



DMX Capital Partners Limited

June 2022 – Investor Update

An investment company managed by:
DMX Asset Management Limited
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 DMXCP directors: Roger Collison
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Opening NAV (31 May 2022) ^(1,2)	\$2.7008	1-month return	-10.6%
Closing NAV (30 June 2022) ^(1,2)	\$2.4132	3-month return	-17.3%
Fund size (gross assets)	\$21m	12-month return	-8.7%
% cash held - month end	5%	3-year return (CAGR p.a.)	19.5%
Gearing	Nil	Since inception (7 years 3 month) (CAGR p.a.)	17.1%
		Since inception (7 years 3 month) (cumulative)	215%

*DMXCP Share price = Closing NAV (\$2.4132), 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 10.6% (after all accrued performance and management fees and expenses) for June 2022. The NAV as at 30 June 2022 was **\$2.4132** compared to \$2.7008 as at 31 May 2022. The ASX had its worst month since March 2020, with the All Ordinaries declining 9.5% during June. Smaller companies fared even worse, with the Small Ordinaries falling 13.4% and the Emerging Companies Index down 18.6%.

This month's fall brings the return for DMXCP for the 12 months to 30 June 2022 to a decline of 8.7%.

The performance of the fund and markets in general, has been weak over the last few months, with June being the most extreme. While we as a team see this volatility as part of the investing journey, we appreciate it may be disconcerting for some investors. It is therefore particularly pleasing that our investor base has been strongly supportive through this period. Our investors proved very resilient during the COVID turmoil of early 2020, and it is pleasing to see this continue. Not only have there been no withdrawals during the month, but we have had a large number of our investors take the opportunity to increase their investments.

During the month we emailed investors to forewarn of the expectation of the continued NAV decline as the market was falling, and to set out how we are thinking about the market decline. Importantly, we emphasised that as investors ourselves we are excited about what we see, and that we were adding to our own holdings in the fund this month. On the back of this, we received many supportive messages, as well as what's turned out to be the largest number of top-ups by far from investors that we have experienced since we commenced over seven years ago. This was well beyond our expectations, and we think really highlights the quality and the long-term orientation of our investor base. Across our business, all DMXCP directors and all investment team members added to their investments across our funds.

We are very grateful for your support in these somewhat uncertain times. With you, our investor base, as strong partners, we are able to continue to successfully execute on our investment strategy. We are able to invest with confidence in portfolio companies that can quite often be illiquid small companies that require a long-term investment horizon. Having the ability to take a long-term approach to investing your capital is important to us, and more importantly, we believe provides our investors with the strongest returns. Thank you for your confidence in us.

June portfolio developments

Despite the large fall across the portfolio, no single stock contributed more than 0.8% towards the 10.6% portfolio decline. This highlights the broad-based selling of small companies during the month as the Emerging Companies Index fell over 18%, with most of our portfolio holdings down between 5% and 35%. The largest detractors during June were Diverger (ASX:**DVR**), DDH Group (ASX:**DDH**), Credit Clear (ASX:**CCR**) and Pureprofile (ASX:**PPL**). During the month, we continued to recycle proceeds from the selling of some smaller positions to take advantage of what we considered to be some particularly oversold opportunities that we saw during the month, increasing our positions in various companies including DDH, PropTech (ASX:**PTG**) and 8Common (ASX:**8CO**).

While many of the portfolio's constituents have been marked down considerably in the recent market rout, we continue to be confident in their prospects and in particular note the following:

- There was limited newsflow during the month, so falls were generally market driven. As we discuss below, updates released by portfolio holdings during June were actually quite positive, and, more importantly, FY23 outlooks were also encouraging.
- Many of the falls were on very light volume. We have significant positions in many companies with low enterprise values and low liquidity that would be impossible to replicate by buying today at current price levels. As interest returns and the market re-focuses on fundamentals rather than sentiment, these companies could recover strongly off their current low bases.
- The portfolio remains nicely balanced, with our core positions offering strong value and growth characteristics. We believe there is inherent and potentially significant upside from beaten up small technology stocks and small companies that have been hit hard by tax loss selling, low liquidity, and poor sentiment, but continue to perform well operationally.

Positive newsflow continues

During the month, there were four key portfolio holdings that provided FY22 profit commentary – we discuss these below. Perhaps more importantly, in an environment where uncertainty exists in relation to the year ahead, we continue to see positive commentary in relation to company growth outlooks, suggesting solid growth is expected to continue into the new financial year.

- Kip McGrath (ASX:**KME**)

Children's tutoring provider, KME released a full-year update. After two years of flat profits, and COVID disruptions, KME announced a return to growth, with FY22 revenue up 25% to ~\$24m, while FY22 underlying EBITDA of ~\$6m is up 28%. Revenue growth was driven by strong demand in the UK and the US markets, with Australasia still restrained by COVID impacts.

The outlook statement for KME was positive: *"The business continues to see growth across all geographies, with demand expected to return to pre-pandemic levels across all regions over the coming year"*.

With the recent signing of a new contract in the Middle East with expected \$0.7m in annual earnings, continued rollout of corporate centres, and a return to pre-pandemic conditions augers well for strong growth in FY23.

- Credit Clear (ASX:**CCR**)

Digital focused debt collector CCR had a particularly busy month, completing a capital raise and reporting some significant operating momentum, announcing 80+ new client wins from February to May. After being loss making since its IPO in 2020, CCR reported it had achieved operational profitability for the first time in May. The key part of the thesis here is that as CCR adds more digital volume, the higher gross margins (80%, as opposed to <50% for traditional collection methods) leads to improved profitability – it is pleasing to see this play out. The challenge for CCR is now to scale up the volume of its existing client base, on-board the large backlogs of new wins, and convert its promising pipeline (including a major bank with a \$2b book which would see CCR generate very significant margin).

CCR was another company confident with its stated outlook *"With a strong cash balance and an increasingly supportive economic environment Credit Clear is positioned to deliver strong growth across every business unit in FY2023"*

- PeopleIn (ASX:PPE)

Staffing contractor PPE confirmed its FY22 guidance during June, as well as announcing a compelling acquisition of a staffing business focused on the onshoring and employment at scale of workers from the Pacific Islands. This will assist in addressing critical labour shortages in rural and regional Australia in the food and agricultural sectors. Having previously owned PPE, we took the opportunity to buy back in to the company during the month when it was sold down to trade on <7x FY23 PE.

The tailwinds and growth outlook here are strong and should offset any potential future economic headwinds: PPE is a beneficiary of wage inflation (with the bulk of its workforce to benefit from recent Fair Work Commission minimum wage award increases) while the employment market remains robust. In addition, with around one-third of the business in healthcare, PPE should benefit from increased healthcare spend expected following the change in government.

- Readytech (ASX:RDY)

Diversified Australian software company RDY announced a small tuck-in acquisition, but also reconfirmed guidance (albeit a wide range). RDY expects FY22 organic revenue growth in the mid-teens, together with EBITDA margins of 36% to 38% - highlighting RDY's very compelling fundamentals as a high-quality, very profitable SAAS business.

The medium-term outlook continues to also look positive for RDY with it re-affirming its FY26 organic revenue target of over \$140 million. With FY22 revenues of ~\$75m, this implies annual organic revenue growth of more than 17% over the next four years.

We considered each of these updates as positive. All four are profitable, market leading businesses providing valuable services (KME: improving children's education levels, CCR: setting a new standard in debt collection, PPE: labour market solutions in a low unemployment environment, RDY: business efficiencies particularly in the education and local government sectors). For all four of these companies, we remain bullish on the growth opportunities in front of them, notwithstanding potentially more challenging economic conditions ahead.

How we are thinking about the new financial year

While there is uncertainty around the economic outlook, and much doom and gloom from the media, we do note the strong fundamentals of the Australian economy: unemployment is at record lows, household savings are still at high levels from COVID stimulus, while inflationary pressure is expected to peak, then hopefully ease, in the months ahead. Whilst cost of living pressures are real, and further interest rates are likely to continue to impact confidence, we believe there will still be opportunities for well-run companies to prosper and grow and build value.

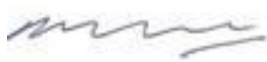
We want to own smaller listed businesses with good growth prospects and strong and resilient business models that are likely to continue to grow over time into much larger businesses. Whilst the four holdings mentioned above (RDY, PPE, KME & CCR) are just a sample of the many attractive companies we own in the portfolio, we expect the bulk of our portfolio to also continue with similar positive growth trajectories into FY23 and beyond. This revenue growth should continue to generate margin growth, profit growth, cash flow growth and as a result, drive value uplifts to our portfolio over time.

As mentioned last month, long-term success in investing is correlated with patience, discipline, and consistency – not picking short-term tops and bottoms. We will continue to stick to our knitting.

To all our investors, we thank you again for your support. We are absolutely focused on adding value over time through our unique portfolio of compelling smaller company opportunities.

We look forward to updating you again in August.

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

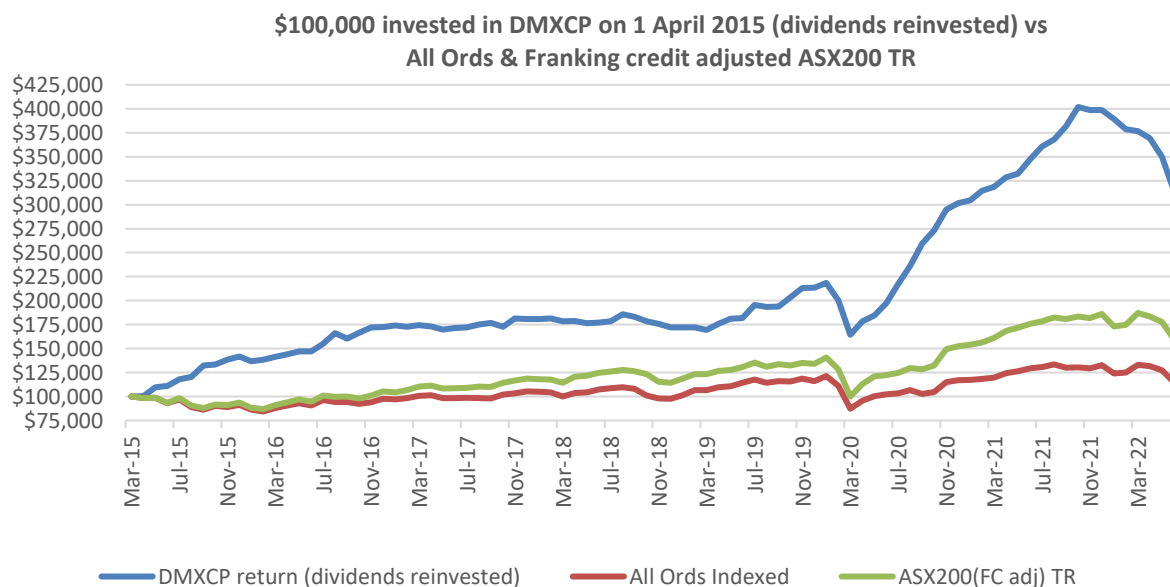
Note 4: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gain

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	-5.50	-10.64							-22.1%	-13.27%

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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