DMX ASSET MANAGEMENT

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

DMX Capital Partners Limited
November 2019 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
Dean Morel
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Opening NAV (1 November 2019) [1,2] **Closing NAV (30 November 2019)** [1,2]	**$1.8674** **$1.9235**	Fund size (gross assets) % cash held - month end [4]	$9m 14%
NAV Return (November)	+2.997%	Gearing	nil

*DMXCP Share price = Closing NAV (**$1.9235**), 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	+3.279	+4.567	**+2.997**		**+24.92**	**+21.58**

Dear Shareholder,

DMXCP's NAV increased 3.00% (after all accrued fees and expenses) for November 2019. The NAV as at 30 November 2019 was **$1.9235**, compared to **$1.8674** as at 31 October 2019.

For the first five months of the FY20 financial year, DMXCP's NAV has increased 18.18% (after all fees).

The ASX generally experienced a positive month during November. The All Ordinaries finished up 2.58% while the ASX Small Ordinaries Index increased 1.42% during the month. However, the XEC Emerging Companies Index decreased 1.00%.

Kip McGrath Education Centres (**ASX:KME**)(+15%), Vault Intelligence (**ASX:VLT**) (+32%) and Konekt Limited (**ASX:KKT**) (+38%) were all significant contributors to this month's performance. There were no material detractors.

<u>Corporate Activity Continues</u>

The month of November was highlighted by the announcements of an unusually large amount of corporate activity and other value-realising structuring initiatives across the portfolio. This activity included:

- Konekt Limited (**ASX:KKT**). We mentioned last month the announced takeover offer for KKT by Quadrant Private Equity backed Advanced Personnel Management (APM) at a bid price of 49c. In early November, KKT received a competing proposal to acquire 100% of the KKT shares at 64c. This non-binding, incomplete offer was promptly matched by APM. Towards the end of the month KKT advised of a further increased offer from the competing bidder, which was identified as Maximus Inc, a US head-quartered provider of outsourced solutions to governments, with Australian operations. APM again promptly matched the offer of 70c. We wait to see if there are further developments here. We note that at 30 June 2019 KKT shares were trading at 17c, so this bidding war represents a pleasing outcome.

- CML Group Limited (**ASX:CGR**). During November invoice financing business CGR announced it had entered into a Scheme Implementation Agreement to merge with finance broker aggregator Consolidated Operations Group Limited (**ASX:COG**). This will result in a diversified financial services group focusing on servicing SME businesses which is expected to deliver significant cross-selling opportunities. COG controls approximately 20% of all small business finance brokers in Australia. The merger provides CGR the ability to access, and to distribute, its invoice financing product to the client base of this broker network.

  The Scheme provides the opportunity for CGR shareholders to receive script in COG for their CGR holding or take a 50% cash / 50% COG shares option. We understand that all major CGR shareholders will take the 100% script option, while CGR management expect at least 70% of all CGR shareholders to take this option. We have met CGR Management post this announcement and agree that the merger makes strategic sense. We await the Scheme Booklet, and further financial information, to enable us to assess the potential revenue and cost synergies of the transaction in order to form a view on the growth profile and value of the merged business.

- CV Check Limited (**ASX:CV1**). CV1, the human resources screening and verification company, announced a strategic alliance with another ASX listed human resources technology company, Xref Limited (**ASX: XF1**). As a result of the agreement, users of the XF1 platform will be able to access CV1's verification process, while XF1's reference checks will be made available to all CV1 users. We have spoken to Management post this announcement who highlighted the potential for this agreement to really accelerate revenue growth, given many XF1 customers are likely to shift to CV1 from their current provider of identification screening.

  This feels like a merger for all intents and purposes, and we suspect there is a good chance that it will end up in a formal corporate merger if pricing can be agreed. In this regard, given CV1's significantly higher revenues, and superior operating cash flows, we would expect CV1 to comprise a larger portion of any merged entity. However, combined we feel a $100m market cap business with $20m+ revenues and significant global potential would represent an attractive offering.

- Blackwall Limited (**ASX:BWF**). Property fund manager and workspace operator BWF announced details of the demerger of its WOTSO shared workspace subsidiary. BWF shareholders will receive by way of an in-specie distribution 86% of the shares in WOTSO Limited. BlackWall will retain the balance (14% interest) of WOTSO with a carrying value of $5 million. This equates to an adopted valuation of WOTSO at $35 million. To assist in supporting this valuation, in early December BWF announced that it had entered into a Memorandum of Understanding with a significant ASX listed diversified property group regarding a strategic investment of up to $20 million into WOTSO.

  While there is still much that needs to be done here, there is real potential for the sum of the separate WOTSO and BWF (ex WOTSO) businesses to be worth significantly more than the current $52m market capitalisation of BWF (including WOTSO).

- Easton Investments (**ASX:EAS**). In order to address what the EAS directors consider to be the continued material undervaluation of its shares, at its November AGM EAS advised it had appointed Grant Samuel Corporate Finance as its corporate adviser to undertake a strategic review of the company, its businesses and its prospects. EAS noted that the strategic review is well progressed and has identified a number of strategic alternatives worthy of further analysis and investigation. We consider it likely that the options may include a merger with one of the other micro-cap businesses in the same space (CountPlus / Centrepoint) or some type of corporate structuring initiative to realise value from its under-appreciated, fast growing and high margin Knowledge Shop training business.

- Pioneer Credit Limited (**ASX: PNC**). In late October, debt collector, PNC confirmed that it had received a number of non-binding indicative proposals in relation to a potential change of control. PNC had its AGM in November where it advised that it was in negotiations with multiple parties, and expected to finalise a transaction in the near-term. In early December PNC announced the successful bidder was US private equity group Carlyle. The cash offer price of $1.82 represents a 20% premium to PNC's net tangible assets (which was the level the holding in our portfolio was marked to). Given the circumstances this represents a reasonable result, and we are pleased to now have a conclusion here.

Significance for our Portfolio

The timing of all this activity was no doubt in part driven by corporate advisers keen to have deals signed off by the end of year. However, we do believe this activity is significant from a portfolio perspective.

Validation of our investment process:
In recent times there have been *five* private equity led takeover bids for portfolio companies, one formal merger and another 'informal' merger, and various other corporate initiatives undertaken to realise value by company boards. This corporate activity highlights that private equity, strategic and industry investors also see value in opportunities that we have already invested in. The takeovers and other initiatives generally result in significant value being realised for the portfolio. We believe this provides strong evidence that our investment process has, and continues to, see us identify early and invest in attractive, compelling, undervalued opportunities. It is pleasing to see others subsequently also recognise this value.

Highlighting the opportunity for us:
We don't generally buy stocks specifically for their corporate appeal. We invest when there is a thesis that stands up irrespective of whether any activity eventuates. However, by focusing on undervalued, under-the-radar, growing, small businesses with strong product/service offerings means that our portfolio holdings (and the stocks on our watchlist) tend to naturally represent attractive targets for takeovers and other value-adding corporate activity.
The recent portfolio takeovers provide compelling evidence of the potentially significant gaps between market pricing and intrinsic valuations. They highlight the upside available to us as investors in identifying these opportunities at an early stage.

Christmas wishes and concluding comments for 2019

2019 has been a pleasing year for the fund. It has been satisfying seeing both some of our weaker performers from recent periods turn their fortunes around, as well as some of our newer holdings contribute strongly.
We are proud of the portfolio that we have constructed and the unique, compelling, under the radar opportunities that the fund has exposure to.

The portfolio also continues to evolve to a point where we feel risk and reward are very nicely balanced. In relation to risk, the portfolio is now well diversified across a broad range of companies, sectors and business stages. Position sizes are appropriate such that any unforeseen or black-swan stock specific event will be contained without doing material damage to the portfolio. The portfolio consists of a core of solid, high dividend yielding, traditionally undervalued stocks, as well as a number of positions with attractive revenue growth profiles and substantial blue sky.

We are enthused about how the portfolio currently looks and we look forward to 2020. We will continue to provide our investors with exposure to interesting, undervalued, not widely known investment opportunities, underpinned by a disciplined and measured investment process.

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 are privileged to have such a loyal and supportive group of long-term investors.

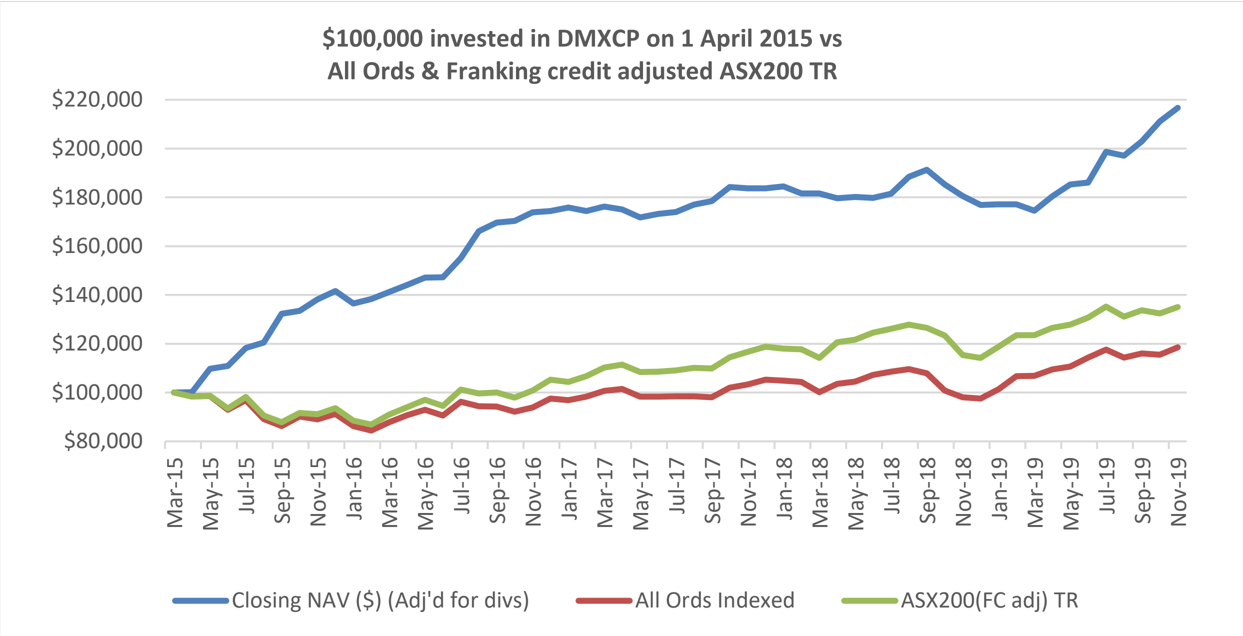
Kind regards

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