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

DMX ASSET MANAGEMENT

DMX Capital Partners Limited
November 2018 – Shareholder Update

An investment company managed by:
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Opening NAV (1 November 2018) [1,2]	**$1.6784**	Fund size	$7m
Closing NAV (30 November 2018) [1,2]	**$1.6310**	% cash held - month end [4]	18%
NAV Return (November)	-2.827%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.6310**), 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] *(%):*

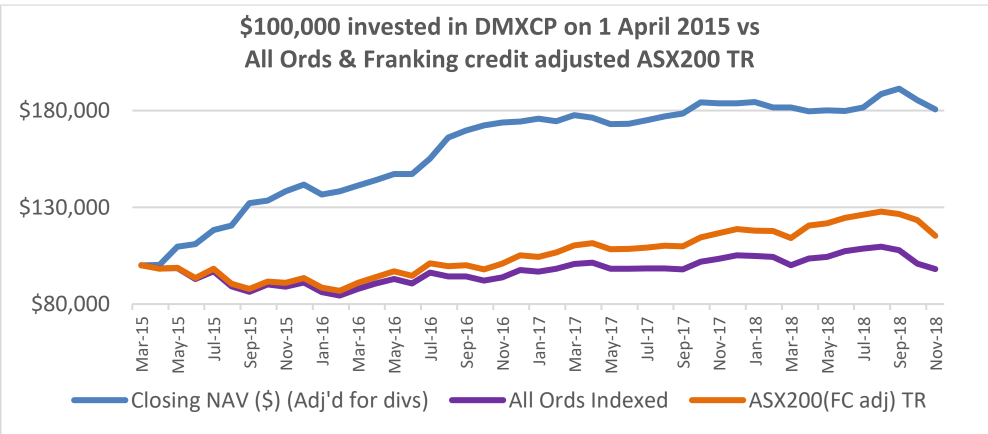
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	All Ords
2015	n/a	n/a	n/a	+0.201	+9.448	+1.104	+6.524	+1.971	+9.711	+0.958	+3.568	+2.470	**+41.62**	**-8.83**
2016	-3.590	+1.323	+2.049	+2.045	+2.143	+0.020	+5.389	+7.056	+2.156	+1.058	+1.520	+0.321	**+23.10**	**+7.01**
2017	+0.885	-0.816	+1.790	-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		**-1.68**	**-6.77**

Dear Shareholder,

DMXCP's NAV declined 2.83% after all accrued fees and expenses for November 2018. The NAV as at 30 November was **$1.6310**, down from **$1.6784** as at 31 October. The ASX All Ordinaries Index declined 2.77% during the month while the XEC (Emerging Companies Index) was down 2.45% and the XSO (Smaller Companies Index) down 0.45%.

For the first five months of the 2019 financial year, DMXCP's net asset value has increased +0.46%. This represents a pleasing result in a challenging market, reflecting our focus upon under-valued, high quality businesses.

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.



<u>November portfolio update</u>

Weakness in the Australian equity markets continued throughout November. The Australian emerging company (micro-cap) XEC Index has now fallen c. 20% for the year to date. One of the reasons for such a large fall has been a move away by investors from illiquid stocks, driven by an increasingly short term focussed market desirous of positions that can be easily entered and exited, particularly in a climate of heightened volatility. With our portfolio being focused upon smaller companies which are typically less liquid, current market conditions create both challenges and opportunities for us.

As genuine long-term investors, we are conscious of illiquidity in our portfolio construction, but are not put off by it – rather, <u>we view illiquidity as an opportunity to invest ahead of the crowd in compelling, high conviction investment cases.</u> We continue to focus upon fundamental driven opportunities, and in this regard, we are encouraged by the positive updates provided by our portfolio companies at their recent AGMs (a number of which we discuss below. Please refer to our October update for details on key AGM reports for those held in October).

Notwithstanding recent market volatility, we continue to execute on our core strategy – identifying long term, value opportunities in small, profitable, growing, under-the-radar Australian companies. We believe that our portfolio represents compelling value, with the weighted average FY19 PE ratio of the portfolio now sitting at below 10x, far below the All Ords average. Many core holdings (eg. ASX:PNC, ASX:ATL, ASX:CGR, ASX:LGD, ASX:SEQ) are trading at FY19 PE ratios of 10x or lower. We look forward to announcing some recently initiated positions on similarly low valuations in upcoming newsletters.

Whilst the bulk of the portfolio reported encouraging updates at their AGMs, there were two pieces of more negative news across the portfolio during the month.

<u>SRG Global (-21% for month)</u>

SRG, the diversified construction, maintenance and mining services group, provided guidance at their AGM of FY19 EBIT of $30m to $35m, which will be weighted to 2H due to delayed timing of project awards.

This guidance was disappointing given that pre-merger, the combined FY18 EBIT of SRG and GCS was $31m. Growth out of NZ and on the East Coast has been offset by the winding down of some high margin projects, and softness in the Western Australian housing market. SRG announced it is expecting a step change in profit growth in FY20 - some of this growth will arise from delivery of merger synergies. We remain cautious on this stock given the second half earnings bias, and the limited visibility at this stage around FY20 earnings.

<u>Konekt (-17% for month)</u>

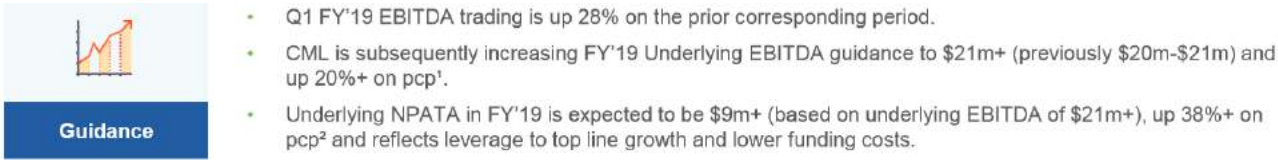
After confirming its growth outlook for FY19 at its AGM in early November, at the end of the month Konekt advised of a development in relation to one of its major contracts – the delivery of rehabilitation services to the Australian Defence Force. Medibank Health Solutions, the incumbent provider of garrison health services to the ADF which Konekt currently sub-contracts to, will no longer be providing services to the ADF after 30 June 2019.

If Konekt does not secure a new contract with the new successful tenderer (likely to be BUPA) this will impact KKT's earnings by ~10% in FY20. We are monitoring developments with this business and industry closely given the increasingly challenging dynamics.

<u>AGM updates</u>

Portfolio Annual General Meetings (AGMs) have continued through November. On the whole, trading updates provided at these AGMs have been very positive, with portfolio companies delivering strong growth and encouraging outlooks. We discuss six AGM updates below.

CML Group (ASX:CGR) AGM Update



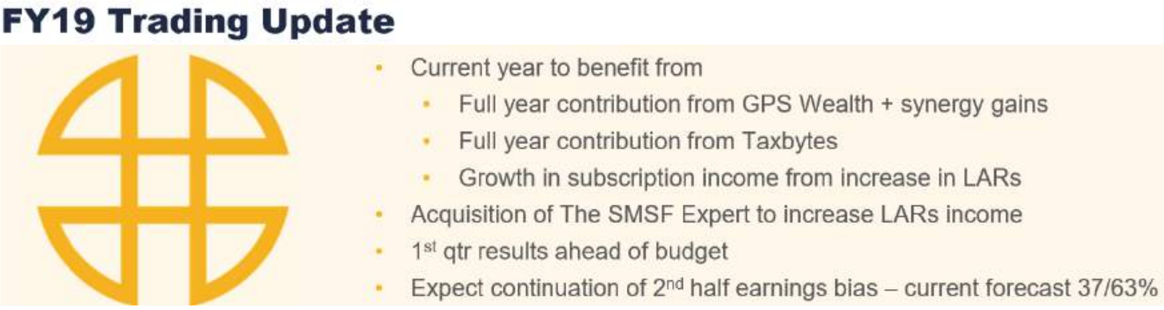
Financial services company CGR provided a detailed financial update and is tracking well. Q119 EBITDA was $5.1m (up 28% on Q118). The Q1 update highlighted growth in the core invoice financing business, offset by lower margins. This is due to the lower margin Thorn book that was acquired in 2H18. Technology enhancements are at the forefront of this division. Using automated credit checks, integration into the customers accounting system, and a pricing engine, pre-approval can be made in under 5 minutes.

The company is experiencing strong growth in the equipment finance business. Started in FY17, this division is expected to contribute $1.5m+ EBITDA for FY19. Equipment finance can be risky, but CGR are taking a cautious approach. This means that they only lend up to the valuation of the equipment. Items are independently valued at the price expected from an auction. This division is also providing cross-sell opportunities to the Invoice factoring business.

The most interesting development is CGR's entry into Invoice Discounting. The company sees an opportunity as the banks are tightening lending criteria. While still early days, it is a logical extension to their offer and will provide growth with larger transactions.

FY19 EBITDA guidance was upgraded to $21m+ (previously $20m-$21m) and up 20%+ on pcp. CGR is trading on a FY19 PE ratio of ~ 10x. This is a significant discount to the takeover offer of larger competitor Scottish Pacific at 17x.

Easton Investments (ASX:EAS) AGM update



EAS provided a positive update with significantly more disclosure than previous presentations. The company is making some key investments in training but is also enjoying tailwinds from the changes in the wealth management industry. While stopping short of providing FY19 guidance, pleasingly the company disclosed strong growth in key metrics and medium-term targets including:

- Sept Q119 Care FUM $1.025B. (pcp $707m)
- An increase in Limited Authorised Representative's (LAR) to 660 by June 2019 (pcp 406). To put this in context, each LAR pays $4.5K in subscription revenue
- Solid growth in Accounting subscribers to 3,000 by June 2019 (pcp 2,669)
- An increase Training Hours to 43,500 by June 2019 (pcp 37,632). Easton are now offering training to the wealth sector which is a fast growing market in light of the increasing oversight of the sector.

Using these key metrics, expected cost synergies from GPS Wealth, and part year contributions from recent acquisitions, we are modelling FY19 EBITA to be greater than $6m (vs $4.4m in FY18) putting EAS on a PE of 7x. Clearly the Easton board are keen to see an increase in the share price. We understand that much of the recent selling has been by the GPS Wealth vendors. The Chairman's AGM statement included two positive developments: the foreshadowing of an increase in full year dividends, and the announcement of a share buy-back.

Traffic Technologies (ASX:TTI) AGM Update

Traffic solutions and software provide Traffic Technologies (TTI) released a detailed AGM update.

In relation to its traditional activities, TTI noted that it remains the largest supplier of traffic signals to the Australian and New Zealand markets, with exports being made into the UK, Middle East and Asian markets. It is also the only national manufacturer and supplier of road signs to the Australian market.

TTI also highlighted the progress it is making in commercialising its "Smart Cities" technology. This includes its proprietary software Smart City platform "TST", which enables road authorities and local councils to connect their street lighting together with other infrastructure assets to a central control system via a secure private network. Authorities in NSW, QLD and VIC are now using this platform. The TTI platform has the potential to monitor traffic flows, waste management, parking availability and monitoring of government infrastructure. In relation to FY19, TTI advised that they are expecting new export sales of the platform into TTI's current customers in the UK and Hong Kong, where live trials will commence shortly.

In addition to its proprietary software, TTI provides the hardware to support the platform. In its AGM address, TTI noted during FY18 it completed the deployment of over 15,000 intelligent IoT nodes, and 8,500 "smart" street lights. The "smart" street lights have sensors in them that have a number of different powerful monitoring functions, as well as controlling the brightness of the street lights and reporting failures.

With a market cap of $15m and an underlying FY18 NPAT of $1.5m, and a promising outlook on the back of its increasing recurring and diversified revenues, TTI continues to trade on an undemanding multiple.

Blackwall Limited (BWF) Update

Prior to its AGM this month, property manager and workspace operator BWF, announced a number of upcoming transactions, that, in our view, will have a very positive impact on the company.

1) BWF manages (and is the largest unitholder) in the ASX listed property trust BWR. BWR (the property owning trust) is receiving a capital injection through the effective merger with the unitholders of a fund that is winding up (as a result of a property sale). This will result in BWR's asset base growing by $110m (from $272m to $382m). BWF is entitled to a 0.65% management fee on gross assets, which sees BWF's recurring annual management fee growing by $0.7m to $2.5m.

2) The transaction will also result in various indirect and direct property assets currently owned by BWF being purchased by the property trust. This will mean a cleaner balance sheet for BWF, as well as generating $15m cash for BWF.

3) As part of the transaction the net asset value of the property trust (BWR) has been independently valued at $1.55 per unit. BWF owns 10.8m BWR units, equating to a look through value of $17m. Combined with the cash referred to above, and deducting current debt of $2m, generates an enterprise value of $20m ($55m less $17m less $15m plus $2m). We believe this materially undervalues BWF's two operating businesses (its property funds management business (that generated $6m in management fees and $8m in one-off fees last year), and its fast growing WOTSO work-space business (that grew its revenue over 50% to $10m last year).

4) BWR (property trust) will exit the transaction having ~$100m cash to fund further property purchases, including, as we understand, a focus on buildings to house WOTSO workspace businesses, that will provide further management income to WOTSO/BWF. BWF also receives a 2% acquisition fee on properties that BWR purchases.

Janison Education Limited (JAN) AGM Update

Janison Education's AGM highlighted the company's focus on driving strong growth across its target sectors and geographies. JAN advised it is working toward securing a number of contracts and projects which will deliver long-term growth in recurring platform income particularly in its Assessment division. In particular, the company noted the following opportunities:

- Schools Assessment – development of new assessment capabilities for an existing partner to improve delivery of formative and summative assessments and the completion of new, innovative technologies to provide an advanced solution for low band-width and offline delivery in Australian schools;
- Language Testing – expansion of testing services including the addition of mainland China based services to increase growth potential of products in the region;
- Higher Education Assessment – completion of a foundation project in Singapore and the development of new functionality to support further expansion into the Higher Education sector in Australia, Singapore and the UK; and
- Certifications – completion of a foundation project for a State Government agency which includes the development of new strategic intellectual property which will support further expansion in this market segment.

In relation to guidance, JAN advised it expects platform and content (ie recurring) revenue growth in excess of 30%, with more than 30% of revenue sourced from offshore. For the first quarter of FY19, JAN recorded revenue of $5.1m, which puts it on track to deliver FY revenue of more than $22m, which represents a 30% uplift from FY18.

UCW Limited (ASX: UCW) AGM update

Tertiary education provider reported a pleasing AGM update, indicating it was making good progress in building a growing education business of scale.

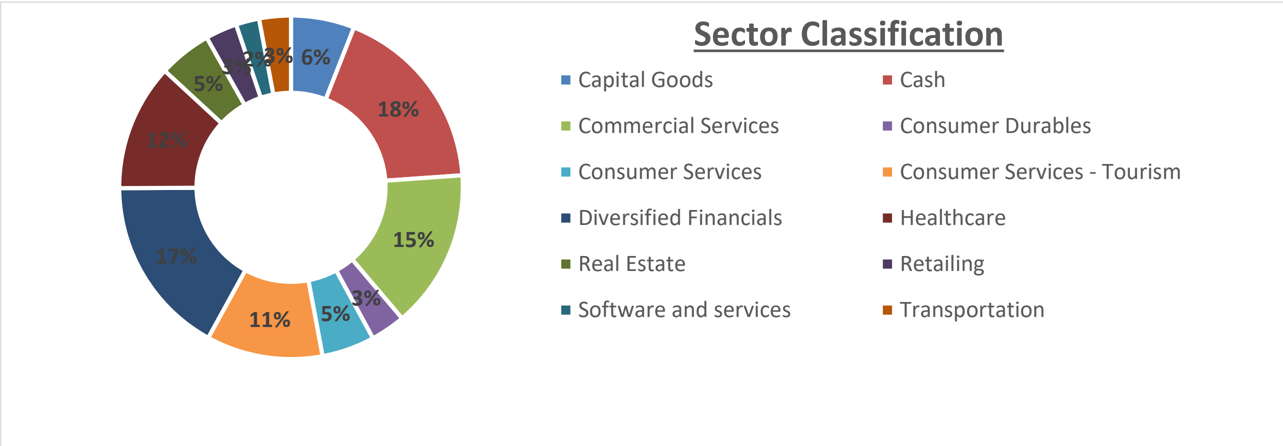
For the first time UCW provided revenue guidance, expecting their existing businesses to generate between $13.5 million and $14.5 million in revenue in FY19 (FY18: $12.5m). This growth is driven by international student enrolments which are up 20% compared to the PCP, as a result of the national rollout of the 4Life course offering and the opening of UCW's newly opened Melbourne campus. Management also advised that letters of offers for next year courses are currently up 30%, so depending on conversion of acceptances, organic growth for the year for international students could be north of 20%.

With the contribution from its recent acquisition IKON, UCW expect total FY19 revenue to be between $19 million and $21 million. This is important as we have previously mentioned that revenue of ~$20m marks the point at which the business has the scale to be producing ~10% EBITDA margins. If we adjust for UCW's 25% investment in Gradability (which offers Professional Year Program to international accounting and information technology graduates from Australian higher education institutions), then UCW's enterprise value is ~$10m.

Sector Exposure

DMXCP provides exposure to a genuinely differentiated portfolio of profitable smaller companies, with bright prospects, and at attractive valuations. Correlation with the broader market remains low, and thus an investment in DMXCP is expected to bring diversification benefits to our investors' broader portfolios.

As set out below, the portfolio is exposed to sectors with some encouraging tailwinds, including above average weightings to healthcare, diversified financials, education and tourism.



Outlook

We continue to remain wholly focused upon what is within our control: executing on a well-considered, time-tested, value-conscious investment philosophy. We are enthused by the medium to long-term prospects across our current portfolio holdings. These are high quality businesses with great management teams with whom we've built strong relationships. Importantly, valuations remain attractive and ultimately will drive returns over time. We continue to add new holdings to the portfolio that have significant medium to long term upside.

We invite you to follow us on twitter to keep up to date with our articles and commentary: https://twitter.com/DMXAsset

Christmas Wishes

As this is the last newsletter before Christmas, we would like to take this opportunity to wish you and your family a safe and merry Christmas and an enjoyable new year.

We thank all DMXCP shareholders for their support, and for the confidence you have shown in us and our strategy.

We look forward to 2019, where we will again continue to remain focussed on identifying interesting, undervalued, not widely known opportunities that have the potential to add meaningful value to DMXCP and its shareholders.

Kind regards

Roger Collison	Steven McCarthy	Simon Turner
Chairman	*Portfolio Manager*	*Head of Client Services*

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

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