

# NAOS Asset Management Limited

## Investor Update and Q&A, COVID-19

11:00am 8<sup>th</sup> April 2020

[Register for the webinar](#), if you have already registered then you will have received an email with a link to join the webinar.

Alternatively, participants may dial in for audio only +61 2 9091 7604 or Toll Free 1800 190 906

Access Code 692923200 (note questions must be sent to [enquiries@naos.com.au](mailto:enquiries@naos.com.au) before or during the session for these participants)



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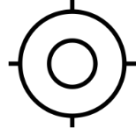
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# NAOS investment beliefs provide a competitive advantage



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

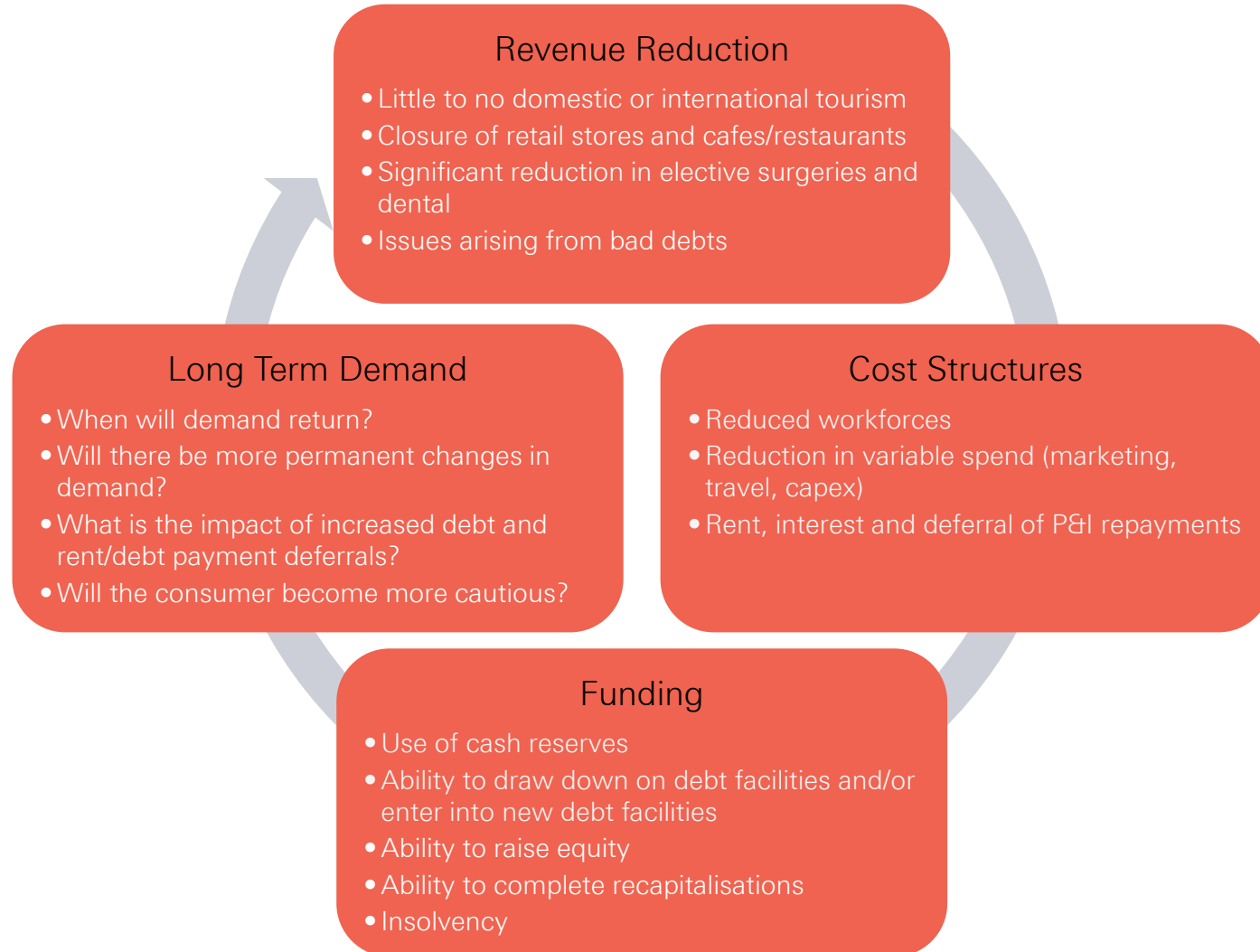
# NAOS Investment team focus in the current environment





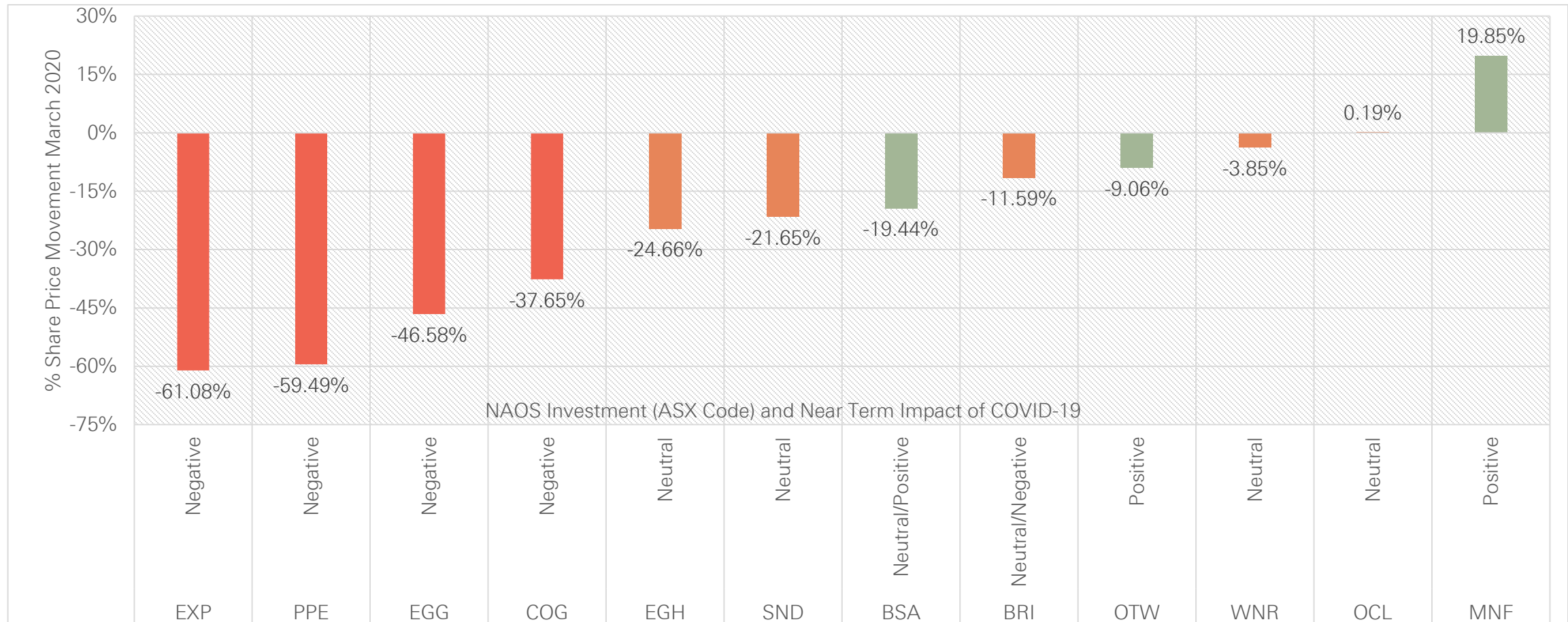
# COVID-19 implications

The key issues impacting the majority of businesses within the current economic environment:



# COVID-19 impact on NAOS LIC core investments

In our view, the near term impact of COVID-19 on the core holdings across the NAOS LIC's can be classified as follows:





# COVID-19 impact on NAOS LIC core investments

Investment	COVID-19 Impact Positive
<p>MNF Group Limited (ASX: MNF)</p>	<ul style="list-style-type: none"> <li>• Significant network dependency driven by demand for voice applications i.e. Zoom video conferencing.</li> <li>• MNF should be a significant beneficiary as more people work remotely.</li> <li>• Sound balance sheet with circa \$9 million of net cash as at 31 December 2019.</li> </ul>
<p>BSA Limited (ASX: BSA)</p>	<ul style="list-style-type: none"> <li>• We would expect to see improved volumes of NBN related work as demand on the network is substantially increased.</li> <li>• A small amount of work within the 'maintain' division could be delayed from clients who have been significantly affected.</li> <li>• Balance sheet remains strong with no bank debt and a net cash position of circa \$15 million as at 31 December 2019.</li> </ul>
<p>Over The Wire Limited (ASX: OTW)</p>	<ul style="list-style-type: none"> <li>• As a provider of voice and data services we would expect to see a major usage uplift across these services.</li> <li>• We expect to see more existing and new clients look to firms such as OTW to provide business continuity services.</li> <li>• Balance sheet expected to be net cash positive for FY20.</li> <li>• 80% of revenues are recurring in nature.</li> </ul>

# COVID-19 impact on NAOS LIC core investments

Investment	COVID-19 Impact Neutral
Saunders International Limited (ASX: SND)	<ul style="list-style-type: none"> <li>We do not expect any significant change to existing operations.</li> <li>SND currently have the largest order and tender book in the company's history with Tier-1 clients i.e. RIO, Australian Defence Force and Sydney Water.</li> <li>Well capitalised with circa \$9.5 million of cash, no bank debt and a further circa \$9.5 million in PPE as at 31 December 2019.</li> </ul>
Eureka Group Holdings Limited (ASX: EGH)	<ul style="list-style-type: none"> <li>EGH have seen no changes in occupancy levels to date.</li> <li>Systems and processes have been put in place to minimise risk across all EGH villages.</li> <li>Total asset value is \$0.34 per share with net debt of circa 40% as at 31 December 2019.</li> <li>&gt;90% of cash flows are through contracted rental accommodation agreements.</li> </ul>
Wingara Ag. Limited (ASX: WNR)	<ul style="list-style-type: none"> <li>Harvest completed for hay operations which will support WNR's expected exports over 2020.</li> <li>Blast freezing and storage operations – WNR only provide the service, there is no product ownership risk.</li> <li>Logistical delays on exporting product to Asia may potentially arise but trading largely uninterrupted to date.</li> <li>WNR had \$20 million of hard assets on their balance sheet as at 31 December 2019, with net debt having reduced significantly and their capex program largely complete.</li> </ul>
Big River Industries Limited (ASX: BRI)	<ul style="list-style-type: none"> <li>BRI's NZ operations have been forced to close for 4 weeks, commencing 25 March 2020, under the Alert Level 4 restrictions.</li> <li>Prior to these restrictions, BRI had seen no changes to business activity in Australia or New Zealand.</li> <li>Construction activity remains stable in Australia with some builders ordering ahead to secure supply.</li> <li>Debt levels are circa 1.80 times EBITDA which we expect to be manageable as this will decrease if working capital falls.</li> </ul>
Objective Corporation Limited (ASX: OCL)	<ul style="list-style-type: none"> <li>Customers are predominately public sector so we do not expect significant bad debtors/churn to impact current operations.</li> <li>OCL's enterprise software is typically seen as 'mission critical' and can be beneficial to customers working from home e.g. Objective Connect software.</li> <li>With circa \$35 million cash and no debt as at 31 December 2019, we believe OCL is in excellent shape and could look to capitalise on acquisition opportunities in this environment.</li> </ul>



# COVID-19 impact on NAOS LIC core investments

Investment	COVID-19 Impact Negative
<p>Consolidated Operations Group Limited (ASX: COG)</p>	<ul style="list-style-type: none"> <li>• COG have ceased writing leases and will now 'run-off' the lease book over the next 2-3 years.</li> <li>• The broking business has seen a significant uptick in demand due to government stimulus.</li> <li>• We estimate that COG had a net cash position of circa \$5 million as at 31 March 2020, with investments of circa \$31 million. Investments include a shareholding in CML Group Limited (ASX: CGR) valued at \$17 million as at 2 April 2020 and a \$14 million non-controlling stake in Westlawn valued at cost price.</li> </ul>
<p>Enero Group Limited (ASX: EGG)</p>	<ul style="list-style-type: none"> <li>• We expect to see a revenue decrease due to some clients being affected by COVID-19.</li> <li>• EGG does have a variable cost base which can reduce the impact to EBITDA margins over time.</li> <li>• EGG has clients including Aldi, Facebook, Adobe and large healthcare businesses.</li> <li>• Strong balance sheet with circa \$12.5 million of net cash as at 31 December 2019.</li> </ul>
<p>People Infrastructure Limited (ASX: PPE)</p>	<ul style="list-style-type: none"> <li>• Largest provider of temporary nursing staff on the Eastern Seaboard for which we expect to see strong demand.</li> <li>• A reasonable portion of their earnings will be affected by clients lower staffing demands due to COVID-19.</li> <li>• Highly variable cost base with the majority of their staff part time or casual.</li> </ul>
<p>Experience Co. Limited (ASX: EXP)</p>	<ul style="list-style-type: none"> <li>• Almost all of their skydiving and cruise operations have ceased resulting in minimal revenue in the near term.</li> <li>• Significantly variable cost base with a majority of their workforce either part time or casual.</li> <li>• Funding capacity of an estimated circa \$14 million in cash and a further \$15 million available through a debt facility as at 31 March 2020.</li> <li>• Significant net tangible assets totalling \$0.17 per share or \$95 million as at 31 December 2019.</li> </ul>

# Impact on 'quality businesses'\*

Businesses that have generally been perceived as high quality have not been immune to market volatility, below are select figures from companies within the S&P/ASX All Ordinaries Index (XAO) for the month of March.

-20.70%

Average company TSR

43

Companies with a positive return

450

Companies with a negative return

14

Companies with a positive return >\$1bn market capitalisation

\* Source Bloomberg, figures are for 1 month as at 31 March 2020, TSR (Total Shareholder Return) is the share price return plus any dividends paid during the period.



# Impact on 'quality businesses'\*

## Funds Management

Stock examples: Pandal Group (ASX: PDL) -40%,  
Macquarie Group (ASX: MQG) -36%

- Significant revenue drop due to lower funds under management even if revenue is recurring in nature.
- Yet to see any significant evidence of redemptions/outflows which were significant during the GFC.

## Software Providers

Stock examples: Audinate Group (ASX: AD8) -41%,  
REA Group (ASX: REA) -21%

- A majority of software or SAAS businesses are yet to prove their business model in a recession.
- Issues around customer solvency and cost cutting may or may not affect these businesses.

## REITs

Stock examples: Shopping Centres Australasia  
(ASX: SCP) -25%, Scentre Group (ASX: SCG) -55%

- Many tenants have temporarily ceased trading and stated an intention not to pay rent during the closure.
- Banks will allow deferred payment of interest and principal, what is the long-term impact on the landlord?
- Potential further long-term implications for retail rents as well as office rents.

## Education

Stock example: IDP Education (ASX: IEL) -45%

- Limited ability for international students to enter Australia to study.
- Tertiary educational providers have had to cease all face to face learning activities.

## Healthcare

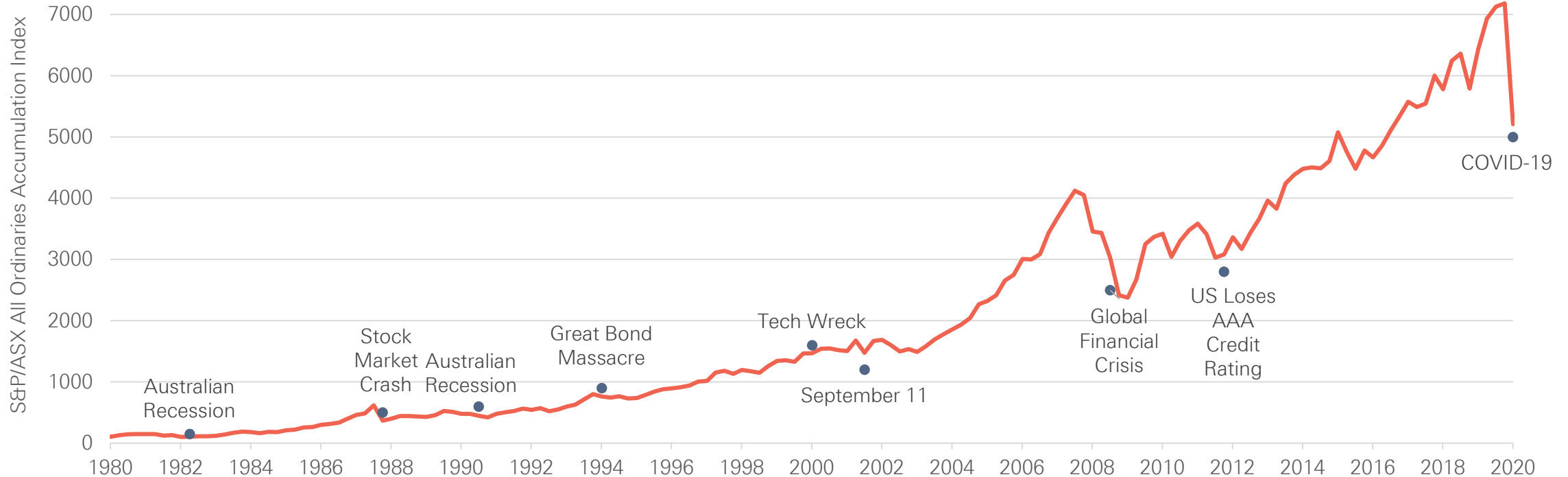
Stock examples: Ramsay Healthcare (ASX: RHC)  
-15%, Pacific Smiles Group (ASX: PSQ) -42%

- Stage 2 & 3 elective surgery will no longer be allowed in order to increase capacity at hospitals for COVID-19 cases and only emergency dental work may take place.

\* Source Bloomberg, stock example figures are the share price performance for 1 month as at 31 March 2020.

# Long term investing

Historical Market Events and S&P/ASX All Ordinaries Accumulation Index Long Term Performance\*

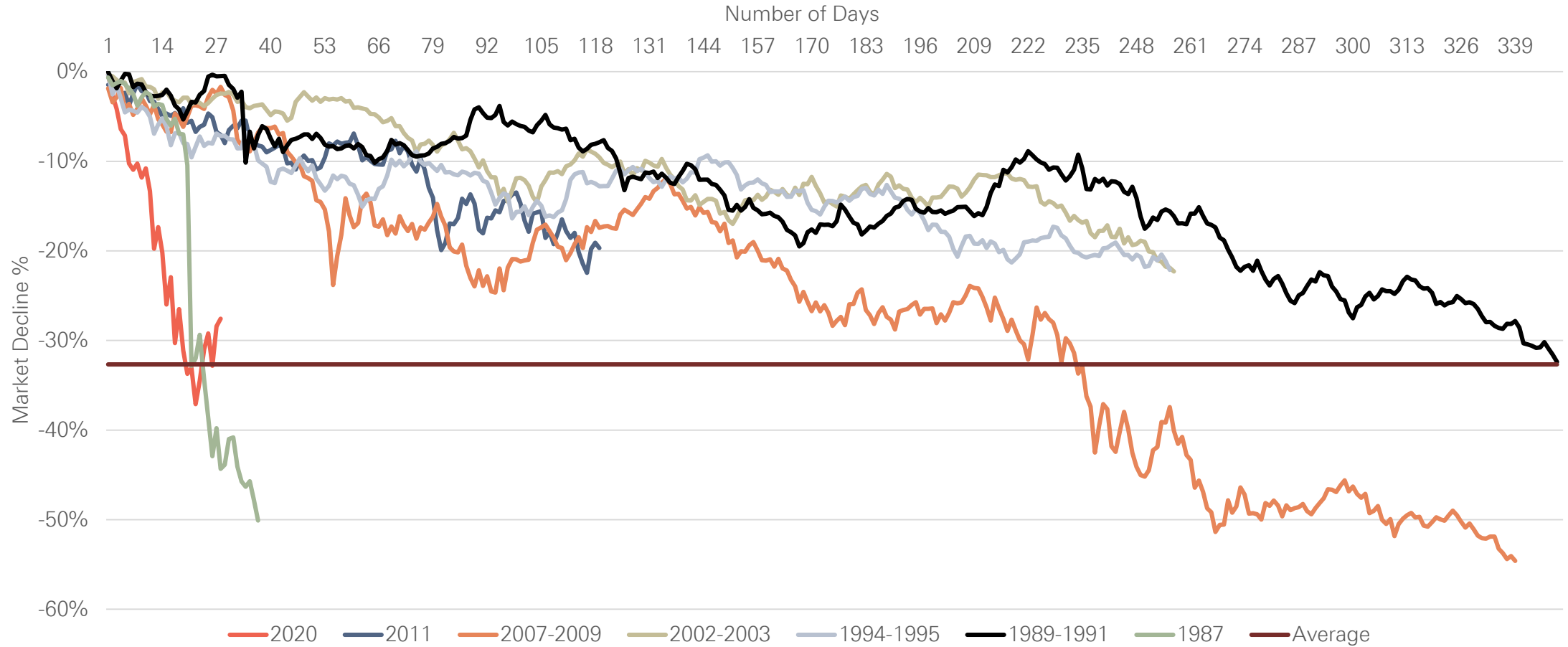


*“Only buy something that you’d be perfectly happy to hold if the market shut down for 10 years.”*

Warren Buffett

\* Source Bloomberg

# Bear markets since 1987



S&P/ASX All Ordinaries Bear Markets Since 1987\*

\* Source Bloomberg, as at 31 March 2020

# Potential for further downside

Longer lasting COVID-19 restrictions

e.g. international travel potentially not re-commencing until end CY20

How sharp will the demand recovery be?

e.g. will businesses and consumers be more cautious?

Long term structural demand changes

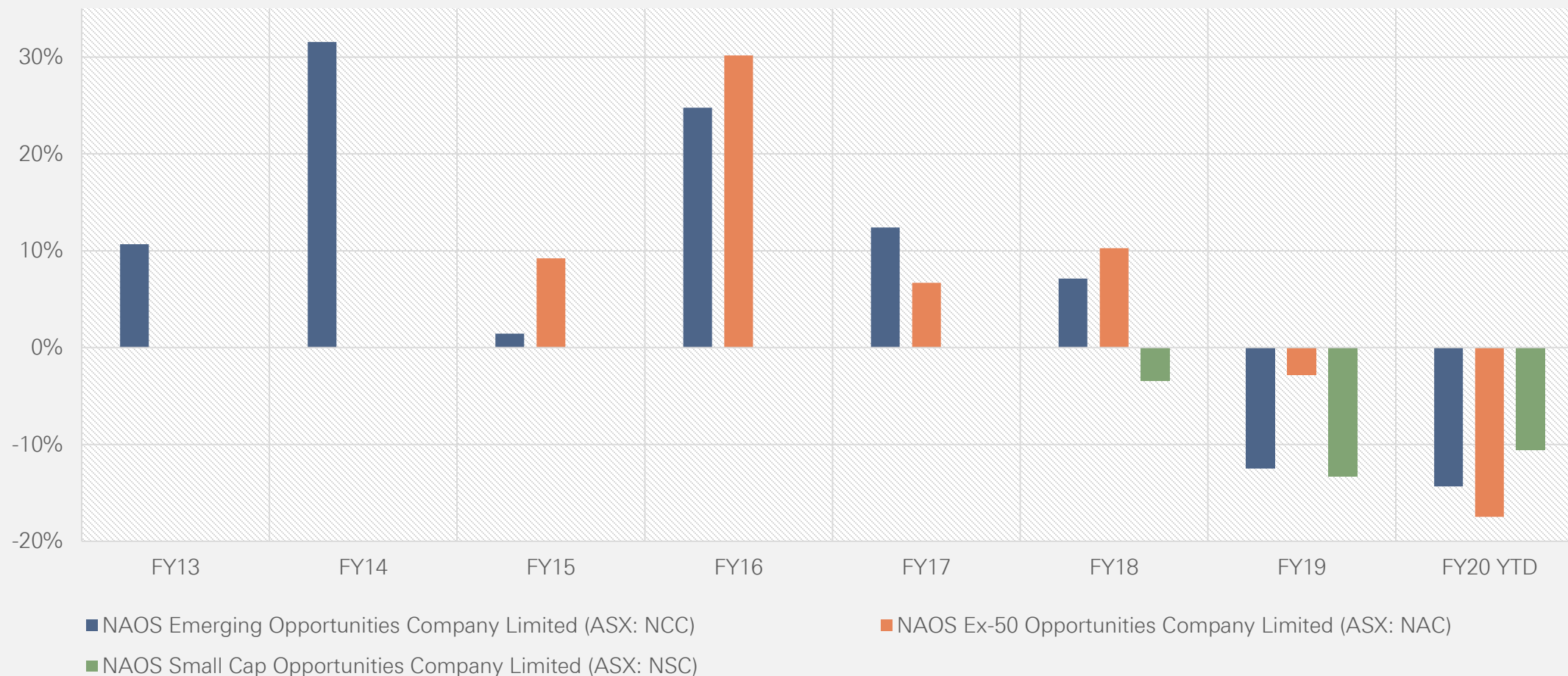
e.g. office space and equipment, rent structures, travel requirements etc

Long term credit issues

e.g. credit quality and bad debt exposures

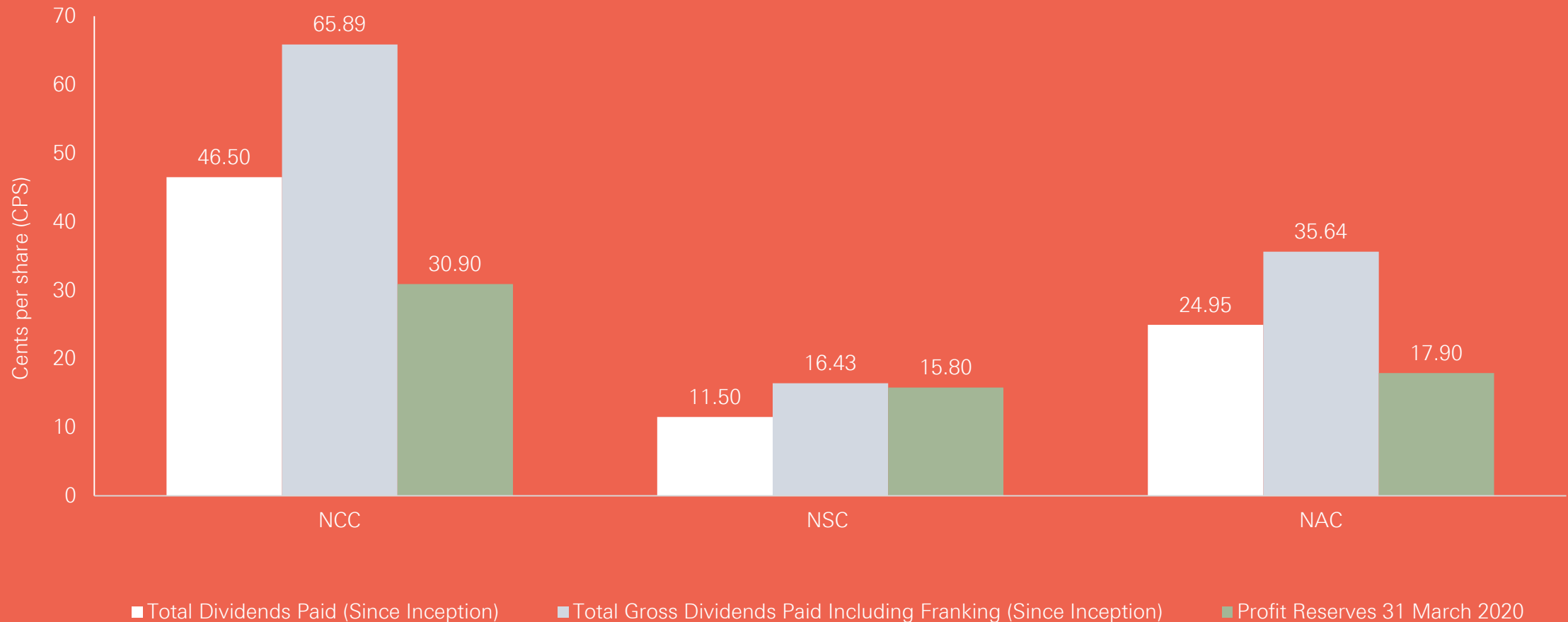


# NAOS investment portfolio financial year returns\*



\* 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). FY20 YTD performance to 31 March 2020.

# NAOS LIC dividend history and profit reserves



All figures are as at 31 March 2020

# Summary

Short-term earnings are irrelevant, focus purely on business survival

Continue to upgrade the quality of the investments when opportunities arise

Invest in businesses where positive long-term trends are sustainable

Focus on long-term valuation scenarios

Smaller and more illiquid companies tend to lag in the initial stages of a significant market recovery

# Q&A

Thank you for your continued support, we hope you and your family stay well.

*“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.”*

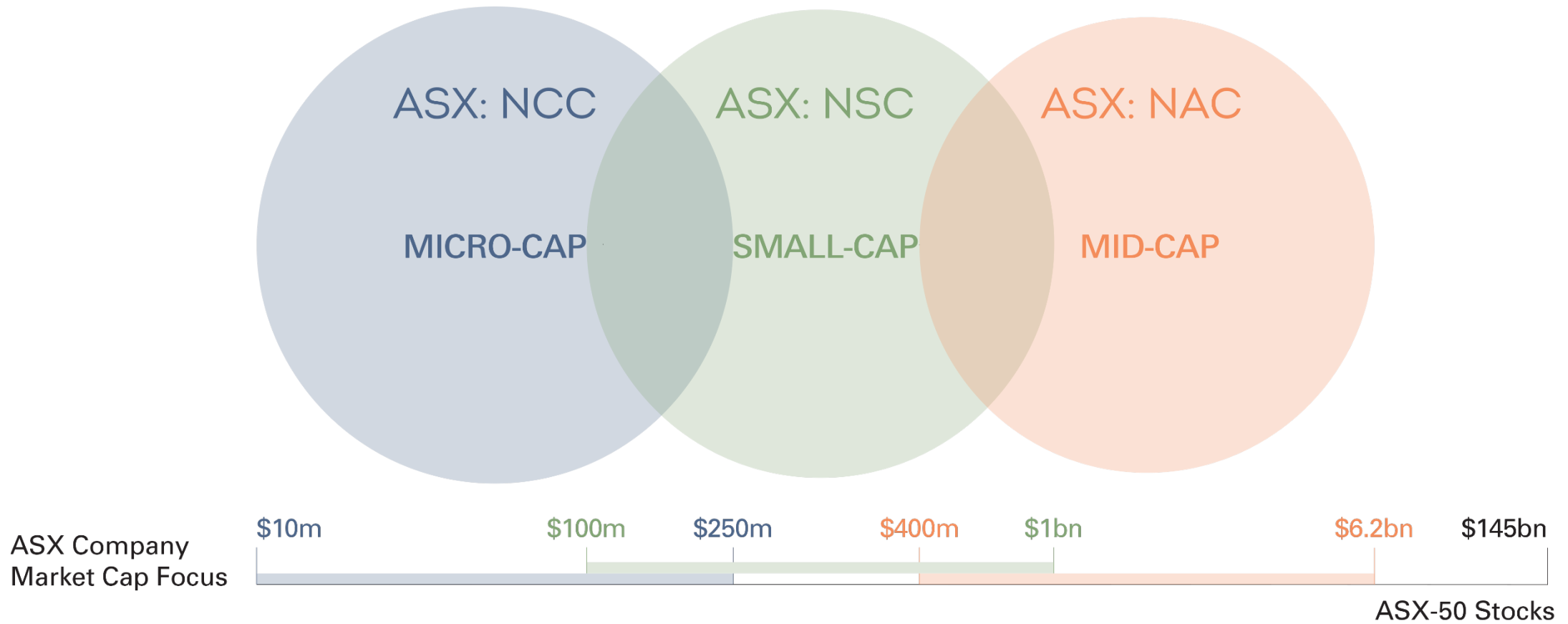
Warren Buffett



# Appendix

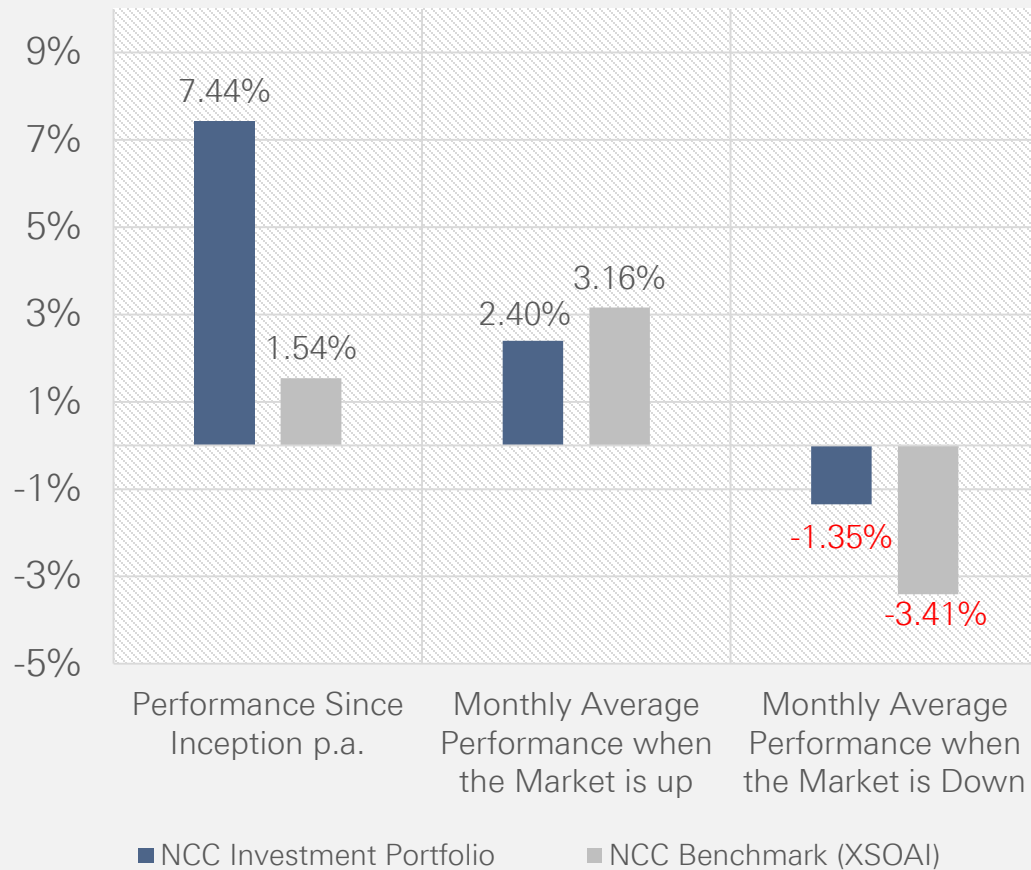


# NAOS investment universe

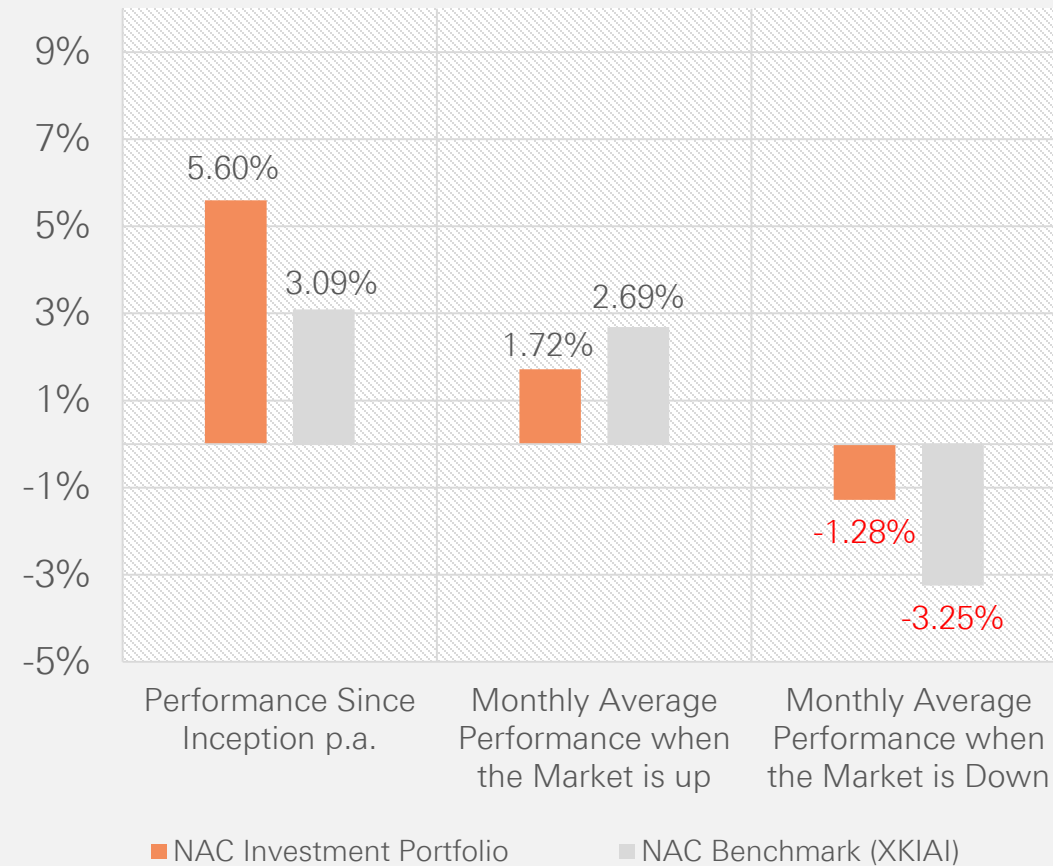


# NAOS strong long term (5 years+) risk-adjusted returns\*

NCC Investment Portfolio Risk and Performance Metrics

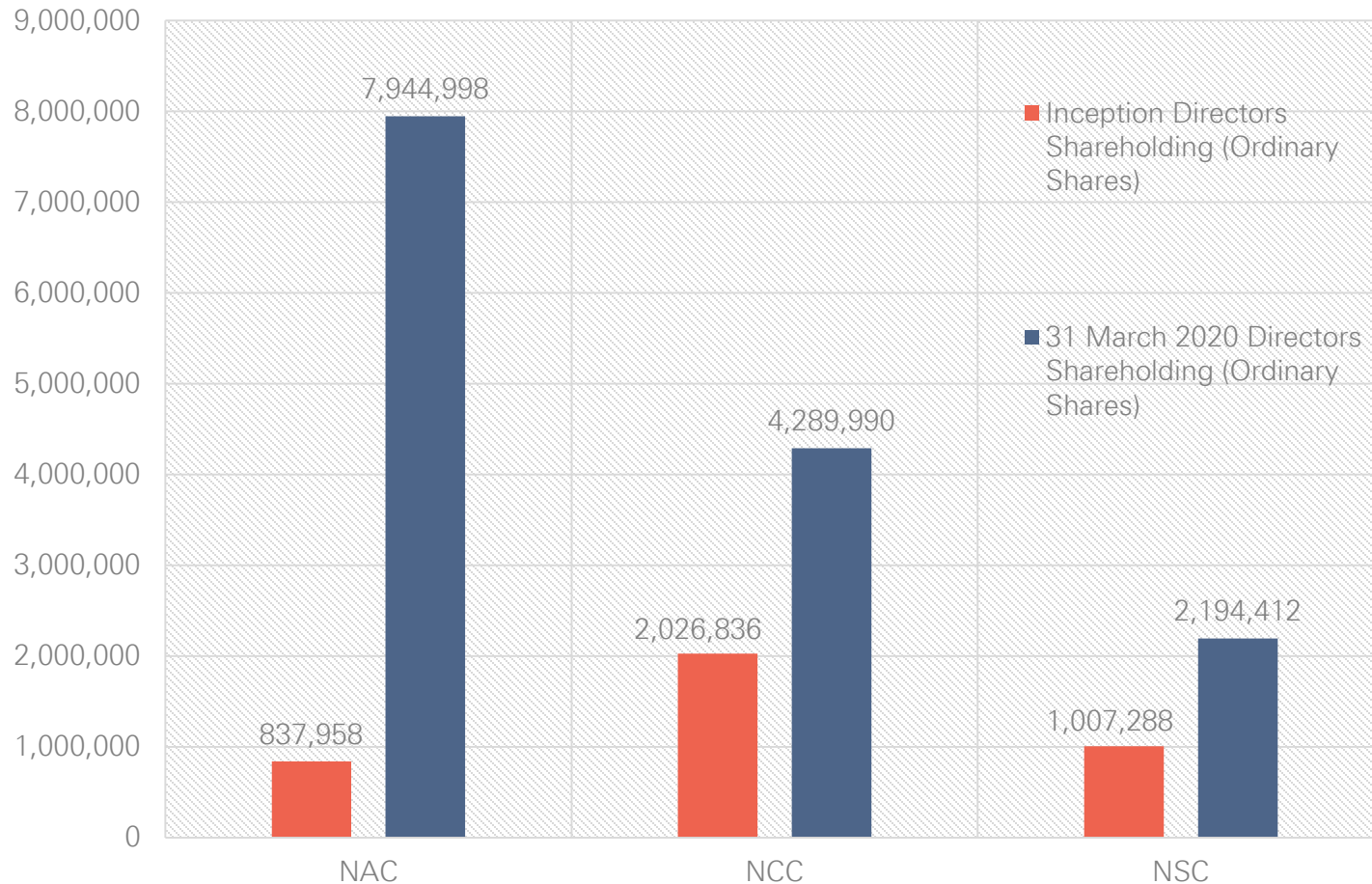


NAC Investment Portfolio Risk and Performance Metrics



\* 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 31 March 2020. Since NCC's inception (85 months) there have been 47 positive months for the market and 38 negative months and since NAC's inception (65 months) there have been 40 positive months for the market and 25 negative months.

# NAOS alignment of interests



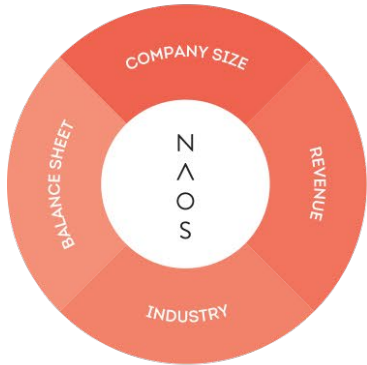
- Investment team members are prohibited from holding any securities outside of the NAOS LICs.
- Directors and all investment team members are significant holders of shares on issue across our strategies, aligning our interests with those of our shareholders
- The Investment Manager paid for NAC’s IPO costs.



# NAOS investment process

## 01

### INVESTMENT UNIVERSE SCREEN CRITERIA

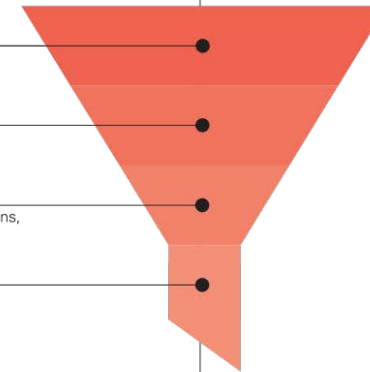


2568  
TOTAL ASX LISTED COMPANIES\*

## 02

### INVESTMENT UNIVERSE FUNNEL

- 1168 COMPANY SIZE**  
Remove: ASX Top 50, <\$10m Market Cap
- 504 REVENUE**  
Remove: No Substantial Revenue
- 200 INDUSTRY**  
Remove: Tobacco, Gambling, Nuclear & Uranium, Controversial Weapons, Coal Mining Operations, Oil & Gas Production
- 400 BALANCE SHEET**  
Remove: Unsustainable Debt Levels



## 04

### THE NAOS LICs

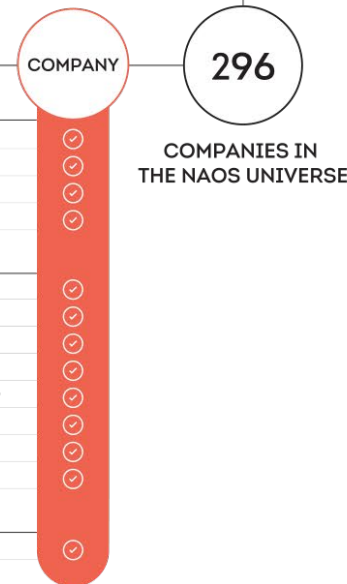
- 0-15 ASX:NCC NAOS EMERGING OPPORTUNITIES COMPANY LIMITED**  
NCC generally invests in 0-15 ASX listed **MICRO-CAP** industrial companies with a target market cap of <\$250m
- 0-30 ASX:NSC NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED**  
NSC generally invests in 0-30 ASX listed **SMALL-CAP** industrial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

- MANAGEMENT & CULTURE**
- Does the management team have a long term proven track record?
  - Are the management team aligned with shareholders?
  - Is there management team depth?
  - Does the culture support a sustainable competitive advantage?
- VALUATION, GROWTH & MARGIN OF SAFETY**
- Does long term valuation meet a 20% p.a. return hurdle?
  - Can the balance sheet support future growth?
  - What is the trend and future of return on invested capital (ROIC)?
  - Is the industry conducive to revenue growth?
  - Does free cash flow allow for both organic growth and growth by acquisition?
  - Are the earnings drivers transparent to shareholders?
  - Is there a clear plan and a history of earnings growth?
  - Is the company developing processes and services to increase sales?
- ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)**
- Does the Company comply with our ESG Framework?



\* Source: Bloomberg Data as at June 2019

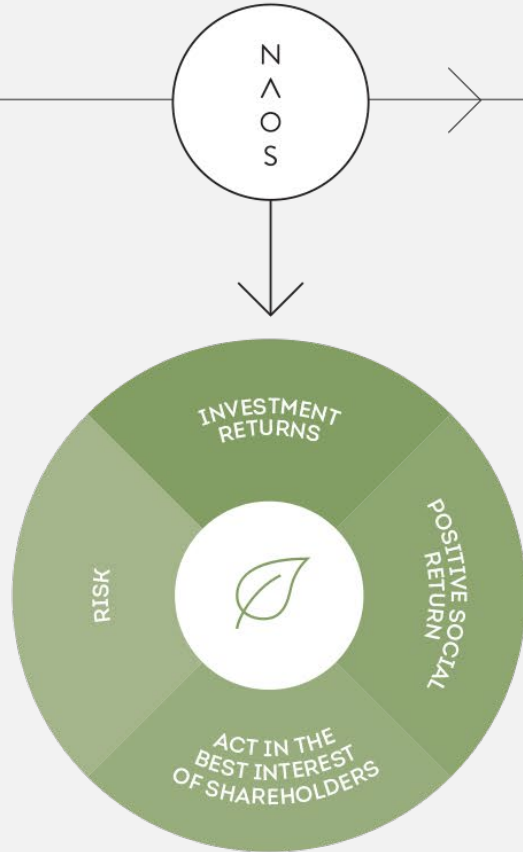
# NAOS ESG framework

## 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.

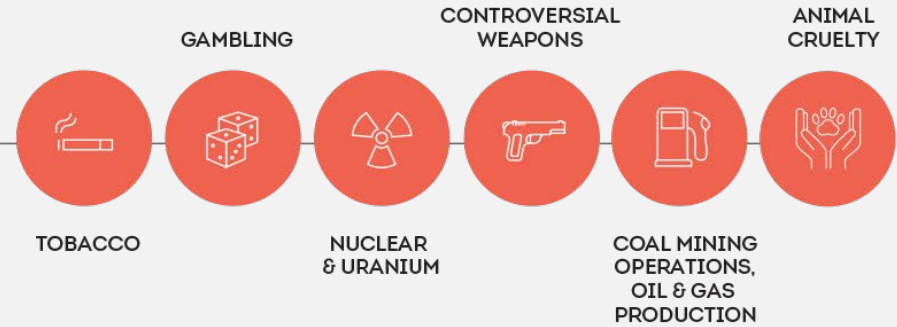
We recognise the material impacts that ESG factors can have on investment returns and risk, and also the wider implications for achieving a positive social return.

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.



## 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.

Signatory of:



# NAOS giving

NAOS Asset Management, the management company, is proud to be giving back ~ 1% of recurring income to the following charities



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



'Reef Aid' campaign, in partnership with Greening Australia



Royal Flying Doctor Service  
*The furthest corner. The finest care.*

RFDS, dedicated to providing healthcare to Australians in remote communities

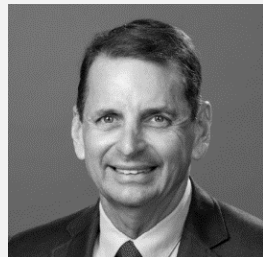


# NAOS Directors and Team

## OUR DIRECTORS



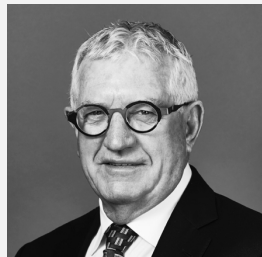
**Sebastian Evans**  
Managing Director, NAOS Asset Management Limited & Director NCC, NSC & NAC



**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

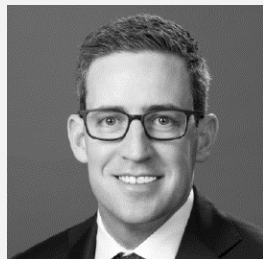


**Sarah Williams**  
Independent Director, NCC and NAC

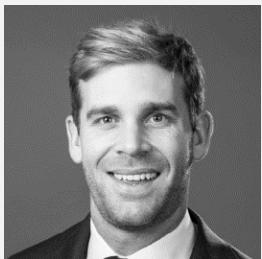
## OUR TEAM



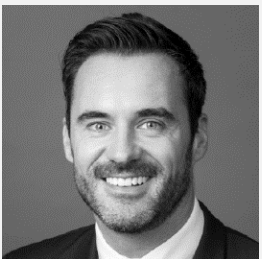
**Sebastian Evans**  
Chief Investment Officer



**Ben Rundle**  
Portfolio Manager



**Robert Miller**  
Portfolio Manager



**Richard Preedy**  
Chief Financial and Operating Officer



**Julie O'Brien**  
Business Development Manager



**Julie Coventry**  
Compliance Officer



# Investor awareness and communication



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



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



Twice yearly National Roadshow

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