DMX ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

May 2020 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
Dean Morel
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Opening NAV (1 May 2020) [1,2]	**$1.6074**
Closing NAV (31 May 2020) [1,2]	**$1.6802**
Fund size (gross assets)	$7.8m
% cash held - month end [4]	14%
Gearing	nil

1 month return	4.53%
3 month return	-6.88%
12 month return	4.18%
3 year return (p.a.)	3.69%
Since inception (*5 years, 2 months*) (p.a.)	17.88%

*DMXCP Share price = Closing NAV (**$1.6802**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*

Returns include dividends and franking credits paid. Since inception (1 May 2015) 24c of dividends and franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 4.53% (after all accrued fees and expenses) for May 2020.

For the FY20 financial year to date, DMXCP's NAV has increased 3.75% (after all fees, and adjusted for dividends paid).

Continuing its recovery, the All Ordinaries was up 4.89% in May while the ASX Small Ordinaries Index increased 10.52% and the XEC Emerging Companies Index rebounded 13.43%.

<u>Portfolio management during May</u>

May was another buoyant month for global markets. Our focus this month continued to be on identifying and taking advantage of attractive pricing opportunities by adding to existing positions that had not increased in price, and deploying funds into new opportunities. Having started the month with 25% cash, this had reduced to 14% by month end.

We previously commented on our top 10 positions at 29 February 2020, prior to the full impact of COVID-19. We believe it would be an interesting exercise to revisit this top 10 three months later, and provide an updated top 10 positions to reflect the changes in composition over the COVID-19 period.

<u>Top 10 DMXCP positions at 31 May 2020</u>

Chant West
HOLDINGS LIMITED

ASX:CWL
M/cap: $10m

Why are we invested? A cash flow positive holding company that owns two profitable financial services businesses (Chant West & Enzumo), together with significant surplus cash. Subsequent to month end, CWL has agreed to sell Enzumo for $1.5m. On a sum of the parts basis, we estimate CWL should be worth around $18m ($12m for Chant West (based on agreed acquisition price with Zenith), $5.5m (including cash to be received from selling Enzumo) and some value as a listed shell). Or looking at it another way, the market is ascribing a value of ~$4m to the Chant West business (which in February was to be sold for $12m (representing ~8x EBITDA/2x recurring subscription revenue). We think the odds of making good money here are very much in our favour. At an EV of $4m, the Chant West business is being priced at ~3x EBITDA.

COVID-19 impact: Initial comments by Management suggest COVID-19 will be positive for the two businesses:

- In relation to Chant West, CWL noted the market volatility caused by COVID-19 resulted in much higher volumes of enquiries regarding super and pension fund performance. As a result, the use of Chant West's research tools and consulting services *significantly increased*.

- In relation to Enzumo, CWL believe COVID-19 has *accelerated* the transformation of the financial services industry to digital advice and the need for further investment in technology. CWL noted that Enzumo is well positioned as a software-consulting partner to the major superannuation funds and mid-tier services licensees.

ASX:EAS
M/cap: $28m

Why are we invested? EAS owns a portfolio of leading businesses in the accounting, wealth and training space, with increasing recurring revenue. In FY19, EAS generated NPAT of $2.7m and post-tax free cash flows of $2.6m. Adjusting for amortization and for a recent business acquisition and divestment, we estimate EAS trades on 8x NPATA – an attractive multiple for a growing business, solid recurring income that pays a 4% fully franked dividend.

COVID-19 impact: EAS updated the market in April noting that the majority of its scheduled face-to-face training sessions had moved to an on-line delivery format. EAS also highlighted an increase in demand for training following the release of new state and federal tax and stimulus measures. In response to this demand, we understand online training sessions hosted by EAS' Knowledge Shop business, particularly around the JobKeeper package, have proved very popular. Knowledge Shop has also experienced record demand for its help-desk support as most accountants have moved to work remotely.

ASX:PBP
M/cap: $141m

Why are we invested? PBP is a manufacturer, packer and distributor of a range of prescription and over-the-counter pharmaceuticals, complementary medicines and consumer health products. With a strong growth track record, it is trading on 13x FY21 NPAT.

COVID-19 impact: PBP saw an increased level of demand with several categories seeing *meaningful* uplifts in orders, including cough, cold & Flu, analgesics and immunity products. The increased level of demand is expected to continue through the first half of FY21. Offsetting these demand tailwinds have been a reduction in some product lines related to elective surgery (which has since recommenced). Additional headwinds included increased costs of working under the pandemic conditions, increases in international freight costs and margin impacts caused by the rapid decline in the Australian dollar. PBP has had only minimal supply disruptions to a small number of inputs.

PBP is one of the few companies that has maintained its previous market guidance for FY20 (revenue in excess of $100m and EBITDA of between $16m to $17m).

ASX:AVA
M/cap: $36m

Why are we invested? A profitable, global security solutions company, which has successfully commercialized some powerful IP in locking and security. AVA reported its maiden NPAT result in 1H20 and trades on a single digit PE multiple. Our detailed investment thesis is set out here.

COVID-19 *update:* In relation to AVA's service division the reduction in air freight capacity around the world due to COVID-19 allowed Ava Global the opportunity to innovate and offer a range of bespoke cargo and charter aircraft solutions to ensure that it could continue to deliver currency, precious metals and other valuable goods for its customers. Client activity has significantly increased during Q3 and we expect this trend to continue. Whilst COVID-19 has impacted the sales cycle for AVA's technology businesses, the sales pipeline has remain unchanged. AVA's flagship Indian Ministry of Defence project, after some initial COIVD-19 related delays, as of May is back on track.

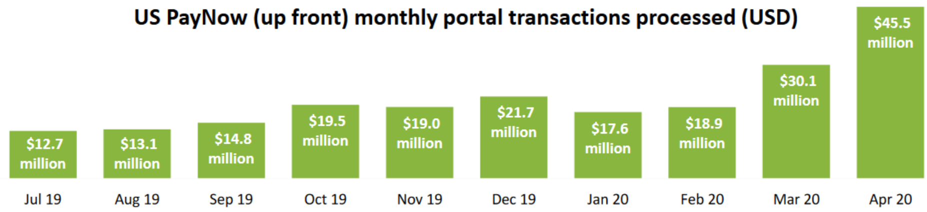
ASX:XRF
M/cap: $30m

Why are we invested? A profitable, growing, Australian manufacturer of laboratory testing equipment and consumables with dominant market share and which is diversifying away from its traditional mining customer base.

COVID-19 update: In April XRF reported that its NPBT was up 40% and that its cash position had increased from $1.6m at 31 December 2019 to $3.7m at 31 March 2020. XRF noted that its products remain of critical importance for quality control in the mining sectors that they service, as well as in industrial product manufacturing. For the 9 months to 31 March XRF had generated $3.3 NPBT or 1.7c EPS. If Q4 is slightly weaker, and XRF only do 0.3c EPS in Q4, it would report 2c EPS for FY20, placing it on ~10x. (Vs 1.6c EPS in FY19). FY21 has the potential to benefit from upgraded products being marketed and pent up demand from FY20.

ASX:QFE
M/cap: $52m

Why are we invested? A business that we have owned since its IPO, QFE has developed a payment platform that enables clients of professional services firms to obtain finance online from QFE to facilitate payments to the firm in full. Its Australian business has been profitable for some time, while its fast growing (but loss making) American operations are benefiting from a large increase in transactions being processed through its payment portal.



COVID-19 *update:* QFE's US payment portal transaction volumes during April experienced unprecedented growth, with COVID-19 office closures accelerating the switch by US professional services firms from cheques to electronic payments through QFE's proprietary payment portal. Transaction volumes have more than doubled since February 2020, with the annualised transaction volume run rate now at USD546 million on the back of USD46 million processed in April. This compares with USD30 million processed in March and USD10.7 million processed on average for each month in FY 2019. This acceleration of payment activity is likely to see QFE's operations become profitable at a group level by mid next year. The market opportunity for QFE in the US remains enormous.

ASX:UBN
M/cap: $42m

Why are we invested? A high quality SAAS business with a market leading cloud-based product (for strata apartment management and facilities management) and a global opportunity.

COVID-19 update: In its April update, UBN noted that they had seen no material impact on the business to date. UBN provides mission-critical software with the majority of customers paying in advance on either a quarterly or annual basis. Implementations and training are being delivered remotely and via meeting platforms without disruption to planned go-live dates. In 3Q20, UBN pleasingly recorded its first quarter of positive operating cash flows.

ASX:PTB
M/cap: $73m

Why are we invested? 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.

COVID-19 update: In its April market update, PTB confirmed it was trading ahead of budget and had a solid pipeline of engines in work for both USA and Australian shops. As an essential service, its US operations remained open during the US shutdowns. However there is a risk airlines are front loading their maintenance work while demand is low. Pleasingly. PTB confirmed that following the Prime Turbines acquisition, tourism related customers only account for approximately 20% of pro-forma PTB revenues. PTB had been forecast to do 7.4c EPS in FY21 so expectations here are low, and any confirmation that the business is performing to expectations should see a strong re-rate.

ASX:EGH
Market Cap: $72m

Why are we invested? Eureka is a specialist owner and manager of rental villages for independent seniors with its cashflows underpinned by the government pension. With increasing occupancy rates, an NTA of 34c and a PE of 12x it screens attractively. Fragmented village ownership provides the opportunity for acquisitions to improve scale.

COVID-19 update: Like PBP, EGH is currently maintaining its pre COVID-19 earnings guidance of $8m to $8.2m underlying EBITDA. There have been additional costs in relation to operating under the pandemic conditions (e.g. all resident catering had to be packaged and delivered, rather than communal eating). Given EGH delivered $4.1m EBITDA in 1H, we suspect EGH was trading ahead of its guidance pre COVID-19.One downside is that the intended sale of some non-core property assets may be delayed, which will impact EGH's ability to recycle those proceeds into new villages. However, with the stock trading below NTA (a larger property owner in the same space, Ingenia (ASX:INA) trades at a 50% premium to NTA), we believe EGH is currently mis-priced.

ASX:JAN
M/cap: $63m

Why are we invested? Another business that we have owned since its IPO, JAN is a leading education technology business that delivers online assessments to millions of candidates in more than 100 countries, with a Tier 1 customer base including the British Council, the OECD, the Singaporean government, and national and state government departments in Australia.

COVID-19 *update:* In the short term JAN has been impacted, with COVID-19 resulting in the postponement of NAPLAN (which is delivered using JAN's technology) as well as delaying other university exams that JAN's LTC business would have otherwise proctored. However, JAN believes that COVID-19 has forced educational institutions and professional associations to accelerate their plans to digitise course material and exam delivery. In the long-term, Janison is positioned well to benefit from this dramatic shift in how institutions now think about the delivery of education. JAN continues to provide its online exam assessment platform to multiple countries around the world on behalf of the OECD for the PISA test, including to the US and Russia. At the end of May, JAN announced a new contract with the University of London to deliver 37,000 online examinations for University of London students across 100 countries, providing further validation of its technology by customers of the highest echelon. With a strong balance sheet and refreshed management JAN has the potential to be a significant global technology company benefiting from these encouraging tailwinds.

These top 10 positions represent over 50% of our invested capital. We are pleased with how our highest conviction stocks are positioned. They provide a strong balance of exceptional value (ie CWL, AVA, PTB, XRF, EAS – all trading on attractive multiples, and all of which we added to at compelling prices in the period from March to May) and growth (ie QFE, JAN & UBN). In the cases of QFE and JAN, we significantly increased our holdings through participating in their recent capital raisings.

Of the top 10, only JAN has withdrawn its guidance, and, as outlined above, the majority of the top 10 positions we expect to manage through COVID-19 with no significant impact. This leaves them well placed to continue to grow their pre COVID-19 earnings, relative to many companies that will have an earnings hole to make up.

Consistent with optimally positioning the portfolio for a post COVID-19 environment, several stocks on our February top 10 list with more uncertain outlooks (KME, UCW, ENN, JYC) have moved out of the top 10 as a result of price movements and some selling. While we still hold these positions, we acknowledge that there are some near term earnings risks to these names.

Outside of the top 10, we have taken the opportunity over the past 3 months to add to a broad range of positions, including growth stocks such as SKF, and asset plays such as BWF, SGO and 8EC. The combination of capital raise participation, topping up existing holdings and initiating new positions has seen our cash levels now sit at 14%.

So how do we see the portfolio positioned today?

Over recent weeks we have seen significant enthusiasm permeate the markets, at a time when the global economic outlook is at its most uncertain. This exuberance has seen plenty of hype (and cheap money) find its way back into the market and is evident in the price action of various stocks of dubious quality.

We like the quote from Oaktree Capital's Howard Marks who said "*If I were asked to name just one way to figure out whether something's a bargain or not, it would be through assessing how much optimism is incorporated in its price*."

We like to sleep well at night, so take comfort in knowing that we own a portfolio of well-run small businesses which are generally trading on attractive multiples and in some cases below asset backing, with little or no hype priced in ("bargains"):

- The portfolio is weighted towards robust businesses that have either not been impacted by, or are likely to benefit from COVID-19. As noted above, PBP and EGH are two top 10 positions that have maintained their guidance through the pandemic.

- The portfolio has exposure to some fast growing, profitable technology names, that are global leaders in their respective markets, such as SKF and JAN but are trading with very low market caps, in the case of SKF and JAN $43m and $63m respectively.

- We own a number of stocks where the market cap is 100% covered by the value of its assets, including SGO which is trading below the value of its cash and franking credits, BWF which is trading below the value of its cash and ASX investments and EGH which is trading below its property backing, all of which have no value attributable to their operating businesses. As noted above, CWL is potentially trading at around half of its asset value, while in our note on AVA we make the case that AVA this time next year could be trading at cash backing, which would mean its two global technology businesses with some powerful emerging products are having no value attributed to them.

Whilst we are cautious on the markets and the macro-economic environment generally, we are upbeat on the prospects of our portfolio. With little hype priced into the stocks that we hold, and a strong focus on risk, we feel as though we own plenty of "bargains" with limited downside. At the same time, given we own a portfolio of fast growing businesses, the upside from earning upgrades, multiple re-rates, takeovers and other corporate activity and other catalysts can be quite material. We have structured the portfolio to be very asymmetric (low downside/strong upside) so look forward to that asymmetry playing out irrespective of market conditions.

DMXCP is currently open for investment. As can be seen from our reduced cash balance and the range of interesting holdings, we believe current conditions are very favourable for us to take advantage of some particularly prospective opportunities. Instructions for adding new funds can be found here.

We will shortly be releasing an updated Investor Presentation. In conjunction with this presentation, we will be inviting you to take part in a private virtual coffee catch-up with us from the comfort of your own home or office. Steven McCarthy (Portfolio Manager), together with Auckland-based team members Chris Steptoe (Analyst) and Michael Haddad (Strategist) will be hosting private Zoom catch-ups – please keep an eye out for upcoming details.

We are also pleased to provide you with a detailed summary of our investment thesis on AVA Group (ASX:AVA) as mentioned above. We were pleased to have www.Arichlife.com.au publish these thoughts. We intend to continue to make available investment cases on other holdings on a regular basis.

Also, for those who have not seen it, we published our 3Q20 ASX Nano-Cap earlier this month.

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 July.

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 (May 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**								**-11.51**	**-13.62**

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