

# FY20 Q4 INVESTOR WEBINAR

Tuesday, 28th July 2020 | 11:00 am (AEST)

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Access Code #421-642-018

PRESENTED BY SEBASTIAN EVANS &  
ROBERT MILLER



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# Important information

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# NAOS Asset Management

## Our Mission

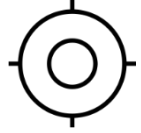
To provide investors genuine long-term, concentrated exposure to Australian undervalued listed micro, small and mid-cap companies with an industrial focus.

NAOS established its first Listed Investment Company (LIC) in 2013 with 400 shareholders, today NAOS manages \$250 million across three LIC vehicles for approximately 7,500 shareholders.

Our directors and employees have a significant interest in all three LICs, this means we are invested alongside our shareholders creating strong alignment of interests.

NAOS is committed to a responsible investment strategy, ESG considerations are incorporated into our investment process and applied across all NAOS investments.

# NAOS investment beliefs provide a competitive advantage



Value with Long  
Term Growth



Quality over  
Quantity



Invest for the  
Long Term  
5+ years



Performance v  
Liquidity Focus

The closed end LIC structure  
removes application and  
redemption risk.



Ignore the  
Index



Pure Exposure  
to Industrials



Management  
Alignment



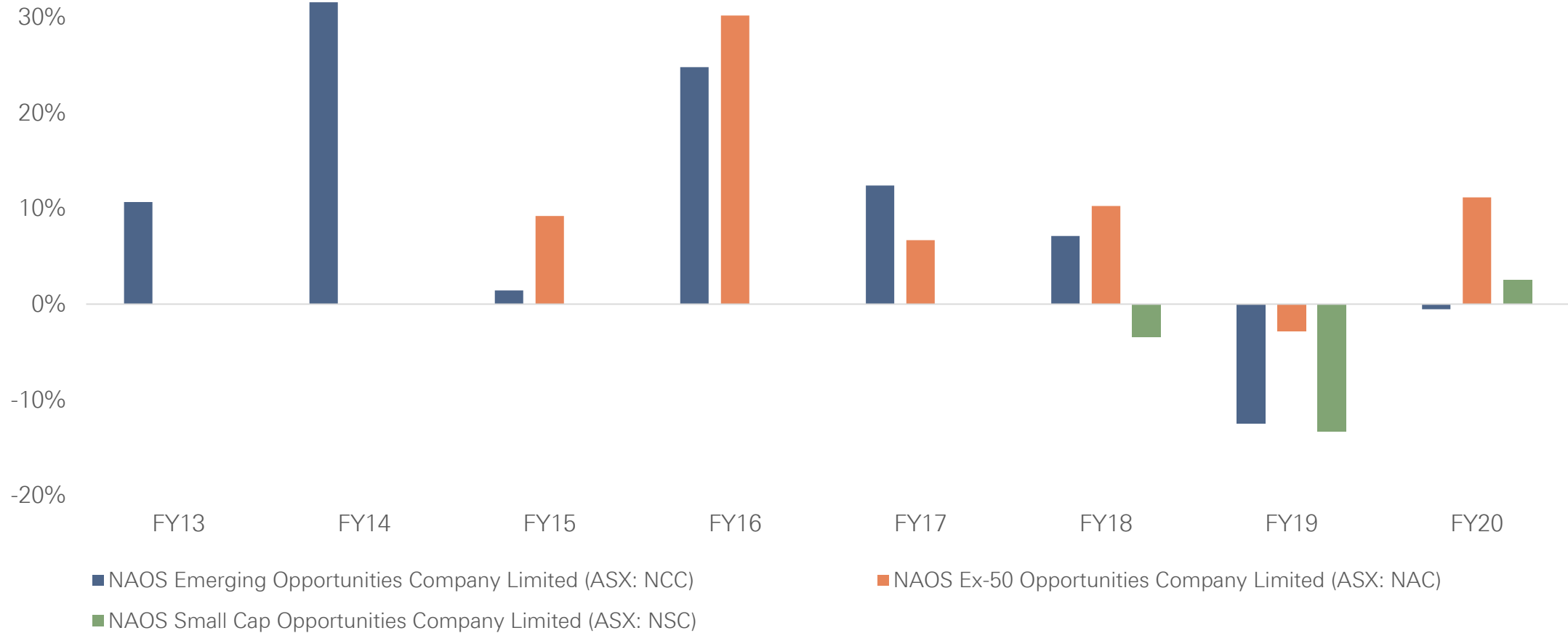
Environmental, Social  
and Governance (ESG)

We do not invest in businesses that  
are directly related to the production  
or sale of tobacco, gambling, nuclear,  
uranium, coal or iron ore,  
controversial weapons, coal mining  
operations or oil and gas production  
companies.



Constructive  
Engagement

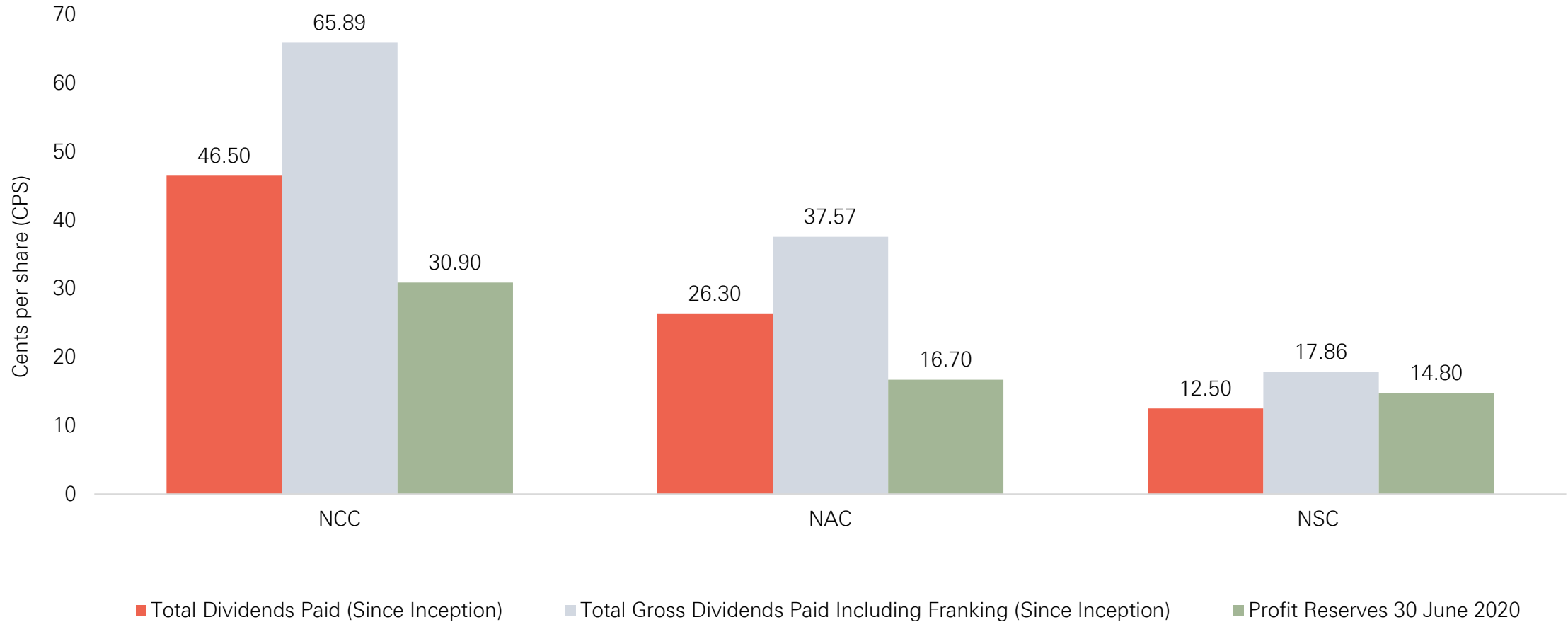
# NAOS investment portfolio financial year returns\*



\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Inception dates are February 2013 (NCC), November 2014 (NAC) and December 2017 (NSC).

# NAOS LIC Dividend History and Profit Reserves

Each LIC has consistently paid dividends and holds healthy profit reserves



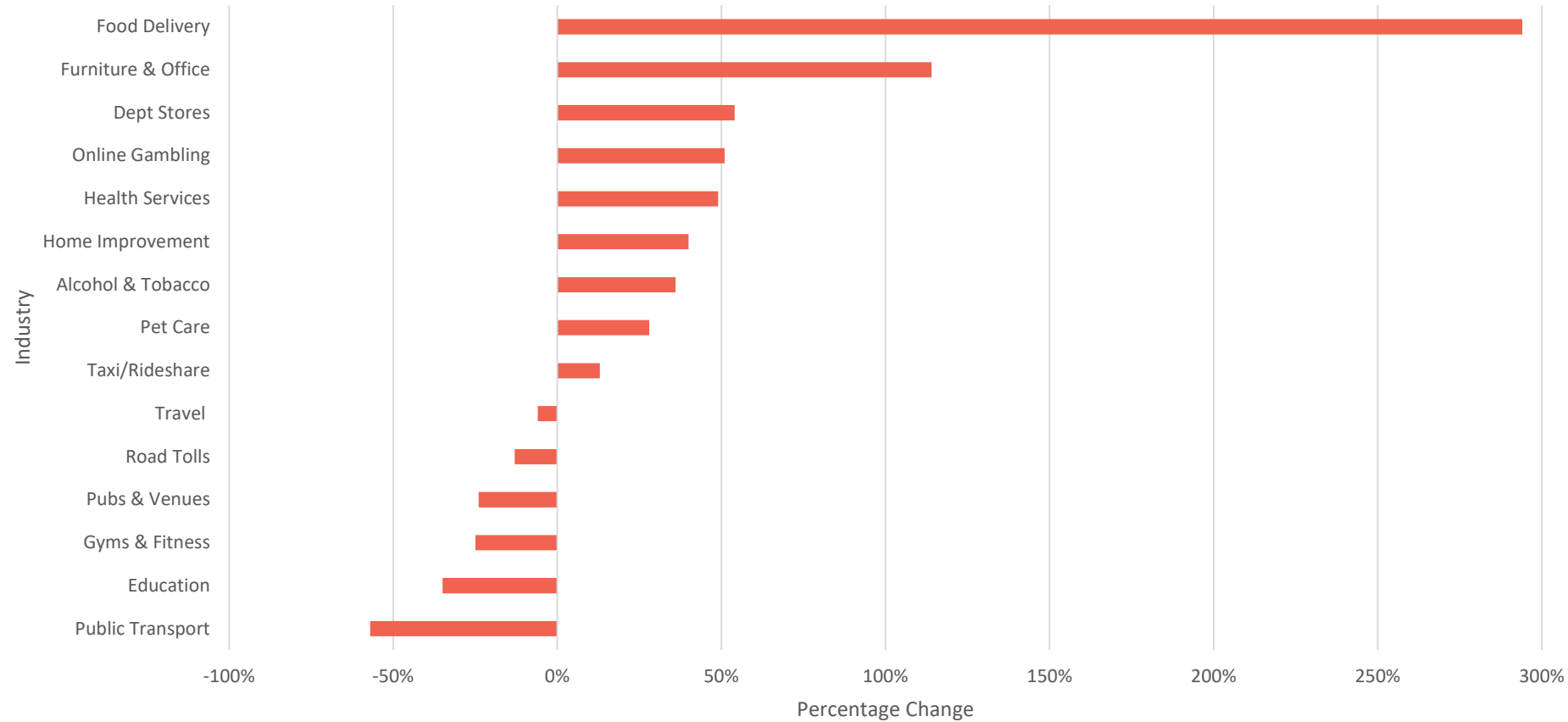
All figures as at 30 June 2020

## Where are we now?

- Significant market rebound
- Surge in growth stocks
- Government stimulus
- Change in spending habits

# Effect of COVID-19 on Australian spending

Spend for week ending 12 July vs normal (pre-Covid-19) week by industry\*



\* Source: illion & AlphaBeta (part of Accenture)



# Australia's stimulus spend

Government Spending and Stimulus Spending since 2003\*



\* Source: Federal Budget Papers, Mid Year Budget Review; <https://www.abc.net.au/news/2020-04-05/coronavirus-data-stimulus-spending-dwarfs-gfc-chart/12115518>

# Market commentary – FY21 outlook

Forecasting earnings over the next 12-18 months will be extremely difficult but the variables below will be key to providing direction for estimates over this period of time

- Earnings artificially manipulated by stimulus
- Interest rates and inflation
- Potential vaccine
- Stimulus now focused on recovery

# Focus on the controllable

NAOS will continue to focus on the controllable to maximise risk adjusted returns

## Can Control

Investing with proven management teams based on value/price and stock specific fundamentals on a 3-5-year view

## Can't Control

Market noise and timing of short-term market movements



# Key business & industry traits for maximising performance

## Industry Tailwinds Supporting Long Term Revenue Growth

A growing revenue base provides companies with a number of competitive advantages such as the ability to scale their fixed cost base and increase margins, the opportunity to reinvest to improve their product or service offering, or the chance to enter new markets and compete on a number of considerations other than just price

## Pricing Power

Certain products and/or services around the globe can charge a price that is largely irrelevant to the consumer, due to the simple fact that it provides such a sound consumer experience




## Scalability

Ideally, a business structure is built from the ground up and is structured in such a way that it has the systems and processes to handle significant scaling without an equivalent dollar of cost being added to the cost base. Businesses that can demonstrate a trend of increasing profits over the long term have generally been able to increase margins as well.

## Capability to Internally Fund Expansion Opportunities

The ability to invest in organic business initiatives such as research and development, new product or service launches into adjacent markets, or small bolt on acquisitions that bring with them a new capability.

# NCC key portfolio events FY20 Q4

HOLDING	INDUSTRY	Q4 UPDATE
 <b>(ASX: BSA)</b>	Commercial & Professional Services	<ul style="list-style-type: none"> <li>• Trading update provided in June</li> <li>• HY dividend and FY dividend announced</li> <li>• Cash position - expected to remain strong</li> <li>• Strong tender pipeline with existing and new clients</li> </ul>
 <b>(ASX: SND)</b>	Industrials	<ul style="list-style-type: none"> <li>• Secured its 5th and 6th major contracts for FY20</li> <li>• Tailwinds from Australia's domestic fuel storage strategy</li> <li>• Provided Guidance for FY21 - revenue &amp; margin growth</li> </ul>
 <b>(ASX: BTC)</b>	Medical Products	<ul style="list-style-type: none"> <li>• Elective surgery recommenced</li> <li>• Landscape for a potential complementary acquisition increased</li> <li>• Significant organic business progress – strategy to sell existing products within new markets segments</li> </ul>

# NCC overview as at 30 June 2020

\$0.90

Pre Tax  
NTA

9.12%

Fully Franked  
Dividend Yield

\$0.795

Share Price

16.07%

Q4 FY20  
Performance<sup>^</sup>

9.37%

Performance  
since  
Inception<sup>^</sup> p.a.

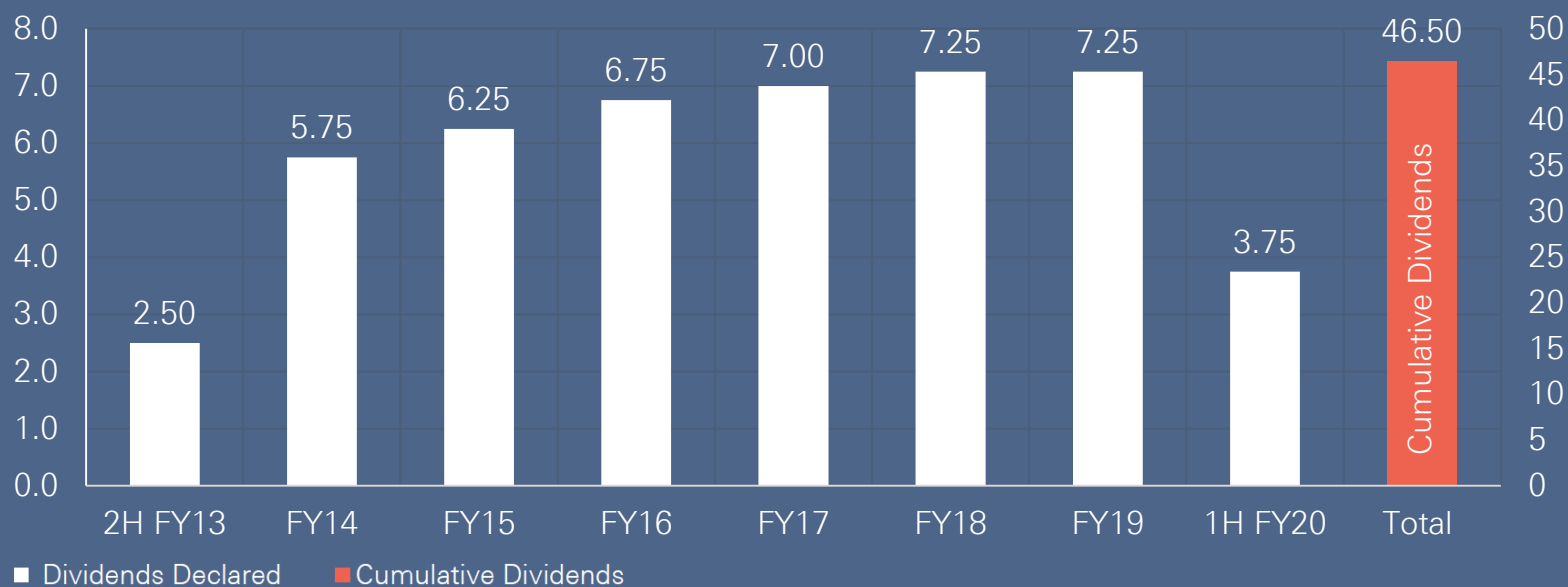
93.02%

Performance  
since  
Inception<sup>^</sup>  
(Total Return)

\$68.4m




Weighted  
Average Market  
Capitalisation of  
the Investments

FULLY FRANKED DIVIDEND (CENTS PER SHARE)



<sup>^</sup>Investment Performance is post all operating expenses, before fees, taxes and initial IPO commissions. Performance has not been grossed up for franking credits received by shareholders and returns are compounded for periods greater than 12 months. Inception date February 2013.

# NSC key portfolio events FY20 Q4

HOLDING	INDUSTRY	Q4 UPDATE
 <b>eureka</b> <small>GROUP HOLDINGS</small> <b>(ASX: EGH)</b>	Real Estate	<ul style="list-style-type: none"> <li>• No formal update post the 1HFY20 result</li> <li>• Greg Paramour appointed as a Non-Executive Director</li> <li>• A listed peer has seen occupancy levels remain resilient over past 3-4 months</li> </ul>
 <b>OvertheWire</b> <b>(ASX: OTW)</b>	Software & Services	<ul style="list-style-type: none"> <li>• FY20 update - OTW expecting EBITDA to be within ~3% of consensus</li> <li>• A partnership with NEXTDC was announced providing cross sell opportunities</li> <li>• OTW have balance sheet capacity for acquisitions (most recent was Nov-18)</li> </ul>
 <b>mnf group</b> <b>(ASX: MNF)</b>	Telecommunication Services	<ul style="list-style-type: none"> <li>• MNF provided 2 trading updates in March and April – reaffirmed guidance</li> <li>• MNF clients (Zoom, Microsoft (Skype) and Cisco) have seen significant increase in usage and new customer demand</li> <li>• MNF are a key beneficiary of structural ‘work from home’ thematic</li> </ul>

# NSC overview as at 30 June 2020

\$0.68

Pre Tax  
NTA

8.88%

Fully Franked  
Dividend Yield

\$0.45

Share Price

14.71%

Q4 FY20  
Performance<sup>^</sup>

-5.72%

Performance  
since  
Inception<sup>^</sup> p.a.

-14.10%

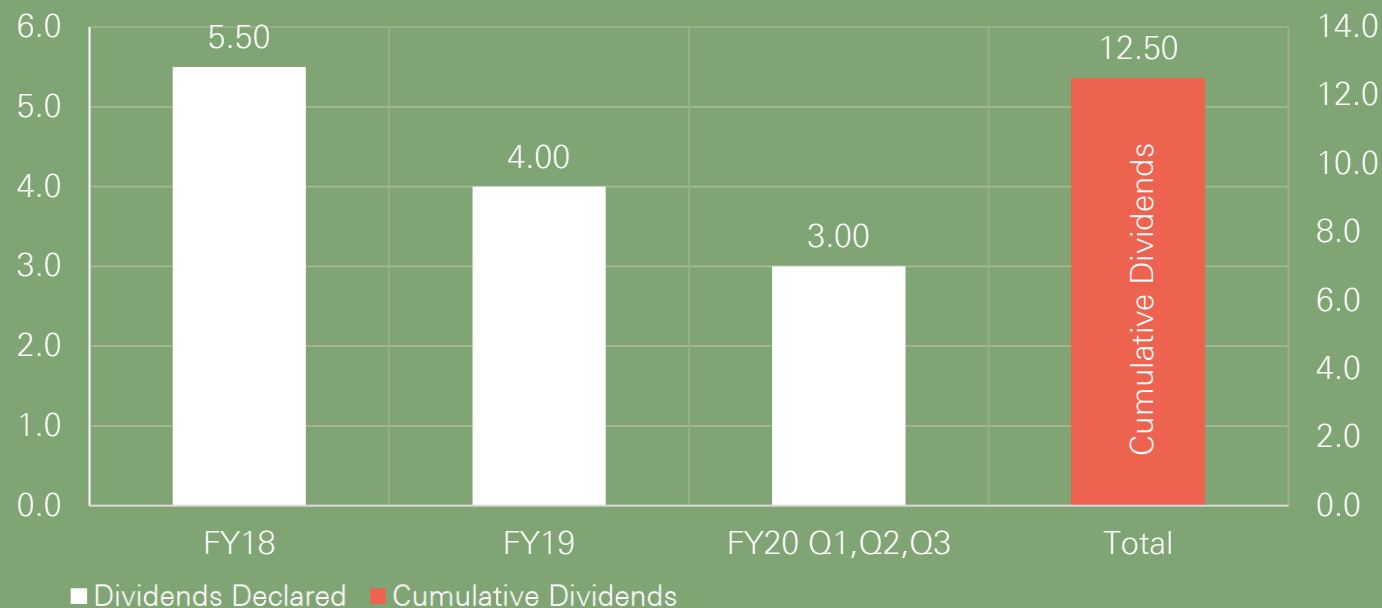
Performance  
since  
Inception<sup>^</sup>  
(Total Return)

\$182.7m

Weighted  
Average Market  
Capitalisation of  
the Investments

NAOS


FULLY FRANKED DIVIDEND (CENTS PER SHARE)



<sup>^</sup>Investment Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders and returns are compounded for periods greater than 12 months. Inception date December 2017.



# NAC key portfolio events FY20 Q4

HOLDING	INDUSTRY	Q4 UPDATE
<b><u>Objective</u></b>  (ASX: OCL)	Software & Services	<ul style="list-style-type: none"> <li>Complementary acquisition of leading cloud-based regulation solution provider Itree</li> <li>FY20 Trading update highlighting strong earnings growth &amp; cash generation</li> <li>Recurring revenue now represents over 75% of the total revenue profile</li> <li>FY21 outlook - OCL expecting a “material” lift in revenue and profit</li> </ul>
 (ASX: SMP)	Software & Services	<ul style="list-style-type: none"> <li>Raised \$13 million via a placement and SPP</li> <li>By mid-June SMP stated transaction volumes were back to 95% of pre-COVID levels</li> <li>2,500 terminals were added in FY20 in Australian business</li> <li>FY21 dual growth opportunities - number of terminals added &amp; average revenue per terminal</li> </ul>

# NAC overview as at 30 June 2020

\$1.06

Pre Tax  
NTA

6.65%

Fully Franked  
Dividend Yield

\$0.79

Share Price

34.67%

Q4 FY20  
Performance<sup>^</sup>

11.06%

Performance  
since  
Inception<sup>^</sup> p.a.

80.55%

Performance  
since  
Inception<sup>^</sup>  
(Total Return)

\$298.8m

Weighted  
Average Market  
Capitalisation of  
the Investments

## FULLY FRANKED DIVIDEND (CENTS PER SHARE)



<sup>^</sup>Investment Performance is post all operating expenses, before fees, taxes and initial IPO commissions. Performance has not been grossed up for franking credits received by shareholders and returns are compounded for periods greater than 12 months. Inception date November 2014.

# The benefits of LICs

- Closed-ended structure
  - Focus on investment credentials not share liquidity
  - No requirement to be a forced buyer or seller of companies
- Smooth stream of dividends
- Tradeable on ASX
- Exposure to investment classes that are hard to replicate
- Transparency and significant alignment

# Addressing the discount to NTA

At NAOS, we understand the discount to NTA can be a concern to investors. We are taking the following steps to address the discount.

<b>Performance</b>	Maintain a focus on long term performance without deviating from the NAOS investment philosophy.
<b>Dividends</b>	Continue to provide a growing stream of fully franked dividends over the long term (NCC and NAC).
<b>Strategy</b>	Unique investment strategy providing genuine, concentrated exposure to Australian listed industrial companies outside of the ASX-50.
<b>Alignment</b>	Continue to be aligned with shareholders as Directors and Staff are some of the largest shareholders across all 3 of the LICs.
<b>Communication</b>	Maintain a very high standard of marketing materials and communications so all current and prospective shareholders have a clear understanding of the NAOS offering.
<b>NSC</b>	Active buy-back with more than 10.8 million shares bought back, the buy-back is accretive to NTA per share. <sup>^</sup>
<b>NAC</b>	Continue to buy-back shares on market (Over 10% of SOI bought back <sup>^</sup> ).

<sup>^</sup> Discount to NTA, Share Price, Dividend Yield and Buy-Back figures as at 30 June 2020

# Reasons not to invest with NAOS

Our LICs are not for everyone. Some reasons why you may not choose to invest with NAOS include:

- Concentrated portfolios
- Long-term investment philosophy
- Focus on smaller companies
- Benchmark unaware
- Industrial focus
- Smaller fund size
- ESG focus

# Outlook + Q&A

Thank you for your continued support.

*“If you own stocks like you’d own a farm or apartment house, you don’t get a quote on those every day or every week.”*

Warren Buffett

# APPENDIX



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# NAOS Listed Investment Companies

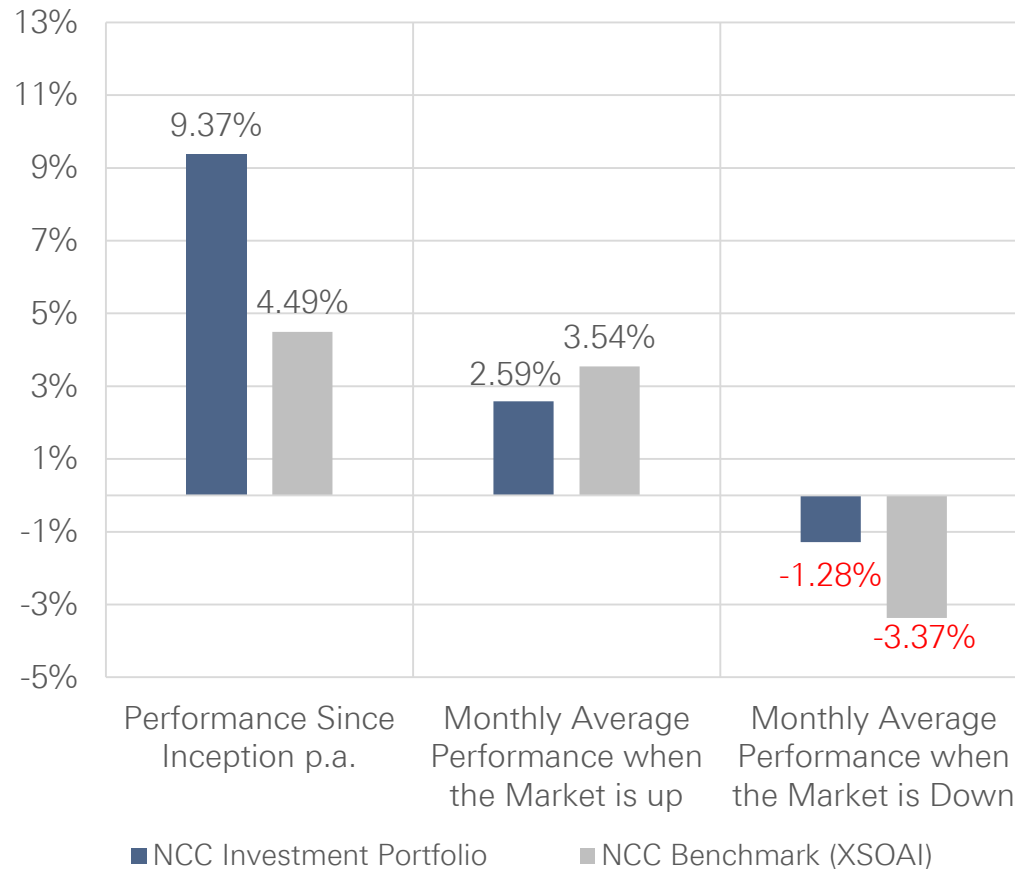
Each of our LICs target a concentrated portfolio of 0-20 companies



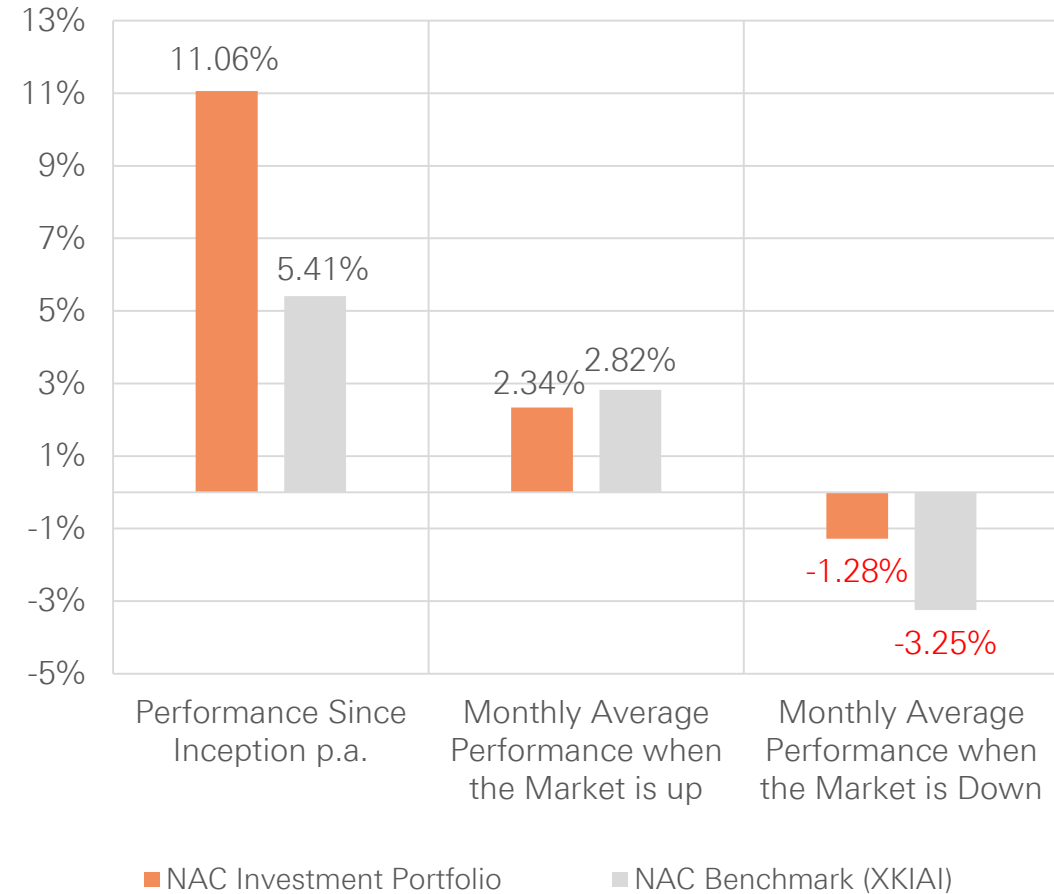


# NAOS strong long term (5 years+) risk-adjusted returns\*

NCC Investment Portfolio Risk and Performance Metrics



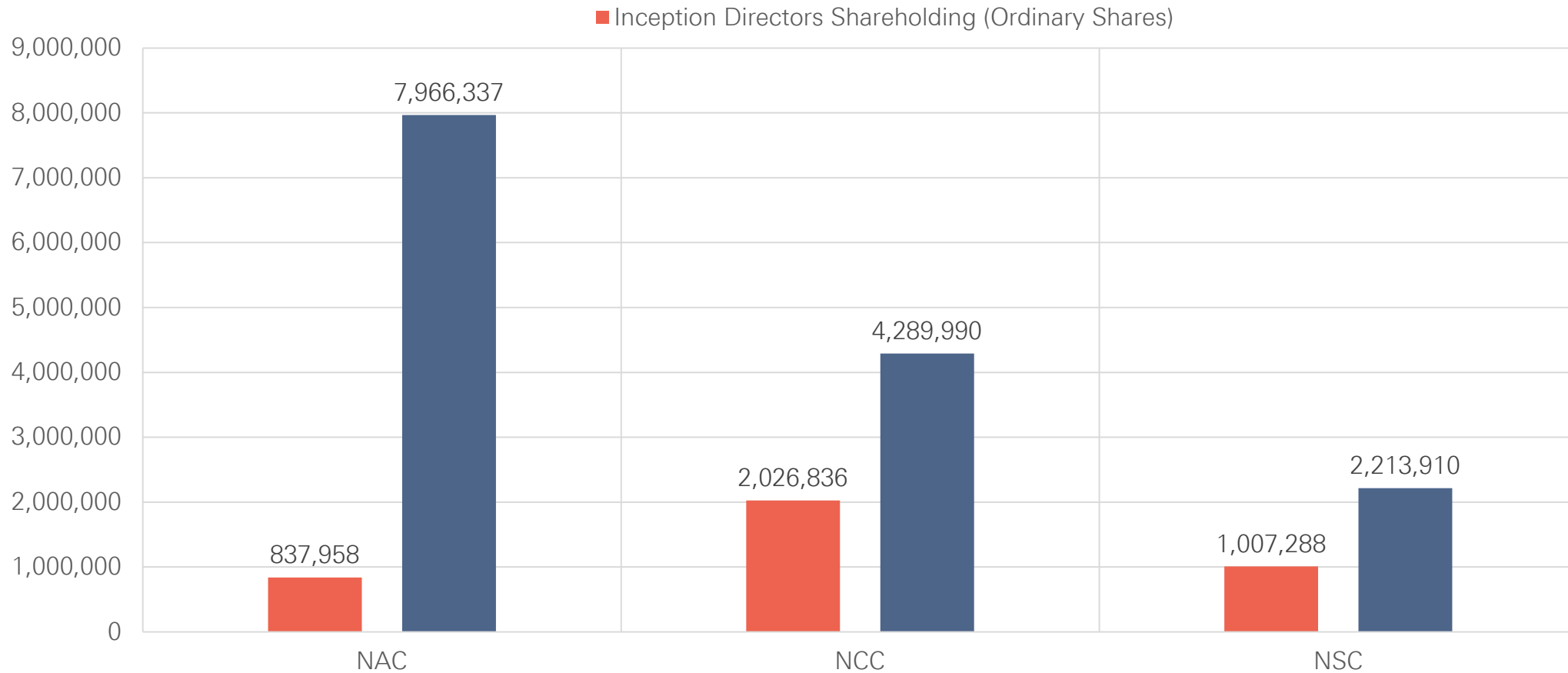
NAC Investment Portfolio Risk and Performance Metrics



\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a.) includes part performance for the month of February 2013 (NCC) and November 2014 (NAC), returns compounded for periods greater than 12 months. All risk metrics are calculated from the inception date of each portfolio. All Figures are as at 30 June 2020. Since NCC's inception (87 months) there have been 49 positive months for the market and 38 negative months and since NAC's inception (67 months) there have been 42 positive months for the market and 25 negative months.

# NAOS management alignment

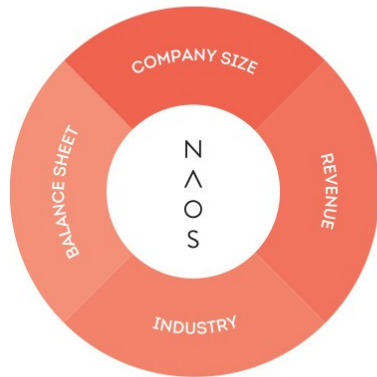
NAOS Director's shareholdings have significantly increased since the inception of each LIC



# NAOS investment process

01

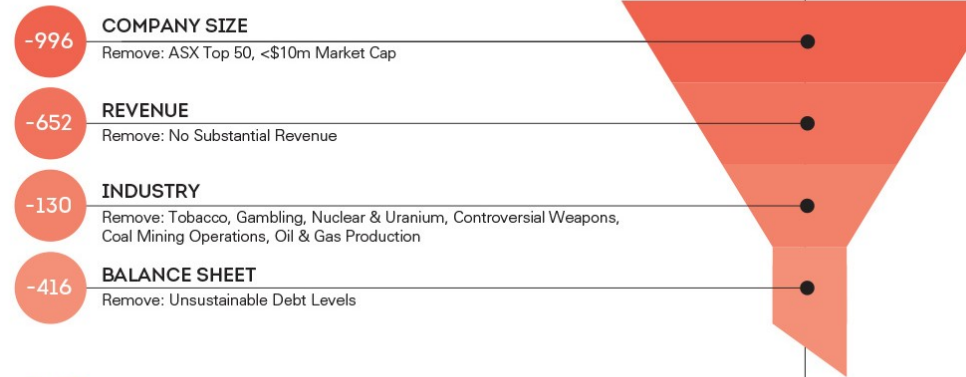
## INVESTMENT UNIVERSE SCREEN CRITERIA



2463  
TOTAL ASX  
LISTED COMPANIES\*

02

## INVESTMENT UNIVERSE FUNNEL



04

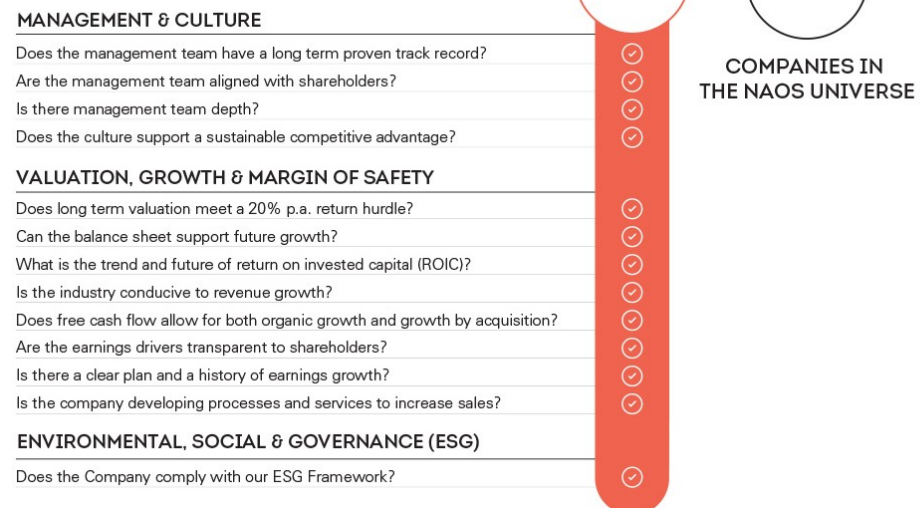
## THE NAOS LICs

- ASX:NCC**  
**NAOS EMERGING OPPORTUNITIES COMPANY LIMITED**  
0-20 NCC generally invests in 0-15 ASX listed **MICRO-CAP** industrial companies with a target market cap of <\$250m
- ASX:NSC**  
**NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED**  
0-20 NSC generally invests in 0-30 ASX listed **SMALL-CAP** industrial companies with a target market cap of <\$100m-\$1b
- ASX:NAC**  
**NAOS Ex-50 OPPORTUNITIES COMPANY LIMITED**  
0-20 NAC generally invests in 0-20 ASX listed **MID-CAP** industrial companies with a target market cap of <\$400m-\$1b+

50-80  
NAOS ACTIVE INVESTMENT  
UNIVERSE WATCHLIST

03

## INVESTMENT CRITERIA



\* Source: Bloomberg Data June 2020

# NAOS ESG framework

## 01

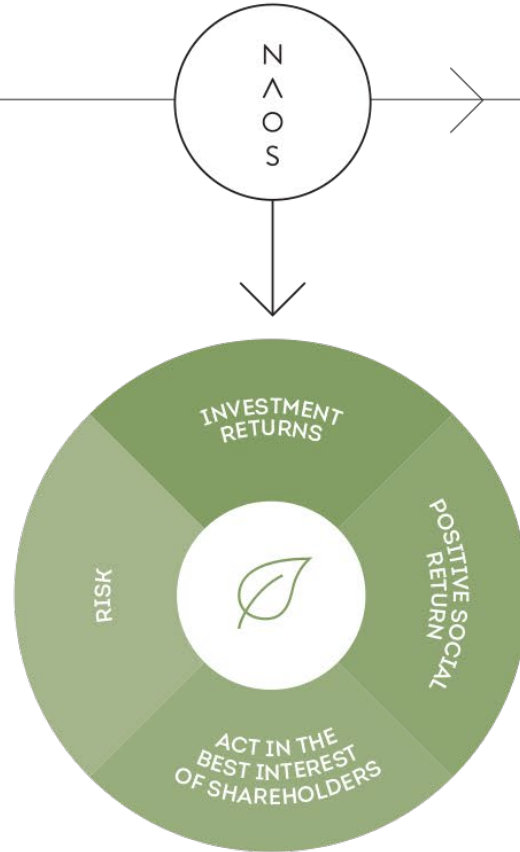
### OUR COMMITMENT TO RESPONSIBLE INVESTMENT

As an investment manager, NAOS recognises and accepts its duty to act responsibly and in the best interests of shareholders. We believe that a high standard of business conduct and a responsible approach to environmental, social and governance (ESG) factors is associated with a sustainable business model over the longer term that benefits not only shareholders but also the broader economy.

We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving a positive social return.

NAOS is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and is guided by these principles in incorporating ESG into our investment practices.

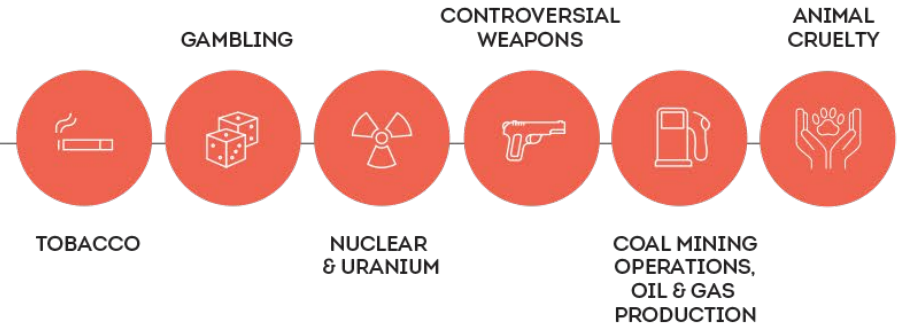
Signatory of:



## 02

### NEGATIVE SCREENS

NAOS systematically excludes investing in specific industries and companies that do not align with our responsible investment goals.



## 03

### ESG FRAMEWORK

The types of ESG factors we consider are represented by the following, although from time to time we will consider factors outside this group.



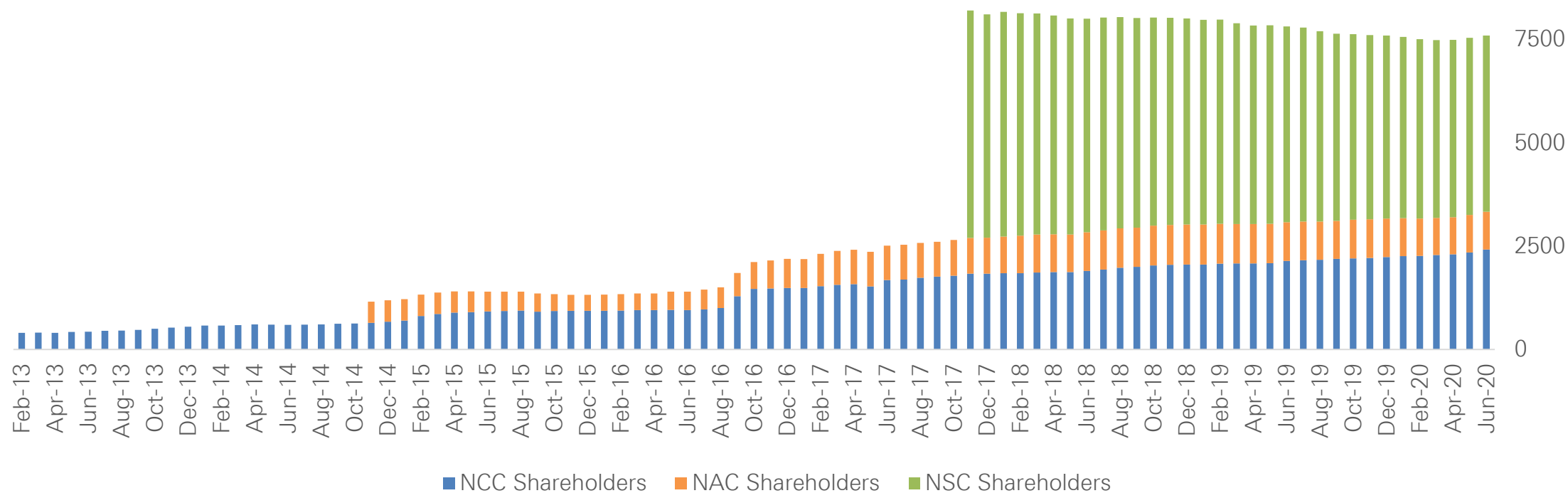
## 04

### THE INCORPORATION OF ESG

The incorporation of ESG considerations into the investment process applies across all NAOS investments, and involves regular discussions and engagement with companies over material ESG issues.

NAOS supports the adoption of a responsible investment strategy, and is committed to ensuring that this is an integral part of the NAOS investment process.

# Historical shareholder numbers



# Investor awareness and communication



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Shareholder Conference Calls/Webinars subscribe via our website [naos.com.au/subscribe](https://naos.com.au/subscribe)



Monthly Investment Report & NTA email updates, subscribe via our website [naos.com.au/subscribe](https://naos.com.au/subscribe)



The news and media section of our website is updated regularly [naos.com.au](https://naos.com.au)



Twice yearly Investor Roadshow Webinar

## FOLLOW NAOS





# NAOS Asset Management giving back

NAOS, the management company, is proud to be supporting the following charities.  
Since 2018 NAOS has donated a total of \$90,000 to the following charities.



'Golden Shouldered Parrot' threatened species project, in partnership with Bush Heritage



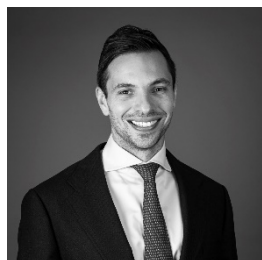
'Reef Aid' campaign, in partnership with Greening Australia



RFDS, dedicated to providing healthcare to Australians in remote communities

# NAOS Directors and Team

## OUR DIRECTORS



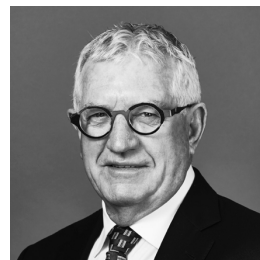
**Sebastian Evans**  
Managing Director, NAOS Asset Management Limited & Director NCC, NSC & NAC



**Warwick Evans**  
Chairman, NAOS Asset Management Limited & Director NCC, NSC & NAC



**Mark Bennett**  
Director, NAOS Asset Management Limited



**Trevor Carroll**  
Independent Chairman NSC



**Matthew Hyder**  
Director, NAOS Asset Management Limited

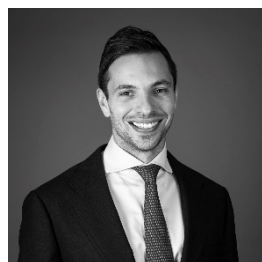


**David Rickards**  
Independent Chairman & Director, NCC and NAC & Independent Director NSC

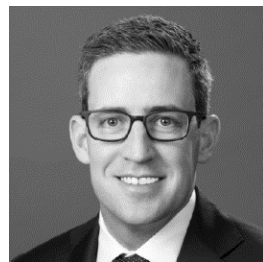


**Sarah Williams**  
Independent Director, NCC and NAC

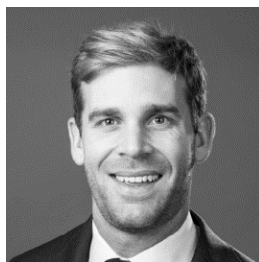
## OUR TEAM



**Sebastian Evans**  
Chief Investment Officer



**Ben Rundle**  
Portfolio Manager



**Robert Miller**  
Portfolio Manager



**Richard Preedy**  
Chief Financial and Operating Officer



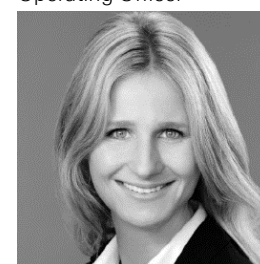
**Angela Zammit**  
Marketing & Communications Manager



**Nina Dunn**  
Business Development Manager



**Julie Coventry**  
Compliance Officer



**Julia Stanistreet**  
Business Development Manager