DMX Capital Partners Limited
March 2023 – Investor Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
Dean Morel (Chair)
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Opening NAV (1 March 2023) [1,2]	**$2.4259**
Closing NAV (31 March 2023) [1,2]	**$2.3163**
Fund size (gross assets)	$23m
% Cash held - month end	4%
Gearing	Nil

1-month return	-4.5%
3-month return	-8.4%
12-month return	-13.3%
3-year return (CAGR p.a.)	25.0%
Since inception (*8 years*) (CAGR p.a.)	16.0%
Since inception (*8 years*) (cumulative)	228.55%

*DMXCP Share price = Closing NAV (**$2.3163**), 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 4.5% (after all accrued management fees and expenses) for March 2023. The NAV as at 31 March 2023 was **$2.3163** compared to $2.4259 as at 28 February 2023.

Markets were weak during March - the All Ordinaries was down 0.6% while the Small Ordinaries decreased 1.1%, and the Emerging Companies Index fell 0.4% for the month, although all indices closed well up off their intra-month lows following concerns around the stability of US and European banking systems.

<u>March Portfolio Developments</u>

March was another challenging month for us, with market sentiment generally poor, particularly among small illiquid companies.

There was no one significant contributor to the month's soft performance – with a number of positions each contributing around 0.5% to the overall portfolio decline. Solid falls in our larger positions in Laserbond (ASX:**LBL**)(-9%), Joyce Corporation (ASX:**JYC**)(-16%), Pure Profile (ASX:**PPL**)(-19%), Kip McGrath (ASX:**KME**)(-10%) and Credit Clear (ASX:**CCR**) (-21%) all impacted performance. In the last month we have spent time with Management of each of these companies and remain comfortable with their progress and potential. On a more positive note, Sequioa (ASX:**SEQ**) recovered 20% on the back of the sale of its securities clearing business for an attractive price (discussed below).

In a down market trading volumes remain light. Many of the positions we own in micro and nano-cap companies are difficult to build and replicate in any volume. It is an unfortunate reality that illiquidity works against us in a falling market, with sellers very much outweighing any buying interest that inevitably dries up in softer markets. The S&P/ASX Emerging Companies Index is down 23% over the past 12 months, as various funds and other investors vacate the space in favour of larger, more liquid opportunities. However, at some point, buying interest will return to these companies, and, based on our past experiences, we would expect this lack of liquidity to be a net benefit to us (given markets rise more than they fall over time). In the meantime, the companies we own, for the most part, continue to grow and increase their intrinsic value.

Following the February reporting season, we conducted a large number of management meetings during the month. We discuss some of these below.

Cirrus Networks (ASX:**CNW)** **–** Market cap: $32m

We met with CNW management during March and they remain very comfortable with how the business is progressing. Since the change of management in late 2021, CNW has had 16 months of consecutive monthly profits. Heading into Q4, its strongest quarter, they noted the issue they have is being able to service the level of demand they are experiencing.

CNW are happy with the competitive dynamics in their space - larger IT services players are focussed on the large government contracts meaning there is a strong pipeline of mid-market opportunities where CNW play. In a post COVID environment, government departments continue to look towards localising / onshoring of service providers. A Labor federal government and heightened cyber security concerns reinforce this trend and benefit Australian owned technology service providers such as CNW.

CNW remains on track to finish the year with $13m cash, which would equate to ~40% of its $32m market cap. CNW is forecast to deliver an NPAT for the year of $3m+, with EBIT growth to continue into FY24 as more enterprise managed services contracts are on-boarded.

Sequoia Financial Group (ASX:**SEQ**) - Market cap: $74m

Sequoia announced the part-sale of its securities clearing business during the month, Morrisons, for $40.5m while still retaining 20% ownership. The sale proceeds are staggered as the vendor, New Quantum, secures its financing. While there is risk that the deal does not proceed, SEQ will receive a non-refundable deposit of between $3m-$7m. The board was attracted to the deal as it is structured to allow SEQ to share in the upside they expect from Morrisons in the future, and if it does fall over, management have indicated that there were a number of other parties interested in the asset.

Proceeds from the sale are likely to be directed to acquisitions across general insurance, legal documents, and other professional services opportunities that SEQ can look to cross-sell across its network of advisors and accountants. Additionally, SEQ's dividend payout ratio will be increased to 100% (fully franked). Assuming the sale does complete, SEQ will hold $45m cash less some capital gains tax payable, a 20% equity stake in Morrisons, and its core business that is generating $100m in revenues and NPAT of ~$5m. With significant cash on completion (>50% of its market cap of $73m), this could allow SEQ to make acquisitions to take its NPAT close to $10m without taking on debt. We believe the deal is value accretive to SEQ shareholders and a good outcome following SEQ's purchase of Morrisons five and a half years ago when it was a much smaller, loss making company. We also are pleased to note that SEQ's buyback facility is being used at current prices given the value we perceive to be on offer here.

Tambla Limited - unlisted

We continue as a substantial shareholder in unlisted enterprise software and IT services company Tambla. Tambla reported revenue of $23m in 2022, and EBITDA of $3.6m. Management expect a strong 2023, with revenue growth in the mid-teens. Growth is being driven by referrals from Tambla software re-seller partners Technology One (ASX:**TNE**), Datacom and SAP, while Tambla is also benefiting from recent investments in providing more customer friendly cloud based offerings, including a new cloud based workforce management (WFM) platform, that is now available on the SAP marketplace – the only ANZ WFM product certified globally by SAP. With some significant capex initiatives concluding and resulting in a declining capex spend, Tambla will start to generate meaningful free cash in 2023.

With a large government customer base, Tambla is seeing the same trends in relation to increased government spending on technology and digital initiatives that are benefitting other companies providing technology project services to government clients that we own (CNW and SOCO Corporation (ASX:**SOC**)).

We think the progress here is encouraging – Tambla should deliver 2023 revenues of $28m+ with EBITDA margins in high teens, being the fifth year of consecutive revenue and profit growth. Tambla has a very sticky customer base (1% churn) and a high quality enterprise/government client base. After several years of investment in cloud infrastructure and product development, the company has an accelerating growth profile as the Board works towards an exit here.

Advanced Braking (ASX:**ABV) -** Market cap: $15m

We discussed ABV in our December 2022 monthly. As a recap, ABV provides aftermarket braking solutions predominantly to mining companies that operate underground mining vehicles. We were attracted to its growing core earnings with ESG tailwinds plus a blue sky opportunity with Glencore where ABV provides a Sealed Integrated Braking System (SIBS) solution for a Volvo FMX truck.

During March, ABV updated the market with the news that Glencore is selling the mine site that was going to use the new braking system on their trucks, and would no longer fund projects associated with that mine site. Having funded its share of the development costs to the point of production of the required units for validation testing, Glencore will no longer contribute any further funding. We spoke with CEO Andrew Booth regarding the news. He expects ABV to continue with the SIBS program either with an Australian based mining partner or they will simply fund the remaining expenditure of ~$300k themselves. While this means there is lower certainty on future bulk orders from Glencore, it does mean ABV can now negotiate with other mining companies.

Andrew also took the opportunity to discuss the trends in the mining industry and why he thinks they are supportive of the ABV SIBS solution into the future. A continued focus on electrification and autonomous trucks lends itself to smaller commercial sized trucks where a SIBS is not provided by the manufacturer (e.g. Volvo). Rio Tinto plan to phase out the purchase of new diesel haul trucks (large yellow Caterpillar type trucks) by 2030 replacing them with a smaller 'mosquito' fleet which can move faster and more efficiently. These smaller trucks, particularly those operating underground, are likely to need an independent SIBS system (such as ABV's) installed. In the meantime, ABV continues to grow its core business and its profits, while it trades on a PE multiple of less than 10x. More mine operators are mandating the use of fail-safe brakes on vehicles operating on their sites.

Prime Financial (ASX:**PFG**) - Market cap: $46m

We caught up with PFG's MD and Chair, Simon Madder, to discuss its 1H23 result and get more confidence around how PFG intends to achieve its goal of doubling its revenue by FY25.

Firstly, we thought the result was solid with strong revenue and profit growth. However, margins were softer. This was explained by investment in people, seasonally higher software costs from its SMSF division, and lower transactional revenue from its wealth business. We expect margins will strengthen as new recruits become more efficient and the newly acquired Intello business provides a full year's contribution. A key growth strategy for PFG is to provide more services to its core Accounting & Business Advisory and Wealth Management clients. This strategy has been successful to date with the recently formed Capital & Corporate Advisory segment growing to the point where is now a material contributor to the group. Replicating this success across new service lines in ESG consulting and debt capital markets will be key pillars to reaching the FY25 targets. The formation of these new service lines appear to be timely. While further acquisitions are part of the growth strategy, Simon noted that at current growth rates, an acquisition may not be required to reach its $50m revenue goal. This would be a very pleasing outcome as it would result in less dilution through share-based acquisition consideration. Notwithstanding this growth profile, PFG continues to trade cheaply on a PE multiple of less than 10x.

One of the issues we have had with PFG is the board composition, given it has no independent directors. We have stressed our desire to have one appointed. Simon indicated that the search continues and an appointment should be made in FY23.

As highlighted in the examples above, we own a unique portfolio of interesting, under-the-radar small companies typically under $100m market caps, that are supported by solid growth and value investment theses. While market conditions are difficult at the moment, and performance disappointing, we have confidence and conviction in the longer term outcome of our portfolio. The low market capitalisations of many of our companies imply that little growth, value and/or success is currently being factored into their market prices, which provides for significant upside and opportunity when market interest returns. Whilst we don't have any superior insight into when this may occur, we are patient investors, and in the meantime, our portfolio of growing companies continue to grow their revenue, margins and cash and their intrinsic values while we wait.

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

Kind regards

Roger Collison	Steven McCarthy	Chris Steptoe
Chairman - DMXAM	*Portfolio Manager*	*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	**-4.52**										**-8.45**	**+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.