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# DMX Capital Partners Limited
## November 2024 – 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

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| **Opening NAV (31 October 2024)** [1,2] | **$2.4369** |
| **Closing NAV (30 November 2024)** [1,2] | **$2.5465** |
| Fund size (gross assets) | $28m |
| % Cash held - month end | 4% |
| Number of positions | 47 |
| Gearing | Nil |

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|---|---|
| 1-month return | 4.5% |
| 3-month return | 7.7% |
| 12-month return | 25.6% |
| 3-year return (CAGR p.a.) | 1.6% |
| 5-year return (CAGR p.a.) | 14.5% |
| Since inception (*9 years, 8 months*) (CAGR p.a.) | 15.9% |
| Since inception (*9 years, 8 months*) (cumulative) | 317.55% |

*DMXCP Share price = Closing NAV (**$2.5465**), 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, $1.31 of dividends & franking credits have been paid.*

Dear Shareholder,

DMXCP's NAV increased 4.5% (after all accrued fees and expenses) for November 2024. The NAV as at 30 November 2024 was **$2.5465**, compared to $2.4369 as at 31 October 2024.

Australian equity markets were mixed through November with the All Ordinaries increasing 3.1%, the Small Ordinaries was up 1.4% & the Emerging Companies Index down 0.7%.

**<u>November Developments</u>**

November was a particularly eventful month: there were plenty of AGMs to attend, trading updates and market news to digest, the US election and some meaningful share price action across the portfolio.

During the month we benefitted from strong contributions from several top 10 positions including Pure Profile (ASX:**PPL**, +43%), Kip McGrath (ASX:**KME** +24%) and PharmX (ASX:**PHX**, +61%). These were all positions that have caused us some pain over the past 24 months, and we had added to each of these positions during their share price weakness. It was pleasing to see market interest start to return to those names. On the other side of the ledger, after many months of strong contribution, Findi (ASX:**FND**) fell 8% for the month.

With a lot happening during the month, we highlight four notable developments.

**<u>EDU Australia (ASX:EDU) and Academies Australasia (ASX:AKG) – caps gone but uncertainty remains</u>**

Through the early part of 2024 we were becoming increasingly enthused about the prospects for EDU Australia (ASX:**EDU**), due to the success of its higher education business scaling its flagship Bachelor of Early Childcare Education course and related qualifications. Enrolments in the year to date in its key Ikon business are up over 100%, with its most recent trimester intake +363%. As these are long duration courses, the enrolments provide strong visibility over future earnings, locking in high margin revenue across the three-to-four-year courses. Our enthusiasm here, however, was very much tempered when the government proposed its capping regime for new overseas student commencements in August. Had these caps been implemented, EDU's IKON international student 2025 intake would have been limited to just 200 – being a decrease of ~**88%** on its 2024 international intake of 1,911.

In our August 2024 Investor update we expressed our dismay at this poorly conceived public policy, noting that: "*We are all for well-constructed public policy that controls shonky operators and low-quality courses. But ill-thought-out legislation that hurts the best performing and highest quality operators the most is hard to fathom. We hope commonsense will prevail and there will be changes prior to the legislation receiving senate approval.*"
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Pleasingly, during November it became clear that, due to a combination of 1) Liberals keenness to play party politics and 2) the Greens recognising that this was genuinely bad policy, there were not enough votes for this legislation to pass the senate. Whilst there will continue to be ongoing regulatory debate and concerns here, we are hopeful that future legislation will be more appropriately targeted towards the numerous less reputable industry operators rather than the likes of EDU which is supporting and educating Australia's next generation of early childhood educators, allied health workers and aged care professionals. In 2025 EDU will now be able to benefit from the revenue and margin contribution from its strong 2024 cohort (as it will into 2026 and 2027), while continuing to add new students without the prohibitively excessive capping restrictions. We do note, however, that even with the caps, we still considered EDU undervalued, given the extent of the net cash expected to be generated by EDU over the next three years from its out-sized 2024 intake. EDU would also continue to benefit from growth in its domestic students (which are not impacted by caps), with Ikon continuing to advance new course development initiatives, with the launch of two new Masters Degrees in Trimester 1, 2025, targeting domestic students.

While these education businesses are, rightly, currently out of favour with the market and clearly at the mercy of government policy, they do have an attractive redeeming feature perhaps underappreciated by the market – very high operating leverage. With high fixed costs (rent, student administration and infrastructure expenses) each incremental new student enrolled is highly valuable and highly profitable, even more so if those students contribute margin for three or four years. We saw evidence of this when AKG updated the market on its year-to-date performance – an 8% revenue increase has led to a **139%** increase in EBITDA to $3.3m, with AKG also benefitting from an improved revenue mix (more high margin, longer duration, higher education students & less low margin, short duration, English language students). After substantial losses in the prior years, AKG returned to NPAT profit in the first four months of this year, with this profit improvement expected to continue. While AKG is in need of some balance sheet repair given some director loans outstanding, we note last time AKG did a 'bottom of cycle' rights issue enabling its directors to convert their debt to equity at 12c in 2017, its share price then reached 50c later that year on the back of what turned out to be a well-timed earnings recovery post the rights issue.

With both AKG and EDU on track to grow their revenues substantially this year to ~$40m, we believe they will emerge from this period of sector turmoil and dislocation as key private providers in what is Australia's fourth-biggest export industry (after iron ore, gas and coal). Despite all the challenges over the past couple of years, and contrary to what the market is expecting (or at least what their market caps are currently implying), we believe both EDU and AKG will report strong NPAT profits in 2025, offering plenty of upside from their current ~$15m market caps.

Findi (ASX:FND) – priced for perfection but delivering soft short-term results

In previous months FND has performed well doing much of the heavy lifting across the portfolio. During November, for most of the month it continued this strong momentum until the last day, when it fell 24% after reporting its half year results, resulting in an 8% overall fall for the month. Heading into the results, the stock was clearly priced for perfection and the results were certainly soft with minimal growth. Management attributed the softness to disruption from the Indian general elections between April and June, and believe transaction volumes have now returned to trend.
While FND has remained committed to its FY25 guidance, a much stronger second half is needed which requires a lot to go right. FY25 had been well flagged as a year of investment for FND, with FY26 and FY27 then expected to benefit from a recent acquisition from Tata Industries, and various other growth initiatives resulting in an EBITDA north of $50m versus its current ~$30m run-rate.

Our position in FND now is much more moderate (~5%), half the level that it was at the beginning of the year as we have managed the sizing down following its strong run. We believe significant upside exists from these levels, if FND can deliver on its plans and position its Indian subsidiary for a $1b+ IPO in 2026. Although the market from here is likely to be more cautious, wanting to see delivery rather than pricing FND on its potential.

Pure Profile (ASX:PPL) – looking forward to half year results

In our October update we noted: "*We think there is significant upside from PPL's current $30m EV, and an EV/EBITDA multiple of <6x undervalues a business with a growing $50m+ revenue base, improving margins, a fast-growing international business and a highly strategic market leading position in Australia*." It was pleasing to see the market begin to recognise the opportunity here, with strong trading volumes and the share price up strongly during the month.

Having reported a strong start to the year, with improving margins and some significant cost lines falling, we are expecting a strong uplift in NPAT when PPL report its half year results in February. A strong profit result here will hopefully dispel some lingering market concerns around PPL's ability to convert its revenue growth into profit growth.
PPL has an aggressive medium term growth agenda, where it plans to double its UK revenue and triple its USA revenue, resulting in its international business becoming larger than its original Australian business. This international growth, combined with PPL's ability to now deliver operating leverage, presents an attractive profit growth profile from here.

Pharmx (ASX:PHX) – distractions behind it, growth going forward

We have previously commented on PHX having been through a long period of management, litigation and restructuring distractions. While PHX eventually lost its litigation around unpaid dividends that it believed it was entitled to and was trying to recover, it did end up controlling 100% of the valuable but underinvested Pharmx business – an EDI platform that services 99% of Australian pharmacies, supporting ~$20b annually of orders through the pharmaceutical industry through connecting the pharmacies with 50+ key vendors and over 140 suppliers to the pharmacy sector. In late 2023, Tom Culver, an entrepreneurial CEO with a strong technology background was appointed to focus on growing the business and monetise the opportunity. In a recent interview Tom noted the previous lack of focus – "*For 10 years we were not well loved*," Culver says. "*We should have been built on a percentage-based model*."

We are now seeing encouraging signs around this re-focussing with PHX delivering double digit growth in its core business, helped in part through a partnership with Paragon Care's (ASX:**PGC**) CH2 subsidiary (Australia's fastest growing pharmacy wholesaler); and growth in its adjacent offerings: its B2B marketplace and its data insights and analytics offering. With this focus and resulting growth, PHX is now attracting broader market attention, and we understand that its recent share price action is the result of renewed institutional interest in the company.

Christmas wishes and concluding comments for 2024

After a challenging couple of years, it has been pleasing to see the green shoots that are emerging in the micro and nano-cap space. We are starting to see trading volumes pick up, broader investor interest returns and new buyers with the confidence to bid stocks up. As noted previously, in recent years the departure of investors from the smallest companies, and lack of interest in these companies, has given us the opportunity to acquire and add to positions at bottom of the cycle prices. We are pleased to have taken advantage of this opportunity building positions in many unloved companies that would be difficult to replicate in more bullish market conditions.

Many portfolio positions are now fundamentally much stronger than they were two to three years ago, and represent more compelling investment propositions, including some that we have worked closely with. While there continues to be some portfolio headaches, these are much reduced in number compared to 12 and 24 months ago. We continue to engage closely with many holdings, building a strong depth of insights and knowledge of the business drivers and personalities involved. It is these insights and knowledge, often built up over many years of our interaction with boards and management, that gives us:
1) the confidence to buy when companies are unloved by the market, as in PPL as discussed above;
2) to form a view counter to market expectations, as in EDU discussed above;
3) to take action when we see an opportunity to improve outcomes (as we have done in KME), and
4) more generally, take advantage of the raft of opportunities in under-researched, under-the-radar, mispriced small companies where there are limited other investors undertaking similar research and analysis.

Heading into 2025 we are hopeful that this combination of improved fundamentals and a turn in market conditions will be positive for the portfolio.

As this is the last newsletter before Christmas, we would like to take this opportunity to wish you and your family a safe and merry Christmas and an enjoyable new year. We thank all our investors for their support, patience, and for the confidence you have shown in us and our strategy. We are privileged to have such a loyal and supportive group of long-term investors.

Kind regards

Steven, Michael, Chris & Roger
DMX Asset Management

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	+1.00	+0.06	+0.78	+6.18	+2.35	+0.52	+2.05	+1.59	**+4.49**		**+24.6**	**+9.2**

The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (1 April 2015). DMXCP is an absolute return fund, focused on generating positive absolute returns over the medium to long term.