DMX
ASSET MANAGEMENT

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

DMX Capital Partners Limited
August 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 August 2021) [1,2] **Closing NAV (30 August 2021)** [1,2]	**$2.9733** **$3.0362**
Fund size (gross assets)	$23m
Gearing	nil
% cash held - month end	12%

1-month return 3-month return	2.12% 6.94%
12-month return	50.24%
3-year return (CAGR p.a.)	25.18%
Since inception (*6 years & 5months*) (CAGR p.a.)	22.51%

*DMXCP Share price = Closing NAV (**$3.0362**), 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 2.12% (after all accrued performance and management fees and expenses) for August 2021. The NAV as at 30 August 2021 was **$3.0362**, compared to $2.9733 as at 31 July 2021. The All Ordinaries was up 2.07% during August, the ASX Small Ordinaries Index increased 6.45%. The XEC Emerging Companies Index was up 4.74%.

<u>August Portfolio Developments</u>

August saw most of our holdings report their full year results for FY21. Many of these results had been well flagged via updates in prior months, so across the portfolio there weren't many surprises (negative or positive).

Of particular interest this reporting season were the outlook statements in light of the Delta Covid-19 outbreaks across various geographies. In this regard, we were encouraged to see many in our portfolio provide strong growth outlooks, with a number of companies expecting double-digit revenue growth in the year ahead. In addition, we expect only a small number of holdings with relatively low portfolio weightings to be significantly impacted by the NSW and VIC lockdowns.

As is often the case in August when companies report, share prices were more volatile than usual during the month. Positions where the market responded favourably to results, and that contributed positively to the month, included ReadyTech (ASX:**RDY,** up 40%) Secos (ASX:**SES,** up 23%) and Blackwall (ASX:**BWF**, up 23%).

Stocks that fell included Dusk Group (ASX:**DSK** down 19% - on the back of COVID-19 lockdown concerns), AF Legal (ASX:**AFL** down 18% following a weak second half) and PropTech (ASX:**PTG** down 18%).

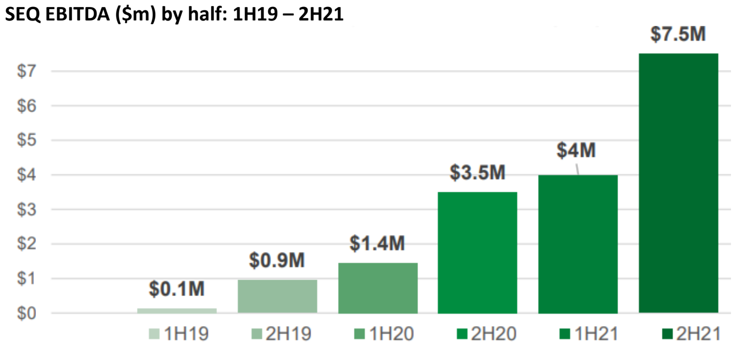
<u>How our largest positions reported</u>

In constructing our portfolio, we want those businesses with the largest weightings within the portfolio to have compelling fundamentals: attractive earnings multiples, strong balance sheets, a meaningful track record of delivery and positive growth profiles. Our top three portfolio holdings screen very well in this regard – we discuss how these three companies reported for FY21 below.

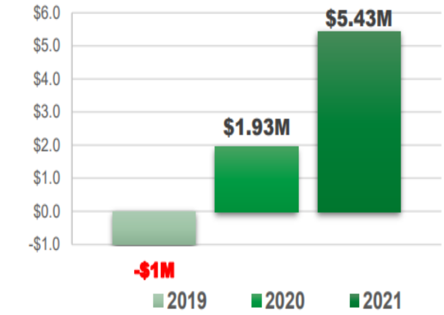
Sequoia Financial Limited (ASX:**SEQ**)

After delivering three profit upgrades during the second half of the year, it was not surprising to see SEQ, which provides a range of financial services, record an impressive full year result. FY21 EBITDA of $11.5m was up 139%, with 2H21 delivering EBITDA of $7.5m. NPAT was up 187% to $5.4m as a result of operating leverage improving margins to 9.9%, (from 5.71%). All four of SEQ's business units delivered strong results, benefiting from management's decision to invest in growth initiatives in earlier years.

SEQ EBITDA ($m) by half: 1H19 – 2H21



SEQ FY NPAT ($m) FY19 – FY21

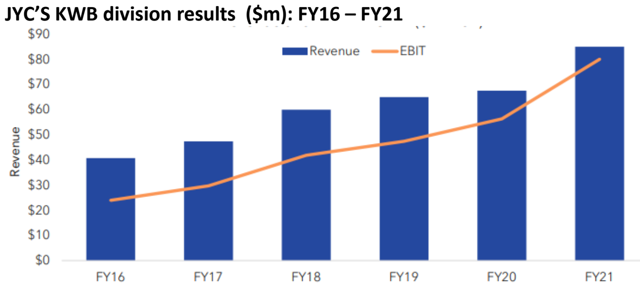


SEQ enters FY22 with very strong momentum across all its business, an aggressive medium/long term growth plan, supported by a number of industry tailwinds. We expect SEQ to increase EBITDA to $15m+ this year, and calculate it to be trading on a modest 10x FY22's NPATA.

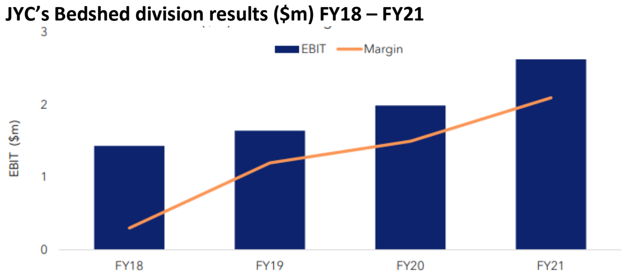
Joyce Corporation (ASX:**JYC**)

Investment company JYC, which has retail and property interests, recorded revenue growth of 30% (to $111m) on the back of elevated consumer demand for its renovation and furniture offerings. EBITDA of $24.3m increased by 46%, while EPS increased by 71% to $0.27 per share. While the share price responded positively to the results announcement, JYC continues to trade on a modest multiple of 12x historical earnings.

JYC'S KWB division results ($m): FY16 – FY21



JYC's Bedshed division results ($m) FY18 – FY21

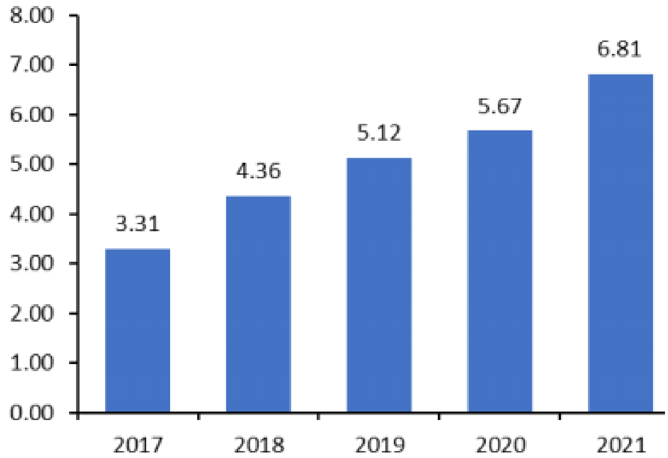


JYC's future growth is underpinned by its store roll-out program, with its profitability very much linked to store numbers across its network – KWB has a strong track record of delivering operating leverage as the business grows in size. Subject to lockdowns ending, we expect the number of stores to again increase meaningfully this year. The balance sheet of JYC continues to be supported by ~$15m of property assets, and a substantial cash balance.

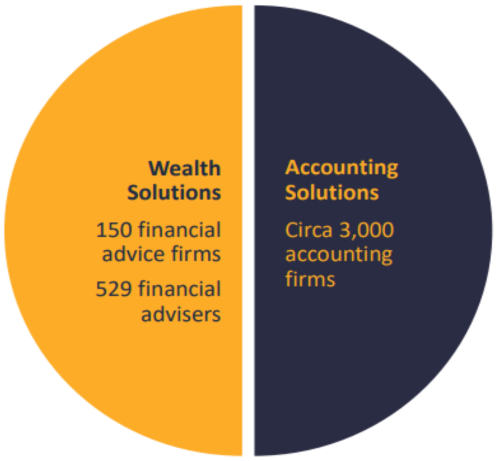
Easton Investments (ASX:**EAS**)

Easton provides a range of services to accountants and financial advisors. It reported another year of profitable growth: Net revenue was up 24% to $27.7m and underlying profit was up 20% to $6.8m. However, it was a messy year of restructuring and divestments. Based on its underlying results, EAS is trading on a PER of ~10x.

EAS Underlying EBITA ($m) FY17 to FY21



EAS provides services to the following customers:



What is perhaps more interesting is how EAS is now positioned following the divestments and restructuring:

- A stronger balance sheet: Net cash at 30 June 2021 of $2.3m compared to net debt of $8.2m at 30 June 2020.
- A new CEO with a growth mandate and who is keen for EAS to be at the forefront of technological change in the industry.
- A new strategic major shareholder: Leading financial technology company, Hub24 (ASX:**HUB**) ($2.2b m/cap), now owns 31.4% of EAS.
- An aggressive growth strategy: An aim to triple net revenues and improve margins to 40% over the next three years.

We look forward to further developments here.

In summary, we are confident that our largest positions are backed by attractive fundamentals: strong track record of profitable growth, low earnings multiples & net cash balance sheets. We have been shareholders in each of these companies for many years now. The FY21 results continue to support our investment thesis for these holdings.

Global growth exposures

While we like attractively priced companies on low multiples, we recognize that those types of opportunities are typically domestic focused businesses and in mature industries which may ultimately limit the long term growth of the business. We are therefore also keen to get exposure to companies with large addressable markets, high margins and global potential in order to provide strong long term growth prospects. If the 'prize' is significant (and realistically achievable), we are happy to look through what may appear to be elevated near term earnings multiples. Plus, it is satisfying backing under the radar Australian success stories that are competing strongly on the world stage.

Names in this basket of exposures that reported encouraging FY21 results include:

- Pureprofile (ASX:**PPL**). PPL sells data and insights to over 700 global clients. FY21 revenues were $30m (up 24%) while FY21 underlying EBITDA was $3.1m, (up 124%). Growth in new markets (particularly in Europe) and existing customer activity has seen a strong start to the new financial year with July revenues up 50% to $3.1m. Europe, Asia and the US represent significant market opportunities for PPL.

- Janison Education (ASX:**JAN**). Digital education assessment company JAN delivered 6m digital exams in 117 countries during the year. FY21 revenue and EBITDA were strong at $30.2m and $3.0m respectively (up 38% and 21%). Platform ARR was $23m (up 75%), which increased JAN's gross profit margin to 55%. JAN's partnership with the OECD continues to provide it with a pipeline of opportunities across multiple countries.

- Ansarada (ASX:**AND**). In its first year as a listed company, AND, which provides a range of digital governance products, delivered revenue of $33.4 million and EBITDA of $5.9 million (+78%). AND (much like JAN and also PPL), having established a market leadership position in Australia, is now focusing on taking its product offering into other regions. With almost half of its revenue now being generated from overseas AND is clearly getting strong traction with this strategy.

Achieving profitability

In addition to our profitable holdings, we allocate a smaller portion of our portfolio to businesses that are tracking towards positive cash flows and profitability. Within this group of companies, it was very pleasing to see three such holdings achieve significant profit milestones:

- Environmentally friendly plastics manufacturer, Secos Group (ASX:**SES**) delivered its maiden NPAT profit on the back of strong revenue growth (+43%) and improved gross margins (19% from 17.5%) in challenging operating conditions. Sales of SES's higher margin biopolymer product were up 127%. In FY19, SES recorded an NPAT loss of $4.2m and a loss of $1.2m in FY20 - the improvement in the financial position and execution here in recent years has been impressive.

- Aeeris (ASX:**AER**), which provides environmental risk monitoring services and has a market cap of $8m, recorded a maiden NPAT profit of $0.5m. New customers to its suite of risk monitoring products included one of Australia's largest bank and Australia's two largest insurers. Pleasingly, FY22 has started strongly, with revenue growth of over 10% recorded by AER in just the first two months of FY22. We like the set up here.

- HR tech company, CV Check (ASX:**CV1**), delivered a maiden EBITDA profit, following many years of losses, as well as meaningful revenue growth (41%) (as detailed below). With $13m of cash, CV1 is well placed to build on this improved result in FY22.

CV1 revenue and EBITDA: FY17 to FY21

	2021	2020	2019	2018	2017
	$	$	$	$	$
Sales Revenue	17,477,084	12,367,466	12,363,970	12,517,024	10,432,249
EBITDA	242,138	(361,619)	(539,557)	(1,885,115)	(3,561,348)

Again, it is satisfying to see these companies achieve these milestones, validating the conviction we had investing in these names at an earlier stage. Having established that they can operate profitability, these companies are now positioned to deliver ongoing profitable growth.

Challenges remain

Whilst strong outlooks were provided by many companies, COVID-19 is expected to impact several holdings as we head into FY22. In particular, education provider UCW (ASX:**UCW**) (<1% portfolio weighting) is expected to have a difficult FY22 but retains a solid cash balance to fund any operating losses. Fragrance retailer Dusk (ASX:**DSK**) (~1.5% portfolio weighting) is also expected to incur operating losses until retail reopens in NSW and VIC.

Looking ahead

As we noted last month, we expect a prolonged Sydney and Melbourne lock-down to have short term impacts on a number of Australian businesses. However, we remain pleased with the performance of our holdings, and with the growth profiles and attractive valuations across the portfolio. The portfolio continues to have exposure to many positions that have significant potential upside, and we look forward to updating you in early October with further portfolio news.

Kind regards

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

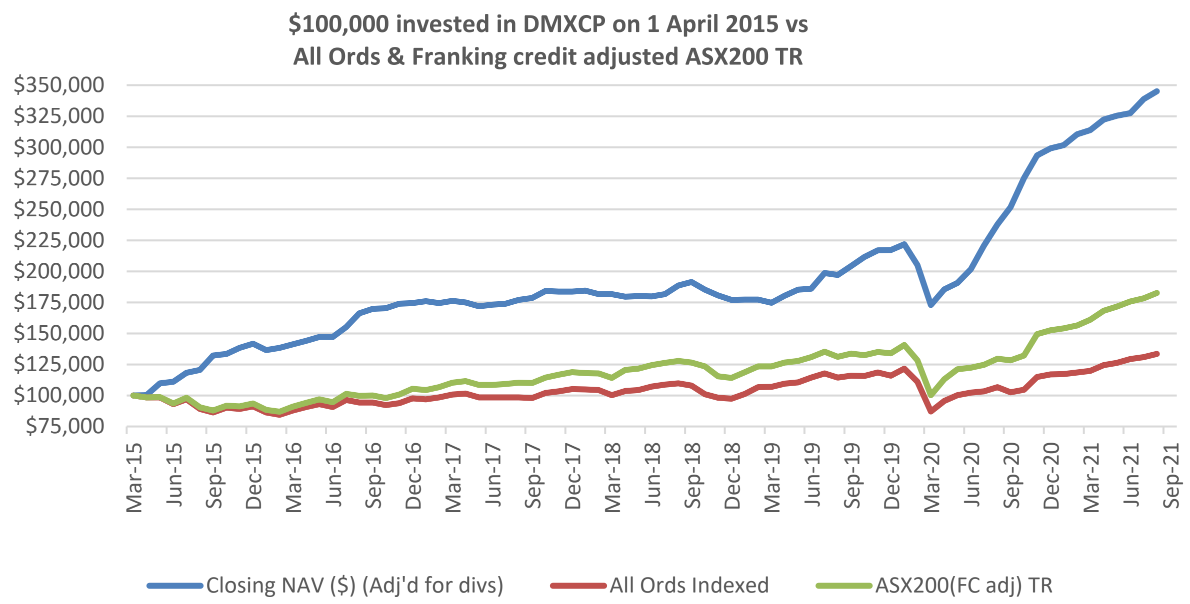
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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**					**+17.82**	**+14.19**

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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