DMX Capital Partners Limited
January 2023 – 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 January 2023) (1,2)	**$2.5294**
Closing NAV (31 January 2023) (1,2)	**$2.5578**
Fund size (gross assets)	$25m
% Cash held - month end	3%
Gearing	Nil

1-month return	1.1%
3-month return	6.7%
12-month return	-7.6%
3-year return (CAGR p.a.)	17.3%
Since inception (*7 years 10 months*) (CAGR p.a.)	17.8%
Since inception (*7 years 10 months*) (cumulative)	259.9%

*DMXCP Share price = Closing NAV (**$2.5578**), 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 NAV: $1.00). Since inception, $1.02 of dividends & franking credits have been paid.

Dear Shareholder,

DMXCP's NAV increased 1.1% (after all accrued management fees and expenses) for January 2023. The NAV as at 31 January 2022 was **$2.5578** compared to $2.5294 as at 31 December 2022.

Markets rebounded strongly during January on improved investor sentiment, which we were unable to keep pace with – the All Ordinaries was up 6.4% while the Small Ordinaries increased 6.5%, and Emerging companies Index was up 7.2% for the month.

<u>January Portfolio Developments</u>

We are focussed on identifying and owning small companies with significant upside valuation potential that can deliver sustained strong long-term performance. January saw quarterly updates that highlighted improving fundamentals (and inherent value) across a number of these stocks – we discuss three of these (Medadvisor (ASX:**MDR**), Advanced Braking (ASX:**ABV**) and Sky-fii (ASX:**SKF**)) below.

Key contributors to the month were Smartpay (ASX:**SMP**) which reported a strong quarterly revenue update, finishing up 23% for the month. SKF, discussed below, was up 33%.

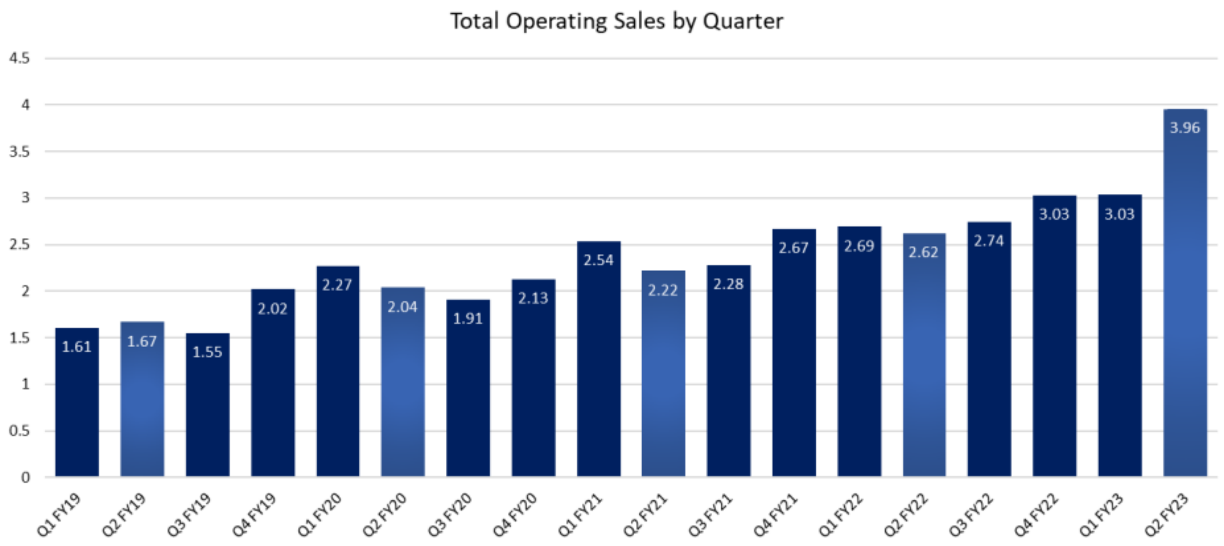
The key detractor for the month was Sequoia (ASX:**SEQ**), which we discuss below.

<u>Quarterly updates</u>

January saw many of our smaller companies report their quarterly cash flows and operating results to 31 December 2022. On the whole, these were positive, and we discuss three that we particularly liked, below. Pleasingly, all three delivered record levels of free cashflow for the quarter.

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.

As evidenced by the market returns in January, some exuberance has come back into the market. Many companies are back trading on inflated multiples and with hype and expectations reflected again in their share prices, similar to what we saw in 2021, however operating conditions carry more uncertainty and challenges than back in 2021.

Our portfolio remains very much under the radar and unloved, with little hype or enthusiasm priced into the share prices of the companies we own. Over time, we would expect the fundamentals of these stocks to provide portfolio performance driven by, and sustained by, genuine valuation re-rates.

We thank all our investors for your support and look forward to updating you again next month.

Kind regards

Roger Collison
Chairman

Steven McCarthy
Portfolio Manager

Chris Steptoe
Research Analyst

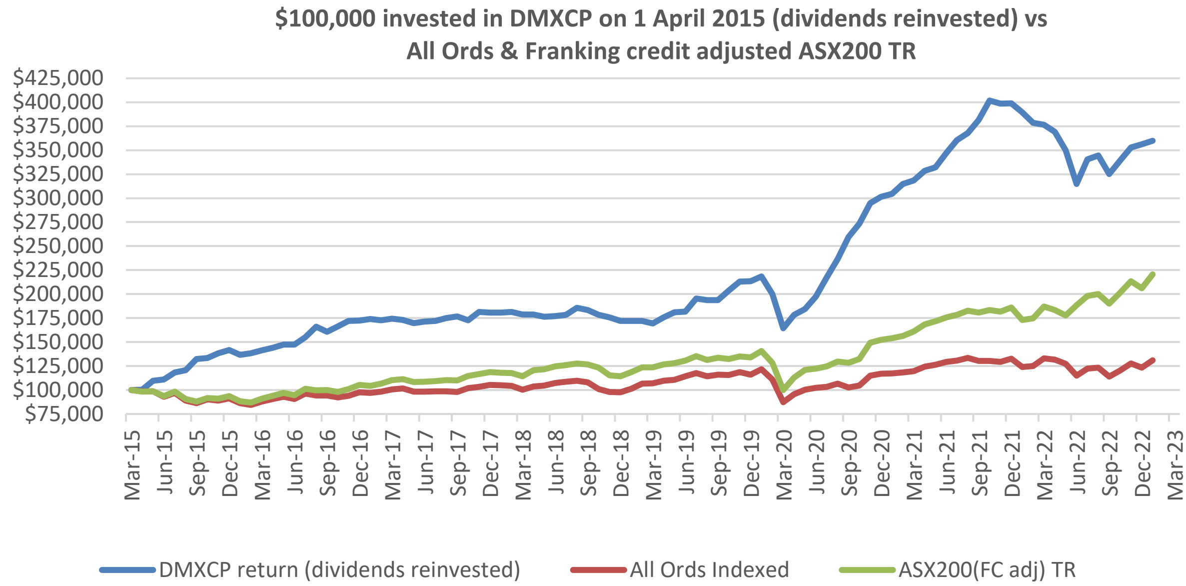
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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**
2 021	+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**
2 022	-2.48	-2.93	-0.51	-2.04	-5.50	-10.64	+8.72	+1.20	-5.90	+4.52	**+4.50**	**+0.96**	**-11.4**	**-7.2**
2 023	+1.12												**+1.10**	**+6.43**

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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