DMX ASSET MANAGEMENT

DMX Capital Partners Limited

Investing in the most compelling small and micro-cap value opportunities

DMX Capital Partners Limited

March 2020 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
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Opening NAV (1 March 2020) [1,2]	**$1.8032**
Closing NAV (31 March 2020) [1,2]	**$1.4811**
Fund size (gross assets)	$7m
% cash held - month end [4]	25%
Gearing	nil

1 month return	**-17.91%**
3 month return	-21.22%
12 month return	-1.34%
3 year return (p.a.)	-0.62%
Since inception (5 years) (p.a.)*	14.49%

*DMXCP Share price = Closing NAV (**$1.4811**), 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 17.91% (after all accrued fees and expenses) for March 2020. The NAV as at 31 March 2020 was **$1.4811**, compared to **$1.8032** as at 29 February 2020.

For the first nine months of the 2019-2020 financial year, DMXCP's NAV has decreased 8.06% (after all fees), and over the last year has decreased 1.34%.

The All Ordinaries was down 21.50% in March while the ASX Small Ordinaries Index decreased 22.92%. The XEC Emerging Companies Index, which is more reflective of the micro-cap universe, was down 31.03%. We note that the median market cap of companies in the XEC is ~$170m. We suspect the draw-down for companies with market caps under $100m to be even greater than the 31% fall experienced by the XEC.

1 April 2020 represents the 5 year anniversary of DMXCP. When we reported last month, we certainly weren't expecting to be discussing this month the most abrupt correction in market history. Instead, we were hoping to spend some time reflecting on the last five years of the DMXCP journey. Recent events have overtaken the importance of that self-reflection, and we consider it more appropriate and important to communicate with you 1) how we have managed the portfolio over the last month, and 2) how we are looking to capitalise on the opportunities that are presenting.

Portfolio management during March

We provided a listing of our top 10 positions last month. As discussed in that newsletter, we headed into March owning a portfolio characterized by fundamentally strong, well managed businesses on very undemanding valuations. Prior to the significant price falls, we had sold a number of our consumer facing retail stocks that we had owned previously (**ASX:MCP**, **ASX:GAP**, **ASX:SSG**) and we held no consumer lending or financing positions, having previously exited **ASX:PNC**. We had limited exposure to richly priced technology names that came to prominence in the recent bull market, driven by momentum and aggressive growth assumptions Accordingly, we would have expected this conservative strategy ordinarily to perform relatively well in a typical down market.

While the positioning certainly helped protect us somewhat from the larger fall experienced by very small companies, unfortunately given the indiscriminate nature of the sell off, the portfolio experienced a material decline. Among smaller illiquid companies, very little was spared in the harsh sell off.

Elanors (**ASX:ENN**) was one of the biggest detractors to the portfolio, falling 61% and costing the portfolio ~2.7%. As a real estate fund manager and co-investor in the funds it manages, there is concern around asset values, tenancy counterparty risk and quality of rental income flows. On historical metrics (20% distribution yield, 54% discount to NTA, zero value ascribed to its $2b funds management business) it looks very oversold. Despite the share price fall, at this point we don't consider there has been any significant long term impairment to the thesis or value. However, the market will want to have more visibility around portfolio asset values, before there is a recovery here.

Chant West Limited (**ASX:CWL**) was in a trading halt at month end, whilst it was in discussions with the bidder for its Chant West superannuation data business it had previously agreed sale terms with. As at 31 March, and at the date of this report, the outcome of discussions between the parties remains unknown. For the purposes of our monthly NAV pricing, we have adopted the share price of CWL prior to the news of the sale of its Chant West business (7.1c). Whilst the sale of the Chant West business would have been positive for CWL, our thesis here has been that the investment represents a growing, inexpensive business with a strong balance sheet. CWL reported its maiden NPAT in the first half of FY20. At our adopted month end valuation of 7.1c and with net cash of $4m, CWL has an enterprise value of $5m and annualized EBITDA of $2m. Whether or not the sale completes, is re-negotiated or is terminated, we continue to believe CWL is materially undervalued. Similar to ENN, at this point we don't consider there has been any long-term impairment to the thesis or value here.

In addition, in calculating our month end NAV, we have also written down the value of our unlisted investment in co-working business WOTSO Limited. WOTSO was divested from our Blackwall (**ASX:BWF**) holding in early January, and subsequently undertook a capital raise at 47.5 cents (which we did not participate in). As an unlisted investment, there is no observable pricing for shares in WOTSO. However, given the uncertainty here in relation to its short and medium term outlook, and given the fall in value of listed real estate companies, we have written our investment in WOTSO down to 20c, and, as and when further information comes to hand will look to reassess that.

We note that given we hold some substantial positions, and many top 10 or top 20 positions in companies where liquidity is sometimes quite limited, the reality is it is difficult for us to quickly trade in and out of some of these positions. It can take many weeks to liquidate some of these positions, particularly in stressed markets when liquidity dries up. Accordingly, when we buy companies we must take the view that we will be owners of these companies for a long time. We are comfortable in names such as Kip McGrath (**ASX:KME**) and Janison Education (**ASX:JAN**) where we have built positions up over a long period of time, that despite short term impacts, these companies have the business models and management to come out the other side stronger. Importantly, when share prices do recover, and money does flow back to these names, this lack of liquidity will work powerfully in our favour.

During the month; notwithstanding limited liquidity in some names; we were net sellers, as we moved further towards a defensive position. We took advantage of the market rally towards the end of the month by further reducing our exposure to some of our smaller exposures in the technology space where we felt there was heightened risk of capital raises. Some of these proceeds were deployed into new opportunities, and we also added to a number of existing positions at compelling prices.

We ended the month with ~25% cash. We also continue to own a number of cash backed opportunities where we expect material cash to be returned to us over the next couple of months. This provides us with significant opportunity to capitalise on emerging opportunities, some of which we highlight below.

<u>Capitalizing on opportunities – existing portfolio companies</u>

In relation to our existing portfolio companies, it is worth noting that we have been pleasantly surprised by many of the trading updates from our diversified portfolio of small companies, and opportunities that they are seeing. Positive company announcements over the last month included:

Janison Education (**ASX:JAN**)
"*At the time of writing, the overall predicted impact on Janison as a result of the coronavirus is believed to be immaterial and may in fact present a number of significant opportunities as a result of the education industry accelerating its transition from a paper-based delivery of learning and student assessment, to a digital, online format*."

SkiFi Group (**ASX:SKF**)
"Whilst some of our customers are experiencing lower levels of venue activity, others such as Healthcare facilities, Municipalities, and Grocery outlets are experiencing much higher levels of visitation. Our business model of providing accurate data insights to our customers is needed now more than ever to enable them to access accurate and business-critical data."

Sequioa (**ASX:SEQ**)
"Given the turmoil in markets, Morrison Securities Pty Limited has experienced record turnover over the past two months and has a large pipeline of additional AFSL holders now seeking our services.
Fortunately, we have the capability to maintain continuous service levels throughout all types of conditions, hence our business is strong, with turnovers increasing by approximately 40% since the reporting of our half-year results."

PTB Group (**ASX:PTB**)
"PTB Group continues to experience strong levels of demand for its key services, with a solid pipeline of engine overhauls and repairs. Furthermore, the Prime Turbines, LLC acquisition is also trading in line with expectations…At this point, none of the Group facilities in Australia or the USA have been impacted by mandated shutdowns, with the businesses having been classed as essential services.

Read Cloud (**ASX:RCL**)
"Schools begin to forward plan for remote education and to leverage the Company's unique and proprietary software as an on-line learning solution during these challenging times. The Company believes that the current situation has substantially accelerated the shift by all schools to have a remote learning solution, which plays to the strength of the key features of the ReadCloud platform."

Cellmid (**ASX:CDY**)
"*CDY is pleased to advise that it has entered into a supply agreement for a COVID-19 rapid diagnostic test with an authorized distributor of the manufacturer, Guangzhou Wondfo Biotech Co Ltd., supplying Australia. COVID-19 rapid diagnostic test was approved as a POCT (point of care test) by the TGA on 25 March 2020. The rapid diagnostic test is already used in several countries including the UK, Belgium, Spain and Germany. It is produced in a TGA approved facility in China and it is available immediately*. "

No doubt Management teams are keen to put a positive spin on the current environment when they update, and the proof will be in the reported numbers. However, we provide these examples to highlight that it is not all doom and gloom. Whilst there are certainly companies in the portfolio that have negative short-term outlooks, there are also a number of companies that are taking advantage of emerging opportunities.

As a result, we continue to add to compelling existing positions, where the price makes sense, but at the same time we are particularly conscious of not wanting to take oversized positions. With much uncertainty ahead, we're balancing executing on current opportunities against retaining cash to take advantage of potentially even more attractive opportunities in the months ahead.

New opportunities

With the Emerging Companies Index down 40% from its highs, we are starting to see opportunities that we haven't previously seen in a long while. In terms of our positioning, we are focusing on three key types of new potential investments.

1. **Oversold high quality names**. As noted above, indiscriminate selling has meant little has been spared from significant damage among small caps. This creates opportunities for us among high quality names that previously could not be justified on valuation basis. By high quality, we are looking for companies with diversified customer bases, with strong visibility around revenues, high margins and robust balance sheets. We have begun accumulating positions in two such names. As always, we have started with small exposures, and will look to slowly build on these positions as our confidence levels increase.

2. **Capital raises** Drawing on our experiences from the GFC, we expect to review and participate in a number of capital raisings over the coming months. Again, our focus is on higher quality opportunities where balance sheets may have become stretched, but the underlying business and cashflow generation is appealing. This may see us look at investments outside of our sweet spot of sub $100m cap companies, but it is in our interests to be opportunistic in this environment. We are less inclined to support raisings which are being undertaken to plug earnings holes.

3. **Turnarounds** We expect many businesses to have their operations and profitability impacted as a result of COVID-19. At this point, the extent of the impact is hard to quantify. For some businesses the pain is likely to be short term, for others it may be terminal. Over the coming months, and particularly after the August reporting season, we are likely to have better visibility around how these businesses have suffered, and how they see FY21 looking. Following this, with more certainty and confidence, we would look at taking positions in some beaten-up turnaround opportunities.

A good recent example of where and how we're finding new opportunities is Lovisa (**ASX: LOV**). In some respects, LOV reflects an opportunity across all three categories highlighted above. Importantly though, it is also a good example of how nimble we can be both in buying and selling - where appropriate - investments. Having fallen more than 80% from its highs on the back of COVID-19 impacts we began accumulating shares, initiating a small position at ~$2.50. Our position size was moderated to reflect the potential for a capital raise in which we would expect to participate. LOV, while operating in the consumer discretionary category, is a quality company executing well on a global roll-out programme. We believe it may need to raise capital, which we would support conceptually and financially at the right pricing. And certainly, it's a turnaround play in the sense that at some stage they'll need to re-open stores and re-build the base ahead of resuming its aggressive store roll-out.

We're not married to our ideas though, and there always has to be a value orientation. Within 5 days of our purchase, the market re-priced the risk and potential for LOV, providing us with the opportunity to exit this small position at above $5.00 for a greater than 100% gain. More than ever though, these sorts of environments of unusual uncertainty, and heightened volatility, present us with increased opportunities. While our orientation is decidedly long-term, we always aim to respond rationally to the set of prices the market offers up each day. LOV in our estimation wasn't worth 80% less for having to contend with the current environment. Nor was it worth 100% more over the course of a handful of days. Again: a good example of how and where we are finding and expect to continue to find value; as well as how we assess valuations and respond coolly and appropriately, and in a way that we believe will help us add real value in the periods ahead.

In summary, we are enthused about the opportunities in our existing portfolio and the new opportunities that will emerge out of this volatility and market dislocation in order to deliver you strong long-term returns.

As managers, we are all aligned and absolutely committed to undertaking prudent capital allocation in order to grow our shareholders' wealth.

We note that 1 April 2020 marked 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. The fund has averaged 14.49% per annum returns over the last five years.

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 May.

Kind regards

Roger Collison

Chairman

Steven McCarthy

Portfolio Manager

Chris Steptoe

Research Analyst

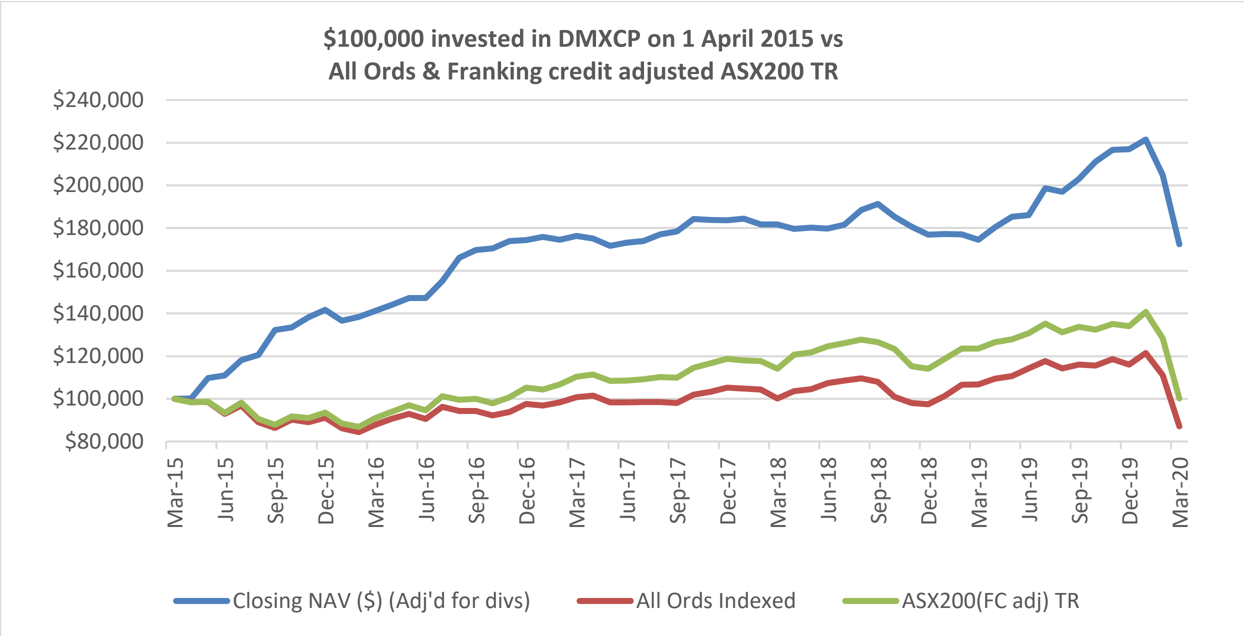
Note 1: Net asset value (NAV) is after all tax accruals but includes an estimate of franking credits available. Refer note 5, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Excludes cash received during the month for 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

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	-8.42	-17.91										**-20.52**	**-24.87**

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