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# QUARTERLY CONFERENCE CALL Q4 FY2018

TUESDAY, 24 JULY 2018 10:30 AM AEST  
WITHIN AUSTRALIA: 1300 289 804  
OUTSIDE AUSTRALIA: +61 3 8687 0635  
GUEST ACCESS CODE: 1084 2873 #

# IMPORTANT INFORMATION

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This material does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances.

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# NAOS INVESTMENT BELIEFS

NAOS Asset Management is a specialist fund manager providing genuine, concentrated exposure to Australian listed industrial companies outside of the ASX50.

With a proven performance track record, NAOS maintains a focus on protecting capital and aims to deliver shareholders a sustainable growing stream of dividends franked to the maximum extent possible over the longer term.



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

# NAOS LISTED INVESTMENT COMPANIES

NAOS EMERGING  
OPPORTUNITIES  
COMPANY LIMITED

ASX: NCC

Micro Cap  
Industrial Companies

Market Cap Generally  
<\$250M

9 Holdings\*

NAOS SMALL CAP  
OPPORTUNITIES  
COMPANY LIMITED

ASX: NSC

Small Cap  
Industrial Companies

Market Cap Generally  
>\$100M - \$1B

11 Holdings\*

NAOS EX-50  
OPPORTUNITIES  
COMPANY LIMITED

ASX: NAC

Mid Cap  
Industrial Companies

Market Cap Generally  
>\$400M - \$1B+

11 Holdings\*

\*As at 30 June 2018



# 1. Review

“The real big money in the investment world, the dependable money, the safe money, is made not betting the things that have gone up a lot will continue, but on betting the things that have gone down a lot and become unloved will rebound”.

Howard Marks



# NTA & PERFORMANCE

AS AT 30 JUNE 2018

NAOS

	Pre Tax NTA	Q4 FY18 Performance	Q4 FY18 Performance Benchmark	Inception Performance p.a.
NCC*	\$1.28	-2.93%	+7.67%	+16.09%
NSC^	\$0.95	-3.29%	+7.67%	-3.44% nom.
NAC*	\$1.11	-1.47%	+1.12%	+15.21%

\*Investment 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 and returns are compounded for periods greater than 12 months. Inception p.a. includes part performance for the month of February 2013 (NCC) and November 2014 (NAC), returns are compounded for periods greater than 12 months. NCC Benchmark XSOAI refers to the S&P/ASX Small Ordinaries Accumulation Index and NAC Benchmark RBA Cash Rate + 250bps.

^Investment performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders. . NSC Benchmark XSOAI refers to the S&P/ASX Small Ordinaries Accumulation Index Inception performance (nominal) is from 1 December 2017.

# Q4 FY18 UPDATE

## ASX: NCC AS AT 30 JUNE 2018

- FY18 portfolio performance +7.13%
- 70% of the portfolio represented by top 5 holdings

ASX: BSA	ASX: CGR	ASX: SND
<ul style="list-style-type: none"><li>• June downgrade relating to non-core HVAC business.</li><li>• Other divisions are performing as expected.</li><li>• For the stock to re-rate management must either remove or reduce HVAC business.</li></ul>	<ul style="list-style-type: none"><li>• Acquisition progressing ahead of schedule, volumes ahead of original forecasts.</li><li>• Acquisition will generate a positive contribution for FY2018.</li><li>• Share price increased from \$0.32 to \$0.57 over FY2018.</li></ul>	<ul style="list-style-type: none"><li>• Provided revenue guidance of \$75-\$80 million, a significant increase on PCP but margins have reduced.</li><li>• Backdrop remains favourable but execution is now key.</li></ul>

# LOOKING FORWARD

## ASX: NCC AS AT 30 JUNE 2018

- 9 positions
- Portfolio cash weight +0.12%

ASX: COG	ASX: WNR	ASX: EGG
<p>FY18 Result on 28<sup>th</sup> August</p> <ul style="list-style-type: none"><li>• Integration of the broking businesses.</li><li>• Leasing business update.</li><li>• How cash will be allocated to grow earnings.</li></ul>	<ul style="list-style-type: none"><li>• The main focus of the September result will be the financial performance of the recently acquired Austco business.</li><li>• In addition, an update on the 2<sup>nd</sup> oaten hay storage and processing facility in Raywood.</li></ul>	<p>FY18 Result on 16<sup>th</sup> August</p> <ul style="list-style-type: none"><li>• Over the past 1-2 years Enero Group has made two significant acquisitions.</li><li>• We will be looking for proof that these businesses can give EGG a significant competitive advantage.</li></ul>



# Q4 FY18 UPDATE

## ASX: NSC AS AT 30 JUNE 2018

- Performance since inception -3.44%.
- 60% of the portfolio represented by top 5 holdings

ASX: MNF	ASX: JHC	ASX: TOT
<ul style="list-style-type: none"><li>• Recently announced the acquisition of a Singaporean business and guidance update for FY18.</li><li>• Singapore acquisition is significant, it provides a long term growth option for MNF to effectively sell their software managed services in this region.</li></ul>	<ul style="list-style-type: none"><li>• Announced full accreditation from ACQA regarding recently acquired facilities.</li><li>• If management can execute on strategic initiatives we believe it should lead to a more sustainable return profile for JHC over the longer term.</li></ul>	<ul style="list-style-type: none"><li>• Provided financial guidance for FY19, plus a distribution of 12 cps with earnings of the fund expected to exceed this figure.</li><li>• We believe there remains significant opportunity within the debt financing space for non-residential lending.</li></ul>

# LOOKING FORWARD

## ASX: NSC AS AT 30 JUNE 2018

- 11 positions
- Portfolio cash weight +7.97%.

ASX: MNF	ASX: JHC	ASX: MTO
<p>FY18 Result on 28<sup>th</sup> August</p> <ul style="list-style-type: none"> <li>• Focus on the organic growth indicators.</li> <li>• Update on Pennytel subscription numbers and strategy.</li> <li>• Any comment around potential further acquisitions and Singapore integration.</li> </ul>	<p>FY18 Results on 27<sup>th</sup> August</p> <ul style="list-style-type: none"> <li>• Update on the integration of new IT systems which should lead to efficiency gains.</li> <li>• Progress on the recently acquired Riviera business and updated occupancy figures.</li> <li>• Timeline update on the development pipeline.</li> </ul>	<p>FY18 Results TBA</p> <ul style="list-style-type: none"> <li>• Update on the integration of the recently acquired Casson's wholesale business.</li> <li>• Commentary around the potential to increase the earnings of recently acquired stores.</li> <li>• Any further updates on the industry dynamics, especially around Harley Davidson sales and new bike pipeline.</li> </ul>

# Q4 FY18 UPDATE

## ASX: NAC AS AT 30 JUNE 2018

- FY18 portfolio performance +10.25%
- 60% of the portfolio represented by top 5 holdings

ASX: ELD	ASX: MNF	ASX: SIQ
<ul style="list-style-type: none"><li>• A very eventful quarter with release of their half year result, commentary around potential M&amp;A and then a trading update at the end of the quarter.</li><li>• ELD have executed well to date but the climate backdrop may prove to be a short term headwind.</li></ul>	<ul style="list-style-type: none"><li>• Recently announced the acquisition of a Singaporean business and a guidance update for FY18.</li><li>• Singapore acquisition is significant, it provides a long term growth option for MNF to effectively sell their software managed services in this region.</li></ul>	<ul style="list-style-type: none"><li>• During FY18 SIQ raised capital and we subsequently increased our holding.</li><li>• Over the past 12 months, SIQ have completed four key acquisitions and have stated that these are integrating successfully.</li></ul>



# LOOKING FORWARD

## ASX: NAC AS AT 30 JUNE 2018

- 11 positions
- Portfolio cash weight +6.63%

ASX: SIQ	ASX: HLO	ASX: REH
<p>FY18 Result 22nd August</p> <ul style="list-style-type: none"> <li>• Progress on integration of the two acquisitions.</li> <li>• Any recent panel wins or upcoming tenders.</li> <li>• Update on the capital options available post the recent placement.</li> </ul>	<p>FY18 Result 21st August</p> <ul style="list-style-type: none"> <li>• Update on operational efficiencies and margin improvement.</li> <li>• Progress on the smaller New Zealand division.</li> <li>• M&amp;A and the recent acquisitions made (albeit small in scale).</li> </ul>	<p>FY18 Result 31st August</p> <ul style="list-style-type: none"> <li>• Update on recent MORSCO acquisition in the USA.</li> <li>• Update on recent small acquisition in New Zealand.</li> <li>• Commentary around conditions in the Australian residential market.</li> </ul>





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## 2. Market Review

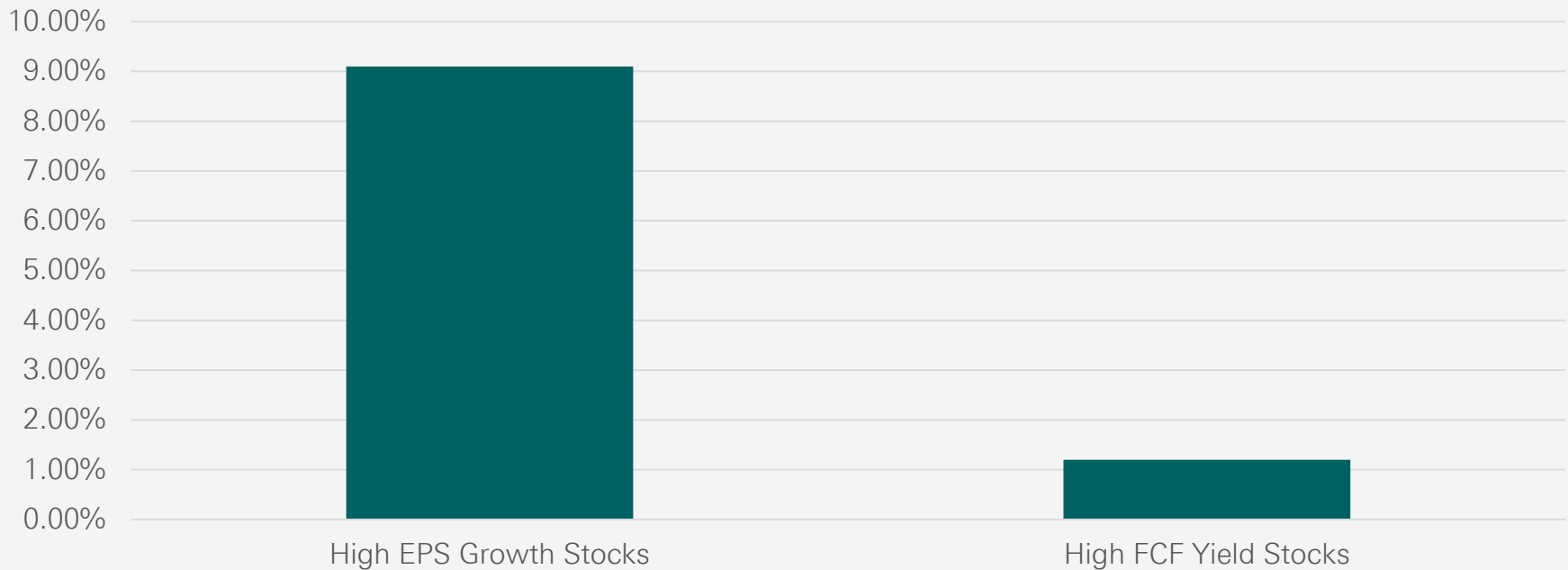
“The light can at any time go from green to red  
without pausing at yellow.”  
Berkshire Hathaway, 2017 Letter to Shareholders



# FY18 MARKET REVIEW

## Momentum vs. Value – Industrials vs. Natural Resources

FY18 ASX-200 Returns



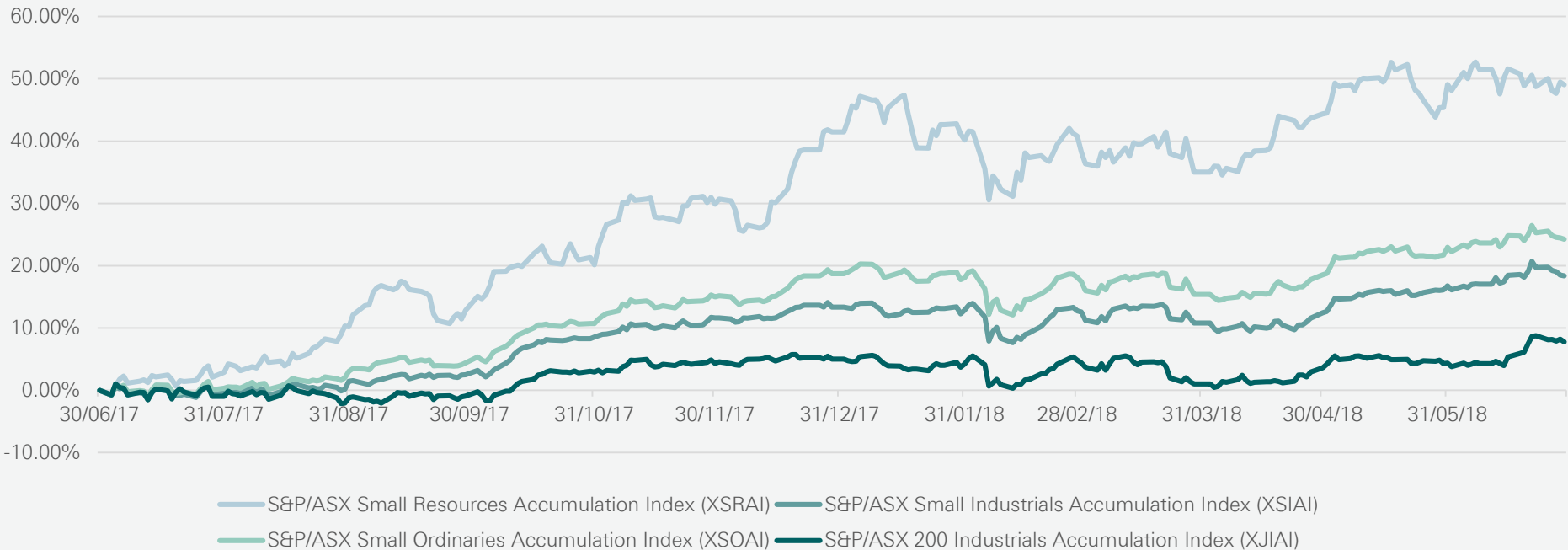
Source: UBS Report June 2018



# FY18 MARKET REVIEW

## Momentum vs. Value – Industrials vs. Natural Resources

1 Year Total Return



Source: Bloomberg Data June 2018

# FY18 MARKET REVIEW

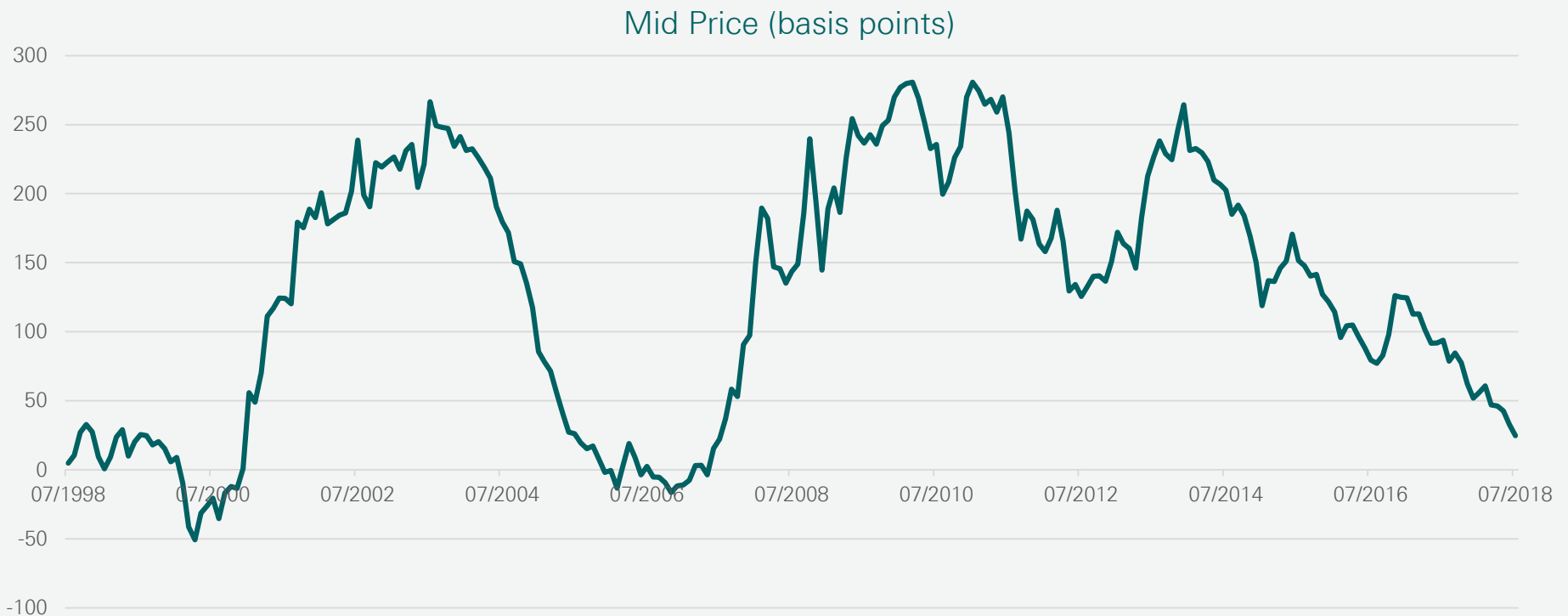
ASX Small Industrials Accumulation Index +18.30%  
vs. ASX-200 Industrials Accumulation Index +7.80%

Holding Name	ASX Code	Industry	FY18 Return
Emeco Holdings	EHL	Mining Services	268%
Appen Limited	APX	Software and Services	235%
Lovisa Holdings Ltd	LOV	Retail	217%
Afterpay Touch	APT	Technology	217%
NRW Holdings Limited	NWH	Mining Services	163%
Altium Limited	ALU	Software and Services	163%
Wisetech Global Ltd	WTC	Software and Services	126%
Bellamy's Australia	BAL	Food and Beverage	125%
Navigator Global Ltd	NGI	Diversified Financials	123%
IDP Education Ltd	IEL	Education Services	106%
Bravura Solution Ltd	BVS	Software and Services	101%

Source: Bloomberg, as at 30 June 2018, holdings are those with greater than 100% return over the FY18 period from the Small Ordinaries Industrial Accumulation Index

# MACRO OUTLOOK

## US Yield Curve 2 Year Bonds vs. 10 Year Bonds



Source: Bloomberg Data July 2018



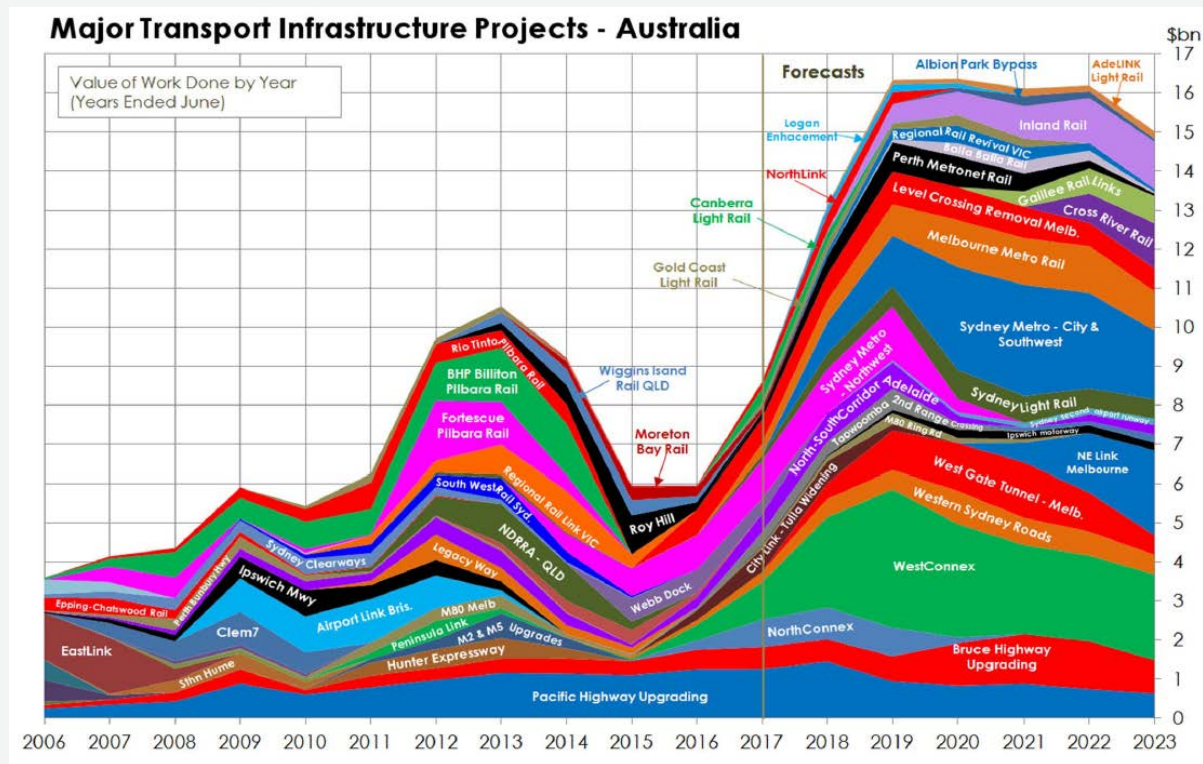
# MACRO OUTLOOK

## US 10 Year Yields



# POCKETS OF OPPORTUNITY

## Major Transport Infrastructure Projects – Australia



Source: Macromonitor – Australian Construction Outlook Overview, June 2018





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# Appendix

“Betting on people can sometimes be more certain than betting on physical assets.”

Berkshire Hathaway, 2017 Letter to Shareholders



# NCC DIVIDEND HISTORY

AS AT 30 JUNE 2018

NAOS

## ASX: NCC

**8.25%**

Gross Dividend  
Yield

**100%**

Franking

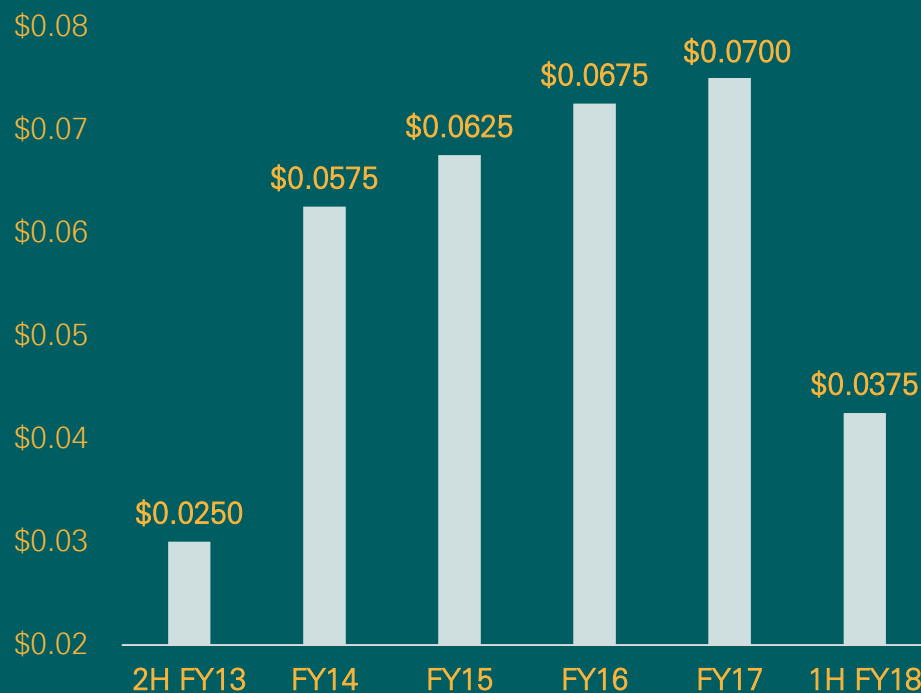
**\$14m**

Profit  
Reserves

**3.75c ▲**

Fully Franked  
Interim Dividend

## Fully Franked Dividend Profile





# NSC DIVIDEND HISTORY

AS AT 30 JUNE 2018

NAOS

## ASX: NSC

## Fully Franked Dividend Profile

**2.50c**

Fully Franked  
Interim Dividend

**100%**

Franking

**\$18.5m**

Profit  
Reserves

\$0.05

\$0.04

\$0.03

\$0.02

\$0.01

\$0.00

\$0.0250

1H FY18

# NAC DIVIDEND HISTORY

AS AT 30 JUNE 2018

NAOS

## ASX: NAC

**7.85%**

Gross Dividend  
Yield

**100%**

Franking

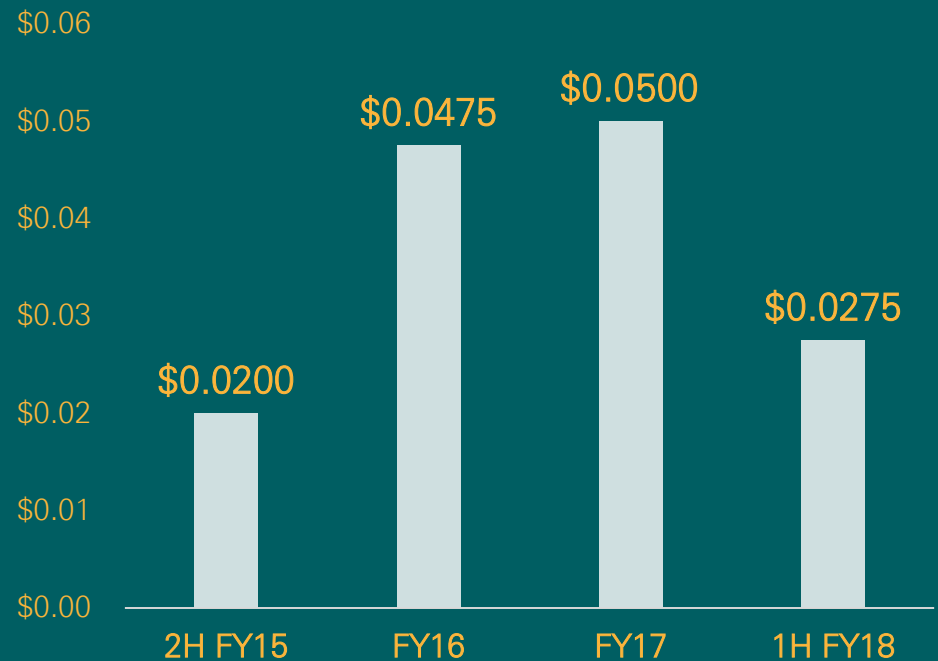
**\$5.6m**

Profit  
Reserves

**2.75c ▲**

Fully Franked  
Dividend

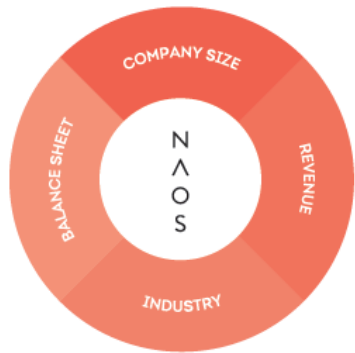
## Fully Franked Dividend Profile



# NAOS INVESTMENT PROCESS

01

## INVESTMENT UNIVERSE SCREEN CRITERIA



2804

TOTAL ASX LISTED COMPANIES\*

02

## INVESTMENT UNIVERSE FUNNEL

-643

### COMPANY SIZE

Remove: ASX Top 50, <\$10m Market Cap

-345

### REVENUE

Remove: No Substantial Revenue

-907

### INDUSTRY

Remove: Tobacco, Gambling, Nuclear & Uranium, Controversial Weapons, Coal Mining Operations, Oil & Gas Production

-498

### 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?

COMPANY

411

COMPANIES IN  
THE NAOS UNIVERSE

\* Source: Bloomberg Data June 2018

# NAOS ESG FRAMEWORK

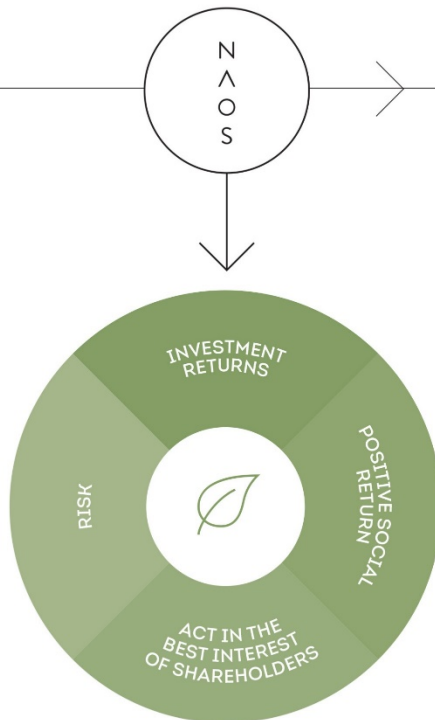
01

## 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.

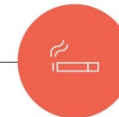
NAOS supports the UN Principles for Responsible Investment and is guided by these principles in incorporating ESG into our investment practices.



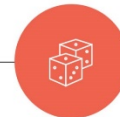
02

## NEGATIVE SCREENS

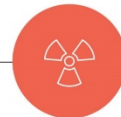
NAOS systematically excludes investing in specific industries and companies that do not align with our responsible investment goals.



TOBACCO



GAMBLING



NUCLEAR  
& URANIUM



CONTROVERSIAL  
WEAPONS



COAL MINING  
OPERATIONS,  
OIL & GAS  
PRODUCTION

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.



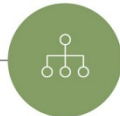
### ENVIRONMENTAL

Water  
Waste  
Pollution  
Biodiversity  
Deforestation  
Climate Change  
Reporting on Violations  
Greenhouse Gas Emissions  
Environmental Opportunities



### SOCIAL

Training  
Supply Chain  
Social License  
Human Rights  
Labour Standards  
Community Relations  
Human Capital Policy  
Employee Engagement  
Workplace Health & Safety



### GOVERNANCE

Board Quality  
Board Diversity  
Codes of Conduct  
Risk Management  
Incentive Structures  
Board Independence  
Shareholder Voting Rights  
Shareholder Concentration  
Anti-Bribery and Corruption Policy  
CEO and Executive Remuneration

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.





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# 3. Keeping up to Date

“You don't have to be brilliant, only  
a little bit wiser than the other guys,  
on average, for a long time.”

Charlie Munger



# NATIONAL INVESTOR ROADSHOWS

## BRISBANE

11:00am-12:30pm  
Monday 3 September 2018

Customs House  
399 Queen Street  
Brisbane QLD 4000

## ADELAIDE

11:00am-12:30pm  
Tuesday 4 September 2018

Pullman Adelaide  
16 Hindmarsh Square  
Adelaide SA 5000

## SYDNEY

11:00am-12:30pm  
Thursday 6 September 2018

The Westin Sydney  
1 Martin Place  
Sydney NSW 2000

## CANBERRA

11:00am-12:30pm  
Tuesday 11 September 2018

Hyatt Hotel Canberra  
120 Commonwealth Avenue  
Yarralumla ACT 2600

## MELBOURNE

11:00am-12:30pm  
Wednesday 12 September 2018

The Westin Melbourne  
205 Collins Street  
Melbourne VIC 3000

## PERTH

11:00am-12:30pm  
Thursday 13 September 2018

Parmelia Hilton Perth  
14 Mill Street  
Perth WA 6000

# INVESTOR AWARENESS AND COMMUNICATION



CEO Insights,  
Weekly NAOS  
Newsletter,  
subscribe via our  
website  
[naos.com.au/#sub  
scribeform](https://naos.com.au/#subscribeform)



Quarterly  
Shareholder  
Conference Calls,  
subscribe via our  
website  
[naos.com.au/#sub  
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Monthly  
Investment Report  
& NTA email  
updates, subscribe  
via our website  
[naos.com.au/#sub  
scribeform](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



Follow us on  
Twitter  
[@NaosAssetMgmt](https://twitter.com/NaosAssetMgmt)



Add us on LinkedIn  
NAOS Asset  
Management



Like us on  
Facebook NAOS  
Asset  
Management



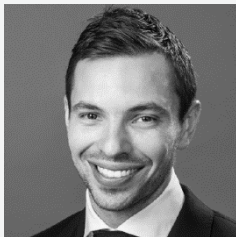
Subscribe to us on  
YouTube NAOS  
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Management



For all enquires  
contact  
[enquiries@naos.co  
m.au](mailto:enquiries@naos.com.au) or call  
(02) 9002 1576

# NAOS TEAM

## OUR DIRECTORS



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



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



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



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



**Trevor Carroll**  
Chairman NSC



**David O'Halloran**  
Director, NAOS Asset Management Limited

## OUR TEAM



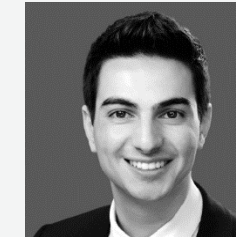
**Sebastian Evans**  
Chief Investment Officer



**Ben Rundle**  
Portfolio Manager



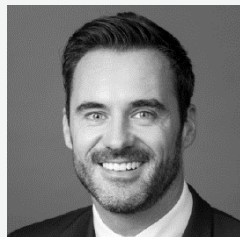
**Robert Miller**  
Portfolio Manager



**Chadd Knights**  
Investment Analyst



**Rachel Folder**  
Investment Analyst



**Richard Preedy**  
Chief Financial and Operating Officer



**Julia Stanistreet**  
Business Development Manager



**Megan Walker**  
Marketing and Communications Manager



**Rajiv Sharma**  
Senior Legal Counsel and Company Secretary NCC, NSC & NAC



**Scott Hildebrand**  
Distribution & Sales Manager



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Q&A

THANK YOU FOR  
YOUR SUPPORT