DMX ASSET MANAGEMENT

DMX Capital Partners Limited
Investing in the most compelling small and micro-cap value opportunities

DMX Capital Partners Limited
February 2020 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
ACN 169 381 908 AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
DMXCP directors: Roger Collison
Dean Morel
Steven McCarthy

Opening NAV (1 February 2020) (1,2)	**$1.9712**
Closing NAV (29 February 2020) (1,2)	**$1.8042**
Fund size (gross assets)	$8m
% cash held - month end (4)	16%
Gearing	nil

1 month return	**-8.47%**
3 month return	-6.20%
12 month return	17.32%
3 year return (p.a.)	5.89%
Since inception (4 years, 11 months) (p.a.)*	21.31%

*DMXCP Share price = Closing NAV (**$1.8042**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
**Return since inception (1 April 2015) includes 24c of dividends and franking credits paid*

Dear Shareholder,

DMXCP's NAV decreased 8.47% (after all accrued fees and expenses) for February 2019. The NAV as at 29 February 2020 was **$1.8042**, compared to **$1.9712** as at 31 January 2020.

For the first eight months of the FY20 financial year, DMXCP's NAV has increased 11.11% (after all fees).

The All Ordinaries was down 8.68% in February while the ASX Small Ordinaries Index decreased 8.92%. The XEC Emerging Companies Index, which reflects the more illiquid micro-cap universe, was down 14.43%

February commentary

While the portfolio had been strongly up for much of February, sentiment turned very bearish in the last week of the month. In line with the broader market, the portfolio lost ~10%, pushing the portfolio well into the red.

Portfolio company results and outlooks were generally positive, however some were qualified given the unknowns arising from CoVid 19. Notwithstanding the solid results, with the markets focusing on the unknowns and taking a risk off view, we saw negative share price reactions to many result releases. As noted above, the emerging companies index significantly underperformed the broader market as small companies suffer the effects of illiquidity when there are keen sellers trying to quickly exit. Consistent with this, some of our more illiquid positions were harshly marked down, particularly on the last couple of days of the month.

However, out of turmoil comes opportunity. With the emerging companies index now over 15% off its highs, interesting opportunities are beginning to emerge. At this point, we believe some of the most compelling investments continue to be in names we already own. We highlight some of these on the following pages.

During the month we also increased our positions in two net-net plays (in addition to ASX:CWL mentioned below). Like ASX:CWL, these are both very small companies which both have cash as their major asset, and are both trading at material discounts to the value of their cash and other surplus assets. This provides both defensiveness to our portfolio, as well as interesting upside.

Our current cash balance (16%) is supplemented by ~12% of the portfolio which is due to be returned to us in cash over the next few months.

In this newsletter, rather than picking out and highlighting just the best results from the portfolio, we have disclosed below the top 10 positions in the portfolio, and how each of them reported. We hope this highlights how our largest positions are performing and, importantly, why we have conviction to invest in them (& selectively add on the interesting price weakness we're currently experiencing).

In relation to these top 10 positions, we note:

- All but one (ASX:UBN) delivered an NPAT positive result, and pleasingly, two holdings (ASX:CWL and ASX:AVA) delivered their maiden NPAT results;
- All delivered revenue growth. **Average revenue growth across the top 10 holdings was 15%.** (We note this is 100% organic – there was no 'acquired' revenue that inflated revenue growth in the half);
- **The median pre-tax earnings growth across the top 10 holdings was 40%**;
- Six of the top 10 (ASX:ENN, ASX:EAS, ASX:XRF, ASX:KME, ASX:PTB and ASX:JYC) pay dividends; and
- Valuations for each of the positions can be supported by sensible assumptions, with **five top 10 holdings trading on PE ratios of sub 10x**, yet are growing very strongly (ASX:EAS, ASX:XRF, ASX:ENN, ASX:PTB and ASX:AVA).

We are particularly pleased with how our larger holdings performed, and believe they are well placed to continue this performance through the balance of the year. Whilst we don't know how or if CoVid-19 may impact these names, what we do know is that <u>we own fundamentally strong with no/low leverage, well managed businesses that are on undemanding valuations</u>. They are generally market leaders in their respective industries – therefore are better positioned than their competitors to deal with any disruption. On this basis, we remain comfortable holding these positions and collecting our dividends (and buying more as position sizing allows).

As mentioned in previous newsletters, over the last couple of years, we have had a large number of portfolio holdings be subject to private equity takeovers. The holdings taken over shared the three same key characteristics as many of our current core positions – that is 1) growing businesses, 2) strong market positions & 3) trading on low multiples. We would not be surprised if acquirers with a more long term focus take advantage of these market conditions.

Outside the top ten holdings, notable results were delivered by Shavershop (ASX:SSG, 9.3% like-for-like sales), Sequioa (ASX:SEQ, $18m cash, $1.4m EBIT) and Probiotec (ASX:PBP, EBITDA +68%). Disappointments were Primero (ASX:PGX, earnings miss and key customer dispute) and Academies Australasia (ASX:AKG, revenue and earnings decline).

<u>Top 10 DMXCP positions at 29 February 2020</u>

Chant West
HOLDINGS LIMITED

ASX:CWL
M/cap: $12m
Revenue: **+11%**
EBITDA: **+100%**

Why are we invested? a cash flow positive holding company that owns two profitable financial services businesses, together with significant surplus cash. Trading on ~4x EBITDA.

How did it report? CWL reported its maiden NPAT profit ($147k) for the half year, with double digit revenue growth and strong EBITDA profit uplift (100%) driven by the performance of Enzumo (revenues +33% and EBITDA of $250k). In last month's update, we noted CWL was for the first time highlighting the growth potential of Enzumo, so it was pleasing to see this reflected in a strong half year.

During the month, CWL also announced the sale of its subscription based superannuation research business Chant West for $12m. Following the sale, CWL will continue to own the profitable Enzumo business (which they are likely to sell at some point), benefit from $1.25m in escrow proceeds (paid in 6 months) and, (if Enzumo is sold - which we view as highly likely) will have value as a listed shell. We believe there is potential to realise in excess of 14 cents in value from our CWL holding over the next 6 months, which compares favorably to our entry price last year of ~ 6 cents.

In early April we will receive a 10c capital return. Quite remarkably, the CWL share price is currently 10c, meaning one can acquire the additional assets mentioned above for free. Not wanting to look a gift horse in its mouth, we have been buyers this month.

ASX:EAS
M/cap: $35m
Revenue: **+16%**
EBITA: **+10%**

Why are we invested? EAS owns a portfolio of leading businesses in the accounting, wealth and training space, with increasing recurring revenue and on ~10x PE.

How did it report?: EAS' two divisions (accounting & wealth) both reported solid double digit revenue gains. Continued investment (~$500k) in growth initiatives and in compliance saw EBITA increase by 10%.

This was a solid result from EAS. Cash flows were strong and the dividend increased by 50%. We like how the accounting division is now contributing the majority of EAS's profit, as we feel the tailwinds, particularly in training, are stronger for this part of the business. As training transitions from face-to-face to online, margins will expand.

H2 will be bolstered by the accretive debt-funded acquisition of Tax Banter which the company noted will create a training business with meaningful national scale generating annualised training revenue of greater than $10m. On a sum of the parts basis, we believe the valuation of the training business supports EAS's current market cap.

ASX:KME
M/cap: $41m
Revenue: **+22%**
EBITDA: **+12%**

Why are we invested?: Australia's leading tutoring business with an increasing global footprint and enviable track record of growth.

How did it report?: KME reported strong top line growth, with revenue increasing across all segments. EBITDA growth however did not track revenue growth, in part because of management making the decision to invest in some longer term growth initiatives, including operating their corporate centers which cost the business $100k in the half, and one-off insurance payouts in the previous year. We understand these corporate centres will contribute to profit in H2. As a result, EBITDA growth was 12%, and after accounting for increased depreciation, NPAT fell. The share price which had been bid up somewhat artificially on the back of a tip-sheet recommendation and takeover rumours, fell ~35%, back to the level it was in November.

The last time KME failed to deliver substantial EPS growth was five years ago, so the result was somewhat of a surprise to the market. However, we believe KME's track record in recent years speaks for itself, and that as a founder led business, management is making decisions in the long term interests of the company. The reality is that the franchise business model in Australia is 'on the nose' and KME is right to look at more corporate run centres for growth. Corporate centres are expected to be run more efficiently and profitably by 'head office' once the model is refined and scale is reached. We support this strategy, and the increased investment in the business.

ASX:UCW
M/cap: $25m
Revenue: **+39%**
EBITDA: **+>1000%**

Why are we invested? A respected, fast growing higher education business servicing both domestic and international students. Its Ikon business has accreditation to provide Bachelor degree courses.

How did it report? UCW reported a superb result, as the business benefited from investments undertaken in prior years, as well as increasing operating leverage as it scales. The revenue growth of 39%, and operating EBITDA growth ($0.1m to $1.8m) was entirely organically driven. UCW have advised 3Q20 international enrolments of 2,458, up 32% on PCP. The average duration of a student in a UCW course is ~24 months, so the large cohort that have started at the beginning of 2020 will underpin strong growth for UCW over the next two years.

We like businesses where the cost structure is predictable. In the several years that we have followed UCW, we have always found the corporate costs to be very constant – essentially the CEO and CFO oversee the two UCW operating businesses. It is not unsurprising that in H2 UCW have said once again that their corporate costs are expected to remain relatively stable and that further leverage is expected to emerge at consolidated group level.

Bachelor degree courses are lucrative for UCW. They provide 3 years of high margin revenue at ~$50k per year (competitively priced versus universities). Each new Bachelor course has ~24 month lead time from initial design. UCW have now confirmed their new Bachelors in Education has been submitted for accreditation, and is on track for a 2021 academic year launch. This provides some further runway for the growth of future earnings.

ASX:ENN
M/cap: $238m
Revenue: **+2%**
ARR: **+19%**
Core earnings: **+84%**

Why are we invested? ENN is building a sizeable funds management business that generates high quality, high margin management income supplemented by lucrative one-off performance and transaction fees.

How did it report? Although headline numbers were impressive (distributions +51%), the actual result was messy and complicated by a number of adjustments to reflect equity accounting of associates, asset disposals and other one-off adjustments.

Ultimately as a fund manager, ENN's value should be a function of the amount of funds it manages, and in that respect, it is growing impressively. FUM was up 46.1% on 1H19 to $1.7b. The listing of the Elanor Commercial Property Fund (ASX:ECF), increased ENN's ASX listed funds under management to over $700 million, importantly providing strong further perpetual income streams.

ENN's contracted annualized recurring management income from managing their FUM is tracking at $12.1m – this represents long term, high margin (>80%) revenue that ENN is well positioned to further grow.

ASX:AVA
M/cap: $32m
Revenue: **+23%**
EBITDA: **+226%**

Investment rationale: a profitable, global security solutions company, which has successfully commercialized some powerful IP in locking and security.

How did it report?: AVA reported a very strong half: strong revenue growth and EBITDA ($2.5m), NPAT ($900k), and Cash flow ($700k) positive. Cost cutting and efficiencies implemented over the past year by AVA's new management team saw gross profit increase by an impressive 45%, while operating expenses fell by 10%. By our calculations underlying EBITDA improved on 1H 19 by ~$4m, which represents an outstanding effort.

AVA's technology business increased gross margins to 72% during the period. With manufacturing now centralized in Auckland, significant operational efficiencies have been achieved. After achieving breakeven in 2H19, AVA's service business delivered a $0.4m EBITDA contribution, with an encouraging outlook.

With its two core businesses now profitable, AVA is well placed to continue to execute on its many growth initiatives.

ASX:UBN
M/cap: $42m
Revenue: **+17%**
ARR: **+34%**

Investment rationale: a high quality SAAS business with a market leading product (for strata apartment management and facilities management) and a global opportunity.

How did it report?: Whilst ARR growth was slower than in Fy19, UBN delivered a 33% increase in ARR versus the PCP. Facilities ARR was +15% versus H2 19 which is where future growth is coming from. As a good lead indicator, Facilities management implementation increased meaningfully.

Pleasingly, cost growth was contained at less than 5% versus revenue growth of 17%. UBN is looking to add ~$1.5m in ARR annually. This would suggest the business is set to breakeven during FY21.

With meaningful revenues now being generated from South East Asia, Middle East, UK and Australia/NZ, UBN has proven they have a product with genuine global potential. Management are sensible and appear to be executing well on the opportunity.

ASX:PTB
M/cap: $87m
Revenue: **+10%**
NPBT: **+12%**

Investment rationale: PTB generates recurring revenue from long-term engine maintenance and management contracts in place with aircraft operators. A recent US acquisition provides growth opportunities in international markets.

How did it report?: PTB reported 1H20 revenue of $26.1m, up 9.8% over 1H19. NPBT, excluding foreign exchange gains/losses and acquisition related costs (NPBTFX) was $3.3m, up 11.9%. The result exceeded the top end of the NPBTFX guidance range by 6.1%.

PTB also confirmed the settling of the acquisition of Prime Turbine. This is a strategically compelling acquisition for PTB, leveraging PTB's existing US based operations and core competencies and will further strengthen PTB's position in the aviation services market. The acquisition will add to H2 earnings.

ASX:JYC
M/cap: $36m
Revenue: **+5%**
EBIT: **-10%**

Why are we invested? An investment company that provides capital and management support to small businesses which have the potential to expand nationally. We estimate the value of these three subsidiary business, together with JYC's property assets to significantly exceed its current market cap.

How did it report?: JYC reported a soft H1 result, with underlying earnings down 10%. The cause of this decline was JYC's underperforming auction business which is facing challenging industry conditions. The other two businesses in the JYC portfolio, KWB Kitchens and Bedshed both reported strong revenue and earnings growth.

KWB and Bedshed are both set for further geographic expansion in 2H 20, while JYC anticipates there will be continued growth in earnings in the second half.

KWB Kitchens is the jewel in the JYC portfolio – a strongly managed, expanding national brand which is the largest professional kitchen renovation business in Australia generating significant free cash flow. 1H20 PBT was $5.6m and we expect it to grow to ~$12m for the full year. It is not unreasonable to conservatively expect this business to be worth 8x NPBT or $96m. JYC's share of this would be $48m, which underwrites JYC's current market cap of $36m.

ASX:XRF
M/cap: $29m
Revenue: **+5%**
EBIT: **+40%**

Why are we invested? A growing, Australian manufacturer of laboratory testing equipment and consumables with dominant market share and which is diversifying away from its traditional mining customer base. Trading on less than 10x PE.

How did it report?: XRF reported a standout result, with revenues from its high margin consumables division up 34% on 2H19. All three of XRF's divisions reported margin improvement, driving an impressive 51% increase in NPAT.

When XRF reported its FY19 full year results, it highlighted strong growth in market share for its consumable products – these customer wins last year have helped to drive strong sales growth in 1H20.

The other key profit driver in recent years for XRF has been its European precious metals operation. This trend is continuing with revenue up to $1.6m vs $1.1m in PCP (1H19) and continued revenue growth expected in second half with new customers coming online.

With the two key drivers noted above continuing to benefit XRF, and new capital equipment products being released during the year to benefit hardware sales, we are very comfortable with our position here. We see plenty of room for a re-rate from its current 10x PE. We are also keen to hear more about the company's intention to release franking credits ($5m) to shareholders.

We note that 1 April 2020 marks the five year anniversary of DMXCP. Over the last five years, we are proud to have built an investment company that offers sensible exposures to interesting, under-valued, under-the-radar opportunities and that acts with integrity. Our accounts (as they have been since day 1) continue to be prepared by independent accountants (Moore Stephens) and independently audited by a leading national audit firm (Nexia). Our share registry is maintained by ASX listed Advanced Share Registries.

Again, thank you for your trust, support, and patience as we continue to build and manage a portfolio of interesting, under-valued, under the radar opportunities in a disciplined and well-structured manner. If you would like to discuss either initiating an investment or topping up your holding at this prospective time, please do feel welcome to contact Steve McCarthy on 0403 869 632 or email steven.mccarthy@dmxcorporation.com.au at any time.

We look forward to reporting to you again in early April.

Kind regards

Roger Collison	Steven McCarthy	Chris Steptoe
Chairman	*Portfolio Manager*	*Research Analyst*

Note 1: Net asset value (NAV) is after all tax accruals but includes an estimate of franking credits available. Refer note 5, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Excludes cash received during the month for the application of new DMXCP shares to be issued
Note 5: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gains

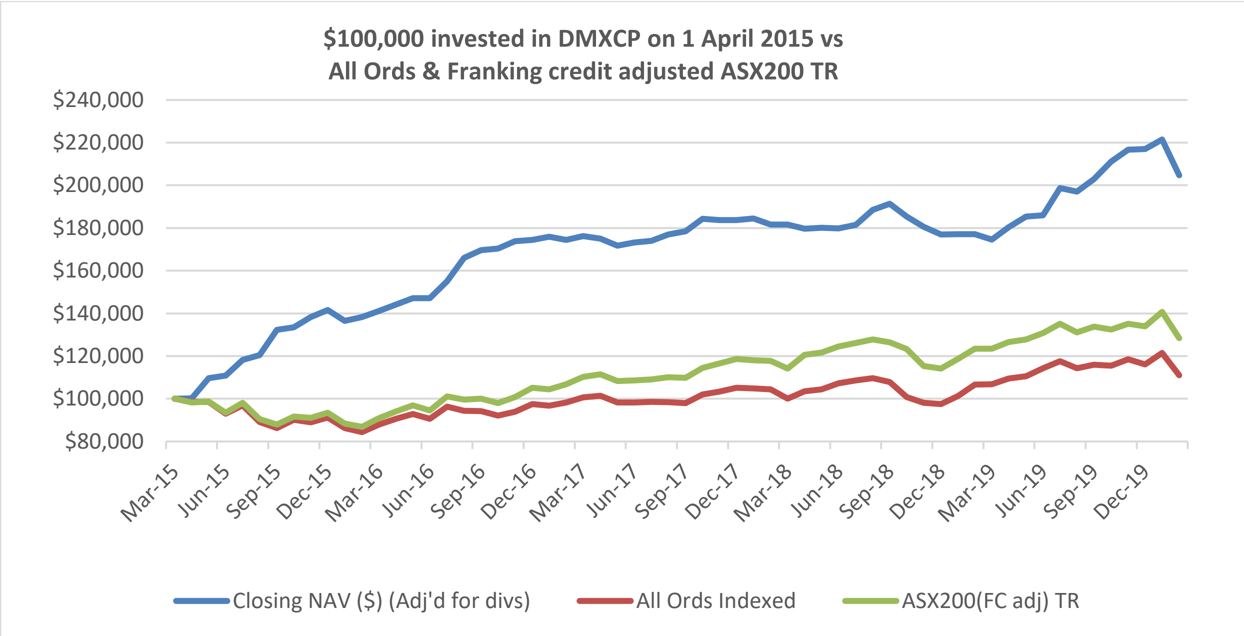
This document is issued by DMX Asset Management Limited (DMXAM - AFSL 459 120) in relation to DMX Capital Partners Limited (DMXCP). The information provided in this document is general information only and does not constitute investment or other advice. The content of this document does not constitute an offer or solicitation to subscribe for shares in DMXCP. DMXAM accepts no liability for any inaccurate incomplete or omitted information of any kind, or any losses caused by this information. Any investment decision in connection with DMXCP should only be made based on the information contained in the relevant disclosure document.

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	-8.470											**-7.53**	**-4.28**

The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (April 2015). DMXCP is an absolute return fund, focused on generating positive absolute returns over the medium to long term



Appendix 2: Portfolio Sector classification