DMX Australian Shares Fund
June 2023 – Investor Update

A wholesale unit trust managed by:
DMX Asset Management Limited
AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
Trustee & Administrator:
Fundhost Limited AFSL 233 045

Unit price (mid) based on NAV (31 May 2023)	**$0.9707**
Unit price (mid) based on NAV (30 June 2023)	**$0.9750**
Number of Stocks	40
% cash held - month end	3%
Fund size (gross assets)	$10m

1-month return	0.4%
3-month return	-2.9%
12-month return#	5.7%
Since inception (1 March 2021, p.a.) #	0.9%
Since inception (cumulative) #	2.1%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 0.4% for June, in a mixed but generally strong market environment with the ASX 200 Total Return Index rising 1.8%, and the ASX Emerging Companies Index recovering 2.4% after a big decline in May. June marks the end of tax selling season, with selling pressure on losers continuing through the month, but clearly subsiding as we move into July.

Commentary

As is often the case, June was flat from an NAV perspective on a net basis, but we experienced some decent sized moves in both directions at the individual stock level. Declines of 10-18% were recorded across names such as **Corum**, **Findi**, **Pureprofile**, **SOCO Corporation**, and **Yellow Brick Road**, and all for no particular reason. On the other side of the ledger, **Cryosite** recovered 13%, **General Capital** & **Kip McGrath** each rose 13-17% as they reported positively, and **Academies Australia** & **AF Legal** rose 21-23%.

Notable updates during the month included:

DDH1

DDH1 received a merger proposal from fellow ASX-listed Perenti, with DDH1 shareholders offered $0.1238 cash plus 0.7111 Perenti shares for each DDH1 share held. Substantial shareholder, Oaktree Capital (of Howard Marks fame) appears to want an exit, having helped bring the company to the ASX in 2021. The pricing implied a 17.4% premium at Perenti's then share price, but a discount to where the company IPO'd in 2021, and a substantial discount to our valuation.

Despite Oaktree's enthusiasm for finding an exit here, we and other shareholders are less keen, as implied by Perenti's share price decline post-announcement. Alongside Oaktree as a substantial shareholder are key founder-executives across the group, and we would have hoped a sale process would have been more competitive. International peer, Major Drilling, by way of example trades at a significant premium to DDH1. The value discrepancy may yet yield a higher competing offer, but an agreement between Perenti & Oaktree giving the former an option over Oaktree's 20% stake serves as something of a blocking stake. To us on the outside, it seems a little odd, and we'll need to wait and see how this plays out.

Kip McGrath

Kip McGrath has presented a year-end trading update for FY23, including revenue and net profit forecasts. The projected revenue for the year is expected to range from $26.9 million to $27.3 million, showing a 10% increase compared to last year. The net profit for FY23 is anticipated to be down slightly, within an estimated range of $1.7m to $1.9m. These not great but not too bad results have been well-received by the market with Kip McGrath's shares ticking up both by June 30th and further into July.

The commentary also highlighted the company's continued substantial investments in global growth opportunities, particularly in the US Tutorfly business, which we understand is investing into its salesforce as the company sells into US school districts. While group-wide profitability has declined, it is reassuring to note that this drop is attributable to the expanding US investment, rather than a lack of demand for tutoring services in its core Australian and UK operations.

Sequoia

As reported on in prior monthlies, Sequoia had reached agreement to sell an 80% stake in its Securities Clearing business – Morrisons. Uncertainty surrounding deal completion has weighed on its shares with the purchaser, New Quantum, needing to secure deal finance. The deal's second key milestone has now been reached, with over $25m of the $40m purchase price having been received (over $7m of which is non-refundable in the event of the deal not ultimately completing). Either way, real value has been created with this transaction, and the cash injection for Sequoia will facilitate increased shareholder distributions (including dividend and buyback), as well as strengthening its balance sheet to reinvest strategically within its other verticals.

In addition to the above updates, the DMX Capital Partners report includes a brief summary of its Top 10 holdings, all of which are also owned by DMXASF and with considerable Top 10 overlap. The overview really showcases the breadth of our opportunity set, and the prospectiveness of our portfolios. This content is reproduced as an Appendix to this report.

Performance Commentary

After a strong initial performance run in 2021, we've handed back gains and struggled to get traction in terms of the bottom line to investors. Some individual investments have been regrettable, while others have performed very well. And the backdrop has been one of a particular challenging smaller company sector over the past 18 months or so. The DMX Capital Partners report highlights the trouncing many smaller companies have faced over the past year, as highlighted in the table reproduced below:

Median performance by market cap band – 12 months to 30 June 2023				
Sector	**Sub $20m**	**$20m - $100m**	**$100m - $1b**	**$1b+**
Communication Services	-23.5%	-18.8%	-17.0%	11.1%
Consumer Discretionary	-50.4%	-18.6%	0.0%	4.8%
Consumer Staples	-50.0%	-24.4%	-16.3%	-1.3%
Energy	-31.4%	-13.0%	-10.6%	10.2%
Financials	-25.9%	-18.9%	-10.1%	5.6%
Health Care	-44.4%	-23.2%	7.0%	10.7%
Industrials	-30.8%	3.4%	4.9%	16.1%
Information Technology	-40.3%	-20.8%	5.6%	17.8%
Materials	-36.5%	-16.7%	-2.1%	20.2%
Real Estate	-32.1%	-8.7%	-8.8%	-3.6%
Utilities	-47.0%	91.5%	16.0%	15.7%
OVERALL (MEDIAN)	**-37.5%**	**-16.7%**	**-2.9%**	**8.0%**

Again, as highlighted in the DMXCP report, market conditions and de-ratings to so many companies have brought us to a position where the overall prospectiveness of our portfolios – we believe – has never been greater. Some meaningful declines in share prices for individual names have been absorbed by the broader portfolio in recent times, with some of these now potentially spring-loaded to deliver handsomely into the future.

Thank you for your ongoing trust and support.

Michael Haddad
Portfolio Manager

Chris Steptoe
Research Analyst

Appendix – DMXCP 30th June Portfolio Top-10 Holdings Update

Company	Weight	Description
Smartpay (ASX:**SMP**) $445m (NZD) MC	6	A payments operator operating an established network of payment terminals in New Zealand, as well as experiencing rapid growth in Australia. Smartpay has been one of the fastest growing, profitable businesses on the ASX in recent years, taking market share from the banks, with projected revenues surpassing $100 million in FY24 and an estimated EBITDA of ~$25 million. Its strategy to further unlock value in New Zealand has the potential to greatly enhance the company's growth in the coming years.
Sequoia Financial Group (ASX:**SEQ**) $74m MC	5	Sequoia Financial, a service provider catering to the Australian wealth management and accounting industry, has achieved remarkable value generation under its current Management team. Notably, SEQ has agreed to sell 80% of its Morrison Securities subsidiary for $40.5 million. Post the sale, SEQ anticipates revenues of $100 million and a net profit after tax (NPAT) of approximately $5 million in FY24. Moreover, with expected cash of $40m+ post the Morrison's sale, SEQ has significant surplus capital that will be allocated towards dividends and potential acquisitions.
Laserbond (ASX:**LBL**) $82m MC	4	Laserbond is a laser engineering technology company that serves customers worldwide. Its range of products and services is designed to decrease the overall cost of equipment ownership in industries that require significant capital investments. Additionally, Laserbond's solutions contribute to reducing the carbon footprint of these industries. Laserbond is expected to achieve revenues > $40 million, EBITDA of ~$11m and NPAT of >$5 million in FY23, having grown NPAT at ~40% CAGR over the past 5 years.
Academies Australia (ASX:**AKG**) $53m MC	4	Academies Australia operates 16 licensed higher education colleges throughout Australia, along with one in Singapore, with the majority of its revenue is derived from international students. The impact of the COVID-19 pandemic has led to a decline in enrollments, resulting in reduced earnings. Pre-COVID, AKG was generating >$5m NPAT and we foresee a return to these levels as student numbers rebound.
Soco (ASX:**SOC**) $29m MC	4	Government focused IT consulting business, which recently IPO'd with founders not selling any shares and retaining ~80% of the company. Revenue has grown over 60% CAGR over the last 3 years supported by strong demand for digitalization services. The company is forecasting FY23 EBIT of ~$3m, with a strong pipeline of new clients and opportunities to drive growth into FY24.
DDH1 (ASX:**DDH**) $334m MC	4	Specialised driller to mining sector, the fundamentals and macro trends driving long-term demand for DDH's services remain compelling with 85% of DDH1's revenue derived from production and resource definition drilling programs. Having recently received corporate interest from Australian peer PRN, we see potential for competing bids coming to the table now the company is "in-play", yet continues to trade on a very low multiple (7x PE).
Cirrus (ASX:**CNW**) $29m MC	3	An IT services business, which has been reinvigorated by a new management team. It remains on track to finish the year with $13m cash, which would equate to >44% of its $29m market cap and deliver an NPAT of ~$3m. As an Australian owned service provider, CNW is well placed to continue to win new government business.
Pure Profile (ASX:**PPL**) $28m MC	3	Global data and insights company, with year-to-date revenue up 26%, with growth driven by PPL's emerging UK business, where revenue is up 41%. EBITDA of $5m for FY23 has been guided for. Expanding margins, the exit of its unprofitable media business and the appointment of a new more market friendly chair sets up PPL for a strong FY24.
Kip McGrath (ASX:**KME**) $29m MC	3	A leading brand in the tutoring sector with a large international footprint generating annual tuition fees of $100m + across its network. While recent profit growth has been disappointing, a stronger second half, improving margins from its corporate centres and growth in the US should position KME for strong growth in FY24.
Diverger (ASX:**DVR**) $30m MC	3	A leading provider of services to accountants and financial advisers, growing through expanding its range of services and through technological initiatives. With FY23 guidance confirmed and trading at ~7x NPATA, there is the opportunity for a material multiple re-rate as DVR's growth profile improves, as well as being a genuine takeover target.