DMX
ASSET MANAGEMENT

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

DMX Capital Partners Limited
August 2019 – Shareholder Update

An investment company managed by:
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Opening NAV (1 August 2019) (1,2)	**$1.8116**	Fund size	$8m
Closing NAV (31 August 2019) (1,2)	**$1.7955**	% cash held - month end (4)	18%
NAV Return (August)	-0.889%	Gearing	nil

*DMXCP Share price = Closing NAV (**$1.7955**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
**References to All Ords are for illustrative purposes only*

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**					**+12.61**	**+17.20**

Dear Shareholder,

DMXCP's NAV decreased 0.89% (after all accrued performance and management fees and expenses) for August 2019. The NAV as at 31 August 2019 was **$1.7955**, down from **$1.8116** as at 30 July 2019.

For the first two months of the FY20 financial year, DMXCP's NAV has increased 6.53%.

The ASX experienced a volatile month, with all key indices finishing down on the back of global macro instability. The All Ordinaries finished down 2.9% having fallen by as much as 6.5% intra month. The ASX Small Ordinaries Index decreased 4.2% during the month, while the XEC Emerging Companies Index was down 0.8%.

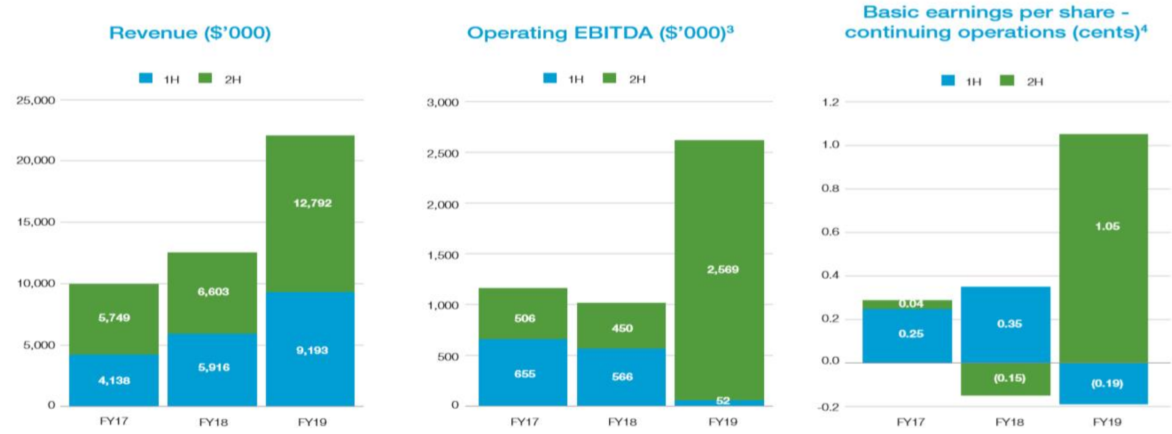
Portfolio performance

With the majority of our stocks reporting their annual FY19 results, August provided plenty of portfolio newsflow. Pleasingly, our top 5 positions (excluding stocks subject to takeover), namely Blackwall Limited (ASX:**BWF**), Kip McGrath Education Centres (ASX:**KME**), Joyce Corporation (ASX:**JYC**), Easton Investments (ASX:**EAS**) and McPhersons Limited (ASX:**MCP**), all reported FY19 results in line with expectations, and with solid growth outlooks, our investment thesis for these stocks remains very much intact. However, apart from McPhersons (+14%), there was no significant market 'kick' for these stocks, post reporting. KME finished down 7% for the month while JYC and EAS were broadly unchanged.

Our portfolio of education sector stocks delivered very strong results.

UCW Limited (ASX:**UCW**) reported a remarkable second half performance. FY19 EBITDA was $2.6m (+149%), with the entire profit being delivered in the second half (after significant investment in growth initiatives in the first half). We have been strong supporters of UCW, so it is pleasing to see execution on its strategy, and investment in growth initiatives paying off. The strong momentum looks as if it will continue into FY20 with 1Q20 enrolments in its ALG business up 41.3% on the previous corresponding quarter. In addition, ALG is cycling a loss of $500k+ incurred in 1H19 in relation to the start-up costs of the Melbourne campus, which is now operating profitably.

UCW FY17, FY18 & FY19 Revenue and profit metrics



Elsewhere, across our education stocks, KME (mentioned below) reported NPAT of $2.65m, an increase of 17% and in line with its guidance of $2.6m. Janison Education Group (ASX**:JAN**) reported a 30% increase in revenue and a modest increase in underlying EBITDA. More importantly, it exited FY19 with a far more diverse customer base and significant implementation completed to transition customers to a platform income basis, achieving $12m in Annual Recurring Revenue.
During the month we added another education stock to the portfolio: Academies Australasia Group (ASX:**AKG**). AKG reported an increase in normalized EBITDA of 34% and had net cash of $15m at June 2019.

Coming off a challenging year with a federal election and poor consumer sentiment, consumer facing stocks performed well. JYC delivered yet another year of double digit returns with EPS up 13%. MCP increased its underlying EPS by 5% while providing guidance of 10% forecast profit growth in FY20. Shavershop Group (ASX:**SSG**) recorded a more modest 4% increase in EPS, but surprised the market with strong same store sales growth of 9% in the current financial year.

Our mining services companies delivered pleasing results. XRF Scientific Limited (ASX:**XRF**) reported a 20% increase in revenue and a 109% increase in NPAT. Primero Group Limited (ASX:**PGX**) presented its inaugural results as an ASX listed company. Revenue was up 70% and underlying EBITDA was up 30%. Margins are forecast to improve in FY20, with the stock currently trading on 3.5x EBITDA.

One grouping of stocks that underperformed during the month was our portfolio of earlier stage nano-caps. These stocks had performed very well in recent months, when newsflow was focused on their quarterly revenue growth and their improving quarter-on-quarter cash flows as these businesses transition to cash flow positive. Having performed quite strongly, some of these gains were handed back in August as – given their nature – these companies have a degree of volatility to both their results and how the market *interprets* these. Stocks in this group include Aeeris Limited (ASX:**AER**), Tiny Beans Limited (ASX:**TNY**), CV Check (ASX:**CV1**), 1ST Group (ASX:**1ST**), Tambla Limited (ASX:**TBL**) and Vault Intelligence (ASX:**VLT**). While all reported broadly in-line with our own modelling, all experienced price declines, and, in aggregate, contributed ~2% in underperformance for the month.

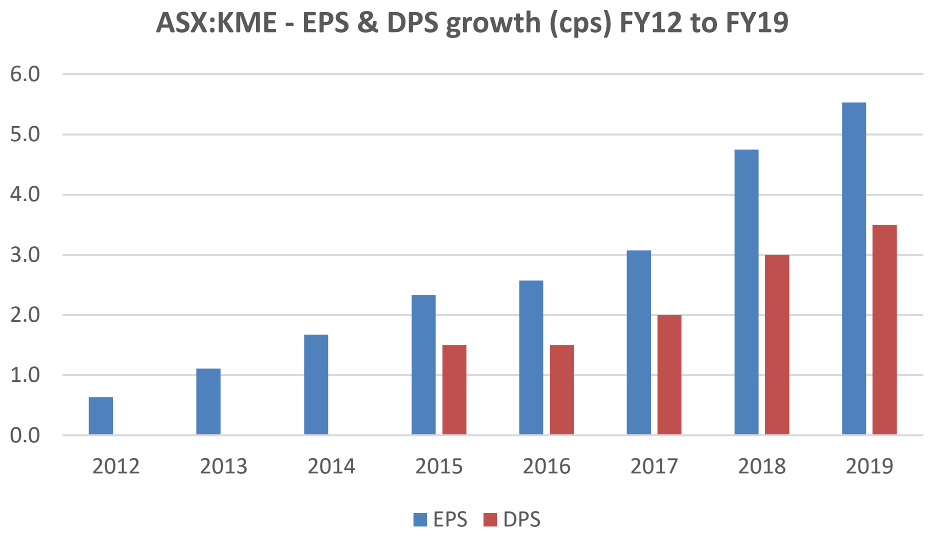
We had previously noted that we had sold out of our position in Pioneer Credit Limited (ASX:**PNC**) after its lower than expected half year results. Between April and June, on multiple occasions, PNC had disclosed to the market it was on track to meet its FY19 profit guidance ($20m NPAT) adopting its revised accounting treatment and had been working with its auditor to this end. Based on this profit guidance affirmation, we re-established a small position, significantly smaller in size than what we previously held. Most disappointingly, despite its repeated previous assurances, PNC has recently advised that its auditors have yet to sign off on its accounts, and subsequently that a key financier will now not be renewing its facility. Scenarios from here include a re-finance, asset sale or wind down of the debtors book. While PNC continues to be profitable, cash flow positive and has a book value of ~$100m, the outcome to shareholders remains uncertain.

Stock highlights

Below we highlight three stocks in the portfolio that reported notable results/developments during the month, together with some insights from our follow-up discussions with Management. These insights provide some additional colour to the results/opportunity.

Kip McGrath Education Centres Limited (ASX:KME)

We highlight KME here as it yet again delivered outstanding organic revenue and profit growth. With increased student numbers, increase in gold partners and an overall increase in centre numbers, revenue increased from $13.1m to $16.2m and EBITDA from $4.1m to $5.2m. This is the 8th year in a row of continued profit growth, as highlighted below. With this track record, we believe KME remains a high quality, under-rated, growth story with a long runway ahead. It continues to be one of the largest positions in the portfolio.



Operational metrics were encouraging: Gold Partners increased by 44 (16%) to 311 from last year and now make up 83% of total franchise fees. Online tutoring continues to grow steadily with 2,500 lessons per month up 67% from last year. A key development during the year was the commencement of KME run larger tutoring centres (corporate run centres). We see this as a risk and an opportunity. We suspect that startup costs of these new centres may dampen earnings growth in the short-term, but the centers will provide higher margins once capacity increases. We note that this strategy of buying back franchised centres, and operating them directly, is a strategy that has worked well for another of our holdings, SSG.

Post results, we met with Storm McGrath, KME CEO and recently appointed director.

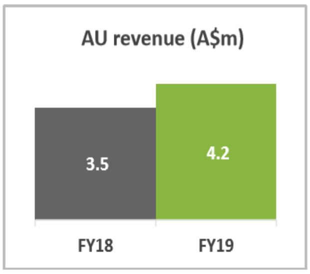
KME Management Insights:

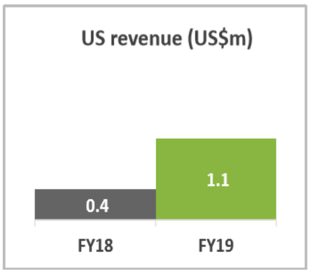
- Corporate centres are a potential high growth business segment for KME. The strategy provides management with more control over future growth, and has the potential to reset how the market looks at the KME growth profile.
- Targeting 200 students in a corporate centre versus average of 70 in a franchise centre.
- Corporate centres should benefit from a more sophisticated sales focus, and improved margins/scale.
- Currently 4 corporate centres now in operation (2 purchased from existing franchisees and 2 greenfield) – combined, these 4 centres are trading at breakeven or better. Centres purchased from franchisees have been acquired at attractive multiples. If the model is able to be executed in line with management’s expectations, there is the potential for the number of these corporate centres to grow significantly.
- As with Franchised centres, corporate centres will be managed by appropriately qualified teachers.

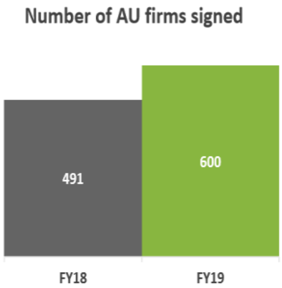
Quickfee Limited (ASX:QFE)

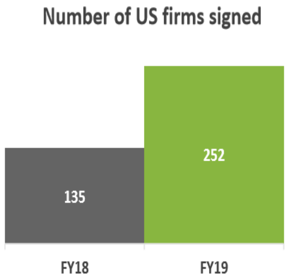
Quickfee, the provider of payment solutions to the clients of professional services firms, reported strong FY19 metrics.

There was significant growth in number of firms using the Quickfee platform: Australia now has 600 firms on its platform, (up 109 firms over FY19) while the US now has 252 firms on its platform, (up 117 firms over FY19). This increase in firm numbers led to increased lending, with Australia lending up 15% to $42 million and US lending up 70% to US$8 million. The increased lending drove strong group revenue of $5.8m, representing year on year growth of 45%. The more mature Australian business grew 22%, while US revenue was up 164%. Australia recorded a pre-tax profit of $851k, while the US business continued to incur losses as it scales up.









In FY20 Quickfee intends to aggressively expand its sales network in the US to take advantage of a largely untapped, significant market opportunity, where it has a first mover advantage.

We like Quickfee as it provides a practical solution for both professional services firms, and their clients. For the professional services firms, having their clients access Quickfee provides a convenient funding solution that alleviates working capital cash pressure, reducing the average accounts receivable for a firm from 66 days outstanding by 29 days. For the clients, it helps with cashflow, and allows them to access professional services that they may not have otherwise been able to afford, (all loans are guaranteed by the professional firm). Therefore, there are incentives for firms to adopt the platform, and once adopted, incentives for their clients to utilize it. In the event that clients do not take out a loan, they can still pay their invoice through the QFE payment platform, avoiding a credit card fee. In the US this has significant benefits.

Quickfee could be profitable today, however they are investing in sales and marketing to get their platform embedded in more US professional service clients. If US growth can be achieved at the same rate as the Australian business has in its earlier years, the earnings should start flowing in FY21/FY22.

After the results, we met with Bruce Coombes, the managing director, founder and largest shareholder of Quickfee. Bruce is passionate and driven – some of his thoughts on the business are set out below.

QFE CEO Insights:

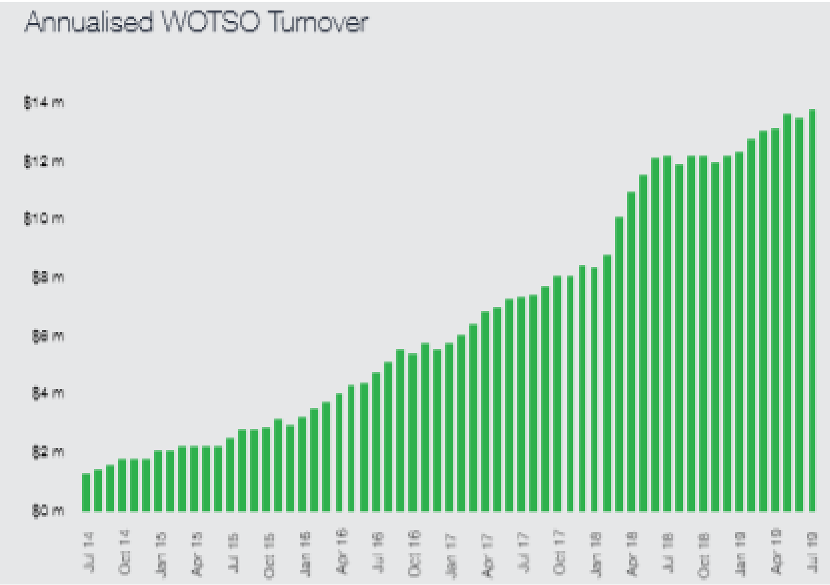
- Current Australia addressable market (annual value of professional services fees) is > $25 billion, QFE currently has relationships with firms with $2b of fees.
- Current US addressable market is > USD 450 billion, QFE currently has relationships with firms with USD2.5b of fees. Immediate focus is now on securing more of this addressable market.
- QFE is currently profitable, prior to incurring sales and marketing costs related to its US expansion
- The company is targeting the doubling of US revenues in FY20, while Australian revenues should increase by ~15%
- Current US debt facility is costing 10% - near term potential to have this reduced to a facility with a rate more in line with the Australian rate of 6%
- US lending is 80% debt funded, so current equity supports a USD 50m loan book. At an 18% yield this will generate USD9m in annual revenue with interest costs of ~USD2.5m.

Blackwall Limited (ASX:BWF)

Property fund manager and operator Blackwall reported a solid set of results as follows:

- Net tangible assets of $32m (primarily cash ($11m) and investment in ASX:BWR ($16m)).
- Blackwall Funds Management business: $5m EBITDA
- WOTSO Co-working business: $1.3m EBITDA
- Corporate costs: $1m.

The more interesting development during the month however was the news that Blackwall would spin-off its WOTSO business, with BWF shareholders receiving shares pro-rata in a new ASX listed WOTSO vehicle. We have been long term shareholders of BWF, and for some time have discussed the value inherent within the BWF corporate group. We are pleased that steps are now being taken to unlock some of this value. We await more information as to how the spin-off will be priced, however, as set out below, WOTSO has the potential to capture the market's attention given it is a profitable, fast growing, business with a market leading brand.



WOTSO co-working business IPO:

Established 2014
Strong track record of fast growth
Profitable for 4 years
Leading Australian workspace brand
National scale as well as International opportunities
Strong relationship with Westfield, as Westfield introduces co-working spaces into shopping centres
Long runway ahead of scalable growth
Existing locations can support $30m of revenue
Targeting 20%+ EBITDA margins

After the results, we met with Stuart Brown, who has recently been appointed CEO of WOTSO, and Tim Brown who will be heading up BWF going forward.

BWF Management Insights:

- Expect WOTSO to be spun-off from BWF by the end of the calendar year, followed by a listing on the ASX.
- BWF will retain a significant shareholding in WOTSO post spin-off.
- Westfield Chermside tracking ahead of schedule, providing confidence that the WOTSO in a shopping centre business model can work. Opportunity to scale this offering into new shopping centres.
- Management believe that under a more focussed operating structure WOTSO can accelerate its growth.
- BWF will continue as a capital light management company with significant potential to benefit from the transaction and leasing fees generated from BWR which will be in the position to deploy in excess of $200m of capital.
- BWF is likely to continue to pay a dividend at the same rate, resulting in a very attractive yield post the WOTSO spin-off (and therefore smaller BWF market capitalisation).

For further updates and news on portfolio holdings, please visit us on twitter or go to our blog.

Again, thank you for your trust, support, and patience as we continue to execute on our time-tested well-considered philosophy and process. 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 October.

Kind regards

Roger Collison
Chairman

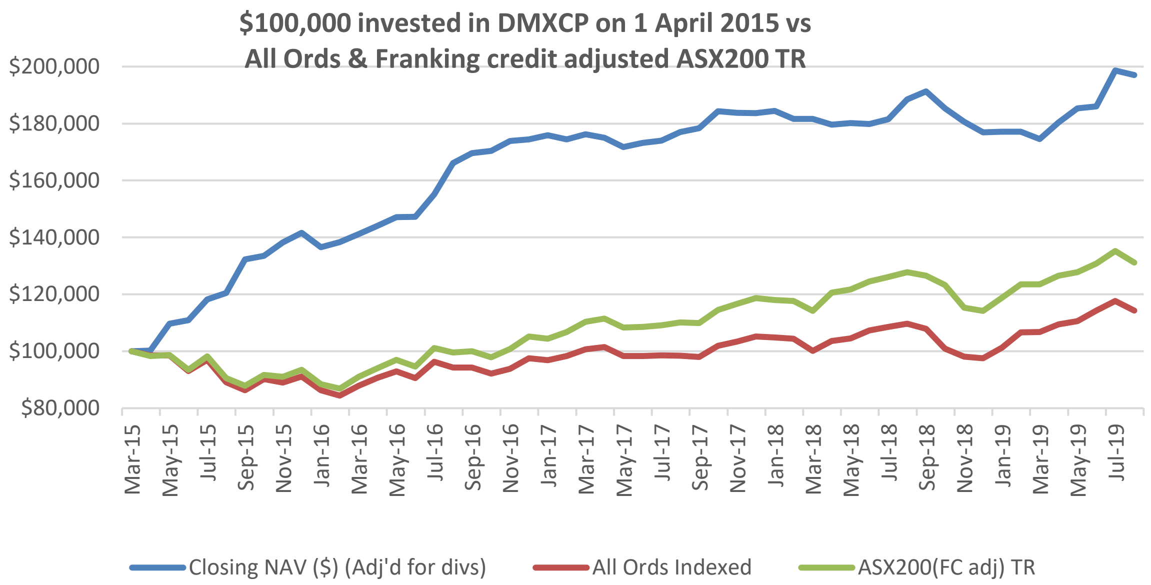
Steven McCarthy
Portfolio Manager

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

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