DMX Australian Shares Fund
August 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 July 2023)	**$0.9915**
Unit price (mid) based on NAV (31 August 2023)	**$0.9942**
Number of Stocks	41
% cash held - month end	1%
Fund size (gross assets)	$11m

1-month return	0.3%
3-month return#	9.4%
12-month return#	2.2%
Since inception (1 March 2021, p.a.) #	4.3%
Since inception (cumulative) #	11.2%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 0.3% for the month of August, slightly ahead of the ASX 200 Total Return Index which declined 0.7%. The smaller company sector hasn't been able to maintain its July recovery momentum, with the Emerging Companies Index falling 4.3% for the month. Most of our portfolio constituents fell in sympathy with the broad market, but a couple stand-out positives propped the average resulting in a flat month for us.

Commentary

August marked the end of the full year reporting season for most of our companies. Mostly, results were pre-announced or pre-warned, so newsflow wasn't too surprising. But it has been good to receive outlook commentary, and to be able to engage directly with many of our management teams in recent weeks to be able to help assess and re-confirm prospects for the period ahead and beyond.

Some prior detractors such as **Knosys**, **Schrole** and **Skyfii** continue to cost us with declines of 38%, 25% and 28% respectively. But these have fallen to become such small positions that their impacts now are fairly contained. Each represent interesting value in our estimation, but with many wonderful opportunities and virtually no cash, we are being very careful with how we prioritise our valuable capital. **Academies Australia** though was an impactful decliner, with shares of this larger holding down 30% on the back of a poor result. On the flipside, we benefited from a takeover offer for **Energy One** which rose 32%. Unlike some of the takeover/take-private deals we experienced last year, this set-up is interesting. Energy One is an attractive global software and services business that could have any number of logical suitors. The offer currently tabled has been publicly rejected by at least one key shareholder (with many others underwhelmed by the prospect of this sale). The company is primarily owned by private individuals' interests, many of whom may be motivated to sell for the right price. Our expectation from here is the deal will either fail in its current form, in which case we would be glad to continue to own the asset. Or, the current offer may tease out competing bids with the potential for a meaningfully better outcome in an eventual sale.

Other key updates during the month included:

EML Payments

EML has been a costly mistake for us in the DMXASF portfolio. We first acquired shares in early 2022 for more than $3 each, and averaged down a little as the stock drifted into the $2-range before it went on to fall a further ~80%. We were initially attracted to the company's global gift cards & payments businesses, including its significant 'float' which looked set to generate meaningful interest income as cash rates began to rise. Ultimately, we found ourselves seduced by the story, and various factors including regulatory issues, a revolving door for management & directors, and the sheer complexity/opaqueness of the beast led to a collapse in its share price. Having seemingly found a bottom, and with the company hanging up the *for sale* sign, we regained some confidence in the risk/reward and did add to our position in the 60c range, taking advantage probably of significant tax loss selling pressure coming into the June financial year end. This helped maintain the position's relevance for us, and with the company reporting positively this month – and providing an encouraging update on its sale process – the shares recovered 50% for the month, and remain buoyant so far heading into

September. We hope to manage out of this mistake successfully, and as with many such situations in markets, we take the lesson and keep moving forward.

<u>Consumer-facing Core Holdings</u>

Two of our three largest holdings are **Michael Hill** and **Shriro** (each at 5% weighting), and we have a decent position in **Joyce Corporation** (3%). We've met with the management teams of two of these, and will meet with the third next week. The consistent theme across each has been that the consumer environment remains weak, and each faces challenges for the period ahead. But with each, managements are responding very well with costs being reduced and investments to drive longer-term growth being maintained. Capital management has been a positive theme across the trio with a combination of strong regular dividends, one-off special dividends, and the prospect for value-adding stock buybacks to help drive value creation. Investment within the respective businesses continues to be well-considered and cautious. The three trade at single-digit multiples of sustainable earnings which together with the prospect for modest growth in the years ahead, strong current dividend yields, and potential eventual multiple re-rates, should help drive meaningful total returns over time. For the month, the group was helpful, with Michael Hill flat, but Shriro and Joyce up 11% and 21% respectively.

The **DMX Capital Partners** report includes an updated summary on 10 of its core holdings, highlighting profit results for the 2023 financial year, and our estimates for the year ahead. Nine of these are also owned by DMXASF, and all of these are similarly meaningful positions. Summaries for the nine are included as an Appendix to this report, together with brief commentary on a number of other overlapping positions.

<u>Summary</u>

With reporting season now behind us, and more clarity around how our companies are managing through this difficult macroeconomic environment, we're pleased with both current performance and the longer-term growth potential for most of our holdings. Following a substantial de-rating to the smaller companies sector in particular, the prevailing prices for most of our holdings are very attractive. The underlying earnings yield of our portfolios together with modest growth, and the potential for multiple expansion from these low bases, we expect, will help underwrite strong returns in the years ahead.

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 Key Holdings Update, and Commentary on Commonly Owned Stocks

DMXCP Portfolio key holdings update – August 2023				
Company	**FY23 Profit**	**FY24 DMXAM Estimated Profit**	**Change**	**Notes**
Sequoia Financial Group (ASX:**SEQ**) $70m MC	$3.8m NPATA (1)	$5m to $5.5m NPATA	+31% to +45%	DMXAM estimate, with key assumptions being: -FY24 is expected to benefit from improved momentum, after a challenging FY23, with FY24 underlying EBITDA of ~$9m (FY23: ~$7m) -FY24 is expected to benefit from earnings contribution from the recently completed Castle acquisition, an uplift in activity in Specialist Investments, offset by the loss of Morrison's earnings. SEQ also has $40m of cash as at 31/08 (1)DMXAM estimate of SEQ's normalized NPATA from continuing operations
Smartpay (ASX:**SMP**) $445m (NZD) MC	$8.5m NPAT	$10m to $11m NPAT	+18% to 29%	DMXAM forecast based on continued Australian acquiring growth Underlying profit growth also masked by move to tax paying position.
Cirrus (ASX:**CNW**) $38m MC	$1.7m NPAT (2)	$2.4m to $2.8m NPAT	+41% to 65%	DMXAM estimate, with key assumptions being: -labour market headwinds easing, which will improve professional services margins in FY24 -FY24 is expected to benefit from full year contribution of ENI managed services contract, and part year contribution from Icon managed services contract. -CNW has ~$9m cash to apply towards acquisitions (2)Pro-forma NPAT assuming full tax paid
Pureprofile (ASX:**PPL**) $36m MC	-$1.5m NPAT (3)	~$0 NPAT	n/a	PPL's reported profit continues to be impacted by share based compensation ($2.2m in FY23). However, on the back of continued strong double-digit revenue growth, we expect PPL to generate an NPAT around brake-even in FY24. (3)loss from continuing operations
Laserbond (ASX:**LBL**) $93m MC	$4.8m NPAT	$6.5m to $7.0m NPAT	+35% to 46%	DMXAM estimate, with key assumptions being: -technology division reversing from loss to profit contribution, with up to 5 licensing deals due to close in FY24 -Product margins forecast to normalize on the back of price increases in mid 2023 LBL is also likely to make an accretive acquisition in Western Australia in FY24
Kip McGrath (ASX:**KME**) $35m MC	$2.3m NPATA (4)	$2.8m to $3.2m NPATA	+21% to 39%	DMXAM estimate, with key assumptions being: -FY24 is expected to benefit from improved Tutorfly result, adding ~$1m in EBIT (loss making in FY23) -FY24 is expected to benefit from improved corporate centre performance as it scales, adding ~$1m in EBIT (4)$1.9m stat NPAT adding back $0.4m in non-software related amortization
SOCO (ASX:**SOC**) $33m MC	$2.0m NPAT (5)	$2.2m to $2.4m NPAT	+10% to 20%	DMXAM estimate, based on FY23 year end employee numbers. SOCO continues to target accretive acquisitions, which may add to FY24 profit (5) pro-forma as SOC listed during FY23
Shriro (ASX:**SHM**) $88m MC	$8m NPAT	~$8m NPAT	flat	DMXAM estimate, based on company guidance of $15m - $17m EBITDA. Loss-making appliances business has now been sold. ~$23m of cash to be returned to shareholders. FY24 includes $1.5m of ERP implementation costs.
Diverger (ASX:**DVR**) $35m MC	$4.7m NPATA	$5.5m to $5.9m NPATA	+17% to 26%	DMXAM estimate, based on company guidance of $8m - $9m EBITA. FY23 EBITA was $6.9m. EBITA Run rate at 30/06/23 is $8.2m FY24 will include $1.4m from acquisitions completed during FY23

Brief commentary on stocks commonly owned across both DMX Capital Partners and DMX Australian Shares Fund:

- AF Legal (ASX:**AFL**) – AFL reported an impressive second half turnaround, following the board and management restructure during late 2022. H2 profit before tax was $622k H2, compared to a loss of $463k in H1, a >$1m turnaround. H2 revenue growth was >20% on the prior year. We would expect this encouraging momentum to continue into FY24. AFL has a market cap of $15m and net cash of ~$2m. We are a top 10 shareholder in AFL.

- Field Solutions (ASX:**FSG**) – FSG delivered an EBITDA result within guidance of $5m, and is forecasting for growth in EBITDA to between $5.5m and $7m in FY24. FSG has also guided to receive between $18m and $22m in government grants during FY24, which will increase its net tangible assets (regional tower infrastructure) to $45m. FSG's market cap at the end of August was $30m. We are a top 20 shareholder in FSG.

- Yellow Brick Road (ASX:**YBR**) – YBR recorded an improved cash profit ($840K EBITDA) result in the second half, and continues to trade at a >50% discount to its NTA of 13c. YBR finished the month with a market cap of $20m, has $8m cash and a valuable (intangible) network of 1,200+ brokers and a $63bn loan book. We are a top 10 shareholder in YBR.

- Advanced Braking (ASX:**ABV**) – ABV reported a well flagged NPAT of $1.5m. ABV had a market cap of $14m at the end of August, with $2m cash. We expect strong revenue growth and earnings growth to continue into FY24 as it offers a compelling ESG solution to its customers. We are a top 10 shareholder in ABV.

- Knosys (ASX:**KNO**) – KNO grew its recurring revenue from license and support fees 16% to $9.6 million in FY23. It is seeing early signs of improved market demand after many months of delayed decision-making from customers. At the end of August its market cap was $8m with ~$4m cash at the end of July, with its ARR approaching $10m and a very low enterprise value. We are a top 10 shareholder in KNO.

- Corum (ASX:**COO**) – COO reported a cash position of $12.8m, and expects to receive a further $7m from the sale of its non-core software business, providing a pro-forma cash position of ~$20m (although it awaits an appeal against its legal win over Fred IT earlier this year). COO had a market cap of $24m at the end of August, ascribing little value to its high quality, profitable, growing market dominant PharmX business. We are a top 20 shareholder in COO.