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

DMX Capital Partners Limited
January 2021 – 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 January 2021) [1,2]	**$2.5771**
Closing NAV (31 January 2021) [1,2]	**$2.6034**
Fund size (gross assets)	$16m
Gearing	nil
% cash held - month end [4]	13%

1-month return	1.02%
3-month return	11.14%
12-month return	40.56%
3-year return (CAGR p.a.)	19.93%
Since inception (*5 years,10 months*) (CAGR p.a.)	21.89%

*DMXCP Share price = Closing NAV (**$2.6034**), 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 1.02% (after all accrued performance and management fees and expenses) for January 2021. The NAV as at 31 January 2021 was **$2.6034**, compared to $2.5771 as at 31 December 2020. Indices were mixed during the month, with the All Ordinaries up 0.30%, while the ASX Small Ordinaries Index fell 0.28% and the XEC Emerging Companies Index was up 3.92%.

DMXCP has returned 55.48% for the financial year to date (since 1 July 2020) (after all accrued performance and management fees and expenses).

January portfolio news

Portfolio news during the month was again positive. January saw a number of our holdings release their second quarter (2Q21) cash flow (4C) and activities reports – we discuss several of these quarterly updates below.

- Secos (ASX:**SES**)
  SES, the manufacturer of sustainable packaging materials, announced 2Q21 revenue of $7.9m, up 50% on 2Q20 (previous corresponding period (PCP)). While revenue increased strongly (up 34%) on 1Q21, importantly and encouragingly, SES's high margin Biopolymer sales were up 71%. These now represent over 73% of total group sales with SES's lower margin, traditional film product representing a diminishing proportion of sales. There were several drivers of this strong sales growth, including SES's Biopolymer resin sales to the Americas recommencing, increased demand for compostable dog waste bags, strong Australian local council demand for compostable food waste-kitchen caddy bags, as well as significant ongoing growth in compostable film orders for hygiene applications. This sales growth and manufacturing efficiencies have enabled SES to record a positive EBITDA and NPAT for 1H21.

- Corum (ASX:**COO**)
  Corum provides software services to pharmacies. 2020 was a busy year for COO as it resolved legacy issues, restructured its shareholder base and increased its shareholding from 43% to 100% in Pharmx – the largest electronic ordering gateway for Australian pharmacies. 2Q21 was the first quarter of COO's full ownership of Pharmx. Reflecting the attractive fundamentals of Pharmx, COO's 2Q21 cash receipts were $3.9m (up from $2.3m in the PCP) and 2Q21 operating cash flow was $857k (up from -$376k in the PCP). During the quarter it was also pleasing to see Arrotex Pharmaceuticals, Australia's largest generics pharmaceutical company,

become a significant shareholder in COO. COO enters 2021 well positioned with ~$16m in recurring revenue, a solid EBITDA position and $8m cash, which we consider to be an attractive set up for a sub $50m market cap genuinely under-the-radar company.

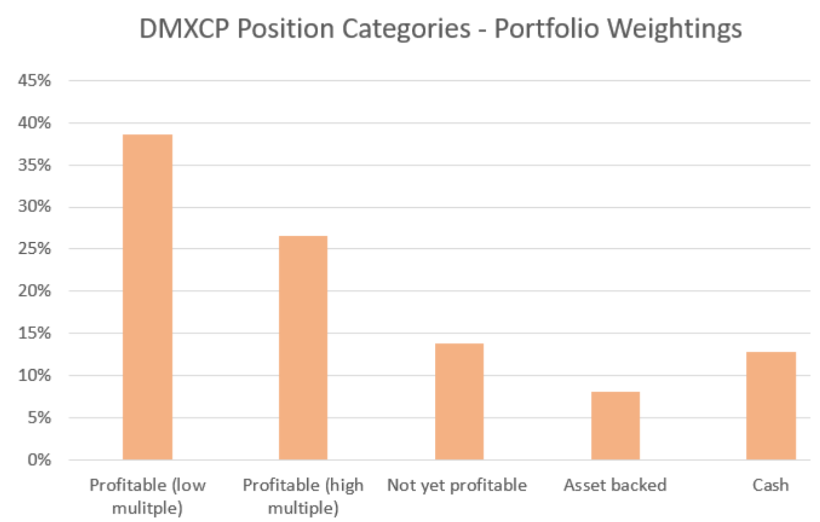
- Knosys (ASX:**KNO**)
  Software company KNO in December had announced a significant acquisition of GreenOrbit Pty Ltd (GO), a leading SaaS cloud-based intranet software provider. We discussed this acquisition in our December update. Historically the December quarter cashflows for KNO are weak, due mainly to large annual license renewals being received in the September quarter each year. Therefore it was pleasing to see KNO report only a small negative operating cashflow ($0.1m) for 2Q21 (compared to -$0.9m for the PCP). Management noted that additional cash flows from project work and the prudent management of costs contributed to this improved performance. Reflecting this reduction in costs, operating cash flows for the 6 months to 31 December 2020 were +$1m (which compares favourably to the PCP: -$0.1m). Exiting 2020, KNO has ~$6m in recurring revenue and retains a cash balance of $6m. With a market cap of $30m and operating at a break-even position, we think KNO continues to screen attractively and offers upside as it executes on its GO acquisition and looks to grow its core business in 2021.

- CV Check (ASX**:CV1**)
  Online verification company CV1 reported $3.5m in revenue for 2Q21, 12% higher than the PCP. As a result of this record quarterly result, CV1 exited 2020 with $10.2m in recurring revenue. The strong top-line performance saw CV1 record positive operating cashflows (excluding the benefit of government grants) for the first time since 2Q20. The positive operating cash flows are an important part of our investment thesis for CV1. While COVID-19 had a significant initial impact on CV1's operations (and cash flows), it is pleasing to see the business now having recovered and returning to growth. We expect CV1 to record an EBITDA profit when it reports its 1H21 results.

Portfolio positioning in 2021

We find ourselves at the start of 2021 with stock markets trading at their highs and with significant growth and upside priced into many stocks and sectors. However, notwithstanding expectations of solid global growth through 2021, there remains much uncertainty around the roll out and success of vaccination programs, while in Australia, the stimulus measures start to roll off. While we are not overly bearish, we are conscious of the downside risks to the portfolio, and appreciate that market sentiment can turn very quickly.

Against this backdrop, our portfolio continues to be very much weighted towards profitable, attractively valued positions with strong market positions and growth profiles. We set out below the weightings that each of the various categories of exposures comprise in the DMXCP portfolio.



- **Profitable, low multiple positions**

  As has historically been the case for DMXCP, our largest group of holdings continues to be attractively priced (less than 15x NPAT), small, profitable, growing companies. Core holdings included in this grouping are financial services companies Sequioa (ASX:**SEQ**) and Easton (ASX:**EAS**), retailers Dusk (ASX:**DSK**) and Shavershop (ASX:**SSG**) as well as the likes of PTB Group (ASX:**PTB**) and Joyce Corporation (ASX:**JYC**). These companies generally have strong net cash positions and continue to generate strong cash flows. A number have pre-reported encouraging 1H results. Importantly, these companies command leading positions within their respective markets, and have demonstrated an ability over many years to take market share.
  We expect upside from these positions to be driven by continued earnings growth, PE expansion, corporate activity, and for those names with surplus cash, capital returns. We view their low PE multiples to offer downside protection.

- **Profitable, higher multiple positions**

  The next largest grouping within the portfolio are profitable companies trading on higher PE multiples (greater than 15x NPAT). These companies generally have strong growth outlooks and are targeting significant national and global market opportunities supported by high quality IP. These positions include the likes of fast growing NPAT profitable industrials such as Australian Family Lawyers (ASX:**AFL**), Kip McGrath (AS:**KME**) and Secos (ASX**:SES**) and technology companies such as Janison Education (ASX:**JAN**) and Ready Tech (ASX:**RDY**).

  We are positive on these positions, as we assess their current enterprise values to be low, relative to their potential enterprise values if they continue to execute on securing growth in their respective markets. Their high margins allow for significant operating leverage as they grow, providing the potential for earnings to quickly expand, and multiples to contract. Many of these names continue to trade at significant discounts to their larger, more liquid peers.

- **Not yet profitable holdings**

  Whilst our focus is on profitable companies, we continue to have exposure to companies that are tracking towards profit. These are generally small companies where there is a clear pathway to becoming profitable, and they have a solid cash position to enable them to internally fund their progression to profit. Included in this basket are the likes of CV Check (ASX:**CV1**), Knosys (ASX:**KNO**) and Design Milk (ASX:**DMC**). To minimize our risk in these investments, we look to acquire positions in these companies when they are genuinely undiscovered, when their enterprise values are low, and there is no hype built into their share prices.

  Identifying and investing in such opportunities, at a relatively early stage, provides the portfolio with significant potential upside as these companies achieve their cash flow and profit milestones.

- **Asset based opportunities**

  We like opportunities where a company's value can be supported by its assets, and the downside protection that this affords. Among the names currently included in this group are Yellow Brick Road (ASX:**YBR**) (which trades at a 30% discount to its NTA) and ICS Global (ASX:**ICS**) (which trades at a discount to the value it has agreed to sell its business for).

With our cash levels of ~13%, we retain significant exposure to the market as we seek to construct a portfolio composed of the most compelling nano and micro-cap opportunities. We consider our high weighting towards attractively valued earnings and asset-based opportunities (and cash) to provide downside protection, while we benefit from potential upside from our higher multiple positions and those stocks that are trending towards profitability. In these uncertain times, and with our portfolio being well diversified across sectors, we remain very comfortable with this unique blend of opportunities that we have exposure to.

We look forward to updating you in early March, following the conclusion of the February reporting season.

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	+6.518	+11.10	+7.86	+2.24	**+42.47**	**+0.72**
2021	**+1.02**												**+1.02**	**+0.30**

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.