



NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED (ASX: NSC)

ABN 47 107 617 381

12 November 2024

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

Annual General Meeting 2024 – 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 9:45am (AEDT).

Authorised by:

Rajiv Sharma
Company Secretary

Chair's Address

Annual General Meeting of NAOS Small Cap Opportunities Company Limited
12 November 2024, 10:30am (AEDT)

Held at The Macquarie Room, State Library of NSW, 1 Shakespeare Place, Sydney, NSW,
2000

Dear Fellow Shareholders,

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

The Board declared and paid a fully franked final quarterly dividend of 1.25 cents per share, bringing the FY24 full-year dividend to 5.0 cents per share, and maintaining the dividend level of the previous year. This represents a net dividend yield of 11.36% based on the 30 June 2024 share price. The Company has now declared a total of 33.50 cents per share of dividends since its inception in December 2017, all of which have been fully franked.

The Company will continue to focus on delivering a sustainable stream of quarterly dividends, franked to the maximum extent possible, whilst maintaining an adequate profit reserve balance to enable the Company to pay dividends in periods when it is more challenging to generate significant performance. The profit reserve balance at year end was \$16.8 million, or 12.4 cents per share.

Without doubt, FY24 has been a difficult year for the Company from a performance perspective. The Company recorded an after-tax loss of \$24.28 million (FY23: after-tax profit \$2.61 million), with the NSC Investment Portfolio returning -22.93% for the financial year, compared to the benchmark index, the S&P/ASX Small Ordinaries Accumulation Index, which returned +9.34%.

The FY24 financial year was a strong one for the broader Australian equity market. Local investors have increasingly taken the view that the peak of the interest rate hiking cycle has been reached, and their risk appetite for the largest, most liquid equities, and technology stocks has returned. The returns generated by the NSC Investment Portfolio did not follow suit, with its exposure to generally smaller, more illiquid and cyclical businesses having a detrimental impact on performance in this environment. This was compounded by the continued appetite for more passive investment strategies focusing on the largest and most liquid equities, resulting in a significant dislocation in valuation between small and large listed businesses.

The macro-economic environment throughout FY24 was one characterised by softer demand, higher inflation/input costs for businesses and pressure on households. The growth in gross domestic product, according to the RBA's most recent June decision's Board Minutes, has been "weak, reflecting subdued activity in the more interest rate-sensitive parts of the economy, such as retail spending and housing construction". It is important to note that the Reserve Bank's latest commentary indicated that it is considering another rate rise, as it remains focused on bringing inflation back to target levels. The Company is committed to staying true to its investment philosophy of providing exposure to businesses which have sufficient durability to both withstand macro-economic headwinds and return to growth when conditions are more accommodating.

The pre-tax Net Tangible Asset backing (NTA) per share of the Company decreased from \$0.80 to \$0.50 over the financial year. The impact of gearing in the Company magnifies the impact of the investment portfolio performance on the NTA per share. The NSC share price discount to pre-tax NTA closed slightly throughout the year, finishing at -12.0% at 30 June 2024.

The Board remains committed to further closing this discount to ensure shareholder returns are maximised over the long-term, through an active capital management strategy and other initiatives including:

- **On-market Share Buyback** – 2.9 million shares were bought back over the course of the financial year and the Company has now bought back 34.3 million shares, or 20.3% of shares on issue since the buyback commenced in April 2019. The Directors believe that a share buyback program is a vital part of its 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 at not only at a discount to the current NTA of the Company, but at what may prove to be a greater discount to the potential future value of the investee companies.
- **No Dilutionary Share Issues** – For those shareholders who participate 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 potential dilution for existing shareholders.
- **Dividends** – The Company will continue to focus on delivering a sustainable stream of quarterly dividends, franked to the maximum extent possible while maintaining an adequate profit reserve balance.
- **Shareholder Communications** – The Board places significant value on timely, transparent and informative shareholder communications, ensuring that shareholders are aware of the Company's performance, investment philosophy and strategy. These communications, in the form of national roadshows, quarterly webinars with external CEO presentations, educational pieces, and blogs, is particularly important in times of market volatility.
- **Alignment** – The Board and Investment Manager have increased their ownership of NSC shares significantly since inception and continued to do so over FY24. In addition, in May 2024, the Investment Manager committed to reinvest up to 15% of its management fees each month to purchase NSC shares on-market, as a 'Fee Reinvestment Commitment'. As at the end of the financial year, Directors own a total of 2.7 million NSC shares.
- **Differentiated and Consistent Investment Strategy** – The Company continues to follow its investment strategy and there will be no significant deviation from this over the long-term, ensuring that all shareholders understand what the Company is aiming to achieve. The Board believes the strategy is unique and differentiated, with little scope for it to be replicated.

Despite the headwinds presented by the macro environment which may continue to prove challenging for smaller companies, as we enter FY25, the Board strongly believes that the NSC investee companies will emerge from the current challenging economic conditions in a manner that can deliver the long-term returns that our shareholders expect.

On behalf of the Board of Directors I would like to thank all shareholders for their ongoing support especially in these difficult times, and I would also like to thank the Investment Manager for their efforts and dedication throughout the financial year.

David Rickards OAM
Independent Chair
NAOS Small Cap Opportunities Company Limited