DMX
ASSET MANAGEMENT

DMX Australian Shares Fund
Investing in the most compelling Australian smaller company opportunities

DMX Australian Shares Fund
December 2021 – 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 (30 Nov 2021)	**$1.2460**
Unit price (mid) based on NAV (31 Dec 2021)	**$1.2529**
Number of Stocks	45
% cash held - month end	0%

1-month return	0.55%
3-month return	5.85%
Since inception (1 March 2021)	25.29%
Fund size (gross assets)	$10m

Dear Investor,

DMXASF's NAV rose 0.55% (after fees and expenses), lagging the ASX 200 Total Return Index which rose 2.75% for the month. It was another essentially flat month with lots of wiggling around on an individual stock basis, mostly cancelling each other out, with nothing too drastic to drive performance in either direction.

The month was active with plenty of opportunities to assess, both on-market and via capital raisings. A number of our companies are expanding through carefully-considered strategic acquisitions, and are augmenting their balance sheets to support their growth aspirations. With many compelling opportunities to deploy capital into, our cash balance has fallen to nil by month-end (though the Fund has received cash inflows from new and existing investors, processed in early January). Cash is always a by-product of our process, and we're delighted to have constructed a difficult-to-replicate, thematically diverse, and highly prospective portfolio of 40+ compelling opportunities.

Portfolio Commentary

Modest losses were recorded across a number of names including **Aeeris** which continued its descent, declining another 9%, **Kip McGrath** handing back its prior month's gains, also down 9%, and **Laserbond** declining 9% following a capital raising in which we participated. Some of our software positions, which generally have long-dated and higher risk expected cashflows declined, including **Proptech** and **Elmo Software**, each down 12-14%. On the other side of the ledger, our retail holdings continued to perform well with **Dusk** up 12% and **Michael Hill** reaching fresh modern highs, up 15% on the back of strong Christmas trade and margin expansion. Each of **Cryosite** and **Schrole** rose/recovered 29-33%, helping bring our monthly performance into the black.

Capital Raisings Augment Balance Sheets & Provide Opportunity

One of the key value-adds from active portfolio management within the smaller company universe is the potential to participate in capital raisings, to acquire stock at attractive prices and in otherwise low-liquidity names, and to time these investments around the opportunity sets of the capital-raising companies. We assessed a number of capital raising opportunities this month. We are pleased to report we participated in a placement conducted by **Laserbond**, which was raising capital to fund what we consider to be a value-adding strategic acquisition, allowing the company to expand its geographic footprint. We also participated in a placement conducted by **Frontier Digital Ventures**, as that company moves to increase its ownership in majority-controlled subsidiaries, and further augment its balance sheet to fund growth. Finally of note, we took the opportunity to initiate a position in **Credit Clear** which raised capital to fund a strategic acquisition that we believe will be highly value-accretive for the company. Credit Clear is discussed below as a *digital disruptor*. In each of these cases, we are taking advantage of liquidity at attractive pricing, and at points in these companies' evolution that we believe will lead to positive step-changes.

The portfolio continues to have significant overlapping exposure with DMX Capital Partners (DMXCP), with some 68% of the fund also being owned within DMXCP. This month's DMXCP report includes a brief outlook profile for each of its Top 10 holdings. Each of these is also owned by DMXASF, though not necessarily all in our Top 10. (DMXASF's Top 10 includes **Michael Hill**, **FSA Group** and **Frontier Digital Ventures**.) The DMXCP Top 10 outlook profiles are included in an Appendix to this report and investors are encouraged to review these for insights into how we're thinking about the potential for many of the idiosyncratic and highly prospective holdings across *both* portfolios. Those Top 10 holdings comprise 40% of the DMXCP portfolio, and the same names represent 30% of the DMXASF portfolio.

Digital Disrupters

We are in the process putting together a new blog-piece that we expect to distribute shortly. The *digital disruption* theme is one that is prominent across our portfolios. Many industries continue to be slow to adopt technology for stakeholder engagement despite many consumers (B2B and B2C) now prefer digital engagement. This is providing a wonderful opportunity for digital-first companies. The teaser below highlights two portfolio positions that are disrupting industries through digital workflow solutions and improving efficiency and business outcomes. We look forward to expanding on this theme in our upcoming blog. In the meantime, please enjoy these insights.

Credit Clear
The credit collection process has typically been driven by phone calls to overdue debtors. Listed in 2020, Credit Clear has developed a solution that collects receivables using a mix of methods including digital mobile interfaces. The company claims "better customer engagement and insight, faster payment reconciliations, improved cash flows and lower costs to collect when compared to traditional methods". This is reflected in the 73% uplift in gross profit from their acquired collection company, Credit Solutions, in 2019. Unlike listed peer Credit Corp, Credit Clear doesn't buy debt but provides collection services to corporates such as Suncorp. This capital-light strategy also lowers investment risk.

We participated in a recent capital raising to fund the acquisition of another traditional collection business, ARMA. The strategic fit is excellent, with Credit Clear's digital solutions to be applied to ARMA to drive efficiencies and boost profitability.

Xref
Xref provides a reference checking solution to HR departments and talent agencies that have traditionally made phone calls for reference checks. Xref are digitising the reference checking process with cloud-based software and digital messaging replacing traditional phone calls, thus reducing HR costs and producing more reliable outcomes.

Xref previously had to work hard to convince HR departments to convert to digitisation. Now, organisations are primed, and it is just a matter of convincing them that Xref offers the right solution. This is by ensuring they are prominent in software search sites such as Capterra, being integrated into the common HR systems, and having partnerships with key credential checking companies such as their recent deal with First Advantage in the US. Xref is cash flow positive, is growing revenue at 68% (as at HY to 31 Dec) and has an increasingly global customer base.

In Summary

We're enthused about the positioning of the portfolio as we move into 2022, and look forward to navigating what markets (and COVID) throw at us in the period ahead. We have no special insights or thoughts on market direction, and don't spend any energy thinking of this. Instead, we're wholly focused on what's within our control, which is our diligent process of searching for, researching, and managing a portfolio of high quality, thematically differentiated, and highly prospective smaller companies.

Kind regards

Michael Haddad
Co-Portfolio Manager

Chris Steptoe
Co-Portfolio Manager

Appendix – DMX Capital Partners' Top 10 Outlook

Portfolio company	2022 outlook / expectations
Sequoia Financial Group (ASX:**SEQ**)	Diversified wealth manager SEQ continues to benefit from strong industry tailwinds and is experiencing positive momentum across all its operating divisions. We expect SEQ to deliver a minimum 30% EBITDA uplift for FY22 reflecting ongoing revenue growth and margin improvement. In a recent presentation, the company noted it had $18m surplus cash and was currently generating $800k-$1m free cash per month, suggesting it is trading on a 15% cash yield.
PTB Group (ASX:**PTB**)	PTB is beginning to replicate the success it has had with its unique Australian 'power by the hour' plane engine maintenance model in the much larger US market. At its recent AGM, PTB advised it was experiencing an increase in engine work in its US facilities, aided by the implementation of its Australian operational framework. PTB has forecast FY22 PBT growth of between 13% & 22% on the back of strong trading conditions in the USA and Asia Pacific regions.
Pure Profile (ASX:**PPL**)	Data and insights company PPL is seeing strong growth particularly in new markets, which helped drive a 61% increase in Q1 revenues with normalised EBITDA up 330%. PPL has provided FY22 EBITDA guidance of between $4.0m & $4.4m, up ~50% on normalised FY21. Structural trends towards first party ownership of data will continue to benefit PPL in 2022 and beyond, while PPL is expecting a large step up in margins over the medium term as it scales and focusses on its higher margin revenue streams.
Kip McGrath Education Centres (ASX:**KME**)	Global tutoring company KME reported Q1 revenues up 22% and we expect there to be strong demand globally for remedial teaching in 2022, with parents concerned about the time children have spent out of school. KME lesson numbers have now returned to pre-COVID levels, with lesson numbers for Q1 of FY22 up 8%, notwithstanding the Australian and NZ lockdowns.
Janison Education (ASX:**JAN**)	JAN's online examination / assessment platform is the global benchmark for high-volume, high-stakes exams, delivering over 6m digital exams to over 4.5m students in 117 countries during FY21. COVID has rapidly accelerated a permanent adoption of digital assessments, which is expected to result in strong growth for JAN over the coming years as it heads towards its FY25 $100m revenue target.
Joyce Corporation (ASX:**JYC**)	2022 will see JYC continue with its national roll out of its KWB kitchen renovation business, with KWB revenues expected to exceed $100m, making it Australia's largest kitchen renovation business. JYC continues to maintain a strong balance sheet, with a further $5.5m to be realised from the sale of its corporate headquarters, while an accretive acquisition has also been flagged.
Cryosite (ASX:**CTE**)	At its December AGM, CTE highlighted 20% revenue growth in its clinical trial logistics (specialised storage and transport) business, and strong cash generation with cash now at $5m. CTE is benefiting from onshoring of clinical trials as governments increasingly appreciate the importance of drug development from both a political and supply chain perspective– a trend that we expect to support continued strong revenue growth for CTE over the coming years.
Ansarada (ASX:**AND**)	We are confident that the key tailwinds that have benefitted deal and compliance software company Ansarada in 2021 will continue into 2022: 1) high levels of global M&A activity & 2) increasing demands on boards to manage ESG and general compliance. With an addressable market of $50b+, AND is well placed to capitalise on these tailwinds and to substantially grow its global revenues. A recent $1.2m contract with NSW Dept of Transport highlights its ability to secure large value enterprise deals.
Laserbond (ASX:**LBL**)	We expect 2022 to be a good year for laser engineering technology company LBL: 1) Opening of international borders should support growth in technology and product sales; 2) its recent accretive acquisition provides a beachhead for growth in Queensland; 3) ESG trends provide a strong tailwind for its products and services (extending life of heavy duty equipment in a cost-effective manner); & 4) three recent technology licensing deals validate LBL's offering and provides encouraging business momentum.

Diverger (ASX:**DVR**) (previously Easton Investments)	After a quiet 2021, wealth and accounting services provider DVR enters 2022 with a refreshed board and management team, an important and supportive major shareholder (ASX:HUB) as well as a new name. Trading on 10x NPATA, DVR is well placed to be a key consolidator of the fragmented financial advice industry where increased regulation and conflicted operating models has seen the exit of the major players (banks). Management has an aggressive target to triple net revenue by FY24 through both organic and inorganic initiatives.