DMX Capital Partners Limited
June 2023 – Investor Update

An investment company managed by:
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Opening NAV (1 June 2023) (1,2)	**$2.2357**
Closing NAV (30 June 2023) (1,2)	**$2.1841**
Fund size (gross assets)	$22m
% Cash held - month end	3%
Gearing	Nil

1-month return	-2.3%
3-month return	-5.7%
12-month return	-0.7%
3-year return (CAGR p.a.)	15.5%
Since inception (*8 years 3 month*) (CAGR p.a.)	14.8%
Since inception (*8 years 3 month*) (cumulative)	211.4%

*DMXCP Share price = Closing NAV (**$2.1841**), 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 2.3% (after all accrued management fees and expenses) for June 2023. The NAV as at 30 June 2023 was **$2.1841** compared to $2.2357 as at 31 May 2023.

Markets were mixed during June - the All Ordinaries was up 1.7% while the Small Ordinaries declined 0.4%. The Emerging Companies Index recovered after a challenging May, rising 2.4% during June.

June Portfolio Developments

June saw a continuation of the tax loss selling and disinterest towards small and illiquid companies observed in recent months, with little news to generate interest across the portfolio. Pleasingly, conditions have improved in July, with the conclusion of financial year end tax loss selling and some positive news-flow resulting in improved interest being observed among many small companies.

Key detractors for the month included:

- Various illiquid, low market-cap companies that were sold down 10 – 20% towards the end of the financial year, on very light volume and on no news such as Pureprofile (ASX:**PPL**), SOCO Corporation (ASX:**SOC**), Corum (ASX:**COO**), AVA Group (ASX:**AVA**), Knosys (ASX:**KNO**) and Findi (ASX:**FND**).
- Several holdings were sold down on significant volume which likely represented tax loss selling from funds exiting prior to 30 June. PeopleIn (ASX:**PPE**) fell 20% after advising the market that discussions around a potential takeover had concluded with no deal on offer, while Field Solutions Group (ASX:**FSG**) was down 17%. Both PPE and FSG have recently confirmed their guidance for FY23.
- We also wrote down the value of some small holdings that are looking for new opportunities and have not traded for some time (ICS Global and Chant West).

Offsetting some of these declines were increases in Kip McGrath (ASX:**KME**)(+13%) which reported an improved second half result, and Acadamies Australia (ASX:**AKG**) and AF Legal (ASX:**AFL**) which both increased ~20% on no news.

For the financial year to 30 June 2023, DMXCP returned -0.7%. While some of this disappointing performance has been self-inflicted, it has been a challenging period for investing in small and illiquid companies.

As highlighted below, nano-caps and micro-caps have been under pressure over the last 12 months, despite the fundamentals of many of these companies improving strongly. While the largest ASX companies delivered a median share price return of 8% for the financial year, the median of the smallest companies declined by 37% over the year. In a more uncertain, risk-off environment, investors have preferred the liquidity and comfort of larger, more mature businesses.

With a median market cap holding of under $30m, our portfolio has struggled to get traction against this broad negative sentiment towards small companies, particularly in the second half of the year.

Median performance by market cap band – 12 months to 30 June 2023				
Sector	**Sub $20m**	**$20m - $100m**	**$100m - $1b**	**$1b+**
Communication Services	-23.5%	-18.8%	-17.0%	11.1%
Consumer Discretionary	-50.4%	-18.6%	0.0%	4.8%
Consumer Staples	-50.0%	-24.4%	-16.3%	-1.3%
Energy	-31.4%	-13.0%	-10.6%	10.2%
Financials	-25.9%	-18.9%	-10.1%	5.6%
Health Care	-44.4%	-23.2%	7.0%	10.7%
Industrials	-30.8%	3.4%	4.9%	16.1%
Information Technology	-40.3%	-20.8%	5.6%	17.8%
Materials	-36.5%	-16.7%	-2.1%	20.2%
Real Estate	-32.1%	-8.7%	-8.8%	-3.6%
Utilities	-47.0%	91.5%	16.0%	15.7%
OVERALL (MEDIAN)	**-37.5%**	**-16.7%**	**-2.9%**	**8.0%**

The positive out of this pretty brutal sell-off is that it creates opportunities, and with the valuations of many holdings trading at multi-year lows and the broad-based nature of the sell-off, we think the current opportunity set is one of the most prospective we have seen in this part of the market since we commenced DMXAM in 2015. When we see holdings sold down to a level where they are trading below their net cash backing, as happened this month, we think this is a good indication of the real value on offer. Feedback from CEOs that we speak to is that they are seeing very little interest in sub $100m market cap companies from institutions, while a broker we recently spoke to noted that over 90% of his client base no longer invest in these smaller companies – all of which creates further opportunities for us, and the potential for large re-rates when interest returns to the space.

Within the small cap universe there are certainly a number of 'story' stocks with unproven business models and burning cash (which we seek to avoid). Some of these have rightfully seen share price declines to levels that better reflect their speculative nature. However, if we screen out these uninvestable opportunities, it is very much the case of the baby being thrown out with the bathwater.

We believe that there are many small companies that have strong and improving fundamentals and attractive growth outlooks, where there has been a real disconnect between their growing intrinsic value and their falling share prices. We think these types of companies are well positioned for a strong re-rating, having underperformed the broader market and being very much unloved for well over 18 months. To highlight this opportunity, we detail below an update of our portfolio's 10 largest positions as at 30 June 2023: all growing and profitable, with strong balance sheets and supportive tail winds.

DMXCP Portfolio top 10 ASX holdings update - 30 June 2023		
Company	**Weight**	**Description**
Smartpay (ASX:**SMP**) $445m (NZD) MC	6%	A payments operator operating an established network of payment terminals in New Zealand, as well as experiencing rapid growth in Australia. Smartpay has been one of the fastest growing, profitable businesses on the ASX in recent years, taking market share from the banks, with projected revenues surpassing $100 million in FY24 and an estimated EBITDA of ~$25 million. Its strategy to further unlock value in New Zealand has the potential to greatly enhance the company's growth in the coming years.
Sequoia Financial Group (ASX:**SEQ**) $74m MC	5%	Sequoia Financial, a service provider catering to the Australian wealth management and accounting industry, has achieved remarkable value generation under its current Management team. Notably, SEQ has agreed to sell 80% of its Morrison Securities subsidiary for $40.5 million. Post the sale, SEQ anticipates revenues of $100 million and a net profit after tax (NPAT) of approximately $5 million in FY24. Moreover, with expected cash of $40m+ post the Morrison's sale, SEQ has significant surplus capital that will be allocated towards dividends and potential acquisitions.
Laserbond (ASX:**LBL**) $82m MC	4%	Laserbond is a laser engineering technology company that serves customers worldwide. Its range of products and services is designed to decrease the overall cost of equipment ownership in industries that require significant capital investments. Additionally, Laserbond's solutions contribute to reducing the carbon footprint of these industries. Laserbond is expected to achieve revenues > $40 million, EBITDA of ~$11m and NPAT of >$5 million in FY23, having grown NPAT at ~40% CAGR over the past 5 years.
Academies Australia (ASX:**AKG**) $53m MC	4%	Academies Australia operates 16 licensed higher education colleges throughout Australia, along with one in Singapore, with the majority of its revenue derived from international students. The impact of the COVID-19 pandemic has led to a decline in enrollments, resulting in reduced earnings. Pre-COVID, AKG was generating >$5m NPAT and we foresee a return to these levels as student numbers rebound.

SOCO (ASX:**SOC**) $29m MC	4%	Government focused IT consulting business, which recently IPO'd with founders not selling any shares and retaining ~80% of the company. Revenue has grown over 60% CAGR over the last 3 years supported by strong demand for digitalization services. The company is forecasting FY23 EBIT of ~$3m, with a strong pipeline of new clients and opportunities to drive growth into FY24.
DDH1 (ASX:**DDH**) $334m MC	4%	Specialised driller to mining sector, 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. Having recently received corporate interest from Australian peer PRN, we see potential for competing bids coming to the table now the company is "in-play", yet continues to trade on a very low multiple (7x PE).
Cirrus (ASX:**CNW**) $29m MC	3%	An IT services business, which has been reinvigorated by a new management team. It remains on track to finish the year with ~$13m cash, which would equate to >44% of its $29m market cap and deliver an EBITDA of ~$5m. As an Australian owned service provider, CNW is well placed to continue to win new government business.
Pureprofile (ASX:**PPL**) $28m MC	3%	Global data and insights company, with year-to-date revenue up 26%, with growth driven by PPL's emerging UK business, where revenue is up 41%. EBITDA of $5m for FY23 has been guided for. Expanding margins, the exit of its unprofitable media business and the appointment of a new more market friendly chair sets up PPL for a strong FY24.
Kip McGrath (ASX:**KME**) $29m MC	3%	A leading brand in the tutoring sector with a large international footprint generating annual tuition fees of $100m + across its network. While recent profit growth has been disappointing, a stronger second half, improving margins from its corporate centres and growth in the US should position KME for strong growth in FY24.
Diverger (ASX:**DVR**) $30m MC	3%	A leading provider of services to accountants and financial advisers, growing through expanding its range of services and through technological initiatives. With FY23 guidance confirmed and trading at ~7x NPATA, there is the opportunity for a material multiple re-rate as DVR's growth profile improves, as well as being a genuine takeover target.

Outside of the top 10 holdings, we are excited about the potential for the likes of Advanced Braking (ASX:**ABV**), Corum (ASX:**COO**), Aeeris (ASX:**AER**) and Field Solutions (ASX:**FSG**) – all growing with improving fundamentals, with low market capitalisations (<$30m) and attractive profit profiles.

We are expecting significant profit milestones to be achieved during FY24 from technology company holdings such as 8Common (ASX:**8CO**), AVA Group (ASX:**AVA**) and Kinatico (ASX:**KYP**), which have been out of favour with investors over the last couple of years, and, with a bit more investor interest on the back of evidence of improving profits, have the potential for re-rates from their current low market capitalisations.

We see value in the likes of Findi (ASX:**FND**) which has recently guided for $4m NPAT and has a $13m market cap, while Yellow Brick Road (ASX:**YBR**) trades at ~50% discount to its asset backing, with $7m of its $19m market cap in net cash.

Whilst this is clearly an uncertain time for investing with many economic unknowns, we believe there are multiple ways to win from the names we own. We think the odds of success from here are in our favour due to:

- Our key holdings have proven business models supported by long term structural growth trends.
- The majority are on low multiples/valuations that allow for significant multiple expansion and valuation re-rates.
- Many holdings are misunderstood by the market, offering re-rate potential as they become better understood.
- Low market caps/enterprise values with limited liquidity that offer plenty of upside as they grow and attract broader investor interest, and catch up to their larger peers.
- Many positions don't need a broad market rally to re-rate – some of them are so cheap they just need a few new investors to take notice of them.

While sentiment towards small companies will ebb and flow, we see substantial value across the portfolio with many holdings trading well below their intrinsic value. We expect the material upside potential from these positions to deliver strong long-term portfolio returns.

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

Kind regards

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Chairman - DMXAM

Steven McCarthy
Portfolio Manager

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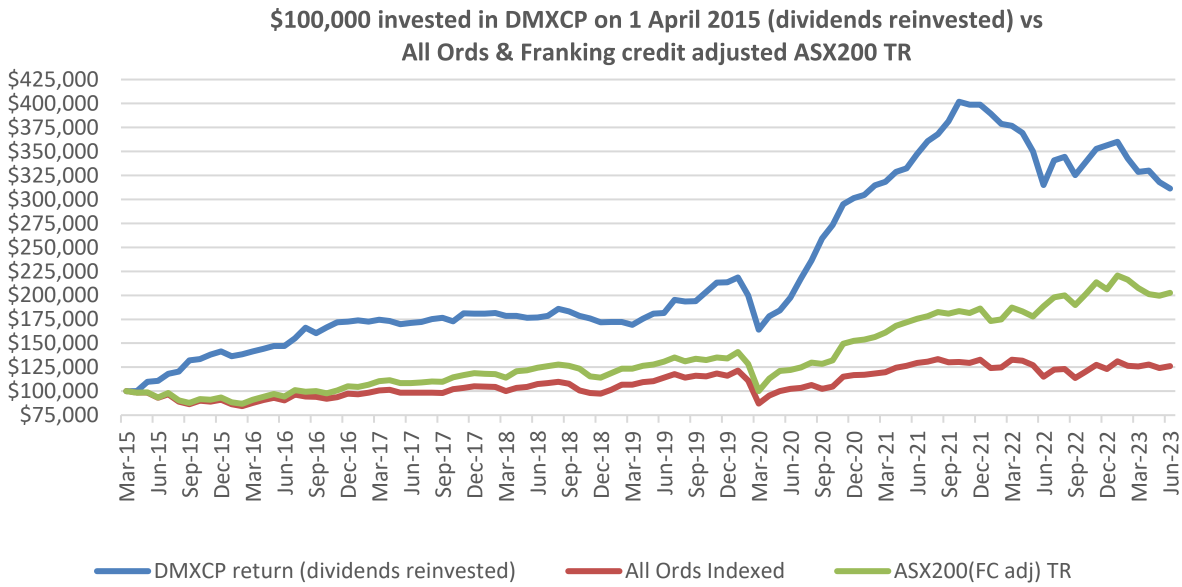
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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	-3.94	**-2.30**							**-13.6**	**+2.48**

The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (1 May 2015). DMXCP is an absolute return fund, focused on generating positive absolute returns over the medium to long term.



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