DMX Australian Shares Fund
July 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 (30 June 2023) (ex-dist.)	**$0.9128**
Unit price (mid) based on NAV (31 July 2023) (ex-dist.)	**$0.9915**
Number of Stocks	40
% cash held - month end	3%
Fund size (gross assets)	$11m

1-month return	8.6%
3-month return	4.7%
12-month return#	5.0%
Since inception (1 March 2021, p.a.) #	4.4%
Since inception (cumulative) #	10.9%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 8.6% during July, ahead of the ASX 200 Total Return Index which rose 2.9%. With many of our names having sold off in recent times and in particular with tax loss selling of losers into the 30th June financial year-end, July brought some relief with many companies recovering somewhat.

Commentary

Not much went against us this month which allowed rebounds to a number of our over-sold stocks to translate to a strong month overall. In the data and technology space, **Ansarada** recovered 50% while **Corum** rose 22% and **Energy One** rebounded 43%. **Pureprofile** rose 23% and IT services company **Cirrus Networks** rose 22%. With so much negativity and fear priced into much of the market, it's interesting to observe **Shriro** jump 21% after falling short against its previous earnings guidance. Battle worn investors have come to expect bad news, so only moderately bad news can still be met with enthusiasm.

Notable updates during the month included:

Michael Hill

Michael Hill provided a full year trading update, with group sales up 6% on last year. The increase was skewed toward the first half, with trading being impacted in the second half by difficult economic conditions. Importantly, gross margin is being maintained at historically high levels for the company. The company's ability to deliver flat results against a declining jewellery retail segment is impressive, particularly considering this has been achieved without needing to give up margin. We see good value in its shares which trade around 8-9 times earnings with a strong balance sheet and avenues for growth in the periods ahead. We believe Management and the Board are approaching their opportunity set rationally, with a balanced focus on business improvement & organic growth; value-adding acquisitions; paying a strong dividend; and buying back shares. Our expectation is that in time these will flow through to a meaningful re-rating from these current levels.

Shriro

As mentioned above, **Shriro** reported second half EBITDA 15% lower than previously guided, in February. Despite this, its shares rose 21%, in part due to that result not being as bad as it might have been in this challenging consumer environment. And partly due to the company's announced cash balance which was probably higher than many expected. The company has exited certain business lines over the past year, and this – together with good working capital management – has helped free up considerable cash. The company had previously announced it intends to make a special distribution to shareholders, drawing from its growing cash pile. An announcement on this is expected in the next month or so, and given the quantum of its cash at hand, this distribution potential is now being priced into the shares.

The DMX Capital Partners report includes updates on four smaller companies that are commonly owned by DMXASF: **Kinatico**, **Advanced Braking**, **Corum** and **8Common**. These all enjoyed positive developments this month, and the DMXCP commentary is reproduced as an Appendix to this report.

Summary

As outlined last month, the smaller segment of the market has been sold off most aggressively over the past year. We've witnessed some reversal to this over July, but overwhelmingly, we see significant embedded value across our portfolio companies, which we believe will help drive strong returns in the years ahead. Outcomes are never linear, and we're not perturbed by the ups and downs along the way. Instead, we remain focused on executing on our time-tested philosophy and process, and seeking to capitalise as best we can on the opportunities in front of us.

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.

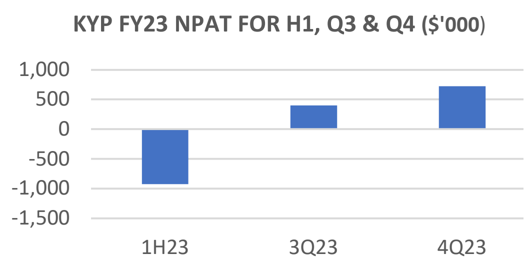
Michael Haddad
Portfolio Manager

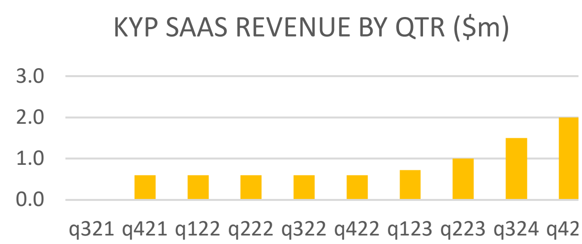
Chris Steptoe
Research Analyst

Appendix – DMXCP Commentary on Commonly Owned Stocks

Kinatico Limited (ASX:**KYP**) – maiden NPAT for year

RegTech company, KYP, announced it had achieved its maiden NPAT in FY23, a significant milestone having first listed in 2015. While this appears to be a modest annual profit of "greater than $200,000", more interesting is the significant improvement in profit trajectory through the year, with the fourth quarter delivering an NPAT of >$700k. This implies an annual rate of profit closer to $2.9m, and as mentioned last month, we would expect KYP to deliver a break-out profit result in FY24. This profit uplift has been driven by a combination of successful operational improvements and strategy execution. In the first half, KYP was able to finalise the implementation of some significant automation in its backend systems, reducing headcount by 25% and delivering a material increase in margin.





The other driver of the profit improvement has been the growth in higher margin, and more consistent, SAAS revenue, which increased over 100% during the year. New and existing customers have been taking up KYP's SAAS offering which helps them monitor their employee's compliance with a variety of safety, security, training, educational and regulatory obligations. This enables KYP to capture revenue through the life of the employee, rather than just at the recruitment stage as was previously the case. Importantly, the revenue is stickier as the software becomes embedded into business processes. With NPAT profitability and the growth in SAAS revenue, the quality of the KYP business is beginning to be noticed by the market with the share price recovering off its April lows. However, we think the strength of its turnaround and change in strategy is underappreciated, with the business for the most part still perceived as a 'CV checker'. With $10m cash, and a strong profit growth profile with NPAT potentially approaching $3m this year, we think KYP is transitioning into a much more valuable business.

Advanced Braking Technology Ltd (ASX:**ABV**) – meaningful revenue growth and operating leverage

ABV designs, manufactures and distributes its innovative failsafe braking solutions and for FY23 reported a 28% increase in revenue, a significant improvement in gross margin and a 129% increase in NPAT to $1.5m. This strong result has been driven by several key tailwinds: 1) an increasing focus by miners on ESG concerns (ABV's brakes are sealed, therefore don't produce emissions); 2) continued investment in underground mining (failsafe brakes are mandatory on vehicles that operate underground and ABV is one of two key suppliers of these brakes aftermarket) and 3) a continued focus by its customers on safety, particularly in emerging markets where there is significant catch up in safety standards required. We believe that these drivers will continue for some time and expect FY24 to be another year of very strong organic growth, with an NPAT of >$2m achievable. With plenty of historical baggage, and a perception in the market that ABV is a low-quality mining services provider, we think that as the market becomes more comfortable with its growth profile and the quality of the IP and opportunity here, there is potential for a material re-rate.

Meanwhile, ABV also continues to progress the development of a new heavy vehicle brake, which has the potential to significantly expand its addressable market, selling its $100k - $200k braking systems into much larger fleets of underground haulage trucks. Again, while this is at an early stage, none of this 'potential' is reflected in ABV's current $15m market cap.

Corum Group (ASX:**COO**) – sale of under-performing software business

COO has agreed to sell its pharmacy software business to Jonas Group, a subsidiary of Constellation Software Inc (TSX:**TSU**) for $6.25m. We previously highlighted the possible sale of Corum's pharmacy software business as being an important valuation catalyst. This sale, along with a resolution of some ongoing litigation, will leave COO with a cash-rich balance sheet (>$17m). The Corum board can now explore capital management initiatives, and focus on driving growth in its remaining higher quality operating business, PharmX, a B2B ordering gateway between pharmacies and suppliers.

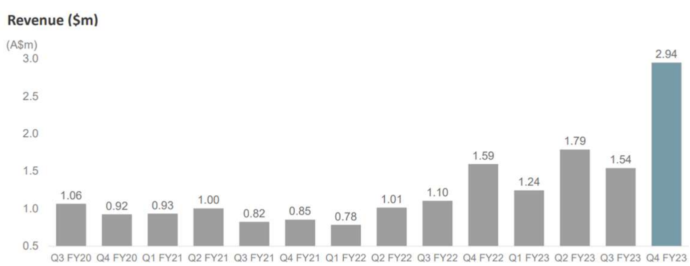
The pharmacy software business is intensely competitive with Corum unable to raise prices, while having to add government mandated functionality to the product. With limited pricing power, a static market, and further capital investment required, we think the decision to sell this (less interesting) part of Corum is sensible.

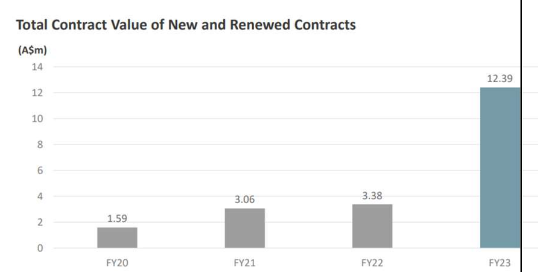
In addition to the cash received, there are other benefits to the sale including:

- Corum's software business required significant ongoing capital investment– we would expect Corum's reported free cashflows to improve following the sale.
- As Corum is no longer competing with other pharmacy software vendors, PharmX can be seen as an independent service provider.
- Selling to a new entrant keeps the pharmacy software vendors suitably fragmented. Again, this keeps the PharmX business in a strong position as there will be less incentive for POS vendors to develop their own version of PharmX.
- It will allow management to focus on Corum's PharmX and emerging PharmXchange businesses.

We expect Corum to provide more clarity on its total cash balance and the underlying profitability of the PharmX business when it reports in August, which should highlight the significantly improved fundamentals here.

8common (ASX:**8CO**) – free cash positive quarter with contracted revenue building





Expense management company 8CO reported a very strong final quarter (revenue up 85%) with a 65% increase in revenue during FY23 and a 24% increase in SaaS Revenue. After a number of quarters of negative free cash as its federal government contract ramped up and capital expenditure remained high, 8CO was pleasingly able to deliver positive free cash this quarter. Importantly contracted revenue has increased three-fold as 8CO onboards new government clients onto its platform. As at 30 June 2023, only 32k of the potential 110k to 170k of government users have been onboarded, providing 8CO with a further two years of embedded growth in both implementation fees and recurring revenue as it rolls out its platform to additional government departments.

The market will be looking to see that this quarter's result is repeatable, but with growth set to continue, we expect 8CO to generate free cash flow quarters from here, which should produce a meaningful free cash result for FY24. We think that the low point in 8CO's cash position was 31 March 2023, and increasing cash from here should dispel the view that 8CO is cum-raise. We also note that 8CO has a listed investment of ~$1m that it is able to liquidate. Our view is in fact 8CO is more likely to look at capital management initiatives from here, than it is to raise fresh equity.