DMX
ASSET MANAGEMENT

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

DMX Capital Partners Limited
June 2020 – Shareholder Update

An investment company managed by:
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Dean Morel
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Opening NAV (1 June 2020) [1,2]	**$1.6802**
Closing NAV (30 June 2020) [1,2]	**$1.7846**
Fund size (gross assets)	$8.4m
% cash held - month end [4]	14%
Gearing	nil

1 month return	6.21%
3 month return	20.49%
12 month return	9.92%
3 year return (p.a.)	5.52%
Since inception (*5 years, 3 months*) (p.a.)	19.58%

*DMXCP Share price = Closing NAV (**$1.7846**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends and franking credits paid. Since inception (1 June 2015) 24c of dividends and franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 6.21% (after all accrued fees and expenses) for June 2020. The All Ordinaries was up 2.19% while the ASX Small Ordinaries Index fell 2.22% and the XEC Emerging Companies Index added 1.41%.

For the FY20 financial year, DMXCP's NAV increased 9.92% (after all fees, and adjusted for dividends paid). At 31 December the NAV was up 18.4% for the first 6 months of the year, so while it is disappointing to have given some of that performance up, in light of the COVID-19 disruption, we are pleased to have delivered a solid positive return for the year. The average cash holding across the year was 17%.

<u>Portfolio management during June</u>

After a strong April and May, June was a more volatile month for global markets. Nevertheless, the portfolio finished the financial year on a positive note thanks to some strong share price performances from names such as Quickfee (ASX:**QFE** +60%), AF Legal Group (ASX:**AFL** +33%) and Stream Group (ASX:**SGO** +150%).

Particularly pleasingly was a series of encouraging news announcements during the month, including several year-end trading updates, that highlighted the opportunities and potential within the portfolio.

- PTB Group (ASX:**PTB**): In its previous market update in April, PTB advised that it was trading ahead of budget and had a solid pipeline of engines in work for both USA and Australian shops. This strong trading was confirmed in June when PTB announced a profit upgrade. PBT has now guided for NPBT for FY20 of approximately $7.9m, exceeding the previous guidance range of $7.1 to $7.5m.
  The increase in guidance has resulted from a combination of continued strong demand for PTB's aircraft maintenance services and a focus on reducing operating costs. Its recent US acquisition has performed ahead of expectations, with only a limited exposure to tourism and benefiting from a strong increase in demand for charter flights. FY21 is expected to be another year of growth for PTB with double digit earnings growth expected. PTB continues to trade on a sub 10x PE (based on FY21 estimates) and pays a 7% dividend yield.

- Eureka Group (ASX:**EGH**): EGH is a specialist owner and manager of rental villages for independent seniors. While not a trading update, we were pleased to see the appointment of highly respected and well credentialed property and funds management veteran Greg Paramor to the board of EGH, It was also disclosed that Greg owns 4.7m EGH shares. We view this as a very encouraging development for EGH and validation of Management's efforts to refocus the business over the past 24 months. EGH is trading below NTA and on 10x PE (based on FY21 estimates).

- Chant West Holdings (ASX:**CWL**): As reported in previous updates, DMX Asset Management is a substantial shareholder in CWL – a cash flow positive holding company that owned two profitable financial services businesses (Chant West & Enzumo), together with significant surplus cash. During the month, CWL announced the sale of Enzumo for $1.5m. Our thesis on CWL following the Enzumo sale is set out here.

  We note that post month / year end, CWL has confirmed the completion of the sale of its Chant West business. While the terms are confidential, the market has reacted positively to this news, with the CWL share price up strongly so far in July. CWL is the largest holding in the DMXCP portfolio, so we look forward to receiving a significant capital return from our CWL holding in the coming months.

- Stream Group (ASX: **SGO**): The investment case for SGO was as simple as they come: an illiquid company trading at cash backing, with no value attributed to its franking credits, operating business or potential as a listed shell. During the month, Management took steps to unlock some of this value by announcing a 2c fully franked special dividend. The market reacted positively to this news, bidding the shares up more than 150% to a level much higher than its asset backing. With our thesis now having played out, and with substantial dilution arising from the issue of heavily discounted shares pursuant to the DRP (which increased the number of shares on issue by over 300%), we sold the majority of our holding, realising a total of approximately 5c of value per share on an average entry price of 1.5c per share.

- Kip McGrath (ASX: **KME**): In early June, KME announced a capital raise to accelerate the growth of the Kip Online platform and capitalise on the huge increase in demand it is seeing for online tuition post COVID-19. We participated in the raise and are excited about KME's pivot into the online space. While it is early days, the potential for KME to build a faster growing, higher margin, substantial online offering is real. We talk more about the potential for KME in this note.

- Joyce Corporation Limited (ASX: **JYC**): During the month JYC announced the sale of its troubled Lloyds Auctions division. On completion JYC will receive a total of $5m, effectively eliminating all net debt. Post completion, JYC will be left with property interests worth $12m, and its 50% ownership in KWB (which generated PBT of $5.6m in 1H20) and 100% of the Bedshed business (which generated PBT of $1.2m in 1H20). With a market cap of $30m we see plenty of value on offer here.

- UCW Limited (ASX: **UCW**): Notwithstanding significant disruption in the second half, UCW has guided for a record year of revenues and earnings. FY20 revenue of $24.5m to $25.5m (+11% to +16%) is expected, with EBITDA forecast in the range of $2.7m to $3.5m (+69% to +119% on last year). Australian Learning Group (ALG), UCW's vocational business focused on international students, reported that international student enrolments for Term 2 2020 were down 12.6% on Term 1, but were still up 7.4% on Term 2 in 2019. With no international students for the foreseeable future, ALG will rely on maximizing the duration of the current 2,000+ students still enrolled. On the other hand, UCW's domestic focused higher education business, Ikon, is well positioned to capitalise on increased domestic demand for studies, and has a new Bachelors' of Early Childhood Education now formally approved and ready to commence in 2021.

Other Portfolio developments:

We continue to adhere to our core investment philosophy of identifying and investing in interesting, under the radar, small companies with strong growth prospects supported by favourable tailwinds. In the current environment we are coming across many such opportunities.

These companies are often illiquid, and even for a fund of our size, we sometimes have to be patient as we wait for liquidity events to enter these positions. To that end, during the month, two such opportunities presented in companies that had been on our watchlist for some time, enabling us to initiate small positions that we will look to add to as they deliver on expected milestones:

- Secos Limited (ASX: **SES**) – a manufacturer of compostable, biodegradable (and traditional) plastic bags and packaging. Revenues from its compostable segment grew 35% last quarter, and we expect the business to be trading profitably from here. SES supplies 30 councils around Australia with compostable bags to capture and divert food waste to organic or green bin waste streams. During the quarter, it announced a new contract to supply compostable bags to the City of Melville in Victoria, worth more than $600,000 per year. Consumer preferences for environmentally friendly products and sustainability conscious corporates are expected to drive strong growth from here in the markets in which SES operates, as well as the increasing focus by regulators to limit single use packaging. With an enterprise value of $20m, we like the potential here. Plus, we think the company is doing some genuinely good things for society by promoting and offering compostable packaging products. We established a position in June when we became aware of a line of stock available.

- Vonex Limited (ASX: **VN8**) – a full-service telecommunications service provider offering retail and wholesale solutions across voice, data, and wireless. VN8 undertook a capital raising during June. Its core retail operations where it sells cloud based calling services to small businesses, and has a powerful distribution platform through the Qantas Business Rewards program, saw its contracted value of sales increase 60% year on year for the 5 months to May 2020, reflecting 'work from home' growth through COVID-19 period. With a market cap of $20m, VN8 trades on 6x forecast FY21 EBITDA. With plenty of organic and inorganic growth potential, while it is early stages, we think there is good value here.

<u>Heading into FY21</u>

With the new financial year commencing, we re-iterate our thoughts from our last update: whilst we are cautious on the markets and the macro-economic environment generally, we are upbeat on the prospects for our portfolio. We have structured the portfolio with a focus on asymmetry (low downside/strong upside) and look forward to that asymmetry playing out over-time irrespective of market conditions.

As mentioned above, we continue to look for (and are finding) unique under-the-radar opportunities with compelling tail winds that should support growth independent of how the broader economy performs. As also mentioned above, recent news flow and trading updates across the portfolio have been particularly encouraging, highlighting the resilience of the portfolio. We look forward to our holdings continuing to perform strongly in the periods ahead.

DMXCP is currently open for investment. We believe current conditions are favourable for us to take advantage of some particularly prospective opportunities. Instructions for adding new funds can be found here.

As always if you would like to discuss either initiating an investment or topping up your holding, please do feel welcome to contact Steve McCarthy on 0403 869 632 or email steven.mccarthy@dmxcorporation.com.au

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

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

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Appendix 1: Performance

Monthly DMXCP Net asset value (share-price) returns (after fees) since inception (June 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	-8.42	-17.91	+8.521	+4.525	**+6.213**							**-7.35**	**-11.76**

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