DMX Capital Partners Limited
August 2022 – Investor Update

An investment company managed by:
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Opening NAV (31 July 2022) [1,2]	**$2.6237**
Closing NAV (31 August 2022) [1,2]	**$2.6552**
Fund size (gross assets)	$23m
% cash held - month end	2%
Gearing	Nil

1-month return	1.2%
3-month return	-1.6%
12-month return	-5.9%
3-year return (CAGR p.a.)	20.6%
Since inception (*7 years 5 months*) (CAGR p.a.)	18.2%
Since inception (*7 years 5 months*) (cumulative)	244%

*DMXCP Share price = Closing NAV (**$2.6552**), 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 increased 1.2% (after all accrued management fees and expenses) for August 2022. The NAV as at 31 August 2022 was **$2.6552** compared to $2.6237 as at 31 July 2022. Following the bounce in July, the market was more cautious in August – the All Ordinaries was up 0.7% during the month while the Small Ordinaries was up 0.3%.

August portfolio developments

August was a busy month with the majority of our portfolio companies releasing their full year results. With most of our results having been well flagged through pre-announcements and guidance, there weren't too many surprises. Key contributors during the month included PTB Group (ASX:**PTB**) which received a takeover offer during the month and was up 35%, while Laserbond (ASX:**LBL**) increased 22% on the back of a strong second half result. Joyce Corp (ASX:**JYC**) reported another solid result and an encouraging outlook and was up 17%.

Reporting across the portfolio and the market generally was positive, however supply chain concerns, input and wage inflation were commonly referenced as headwinds, while navigating the Omicron Covid wave that hit Australia at the start of 2022 proved challenging for some companies.

This was the case with Australian Family Lawyers (ASX:**AFL**) which was the key detractor of the portfolio in the month, falling 28% after a disappointing performance in the second half of the financial year. A combination of increased staff turnover and significant sick and annual leave (holidays being taken again), and the associated workload disruption, impacted AFL's billable hours, staff productivity, revenue and margins. We expect that many of these headwinds for AFL to have now peaked, while increased charge out rates and promotions from 1 July will provide some revenue tailwinds.

FY23 Outlooks

Given the uncertain broader macro conditions facing many companies, and, as valuations are very much a function of future earnings and cash flows, we were particularly focused on growth outlooks for FY23. Across the bulk of the portfolio, companies continue to grow strongly organically, supplemented by in-organic growth in some holdings. Various holdings articulated their confidence in significant earnings growth through FY23, including People Infrastructure (ASX:**PPE**) (strong FY23 guidance), Credit Clear (ASX:**CCR**) (accelerating revenue growth with operating leverage emerging) and LBL (as it heads towards its $60m revenue target). Headwinds were called out by Shriro (ASX:**SHM**) (consumer demand) and Datadot (ASX:**DDT**) (Ukraine war, European car manufacturing) – although these are both smaller weighted positions.

We provide below an update of our portfolio's 10 largest ASX positions as at 31 August 2022, briefly noting how they reported and how we view their outlook and valuation. We believe this demonstrates the attractive combination of value and growth on offer within the portfolio, with a number of our key holdings trading on sub 10x FY23 PE multiples, whilst offering strong growth profiles. Eight of the top 10 holdings are now paying dividends.

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 9x EBITDA 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 pre-tax operating cash flows of ~$15m (SEQ's EV at month end was ~$60m). SEQ's result included several one-off abnormals that, if adjusted for, would have resulted in a much larger increase in profit. **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% is expected.
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 NPAT expected to grow more than 50%, LBL is on a mid teens PE multiple - compelling for a founder-led Australian engineering technology story with a strong ESG offering and a large global (both technology and own product) opportunity, which is expected to double its revenue over the next three years, while it is already generating 30%+ EBITDA margins.
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 **10x FY22 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.
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.
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).

Our top 10 positions have been relatively stable in recent months, reflecting our confidence in these names and our long term thinking here, where we believe there is significant upside from these names to play out over time. Recent additions include DDH (price increase and recent purchases) while AFL has fallen out of the top 10 following its price decline.

We believe there are multiple ways to win from these above names. Several of them are on track for break-out years in relation to profit growth (KME, LBL, CCR and SEQ), and we are enthused by their potential. Names like KME, SEQ, DDH and DVR remain unloved (unfairly in our view) by the market, despite favourable tailwinds and outlooks. In our experience, these are the set ups that offer attractive re-rates from very low multiples as they transition from being out of favour to more popular. Further, companies such as CCR, LBL and also KME have the opportunity to further take their unique Australian developed technology and IP into much larger global markets.

We hope the above disclosure is helpful to investors in illustrating our investing approach and describing what we own, and why we own it.

Outside of the top 10, among our next sized grouping of holdings, companies such as Proptech (ASX:**PTG**) and AVA Group (ASX:**AVA**) are on track for significant increases in NPAT in FY23, while others such as the recently purchased Cirrus Networks (ASX:**CNW**) and PPE remain clearly cheap on less than 10x NPAT multiples despite strong growth outlooks.

As mentioned above, we own a diversified portfolio of compelling small company names supported by strong growth and value theses, which we have, and continue to, be long term supporters of. No doubt there will be further market and macro bumps along the way, but we remain very enthused with our diversified portfolio as we continue our long term investing journey in attractively valued, growing small companies.

We look forward to updating you again in October.

Kind regards

Roger Collison
Chairman

Steven McCarthy
Portfolio Manager

Chris Steptoe
Research Analyst

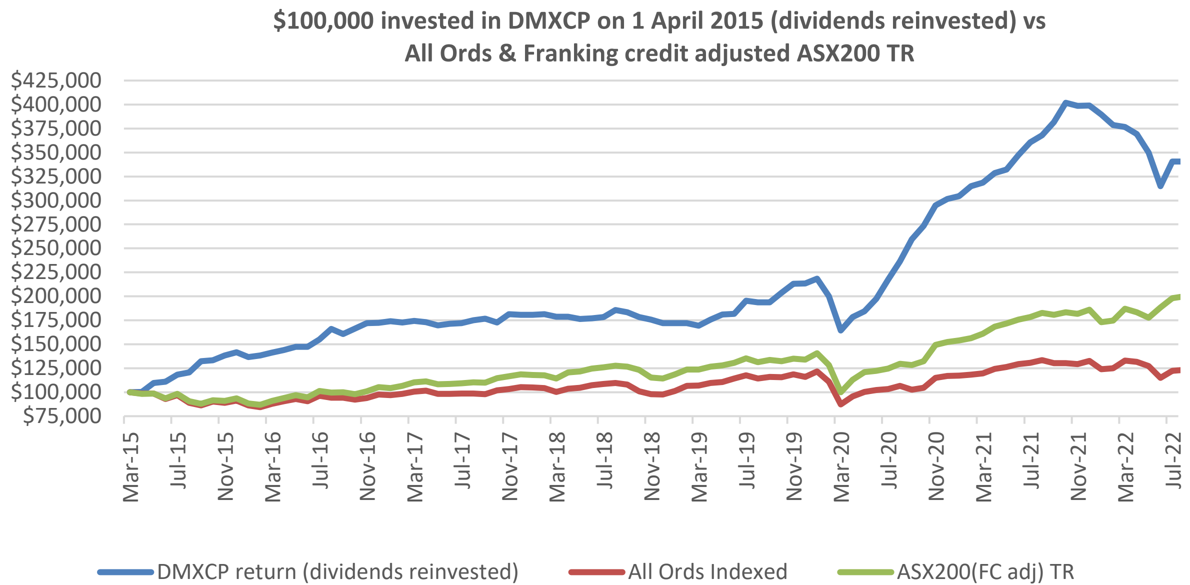
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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	**+8.72**	**+1.20**					**-11.8%**	**-7.1%**

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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