DMX Australian Shares Fund
March 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 (28 February 2023)	**$1.0416**
Unit price (mid) based on NAV (31 March 2023)	**$1.0043**
Number of Stocks	45
% cash held - month end	6%
Fund size (gross assets)	$10m

1-month return	-3.6%
3-month return#	-8.4%
12-month return#	-12.1%
Since inception (1 March 2021, p.a.) #	2.4%
Since inception (cumulative)	5.1%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV again declined, down 3.6% (after fees and expenses) during March, and again underperforming the ASX 200 Total Return Index which fell only 0.7%.

Our portfolio is clearly performing differently from the indices, which is good in a sense, but we'd clearly like to be on the other side of the ledger. We've suffered for idiosyncratic reasons of late, with many of our companies having operational stumbles and/or material de-rates to their market prices. Despite some fundamental shortfalls versus our expectations, the medium to long-term outlook for our diverse group of businesses remains positive, and – in our estimation – very attractive.

Commentary

Following on from their February performance, most of our companies again declined, and some significantly. Decent but moderately challenged companies like **Kip McGrath** and **Shriro** each fell 10%, while **Joyce Corporation** fell 19%. Higher growth companies with longer-dated cashflow profiles similarly fell, with **Ansarada** and **Pureprofile** each down 18%, while **Frontier Digital Ventures** slipped 7% ahead of a larger fall on the back of a capital raise announced since month-end.

Mitigating some of the broad damage was a helpful bounce to **AF Legal** (up 59%), and strength in Indian ATM operator, **Findi** (up 19%), and a 20% recovery to **Sequoia** on the back of that company's announced sale of an 80% stake in its securities clearing business, Morrisons.

The DMX Capital Partners report includes interesting commentary on each of three commonly-owned positions that are meaningful weightings for us: Sequoia, Tambla, and Soco Corporation. Together with notes on Advanced Braking which is also owned by DMXASF, albeit in smaller quantity, these are included in an Appendix to this report.

An Interesting Theme: The Delayed Reopening Trade with International Education Companies

We have been following the listed international education sector for many years, and are attracted to the economics of the industry. Over the past year or so we have become increasingly interested in the space as we perceive investors are underappreciating the recoveries yet to be enjoyed by these companies as it takes quite some time to rebuild enrolments.

By way of background, COVID-induced border closures crippled the industry in 2020 with student enrolments falling significantly. Enrolments have only started to tick up in 2022 and so far into 2023 remain well below their peak. Importantly though, the sector has been forced to rationalise its cost base through COVID and as top-line numbers normalise we expect profitability to be robust, too.

The two companies we own (across both DMX funds) are **Academies Australi**a and **EDU Holdings**:

Academies Australia has 16 licensed colleges across Australia and one in Singapore, with the vast majority of revenue coming from International students. The well published bottleneck in visa processing has impacted the company. It was set to have a strong 2023 with enrolments up significantly, however the visa processing delays meant they had to refund $4.2m to students who could not start in their desired timeframe, or had received mixed messages from the Department of Home Affairs. This hiccup is material to current performance of the business, but is just that: a hiccup, and really the delayed ultimate benefit of borders reopening. The company has very strong insider ownership, and directors continue to add to their holdings on-market.

EDU is building a high quality, higher education business focused on providing career-focused qualifications and training in the high job growth health and community services sectors. As with Academies Australia, International students account for the vast majority of EDU's business (~75%). Last year EDU made an accretive acquisition of a nurse training business. Additionally, EDU is leveraging its Higher Education brand Ikon Institute to deliver Bachelor of Early Childhood Education which commenced in 2021. This is providing organic growth momentum. This organic growth together with the expected continued ramp to International student numbers will help fill EDU's significant classroom capacity (currently less than 50% utilised) driving operating leverage and profit growth over the next couple of years.

Academies Australia and EDU Holdings were both profitable pre-COVID and have managed to survive the downturn, while rationalising costs. Their share prices, however, have yet to recover or to reflect the strong prospects each has for the periods ahead. Given the structural bottlenecks that have slowed their operational normalisation, we believe this is one of the few remaining sectors to fully benefit from the reopening.

<u>Summary</u>

We continue to navigate a challenging time for our portfolios, but are enthusiastic about the medium to longer-term potential for our collection of good businesses that we perceive are available at increasingly attractive prices. We're not alone with this experience with – as highlighted in the DMXCP report – the S&P/ASX Emerging Companies Index being down 23% over the past 12 months. Many investors have fled the smaller end of the market in favour of greater liquidity elsewhere. We're unperturbed by this and simply remain focused on identifying and owning a diverse portfolio of quality companies at prices that discount the expectation of meaningful returns over time.

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.

Thanks for your trust and support.

Kind regards

Michael Haddad	Chris Steptoe
Portfolio Manager	*Research Analyst*

Appendix – DMXCP Commentary

Cirrus Networks (ASX:**CNW) –** Market cap: $32m

During the month we published a blog entry on CNW. We met with CNW management during March and they remain very comfortable with how the business is progressing. Since the change of management in late 2021, CNW has had 16 months of consecutive monthly profits. Heading into Q4, its strongest quarter, they noted the issue they have is being able to service the level of demand they are experiencing.

CNW are happy with the competitive dynamics in their space - larger IT services players are focussed on the large government contracts meaning there is a strong pipeline of mid-market opportunities where CNW play. In a post COVID environment, government departments continue to look towards localising / onshoring of service providers. A Labor federal government and heightened cyber security concerns reinforce this trend and benefit Australian owned technology service providers such as CNW.

CNW remains on track to finish the year with $13m cash, which would equate to ~40% of its $32m market cap. CNW is forecast to deliver an NPAT for the year of $3m+, with EBIT growth to continue into FY24 as more enterprise managed services contracts are on-boarded.

Sequoia Financial Group (ASX:**SEQ**) - Market cap: $74m

Sequoia announced the part-sale of its securities clearing business during the month, Morrisons, for $40.5m while still retaining 20% ownership. The sale proceeds are staggered as the vendor, New Quantum, secures its financing. While there is risk that the deal does not proceed, SEQ will receive a non-refundable deposit of between $3m-$7m. The board was attracted to the deal as it is structured to allow SEQ to share in the upside they expect from Morrisons in the future, and if it does fall over, management have indicated that there were a number of other parties interested in the asset.

Proceeds from the sale will be directed to acquisitions across general insurance, legal documents, and other professional services opportunities that SEQ can look to cross-sell across its network of advisors and accountants. Additionally, SEQ's dividend payout ratio will be increased to 100% (fully franked). Assuming the sale does go ahead, SEQ will hold $45m cash less some capital gains tax payable, a 20% stake in Morrisons, and its core business that is generating $100m in revenues and NPAT of ~$5m. With significant cash on completion (>50% of its market cap of $73m), we think this will allow SEQ to make acquisitions that would take NPAT close to $10m without taking on debt. We believe the deal is value accretive to SEQ shareholders and a good outcome following SEQ's purchase of Morrisons five and a half years ago when it was a much smaller, loss making company. We also are pleased to note that SEQ's buyback facility is being used at current prices given the value we perceive to be on offer here.

Tambla Limited - unlisted

We remain a substantial shareholder in unlisted enterprise software and IT services company Tambla. Tambla reported revenue of $23m in 2022, and EBITDA of $3.6m. Management expect a strong 2023, with revenue growth in the mid-teens. Growth is being driven by referrals from Tambla software re-seller partners Technology One (ASX:**TNE**), Datacom and SAP, while Tambla is also benefiting from recent investments in providing more customer friendly cloud based offerings, including a new cloud based workforce management (WFM) platform, that is now available on the SAP marketplace – the only ANZ WFM product certified globally by SAP. With some significant capex initiatives concluding and resulting in a declining capex spend, Tambla will start to generate meaningful free cash in 2023.

With a large government customer base, Tambla is seeing the same trends in relation to increased government spending on technology and digital initiatives that are benefitting other companies providing technology project services to government clients that we own (CNW and SOCO Corporation (ASX:**SOC**)).

We think the progress here is encouraging – Tambla should deliver 2023 revenues of $28m+ with EBITDA margins in high teens, being the fifth year of consecutive revenue and profit growth. Tambla has a very sticky customer base (1% churn) and a high quality enterprise/government client base. After several years of investment in cloud infrastructure and product development, the company has an accelerating growth profile as the Board works towards an exit here.

Advanced Braking (ASX:**ABV) -** Market cap: $15m

We discussed ABV in our December 2022 monthly. As a recap, ABV provides aftermarket braking solutions predominantly to mining companies that operate underground mining vehicles. We were attracted to its growing core earnings with ESG tailwinds plus a blue sky opportunity with Glencore where ABV provides a Sealed Integrated Braking System (SIBS) solution for a Volvo FMX truck.

During March, ABV updated the market with the news that Glencore is selling the mine site that was going to use the new braking system on their trucks, and would no longer fund projects associated with that mine site. Having funded its share of the development costs to the point of production of the required units for validation testing, Glencore will no longer contribute any further funding. We spoke with CEO Andrew Booth regarding the news. He expects ABV to continue with the SIBS program either with an Australian based mining partner or they will simply fund the remaining expenditure of ~$300k themselves. While this means there is lower certainty on future bulk orders from Glencore, it does mean ABV can now negotiate with other mining companies.

Andrew also took the opportunity to discuss the trends in the mining industry and why he thinks they are supportive of the ABV SIBS solution into the future. A continued focus on electrification and autonomous trucks lends itself to smaller commercial sized trucks where SIBS is not provided by the manufacturer (e.g. Volvo). Rio Tinto plan to phase out the purchase of new diesel haul trucks (large yellow Caterpillar type trucks) by 2030 replacing them with a smaller 'mosquito' fleet which can move faster and more efficiently. These smaller trucks, particularly those operating underground, are likely to need an independent SIBS system (such as ABV's) installed. In the meantime, ABV continues to grow its core business and its profits, while it trades on a PE multiple of less than 10x. More mine operators are mandating the use of fail-safe brakes on vehicles operating on their sites.