



# DMX Capital Partners Limited

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

Investor Briefing: June 2018



# Who is DMX Asset Management?



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We invest in the most compelling small and micro-cap value opportunities on the ASX

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Emerging, fast growing fund manager, with \$13m+ AUM

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AFSL license holder & subsidiary of an unlisted investment company

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Focused team of passionate value investors

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Management own c.20% of DMX Capital Partners



Roger Collison

Executive  
Chairman

20 years' investment experience as analyst and fund manager including head of research at Tyndall Asset Management



Steven McCarthy

Portfolio Manager:  
Australian Micro-Cap

20 years' micro-cap investment experience specialising in valuations, corporate finance & due diligence



Simon Turner

Head of Client  
Services

20 years' smaller companies portfolio management experience with leading managers including Bluecrest

# Micro-cap fund: DMX Capital Partners



Unique, high-performing fund

76% ahead of All Ords (after fees) in the 3 years & 2 months to May 2018 - meeting long term performance objective

Under-owned asset class

Exposure to undiscovered, under-researched smaller companies outside the investment universe of most investors

Disciplined value strategy

Fundamental, bottom-up stock selection approach (trading below market multiples or discount to asset backing)

Performance driven fees

Manager fees aligned with investors (1% mgmt fee / 15% performance fee)

Substantial co-investment

DMX Corp & all key team members are invested in the fund

# Why we are unique:



Provides exposure to a unique portfolio of high quality smaller companies that are profitable, growing, undervalued and hidden. All with significant medium / long term upside

Very focused on our core strategy - and executing with discipline

Repeatable, sustainable and scalable process

Our goals are largely based around long term performance rather than building assets under management

We are a small team of passionate investors committed to strong long term performance, and best-in-class investor communications

# Why we like small companies:

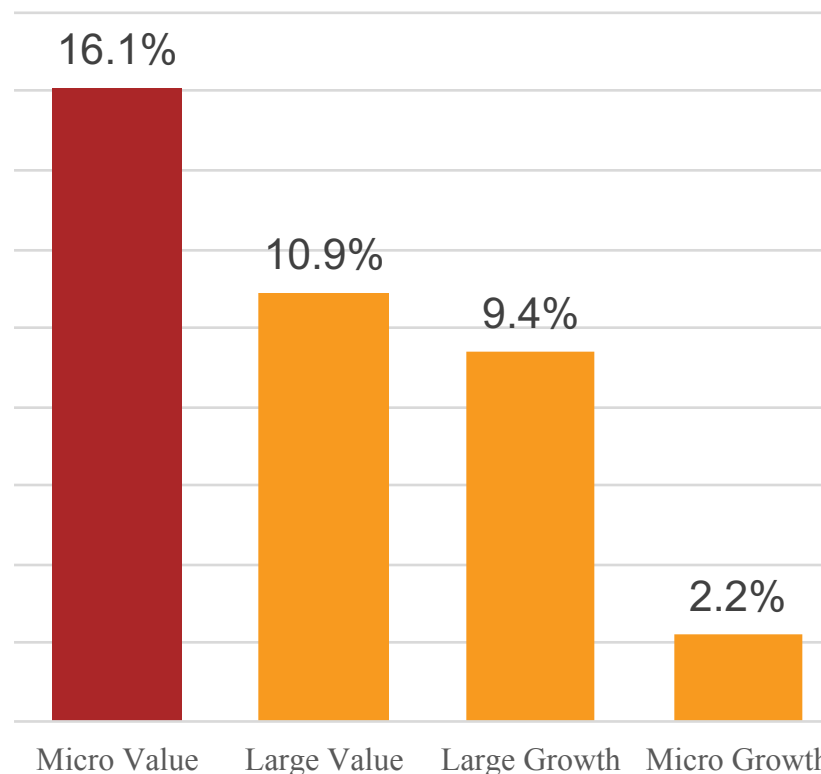
Superior performance potential capitalising on inefficiencies from less broker coverage

Easier to understand business models

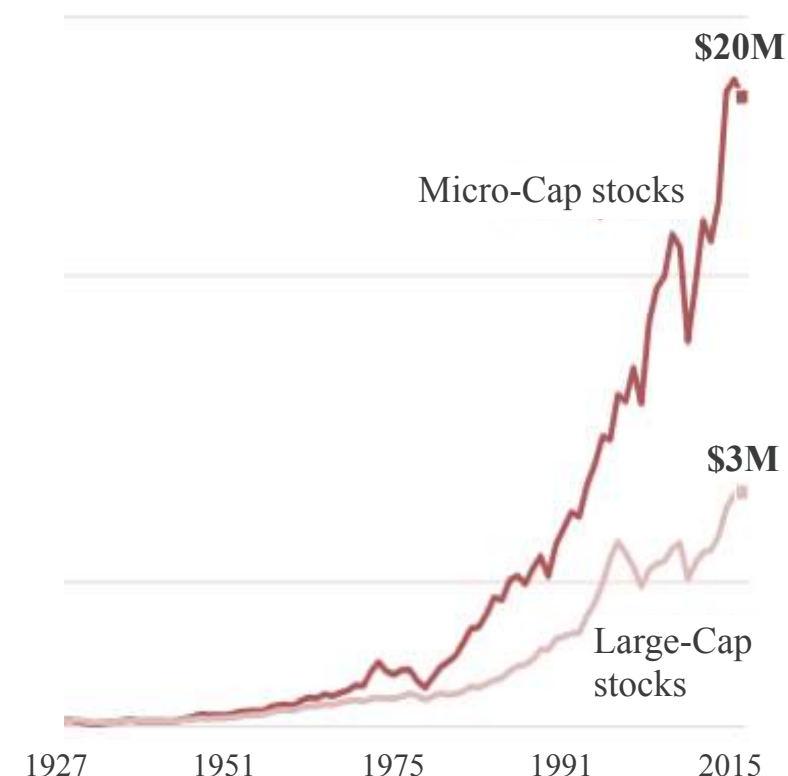
Greater access to management willing to openly communicate

## Micro Value beats all other equity variation

*(Fama-French Annualised Return 1926-2015)*



*(Fama-French Growth of \$1,000)*



Source: DGHM, 2016

# How we identify quality:

Track record of profitability & cashflows ✓

-----> No speculative, loss-making companies ✗

Good visibility around future profit growth ✓

Trading on below market multiples ✓

-----> No trading above market multiples ✗

Aligned management / family companies ✓

-----> No unaligned self centred management ✗

Strong balance sheet ✓

-----> No highly leveraged balance sheets ✗

Tailwinds supportive of business growth ✓

Robust businesses with high level of recurring income ✓

-----> No speculative cos (eg biotech/resources) ✗

Capable, trustworthy & shareholder friendly management ✓

Best of the best: less than 5% of the ASX smaller companies universe passes our quality test

# Our top positions include...



Zenitas Healthcare Limited (ZNT)



Joyce Corporation (JYC)



Pioneer Credit Limited (PNC)

## Why we like them

- A community healthcare company providing a range of community-based health services - allied care, home care & GP services.
- These services enable an integrated healthcare offering, aimed at reducing the high cost of acute hospital care.
- Community healthcare is expected to benefit from supportive government policy, as community-based health services represent a cost effective solution compared to high cost hospital care

- Enduring investment company with growing national businesses: Bedshed, Lloyds Auctions & KWB Group
- Successful, profitable business model based on partnering with a strong regional businesses, and then growing them nationally
- Strong balance sheet with a high level of cash and property asset backing, with a 7% fully franked dividend yield

- A financial services business specialising in the purchase of debt ledgers
- PNC has also grown from being the minnow of the ASX listed debt collectors (after Credit Corp and Collection House) to being the second largest acquirers of ledgers in FY17
- Developing new financial products that it intends to offer in part to its significant (rehabilitated) customer book as well as other consumers

Market Cap

\$75m

\$39m

\$205m

Forecast FY19 PE

9x

9x

8x

All profitable, well managed companies with solid growth outlooks on reasonable multiples

# Other ‘undiscovered’ positions include...

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**Janison Education (JAN):** innovative education technology company with global presence – *participated in RTO*

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**Blackwall Limited (BWF):** runs WOTSO, which operates the largest number of flexible workplaces in Australia

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**Traffic Technologies Limited (TTI):** supplier of traffic lights, signals and smart traffic technology –*underwrote rights issue*

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**Easton Investments (EAS):** provides accounting and wealth management services to over 3000 accounting firms

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**People Infrastructure (PPE):** largest provider of workforce solutions to disability sector – *participated in IPO*

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**UCW Limited (UCW):** vocational and higher education courses for international students, growing at 30%pa

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**Elanor Investors (ENN):** manager and owner of quality property and tourism assets trading close to asset backing

A very unique portfolio of profitable, small, under-valued, undiscovered opportunities, with great tail winds...



# A successful investment...

Identified the business as high quality ✓

Identified the business as significantly under-valued ✓

Tailwinds supportive of business growth ✓

Aligned management / family companies ✓

Strong balance sheet ✓

Robust businesses with high level of recurring income ✓

Capable, trustworthy & shareholder friendly management ✓



**FIDUCIAN**  
INTEGRITY • TRUST • EXCELLENCE

**DMX**  
ASSET MANAGEMENT

1 day

5 day

1 month

3 months

1 year

**5 years**

max



Aligned management, purchased well, strong execution of strategy

# And one that went wrong

Under-estimated the complexity of the business ✘

Under-estimated the company's exposure to currency movements ✘

Under-estimated the rate of deterioration of non-amalgam sales ✘

Over-estimated management despite shareholder unfriendly behavior ✘

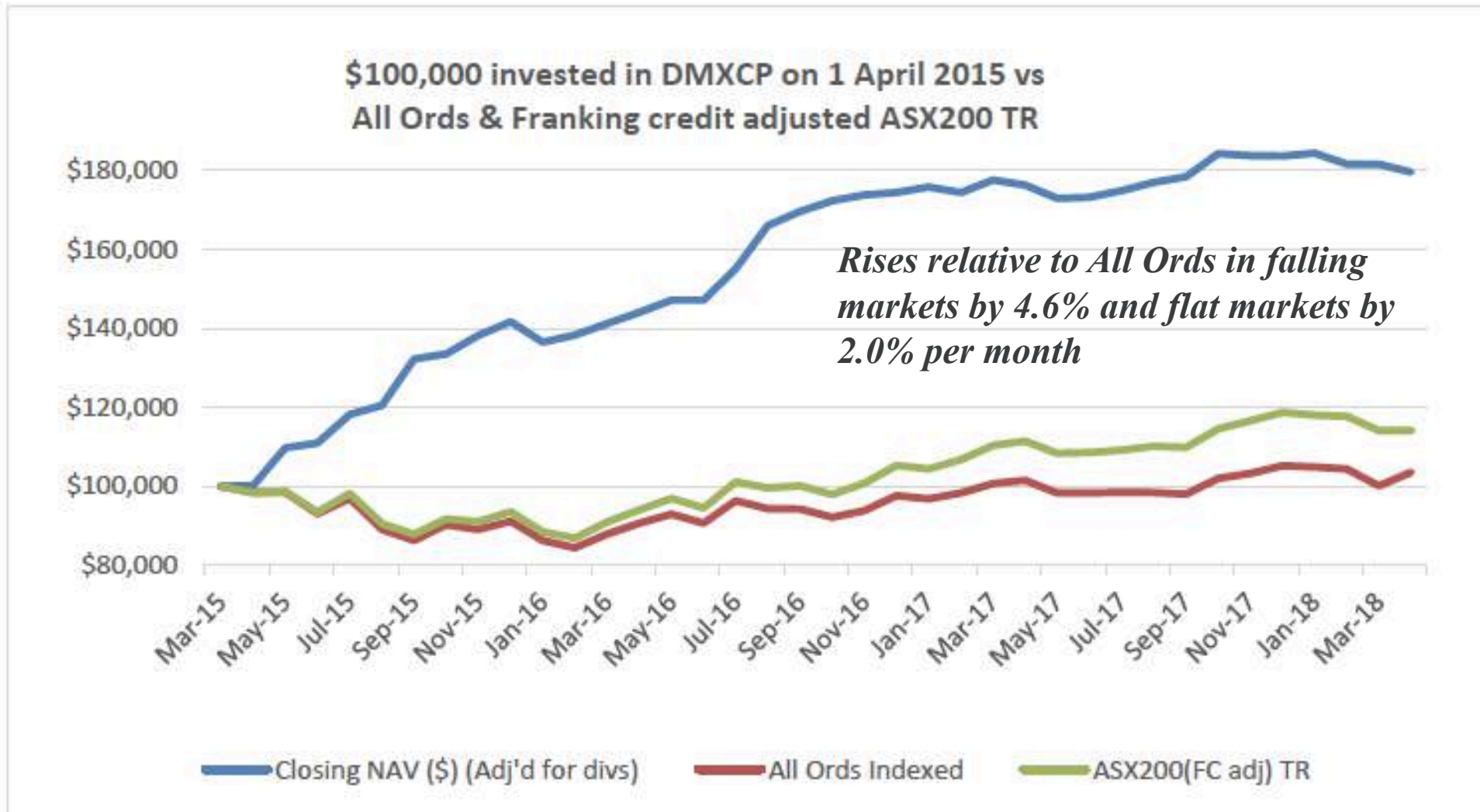
Missed an exit opportunity at the end of 2016 ✘

Lessons learnt as per above ✔



Businesses with many moving parts come with significant earnings volatility

# 76% out-performance after fees: Capitalising on relative and absolute gains



76% out-performance

# Outlook is very positive...

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Remain disciplined and focused upon our core strategy: identifying small, profitable, growing, well-managed companies trading well below intrinsic value.

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A growing pipeline of potential investments, placements and underwriting opportunities from our in-house research, brokers and industry contacts.

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Market's current focus on liquid, momentum stocks presents very compelling long term opportunities for us among under-valued and illiquid micro-cap stocks.

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A high conviction portfolio of unique, quality, under-valued, undiscovered investments well placed to significantly out-perform over the long term.



Open to  
investment under  
ASIC registered  
Prospectus.  
Near term soft  
close expected.

# Appendix 1 – DMXCP investment company structure

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Fully franked dividends – tax efficient ✓

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No capital gains tax unless sold ✓

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Far lower cost structure than for a trust ✓

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Bound by Corporations Law ✓

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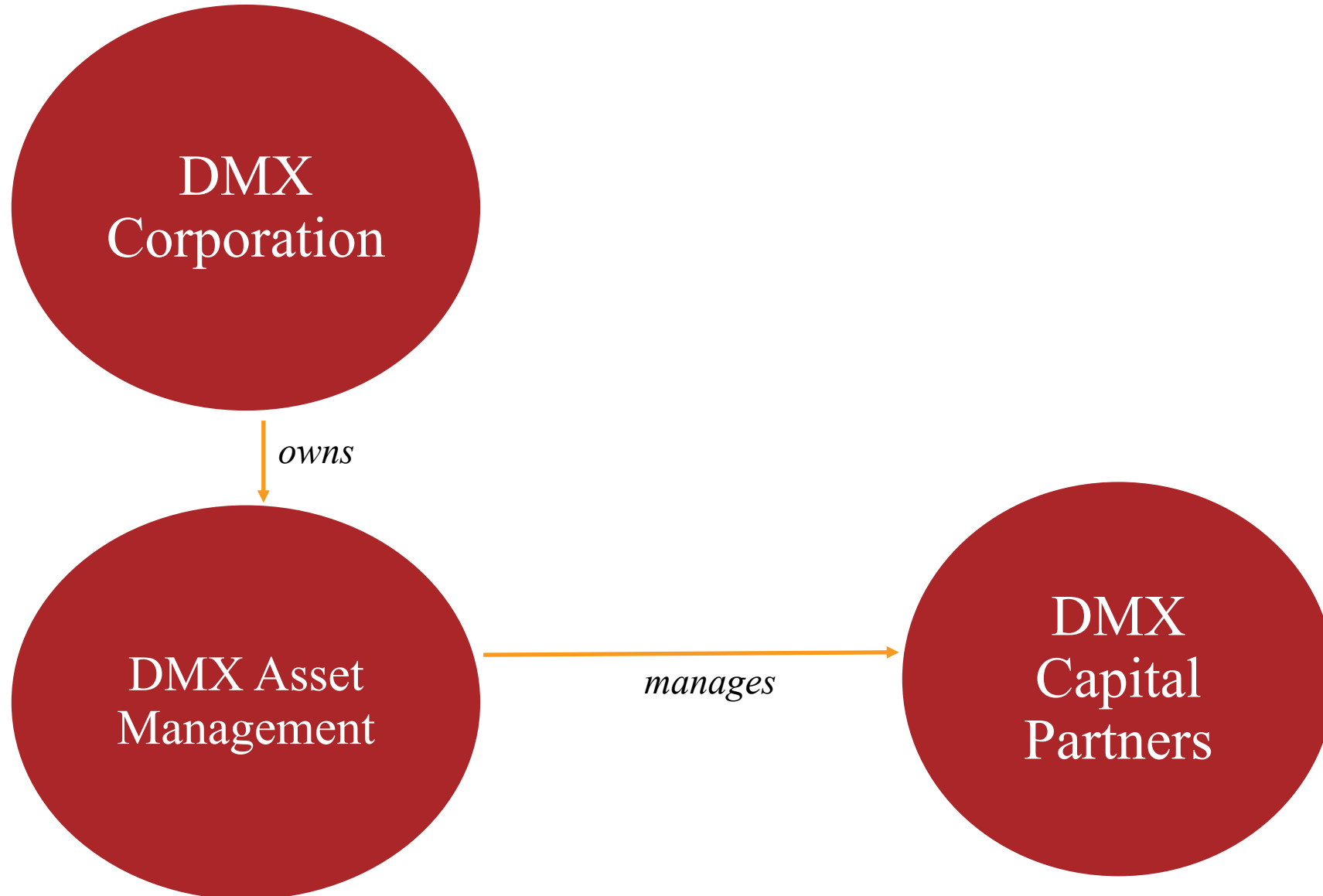
Ability to buyback shares ✓

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Supported by investors ✓

Cost and tax effective structure

# Appendix 2 – DMX corporate structure



# *Appendix 3 – Investing in DMXCP*

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1% p.a. management fee + 15% of returns above BBSW performance fee.

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Buy-back facility: Funds returned within 2 weeks of following month if manager notified by month end.

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Dividends: Fully franked dividends paid out every Oct/Nov with dividend reinvestment plan option.

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Minimum investment: \$10,000 with monthly direct debit option for existing shareholders.