DMX Australian Shares Fund
September 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 August 2022)	**$1.0396**
Unit price (mid) based on NAV (30 September 2022)	**$0.9771**
Number of Stocks	48
% cash held - month end	3%
Fund size (gross assets)	$10m

1-month return	-6.0%
3-month return#	5.9%
12-month return#	-13.6%
Since inception (1 March 2021, p.a.) #	1.4%
Since inception (cumulative)	2.3%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV decreased 6.0% (after fees and expenses) for the month of September. Having recovered some ground in July & August, the broad market again turned negative on the back of macro-economic concerns. The broad-based ASX 200 Total Return Index declined 6.2% while the ASX Small Ordinaries declined 11.8%.

Portfolio Commentary

With September being a quiet period in terms of news flow, the portfolio moved in sympathy with the broad market. Higher growth assets with longer duration expected cashflows have been most impacted. This is due to a rising interest rate environment and greater earnings uncertainty in a weakening economy. Conversely, lower risk, lower multiple, shorter duration assets have held up relatively well and mitigated some of the damage across the portfolio. Examples of the former include **AVA Group**, **Corum**, **ELMO Software**, **Frontier Digital**, **Pureprofile** and **Xref** which each fell 20-30%. While on the other side of the ledger, our education holdings (**EDU Holdings** and **Academies Australia**) rose 14-15% each as improving fundamentals are beginning to be reflected in their prices; and **Joyce Corporation** returned 20% (including dividend).

Buybacks Sending Positive Signals & Enhancing Value

With many of our companies enjoying strong current earnings and trading at attractive prices (especially in this weak market environment), it's been pleasing to see a number of these companies not only talk about buying back shares, but actually executing on those promises. Buybacks send a positive signal to the market about the potential value inherent in the shares, and can also enhance per-share value if meaningful amounts of stock are ultimately retired at attractive prices. Current examples of what we consider to be rational and value-adding buyback programmes include:

- **FSA Group**. At a single digit multiple of earnings, the company repurchased nearly 4% of itself between March and June. An excellent outcome for a generally illiquid stock. Assuming the shares are trading around 2/3rd of intrinsic value, this repurchase has enhanced per-share value by around 2%.
- **DDH1 Drilling**. Capital allocation is a particular strong point for DDH. At just over two months into its recently-announced buyback, the company has retired nearly 3% of itself. We (and management) believe the shares are very under-valued here, and this aggressive buyback programme is both enhancing value and increasing the odds of a material re-rate in the medium term future.
- **Sequoia Financial Group**. Another company that has capital allocation as a particular strong point is Sequoia. Management are diligent in assessing acquisitions on a value-basis in relation to where their own shares trade. And are rationally deploying capital to buy-in shares at relatively very attractive prices.
- **Michael Hill**. We've talked a fair amount about the operating momentum Michael Hill has enjoyed bouncing out of COVID, and noted its super-strong balance sheet with significant surplus cash at hand. Further, with a current trading multiple of around 10 times – a level we (and management) believe is too low – it's pleasing to see the company commence a buyback during September. We expect any shares bought at these levels will both enhance value, and help set the scene for higher, more appropriate, pricing in the future.

Company Meetings

With reporting season behind us, we've taken the opportunity to meet with managements of many of our companies (and prospective companies). This has been either virtually, in person 'in-office', or in person 'on-site'. With most of our company engagements taking place virtually over the past couple years, it's been refreshing to be able to assess actual operations and learn more about what drives various businesses, and the challenges and opportunities they face. The DMX Capital Partners (DMXCP) report includes commentary on a number of our site visits. These are included in an Appendix to this report.

In Summary

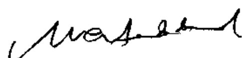
As also noted in the DMXCP report, many of our companies are facing short-term operational challenges. Costs are increasing, labour shortages are hampering growth, and consumer demand is increasingly a perceived risk as the economy slows, inflation bites, and higher interest rates hurt many and flatten the mood of others. Nevertheless, our portfolios are overwhelmingly comprised of good businesses with favourable medium to long-term growth prospects, strong balance sheets, capable, well-incentivised management teams, and are trading at attractive prices.

The ride is proving to be bumpier than would be ideal, but the diversity across our portfolios is helping to soften some of this, while the opportunistic topping up and trimming of positions – we believe – will add value for long-term oriented investors. Those of the investor base who continue to dollar-cost-average into their investments can also benefit from the volatility as we continue to navigate this market environment.

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 Site Visit Notes

Some of the interesting site visits conducted during the month included:

- Joyce Corporation - KWB showroom tour. JYC's key business unit is Kitchen Connection (KWB) - Australia's largest kitchen renovation company, in which JYC has a 51% interest. During the month, management hosted a showroom tour in their largest NSW showroom at Artarmon, Sydney, which was followed by a presentation from the KWB CEO, John Bourke, who has been integral in driving the significant growth of KWB in recent years. John became CEO of KWB over 10 years ago, following a career with multi-national companies including McDonalds. With this background, he saw an opportunity to build a business based on consistent standards, processes and professionalism in the kitchen renovation market - a $4b highly fragmented cottage industry dominated by unsophisticated participants. (Often tradesman based with poor retailing skills where hand drawn designs are still common.) KWB, in contrast, has proprietary planning, project management and customer management systems, fully digital, paperless showrooms, computer aided designs, and computer driven precision cutting that minimizes rework costs. KWB rework costs are ~1.2% of net sales, versus typically 5%-plus in the industry) significantly improving KWB's profit margins.

  Another attractive feature of the KWB business is its working capital model. KWB receives 100% of a customer's cash prior to installation (15% deposit on signing, 25% progress payment upon final measure and 60% final payment ahead of delivery). KWB expect to be able to increase their number of showrooms from 26 to 50 over the coming years, as well as adding new product lines, such as flooring, which would drive sales from $100m today towards $250m. While economic conditions and rising interest rates would be expected to impact demand at some point, at the moment the forward order book of ~2,000 kitchens and ~1,000 wardrobes (at $60m in value) is significant. Given this backlog, if you were to order a new kitchen today, installation would not be possible until February/March of next year. The market opportunity remains substantial - an Australian kitchen is typically updated after 10 to 15 years and there are ~7.5m homes in Australia older than 15 years, providing a large pool of potential future business for KWB.

- Credit Clear (ASX:**CCR**) - visit to Sydney's operation centre. The visit provided an opportunity to meet with senior management of CCR, in particular the ARMA side of the CCR business which CCR purchased earlier this year. Prior to the acquisition, CCR was a technology focussed business with strong IP, but had difficulty getting traction selling its technology offering. Merging with a leading traditional debt collection agency in ARMA, provided CCR with access to key decision makers in insurance, banking and utilities space, which has enabled CCR to successfully market a tailored collection offering that none of its competitors can provide (technology driven collections at the earlier stage of the collection cycle; and traditional for more difficult collections). Recent new customer wins with large government organisations, and significant financial services and utility businesses are evidence of success of this strategy.

  Aside from a favourable operating environment as consumers come under increasing financial pressure, and businesses begin to ramp up collection activities after easing off collections during COVID, management highlighted recent consolidation of competitors. illion (previously Dun & Bradstreet) has recently acquired Recoveries Corp, while ASX listed Credit Corp acquired Collection House's contingent collection business. Sector consolidation provides government bodies with less panel options, giving CCR better access to panels from where they can get a foot in the door to illustrate its competitive offering.

  A key aspect of the CCR investment thesis is its ability to take its technology into global markets. The first partnership with Techub in South Africa has seen progress, with batch testing completed and the payments gateway working. Revenue is expected to ramp up from the October quarter. This is a revenue sharing partnership with Techub, and with onboarding costs completed ongoing costs are expected to be limited and should therefore drive a high margin revenue stream to CCR. The tailwinds and business momentum here remain significant.

- Cryosite (ASX:**CTE**) - cold storage warehouse tour. CTE logistics business focusses on temperature sensitive storage and distribution. During the month we toured CTE's Granville, Sydney, cold storage warehouse (including experiencing staying inside a minus 25 degree storage room for several minutes).

  CTE is servicing an attractive niche which lacks the scale to attract larger logistics players. Similar to JYC's KWB, the warehouse is completely paperless, and fully digitally monitored by scanners which assists CTE in delivering market leading services (with a less than one in a million failure rate). CTE currently has a 30% market share in servicing the clinical trial logistics market in Australia, but is keen to expand that to north of 50% in coming years. CTE continues to attract new customers with a recent product offering providing minus 60 degree storage for oncology product generating its first revenues in June, and which is expected to ramp up its capacity over the coming months. We had been concerned given the strong demand CTE had experienced, and the increase in its offerings in recent years, how much capacity was left in their Sydney warehouse. CTE advised that they continued to have 3 to 5 years of growth until they reached capacity, but also had an opportunity to expand its storage facilities through expanding its mezzanine platform within its current location. The program of digitalising the warehouse process has resulted in staff efficiencies, meaning CTE has been able to expand without requiring a material step-up in employees. And with rent being a fixed cost, operating leverage has resulted in strong increases in profit in recent years.

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