DMX
ASSET MANAGEMENT

DMX Capital Partners Limited
Investing in the most compelling nano and micro-cap opportunities

DMX Capital Partners Limited
October 2021 – Investor Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
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Opening NAV (1 October 2021) [1,2]	**$3.1516**
Closing NAV – cum div (31 October 2021) [1,2]	**$3.3252**
Closing NAV – ex div (31 October 2021) [1,2]	**$3.1252**
Fund size (gross assets)	$25m
% cash held - month end	7%
Gearing	Nil

1-month return	5.51%
3-month return	11.85%
12-month return	42.35%
3-year return (CAGR p.a.)	28.78%
Since inception (*6 years & 7months*) (CAGR p.a.)	23.52%
Since inception (*6 years & 7months*)	301.6%

*DMXCP Share price = Closing NAV (**$3.1252**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends reinvested and franking credits paid. Since inception 61c of dividends & franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 5.51% (after all accrued performance and management fees and expenses) for October 2021. On 31 October 2021, DMXCP went 'ex' a dividend of 14.0c plus 6.0c in franking credits. The NAV as at 31 October 2021 was **$3.3252** (cum-dividend) and **$3.1252** (ex-dividend), compared to $3.1516 as at 30 September 2021.

New shares issued on 1 November 2021 will be issued on an ex-dividend basis. Those shareholders that have elected to take the DMXCP dividend as cash should receive a payment on or around 18 November 2021. Those shareholders that have elected to receive shares in lieu of cash (at the ex-dividend price of $3.1252) will receive an updated holding statement from our share registry in late November.

In terms of the broader market, the All Ordinaries was up 0.12% during October, while the ASX Small Industrials Index increased 0.13%.

<u>October Portfolio Developments</u>

October was another busy month with AGMs, quarterly updates and high levels of corporate activity/capital raisings.

October's performance was driven by strong share price increases in Ansarada (ASX:**AND**) which was up 49%, and Aeeris (ASX:**AER**) up 33%. Material detractors for the month included Cryosite (ASX: **CTE**) (-10%) and Corum (ASX:**COO**) (-7%).

Despite the NSW and VIC lockdowns impacting businesses for much of the first quarter, results reported were generally pleasing and in line with expectations. There were also a number of corporate developments across the portfolio during the month, mirroring the activity we are observing in the broader market. Notable developments included:

- Ansarada (ASX:**AND**) undertook a small bolt on acquisition, TriLine GRC - a governance, risk and compliance (GRC) SaaS company with customers in Australia, New Zealand, UK and Ireland. This acquisition will strengthen Ansarada's capability in the fast-growing GRC market. While small, the acquisition looks strategically sensible and well-priced.

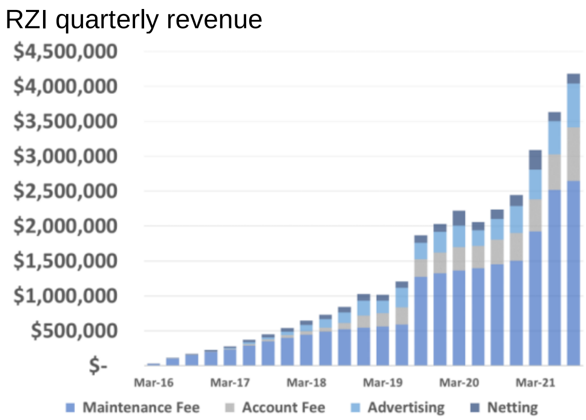
- Swick Mining (ASX:**SWK**) agreed to a scheme of arrangement with DDH1 Limited (ASX:**DD1**), with Swick holders receiving shares in DDH valuing SWK at $0.35 per share. Swick shareholders will also receive Orexplore shares under the proposed Orexplore demerger. While we do not consider this to be a full price for SWK, the offer does allow SWK holders to participate in the synergies expected to be extracted as a result of the merger. We continue to hold our SWK shares.

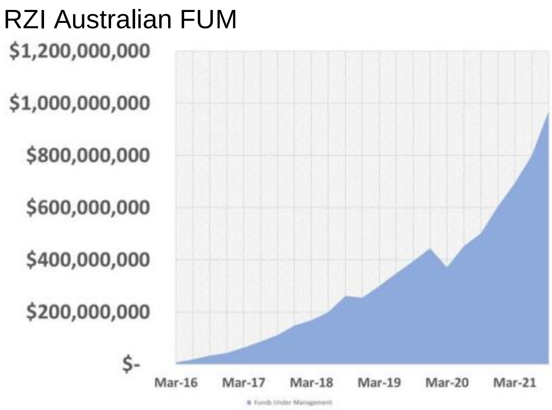
- Aeeris (ASX:**AER**) which provides environmental risk monitoring services to corporate and government clients, raised funds to capitalize on some attractive growth opportunities and to fund additional development of its climate reporting tools. As mentioned in our last update we cornerstoned this raise and became a substantial holder.

As mentioned above, October was busy with many market and AGM updates released. Below, we discuss two holdings that updated the market during October, which we consider to be interesting.

Raiz Investments Limited (ASX:RZI)

RZI, Australia's largest, mobile-based financial services platform delivered another very strong quarter of FUM and revenue growth. As we have previously mentioned, the growth achieved by RZI since it was founded has been impressive, scaling from a pre-revenue start-up to having positive operating cash flows and almost $1 billion of FUM in a little over 5 years.





As the charts above highlight, RZI continues to grow quickly:

- Total normalised revenue up 86.8% same period year on year (YOY) to $4.2m;
- Global active customers up 85.2% YOY to 533,755;
- Australian FUM up 93.8% YOY to $970.2m;
- Superannuation FUM up 158.7% YOY to $183.7m; and
- Annual Recurring Revenue (run rate) up 89.2% YOY to $13.7m.

As a fast-growing fintech, it is pleasing to see RZI's Australian operations record its 8th quarter of positive operating cash flows. At a group level (after funding expansion costs in Southeast Asia), RZI also continued to be operating cash flow positive.

Despite this strong growth achieved to date in Australia, significant runway remains. Management expects to be able to grow its current active customer base in Australia from ~300,000 currently to ~500,000 in 3 years, and grow average revenue per customer from ~$60/year to ~$100/year. This suggests annual revenue of $50m from Australian customers, supplemented by RZI's other revenue streams (advertising, netting) and offshore revenues.

An interesting upcoming development…

Acorns is an American financial technology and financial services company that specializes in micro-investing and robo-investing with ~US$4.75bn funds under management. It is expected to list with a US$2.2bn valuation on the NASDAQ by the end of this year under the symbol "OAKS", supported by investors such as TPG, Blackrock and Wellington Funds.

Acorns was a founding joint venture partner in RZI (when it was previously known as Acorns Australia), and Acorns remains one of the largest shareholders in RZI today. [Acorns is an interesting story in itself – for those interested in learning more about it, an analyst presentation is available here: https://youtu.be/y7YgPehIOeg].

When it lists, Acorns will be a useful peer to benchmark RZI to, although, unlike RZI, Acorns is some years away from profit due to its higher customer acquisition costs. It is expected to list on a FY22 Price/revenue multiple of ~8x, while RZI trades at a ~20% discount to this. On an EV/FUM basis, Acorns is at 38% while RZI is on a more modest 14%.

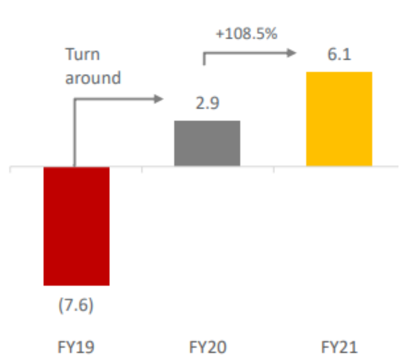
Acorns has also stated *"Upon listing, we are expected to have over $450 million in cash to fuel Acorns' organic and inorganic growth, execute our strategy and expand globally". "We believe the metaphor of the acorn growing into the mighty oak is a global idea that crosses all cultural, language and geographic barriers. We will likely do that via M&A".* RZI, with its market leadership position in Australia, and growing customer base in the attractive, fast growing, Southeast Asian market could be a nice fit for Acorns, particularly given Acorns' knowledge of the RZI business and its existing RZI shareholding. While this would not be an ideal result for holders of RZI such as ourselves who are keen to continue our long term growth journey with RZI, a cashed-up Acorns bringing RZI back into its fold to progress its global ambitions, may be the most logical outcome. This potential for corporate activity should also help to provide some downside protection for RZI from here.

Yellow Brick Road (ASX:YBR)

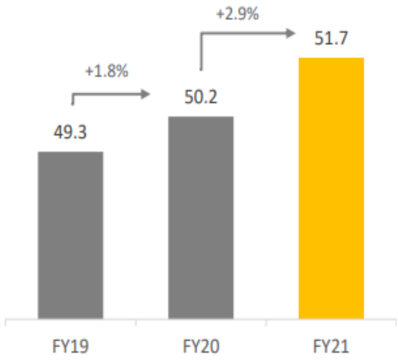
During October, one of our asset plays, YBR, released a market update presentation for the first time in 4 years. YBR has had somewhat of a troubled past on the ASX, but YBR today is quite different from the YBR of three or more years ago (although management, led by the polarizing Mark Bouris, remains the same). The business has been very much simplified, with the divestment of many of its non-core businesses, and a re-focus back to its traditional strength – its mortgage business.

As illustrated below, over the past three years, YBR has moved from a net debt position to a significant net cash position, while it has been growing its loan book and cash EBITDA. With a market cap of $34m and net cash of ~$9m, YBR has a $25m EV.

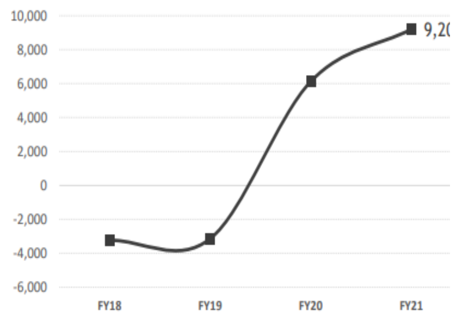
YBR Cash EBITDA ($m)



YBR Trail book ($b)



YBR Net cash ($m)



While the company has reported a 'Cash EBITDA' of $6.1m, at this point of the YBR turnaround, it is challenging to meaningfully assess YBR's earnings profile, particularly given some of the complexities involved in accounting for mortgage books. Instead, we take some comfort from its asset position. At the month end share price of 10.5c, YBR was trading at a 32% discount to its net tangible assets (including its share of the NTA in its JV investment). As set out below, these 'tangible assets' are primarily cash, and the present value of the trailing commissions to be received from lenders (mostly major Australian banks) for loans brokered. No value is currently being attributed to the 'intangible' assets of the company: its substantial network of 1,000+ brokers, and the IP and technology associated with a market leading brand.

30 June 2021 - audited	$'000	cents/share	
Net Cash	9,206	2.8	Cash less debt
NPV of loan book trail	40,773	12.6	NPV of trailing commissions – counterparties are mostly big4 banks
Other assets/liabilities	417	0.1	Net of other payables and JV interest in NTA of RWF
YBR Net Tangible Assets	**$50,396**	**15.54 cents**	
YBR Market cap/share price	**$34,051**	**10.50 cents**	

YBR clearly has much work to do to get re-rated back above its NTA. In a low interest rate environment, margins and commissions are under pressure as re-financing takes place, and as housing stock volumes are low. However, at its AGM during the month, YBR highlighted a number of initiatives to further grow the business and it margins:

- In FY21, YBR launched Resi Wholesale Funding (RWF) in order to leverage existing capabilities within the group and to move up the value chain in the mortgage industry capturing more margin. YBR believes the platform has been set to support strong growth in volumes in FY22, and that RWF can become a significant funder within the YBR network (which settled ~$13b in loans last year – RWF is targeting 10% of this annual volume) and through aligned brokers outside of the network. While the book is still small ($160m) it is growing at ~$25m per month.

- The recent launch of a digital focused (direct to consumer) offering online home loans (yhomeloans.com.au) that is expected to generate higher margin commissions to YBR than using franchised brokers.

- The expansion of YBR's traditional broking business, through the expected addition of 100+ new brokers over the next 12 months (currently sitting at ~1,400).

- Capitalising on what the company believes is an industry leading position in digital marketing and in its lead management and tracking system, which is expected to assist the business in winning new business and attracting new brokers.

The tone at the company's recent AGM was bullish. There is an opportunity for the company to deliver on its growth objectives and prove to the market that its earnings are sustainable and growing, driving a re-rate to back above its NTA. If not, given the sector consolidation occurring, and YBR's substantial corporate costs that could be eliminated on a merger, a competitor may end up acquiring YBR's vast broker network and brand infrastructure for an attractive price.

We highlight the above as examples of some of the different and interesting types of companies in the portfolio:

- **RZI** – a genuine Australian success story, executing really well, with a long growth runway, valued (based on Acorns' IPO pricing) at a significant discount to its much less profitable, 'big brother' peer.
- **YBR** - in a market where value can be hard to find, YBR offers some attractive upside with a solid asset base to provide some downside protection.

We continue to work hard to identify and invest in further interesting opportunities where we consider the risk/reward profile to be attractive, by turning over a lot of stones and meeting with a number of management teams. Pleasingly, we are continuing to find many attractive such opportunities.

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

Kind regards

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

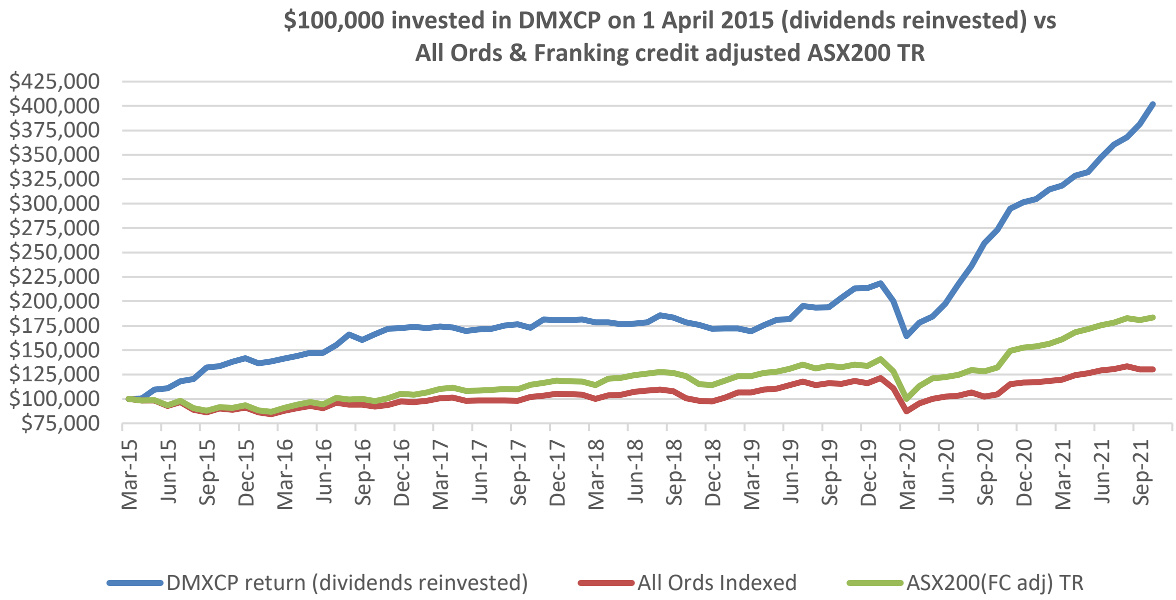
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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	**+5.51**			**+29.03**	**+11.51**

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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