

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 OCTOBER 2021

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
\$1.11	\$1.12	\$1.03	\$0.925	9	\$0.1975	5.41%

The above NTA figures are inclusive of the 1.25 cents per share fully franked Q1 FY22 dividend, which has an ex-dividend date of 10 November 2021 and a payment date of 30 November 2021.

Market Insight

After 3 consecutive months of relatively flat returns the NSC investment portfolio produced a much-improved performance in October, finishing the month up +4.15% and outperforming the benchmark S&P/ ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +0.92%. October was full of noteworthy events across the NSC investment portfolio, most notably from Over The Wire Holdings (ASX: OTW) which confirmed that they had received a non-binding indicative offer from Aussie Broadband (ASX: ABB). Big River Industries (ASX: BRI) provided a very resilient and upbeat trading update at their AGM and COG Financial Services (ASX: COG) provided a Q1 trading update as well as completing a capital raising to increase their ownership interest in two non-wholly owned subsidiaries.

Investment Portfolio Performance Monthly and FY Returns*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY22	-0.68%	-0.18%	-0.77%	+4.15%									+2.46%
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+4.25%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%	+0.32%	+58.40%
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%

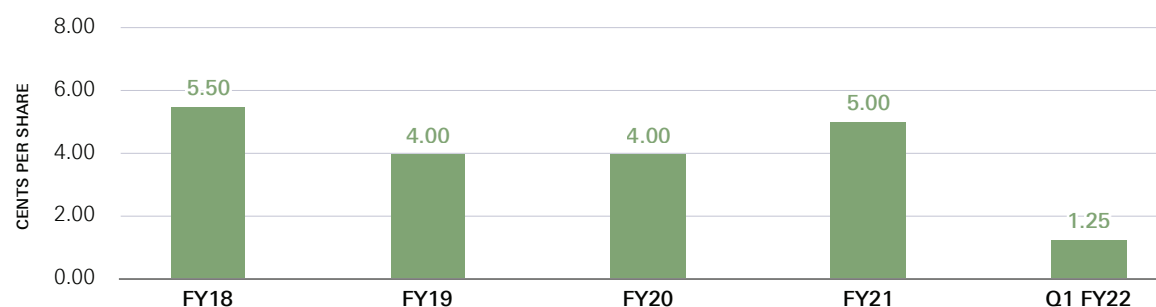
*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

OTW announced that they have received a non-binding indicative offer from ABB to acquire all OTW shares for a total consideration of \$5.75 per share consisting of a combination of cash and ABB scrip. This process is still preliminary in nature and incomplete and OTW expect the process to be finalised by the end of November. We believe that by combining the two businesses there will be significant revenue and cost synergies but more importantly it will create a true competitor to the likes of Vocus, Optus and Telstra in regard to their SME and enterprise offerings. As ABB have been at pains to articulate, their next leg of growth will be predominantly from these types of customers, and they have already started to build out their product and service offerings. In our view, acquiring OTW this accelerates their strategy by 2-3 years and gives them access to a customer base which includes the likes of Brisbane City Council, Eagers Automotive (ASX: APE) and Nova Radio. Time will tell whether the deal goes ahead but we think there are significant merits of being a shareholder in the combined entity and this is before factoring in other "soft" considerations such as the significant free cash flow generation and potential inclusion in the ASX 200.

BRI provided what we believed was a very upbeat trading update at their AGM in late October. FY22 revenue is now expected to be at the top end of the previous guidance i.e., ~\$350 million, and this figure does not allow for any contribution for the recently acquired United Building Supplies which could add another ~\$10 million revenue for FY22. Notably the company

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of dividends, franked to the maximum extent possible.



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

also stated that not only has there been strong demand from segments relating to infrastructure and new homes, but multi-residential and commercial sectors are also showing signs of growth which the company expects to flow through in FY23.

Finally, COG completed a \$20 million equity raise to fund the acquisition of a further 25% stake in Westlawn Finance Group (taking their ownership to 75% with an option to go to 100%) as well as the final 30% in Platform Finance Group to take their ownership level to 100%. We estimate the acquisitions will be >10% accretive on an EPSA level, given they are on terms agreed several years ago when the original acquisitions were made. Having said this, we believe the board decision to raise equity to fund these acquisitions was a poor and illogical decision. COG has moved to a predominantly broker and distribution model which is capital light, and together with the run-off of the legacy lease book the business generates a significant amount of free cash, so we would argue the capital raising was unnecessary. We also believe the 17% stake in Earlpay (ASX: EPY) is a poor allocation of capital in the absence of a stated intended strategic outcome.

Core Investment Portfolio Examples

		
Over The Wire ASX: OTW	Eureka Group ASX: EGH	Big River ASX: BRI
<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 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>Big River is a large distributor of building material products as well as a manufacturer of high value niche timber products. Big River is an integrated Australian timber products business that operates across the full continuum from procurement of raw materials through to sale of finished products to end users which are then distributed across 21 sites across Australia and New Zealand.</p>

Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	+4.15%	+9.48%	+51.48%	+16.79%	+15.25%	+8.85%	+39.41%
S&P/ASX Small Ordinaries Accumulation Index	+0.92%	+7.88%	+31.01%	+13.07%	+13.52%	+9.84%	+44.44%
Performance Relative to Benchmark	+3.23%	+1.60%	+20.47%	+3.72%	+1.73%	-0.99%	-5.03%

*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	\$214.8 million
Cash Weighting	0.28%
Standard Deviation of Returns (NSC)	18.11%
Standard Deviation of Returns (XSOAI)	18.94%
Downside Deviation (NSC)	11.26%
Downside Deviation (XSOAI)	12.81%
Shares on Issue	150,820,125
NSC Directors Shareholding (Ordinary Shares)	2,362,943
NSC Options Closing Price (ASX: NSCOA)	\$0.055

NAOS Asset Management Giving Back

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

			
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Our Team

Chairman

Trevor Carroll
(Independent)

Directors

Warwick Evans
Sebastian Evans
David Rickards OAM
(Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller
Brendan York

Senior Investment Analyst

Jared Tilley

Associate Investment Analyst

Nelson De Mestre

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