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 JUNE 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
$1.10	$1.11	$1.02	$0.98	15	$0.1725	4.85%

Market Insight

The NSC Investment Portfolio returned +0.32% for the month of June, underperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +3.08%. Pleasingly FY21 proved to be an exceptionally strong year for the NSC Investment Portfolio, which finished up +58.40% which was a strong result from both an absolute and relative perspective as the benchmark retuned +33.23% for the financial year. The majority of the returns were generated from core long- term investments, some that NSC has held for over 3 years, and it was pleasing to see the progress these businesses have made being reflected in significant valuation increases across many of the portfolio holdings. As we have always said, in our view often the last thing to change in a successful business strategy is the share price and this year was no different. Over the course of FY21 the investment team also made a small number of significant changes to the portfolio and hopefully used some of the share price strength to our advantage. There were significant de-weightings in both Enero Group (ASX: EGG) and MNF Group (ASX: MNF), and a new core investment was added late in the year in the form of Gentrack (ASX: GTK). For the month of June there were two notable events, these came from Eureka Group (ASX: EGH) which announced the acquisition of a sizeable seniors' accommodation village, and Over The Wire (ASX: OTW) which updated the market in regards to its full year earnings and some of the key drivers of this figure.

Investment Portfolio Performance Monthly and FY Returns*

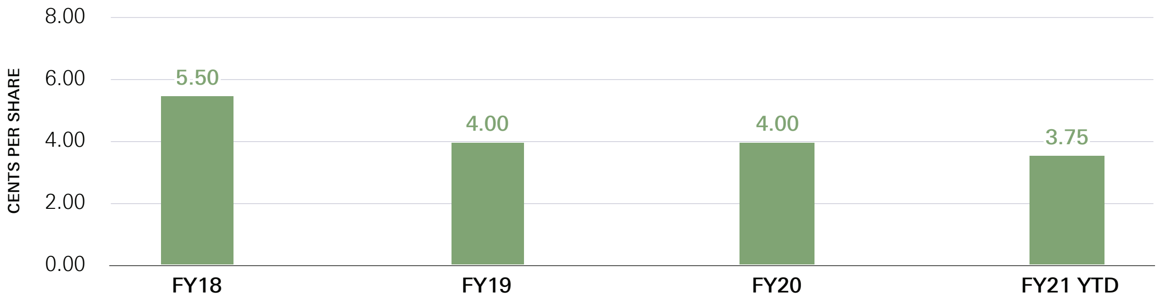
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+4.25%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%	+0.32%	**+58.40%**
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	**+2.59%**
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-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.

Firstly, EGH announced the acquisition of a 106-unit independent rental village located in Ipswich, north of Brisbane. The current facility has 59 relocatable homes with development approvals and infrastructure to accommodate a further 47 homes. The total consideration was $6.5 million, and management has stated that the acquisitions will be EPS accretive in year 1. We believe that this is again a very sound acquisition and the fact that it is EPS accretive from year 1 without the earnings from the as-yet undeveloped units highlights the very sound multiple paid for the business, and the future earnings growth it will provide EGH as the new units are developed. Longer term we expect EGH to continue to internally fund 2-3 of these acquisitions per year and not require additional equity. It is also worth noting the significant interest in property and infrastructure assets with large high-quality assets exchanging on cap rates of 4% or less. This compares to the last cap rate of ~10% used for EGH's entire asset base.

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

OTW informed the market that they do not expect to meet FY21 consensus expectations due to a hardware supply deal not being delivered until July 2021, and thus not recognised until FY22 (the resultant EBITDA effect was $1.50 million). Management also made several other notable points; organic revenue growth for 2H FY21 was ~7% (or ~+15% annualised), new recurring revenue signed in Q4 FY21 will exceed $350,000 contracted monthly recurring revenue (MRR), and 50% of the EBITDA benefit from the Tier 1 Voice Provider project will be realised from 1st July. From our point of view the miss to earnings is a disappointment, mainly because OTW management have made a regular habit of missing expectations solely due to the non-recurring part of the business. Looking through this, the underlying core of the business looks sound and if anything, looks to be expecting stronger growth going forward. The CEO's comments that FY22 is expected to generate +15% organic recurring revenue growth driven by a solid pipeline of opportunities were also reassuring. In the FY21 result we will also be looking for further clarification around large new client wins for wholesale clients who can utilise OTW's Tier-1 voice capability.

Core Investment Portfolio Examples

Over The Wire
ASX: OTW

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.

Eureka Group
ASX: EGH

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.

Big River
ASX: BRI

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.

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*	+0.32%	+33.56%	+58.40%	+27.45%	+12.11%	+8.98%	+36.06%
S&P/ASX Small Ordinaries Accumulation Index	+3.08%	+10.76%	+33.23%	+12.10%	+8.60%	+9.49%	+38.37%
Performance Relative to Benchmark	-2.76%	+22.80%	+25.17%	+15.35%	+3.51%	-0.51%	-2.31%

*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	$206.2 million
Cash Weighting	0.23%
Standard Deviation of Returns (NSC)	18.80%
Standard Deviation of Returns (XSOAI)	19.62%
Downside Deviation (NSC)	11.72%
Downside Deviation (XSOAI)	13.32%
Shares on Issue	153,236,253
NSC Directors Shareholding (Ordinary Shares)	2,285,956
NSC Options Closing Price (ASX: NSCOA)	$0.070
NSC Options on Issue	50,956,489

NAOS Asset Management Giving Back

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

Greening Australia | Royal Flying Doctor Service | Bush Heritage Australia | Australian Kookaburra Kids Foundation

Our Team

Chairman
Trevor Carroll (Independent)

Directors
Warwick Evans
Sebastian Evans
David Rickards (Independent)

Chief Investment Officer
Sebastian Evans

Portfolio Manager
Robert Miller

Senior Investment Analyst
Jared Tilley

Chief Financial/ Operating Officer
Richard Preedy

Business Development Manager
Nina Dunn

Head of Legal and Compliance
Rajiv Sharma

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