DMX ASSET MANAGEMENT

DMX Capital Partners Limited

Investing in the most compelling nano and micro-cap opportunities

DMX Capital Partners Limited

September 2021 – Investor Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
Dean Morel
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Opening NAV (1 September 2021) [1,2]	**$3.0362**
Closing NAV (30 September 2021) [1,2]	**$3.1516**
Fund size (gross assets)	$24m
Gearing	nil
% cash held - month end	11%

1-month return	3.80%
3-month return	10.20%
12-month return	49.88%
3-year return (CAGR p.a.)	25.18%
Since inception (*6 years & 6months*) (CAGR p.a.)	22.78%

*DMXCP Share price = Closing NAV (**$3.1516**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends reinvested and franking credits paid. Since inception 41c of dividends & franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 3.80% (after all accrued performance and management fees and expenses) for September 2021. The NAV as at 30 September 2021 was **$3.1516**, compared to $3.0362 as at 30 August 2021. In terms of the broader market, the All Ordinaries was down 2.47% during September, while the ASX Small Industrials Index decreased 1.82%.

September Portfolio Developments

September's performance was driven by strong share price increases in Pureprofile (ASX:**PPL**) which was up 106%, and Janison Education (ASX:**JAN**) up 19%. Material detractors for the month included Cryosite (ASX:**CTE**) (-11%) and Global Health (ASX:**GLH**) (-26%).

With full year results for FY21 having been reported in August, and with many management meetings completed on the back of the results, September and October are usually a good opportunity for us to review our portfolio and assess new opportunities. The Australian Shares Fund September report discusses some of these meetings (including CTE and Easton).

The last 18 months has no doubt been an unusual time for equity markets. A strong market has seen the market caps of many small companies in our sweet spot (of below $50m), rise considerably. Given this backdrop, we are really encouraged, and pleasantly surprised, by the number of compelling new opportunities that we continue to identify.

We continue to come across many investable opportunities with the characteristics that we find particularly appealing: *profitable; low market caps; attractive valuations; quality businesses with good momentum and strong long term organic growth outlooks, and that are generally illiquid and under-the-radar*. In our experience, these sorts of opportunities are attractive set-ups that can provide a patient investor that is comfortable with illiquidity, with strong long-term returns and, importantly, reduced downside risk. Pleasingly, at a time when the market PER is ~ 30x (versus an average of ~18x) and with much of the market on metrics that are very hard to justify, we haven't had to compromise on value when investing in these new opportunities.

We highlight below some of these opportunities where we have recently been buyers.

Recent portfolio purchases

- Aeeris (ASX:**AER)**

  We have been shareholders in AER, which provides environmental risk monitoring services to corporate and government clients, for some time. We were initially attracted to the company given the increasing relevance of its climate risk and alert monitoring services, and we particularly liked its low enterprise value ($6m). In FY21 AER recorded its maiden NPAT of $0.5m. While its customer base is impressive (and its churn has been very low), AER's revenue growth until recently has been muted. However, in the second half of FY21 we saw positive signs of growth emerging. This included one of Australia's largest bank and Australia's two largest insurers taking up AER's new hail forecasting and monitoring service – the first such service in Australia. FY22 has started strongly for AER, with wins equating to a 10% uplift in revenue recorded in just the first two months of FY22. Encouragingly, AER is seeing increasing potential and relevance in its Climate Risk Disclosure Platform (CRDP) which assesses climate risks such as bushfires and floods for assets and regions across Australia, helping corporates and governments prepare for climate volatility and ESG compliance.

  To capitalize on these near-term growth opportunities and to fund additional development of its climate reporting tools, at the end of September, AER announced a small cap raise. As long-term supportive holders, we were very pleased to be able to cornerstone the raise, which allowed us to materially increase our position in what is a particularly illiquid company. As announced to the ASX by AER, DMXAM will become a substantial shareholder of the company.

- Pureprofile (ASX:**PPL**)

  Between July and early September, we acquired a position in PPL which sells data and insights to over 700 global clients. PPL had been on our watchlist since it undertook a comprehensive balance sheet restructuring in 2020. In late 2020 PPL provided earnings guidance for FY21 pointing to a much improved $3m EBITDA, but given PPL's relatively poor track record, we were initially somewhat skeptical of the turnaround potential here. However, following a strong fourth quarter result where PPL recorded EBTDA of $1m and positive cash flows of $922k, and after being suitably impressed in meetings with management by the turnaround and growth strategy, we initiated a position. At our entry price, PPL was trading on ~6x FY22's EBITDA.

  PPL's FY21 revenues came in at $30m (up 24%) and it exceeded its EBITDA guidance, reporting $3.1m, (up 124%). Growth in new markets (particularly in Europe) and existing customer activity has seen a strong start in FY22, and notwithstanding a strong share price increase, its current valuation remains undemanding.

- Swick Mining (ASX:**SWK**)

  During July and August, we purchased a position in Swick Mining – an underground drilling contractor that over recent years has been building out a greenfields mining technology company, Orexplore. Orexplore has been generating significant losses that have detracted from the strong profitability of SWK's core business. After a stop-start demerger process, in June SWK confirmed its intention to demerge the two businesses by the end of 2021. Separating out the two businesses would significantly improve the reported profitability of SWK, and at the time of our purchase, we estimated on a demerged basis, SWK was trading on 3x EBIT. The full year report of SWK provided more detail on the demerger process, and, with a positive outlook for FY22 (particularly around expectations of drill utilization), the share price has begun to re-rate.

- Two other unique new positions:

  During September, we were also pleased to initiate positions in two very much under-the-radar small companies with interesting global market opportunities that are both trading on low PERs. One of these is on a very low EV of ~$10m, while the other had an EV of around $60m. Both positions rate highly in terms of what we are looking for as a quality investment. We are excited about the potential of these two unique positions and look forward to disclosing more about these names after we have finished accumulating appropriately weighted positions.

<u>Portfolio selling and recycling of capital</u>

We remain focused on recycling our capital into the most compelling opportunities, whilst at the same time are conscious of maintaining a long-term outlook and remaining supportive long-term holders of our portfolio companies. The recent purchases outlined above have been funded in part from the proceeds of several positions that we have sold/reduced during the month, where we have been holders for several years.

We sold our long-term holding XRF Scientific (ASX:**XRF**) during the month. With its share price now north of 60c (versus our 15c entry price) and with its PER expanding to over 15x, we felt as though it was an appropriate time to exit what has historically been a very cyclical investment.

We continue to be disciplined and realise profits in several other positions such as Janison Education (ASX:**JAN**) and Secos (ASX:**SES**) which have had strong share price runs and where the valuation thesis is less apparent now.

We first invested in JAN when it reverse-listed on the ASX in 2017 with a market cap of ~$39m. Four years later, JAN has a market cap of $230m. Since listing, we have supported the company through participating in various capital raisings (while trimming our position as the share price has increased and our position became oversized). Whilst we have trimmed our position again this month, we intend to continue to hold a long-term position, as we believe there is a genuine pathway for it to grow from here into a billion-dollar company.

<u>How we are thinking about our portfolio</u>

While we are pleased with the performance of our holdings, we are acutely aware that markets have been very kind over the past 18 months. We continue to be disciplined and focused on making sensible portfolio management decisions that will best position the portfolio for continued long term success. Accordingly, we remained disciplined in taking profits where appropriate, maintaining manageable position sizes, holding a reasonable level of cash and, as mentioned above, not compromising on value and quality when investing in new opportunities.

More generally, we remain very enthused about the portfolio - it continues to have exposure to numerous interesting companies that have material potential upside, that are executing well.

We look forward to updating you in early November with further portfolio news.

Kind regards

Roger Collison	Steven McCarthy	Chris Steptoe
Chairman	*Portfolio Manager*	*Research Analyst*

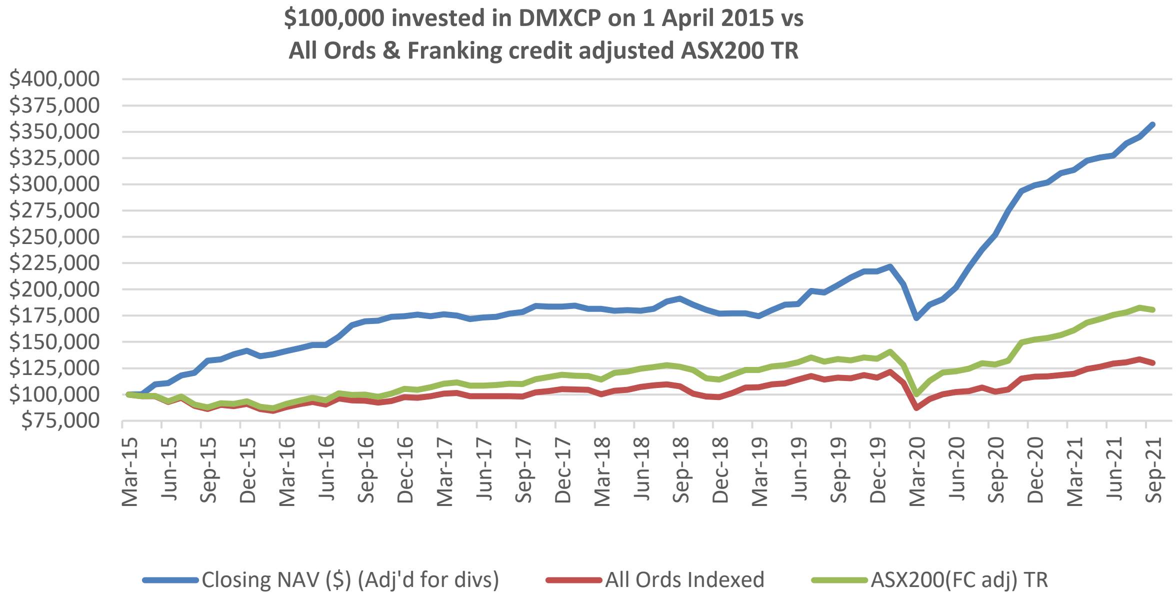
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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**				**+22.29**	**+11.37**

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.



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