DMX Australian Shares Fund
November 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 October 2023)	**$0.9651**
Unit price (mid) based on NAV (30 November 2023)	**$0.9993**
Number of Stocks	42
% cash held - month end	2%
Fund size (gross assets)	$11m

1-month return	3.5%
3-month return#	0.5%
12-month return#	-1.3%
Since inception (1 March 2021, p.a.) #	4.1%
Since inception (cumulative) #	11.7%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 3.5% for the month of November, recovering most of October's decline, and lagging very slightly the broader market with the ASX 200 Total Return Index up 5% and the ASX Emerging Companies Index up 3.7%.

Commentary

While moving broadly with the market at the bottom line, as is often the case, the portfolio experienced a wide range of outcomes at the individual stock level. The principal detractor was **EML Payments** which declined 24%, handing back much of its recent recovery, on the back of a disappointing AGM update. On the other side of the ledger, **Findi** rose 63% as the company reported positive momentum on the ground in India while also attracting significant institutional co-investment into its Indian subsidiary on attractive terms. Chris Steptoe has produced a blog piece on the company which you can access here.

Elsewhere, movements were fairly muted though we note the 8% further increase to **Diverger**'s share price on the back of a materially improved offer from Count. Considering the desire of major shareholders (including Hub24), and of the Board & Management to get this deal done, we consider the improved pricing (just) brings the deal to a zone where we are comfortable to support. We're not wild for the deal, and believe Count are getting a good deal here, but we acknowledge Diverger shareholders will also have the opportunity to share in the upside from cost-out upon merger through rolling into the combined entity (either accepting the default level of scrip, or electing to receive more scrip and less cash). We are conducting further work on Count at present and expect to decide in the new year which election we'll make.

In terms of portfolio changes, we exited our small position in **Credit Clear** during the month. Our thesis for this company has not played out so there's no basis for us to continue owning the company. We've taken our loss and are rotating that capital into higher conviction opportunities elsewhere. That liquidity is being augmented by the proceeds from the **Cirrus Networks** takeover which we expect to receive during December.

The DMX Capital Partners report includes more detailed commentary on both Findi and Diverger, each of which is included as an Appendix to this report.

Key Stock Updates: **Smartpay** and **MedAdvisor**

Smartpay reported its half-year results in November. Headline revenues were robust, increasing by 33%, but this did not fully translate to the bottom line due to increased costs. The rise in expenses are attributable to new key account management roles, executive positions, and growing compliance demands. The period also included the $1m cost of resolving a cyber incident. While the 33% growth rate sounds high, this was actually muted on account of weak economic conditions, with lower transaction revenue per terminal and higher churn. Net terminal adds dropped from 2800 in the previous corresponding period to 2000 this half.

During an investor conference call, CEO Marty Pomeroy discussed the impact of Lightspeed, an international point of sale (POS) provider, on their business. Lightspeed is entering the payments space with their own product. Customers who do not choose their payment product will incur additional charges for the core Lightspeed POS product. It's worth noting that another ASX-listed POS provider, Task, is also entering the payment space. Lightspeed integration represents 1% of Smartpay's annual revenue, while POS integrated terminals contribute 5-10% of revenue. We don’t view this development as being a major threat, and they’re certainly outweighed by the structural tailwinds that continue to support operators like Smartpay as clients move from the Big 4 banks.

Strategically, the Australian and NZ Android rollout remains on track, with a NZ release expected in the middle of 2024. This rollout will enable Smartpay to sell its transaction product in the NZ market, including to existing customers with approximately 20,000 terminals. There appears to be good progress both technically and contractually with their partner, Cuscal. We believe this is an exciting growth driver, and that the shares do not yet reflect the value uplift from a successful NZ rollout. So while operationally the environment is challenging at present, the strong structural growth and upside optionality on rolling out its high-margin transaction model in NZ continue to make Smartpay’s shares very attractive at these levels.

The AGM for **MedAdvisor**, a pharmacy-driven patient engagement solutions provider, was encouraging, with a forecast of 10-15% first half revenue growth for the group in addition to some interesting business developments. The US segment forecast of 8-13% revenue growth was particularly pleasing, considering that 40% of last year's US revenue comprised COVID vaccination programs. There was concern that revenue would decline, but with only 20% of US revenue expected to be COVID-related this year, a more diversified vaccine program is driving this growth. Additionally, higher-margin digital revenue is trending up, accounting for 40% in the first quarter of this year.

In Australia, the 2022 deal with the Pharmacy Guild (now a 20% shareholder) to acquire Guildlink is paying dividends. In a less competitive market, they have been able to implement some price increases and grow health programs, resulting in an expected 15% increase in revenue. With the change to 60-day Australian dispense regulations, pharmacies are seeking new ways to generate revenue. In partnership with the Pharmacy Guild, MedAdvisor is working to help pharmacists manage these new revenue opportunities, and in turn, leading to greater revenue opportunity for MedAdvisor potentially in the next year or two.

Finally of note, to address its UK market opportunity while simultaneously arresting the losses MedAdvisor is generating through its fledgling direct operations in the UK, a strategic investment & license agreement has been entered into with local company, Charac. This sees MedAdvisor’s UK business rolled into Charac’s business there, the cessation of considerable operating losses MedAdvisor has been incurring in the UK, while on the upside, secures MedAdvisor a strategic relationship & platform through which to launch digital adherence into that substantial market. It also facilitates the distribution of Charac’s complementary products into the Australian market.

Summary

With AGM season behind us we’re heading into the seasonally quieter Christmas period. As we reflect on the past year and look to the year ahead we’re pleased really that on balance we’ve come through what’s been a difficult market environment relatively unscathed at the bottom-line. We’ve had some takeover activity that has assisted us performance and liquidity wise, and we’ve had a nice flow of opportunities to rotate into. The perceived inherent value across the portfolio is substantial, and while we can’t predict short-term returns, we’re certainly very enthused about the potential for the current portfolio to generate meaningful returns over the medium to long-term from here.

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 Diverger & Findi Updates

Diverger Update

During the month, we were pleased to see a revised offer for DVR from Count (ASX:**CUP**) at $1.365. In addition, CUP has permitted DVR to pay a special dividend, with potential value in the franking credits of up to $0.043. Since the announcement of the first CUP offer, CUP's share price has increased, so a component of the increase in consideration reflects the CUP share price uplift. Nevertheless, the headline offer price is a pleasing 20% increase on CUP's initial offer price of $1.14 per share (and excluding any value of the franking credits).

As previously noted, we did not believe that CUP's initial offer (which had been recommended by the DVR directors) 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 which we felt DVR shareholders were not being appropriately compensated for. When the initial low-ball offer was announced, we advised that we were conscious of doing the right thing by our investors by voicing our feedback and engaging with the various parties to try and achieve a better outcome for our investors and DVR shareholders, that more appropriately valued the DVR business.

Over the following weeks we had various meetings/discussions with DVR and other stakeholders, where we outlined our views and our intention to reject the CUP offer. We were also contacted by a number of other DVR shareholders who were similarly underwhelmed by the CUP offer price. While it was never put to a vote, we were confident that there were sufficient DVR shareholders (>25% of the register) aligned with us to reject the initial CUP offer, notwithstanding that:

- DVR's major shareholder HUB (34% shareholding) intended to accept the offer;
- all of the DVR directors intended to accept the offer, and
- the DVR board had unanimously recommended that all DVR shareholders vote in favour of the offer.

DVR also held its AGM during the month where it noted it was "*well on the way to achieving our earnings targets with FY24 looking to come in at the higher end of the forecast range*". This would see DVR generate EPS of 13c+. We feel any bidder that secures DVR for less than $1.40 is getting a very good deal. Having said that, we consider the revised CUP offer to represent a fairer outcome, particularly for those who wish to continue as shareholders in the merged entity. We continue our due diligence in relation to this.

The DVR journey has been an interesting one, and, for us, ultimately successful. We were attracted to DVR's market leading assets and cash flow generation, which has continued over the years since we acquired our initial position in 2017. The entry of HUB24 (ASX:**HUB**) onto the register as DVR's largest shareholder in 2021, in our view, (negatively) changed the dynamics at the board level, but DVR continued to make encouraging operational progress. If DVR had achieved its FY25 EPS target of ~20c EPS, we would have expected a meaningful share price re-rate. However, we acknowledge that there was work required to get that target, and given the other opportunities we are seeing in this current market, the revised CUP offer does provide an opportune liquidity event for us, at a not unreasonable price.

Findi

We acquired our shares and options in FND, an Indian ATM operator and banking services provider, after participating in the underwriting of a capital raise in December 2021. Since then, FND has surprised on the upside in relation to its execution and earnings growth with recent news highlighting that progress:

- In late October, FND's Indian subsidiary secured a 10-year ATM contract with the State Bank of India (SBI). This extended deal is expected to generate $250-280 million over 10 years at an IRR of 35%. Along with the previously announced deal with the Central Bank of India (CBI), it provides earnings certainty for the medium term.

- During November, FND reported a strong set of half year numbers. Operating cash of $20m was recorded for the half, with FY24 EBITDA guidance of $24m re-affirmed. FND's closest peer, CMS Info

Systems, trades on 9x FY24 EBITDA, while FND is priced at 2.5x FY24 EBITDA before any uplift from the SBI contract.

Our DCF for FND is ~$3.00, with our forecast cash flows based primarily on already contracted earnings with major Indian banks, and excludes the potential contribution from a number of upside initiatives.

Notwithstanding FND's strong share price rise over the last couple of months, we think a significant de-risking of the Findi business has occurred, and we can be more confident of its future prospects. With the 90-cent options acquired through the capital raise now in the money, we have the opportunity to increase our investment in FND. Given our view of the current low valuation, multiple growth options, and emerging track record, we are likely to exercise these options in January 2024.