

ASX: NSC

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

ABN 47 107 617 381

NSC generally invests in small-cap industrial companies with a market cap of \$100m-\$1b

MONTHLY INVESTMENT REPORT & NTA UPDATE

AS AT 31 DECEMBER 2020

Net Tangible Asset Value Breakdown

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings	Cumulative Fully Franked Dividends	Fully Franked Dividend Yield
\$0.81	\$0.85	\$0.82	\$0.705	11	\$0.1475	6.03%

Market Insight

The NSC Investment Portfolio returned +3.79% for the month of December, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +2.76%. This brings FY21 YTD portfolio performance to 18.08%. We believe a clear majority of the NSC investments finished the calendar year in a stronger position than which they started together with significant medium-term opportunity, despite the issues faced due to the ongoing COVID-19 pandemic. December was again a month full of significant announcements from portfolio companies, including BSA Limited (ASX: BSA), Big River Industries (ASX: BRI) and Over The Wire Holdings (ASX: OTW).

Investment Portfolio Performance Monthly and FY Returns*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+3.79%							+18.08%
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	+2.59%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	-3.44%

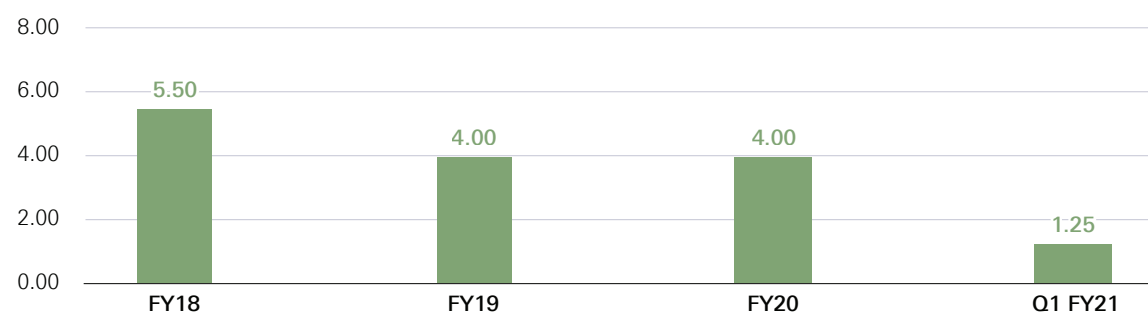
* Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

Firstly, BSA made two significant releases that we believe provides the company with an excellent base of work with tier-1 clients for the foreseeable future. Most significantly BSA was able to secure a renewal contract with NBN for up to 8 years commencing in early CY21. Based on the initial contract revenue figures, BSA has secured a greater share of the overall NBN maintenance work due to what we believe has been high levels of service and customer satisfaction, which has allowed BSA to gain market share from far larger competitors. Pleasingly, BSA also announced in the month that they had successfully secured a five-year contract with Telstra, focusing on property and telecommunication asset works in Tasmania and Victoria. In addition to these two contract wins, over the course of CY20 BSA has also been able to secure a new contract with Foxtel as its sole contract provider and successfully move into the mobile/wireless space with clients such as the NSW Telco Authority. If BSA can continue to innovate in the way it meets and exceeds its clients requirements then we believe BSA has the potential to be a >\$650 million revenue business.

Secondly, BRI announced a large acquisition of a business called Timberwood for a consideration of \$24 million, which equates to 5.1 times pro-forma FY20 EBITDA. Timberwood is a specialty manufacturer and distributor of a range of panel products. The acquisition was majority funded by a ~\$20 million placement which, post the acquisition of Timberwood and the closure of the Wagga Wagga facility, will provide BRI with significant financial flexibility to continue to acquire similar complementary businesses. BRI also provided a trading update with the company now expecting underlying NPAT to be >10% on PCP, which is a strong result considering the comparable period in 1H FY20 was not affected by COVID.

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of fully franked quarterly dividends.



Conviction. Long Term. Aligned

NAOS

Investment Beliefs

Value with Long Term Growth

Quality over Quantity

Invest for the Long Term

Performance v Liquidity Focus

Ignore the Index

Pure Exposure to Industrials

Environmental, Social and Governance (ESG)





Management Alignment

Constructive Engagement

Market Insight Continued

Finally, OTW provided a business update for 1H FY21 which also included profit guidance for the period. On face value, the profit guidance for 1H FY21 was lower than many would have been expecting. To their credit, OTW management provided excellent transparency around the drivers of the guidance figures with the non-recurring revenue division the clear reason behind the weaker 1H. Looking further out there were a number of positive comments, including the large recurring contract signed with Eagers Automotive (ASX: APE), as well as positive progress regarding their tier 1 nationwide voice network which should be up and running in 2H FY21, with the potential for >\$2million of cost synergies in the 12 months following implementation. As was the case with FY20, it will be critical for OTW management to show that the business can continue to grow the recurring revenue line at ~10% p.a. with excellent free cash flow generation.

Core Investment Portfolio Examples

 <p>MNF Group ASX: MNF</p> <p>MNF is a founder led software company, which specialises in proprietary digital network infrastructure for voice communications. With 'next generation' networks in Australia, NZ and Singapore, MNF provides voice carriage and value-added software services to some of the world's largest software companies and wants to expand further into the APAC region.</p>	 <p>Over The Wire ASX: OTW</p> <p>Over The Wire is a founder led B2B provider for IT & telecommunication systems. OTW's purpose is to simplify technology to empower business through service offerings such as a national voice network, public cloud, PaaS/IaaS, cyber security services and on demand cloud connectivity.</p>	 <p>Eureka Group ASX: EGH</p> <p>Eureka Group is a provider of quality and affordable rental accommodation for independent seniors within a community environment. EGH owns 30 villages and manages a further 9 villages with a total of 2,147 units across Queensland, Tasmania, South Australia, Victoria and New South Wales.</p>	 <p>BSA ASX: BSA</p> <p>BSA is a solutions focussed technical services organisation. BSA assist clients in implementing their physical assets, needs and goals in the areas of Building Services, Infrastructure and Telecommunication. BSA clients include National Broadband Network (NBN), Aldi Supermarkets, Foxtel and the Fiona Stanley Hospital.</p>
--	--	--	---

Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	+3.79%	+18.08%	+1.66%	+8.94%	+0.46%	+1.43%
S&P/ASX Small Ordinaries Accumulation Index	+2.76%	+20.28%	+9.21%	+15.11%	+7.48%	+24.92%
Performance Relative to Benchmark	+1.03%	-2.20%	-7.55%	-6.17%	-7.02%	-23.49%





* Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Returns compounded for periods greater than 12 months. Performance has not been grossed up for franking credits received by shareholders. Inception performance (P.A. and Total Return) is from 1 December 2017.

Key Metrics – Summary Data

Weighted Average Market Capitalisation of the Investments	\$162.7 million
Cash Weighting	0.3%
Standard Deviation of Returns (NSC)	18.57%
Standard Deviation of Returns (XSOAI)	20.97%
Downside Deviation (NSC)	12.43%
Downside Deviation (XSOAI)	14.22%
Shares on Issue	155,515,367
NSC Directors Shareholding (Ordinary Shares)	2,251,611

NAOS Asset Management Giving Back

NAOS Asset Management Limited, the Investment Manager, donates approximately 1% of all management fees to the following charities.

			
--	---	---	--



Important Information: This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

Our Team

Chairman

Trevor Carroll
(Independent)

Directors

Warwick Evans
Sebastian Evans
David Rickards
(Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller
Ben Rundle

Chief Financial/Operating Officer

Richard Preedy

Business Development Manager

Nina Dunn

Head of Legal and Compliance

Rajiv Sharma

Marketing & Communications Manager

Angela Zammit

NAOS

Enquiries

(02) 9002 1576

enquiries@naos.com.au

www.naos.com.au