



DMX Capital Partners Limited

April 2022 – Investor Update

An investment company managed by:
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Opening NAV (31 March 2022)^(1,2)	\$2.9190	1-month return	-2.0%
Closing NAV (30 April 2022)^(1,2)	\$2.8592	3-month return	-5.4%
Fund size (gross assets)	\$24m	12-month return	9.9%
% cash held - month end	4%	3-year return (CAGR p.a.)	27.4%
Gearing	Nil	Since inception (7 years 1 month) (CAGR p.a.)	20.3%
		Since inception (7 years 1 month) (cumulative)	269.4%

*DMXCP Share price = Closing NAV (\$2.8592), 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 2.0% (after all accrued performance and management fees and expenses) for April 2022. The NAV as at 30 April 2022 was **\$2.8592** compared to \$2.9190 as at 31 March 2022. The ASX Small Industrials was down 3.4% for the month, while the All Ordinaries was down 0.8%

April portfolio developments

April again saw the continuation of the broad selling of small industrial names, with the Small Industrials Index now having fallen ~12% since the start of 2022. The largest negative contributors during the month came from Joyce Corp (ASX:JYC) (down 18% on no news, and now trading on less than 10x PE, a 7% yield and a pristine balance sheet) and technology names Xref (ASX:XF1) (down 23%) and PropTech (ASX:PTG) (down 24%). Both PTG and XF1 reported solid quarterly updates with strong growth, positive cash flows and encouraging progress and outlooks, but were caught up in the broader sector sell off.

Pleasingly, there were some positive contributions from Cryosite (ASX:CTE) up 28% on no news, while Credit Clear (ASX:CCR) (a technology name) was up 33% following some encouraging news flow which we discuss below. This highlights that despite broad negative sector sentiment, there continues to be market interest in selected opportunities.

As detailed below, we continue to see strong operational execution by our companies. Whilst this is not currently being reflected in share price performances, we are confident that our portfolio of small companies is continuing to grow stronger and more valuable. In due course, we would expect portfolio share prices to reflect this.

Trading updates: top 10 positions

In our March update, we set out our portfolio's 10 largest positions as at 31 March 2022, together with reasons why we liked them and what we considered to be drivers of their continued strong operating growth and performance. A number of these positions have recently provided encouraging updates in line with our expectations and thesis. Some of these companies have also provided initial positive commentary in relation to their FY23 outlooks, which gives us confidence as to how the portfolio is positioned over the next 12 months and longer.

- 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.

There were no updates during the month from our other top 10 positions.

Quarterly updates: other positions

Outside of our top 10 positions, there was a mixture of encouraging news, and also some slightly slower progress than we would have hoped for some names, reflecting challenging operating conditions in the quarter. We discuss below some of our positions that are required to release quarterly 4c reports:

- 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.
- Aeeris (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.

As detailed above, we continue to see our companies perform well, executing as we would hope and in some cases better than expected. The result of this pleasing execution and share price falls (often on low volume) means that many holdings now represent outstanding value, and we continue to selectively add to positions. We are patient investors and are happy to sit comfortably through this bout of small cap selling, confident it will eventually pass and market interest will return, as it inevitably does.

We look forward to updating you again in June.

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

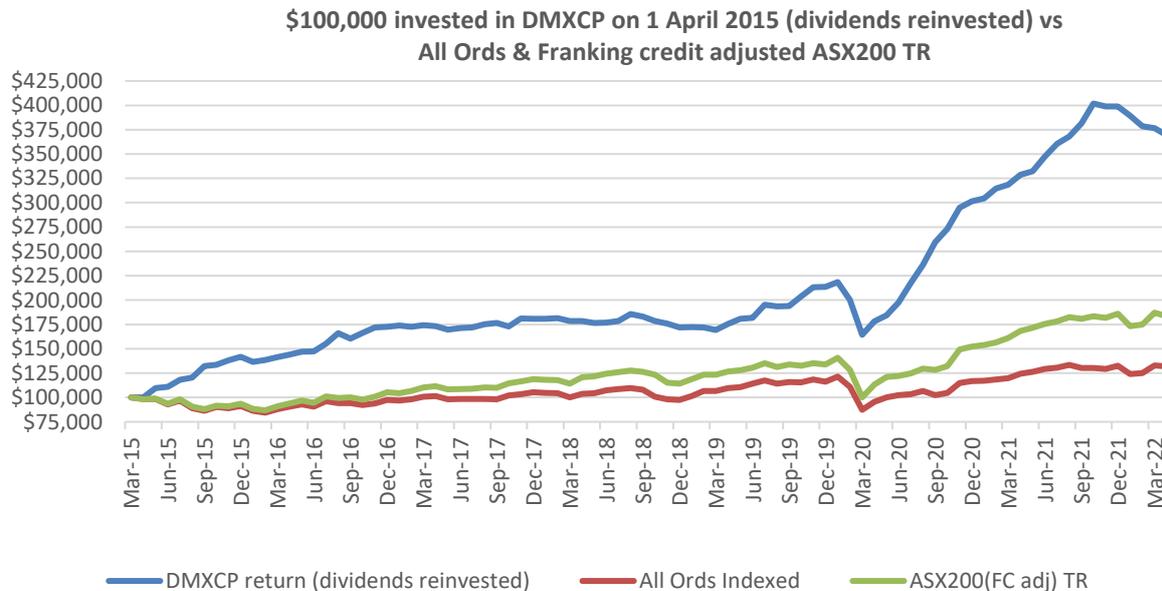
Note 4: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gain

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
2021	+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
2022	-2.48	-2.93	-0.51	-2.04									-7.77%	-0.71

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.



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