DMX ASSET MANAGEMENT

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

DMX Capital Partners Limited
May 2019 – Shareholder Update

An investment company managed by:
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Opening NAV (1 May 2019) [1,2]	**$1.6294**	Fund size	$7m
Closing NAV (31 May 2019) [1,2]	**$1.6785**	% cash held - month end [4]	20%
NAV Return (May)	+3.014%	Gearing	nil

*DMXCP Share price = Closing NAV (**$1.6785**), 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 (May 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**								**+5.25**	**+12.9**

Dear Shareholder,

DMXCP's NAV increased 3.01% after all accrued fees and expenses for May 2019. The NAV as at 31 May 2019 was **$1.6785**, up from **$1.6294** as at 30 April 2019. The ASX All Ordinaries Index increased 1.01% during the month, while the XEC Emerging Companies Index was up 2.02%.

For the 11 months of the 2019 financial year to date, DMXCP's net asset value has increased 3.30%, while the XEC (Emerging Companies Index) has declined 4.21%.

Monthly summary

The portfolio performed well this month, with a number of our smaller sized portfolio holdings delivering strong share price gains. These included **Knosys Limited** (+57%), **Aeeris Limited** (+53%), and **Tinybeans Group Limited** (+33%).

Detractors included **Apollo Tourism and Leisure** (-55%), which we comment on below. **Easton Investments Limited** and **UCW Limited** were down 10% and 8% respectively, on no news.

Another takeover offer for the portfolio

We have communicated previously our view that there are a number of portfolio holdings that appear very attractive takeover targets, given their apparent value and attractive growth profiles. Late last year, private equity firm Adamentum Capital completed its takeover (with existing Management) of allied healthcare services provider Zenitas Healthcare Limited (**ASX:ZNT**), which had been a long term holding of the fund.

During May, we encountered Adamentum Capital again, as they bidded for Legend Corporation Limited (**ASX:LGD**). The cash offer of 36.5c per share (on our FY19 estimates) represents an acquisition PE multiple of ~10x (inclusive of a premium for control). It is somewhat surprising that such a profitable and cash generative business, supported by encouraging tailwinds and exposed to increasing infrastructure spending, is to be taken over at a 40% discount to market valuations. However, Legend has consistently traded on low valuation multiples, reflecting the market's concerns with the perceived cyclical nature of its earnings. With LGD directors proposing to sell their combined 31% holding into the offer, we expect the transaction to be approved in the coming months.

<u>Capitalising on offshore opportunities</u>

As we continue to seek companies with strong growth opportunities outside of Australia, it is pleasing to see a number of our portfolio holdings delivering on their global growth objectives.

Security technology and risk management company, Ava Risk Group Limited (**ASX: AVA**), had a particularly busy month.

In September 2018, AVA announced that it had been successful in securing a project to protect a major military data network for the Indian Ministry of Defense. In May, AVA was able to announce that it had received its first purchase order for this contract, estimating *it will receive USD12m (AUD17m) over the next 14 months*.

In a new, and separate contract, AVA also announced during the month that its "long range sensitivity intrusion detection" product had been selected as part of a comprehensive perimeter security upgrade program to cover and protect major military air bases across India. This contract is valued at USD3.5m (AUD5m).

AVA also continues to experience strong momentum in the US, announcing during the month that it had been selected to secure the perimeter of two high security US government sites, as well as a North American nuclear power plant.

These contracts highlight AVA's ongoing growth across a number of regions and suggest that AVA is gaining acceptance as a global market leader for its security solutions. Heightened concerns around security in a number of geographies provide some strong tailwinds for AVA. AVA's global customer list, which include leading organisations highlighted below, continues to grow, with FY19 revenue expected to exceed $33m (up from $20m in FY18).

<u>Selection of current AVA global customers</u>

We have met AVA's management team a number of times, and saw them again during the month, where they were very enthusiastic about the many opportunities they are seeing. Towards the end of the month we participated in a small capital raising the company undertook to assist in funding some of their recent contract wins. Consensus FY20 NPAT earnings for AVA is $4.6m, so AVA continues to represent good value with a *market cap of $37m and a FY20 PE of 8x*. However, our enthusiasm for this stock is somewhat tempered by its lack of visibility on earnings post FY20, and our position size here remains modest.

Last month we discussed our holding in Tinybeans Group Limited (**ASX: TNY**), a fast-growing social media platform that allows parents to securely store and share photo and video memories of their children.

TNY was another portfolio holding that had an eventful month in terms of newsflow, announcing initiatives to further monetise its user base, as well as releasing two investor updates.

The updates were positive, and well received by the market, with TNY's share price and liquidity improving strongly during the month. Its share price closed the month above its $1.00 IPO price for the first time in over a year. During an investor update call, TNY confirmed that the business has strong momentum, with revenues accelerating and the retention rate for premium subscriptions at an all-time high of 83%.

TNY CEO (and co-founder) Eddie Geller is incredibly passionate about his company and the opportunities ahead of it. He was at his enthusiastic best when he summarised the TNY opportunity as follows:

"We think of ourselves as very much a family platform, scaling globally…We're serving a massive market. In the U.S. alone, there are 100 million parents and grandparents and about 135 million babies born globally. It's an industry that's insulated from to downturn market and we definitely think that we've only just started the journey in terms of being able to access that market….We've got a great team where most of our costs are people related, the margins are high as it's a tech platform, highly scalable, and revenues can really grow with marginal increasing costs. It's just a great opportunity and a fantastic time for the company."

With the stock quadrupling since our entry two months ago, we have reduced our position. However, its market cap at ~$40m is still low relative to many other fast growing, market leading, ASX businesses with a global addressable market and substantial 'blue sky'. We still see material upside if the bullish thesis articulated by Eddie above plays out, and TNY is able to become a significant global family platform.

While a number of our holdings have performed well in recent times, one company with offshore earnings that has unfortunately not played out as expected is Apollo Tourism and Leisure Limited (**ASX:ATL**). While we like to be long term investors, during the month we exited the last of our holdings in ATL. It is apparent that the company is now facing operational headwinds on a number of fronts, and it has a significant debt burden to satisfy. These operational issues (deterioration of the base rental business (Australia, New Zealand and UK), an oversupply of stock in the US and softer consumer activity in Australia) culminated in Apollo announcing two earnings downgrades during the month. From a portfolio management perspective, our increasing concerns had been well factored into position sizing. At the start of the month Apollo was a small position for us, accordingly, damage this month from this disappointing holding was not material in NAV terms.

Momentum among Nano-caps

During the month we disclosed a number of nano-cap positions (ASX:CWL, ASX:SGO, ASX:AER & ASX:UCW) in which DMX Capital Partners is a top 20 shareholder. It was pleasing to see Aeeris Limited (**ASX:AER**) up 53% during the month.

We remain enthused about these (and a few other as-yet undisclosed) holdings, and continue to identify other interesting positions in this part of the market.

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 July.

Kind regards

Roger Collison
Chairman

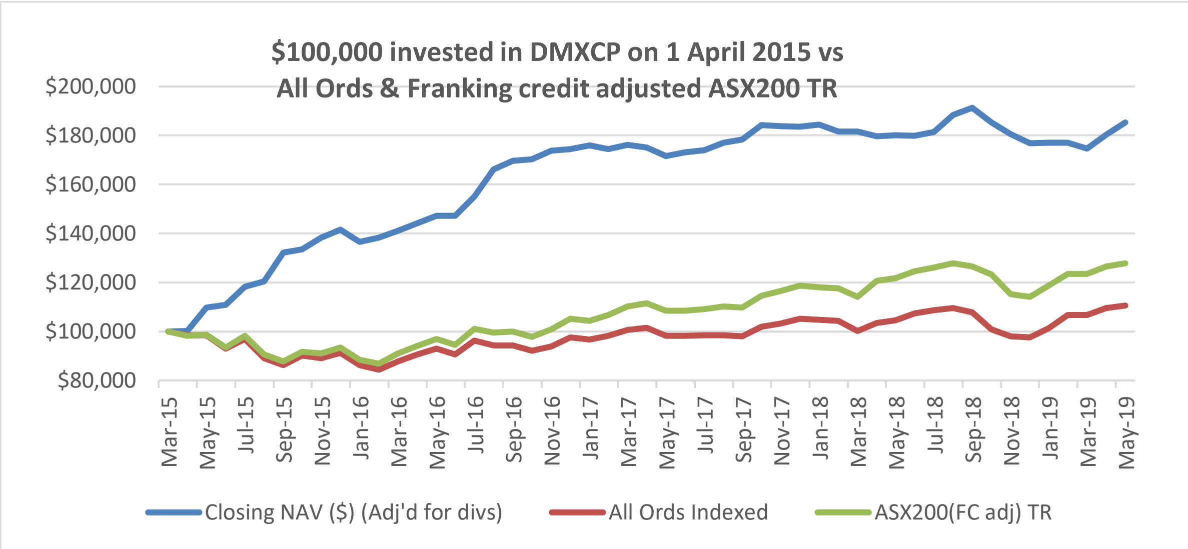
Steven McCarthy
Portfolio Manager

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: Includes 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