DMX ASSET MANAGEMENT

DMX Australian Shares Fund

Investing in the most compelling Australian smaller company opportunities

DMX Australian Shares Fund

August 2021 – Investor Update

A wholesale unit trust managed by:
DMX Asset Management Limited
AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
Trustee & Administrator:
Fundhost Limited AFSL 233 045

Unit price (mid) based on NAV (31 July 2021)	**$1.1021**
Unit price (mid) based on NAV (31 August 2021)	**$1.1374**
Number of Stocks	39
% cash held - month end	6%

1-month return	3.20%
3-month return	9.35%
Since inception (1 March 2021)	13.74%
Fund size (gross assets)	$8m

Dear Investor,

DMXASF's NAV increased 3.20% (after fees and expenses), slightly ahead of the ASX 200 Total Return Index's 2.50% gain. The month was busy with most companies reporting full-year results. While the portfolio as a whole advanced, underlying was a mixed bag with a number of companies declining 10-20% each, a good number rising by a similar magnitude, and a couple stand-outs rising 30-40% each and helping drive a strong overall outcome for the month.

Portfolio Commentary

A range of companies declined modestly on the back of slightly negative results & commentary, or for no particular reason. Quality industrial, **Laserbond**, with its unique value-adding technology and interesting growth avenues handed back 18% mainly due to disappointing earnings results. While its results were relatively weak, the company reaffirmed its positive outlook for the period ahead. Retailer **Dusk** declined 19% as the market weighed the impact of widespread COVID lock-downs. Dusk will continue to suffer with much of its store network closed. But its medium to long-term prospects remain intact. Software companies **Gentrack** and **PropTech Group** fell 8% and 18% respectively.

On the other hand, a number of companies reported positive results, and some surprisingly so given current COVID disruptions. **Joyce Corporation** rose 22%, mostly following a solid profit result for the year and positive commentary around the continued roll-out of its kitchen company subsidiary, KWB. Technology/software-driven holdings including **Ansarada**, **AVA**, and **Raiz** rose 14%, 15% and 18% respectively. Each reported positive momentum with their businesses and in the case of AVA, the sale of a business unit and substantial capital return. **PTB Group** jumped 14% on the back of its strong results and positive updates on its US growth plans. Of note, **ReadyTech** rose 40% on the back of continued strong growth and bottom-line results, together with a pivot in its communications with the focus shifting to longer-term growth ambitions and the target of more than doubling over the next few years.

Capral surprised both us and the market with its strong current numbers. Its shares returned 14% for the month and following this we've materially reduced our position (and may exit). Our original investment thesis for Capral was a hybrid value & merger arbitrage situation. The company had received a private equity takeover offer which put the spotlight on its value. We saw that value too, but were particularly interested in the potential for a higher deal price, knowing key large holders baulked at the original offer price. It turns out the gap between both parties was too large and the deal was cancelled. We held our shares, again, due to our assessment of value. But at these modestly higher prices, and with our portfolio cash levels as low as they are, we're inclined to exit this position and hone in on higher quality and (long-term) more prospective businesses.

The DMX Capital Partners (DMXCP) report contains much relevant content for DMXASF investors, including detailed updates on three holdings which are large for each portfolio: **Sequoia**, **Joyce Corporation**, and **Easton**. Additionally, brief notes on three fast-growing interesting companies with global growth aspirations: **Pureprofile**, **Janison Education**, and **Ansarada**. To avoid repetition for readers of both these reports, the DMXCP notes are reproduced in an Appendix to this report, below.

SDI Enjoying Buoyant Conditions

Dental materials manufacturer and global distributor, **SDI**, rose 18% for the month on the back of strong results for the year and a positive outlook for the period ahead. The company manufactures a range of dental materials at its facility in Melbourne, and distributes around the world. With COVID disrupting the oral health routines of millions of people, SDI suffered through much of calendar 2020. But with much of the world reopening, cavities having compounded, and people anxious to improve their physical appearance including knocking a shade or two off their teeth, SDI has faced strong demand. Further, as has been the case for many industries, we believe some of the natural industry price competition has reduced in the face of challenging supply chains and product shortages.

SDI is controlled by its founder's family and this has brought a degree of stability and prudence to its operations and capital management over time. But the corollary to this though has been, we believe, perhaps a little too much conservatism on the balance sheet management front. At current prices the shares trade for around 15 times normal earnings. As a result of growth being relatively low over the past decade, and the buildup of retained earnings, we consider the company has slowly gone from having an appropriate balance sheet structure to now being $20m, perhaps $30m, over-capitalised (versus a $120m market value). Management are keeping their cards close to their chests in terms of what they might do with their substantial cash and debt capacity. Incremental investments in plant & equipment, or modest increases to sales & marketing efforts will do little to address the position. Instead, we would like to see either a step-change in the business, perhaps with an appropriate acquisition of a smaller business that fits strategically well with its current product portfolio and geographic presence. Or, a meaningful return of capital to shareholders. We've articulated these views to management and will continue to do so. In the meantime, the shares remain attractively priced in relation to earnings, prospects, and the potential for its balance sheet to drive either a capital return or uplift in profitability in time.

In Summary

Results on balance were positive, and outlooks almost surprisingly also positive considering COVID disruptions to life and commerce. We continue to identify a thematically broad range of compelling opportunities to invest in. We're only six months in with this new fund, and it's been a strong six months in markets broadly. We do of course expect greater volatility in the future, and in both directions. Irrespective of what happens on a daily or monthly basis, we are focused on the long-term prospects for our individual companies and the portfolio as a whole.

Thank you for your trust and support.

Kind regards

Michael Haddad	Chris Steptoe
Co-Portfolio Manager	Co-Portfolio Manager

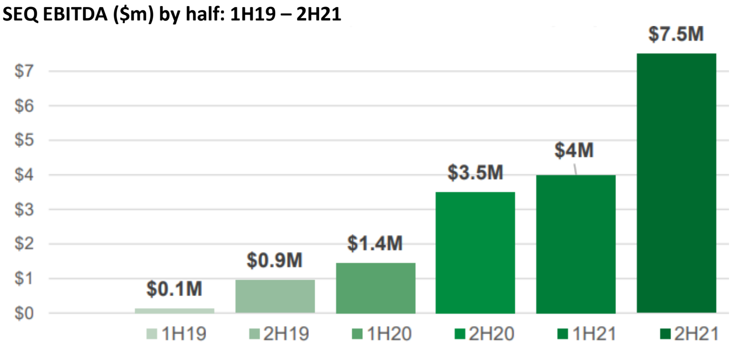
Appendix

Three of our stocks profiled in the DMX Capital Partners monthly report: Sequoia, Joyce Corporation and Easton Investments. And brief notes on three fast-growing businesses: Pureprofile, Janison Education & Ansarada

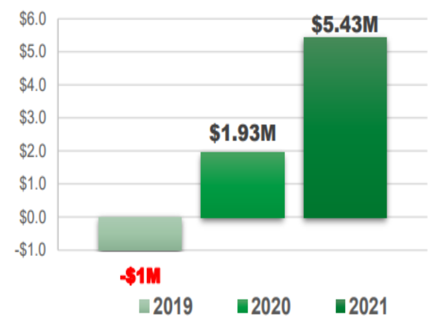
Sequoia Financial Limited (ASX:**SEQ**)

After delivering three profit upgrades during the second half of the year, it was not surprising to see SEQ, which provides a range of financial services, record an impressive full year result. FY21 EBITDA of $11.5m was up 139%, with 2H21 delivering EBITDA of $7.5m. NPAT was up 187% to $5.4m as a result of operating leverage improving margins to 9.9%, (from 5.71%). All four of SEQ's business units delivered strong results, benefiting from management's decision to invest in growth initiatives in earlier years.

SEQ EBITDA ($m) by half: 1H19 – 2H21



SEQ FY NPAT ($m) FY19 – FY21

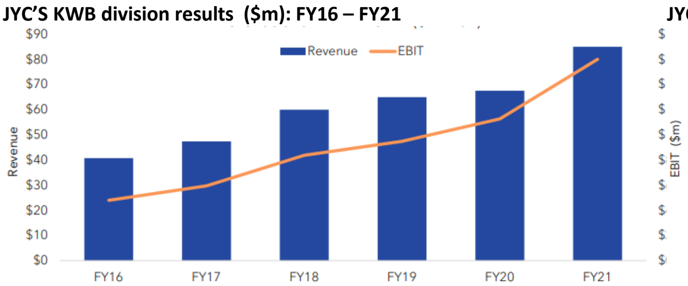


SEQ enters FY22 with very strong momentum across all its business, an aggressive medium/long term growth plan, supported by a number of industry tailwinds. We expect SEQ to increase EBITDA to $15m+ this year, and calculate it to be trading on a modest 10x FY22's NPATA.

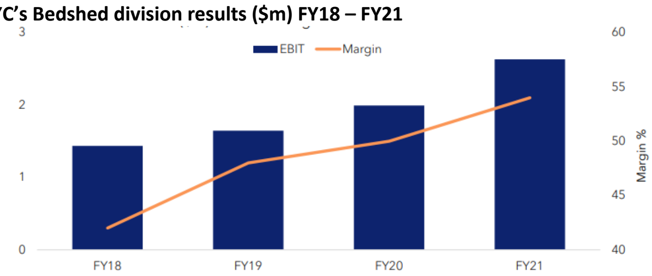
Joyce Corporation (ASX:**JYC**)

Investment company JYC, which has retail and property interests, recorded revenue growth of 30% (to $111m) on the back of elevated consumer demand for its renovation and furniture offerings. EBITDA of $24.3m increased by 46%, while EPS increased by 71% to $0.27 per share. While the share price responded positively to the results announcement, JYC continues to trade on a modest multiple of 12x historical earnings.

JYC'S KWB division results ($m): FY16 – FY21



JYC's Bedshed division results ($m) FY18 – FY21

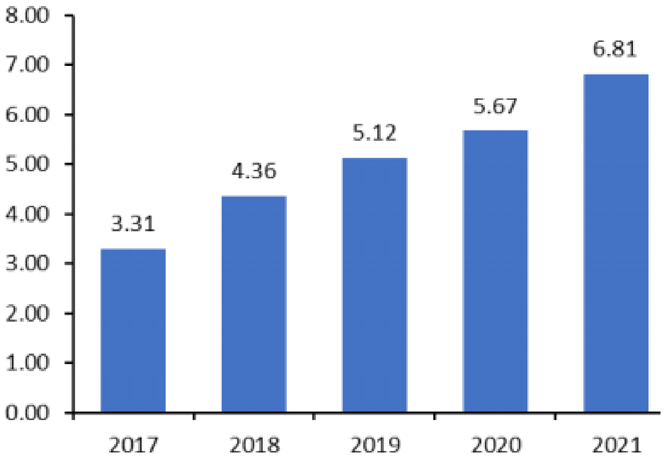


JYC's future growth is underpinned by its store roll-out program, with its profitability very much linked to store numbers across its network – KWB has a strong track record of delivering operating leverage as the business grows in size. Subject to lockdowns ending, we expect the number of stores to again increase meaningfully this year. The balance sheet of JYC continues to be supported by ~$15m of property assets, and a substantial cash balance.

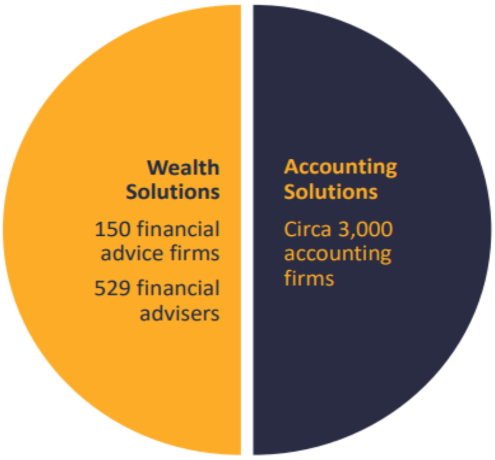
Easton Investments (ASX:**EAS**)

Easton provides a range of services to accountants and financial advisors. It reported another year of profitable growth: Net revenue was up 24% to $27.7m and underlying profit was up 20% to $6.8m. However, it was a messy year of restructuring and divestments. Based on its underlying results, EAS is trading on a PER of ~10x.

EAS Underlying EBITA ($m) FY17 to FY21



EAS provides services to the following customers:



What is perhaps more interesting is how EAS is now positioned following the divestments and restructuring:

- A stronger balance sheet: Net cash at 30 June 2021 of $2.3m compared to net debt of $8.2m at 30 June 2020.
- A new CEO with a growth mandate and who is keen for EAS to be at the forefront of technological change in the industry.
- A new strategic major shareholder: Leading financial technology company, Hub24 (ASX:**HUB**) ($2.2b m/cap), now owns 31.4% of EAS.
- An aggressive growth strategy: An aim to triple net revenues and improve margins to 40% over the next three years.

We look forward to further developments here.

Global growth exposures

While we like attractively priced companies on low multiples, we recognize that those types of opportunities are typically domestic focused businesses and in mature industries which may ultimately limit the long term growth of the business. We are therefore also keen to get exposure to companies with large addressable markets, high margins and global potential in order to provide strong long term growth prospects. If the 'prize' is significant (and realistically achievable), we are happy to look through what may appear to be elevated near term earnings multiples. Plus, it is satisfying backing under the radar Australian success stories that are competing strongly on the world stage.

Names in this basket of exposures that reported encouraging FY21 results include:

- Pureprofile (ASX:**PPL**). PPL sells data and insights to over 700 global clients. FY21 revenues were $30m (up 24%) while FY21 underlying EBITDA was $3.1m, (up 124%). Growth in new markets (particularly in Europe) and existing customer activity has seen a strong start to the new financial year with July revenues up 50% to $3.1m. Europe, Asia and the US represent significant market opportunities for PPL.

- Janison Education (ASX:**JAN**). Digital education assessment company JAN delivered 6m digital exams in 117 countries during the year. FY21 revenue and EBITDA were strong at $30.2m and $3.0m respectively (up 38% and 21%). Platform ARR was $23m (up 75%), which increased JAN's gross profit margin to 55%. JAN's partnership with the OECD continues to provide it with a pipeline of opportunities across multiple countries.

- Ansarada (ASX:**AND**). In its first year as a listed company, AND, which provides a range of digital governance products, delivered revenue of $33.4 million and EBITDA of $5.9 million (+78%). AND (much like JAN and also PPL), having established a market leadership position in Australia, is now focusing on taking its product offering into other regions. With almost half of its revenue now being generated from overseas AND is clearly getting strong traction with this strategy.