NAOS QUARTERLY INVESTMENT REPORT

Q2 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

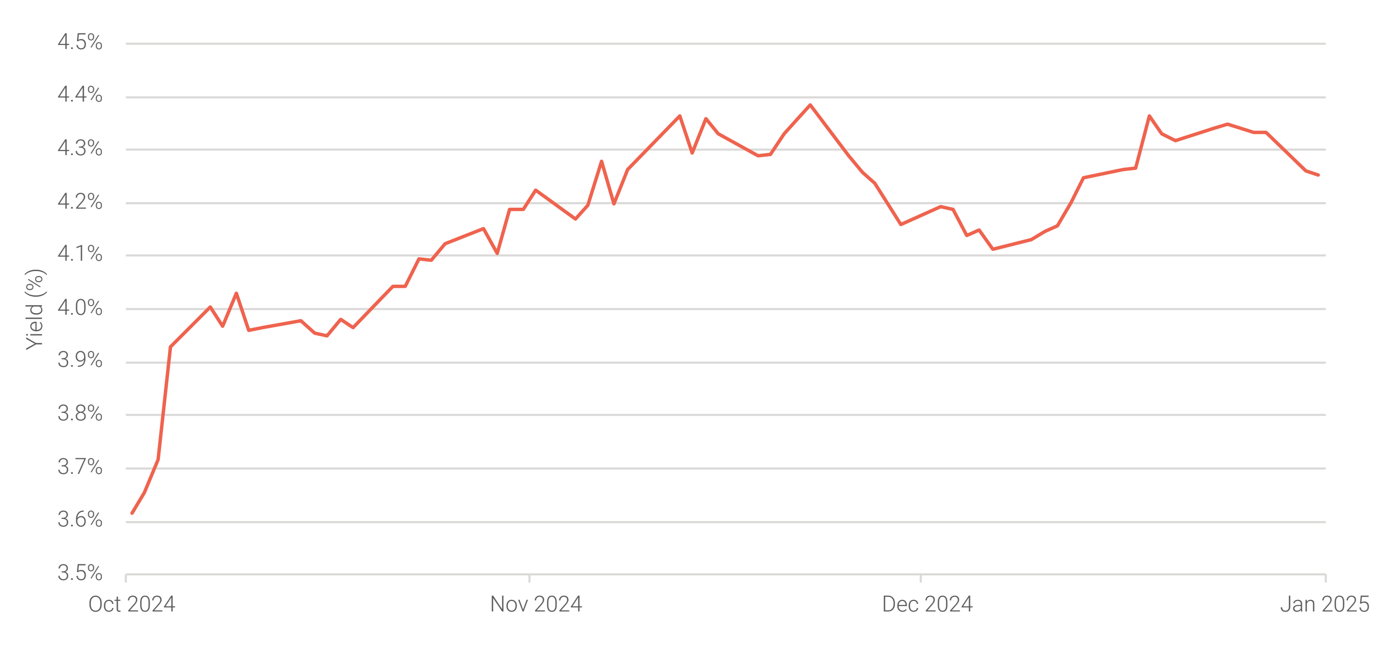
NAOS Asset Management Limited is B Corp Certified

Q2 FY25 SUMMARY

Dear Fellow Shareholders,

It was an eventful end to the 2024 calendar year (CY) which saw US voters put Donald Trump back into office and the US Federal Reserve cutting interest rates by 100 basis points, albeit with a surprisingly hawkish outlook. This change in outlook by the Fed saw bond yields rise by 40 basis points in December alone.

US Government Bond - 2 Year Yield (%)

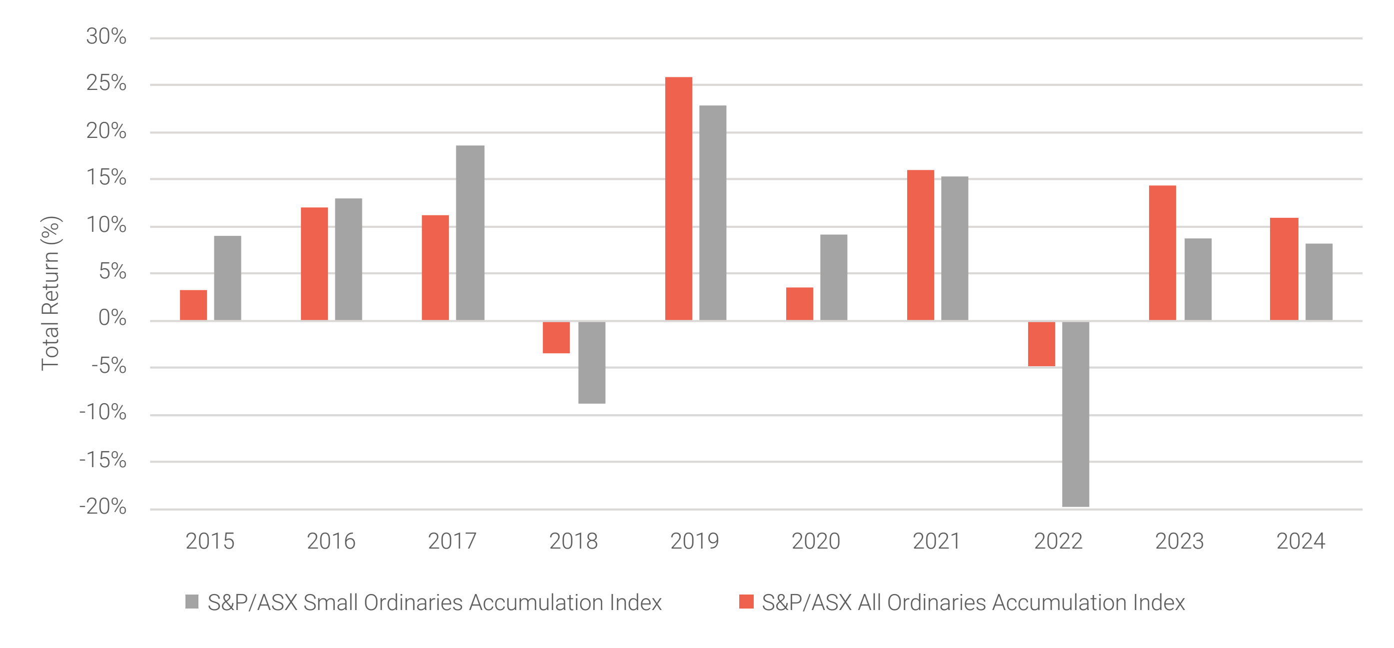


Source - Koyfin

For the CY, the ASX-200 Accumulation Index increased by +11.3%, even after falling -3.2% in December and after posting double digit gains in CY23. Unlike CY23, returns in CY24 were overwhelmingly driven by an increase in company valuations and dividends against a backdrop of marginal earnings growth. For example, the banking sector was the second-best performing sector in the ASX-200, providing an average return of ~30%, however 80% of this return was derived from valuation increases and the balance from dividend yields. On the flipside, technology stocks (represented within the S&P/ASX All Technology Accumulation Index) rose by +42.6%, though this was driven by earnings growth as high valuation multiples remained stagnant. Resources (being the S&P/ASX 200 Resources Index) felt the brunt of investor selling (down -20%) as weaker Chinese growth drove prices for iron ore and steel lower, and the lithium price decreased to record lows on the back of subdued demand for electronic vehicles (EVs).

The S&P/ASX Small Ordinaries Accumulation Index (XSOAI) continued to lag its larger counterpart with a CY return of +8.4%. For context, the XSOAI has produced a +2.75% p.a. return over the last 4 calendar years, even with the tailwind of higher valuations for technology and biotechnology stocks; highlighting the weakness in resources and industrials. We need to look back to 2015-2017 as the last sustained period when small companies outperformed their larger counterparts, as shown in the chart on the following page.

S&P/ASX Small Ordinaries Accumulation Index Vs S&P/ASX All Ordinaries Accumulation Index - Total Return



Source – Koyfin

As we have stated before, we believe there is an arm wrestle taking place between the flow of passive money into index funds and value-oriented active managers. Looking back over CY24, the below table highlights some of the largest and most well-known companies on the ASX and shows that the majority demonstrated large double-digit returns, well in excess of the broader market. However, as the figures below show, there was very little EPS growth. In fact, over the last 5 years, EPS growth for the majority of the stocks below has been anaemic at best. While this arm wrestle may continue for some time, we strongly believe investors will look for earnings growth which will put pressure on the high multiples that some of these businesses find themselves on.

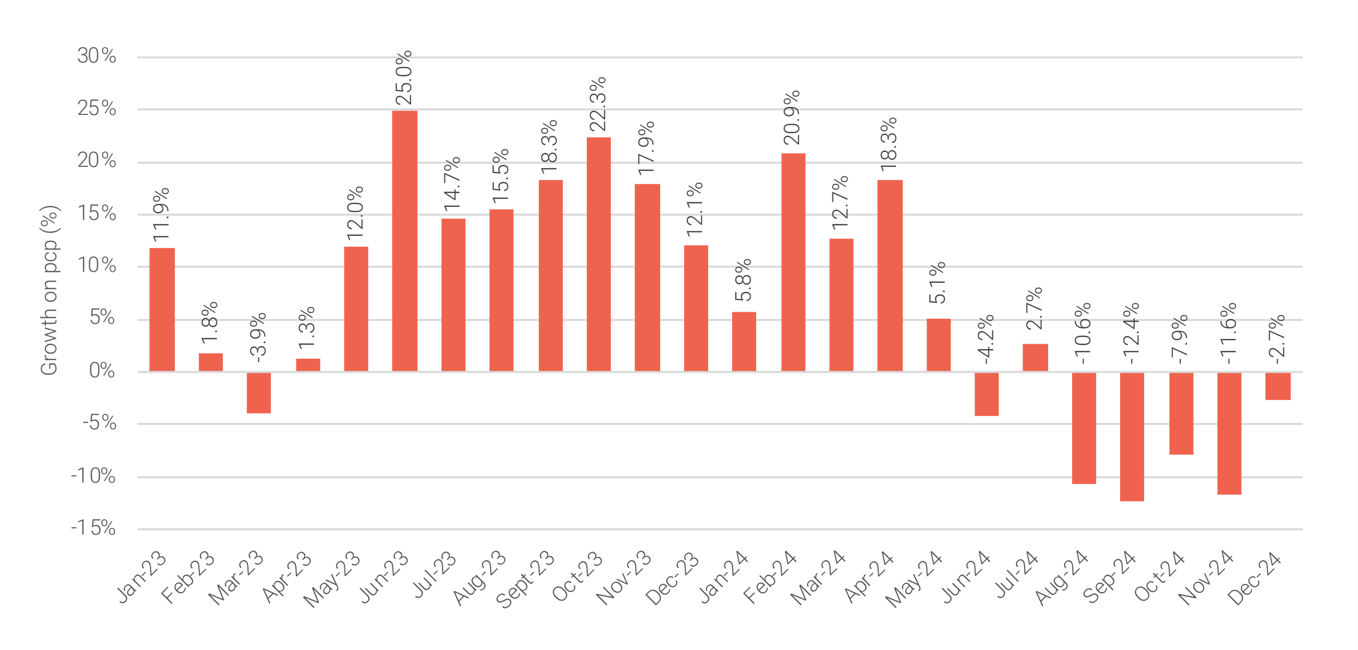
Ticker	Company Name	Market Cap ($bn)	1 Year Total Return	EPS Growth - 1 year	EPS Growth - 5 Years (p.a.)	P/E
CBA.ASX	Commonwealth Bank	$261.4	42.14%	-0.29%	5.24%	27.57
CSL.ASX	CSL Ltd	$132.4	-5.43%	20.21%	5.21%	31.31
NAB.ASX	National Australia Bank	$119.5	29.89%	-4.24%	2.38%	17.06
WBC.ASX	Westpac Banking Corporation	$112.3	48.95%	-2.14%	1.69%	16.30
MQG.ASX	Macquarie Group	$90.5	33.93%	-32.28%	22.24%	24.41
ANZ.ASX	ANZ Group Holdings	$89.9	20.45%	-8.09%	6.54%	13.84
WES.ASX	Wesfarmers Ltd	$82.7	30.51%	3.63%	6.91%	32.29
GMG.ASX	Goodman Group	$72.4	58.75%	14.15%	-	32.12
RMD.ASX	ResMed Inc.	$57.1	50.61%	13.38%	17.63%	30.76
TLS.ASX	Telstra Group	$46.3	3.68%	-15.56%	-4.89%	28.36
ALL.ASX	Aristocrat Leisure	$44.3	61.65%	-7.95%	15.43%	34.46

Source - Bloomberg

Many annual general meetings (AGMs) were held in October and November and given the highly variable nature of demand within the Australian economy, the majority of companies provided detailed trading updates. The key narratives that we took away from AGM season included:

- Increasing pressure on interest rate sensitive consumers resulted in a pronounced slowdown in certain sectors, such as new car sales and domestic and international travel. Further granularity was provided by FCAI (Federal Chamber of Automotive Industries) CEO Tony Weber who said that while sales were strong in the first half of 2024, the momentum in the market was lost as the year progressed (as shown in the chart below): "The second half of the year showed a concerning trend with sales in the Private segment falling to very low levels as interest rates and general cost of living pressures impacted Australian families."

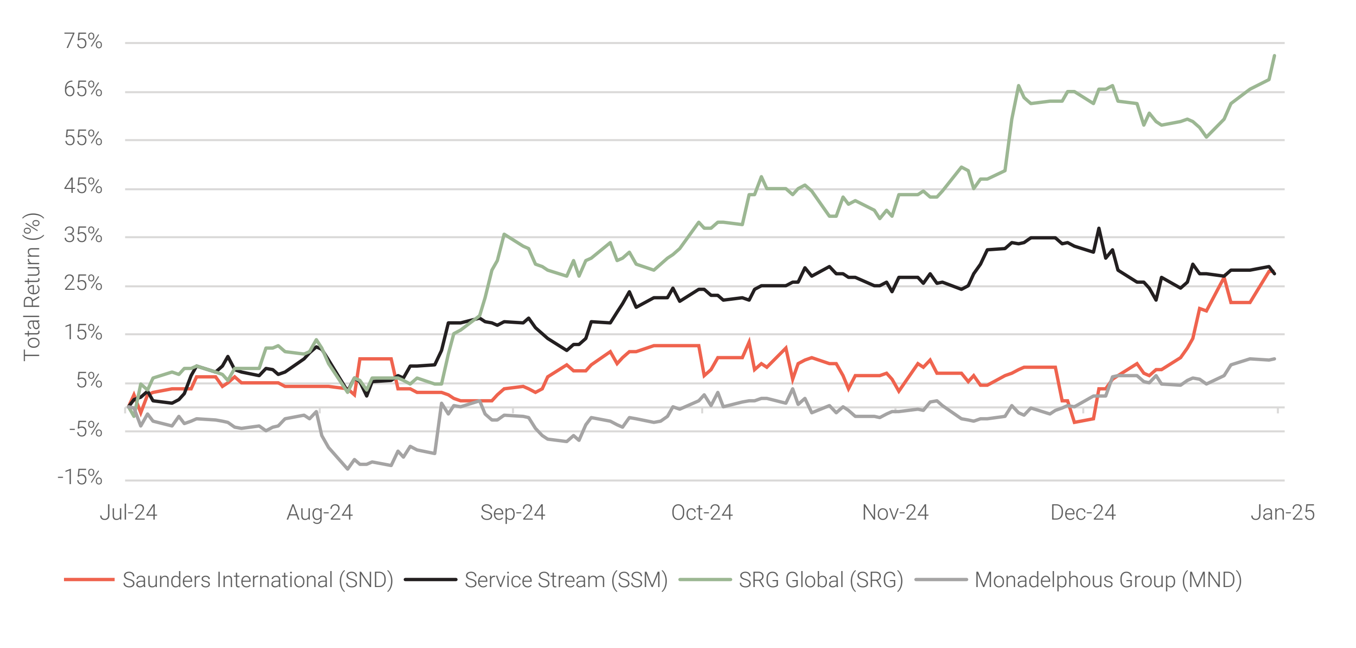
Australia New Vehicle Sales



Source – VFACTS, Ord Minnett Limited

- More businesses focused on achieving near-term efficiencies and protecting profit margins in the face of variable demand. This is now spreading to businesses that have generally been consistent growth businesses, an example being high-quality manufacturer PWR Holdings Limited (ASX: PWH) which stated in its recent trading update that "we are reducing our cost base to be more aligned to the current trading environment".
- Retailers appear to be incrementally more positive coming out of Black Friday with consumer activity anecdotally high and gross margin pressure manageable. Christmas and post-Boxing Day activity has been harder to gauge as there is a risk that the November Back Friday sales increasingly 'pull forward' demand with consumers unwilling to spend further into December, January and February. There is also a risk that many consumers will be repaying debt and buy now pay later facilities over the next few months, providing a weak backdrop for retailers.
- The ongoing stimulus within the infrastructure sector has seen contracting businesses post solid trading updates and release more buoyant outlook statements than the wider market. This has given investors an impetus to apply a valuation re-rate to many of these businesses, even in the smaller end of the market, as they become increasingly comfortable with the medium-term earnings outlook. The chart on the following page shows some examples of ASX listed contracting businesses that have seen strong share price performance over the last six months.

6-month Performance - Contractors (Total Return)



Source - Koyfin

Across the ditch in New Zealand, it's worth highlighting the economic growth figures which were released in December. The New Zealand economy sank into recession during the September quarter with Gross Domestic Product (GDP) reducing by -1%, and the prior reading for the June quarter revised downwards to -1.1%. As we have previously commented on, the Reserve Bank of New Zealand (RBNZ) has had a significant change of heart which has seen interest rates reduce by 1.25% since September, to a current level of 4.25%. It is now obvious why this change of heart has occurred. Unlike in Australia, the clear majority of mortgage holders in New Zealand hold fixed rate mortgages with 3–5-year terms which ultimately means that the effect of interest rate cuts is delayed with consumer confidence increasing sharply but no improvement in economic activity yet. Consensus economic forecasts now expect interest rates in New Zealand to be <3% by the end of CY25.

Finally, a number of market commentators have been talking up a renaissance of the initial public offering (IPO) market. Clearly there are many investments held by private equity managers, or unlisted investments held by equity managers, that will require an exit and/or capital event, and the IPO route is often the most lucrative outcome from a vendor's perspective. Late in the CY, as per the table below, we saw a few larger IPOs test the market and raise the required capital to IPO but ultimately the returns to date for new shareholders have not been ideal. Having said this, as long-term investors we do appreciate that in the short term, share prices are at the behest of Mr Market and not necessarily reflective of company fundamentals.

Company	Ticker	Amount Raised ($ million)	Return from listing to 31 December
Cuscal Limited	CCL	336.8	-9.6%
Symal Group	SYL	136.0	-8.1%
DigiCo Infrastructure REIT	DGT	1,995.0	-11.0%

Source - Iress

INVESTMENT PORTFOLIO PERFORMANCE SUMMARY

Investment Portfolio	Q2 FY25 Performance	1 Year Performance	3 Year Performance (p.a.)	5 Year Performance (p.a.)	Inception Performance (p.a.)
NCC Investment Portfolio Performance*	+3.28%	-12.18%	-12.92%	-2.85%	+5.91%
S&P/ASX Small Ordinaries Accumulation Index	-1.01%	+8.36%	-1.57%	+4.01%	+5.34%
NAC Investment Portfolio Performance*	-1.02%	-29.42%	-18.11%	-3.14%	+5.17%
S&P/ASX 300 Industrials Accumulation Index	+2.23%	+21.22%	+7.73%	+8.33%	+8.38%
NSC Investment Portfolio Performance*	-4.31%	-17.61%	-12.98%	-1.32%	-0.96%
S&P/ASX Small Ordinaries Accumulation Index	-1.01%	+8.36%	-1.57%	+4.01%	+4.78%

*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 December 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 December 2024)
BIG RIVER	**Big River Industries**	ASX: BRI	>20%	$111 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.

		ASX Code	NAOS % Ownership	Market Cap
bsa	**BSA**	ASX: BSA	>20%	$74 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 Limited	**COG Financial Services**	ASX: COG	5-20%	$195 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.

		ASX Code	NAOS % Ownership	Market Cap
SAUNDERS INTERNATIONAL	**Saunders International**	ASX: SND	>20%	$123 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.

		ASX Code	NAOS % Ownership	Market Cap
MAXIPARTS LIMITED	**MaxiPARTS**	ASX: MXI	5-20%	$104 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 31 December 2024)
MOVE	MOVE Logistics	ASX/NZX: MOV	5-20%	$27 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	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.	BTC Health	ASX: BTC	>20%	$24 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	Dropsuite	ASX: DSE	<5%	$326 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	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 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

Q2 FY25 kept up the hectic pace of company releases as most of our portfolio companies held their AGMs and many provided an accompanying trading update for the first 4 months of the year, and in some cases, provided FY25 guidance. Q2 also saw a few company-specific releases outside of the above, and some of the most notable announcements from across the investment portfolio are touched on below.

BSA LIMITED

ASX: BSA

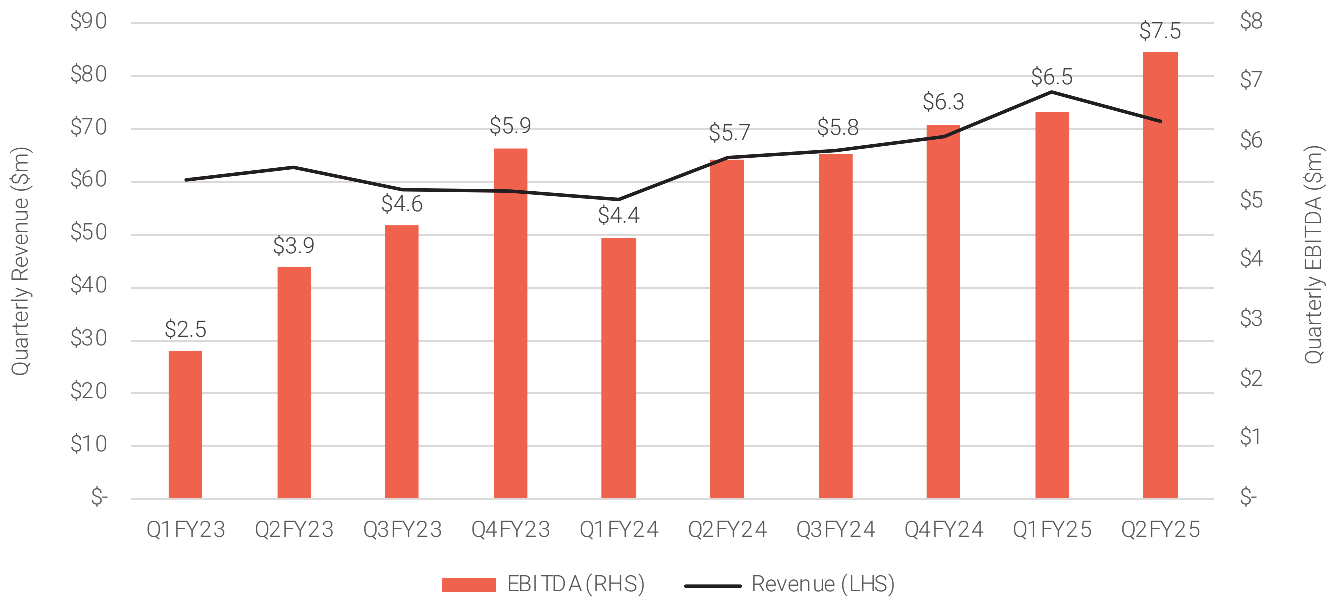
FY25 Guidance, Extends Existing nbn Unified Field Operations Agreement

BSA continues its evolution from an underperforming business with numerous legacy issues, to a business that is developing a strong track record of not only meeting but exceeding market expectations on a consistent basis. Q2 FY25 was another eventful quarter with BSA releasing a quarterly trading update in October and also providing FY25 guidance. This guidance has been revised upwards in January to a range of $26-28m EBITDA. The earnings run rate on a quarterly basis continues to move in the right direction and the revised FY25 guidance is well ahead of the previous corresponding period for the Telco focused business. This financial performance has seen the group's net debt position fall to $3 million (as at 30 September 2024) and subsequently BSA has repaid all debt and moved to a $2.2m net cash position (as at 31 December 2024).

Capping off an eventful quarter, BSA announced that it had teamed with the CIMIC Group owned specialist engineering & service provider, UGL, to tender for the upcoming nbn Field Services Contract. It is well known that nbn is seeking to simplify its business operations as it migrates from a phase of substantial construction rollout and into the next phase of optimisation and focus on technology advancements. By teaming up with UGL we believe that the combined offering is superior to either party tendering on their own.

BSA clearly has an excellent track record of delivering on residential assurance and activation services and UGL is a multibillion-dollar business with deep construction and network infrastructure expertise. The combined offering provides complementary skillsets as well as the financial backing and resources to handle larger projects as and when required by nbn. Clearly there is cultural and operational risk by bringing two businesses together, however in our view the combined offering, if executed successfully, more than offsets the risk. BSA have stated that the contract will not commence before September 2025, but will keep the market informed of any updates, hence we are watching closely.

BSA Performance Turnaround - Continuing Operations



Source – Company Financials

WEBJET GROUP

ASX: WJL

1H FY25 Results

During November, Webjet Ltd (ASX: WJL) released their 1H FY25 results. Whilst this was their first set of accounts released as a standalone company, given the demerger only completed in September 2024, these results were largely attributable to the period whilst still part of the previous parent company. Putting aside many of the one-off financial impacts associated with the demerger, WJL delivered an underlying cash EBITDA result (accounting for capitalised technology spend) down ~5% vs 1H FY24. We believe this was a sound result given the more challenging backdrop for domestic travel, highlighted by Regional Express recently entering administration.

The 1H FY25 result showed that the split between international vs. domestic airfares booked on the Webjet website is 20% vs. 80%, increasing 3bps from 1H FY24. This is important due to the materially higher revenue generated by WJL on an international flight relative to a domestic flight. Furthermore, non-airfare related revenues have increased to ~35% of total revenues. This shows customers are looking to 'bundle' their flight bookings with hotels, car hire and travel insurances, all of which deliver WJL incremental profits and hopefully a stickier customer base.

There is no doubt that the 'Webjet' brand has value to Australian & New Zealand travel consumers. It has stood the test of time despite many competing larger multinational Online Travel Agents (OTAs), many of whom do not charge booking fees (unlike Webjet which charges a flat rate booking fee per trip). Equally, WJL is a mature business that one could argue was somewhat overshadowed within the previous parent company where most of the earnings were attributable to the B2B global accommodation marketplace business. However, with a refreshed strategic direction set by the now standalone management team, a healthy net cash balance sheet, and logical areas of reinvestment that have the potential to generate strong incremental returns, WJL appears to be a business with a long-term runway for earnings growth and free cash flow generation.

MITCHCAP PTY LTD

UNLISTED

1H FY25 Preliminary Trading Results

One business that has not missed a beat has been MitchCap, the commercial distribution (floorplan & inventory) financing business which NAOS has been a significant investor in for ~3 years.

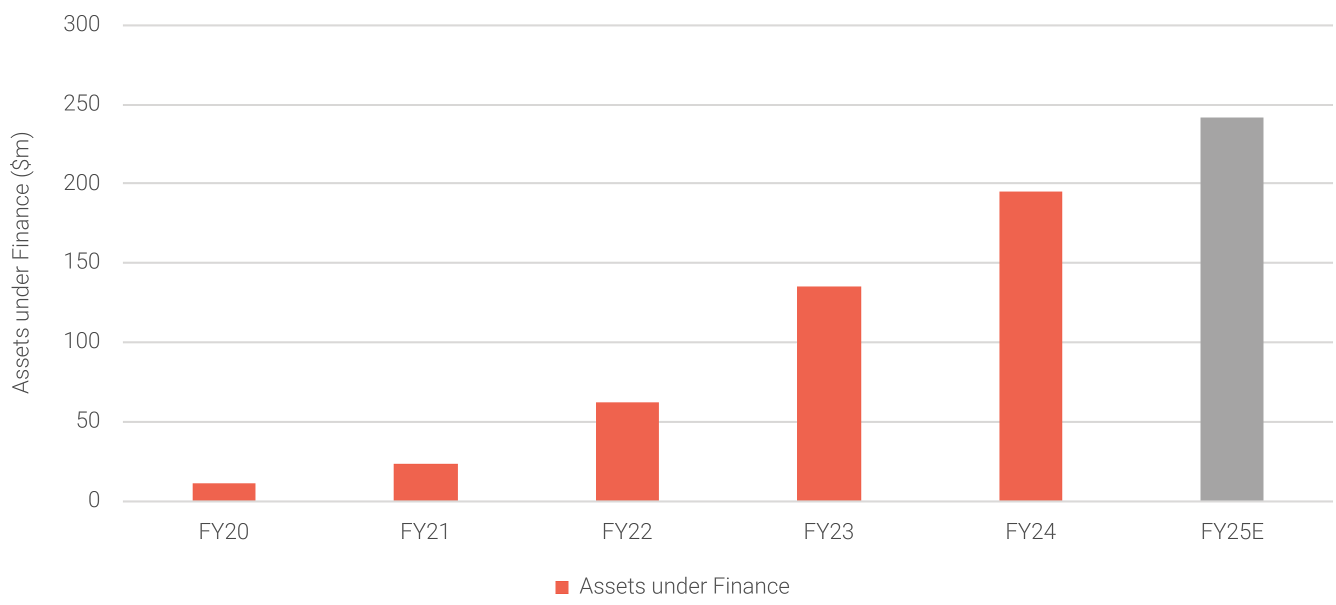
Over this period the business has become the clear, scaled market leader in the fragmented non-Auto (caravans, marine, bicycles, lawn & garden, etc) floorplan distribution finance market within ANZ. In 1H FY25 alone, the number of active dealers rose by ~67% and the cumulative dealer credit facilities for these clients rose by 64%. Following the increased revenue as well as improvements to cost of funding, the business achieved underlying profitability for 1H FY25, even in the face of weaker economic conditions which can lead to increased credit losses.

Looking forward, management have visibility over a strong pipeline of new customers as well as a number of recent program wins both at dealer and manufacturer levels (i.e. MitchCap becoming the floor plan financier for a large, well known European motorsports company). Therefore, we expect the win rate for MitchCap to continue over the medium term.

Finally, their complementary retail finance division (which arranges retail finance for customers of the dealers that MitchCap supports on the floor plan finance side) has grown ahead of expectations and we expect it to become a meaningful contributor to the group in the near term. In relation to retail finance, MitchCap only provides a brokerage service and does not take on the credit risk.

The MitchCap business remains well funded and has ample room within its warehouse and corporate facilities to support the growth of its customer base. As we have seen with similar privately owned niche market providers that focus on one thing and do it very well (for example Metro Finance), once the business develops a solid reputation, it is possible to grow at a high rate for a long period of time and become a dominant player in an underserved market.

MitchCap Assets Under Finance



Source – MitchCap, NAOS.
Note – values above as at end of financial year.

BTC HEALTH

ASX: BTC

Acquisition of Corcym Australian Distribution Business

After a few years in the proverbial wilderness, BTC has well and truly hit its straps and pleasingly that has translated into a significant share price increase over the past 12 months. In Q1 FY25 BTC announced a significant contract win for their critical care ECMO machines to a tier-1 hospital and in Q2 this was followed up with the announcement that BTC have entered into an exclusive distribution agreement with Italian-based cardio-focused medical device manufacturer Corcym. The ECMO contract win is BTC's first win in the larger capital equipment sale market but importantly these ECMO machines also require the procurement of consumables by hospitals to align with their volume of procedures.

Corcym's current distribution program within Australia and New Zealand of ~$3.6 million p.a. has historically been delivered by an in-house Corcym team, however BTC will now outsource this program to its wholly owned investee company, BTC Cardio Pty Ltd. We believe this is an excellent fit for BTC as there has been significant focus on growing out their cardio division with complementary products such as these heart valves.

If BTC can continue to build on its relationships with the key decision makers within the cardio divisions of many Australian and New Zealand hospitals and their doctors, then complementary products in addition to the Corcym and Eurosets product ranges could provide further organic growth opportunities.

It has been a big 6 months for BTC, and it is now imperative that they can execute on these recent significant wins by providing timely and quality service to their end clients (hospitals). If BTC can maintain very high service levels, then the opportunity to in-licence more devices will grow significantly, and medical device manufacturers will be attracted to BTC's high value relationships within key hospital clients.

Pictured below is one of Corcym's products, the Perceval Plus RelyON System, the only truly sutureless surgical valve available on the market.

Source – Corcym

PWR HOLDINGS LTD

ASX: PWH

Trading Update

After providing underwhelming guidance in August for FY25, PWH then downgraded this guidance a few months later. Revenue is expected to be down -3.6% YOY for 1H FY25 with NPAT down to \$3.2-\$3.7 million, compared to the \$9.8 million produced in 1H FY24. The NPAT guidance is inclusive of the significant costs associated with relocating their major manufacturing facility in the Gold Coast.

In our view, what was concerning is that most of the downgrade was driven by the very weak result produced by the Original Equipment Manufacturer (OEM) division, with revenue expected to be down -44%. For context PWH stated that post the cancellation of a number of OEM contracts related to Electric Vehicle (EV) models, it now has no active contracts that relate to an EV product.

Global demand for EVs has plummeted driven by the lack of demand from consumers (due to high cost, poor re-sale value, and a lack of charging infrastructure) and subsequently we have seen many car manufacturers cancel new EV products. In the case of some businesses such as Volkswagen they are consolidating and closing manufacturing facilities. PWH continue to believe the demand for aerospace related products will be significant in the medium to long term, as evidenced by evidenced by the revenue growth of 67.1% in 1H FY25.

Given the facility upgrade works, FY25 and to an extent FY26 were always going to be transitional years for PWH but the two recent downgrades do give pause for thought in the structural dynamics that have driven the growth of the business over the past 5-years. We have reduced our investment in PWH so that we can allocate to other investments that we believe will derive a higher return on our capital. However, we will be paying close attention to PWH to see if it can gain a serious foothold in the defence and aerospace market, especially in North America.

Architect's impression of PWH's new Stapylton Headquarters

Source – Company

SAUNDERS INTERNATIONAL

ASX: SND

AGM Update & Strategic Investor (Ahrens Group)

Over the past 2 years, SND has seen its share price fall by ~30% despite producing record results across numerous financial metrics. We have been saying for some time that SND has been a victim of its share illiquidity, ~$100 million market cap, and a couple of large, long-term shareholders reducing their holdings. In our view, this created a buying opportunity however there has been little institutional investor interest as a clear catalyst and a way to realise value in the short term was not apparent.

In December, a new shareholder, Ahrens Group, became a substantial shareholder in SND. From what we have been able to source, Ahrens Group is a 5th generation family contracting business based in South Australia. Its revenue base is circa $300 million, and it has been able to generate healthy profit margins which has seen it build a debt free balance sheet with a significant cash surplus. Ahrens operates in similar segments to SND and over the past 5-years it has made two acquisitions within the tank (fuel and water) and steel fabrication space, most notably WA-based company Taylors Engineering and Welding Services, which offers construction, engineering and specialised workshop solutions for the petrochemical and mining industry (and counts the Department of Defence as a significant client).

We don't have any preconceived notions of what Ahrens is seeking to achieve with its ~5% shareholding in SND but at the very least we believe it highlights the long-term value in the SND business, as well as giving optionality on what may or may not occur for what could be considered two highly complementary businesses. Finally, SND held their AGM in Q2 FY25 with most of the content being provided to the market previously. Guidance was reaffirmed for revenue growth over the FY24 results.

MOVE LOGISTICS

ASX: MOV

AGM Trading Update & Executive Appointments

MOV held its AGM in late October and given the recent tumultuous period it was always going to be a lively affair with plenty of probing questions. We attended the AGM in Auckland whilst also meeting several of the MOV executives and Directors, some of whom are more recent additions. For added context the former CEO, Craig Evans, resigned in July and the current interim CEO, Paul Millward commenced his role in early September. Subsequently, MOV have appointed a General Manager of the Freight and Fuels division in Jeff Vincent who started his role in mid-January, and a General Manager of Warehousing in Marc Blackburn.

At the AGM, MOV reaffirmed its FY25 commitment of returning to positive adjusted net operating cash flow, together with a significant improvement in normalised EBIT which would see the business return to profitability in FY26. More specifically, MOV stated that the economic backdrop remains challenging especially in areas where MOV has a strong footprint such as fast-moving consumer goods (FMCG) and building products (as highlighted in the recent ASX: FBU trading updates) This is leading to challenges in both volumes and revenue.

Positively, AGM comments regarding the FY25 YTD performance stated that the dollar gross margin was "well up" on any quarterly result in FY24 and the gross margin was 4% up on the last quarter result in FY24. Based on last year's revenue result this would in our view imply an EBIT improvement of >$11 million against the EBIT loss of circa -$15 million. Clearly the revenue line may not hold given the current economic backdrop, but this does not also factor in any cost benefits below the GP line. It is early days, but we believe the board and management are executing on a well-articulated and achievable strategy that could restore a significant amount of value for shareholders.

Taking a longer-term view, we continue to believe MOV has significant potential to become a highly profitable business and cement itself as the 2nd largest logistics operator in New Zealand. Even through a tumultuous past 18 months, the business has been able to secure and retain several large clients such as the Warehouse Group and Z-Energy.

If, as expected, the RBNZ continues to cut interest rates towards 3% (or lower) from the previous high of 5.25%, this will provide a more accommodative backdrop for MOV to grow its earnings base. At the same time, we expect MOV to become a much more efficient business as it makes improvements such as:

- rationalising its property portfolio;
- rationalising the transport fleet to ensure it is fit for purpose and low cost; and
- continually reviewing the network to warrant that all routes are profitable when including the return leg.

While it has been an extremely busy 12 months for MOV, we believe the next 12-months will be some of if not the most significant in MOV's >100-year history. However, with a market cap of just ~$25 million we believe the potential to create value is significant.

Recent project completed by MOV's specialist division; relocating an 82-tonne transformer from Melbourne to Wellington for Meridian Energy.

Source - Company

INVESTMENT IN FOCUS

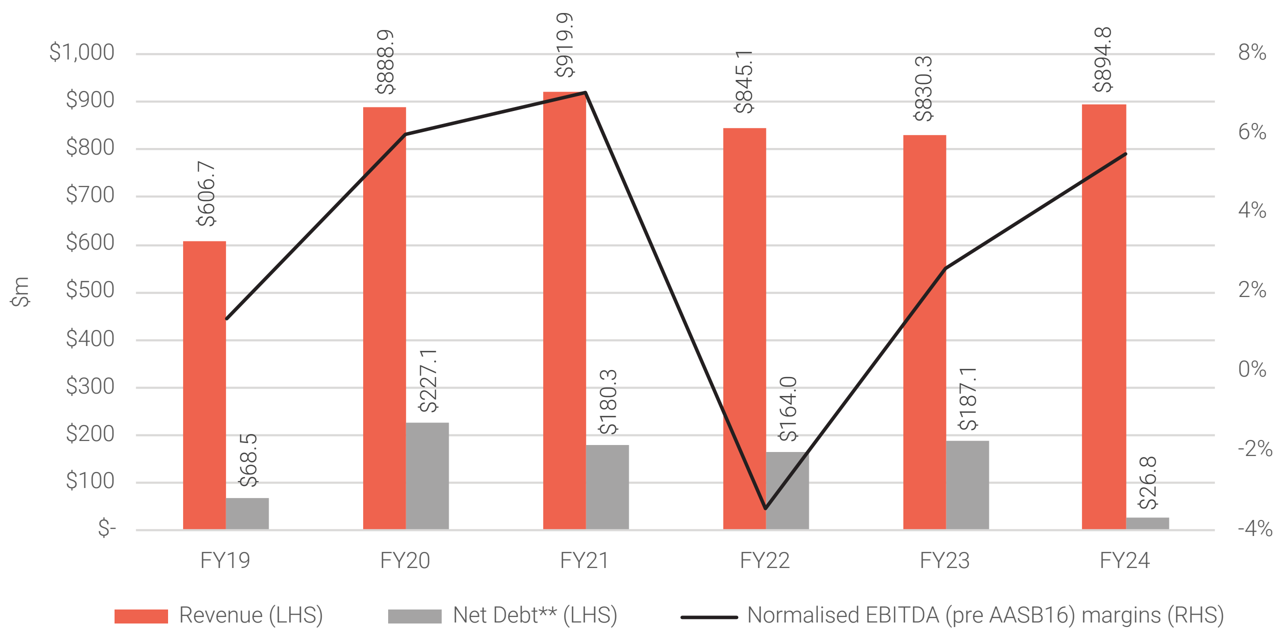
AMA Group (ASX: AMA)

During December we toured several AMA facilities with CEO Matt Cooper. In our previous Q1 FY25 Quarterly Report (refer to page 5 of the report here), we provided the following summary of the AMA business:

"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."

From our perspective, the AMA investment thesis is relatively simple. As the business transitions to a net cash balance sheet, produces consistent single-digit organic profit growth and finally supplements this growth with a renewed focus on selective and strategic M&A within the car and truck space, the earnings multiple re-rate for AMA may prove to be significant.

AMA Revenue, Net Debt & EBITDA margins



Source – Company financials

*FY24 net debt is pro forma post capital raising & debt repayments

Our site visits with AMA supported our initial view but also highlighted in detail some of the challenges that AMA will need to overcome. Our key takeaways included:

- **Opportunities**
  - **AMA Collision division** – The AMA Collision division has been an underperforming division for some time within the AMA group. It is currently undergoing a network reset, however this will take time. A significant factor attributable to this is the fact that the AMA Collision division is a result of many single site acquisitions over many years as opposed to the AMA Capital Smart business which is one corporatised division (one brand etc.), and thus an easier division in which to drive strategic change. Notwithstanding this, it is clear the Collision division has been neglected, especially from a branding point of view, as highlighted in the photos on the following page.
  - **Secure More Volume from Existing Customers** – It is no secret that AMA and some of its numerous insurance customers have had a somewhat strained relationship over the past few years. But more recently these stress points appear to have been resolved. What should be a symbiotic relationship is starting to take shape. If AMA can maintain sound service levels and achieve reasonable margins, then in our view, there is plenty of opportunity for AMA to open greenfield sites that could be underwritten by demand from its current insurance customers.
  - **Truck Opportunity** – AMA currently has a small division focussed on heavy vehicle repairs (Wales Heavy Vehicle). This is an industry that has not been corporatised yet and represents a significant opportunity with a market size estimated to be >$6 billion. Over time we believe the heavy vehicle segment has the potential to become an ideal growth engine for the business, leveraging the existing skillset the business has today.
  - **Calibration** – Over the past 5-years, cars have become more technologically advanced and have numerous sensors, computers etc. that require calibration post a repair. Until more recently AMA was missing out on the opportunity to complete many of these calibrations internally and therefore losing out on a not insignificant amount of revenue. As AMA rolls out further calibration focused centres with the required equipment and technology it will be able to bring more of this work in house and generate higher margin revenue.
- **Risks**
  - **Labour Costs (and Volume)** – AMA relies heavily on skilled labour for it to run efficiently and at the required service levels. As many Australian businesses realise, sourcing skilled labour, at a fair price and retaining that labour for a reasonable period is not an easy feat and is in fact one of, if not the main risk to many businesses today. AMA has been able to source skilled labour on a more consistent basis recently, but there is no guarantee that this will continue, and if churn levels increase this can lead to a short-term reduction in site utilisation rates.
  - **Customer Relationships** – AMA relies heavily on its insurance customers to provide the business with the volume to support its national network. Both parties have their own pressure points such as insurance premiums, cost of repairs etc. so in our view there will always be an element of give and take. AMA has significant scale to take on large amounts of repairs at any one time, but even so it's not impossible for its customers to direct repairs to other companies if they so wish.
  - **Difference with Peers** – As referenced above AMA is the clear leader when it comes to size and scale within the national car repair market. Despite this, we are yet to be convinced that AMA has a genuine moat that essentially means its customers must deal with AMA and in the volumes that AMA requires. In reality, there are thousands of independent operators who can provide a similar service to AMA. However, we would also argue from an efficiency perspective insurance companies would prefer to deal with one larger counterparty than many smaller operators, and smaller operators lack the scale benefits with regard to systems, processes and staff.

One could argue that smash repairs should be a relatively simple business, however there is a lot more to it should one wish to generate sound returns on capital. Many forget that AMA is close to a $1 billion p.a. revenue business and on face value there is plenty of opportunity for management to increase the earnings power of the business. If management can become more integrated with its insurance customers to in essence become 'partners', then we believe there is a consistent organic growth runway ahead for AMA. This in turn could lead to a significant valuation re-rate for the business. We will be paying close attention to AMA over the next 12-24 months and will be looking for signs of continued progress.

Two different brands under the AMA Group:

1) AMA Collison 2) Capital SMART

Source - NAOS


NAOS
OUTLOOK

OUTLOOK

CY25 will no doubt be full of surprises and unknowns. Already, there has been much talk about the continued demise of stock picking fund managers due to the continued rise (and performance) of passive funds. However, will the 'melt up' in equity valuations continue for the largest and most liquid businesses regardless of earnings growth? Will the 'magnificent seven' stocks in the S&P-500 continue their march even though they represent >30% of the entire S&P-500?

Domestically, we will have a federal election prior to the end of May and the consensus is for 2-4 interest rate cuts over the course of 2025. Market valuations are high relative to forecast earnings growth and clearly investors are pricing in an earnings-led recovery. However, even if interest rates are cut it may well take some time for this to filter down into the real-world economy, potentially leading to earnings risk in 1H CY25.

Globally, investors will be focused on Donald Trump's actions post-inauguration and what his priorities will be in his first 100 days of office, along with his handpicked team including with the Head of the Department of Government Efficiency, Elon Musk. Already there is talk of taking over Greenland, renaming the Gulf of Mexico and the usual tariff threats. As we have always said, we are not experts in forecasting macro events or short-term movements in stock markets. At NAOS, we are committed to the underlying performance of our investments, which we believe should ultimately lead to favourable outcomes for our shareholders.

Looking ahead, we anticipate that CY25 will be a pivotal year for many of our core investments, with several catalysts expected to occur. If these materialise, they could lead to significant share price re-ratings. Some of the key catalysts we will be keeping a close eye out for include:

- **AMA Group (ASX: AMA)**
  - Outcome of the sale process for the ACM Parts division.
  - Progress towards the pre-AASB16 EBITDA margin target of 9%.
  - Bolt on acquisitions in the car and truck repairs space.
- **BSA Limited (ASX: BSA)**
  - Outcome of the nbn tender for the Field Services Contract.
  - Potential to restart capital management initiatives.
- **MaxiParts (ASX: MXI)**
  - Tangible progress on EBITDA margin improvement towards low double digit %.
  - Significant revenue and margin growth within its workshop consumables division Forch.
  - Organic revenue growth of +5% within the core truck parts division.
- **Urbanise.com (ASX: UBN)**
  - Reaching sustainable cash flow positive position.
  - Signing one or more agreements with large financial institutions.
  - Potential consolidation within the strata software space.
  - Strong organic annualised recurring revenue growth (ARR).
- **COG Financial Services (ASX: COG)**
  - Divestment or simplification of Earlypay (ASX: EPY) and Centrepoint Alliance (ASX: CAF) minority investments.
  - Sizeable tender wins within the novated leasing division.
  - Acquisitions within the finance broking and novated leasing space.
  - Simplification (or divestment) of the asset management division.
- **Dropsuite (ASX: DSE)**
  - Strong organic annualised recurring revenue growth (ARR).
  - Evidence of success with the newer product offerings.
  - Further new product releases.
  - Any value accretive M&A initiatives.

- **Hancock & Gore Limited (ASX: HNG)**
  - First tangible client wins in Australia for its recently acquired Schoolblazer division.
  - Simplification of its company structure.
  - Potential further consolidation within the Australian school uniforms industry.
- **Move Logistics Group (ASX: MOV)**
  - Meeting guidance and FCF positive in FY25.
  - Reaching profitability (at an EBIT level) within FY25 on a run-rate basis.
  - Appointment of a permanent CEO.

As we've learned through experience, executing strategies within emerging companies often takes longer, involves greater risks and requires more resources than initially anticipated. After 18-24 months of what has been a hard grind for many of our investee companies, we believe that many of the catalysts mentioned above are nearing fruition, with a much lower level of risk compared to just 6-12 months ago. We expect to know the outcome of some of these catalysts during Q3 FY25 and hope to provide further commentary on these in our next Quarterly Investment Report.

The entire NAOS team is very grateful for the continued support of our shareholders and if any shareholder has questions or suggestions don't hesitate to contact myself directly or any member of the NAOS team.

Kind regards,

Sebastian Evans

Managing Director and Chief Investment Officer
NAOS Asset Management Limited

N
Λ
O
S

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

Certified B Corporation