

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 30 NOVEMBER 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
\$1.07	\$1.08	\$1.00	\$0.875	9	\$0.1975	5.71%

Market Insight

For the month of November, the NSC investment portfolio produced a negative return of -2.17%, compared to the benchmark S&P/ASX Small Ordinaries Accumulation Index return of -0.31%. From a contribution perspective it was a relatively benign month, with only one investment delivering a >1% contribution or detraction, namely BSA Limited (ASX: BSA). From a news flow perspective, it was again an eventful month. Gentrack Group (ASX: GTK) released their FY21 results, BSA held their Annual General Meeting (AGM) and provided a number of notable comments, and Eureka Group (ASX: EGH) announced an acquisition and provided guidance at their AGM.

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%	-2.17%								+0.24%
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%

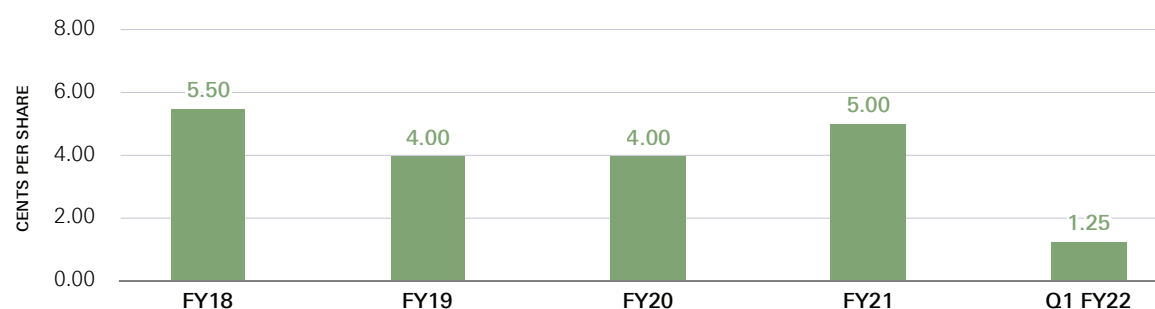
*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

Without a doubt the most notable event for the month came from one of our more recent portfolio additions, Gentrack Group, as they released their FY21 results. In our view we believe the result was a significant positive step in reaching, and potentially exceeding, their FY24 targets. In our view, there were three key highlights to the result. Firstly, the number of new business wins in both the utility and airports divisions arguably exceeded management's expectations and has led to stronger revenue growth in the short term. This is also clear vindication that the GTK software and service offering is highly competitive and has improved significantly in a short period of time under the stewardship of a new management team. Secondly, the working capital management was excellent with few if any bad debts, which has resulted in GTK sitting on a very healthy net cash balance sheet. Finally, disclosure has also improved which has allowed current and potential investors to make more objective and rational decisions about the businesses outlook.

Even though GTK was able to upgrade guidance just a month ago and deliver a result that arguably surpassed this upgraded guidance, the stock price remains at the same level as it was in May 2021, so sentiment remains negative towards the business. We appreciate there remains significant risks associated with an investment in GTK such as the current issues within the UK energy market and associated potential client losses, as well as the headwinds from a tight labour market particularly in technology related roles. However, we believe these risks are offset by two key points. Firstly, the growth potential that exists in the business which could come from new tier-1 customer wins, traction in their managed service offering, geographic expansion, M&A or further traction in adjacent industries such as water utilities. These points were not spoken about at length in the FY21 results presentation, yet in our view one or two of them are significant near-term opportunities for GTK.

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

Secondly, we would argue the valuation currently applied to GTK of <1.5 times recurring revenue assumes that the current business goes backwards at a significant rate. We do not believe it would be possible to acquire a technology B2B business that operates in several international markets and has over 550 staff for less than 5 times ARR, let alone <1.5 times. If the high calibre management team, who have successfully worked together at a much larger organisation, can deliver on their FY24 targets then the ARR valuation multiple applied to GTK will be significantly higher than <1.5 times and which we believe would be more appropriate for a global technology business that is arguably the leader within its industry.

Core Investment Portfolio Examples

 <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>Big River ASX: BRI</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>
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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*	-2.17%	+0.56%	+39.56%	+16.57%	+15.60%	+8.07%	+36.38%
S&P/ASX Small Ordinaries Accumulation Index	-0.31%	+7.27%	+18.44%	+12.03%	+13.54%	+9.54%	+43.99%
Performance Relative to Benchmark	-1.86%	-6.71%	+21.12%	+4.54%	+2.06%	-1.47%	-7.61%

*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	\$205.2 million
Cash Weighting	0.57%
Standard Deviation of Returns (NSC)	17.98%
Standard Deviation of Returns (XSOAI)	18.75%
Downside Deviation (NSC)	11.15%
Downside Deviation (XSOAI)	12.68%
Shares on Issue	150,175,704
NSC Directors Shareholding (Ordinary Shares)	2,393,033
NSC Options Closing Price (ASX: NSCOA)	\$0.056

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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