DMX Capital Partners Limited
March 2022 – Investor Update

An investment company managed by:
DMX Asset Management Limited
ACN 169 381 908 AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
DMXCP directors: Roger Collison
Dean Morel
Steven McCarthy

Opening NAV (28 February 2022) [1,2]	**$2.9345**
Closing NAV (31 March 2022) [1,2]	**$2.9190**
Fund size (gross assets)	$25m
% cash held - month end	5%
Gearing	Nil

1-month return	-0.5%
3-month return	-5.8%
12-month return	14.6%
3-year return (CAGR p.a.)	29.8%
Since inception (*7 years*) (CAGR p.a.)	20.9%
Since inception (*7 years*) (cumulative)	276.7%

*DMXCP Share price = Closing NAV (**$2.9190**), 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 0.5% (after all accrued performance and management fees and expenses) for March 2022. The NAV as at 31 March 2022 was **$2.9190** compared to $2.9345 as at 28 February 2022. The ASX Small Industrials was up 2.2% for the month, while the All Ordinaries was up 6.4% reflecting strength amongst resources and larger cap companies.

<u>March portfolio developments</u>

Following half year reporting in February, there was very little news of note across the portfolio in March. Whilst there was a bounce during the month for some of our holdings including Kip McGrath (ASX:**KME**)(+18%) and Xref (ASX:**XF1**)(+22%), several of our tech names continued to be a drag on the portfolio. Significant detractors during the month included Knosys (ASX:**KNO**), Raiz Investments (ASX:**RZI**), Medadvisor (ASX:**MDR**), and Corum (ASX:**COO**) which all fell on reasonably light volume.

Technology stocks generally have de-rated over the past few months, particularly names that are burning large amounts of cash. We have actively avoided stocks with large ongoing cash burns. Of the names mentioned above, COO is profitable, KNO operates at around cashflow breakeven, RZI has a profitable Australian business, but is investing in its Asian opportunities (with pleasing results) and MDR has guided to become cashflow positive in the coming months. We continue to see value in all these companies and look forward to their share prices recovering as sentiment and liquidity improves.

<u>31 March 2022 – DMXCP Portfolio top 10 holdings update</u>

31 March 2022 marked the seven-year anniversary of DMXCP. We're appreciative for the opportunity to be stewards of your hard-won capital. And we are pleased to have built up an enduring investment company that has weathered many significant events over the last seven years, staying true to our process and philosophy.

We detail below an update of our portfolio's 10 largest positions as at 31 March 2022, together with reasons why we like them. Our top 10 positions typically account for 40-50% of our invested capital, so the portfolio is leveraged to the long-term success of these names. As you review these, we hope you come to share our enthusiasm for the breadth, quality, growth and value inherent in this group of businesses. We believe their continued execution together with eventual greater market recognition set the portfolio up very well for the next seven years, and beyond!

Portfolio company	Industry / market cap	Why we like it
Sequoia Financial Group (ASX:**SEQ**)	Service provider to Australian wealth management industry Market cap: $92m	**Strong upgrade cycle following continued earnings growth:** After three profit upgrades in FY21, SEQ delivered another upgrade at its half year results. We expect SEQ will upgrade its earnings again prior to year-end. Cash earnings per share (EPS) has increased from ~2cps in FY20 to ~7cps in FY22. Continued EPS growth will ultimately drive share price growth. **Multiple re-rate:** SEQ trades on less than 10x cash NPAT. We believe this is too low for a company with SEQ's strong track record and growth profile. **M&A activity:** SEQ has $17m cash available for acquisitions. SEQ has previously undertaken smart accretive acquisitions that help to either build out its product suite (services to advisors), or its distribution base (advisors). This cash could potentially fund an additional $3 - $4m in EBITDA (~33% uplift), assuming no share consideration. **Potential sale of asset**: SEQ owns a fast-growing securities clearing business (Morrisons). Market commentary around pricing of comparable business, suggests Morrisons could itself be valued in excess of SEQ's current market capitalization.
Kip McGrath Education Centres (ASX:**KME**)	Global tutoring company Market cap: $67m	**Powerful thematic/ COVID reopening play:** strong demand globally for remedial teaching as both parents and schools look to catch up on the significant disruptions COVID has had on education. **Re-rate opportunity - growth re-emerging:** For the past three years, KME's profit has remained flat, on the back of disruptions to face-to-face lessons, and increased investment in building up KME's corporate (direct) offering. In 1H22, we saw the first signs of growth, with global network revenues up 16%, with KME generating strong normalized EBITDA growth of 45%. Organic revenue growth of 20%+p.a. and margin expansion is achievable by KME over the next several years, which will drive strong increases in EPS. As noted above, EPS growth will drive share price growth. **Expanding global footprint:** Having built up market leading positions in UK and Australia and global network revenues of ~$100m, KME is looking to establish a presence in the United States via its recent acquisition, Tutorfly.
Pure Profile (ASX:**PPL**)	Global data and insights company Market cap: $59m	**Compelling tailwinds:** Data is becoming increasingly important and highly valued. There is an ongoing increase in demand for high quality, accurate and relevant data to assist businesses in strategic and operational planning. **Strong revenue growth ambitions:** PPL is confident of maintaining ~30% ongoing organic revenue growth. Management has medium term aspirations for PPL to be a $100m+ revenue company. Revenue growth will come from continued expansion into offshore markets, building on its success in UK, and more recently Asia. We would expect margins to grow rapidly at scale, driving significant profits and hopefully a much higher share price from here. **Re-rate opportunity - strong turnaround thesis emerging:** New management has been in charge for over 12 months, delivering increasing operating profits over that time. Numerous legacy issues have now been resolved, however PPL remains misunderstood in the market, with its poor history weighing negatively on the stock. Market confidence and interest in the stock should return over time, as PPL continues to execute strongly under new management.

PTB Group (ASX:**PTB**)	Largest global non-OEM aligned maintenance provider for PT6A/T plane engines Market cap: $147m	**Continued earnings growth - two significant drivers:** 1) *Operational improvements in the US:* PTB's US workshop capacity is currently 3x larger than in Australia, yet both countries generate similar levels of profits. With workshop size a reasonable proxy for earnings, significant potential therefore exists to grow earnings out of the US as operational efficiencies are implemented. 2) *New plane leasing deals*: PTB has funding capacity to finance ~20 new plane leasing deals that can generate $0.3m - $0.5m pa margin per deal. **Upgrade cycle:** PTB upgraded its profit outlook prior to announcing its half year results. With its strong business momentum, and a track record of beating guidance, we believe PTB will continue to deliver results ahead of expectations, with the growth generating increased market interest in this very well managed business. Despite a strong share price performance over the past 12 months, PTB trades on a below average market multiple, thus offering attractive value for a well run company which is best of breed in its niche, with a strong global growth profile.
Early Pay (ASX:**EPY**)	Australian small business financier, primarily through invoice discounting. Market cap: $136m	**Continued earnings growth/upgrade cycle:** EPY has already delivered three profit upgrades so far in FY22. Based on its 1H22 result, another upgrade is likely. We expect that this strong earnings growth momentum will continue into FY23. **Operating leverage:** With significant scale and technology platform now built out, we understand each incremental dollar in revenue contributes 70c of profit before tax for EPY, further driving margins and profit. **Inflation beneficiary:** higher inflation equates to higher invoice values purchased by EPY – up to 10% for some customers. **Takeover target**: prior to COVID, EPY received two takeover offers at higher prices that where it is currently trading. In our view, EPY is a much better business today than when the previous offers were made. **Market recognition of technology credentials: T**echnology driven on-line financial platforms typically trade on premium multiples. Two years ago, EPY purchased the Skippr on-line invoice financing business, and has further developed this over the last two years. EPY now owns a market leading online platform that is providing significant market share gains, higher client retention, and lower operating costs. **Multiple re-rate:** EPY trades on less than 9x cash NPAT, and a 7% dividend yield. We believe this is too low for a company with EPY's track record, growth profile and increasing benefits it is seeing from its investment in technology.
AF Legal (ASX:**AFL**)	Australia's largest national family law firm Market cap: $30m	**Business now at scale - operating leverage emerging:** AFL has now grown its footprint to 17 offices across Australia with a 2% market share. Having doubled its annual revenue run-rate to $22m over the past 12 months (50% revenue CAGR since formation in FY17), AFL is now able to more efficiently cover its head office costs. **Large market opportunity:** AFL continues to target a 10% market share ($100m revenue). EBITDA margins are strong at 26%, and will improve with scale, suggesting a medium term EBITDA target of $30m (current EBITDA run-rate is ~$6m & current EV is $26m). **Undemanding multiple:** trading around 10x NPATA, there is plenty of room for a multiple re-rate, given the attractive organic (20% growth) and inorganic growth profile and the size of the potential opportunity.

		M&A Activity: Having successfully refined its acquisition model and built out its back-office infrastructure, AFL also now has the potential to significantly scale its business by way of acquisition, to further strengthen its already dominant market position.
Cryosite (ASX:**CTE**)	Clinical trial logistics (specialised storage and transport). Market cap: $22m	**Supportive underlying thematics:** CTE is benefiting from onshoring of clinical trials as governments increasingly appreciate the importance of drug development from both a political and supply chain perspective. **Continued earnings growth**: after organic growth of 26% in 1H22, future revenue growth is underpinned by CTE's entry into a new, much larger market - providing global pharmaceutical companies with logistics support for high value, temperature controlled, highly regulated government approved drugs. 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. **Recommencement of dividends:** After last paying a dividend in 2017, given its cash position and encouraging outlook, we expect CTE to be in a position to recommence paying dividends this year. This would be positive for the stock. **Potentially significant non-core asset:** CTE is rebuilding its cord blood cell storage business which has the potential to generate significant long term annuity earnings.
Ansarada (ASX:**AND**)	Global deal and compliance software company Market cap: $202m	**Supportive long term structural trends to drive demand for AND's products:** 1) continued high levels of global M&A activity 2) growing investment globally in infrastructure & 3) increasing demands on boards to manage ESG and general compliance. **Growing customer base + increase spend per customer = accelerating revenue**: AND has grown its customer base every year from formation in 2006 (2 customers) to 2021 (3559 customers). Revenue per subscription customer is now also increasing (up 29% year on year) as a result of cross selling and price increases. Revenues from US and Europe were both up ~50% at 31 December 2021. **Re-rate opportunity:** AND emerged on the ASX out of a rather messy back-door listing, which may have impacted the market's perception of the stock. In addition, it is not a typical software stock with easy to model recurring revenues, and there is also a perception that it is heavily tied to the M&A cycle. These factors are potentially impacting pricing of what is a market leading technology business with genuine global potential already generating ~$50m in revenues. We see upside as the market begins to better understand the business and its global opportunity.
Laserbond (ASX:**LBL**)	Laser engineering technology company with global customer base Market cap: $99m	**COVID reopening play:** Opening of international borders should support growth of LBL's international technology and product sales. LBL is working with Austrade to convert a strong pipeline of opportunities in America, India and Asia, and is targeting $60m in revenue in FY25. **Re-rate opportunity: market recognition of technology credentials:** While LBL is sometimes viewed as a low IP mining services/engineering company, it is in fact making strong progress commercializing (very profitably) its high value, innovative material remanufacturing technology. The IP backing this technology, and its credentials, have been built up over the last 20 years. **Supportive ESG trends provide a strong tailwind**: The typical carbon footprint for a LBL remanufactured part is less than 1% of a new part, as well as extending the life of the equipment for between 2 to 20 times of a standard part.

Diverger (ASX:**DVR**) (previously Easton Investments)	Australian wealth and accounting services provider Market cap: $37m	**Strong growth opportunity**: Management has an aggressive target to triple net revenue by FY24 through both organic and inorganic initiatives. **M&A activity** - DVR is well placed to be a key consolidator of the fragmented financial advice industry where increased regulation and conflicted operating models has seen the exit of the major players (banks). **Undemanding multiple:** trading at around 10x NPATA, there is opportunity for a multiple re-rate as DVR's growth profile improves. **Under-appreciated relationship with major shareholder**: HUB24 (ASX:**HUB** m/c: $2.2b) is DVR's largest shareholder, and has strong DVR board representation. HUB is supportive of DVR's growth strategy, and is working closely with DVR to progress various technological initiatives to improve operations and efficiencies of financial advisors and to make DVR the clear technological leader in the space.

As detailed above, we believe there are multiple ways to win from these above names. We think the odds of success from here are in our favour due to:

- The holdings all have proven business models supported by long term structural growth trends;
- Operating leverage is driving margin and profit growth;
- The majority are on low multiples that allow for significant multiple expansion;
- Many holdings are misunderstood by the market, offering re-rate potential as they become better understood;
- All are generating strong cash flows with the surplus cash effectively making the operating business (ex-cash component) cheaper over time; and
- Low market caps/enterprise values with limited liquidity that offer plenty of upside as they grow and attract broader investor interest.

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 May.

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	-2.93	**-0.51**										**-5.84%**	**+0.02**

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.