DMX ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

July 2019 – Shareholder Update

An investment company managed by:
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Opening NAV (1 July 2019) [1,2] **Closing NAV (31 July 2019)** [1,2]	**$1.6855** **$1.8116**	Fund size % cash held - month end [4]	$8m 17%
NAV Return (July)	+7.482%	Gearing	nil

*DMXCP Share price = Closing NAV (**$1.8116**), 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**						**+13.61**	**+20.68**

Dear Shareholder,

DMXCP's NAV increased 7.48% (after all accrued performance and management fees and expenses) for July 2019. The NAV as at 31 July 2019 was **$1.8116**, up from **$1.6855** as at 30 June 2019. The ASX All Ordinaries Index increased 2.96% during the month, while the XEC Emerging Companies Index was up 8.60%.

Monthly summary

The portfolio recorded a strong start to the FY20 financial year, delivering an 8.81% gross return for the month of July. Smaller companies performed well over the month, with some of the tax loss selling experienced in June reversing. We noticed additional interest and liquidity in many small caps, potentially the result of flows out of larger caps finding their way into smaller companies.

Key contributors to performance during the month are discussed below.

- Dreamscape Networks Limited (**ASX:DN8**) (+69%; ~2.5% contribution to performance)

  Dreamscape owns Australia's leading domain brand Crazy Domains and Singapore's leading domain and hosting brand Vodien Internet Solutions. During the month, DN8 announced a takeover offer from private equity owned Web.com, with Web.com agreeing to acquire 100% of the issued capital of DN8 via a Scheme of Arrangement. DN8 shareholders are to receive cash consideration of $0.27 per share, valuing DN8's issued equity at ~$105m. The offer represented a 32% premium to the last closing share price and a 68% premium to the 30-day VWAP. The founder and managing director of DN8 has already sold 20% of the company to the bidder, so in the absence of a materially higher counterbid, this takeover looks likely to proceed.

  The offer is the third private equity led bid for one of our portfolio holdings in the last 12 months.

- Quickfee (**ASX:QFE**) (+93%; ~1.5% contribution to performance)

  Quickfee was an IPO that we participated in that listed in July. We discuss this holding on the following page under Portfolio Activity.

- McPhersons (**ASX:MCP**) (+55%; ~1% contribution to performance)

  McPherson's, a leading supplier of health, beauty, household and personal care products throughout Australia and Asia reported preliminary results ahead of its guidance. Underlying PBT from continuing operations came in at $19.0m, representing growth of 17%, which was above top end of guidance (a range of 10% to 15%). Growth was underpinned by 125% growth in sales of its skincare products brand, Dr. Lewinn's, with a significant increase in export sales into China. Strong underlying operating cash conversion of 117% from continuing operations was another pleasing feature of the result.

  Importantly, the result confirmed that MCP is now very much a brand owner (with some fast-growing brands in its stable driving growth) and no longer a lower quality distribution business. In FY20, ~90% of MCP's revenues will be generated from its own brands, rather than from the sale of third-party brands. Our thesis here was that over time the market would recognize this, and MCP would be re-rated from its 10x PE appropriate for a lowish quality distribution business, to closer to 15x for an owner of some strong growing global brands. This thesis is beginning to play out, with MCP shares up 55% for the month.

- UCW Limited (**ASX:UCW**) (+31%; ~1% contribution to performance)

  Higher education provider UCW announced a very strong second half result with underlying EBITDA for 2H19 expected to be between $1.8m and $2.1m compared to a $0.3m loss in 1H19. Revenue of between $21.0m and $22.0m is expected, ahead of the Company's previous guidance of between $19.0m and $21.0m. The significant turnaround between halves was the result of 1) the company's ALG campus in Melbourne reaching scale, with a ~$500k startup loss in 1H pivoting to a profit contribution in 2H, 2) the company's Ikon business doubling its enrolments between CY18 and CY19, and 3) operating leverage emerging as a result of the increased scale.

  This encouraging 2H performance sets UCW up for a strong FY20. The company will discuss its FY20 outlook when it presents its full year results, and we would expect FY20 EBITDA to be in excess of $3m.

Several other portfolio holdings also performed strongly, including an undisclosed position in the technology space (+91%), Konekt Limited (**ASX:KKT**) (+54% on the back of a profit upgrade) and Aeeris limited (**ASX:AER**) (+42% following an encouraging quarterly).

Portfolio activity

We continue to identify a number of interesting opportunities, particularly among companies with smaller capitalisations. Several new positions were initiated during the month including:

- Tambla Limited (**ASX:TBL**)

  Tambla is a software company that provides enterprise grade workforce solutions to organisations with large shift-based workforces, such as those in the aged care or transport sectors. The Tambla software helps ensure these organisations comply with what is often complex award-based payroll requirements, as well as automating often manual (or excel) based processes such as rostering, time sheets and payroll calculations. Tambla has a global customer base of over 200, with tier one enterprise customers including K-Mart, Sydney Buses and Sydney Trains. Customer retention is at 95%.

  Tambla should achieve revenues of ~$11m in CY20, of which ~65% is recurring, with EBITDA approaching $1m. Tambla recently announced 1H EBITDA of ~$450k, and an encouraging outlook. On our entry price (implying a market cap of $10m), we were paying less than 1x revenue and less than 1.5x recurring revenue for our position. The business is currently EBITDA, operating cashflow and NPAT positive, and our discounted cash flow valuation is materially higher than where the stock is currently trading.

Former Olympic swimming gold medalist, Chris Fydler, took over the reins in 2017. We believe he has turned around the business and positioned it for profitable growth. The management and operations teams have been strengthened, and the business re-focused on customer satisfaction and product innovation.

<u>TBL highlights:</u>

- <u>Quickfee Limited (**ASX:QFE**)</u>

During the month we participated in the IPO of Quickfee - the first IPO we have bought into this year. Quickfee provides cash flow, financing and payments solutions to clients of accounting and professional service firms.

We approach IPOs with a degree of skepticism; however, we were impressed with Quickfee and its management. Quickfee has been in operation in Australia for over 10 years and has a proven business model which is profitable (and has paid dividends). Since inception, it has built up a referral base of 700+ legal and accounting firms. Loans by Quickfee to the clients of professional services firms are guaranteed by the professional services firm. The company continues to be led by its founder and largest shareholder Bruce Coombes.

Having built a successful Australian business, the opportunity for Quickfee now is to take its products into larger markets. Proceeds from the IPO are being used to accelerate growth in the US. To date, 230+ firms in the US have signed with Quickfee, including 12% of the top 100 US accounting firms. For the year to 30 June 2019, USD137m was transacted through Quickfee's fee payment portal (+182%), while annual new lending was USD8.3m (+108%). The US operations are certainly growing quickly, and in our view are likely to be trading close to a break-even position. Given the size of the US market, the scalable business model, and the practical (attractive) solutions that it provides, Quickfee is a business that has the potential for meaningful and rapid profit growth.

<u>Quickfee growth strategy:</u>

- <u>Undisclosed positions</u>

During the month we participated in capital raisings for two sub-$10m market cap companies. Both these companies are achieving significant success in their respective markets and have strong recurring revenues. In both instances, the additional capital is being used to fund further organic growth initiatives – one to expand on the East Coast of Australia, and the other to build on its success in the UK.

Both opportunities are very much in line with the type of set-up that we outlined in the recent blog article. These positions currently have very modest sizing within the portfolio. We would look to add to our holdings as we see progress and execution. With enterprise values of ~$5m, both companies have significant upside from their current levels. We continue to be prudent with our exposures here, and we are happy to scale into them as we become more comfortable.

Cash levels and portfolio sales

We continue to be disciplined and sell positions where we are either uncomfortable with valuations, or we believe our investment thesis no longer holds. During the month, we exited our holding in integrated wealth management company Fiducian Group Limited (**ASX:FID**) – a position we had held for over four years. While FID continues to execute and deliver pleasing results, we believe current pricing in excess of 15x NPAT is full for a business in a sector that is facing headwinds and continued regulatory oversight and where risks are heightened.

Similarly, we have sold People Infrastructure (**ASX:PPE**) after holding since its IPO in 2017. Again, PPE continues to perform well and continues to have a significant growth runway. However, its share price has run strongly to be trading at more than 15x FY20 NPAT. With its shares now up more than 200% since its IPO at $1.00, we are happy to lock in profits. Despite its many positive attributes and strong execution, PPE at its core, is a low margin, somewhat cyclical, roll-up.

Our cash levels decreased from 22% at the start of the month (inclusive of cash on hand from new shares issued in July) to 17% at month end. In addition, we have approximately 10% of the portfolio in two names subject to takeovers (Dreamscape & Legend), providing us with an effective cash position of ~27%. We have a watchlist of companies that we will be reviewing closely as they deliver their FY19 reports, as we look for opportunities to deploy our cash.

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 September.

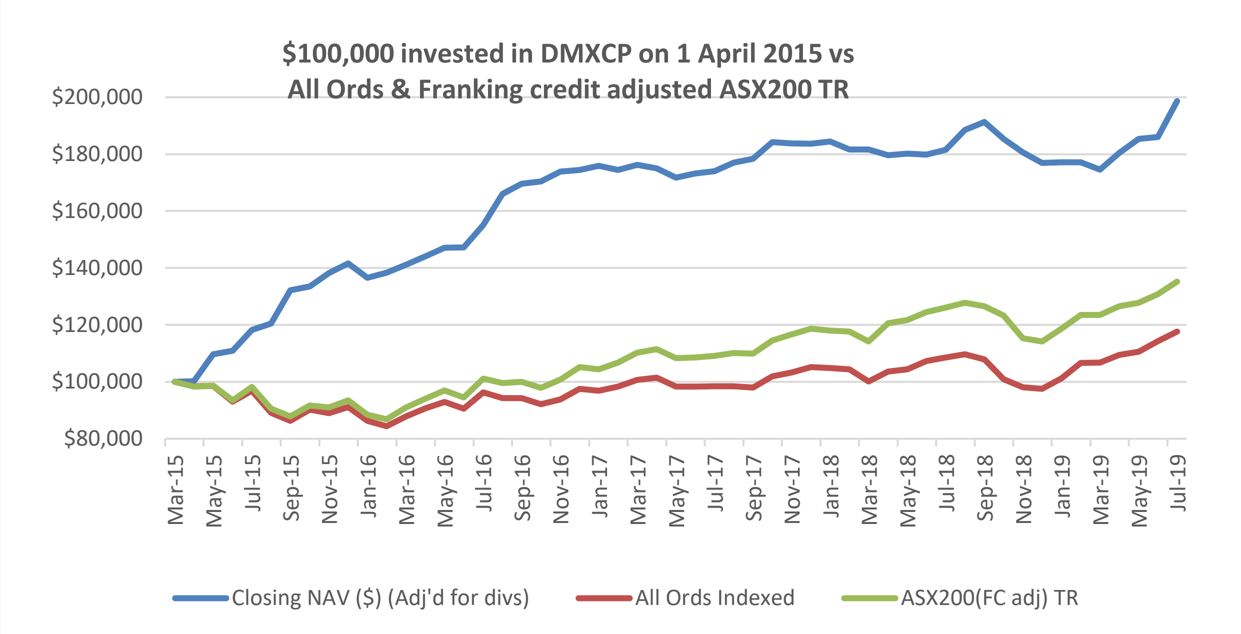
Kind regards

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

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