DMX Capital Partners Limited
October 2023 – Investor Update

An investment company managed by:
DMX Asset Management Limited
ACN 169 381 908 AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
DMXCP directors: Roger Collison
Dean Morel (Chair)
Steven McCarthy

Opening NAV (1 October 2023) [1,2]	**$2.4092**
Closing NAV (31 October 2023) [1,2]	**$2.2917**
Fund size (gross assets)	$22m
% Cash held - month end	3%
Gearing	Nil

1-month return	-4.9%
3-month return	-3.3%
12-month return	-4.4%
3-year return (CAGR p.a.)	6.5%
Since inception (*8 years 7 months*) (CAGR p.a.)	14.7%
Since inception (*8 years 7 months*) (cumulative)	225.4%

*DMXCP Share price = Closing NAV (**$2.2917**), 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 4.9% (after all accrued management fees and expenses) for October 2023. The NAV as at 31 October 2023 was **$2.2917** compared to $2.4092 as at 30 September 2023.

Markets were weak in October - the All Ordinaries fell 3.8% while the Small Ordinaries declined 5.6% and the Emerging Companies Index fell 4.6%.

<u>October portfolio news</u>

October was a tough month for equity markets, while we also saw some negative stock specific news across our portfolio.

Key detractors for October included:

- Energy One (ASX:**EOL**) had previously announced a non-binding indicative proposal from US private equity group STG to acquire EOL at an indicative price of $5.85 per share. During October, STG revised its offer price to $5.15 per share. The EOL board (rightly) considered that this revised proposal did not appropriately value EOL and were not prepared to recommend it to shareholders. Since STG's initial proposal, EOL had announced that a 'material' European contract had been delayed, while EOL were also dealing with a cyber incident, so a downward revision in pricing was not totally unexpected here. The whole episode has been a distraction, and poorly managed, and we would hope to see EOL focus on capitalising on the strong business momentum they have in Europe and Australia. EOL shares fell 18% during October.

- Soco Corporation (ASX:**SOC**), the government focused IT consultancy, following a number of periods of exceptionally strong growth, advised that due to project delays, FY24 revenue would only be marginally ahead of FY23 – a disappointing result. SOC fell 18% during the month. The fall would have likely been more significant, but for the announcement of a well-structured and accretive acquisition that extends SOC's federal and NSW government presence and takes its revenue base to ~$30m.

- Two other larger holdings, Kip McGrath (ASX:**KME**) and Smartpay (ASX:**SMP**) both suffered material falls during the month – 27% and 17% respectively. While there was no news from either of them, each of their key listed comparables (Tyro and Cluey) had negative updates, with KME and SMP likely in part falling in sympathy.

In a challenging month, contributors for the month were few and far between, but included Diverger (ASX:**DVR**) which rose 11% on the back of further takeover interest. We provide our updated thoughts on DVR below.

Diverger Update

Last month we discussed the proposed takeover offer for DVR from Count (ASX:**CUP**) and noted that, as long term shareholders in DVR, we could not see sense in DVR transacting at CUP's offer price of $1.14 per share, given the quality of the DVR assets and when DVR is currently earning 13c EPS. Notwithstanding the DVR board's unanimous recommendation of the CUP offer, we did not believe that this transaction appropriately reflected the fair value of the DVR business. We viewed the 25%+ accretion to CUP's earnings as a result of acquiring DVR as excessive, and believed it highlighted the significant value that DVR was bringing to the transaction, and which we felt DVR shareholders were not being appropriately compensated for.

During October, DVR revealed that it had been approached by ASX listed financial services business COG Financial Services (ASX:**COG**) in relation to a proposal to acquire DVR for **$1.41** – representing a **24%** premium to the $1.14 offered by CUP. In addition, for the cash component of the offer, COG was offering $27m cash, versus CUP's $14m. We believe that this bid by COG at $1.41 validates our view (that we had articulated to the DVR board) that the CUP offer at $1.14 materially undervalues DVR and should not be accepted.

While COG had notified DVR of its proposal on 13 October 2023, it was only released to the market by DVR on 30 October 2023, after the offer terms had been leaked to the financial press. With the DVR board having "*unanimously recommended*" the CUP offer at $1.14, and then only belatedly disclosing a superior potential offer at the materially higher $1.41, the spotlight is now very much on how the DVR board drives an outcome that secures a more appropriate valuation for DVR. We expect that the DVR board will be exploring and progressing all viable options here to ensure a fairer outcome for DVR shareholders, as well as a logical and value-adding merger for its ultimate suitor.

During November we have also seen DVR's major shareholder HUB, acquire DVR shares on market at $1.26. We now struggle to see how the Independent Expert appointed to assess the fairness of the CUP Scheme can recommend that CUP offer at $1.14 as being fair to DVR shareholders, given DVRs major shareholder is happy to pay an amount ~10% higher to acquire more DVR shares on market.

Sequioa

Outside of DVR and Cirrus (ASX:**CNW**), (another of our holdings subject to a takeover offer), Sequioa (ASX:**SEQ**) is currently the largest position in the portfolio. During October, SEQ released an update confirming its strong operational progress.

In the second half of FY22, and through FY23, SEQ faced industry headwinds (margin pressure and declining advisor numbers) and was dealing with a number of internal distractions (the sale of Morrisons, issues with its Share Café purchase, and some legacy claims issues). With these distractions now behind them, and those industry headwinds easing (margins have improved on the back of price increases, and SEQ's advisor base has increased 10%), SEQ should start to see its profits improve from here, and we look forward to a positive trading update at SEQ's upcoming AGM.

In FY21, SEQ, after initially guiding for $6m EBITDA, after several upgrades, delivered an actual result for FY21 of $11.5m EBITDA. The SEQ share price increased from 20c to 70c over this period, following the improved trajectory in earnings. Given its capital light model, SEQ has the potential to, and has demonstrated the ability to, scale and generate significant cash ($1m+ free cash per month).

As it stands today, we think SEQ represents a pretty compelling opportunity in this market:

- $35m of its ~$70m market cap is cash;
- Targeting 25% annual revenue growth;
- Forecasting a 5c (~10%) fully franked dividend;
- With forecast EBITDA of ~$10m it is trading on ~3.5x EBITDA;
- With forecast NPATA of ~$7m it is trading on ~10x PER (notwithstanding its large cash balance – adjusting for the cash held would it put it on a 5x PER); and
- Strong medium term growth aspirations: $24m EBITDA by FY26 (with a target $20m cash balance, implying (if achieved) a 2x EBITDA valuation).

SEQ's current pricing reflects concerns around how Management will deploy its large cash balance, together with scepticism around execution given disappointments over the last 18 months or so, but also more broadly reflects the lack of investor interest in small illiquid companies. With consistent recent director buying and SEQ's use of its buyback at current levels, its substantial cash balance ($35m) relative to its $70m market cap, and improved confidence that earnings growth is back on track and industry conditions improving, we think it now makes for an attractive set-up.

While SEQ (market cap: $70m) does at least garner some investor support, at the smallest end of the market (sub $20m market cap), investor interest is almost non-existent with market valuations in this part of the market continuing to fall. Three of our holdings finished the month of October trading on EVs of ~$2m.

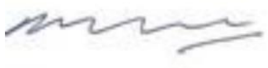
Portfolio companies with EVs of ~$2m as at 31 October 2023

	Market Cap	**Cash**	**Enterprise Value**	**Company's profit update**
Knosys (ASX:**KNO)**	$5.8m	$3.4m	**$2.4m**	Outlook for FY24 "*Continuing to target cashflow and EBITDA breakeven in FY24*" (KNO expenses all development expenditure, so EBITDA is real profit) supported by $9.5m of ARR (ARR multiple of 0.25x).
Careteq (ASX:**CTQ**)	$5.5m	$3.3m	**$2.2m**	CTQ's key investment, its medication management JV, Embedded Health Solutions, is "*on track to achieve $1.5m EBITDA*" for FY24. CTQ's other business, Sofihub, has a cash flow breakeven run rate target for FY24.
Datadot (ASX:**DDT**)	$4.5m	$2.9m	**$1.6m**	Outlook for FY24 - NPAT profitable "*the Board is confident that the return to profit seen in the second half FY23 will continue into FY24*"

With EVs of ~$2m, these opportunities are essentially being priced for failure/bankruptcy, or at least as if they are shells with no value attributable to the IP or the business assets. However, these companies have solid cash balances, a strong focus on cost control and are either profitable or close to it, and all own interesting IP. Management are sensible and conservative. While they are not without their flaws, the companies have global growth opportunities, solid balance sheets with plenty of cash buffer. They all have the opportunity to grow their revenues from here, and become bigger businesses over time. With the low EVs ascribing very low (shell company) market valuations to the businesses, we believe the outcomes here to be asymmetric, with investors having a free option over success from here. Even modestly successful execution from here should see a good outcome, with significant potential upside from these very low bases. Their current pricing also makes them attractive candidates for M&A activity. While these holdings don't represent large portfolio positions, we believe they offer exposure to some unique opportunities in a part of the ASX that has been decimated over the past 12-24 months.

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

Kind regards



Roger Collison
Chairman - DMXAM

Steven McCarthy
Portfolio Manager

Chris Steptoe
Research Analyst

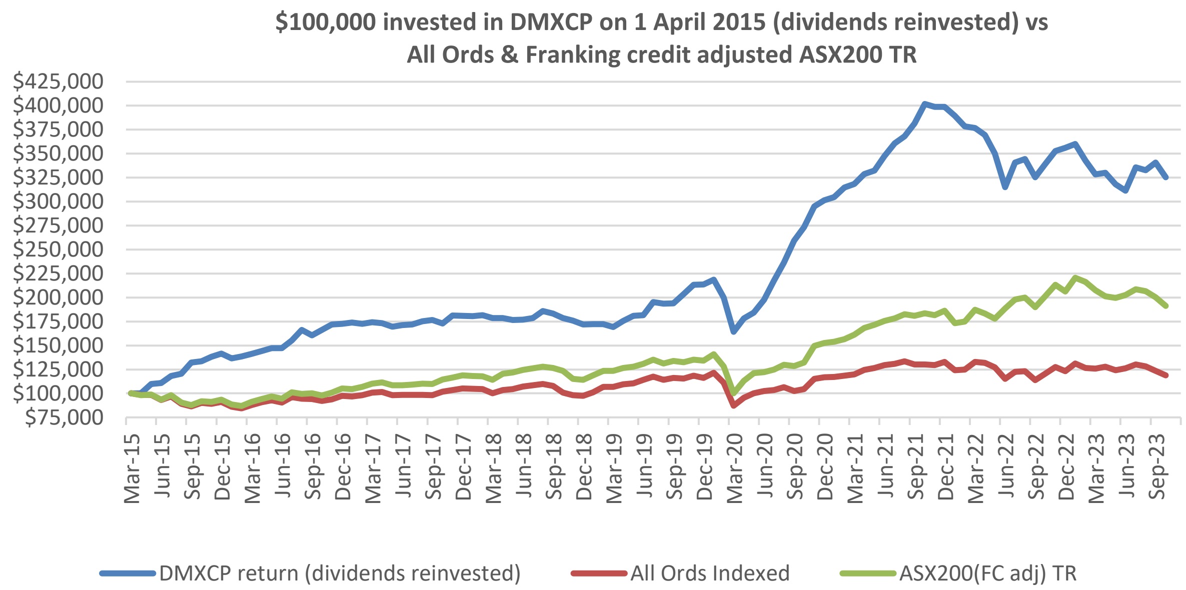
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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	-3.94	-2.30	+8.55	-0.91	+2.56	**-4.86**			**-9.3**	**-3.5**

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.



This document is issued by DMX Asset Management Limited (DMXAM - AFSL 459 120) in relation to DMX Capital Partners Limited (DMXCP). The information provided in this document is general information only and does not constitute investment or other advice. The content of this document does not constitute an offer or solicitation to subscribe for shares in DMXCP. DMXAM accepts no liability for any inaccurate, incomplete or omitted information of any kind, or any losses caused by this information. Any investment decision in connection with DMXCP should only be made based on the information contained in the relevant disclosure document.