



DMX
ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

February 2021 – 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 2021) ^(1,2)	\$2.6034
Closing NAV (28 February 2021) ^(1,2)	\$2.6899
Fund size (gross assets)	\$17m
Gearing	nil
% cash held - month end ⁽⁴⁾	17%

1-month return	3.32%
3-month return	6.07%
12-month return	58.32%
3-year return (CAGR p.a.)	21.95%
Since inception (5 years, 11 months) (CAGR p.a.)	22.19%

*DMXCP Share price = Closing NAV (\$2.6899), being: Share portfolio value + cash – fees payable – tax payable + franking credits
Returns include dividends reinvested and franking credits paid. Since inception 41c of dividends & franking credits have been paid*

Dear Shareholder,

DMXCP's NAV increased 3.32% (after all accrued performance and management fees and expenses) for February 2021. The NAV as at 28 February 2021 was **\$2.6899**, compared to \$2.6034 as at 31 January 2021. Indices were up for the month, with the All Ordinaries up 1.01%, while the ASX Small Ordinaries Index increased 1.93% and the XEC Emerging Companies Index was up 1.39%.

DMXCP has returned 60.78% for the financial year to date (since 1 July 2020) (after all accrued performance and management fees and expenses).

February portfolio news – an unusual half

February saw our companies report their financial results for the period 1 July 2020 to 31 December 2020 (1H21). Before we comment on the results reported across our portfolio, it is important to acknowledge that the six-month period to 31 December 2020 was particularly unusual with several unique macro factors at play:

- the high level of stimulus flowing through the economy (i.e. December 2020 retail sales were up ~10% on December 2019) with pent up demand as lock downs ended;
- extra cash in the pockets of consumers helped consumer facing businesses achieve strong sales growth without excessive discounting, resulting in abnormally high margins;
- a heightened period of significant disruption where businesses with strong market positions and online capabilities were able to capitalize at the expense of less sophisticated businesses;
- many companies continued to benefit from Job Keeper subsidies, while others saw reduced operational expenditure on the back of reduced travel and sales costs, and other restructuring initiatives;
- many sectors of the economy, notably tourism, travel and international education continued to be heavily impacted by travel restrictions.

The 1H21 results for our portfolio, and the market generally, need to be considered in light of this unusual operating environment, while, as long-term orientated investors, we must also be cognizant of it being one six-month period in a much longer journey.

While there were some portfolio companies that faced challenging operating conditions in the half, the portfolio generally reported well, with the positive market response to the results driving a positive performance for the month. We discuss some notable results below.

Strong profit results

We are focused on owning under-the-radar, inefficiently priced companies with low market capitalisations that have genuine potential to become larger companies. Larger cap companies generally have greater profiles, more liquidity and attract higher multiples than smaller companies. In our experience, small companies that are growing their profits, and particularly those that are growing their profits consistently, and rapidly, are well placed to become larger companies over time, as a higher earnings multiple is applied to a higher earnings base. Accordingly, the half and full year profit reports are very important for us to benchmark how our portfolio companies are executing on their medium to long term growth plans.

With this in mind, it was pleasing to see the results announced in February highlight some really encouraging progress being made across a number of our companies. Some of these companies where strong execution and favourable market conditions have seen reported profit increase materially over 1H20, are presented below.

Portfolio holding	Profit metric	1H21	1H20	%increase	Growth drivers and observations
Easton (ASX:EAS)	EBITA ⁽¹⁾	\$3.1m	\$1.5m	+106%	Tax Banter (training) acquisition, strong organic growth
AVA Group (ASX:AVA)	EBITDA	\$12.0m	\$2.5m	+480%	Strong Services growth and IMOD contribution
Sequoia (ASX:SEQ)	EBITDA	\$4.0m	\$1.4m	+176%	Morrison's Securities (subsidiary) now profitable
Enero Group (ASX:EGG)	EBITDA	\$24.3m	\$11.0m	+129%	Strong US growth, \$1m Job Keeper
Janison Education (ASX:JAN)	EBITDA	\$2.7m	\$1.2m	+118%	ICAS acquisition contribution, strong execution
Corum (ASX:COO)	EBITDA	\$2.2m	\$0.1m	+2,501%	Pharmx acquisition and strong cost control
Joyce Corporation (ASX:JYC)	EBITDA ²	\$13.7	\$7.5m	+83%	Strong organic growth, ~\$1m Job Keeper
Shavershop (ASX:SSG)	NPAT	\$14.2m	\$7.6m	+86%	Strong online growth and margin expansion
AFL Group (ASX:AFL)	EBITDA	\$1.1m	\$0.6m	+75%	Lateral hires driving revenue growth
Dusk (ASX:DSK)	NPAT	\$19.8m	\$6.7m	+193%	Strong sales growth and margin expansion

1) EBITA is Earnings Before Interest, Tax and Amortization from continuing operations

2) EBITDA is Earnings Before Interest, Tax, Depreciation and Amortization from continuing operations

These ten holdings represent some of our larger positions, so it was satisfying to see strong operational progress reflected in significant high double digit and triple digit profit growth over the period.

Each of these companies has attractive fundamentals – they are well led, have strong market positioning in their respective sectors, they all have positive net cash positions (no debt); and the majority have been purchased on low valuations. This reflects our desire to minimize, as much as we can, the investment risks associated with each of our positions. While we don't expect this group of companies to grow their profits in the future at the same level as they did in 1H21, we do expect each of them to continue on a long-term growth trajectory and, as a result, benefit from increasing operating leverage in future periods.

It was also pleasing that our conviction in some positions that we have held in the portfolio for several years (EAS, JYC, JAN, SEQ, AVA) being rewarded with some very strong results. EAS reported a pleasing increase in its profitability, as it begins to benefit from increased scale and a more focused business structure, while JYC delivered a stand-out cash and NPAT result and a strong growth outlook.

We also note that where some portfolio companies have experienced recent strong share price growth, the strong earnings growth (as highlighted above) helps to support the higher market capitalisations. The strong earnings growth being delivered means the higher multiples observed historically are becoming much more obviously justifiable. Despite some of the price movements, we remain comfortable with valuations across the portfolio.

Maiden profits

In addition to our profitable holdings, as investors would be aware, we allocate a smaller portion of our portfolio to businesses that are tracking towards being cash flow positive and profitability. Within this group of companies, it was very pleasing to see three such holdings achieve their maiden profits after tax (NPAT), after many years of being loss-making:

- Secos Group (ASX:SES) delivered its maiden NPAT profit on the back of its higher margin environmentally friendly biopolymer product sales up 129%;
- Knosys (ASX:KNO) recorded a 26% increase in revenue, and together with strong cost control resulted in a maiden NPAT profit; and

- CV Check (ASX:CV1) not only delivered a maiden NPAT profit, but also announced an earnings accretive, highly strategic acquisition that, in our view, significantly enhances the investment thesis for the company.

Again, it is satisfying to see these companies achieve this significant milestone, validating the conviction we have had investing in such names whilst they were underappreciated and slightly earlier stage. Having established that they can operate profitability, the challenge for these companies will now be to deliver ongoing profitable growth.

Challenges remain

Whilst operating conditions were positive for many companies, COVID-19 continued to impact others with several holdings facing COVID-19 related challenges:

- Kip McGrath (ASX:KME) suffered a fall in revenue and EBITDA as lockdowns impacted the level of face to face tutoring, although online tutoring grew to 290,000 lessons over the period (up 800%).
- PTB Group (ASX:PTB) had a weak half as a soft tourism market impacted its key customer's demand for services. Based on current levels of flying hours we expect this headwind to reverse in 2H21; and
- Probiotec (ASX:PBP) saw lower revenue on the back of reduced cold and cough medicine sales, although this is expected to normalize in the short term.

In these instances, we are comfortable to look through short term issues providing the longer-term investment thesis remains intact. As we have noted previously, successful long-term investing requires having the conviction to hold as good companies work through their inevitable stumbles. From a portfolio perspective, the reality is we do not expect all our companies to be firing at the same time – hence we run a diversified portfolio.

In summary

Earlier in this letter we mentioned our desire to own smaller companies that can grow into much bigger companies. Ultimately, for any re-rate to be sustainable over the medium to long term, the re-rate from small to large must be supported by increasing profits.

Profit results allow us to reflect on, and assess, the progress of our portfolio companies in achieving this aim. In the six months to 31 December 2020, we feel encouraging progress has been made across the portfolio.

Notwithstanding the 'unusual' aspects of the half, the strong improvements in profit observed, *directionally*, are very positive. We would expect the operational momentum and profit growth to continue, which should support further portfolio growth going forward.

We remain steadfastly committed to investing in undiscovered and misunderstood quality small businesses, with strong business models, where we are comfortable to take long term positions and support those companies as they grow their profits over time.

We look forward to updating you in early April with further portfolio news.

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

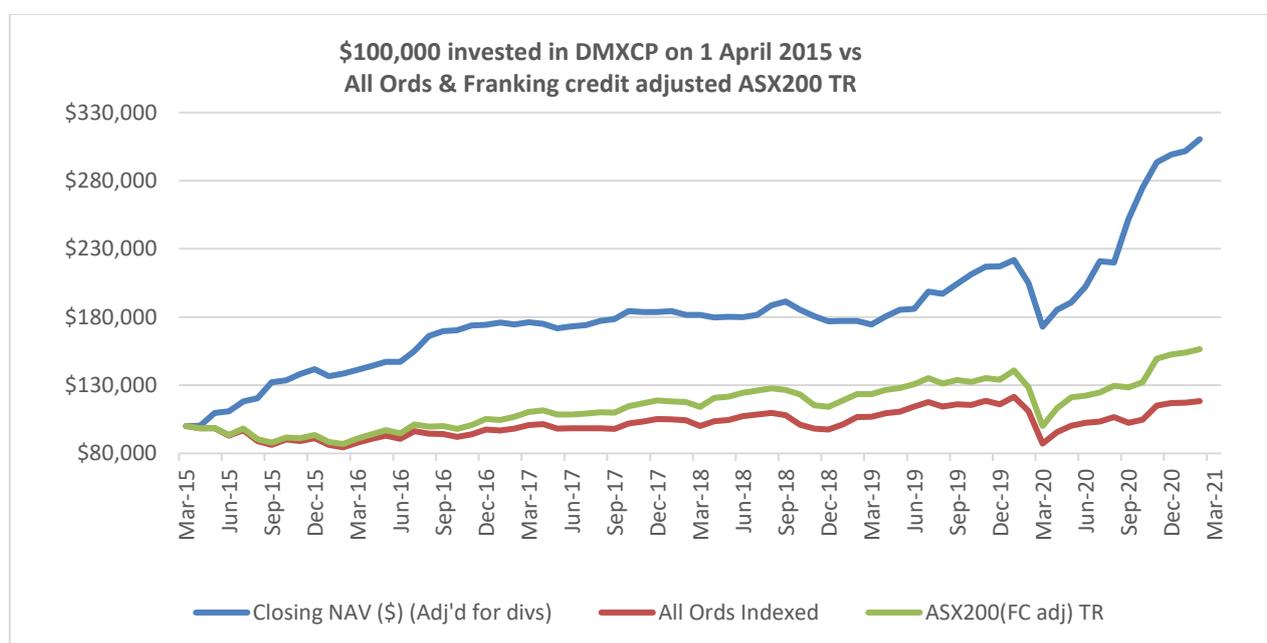
Note 5: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gains

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	+8.521	+4.525	+6.213	+10.09	+8.669	+6.518	+11.10	+7.86	+2.24	+42.47	+0.72
2021	+1.02	+3.31											+4.37	+1.32

The following chart illustrates the return from investing \$100,000 in the fund (including dividends and attached franking credits) since inception (1 April 2015). DMXCP is an absolute return fund, focused on generating positive absolute returns over the medium to long term.



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.