



NAOS EMERGING OPPORTUNITIES COMPANY LIMITED (ASX: NCC)

ABN 58 161 106 510

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 Emerging Opportunities Company Limited to be held today at 10:30am (AEDT).

Authorised by:

Rajiv Sharma  
Company Secretary

## Chair's Address

### Annual General Meeting of NAOS Emerging 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 your continued support throughout the financial year and welcome all new shareholders who joined our Company in FY24, which marked the 12th year of operations for the Company.

The Board declared and paid a fully franked final dividend of 2.00 cents per share, bringing the FY24 full-year dividend to 5.75 cents per share. This represents a full-year dividend yield of 13.86% based on the 30 June 2024 share price of \$0.415 and a grossed-up yield of 16.97%.

The final dividend marks the first reduction in dividend that NCC has made since its inception. The Board is acutely aware of the need for tax effective income for many of our shareholders and such a decision has not been taken lightly. The pre-tax Net Tangible Assets per share (NTA) has decreased over the past 2-3 years as a result of the performance of the NCC Investment Portfolio, in addition to the high dividend yield over this time period. Maintaining the annual dividend level of 7.50 cents per share would represent a yield of 17.44% to the 30 June 2024 pre-tax NTA, which the Board believes to be too high at present.

The Board believes that a final dividend of 2.0 cents per share represents a sustainable dividend amount, and also enables the dividend to be fully franked. This is more reflective of the dividend income received from the investee companies and thus enables dividends to be sustained without eroding the capital base of the Company. It also allows for more capital to remain within the Investment Portfolio at a time when emerging companies are trading at a large disparity to their larger counterparts.

The Company has now declared a total of 78.25 cents per share of dividends since its inception in February 2013, or 105.85 cents per share inclusive of franking credits. The Company will continue to focus on delivering a sustainable stream of dividends, franked to the maximum extent possible, while maintaining an adequate profit reserve balance to enable the Company to pay dividends in periods when it is more challenging to generate significant performance.

FY24 was a challenging year for the Company from a performance perspective. The Company recorded an after-tax loss of \$17.66 million (FY23: after-tax loss of \$0.46 million), with the NCC Investment Portfolio returning -26.49% for the financial year, compared to the Benchmark Index, the S&P/ASX Small Ordinaries Accumulation Index, which returned +9.34%.

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. With an exposure to generally smaller businesses that are more economically sensitive, this had a detrimental effect on the returns generated by the NCC Investment Portfolio.

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 most recent commentary did make provisions that it considered another rate rise, as it continues to focus on returning inflation 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 \$0.81 to \$0.43 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 NCC share price traded close to pre-tax NTA for most of FY24, closing the year at a -3.49% discount to NTA. A well-articulated and executed capital management strategy is of great importance for many listed companies and NCC is no different.

The Board remains focused on maximising long-term value for all shareholders and aims to ensure effective capital management strategies are implemented based on current circumstances to achieve this.

As part of this capital management strategy, there are also a number of other important factors that the Directors closely monitor, not only to maximise value for shareholders, but to ensure the share price of NCC trades as closely to pre-tax NTA as possible.

These include:

- **No Dilutionary Share Issues** – For those shareholders who participate in the Dividend Reinvestment Plan (DRP) it is important to note that if shares are trading at a discount to NTA the Company acquires shares on-market to ensure this capital management activity is completed without any potential dilution for existing shareholders.
- **Dividends** – The Company will continue to focus on delivering a sustainable stream of 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. This communication, 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 continued to increase their ownership of NCC shares and have increased their holdings significantly since inception. In May 2024, the Investment Manager also committed to reinvest up to 15% of its management fees each month to purchase NCC shares on-market, as a 'Fee Reinvestment Commitment'. As at the end of the financial year, Directors own a total of 5.6 million NCC 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 NCC 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.

Sarah Williams  
Independent Chair  
NAOS Emerging Opportunities Company Limited