DMX Australian Shares Fund
April 2024 – 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 March 2024)	**$1.0793**
Unit price (mid) based on NAV (30 April 2024)	**$1.0842**
Number of Stocks	44
% cash held - month end	1%
Fund size (gross assets)	$11m

1-month return	0.5%
3-month return#	4.2%
12-month return#	14.5%
3-year return, p.a.#	5.7%
Since inception (1 March 2021, p.a.) #	6.3%
Since inception (cumulative) #	21.2%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 0.5% for the month of April, against a mixed broader market with larger companies declining (the ASX 200 Total Return Index down 2.9%) while smaller companies were strong (the ASX Emerging Companies Index up 2.6%).

Commentary

Detractors this month include **Careteq** and **SOCO Corp** (which fell 22% and 17%) as ongoing uncertainty surrounding each continues to weigh. **EML Payments** declined 18%, handing back its prior-month gains, while **Pureprofile** fell 13% in part on the back of its Chair's departure. These were offset by our large position in **Findi**, which rose another 8%, continued modest strength in each of **Fiducian** and **RPMGlobal** (up 5% and 8% respectively), and each now top-5 holdings for us. Smaller holdings in NZ-listed **General Capital**, and **Joyce Corporation** rose 14% and 19% respectively, and contributed to performance.

Portfolio Activity

With a continual stream of highly prospective opportunities coming across our desk, and limited cash availability, we're focused on where we can generate cash through trimming or exiting. This task is getting tougher as we've allowed a number of our winners to grow in position size, which crowds out others and restricts our ability to add new names or to other existing holdings. We consider this though to be a good problem to have. This month we exited what had become a very small position in **AVA Group**. The shares had languished, and results have continued to fail to meet our or management's expectations. A recent capital raise strengthens its balance sheet and does position the business well for the future, but ultimately, the decision to not participate in the capital raise was a prelude to exiting the investment.

XPON completed a small placement during the month. We didn't participate in this, but as holders of a convertible note, the strengthening of its balance sheet lowers our risk profile. We did participate in two other capital raises, however, introducing two new names to the portfolio, including **RPM Automotive**. The DMX Capital Partners report included a detailed thesis for RPM Automotive, in addition to an update on commonly-owned **Verbrec**. A copy of which is included in an Appendix to this report.

General Commentary

As mentioned in previous reports, having experienced a tough couple of years with smaller companies being very much out of favour, we've felt something of a sea-change both in the narrative, and with the obvious renewed investor interest in smaller companies. We're hearing buzzwords like 'inflection points' having been reached, and the popular media is cottoning on with many small and micro-cap managers being profiled and out spruiking their best ideas. In terms of market activity, as mentioned in the DMXCP report, the flurry of capital raising activity among micro-caps is an interesting indicator of the shift in sentiment. Further up the scale, the re-rates to names like Fiducian and RPMGlobal, we believe, reflect institutional interest in quality smaller companies with a growth profile and available at still-reasonable prices. Joyce Corporation, up 19% for the month on no news, too, appears to be benefiting from growing investor interest as *it* grows and perhaps becomes a more investable business for many investors.

As we look across our diverse portfolio of 40+ names, we have a core group of quality businesses that have grown in value and been allowed to grow in significance within the portfolio. Our top five positions are now just on 30% of the portfolio. These are complemented by a range of highly prospective businesses, and a few which have something of a risk profile at the individual stock level but also significant upside potential and can perhaps grow to become more meaningful over time. Businesses like **General Capital**, **Shriro**, and **Sequoia** are of decent quality, and are attractively priced. Others like **EML Payments**, **Field Solutions**, and **Pureprofile** have slightly murkier stories but all have idiosyncratic risk profiles which brought together in a portfolio context add value as we seek to own a group of business with multiple potential ways to win over time.

While cash is back down to 1%, we continue to look at our most marginal investments as a source of liquidity, and we expect some cash inflow from the takeover of **Ansarada**, slated for early July. **Tambla**, as previously mentioned, is a potential source of liquidity in the medium term, as that company continues its sale process. And if the recent history of smaller companies being picked over by private equity and strategic acquirers is a guide, there's potential for more activity across our portfolio of attractively valued businesses.

If you'd like to discuss the portfolio or the potential to invest or add to an existing investment, please contact Michael any time at michael.haddad@dmxam.com.au or 02 80697965.

Michael Haddad
Portfolio Manager

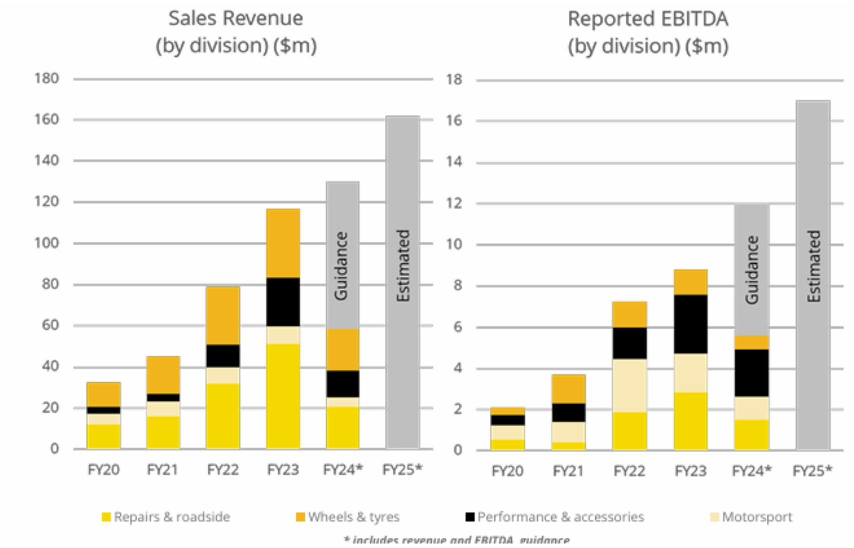
Chris Steptoe
Research Analyst

Appendix: DMXCP commentary on RPM Automotive & Verbrec

RPM Automotive Group (ASX:RPM)

During April DMXAM became a substantial shareholder in RPM following its $4m capital raising. RPM owns a variety of automotive businesses that have been acquired (often by debt) over the last few years. Today it has a national footprint with 26 retail locations, 11 distribution centres and revenues of $130m+, selling wheel, tyre, accessories and apparel products to wholesale and retail customers. While the business has been profitable and growing (albeit as a result of acquisitions), the roll-up strategy has resulted in RPM's debt levels looking excessive relative to its sub $20m market cap, and the acquisition-led EBITDA growth hasn't translated into EPS growth, given the large amount of shares issued to vendors of the acquired business over the years.

RPM's Reported and Forecast Revenue and EBITDA by division since IPO



H1 FY24 Key Highlights

- Gross Margin up 16% pcp
- EBITDA up 23% pcp
- EPS up 48% pcp

While the market has punished RPM heavily over the last 3 years (its share price has fallen from a peak of 45c to close to 6c currently), and sentiment towards the stock remains extremely negative, at close to $15m market cap, we consider RPM to be very much over-sold relative to its improving prospects. We believe there is evidence of some encouraging business momentum, that together provide improved confidence in RPM's outlook:

- **A new CEO:** Guy Nicholls, became COO in September 2023 and CEO in March 2024. He is well-credentialed, bringing a strong operational skill set to the role. We are already seeing results of an enhanced operational focus and improved capital allocation, with some underperforming operations now sold and OPEX being contained, positively impacting gross and EBITDA margins.

- **A focus away from acquisitions to internal growth initiatives:** The most interesting growth initiative is tyre recycling. Since 2022, Australia has banned the export of waste or scrapped tyres, and currently, RPM pays to have used tyres disposed of. RPM is well progressed in its plans to build and own a tyre recycling plant with attractive economics to enable it to profit from tyre waste, rather than it being a cost. If successful and rolled out across the country, this could transform the business into a very strong circular economy driven, organic growth story.

- **Improving margins / cash flows / EPS growth:** RPM delivered a record half year profit for HY24 (NPAT of $2.2m - up 74%) on the back of improved gross margins and flat OPEX. A renewed focus on working capital and inventory management saw stronger levels of cash generated. Importantly, for the first time in several years we saw much improved EPS growth (+48%). We would ordinarily expect a record profit result to be rewarded by the market with a share price increase, but that was not the case here, with the debt concerns and negative sentiment continuing to weigh on the RPM share price.

- **Profit upgrade cycle:** On the back of this more focussed and stronger operational performance, RPM announced an earnings upgrade to its FY24 EBITDA to between $11m to $13m (previously $10.5m to $12m). In FY25, Management is 'targeting' further EBITDA growth (to between $16m to $18m). While the FY25 target looks bullish to us, the earnings trajectory is confidently positive and, importantly, is now organic driven, rather than acquisition led as was previously. These EBITDA estimates translate to NPAT of ~$4.5m (FY24) and ~$8m (FY25), which looks attractive relative to RPM's $17m market cap.
- **Improved investor engagement:** In our experience, companies/management are more likely to engage with the market and investors when there is positive news to tell (or, alternatively, they are about to undertake a capital raise!) as there is a natural inclination to want to talk publicly to shareholders about positives/successes than negatives. RPM is hosting an investor open day providing access to RPM's senior management and directors, and showcasing its product range later this month. Given RPM has just completed a raise, we think this speaks to the confidence the company now has in terms of its prospects.

We acknowledge RPM's net debt ($23m post the capital raise) continues to be on the high side, although this debt is backed by significant tangible assets including ~$28m of inventory. We view the $23m net debt as manageable relative to RPM's FY24 EBITDA guidance (~$12m) and FY25 EBITDA target (~$17m). And, if that profit growth doesn't emerge, and debt continues to be a concern, RPM owns a non-core business (less than 10% of group revenue) which is Australia's dominant supplier of motor-racing safety gear and performance accessories to motorsport competitors: Revolution Racegear. If RPM chose to sell this attractive business (non-core to the rest of the group given its niche, unique customer base) we believe the value realised could come close to covering RPM's net debt. Safety Dave, a market leader for many years in specialist safety products for caravans and campervans, such as rear vision systems & tyre pressure monitoring systems, is another attractive business within the RPM portfolio. This business was acquired by RPM for $10m in 2021 and is likely to be worth more than that now. While we don't believe RPM needs to (or should) undertake any divestments, the company does have options available to if it wanted to strengthen its balance sheet.

After watching RPM from the sidelines since its IPO five years ago, we initiated with a ~2% portfolio position as part of RPM's recent capital raising. The funds from the $4m raising will ensure an upcoming expiring convertible note is paid out/rolled over into less expensive debt, and to provide growth capital for the tyre recycling equipment. As always, time will tell if the growth initiatives pay off, but with the stock trading on less than 4x FY24 PE and potentially less than 3x FY25 PE, investors are essentially pricing RPM as if it was in financial distress – we think the signs are there, that, in fact, there is a much stronger profit trajectory emerging and RPM's debt is very much manageable.

With a re-focussed business under new leadership that is looking more internally at operational performance and now delivering improved margins, a record first half profit result (clean – no normalisations) and strong forward guidance, we think the market sentiment is overly negative here relative to what appears to be improving fundamentals and metrics. A sentiment change will deliver a strong multiple re-rate, while RPM has a number of interesting organic growth initiatives in FY25 and beyond to drive earnings growth and improve its debt coverage metrics.

Verbrec (ASX:VBC)

A very similar set up to RPM is VBC - an engineering and design firm, with a focus on electrification & energy storage projects and gas market transition, growth areas supported by strong tailwinds. Like RPM, it has been very much beaten up over the last 3 years with its share price down from 25c to 10c, and undertook a recapitalisation that we participated in late last year. Similar to RPM, it is another stock where we have taken the view that the market is pricing in little success, and under-appreciating a significant turnaround that is in its early stages. Like RPM, this is a business with over $100m in revenue and is benefitting from a recent CEO change leading to a re-focus of the business, improving the margins and driving a stronger profit from its significant revenue base. As with RPM, small improvements in profit margins can lead to meaningful increases to profit. Its first half results, like RPM, were encouraging – EBITDA increased from $1.3m to $5m (EV is $30m), on the back of an improvement in margins. If VBC can continue this trajectory, we think, like RPM, it is a strong candidate for a multiple re-rate, and continued improvement in earnings from here.