DMX Australian Shares Fund
February 2022 – 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 Jan 2022)	**$1.2157**
Unit price (mid) based on NAV (31 Feb 2022)	**$1.1792**
Number of Stocks	48
% cash held - month end	2%

1-month return	-3.00%
3-month return	-5.36%
12-month return	17.92%
Since inception (1 March 2021)	17.92%
Fund size (gross assets)	$11m

Dear Investor,

DMXASF's NAV fell 3.00% (after fees and expenses) against the ASX 200 Total Return Index which rose 2.14% for the month.

Portfolio Commentary

In a continuation of the rout much of the smaller-company segment of the market has been in over the past couple of months, our portfolio again declined with many of our companies falling ~10-20%. Last month we highlighted **CV Check**, **Schrole**, **Raiz**, **Knosys**, **Gentrack** and **Frontier Digital** as having declined by this order of magnitude, and each managed to repeat this decline in February. This month though they were joined by **Corum**, **8Common**, **Janison**, **Xref**, and newly-acquired **EML Payments** and **Nearmap.** As was the case in January, **MMA Offshore** rose (up 19%) as did a small handful of others, helping to mitigate the broader declines.

As highlighted in the DMX Capital Partners report, while the portfolio has sustained some repricing to the downside across many of its components, fundamentals are very attractive. Results and news-flow generally have been positive, with some notable bright spots. The DMXCP report notes **Sequoia**'s 50% increase in NPATA for the half year, and upgrade to full-year guidance. Its stock remains very attractive at less than 10 times cash NPATA and with strong short and long-term prospects for the business. **Earlypay** seems to be in the midst of a multiple-upgrade cycle. The company is clearly harnessing the benefits of technology across its niche finance platforms, with considerable operating leverage being enjoyed. At nine times NPATA and a 6% franked dividend, we believe the market is failing to recognise this great little business.

The DMXCP report includes interesting commentary on a couple very small companies – **Cryosite**, and **DataDot**, which are both also owned by DMXASF (albeit at smaller sizes). This is included as an Appendix to this report.

In terms of DMXASF-specific holdings, we enjoyed positive results, updates, and guidance from a number of holdings including:

- **Michael Hill**, which reported strong sales despite COVID challenges, and improving margins. The company has made great strides over the past 2-3 years with its transformation programme, and is emerging from COVID with a renewed focus on growth, a rock-solid balance sheet (including ~10-15% surplus cash) and an attractive current valuation at just ~10 times current earnings (ex cash). We look forward to a continuation of its current operating momentum, as well as the potential for an appropriate strategic acquisition utilising some of its cash hoard.
- **Frontier Digital Ventures**, which reported a pleasing combination of very strong revenue growth as well as improving profitability. FDV has been on a land-grab exercise the past few years, building out its portfolio of valuable digital assets in fast-growing emerging economies. This has often been done through acquiring partial ownership of assets and partnering with their local operators. As the platform matures, FDV has been consolidating ownership and facilitating more of the auto and property transactions. In this regard, 50% of the revenues are now transactional vs traditional advertising. Its shares are attractively priced relative to global peers, and together with the company's secular growth profile, FDV is an ideal 'bottom drawer' type of set-up for the portfolio.
- **Nearmap**, which reported results and guidance that weren't a negative surprise. Given the negativity, risk, and uncertainty that's been priced into the stock (which has fallen ~60% from its highs to where we now find it quite interesting), we view the lack of negative news as quite a positive. The company isn't experiencing any noticeable impact from litigation it faces in the US with US Annual Contract Revenue increasing 67% and cashflow breakeven

becoming closer. We believe its balance sheet is adequate to reach cash profitability, and as that milestone is achieved the focus should turn very much toward its growth profile and potential to generate strong margins off a much larger revenue base in the future. While not without risk, we believe the upside/downside dynamic from here is favourable.

Portfolio Activity

With whole swaths of the market having sold off considerably; a broad mandate to invest in the most compelling opportunities across the entire smaller market cap spectrum; and not being restricted by the large capital base many other institutions need to manoeuver, we're finding a lot we want to do. This includes adding new prospective and differentiated holdings to the portfolio, as well as add to existing holdings. With nearly 50 holdings and no cash, our focus is very much on finding ways to generate cash within the portfolio. The two logical pathways of course being to trim or to exit holdings. This month we did a little of both, exiting **Shaver Shop**, as well as trimming a couple names to simply generate cash for deployment into more prospective opportunities.

It's not an easy task, but it's important in maintaining focus and order in a portfolio context. Our objective is to own a 30-40 stock portfolio, and we'd ideally like to bring the *actual* number back closer to that range. One dynamic at play is our desire to have 3-5% of the fund invested in each of our favoured holdings. If the top-20 holdings represent, say, 60-70% of the fund, there really isn't room to be owning more than 30-40 stocks in a way that would allow the smaller constituents to have any meaningful impact on performance.

An outcome from this dynamic is that we're preferring existing holdings to potential new names. Is it more value-adding to add "1%" to 2-3 of our favoured holdings, or to add a new, different name to the portfolio? When the portfolio is 20-30 stocks, we think it makes sense to continue to build diversity and breadth. But at 40-50, the preference has clearly moved toward concentrating our focus and capital, and keeping holding numbers manageable.

In Summary

With the portfolio full and no shortage of great ideas, we're focused on ensuring your capital is well invested across a broad – but not *too* broad – range of quality companies that are priced to deliver solid returns in the years ahead. Modest fund inflow together with selective trimming/exiting is providing a little liquidity to augment positions in stand-out opportunities, as well as initiate one or two new positions.

The fund continues to receive top-up investments from a number of investors who are averaging into their investments over time. If you'd like to discuss the portfolio or the potential to invest or add to an existing investment, please contact Michael at any time on michael.haddad@dmxam.com.au or Sydney 02 80697965.

Thanks for your trust and support.

Kind regards

Michael Haddad
Co-Portfolio Manager

Chris Steptoe
Co-Portfolio Manager

Appendix – DMX Capital Partners' Commentary

Datadot Technology Limited (ASX:DDT)

DDT, a supplier of asset identification and authentication solutions, has had a challenging history. However, following the recapitalisation by a new management team in 2019, costs have been cut, and DDT is now consistently recording positive cash flows (for the last five quarters) and positive NPAT. In the 6 months to 31 December 2021, the very high margin royalty revenues received by DDT from its international licensees were $733k, an increase of $258k (54%) from the PCP, which together with lower costs of production (following new management initiatives) drove a 39% increase in gross profit. With expenses increasing only modestly, this large increase in gross profit drove a strong profit result.

DDT's key licensee is DataDot Technology South Africa (DDTSA). In South Africa, every new and imported car is required to be fitted with a microdot for identification purposes – DDT's microdot product is the dominant player in this market, (as well as in the identification and tracking of mining equipment). There is potential to have this South African requirement in relation to vehicles extended to a number of other African counties. DDT has also seen significant growth from the OEM automotive sector for microdot fitment, particularly in Europe, where authorities are trying to combat a growing trade in stolen vehicles between Eastern and Western Europe. DDTSA currently distributes DDT's asset identification solutions to Toyota Europe, where it is approved as a genuine OEM part, and there is potential to win further automotive OEM customers in Europe. In Australia, DDT is progressing growth initiatives to protect and trace stolen bikes and e-bikes in what is becoming an increasingly significant issue.

At the half year, DDT also booked a significant deferred tax asset, with DDT being in the pleasing position of not having to pay company tax on future profits of more than $22m. DDT noted "*considering the positive turnaround in the company's performance…and the expectation of future taxable profits of DDT, it is now appropriate that the unused tax losses be recognised as a deferred tax asset in the books of the Company*."

DMXAM has recently become a substantial (>5%) shareholder in DDT.

Cryosite (ASX:CTE)

Cryosite's key business of clinical trials logistics (temperature-controlled biological storage, destruction, and transport solutions) delivered organic revenue growth for the half of 26% to $4.6m - the sixth half year of consecutive double-digit growth. The growth is on the back of an increasing number of clinical trials taking place in Australia and New Zealand as well as additional service offerings.

FY22 had previously been flagged by CTE to be a higher CAPEX year as the company invests in new facilities ahead of entering a new market - providing global pharmaceutical companies with logistics support for high value, temperature controlled, highly regulated government approved drugs. However, notwithstanding the increased CAPEX, CTE generated free cash for the half of $1.3m. CTE believes that the drug logistics market represents a much larger market opportunity than clinical trial logistics and has the same high barriers to entry, due to government licenses required to operate and specialised infrastructure requirements. As a focused niche services provider, CTE is well placed to compete with the larger logistics firms that struggle to offer the same level of service. We expect this strategic move to broaden its customer base will underpin significant revenue growth for CTE in future years.

DMXAM is a substantial (>5%) shareholder in CTE.