



DMX Capital Partners Limited

February 2023 – Investor Update

An investment company managed by:
DMX Asset Management Limited
ACN 169 381 908 AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
DMXCP directors: Roger Collison
Dean Morel (Chair)
Steven McCarthy

Opening NAV (1 February 2023) ^(1,2)	\$2.5578
Closing NAV (28 February 2023) ^(1,2)	\$2.4259
Fund size (gross assets)	\$24m
% Cash held - month end	5%
Gearing	Nil

1-month return	-5.2%
3-month return	-3.2%
12-month return	-10.0%
3-year return (CAGR p.a.)	18.9%
Since inception (7 years 11 months) (CAGR p.a.)	16.9%
Since inception (7 years 11 months) (cumulative)	242.8%

*DMXCP Share price = Closing NAV (\$2.4259), 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 decreased 5.2% (after all accrued management fees and expenses) for February 2023. The NAV as at 28 February 2023 was **\$2.4259** compared to \$2.5578 as at 31 January 2023.

Markets were soft during February - the All Ordinaries was down 3.5% while the Small Ordinaries decreased 4.1%, and the Emerging Companies Index fell 4.9% for the month.

February Portfolio Developments

February saw the majority of our positions release their results for the six months to 31 December 2022. It was a challenging half, as companies faced more difficult operating conditions with a weakening economic backdrop and ongoing wage and cost inflation. We set out the half year results of our top 10 listed positions below, and provide some comments on their outlook. (The trends and observations relating to our top 10 holdings broadly reflect results of the portfolio as a whole).

Our top 10 positions, on the whole, reported solid results in line with our expectations and AGM outlooks, with the exceptions being Kip McGrath (ASX:**KME**) and Sequioa (ASX:**SEQ**) which we discuss below. Five of our top 10 holdings reported strong revenue growth (>25%), and eight of the 10 delivered positive organic revenue growth. This supports an important tenet of our investment strategy that small companies can continue to grow strongly, independent of the broader economy.

While revenue growth is pleasing, what we really want to see is earnings per share growth (EPS) as ultimately that is what will drive and support share price increases. While EPS growth was more muted this half, compared to previous reporting periods, we did see six of our top 10 holdings record significant (double digit +) EPS growth: (Cirrus Networks (ASX:**CNW**), Laserbond (ASX:**LBL**), DDH1 Group (ASX:**DDH**), Soco Corporation (ASX:**SOC**), Smartpay (ASX:**SMP**) and Medadvisor (ASX:**MDR**)). MDR's and CNW's profitable results represented significant turnarounds from their loss making corresponding period. Pleasingly, despite the various operating challenges, all our top 10 positions reported profitable (NPAT) results. Outside of the top 10, strong EPS growth was delivered by Advanced Braking (ASX:**ABV**)(+476%), Prime Financial (ASX:**PFG**)(+33%) and PeopleIN (ASX:**PPE**) (+41%).

It was a difficult month for our portfolio and for small companies generally. We saw negative share price reactions to many result releases, while holdings that reported what we considered to be strong results such as MDR, PPE and ABV finishing down for the month. KME was the largest detractor (-34%), but a number of other positions had large falls on what we considered to be acceptable results (ie Pureprofile (ASX:**PPL**) -20%). We encourage you to read the updates below, which, notwithstanding the disappointing performance for the month, highlight the progress and growth that many of our larger positions are making, and their outlooks, in what is a difficult operating environment.

Half year updates – top 10 DMXCP Positions (not in size order)

Portfolio company	Industry / market cap	Commentary on half year reporting
Laserbond (ASX:LBL)	Laser engineering technology company with global customer base Market cap: \$99m	<p>How it reported: Solid report with strong growth metrics Revenue +39% NPAT +32% EPS +18%</p> <p>Outlook: Despite these strong numbers, LBL still hasn't fully hit its straps post COVID. The second half is expected to be even stronger than the first, on the back of technology license revenue being recognized, and improved margins from its products. LBL noted that by providing products and services that reduce the total cost of ownership of equipment in capital intensive industries, as well as contributing to reductions in their carbon footprint, it expects strong demand for its products and service to continue.</p> <p>Upside/growth thesis: LBL continues to target \$60m revenue over the next two years, which will see NPAT exceeding \$10m. This provides solid upside, for an innovative engineering technology company with a global opportunity supported by strong ESG tailwinds.</p>
Kip McGrath Education Centres (ASX:KME)	Global tutoring company Market cap: \$25m	<p>How it reported: Below expectations Revenue +9% (organic) EBITDA+5% NPAT -27%</p> <p>Outlook:We had expected FY23 to be a break-out year for KME, on the back of its corporate centres becoming profitable, and a recovery in lessons post COVID. However, EBITDA growth was, disappointingly, lower than expected with the contribution from KME's corporate centres below expectations, and lower revenues from its US business. Management have guided for a stronger second half. A more diversified US business is expected to lead to improved revenue (currently contracted revenue for the year of \$1.1m versus \$0.3m recognized in 1H) and profit contribution from Tutorfly in the US. The contribution from KME's corporate centres is also expected to improve in the second half. With those two uplifts, we think a full year NPAT of \$2m to \$2.5m is achievable, which would represent 10-25% EPS growth from FY22. This will be important to show that the KME growth thesis is back on track, albeit at a lower rate than we had expected. The market will remain sceptical until this full year result is delivered and there is more confidence in the company's earnings and cash profile.</p> <p>Upside/growth thesis: KME has been a very frustrating hold for us, and very testing of our patience, as well as being a material detractor to performance. While the business has a track record of many, many years of revenue growth and profitability, margins have been declining in recent years. We find it particularly frustrating that a leading global business generating annual tuition fees of \$100m + across its network provides such poor profit returns to its shareholders. But therein lies the opportunity. KME is a resilient and growing profitable business, and a leading global brand in the tutoring sector with a large international footprint, now with a market cap of less than \$30m. The business continues to generate good levels of cash and is in a net cash position. If current management are unable to properly monetise this significant fee base (and capitalise on its growth opportunities) then we would expect external interest in the company.</p>

<p>SOCO Corporation (ASX:SOC)</p>	<p>IT services Market cap: \$59m</p>	<p>How it reported: In line with expectations Revenue +61% (organic) EBIT+35% NPBT+36%</p> <p>Outlook: Positive – SOC noted its sales pipeline continues to show strong performance while there are signs that the IT employment market is beginning to loosen. Together with price increases and enhanced staff utilisation, this will continue to uplift SOC’s future margin. SOC’s expanded team sets a strong footing for future reporting periods (with revenue increasing in line with head count).</p> <p>Upside/growth thesis: Notwithstanding its recent IPO, SOC retains very high insider ownership, with more than 80% of the company held by founders, management, board / employees, and aligned to continued successful execution. An impressive 74% of employees are shareholders today. Current valuation at 10x EBIT is not demanding, and the growth profile (both organic and inorganic) remains very strong, and tailwinds very supportive.</p>
<p>DDH Group (ASX:DDH)</p>	<p>Mining services - drilling Market cap: \$147m</p>	<p>How it reported: Above expectations Revenue +17% NPAT+31% EPS+13%</p> <p>Outlook: While January and February are expected to see some revenue weakness, primarily due to adverse weather, the outlook for FY23 is positive. The fundamentals and macro trends driving long-term demand for DDH’s services remain compelling with 85% of DDH1’s revenue derived from production and resource definition drilling programs.</p> <p>Upside/growth thesis: DDH’s fleet of 190 rigs is the largest in the Australian market and fifth largest in the world. DDH continues to trade on a very low multiple (7x PE), at a significant discount to its international peers, and with a strong balance sheet is generating large amount of free cash, allowing it to pay a 7% fully franked dividend, as well as undertake an on-market buy back. With a strong trend of operating EBITDA growth (5 year 12.8% CAGR), and a market leading position, we are confident that DDH will continue to grow and benefit from a multiple re-rate and growing earnings.</p>
<p>Smartpay (ASX:SMP)</p>	<p>Independent EFTPOS provider Market cap: \$136m</p>	<p>How it reported: SMP has a March balance date, so was one of the few portfolio companies that didn’t report. Based on its half year results released in November it reported: Revenue +68% (all organic) NPAT+637% EPS+637%</p> <p>Outlook: SMP expects a strong second half performance, based on the continuing momentum it has seen in the first half of FY23. Growth is underpinned by an acceleration in the number of new terminals being onboarded, and an increasing acceptance by consumers and businesses of SMP’s surcharging model.</p> <p>Upside/growth thesis: SMP will deliver a very strong profit performance in FY23 notwithstanding a significant investment in its sales and marketing resources. There is an opportunity for further leverage in SMP’s earnings base as sales and marketing costs stabilise. EBIT margins are forecast to grow from 7% in FY22 to high teens in FY25, highlighting the operating leverage and rapid scaling of profits in coming years.</p>

Cirrus Networks
(ASX:CNW)

Enterprise / government focused IT services

Market cap: \$30m

How it reported: Above expectations
Revenue **+27% (all organic)**
EBITDA >100% \$2.2m (up from a loss of \$379k)
PBT >100% \$1.3m (up from a loss of \$2.2m)

Outlook: Very positive - CNW noted it is well placed for continued strong growth through the remainder of FY23, with growth underpinned by 2H23 contributions from new managed service contracts along with its record backlog, positive pipeline of opportunities, disciplined overhead cost controls and strategic focus on higher margin services revenue.

Upside/growth thesis: Based on consensus EBIT for FY23 (\$3.8m), CNW trades on an EV/EBIT of 6X, a significant discount to closest peers Data3 (DTL) and Attuara (ATA) which are trading on FY23 EV/EBIT of 20X and 13X respectively. CNW remains very much under-the-radar and unloved, and, as a result, trades on very attractive earnings multiples and at a significant discount to its larger peers. This compelling valuation and growth outlook means there are multiple ways to win from current pricing: 1) a multiple re-rate closer to its peers 2) additional managed services contract wins increasing the quality and the level of CNW's earnings 3) an accretive internally funded acquisition improving the range and/or reach of CNW's services and 4) attractive takeover candidate.

Cryosite
(ASX:CTE)

Clinical trial logistics (specialised storage and transport).

Market cap: \$40m

How it reported: In line with AGM outlook
Revenue **-2%**
NPAT – **13%**
EPS **-13%**

Outlook: CTE noted that the demand for its depot capabilities remains strong, with distribution and other services replacing the record spike in demand for storage services experienced during Covid. CTE is well positioned to take advantage of the expected growth in clinical trials, biological services and complex logistics that is emerging and will continue over the remainder of the decade, particularly with the backdrop of strong onshoring tailwinds.

Upside/growth thesis: After four years of consistently strong growth CTE reported a marginal drop in revenue this half. CTE's revenue and profits would have been materially higher if there had been no delay in regulatory approval for a new commercial product that CTE is contracted to store and distribute. With approval of this product expected this half, we would expect CTE to continue its strong growth trajectory in future periods.

Medadvisor
(ASX:MDR)

Global medical adherence

Market cap: \$130m

How it reported: A quite remarkable result highlighting a significant turnaround
Revenue +66%
EBITDA of \$8.6m, **up \$13.1m** on 1H FY22 loss of \$4.5m
NPAT of \$4.7m, **up \$11.4m** on 1HFY22 loss of \$6.7m

Outlook: MDR is historically a seasonal business, and has guided for a moderation in revenue growth in the second half. However this maiden profit provides us with increased confidence in relation to the future of MDR:

- It highlights that the digitalisation 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). Pharma companies are looking to increase spend on digital messaging, as a higher ROI alternative to other advertising mediums.

- After many years of making losses, this result demonstrates MDR's ability to derive strong profit margins from its products when it operates at scale.
- It is pleasing validation of the efforts of MDR's new management team and restructured board.

Upside/growth thesis: As mentioned in our update last month, MDR is currently tracking towards \$100m revenue for the year, which is essentially a break even position (gross margins are at 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. As it grows its revenue line past \$100m we expect MDR to be generating sustainable NPAT results.

Sequoia Financial Group (ASX:SEQ)

Service provider to Australian wealth management industry

Market cap: \$65m

How it reported: Well below expectations (but in line with its January update)

Revenue **-20%**

EBITA – **13%**

Outlook: SEQ noted that ~\$2m of abnormals impacted the first half, and that the second half would see it return to its \$1m EBITDA/month earnings run-rate that it had been generating in FY22. Guidance for the second half of \$6m EBITDA compared to \$3.2m in the first half. The market is in no mood for 'second half stories' at the moment, so will remain highly skeptical until evidence of this level of earnings can be achieved.

Upside/growth thesis: Like KME, SEQ has been a particularly disappointing investment over the past 12 months. However, it is fundamentally a very strong business, currently sitting on \$15m cash. Assuming it does indeed return to its \$12m EBITDA runrate (with ~\$1m in lease costs), it will be generating \$11m annualized pre-tax cash, so is clearly cheap relative to its \$50m enterprise value. SEQ is open to divesting non-core assets while it also retains an ambitious FY26 revenue target of \$300m. We would expect SEQ to return to growth this half, which should drive a share price recovery.

Diverger (ASX:DVR)

Australian wealth and accounting services provider

Market cap: \$37m

How it reported: In line with AGM guidance

Revenue **+7%**

EBITA – **13%**

Outlook: Management have stated they expect a second half skew to earnings and relatively flat profit result for the full year. An investment in resources, in particular the addition of more business development staff to support growth in training and membership services, has held back profit growth for the year.

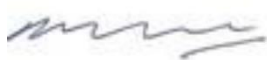
Upside/growth thesis: Management have presented a three year strategy to grow DVR's net revenue to \$45m in FY25, through growing scale, service expansion across its network (training, IT services, self licensee services) and technology driven transformation. If successful, this is expected to see EPS increase from its current 12c to between 18c – 22c. With a share price of <\$1, this highlights the potential value on offer here for what continues to be an attractive (90+% of its revenue is now recurring in nature), under the radar, business.

During February and early March we have met with a number of our portfolio companies. We will discuss in next month's report more detailed feedback from these meetings. However, broadly, companies are responding to the changing economic conditions, with a focus on cost savings, price uplifts and prioritising growth spend. Some companies were hit by significant increases in wages following year end employee reviews in July/August and there has been a lag in being able to put through price increases to offset this. Several companies commented that it is becoming easier to find new staff in recent times.

As mentioned on the first page of this letter, one of the key tenets of our investment belief is the ability of small companies to grow consistently at a much stronger rate than the broader economy. The majority of our portfolio continues to achieve good revenue growth. Margins have come under pressure in recent times, but our recent meetings with companies and the outlooks as highlighted above, suggest that companies are working hard to recover lost margin. The share prices of many of our companies imply that little growth or expectation is currently being factored into their market prices. Our holdings are heavily weighted to profitable, cash generating, growing companies that remain well placed to improve their competitive positions and grow their revenue, margins and cash over time.

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

Kind regards



Roger Collison
Chairman - DMXAM



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

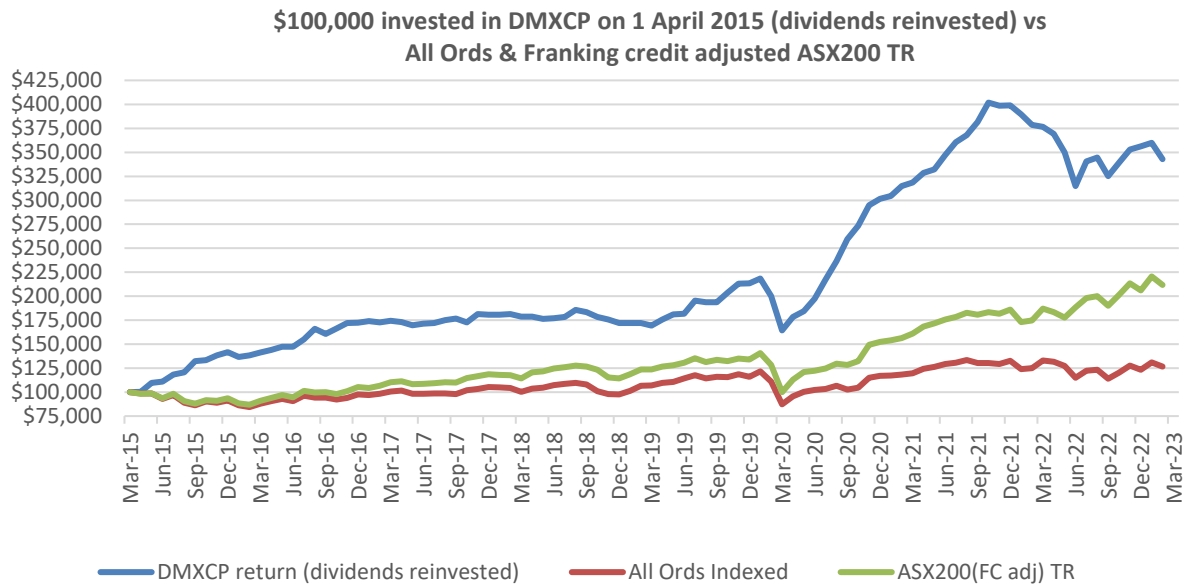
Note 4: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gain

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	+4.50	+0.96	-11.4	-7.2
2023	+1.12	-5.17											-4.04	+2.71

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.



This document is issued by DMX Asset Management Limited (DMXAM - AFSL 459 120) in relation to DMX Capital Partners Limited (DMXCP). The information provided in this document is general information only and does not constitute investment or other advice. The content of this document does not constitute an offer or solicitation to subscribe for shares in DMXCP. DMXAM accepts no liability for any inaccurate, incomplete or omitted information of any kind, or any losses caused by this information. Any investment decision in connection with DMXCP should only be made based on the information contained in the relevant disclosure document.