DMX ASSET MANAGEMENT

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

An investment company managed by:
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DMX Capital Partners Limited
April 2021 – Investor Update

Opening NAV (1 April 2021) [1,2]	**$2.7213**
Closing NAV (30 April 2021) [1,2]	**$2.8092**
Fund size (gross assets)	$19m
Gearing	nil
% cash held - month end	12%

1-month return	3.23%
3-month return	7.91%
12-month return	85.06%
3-year return (CAGR p.a.)	22.42%
Since inception (*6 years & 1month*) (CAGR p.a.)	22.71%

*DMXCP Share price = Closing NAV (**$2.8092**), 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 3.23% (after all accrued performance and management fees and expenses) for April 2021. The NAV as at 30 April 2021 was **$2.8092**, compared to $2.7213 as at 31 March 2021. Indices were stronger for the month, with the All Ordinaries up 3.90% and the ASX Small Ordinaries Index increased 4.93%, while the XEC Emerging Companies Index was up 7.43%.

DMXCP has returned 67.89% for the financial year to date (since 1 July 2020) (after all accrued performance and management fees and expenses).

April Portfolio Developments

April saw a number of our holdings update the market on their third quarter (1 January 2021 to 31 March 2021, 3Q21) results. Pleasingly, reflecting generally buoyant economic conditions, we saw a continuation of the strong results that we observed in the first half.

We provide an update on recent newsflow for our top 10 holdings below. Outside of our larger holdings, pleasing results were reported by XRF Scientific (ASX:**XRF**) (3Q21 revenue up 20% and profit up 70%, share price +36% for the month) and Ansarada (ASX:**AND**) which generated $2m of operating cash flow for the quarter, and grew its customers by 29% over the year (share price +24% for the month).

For the second month in a row, Easton Investments (ASX:**EAS**) was a significant detractor. We note that Sequioa (ASX:**SEQ**) had a strong 3Q21 update, and we would expect EAS to be enjoying similarly favourable industry conditions.

Top 10 DMXCP positions at 30 April 2021

While we don't normally disclose the largest positions in our portfolio, we think it is useful to periodically provide additional visibility around the structuring of the portfolio and our thinking on our larger positions.

We previously commented on our top 10 positions in February 2020, prior to the full impact of COVID-19, and then revisited the analysis here. Following some significant recent news flow relating to our current top 10 positions, we thought it was timely to provide an update, and discuss some of this recent news.

However, we first make some general observations in relation to the top 10 positions, and provide some comments on how they reflect our investment approach more broadly.

- All were EBITDA profitable as at 31 December 2020, and all but one (ASX:**JAN**) delivered an NPAT positive result – we prefer to back management teams of small, growing companies that have proven they can operate sustainably profitable and cash flow positive businesses.
- All but one (ASX:**PTB**) have no term debt and significant cash balances. Strong balance sheets are important to us, and we like the flexibility it provides to take advantage of organic or inorganic growth opportunities.
- We have a bias to value, with five top 10 holdings trading on low PE ratios, yet are growing strongly (ASX:**EAS**, ASX:**JYC**, ASX:**SEQ**, ASX:**PTB** and ASX:**DSK**).
- We are happy to pay higher multiples for profitable businesses with relatively low market caps that have genuine growth potential, and where there exists a large prize if they can continue to execute sensibly. We particularly like opportunities where this growth potential is misunderstood or underappreciated by the market. Included in this basket are ASX:**AFL**, ASX:**PTG** and ASX:**JAN**.
- Many have clear leadership positions in their respective markets (ASX:**DSK**, ASX:**JAN**, ASX:**PTG**, ASK:**AFL**, ASX:**JYC**).
- We retain a long term focus with several of our top 10 positions having been in the portfolio for more than three years (ASX:**JYC**, ASX:**JAN**, ASX:**EAS** & ASX:**SEQ**). In the cases of ASX:**DSK**, ASX:**PTG** and ASX:**JAN**, we initially bought stock in their IPOs, and then subsequently added to the positions.

Top 10 DMXCP positions at 30 April 2021 (in alphabetical order)

Australian Family Lawyers

ASX:**AFL**
M/cap: $46m

Why are we invested? AFL is Australia's largest specialised family law firm, and has ambitious plans to further grow its market share from its current 1.5% to 10%. With a market size of over $1b, this would translate into a potential $100m revenue a year opportunity, with EBITDA margins north of 30%, highlighting a very attractive 'prize'. AFL is using a combination of organic growth (driven by digital marketing strategies), lateral hires and acquisitions to increase its market share. While there are certainly execution risks here, management's performance in the two years since its listing has been impressive, with the company recording CAGR revenue growth between FY17 and FY20 in excess of 50%.

Recent newsflow: AFL announced the successful completion (over-subscribed) of a $5.5m raising – the first raise since AFL listed two years ago. This allows AFL to now target acquisitions at attractive multiples (sub 3x EBIT). The first acquisition is expected to be Watts McCray, one of Australia's leading family law firms, which has serviced over 1,000 clients each year with revenue of $6m. This acquisition is expected to be "*materially earnings accretive*". AFL will look to further earnings accretive acquisitions to provide scale and increase its margins.

°cryosite

ASX:**CTE**
M/cap: $12m

Why are we invested? CTE, is a specialist provider of outsourced clinical trials logistics services. It operates in a niche area where there are high barriers of entry (storing and transporting of drugs on behalf of large pharmaceutical companies requires compliance with significant global and Australian regulations and licensing requirements, as well as the appropriate controlled temperature storage facilities). We like that CTE's largest customers include a number of major global pharmaceutical companies that have been utilizing CTE's storage and logistics services for many years, providing sticky, high quality revenue. CTE has a strong growth profile with the company targeting 20-30% annual revenue growth over the medium term, including an opportunity for CTE to expand into the broader market of logistics for TGA listed products.

Recent newsflow: CTE's second largest shareholder (that had owned ~20%) completed a sell down which provided an unusual amount of liquidity in the stock. We took advantage of this liquidity, and the attractive pricing on offer, to become a substantial holder.

ASX:**DSK**
M/cap: $228m

Why are we invested? DSK is Australia's leading retailer of candles, home décor and home fragrances. We first invested in DSK when it listed late last year. DSK has several very attractive characteristics: a gross margin approaching 70% (all products are designed and developed internally), a very loyal customer base (its 640,000 Dusk Rewards members now account for nearly 60% of total sales) and an omni-channel retail strategy, underpinned by a disciplined store roll-out focused on B and C grade shopping centres with more attractive leasing dynamics.

Recent newsflow: **DSK announced a profit upgrade during April**, driven by strong same store sales growth (+44%), store expansion, and gross margin expansion (+400bps).

DSK's forecast FY21 EBIT of $38m to $40m was ahead of broker estimates which were sitting at $35.5m. With its high gross margins (and with favourable industry conditions) DSK is currently recording EBIT margins of 28%.

The expected 30c dividend for FY21 will represent a 15% yield on DSK's IPO issue price.

ASX:**EAS**
M/cap: $38m

Why are we invested? EAS owns a portfolio of leading businesses in the accounting, wealth and training space, with increasing recurring revenue. In 1H21, EAS generated NPATA of $2.6m (up ~70%). We estimate EAS trades on an attractive 8x NPATA .

Recent newsflow: After a long drawn out transaction, HUB24 (ASX:**HUB**) is now the largest shareholder of EAS with a 32% holding. With a financially strong, supportive, strategic holder, EAS is now well placed to drive further organic and in-organic growth. With EAS trading on a single digit PE multiple, and supportive industry conditions, we think this represents an attractive opportunity.

ASX:**ICS**
M/cap: $22m

Why are we invested? After completing the sale of its UK medical billing company (MBC) in February, ICS now has net tangible assets (after receiving the sale proceeds) of ~$23.1m including cash of $22.9m. Once the majority of this cash is returned to shareholders, we expect ICS to trade at a premium to its remaining cash backing, as the market attributes value to its shell potential. Meantime, ICS continues to trade below its cash backing.

Recent newsflow: ICS confirmed it had received the cash proceeds from the sale of MBC of approximately GBP12.8m (after UK costs)(AUD22.9m). ICS advised it is continuing its work with the ATO on the class ruling to confirm treatment of the return to ICS shareholders and that it will promptly make the cash return following the finalisation of the ruling. The cash return will add meaningfully to the portfolio's cash balance.

ASX:**JAN**
M/cap: $163m

Why are we invested? Another business that we have owned since its IPO, JAN is a leading Australian education technology business that delivers online assessments to millions of candidates in more than 100 countries, with a Tier 1 customer base including the University of London, British Council, the Organisation for Economic Cooperation and Development (OECD), the Singaporean government, and national and state government departments in Australia.

Recent newsflow: In March JAN announced it had been accredited by the OECD as the sole provider of the PISA for Schools assessment in Australia. With JAN already providing online NAPLAN, ICAS and various state-based assessments, this further strengthens JAN's market leading position within Australia for schools' assessments. The target opportunity of 2775 secondary and combined schools in Australia, at $7,000 per school, is significant. During April, JAN announced that in the first six weeks of availability in the Australian market, more than 200 schools had signed contracts to sit the PISA assessment over the next 12 months. JAN has an agreement with OECD to roll out PISA across 90 countries – the addressable opportunity here is immense (and this is just one of many product offerings that JAN provides).

JOYCE CORPORATION LTD

ASX:**JYC**
M/cap: $72m

Why are we invested? An investment company that owns two growing national businesses, KWB Kitchens and Bedshed. We estimate the value of these business, together with JYC's property assets to significantly exceed its current market cap.

Recent newsflow: JYC reported a strong H1 result, with underlying earnings (normalized for Job Keeper) up over 100%. It is another stock in the portfolio that trades on a sub 10x PE ratio. KWB Kitchens remains the jewel in the JYC portfolio – a well managed, expanding national brand which is the largest professional kitchen renovation business in Australia generating significant free cash flow. With a growing national footprint and a strong order book, we expect sales to reach over $100m in FY22, with EBIT margins approaching 20%. It is not unreasonable to conservatively expect this business to be worth 8x EBIT or $160m. JYC's share of this would be $80m, which underwrites JYC's current market cap of $72m.

PROPTECH GROUP

ASX:**PTG**
M/cap: $93m

Why are we invested? PTG provides market leading technology solutions to real estate agents. A third of all real estate agents in Australia and New Zealand (4,057 out of 12,200 offices) are customers of PTG. PTG is now targeting the UK market which comprises over 25,000 real estate offices. Recurring revenue of $11.6m is up 19% since PTG listed in late November. PTG generates gross margins from its recurring revenue of 90% and EBITDA margins of 25%.

Recent newsflow: PTG's 3Q21 update highlighted strong operating cashflows and pleasing progress against its growth strategy. PTG also completed the acquisition of the Harcourts real estate agency's customer relationship management (CRM) platform. The acquisition enables the Harcourts' franchisees to then migrate from the old platform on to PTG's market leading Vault CRM platform. Harcourts has described Vault as "*a truly exceptional product*" that will "*play a key role in a significantly enhanced technology offering*". The transaction takes PTG's market share to an impressive 33% of all real estate agents in Australia and NZ (including the three largest networks of real estate agents (Raine & Horne, Ray White & Harcourts) and up from 26% from when PTG bought Domain's CRM asset last year). This is particularly important when it comes to the next stage of the PTG growth strategy, which is to upsell additional PTG offerings to its real estate agent customer base.

PTB GROUP LIMITED

ASX:**PTB**
M/cap: $86m

Why are we invested? PTB generates recurring revenue from long-term engine maintenance and management contracts in place with aircraft operators. Its US acquisition provides growth opportunities in international markets.

Recent newsflow: At its half year results, PTB noted the reduced contribution in the first half from its largest customer, Trans Maldivian Airways, which represents an estimated 15% of PTB group sales. From recent data and commentary, it would appear that holiday (and airline) activity in the Maldives has now normalised, which supports PTB's full year underlying profit NPBT guidance issued in February of between $9.2m and $11.2m. On the back of more normalised conditions, we believe PTB is trading on 10x FY22 NPAT. PTB also trades at its book value, and has $76m of net tangible assets (primarily aircraft spare parts and land and buildings).

ASX:**SEQ**
M/cap: $65m

Why are we invested? SEQ provides various services to accountants, financial planners and third party AFSL holders. One of SEQ's fastest growing businesses is Morrisons, which provides wholesale broking execution and clearing to financial planners and large dealer groups. To give an indication of its recent growth (through market share gains) stock held on Morrisons' HIN has gone from $400m in January 2020 to $2.8b at January 2021, and SEQ is targeting $4b+ by later this year. Morrisons should easily exceed the ~$20m of revenues it had initially budgeted for FY21. (We note that a retail focused broker with similar revenues (ASX:**SWF**) has an EV of over $100m).

Recent newsflow: In April SEQ **increased its EBITDA guidance by ~25%** to $8.5m to $9m. The updated guidance follows very strong trading across its wealth, equity markets and professional services divisions. SEQ also has ~$15m of net cash on its balance sheet.

The top 10 positions are well diversified across a range of sectors and provide a strong balance of value and growth opportunities. We are pleased with how our larger holdings are positioned, as we are with the portfolio generally. Outside of the top 10, we own a variety of interesting, under the radar, attractively priced companies, that we believe have material upside.

By focusing on growing, profitable companies with robust balance sheets and market leading positions, we try to take out much of the risk typically associated with investing in small and somewhat illiquid ASX companies.

The DMXCP portfolio provides a diversified, difficult to replicate, exposure to an under-owned part of the ASX, where market inefficiencies and mispricing can create extremely compelling opportunities. *We note that DMXCP's net assets are currently ~$18m. We continue to target a close for DMXCP to new investors, at $20m. If you are a Sophisticated Investor[5] that has interest in investing in DMXCP, we encourage you to contact us.*

We look forward to updating you in early June 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 all tax accruals but includes an estimate of franking credits available. Refer note 5, 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
Note 5: a gross income of $250,000 or more per year in each of the previous two years, or net assets of at least $2.5m (Corporations Act reg 6D.2.03 and reg 7.1.28)

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**									**+9.01**	**+6.42**

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.