DMX Capital Partners Limited
February 2024 – Investor Update

An investment company managed by:
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Opening NAV (31 January 2024) [1,2]	**$2.3698**
Closing NAV (29 February 2024) [1,2]	**$2.3883**
Fund size (gross assets)	$23m
% Cash held - month end	8%
Gearing	Nil

1-month return	0.8%
3-month return	5.0%
12-month return	2.9%
3-year return (CAGR p.a.)	2.5%
Since inception (*8 years 11 months*) (CAGR p.a.)	15.2%
Since inception (*8 years 11 months*) (cumulative)	251.8%

*DMXCP Share price = Closing NAV (**$2.3883**), 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 increased 0.8% (after all accrued management fees and expenses) for February 2024. The NAV as at 29 February 2024 was **$2.3883**, compared to $2.3698 as at 31 January 2024.

After a mixed January, Markets were stronger in February - the All Ordinaries was up 0.6% while the Small Ordinaries increased 1.5% and the Emerging Companies Index rose 5.0%.

Contributors for February included Verbrec (ASX:**VBC**) up 62% following a strong turnaround in its half year profit, Findi (ASX:**FND**) which continued its re-rate post its option conversion (up 37%) and Ansarada (ASX:**AND**) up 36% following a takeover bid. Detractors included Soco Corporation (ASX:**SOC**) which continued its prior month falls, declining a further 40%, while Kip McGrath (ASX:**KME**) fell 39% and Academies Australasia (ASX:**AKG**) fell 19% after disappointing half years.

<u>Half year reports</u>

February was a busy month, with half year reporting seeing a range of mixed results across our portfolio. Particularly pleasing was having three emerging companies deliver their maiden (albeit modest) first half NPAT profit results:

- Pure Profile (ASX:**PPL**) recorded a half-year NPAT profit of $45k, from a loss of $0.5m in 1H23;
- Knosys (ASX:**KNO**) reported a half-year NPAT profit of $0.1m (NPATA of $0.5m) from a loss of $1.3m in 1H23;
- Kinatico (ASX:**KYP**) delivered a half-year NPAT profit of $0.4m, from a loss of $1.0m in 1H23.

We consider the achievement of NPAT profit to be a commendable milestone from those holdings in our basket of emerging companies, as we look to support them through their long-term growth journey. Generation of after-tax profit is validation of a successful, profitable business model which enables the potential of payments of dividends to shareholders at some future point. While their current profits are modest, all three are technology and/or technology enabled companies that have the potential to deliver operating leverage and an attractive profit growth profile over time from here, from a low base. This will drive share price re-rates from their current low market caps.

The market was non-plussed with these results, with the share prices of all three stocks falling or flatish during the month. PPL and KNO continue to trade at multi-year lows, despite their profitability and balance sheets having never been stronger. PPL is now a NPAT profitable, $50m revenue business (having doubled its revenue organically in four years) with a market leading position in Australia and a strong global growth opportunity and strong NPAT growth expected from here. We expect material upside from this ~3.5% weighted position from here. KNO is a NPAT profitable SAAS business with $10m ARR trading at less than 0.5x ARR and having generated a half year $0.5m NPATA relative to its $3m EV. We consider that these businesses (and a number and others in the portfolio) would be valued significantly higher if they were private companies, an aspect that we discuss in more detail later in this letter.

Several other portfolio companies (all 1.5% to 2.5% portfolio weightings) delivered strong turnarounds, generating 1H24 NPAT profits following losses incurred in the prior year after challenging FY23's, including:

- EarlyPay (ASX:**EPY**) recorded an NPAT of $2.0m compared to an NPAT loss of $5.4m last year;
- Verbrec (ASX:**VBC**) profit increased from a $2.6m loss to a $200k profit, while its profit from continuing operations remarkably increased from a $1.4m loss to a $2.9m NPAT profit for the half;
- Datadot (ASX:**DDT**) delivered a marginally positive NPAT and a half year EBITDA of $0.2m, improving $250k from a loss of $0.07m in 1H23 (the EV here is less than $2m);
- AFL Legal (ASX:**AFL**) recorded an NPAT profit of $0.5m, improving from a loss of $0.5m in 1H23, together with an accretive acquisition that adds scale to the business.

Again, these turnarounds, on the back of significant management efforts (and new management in the cases of VBC, EPY and AFL) are pleasing. All four trade on single digit multiples, and a return to profit provides a strong platform for ongoing profit growth, and therefore value creation from low market capitalisations, from here.

In addition to the above, generally, we saw notable improved momentum and strong incremental financial and operational improvements across the portfolio, including:

- Sequioa (ASX:**SEQ**)- saw 44% revenue growth and 47% growth in operational EBITDA (ex the Morrisons clearing business), Again, after challenging industry conditions in 2022 and 2023, followed by various restructuring and management distractions, we feel the worst is now behind SEQ, and with momentum back in the business, it is on track for a much-improved full year result. Its $66m market cap is backed by $23m of cash/liquid investments, $20m+ in franking credits and an 8-10% dividend yield. At ~5% portfolio weighting, SEQ remains one of our larger positions, on the back of its balance sheet and the strong growth, value and yield it offers.
- Careteq (ASX:**CTQ**) delivered revenue growth of 77% to $4.5m and reported a reduced EBITDA loss of $0.4 million – a substantial $1.8m improvement on the $2.2m loss recorded in 2023. A profit is getting closer here, yet CTQ is trading at its lows of ~2c versus its 2022 IPO price of 20c; DMXAM increased its position in CTQ during the month to 14%, taking it to ~2% DMXCP portfolio weighting.
- Medadvisor (ASX:**MDR**) proved its strong first half last year wasn't just a COVID vaccine driven one off, recording an NPAT of $7m for the half (+50%), and its new Management team is delivering on its promises.
- EDU Australia (ASX:**EDU**) delivered strong revenue growth (+22%), and a ~$2m incremental improvement in its operating loss. While the recovery of student numbers to pre-COVID levels (and profit) has taken much longer than anticipated, the momentum and trajectory now is encouraging (the Ikon business in particular which has had rapid revenue growth of 47% and is now generating NPAT). EDU has advised it expects 2024 to see enrolments up "*sharply*" and *"further operating leverage emerging*" and we expect another year of 20%+ organic revenue growth . While there is still work to do, we can finally start to see some light at the end of the tunnel here. The EDU share price continues to trade at an all time low.

Disappointments

Four portfolio companies, however, did disappoint relative to the profit expectations that we had for them at the start of the financial year, all delivering falls in profit; and were meaningful detractors to the performance during the month: Laserbond (ASX:**LBL**), SOC, KME and AKG.

LBL over recent years has established a strong track record of consistent profit growth with an NPAT CAGR of 15% over the past four years. However, we had high hopes FY24 was going to deliver growth well in excess of that 15% level, and for it to be a break-out year for profit growth. Business is inherently unpredictable, and unfortunately you can't just bank future growth on the back of a strong track record. This was the case last half with LBL, where one of their key specialty suppliers unexpectedly closed, leaving LBL unable to satisfy customer demand. LBL's product sales were impacted by ~$2m, contributing to a 16% fall in NPAT to $1.7m. The demand hasn't gone away though, and with the issue now rectified, a much stronger second half should drive a small increase in NPAT for the full year. Our hopes for a genuine break-out year for LBL's profit however, have now been pushed out to FY25, when LBL will also benefit from the contribution from a strategic WA acquisition, finally rounding out LBL's Australian footprint.

SOC, also, had a great track record of growth until early 2023, driven by strong demand for its digital transformation consultancy services primarily to the federal and state governments which are looking to improve efficiencies and their IT infrastructure. 2023, however, saw considerable scandal amongst the "Big4" consultancies in Canberra, with Canberra cutting back on its spending as a result. SOC, in hindsight having increased its headcount at the worst possible time to

position it for growth that hasn't eventuated, delivered a small loss. This headwind is easing - a number of delayed projects have now commenced, and SOC, (like its big brother Attura (ASX:**ATA**)) as an independent Australian owned consultancy is well-positioned to benefit from the pent-up demand and government spend on technology initiatives, and from Canberra's push to favour sovereign procurement and non Big4 consultants. Like LBL, in FY25 SOC will also benefit from the full year contribution of what appears to be a very sensible and strategic and accretive acquisition. Like LBL, patience will be required.

KME had flagged a poor first half, but a negative NPAT result driven by cost blowouts and poor execution, was particularly disappointing. We are bitterly unhappy at the KME performance and the current KME share price in recent times. From our perspective there needs to be accountability and change arising. We note that there has been no board renewal here for 7 years, while the shareholder base is stale and frustrated, with significant overhang. Prior to these results, we had been in discussions with the KME Board re the need for change – these discussions continue and have been advanced post the results. While there is no guarantee, we are hopeful that, perhaps as a blessing in disguise, these poor results prove the catalyst for some positive change going forward.

While we are very confident SOC, LBL and KME will deliver much improved second half results (which should drive a share price rebound) there is more uncertainty around AKG. Some management missteps and challenging operating conditions have impacted AKG's performance. The visa settings for international students in the space AKG operates in remain a challenging short-term headwind.

Unlisted positions (Tambla) and thoughts on the small end of the ASX

During the month, Tambla (an unlisted position) in which DMXAM is a substantial holder, reported its full year results for 2023 with revenue of $28m (+20%) and underlying EBITDA of ~$5m (+65%). 2024 is expected to see continued double digit revenue and profit growth, underpinned by a significant backlog in new business wins to deliver.

We note that last year Tambla was featured in the AFR in which the sale of the business was discussed: Allier Capital in to shop HR software biz Tambla (afr.com) "*Street Talk can reveal the human resources software company has called in boutique corporate advisor Allier Capital to run a sale process that's slated to fetch the vendor a deal between $50 million and $100 million.*"

The sale process continues, and we would be hopeful of a conclusion by the end of the financial year. When Tambla delisted in 2020, the strategy was to take out the public listing costs and grow the business with a three year exit plan. While the three years has now become four years, the execution here under the leadership of Chris Fydler has been very strong, with significant value added since it delisted with a market-cap of around $5m. While we have previously re-valued our position on the back of Tambla's strong execution, achieving a result at the lower end of that noted in the AFR ($50m) should result in a nice uplift to our current carrying value of our Tambla holding. While it is not a position that we have been actively involved in, all stakeholders were aligned to secure a value-adding exit. We have had very good access to management and the board and high-quality financial information and updates through this process.

We continue to see and own a number of companies that have similar set-ups to Tambla – good businesses but with an illiquid, tightly held register and very much off the mainstream investment radar, a low share price valuation that restricts them from using their shares as currency, and Management teams that have grown frustrated at being listed and the lack of interest in their company, notwithstanding much improved fundamental progress. We highlighted PPL and KNO above as two such companies delivering their maiden NPAT profits, and the market yawned. Importantly, small, listed companies bear a much higher proportion of listing and ASX costs relative to their cost base, so removing ~$1m of these costs can make a material difference to their profitability, and thus to their value.

During the month we saw Bike Exchange (ASX:**BEX**) (not owned), a company which is now on the cusp of profit after much restructuring, announce its de-listing with one of the key reasons given as "*The Board is of the view that the low trading volumes have had an adverse impact on the share price. The Board is confident that the Company's valuation has a greater prospect of growing towards the Board's assessment of fair value as an unlisted company*."

If this lack of interest and liquidity in very small companies continues, we would expect to see more such delistings and for more interesting growing companies like Tambla and BEX to be lost to the ASX, as they transform from being listed to unlisted public companies. There will be a transfer of wealth to those holders who are happy to remain in an unlisted vehicle and who will likely benefit from the value uplift from a lower cost structure, a more focused management and greater opportunity for corporate activity outside of the confines of an ASX listing.

As patient, long term focussed holders, the lack of liquidity is generally not a concern for us and we are not averse to holding unlisted positions, providing 1) they are profitable, 2) they won't need capital & 3) there is a clear exit strategy. However, we are conscious of the overall liquidity of the portfolio, and are careful not to have excessive exposure to unlisted positions.

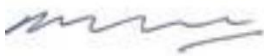
We have had a good experience with Tambla as noted above, where Management and the Board were aligned and committed to working towards a value-realising exit strategy/liquidity event. As noted, when Tambla delisted it had a market cap of ~$5m - it is now generating $5m EBITDA and is being put up for sale with expectations north of $50m.

Within our portfolio, we are pleased to be able to give our investors exposure to these types of unique opportunities (both listed and unlisted) that have interesting risk reward profiles, and real potential to generate value uplifts.

In summary, we continue to capitalise on in-efficient pricing, in under-the-radar opportunities, where not many other investors play, to try and capture unique, difficult to access opportunities with compelling upside, where we believe we have the edge and the ability to add genuine value as investment managers due to market inefficiencies. As noted above, generally these positions are growing and hitting key profit and growth milestones. Despite these achievements, reflecting the continued poor sentiment towards very small companies, a large number of the share prices of the companies mentioned above trade at multi-year lows, and haven't yet benefitted from a sentiment kick up seen elsewhere by larger companies in the market. Whilst there are inevitably hiccups along the way, overall, these positions are becoming more profitable, better businesses, and thus our investments, and our portfolio, is becoming more valuable.

We thank all our investors for their support, patience, and for the confidence you have shown in us and our strategy.

Kind regards



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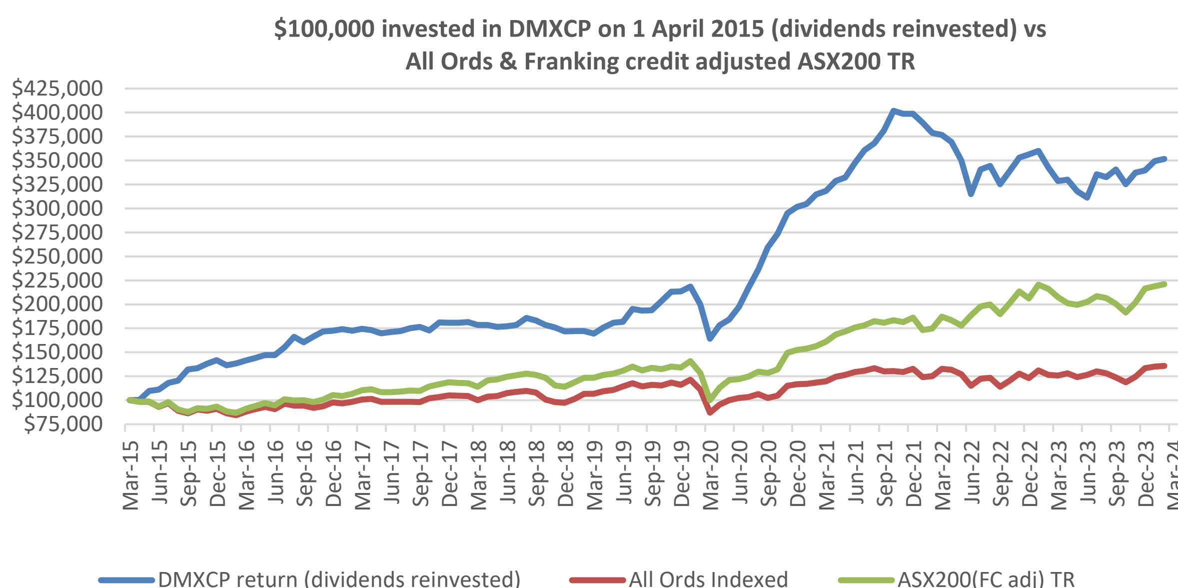
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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	+8.55	-0.91	+2.56	-4.86	+4.06	**+0.74**	**-5.07**	**+8.4**
2024	+3.27	**0.77**											**+4.07**	**+1.7**

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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