

NAOS

NAOS QUARTERLY INVESTMENT REPORT

Q4 FY23

ASX: NCC | NAOS EMERGING OPPORTUNITIES COMPANY LIMITED
ABN 58 161 106 510

ASX: NAC | NAOS EX-50 OPPORTUNITIES COMPANY LIMITED
ABN 49 169 448 837

ASX: NSC | NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED
ABN 47 107 617 381

Q4 FY23 SUMMARY

Dear Fellow Shareholder,

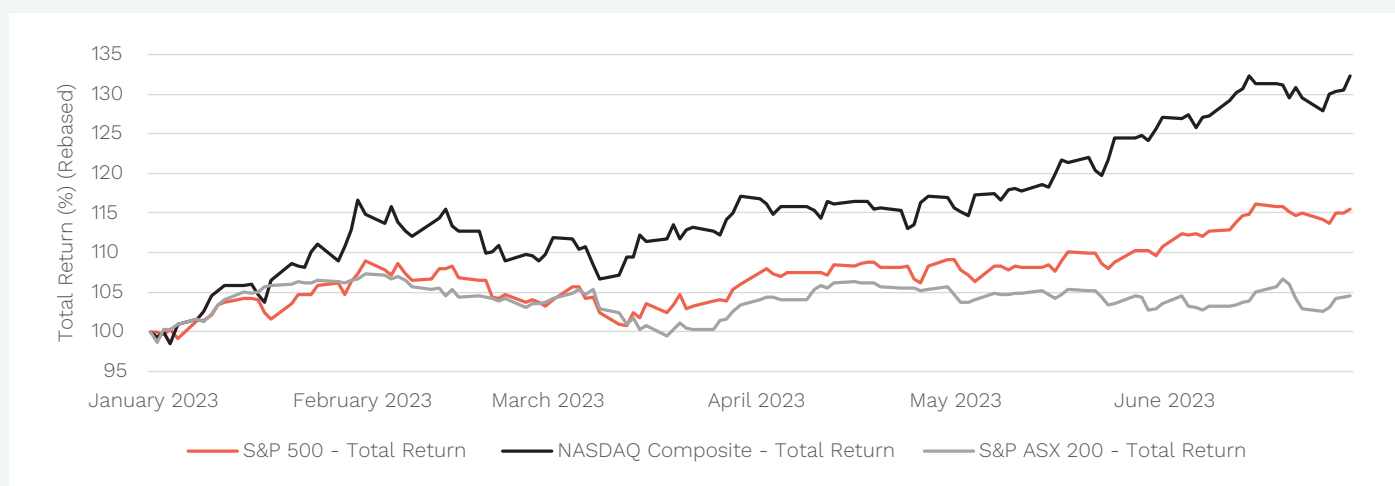
Volatility remained elevated to close out FY23 in what has been a challenging 12 months as investors closely watched monetary policy across the globe as the battle to tame inflation continued. Domestically, it was a somewhat subdued quarter with the S&P/ASX Small Ordinaries Accumulation Index returning -0.54%, underperforming its larger counterpart the S&P/ASX 200 Accumulation Index which rose +1.01%. Despite a relatively flat quarter, both indices delivered positive returns for the financial year, increasing +8.45% and +14.78% respectively, against an extremely volatile and challenging backdrop for equities.

One of the most notable trends of Q4 was the litany of earnings downgrades issued by consumer discretionary names, including Baby Bunting (ASX: BBN), Adairs (ASX: ADH) and Dusk (ASX: DSK) to name just a few. What they all have in common was the notable drop off in consumer spending that each has experienced towards the end of the financial year, highlighted by BBN which stated in their trading update that *"The key 'Storktake' promotional event, which has recently commenced, has seen trading both in stores and online well below expectations during this short period. Since launch, sales have been unprecedentedly low, with comparable store sales of around negative 21.0%."*

FY23 was again a difficult year for active fund managers, and this was accentuated in the US by the staggering outperformance of technology businesses which are the largest constituents of the S&P 500 index. For perspective

the tech-heavy Nasdaq index finished up +25.02% for FY23, compared to the S&P/ASX 200 Accumulation Index (XJOAI) which returned +15.27% (both including dividends). This outperformance continued to accelerate in the second half of the financial year as the Nasdaq returned +32.32% for CY23 YTD, compared to the XJOAI which returned just +4.51%. This marks the best start to any calendar year for the Nasdaq since 1983. When digging a little deeper to understand what has driven this outperformance, we can see that >80% of the Nasdaq's entire return has been driven by just 7 businesses being Nvidia, Apple, Amazon, Tesla, Alphabet, Microsoft and Meta. Investors continue to grapple with ramifications and opportunities presented by Artificial Intelligence, with the seven aforementioned companies those that many investors believe will have a key role to play over the long term.

CY23 Total Return – S&P 500, NASDAQ and S&P/ASX 200



Source: Factset

Domestically, interest rates remained centre stage with the RBA raising rates at two of the three meetings held during Q4 to leave the cash rate at 4.10% compared to just 0.85% 12 months ago. The RBA remains fixated on taming inflation albeit it appears their view on the source of inflation has changed somewhat over the past 3-6 months. Originally the source was believed to be driven by supply side issues such as energy prices, higher rents and a lack of immigration. However, more recently the RBA's attention has turned to a wage price spiral driven by a lack of productivity in the Australian labour market. The RBA Governor, Philip Lowe stated at the RBA board meeting in June that *"Unfortunately, growth in productivity has been weak over recent times. Indeed, the level of output per hour worked in Australia today is the same as it was in late 2019. This means there has been no net growth in productivity since then."*






Investors continue to face significant levels of uncertainty and are more recently feeling pressure from equity markets moving higher, even in the face of this uncertainty (albeit driven by large/mega cap names). This fear of missing out may well push investors to the limit with regards to discipline and patience as their underperformance relative to their benchmark continues to widen. Apple (NASDAQ: AAPL), a \$1 trillion stock and the largest listed company in the US, is an interesting example of this, where research shows that within the top 100 institutionally managed portfolios, investors remain underweight in the stock versus its S&P weighting, even though it has returned more than 35% over the past 12 months and it is the largest company listed in the US. Within emerging companies, similar events are occurring, and it seems to us that investors believe size and liquidity is a company's most important attribute before considering any fundamental attributes. We also believe that this trend will not last forever, but whilst it does excellent investment opportunities exist for those who are willing to go against the grain and deploy their capital with a long-term investment horizon.







INVESTMENT PORTFOLIO PERFORMANCE SUMMARY

Investment Portfolio	Q4 FY23 Performance	1 Year Performance	3 Year Performance (p.a.)	5 Year Performance (p.a.)	Inception Performance (p.a.)
NCC Investment Portfolio Performance*	-4.35%	+0.34%	+8.10%	+1.91%	+9.00%
S&P/ASX Small Ordinaries Accumulation Index	-0.54%	+8.45%	+5.16%	+2.25%	+4.68%
NAC Investment Portfolio Performance*	+15.12%	+18.15%	+11.42%	+8.35%	+11.19%
S&P/ASX 300 Industrials Accumulation Index	+2.16%	+11.65%	+8.92%	+5.67%	+6.62%
NSC Investment Portfolio Performance*	-1.77%	+2.62%	+11.51%	+4.28%	+3.18%
S&P/ASX Small Ordinaries Accumulation Index	-0.54%	+8.45%	+5.16%	+2.25%	+3.44%

*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. and Total Return) includes part performance for the month of February 2013 (NCC), November 2014 (NAC) and December 2017 (NSC). Returns compounded for periods greater than 12 months. All figures as at 30 June 2023.

NAOS CORE INVESTMENTS

		ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 30 June 2023)
	Big River Industries	ASX: BRI	>20%	\$207 million
<p>Big River Industries (BRI) is a leading manufacturer and distributor of value-added timber and building material products in Australia and New Zealand. BRI has gained scale in recent years through the acquisition of bolt-on businesses to diversify its product offering and expand its geographical network, which now sits at 26 sites. BRI operates in the commercial sector with customers using BRI products in real-estate developments (detached and multi-residential), commercial construction projects, civil construction, amongst others. BRI have over 9,000 active trading accounts, serviced by ~640 staff members. BRI achieved \$409 million Revenue in FY22.</p>				
	BSA	ASX: BSA	>20%	\$43 million
<p>BSA (BSA) is a technical services business, with a national network of +250 skilled employees. The core business of BSA manages close to 4,000 jobs daily across many industries including energy, EVs and most notably, across multiple technologies within the telecommunications industry. BSA's client base includes National Broadband Network (NBN), Vector, Intellihub and Foxtel.</p>				
	COG Financial Services	ASX: COG	>20%	\$263 million
<p>COG Financial Services (COG) is Australia's leading aggregator of finance brokers and equipment leasing services to small to medium-sized enterprises (SMEs). COG's operations are spread across three complementary business divisions; Finance Broking & Aggregation (FB&A), Lending & Funds Management and Novated Leasing, which service the financial needs of the SMEs nationwide. At 1HFY23, COG had a ~21% market share of the Australian Asset Finance Broking market, with the COG network financing \$6.7 billion in assets for SMEs in FY22. COG has been highly acquisitive in recent years, acquiring Finance Brokers, Insurance Brokers, as well as Fund Management and Novated Leasing businesses.</p>				
	Saunders International	ASX: SND	>20%	\$122 million
<p>Saunders International (SND) has expertise in engineering and construction projects, having worked across Australia for over 70 years. Today, SND has over 400 employees, who work on projects in the Energy, Water, Power, Defence, Resource and Infrastructure sectors. The projects SND execute are of critical importance to their clients in Federal/State Governments and the Private Sector. Clients of SND include Western Sydney Airport, NSW Government (Bridges Program), BP and the Australian Defence Force.</p>				
	MaxiPARTS	ASX: MXI	>20%	\$126 million
<p>MaxiPARTS (MXI) is a supplier of commercial truck and trailer aftermarket parts to the road transportation industry. In operation for over 30 years, MXI is one of the largest operators in Australia, with a unified support and distribution network providing over 50,000 different parts across 27 sites nationwide.</p>				

		ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 30 June 2023)
	MOVE Logistics	ASX/NZX: MOV	5-20%	\$106 million (NZX)
<p>MOVE Logistics (MOV) is one of the largest freight and logistics providers in New Zealand. It has a large network of 41 branches across the two main islands of New Zealand, with capability to serve more than 3,500 customers. Originally listed on the New Zealand stock exchange, the business dual listed on the ASX in July 2022.</p>				
	Urbanise.com	ASX: UBN	>20%	\$35 million
<p>Urbanise.com (UBN) is an Australian headquartered cloud-based software business, providing solutions for both the Strata Management industry as well as the Facilities Management industry in the Asia Pacific and the Middle East regions. The Urbanise Strata Platform is a market leading accounting & administration software system used by strata managers across ~700,000 individual strata lots., The Urbanise Facilities Management Platform is used to aid the maintenance of property assets and supervision of contractors across various sectors including aged care, retail, commercial and essential infrastructure.</p>				
	Gentrack Group	ASX: GTK	<5%	\$398 million
<p>Gentrack (GTK) is a global software specialist, operating in 6 countries, whose solutions support energy utilities, water companies and airports. GTK's customer and billing-focused products are mission-critical for utility-retailing companies across the UK, Australia, New Zealand and Singapore. GTK's Veovo airport operations software is used by more than 120 airports and transport authorities globally.</p>				
	Dropsuite	ASX: DSE	<5%	\$210 million
<p>Dropsuite (DSE) is a partner-centric cloud software platform enabling businesses and organisations globally to backup, archive, recover and protect important business information. DSE helps to protect over 1 million users globally from data loss on platforms such as Microsoft 365 and Google Workspace.</p>				
	Ordermentum	Unlisted	Undisclosed	Undisclosed
<p>Ordermentum is a two-sided ordering, payments, and insights platform widely used in the hospitality industry. The B2B ordering & payments platform connects hospitality venues (including cafes, restaurants, clubs and pubs) across Australia with suppliers, helping to improve business efficiencies, grow sales and drive profitability for both suppliers and venues.</p>				
	MitchCap	Unlisted	Undisclosed	Undisclosed
<p>MitchCap is a provider of Distribution Floorplan Finance to Australian and New Zealand dealerships within the caravan, marine, agricultural and bicycle industries. Founded in 2019, MitchCap solves a capital intensive pain point for equipment dealerships through financial solutions that can improve dealer profitability and capital efficiency whilst also lowering risk for equipment manufacturers.</p>				



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NOTABLE INVESTEE
COMPANY UPDATES

MAXIPARTS



ASX: MXI

Q4 FY23 Event: Acquisition of 80% of Förch Australia

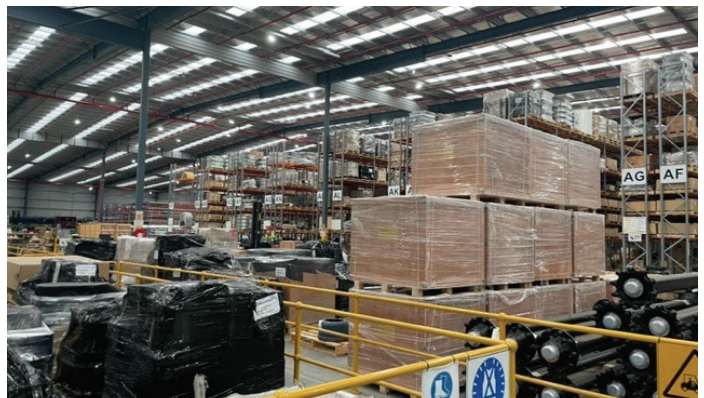
In Q4 MXI announced that they had acquired 80% of Förch Australia for the consideration of \$9.7 million on a cash free/debt free basis. While the estimated EBITDA of \$2.5 million from the Förch acquisition may not be a transformative deal on its own, it is worth noting that over 80% of the current EBITDA is generated in a single state, Western Australia. As such, we believe there is the potential for significant EBITDA growth as the business expands into other states like New South Wales and Victoria.

We believe there is only a single meaningful competitor to Förch, a German-based business named Würth. Like Förch, Würth is a family-owned business that manufactures consumable items mainly for the automotive industry, but also for the construction industry and other adjacent markets. The revenue of the business in FY22 was ~\$175 million with an average gross margin of ~68% before distribution expenses. Würth is not an identical comparable to Förch but in our view this does highlight the revenue potential that MXI has in front of it with this acquisition, along with the potential opportunity to expand their offering to higher gross margin products compared to the current core offering of truck parts.

Looking forward to FY24 we believe that MXI is well-positioned for significant earnings growth for the following reasons:

- Resilient Market: The market MXI operates in remains resilient as evidenced by the recent profit upgrade and positive outlook statement from Supply Network Ltd (ASX: SNL). SNL expects “growth will remain above the long-term trend for at least the next year”, indicating favourable conditions for MXI.
- Synergies from Truckzone acquisition: The majority of the synergies from the Truckzone acquisition are expected to be realised in FY24, and this does not include any potential uplift from increased market penetration due to the expanded range of higher gross margin Japanese aftermarket parts.
- Full-year contribution from Förch: MXI will benefit from a full-year contribution from the Förch business. While not material in its own right, we believe there are several easy wins that can be capitalised on in the short term to increase profitability; one such opportunity being the roll out of Förch products across the majority of MXI's 27 sites.

Inside the MaxiParts 11,000 sqm distribution centre in Truganina, Victoria.



Source: NAOS Asset Management

SAUNDERS INTERNATIONAL



ASX: SND

Q4 FY23 Events: Update on Project Caymus, Acquisition of Automation IT & BP Bio Fuels Contract Win at Kwinana.

It was another bumper quarter of news flow for SND, with several significant updates which will affect profitability by varying levels going forward. The most notable announcement was SND being “terminated by convenience” by Crowley on the \$165 million contract for the design and construction of a fuel storage tanks in Darwin, NT.

On face value it could be perceived as a negative event for SND as they will not complete the contract, and as no concrete reasons were provided for the termination, external parties may believe it reflects poorly on the work SND completed. However, when digging a little deeper we believe that as SND was terminated by convenience and not (as an example) for breach of contract, this suggests the termination was likely due to issues not associated with SND or the work completed to date.

Despite the fact SND will now have a hole in their order book as they had only completed approximately \$120 million of the contract at the time of termination, in our view the termination suggests that the contracts SND are entering into are balanced, and are not overly risky for the contractor, which is an inherent risk in the world of contracting. We are sure there remains some water to go under the bridge before the remaining debtor balances on the contract are finalised, but we believe SND is well placed to close this contract on the terms they entered into originally.

Later in the quarter, SND announced that they had entered into an agreement to acquire automation specialists, Automation IT for approximately \$5.50 million. Automation IT is a contracting business that specialises in the installation and support of industrial control and automation systems. These systems are generally associated with businesses that operate within the energy, water, defence and mining industries. This acquisition follows on from the acquisition of PlantWeave completed in 2021, another smaller scale automation specialist and provides SND's automation division the scale and resources to compete for larger tenders and work on multiple projects simultaneously. In addition, as a private business we believe Automation IT was constrained by the capital required to bid on tenders of a larger size, even if they were invited by the client to participate. With SND as the parent company, the entire SND automation division now has the ability to compete with the likes of Sage Automation, a private business with revenue of over \$100 million.

Finally, SND announced it had successfully tendered for the \$42 million BP Kwinana Renewables Project which is expected to start in early FY24. This win will help fill the \$40 - \$60 million gap in their order book caused by the terminated Project Caymus contract mentioned above. As the project is also related to renewable fuels it will provide SND with significant credibility in a space in which they want to grow their exposure materially over time.

MITHCAP



UNLISTED

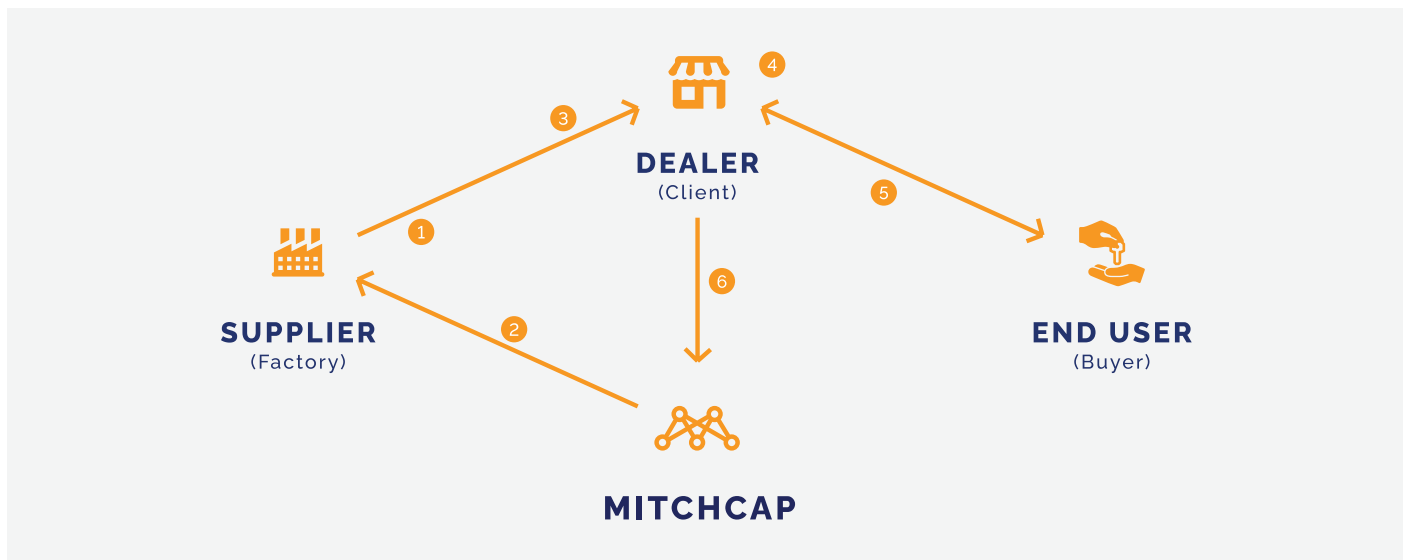
Q4 FY23 Event: Completion of New Financing Package

As the first unlisted investment in NCC, we have high hopes for MitchCap and to date we remain highly impressed with the management team of the business and very positive on the outlook for the business over the long term.

Profitably growing a financing business is never an easy task and in today's higher interest rate environment it has clearly become much harder. So, for MitchCap to secure a substantial financing package (inclusive of senior debt, mezzanine financing and equity), in our view demonstrates the strength of the business model and highlights the growth opportunities that lie ahead. This financing package (with \$275 million of lending facilities, up from \$150 million) provides the business with the financial scale to continue aggressively growing its network of dealers (marine, caravan, RV and agricultural equipment). For context, MitchCap was founded in FY19 and as at the end of FY23 now has over 250 dealerships nationwide and 50 original equipment manufacturers (OEMs) on its network. The below diagram outlines the structural necessity of the floorplan finance arrangement.

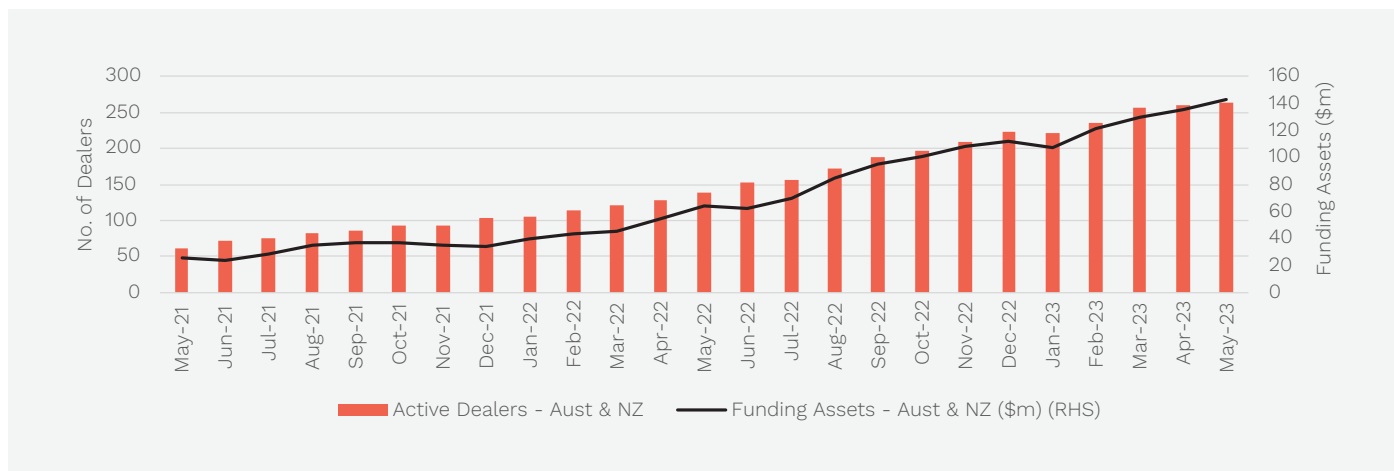
To enable MitchCap to continue on this growth trajectory, a growing funding capability is required to enable the business to service both its existing and new customers without compromising the customer experience. We believe this new financing structure gives the business ample capacity to increase dealership numbers to approximately 600 over the next two years and solidify its position as Australia's leading provider of commercial distribution financing, excluding auto dealerships.

What is Floorplan Finance?



1. Dealer makes an order to the factory, factory allocates build slot and manufactures the equipment
2. Equipment is ready for shipment, MitchCap makes payment on behalf of the dealer
3. Factory ships equipment for sale
4. The dealer markets the equipment for sale
5. Dealer sells equipment to customer, get paid
6. On delivery & receipt of sale process from the end customer, the dealer pays MitchCap

Active Dealers & Funding Assets



Source: MitchCap

Financing businesses are not for every investor due to the inherent credit risk involved, but we believe MitchCap ticks many of the boxes that we look for in a business within this sector. It deals with business customers, offers an essential service to its customers, has implemented best in class asset tracking, and operates in a field with limited competition. Whilst we are sure FY24 won't all be smooth sailing; the key metrics of the business should continue to point in the right direction. Over time, we believe MitchCap has the potential to establish itself as an industry-leading financial services player, generating significant recurring cash profits.

GENTRACK GROUP



ASX: GTK

Q4 FY23 Event: 1H FY23 Results

GTK released their 1H FY23 results in late May and management continued their recent run of providing the market with good news in the form of another upgraded guidance outlook. Pleasingly, the share price of GTK has now increased from \$1.25 in August 2022 to \$3.86 at the time of writing.

In our opinion, the standout from the HY result was EBITDA of NZD \$16 million, which resulted in the EBITDA margin returning to 19%, compared to management's target of 17-20% in FY25. Pleasingly, GTK also reported a net cash balance of \$41.9m at the half-year. The result was partly attributable to large legacy customer, Bulb Energy, remaining on the GTK platform for longer than expected, but it does highlight that management have the ability to control costs and deliver profitable growth, which has been a challenge over the past 2-3 years. Management also upgraded their revenue guidance for the remainder of FY23 to be in the range of \$157-\$160 million, with an EBITDA of approximately \$22 million. It is important to note that GTK expenses all their R&D, making this EBITDA figure an accurate representation of cash earnings.

The GTK airports division (Veovo), which has been somewhat unloved and underappreciated by the market due to impacts associated with COVID-19 and the subsequent effect of reduced IT spending by the airport industry, produced a pleasing result with revenues up +27%. Management stated that there is "pent up demand being unleashed" and highlighted a pipeline that has more than doubled, indicating an increasingly brighter future for the airports division.

Longer term, we believe that scaling up the Veovo business and enabling it to both compete more effectively on a global scale, and offer comprehensive solutions to its customer base, (similar to the approach of the utilities division) will help to maximise its value to GTK.

As we have stated previously, the renewable energy transformation is creating a significant 'once in a generation' type churn event, as current and prospective utility provider customers look to upgrade their billing platforms to ensure they can operate effectively going forward. This is because renewables bring with it an added layer of complexity from a billing perspective, something many incumbent systems cannot cater for effectively. For GTK, the number of opportunities is significant, and now even larger as they have commenced operations in South-East Asia after recent customer wins in Singapore. The key for GTK is not necessarily the upside potential driven by the rate at which they can win new clients, but perhaps more importantly how effectively and efficiently they can upgrade their existing install base of utility customers to the new Gentrack 2.0 software platform. We believe GTK has a very valuable asset in the form of a currently unblemished record in terms of system implementations for customers, which should prove to be a key selling point to risk averse customers going forward, including existing ones. Therefore, it is imperative for GTK to have the right personnel, systems and processes to handle potentially significant amounts of new work and to ensure a consistent positive experience for both clients and GTK.

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INVESTMENT
IN FOCUS

MAXIPARTS LIMITED



ASX: MXI

OVERVIEW

MaxiPARTS (ASX: MXI) is a distributor of truck parts and associated consumables for truck operators and mechanics. The business has been trading under this name since May 2013 but has been operating for over 30-years under three separate names being Colrain, Queensland Diesel Spares and Gladstone Air Cleaner Services. Today, MXI is the third largest independent distributor of truck parts, operating from 27 sites across Australia with FY23 revenues expected to be approximately \$200 million for. It's worth noting that prior to 2021 MaxiPARTS was part of Maxitrans which was predominantly focused on manufacturing truck trailers. As the trailer division was inherently volatile and capital intensive, the decision was made to divest the trailer division and focus wholly on the parts division which had produced positive results despite being starved of capital due to the requirements of the trailer division.

With 27 locations across 5 states, MXI focuses on selling replacement axles, suspensions, wheels, brakes, and trailer products to a vast range of truck customers (fleet operators, individuals, workshops & trailer manufacturers). The recent acquisitions of both Truckzone and Förch Australia have enhanced MXI's product range which now includes North American & Japanese commercial vehicles as well as providing an adjacent range of consumable products to automotive/commercial vehicle workshops. This consumable product range in our opinion offers MXI a substantial future revenue opportunity to hopefully grow into.

COMPETITIVE ADVANTAGE

For truck operators, maximising uptime (i.e., how often the trucks are able to run) is crucial to minimising costs, maintaining revenue, and upholding their reputation. Given that many operators are unable to stock a complete supply of replacement parts, it is essential for their parts providers to deliver the required parts promptly and at a fair price. As such, MXI manages a sizeable inventory of over 50,000 individual parts of all shapes and sizes, focusing on:

- Ensuring correct stock availability in the right locations and facilitating efficient stock movement to eliminate the risk of stockouts.
- Maintaining real-time updates in their IT systems to ensure timely restocking of outlets and sufficient inventory levels at distribution centres.
- Categorising and organising parts in a manner that allows clients to quickly locate the specific part they need.

As such, MXI's core competency is managing inventory and supply chains to meet their client's needs. As MXI has scale, it is able to invest in new supply chain management and inventory storage solutions, such as its facility in Truganina, Victoria. We believe this gives MXI a significant competitive advantage over its peers and an advantage that in theory should continue to compound over time as the business continues to grow.

INDUSTRY TAILWINDS

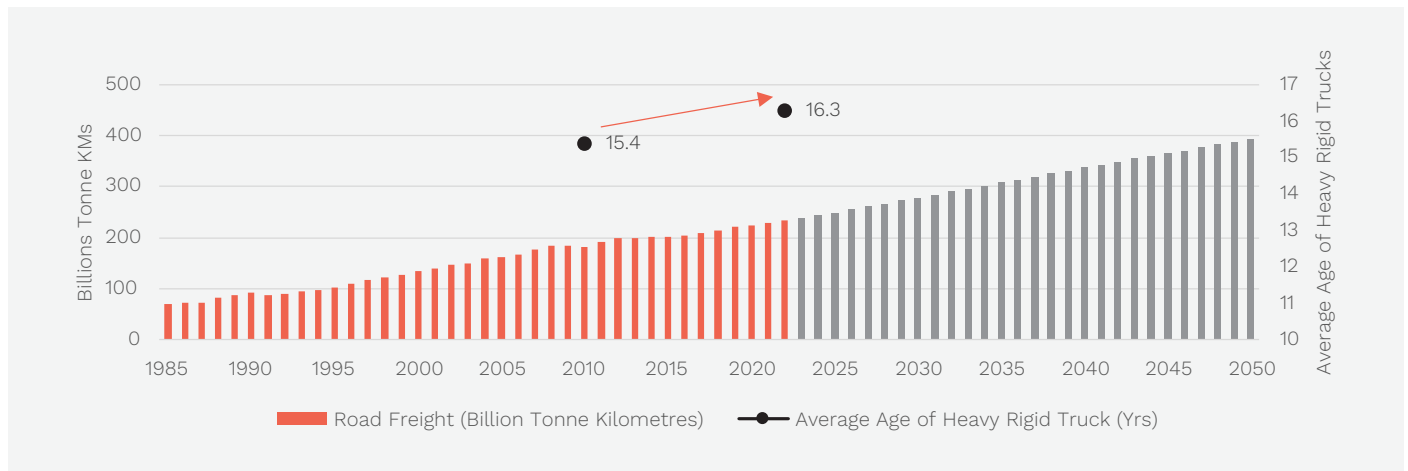
In our view, the demand for truck parts is driven by three key factors.

Firstly, the demand for road freight (and therefore use of a truck) is a key factor in how many spare parts a truck will require, and the road freight industry shows no signs of slowing down. The Bureau of Infrastructure and Transport Economics (BITRE) forecasts¹ that national road freight usage will almost double by 2050, with interstate road freight growing at 2.9% p.a. and capital city road freight projected to grow at a rate of 2.2% p.a. Putting aside any conversations around the infrastructure required to underpin this growth, the simple reality of this is that more and more trucks are required to move an ever-increasing level of freight. As it stands, that is occurring with older and older trucks.

Secondly, the average age of the truck fleet continues to creep higher and is amongst the highest in the developed world (see chart on the next page). Trucks are not being retired, rather used for longer, and as a result new trucks arriving on our shores are not decreasing the average age.

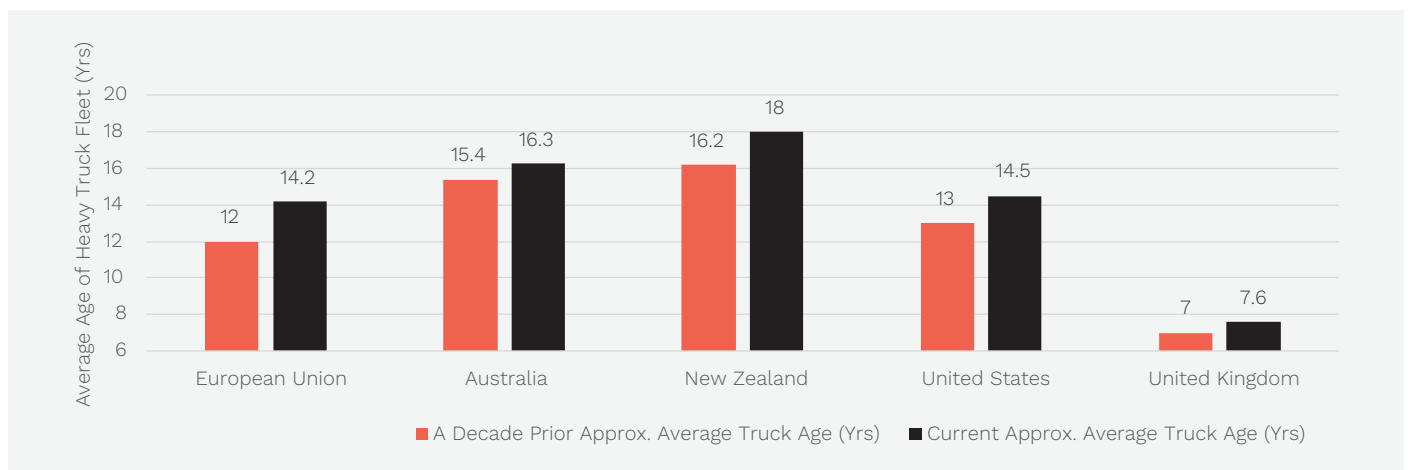
¹ Source: <https://www.bitre.gov.au/sites/default/files/documents/bitre-yearbook-2022.pdf>

An Increasingly Aging Truck Fleet Is Hauling More Freight



Source: Bureau of Infrastructure and Transport Economics

A Global Trend - Heavy Trucks Are Getting Older



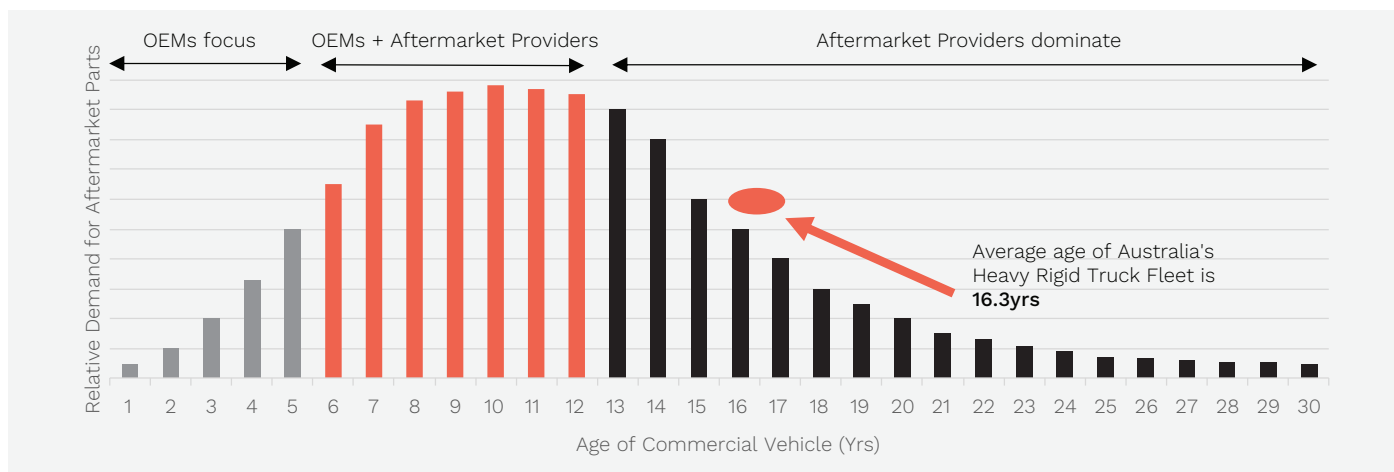
Source: EHINZ, ACEA Auto, IHS Markit, UK Dept of Transport

Thirdly, the acceptance and demand for aftermarket truck parts is increasing significantly over time. Original Equipment Manufacturers (OEMs) primarily focus on selling new trucks and providing parts during the initial 1-5 years, typically covered by warranties or buyback agreements. However, for trucks older than five years, dealing directly with an OEM can be costly and time-consuming for a vehicle owner when compared to aftermarket providers such as MXI.

Demand for Commercial Vehicle Aftermarket Parts in Australia

OEMs = original equipment manufacturers

Aftermarket Provider = secondary manufacturers of replacement parts & accessories



Source: Supply Network Limited

MANAGEMENT & ALIGNMENT

Following the divestment of the trailer manufacturing division in July 2021, MXI has seen almost a complete renewal of its board and senior management team. We believe these changes have had an extremely positive impact on the company. The key appointments have included:

- 1) Peter Loimaranta, the MD and CEO, has been with the broader group for 16 years, serving as the General Manager of MXI for the past 10 years. Through our interactions with Peter, we have developed a high regard for his management style. With an accounting background, he brings an extremely analytical and impressively detailed approach to the business. However, it is his focus on the long-term strategy and vision that provides us with a high level of confidence. While it's Peter's first time as CEO of a listed business, he has already delivered two substantial acquisitions and remains laser focused on growing MXI.
- 2) Liz Blockley, who was appointed CFO in 2021 during the divestment of the trailer business. Although the financial reporting was somewhat convoluted following the divestment of the trailer division, the level of reporting and disclosure has improved significantly now MXI is a stand-alone entity.
- 3) The board has also undergone changes since the divestment. James Curtis, the founder of MXI, and Robert Wylie, the Chairman, both stepped down from their board seats, allowing for board renewal. Newly appointed board members Debra Stirling and Frank Micallef bring valuable experience from a wide range of industries and companies, including Newcrest Mining, CSR, Incitec Pivot and Orica.

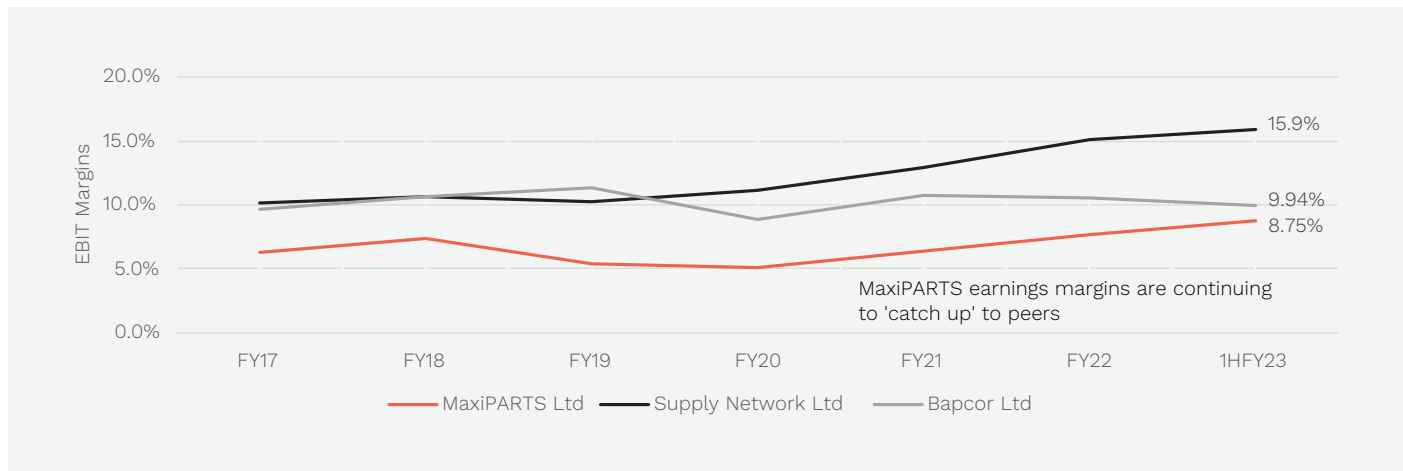
Potentially a victim of its own circumstances, alignment and board ownership is below our expectations and something we will closely monitor going forward. Currently, the board only hold 250,000 shares across 5 members, with 63% of those shares held by Peter. While it is positive to see new members of the board (Frank Micallef and Debra Stirling) acquire shares shortly after their appointment, we would like to see their holdings increase over time to create greater alignment with shareholders.

MARGINS

We will not shy away from the fact that at present, based purely on financials, MXI has room for improvement, although this has been caused by the lack of attention and capital it has received prior to the divestment of the trailer division. The chart on the following page outlines MXI's EBIT margins compared to two other listed players being Supply Network Ltd (ASX: SNL) and Bapcor Ltd (ASX: BAP).

Particularly when compared to SNL, which has been the "poster child" of the aftermarket truck parts sector for several years now, with market leading margins and ROIC (averaging ~20% over the last 5 years), it is clear there is plenty of room for improvement from MXI, as discussed further below.

EBIT Margin Profiles of the 'Big 3'



Source: Company Financials

OUTLOOK & GROWTH LEVERS

Our investment thesis for MXI is centred around the numerous levers that MXI has available to grow earnings, together with the significant valuation multiple discrepancy that MXI has relative to its listed peers such as SNL. Despite currently generating lower EBITDA margins of approximately 9% compared to SNL's 19%, we believe MXI has the potential to close this gap and also drive revenue growth through the following levers:

- Penetration of Japanese Aftermarket Parts: With the acquisition of Truckzone in 2022, MXI now has a range of Japanese aftermarket parts, which typically carry higher gross profit margins than European or North American parts. As MXI rolls out these parts through its store network we would expect to see a gradual increase in gross profit margin uplift – something we believe has been a significant benefit to SNL over the past 3-5 years.
- Reduced Sales to Australian Trailer Solutions Group (ATSG): As part of the divestment of the trailer business MXI entered into an agreement with the acquirer to continue to supply ATSG for a 2-year period. We believe the gross profit margin on this business is sub-optimal and occupies significant warehouse space, reducing the overall efficiency of a distribution centre. We expect the revenue from ATSG to continue to reduce until it's immaterial by the end of FY25.
- Contribution from Förch Australia: FY24 will mark the first year of full contribution from the Förch acquisition. The business operates at higher margins than MXI's core business and the majority of its revenue is derived solely from Western Australia. There is significant growth potential in this business and coming from a \$2.5 million EBITDA on acquisition, we believe a \$10 million EBITDA target over the long term is a realistic possibility.
- Efficiencies from Being a Standalone Business: As MXI now operates as a standalone entity with the capital to support growth and fewer distractions, we expect this to result in incremental margin uplift over time. We are already seeing progress on this front as MXI replaces old stores with more efficient and better located sites together with a new store rollout program commencing.

We will be keenly watching how MXI performs over the next 2-3 years as the anticipated earnings growth could well be significant. If MXI can become a \$250 million revenue business and achieve 15% EBITDA margins, it has the potential to generate over \$35 million EBITDA, which is significantly higher than the \$17 million that it is expected to earn in FY23.

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The first quarter of any financial year is the one that we as an investment team are eager to enter as the majority of our investments release their full-year financial results for the previous year and report on the outcomes of their strategic decisions which have hopefully resulted in a compounding of shareholders' capital.

The forthcoming reporting season will be of particular interest as many of our core investments have seen their share prices decrease over the last 12 months even though the underlying profitability of these businesses remains robust.

We will be paying particular attention to the following results:

- MOVE Logistics (ASX: MOV) – There has been very limited news flow from MOV recently. They released their 1H FY23 result accompanied by no commentary, and since then have appointed a highly credible CEO who is (justifiably) yet to provide the market with any detail around his desired strategy for MOV. We will be looking for detail around a revised strategy together with quantifiable data points along with updates on strategic initiatives such as the sale of the specialist division, which was announced almost a year ago, but is yet to be finalised.
- Big River Industries (ASX: BRI) – In the case of BRI, the upcoming result may not attract as much attention compared to the focus on the company's outlook and recent trading update. We will be looking to see if BRI can maintain the healthy margins it has achieved over the past 2 years, and how its diversified revenue base will be affected by slowdowns in certain areas, such as detached housing. We are also keen to understand how robust the M&A pipeline is, and whether multiples have changed significantly.
- Saunders International (ASX: SND) – The forthcoming result will be very important for SND, with particular focus on the resolution of the cancelled contract with Crowley and the cash inflow/outflow scenarios. We will be looking for detail on how the order book looks for SND post the Crowley termination, and also whether clients have become more reasonable in regard to terms of business with contractors in the current operating environment. We are also keen to understand how much progress SND has made with regard to diversifying the business into areas such as automation, waste-water and renewable energy.
- MaxiPARTS (ASX: MXI) – Our focus for MXI will be on the margin growth in the business and how the drivers

discussed in the section above are performing. Any update on the remaining payments owed to MXI by ATSG would be helpful, together with some commentary around how MXI plans to grow the Förch business over the next 24 months.

- Dropsuite (ASX: DSE) – A new investment this quarter, Dropsuite is a cloud software provider that specialises in backup and recovery capability for applications such as Microsoft 365, Google Workspace and Quickbooks. While the forthcoming result will only be a half-year result, our focus will be on the growth rates of the business, along with client penetration with managed service providers (MSPs) and churn rate. An update on new product development and gross margin profile would also be useful as DSE have recently rolled out two new backup products, one being for Quickbooks Online and the other for US government entities.
- COG Financial Services (ASX: COG) – COG continues to fly under the radar with the market, and it is crucial that management hit the nail on the head in regard to disclosure and simplifying the message. An update on the novated leasing business will be key, together with how FB&A volumes are holding up in the current environment, and the penetration of insurance broking within FB&A. Finally, we will be looking for further commentary on Earlypay (ASX: EPY) and how COG plan to maximise the value of this investment or recycle the capital back into the core part of the business.

It is no doubt going to be a very eventful quarter to start FY24, but we remain steadfast in our belief that our core group of investments exhibit the characteristics that should allow them to compound capital at an attractive rate even in these times of heightened macro volatility.

As always, we are grateful that you have invested your capital alongside ours and we look forward to providing you with a Q1 FY24 update in mid-October.

Kindest regards,



Sebastian Evans

Managing Director and Chief Investment Officer
NAOS Asset Management Limited

