DMX Capital Partners Limited
April 2023 – Investor Update

An investment company managed by:
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DMXCP directors: Roger Collison
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Opening NAV (1 April 2023) (1,2)	**$2.3163**
Closing NAV (30 April 2023) (1,2)	**$2.3274**
Fund size (gross assets)	$23m
% Cash held - month end	4%
Gearing	Nil

1-month return	0.5%
3-month return	-9.0%
12-month return	-10.9%
3-year return (CAGR p.a.)	21.2%
Since inception (*8 years 1 month*) (CAGR p.a.)	15.9%
Since inception (*8 years 1 month*) (cumulative)	230.0%

*DMXCP Share price = Closing NAV (**$2.3274**), 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 0.5% (after all accrued management fees and expenses) for April 2023. The NAV as at 30 April 2023 was **$2.3274** compared to $2.3163 as at 31 March 2023.

After significant volatility in March, markets stabilised and were positive during April - the All Ordinaries was up 1.7% while the Small Ordinaries increased 2.6%, and the Emerging Companies Index rose 1.5% for the month.

April Portfolio Developments

April saw a number of positions provide updates in relation to their third quarter (January to March) operating performance. Notwithstanding plenty of news flow, the holdings during the month with the largest increase, Earlypay (ASX:**EPY)**+28%, and the largest decline, AFL Legal (ASX:**AFL)** –20%, did so on the back of no news, albeit on light volumes.

In addition to EPY, Smartpay (ASX:**SMP)** contributed positively with an encouraging trading and strategy update and was up 25% for the month. However, for the third month in a row, Pure Profile (ASX:**PPL**) and Kip McGrath (ASX:**KME**) continued to detract from performance, as did Credit Clear (ASX:**CCR**) following a soft quarterly update.

Notable updates during the month included:

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 previously 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 and Management have clearly underdelivered on expectations.

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.

Reflections and portfolio positioning

In recent years, while the majority of our portfolio has been focussed on profitable, usually dividend paying stocks, we have purchased a number of typically smaller positions in technology stocks with low market caps that have been close to cash flow break even to provide exposure to interesting emerging growth stories. We had expected that with their growth profile and attractive unit economics they would grow to become NPAT positive in the short to medium term. This journey to profitability among this basket of stocks has taken much longer, and proved more challenging and frustrating than we had expected. It has taken until this quarter to see the first in this basket (KYP - as discussed above, after over four years of holding) to reach an NPAT profit.

Gross profit improvements on the back of revenue growth have typically been offset by increased growth costs and technology spend, and complicated by strategy and management changes in some cases. We have found that for those companies that have invested in growth (and those that have a culture of gifting management shares), the transition from EBITDA positive to NPAT positive, and then generating operating leverage can be a long and painful (for shareholders) journey. CCR, which we discussed above, is a good example of this, while it is operational EBITDA positive, there is uncertainty as to when it will be NPAT positive, and post month end undertook yet another capital raise to fund its growth. For one of our companies, Design Milk (ASX:**DMC**) found it too difficult to transform to a profitable business and has now sold its operations and is looking for new opportunities. We are much more sceptical now of those sorts of opportunities, and of management teams that are promoting these transitioning to profit companies.

In recent times we have seen share prices of small companies contract materially, while at the same time, the fundamentals of many of these companies (both within and outside our portfolio) have improved, and our opportunity set of interesting profitable small companies has grown as a result. We are enthused about these under-appreciated opportunities, and our portfolio is becoming increasingly weighted towards these profitable businesses with strong balance sheets and attractive growth profiles. As previously mentioned, two of our larger holdings are Sequoia Financial Group (ASX:**SEQ**) and Cirrus Networks (ASX:**CNW**). We expect both of these businesses to shortly have ~40% to ~50% of their market caps in cash, together with a growing, profitable core business.

Several of the names that reported this month which we talked about above (ABV, KYP, AER, AVA, COO) also have a significant proportion of their market caps supported by cash. They also highlight the type of opportunity that we are increasingly seeing at the moment - attractively valued, under the radar, businesses with strong technology IP and market positions, and favourable tailwinds that have already proved out a profitable business model and have very little growth priced into their share prices. Despite not being priced for any growth, ABV and AER are growing this year at ~30%, while KYP's SAAS revenue has more than doubled this year from $2.4m to $5.8m.

We consider these opportunities to have stronger risk/reward profiles with multiple ways to win from here: balance sheet initiatives, multiple re-rates and growing earnings. We continue to take advantage of the market's current lack of interest in small companies to position the portfolio towards these types of opportunities.

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	-4.52	**+0.47**									**-8.02**	**+4.1**

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.