DMX Australian Shares Fund
January 2023 – 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 December 2022)	**$1.0964**
Unit price (mid) based on NAV (31 January 2023)	**$1.1101**
Number of Stocks	47
% cash held - month end	2%
Fund size (gross assets)	$11m

1-month return	1.3%
3-month return#	7.9%
12-month return#	-4.4%
Since inception (1 March 2021, p.a.) #	8.1%
Since inception (cumulative)	16.2%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 1.3% (after fees and expenses) for the month of January, continuing its recovery in absolute terms but lagging a very strong broad market as reflected in the ASX 200 Total Return Index's 6.2% return.

While a number of our key holdings performed well over the month, the head-wind from disappointing updates and share price de-ratings to a few others meant the overall portfolio wasn't able to keep pace with the broad market. Despite the short-term lag, we're pleased with developments across the portfolio which have generally been positive.

Portfolio Commentary

The biggest detractors for the month in terms of NAV impact were **Pureprofile** and **Sequoia**. In the case of Pureprofile, it's shares fell 11% to give back most of its prior-month gains. Sequoia fell 16% on the back of a business update and profit downgrade. We remain confident in the medium to long-term prospects for each of these businesses and continue to expect good things from each in the years ahead.

More positively, we enjoyed positive updates and continued upward momentum – both operationally and in terms of share price performance – for a number of holdings. **Academies Australia** rose 13%, building on its recovery of the past year. While operations will take some time to normalise, with the return of foreign students, the market is – we believe – rightly and increasingly discounting an eventual recovery which is becoming closer by the month. **Gentrack** continued its re-rate, rising 14%, while **Smartpay** rose 23% and reported exceptional growth numbers. Finally, of note, and expanded on below, **Frontier Digital** recovered 31% possibly as investors wind back some of the emerging markets discount that had previously been priced in.

The DMX Capital Partners report includes comprehensive updates on several commonly-owned holdings, on the back of quarterly reports and business updates for these. Highlighted companies are **Advanced Braking Technology**, **Medadvisor**, **Sky-Fii**, and **Sequoia**. This content is included as an Appendix to this report.

In terms of DMXASF-specific holdings, two interesting companies to provide updates are **Frontier Digital** and **Michael Hill**:

Frontier Digital Ventures

Frontier owns 100% of key digital assets in Latin America, and the Middle East/North Africa. It additionally owns strategic minority, or controlling stakes in a number of businesses across Asia, the most important of which being its 30% stake in Pakistani online property portal, Zameen. The investment has been costly for us since we invested in 2021 with its shares effectively halving over that timeframe. January saw a 31% uptick to its depressed share price as market sentiment toward higher-growth companies improved. Frontier has a strong track record of growth, and has been successful in developing a wide footprint with market-leading digital properties in interesting emerging markets. Growth has been slowing, but the company is focusing strongly on cost control as it eyes cashflow profitability in the medium term. A factor, we believe, that has weighed on

Frontier's share price in recent times has been outstanding contingent payments for acquisitions made and the potential requirement for a further capital raising to settle these in due course. But we're comfortable that the magnitude of any outstanding obligations is sufficiently small relative to Frontier's market value that any raise would be modest and only negligibly dilutive, assuming it doesn't simply resolve these through present cash reserves and other portfolio optimisation options (divestments). Of concern to us though is the sovereign risk with this investment, and in particular around Pakistan which has suffered a material currency devaluation. Given Zameen's overall materiality to the group, we are mindful of our exposure to this business, but are very much attracted to the long-term potential for value creation through participating in this digital land-grab in fast-growing emerging markets.

Michael Hill International

Michael Hill is a long-established jewellery retailer, originally from New Zealand but now Australia-based and operating a network of 282 stores across Australia (148 stores), New Zealand (48), and Canada (86). With a more than 40 year history of success, growth, and strong returns on invested capital (the vast majority of which as a listed company), it's perplexing that the market rates the company so lowly. Having fallen ~20% in 2022, its shares continued to languish in January despite fairly strong December half-year results. The company continues to grow its revenue, and EBIT is guided to tick up modestly. Margins have been managed very well, with gross profit improvements over the past few years being sustained. The company has a pristine balance sheet, with – we estimate – around 10% genuine surplus cash. Despite its long history of success, and in particular the clearly successful rejuvenation under its current CEO and management team, its shares trade for just 8-9 times earnings. Management and the Board are mindful of the value on offer here, with the company implementing an on-market buy-back programme, and buying as aggressively as possible. In the two months from the commencement of the buy-back in September, until pausing for the company's trading black-out period, the company repurchased over 2% of its shares outstanding. A solid achievement for a fairly tightly-held stock. The company is nearing the end of its 3-month black-out period, but has announced it expects to resume the buy-back once it's reported in late February.

We rate the company's long-term track record, now-proven management, and rational approach to its undervalued stock. While the consumer environment is undoubtedly challenging, and expected to become more so in the period ahead, we believe the market is over-discounting this concern with Michael Hill and overlooking its high quality and very attractive valuation.

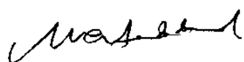
In Summary

The portfolio continues to inch up, slowly recovering much of the drawdown of early 2022. While experiencing some operational and earnings headwinds in the short-term, leading to some pricing impact on the likes of Sequoia, we remain confident in the medium to long-term potential for the companies across our portfolio. We own a good number of quality, differentiated, and very attractively priced companies that together hold the prospect of strong returns on average over the years ahead.

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



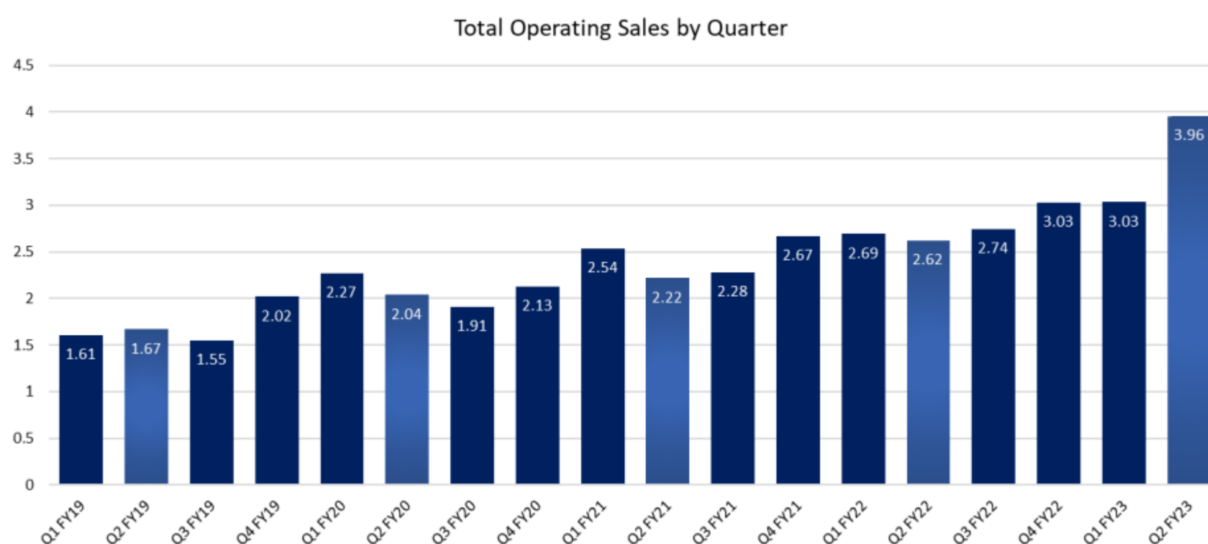
Michael Haddad
Portfolio Manager

Chris Steptoe
Research Analyst

Appendix – Updates on positions commonly-owned with DMXCP

ADVANCED BRAKING TECHNOLOGY (ASX:ABV): We mentioned last month our purchase of ABV - a profitable, under the radar Australian company that provides global leading aftermarket braking solutions. ABV reported quarterly revenue of $3.96m (+51%), with free cash generated in the quarter of $550k.

As illustrated below, ABV has been growing consistently over recent quarters. The December quarter saw a significant step up in revenue, as a result of strong underlying demand from new and existing customers. ABV noted “*its strong relationship with BHP across multiple sites is a reflection of both our strategy and our world leading engineering capabilities*.” ABV also reported it had growing interest from some of its largest Australian customers’ African operations including gold miner Newmont's Ghana operations, as well as supporting several partners in deployments with local operators. ABV remains the market leader in the supply fail-safe integrated braking systems, servicing most of the major global miners.



A portion of the December quarter revenue relates to the development agreement ABV has signed with global miner Glencore to develop a safety braking solution for heavy duty Volvo construction trucks. This safety solution will enable Glencore (and, following the end of an exclusivity period, other users of Volvo construction trucks, and other heavy vehicles) to safely operate these trucks underground and in other heavily ruggedised industrial applications. Even with the significant cost (and margin to ABV) of retro-fitting failsafe brakes to Volvo trucks, it is a significantly cheaper alternative to Glencore than buying a new underground-ready Caterpillar off-road truck (which come with failsafe brakes installed). Based on the number of these Volvo trucks that would require aftermarket fitting of the ABV brakes, and the expected gross margin on the product, successful completion of this new opportunity (and the whole new heavy vehicle market that would open up to ABV more generally), is expected to be meaningful to ABV.

Why we own it: ABV is on track to deliver a full year profit of ~$1.5m (first half NPAT was $770k). These earnings support ABV’s current enterprise value of $15m. Therefore, little upside is priced in for success from the Glencore opportunity which, if successful, would significantly expand ABV’s addressable market and transform the scale and valuation of the business.

SKY-FII (ASX:SKF): SKF provides software solutions for organisations to capture data and measure movement in physical spaces such as malls, airports, and restaurants. The December quarter was highly cash generative for SKF – recording free cash of $2.1m, although it did benefit from some favourable cash flow timing.
The company was heavily impacted by COVID and (outside of acquisitions) it has struggled to produce consistent revenue growth and positive cashflows since early 2020. With its recent quarterly announcement, we are starting to see signs of a resumption in growth, with the company forecasting 25% ARR growth (organic) in FY23.

This growth, combined with free cashflow in 1H23 and future cost savings, augers well for some significant operating leverage in the years ahead.

During the quarter, the business also signed a contract to provide analytics to several McDonald's stores in the US. The SKF software solution will collect and analyse datapoints and provide insights to help McDonald's branches identify bottlenecks, and with a view to helping McDonald's improve its customer service and food freshness. In particular, the processes around mobile ordering, counter ordering and drive through services are being monitored, including:

- Tracking time taken to service food delivery providers;
- Tracking movement of crew around each restaurant;
- Understanding how long it takes to complete each step of service; and
- Investigating what factors lead to under/over performance of food service times.

SKF are using LIDAR cameras and thermal imaging technology to track movements and record data, which does not capture personal imagery, negating privacy concerns. The $2m contract is initially focused on McDonald's Pacific North West operating region with four stores currently using the SKF technology, and a further four expected to go live in the near term. McDonald's would then look to expand the program to 10 stores in each of their 10 US operating regions. From there, there is potential for it to be endorsed by McDonald's as an off the shelf product available to its network of ~13,000 franchised stores in the US. ARR per store is estimated at $50k - $60k ARR per year.

To date, SKF says the feedback from McDonald's is positive, with McDonald's reporting tangible ROI benefits and insights to optimise store performance. While very early days, the deal provides some real blue-sky growth if it can be rolled out across the McDonald's network as well as to other quick food service restaurants. Importantly, having McDonald's select SKF as its partner to provide this industry solution, is some encouraging validation of the SKF technology and evidence of its ability to provide tangible value to its customer base.

Why we own it: With an enterprise value of just north of $20m, and a (free) cash flow positive, EBITDA profitable business tracking towards $20m ARR, we think SKF now represents an interesting opportunity with some compelling upside, particularly if its quick food service offering roll-out progresses. SKF carries with it plenty of baggage and, after a couple of years of disappointments, is somewhat ignored by most in the market, providing plenty of upside if the market starts to pay attention to it again.

MEDADVISOR (ASX:MDR): MDR delivered a stand out result for the quarter with revenue up 90%, and generating an eye watering amount of free cash of $21m for the quarter. The digitialisation of MDR's large US pharmacy network is attracting increasing business from large pharmaceutical companies looking to access MDR's pharmacy distribution platform, which now provides digital access to 60 million people. MDR's pharmaceutical clients use this distribution network to promote and ensure adherence with pharmacy issued medical products – primarily vaccines. In the US in particular, pharmaceutical companies have a large war chest (~$6b annually) to spend on promoting their products. MDR can receive between $1m to $15m per digital campaign, highlighting the potential for MDR to scale its revenues quickly. This was the case this half, where revenue growth for the half of 66% (up $25m to $64m) is likely to lead to a significant turnaround in profitability. As it enters the second half, MDR has 15 more of these digital campaigns in its pipeline than it did this time last year. We estimate MDR is on track to deliver an EBITDA of up to $10m for the first half – which would represent an impressive $15m+ swing in EBITDA compared to the $5.3m EBITDA loss for the first half last year.

Whilst some of this half's revenue growth is related to COVID vaccination programs, COVID has accelerated the advancement and broader acceptance of vaccines, as well as proving the importance of a pharmacy as a distribution point. The number of vaccines in production are increasing and coming to market faster, driven by developments in MRNA vaccine technology. As an example, vaccines for cancers are beginning to be issued by pharmacies. Pharmaceutical companies are keen to promote these new vaccines. Together with increasing acceptance and interest in communicating digitally with patients, these factors are expected to drive sustained growth in MDR's revenues in future years.

Why we own it: MDR is currently tracking towards $100m revenue for the year, which is essentially a break even position (gross margins are tracking towards 60%, while OPEX is ~$60m). In FY24 and FY25 it has a unique opportunity to significantly further its revenue growth as it utilises its distribution base to undertake large digital campaigns in the US. One broker covering MDR has forecast this growth to generate $20m+ NPAT in two years, highlighting the *potential* for strong future profits from here, and the significant upside potential (by applying a growth earnings multiple to $20m NPAT) should it deliver.

SEQUOIA (ASX:SEQ) - the disappointment:

SEQ provided a January business update along with a profit downgrade. Integration issues with recently acquired businesses in its direct to consumer division along with previous announced one-off items will see the first half result well down on last year. We believe the issues to be short-term in nature. Without the one-off items, the half year result would be ahead of the PCP, so while disappointing, we still expect stronger financial results in future years.

Why we own it: With a market cap of $64m and net cash of $18m, we continue to view SEQ positively, given it should achieve $12m+ in annual normalised EBITDA. Given anticipated sector consolidation, SEQ remains attractive given its scale, and potential to divest some non-core assets. At current prices, the business has a normalised cash yield of more than 20%, with ample excess cash to participate in sector consolidation. Additionally, we think its Morrisons clearing business, which continues to take market share and grow in accordance with expectations, is a prized asset and could be sold at an attractive price that would add value for shareholders.

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