DMX Australian Shares Fund
April 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 March 2023)	**$1.0043**
Unit price (mid) based on NAV (30 April 2023)	**$1.0119**
Number of Stocks	46
% cash held - month end	3%
Fund size (gross assets)	$10m

1-month return	0.8%
3-month return#	-8.9%
12-month return#	-6.7%
Since inception (1 March 2021, p.a.) #	2.7%
Since inception (cumulative)	5.9%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV stabilised this month, rising 0.8% (after fees and expenses) during April, though again underperforming the ASX 200 Total Return Index which rose 2.8%.

Commentary

While a fairly benign bottom-line result for the month, underlying that were some significant developments and swings in pricing. **Frontier Digital** completed its (small, but shotgun) cap raise which together with ongoing uncertainty around its Pakistan interest saw its shares decline 28%. The company is clearly out of favour, and is potentially now suffering as we head into tax loss harvest season. But we continue to like its diverse market-leading digital marketplace assets in rapidly developing economies, and despite having to raise capital at seemingly the worst possible time, the raise wasn't overly dilutive and the company's balance sheet remains debt-free and strong, with operating cashflows expected to grow considerably from here.

Kip McGrath continued its long slide, falling another 8% for no reason other than *why not?* Liquidity in the stock is low, with the price moving around on very light volumes. And investors are probably sceptical about its US expansion, as well as concerned about how deteriorating consumer discretionary spending may impact demand for Kip McGrath's services. Nevertheless, at ~$25m market cap, we believe there is significant embedded value here considering the company's rich history & strong brand in its core markets. Investors will no doubt be looking to the company's full year result to take confidence that the US enterprise is under control, and profit growth is back on track.

On a more positive note, **Shriro** inched up 7% as it announced a minor distributorship win, but mainly on the back of its announced intention to pay a large special dividend later in the year. This follows the freeing up of working capital from other ceased distributorships and exited lines of business. While we would like to see reinvestment for growth, there's clearly healthy tension within the business and board, and in the absence of clearly value-accretive investment opportunities, we're very happy to be receiving the capital back.

The DMX Capital Partners report includes updates on each of **Advanced Braking**, **Aeeris**, **AVA Group**, **Corum**, **Credit Clear**, and **Kinatico**; each of which is also owned the DMXASF. This content is included as an Appendix to this report.

Michael Hill Acquiring Smaller Jewellery Retailer, Bevilles

With operations across New Zealand, Australia and Canada, **Michael Hill** is a long-established and quite profitable jewellery retailer. After a period of failed growth initiatives including the expansion into then retreat from the US, and the development and subsequent closure of its Emma & Roe brand, the company has been consolidating its efforts around its core business. This has seen dramatic improvements in efficiencies and margins, as the group has focused on moving up the value chain (toward diamonds, and increasing average transaction size). But this has been somewhat at the expense of growth, especially as Canada has reached maturity.

During the month, the company announced the acquisition of Bevilles – a mid-market jewellery retailer with 26 stores across Australia. An acquisition of this nature had been well-flagged to the market, and in terms of size, is comfortably funded utilising the company's current cash balance. Bevilles brand positioning is important as with its lower average basket size it has a very different market, but is complementary in terms of operating leverage through being a part of the larger group.

Paying in cash and without any equity component means the purchase is expected to be immediately EPS accretive. While there will be some obvious synergies, particularly around improved vendor terms and lease negotiations, the real value-uplift will be from rolling the Bevilles store network out to a more meaningful footprint in the Australian market. From a starting position of 26 stores, the company is preparing to add 10-15 stores pa for some number of years. For Michael Hill, Bevilles provides some growth potential that has been missing over the past couple of years. Success with Bevilles, together with continued business improvement momentum within the core Michael Hill brand, could make Michael Hill look very cheap from its current ~9 times P/E base.

Smartpay to Unlock Value in NZ

Smartpay is a payments operator with an established EFTPOS terminal network in New Zealand, and a rapidly growing Australian business. In NZ, Smartpay's business is the operation of ~30,000 terminals under a rental model with a fixed monthly charge. This business is essentially providing the hardware through which small retailers engage with customers, with payments being processed over third party networks (which Smartpay doesn't participate in). In Australia, Smartpay predominately runs a fleet of ~16,000 terminals as an *acquirer*. The hardware is provided, and in addition, Smartpay processes payments in exchange for a small percentage. This charge can either be absorbed by the retailer, or passed on to the consumer at the point of sale. This *acquiring* business in Australia is far more lucrative than the NZ $60/month hardware rental business.

During the month, Smartpay made a small but significant announcement within its quarterly update, noting it had entered into an agreement with its Australian processing partner to unlock the strategic value of its NZ fleet. Essentially, the gameplan from here is to now convert its substantial NZ customer base onto its lucrative acquiring model.

In Australia, Smartpay has to win customers from the big banks. But in NZ, its strategy will be to simply convert existing Smartpay customers into the latest hardware technology, and simultaneously switch them over to its acquiring model. Given the sheer size of its NZ base, success in achieving this objective will likely yield a very significant profit uplift in the years ahead. Smartpay is one of the fastest growing profitable businesses on the ASX, and the evolving strategy with NZ holds the potential to super-charge that growth. Given the Australian business momentum, and NZ upside optionality, we are very comfortable holders of what has now become a core position for us at 5-6% across both our funds.

Summary

With the smaller companies sector having sold off materially over the past year, many of our companies de-rating in sympathy, but generally positive developments across many of our key holdings despite the challenging operating environment, we believe the portfolio is very well positioned for the periods ahead. The breadth and quality of the opportunity set we face and are exposed to, together with – in many cases – their heavily discounted prices, we believe, will help underwrite meaningful returns over time from here.

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.

Michael Haddad
Portfolio Manager

Chris Steptoe
Research Analyst

Appendix – DMXCP Commentary

Advanced Braking (ASX:**ABV) -** record quarterly NPAT

ABV which provides aftermarket braking solutions predominantly to mining companies that operate underground mining vehicles, reported a record NPAT for the quarter of $0.5m (+89%). Year to date (9 months) NPAT of $1.3m is up 181% on last year. A combination of strong revenue growth (+30%), gross margin expansion and overhead cost management is contributing to this momentum. With miners digging more, and deeper, underground mines (given less new open pit mining) there is a need for 'ruggedised' vehicles that can travel underground safely and in an environmentally friendly manner, which is increasing the demand for ABV's products.

ABV has a market cap of $16m, $2.5m cash and an encouraging NPAT profile as mentioned above.

Aeeris (ASX:**AER**) – strong ARR growth

AER reported a 28% increase in its ARR in the 9 months to 31 March 2023 (albeit off a low base), and is looking to accelerate sales growth from here. It is seeing increasing uptake for its suite of weather alerts and forecasting products, which it generates from its proprietary spatial data set, and sells to a wide range of entities such as insurance companies, transport companies and government agencies. While private weather forecasting is relatively uncommon in Australia, it is a larger industry in other geographies. AER owns Australia's most comprehensive database of historical acute and chronic severe weather hazards and warnings (going back over 100 years), and uses insights from this historical data to map and monitor future weather events. AER continues to see interest in its 'Climatics' offering which provides physical climate risk intelligence for boards and organisations that are being increasingly required to address and disclose climate risk disclosures and responses which should further drive demand. While AER still has a low revenue base, recent growth is encouraging.

AER has a market cap of $8m, $2.5m cash and is operating around NPAT breakeven.

AVA Group (ASX:**AVA**)– record quarter for sales orders

AVA, which develops and sells security and sensing technologies, reported a record level of sales orders for the quarter of $8.7m. Year to date confirmed sales orders of $23.1m have grown 46% organically. This followed an announcement earlier in the month that its AI-powered fibre optic sensing technology had been selected to help protect a 'critical European border' in a USD1.5m contract. AVA noted that "*Securing this contract is a vote of confidence in what we believe to be the most advanced perimeter intrusion detection technology on the market*."

Global security concerns are driving the adoption of high security technology, and there is increased government spending on protecting critical infrastructure. With its suite of leading security technology, and with a new sales focused management team, AVA is positioned to drive strong growth capitalising on these industry tailwinds. Management believe the platform and pipeline is in place to grow revenue aggressively over the next three years.

AVA has a market cap of $51m, $5m cash, and should generate a small NPAT this year with a large step up in NPAT expected in FY24.

Corum Group (ASX:**COO**) – successful judgement in legal proceedings

Corum provides software and technology to the pharmacy industry in Australia, including owning the PharmX ordering platform. This is an electronic order and invoicing gateway that connects ~99% of Australian pharmacies to their wholesalers and direct suppliers. COO was previously a minority shareholder in this business, acquiring 100% of PharmX in 2020 after buying out majority shareholder Fred IT, a Telstra subsidiary. COO subsequently sued Fred alleging Fred had previously received distributions from PharmX to which it was not entitled; and that the price paid by Corum to acquire Fred's PharmX shares had been inflated. After almost 3 years of litigation, during April, judgement was handed down in favour of Corum, with Corum awarded $5.1m in damages, plus interest plus costs. Although this remains subject to appeal, this will significantly increase Corum's cash balance and removes much of the uncertainty which has been impacting the stock.

COO has a market cap of $22m, $10m+ cash after it receives the judgement proceeds & the potential to realise a further $5m - $15m from selling its non-core pharmacy software product suite, and is underlying NPAT profitable.

Credit Clear (ASX:**CCR**) – new business wins but little revenue growth

Digital-focused debt collection business, CCR, had announced that 182 new clients had been signed during the first half of FY23 and a further 89 new clients signed in the third quarter, so expectations for strong revenue growth for the quarter were high. While like for like comparisons are difficult because of seasonality and acquisition timing, organic revenue growth was, disappointingly, in mid-single digits, rather than 20%+ that we were expecting. Management believe that despite the muted revenue growth, the revenue mix has improved (Digital/recurring rather than project/low margin) and much of the significant new business signed in FY23 is still climbing towards its anticipated revenue with work done towards shortening the time to achieve the $7.7m in expected annual revenue from these new clients. However, the delay in revenue growth lengthens the time the business will take to move from EBITDA profitable to NPAT profit. We continue to think there is a good business here, illustrated by the size and quality (big four bank, IAG) of the new business wins, with the company having a success rate of >70% in tenders, but progress at the revenue level has been frustratingly slow. With cost of living pressures, less debt being sold and fewer industry competitors, the tailwinds here remain attractive.

CCR has a market cap of $90m, $5m cash and is generating an operating EBITDA profit, but is still some time away from NPAT.

Kinatico (ASX:**KYP**) - Maiden quarterly NPAT profit

KYP reported a $1.2m operating cash surplus for the quarter, and also its maiden quarterly NPAT profit.
KYP's profit improvement has been driven by margin expansion (GP +3% to 65%), cost cutting and automation initiatives. This represents a successful 18-month transformation as the company has focussed on its higher margin, recurring revenue from providing workforce compliance monitoring software.

Increasing regulations require companies to have confidence that their employees are compliant at all times – i.e. need to ensure that an employee's training, security clearances, health and safety records, licenses and checks etc are up to date and are conforming to regulatory requirements and internal policy and procedures. The KYP platform is unique in that it enables employers to monitor, in real time, this credential/ compliance information with the product seeing strong demand, particularly in compliance heavy industries such as mining, disability services and healthcare.

KYP has a market cap of $33m, has $10m of cash and is now NPAT profitable, with Management confident of ongoing growth.