DMX Australian Shares Fund
August 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 July 2022)	**$1.0087**
Unit price (mid) based on NAV (31 August 2022)	**$1.0396**
Number of Stocks	47
% cash held - month end	0%
Fund size (gross assets)	$10m

1-month return	3.1%
3-month return#	1.3%
12-month return#	-4.3%
Since inception (1 March 2021, p.a.) #	5.8%
Since inception (cumulative)	8.8%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 3.1% (after fees and expenses) for the month of August. The broader market was softer this month following a strong July, as investors awaited full year company results as well as guidance for the year ahead. The broad-based ASX 200 Total Return Index rose 1.2% for the month, while the ASX Small Ordinaries was flat at up 0.3%.

Portfolio Commentary

Full-year reporting and year-ahead guidance drove a mixed bag across our portfolio, with movements in both directions cancelling each other out. The market was underwhelmed with results from **Academies Australia** and **Kip McGrath** (though we thought each was 'fine'), seeing their shares fall 13-14% each. **AFT Pharmaceuticals** fell 14% as it continues to face FDA hurdles for its Maxigesic product in the valuable US market. On the other hand, **Laserbond** rose 22% on strong results and the increasing sense that following COVID-disruptions, meaningful growth lays ahead. And domestic retailers **Joyce Corporation** and **Michael Hill** rising 17% and 8% respectively as each reported strong results. Each are evidently maintaining that momentum into FY23 despite perceived inflationary and consumer demand challenges, and each remains very attractively priced relative to their quality, cash earnings power, and high-return growth potential.

With most stocks wiggling around and cancelling each other out, returns for the month were effectively driven by takeover offers for each of **PTB Group** (up 36% on the offer) and **Nearmap** (up 50%). Conceptually, we view takeovers as something of a sugar hit. They can feel good in the short-term, but don't really help in the long-term. Each of these offers have been met by Board support, and we don't perceive a high likelihood of competing offers for either. Neither has a large blocking holder who could de-rail or extract a higher price. Our base case expectation is that each transaction is completed at the price offered. And if we're to think in terms of where offers may be improved, we'd think there's a small but decent chance of institutional shareholders banding together and extracting a modestly higher price for Nearmap. And of course, there's always the risk that one or both deals fail. With over 9% of the fund exposed to the duo at month-end (and 0% cash in the portfolio), we're now utilising these positions for portfolio liquidity, having sold around half of our exposure here since month-end.

Proceeds from trimming PTB Group and Nearmap are being used to add to other highly prospective existing and new holdings.

FY23 Outlooks

As investors we're very focused on the longer-term opportunities and prospects for our companies. The August full-year reporting cycle is particularly interesting though, where we receive not only finalised accounts for the year just been, but also interesting commentary on current operating momentum and corporate outlooks for the period ahead. On the back of this reporting cycle, the DMX Capital Partners monthly report includes a detailed summary of results and outlooks for its top 10 holdings. These are all held by DMX Australian Shares Fund (with about half of them in the DMXASF top 10). The commentary is included as an Appendix to this report, and a careful review is encouraged to have a sense for the value and continued positive momentum enjoyed across key portfolio holdings.

In addition to the DMXCP commentary, results and outlooks for DMXASF-specific holdings were interesting. **FSA Group** continues to struggle with its Services business declining and now, its Finance book (including consumer finance, asset finance and home loans) also declining. All segments have been challenged, and this looks set to continue in the short-term. Still, at 7-8 times earnings and with a pristine balance sheet, the market isn't pricing in anything heroic in terms of business performance. The challenges it faces though are an interesting barometer for segments of the economy.

Michael Hill on the other hand reported strong reports for the year completed, and pleasingly continued strong momentum through July/August. We believe this coming Christmas trading period will be particularly interesting as the impacts of rising interest rates flow through to consumer sentiment. Nothing to date suggests any meaningful impact for the company. At around 9-10 times earnings and with surplus cash on the balance sheet which will be used to fund growth as well as buy back stock (under a recently announced buy-back plan), the shares remain an attractive value.

Nearmap reported in-line with expectations, but its outlook is looking increasingly positive (or less negative?). The company is very near an inflection point with cash burn expected to fall materially in the period ahead, and cashflow positivity guided for in the following year. Nearmap is a good example of what we highlighted a few months back as a key risk we now have to contend with with high-growth and cash-consumptive businesses very much falling out of favour. Nearmap had fallen from in excess of $3 per share a couple years back to around $1 recently. The market has lost patience with these companies that spend to grow and require additional capital. And now the risk we face is that 'private equity' with their long-term orientation and ample capital come along and cherry pick the best companies. In this case, Nearmap has agreed to be sold for $2.10 per share. A nice short-term bump for us, and we'll utilise the proceeds for other attractive opportunities. So, 'ok' in a sense. But the reason why we invest in these sorts of companies is for the long-term multibag potential they have. Of course, they won't always work out. But if the upside is 5-10X one's investment, you can have some that are disastrous, some that work 'ok', some that are exceptional, and overall do quite well. That outcome becomes compromised though when the opportunity set is picked over by private equity and the best companies taken out.

<u>In Summary</u>

On the whole, a pleasing reporting season with our companies performing well in a challenging inflationary and rising interest rate environment. Takeover activity has helped short-term performance, but remove highly interesting and prospective businesses from our opportunity set. Fortunately, we're experiencing no shortage of opportunities, with many companies across our portfolio, and a steady stream of new potential holdings, representing excellent value.

If you'd like to discuss the portfolio or the potential to invest or add to an existing investment, please contact Michael any time at michael.haddad@dmxam.com.au or 02 80697965.

Thanks for your trust and support.

Kind regards

Michael Haddad
Portfolio Manager

Chris Steptoe
Research Analyst

Appendix – DMXCP Top 10 Stock Updates & Outlooks

The DMXCP report contained updates and outlooks on its top 10 holdings. All of these are also owned by DMXASF, with five within DMXASF's top 10:

Portfolio company	**Industry / market cap**	**FY22 Results summary and outlook comments**
PTB Group (ASX:**PTB**)	Largest global non-OEM aligned maintenance provider for PT6A/T plane engines Market cap: $200m	**How it reported**: Revenue +47%, NPBT +56%. Another strong result from PTB driven by increased success from its US operations and its emerging leasing division. Prior to reporting, PTB received a takeover offer from a PE backed competitor. **Valuation comment:** The implied acquisition multiple of less than 15x NPATA seems on the low side given its growth profile, and it is disappointing to see a company of PTB's potential leave the ASX – but we acknowledge Management's efforts over many years in building this business into its current strong position.
Sequoia Financial Group (ASX:**SEQ**)	Service provider to Australian wealth management industry Market cap: $78m	**How it reported**: Revenue +26%, EBITDA+7%, NPAT +3%. A strong topline result, with normalised EBITDA +25%, and pre-tax operating cash flows of ~$15m (SEQ's EV at month end was ~$60m) **Outlook:** We expect SEQ to continue to benefit from favourable industry tailwinds, while FY23 will also see the addition of an expected $1m in EBITDA from the Informed Investor acquisition that completed in June. **Valuation:** SEQ trades on less than **5x pre-tax cashflows**. We believe this is too low for a company with SEQ's strong track record and growth profile.
Kip McGrath Education Centres (ASX:**KME**)	Global tutoring company Market cap: $49m	**How it reported**: Revenue +28%, EBITDA+21%, NPAT +8% - a return to growth for KME after two years of COVID disruptions to face to face teaching. **Outlook**: There are a number of drivers of a strong FY23 result for KME, including increased corporate centre earnings, a number of government tuition contracts that KME have secured, and continued demand post COVID for remedial tutoring. **Valuation:** FY23 EBITDA growth will be strong, potentially increasing from ~$6m to ~$9m, which would result in a doubling of EPS, placing KME on a low double digit PE. We consider this undemanding for a leading global business with network turnover in excess of $100m and where ongoing growth of 15% expected.
Pure Profile (ASX:**PPL**)	Global data and insights company Market cap: $47m	**How it reported**: Revenue +39%, EBITDA +28%, NPAT loss - another strong year of organic growth as PPL's turnaround thesis strengthens. **Outlook:** PPL has guided for further strong organic revenue growth (we expect ~25%) and EBITDA margins of ~10%, as it continues to invest in building out its UK and US business, suggesting EBITDA growth of 25% (~$5m). **Valuation:** We are backing management to continue the progress they have made over the last two years to deliver a meaningful NPAT in FY24 and beyond, as they build out a fast growing, high margin, growing global business. The current valuation reflects some of that 'potential', though at less than 10x FY23 EBITDA, it is not excessive.
Cryosite (ASX:**CTE**)	Clinical trial logistics (specialised storage and transport). Market cap: $35m	**How it reported**: Revenue up 17% to $11.7m and NPAT up 109% to $1.4m on the back of strong operating leverage. Dividend reinstated. **Outlook:** Reinstatement of a dividend is evidence of the Board's confidence in sustainable growth, as it expands its secure logistics business into adjacent markets. **Valuation:** CTE trades on a mid-teen forward NPAT, with continued operating leverage expected and industry tailwinds, with $5m cash on hand and unrecognized value in its cord blood storage book.

Early Pay (ASX:**EPY**)	Australian small business financier, primarily through invoice discounting. Market cap: $136m	**How it reported**: Revenue up 23% and NPATA up 67%. **Outlook** - Invoice Finance transaction volume (TTV) in July 2022 suggests EPY is commencing FY23 with a TTV run rate up 17% on FY22, before any organic growth in FY23. **Valuation:** EPY trades on less than **9x FY23 PE** despite a long track record of strong EPS growth.
DDH1 Group (ASX:**DDH**)	Australia's largest mining driller Market cap: $355m	**How it reported**: Revenue +14%, EBITDA+10% - a strong performance given COVID related challenges, highlighting the resilience of the business. **Outlook**: Continued organic growth through fleet growth and improving utilisation and margins as they put some of their COVID challenges (border closures, staff availability) behind them. **Valuation:** DDH trades on less than **6x FY23 PE** despite its attractive growth profile, a strong balance sheet, and a market leading position.
Laserbond (ASX:**LBL**)	Laser engineering technology company with global customer base Market cap: $99m	**How it reported**: Revenue +25%, EBITDA+36%, NPAT +28% - a strong performance given continued COVID challenges, highlighting the resilience of the business. **Outlook:** LBL will have a strong FY23, with an expanded domestic footprint, and up to four technology offshore licensing deals expected (vs one in FY22). **Valuation:** With FY23 EBITDA expected to increase to over $11m, LBL is on a mid teens PE multiple - compelling for a profitable Australian engineering technology story with a strong ESG offering and a large global (both technology and own product) opportunity.
Diverger (ASX:**DVR**)	Australian wealth and accounting services provider Market cap: $37m	**How it reported**:: Revenue +9%, EBITA+18%, NPAT +26% - a strong performance as DVR's wealth business scales. **Outlook:** with 92% recurring revenue and strong industry tailwinds another year of solid growth is expected for DVR, with organic revenue growth of low teens expected. **Valuation:** DVR trades on less than **9x FY23 PE** despite a long track record of strong EPS growth and a high quality recurring revenue base.
Credit Clear (ASX:**CCR**)	Technology focused debt collector Market cap: $141m	**How it reported**: Revenue +95%, EBITDA loss for the year, although a significant turnaround from previous years as CCR transforms under new management. **Outlook:** CCR commented that its revenue growth, and in particular its higher margin digital revenue, has accelerated into FY23 with its existing customers referring more business and significant new client wins that have added material new volume. Management referenced operating leverage emerging and strong business momentum. **Valuation:** CCR has just turned EBIT profitable, and is well positioned to deliver a (small) maiden NPATA result this year. While not cheap on near term metrics, the trajectory here is positive, strong operating leverage is emerging, tailwinds are incredibly supportive and the company has many potential drivers of strong future profit growth (including upside from global technology deals).