DMX Capital Partners Limited
January 2022 – Investor Update

An investment company managed by:
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Opening NAV (31 December 2021) (1,2)	**$3.1001**
Closing NAV (31 January 2022) (1,2)	**$3.0232**
Fund size (gross assets)	$25m
% cash held - month end	4%
Gearing	Nil

1-month return	-2.48%
3-month return	-3.26%
12-month return	23.82%
3-year return (CAGR p.a.)	30.62%
Since inception (*6 years & 10 months*) (CAGR p.a.)	22.02%
Since inception (*6 years & 10 months*)	289.69%

*DMXCP Share price = Closing NAV (**$3.0232**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends reinvested and franking credits paid. Since inception 81c of dividends & franking credits have been paid

Dear Shareholder,

DMXCP's NAV declined 2.48% (after all accrued performance and management fees and expenses) for January 2022. The NAV as at 31 January 2022 was **$3.0232** compared to $3.1001 as at 31 December 2021.

<u>January portfolio developments</u>

January saw Australian share market indices weaken in line with offshore markets. Smaller companies in particular were impacted with the Small Ordinaries Index and Small Industrials Index both down over 9% for the month. Some of our smaller technology orientated companies with low liquidity were particularly impacted with CV Check (ASX:**CV1** - down 16%), Raiz (ASX:**RZI** – down 18%) and Schrole (ASX:**SCL** - down 17%) among the weaker performers, despite all reporting strong positive operating cash flow results for the December quarter. Positive performances from several core holdings including PTB Group (ASX:**PTB** - up 9%), AFL Legal (ASX:**AFL** - up 10%) and Yellow Brick Road (ASX:**YBR** - up 8%) helped to offset some of the losses. Earlier in the month, we had taken the opportunity to sell several longer term portfolio positions into price strength where the valuation thesis was no longer as attractive, including Blackwall (ASX:**BWF**) which ended the month up 42% on no news.

January was a busy time for quarterly reporting and half year updates – these updates highlighted some of the challenging operating conditions facing businesses as we head into 2022: inflationary pressures, supply chain issues and the impact of Omicron on staff levels and consumer demand.

While our portfolio was not immune to some of those macro challenges, we were pleased to see many of our larger holdings in particular deliver positive updates during the month. In DMXCP's December monthly report we set out our top 10 holdings and discussed our expectations for these positions for 2022. During January, several of these positions provided positive updates supportive of our theses which we discuss below.

<u>Updates from top-10 holdings</u>

- Plane engine maintenance business PTB Group (ASX**:PTB**) delivered a profit upgrade for HY22 on the back of strong trading conditions in the USA and Asia Pacific regions. PTB has guided for revenue growth of 44% ($55.6m) and profit (before tax) growth of 56% ($6.9m) - almost entirely organically driven. A number of initiatives implemented in the US to improve workshop efficiency and expand PTB's product offering have significantly increased the US profitability, while Asia Pacific has benefited from a recovery in tourism. While PTB's profit contribution from the US has improved, it still has some way to go to match the profit generated by PTB's Brisbane workshop (on a workshop relative size basis) highlighting the latent upside to the PTB business in the much larger US market. PTB noted that the strong trading conditions have continued into 2022, and we expect PTB to be at the start of what is hopefully a significant upgrade cycle.

- Another key portfolio position we expect to be upgrading as the year progresses is data and insights business Pure Profile (ASX:**PPL**). PPL reported organic revenue growth of 44% on the PCP (previous corresponding period) to $20.8m, driven in particular by strong (organic) revenue growth in markets outside of Australia (+51%). This reflects the benefits of the increased investment by the PPL management team in new offshore offices and headcount. Normalised EBITDA was 147% up on PCP to $2.5m while operating cash flow was up to $1.6m. With management now demonstrating a consistent track record of good financial discipline, we would expect an upgrade to PPL's FY22 EBITDA guidance which currently sits at $4m - $4.5m. Longer term, management has a large number of levers to continue to drive revenue growth globally, and expand margins.

- Deal and compliance software company Ansarada (ASX:**AND**) reported revenue of $13.2m representing growth of 55% over the PCP (and up 29% over last quarter). While no profit guidance was given, operating cashflows for the quarter were $4.4m, up 73% on the previous quarter and up ~300% on PCP. One of the most pleasing features of AND's result was its Average Revenue Per Account per month (ARPA) which was up an impressive 24% on last quarter. This was driven by a strategic price rise, higher consumption and blending of the recently acquired TriLine's higher ARPA. The higher ARPA significantly improves the unit economics and revenue profile of AND going forward. AND is one of several portfolio positions that have been able to successfully put through price increases over the last 6 months, resulting in margin improvement and increased revenue per customer, and helping to mitigate some of wages and supplier cost pressures evident across many businesses.

- Another top 10 position, Laserbond (ASX:**LBL**), announced revenue for HY22 of $13.4 million, reflecting solid growth double digit revenue growth of 13.4% - a commendable effort for a business that has been impacted by lockdowns and border closures. LBL is positioned for strong organic growth in H2 driven by recent cladding equipment upgrades in NSW and VIC, the completion of three technology license deals that were announced in H1 and increasing sales of LBL's proprietary products.

<u>Other notable updates</u>

Outside of our top 10 positions, updates of particular note from other key positions include:

Aeeris Limited (ASX:**AER**) is a leading geospatial data business that tracks and monitors weather and other risks, reported a particularly encouraging second quarter. Cash receipts were up 30%, recurring revenue grew 30% over the 6 months, and cash flows were strong. AER highlighted a number of interesting use cases where its services have been recently employed, including:

1. Flood alerts and hot weather temperature alerts supplied to councils, government, heavy industry and the insurance sector;
2. Bushfire and weather alerts to residents of large residential estates southwest of Sydney - a requirement under new planning and development regulations; and
3. Over 1,000 highly targeted, radar-based hail alerts - AER's hail alerting product detects the size of hail within thunderstorms in real-time, accurately communicating the threat to its insurance company customers.

In addition to providing weather alerts (its current core focus) AER considers that with its unique historical proprietary geospatial data and analytics, it is well placed to quantify and report physical risk events. This is particularly significant as reporting entities are now required by regulation to disclose and quantify physical and chronic climate risk. Directors and officers face personal liability with failure to comply. While private weather forecasting and alerts is a multi-billion dollar industry in the US, in Australia, it is still very much in its infancy. A significant opportunity therefore exists for a new revenue stream for AER using its data and analytics to deliver reports on climate risks to corporations and governments required to comply with the new regulations.

We have owned AER for several years, liking its offerings and potential, but conscious that it has been subscale and under-capitalised to grow. As previously noted, we were pleased to cornerstone a capital raise by AER late last year with funds to be applied towards increased sales and development resources and to finalise the development of the new version of its Climate Risk platform which is expected to be released in this current quarter. Whilst there is still much work to do, we are encouraged by the early signs of growth here, and the increasing momentum within the business.

With an enterprise value of less than $8m, AER remains very much under the radar notwithstanding its strong cash flows and growing recurring revenue. Its products and services are increasingly in demand and it has a large number of ways it can commercialise its proprietary data and analytics. With innovative products to come online shortly to distribute to its high quality enterprise customer base of councils, government, heavy industry and the insurance sector, we believe AER provides a unique, ASX exposure to a changing climate and increasing extreme weather events. We added to our position in AER during the month.

We have talked about Yellow Brick Road (ASX:**YBR**) in recent monthly updates, noting that the NPV of YBR's trailing commissions exceeds its enterprise value of $33m. YBR reported a notably strong cash result for 2Q22, generating operating cash flows for the three months of $2.5m. Strong home loan settlements ($5b+ for the quarter) have driven a significant increase in net receipts to YBR. While we shouldn't read too much into one quarterly cash flow result, and we certainly wouldn't propose annualising this three month result, it is clearly a strong outcome and indicative of the pleasing operating momentum the business has and favourable current conditions. It was also encouraging to see YBR state their net margins were increasing (particularly given the impressive increase in new settlements) while YBR's loan book continued to increase (to $55b),which should lead to a further NTA increase.

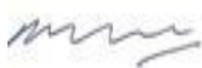
While the majority of our positions continue to successfully navigate the various macro challenges that 2022 brings, one company that has been impacted is Design Milk (ASX:**DMC**). We had been expecting DMC to deliver a cashflow positive quarter, however it fell short with a loss of USD160k. The peak Christmas selling period was disappointing with the company noting the supply chain struggles their vendor partners suffered, with many vendors running out of best-selling products, used discounts to stimulate sales, and faced other head winds. Notwithstanding these challenges, DMC was able to achieve strong revenue growth for the half (+23%).

Aside from DMC however, quarterly results were generally pleasing, with many results ahead of our expectations. We remain comfortable with how the portfolio is positioned.

We continue to remain disciplined: selling/trimming positions where valuations are stretched, and where our thesis has played out, and buying profitable businesses on weakness. We remain focused on identifying the most interesting and attractively valued, not widely known small companies with material upside potential.

We look forward to updating you again in March following the conclusion of the interim reporting results.

Kind regards



Roger Collison
Chairman

Steven McCarthy
Portfolio Manager

Chris Steptoe
Research Analyst

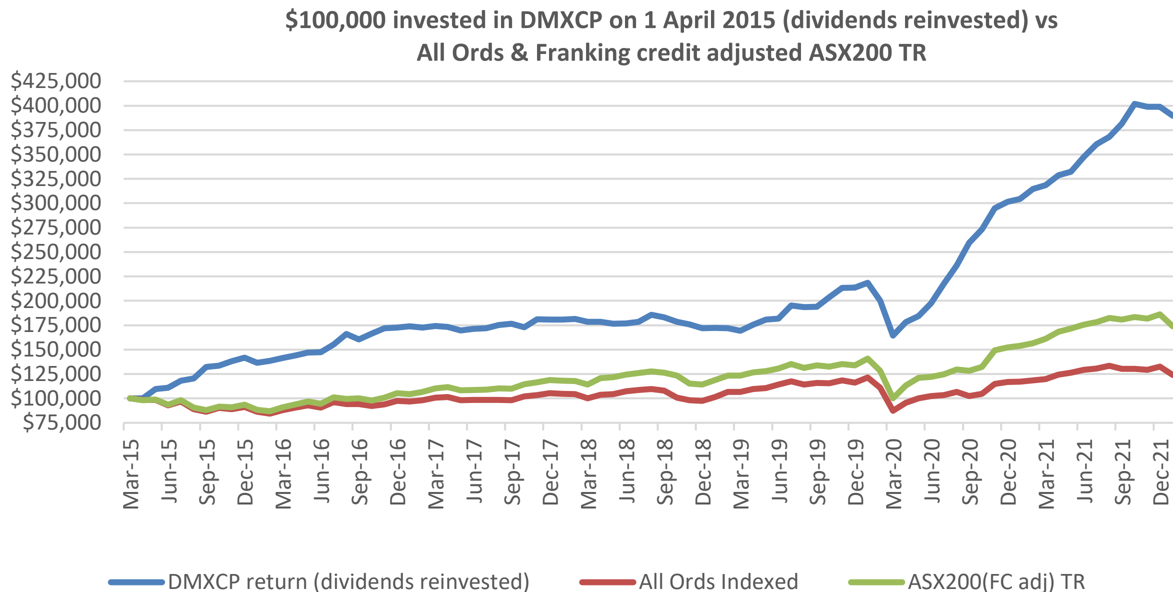
Note 1: Net asset value (NAV) is after income tax payable but includes an estimate of franking credits available. Refer note 4, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Franking credits per share are franking 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**
2 021	+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**
2 022	**-2.48%**												**-2.48%**	**-6.56**

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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