NAOS QUARTERLY INVESTMENT REPORT

Q1 FY25

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

Certified B Corporation

NAOS Asset Management Limited is B Corp Certified

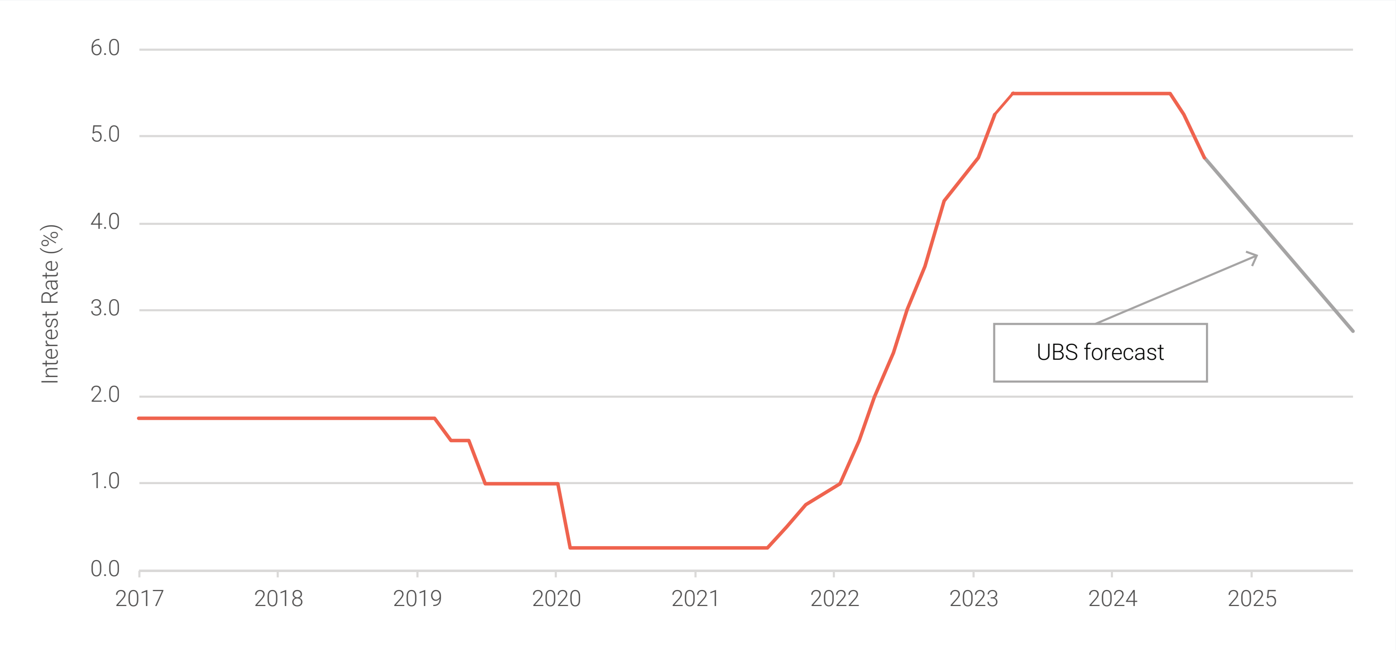
Q1 FY25 SUMMARY

Dear Fellow Shareholders,

As expected, Q1 has kept investors on their toes with the macro environment and monetary policy continuing to dominate headlines. In our view the most notable event in Q1 was the commencement of a rate cutting cycle in countries such as the UK, US and New Zealand. In the US, the rate cutting cycle started decisively, with the Federal Reserve reducing rates by 50 basis points. Interestingly, in New Zealand, an initial 25 basis point cut was promptly followed by an additional 50 basis point cut at the following Reserve Bank of New Zealand (RBNZ) meeting in early October. Australia now stands as one of the few OECD economies not to have recently cut rates, however it's also important to note that Australia was one of the last countries to raise rates at the start of the global rate increase cycle.

The narrative surrounding interest rate cuts has clearly shifted, with central banks increasingly balancing the objective of bringing inflation back to target with maintaining economic activity. There's also growing recognition of the adverse impact restrictive policy settings have had on their respective economies, particularly over the past six months. To highlight just how far interest rates may need to fall the RBNZ had set interest rates at 5.50% prior to the commencement of the cutting cycle. UBS now projects rates could fall to approximately 2.75% by October 2025.

New Zealand Cash rate

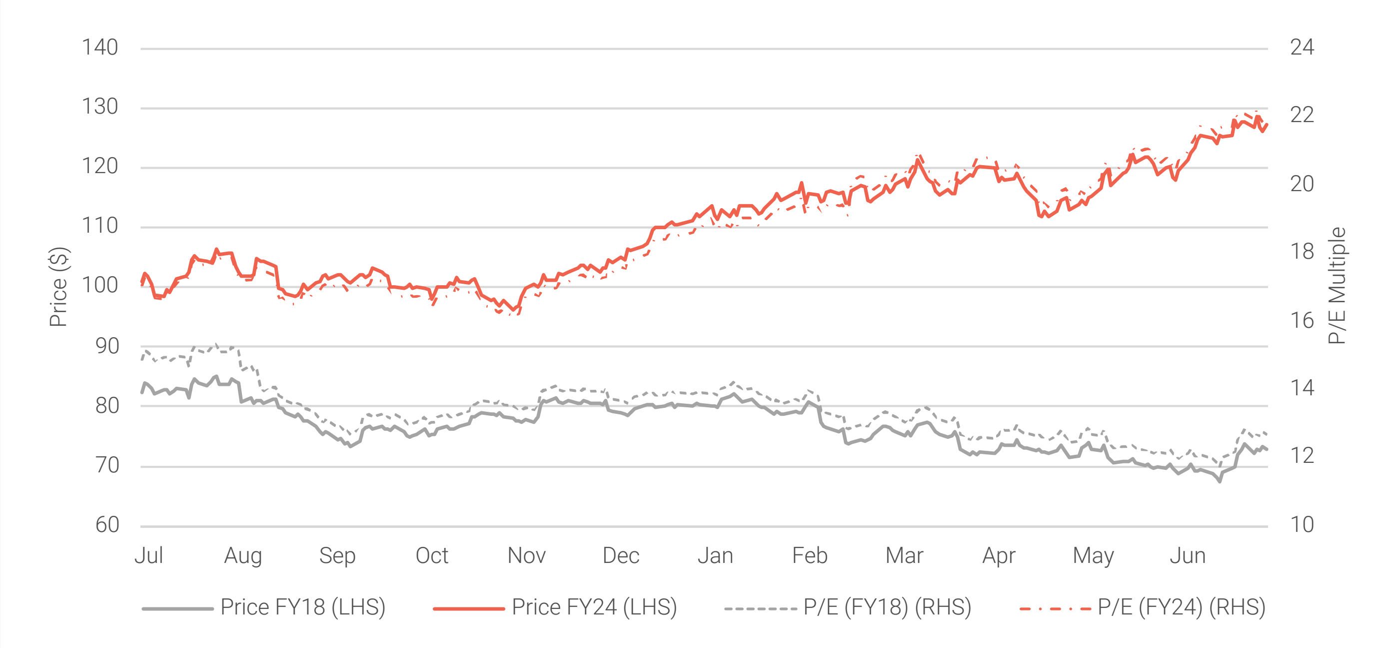


Source – RBNZ, UBS

This scenario presents a conundrum for investors. While falling interest rates can provide a valuation uplift as the risk-free rate falls, aggressive rate cuts are often indicative of underlying concerns around economic activity and stress within the economy. Such a situation can create significant headwinds for earnings, as we have seen in many companies with operations in New Zealand and, more recently, those in the US, though the impact there has been less severe.

Many experts agree that lower interest rates should lead to increased economic activity, but in our view, they should also lead to a renewed interest in riskier asset classes including emerging companies, an equally important outcome for the NAOS investment portfolios. As illustrated in the chart below, the recent record highs in equity markets have been driven by valuation multiple expansion rather than earnings growth. The chart below compares the valuation of Commonwealth Bank of Australia Ltd (ASX: CBA) shares in FY24 vs. FY18 and shows that while the value applied to CBA shares has doubled, profitability has remained flat over this period ($9.3bn in FY18 vs. $9.4bn in FY24).

CBA - Price & Valuation - FY18 vs FY24



Source - Iress

If economic activity increases and drives earnings growth, leading to higher profits for CBA, we find it hard to see how the valuation multiple will inflate further, given it is already one of the most expensive banks globally, which may potentially lead to poor shareholder outcomes on a relative basis. Conversely, many emerging companies, which should also benefit from more favourable economic conditions, are currently trading on depressed valuation multiples. As such, these companies have the potential for significant valuation multiple expansion (we would argue potentially +50%). To illustrate this, the chart below depicts the recovery of the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) following previous recessionary-type environments.

Recessionary Event	Years	Recovery Years	XSOAI Index Trough	XSOAI Index Peak	XSOAI Trough to Peak Return
'The Recession We Had to Have'	1990-1991	1992-1999	Q4 1990	Q4 1999	+214.1%
Dot Com Crash	2000-2002	2003-2006	Q3 2001	Q4 2007	+270.0%
GFC	2007-2008	2009-2019	Q1 2009	Q1 2020	+202.2%
COVID-19	2020-2021	2022-2024	Q2 2020	Q1 2022	+78.3%

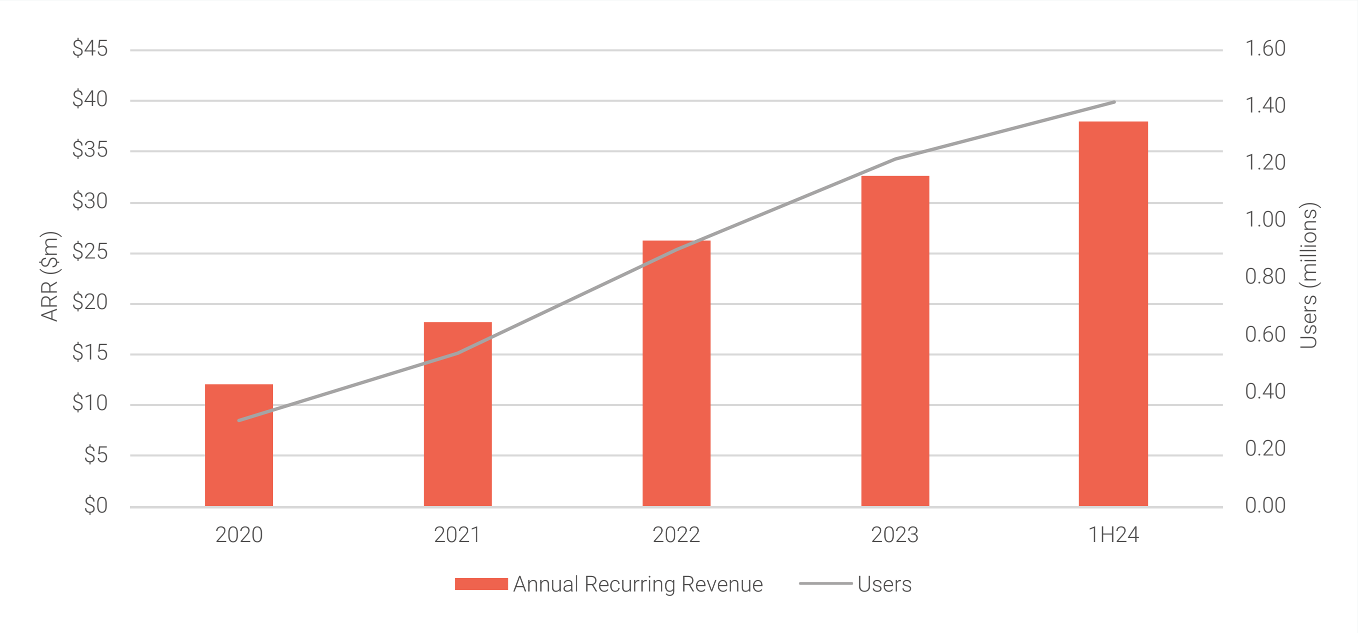
Source – Iress, NAOS

From a portfolio perspective, across the three NAOS LICs we have added several new investments during the quarter whilst reducing the size of one of our core investments (explained further below). Following the reporting season, we have become more confident in these new investments and their ability to generate outsized risk adjusted returns over the medium term (3-4 years). Additionally, these new investments are generally slightly larger and more liquid compared to our current investments, and as such we believe they will benefit more quickly as sentiment towards investing in emerging companies improves.

Below is a brief description of each business and some of the key attributes that attracted us to each investment:

- **Dropsuite (ASX: DSE)** – We have had a small holding in Dropsuite for some time and followed the business closely for a number of years. Dropsuite is a software business that is focused exclusively on the B2B market, providing backup and archiving solutions for applications such as Office 365 and Google Workspace. Over the past 4 years, Annual Recurring Revenue (ARR) has increased organically from $8.5m in 2020 to $39.9m at 1H FY24 (as shown in the below chart). In our view, this shows the product clearly resonates with its target market. As DSE continues to re-invest capital back into the business we expect DSE's moat will continue to expand without the need for external capital. Charif El-Ansari (CEO) and his team have done an excellent job of executing their strategy thus far, and we believe DSE is well-positioned for further growth in a rapidly expanding market.

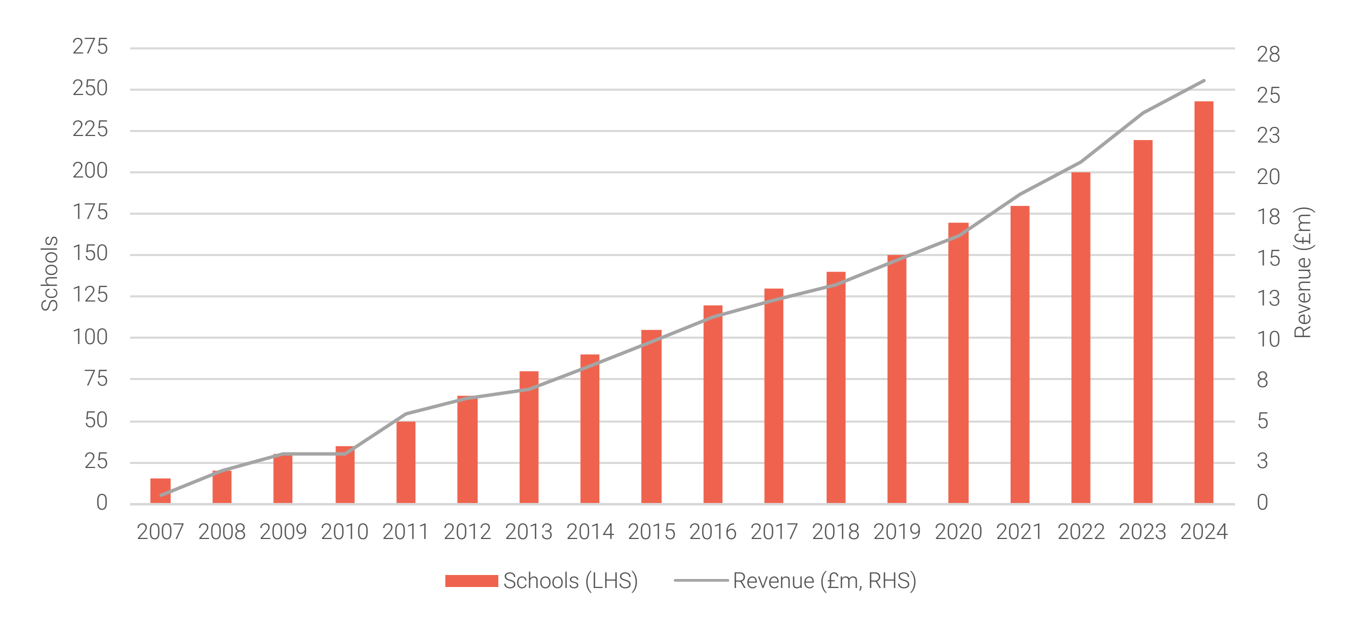
Dropsuite - ARR & User Growth



Source – Company reports

- **Hancock & Gore (ASX: HNG)** – Although structured as a listed investment company (LIC), HNG now primarily consists of one major asset: a combination of two businesses, being Mountcastle and Schoolblazer, which operate in the school uniform sector, in Australia and the UK respectively. Despite Australia's smaller population, its school uniform market is of a similar size to that of the UK. With Schoolblazer's technology and systems providing an advantage in the Australian market, we believe the combined entity has significant potential to increase market share over time. As shown in the chart overleaf, Schoolblazer has demonstrated consistent organic growth, which is impressive for a quasi-retail business, albeit one with far less discretionary characteristics than most other retailers. With exposure to the large Australian market in addition to continued market share gains in the UK, our view is that the potential for further growth in the combined business is significant.

Schoolblazer - Revenue & Schools

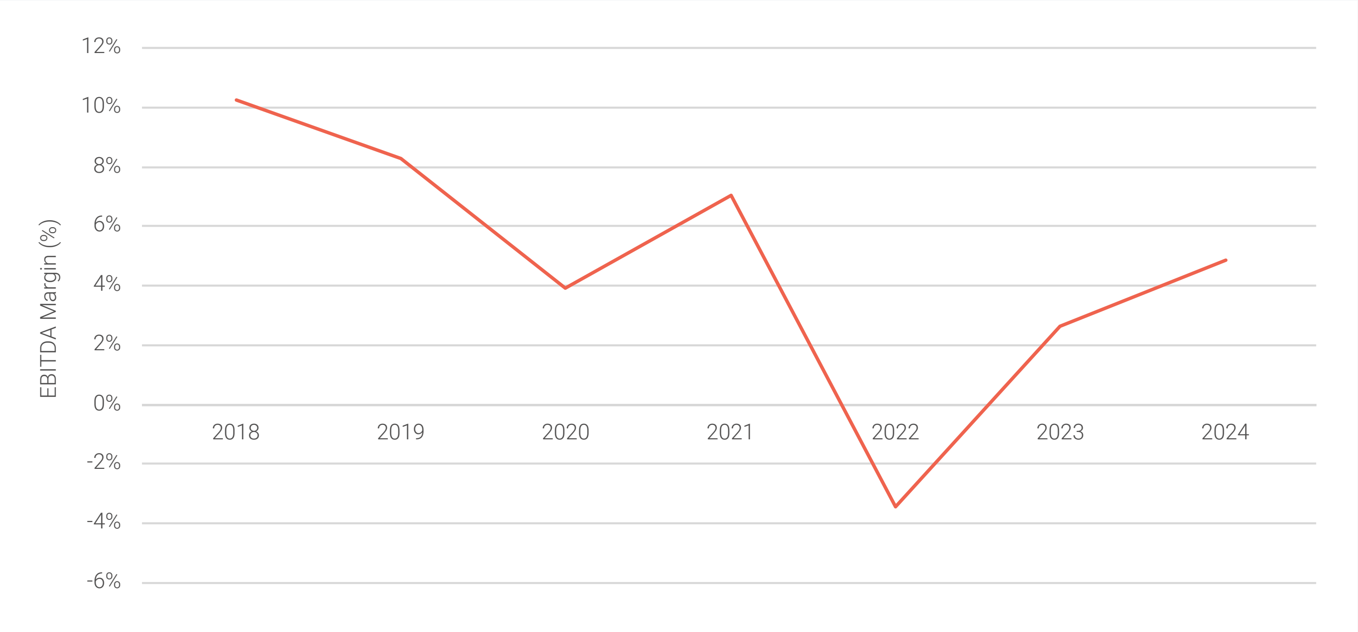


Source – Company, NAOS

- **AMA Group (ASX: AMA)** – We have followed this business since 2010, witnessing its journey from near administration to a market capitalisation of over $1 billion and then almost back again. As it stands today, AMA is Australia's largest network of smash repair operations (mainly for cars) with a revenue base approaching $1 billion. A large, heavily debt-funded acquisition, combined with inflexible contract terms with certain customers, put AMA in a precarious position as it entered the COVID period, which was further exacerbated by travel restrictions as well as staffing shortages during and after the pandemic.

  Following the recent recapitalisation and the potential sale of non-core assets, we expect AMA to be close to a net-cash position, allowing it to firmly focus on profit margin expansion. As the largest smash repair business in Australia, AMA offers its customers the advantages of dealing with a sizeable, corporatised business, which in theory should lead to better outcomes for all stakeholders. Management have stated their ambition is to reach a 9% EBITDA margin (pre-AASB) roughly over a 3-year period. Given that AMA had achieved margins close to 10% prior to COVID (as shown in the chart overleaf), we believe this goal is not only achievable, but possibly conservative. Given their scale, potential adjacencies AMA can expand into, and the fragmented structure of the industry, we believe the valuation multiple applied to AMA could increase substantially over time.

AMA Group - EBITDA Margin (pre AASB16)



Source – Company Reports

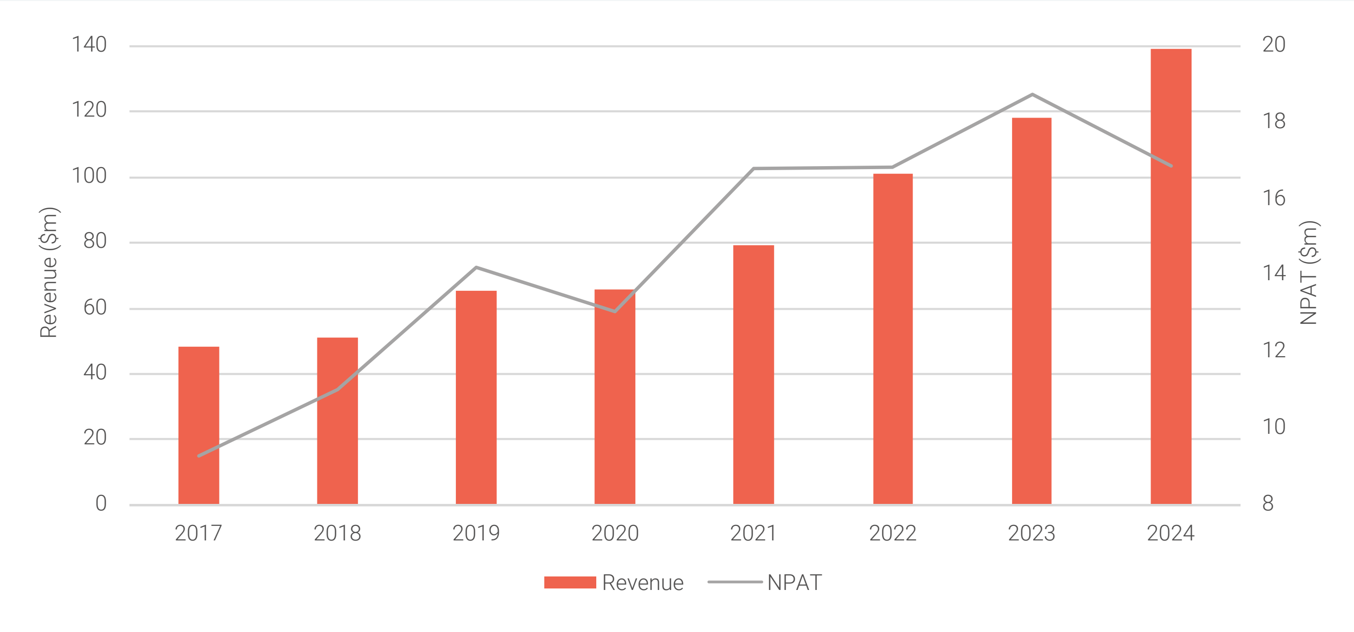
- **Event Group (ASX: EVT)** – EVT is a business that was a core investment in the NAC investment portfolio some 8 years ago. The company operates two main divisions, arguably with little commonality. The larger of the two is its accommodation and hotels division, which includes well-known brands like Rydges and QT Hotels. EVT's model for this segment involves either owning or leasing the property, or in some cases having a management contract to operate the hotel with EVT's profitability tied to the revenue of that hotel. The other main division is Event Cinemas, one of the two largest cinema chains that dominate the Australian market. EVT's share price has been under pressure over the past 18 months, primarily due to the poor performance of the cinema division. The revenue base of this business was severely affected by the shutdowns during COVID and, more recently, by the Hollywood writers' strike which has seen a slowdown in quality blockbuster films.

  At its current share price, the market values EVT below its net tangible asset backing (primarily its hotel property assets). To drive shareholder value, we expect that the earnings of the cinema business will re-rate significantly over the next 18 months given the improving outlook for blockbuster films and the fixed cost leverage of the business. Secondly, we also expect management to look at strategies to realise value that is not currently reflected in EVT's market valuation. EVT has a number of divisions as well as property development opportunities that are not valued by the market, so there could be opportunities to realise value in the near-term either through partnerships with quality operators or through the divestment of assets.

- **PWR Holdings (ASX: PWH)** – PWH is also a business that we have followed for some time. The company is a leader in cooling technology, primarily for automative applications, and more recently for aerospace applications and emerging technologies. To highlight the quality of the product that PWH manufactures, it currently supplies cooling equipment to all but one of the Formula One teams and has done so for many years. All products are manufactured in company-owned sites in Australia (Gold Coast), the UK and the US. As PWH has continued to scale at a rate of 10-20% p.a. these facilities have had to cater to this growth, which is no easy task.

  At their FY24 result PWH provided the market with more specific timelines and financial information around relocating their entire facility in the Gold Coast to a much larger and purpose-built facility nearby. Considering the scale and complexity of the move (including relocating furnaces etc.), profit growth for FY25 and potentially FY26 is expected to be minimal (or even negative in FY25). When a company is trading on a P/E multiple of >30 times, any perceived disappointment will see a significant reaction, and this occurred to the PWH share price, which fell to $9 from a recent high of closer to $12. Despite the short-term impact on profit growth, PWH has an enviable track record of consistent organic growth and high returns on invested capital (ROIC). The founder and CEO is also the largest shareholder with >10% ownership, and in our view would not be undertaking such a significant project if he did not believe in the long-term returns that it could generate. Finally, as more products go through a transition to electrification, the demand for advanced cooling equipment will increase, and we believe PWH is well placed to secure significant contracts to address these needs.

PWH - Revenue & NPAT



Source – Company, NAOS

- **Webjet Group (ASX: WJL)** – WJL was the final new investment made in Q1 FY25. WJL is the B2C business of the formerly combined Webjet businesses, which also included its B2B business. In the company updates on page 13, we provide further detail on the WJL business.

INVESTMENT PORTFOLIO PERFORMANCE SUMMARY

Investment Portfolio	Q1 FY25 Performance	1 Year Performance	3 Year Performance (p.a.)	5 Year Performance (p.a.)	Inception Performance (p.a.)
NCC Investment Portfolio Performance*	+6.62%	-17.84%	-13.11%	-3.41%	+5.75%
S&P/ASX Small Ordinaries Accumulation Index	+6.53%	+18.79%	-0.57%	+4.38%	+5.55%
NAC Investment Portfolio Performance*	-6.36%	-30.78%	-18.05%	-2.19%	+5.41%
S&P/ASX 300 Industrials Accumulation Index	+8.10%	+28.58%	+7.12%	+7.80%	+8.36%
NSC Investment Portfolio Performance*	+6.34%	-14.28%	-10.00%	-0.89%	-0.36%
S&P/ASX Small Ordinaries Accumulation Index	+6.53%	+18.79%	-0.57%	+4.38%	+5.12%

*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 September 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 30 September 2024)
BIG RIVER	**Big River Industries**	ASX: BRI	>20%	$127 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 $415 million in revenue in FY24.

bsa	**BSA**	ASX: BSA	>20%	$75 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.

COG Financial Services Limited	**COG Financial Services**	ASX: COG	5-20%	$185 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 SMEs nationwide. As at the end of FY24, COG had a ~21% market share of the Australian Asset Finance Broking market, with the COG network financing $8.9bn in assets for SMEs in FY24. COG has been highly acquisitive in recent years, acquiring finance brokers, insurance brokers, as well as funds management and novated leasing businesses.

SAUNDERS INTERNATIONAL	**Saunders International**	ASX: SND	>20%	$105 million

Saunders International Limited (SND) has expertise in engineering and construction projects, having worked across Australia for over 70 years. Today, SND has over 500 employees, who work on projects in the Energy, Water, Power, Defence, Resource and Infrastructure sectors. The projects SND executes are of critical importance to its 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.

MAXIPARTS LIMITED	**MaxiPARTS**	ASX: MXI	5-20%	$102 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 162,000 different parts across 29 sites nationwide.

	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 30 September 2024)
MOVE Logistics	ASX/NZX: MOV	5-20%	$28 million (NZX)

MOVE Logistics is one of the largest freight and logistics providers in New Zealand with its origins dating back to 1869. With a team of more than 1,100 experts, the business provides end to end supply chain services and has the capability to serve more than 3,500 customers across its large network, which includes 40 branches spread across the two main islands of New Zealand.

Urbanise.com	ASX: UBN	>20%	$28 million

Urbanise.com is an Australia-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 Middle East regions. The Urbanise Strata Platform is a market-leading accounting and administration software system used by strata managers across ~650,000 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.

BTC Health	ASX: BTC	>20%	$21 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.

Dropsuite	ASX: DSE	<5%	$239 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.

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.

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

As expected, Q1 FY25 was a highly eventful quarter with all core investments reporting their FY24 results, some of which we touch on in more detail below. Pleasingly, there were a few other notable releases outside of FY24 results from the likes of BSA Limited and BTC Health, which in our view could deliver significant long-term shareholder value.

BSA LIMITED

ASX: BSA

FY24 Results & UGL Partnership

It was fitting that after 3-years of extraordinarily hard work by the board and management of BSA that the business produced record results for FY24. For context, BSA has a market capitalisation of <$100 million, but reported FY24 EBITDA of $22.2 million and NPAT of $18.9 million (EPS of 26.2cps) for its continued business. We expect the business to be debt free by the end of 1H FY25. It is also notable that the last of the class action payments, initially settled in FY22, was made at the end of FY24.

From a business execution standpoint BSA is hard to fault. FY24 group revenue grew by >6% year-on-year, yet EBITDA increased by >37% due to EBITDA margins increasing to 8.7% from 6.8%. BSA has done an excellent job of focusing on profitable work and ensured it has met or exceeded client requirements in its execution. We expect that FY25 should follow a similar trajectory, as BSA face a 'clean year' with no further legacy issues, enabling it to continue to focus on winning more work from tier-1 clients such as NBN Co. and further improving efficiency towards its target of 10% group EBITDA margins.

Late in the quarter BSA announced that they will be partnering with UGL Group to joint tender for the upcoming nbn Field Services Contract, which will replace the current Unified Field Operations (Services) agreement with NBN Co. This tender it not expected to be awarded until mid CY25, but BSA will need to be successful to continue its 9-year relationship of working with NBN Co. By partnering with UGL, BSA is aiming to address any potential weaknesses in its offering, as UGL brings strong expertise in build-type projects, compared to BSA's focus on activation and assurance services.

UGL (part of the CIMIC Group) is one of Australia's largest contracting companies, frequently securing contracts valued at over $500 million with reputable clients such as BHP and the Australian Defence Force. In our view, the size and capability of UGL should assist BSA in putting forward a strong tender submission.

BTC HEALTH

ASX: BTC

FY24 Results & ECMO Tender Win

BTC produced what we thought was the most complete result since our time as shareholders. BTC remains a subscale business but importantly it now looks to have the platform to grow significantly. Despite a challenging environment, group revenue increased by 5% and the business produced a small loss at the NPAT level.

In September, BTC announced that it had been awarded a $5 million contract over 5 years to supply Extra Corporeal Membrane Oxygenation (ECMO) equipment to the Melbourne Royal Children's Hospital. This equipment is essentially a form of life support with life threatening illnesses or injuries that affect the function of the heart or lungs. This contract includes both the supply of the capital equipment, ongoing maintenance and the consumables required to operate the equipment.

We believe this announcement is a critical milestone for BTC, and offers significant potential over the next 12-24 months in the form of:

- **Credibility** - BTC has demonstrated its ability to succeed in public hospital tenders with tier-1 hospitals, specifically for life-saving equipment. Previously, BTC had been unable to secure such tenders, so for both equipment manufacturers and customers this concern has now been addressed.
- **Significant ECMO Market Opportunity** - The ECMO market in Australia is substantial, with 26 hospitals using ECMO machines. If BTC can fulfil and exceed the requirements of this tender, we expect it to have a realistic chance of winning several additional tenders over the next 6-24 months, which could be material compared to BTC's FY24 revenue of circa $8 million.
- **Attractive Business Model** – ECMO machines are costly, and their operation requires significant consumables. If BTC can rollout a sizeable fleet of ECMO machines, the subsequent recurring revenue from consumables will provide a solid base for organic revenue growth in the medium term.

Despite still being subscale for a listed distributor of high-end medical devices, BTC now has the necessary components in place to grow organically through further tender wins, in licensing products with existing revenue streams, and potentially through accretive M&A.

WEBJET GROUP

ASX: WJL

Demerger from Web Travel Group

WJL, one of our newer investments, recently completed a demerger from Web Travel Group (ASX: WEB). Previously, both operated under the Webjet banner for many years. WJL is essentially the consumer-facing division, familiar to many Australians as the Webjet website, offering services for searching and booking for flights, hotels, hire cars etc.

For many, WJL will be considered the poor cousin of the demerger as it is smaller in every respect, arguably ex-growth and operates a business model that some would believe is outdated. However, history has shown us that often the poor cousin spin-offs can provide significant positive shareholder outcomes over the long-term, as shown in the table on the following page.

From our perspective, a number of factors attracted us to WJL:

- **Market Leading Position** – Despite competition from large multinationals attempting to gain share in the Australian OTA (online travel agency) market, Webjet has maintained a stable market share, holding the number one position in both Australia and New Zealand. Its high brand recognition means many customers go straight to webjet.com.au rather than through paid search engines, helping Webjet maintain strong margins.

- **Capacity to Invest** – With around $100 million of available cash, WJL has significant capacity to invest in organic growth initiatives. Coupled with the renewed focus described below, in our view this should allow WJL to pursue these organic growth initiatives with a sense of urgency. We also expect WJL to explore complementary acquisitions over time.
- **Renewed Focus** – As part of the original Webjet group, WJL had to compete with the B2B business for resources, management attention and strategic focus. Now, as a standalone entity, WJL can allocate resources exclusively towards its own growth, which should in theory provide a renewed focus with a clear and concise strategic direction.
- **Large Addressable Market** – The OTA leisure market in Australia alone is substantial, and while WJL currently generates the majority of its earnings through airline ticket sales, the opportunity to sell higher margin adjacent products such as car rental, accommodation and other services is significant from both a revenue and earnings perspective.

Spin Offs & Demergers – Historical Performance

Parent Co.		Spin Off Co.		Total Shareholder Return p.a.
Name	**Stock Code**	**Name**	**Stock Code**	
TPG Telecom Ltd	ASX: TPG	Tuas Ltd	ASX: TUA	74.1%
Cardno	ASX: CDD	Intega Group Ltd	ASX: ITG	38.1%
Brambles Ltd	ASX: BXB	Recall Holdings Ltd	ASX: REC	36.1%
Intoll Group	ASX: ITO	Atlas Arteria*	ASX: ALX	20.3%
Orica Ltd	ASX: ORI	Dulux Group Ltd	ASX: DLX	18.2%
Macquarie Group Ltd	ASX: MQG	Sydney Airports Ltd	ASX: SYD	15.9%
Amcor Plc	ASX: AMC	Orora Ltd	ASX: ORA	13.1%
Foster's Group Ltd	ASX: FGL	Treasury Wine Estates Ltd	ASX: TWE	12.7%
Graincorp Ltd	ASX: GNC	United Malt Group	ASX: UMG	9.9%
Wesfarmers Ltd	ASX: WES	Coles Group Ltd	ASX: COL	9.6%
Tabcorp Ltd	ASX: TAB	Lottery Corporation	ASX: TLC	6.5%
ARN Media Ltd*	ASX: A1N	NZME Ltd	ASX: NZM	6.1%
National Australia Bank Ltd	ASX: NAB	Virgin Money UK Plc*	ASX: VUK	3.4%
Toll Group Ltd	ASX: TOL	Asciano Ltd	ASX: AIO	0.7%
Fairfax Media Ltd	ASX: FXJ	Domain Holdings Ltd	ASX: DHG	-0.6%
Woolworths Group	ASX: WOW	Endeavour Group Ltd	ASX: EDV	-4.4%
Tabcorp Ltd	ASX: TAB	Star Entertainment Group Ltd*	ASX: SGR	-10.2%
WEB Travel Group*	ASX: WEB	Webjet Ltd	ASX: WJL	N/A

Source – Company Reports, NAOS. Note - Total Shareholder Return is calculated from the opening price on date of demerger to 10 October 2024.

*Either Parent Co or Spin off has had a name change.

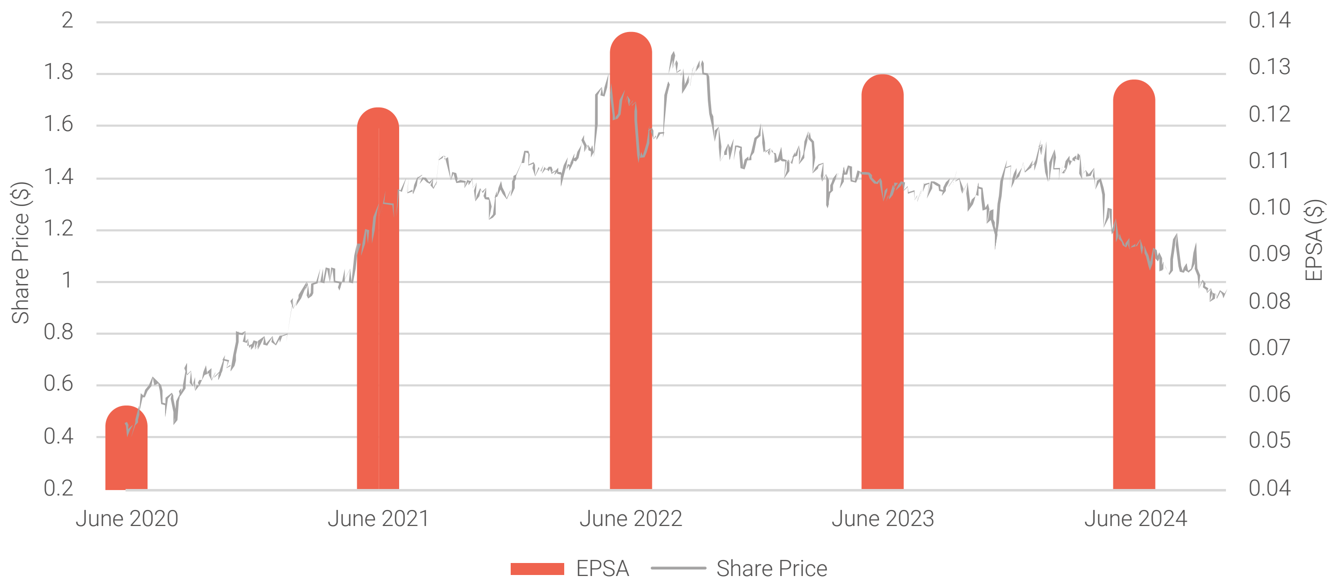
COG FINANCIAL SERVICES LTD

ASX: COG

Overview – FY24 Result & NAOS Divestment of 40%

COG delivered a satisfactory FY24 result which saw headline NPATA remaining essentially flat year-on-year. However, when excluding the non-core earnings from the TL Rentals lease book (which is currently in run-off), NPATA increased by +12%. At an EPS level, growth was flat due to an increase in shares on issue, as shown in the chart below. What has always attracted us to COG is the low working capital requirements and excellent cash flow generation of the three aggregation businesses, which again delivered an outstanding cash result, supporting a strong dividend profile.

COG Financial Services - Share Price Vs EPSA



Source – Company Annual Reports, Koyfin

Toward the end of August, we sold down ~40% of our investment in COG following the release of the FY24 results. In our view the primary issue with COG has been the valuation applied to its business by the market, which has seen a significant decline over the last 12 months. At the time of writing the P/E based on FY24 earnings is now below 8 times.

We strongly believe that the valuation applied to COG is reflective of two main factors. Firstly, the complexity of COG's structure, with divisions that are valuable in their own right but offer little complementary benefits as a group. Secondly, in our view, some of the capital management decisions in relation to acquiring minority interests in other ASX listed businesses, have added complexity without providing meaningful benefits to shareholders. We believe this capital could have been better used to continue to grow COG's core businesses and build out its organic growth capabilities.

We have no doubt that COG shares are undervalued and that in our view the best way to realise this value may be to divest each division to willing and capable buyers i.e. COG's Finance Broking & Aggregation (FB&A) division to a large finance or mortgage broking group, while their novated leasing business would likely attract significant interest.

At a minimum, we believe that COG should sell its minority investments in Earlypay (ASX: EPY) and Centrepoint Alliance (ASX: CAF), as well as divest Westlawn (the funds management division), which we believe detracts from overall earnings. The proceeds could then be used to continue to scale the FB&A and novated leasing divisions. We believe that simplifying the COG business and adopting a focused and consistent capital management strategy could lead to a significant re-rate in the share price.

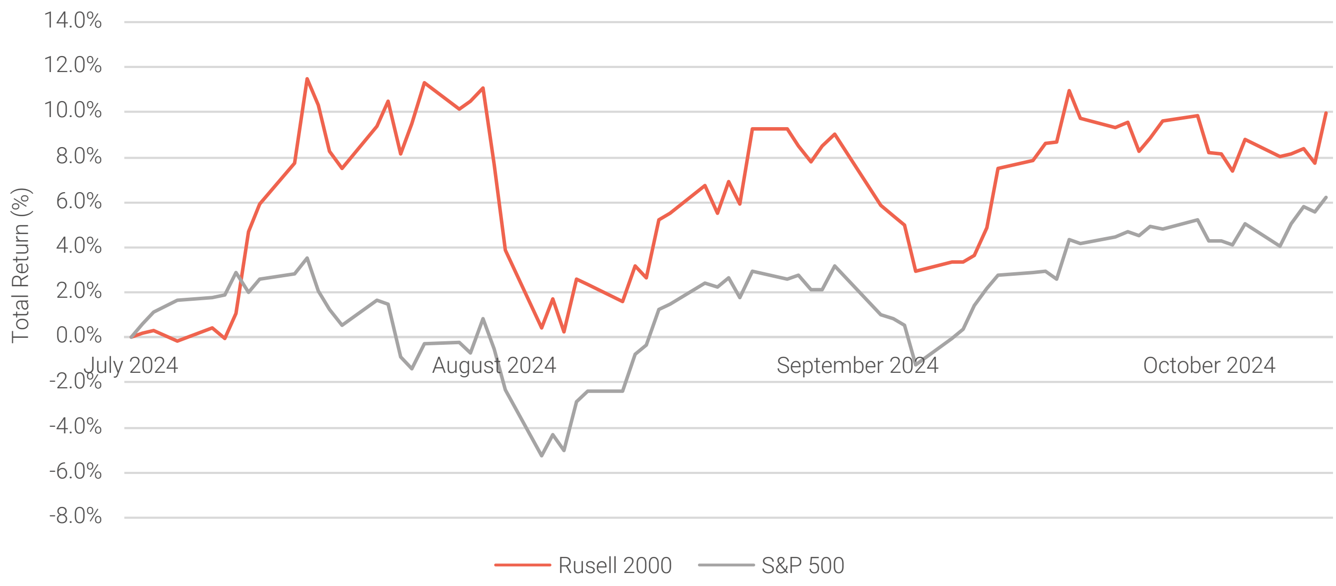
SUMMARY

SUMMARY

Pleasingly 2 of the 3 NAOS LICs have produced reasonable returns for Q1 FY25, despite the fact that some of our largest investments delivered total shareholder returns over the period of 0% or less during the quarter. It is becoming clearer that we are starting to see renewed demand, or at the very least increased renewed attention, in the smaller businesses of the ASX. This aligns with our belief that share prices in these businesses will begin to rise well before we see any significant growth in profits.

Interestingly, in the US, the Russell 2000 Index has outperformed its larger counterpart, the S&P 500, since 1 July, for the first time since the start of CY2022. While three months of performance does not yet establish a sustainable trend, it may represent the beginning of a small cap renaissance.

Russell 2000 vs S&P 500



Source - Koyfin
Note – Performance from 1/7/2024 to 18/10/2024

Over October and November, many listed businesses will provide trading updates at their AGMs and give clarity on how Q1 has fared from a revenue and profit perspective. This will be particularly relevant for businesses with more economically sensitive models, such as those in residential construction and logistics, and/or a heavy exposure to the eastern seaboard, which is currently facing tougher conditions compared to South Australia and Western Australia.

We expect some of our turnaround-type investments such as Urbanise.com Ltd (ASX: UBN) and Move Logistics Group Ltd (ASX/NZX: MOV) to provide updates on their respective strategies, the traction they are seeing, as well as the pace of strategy execution. For UBN, the focus will be on reaching free cash flow (FCF) breakeven and securing a reputable partner in the banking sector. For MOV, it will centre on the new CEO's (Paul Millward) strategy to stabilise the finances and return the business to profitability as soon as possible, before looking to capitalise on the opportunities that originally attracted us to the business two years ago.

While these updates are clearly important from a quantitative perspective, the impact on investor confidence is arguably more important at this stage of the emerging equities bear market. Historically, share prices tend to move ahead of any significant change in earnings (both negative or positive) and we don't expect this cycle to be any different. If companies can at the very least confirm conditions and earnings have stabilised, with early signs of improvement, it would likely have a meaningful impact on investor sentiment.

The tables below are from our recent national investor roadshow presentation. The first table highlights just how low the valuation multiples currently applied to many of our emerging company investments are today. The second table, which includes a number of our more recent investments, highlights companies that despite their heightened execution risk, offer what we believe to be attractive valuations when taking a 2–3-year horizon.

Potential FY25 Valuation Upside May Be Significant

Company	ASX Code	Share Price	Implied P/E Multiple
Saunders International Ltd	ASX: SND	$0.89	9.5
BSA Ltd	ASX: BSA	$0.95	3.4
MaxiPARTS Ltd	ASX: MXI	$1.845	12.1
COG Financial Services Ltd	ASX: COG	$0.945	7.2
Big River Industries Ltd	ASX: BRI	$1.50	12.7
Hancock & Gore Ltd	ASX: HNG	$0.31	13.2

*ARR = annualised recurring revenue.
Share prices as at 26 September 2024.

Company	ASX Code	Share Price	Implied ARR* Multiple
Urbanise.com Ltd	ASX: UBN	$0.44	2.0
Dropsuite Ltd	ASX: DSE	$3.44	3.2

Share prices as at 26 September 2024.

Implied Valuations for Investments with Increased Execution Risk

Company	ASX Code	NAOS Target	Timeframe	Implied P/E Multiple
AMA Group Ltd	ASX: AMA	8% EBITDA Margins	End FY26	7
EVT Ltd	ASX: EVT	Pre-COVID EBITDA	End FY26	17
Move Logistics Group	ASX/NZX:MOV	3.50% EBIT Margins	End FY26	8
PWR Holdings Ltd	ASX: PWH	15% EBIT Margins	End FY27	29

Myself and the entire NAOS investment team are fully committed to restoring and maximising value for all NAOS LIC shareholders, and whilst it has been a positive start to FY25 for 2 of the 3 LICs, it is imperative that this trend continues. Importantly, we firmly believe we currently hold the investments to do this, and as economic conditions improve and investor sentiment shifts, these types of businesses should be primed for significant and sustainable re-ratings.

We appreciate your continued support and for placing your faith in our ability to deliver excellent long-term outcomes, especially over the past 24-months.

Kind regards,

Sebastian Evans

Managing Director and Chief Investment Officer
NAOS Asset Management Limited

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Certified
B
Corporation

(02) 9002 1576 enquiries@naos.com.au **www.naos.com.au**