka Group Holdings (ASX: EGH) also provided updated guidance but only after they completed what we believed to be an ill-timed and poorly executed capital raising.

Investment Portfolio Performance Monthly and FY Returns*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY23	+3.46%	+4.41%	-6.07%	-4.66%									-3.27%
FY22	-0.68%	-0.18%	-0.77%	+4.15%	-2.17%	+3.89%	-6.51%	-2.96%	-1.21%	+9.32%	-9.24%	-7.91%	-14.72%
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+4.25%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%	+0.32%	+58.40%
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.

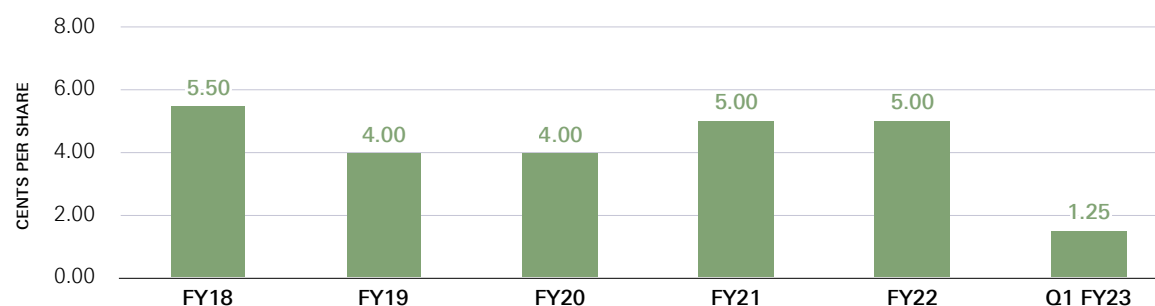
BRI held their AGM and provided the market with a detailed trading update for Q1 FY23, which in our view was pleasingly strong. Compared to the prior corresponding period, revenue, EBITDA and EBIT were up +33%, +62% and +84% respectively. Annualising these quarterly figures implies an EBIT figure close to \$50 million, which compares very favourably to a market capitalisation of just \$170 million. Despite this update the share price of BRI finished the month down, which we ascribe to very low levels of liquidity as well as concerns about how the macro environment may affect BRI over the medium term.

COG released a Q1 FY23 trading update and stated that NPATA had grown by +30%, albeit with a significant contribution from previously announced acquisitions. If COG is able to meet consensus FY23 profit estimates of ~\$28 million NPATA, then this would imply COG is trading on an NPATA multiple of just 10 times, as the share price of COG also fell over the month of October.

MOV and MXI held their AGMs in October and we felt they both provided positive updates, albeit slightly lacking in detail. MXI reaffirmed their guidance for revenue growth of low double digits without providing any further quantitative commentary, and MOV stated that they expect profit to increase on the prior year result but again without providing further clarity. MOV did state that they expect most of their current initiatives to have a much greater impact on profitability in FY24 as opposed to FY23, which we believe may also be the case for MXI.

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of dividends, franked to the maximum extent possible.



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, EGH announced a capital raising totalling \$28 million at an issue price of \$0.47 per share to fund two acquisitions. As the largest shareholder in EGH with a 22% shareholding we were disappointed on several fronts with the capital raising and elected not to participate. EGH has been a successful investment over the past 3 years but more recently management have issued two profit downgrades, which is surprising considering the rental nature of the income stream. These downgrades have come in large part due to significant staff turnover within the business as well as slippage around settlement times of announced acquisitions. In our view, we believed that the board and management needed to demonstrate to investors that they can drive consistent organic earnings growth prior to seeking further external capital. Frustratingly, the board and management have also spoken about a capital management plan that would clearly articulate the most efficient way to fund EGH going forward, but after two years no details have been released. We were also disappointed that no funding costs have been fixed over the past 6 - 12 months which has resulted in a significant increase in interest expense for the business. The EGH business is by no means broken but clearly the business must scale if it is going to achieve any leverage off its significant \$8 million corporate cost base. EGH may well become the leader in their respective field, but in our view, management will need to demonstrate continued execution of strategy over the longer-term along with improved capital management.

Core Investment Portfolio Examples

 <p>Move Logistics Group NZX: MOV</p> <p>MOVE Logistics Group is a New Zealand-based logistics company that began operating in New Plymouth in 1869. Today, MOVE has three key operating segments; domestic and international freight, logistics and warehousing; and specialist lifting and transport; with capability to serve more than 3,500 customers. Originally listed on the NZX, the business dual listed on the ASX on 1 July 2022.</p>	 <p>Eureka Group ASX: EGH</p> <p>Eureka Group Holdings is a provider of quality and affordable rental accommodation for independent seniors living within a community environment. The company's portfolio comprises approximately 2,250 owned and managed units across 41 villages in Queensland, Tasmania, South Australia, Victoria and New South Wales.</p>	 <p>Big River Industries ASX: BRI</p> <p>Big River Industries was established in the late 1800s and is a large-scale distributor and high-value manufacturer of timber and building materials products across 23 sites in Australia and New Zealand. Big River's integrated business operates across the full continuum of raw materials procurement through to the sale of finished products to customers, including professional builders, form workers, construction companies and building contractors operating in the residential, non-residential and infrastructure markets.</p>
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Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	4 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	-4.66%	-19.15%	-19.49%	+10.44%	+3.18%	+5.37%	+2.38%	+12.24%
S&P/ASX Small Ordinaries Accumulation Index	+6.46%	-14.36%	-18.31%	+3.45%	+1.46%	+4.56%	+3.42%	+17.99%
Performance Relative to Benchmark	-11.12%	-4.79%	-1.18%	+6.99%	+1.72%	+0.81%	-1.04%	-5.75%

*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	\$195.6million
Cash Weighting	0.18%
Standard Deviation of Returns (NSC)	18.64%
Standard Deviation of Returns (XSOAI)	20.50%
Downside Deviation (NSC)	11.59%
Downside Deviation (XSOAI)	14.04%
Shares on Issue	141,932,662
NSC Directors Shareholding (Ordinary Shares)	2,464,925
NSC Options Closing Price (ASX: NSCOA)	\$0.01
NSC Options on Issue	50,874,164

NAOS Asset Management Giving Back

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

			
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Important Information: This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

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