NAOS

NAOS QUARTERLY INVESTMENT REPORT

Q3 FY26

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

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

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 FY26 SUMMARY

Dear fellow shareholders,

Quarterly Overview

As highlighted in our previous quarterly commentary, we entered CY26 with significant momentum, not only in performance but, more importantly, in the underlying health and profitability of our investee companies, which continued to improve. However, as has been the case on a number of occasions over the past 5 to 7 years, external macro events have taken centre stage and, at the very least, increased uncertainty for market participants.

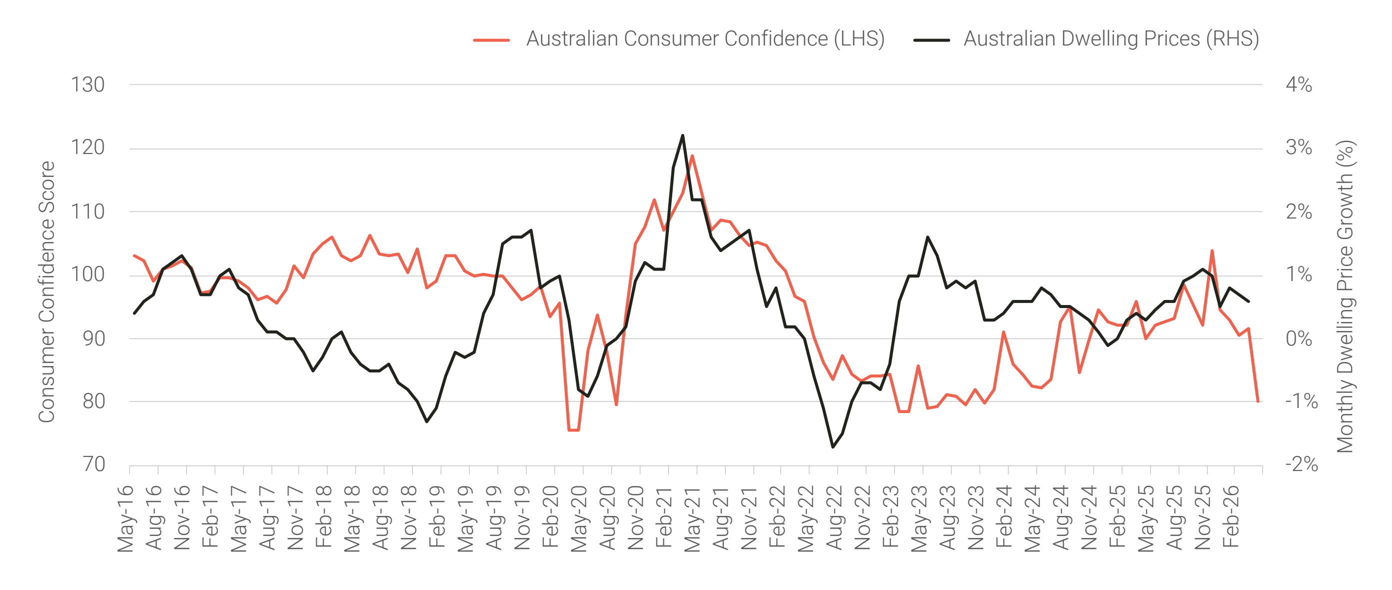
Irrespective of recent macro events, the half-year reporting season delivered constructive results for many of our major investee companies. The key takeaway was the continued high level of reinvestment across this cohort of companies. Management teams are becoming more confident in their product and service offerings, together with the domestic economic environment (and to a lesser extent, New Zealand's). This reinvestment is taking place through greenfield site rollouts, acquisitions, joint venture arrangements, and entry into new industry segments. Ultimately, this should increase the growth runway of these businesses and their overall valuation if execution is on point.

Regarding expectations for continued earnings improvement into 2HFY26, we were highly confident in that trend through to the end of February. However, since March, as we will discuss below, the ability of management teams to set realistic budgets for the remainder of the financial year has been significantly impaired. As we experienced during the COVID pandemic, we expect businesses to adjust as best they can to the short-term volatility (as well as any related government support/initiatives), while also keeping sight of their medium-term strategic objectives. This ensures that significant long-term shareholder value is not sacrificed for short-term profitability.

We would also expect investors to take a more objective view of short-term profitability volatility and its impact on company valuations, given the experience of FY21 and FY22. While current macro events will inevitably affect profit results, these impacts should largely be 'one-off' in nature and beyond the control of management teams. Over time, we expect profitability to revert to historical trends, and valuations should follow.

Feedback on the ground remains inconclusive. Businesses more exposed to discretionary spending have already experienced a slowdown in activity levels. This is no surprise, given that the recent consumer confidence reading for March (see below) was close to an all-time low. On the flip side, many Australians who own their own homes (most typically associated with the baby boomer generation) have never been wealthier, given the average price of a home in Australia. As a result, we continue to hear of robust underlying demand in home alterations and additions, with many months of visibility.

Australian Consumer Confidence & House Price Growth



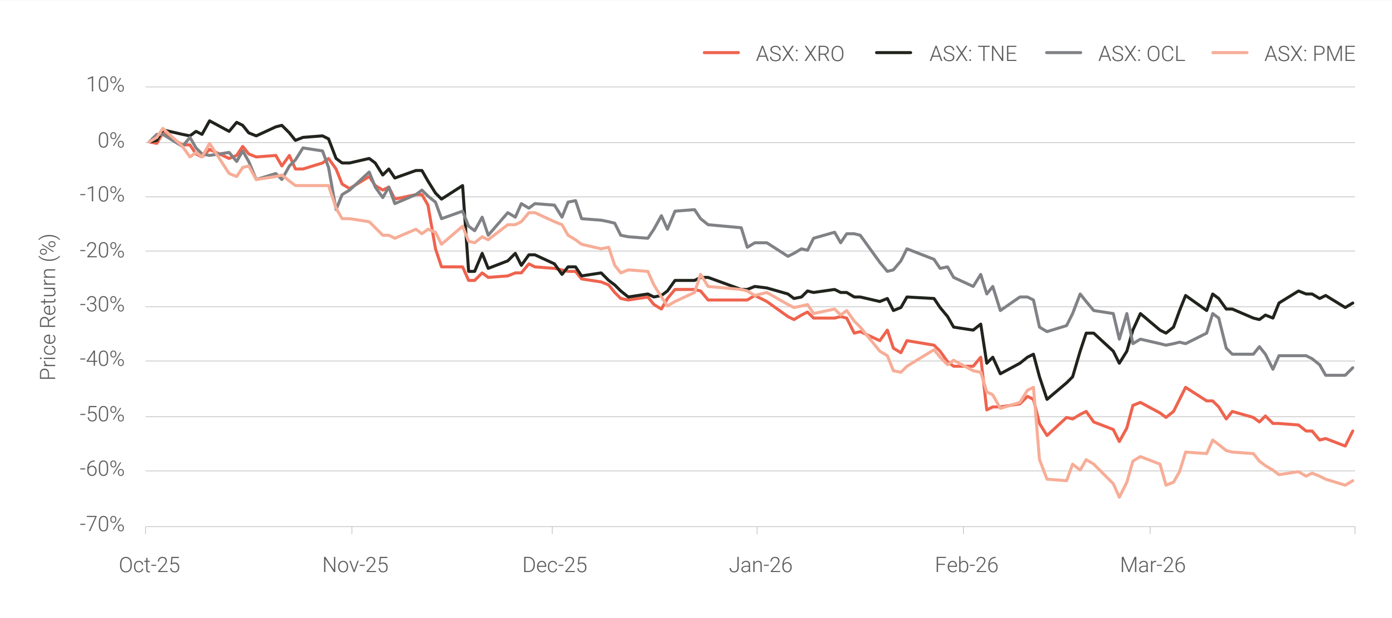
Source – Westpac, Cotality Australia

SaaSpocalypse?

It would be remiss of us not to comment on the sharp de-rating in valuations across many software businesses. This unwind has been largely driven by the rapid emergence of Artificial Intelligence (AI) applications, which are enabling customers to adopt lower-cost alternatives or, in some cases, to reduce the need for certain software solutions altogether.

As the chart below illustrates, the retracement for many leading software businesses on the ASX over the last 6 months has been nothing short of significant. Notable examples include Xero Ltd (ASX: XRO), Pro Medicus Ltd (ASX: PME), TechnologyOne Ltd (ASX: TNE) and Objective Corp. Ltd (ASX: OCL) all of which have declined by 50% or more.

SaaSpocalypse



Source - Koyfin

In our view, this retracement is being driven by one overarching conclusion: long-term cash flow expectations for these software businesses now face significant uncertainty, primarily due to the following key factors:

- Will clients still be willing to pay the same price for these services in the future, given the potential impact of AI?
- Discount rates have increased broadly to account for this heightened uncertainty.
- Customers may continue using the same software as they do today, but less frequently, or consume less of it as AI solutions emerge.
- In some cases, clients will be able to build or adopt alternatives, leading to cancelled contracts or non-renewals.

Given the above, does it still make sense for the market to value software companies primarily as a multiple of their recurring revenue? We do not claim to have definitive answers to all the questions raised. However, we agree with the widely held observation that not all software companies are created equal. Some possess characteristics that position them as net beneficiaries of AI, while others do not.

That said, equity investors have never welcomed uncertainty, and the conundrum with AI is the extraordinary pace of change, as illustrated by the rapid rollout of models such as Claude API.

Model	Released	Focus & key capabilities	Status
1	Mar-23	Anthropic's first public model. Safety-focused general assistant built on Constitutional AI, initially available to limited users.	Retired
2	Jul-23	First model open to the general public via API. Improved reasoning, longer responses, and better instruction-following over Claude 1.	Retired
2.1	Nov-23	Doubled context window to 200K tokens (~500 pages). Reduced hallucinations and improved document analysis at scale.	Retired
3 Haiku	Mar-24	Fastest and most affordable Claude 3 model. Aimed at high-volume, latency-sensitive tasks and lightweight integrations.	Retired
3 Sonnet	Mar-24	Balanced mid-tier model for everyday tasks. Ideal blend of speed and capability for most enterprise workflows.	Retired
3 Opus	Mar-24	Most powerful Claude 3 model; first to surpass GPT-4 on several benchmarks. Targeted at complex reasoning, analysis, and research.	Retired
3.5 Sonnet	Jun-24	Major milestone — matched Opus 3 quality at a fraction of the cost. Stronger coding, writing, and multilingual performance.	Retired
3.5 Sonnet v2	Oct-24	Introduced Computer Use — the first major AI model able to directly control a computer interface (cursor, clicks, typing).	Retired
3.5 Haiku	Oct-24	Upgraded lightweight model that surpassed Claude 3 Opus on some benchmarks. Best speed-to-intelligence ratio at that point.	Retired
3.7 Sonnet	Feb-25	Introduced Extended Thinking — step-by-step chain-of-thought reasoning for hard maths, science, and multi-step coding problems.	Retired
Opus 4 & Sonnet 4	May-25	Claude 4 generation launch. Professional-grade coding, advanced autonomous agent execution, and parallel tool use. Claude Code went GA.	Retired
Sonnet 4.5	Sep-25	Best-in-class for agents, coding, and computer use at launch. Improved instruction-following and long-context handling.	Retired
Haiku 4.5	Oct-25	Lightweight powerhouse — Sonnet 4-level coding at 1/3 the cost and twice the speed. Designed for high-volume production workloads.	Active
Opus 4.5	Nov-25	67% price cut from predecessor. Best-in-class for coding and agents, with big gains for spreadsheets and long-running agentic tasks.	Retired
Opus 4.6	Feb-26	Most capable model to date. 1M token context window, 128K max output, stronger long-horizon agentic planning, and self-error correction. 80.8% on SWE-bench.	Active
Sonnet 4.6	Feb-26	Full upgrade across coding, computer use, long-context reasoning, agent planning, and design. Near-Opus performance at 5× lower cost. 1M token context window.	Active

Source – Claude

As the age-old saying goes, for every action there is a reaction. How software businesses adapt to this new era of super intelligence will be the critical question. In February 2026, NVIDIA CEO Jensen Huang made his position clear:

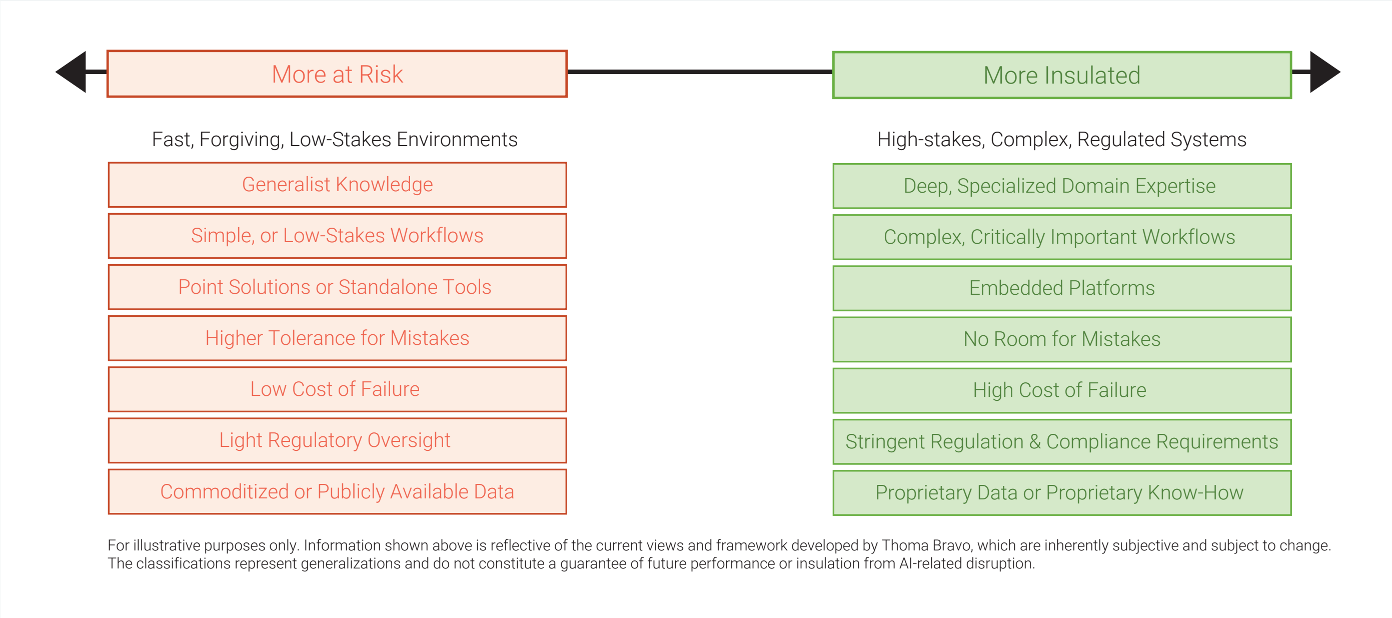
"There's a whole bunch of software companies whose stock prices are under a lot of pressure because somehow AI is going to replace them... It is the most illogical thing in the world."

This argument goes to the heart of how software businesses can successfully implement AI to:

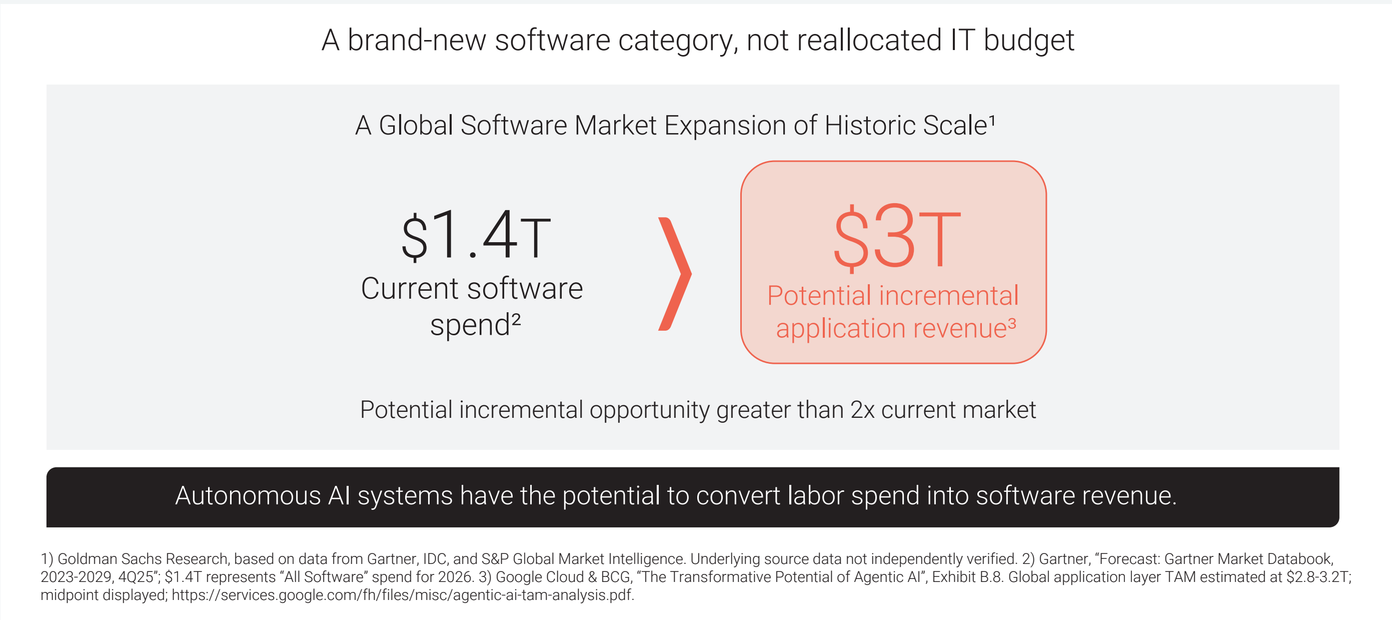
- Improve their user experience for the end user (features, onboarding, etc.);
- Lower their cost base (development costs, etc.) and by default improve their margins;
- Generate monetisation opportunities from AI-related add-ons and products; and
- Reduce timeframes & capacity constraints.

If software businesses can deliver on these outcomes, they could enter another golden age of revenue and margin growth for many years to come. This view was echoed by renowned global software investor Thoma Bravo at their most recent Annual L.P. Meeting in March. They not only believe that certain software businesses will be more insulated than others (as shown in the first slide below), but also that total spend on software applications may increase due to the efficiencies gained from AI implementation (as shown in the second slide below).

AI Disruption Risk Is Not Uniform Across Software



Agentic AI Creates the Opportunity for a ~$3 Trillion Incremental Software Layer



Source – Thoma Bravo

INVESTMENT PORTFOLIO PERFORMANCE SUMMARY

Investment Portfolio	Q3 FY26 Performance	1 Year Performance	3 Year Performance (p.a.)	5 Year Performance (p.a.)	Inception Performance (p.a.)
NCC Investment Portfolio Performance*	-5.66%	+15.03%	-6.00%	-3.40%	+5.90%
S&P/ASX Small Ordinaries Accumulation Index	-10.87%	+13.65%	+8.50%	+3.99%	+5.68%
NAC Investment Portfolio Performance*	-11.67%	+24.50%	+2.43%	-1.74%	+7.72%
S&P/ASX 300 Industrials Accumulation Index	-5.82%	+1.87%	+9.21%	+6.95%	+7.24%
NSC Investment Portfolio Performance*	-9.80%	+17.15%	-12.02%	-7.17%	-2.28%
S&P/ASX Small Ordinaries Accumulation Index	-10.87%	+13.65%	+8.50%	+3.99%	+5.41%

*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.) 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 2026. 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 2026)
BIG RIVER	**Big River Industries**	ASX: BRI	>20%	$127 million

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.

SAUNDERS INTERNATIONAL	**Saunders International**	ASX: SND	5-20%	$123 million

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 LIMITED	**MaxiPARTS**	ASX: MXI	>20%	$109 million

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	**MOVE Logistics**	ASX/NZX: MOV	5-20%	$21 million (NZX)

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 over 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.

urbanise	**Urbanise.com**	ASX: UBN	>20%	$49 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.

		ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2026)
BTC health.	**BTC Health**	ASX: BTC	>20%	$20 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 critical care experts.

xrf scientific	**XRF Scientific**	ASX: XRF	<5%	$239 million

XRF Scientific Limited (XRF), based in Perth, Australia, manufactures equipment and chemicals which is used in the preparation of samples for analytical testing and quality control. With facilities in Australia, Europe, and Canada, plus global distributors, their products are distributed globally and used by miners, construction companies and commercial analytical laboratories.

pharmx	**Pharmx**	ASX: PHX	<5%	$73 million

Pharmx (PHX) is ANZ's leading independent pharmacy platform, powering ~$20 billion in annual transactions through its supply-chain Gateway, launched in 2006. Its technology connects pharmacies, suppliers, brands, government, and partners like the NDSS, driving innovation and efficiency. Focused on seamless multi-channel ordering, Pharmx enhances healthcare outcomes and supports a vital industry fuelled by growth, demographics, and regulatory change, with recent expansion into New Zealand.

bravura solutions	**Bravura Solutions**	ASX: BVS	<5%	$915 million

Bravura Solutions (BVS), headquartered in Australia, is a leading technology provider to the global funds and wealth management industries. Its solutions automate processes, connect to financial networks, and innovate for efficiency, enabling in-house control over operations. Managing in excess of A$10 trillion in client assets on its systems and processing tens of millions of straight-through transactions each month, with a team of approximately 1,000 people, offices worldwide, and a clean balance sheet with A$58.7 million in cash and zero debt, Bravura continues to deliver scalable technology and strong financial performance in FY25.

schoolblazer LIMITED	**Schoolblazer**	ASX: SBZ	5-20%	$107 million

Schoolblazer (SBZ) (previously known as Hancock & Gore (HNG)) is a listed investment company. Its wholly owned operating business, Schoolblazer Group (SBG), represents ~80% of the group's gross asset value. SBG is a leading supplier & e-commerce retailer of school uniforms in both the Australian and the United Kingdom markets.

commsgroup Global Cloud Communications	**Comms Group**	ASX: CCG	5-20%	$36 million

Comms Group (CCG) provides a full range of IT and Communications services from the Cloud, including IT managed services, cloud hosting, cloud communications and Unified Communications (UCaaS) and CPaaS services. Our three strategic growth pillars are International; Domestic - through the Next Telecom and on Platinum brands; and Wholesale and Partner services. Its customer base ranges from Australian Government departments to SME's

		ASX Code	NAOS % Ownership (<5%, 5-20% or >20%)	Market Cap (as at 31 March 2026)
SomnoMed	**SomnoMed**	ASX: SOM	<5%	$142 million

SomnoMed (SOM) is a global leader in providing oral appliances for sleep apnoea treatment, operating in 28 countries. Since 2004, the company has delivered over one million devices, offering a comfortable alternative to CPAP machines. By repositioning the jaw to keep airways open during sleep, SomnoMed's high-quality, medically certified devices improve sleep quality for patients and their families worldwide.

firmus	**Firmus**	Unlisted	Undisclosed	Undisclosed

Firmus Technologies builds world-class, highly-efficient AI factories, utilising its proprietary technology to drive down total cost of ownership and accelerate AI adoption. With offices in Australia and Singapore, Firmus partners with government, enterprise, education and the innovators of tomorrow to create sustainable, sovereign AI solutions.

Ordermentum	**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 improve business efficiency, grow sales, and drive profitability for both suppliers and venues.

NOTABLE INVESTEE COMPANY UPDATES

Note: The LICs listed in brackets had exposure of more than 5% to the applicable investee company at quarter-end.

PHARMX TECHNOLOGIES LIMITED (ASX: PHX) (NCC)

Strategic Alliance with Sigma Healthcare Limited (ASX: SIG)

It is not often that a micro-cap company with a capitalisation of ~$75 million enters into a strategic partnership with an ASX-50 business valued at over $30 billion, particularly when that partner is also a key customer. Equally unusual is a company issuing 10% of its issued capital for essentially nil consideration.

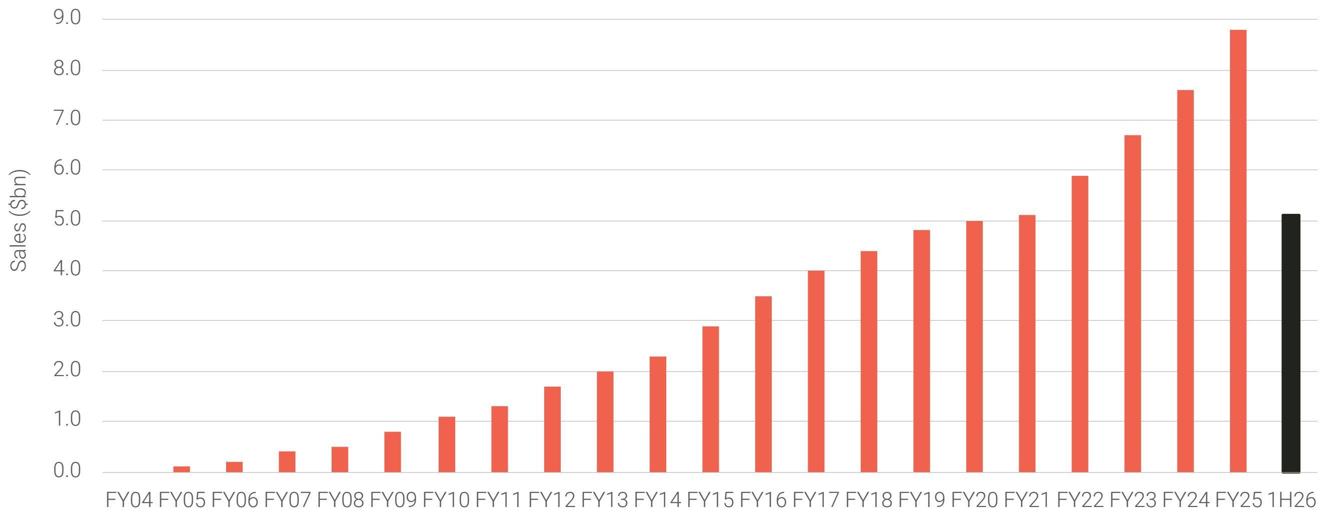
On the surface, this is what PHX essentially did in February with SIG; the entity that owns and operates the Chemist Warehouse group. The transaction essentially has two main parts:

- **Stage-1**
  - SIG will subscribe for approximately 10% of PHX's issued capital (and gain one director seat on the PHX Board).
  - PHX will pay an establishment fee of $8.7 million once the agreement has been entered into.
  - PHX will become the preferred gateway (i.e. Electronic Data Interchange (EDI)) provider for SIG.
  - SIG will renew its existing agreement for a period of 5 years with PHX for the provision of EDI services for its wholesale business.
- **Stage-2**
  - PHX will expand its services to SIG to include (but not limited to) additional international markets and new solution areas.
  - SIG can subscribe for further shares in PHX to reach an aggregate holding of 19.99%.
  - We understand these shares can only be issued/subscribed for if certain revenue hurdles that form part of the stage-2 agreement are met.

Taking a negative stance, some may argue that PHX has effectively issued 10% of the company to SIG simply for renewing their contract for a further 5 years. This is a valid argument, but even in this worst-case scenario, we believe it represents a reasonable starting point when viewed in context.

Chemist Warehouse accounts for ~42% of the retail pharmacy market in Australia and ~30% in New Zealand. As the chart below illustrates, the group has delivered sustained growth over more than 25 years. In 1HFY26, Chemist Warehouse reported revenue growth of 17.2%, significantly outpacing the industry's ~2% growth, despite operating a store network that represented just 10% of the total market. It is also estimated that over 70% of Australians made a purchase at a Chemist Warehouse store in the past 12 months. Furthermore, its successful push into private-label brands, such as Bondi Sands, now accounts for approximately 10% of group revenue.

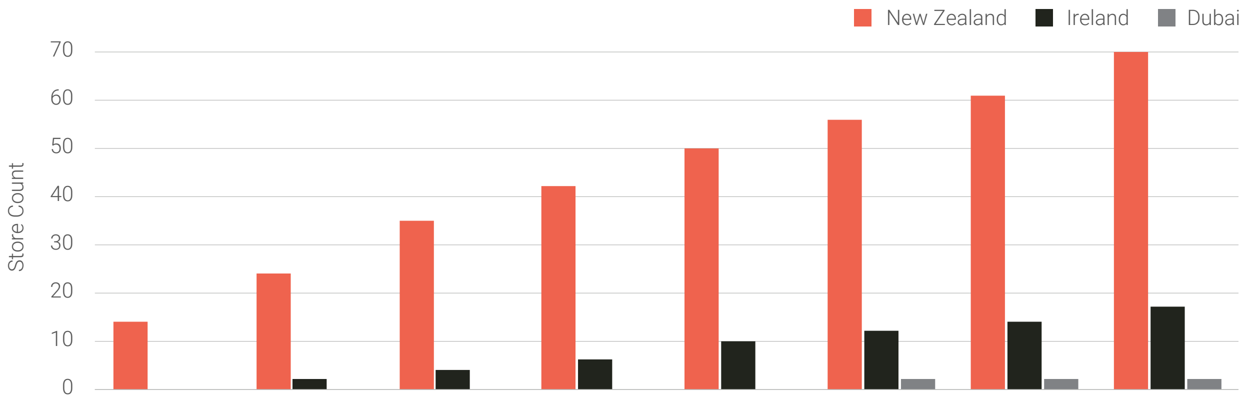
Chemist Warehouse Branded Domestic Sales ($bn)



Source – Sigma Healthcare

It's therefore clear that PHX has firmly aligned itself with not only the biggest operator in the pharmaceutical space but also with the best and fastest-growing operator, with multiple levers of growth (as depicted in the chart below, which shows their international expansion).

International Network - Store Growth



	FY20	FY21	FY22	FY23	FY24	1H25	FY25	1H26
New Zealand	14	24	35	42	50	56	61	70
Ireland	0	2	4	6	10	12	14	17
Dubai	0	0	0	0	0	2	2	2

Source – Sigma Healthcare

Given this alignment, it is worth revisiting the key long-term strategic growth drivers for PHX, which we see as follows:

- Marketplace Growth
  - Increasing the number and depth of products available to customers for purchase through the PHX marketplace offering.
- EDI (Gateway) Growth
  - Expansion & scaling into the New Zealand market.
  - Vertical extensions of the product for wholesale customers.
  - Expand into other international markets over time.
- Growth of PHX Data Offering
  - Increase the volume of usable data that flows through the PHX gateway to develop insightful data products for end users.

Based on the above, we believe that the PHX/SIG alliance meaningfully supports these key growth drivers. While execution will take time, and the monetisation strategy for some elements remains unproven, the potential is compelling. With a current revenue base of just ~$8 million, meaningful traction in subpoints 2 and 3 could increase PHX's total revenue by ~50%. Factoring in the remaining subpoints, we see the potential for the revenue base to expand by 2–4 times over time.

Yes, PHX has increased its shares on issue by an initial 10%, but, conversely, it has given itself the right to play in its desired markets and aligned itself with the biggest and the best. We believe this may prove a small price to pay if PHX can deliver revenue growth >20% p.a. together with a 10+ year runway, which, if achieved, would generate substantial compounding effects

FIRMUS TECHNOLOGIES (UNLISTED) (NAC, NCC)

Debt Commitment, Customer Contracts & Operational Initiatives

Of all NAOS investee companies, Firmus has generated the most media attention during the March quarter. The underlying business milestones achieved in Q3 FY26 were substantial.

In February, Firmus announced a US$10 billion asset-backed debt financing facility with global investor Blackstone (building on their prior acquisition of AirTrunk for AUD $24 billion) and high-profile technology investor Coatue Management L.L.C. The facility ranks among the largest private debt financings in Australian history. Similar structures globally typically see debt proceeds used to fund the acquisition of Graphics Processing Units (GPUs), with all debt and interest costs repaid from contracted revenues over an initial ~5-year period. At the end of this period, the company would own fully depreciated assets capable of generating incremental high-return revenue. It is worth noting that both Blackstone and Coatue have been major lenders, and, in the case of Coatue, a cornerstone equity investor in US-listed CoreWeave Inc (NDQ: CRWV), a comparable listed company to Firmus, albeit larger.

In March, Firmus signed a long-term contract with a global hyperscale customer, widely reported in the media as Meta Platforms Inc. (NDQ: META). The contract is valued at ~AUD $600m in annual revenue. It appears contracts of this nature are 'symbiotic' with the debt facility: a facility of this size requires demonstration of creditworthy customers, while hyperscalers require confidence in the company's ability to fund and deliver configured GPUs on time.

Firmus now has contracted customers that include a global hyperscaler and NVIDIA Corp (NDQ: NVDA), in addition to its existing Singapore operations. At the time of writing, it would appear that, given the GPU capacity Firmus is bringing on in the short term, the company has not yet signed enough customer contracts to fill this known capacity. Against a backdrop of strong global demand, we expect further customer details to be a reasonable catalyst.

The rapid rise of so-called "neoclouds" or "AI factories" has been notable. Former Bitcoin miners, some borderline viable, have pivoted their skills and infrastructure towards AI token generation and, as a byproduct, into companies now valued in the billions.

Global comparables to Firmus

Company	Stock Code	Market Cap/Pre-Money Valuation (USD$ billion)	Last Reported Valuation Date
CoreWeave Inc.	NDQ: CRWV	~$62bn	N/A
Nebius Group Inc.	NDQ: NBIS	~$40bn	N/A
IREN Ltd	NDQ: IREN	~$16bn	N/A
Lambda	Unlisted	~$4bn	Nov-25
Nscale	Unlisted	~$14.6bn	Mar-26
Crusoe	Unlisted	~$10bn	Oct-25

Source: NAOS, various financial sources

Two of the major risks behind these business models are:

1. The duration of the initial contracts
2. The pricing for older generation GPUs once the initial contracts come to an end.

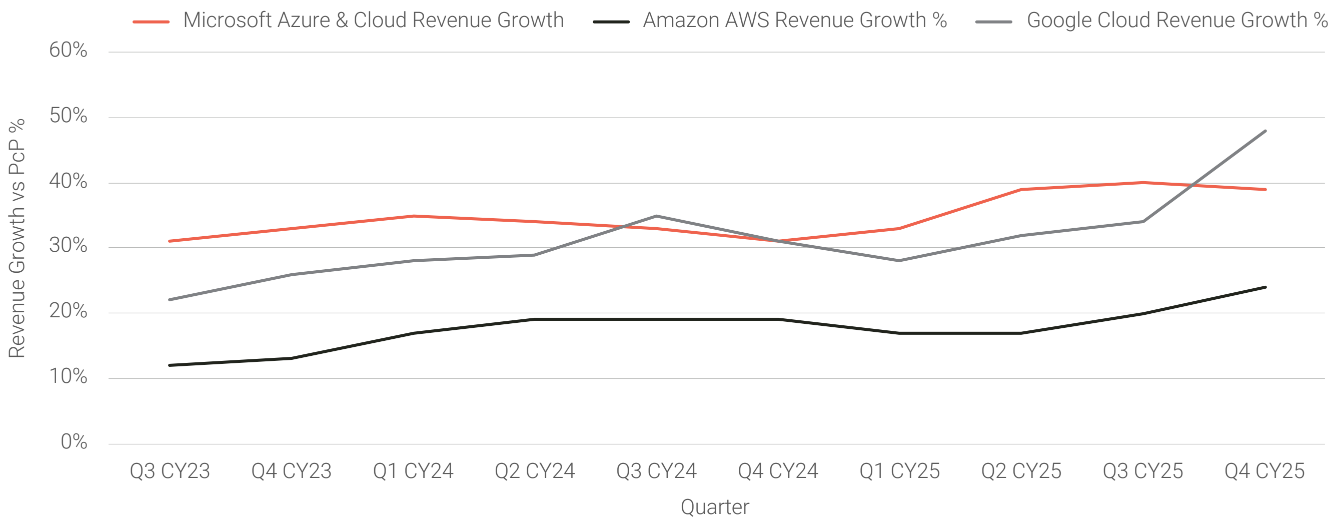
Listed peers have consistently highlighted two favourable trends: lengthening initial contract durations and more stable spot-market pricing for older GPUs than many had anticipated. Both are important for generating strong long-term returns on capital.

"24 months ago, those [our new contract lengths] were, call it, 3-year contracts. 12 months ago, there were 4-year contracts. I would say now in our $66.8 billion of backlog that we have, that is 5-year weighted contracts, right, with some contracts in there extending up to 6 years. I struggle to see visibility like materially beyond that, but the customer profile is saying, we want this infrastructure for longer... The other aspect that we're seeing that's so strong is [pricing] on older generation infrastructure."

– Brannin McBee, Chief Development Officer, CoreWeave Inc.

At least part of this trend can be explained by the strong financial performance of the large hyperscalers, who account for a significant portion of GPU demand and AI-related revenue. As shown below, revenue growth has been accelerating throughout CY25 despite the 'law of large numbers' working against them (for example, Amazon.com Inc's AWS cloud division is generating annualised revenue of approximately US$135 billion as at the end of CY25).

Hyperscalers - Accelerating Revenue Growth



Source: NAOS, Fiscal.AI

It is widely expected that Firmus will pursue an ASX listing in the near term. The appointment of three additional Non-Executive Directors in March helps strengthen the oversight and governance structure we would expect of any listed company. The new appointees bring strong domain expertise in both technology and mining companies - sectors that sit at opposite ends of the spectrum, with Firmus positioned squarely in between.

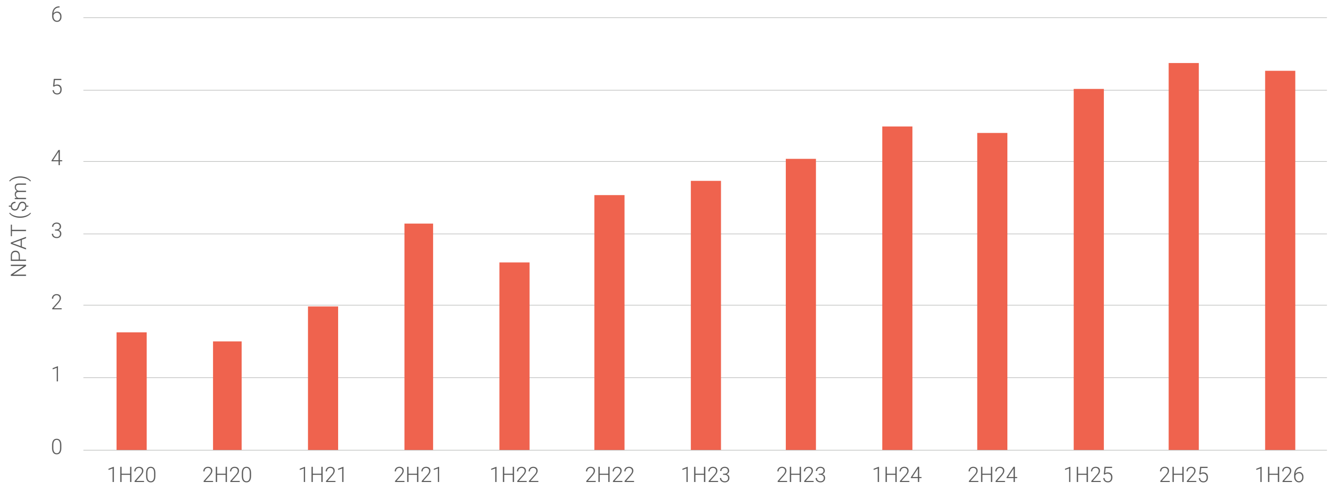
XRF SCIENTIFIC (ASX: XRF)

(NAC)

1HFY26 Results

One of the more disappointing share price reactions occurred in a business that has historically delivered consistent revenue and profit growth. In 1HFY26, XRF delivered profit growth of approximately 4%. While modest, this result came in roughly 6% below the sole stockbroker's consensus forecast. As shown in the table below, XRF has now grown profits in absolute terms across 10 consecutive reporting halves. However, as we have come to learn, the 'law of small numbers' can both be a blessing and a curse, especially when percentage movements are factored in.

XRF Scientific NPAT - Half on Half



Source – XRF Scientific

In our view, the weaker-than-expected 1HFY26 result was primarily caused by the inherent lumpiness of orders from XRF's global distribution partners. Distributors typically hold meaningful inventory to service their customers and therefore place fewer, but larger, orders with XRF. The timing of these orders relative to reporting cut-off dates can have a disproportionate impact on reported profitability for any given period.

Regardless of the 1HFY26 result, we believe XRF remains well-positioned to grow NPAT at approximately 10% per annum over the medium term, supported by several key drivers:

- **Growing product suite** – XRF generates most of its revenue from three core product categories. However, deeper analysis reveals that, in areas such as gold assay analysis, XRF remains a relatively small player with significant market-share upside. We believe there are many opportunities like this, and as XRF rolls out more products, it will hopefully continue to take market share.
- **Internally Funded M&A** – XRF operates in a highly fragmented market where many small businesses (<$10 million revenue) possess valuable intellectual property in laboratory sample preparation. These businesses often lack the financial resources and risk appetite to invest in sales teams and infrastructure. This creates an excellent opportunity for XRF, which can look to acquire these types of companies, bringing valuable intellectual property (and reducing development time & costs), and can roll them out through the global XRF sales network and distribution partners. Finally, given XRF's low capex requirements and its net cash balance sheet, we expect XRF to continue to fund such acquisitions from internal sources.
- **Client Penetration** – XRF supplies tier-1 mining companies and laboratory businesses directly. While its equipment currently represents a small portion of these customers' overall laboratory capital expenditure, XRF is highly regarded for its quality despite the availability of lower-priced alternatives. If XRF can continue to increase the depth and breadth of its products and services, it should be well placed to win new opportunities, given the strong existing client relationships.

Whether XRF delivers FY26 NPAT growth of 8% or 10% is largely immaterial. At a forward P/E of less than 21x, the company offers excellent value when considering its multiple growth levers, global footprint, and planned market entries (including a direct sales presence in India from early 2026). We continue to view the current valuation as attractive and will add to our position at these levels.

INVESTMENT IN FOCUS (SITE VISIT/INVESTMENT)

SOMNOMED LTD (ASX: SOM)

(NSC)

Company Overview

SomnoMed Ltd (ASX: SOM) is an Australian medical device company listed on the ASX since late 2004. Today, the business is a global leader in the design and manufacturing of its custom-fitted oral appliances for the treatment of obstructive sleep apnoea. SOM recently reaffirmed revenue guidance of at least $119 million, up from circa $64 million in FY18 (as shown in the table below).

The majority of SomnoMed's sales are generated in the US and Northern Europe, with a smaller contribution from Australia, where the company remains headquartered. All SOM products are manufactured in the Philippines at their own facilities. The product range consists of custom mouthguard-style devices that sleep apnoea sufferers wear during sleep. These appliances work by gently advancing the lower jaw to maintain an open airway throughout the night.

Fiscal Year	Revenue (AUD)	YoY Growth	Notes
FY2018	~$64M	+30%	Strong growth year
FY2019	~$59M	-8%	Pre-COVID decline
FY2020	$57M	-3%	COVID-19 impact
FY2021	$62M	+9%	Early recovery
FY2022	$73M	+18%	Post-COVID acceleration
FY2023	$84M	+15%	Sustained momentum
FY2024	$92M	+10%	Steady growth
FY2025	$112M	+22%	Record year
H1 FY2026	$61M	+13%	On track for $119–126M

Source - SomnoMed

We believe the simplified investment thesis for SomnoMed is clear: it offers one of the few credible and scalable alternative therapies for the large number of sleep apnoea patients who are unsuitable for, or fail, CPAP therapy (pressurised air delivered via a mask). Through its next-generation Rest Assure product (an oral device containing sensors to measure and monitor treatment efficacy), SOM has the potential, over time, to become a first-line treatment (the initial, best-supported therapy option) for sleep apnoea patients and compete directly with the likes of ResMed Inc. (ASX: RMD), a major global player in the CPAP market.

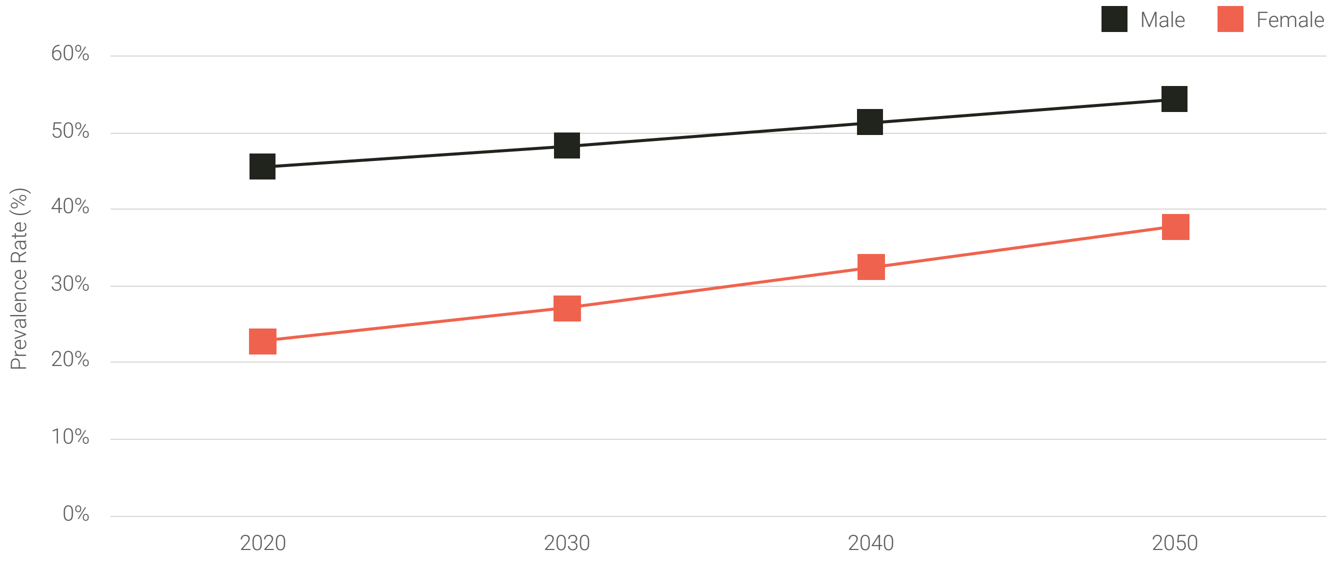
Obstructive Sleep Apnoea Market Overview

Obstructive sleep apnoea (OSA) is one of the most common, yet underdiagnosed, long-term health conditions in the United States and globally. Put simply, people with OSA repeatedly stop breathing during sleep because the soft tissue in their throat collapses and blocks the airway.

As of 2024, an estimated 83.7 million US adults (roughly 32% of the adult population) suffer from some form of OSA. The diagnosis gap remains striking: only around 6 million cases have been formally identified, leaving an estimated 77.7 million people undiagnosed and untreated.

The global sleep apnoea devices market was valued at approximately USD $10.3 billion in 2025 and is projected to reach USD $22.9 billion by 2034, a compound annual growth rate of 9.6%. The US accounts for the largest share, with RMD and Philips Respironics together controlling over 80% of the CPAP device segment.

US Obstructive Sleep Apnoea - Projected Prevalence Rate by Gender



Source – ResMed, The Lancet Respiratory Medicine

A 2025 study sponsored by RMD projects that by 2050, OSA will affect approximately 76.6 million US adults, a relative increase of nearly 35%, driven by rising obesity rates and an ageing population. By 2050, ~55% of all males and ~38% of all females in the US will suffer from OSA (as per the chart above). This expanding patient pool underpins the long-term growth case for OSA-related investments, though the mix of treatments that patients are choosing is shifting in ways that demand close attention from investors.

Why People Develop Sleep Apnoea?

During sleep, the muscles in the throat naturally relax. In people with OSA, they relax too much, causing the airway to narrow or close entirely. There are several well-established reasons why this happens, which are outlined below:

Obesity

Excess weight is the single biggest controllable risk factor. Fat deposits around the neck and throat physically narrow the airway, increasing the likelihood of collapse during sleep. OSA affects approximately 3% of normal-weight individuals but over 20% of obese individuals. With over 40% of US adults now classified as obese, sleep apnoea has become a widespread public health problem, closely linked to heart disease, stroke, and diabetes.

Age & Sex

The condition becomes more common with age, particularly in adults over 60, as the throat muscles lose tone and fatty tissue builds up around the tongue and neck. Men are 2-3 times more likely to develop OSA than women, though this gap narrows significantly in women after menopause.

Physical Structure & Genetics

Some people are simply built in a way that makes them more prone to airway blockage during sleep. Features such as a large tongue, enlarged tonsils, a recessed jaw, or a thick neck all increase the risk. Family history also plays a role, as airway shape and the way throat muscles behave during sleep have a genetic component.

Treatment Options

Continuous Positive Airway Pressure (CPAP) has been the standard treatment for moderate-to-severe OSA for over three decades. The device delivers a steady stream of air through a mask worn during sleep, keeping the airway open.

CPAP is highly effective when used consistently. Beyond CPAP, doctors may prescribe oral appliances (mouthguards that hold the jaw forward), positional therapy for mild cases, or surgery to widen the airway. Weight management and lifestyle changes are recommended alongside all other treatments.

CPAP Non-Adherence: Scale of the Problem

Despite being effective when used consistently, CPAP has a well-documented compliance problem. When adherence is defined as using the device for more than four hours per night (the threshold required for insurance reimbursement), studies report that 46% to 83% of patients fail to meet this standard.

Long-term data is even more sobering: one study found that over 25% of patients had stopped using their CPAP entirely within roughly three years, with the steepest drop-off in the first ten months.

Common reasons for non-adherence include mask discomfort and feelings of claustrophobia (cited by ~35% of those who stop), perceived lack of benefit (19%), dry or congested nasal passages, noise from the device, and social awkwardness.

The 2021 Philips Respironics recall, which affected millions of devices due to degrading foam, further eroded patient confidence in CPAP therapy.

Options After CPAP Failure

For the large number of patients who cannot tolerate CPAP therapy, several alternatives exist. Oral appliances are custom-fitted mouthguards that hold the lower jaw and tongue forward during sleep, keeping the airway open. These work best for mild-to-moderate cases.

Nerve stimulation (e.g. Inspire) is a small, implanted device that detects breathing patterns and gently stimulates the tongue muscle to prevent airway collapse.

Finally, surgical options, including weight-loss surgery for obese patients and procedures to physically widen the airway, remain available for patients who have exhausted other options.

GLP-1 Drugs: Expanding the Total Addressable Market

The most significant recent development in the sleep apnoea space has been the rise of GLP-1 weight-loss drugs and their direct crossover into OSA treatment.

The FDA approved Eli Lilly's Zepbound (tirzepatide) for the treatment of moderate-to-severe OSA in adults with obesity, making it the first medication ever approved specifically for sleep apnoea. Unlike CPAP, which mechanically holds the airway open, Zepbound tackles the root cause for many patients: excess weight.

Growing the Pie, Not Just Slicing It Differently

The initial market reaction focused on the GLP-1 drug being a potential threat to CPAP device makers. Early data supported this view: OSA patients who started tirzepatide were approximately 83% less likely to begin CPAP therapy than untreated comparators. However, a more nuanced reading suggests GLP-1 drugs may actually expand the total addressable market for sleep apnoea treatment rather than simply cannibalising device revenue. The logic is as follows: today, the vast majority of OSA cases remain undiagnosed and untreated. Many patients who suspect they have sleep apnoea never seek a formal diagnosis because the perceived treatment options (e.g. wearing a mask to bed every night, surgery) feel unappealing.

GLP-1 drugs fundamentally change this calculus. A patient who might never have visited a sleep clinic now has a reason to get tested: if they already take a GLP-1 for weight loss, adding an OSA indication is straightforward, and if they do not yet take one, the prospect of treating both their weight and their sleep apnoea with a single daily injection is a compelling value proposition.

Equally important, as millions lose meaningful weight on GLP-1 drugs, many will move from severe OSA down to mild or moderate OSA rather than being fully cured. These patients will still need some form of treatment, whether oral appliances, positional therapy, or lower-pressure CPAP, but they are now engaged with the healthcare system and actively managing their condition. The net effect is a broader, more treatment-receptive patient population rather than a smaller one.

The sleep apnoea market, in our view, is at an inflection point. A massive and growing patient population, widespread CPAP non-adherence, and the arrival of GLP-1 drugs are combining to reshape the competitive and investment landscape. While GLP-1 drugs may shift some revenue away from traditional CPAP, they are likely to accelerate diagnosis and bring millions of previously untreated patients into the care pathway, ultimately expanding the overall market.

What Does This Mean for SomnoMed?

Until FY25, SomnoMed's revenue growth benefited from a rising tide across the broader sleep apnoea market. However, under previous management the company made several strategic missteps that at times threatened its survival. Notable examples include:

- Launching its own dental network in the USA to increase referrals of SOM products, but at the same time essentially competing with its existing referral network in the USA; and
- Investing significant funds into product development and research funded via debt, which led to the company completing an emergency and highly dilutive capital raising.

Under the new leadership of Karen Borg (former President, Asia Pacific for ResMed Inc.) and Amrita Blickstead (former COO and CMO for eBay Inc.) SOM has returned to its roots and simplified its strategy to better ensure it realises its full potential. We believe this renewed focus rests on three key pillars:

- **Gross Margin Improvement** – SomnoMed manufactures all its products in its own facilities in the Philippines using a highly manual process with limited automation. ResMed achieves a gross margin of ~62%, while SomnoMed's sits at ~61%. Given ResMed is approximately 25 times larger, there is significant potential for SomnoMed to improve margins meaningfully as it scales.
- **Market Share Growth** – SomnoMed currently holds an estimated ~2% of the global sleep apnoea market. Its devices are primarily used as second-line therapy after CPAP failure, largely because current products cannot objectively measure treatment efficacy or compliance. Even with the existing range, we believe SomnoMed can grow its referral network and increase adoption among dentists through better product fit, process simplicity, and improved remuneration.
- **Rest Assure Commercialisation** – The next-generation Rest Assure device, developed over nearly a decade, addresses key limitations of current oral appliances by measuring sleep efficiency and compliance. While it has FDA approval for built-in compliance monitoring, full approval for the efficacy features is still pending. We expect management to provide clarity on the optimal go-to-market strategy and reimbursement pathways by the end of CY26.

It is not often you come across a listed business that can be acquired today at a reasonable valuation yet has significant exposure to a growing market, margin upside, and significant market share upside. In our opinion, SOM ticks all these boxes. Its track record of consistent revenue growth further de-risks the investment case. While the ultimate upside is difficult to quantify, we believe the risk-return profile is strongly skewed to the upside.


NAOS
OUTLOOK

OUTLOOK

Given the macro events of the past 1-2 months, many have suggested that a company's short-term budget/forecast is no longer worth the paper it's written on. As we have stated for over 15 years, we are not macro experts, and we don't profess to be able to pick market highs and lows with any degree of consistency.

Investors should therefore expect us to remain firmly committed to our long-standing investment philosophy. We do not anticipate material changes to the core holdings, although we expect to add a small number of new positions where attractive opportunities have emerged following the recent market drawdown.

Regardless of the above, we remain firmly of the view that all NAOS LICs are catalyst-rich. Potential near- to medium-term events include a possible Firmus IPO, further earnings improvement at Big River Industries Ltd (ASX: BRI), and any strategic intentions from its new corporate shareholder, which has significant interests in the building products sector and now holds more than 14.5% of BRI.

The entire NAOS team is grateful for your continued support as fellow shareholders, and we look forward to providing you with another detailed update for Q4 FY26 in July.

Warm regards,

Sebastian Evans

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