

NAOS SMALL CAP
OPPORTUNITIES
COMPANY LIMITED
(ASX: NSC)

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14 November 2023

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

Annual General Meeting 2023 – Chair’s Address

Please find enclosed the Chair’s Address to be presented at the Annual General Meeting of NAOS Small Cap Opportunities Company Limited to be held today at 12:00pm (AEDT).

Authorised by:

Rajiv Sharma
Company Secretary

Chair's Address – Mr David Rickards OAM
Annual General Meeting of NAOS Small Cap Opportunities Company Limited
14 November 2023, 12:00pm (AEDT)
Held at The Fullerton Hotel, No.1 Martin Place, Sydney NSW, 2000

Dear Fellow Shareholders,

I would like to thank all shareholders for your continued support and welcome all new shareholders.

FY23 saw another year with a bifurcation in returns within differing segments of the financial markets. The smaller end of the equities market recovered from a brutal FY22, with the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) advancing +8.45% in FY23; however, it lagged the larger end of the Australian equities market.

The S&P/ ASX 200 Accumulation Index (XJOAI) lifted +14.78% for the financial year, and perhaps even more surprisingly, the Nasdaq Composite Index rose +25.02% in FY23. This was against a backdrop of continued central bank interest rate increases, with the majority of market commentary at the beginning of FY23 anticipating a rough period for high valuation technology stocks within the Nasdaq Index, given the 'risk-free rate' was increasing substantially.

Against this backdrop, the NSC Investment Portfolio increased +2.62% for the financial year. Throughout this period, the Company remained focused on its investment philosophy, which is to provide concentrated exposure to quality emerging companies with aligned management teams that are operating with industry tailwinds. For the financial year ending 30 June 2023, the Company recorded an after-tax profit of \$2.61 million (FY22: after-tax loss of \$19.8 million).

I am pleased to announce the Board has declared a fully franked final quarterly dividend of 1.25 cents per share, bringing the full-year FY23 dividend to 5.0 cents per share, and maintaining the dividend level of the previous year. This represents a 7.35% net yield, based on the 30 June 2023 closing share price of \$0.68. The Company has now declared a total of 28.50 cents per share of dividends since its inception in December 2017, all of which have been fully franked.

The Board continues to be mindful of providing shareholders with a sustainable, growing stream of dividends, franked to the maximum extent possible, while also maintaining sufficient profit reserves to enable the Company to pay dividends in periods when it is more difficult to generate significant performance. The profit reserve balance of the Company at year end was \$23.54 million, or 17.1 cents per share.

Over the course of the financial year, the pre-tax Net Tangible Asset (NTA) backing per share of the Company decreased from \$0.84 to \$0.80. The positive Investment Portfolio performance increased NTA per share by 2.77 cents per share, whilst 4.80 cents per share of fully franked dividends were paid to shareholders during the year.

Management fees and interest expense on borrowings decreased the NTA by 1.25 cents per share and 1.12 cents per share respectively. The buyback of shares at a discount to NTA was a positive contributor, adding 0.53 cents per share to the NTA.

The FY23 Total Shareholder Return (TSR), which measures the change in share price along with dividends paid to shareholders during the period, was -0.33%. This measure does not include the benefit of franking credits received by shareholders through franked dividends.

The NSC share price closed the financial year at \$0.68, which represented a discount to pre-tax NTA of 15.0%. The Board continues to be committed to closing this discount, through several initiatives:

- **On-market Share Buyback:** The Company continued its active share buyback program in FY23, acquiring and cancelling 5.8 million shares in FY23, which has been accretive for all shareholders. The Directors believe a share buyback program is a vital part of capital management strategy to maximise value for all shareholders over the long term. When shares are trading below NTA, it allows shares to be acquired not only at a discount to the current NTA of the Company, but also at what may prove to be a further discount to the potential future value of the investee companies.
- **No Dilutionary Share Issues:** The Company will not issue shares below the post-tax NTA per share of the Company, as the Board does not believe this to be in the best interests of shareholders. As an example, for those shareholders who participated in the Dividend Reinvestment Plan (DRP), it is important to note the Company did not issue shares at a discount to NTA, but instead acquired shares on market to ensure this capital management activity was completed without any dilution for existing shareholders.
- **Differentiated and Consistent Investment Strategy:** The Company will be true-to-label to its investment strategy and there will be no significant deviation from this strategy over the long term, ensuring that all shareholders understand what the Company is aiming to provide. The Board believes the strategy is unique and highly differentiated to most other investment strategies, with little scope for it to be replicated.
- **Alignment:** The Directors have increased their ownership of NSC shares since inception and will endeavour to continue to do so, ensuring strong alignment with all shareholders. As at the end of the financial year, Directors own a total of 2.55 million NSC shares.
- **Dividends:** The Company will continue to focus on delivering a sustainable, growing stream of dividends, franked to the maximum extent possible while maintaining an adequate profit reserve balance.
- **Shareholder Communications:** The Company places a high priority on providing shareholders with timely, regular updates on the Company's performance and investment philosophy, and the performance of the underlying businesses held in the Investment Portfolio. These updates are delivered in the form of monthly NTA and portfolio updates, a new Quarterly Investment Report, quarterly Investor Update Webinars, and regular investment insights and news, as well as an Annual Investor Roadshow.

While the current macro environment may continue to prove challenging for small-cap companies as we move through FY24, the Board believes the NAOS investment philosophy will continue to generate strong performance for shareholders over the longer term. On behalf of the Board of Directors, I would like to thank the staff of the Investment Manager for their efforts over the course of the financial year.

David Rickards OAM
Independent Chair
NAOS Small Cap Opportunities Company Limited