



DMX Australian Shares Fund

April 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 March 2022)	\$1.1953	1-month return	-5.0%
Unit price (mid) based on NAV (30 April 2022)	\$1.1357	3-month return	-6.6%
Number of Stocks	45	12-month return	10.5%
% cash held - month end	3%	Since inception (1 March 2021, p.a.)	11.5%
Fund size (gross assets)	\$10m	Since inception (cumulative)	13.6%

Dear Investor,

DMXASF's NAV declined 5.0% (after fees and expenses) against the ASX 200 Total Return Index which declined just 1.0% for the month. The broader index held up well, propped by larger and resource companies. Meanwhile, smaller industrial to which we're mainly exposed were weak as reflected in the ASX Small Industrials index down 3.4% for the month.

Portfolio Commentary

Following a weak January-March quarter, April saw the continued broad-based sell-off across the smaller company sector (excluding resources/commodities, which have performed well). Our portfolio has been impacted, in particular from the combination of large holdings falling moderately (**Sequoia** down 7%, and **Pureprofile** down 13%), and mid-sized positions falling significantly (**EML Payments** down 47% on a negative profit downgrade, **Elmo Software** down 28%, and **Joyce Corporation, Janison Education & Nearmap** each falling 17-18%). Despite portfolio holdings declining, a number of these were whilst concurrently providing what we considered to be positive market updates. One example being **Frontier Digital Ventures** which fell another 13% despite its strong update and a very positive longer-term outlook. The continued de-rating to its shares we believe simply reflects the market's discounting of even very high-quality businesses but whose cashflows are longer-dated. Frontier is discussed in greater detail, below.

While most of the portfolio has been marked-down of late, there are bright spots. **Cryosite** rose 28% on no news. The company's shares are fairly illiquid so can move fairly easily in either direction. We expect its continued recent strength is the justified follow-on from prior very positive updates, and associated ratchet of investor expectations for the business. **Credit Clear**, too, rose strongly (up 33%) on the back of a very positive update that highlighted strong progress in its international operations.

The DMX Capital Partners report includes updates on Top 10 holdings **Ansarada, Credit Clear, PTB Group, Pureprofile** and **Sequoia**, as well as on smaller holdings, **Aeeris, Knosys** and **Yellow Brick Road**. All of these are commonly held by DMXASF, and the updates are included as an Appendix to this report.

In terms of DMXASF-specific holdings, updates were mixed. Noteworthy were:

- **EML Payments.** EML suffered a 35% one-day decline (and 47% for the month) on the back of a trading update with FY22 forecasts downgraded. In essence, revenue growth is expected to be lower due to lower establishment fees and higher costs in their European business as it seeks to comply with its regulatory obligations. The update is clearly negative and a re-valuation/re-pricing to the shares warranted. Whether a 30-50% decline is an overshoot remains to be seen. But there are factors that suggest the market may be overreacting. First, there's always a general tendency to overreact to bad news. Second, the news has come during a particular weak period in markets (especially for higher growth businesses). Third, and most alarmingly, the update was made just weeks after the company's Chairman sold stock on-market. There's clearly a bad smell with the latter, but again, we think this may be overdone. Directors are able to buy and sell securities. EML's Chair has been a long-term significant investor in the business. While the \$550k share sale seems large, it was just 3% of his ~\$20m stake, and he has been a slow & consistent seller of some stock over the years and in a fashion we'd consider consistent with prudent personal balance sheet management. As with many things in life, the issue here is timing. And there are genuine questions to be asked around director trading windows, what is known in the boardroom at any point in time, etc. At these marked-down prices EML trades on an attractive earnings multiple, continues to have a strong long-term growth profile, and with its prepayments *float*, will be a substantial beneficiary of higher interest rates.

- **Frontier Digital Ventures.** Frontier's shares continue to slide, falling 13% for the month. But we believe this is a function of negative sentiment toward higher growth and not yet profitable businesses. The company continues to report what we consider to be positive and reassuring results. With significant market opportunities in front of it, a rock-solid balance sheet with nearly \$50m in cash, revenue approaching \$100m, and a 50%+ growth profile, we believe the company has a strong mandate to continue to invest aggressively to augment their winner-takes-all business models in various emerging markets. Digital assets such as marketplaces have proven to be extremely valuable as they mature. Frontier is very well placed with its collection of quality assets across Latin America, Asia, and the Middle East/North Africa. The company's strategy is to consolidate its ownership to 100% where it can, and with the platform now built out, attention has turned to monetisation, including a focus on driving lucrative transaction-based fees in addition to advertising revenue. Frontier is the sort of business that has asymmetrical return potential, and we remain confident in the potential for its shares to contribute meaningfully to the portfolio over time.
- **Michael Hill International.** Michael Hill announced a very positive trading update with same store sales up 5% across its store network. Pleasingly, gross margin continues to improve and it is worth noting that supply chain issues faced by other retailers hasn't been a problem for Michael Hill given the nature of its products. Despite the strong update, its shares fell 5% for the month, giving back some of its prior gains. We believe the company continues to benefit from the combination of product differentiation & pricing power, together with a less aggressive competitive environment. Capital management remains a focus for the group, and we watch with interest how the company might utilise its very strong balance sheet (with, we assess, 10-20% of its market value surplus capital). That balance sheet position is being augmented by the recently announced sale of its Canadian consumer credit book.

Public v. Private Equity Availability

An area we're particularly focused on is some of our interesting smaller software companies that have great core businesses, strong leadership, proven historic execution, significant market opportunities ahead of them, but perhaps where there's an ongoing reliance on equity capital markets to support that growth. Portfolio holdings in this thematic include **Ansarada**, **Janison Education**, and **PropTech**. With PropTech, for example, users of their software rave about the product, and once embedded, costs to switch are high. The company enjoys some pricing power and is carefully taking advantage of that. It's a high-quality small business, but in this capital market environment, the prospects of meaningful additional equity raising in the near-term (at the right price) are slim. Absent further raisings, replicating its Australian-centric model say in the UK would be challenging and growth would need to come organically and at a slower pace. There will remain significant *core* value, but that *extra* value-add through acquisition needs to be discounted. On the other hand, an unsupportive public equity market might prompt interesting businesses such as PropTech to move back into a private environment, either through private equity or seeking to be bought by a strategic acquirer. We see this as both a risk and an opportunity, and potentially a shame if we lose good businesses from the ASX.

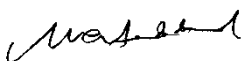
In Summary

While markets are going through a challenging period, and our portfolio hasn't been immune, we're very pleased with the progress our companies are making. The likes of EML Payments disappointing the market reflects a clear ratchet down to our expectations for value, but by and large, the share price declines we've experienced in recent months represent a widening of the perceived gap between prevailing prices and our valuations. Such a dynamic makes the portfolio increasingly prospective, and for us as patient and opportunistic investors we're enthused about the potential to generate meaningful value over the medium to long-term.

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
Portfolio Manager



Chris Steptoe
Research Analyst

Appendix – DMXCP updates on companies commonly held by DMXASF

Updates on companies in both DMXCP & DMXASF's Top 10:

- PTB Group (ASX:PTB) – we noted in last month's update that PTB was in a profit upgrade cycle and believed it would continue to deliver results ahead of expectations. During April, PTB delivered another material profit upgrade, with full year EBITDA (before FX) expected to be in the range of \$21m to \$22m, implying a 2H22 result 24% to 35% ahead of last year. The strong result was driven principally by the two areas we have previously discussed: improved operational efficiencies out of the US, and increasing traction in PTB's leasing operations.

FY23 comments: As we look ahead to FY23, PTB noted that "further operational improvements to capability and capacity are planned to be implemented across the Group which augur well for FY23 and beyond." "PTB's US operations are expected to continue to grow, as the expansion strategies of increased capacity, new products and new services continue to be successfully implemented."

- Sequoia Financial Group (ASX:SEQ) was another business that we had noted last month was in a profit upgrade cycle following sustained earnings growth in recent years. During the month, SEQ [confirmed](#) it was confident it will exceed the revenue and cash profit forecasts given at its AGM. SEQ is currently generating \$1.25m free cash per month and expects to generate \$13m in cash (pre-tax) earnings for FY22 (up from its \$12m AGM guidance). The SEQ model of distributing a range of value-add products and services through its network of aligned and independent advisers and accountants is becoming increasingly relevant.

FY23 comments: SEQ noted the strong tailwinds supporting its growth: an aging population, a large reduction in number of licensed advisors and an upcoming intergenerational transfer of wealth of \$3.5trillion from baby boomers to millennials, that will require significant professional support and ancillary services (legal, insurance, documents, broking etc.) that SEQ is able to provide.

- Ansarada (ASX:AND) In our update last month we wrote that supportive long term structural trends were driving demand for AND's products, and that its growing customer base and an increasing spend per customer was leading to accelerating revenue. In 3Q22, AND delivered another strong quarter with a 41% increase in pro forma customer numbers compared to 3Q21, with total customer numbers reaching 4,525. In addition to the customer growth, ARPA has increased from \$1,408 in 2Q22 to \$1,661 in 3Q22 and is up 65% YoY.

FY23 comments: AND noted that its "record customers and ARPA, coupled with strong pipeline of new customer wins, supports a positive 4Q22 outlook and momentum into FY23". Deferred revenue contracted was \$16.5m at 31 March 2022, with the majority of this balance to be recognised over 4Q22 and FY23, which AND believe "increases the visibility on continued strong financial performance".

- Pure Profile (ASX:PPL) - In our March update we commented that PPL is confident of maintaining ~30% ongoing organic revenue growth and that a strong turnaround thesis emerging. In early May, PPL advised they had achieved 40% revenue growth for the third quarter, and 43% revenue growth for the year to date. Revenues outside of Australia have grown at +50%. With each quarter of execution, we gain increasing confidence in relation to the turnaround here, and Management's ability to identify profitable new growth opportunities for the business.

FY23 comments: With a number of new partnerships in Europe and Asia coming online, and building out of sales and management teams to support those geographies, PPL has said that they "see continued growth in these regions over the remainder of FY22 and into FY23." Importantly, PPL have said they "remain focused on retaining the right balance between investment and improving our operating margin. This will allow us to keep growing our operating cash flow."

- Credit Clear (ASX:CCR)– CCR is at the forefront of bringing technology and digital solutions to the debt collections industry offering a hybrid collection service offering (digital supported by traditional). After we acquired a position in its capital raise in December, CCR became a top 10 portfolio position during the month, following a strong share price rise on the back of two significant announcements. 1) confirmation of the commencement of an offshore collections partnership with Techub for Techub's USD1b book (for context at December 2021, the entire CCR collection book was ~\$0.5b). CCR said the cumulative total of the Techub clients migrated to the platform is expected to represent a material increase in its revenues in the next 12 months,

and 2) a strong trading update with annualized revenue now at \$35m+ (before the inclusion of any Techub revenue), a pleasing upgrade from its previous guidance of \$30m+ at December 2021.

FY23 comments: CCR is on track to be cashflow positive for FY23, while industry tailwinds are supporting the company to disrupt its market (\$2.5b TAM) and gain market share.

Additional Updates on companies outside the Fund's Top 10:

- Yellow Brick Road (ASX:**YBR**) continued to grow its loan book to \$57b and transact large settlement volumes (up 62% to \$5.4b), however it delivered a modestly negative cash outflow for the quarter. Over the last 12 months, the YBR broker network has settled over \$20b of home loans. In February, the sale of competitor Finsure to MA Financial/Moelis was completed. MA Financial was attracted to the substantial Finsure mortgage broker network – a powerful loan distribution channel which settled \$22b of loans in FY21, and had a loan book of \$56b (i.e. metrics very similar to YBR's broker platform). YBR's share price was down 16% for the month and it has a current enterprise value of \$25m - Finsure was sold for \$145m.
- Knosys (ASX:**KNO**) After strong ARR growth in the previous quarter, KNO delivered a disappointing flat ARR result in 3Q22. There was also no progress reported on some of the potential significant enterprise wins that KNO has been targeting for some time. In relation to its outlook, KNO commented that it expects to see increased operating leverage moving forward, as revenue accelerates faster than its cost base – we will be monitoring this closely to ensure Management delivers on this statement.
- Aeris (ASX:**AER**) reported an operationally busy quarter during the East Coast floods, as it provided councils with 24/7 rainfall and flood monitoring and its rail customers with in depth forecasts allowing for rail preparation and removing the risk of derailments. AER's alerting system was used by major water organisations to provide critical water and dam release information. AER's ARR has increased from \$1.6m at the start of FY22, to \$2.2m, with a further \$1m ARR in its pipeline. With its low cost base, and very low churn, conversion of around half of that pipeline should see AER comfortably profitable.

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