DMX Capital Partners Limited
October 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 (1 October 2022) [1,2]	**$2.4987**
Closing NAV – cum div (31 October 2022) [1,2]	**$2.6177**
Closing NAV – ex div (31 October 2022) [1,2]	**$2.3974**
Fund size (gross assets)	$24m
% cash held - month end	4%
Gearing	Nil

1-month return	4.5%
3-month return	0%
12-month return	-15.3%
3-year return (CAGR p.a.)	18.3%
Since inception (*7 years 7 months*) (CAGR p.a.)	17.5%
Since inception (*7 years 7 months*) (cumulative)	239%

*DMXCP Share price = Closing NAV (**$2.3974**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends reinvested and franking credits paid.
Inception date of 1 April 2015 (Inception value: $1.00). Since inception, $1.02 of dividends & franking credits have been declared/paid.

Dear Shareholder,

DMXCP's NAV increased 4.5% (after all accrued management fees and expenses) for October 2022. On 31 October 2022, DMXCP went 'ex' a dividend of 15.0c plus 6.4c in franking credits. The dividend will be paid on 22 November 2022. The NAV as at 31 October 2022 was **$2.6177** (cum-dividend) and **$2.3974** (ex-dividend), compared to $2.4987 as at 30 September 2022.

Markets were generally positive in October – the All Ordinaries was up 5.6% during the month while the Small Ordinaries increased 6.3%. Emerging companies lagged with a 2.8% increase.

October Portfolio Developments

October was a busy month with AGMs, quarterly updates and increasing levels of corporate activity. Significant contributors for the month included ELMO (ASX:**ELO** – up 106% following a private equity takeover offer), AVA Group (ASX:**AVA** up 31% after it announced a strong quarterly update) and Academies Australasia (ASX:**AKG** up 33% on the back of positive sentiment towards education providers). Material detractors were AF Legal (ASX:**AFL** down 15%) and Ansarada (ASX:**AND** down 10%).

During the month we attended the Australian Microcap Investment Conference, where a number of our holdings presented, including AVA, Shriro (ASX:**SHM**) and EnergyOne (ASX:**EOL**). For the first time in three years this event was held in person, enabling us to engage face-to-face with companies that we follow, as well as catching up with other fund managers and brokers. Despite the tough conditions in the micro-cap space, sentiment was positive, and a number of interesting micro-cap companies presented, highlighting the upside potential in this part of the market when investor interest returns.

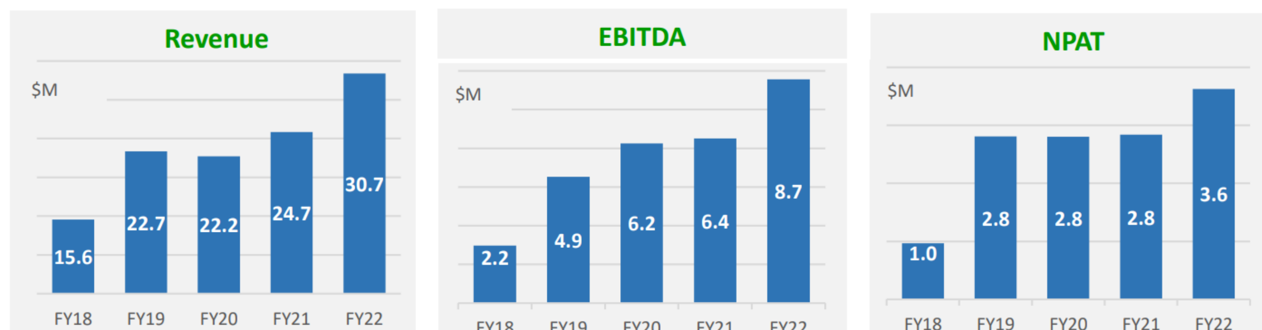
Responding to economic challenges

The economic conditions for businesses at the moment are challenging: unemployment remains at record lows continuing to restrict the ability for companies to recruit, inflation has increased to over 6% while interest rates are at nine year highs and are beginning to impact consumer demand. Globally, economic growth is slowing, and consumer sentiment weakening. With this backdrop, we continue to engage regularly with our portfolio companies to understand the specific challenges they are facing and how they are responding to those challenges. While we are long term focused holders, we are mindful of short term operating conditions and how they may result in opportunities and/or challenges.

Pleasingly though, based on AGM updates and September quarterlies announced during the month, the majority of the portfolio is reporting well, demonstrating strong revenue, profit and cash flow growth. We discuss below some key holdings that reported during the month.

Laserbond (ASX:LBL)

Engineering technology company LBL celebrates its 30th year this year – the founding Hooper family remain the largest holders with over 30% of the company. Reflecting the experiences of navigating various business cycles over many years, LBL is a nice example of a company that continues to adapt and prosper despite facing some meaningful headwinds.



As illustrated above, while LBL has performed relatively well in recent periods, growth was constrained in FY20 and FY21. This was initially due to COVID travel restrictions impacting sales and logistics, and, more recently, challenges in recruiting appropriately skilled workers to maintain productivity. With the Australian borders opening to offshore skilled workers, LBL had 15 skilled visa workers organised ready to start last quarter, while it has also significantly increased its apprentice and trainee programs to help upskill its workforce. With these additional resources, LBL has been able to reduce lead times and improve machine utilisation this year, delivering revenue growth of 36% to $9.5m in Q1.

At its AGM update, LBL acknowledged that it is seeing inflationary pressures significantly worsen, and it has responded by negotiating price increases across its product lines and with its technology and services customers. LBL has also negotiated fixed electricity pricing across its sites for a 2-year period. These initiatives provide LBL with confidence it can maintain its margins in this current environment.

The strong start to the year in revenues, and confidence in its margins, means LBL is well placed to meet/exceed expected FY23 broker revenue growth of >30% and expected EPS growth of >40%. In addition, LBL has affirmed its medium-term growth aspirations with a revenue target of $60m by FY25. Growth is set to come from each of its three revenue streams (its propriety products, licensing of its technology, and the provision of services through its network of Australian workshops). Driving this sustained growth is increasing demand for LBL's remanufacturing technology and IP, which extends the life of a piece of heavy-duty equipment by between two to 20 times of a standard part. The typical carbon footprint for a LBL remanufactured part is less than 1% of making a new part, so LBL offers strong ESG benefits for heavy emission industries.

AVA Group (ASX:AVA)

Security technology company, AVA is another business that had been impacted by Covid restricting travel and by supply chain delays and challenges, but has been able to navigate through these and is now positioned for a stronger FY23 and ongoing growth. A recent acquisition in the UK has been helpful in diversifying the business and, with supply chain issues resolving, AVA has now established a revenue base of ~$30m. At its AGM update during the month, AVA noted sales orders in the first quarter were up 28% and provided strong revenue guidance for the half, along with expectations of continued growth in the second half.

AVA has stated that based on current opportunities in front of it, it is targeting to grow revenue organically to $70m - $100m over the next three years while, like LBL, maintaining its gross margin. AVA expects this revenue growth (200% - 300%) can be achieved with much less incremental investment in operating expenses, highlighting the significant earnings operative leverage within the business.

AVA's growth is being driven by long term supportive tailwinds: global security concerns driving rapid adoption of high security technology, and increased government, military and corporate spending on protecting critical infrastructure and high value assets. These represent powerful ongoing drivers of demand, that should be expected to continue, irrespective of the prevailing economic conditions.

Other quarterly (4C) reports

Across our holdings that were required to lodge quarterly reports during October, results were generally positive with companies performing in line with expectations, and with only limited impacts (yet) from macro conditions. Knosys (ASX:**KNO**) saw its ARR grow 16% and generated strong free cash for the quarter while PropTech (ASX:**PTG**) also reported 18% ARR growth and positive operating cash flows. Aeeris (ASX:**AER**) had a strong quarter of cash inflows, recording free cash for the period. MedAdvisor (ASX:**MDR**) saw its revenue up 30% to $20m, but had a weak cash flow result. Ansarada (ASX:**AND**) is a holding that is facing some short term headwinds, and had its first negative cash flow result as lower M&A activity impacts revenue.

Counter-cyclical exposures and hedges

We own a diversified portfolio of small ASX companies. These include various holdings that are actually benefitting from some of these macro-economic challenges facing other companies. These positions provide a nice natural hedge and counter balance to some of the potential negative impacts from these headwinds on some portfolio companies.

- Credit Clear (ASX:**CCR**), a digital focused debt collector, had a strong quarterly update, noting that it is benefitting from strong counter cyclical economic tailwinds with a large number of opportunities in progress, *"with growing pressure on customers due to higher inflation".*

- People Infrastructure (ASX:**PPE**), a healthcare and IT focused staffing contractor is a beneficiary of wage inflation (with the bulk of its workforce benefitting from pay rises and minimum wage award increases). During the month PPE provided a market update reaffirming its strong full year guidance and noting: "*Operating conditions continue to be highly positive, given the strength of the employment market and extensive demand from our clients. Our business performance is underpinned by our diverse reach into high demand and defensive employment sectors, including healthcare, professional services, early learning, infrastructure and food services".*

- We own several companies that benefit from increasing inflation and growing business and consumer expenditure. During the month, clip-the-ticket EFTPOS payments company Smartpay (ASX:**SMP**) announced that Australian Total Transaction Value increased an impressive 145% - a result of increasing transaction value per terminal and accelerating fleet growth. Expense Management company 8Common (ASX:**8CO**) revenue for 1Q of FY23 of $1.2 million was up 43%, with the September quarter ARPU of $19.60 the highest since Covid.

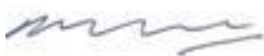
In the short term there are clearly economic challenges that are, and will continue to, impact the growth potential of various companies. While our portfolio is not immune to these headwinds, we own good companies that are, on the whole, responding to these challenges, and/or are able to continue to grow irrespective of the state of the broader economy, and, in some cases, actually benefit from those challenges facing other businesses.

Importantly though, well managed, good companies are in better positions than their competitors to trade through any difficult conditions that they may face. As the economic cycle normalises and improves, as it inevitably does, then these companies enter a stronger cycle with an improved competitive position.

We remain very enthused by the opportunities in our portfolio, comprising compelling poitions in interesting small company names supported by strong growth and value theses, as we continue our long term growth journey. The micro-cap space has been hit hard over recent months, and we believe our portfolio is well positioned to recover strongly as interest returns to this part of the market.

We look forward to updating you again in December.

Kind regards



Roger Collison
Chairman

Steven McCarthy
Portfolio Manager

Chris Steptoe
Research Analyst

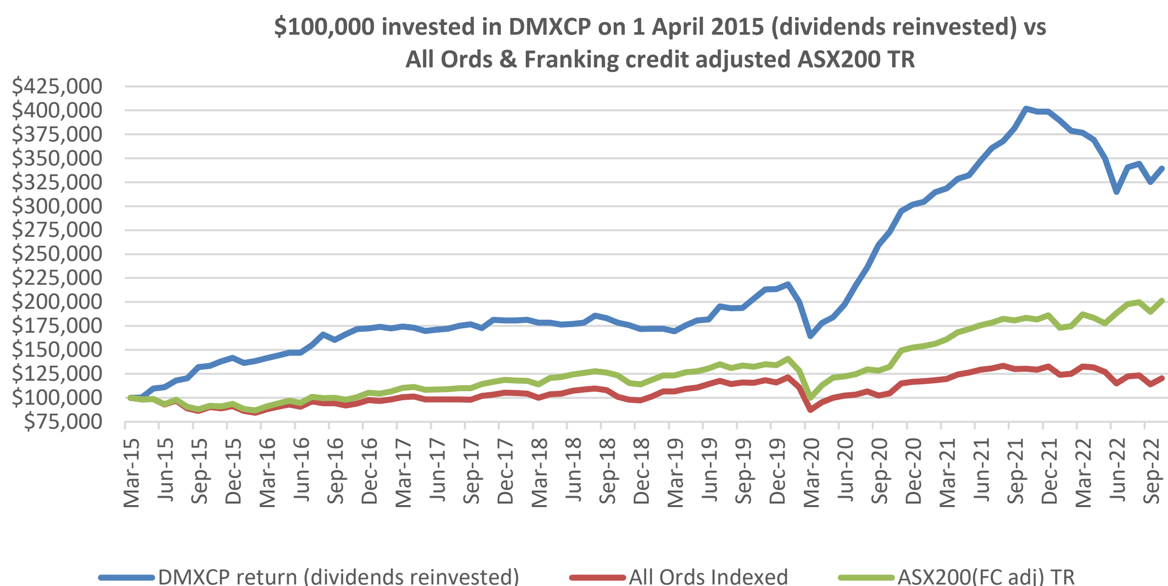
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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	-5.90	+4.52			**-15.7%**	**-9.3%**

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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