DMX
ASSET MANAGEMENT

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

DMX Capital Partners Limited
August 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 August 2020) [1,2]	**$1.9647**
Closing NAV (31 August 2020) [1,2]	**$2.1350**
Fund size (gross assets)	$10.5m
% cash held - month end [4]	11%
Gearing	nil

1 month return	8.67%
3 month return	27.21%
12 month return	22.73%
3 year return (p.a.)	11.45%
Since inception (*5 years, 5 months*) (p.a.)	25.45%

*DMXCP Share price = Closing NAV (**$2.1350**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends and franking credits paid. Since inception (1 April 2015) 24c of dividends and franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 8.67% (after all accrued fees and expenses) for August 2020. The NAV has fully recovered its February & March losses, and is up 10.99% for the calendar year to date (since 1 January 2020).

The All Ordinaries was up 3.10% for the month, while the ASX Small Ordinaries Index increased 7.10% and the XEC Emerging Companies Index added 14.53%.

COVID-19 and FY20 Reporting

August saw all but two of our portfolio holdings report their full year results. It presented the first real opportunity for us to gain a detailed understanding of the COVID impact on our holdings, and to enable us to form a view on how they are positioned for FY21. Given the portfolio has bounced back strongly since March 2020, it was important for us to ensure our investment cases remained intact, and that the valuations of those companies that have had strong share price increases in recent months continue to be supported by fundamentals.

COVID-19 saw Management and business models tested in the most unique and challenging conditions. For the most part, our portfolio companies came through the initial COVID period admirably, increasing our confidence both in the business models and in Management's ability to respond under pressure.

Across our portfolio of approximately 30 stocks, overall, results were generally supportive of our investment cases. Valuations of portfolio holdings remain defendable, and with our increased confidence in the performance of our holdings and positive outlooks, we had little reason to sell positions in our portfolio.
In relation to our portfolio, we were pleased to observe the following:

- 94% of the portfolio (on a weighted basis, excluding cash & cash-like positions) reported year-on-year revenue growth, highlighting that COVID did not interrupt the growth profile of the portfolio. We expect all these companies to continue to deliver growth into FY21.
- 83% of the portfolio (on a weighted basis, excluding cash & cash-like positions) reported earnings growth in the COVID-19 impacted second half of the year, relative to the same period in the previous year.
- Of those companies that did have COVID-19 impact their growth trajectories, we expect several to be long term beneficiaries of trends that were accelerated by COVID-19. These include Janison Education (**ASX:JAN**) and Kip

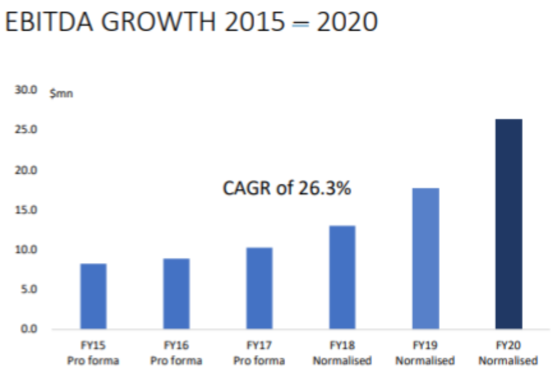
McGrath Education Centres (**ASX:KME**), that are well placed to benefit from the increased acceptance of digital education.

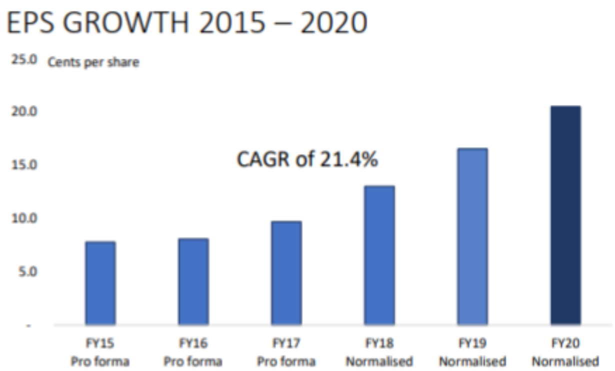
- Several companies delivered extraordinary results over the period of March to June when the economy was most impacted by COVID-19 disruptions. These included Shavershop Group (**ASX:SSG**) which recorded like-for-like sales up 40% in Q420 and AVA Group (**ASX:AVA**) with its logistics business growing Q420 revenues by 56% over Q320.

<u>FY20 Reporting Highlights</u>

There were many very strong results across the portfolio. We discuss three of the results we found particularly pleasing below.

Workforce management company **People Infrastructure Limited (ASX:PPE)** reported a 49% increase in EBITDA and a 23% increase in EPS. As discussed in our April update, we repurchased PPE in early April at just over $1.00 after it had fallen from over $4.00. With PPE reporting EPS for the year of 20c, we effectively acquired our holding on just over 5x PE, so we are pleased at how we were able to benefit from the mis-pricing earlier in the year.
A standout feature of PPE's result was its operating cash flow of $27m. This puts PPE in a net cash position, and now has the capacity to fund $80- $90m of acquisitions. Based on typical acquisition multiples, PPE has the potential to acquire up to $15m of EBITDA, which would grow the business by 60% and be significantly accretive to shareholders. While PPE is a relatively low margin business, Management is substantially invested (17%) and have built an impressive track record of execution to date as highlighted by the EBITDA and EPS growth below.





Source: PPE Market Presentation 25 August 2020

Given the disruption to air travel globally, aviation services company **PTB Group Limited (ASX:PTB)**, delivered a better than expected result with normalised NPBT up 50% on the prior year. While the lower-margin tourism part of the business was impacted, the company managed to pivot to other revenue streams, growing its engine and parts sales. Importantly, the company was confident enough to provide NPBT guidance of $11m to $13m for FY21, which, if achieved, would reflect an increase of 37.5% to 62.5% on FY20. PTB also declared a final 2.5c fully franked dividend, giving the shares a gross yield of 10%.

Following the onset of COVID-19, PTB's share price fell from a high of 95c to 27c, before recovering on the back of insider buying and some strong trading updates. Despite the recovery, PTB trades on a PE of under 12x and remains good value considering its quality and growth profile.

OPERATIONAL RESULTS BY BUSINESS

	2020 $'000	2019 $'000	2018 $'000
Pacific Turbine Brisbane	$5,596	$3,928	$4,142
Pacific Turbine USA Group	$2,145	$549	($74)
Pacific Turbine Leasing	$288	$641	$565
International Air Parts	$1,969	$1,855	$1,393
Corporate Overheads	($2,039)	($1,659)	($1,598)
Profit / (Loss) Excluding FX & Acquisition Costs	**$7,959**	**$5,314**	**$4,428**

Source: PTB Market Presentation 28 August 2020

In previous months, we have mentioned a number of times the progress **AVA Risk Group Limited (ASX:AVA)** has been making in turning around its business. This was confirmed when AVA released a very impressive set of FY20 numbers: revenue increased by 46% to $46.1m, while gross margin growth, combined with operating cost reductions, saw EBITDA swing more than $10m, improving from a loss of $2.9m to a profit $7.4m. AVA's total cash balance was $7.7m - up from $3.1m, giving AVA the flexibility to look at acquisitions or other capital management initiatives.

With AVA's EV of $45m (as at 31 August) supported by its Services division which is on track to record EBITDA of more than $5m EBITDA this year, no value is being attributed to AVA's technology assets (fibre optic perimeter security, locking technology and conveyer belt monitoring technology).

Source: AVA Annual Report 31 August 2020

FY21 Outlooks

As we look ahead to the FY21 results, we expect most of our portfolio to continue with the strong growth they delivered in FY20. While there was not a lot of formal guidance provided for FY21, outlook commentary was generally positive.

Where companies did provide FY21 guidance, the forecasts were encouraging:

- PTB forecast profit before tax for FY21 of between $11m and $13m. This would be a 37.5% to 62.5% increase in profit as it benefits from a full year ownership of its Prime Turbine acquisition in the US.
- Readytech Limited (ASX:**RDY**) expects FY21 revenue growth rate in the mid teens, with EBITDA margin in the range of 37%-39%. This equates to FY21 EBITDA of $17.2m (at the mid-point), a 10% increase on FY20's $15.6m EBITDA.
- Primero Group (ASX:**PGX**) expects EBITDA margins of 6-8% on FY21 orders of $230m. This equates to FY21 EBITDA of $16.1m (at the mid-point), a 41% increase on FY20's $9.5m EBITDA.
- SKI-Fi (ASX:**SKF**) noted it is confident that FY21 will deliver significant double-digit revenue growth and strong operating EBITDA.
- Urbanise (ASX:**UBN**) confirmed it expects to increase its ARR by at least its backlog of $1.8m, resulting in a minimum 22% increase in ARR in FY21.

We also note that many of our holdings finished the final months of FY20 with strong operating momentum, which provides some good look through into FY21:

- Sequoia Financial (**ASX:SEQ**) delivered 2H20 EBITDA of $3.4m versus first half EBITDA of $1.5m. A key driver of this 2H uplift was the performance in 4Q20 of its securities clearing business, Morrisons. After many years of losses, Morrisons became profitable in March 2020, on the back of revenue growth of 37% in FY20 to $14m. SEQ noted that the July results for Morrisons were very strong, and that they are targeting revenue in excess of $20m in FY21 (+40%).
- Australian Family Lawyers (**ASX:AFL**) grew its revenue in FY20 by 39% to $6.9m and underlying EBITDA by 41% to $1.7m. However, these results included minimal revenue impact from new office openings in Canberra (February 2020) and Sunshine Coast (June 2020) which will benefit FY21. Record monthly revenue and file openings in May 2020 and June 2020 respectively provide strong momentum heading into FY21.
- AVA, as mentioned above, saw very strong momentum in its Services business in 4Q20 (revenue +56%). This has continued into FY21, with EBITDA for the month of July 2020 of ~$500k (compared to EBITDA for the entire 1H20 of $400k).

Amongst the positives, reflecting the economic uncertainty and on-going COVID-19 related disruptions, there are some headwinds. Higher education provider UCW Limited (ASX:**UCW**), despite having higher student numbers than this time last year, is expecting international student numbers to drop over the course of the year. Contract drug manufacturer Probiotec (ASX:**PBP**) expects to have softer cold & flu drug sales this year. These are both well-run, attractively priced businesses, and we are happy to look through short term disruptions.

Portfolio Positioning

We take a lot of confidence from the FY20 results. As noted above, outlooks are positive, and we see a lot of potential for re-rates across the portfolio from current levels. Our holdings have been tested through COVID-19, and have proven their resilience and strength of their growth profiles.

Global technology market leaders such as UBN, SKF and Quickfee (ASX:**QFE**), are set to continue their strong growth both in Australia and internationally in FY21. Profitable ed-tech holdings JAN and KME will benefit from the continued digitalization of education. Compelling tailwinds support the growth of various companies, including AFL (relationship break-downs) and Secos Group (ASX:**SES**)(moves away from single use plastic).

To provide valuation balance, and in a market where many stocks are trading at eye watering levels, we own many well-run, growing companies still unloved by the market. Names such as PGX, SSG, UCW, Joyce Corporation (ASX:**JYC**), and Easton Investments (ASX:**EAS**) are all trading on single digit PE multiples, and offer plenty of upside potential from continued earnings growth, as well as corporate activity. After a COVID-19 lull, we would expect corporate activity among small companies to start to pick up again – in the past, this has been a source of strong portfolio returns.

We remain focused on identifying unique, under the radar, attractively valued opportunities where there is a compelling investment thesis. As long-term orientated holders, we look forward to seeing our portfolio positions continue to deliver encouraging results in the periods ahead.

DMXCP remains open for investment from both new and existing investors. As noted above, we are encouraged with how the portfolio is currently positioned. 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 October.

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

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	+8.521	+4.525	+6.213	+10.09	**+8.669**					**+10.99**	**-7.18**

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.