

### MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 29 FEBRUARY 2020

#### NET TANGIBLE ASSET VALUE BREAKDOWN

PRE TAX NTA	POST TAX & PRE UNREALISED GAINS TAX NTA	POST TAX NTA	SHARE PRICE	PREMIUM/ (DISCOUNT) TO NTA (PRE TAX)	FULLY FRANKED DIVIDEND YIELD
\$0.75	\$0.78	\$0.78	\$0.59	(21.33%)	6.78%

The above NTA figures are exclusive of the 1.00 cent per share fully franked Q2 FY20 quarterly dividend, which went ex-dividend on 28 February 2020 and will be paid on 18 March 2020.

#### MARKET INSIGHT

For the month of February, the NSC Investment Portfolio produced a negative return of -10.15%, compared to the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which fell by -8.68%. February is normally a highly eventful month with interim reporting for many companies, however this February was overshadowed by the developing situation arising from COVID-19, also known as Coronavirus, and its impact on world markets. This effectively meant reporting season was put to one side as investors globally tried to better understand the short- and medium-term impacts of the virus outbreak. From a reporting standpoint, we were pleased with how the majority of the NSC investments reported, with just one investment producing what we considered a negative result. From a contribution perspective there were just two holdings that generated a positive return given the wider market sell-off. There were four positions that had a negative contribution of over -1% each, being Enero Group (ASX: EGG), Over The Wire (ASX: OTW), BSA Limited (ASX: BSA) and MNF Group (ASX: MNF). In our view, with the exception of OTW, all produced solid results which demonstrated that these businesses all continue to grow and are supported by strong net cash balance sheets that enable growth via reinvestment and/or acquisition. Balance sheet strength is a key attribute of the NAOS investment philosophy and is shown across the portfolio with all but two NSC investments having net cash balance sheets.

#### INVESTMENT BELIEFS

VALUE WITH LONG TERM GROWTH



QUALITY OVER QUANTITY



INVEST FOR THE LONG TERM



#### INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS\*

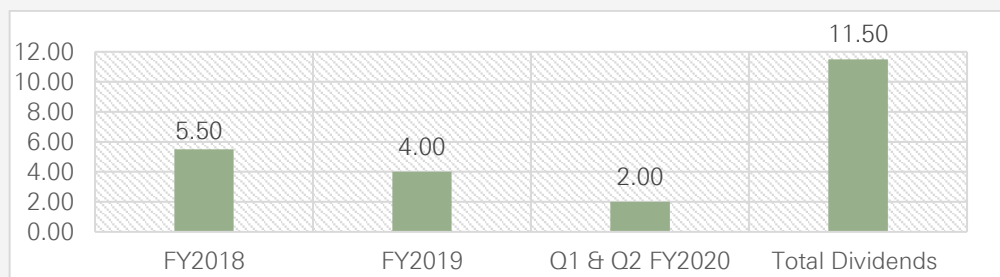
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%					+9.74%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	-3.44%

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

MNF fell by -18% for the month of February, despite reaffirming FY20 EBITDA guidance which was originally given to the market over 18 months ago. Even so, the market was clearly disappointed with the reduction in NPAT guidance, as this figure was not normalised for one-off costs such as redundancies, and the normalisation of the tax rate due to a change in the government R&D incentive scheme. When looking at the core drivers of the business such as the gross profit derived from the recurring operations, they continue to grow and importantly for the FY20 guidance to be achieved, they must continue to do so in the 2H of FY20. The balance sheet is in pristine shape with net cash of over \$8 million and we expect cash flow conversion to be >82% after the AASB16 accounting changes. In our view, the most important section of the results presentation was the greater clarity provided around the Singapore network opportunity, where MNF are targeting a 10% market share of the 7.5 million phone numbers that exist, and where we believe circa \$10 million has already been invested by the business.

#### FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



PERFORMANCE V LIQUIDITY FOCUS



IGNORE THE INDEX



PURE EXPOSURE TO INDUSTRIALS



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)



MANAGEMENT ALIGNMENT



## MARKET INSIGHT CONTINUED

Currently MNF generates \$8.78 in EBITDA per phone number in Australia and New Zealand, but we believe this figure is significantly higher once the lower margin products such as minutes trading and the current Singapore losses are removed. We believe \$15 EBITDA per phone number is readily achievable, which would generate >\$11 million EBITDA from the Singapore network alone if MNF reached their targeted market share, translating to 33% of their current FY20 EBITDA guidance. We believe MNF is significantly undervalued relative to its recurring revenue base and global tier-1 client list and this was further reinforced when the CEO acquired >\$400,000 shares in late February.

Experience Co. (ASX: EXP), the most recent addition to the NSC Investment Portfolio, posted what we believe was a very credible result in a challenging market due to recent natural disaster events in the 1<sup>st</sup> half of the financial year. The productivity and cost saving program has gained traction and further cost controls have been implemented, with \$6-\$7 million of savings targeted by the end of FY20, with the full benefit to come in FY21. The balance sheet has been significantly de-risked with net debt of just \$7.3 million, and we expect EXP to be net debt free by the end of FY20 once further sales of non-core property and business assets are completed. Interestingly, the business had its two largest individual days as measured by jumps completed in Queenstown and Wollongong in late December which highlights the resilient nature around demand for skydiving experiences.

## STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception, December 2017. The stocks listed below may or may not be current holdings within the portfolio.

TOP 5 POSITIVE CONTRIBUTORS	CONTRIBUTION TO RETURN (%NAV)
Enero Group Limited (ASX: EGG)	4.85%
Broadcast Services Australia Limited (ASX: BSA)	2.12%
Big River Industries Limited (ASX: BRI)	1.47%
Service Stream Limited (ASX: SSM)	1.32%
Eureka Group Holdings Limited (ASX: EGH)	0.91%

## INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	2 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	-10.15%	-2.63%	+7.40%	-3.95%	-3.70%	-8.12%
S&P/ASX Small Ordinaries Accumulation Index	-8.68%	-2.40%	+1.64%	+2.55%	+3.48%	+7.98%
Performance Relative to Benchmark	-1.47%	-0.23%	+5.76%	-6.50%	-7.18%	-16.10%

\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. 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	\$163.6 million
Number of Holdings	10 Long Positions
Cash Weighting	0.60%
Standard Deviation of Returns (NSC)	15.19%
Standard Deviation of Returns (XSOAI)	12.99%
Downside Deviation (NSC)	8.73%
Downside Deviation (XSOAI)	8.64%
Percentage of Positive Months (NSC)	44%
Percentage of Positive Months (XSOAI)	52%
Shares on Issue	159,736,825
NSC Directors Shareholding (Ordinary Shares)	2,078,554

## 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

Julia O'Brien

Compliance Officer

Julie Coventry

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