DMX Capital Partners Limited
February 2022 – Investor Update

An investment company managed by:
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DMXCP directors: Roger Collison
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Opening NAV (31 January 2022) (1,2)	**$3.0232**
Closing NAV (28 February 2022) (1,2)	**$2.9345**
Fund size (gross assets)	$25m
% cash held - month end	5%
Gearing	Nil

1-month return	-2.93%
3-month return	-5.03%
12-month return	16.54%
3-year return (CAGR p.a.)	29.36%
Since inception (*6 years & 11 months*) (CAGR p.a.)	21.23%
Since inception (*6 years & 11 months*)	289.69%

*DMXCP Share price = Closing NAV (**$2.9345**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends reinvested and franking credits paid. Since inception 81c of dividends & franking credits have been paid

Dear Shareholder,

DMXCP's NAV declined 2.93% (after all accrued performance and management fees and expenses) for February 2022. The NAV as at 28 February 2022 was **$2.9345** compared to $3.0232 as at 31 January 2022.

February portfolio developments

The negative sentiment towards equities, and tech and small cap names in particular, meant many strong results in our small company investment universe were received without excitement and more average results were often heavily sold down. While the All-Ordinaries Index managed a 1% increase for the month, the ASX Emerging Companies Index (XEC) was down ~4% and the ASX All Technology Index (XTX) was down ~10%. Reflecting this, small tech names in the portfolio continued to be a drag on the portfolio with significant detractors including CV Check (ASX:**CV1**), Knosys (ASX:**KNO**), Raiz Investments (ASX:**RZI**) and Xref (ASX:**XF1**).

However, it was pleasing to see some very strong first half results reported during the month by many of our key positions, particularly against a difficult backdrop of COVID disruptions, supply chain challenges, and wage inflation:

- Diversified financial services company Sequioa (ASX:**SEQ**) delivered a 50% increase in NPATA for the half as well as a small upgrade to its full year guidance and continues to trade under 10x cash profit.

- Small business financier Earlypay (ASX:**EPY**) reported its third upgrade this financial year, with the potential for a further upgrade as this half progresses. Despite this attractive growth profile, EPY continues to trade on 9x NPATA and on a 6% fully franked yield.

- Remedial tutoring business Kip McGrath (ASX:**KME**) produced a strong set of numbers for the first time since the start of COVID - global network revenues were up 16%, while KME generating strong normalized EBITDA growth of 45%. With increasing momentum and its corporate business scaling nicely, KME is on track for a strong second half performance.

During the first half COVID presented operating challenges for many businesses, with disruptions to staffing and supply chains. Wage inflation and notable costs increases were seen in a number of companies reporting across our universe. In relation to our portfolio, Janison (ASX:**JAN**), Maggie Beer (ASX:**MBH**), Laserbond (ASX:**LBL**), Joyce (ASX:**JYC**) all had various COVID related disruptions that took some of the cream off their numbers, but all managed pleasing results in the circumstances.

In relation to disappointments, we saw weaker than expected profit results from RZI and XF1, but we remain confident that the thesis for these names remains strong.

Small companies delivering big results

Some of the most encouraging results this half came from several of our smallest, industrial names, including some that delivered triple digit profit growth. We highlight several of these below – these are all small, under researched, under-the-radar opportunities that have robust balance sheets, generating high levels of free cash, have attractive valuations, good business momentum and strong growth outlooks. Whilst these names are currently small and illiquid, we believe they have the potential to provide significant returns to our portfolio in the future, as they grow and become more widely followed.

	M/cap (28/2/22)	Net Cash	Enterprise Value	HY22 reported NPATA	HY22 NPATA growth on PCP	EV/NPATA Valuation[3]
DataDot (DDT)	$12.5m	$2.7m	$9.8m	$584k[1]	+174%[2]	8.4x
Cryosite (CTE)	$21.1m	$5.3m	$15.8m	$782k	+175%	10.1x
AF Legal Group (AFL)	$30.6m	$5.8m	$24.8m	$936k	+128%	9.4x

1. Excludes profit associated with recognition of $5.8m deferred tax benefit in reported results
2. PCP NPATA adjusted for $120k in one-off COVID benefits
3. Based on annualising underlying HY NPATA

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 shareholder in DDT.

Cryosite (ASX:CTE)

Cryosite's key business of clinical drug 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 drug 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 shareholder in CTE.

AF Legal Group (ASX:AFL)

AFL (Australian Family Lawyers) has now grown its footprint to 17 offices across Australia, making it Australia's largest national family law firm, with a 2% market share. Having doubled its annual revenue run-rate to $20m over the past 12 months (50% revenue CAGR since formation in FY17). AFL continues to target a 10% market share ($100m revenue) within the next three years. EBITDA margins remain strong at 26%.

There were a number of pleasing aspects to these half year numbers: 1) organic revenue growth of 20% 2) pretax operating cash flows of $2.1m (vs EBITDA of $1.8m) 3) a reduced CAPEX spend (from $251k in the PCP to $85k this half) and 4) a clean bridge between reported profit and underlying profit. AFL is delivering strong organic growth as its scale provides increased branding and referrals, while its technology driven client acquisition strategy continues to lead the market. Having successfully refined its acquisition model and built out their back-office infrastructure, AFL also now has the potential to significantly scale its business by way of acquisition, to further strengthen their already dominant market position.

We are a top-10 shareholder in AFL.

A weaker market has given us the opportunity to purchase more of these types of small companies that have compelling growth and value characteristics.

While patience is required, we believe these types of set-ups offer strong potential for attractive returns over time due to the following:

- Operating leverage driving strong profit growth from a low base (i.e., 100% plus NPATA profit growth referenced above);
- Strong cash flows generating cash surpluses which make the operating business (ex-cash component) cheaper over time;
- Low multiples that allow for significant multiple expansion, while suggesting that little growth/success is reflected in the current pricing; and
- Low market caps/enterprise values with limited liquidity that offer plenty of upside as they grow and attract broader investor interest.

We really like how the portfolio is currently positioned with the value and growth on offer. We remain focused on identifying the most interesting and attractively valued, fundamentally strong, not widely known small companies with material upside potential in order to deliver strong long-term portfolio returns.

We look forward to updating you again in April.

Kind regards

Roger Collison
Chairman

Steven McCarthy
Portfolio Manager

Chris Steptoe
Research Analyst

Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gain

Appendix 1: Performance

Monthly DMXCP Net asset value (share-price) returns (after fees) since inception (April 2015) [(3)] (%):

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	All Ords
2015	n/a	n/a	n/a	+0.201	+9.448	+1.104	+6.524	+1.971	+9.711	+0.958	+3.568	+2.470	**+41.62**	**-8.83**
2016	-3.590	+1.323	+2.049	+2.045	+2.143	+0.020	+5.389	+7.056	+2.156	+1.058	+1.520	+0.321	**+23.10**	**+7.01**
2017	+0.885	-0.816	+1.790	-0.741	-1.990	+0.210	+1.071	+1.208	+0.822	+3.494	-0.267	-0.055	**+5.54**	**+7.83**
2018	+0.445	-1.625	+0.008	-1.173	+0.310	-0.211	+1.017	+4.112	+1.604	-3.438	-2.827	-2.257	**-3.66**	**-7.24**
2019	+0.122	-0.010	-1.624	+3.754	+3.014	+0.418	+7.482	-0.889	+3.279	+4.567	+2.997	+0.140	**+25.10**	**+19.02**
2020	+2.33	-8.42	-17.91	+8.521	+4.525	+6.213	+10.09	+8.669	+6.518	+11.10	+7.86	+2.24	**+42.47**	**+0.72**
2 021	+1.02	+3.31	+1.17	+3.20	+1.10	+0.70	+3.96	+2.12	+3.80	+5.51	-0.84	**+0.04**	**+28.06**	**+13.55**
2 022	-2.48%	**-2.934**											**-5.34%**	**-5.86%**

The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (1 April 2015). DMXCP is an absolute return fund, focused on generating positive absolute returns over the medium to long term.