NAOS

NAOS QUARTERLY INVESTMENT REPORT

Q3 FY25

ASX: NCC | NAOS EMERGING OPPORTUNITIES COMPANY LIMITED
ABN 58 161 106 510

ASX: NAC | NAOS EX-50 OPPORTUNITIES COMPANY LIMITED
ABN 49 169 448 837

ASX: NSC | NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED
ABN 47 107 617 381

Certified B Corporation

NAOS Asset Management Limited is B Corp Certified

Q3 FY25 SUMMARY

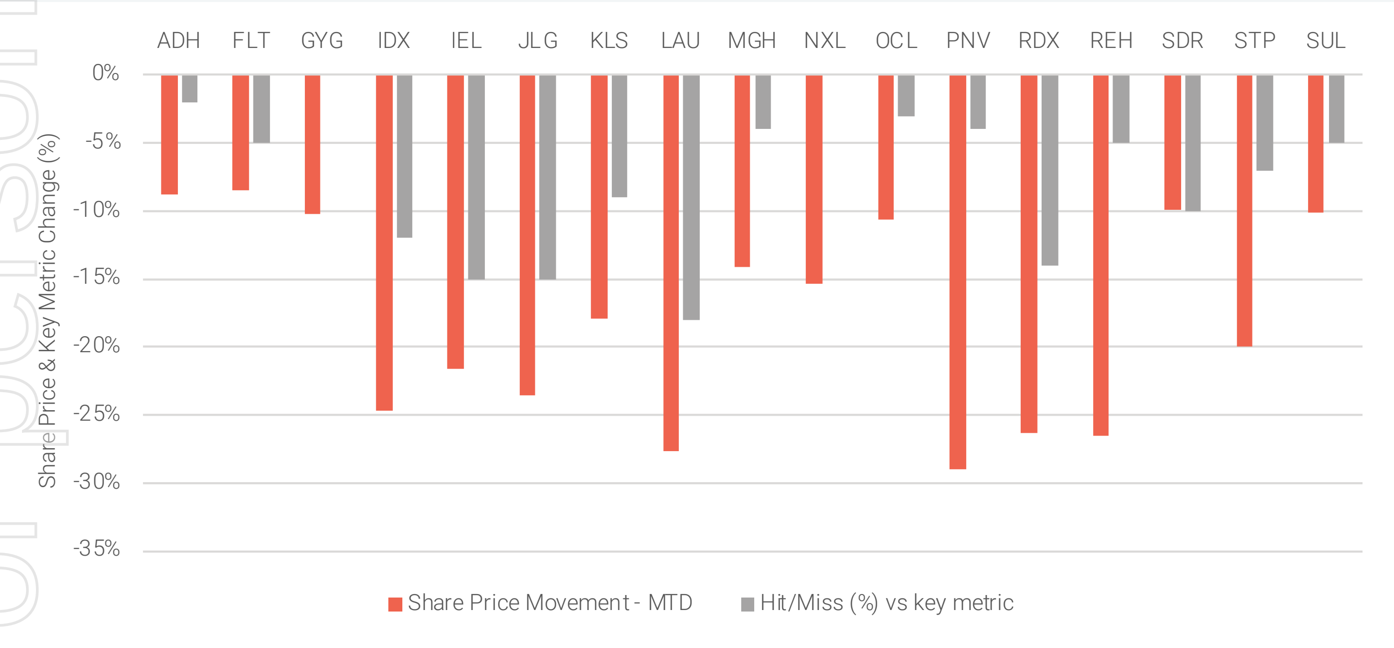
Dear Fellow Shareholders,

Investors were brought back to reality in FY25's third quarter, as the irrational exuberance of Q2 faded just as quickly as it had emerged. The quarter was marked by several significant events. President Trump wasted no time implementing key policies, including tariffs. The Reserve Bank of Australia cut interest rates by 25 basis points—the first reduction since before the pandemic. February also brought half-year reporting for many listed Australian businesses.

For additional perspective, the macro events that occurred through Q3 translated into a -3.87% fall for the ASX-200 Index, which was the second worst quarterly performance since June 2020. The S&P-500 Index finished the quarter down 4.59%, which was the worst quarterly performance since September 2022. To highlight how investor sentiment has changed significantly in the short term, the 'Magnificent-7' (a group of seven mega-cap tech stocks) finished down approximately 20% from their all-time highs reached in December 2024 to the end of March 2025.

There is little doubt that the February reporting season was one of the most volatile on record. Additionally, a notable market rotation began as investors reassessed the risk-return outlook, weighing business valuations against a backdrop of heightened macroeconomic uncertainty. As is often the case with most reporting seasons, it was the negative surprises that bore the brunt of the volatility, even for businesses that exhibit many of the quality characteristics investors typically seek. The chart below highlights some of the major names that missed consensus (based on a key metric, e.g. Net Profit After Tax (NPAT), Earnings Before Interest & Tax (EBIT)) and the resulting movement in their share prices throughout February.

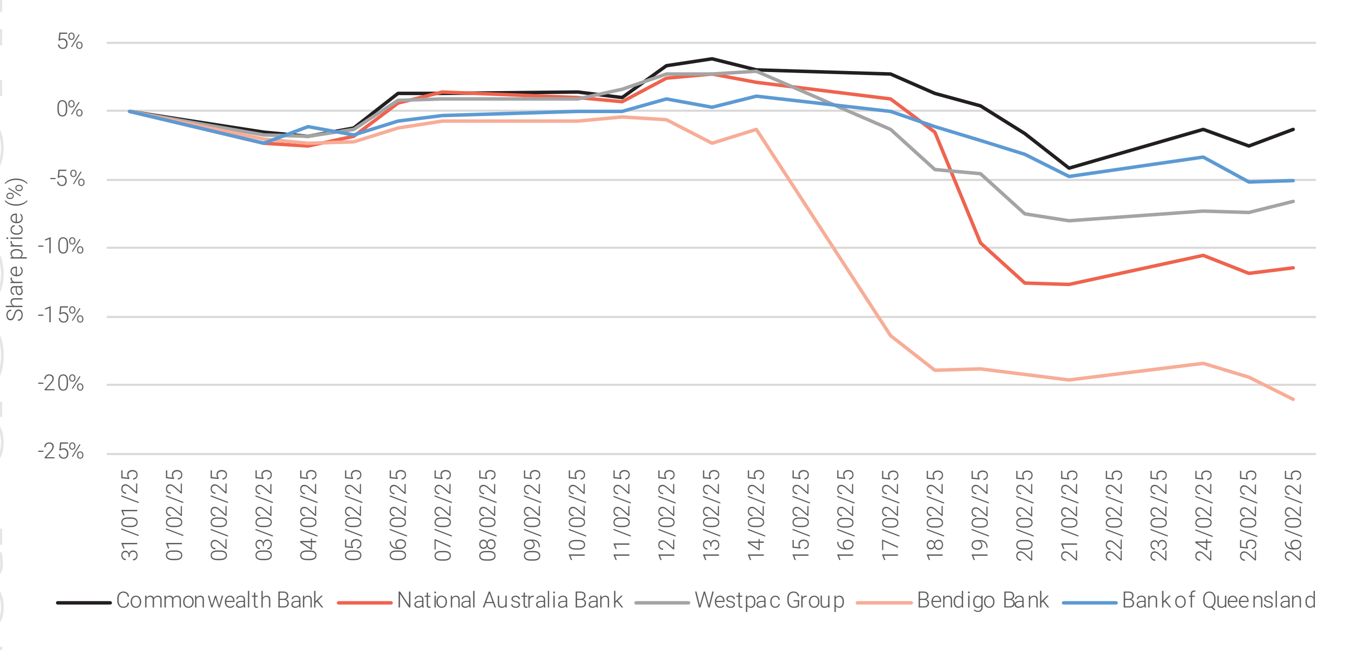
Notable Stock Moves - Negative Surprises



Source – Iress, Koyfin

Stock rotation was most evident among the 'Big Four banks' and Macquarie Group (ASX: MQG), all of which saw share price declines over the quarter, with some experiencing significant drops in February (as shown in the chart below).

Banks - Stock Price Performance - MTD

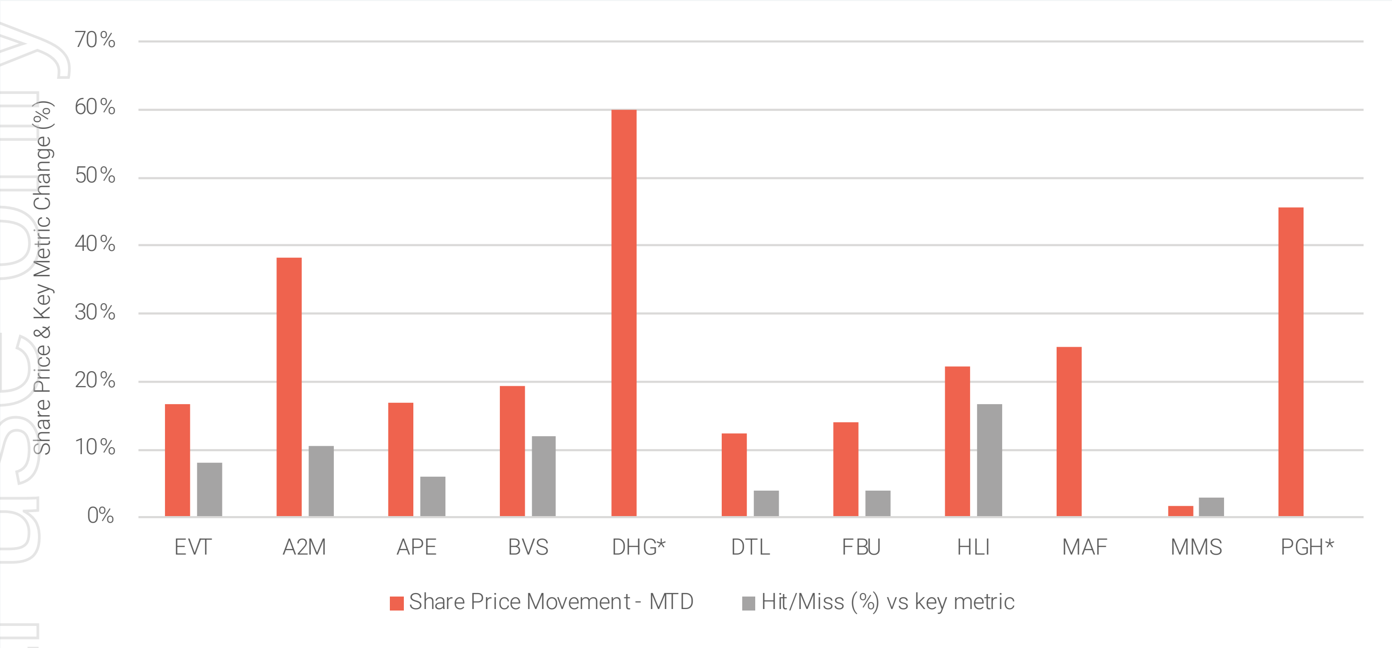


Source – Koyfin

Notably, in our view, it wasn't the bank headline results that were weak, but rather the composition of revenue that left investors underwhelmed. Bad debt provisions and loan impairment expenses were all generally favourable to the profit and loss statement compared to 6 and 12 months ago. These gains were offset by core margins (NIMs), which were generally softer than expected and highlight the continued issues that face many banks, which have led to their inability to produce any meaningful Earnings per Share (EPS) growth over the last 5-10 years. For further perspective, consensus forecasts indicate that the average EPS of all major banks will continue to decline from FY24 through to FY27.

On the positive side of the ledger, there were several notable outperformers, albeit in much lower numbers compared to their counterparts facing tougher conditions. As with the chart on the previous page, the chart on the following page highlights notable stocks that exceeded market expectations and their resulting share price movements in February. Two of the best performers were subject to takeovers during February, with most of the companies shown on the following page being value/turnaround investments such as EVT Limited (ASX: EVT), Eagers Automotive Limited (ASX: APE), Bravura Solutions Limited (ASX: BVS) and Fletcher Building Limited (ASX: FBU).

Notable Stock Moves - Positive Surprises



Source – Iress, Koyfin. Note - * PGH & DHG are under takeover offers.

As investors and analysts have had time to digest the company results, it's worth taking a step back to assess the market's current position from a valuation standpoint, considering expectations for future earnings. For example, excluding resource companies, the ASX-200 Index FY25 Price/Earnings (P/E) multiple stands at 19.5, with an expected EPS growth of approximately 4% and a dividend yield around 3.5%. Looking ahead to the end of FY26, roughly 15 months from now, the P/E ratio drops to 18.4, largely due to an expected EPS growth of around 6%, supported by a dividend yield of approximately 3.5%. While the ASX-200 Index remains relatively expensive compared to historical averages, particularly given the limited EPS growth, it is important to consider that the long-term return of domestic equities has historically been around 8-9%. In this context, the above metrics appear reasonable, with the potential to generate such returns over the next 18 months.

INVESTMENT PORTFOLIO PERFORMANCE SUMMARY

Investment Portfolio	Q3 FY25 Performance	1 Year Performance	3 Year Performance (p.a.)	5 Year Performance (p.a.)	Inception Performance (p.a.)
NCC Investment Portfolio Performance*	-6.76%	-11.89%	-13.30%	+2.05%	+5.17%
S&P/ASX Small Ordinaries Accumulation Index	-2.00%	-1.26%	-0.82%	+10.24%	+5.05%
NAC Investment Portfolio Performance*	+12.34%	-15.67%	-9.50%	+6.91%	+6.23%
S&P/ASX 300 Industrials Accumulation Index	-3.77%	+6.46%	+7.37%	+13.05%	+7.77%
NSC Investment Portfolio Performance*	-24.54%	-35.41%	-17.82%	-1.21%	-4.66%
S&P/ASX Small Ordinaries Accumulation Index	-2.00%	-1.26%	-0.82%	+10.24%	+4.33%

*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes, initial IPO commissions and all subsequent capital raising costs. Performance has not been grossed up for franking credits received by shareholders. Since inception (P.A. and Total Return) includes part performance for the month of February 2013 (NCC), November 2014 (NAC) and December 2017 (NSC). Returns compounded for periods greater than 12 months. All figures as at 31 March 2025. NAC Benchmark= S&P/ASX 300 Industrials Accumulation Index, NCC & NSC Benchmark= S&P/ASX Small Ordinaries Accumulation Index

NAOS CORE INVESTMENTS

	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2025)
Big River Industries	ASX: BRI	>20%	$109 million
COG Financial Services	ASX: COG	5-20%	$227 million
Saunders International	ASX: SND	5-20%	$104 million
MaxiPARTS	ASX: MXI	5-20%	$115 million
MOVE Logistics	ASX/NZX: MOV	5-20%	$28 million (NZX)

Big River Industries Limited (BRI) is a leading manufacturer and distributor of value-added timber and building material products in Australia and New Zealand. BRI has gained scale in recent years through the acquisition of bolt-on businesses to diversify its product offering and expand its geographical network, which now sits at 26 sites. BRI operates in the commercial sector, with customers using BRI products in real estate developments (detached and multi-residential), commercial construction projects and civil construction, among others. BRI has over 9,000 active trading accounts, serviced by ~640 staff members. BRI achieved $415 million in revenue in FY24.

COG Financial Services (COG) is Australia's leading aggregator of finance brokers and equipment leasing services to small and medium-sized enterprises (SMEs). COG's operations are spread across three complementary business divisions: Finance Broking & Aggregation (FB&A), Lending & Funds Management, and Novated Leasing, all of which service the financial needs of SMEs nationwide. As at the end of FY24, COG had a ~21% market share of the Australian Asset Finance Broking market, with the COG network financing $8.9bn in assets for SMEs in FY24. COG has been highly acquisitive in recent years, acquiring finance brokers, insurance brokers, as well as funds management and novated leasing businesses.

Saunders International Limited (SND) has expertise in engineering and construction projects, having worked across Australia for over 70 years. Today, SND has over 500 employees, who work on projects in the Energy, Water, Power, Defence, Resource and Infrastructure sectors. The projects SND executes are of critical importance to its clients in federal/state governments and the private sector. Clients of SND include Western Sydney Airport, NSW Government (Bridges Program), BP and the Australian Defence Force.

MaxiPARTS (MXI) is a supplier of commercial truck and trailer aftermarket parts to the road transportation industry. In operation for over 30 years, MXI is one of the largest operators in Australia, with a unified support and distribution network providing over 162,000 different parts across 29 sites nationwide.

MOVE Logistics (MOV) is one of the largest freight and logistics providers in New Zealand with its origins dating back to 1869. With a team of more than 1,100 experts, the business provides end to end supply chain services and has the capability to serve more than 3,500 customers across its large network, which includes 40 branches spread across the two main islands of New Zealand.

Company	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2025)
Urbanise.com	ASX: UBN	>20%	$36 million

Urbanise.com (UBN) is an Australia-headquartered cloud-based software business, providing solutions for both the strata management industry as well as the facilities management industry in the Asia–Pacific and Middle East regions. The Urbanise Strata Platform is a market-leading accounting and administration software system used by strata managers across ~650,000 individual strata lots. The Urbanise Facilities Management Platform is used to aid the maintenance of property assets and supervision of contractors across various sectors including aged care, retail, commercial and essential infrastructure.

Company	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2025)
BTC Health	ASX: BTC	>20%	$21 million

BTC health (BTC) is a distributor of medical devices and medical consumables to hospitals across Australia and New Zealand. It specialises in the areas of acute pain management, neuro spinal surgery as well as pharmaceutical medicines in niche markets. It also recently launched a new division which focuses on highly specialised cardiovascular equipment and consumables used by cardiac surgeons and crucial care experts.

Company	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2025)
AMA Group Limited	ASX: AMA	<5%	$280 million

AMA Group (AMA) is a leading vehicle aftercare and repair business, with over 3,200 team members across Australia and New Zealand. Through its extensive network of repair centres and integrated supply chain, AMA Group delivers long-lasting mobility solutions for customers, partners, and communities. Committed to quality, innovation, and sustainability, AMA gets over 300,000 people and businesses back on the road each year.

Company	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2025)
Hancock & Gore	ASX: HNG	<5%	$120 million

Hancock & Gore (HNG) is a listed investment company. Its wholly owned operating business Global Uniform Solutions (GUS) represents ~80% of the group's gross asset value. GUS is a leading supplier & e-commerce retailer of school uniforms in both the Australian and the United Kingdom markets.

Company	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2025)
Ordermentum	Unlisted	Undisclosed	Undisclosed

Ordermentum is a two-sided ordering, payments, and insights platform widely used in the hospitality industry. The B2B ordering & payments platform connects hospitality venues (including cafes, restaurants, clubs and pubs) across Australia with suppliers, helping to improve business efficiencies, grow sales and drive profitability for both suppliers and venues.

Company	ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2025)
MitchCap	Unlisted	Undisclosed	Undisclosed

MitchCap is a provider of Distribution Floorplan Finance to Australian and New Zealand dealerships within the caravan, marine, agricultural and bicycle industries. Founded in 2019, MitchCap solves a capital intensive pain point for equipment dealerships through financial solutions that can improve dealer profitability and capital efficiency whilst also lowering risk for equipment manufacturers.

NAOS

NOTABLE INVESTEE COMPANY UPDATES

Q3 FY25 was volatile for the wider market, and the NAOS Listed Investment Companies (NAOS LICs) also reflected much of this volatility, primarily due to significant stock price movements in the underlying investments. Not only did most of our investee companies report their 1H FY25 earnings, but a number of our larger investments were the subject of significant events which could alter their respective future significantly for better or worse. The following pages provide further details, and focus on what we consider to be the most notable events of the underlying investments held across the NAOS LICs.

BSA LIMITED

ASX: BSA

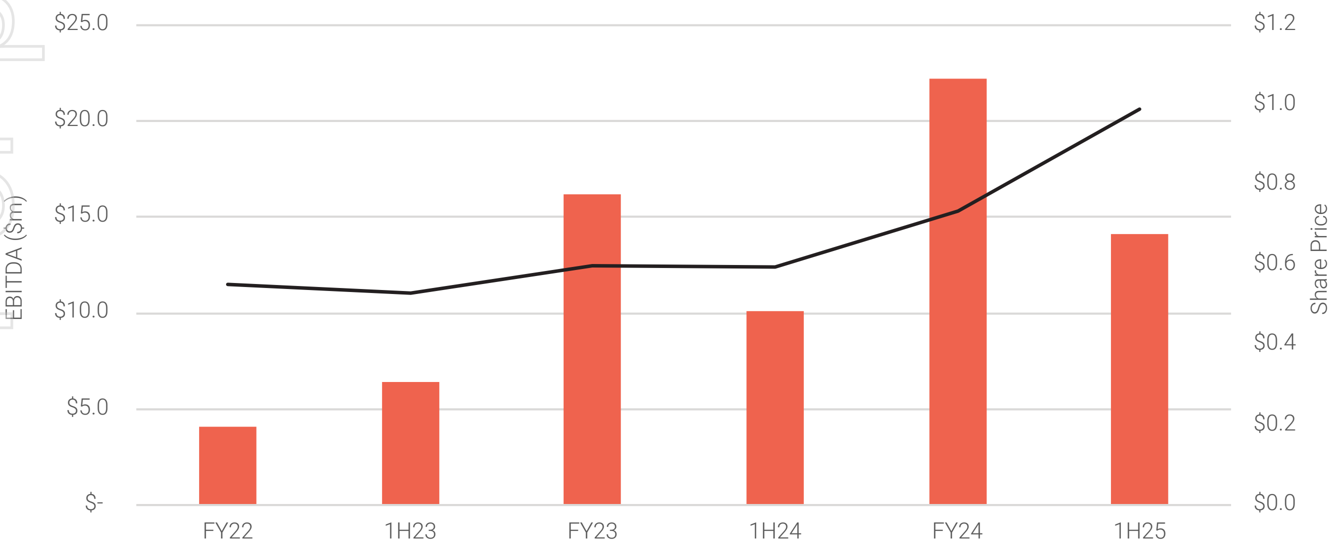
Unsuccessful Tender for NBN Co. Field Module Contract

BSA has featured in some, but not all, of the NAOS investment portfolios over the past 10 years. In early 2022, NAOS led a recapitalisation of the business to ensure it had the working capital required to fund itself through some legacy issues as a result of some very poor mismanagement at both the executive and board level. The primary reason we led this recapitalisation was that BSA had in early 2021 secured another four-year maintenance and connections contract with NBN Co. through a competitive tender. Over the subsequent three years, BSA management and Board did an outstanding job of restoring value for all shareholders. Some notable events included:

- Divestment of the non-core loss-making APS Maintain (property maintenance) business.
- Securing contracts and works associated with Smart Metering installations.
- Divestment of the loss-making APS Fire business.
- Growth in EBITDA (pre significant items) from $4.1m in FY2022 to >$20 million run rate in FY2025.
- A settlement and subsequent payment of all liabilities associated with the class action from 2020.
- Initiating a strategy to focus on the design and installation of commercial and residential electronic vehicle charging stations.

Over this period, BSA saw its shares trade from a low of ~$0.30 to a high of >$1.10, and due to this success, BSA moved from a ~7% holding at the start of CY2023, to becoming one of our larger investments, especially as many of our other core investments flatlined or reversed, and dividends were paid out to LIC shareholders. It is also worth noting we sold approximately 20% of our investment in BSA in early December 2024, which at the time was the most we could, given the demand for shares in BSA, at what we believed to be a fair price.

BSA - EBITDA & Share Price



Source – Iress, Company

However, in February 2025, BSA's progress came to a sudden halt when NBN Co. notified the company that it was not among the preferred contractors for NBN Co's future Field Module contract tender, significantly reducing its chances of a successful bid.

BSA currently holds a contract with NBN Co. under the Unified Field Services Operations Agreement, which is set to run until September 2025. This contract currently accounts for approximately 80% of BSA's revenue, and we estimate that the earnings exposure is likely greater than 80%. For context, the newly awarded contract to other parties will fully replace BSA's existing agreement with NBN Co.

As we have stated previously, this was a known risk for BSA given the client concentration (albeit one we felt would come to a head in mid-2026). However, we firmly believed that BSA had taken numerous steps to mitigate this risk and was well-positioned in the tender process, given its 10+ year tenure with the client, its current market share in both NSW and VIC, and its track record of consistently delivering high service levels.

Ultimately, with NBN Co. awarding the 5 year, ~$2 billion contracts to only Service Stream Ltd (ASX: SSM) and Ventia Ltd (ASX: VNT) as opposed to the multiple delivery partners that are currently delivering services to NBN Co; we believe NBN Co. has adopted a cost-driven approach, influenced by the significant cost pressure it faces and the refreshed strategic priorities under its new CEO.

There is no doubt that this is a significant setback for BSA and all its stakeholders, and the future of the business post-NBN Co. remains uncertain. The impact is even more pronounced given the progress BSA has made over the past three years, during which BSA grew revenues and transformed from a loss-making business to one with an expected EBITDA of approximately $26 million in FY25 before the tender outcome news came through.

Looking ahead, several key questions will be addressed regarding the variables outlined below. The answers will play a crucial role in shaping BSA's future and determining the platform it will have to move forward:

- **Cost of business restructuring**
    - Losing such a large amount of recurring revenue will ultimately lead to a significant reduction in direct and overhead expenses, which will require subsequent one-off payments. BSA stated that the total cash cost for restructuring is expected to be $10 million including all employee entitlements.
- **Volume levels with NBN Co. until September 2025**
    - BSA currently completes thousands of jobs on behalf of NBN Co. every week. Volumes to the end of December 2024 had actually increased YoY which led to increased revenue and profitability for BSA. Q2 FY25 EBITDA was $7.5 million, one of the highest on record. Volumes have not been impacted to date however, BSA has since announced that it expects work orders issued to BSA to progressively decrease from around May 2025, and it is expected that work orders will stop being issued to BSA around mid-July 2025. We expect this transition timeline will therefore mean that all NBN Co. related overheads will be scaled down by the end of July.
- **Profitability of the remaining business**
    - Post NBN Co., we believe the remaining business of BSA will generate approximately $20-$30million in revenue based on disclosures to the market. This revenue comes from three key areas:
        - Contracts with two of the largest smart metering providers in the country, being Intellihub and Bluecurrent, to deliver a national program of transitioning to smart meters. Unexpectedly in early April, most likely due to the reputational damage caused by the NBN Co. tender loss, both customers notified BSA that the volumes for these contracts would reduce significantly and/or the current contracts would not be renewed in FY26.
        - A contract with Foxtel for installation & maintenance of their business customers (pubs, clubs, etc).
        - BSA also has smaller revenue streams, including EV charging installations and wireless network infrastructure maintenance and upgrades.
    - Given the scale of what remains, the margin profile of the remaining business will be significantly lower than what BSA achieves today with NBN Co.
- **Future growth avenues**
    - Given the size of the business, management's primary focus, after margin management, will be on scaling the business profitably. However, the company will need to scale faster than the growth of this sector (i.e. take market share) to ensure it maximises the efficiency of its corporate overheads. With its long history of executing tasks in and around residential homes for large corporations, BSA possesses a unique skill set. A potential strategy to scale could involve merging BSA with a private company that shares similar capabilities and, like BSA, would benefit from increased scale.

As at the end of December, BSA had $2.2 million in net cash with a provision of ~ $4 million that relates to historic indirect tax payable due to prior management. While NBN Co. work volumes remain at their historical rates until May 2025, BSA is generating approximately $1.5 million of free cash flow per month, which will assist in providing cash flow for the restructure costs to be incurred over the next six months, along with cash for future operations. The next six months will be crucial in determining how BSA evolves post-NBN Co. and what resources it can leverage to restore shareholder value in the long term.

MOVe LOGISTICS GROUP LTD

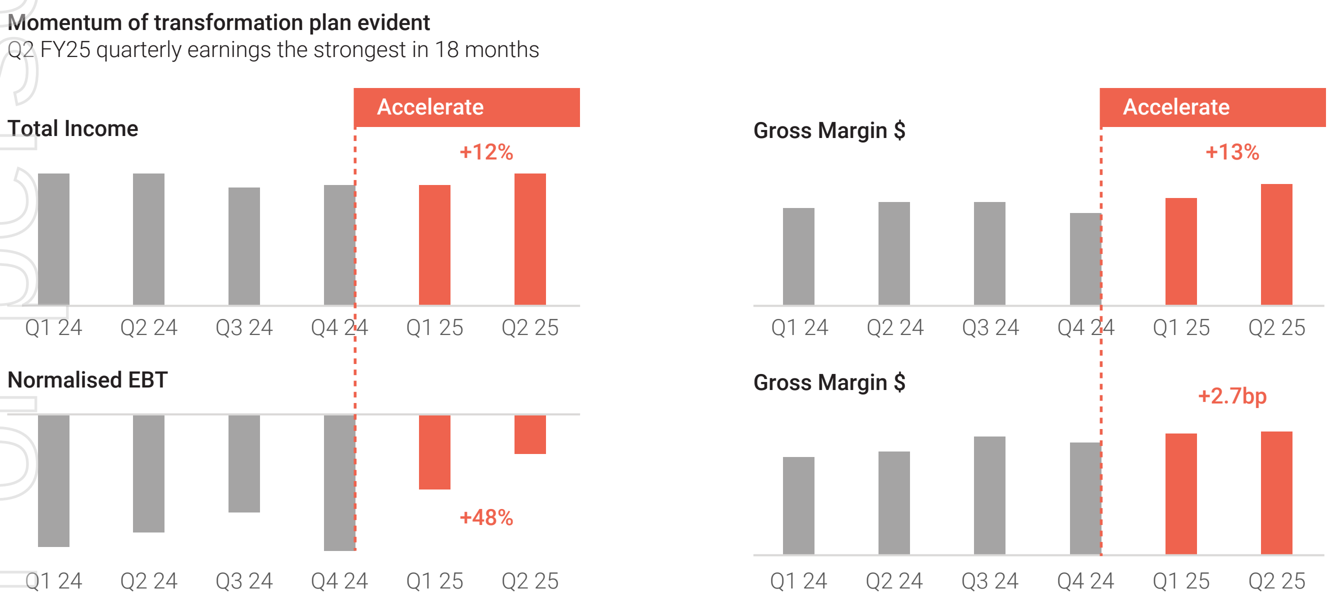
ASX/NZX: MOV

Half Year Result & Reaffirmation of FY25 and FY26 Guidance

After 2-3 tumultuous years and the appointment of a third CEO, MOV released a set of results that, in our view, was the first that not only met, but arguably exceeded expectations. For added context, feedback from other logistics businesses in New Zealand indicated that the first half of FY25 exhibited some of the toughest trading conditions in recent memory. Given this, MOV's strong performance likely underestimates the true level of underlying earnings momentum.

Revenue for 1H FY25 was down ~5% year on year, but it increased by ~6% against 2HFY24 as the revamped sales team, led by Ricky Clark, successfully secured new sales. Importantly, these new sales were made at improved margins, with the group's gross margin rising by ~14% year-on-year and an impressive ~29% increase in gross margin percentage, reaching ~5.2%. As a result, the company posted normalised earnings before tax (EBT) loss of ~$3.9 million, a significant improvement compared to the prior period's loss of ~$10.4 million and the ~$4.6 million loss two years ago.

MOVe Logistics Financials



Source – Company

Looking forward, the momentum in the business continues to be strong even in the face of tough economic conditions. As per the chart on the previous page, the momentum in Q2 FY25 was the strongest in 18 months across four key variables. Importantly, guidance for profitability in FY26 was reaffirmed, which, in our view, suggests the business will need to achieve run-rate profitability by May/June of this financial year to achieve that goal. Several factors give us confidence that the business will return to profitability within the next six months, including:

- Further gross margin improvement driven by utilisation benefits and further price increases to customers.
- Reduction in underutilised leased property assets in the warehousing division.
- Early benefits from the execution of the 'Accelerate Program' are expected to provide a greater benefit in the 2HFY25 compared to the 1H FY25.
- Targeting a further incremental annualised $4 million of fixed cost reduction across the group in 2H25.
- With around 70% of MOV's top 20 customers in the retail sector (fuel sales, retail sales, and building activity), all of which have declined over the past 2-3 years, an expectation of improvement in these areas should provide a substantial boost to MOV's volumes and profitability.

When we compare MOV to some of our previous high-performing investments, it is beginning to exhibit many of the same key characteristics, including:

- Putting the customer first and maintaining a high level of service.
- Value-based pricing for customers.
- Building an experienced team that is proven and aligned.
- Going to market with a clear and competitive offering that resonates with customers.
- Ensuring the business is match fit and with little/no wastage from a cost perspective.

With its nationwide network, MOV is just one of only a few players in the New Zealand logistics market that can fully support its customer base. We firmly believe that operators without such a network will struggle to maintain profitability and, in time, will be forced to exit the market. With a revenue base of ~NZD $300 million, even modest margin improvements will deliver substantial benefits to shareholders. In our view, a well-run logistics company can deliver an NPAT margin between ~4-5%. With a market capitalisation of just $25 million NZD, the margin profile the market currently expects from MOV, as illustrated in the table below, is minimal at best.

MOVe's Peers

Ticker	Company	Market Capitalisation ($m)	P/E Multiple
MOV	MOVe Logistics Group Limited	24.49	N/A
FRW	Freightways Group Limited	1,775.74	22.5
MFT	Mainfreight Limited	5,930.91	24.1
LAU	Lindsay Australia Limited	217.24	8.9
KSC	K&S Corporation Limited	489.92	20.4
CLX	CTI Logistics Limited	125.60	9.5
SLH	Silk Logistics Holdings Limited	120.28	11.7
Average		**1,240.60**	**16.2**

Source – Iress. Data as at 24th March 2025

COG FINANCIAL SERVICES LTD

ASX: COG

Company Board Refresh

As we've stated over the past 24 months, we believe COG requires significant change to drive positive outcomes for shareholders and simplify the business. The first (and most important) step in this strategy took place at the end of Q3 FY25, with the resignation of three directors and one director transitioning from an executive to a non-executive role. These directors were replaced by Tony Robinson, who will assume the role of Non-Executive Chairman, as well as John Dwyer, who joined as a Non-Executive Director. For some readers, these two names could well be familiar as both were integral to the success of PSC Insurance (ASX: PSI), a formerly ASX-listed insurance group as illustrated by the share price performance since its 2015 listing in the chart below

In late 2024, PSI was acquired by The Ardonagh Group for approximately $2.3 billion. At the time, Tony Robinson served as the Managing Director, and John Dwyer was a founder and Executive Director. PSI was the third-largest independent insurance brokerage firm in Australia and operated a business model focused on acquiring insurance broking firms, similar to COG's approach in the finance broking industry.

PSC Insurance - Historical Share Price

Source - Iress

At this point in time, we are uncertain about the revised strategy the refreshed board may implement, or if any significant changes will occur. However, in our view, many of the successful strategies applied to the PSI business could be adapted to COG's core operations, including:

- **Business structure simplification**
    - It is clear that the market does not value COG shares on a 'Sum of the Parts' (SOTP) basis, especially when certain segments contribute little or no value to the core business, such as minority listed investments in Earlypay Ltd (ASX: EPY) and Centrepoint Alliance Ltd (ASX: CAF). COG may look to divest these investments. A second step could involve evaluating other divisions, such as the Asset Management & Lending Division, which we believe is subscale, complicates COG's strategy, and provides little benefit to the Novated and FB&A divisions.

- **Insurance Broking Opportunity**
  - According to the COG 1H FY25 presentation, the company has 792 member broker firms, each with a multitude of customers. When these customers seek finance to acquire high-value equipment, insurance is typically required (i.e. purchasing earthmoving equipment and then insuring the asset). COG has tried to expand its insurance broking offering based on this opportunity, but execution hasn't been as strong as expected in recent years. However, the potential remains significant, and with the new board's expertise, a revised/refreshed strategy could unlock this value.
- **Strengthen the FB&A Division**
  - COG remains the largest owner and aggregator of finance brokers in Australia with over 20% market share. However, in recent years, the division has experienced several headwinds, including higher interest rates (which can reduce margins) and a lack of successful acquisition opportunities. If COG can restore growth to this division's earnings through a combination of organic strategies and strategic, accretive acquisitions, we believe that the market is likely to assign a significantly higher valuation to this strong free cash flow-generating business unit.

Hopefully, this is the reset that COG needed. Ultimately, PSI shares similarities with COG, but what drove its re-rating to a high valuation multiple was consistent earnings growth, supported by a disciplined capital management strategy and strong alignment with shareholders. Clearly this is no easy feat to achieve, but we continue to believe COG has the building blocks in place; it just requires a simplified strategy to ensure these blocks can continue to grow earnings year after year.

HANCOCK & GORE LTD

ASX: HNG

Proposed Acquisition of H&G High Conviction Ltd (ASX: HCF)

Earlier in the quarter HNG put forward an all-scrip acquisition proposal for listed investment company, (LIC) H&G High Conviction Limited (ASX: HCF). For clarity, HNG is the manager of HCF and hence they are related parties. HNG was also a substantial shareholder in HCF. It is expected the acquisition will complete during Q4 FY25.

In our view, acquiring HCF in an all-share transaction achieves a few key items for HNG, including:

- **Funding for Remaining Deferred Consideration** – As part of the 2024 acquisition of Schoolblazer Ltd., a significant portion of the consideration was deferred for 12 months and is payable in cash. Given that HCF is a LIC with a relatively liquid share portfolio, should the deal complete and these assets are then incorporated into the HNG balance sheet, they add optionality for the funding of the Schoolblazer deferred consideration balance.
- **Simplification** – We believe that for shareholders to realise the full and fair value of their investment, HNG must look to simplify its business and issue consolidated financial statements, allowing a clearer understanding of the true value of its 100% owned subsidiary Global Uniforms Solutions business. Acquiring a LIC managed by HNG is a small but important step toward simplification. While more simplification is possible, it may ultimately require the Global Uniforms Solutions business to operate as a standalone entity.
- **Larger & More Liquid Listed Entity** – With a market capitalisation of ~$120 million, HNG operates in a segment where limited share trading liquidity and size can hinder business performance and restrict the company's ability to realise its full potential. Many of the top 20 holders are directors and executives of HNG, which we believe is the perfect alignment, but others might say this leads to less share trading activity. By acquiring HCF with consideration paid in the form of HNG shares, it will in theory increase the size of HNG as well as the number of shares traded.

SAUNDERS INTERNATIONAL LTD

ASX: SND

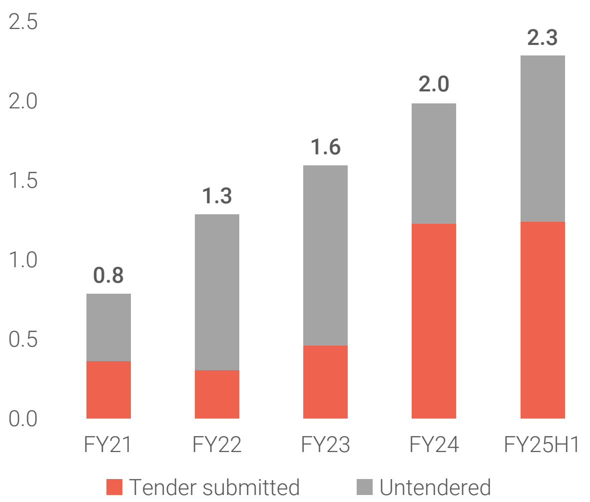
Half Year Result & Downgrade to FY25 Guidance

SND released its HY25 result in Q3, and the outcome was strong at the headline level. Revenue, EBIT and NPAT all showed year-on-year growth, leading to a record operating result for SND in this half. The downside was that EPS and EBIT margins were all down YoY with EPS falling due to the issuance of shares for a previous acquisition, and EBIT margins dropped due to the timing of contract commencements and increased costs to support future growth.

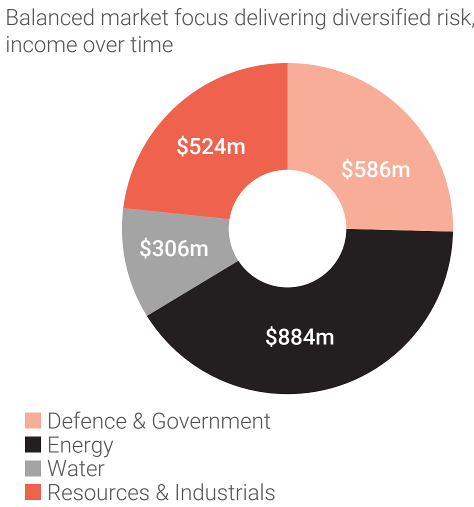
The implied 2H FY25 guidance came in significantly weaker than expected, with the FY25 guidance downgraded for revenue between -5% & +5% but EBITDA down circa -20% as the business carries a higher cost base to support the increased tender pipeline (but no major recent wins).

As per the illustration below, SND disclosed that their pipeline now stands at a record $2.3 billion, with tendered (but not yet awarded work) standing at ~$1.2 billion. The industry diversification continues to widen with four segments, including Water and Defence playing a significant part in SND's future growth potential.

Pipeline by status ($ billion)



Pipeline by market



Source – Saunders (as at 31 December 2024)

Delays have played a significant role in the downgrade to FY25 guidance, but management continues to believe that SND will be a much larger business over the medium term. Based on many of our calls with other listed contracting companies with exposure to Defence, delays have been a very consistent theme, and this has also spread to industries such as resources, where commodity price volatility and price inflation are seeing projects recut to ensure they meet the required financial hurdles. We would have expected SND to secure one or two major Defence contracts by now, given the significant investment they have made in this space over the past 3-4 years. Therefore, given the tailwinds at hand, it is imperative that SND secures one or more of these contracts and gives evidence that this strategy is starting to bear fruit.

Saunders Major Projects Timeline

Date	Project	Client	Location	Value
Aug 2024	Kalgoorlie Consolidated Gold Mines	Northern Star Resources	WA	$31.5m
Aug 2024	Civil Infrastructure Contracts	Local councils, NSW Government	NSW	$20.6m
May 2024	Water Contracts x 2	Greater Western Water & Confluence Water	VIC & NSW	$17m
Jul 2023	Pelican Point Terminal Diesel Storage Expansion	Quantem	SA	$44.2m
Jul 2023	Lytton Refinery Future Fuels Project	Ampol	QLD	$9.3m
Oct 2022	Western Sydney International Airport Fuel Farm & Hydrant Line	Multiplex & Duratec	NSW	$70m

Source - Company

INVESTMENT IN FOCUS (SITE VISIT/TOUR)

Pharmx Technologies Limited (ASX: PHX)

One of the more recent investments is Pharmx Technologies. PharmX is a small ASX-listed company that has been around for many years. More recently, its board and management have made a concerted effort to streamline the business and focus purely on one offering – a technology gateway that allows pharmacists to order from a broad range of suppliers.

What originally attracted us to PHX was the significant competitive advantage the business has built up over the years through its level of incumbency. Today, ~99% of all pharmacies in Australia use PHX to order some or all their supplies, which is +$20 billion in orders annually. Currently, the service that PHX provides is funded by the suppliers who generally pay a flat fee per month based on the number of active clients who use their products.

MOVING TO THE MARKETPLACE MODEL

Similar to our unlisted investment, Ordermentum, PHX aims to implement a marketplace model. Essentially, the marketplace model will allow thousands of pharmacies using the PHX gateway to access a wide range of products from multiple suppliers, potentially offering lower prices, higher quality alternatives, and greater choice. For suppliers, the PHX gateway offers a cost-effective way to market their products to a vast network of pharmacies who would otherwise be difficult to reach.

Moving to a marketplace model allows PHX to provide a unique solution for both suppliers and the end user. In theory, PHX should be able to command a higher fee for this service, given the substantial cost that suppliers could save through lower marketing and sales costs. However, as is often the case across many industries, raising prices for long-standing clients who are accustomed to a flat-fee structure can be challenging.

WHAT TRENDS WILL SUPPORT PHX'S LONG-TERM GROWTH?

The notable trends that we believe will support PHX's growth over many years include the following:

- **Growth in Pharmacy Scope of Practice** – The role of pharmacies has evolved significantly over the past five years. While they still provide over the counter and off-the-shelf medicines, they are now increasingly relied upon for products such as:
  - Administration of vaccines, flu shots, etc.
  - Beauty products - makeup, etc.
  - Wellness products – Supplements, protein powders, etc.
  - Lifestyle products – Beach products, toys, sunglasses, etc.
- **Population and Demographic changes**
  - The average spend on wellness products is >$5,200 per capita.
  - On average, we are getting older but are more focused on quality of life and wellbeing.
- **Digitisation**
  - Like many industries, digitisation is essential—and perhaps nowhere more so than in pharmacies.
  - Managing supply chains and ensuring optimum stock levels is crucial.
  - Accessing data that allows the pharmacist to make better-informed and timely business decisions.

HOW WILL PHX FUND ITS GROWTH AMBITIONS & NOTABLE BOARD MEMBERS

Unlike many technology companies we've researched, PHX stands out with a core business that generates solid free cash flow, allowing for reinvestment into growth priorities. Currently, the core business generates >$2m EBITDA per year on ~$8m revenue.

This is not a significant amount of free cash flow to fund a significant upgrade of the core business offering, but with a further ~$4 million in cash on the balance sheet, we believe that it's enough to get the business through, given the current plans and timelines.

What also attracted us to PHX was the significant director alignment PHX has through ordinary share ownership. A material portion of this is held by Dennis Bastas who owns 10% of PHX through shares acquired on-market. More importantly, Dennis Bastas has significant experience in the pharmaceutical and healthcare industries including MCoBeauty and generic drug manufacturer Arrotex Pharmaceuticals. This industry experience is invaluable to PHX -Bastas can help the company attract and work with suppliers, who are key beneficiaries of the PHX platform.

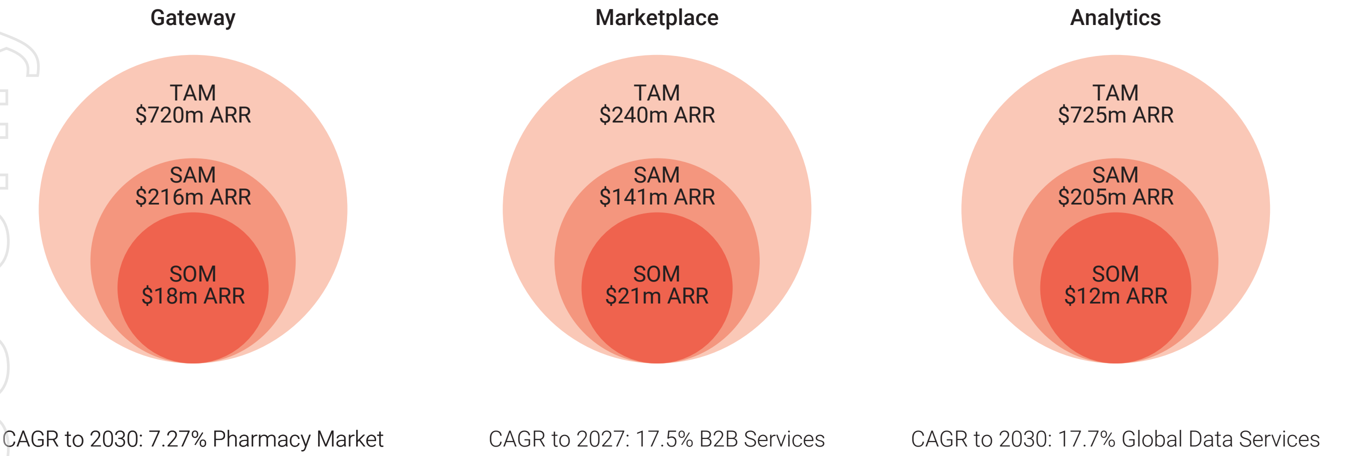
WHAT COULD SUCCESS LOOK LIKE?

Like all marketplace businesses, success depends on maintaining a diverse supplier base and offering a wide range of essential products to keep buyers engaged. It is also imperative that PHX allows all parties to operate and transact on the platform in a seamless manner.

If PHX can achieve the above, then the question becomes what can PHX charge for such a service? From what we can obtain from both listed and private marketplace operators, this will most likely be a mixture of a flat fee and a usage fee based upon all the transactions that occur via the platform. It is worth keeping in mind that over $20 billion of transactions have already flowed through the PHX platform (albeit only a small portion via the marketplace), which suggests that a significant part of the groundwork has already been laid.

In our view, what sets PHX apart from its peers is its three distinct service offerings, each with a clear pricing structure based on the value it delivers. According to company disclosures, each of these markets is substantial in its own right, though some are less established than others. However, as PHX secures major users across its offerings, we believe this will create a strong follow-on effect with competitors not willing to miss out for any length of time.

Operating in a Large Market



Source - Company

With an enterprise valuation of just ~$40 million, we believe the risk/reward trade-off has long term merit. We anticipate that executing the strategy won't be easy or without challenges, but in our view, PHX holds several competitive advantages over other marketplace businesses—some of which would take years and tens of millions of dollars to replicate, if at all. The next few years will be critical for PHX, but if momentum continues to build, its future could be exceptionally bright.


OUTLOOK

OUTLOOK

Since the end of FY24, we have consistently maintained that the outlook for many of NAOS' core investee companies remains strong. This view has only strengthened when factoring in their respective valuations and the potential for significant share price performance.

NCC and NAC delivered strong outperformance in Q3 FY25 with both LICs now showing significant outperformance on a rolling six-month basis. NSC faces a long road to recovery following the events of February. What makes these events harder to digest is that, outside of BSA, the portfolio has shown significant improvement, particularly in investments such as MXI and COG.

Our outlook has not changed in that we see potential for significant outperformance across many of the core investments, and the outperformance we have seen recently is, in our view, only the tip of the iceberg. To ensure consistency, we have included an updated list of potential catalysts that may occur through FY25 or FY26. As shown in the table below, many of these catalysts are yet to occur. Just as importantly, some that have already occurred have the potential to reshape a company's valuation for years to come. Clearly, this is the case with BSA following the loss of NBN Co. as a customer. However, we believe the same applies to COG, where a new leadership team, one with a strong track record of generating shareholder value, could drive significant upside. Importantly, an investment can re-rate substantially higher, with no theoretical ceiling.

Company	Catalyst	Status
AMA Group	Outcome of the sales process for the ACM Parts Division	Ongoing
	Progress towards the pre-AASB16 EBITDA margin target of 9%	Ongoing
	Bolt on acquisitions in the car and truck repair space	1st Acquisitions recently completed
	Appointment of credible CEO with significant industry experience	Completed
BSA Limited	Outcome of the nbn tender for the Field Services Contract	Unsuccessful
	Potential to restart capital management initiatives	Unsuccessful
Maxiparts	Tangible progress on EBITDA margin improvement towards low double digit %	Significant progress made in 1H FY25
	Significant revenue and margin growth within its workshop consumables division Forch	On track as per 1H FY25
	Organic revenue growth of +5% within core truck parts division	Ongoing
	Capital management as balance sheet moves to net cash position	FY26 expect to see net cash position.
Urbanise.com	Reaching sustainable cash flow positive position	On track for FY25.
	Signing one or more agreements with large financial institutions	Guided for 2HFY25
	Potential consolidation within strata software space	Ongoing
	Strong organic annualised recurring revenue growth (ARR)	Ongoing

Company	Catalyst	Status
COG Financial Services	Divestment of Earlypay and Centrepoint Alliance minority investments	Ongoing
	Sizeable tender wins within the novated leasing division	Ongoing
	Acquisitions within finance broking and novated leasing space	Ongoing
	Simplification (or divestment) of the asset management division	Ongoing
	Board overhaul and replaced with proven and experienced Directors	Completed
Dropsuite	Taken over by US firm NinjaOne.	
Hancock & Gore Limited	First tangible client wins in Australia for its recently acquired Schoolblazer division	Ongoing
	Simplification of its company structure	Progress made with merger for ASX: HCF
	Potential further consolidation within the Australian school uniforms industry	Ongoing
Move Logistics	Meeting guidance and FCF positive for FY25	Ontrack as per 1H FY25 results.
	Reaching profitability (at an EBIT level) within FY25 on a run-rate basis	Ongoing
	Appointment of permanent CEO	Completed

Other investments held but not included above include Saunders International (ASX: SND), MitchCap (Private), BTC Health (ASX: BTC), Ordermentum (Private), Tuas Limited (ASX: TUA).

As we have previously stated, given the NAOS LICs are geared, any positive or negative movement in the underlying performance of the investments will ultimately be magnified in the NTA. While recent underperformance has negatively impacted the NTA for NSC, this same dynamic has been beneficial for NCC and NAC more recently. Ultimately, given the various factors at play, we expect the NTAs of each NAOS LIC could change significantly from today's levels as these various factors play out.

The team remains committed to restoring value for all NAOS LIC shareholders, and a number of the directors of the respective LICs continue to add to their already substantial shareholdings.

The NAOS team sincerely appreciates the ongoing support of our shareholders. Should any shareholder have questions or suggestions, please feel free to reach out to me directly or any member of our team.

Kind regards,

Sebastian Evans

Managing Director and Chief Investment Officer
NAOS Asset Management Limited

NAOS

(02) 9002 1576 enquiries@naos.com.au **www.naos.com.au**