NAOS QUARTERLY INVESTMENT REPORT

Q3 FY24

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

NAOS Asset Management Limited is B Corp Certified

Q3 FY24 SUMMARY

Dear Fellow Shareholder,

From an index standpoint, Q3 FY24 was another strong quarter with the S&P/ASX-100 Accumulation Index (XTOAI) returning +5.17% and its smaller counterpart the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) returning +7.55% over the 3 months to 31 March 2024. The S&P/ASX-100 Accumulation Index also reached a record high during March.

The strength in the ASX-100 was mainly driven by the big-4 banks, with the largest of these, the Commonwealth Bank of Australia (CBA), generating a total return of +9.13% for the quarter.

When we analyse the recent returns of the constituents of these indexes, we would argue that generally speaking, if a stock's valuations is trading at a premium to its historical multiple, it exhibits one or both of the following:

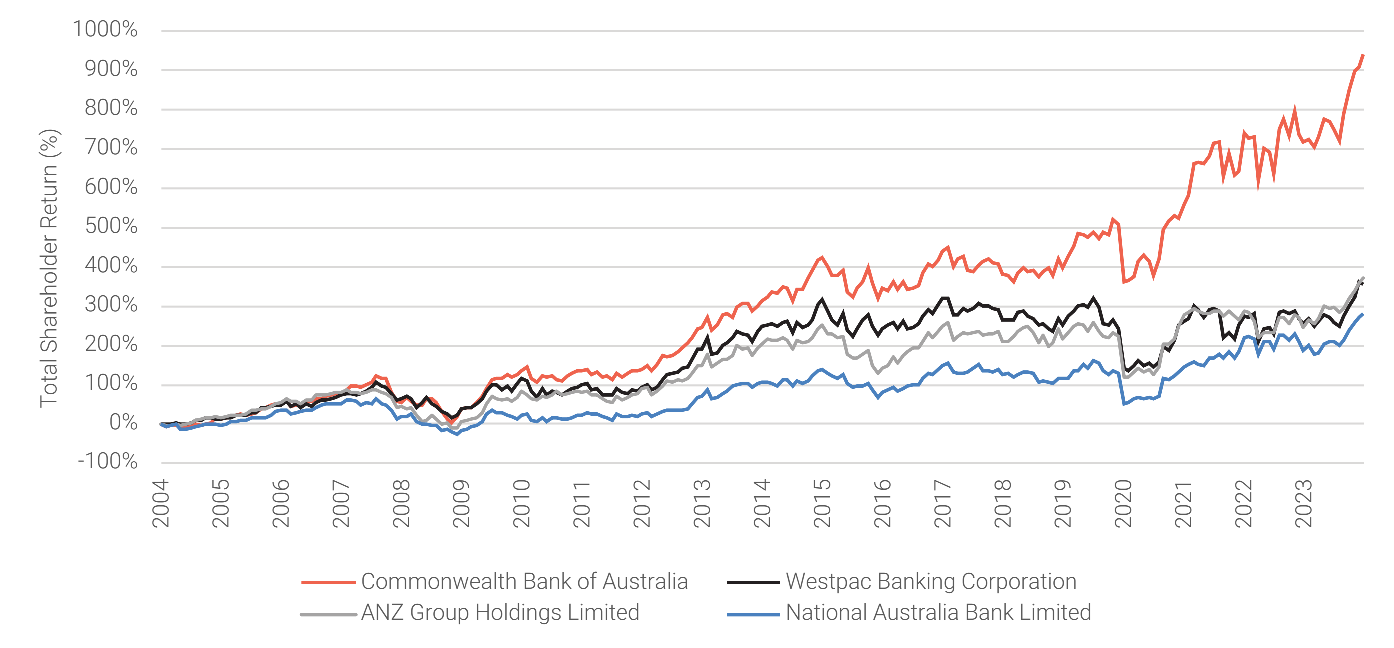
1) Strong share liquidity.

2) Provides exposure to the technology sector.

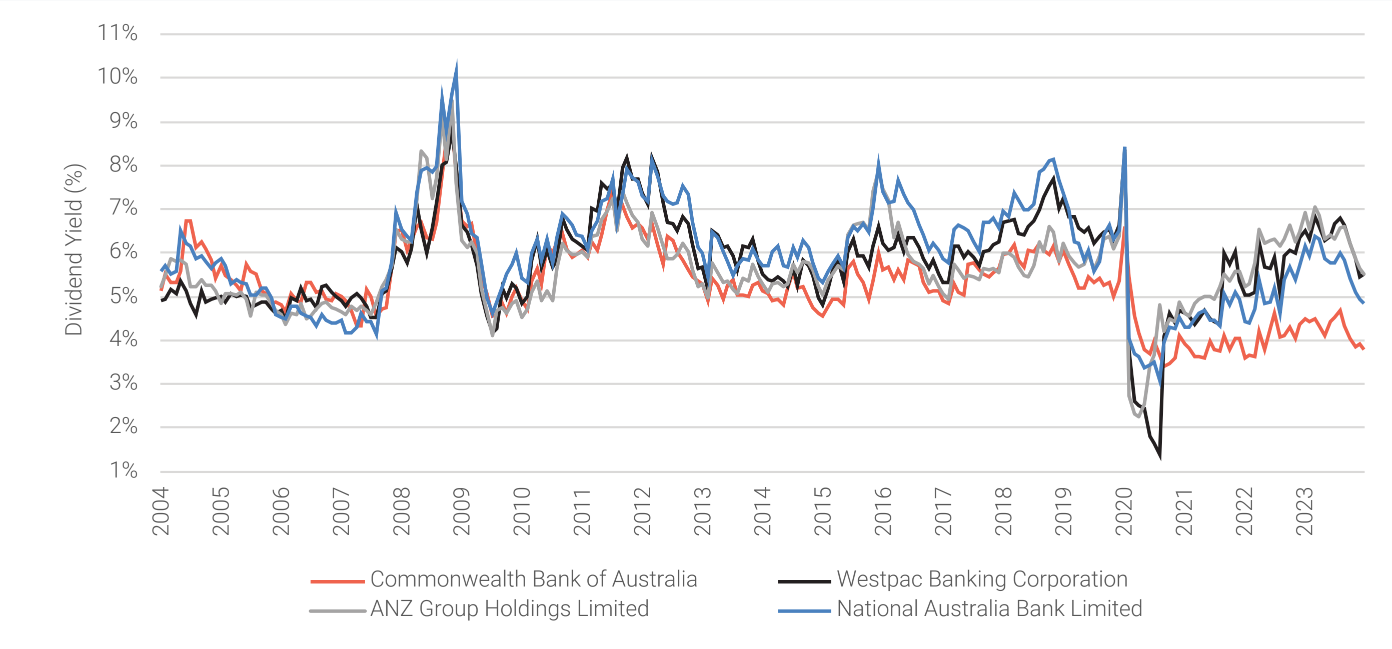
Let's take CBA as our first example which we would argue only exhibits strong share liquidity. From 1 July 2023 to the end of Q3 (March 31st), CBA has generated a total return of +24.55%. From a fundamental perspective, consensus expectation is for the earnings per share (EPS) of CBA to decline by -1% in FY24. So, given the total return of CBA is +24.55% with a forecast EPS decline of -1.0%, the valuation multiple applied to CBA has increased by 16.0% over this period, after factoring in a dividend yield of 4.0%. Investors clearly believe that CBA is more valuable today than it was 12 months ago even though profits will be lower.

Strangely enough, all sell side analysts who cover CBA have sell ratings, and when we look at the Big-4 banks more generally we can see that from a price to earnings standpoint (P/E) they have rarely looked more expensive, especially relative to their future growth profiles. What makes this even more confounding is that on a dividend yield basis, their current respective yields are as unattractive as they have been for many years relative to term deposit rates.

Big 4 Banks - 20 Year Total Shareholder Return



Big 4 Banks - Dividend Yield



Source - FactSet

When we look at stocks with high levels of liquidity which are also technology-focused, we don't need to look any further than Kogan.com (ASX: KGN), Cettire (ASX: CTT), and Temple and Webster (ASX: TPW), all of which are loosely considered to be technology businesses, with a consumer discretionary offering. For Q3 FY24 these businesses generated an average total shareholder return of ~47% and ended the quarter with an average market capitalisation of $1.25 billion. On average, these three businesses are expected to make $30 million in pre-tax earnings for FY24, implying an EV/EBIT multiple of ~42 times.

Kogan, Temple & Webster & Cettire

* Cettire listed on 18th December 2020

Source – FactSet

From a whole-of-market perspective, these businesses appear to be in the realm of expensive to very expensive, relative to earnings growth on offer. Interestingly, the larger end of the market, the ASX-100, is trading on a forward EV/EBIT of 13.1 times. This is relative to a forward EPS expectation of just ~1%. Clearly, some investors believe that the earnings expectations for the ASX-100 are too low and that anticipated interest rate cuts, along with other macro factors will lead to stronger earnings growth in FY25 and beyond.

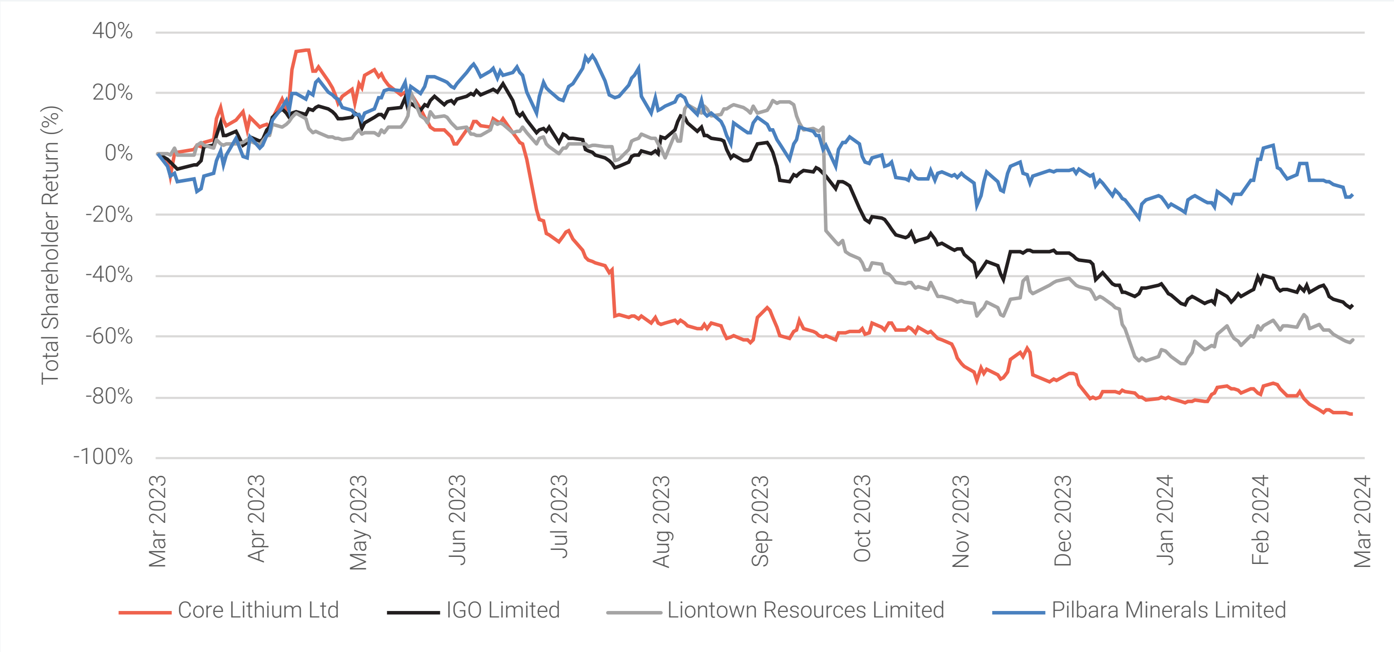
Conversely, certain sectors remained under significant pressure, notable examples being lithium and nickel focused stocks in the resources sector. This highlights that stocks that were only recently 'in vogue', can experience swift changes in sentiment. The below chart highlights the 12-month total shareholder return of a range of lithium stocks.

On a more positive note, there are still a number of strengthening structural tailwinds providing excellent long term investment opportunities, especially in the emerging company space.

ELECTRIFICATION/RENEWABLES/GREEN ENERGY

Policy setting and regulatory changes are making it harder for consumers and businesses alike to ignore the significant shifts needed in terms of future infrastructure investment amidst a nationwide increase in renewable energy adoption. At a high level, there are circa 10 million households in Australia, and it is estimated that $2 trillion could be spent by 2050 electrifying[1] households with items such as solar panels, heat pumps and batteries. It's important to note this estimate only pertains to households and does not include businesses, which for instance may require charging stations for their logistics fleets and need to undertake subsequent upgrades to their supporting infrastructure and safety equipment to ensure safe and efficient operations.

Lithium Companies - 1 Year Total Shareholder Return



Source - FactSet

1 CBA wants to corner the $2trn market for household electrification (afr.com)

HOUSING SHORTAGE

One thing the Australian population seems to unanimously agree on is that there is a significant shortage of housing in the country, a problem which based on current circumstances appears poised to worsen. On their HY result earnings call, Brickworks CEO Lindsay Partridge stated:

"Looking more closely at the situation in Australia, you'll see all the daily reports about the level of immigration. It must be the highest it's been since World War II. We see that there's very little rental vacancy, and we see that construction has been winding down.

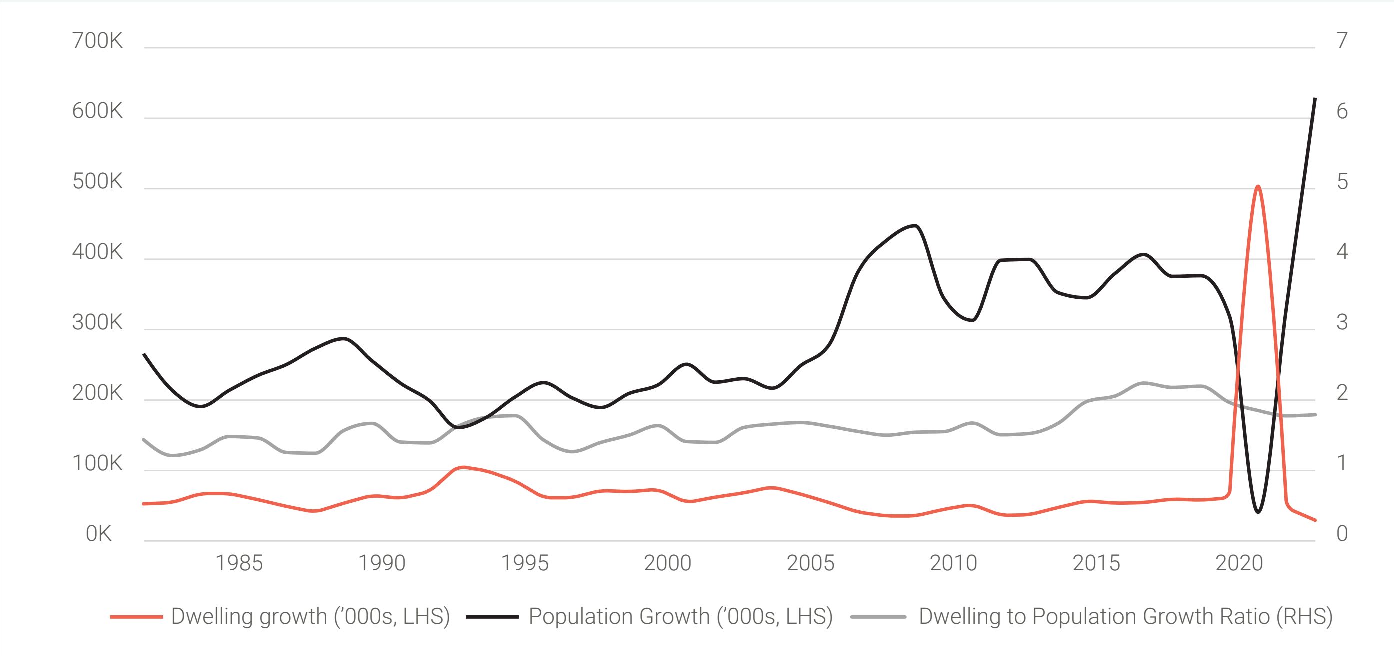
So, that puts us in a situation that housing has got to run strong to the end of the decade. Otherwise, there'll be rows of tents in Hyde Park because there's just nowhere for people to live."

As reflected in the below graph, the dwelling to population growth ratio is at its lowest level since almost 1980. The Federal Government has stated they want to build 1.2 million homes by 2029, however current forecasts suggest that achieving this target would require the building industry to double its capacity to 300,000 homes p.a., something that has never been done before.

DEFENCE

It has been evident over the past six months that the Department of Defence has experienced instability due to budget constraints and white paper reviews, resulting in a notable slowdown in the number of contracts awarded. However, looking ahead over the next few years, we anticipate a substantial increase in Defence spending to meet its current commitments. An example of this is HMAS Stirling in WA, which will undergo an $8bn+ upgrade over the next 8-10 years to accommodate both US and UK nuclear submarines. With HMAS Stirling scheduled to host the rotational presence of these submarines by 2027, a significant portion of the $8 billion budget will need to be allocated and completed by then, despite minimal expenditure to date.

Annual population growth v dwelling growth, Australia



Source – UDIA State of the Land Report

MERGERS, ACQUISITIONS & CORPORATE ACTIVITY

Finally, I wanted to again highlight the significant amount of corporate activity that has occurred over the last few months, as shown in the below table.

Target	Acquirer	Value
Altium Limited	Renesas Electronics Corp	$8.7bn
Alumina Limited	Alcoa Corp	$4.3bn
Ansarada Group	Datasite Global Corp	$207.5m
APM Human Services	CVC Asia Pacific	$2.8bn
Austal Ltd	Hanwah Ocean Co Ltd	$1.0bn
Boral Limited	Seven Group Holdings	$1.9bn
CSR Limited	Compagnie de Saint-Gobain SA	$4.5bn
Genex Power Ltd	Electric Power Development Co	$1.1bn
McGrath Ltd	Knight Frank Australia	$95m
MMA Offshore Ltd	Cyan Renewables	$0.9bn
Prospa Group	Salter Brothers Asset Management	$73.8m
Superloop Limited	Aussie Broadband Limited	$0.4bn
Task Group Holdings	PAR Technology Corp	$0.3bn

Source – Factset

We do not shy away from the fact that all three of the NAOS LICs had very poor Q3 returns both from an absolute and relative perspective, but we continue to firmly believe that the inherent value in all of the portfolios is significant and will be realised over the longer term. Importantly the thematic of heightened corporate activity is continuing and it appears to now be trickling down to the smaller end of the market.

INVESTMENT PORTFOLIO PERFORMANCE SUMMARY

Investment Portfolio	Q3 FY24 Performance	1 Year Performance	3 Year Performance (p.a.)	5 Year Performance (p.a.)	Inception Performance (p.a.)
NCC Investment Portfolio Performance*	-7.07%	-18.06%	-6.02%	+0.50%	+6.87%
S&P/ASX Small Ordinaries Accumulation Index	+7.55%	+13.83%	+2.72%	+5.42%	+5.64%
NAC Investment Portfolio Performance*	-5.97%	+2.37%	-4.44%	+6.66%	+8.87%
S&P/ASX 300 Industrials Accumulation Index	+9.57%	+20.11%	+8.86%	+8.80%	+7.91%
NSC Investment Portfolio Performance*	-3.74%	-10.00%	-3.06%	+4.74%	+1.38%
S&P/ASX Small Ordinaries Accumulation Index	+7.55%	+13.83%	+2.72%	+5.42%	+5.24%

*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 31 March 2024. NAC Benchmark= S&P/ASX 300 Industrials Accumulation Index, NCC & NSC Benchmark= S&P/ASX Small Ordinaries Accumulation Index

NAOS CORE INVESTMENTS

	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2024)
Big River Industries	ASX: BRI	>20%	$143 million

Big River Industries Limited (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 and civil construction, among others. BRI has over 9,000 active trading accounts, serviced by ~640 staff members. BRI achieved $450 million in revenue in FY23.

	ASX Code	NAOS % Ownership	Market Cap
BSA	ASX: BSA	>20%	$49 million

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.

	ASX Code	NAOS % Ownership	Market Cap
COG Financial Services	ASX: COG	>20%	$274 million

COG Financial Services (COG) is Australia's leading aggregator of finance brokers and equipment leasing services to small and 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, all of which service the financial needs of the SMEs nationwide. As at the end of FY23, COG had an ~21% market share of the Australian Asset Finance Broking market, with the COG network financing $7.7bn in assets for SMEs in FY23. COG has been highly acquisitive in recent years, acquiring finance brokers, insurance brokers, as well as fund management and novated leasing businesses.

	ASX Code	NAOS % Ownership	Market Cap
Saunders International	ASX: SND	>20%	$105 million

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.

	ASX Code	NAOS % Ownership	Market Cap
MaxiPARTS	ASX: MXI	5-20%	$132 million

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 29 sites nationwide.

		ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2024)
MOVE	**MOVE Logistics**	ASX/NZX: MOV	5-20%	$65 million (NZX)

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.

		ASX Code	NAOS % Ownership	Market Cap
urbanise	**Urbanise.com**	ASX: UBN	>20%	$21 million

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.

		ASX Code	NAOS % Ownership	Market Cap
BTC health.	**BTC Health**	ASX: BTC	>20%	$13 million

BTC health is a distributor of medical devices and medical consumables to hospitals across Australia and New Zealand. It specialises in the areas of acute pain management, neuro spinal surgery as well as pharmaceutical medicines in niche markets. It also recently launched a new division which focuses on highly specialised cardiovascular equipment and consumables used by cardiac surgeons and crucial care experts.

		ASX Code	NAOS % Ownership	Market Cap
Dropsuite	**Dropsuite**	ASX: DSE	<5%	$212 million

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.

		ASX Code	NAOS % Ownership	Market Cap
Ordermentum	**Ordermentum**	Unlisted	Undisclosed	Undisclosed

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.

		ASX Code	NAOS % Ownership	Market Cap
MITCHCAP CONNECTED DISTRIBUTION	**MitchCap**	Unlisted	Undisclosed	Undisclosed

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.

NOTABLE INVESTEE COMPANY UPDATES

MAXIPARTS

MAXIPARTS LIMITED

ASX: MXI

Half Year FY24 Results

Following the business and trading update provided in December, investors naturally looked for further detail in the HY result, along with some insightful commentary from management. In our view, management provided a thorough level of detail which gave a clear view of the underlying performance of the business as well as the numerous moving parts that are involved. However, the key focus for MXI shareholders is the concern that three reasonably sized acquisitions have been completed over the past 18 months, two of which were funded by equity raisings, and the recently issued profit downgrade which was mainly driven by the impacts of the AASB-16 lease accounting standard.

When reviewing some of the detail in the HY result, some of the notable positive signs for us include:

1) **Growth in Japanese Parts Program** - This should be a significant driver of margin growth over the medium to long term, so it was pleasing to see this program grow at 50% on the PCP and 15% on 1H FY23. Now that the Independant Parts acquisition has been completed, the growth potential for this program should only increase.

2) **Forch Revenue Growth** – The Forch business was only acquired in June 2023, but with >90% of the revenue being derived solely from WA, it presents a significant opportunity for MXI over the long term. Since the acquisition, MXI have invested in the sales team, and whilst the return on this investment should be realised in future periods and could be significant, revenue growth of 17% YOY is a credible result.

3) **Organic Revenue Growth** – MXI delivered +12.5% organic revenue growth which is a commendable result for a business that has gone through a significant transition.

4) **Focus on organic growth projects integration** – MXI's ability to focus on its core offering and prove that it can grow revenue organically at >8% p.a. whilst also expanding its EBITDA margins from ~9.6% to 15% over the next 3-5 years without requiring further external capital is crucial for the re-rating of the MXI business. The commentary in the HY result indicates a first step towards realising this vision.

There is no doubt that 2H FY24 will be the most important half-year to date in MXI's short tenure as a standalone business. There is clearly plenty on the management team's plate, including achieving organic revenue guidance (low double-digit percentages), exceeding EBITDA margin guidance (>10% for 2H), integrating Independant Parts and potentially concluding the legal process against ATSG.

If the above can be achieved in 2H FY24, this will give investors a clear indication of the earnings potential of the business and may also lead to a significant re-rate in the valuation applied to MXI by the wider market.

SAUNDERS INTERNATIONAL

ASX: SND

Half Year FY24 Result

Maintaining perspective is crucial when analysing half-year results and quarterly updates, particularly for Saunders. Just four years ago, at the 1H FY20 results, SND recorded \$30 million of revenue and \$1.4 million of EBITDA. At the 1H FY24 results, SND recorded \$104 million of revenue (a CAGR of 36%) and \$9.8 million of EBITDA, representing a fourth consecutive year of growth at both the EBITDA and EPS level (which has grown from 0.5cps to 4.5cps over this time). Importantly, this has been achieved without raising capital. As a result of this impressive growth, SND now has over >\$30 million of cash and no bank debt.

Other metrics are just as important, with the order book for SND now over \$220 million despite completing its largest ever contract for ~\$160 million, all while burning through ~\$100 million of order book each half.

The outlook for SND remains strong, in large part due to the multi-disciplined offering through a “self-performing” model, thereby reducing reliance on sub-contractors. We were able to see this first hand when we visited the new Nancy Bird Walton Western Sydney Airport in March. SND is responsible for constructing the entire fuel facility which not only includes storage tanks, but extensive piping infrastructure from the fuel storage to the airport gates, in addition to the pumping equipment and associated automation and electrical instrumentation that will be required to move the fuel around the airport and measure each millilitre that goes into a plane. In our view, SND has a compelling and un-paralleled offering that places it in good stead to secure large design and construction projects that are focussed on various liquids (water, fuels, hydrogen, biofuels etc.)

As businesses grow larger, maintaining historical growth rates becomes increasingly challenging. SND is no exception; however, we firmly believe that SND possesses the necessary expertise and offerings to double its revenue base again over the next four years. Looking ahead, successful project execution and the ability to secure additional large projects with tier-1 clients will be pivotal for SND’s continued growth and success.

Key Project – Fuel Facility at the new Nancy Bird Walton Western Sydney Airport

Source - NAOS

MOVE LOGISTICS

ASX/NZX: MOV

Half Year FY24 Results

Although the result was flagged in late December, we believe it's important to touch on the MOV HY result given the run of events and poor macro backdrop MOV faces in New Zealand. 1H FY24 saw MOV swing to a significant net loss after-tax position as a result of reduced revenues, one-off costs associated with the shipping division, as well as costs associated with the right sizing of the business. Despite the disappointing outcome, it was somewhat pleasing that the actual result surpassed the guidance provided a few months earlier. In our view, that time period is key, as it marks the first three months of 'Project Blueprint', being implemented by Craig Evans, the new CEO of MOV and former CEO of Mainfreight's (NZX: MFT) New Zealand division for six years. MOV have stated that it will take some 12-18 months to implement the program which will right size the business, start building the desired culture, and ensure MOV has the systems and process to deliver an exceptional customer experience.

Cynics may argue that MOV lacks the financial resources to implement such change with net debt sitting at $16.9 million, against an EBIT loss of $8.6 million, and we would agree it needs a return to profitability soon. It could also be argued that with the New Zealand economy now in a technical recession post the Q2 GDP release, it hardly provides a conducive macro backdrop for growing your revenue base, which is essential for MOV. Additionally, some recent changes at board level have seen two new directors appointed who are closely tied with the former founders of some of the MOV businesses during its acquisitive days.

Our counter thesis to the above would be as follows:

1) Yes, the MOV balance sheet is tight but it's important to note that MOV paid down debt in 1H FY24 and have been able to extend their facility.
2) MOV is clearly transitioning to a capital light model (similar to MFT via owner drivers) which will see it own less equipment outright and allow it to repay debt over time.
3) We have seen minimal benefit from the initial effects of Project Blueprint, but we anticipate significant improvements from 2H FY24, particularly when the Transport Management System (FuseIT) is implemented. But there are also initiatives which will bear fruit over the longer term, like the new graduate programme which was recently introduced (see photo below) to build a pipeline of future leaders and a culture of continue learning and professional excellence.
4) We believe the capacity of the MOV network is at least 2-3 times more than the current revenue base, theoretically allowing any new revenue to translate into profit at a reasonable rate. We also believe that a business of MOV's size would have a significantly lower overall cost base compared to some of its larger peers such as Toll NZ, allowing it to be more aggressive to win new work.
5) Finally, the recent changes at board level in our opinion are not surprising. We firmly believe that Craig and his new executive team are the best individuals to ensure MOV becomes the true alternate provider of logistics services in New Zealand, and the more people who can assist them achieve this goal and have a high level of alignment the better.

Although in hindsight we entered our MOV investment prematurely, as we have seen with other investments such as Gentrack Group (ASX: GTK), once a company demonstrates even a single positive half result, the potential for a significant revaluation becomes apparent. As momentum develops and the company establishes a reputation for consistent performance, the re-rate can continue over a number of years. While MOV is clearly not at this point yet, anecdotal evidence suggest green shoots are apparent and MOV might finally be operationally positioned where it should have been some time ago. As per their half year announcement, management's short-term goal is to return to prior year's profit levels, which would be rather remarkable in a short period of time.

New Initiative – Move Graduate Programme, launched at Auckland University

BIG RIVER INDUSTRIES

ASX: BRI

Half Year FY24 Results & Acquisition of Specialised Laminators

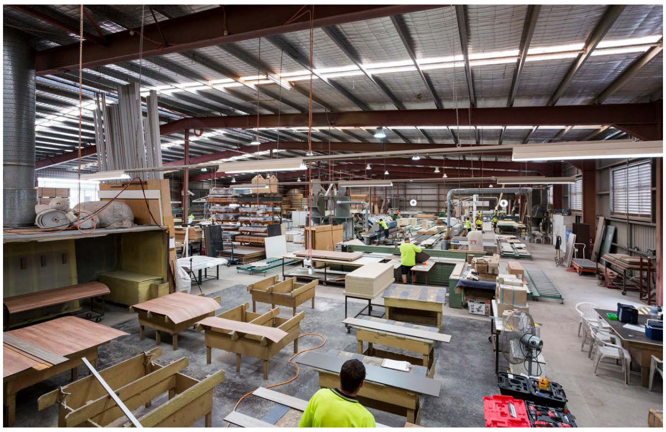
BRI was one of the few investments that did not pre-release their results for 1H FY24, so the market had little idea of what to expect outside of a similar revenue result to the prior period. At the revenue line the result was down -5.9% on PCP, but in line with 2H FY23 which was as expected. What surprised the market was the -28.3% fall in EBITDA, which was attributable to gross profit margin decline from 27.6% to 26.3% and a significant change in the revenue mix. This is clearly visible by the EBITDA margin within the Construction products division falling by 3% and the explanation given by BRI that the volume decline across the four frame and truss plants led to significant earnings reductions. As some readers would know, frame and truss plants are essentially manufacturing sites that require throughput to meet and exceed their fixed cost base so in times of high volumes, they are highly profitable. They also serve as a way for BRI to access a builder at the start of a house building project, therefore making it easier to on-sell other products as and when required as the build progresses.

A significant portion (40%) of BRI's revenue is reliant on the detached housing sector. During COVID this provided a boom for BRI as builders clamoured to source building materials so they could execute on their bloated residential pipelines. More recently this particular market has slowed as builders look to stretch out their pipelines, mainly out of necessity due to shortages in labour. We recently spoke to a non-listed private credit lender, who stated that for a smallish residential development of 20-30 apartments the expected completion time for the entire project (approvals through to build) had increased to 36 months whereby it was previously 18 months. This will exert pressure on all stakeholders involved in the project's construction, including financiers, suppliers of materials, builders and even the eventual acquirer.

Late in the quarter BRI announced the acquisition of Specialised Laminators, a distributor and manufacturer of specialised panels mainly for use in a commercial environment since 1977. The business was acquired for an initial payment of $10 million, split 70/30 between cash and BRI scrip. Using a crude 10% EBITDA margin against its $27 million of revenue implies the business is being acquired on an EBITDA multiple of 3.70 times. This is the first acquisition completed by new CEO, John Lorente, and in our view highlights one of the key attributes of our BRI investment thesis, namely the opportunity for consolidation in a highly fragmented market which is dominated by baby boomers with limited succession options.

Looking forward, BRI provided no quantitative guidance, though they did state that "if projects continue to be delayed then 2H FY24 revenue could be below the 1HFY24 result". From our perspective BRI is unable to control the macro environment, so it must remain laser-focussed on what they can control, such as their service levels, pricing, M&A pipeline and ensuring their strategy puts them in the strongest position over the medium term. As we have said previously, the opportunity for growth is significant for BRI (keeping in mind they have quadrupled EBIT since FY20) but how they go about becoming a >$70 million EBIT business will require a different set of skills from management and very sound capital management.

New Acquisition – Specialised Laminators, Queensland manufacturing site




NAOS
INVESTMENT
IN FOCUS

COG FINANCIAL SERVICES

ASX: COG

OVERVIEW

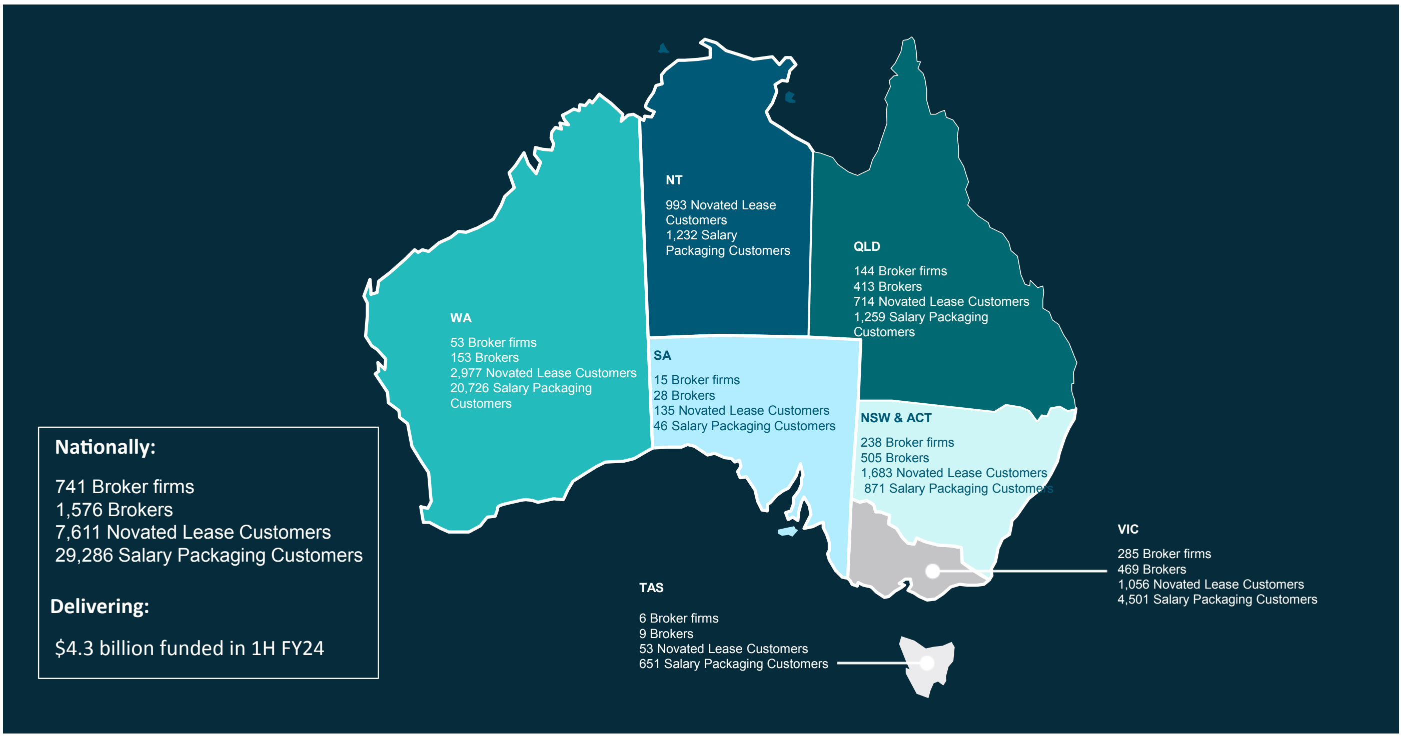
COG Financial Services has been an investment in one or more of the NAOS portfolios for over 10 years, and over that period we have seen COG evolve from what was a commercial lease book in run-off to a business today that has three strong standalone divisions and is Australia's largest asset finance broker and aggregator to the commercial and SME sector, with >$9 billion of loans originated through the COG network annually.

COG was and, in our view, remains the brainchild of >20% shareholder and Executive Director Cameron McCullagh. Cameron was the founding COO of Steadfast Group (ASX: SDF) and in our opinion played a significant role in aggregating the insurance broking market and providing SDF with the scale required for its successful IPO. Additionally, Cameron is the former CEO and current Executive Director of EML Group, the largest workers compensation claims management business in the country.

The initial opportunity for COG was not dissimilar to that of mortgage brokers or insurance brokers in that the finance broking industry was at the time a cottage industry and considered the 'poor cousin' compared to insurance and mortgage broking. Over the past 10 or so years COG has acquired numerous brokers and aggregators to become not only the largest aggregator in the finance broking market by a significant margin, but also the largest broker when considering all the equity stakes it holds in finance brokers. This approach is not dissimilar to the initial strategy of SDF.

More recently, COG has diversified into two new verticals being novated leasing and asset management, both of which are highly complementary to the existing FB&A business. It's important to note that all these division share a common trait - they are capital light and essentially operate as "clipping the ticket" type businesses whilst assuming little to no credit risk. In our opinion, this characteristic is particularly unique for a financial services business.

Diversity - A growing national business activity footprint



Source: COG Financial Services 1H FY24 Results Presentation 23 February 2024

FINANCE BROKING & AGGREGATION (FB&A)

COG is Australia's largest asset finance broker and aggregator with >$9 billion of assets financed through the COG network, which is approximately 21% of the total market. From a broker perspective COG provides a number of critical services:

1) **Access to Funders** – Funders today (especially the major banks) will very rarely deal directly with a broker and will insist on brokers becoming a member of an aggregator who will have existing systems that allow seamless deal flow between the bank and the aggregator. We believe COG has access to over 40 funders which gives them one of the largest panels in the industry. This extensive network gives brokers greater selection and more options for securing the ideal funding solution. Additionally, the sheer scale of COG's network enables it to negotiate the highest variable based incentives (VBIs) from funders, which in turn are then passed onto the broker members.

2) **IT & Systems** – In today's world of heightened data protection protocols and cyber security risks, along with the use of APIs for seamless integration and processing, brokers are looking for ways to upgrade many facets of their IT systems. As a large corporate, COG have a dedicated in-house IT team who have built out a CRM system designed for finance brokers as well as straight through processing to some of the larger funders. The focus on cybersecurity measures and data storage provides brokers with peace of mind, eliminating significant IT-related workload, with brokers paying a monthly fee for these services.

3) **Succession** – In terms of ownership, the finance broking industry is predominantly led by individuals from the baby boomer generation, posing challenges for succession planning. COG can assist members by taking ownership stakes in brokers, allowing older owners to monetise their equity. As part of this process, COG can implement succession strategies, either via loan agreements or some other means, to facilitate the transition of ownership to the next generation, ensuring continuity and stability for broker businesses.

4) **Training, Industry Events, Business Development** – COG provides its members with training solutions, holds notable industry events such as their bi-annual COG Asset Finance Brokers Conference and provides its members with offerings that could increase their revenue over time, such as insurance solutions. These softer benefits provide its members with a sense of community and provide a platform for sharing concerns and suggestions. Additionally, when dealing with counterparties such as the Big-4 Banks, the ability to leverage the scale of COG's network can be very effective.

COG's Asset Finance Broker Conference

Source - NAOS

NOVATED LEASING & SALARY PACKAGING

COG has been a small player in the novated leasing and salary packaging space for some time. but more recently, post the acquisition of Paywise, it has become a more significant player. Novated leasing has recently experienced somewhat of a renaissance following recent changes by the federal government regarding the novated lease of eligible electric vehicles (EVs), which allows employers to potentially save up to $90,000 annually in fringe benefits tax (FBT). It is also important to note that EML Group is a minority shareholder in COG's novated leasing division.

COG's increased exposure to novated leasing holds appeal for several reasons:

1) **Diversification of Clients** - Exposure to a new type of client base such as government departments and large corporations.

2) **Cross Sell Opportunity** - Once the financial benefits of a novated lease are better understood by the wider market, COG can leverage its extensive network on its aggregation platform, particularly among SMEs, to create additional revenue streams.

3) **Funding Rates & VBIs** - A novated lease requires a funder to fund the lease, which essentially gives COG more scale with regards to the amount of deals they take to funders. Notably a novated lease is considered to be one of the highest credit quality deals, and as such funders are often keen to secure an exposure to these leases so they can also write higher risk loans whilst maintaining a reasonable credit exposure for the entire book. COG may also be able to secure more attractive financing rates and VBIs due to their increased scale.

4) **EML Opportunity** – As mentioned, EML Group became a minority shareholder in the COG Novated Leasing division on completion of the Paywise acquisition. Given that EML Group is a major provider of workers' compensation claims management services, it has an extensive client base, including government departments and other large organisations. In theory, many of these clients would be prime candidates to offer novated leasing and/or salary packaging services to their clients (or they currently do).

ASSET MANAGEMENT & LENDING

COG's third division is based around utilising client/investor funds to finance lending opportunities that offer favourable risk-reward profiles. This division operates through two subsidiaries, Westlawn Finance and Equity-One, who offer financial products to provide investors with exposure to unlisted credit opportunities. Some of these opportunities are property-based, whilst others would be equipment-based i.e. cars, equipment etc.

Crucially, COG does not fund any of these opportunities for the long-term, they are funded by investors and COG earns fees for its services.

This model presents a significant long-term opportunity for COG, similar to what we have seen with Qualitas (ASX: QAL) in the property space, who have been able to successfully scale to a multi-billion-dollar private debt business. COG has a similar opportunity to fund private credit opportunities given >$9 billion of financing flows through its platform. If COG can increase its funds under management, it could in theory fund what it perceived to be the best credit opportunities on a risk/return basis, as it would have excellent visibility through its aggregation flows.

SUMMARY

While COG may appear complex at first glance, we believe COG is a unique asset with a significant long term strategic value once simplified and stripped back.

The key to COG's success lies in its ability to effectively distribute financial products and services across its various divisions. In our view, COG should be able to deliver an NPATA of >$30m in FY25, driven by its FB&A, insurance broking, asset management and novated leasing divisions. These segments provide COG with excellent diversification in a capital light model.

Moving forward, maintaining a capital-light approach, focusing on organic growth, and simplifying the business further will be crucial for COG. We believe that with these strategies in place, a re-rating of its valuation will only be a matter of time.

COG has a successful history of acquisition and integration

Growth through more verticals

Growth by going deeper into each vertical

11 Broking and Aggregation	4 Novated Leasing	3 Asset Management & Lending	1 Financial Advisory
Linx	beCarWise	Westlawn	CAF (20%)
Heritage	Fleet Network	Equity-One	....
Sovereign	Paywise	EPY (20%)	....
QPF	Car Select	....	....
SAF	....	....	....
Access	....	....	....
Chevron	....	....	....
Centrepoint	....	....	....
CFG	....	....	....
Platform	....	....	....
UFS & NFC	....	....	....

Source: COG Financial Services 1H FY24 Results Presentation, 23 February 2024


NAOS
OUTLOOK

OUTLOOK

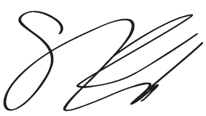
As I stated in the previous quarterly report, the outlook commentary was kept to an absolute minimum given the unique market we face within the emerging companies space. Frankly our focus of investing in companies within our circle of competence which generally have an illiquid nature has worked against us, but has no doubt been compounded by some poor investment decisions.

However, I strongly believe that our core investments which make up the majority of our portfolios have clear, credible and realistic strategies to grow their respective businesses in a capital efficient manner. Yes, some businesses such as MOV and BRI are facing short term macro headwinds, but they have also carved out unique moats and built out exceptional management teams. Both businesses are run by exceptional management teams who are highly aligned and, in our view, given their earnings leverage and the fragmented industries in which they operate, have the ability to be $50 million EBIT businesses in 5 years' time.

For the remainder of our core investments, many are already producing solid return profiles yet are being valued as if these returns will flatline over the next 2-3 years. We don't believe this will be the case and once the market realises this, we believe the valuation re-rates will be significant. As we have seen in previous cycles, once investors do not see any value in large caps, the herd starts to move down the market cap curve, and in our view, we have already started to see this in the largest small caps in the market. It will only be a matter of time before investors realise the value on offer in some of the more illiquid names in the smaller end of the market and these same investors will re-rate these valuations in a short period of time.

Thank you for your continued support.

Kind regards,



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