DMX ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

September 2019 – Shareholder Update

An investment company managed by:
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Dean Morel
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Opening NAV (1 September 2019) [1,2] **Closing NAV (30 September 2019)** [1,2]	**$1.7955** **$1.7858**	Fund size % cash held - month end [4]	$8m 16%
NAV Return (September)	+3.279%	Gearing	nil

*DMXCP Share price = Closing NAV (**$1.7858**), 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**				**+16.29**	**+18.59**

Dear Shareholder,

DMXCP's NAV increased 3.28% (after all accrued performance and management fees and expenses) for September 2019. On 30 September 2019, DMXCP went 'ex' a dividend of 4.8c plus 2.06c in franking credits. The NAV as at 30 September 2019 was **$1.8544** (cum dividend) & **1.7858** (ex-dividend), compared to **$1.7955** as at 31 August 2019. Total returns (increase in NAV, dividends and franking credits paid) exceeded 100% for the first time since inception four and a half years ago.

For the first three months of the FY20 financial year, DMXCP's NAV has increased 10.02%.

The ASX experienced a strong month, with all key indices finishing up. The All Ordinaries finished up 1.5%, the ASX Small Ordinaries Index increased 2.0% during the month, while the XEC Emerging Companies Index was up 4.7%.

Portfolio performance

While September was relatively quiet in terms of news flow, there was plenty of activity within the portfolio. We continued to undertake numerous management meetings and are pleased to have initiated some new positions during the month in companies that reported encouraging FY19 full year results.

Positive market sentiment benefitted a number of holdings, including the following:

- Tiny Beans Limited (ASX:**TNY**) was up strongly (+63%) to close at $1.68 on no particular news. However, with TNY on track for its maiden cash flow positive quarter this period, and its high revenue growth rates and global opportunity, there has been strong investor interest in the stock. TNY is now well funded following a $5m capital raise at $1.00 in August, introducing Thorney Investment Group as a cornerstone shareholder.

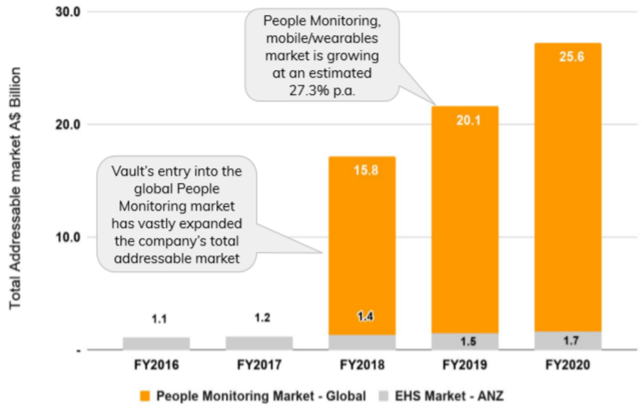
- Quick Fee Limited (ASX:**QFE**) which we profiled last month, was another stock well up (+32%) on no material news. The rise likely reflects the increasing market recognition of the size of its US opportunity. The announcement of Thorney Investment Group as a substantial holder may have also assisted in drawing attention to the stock.

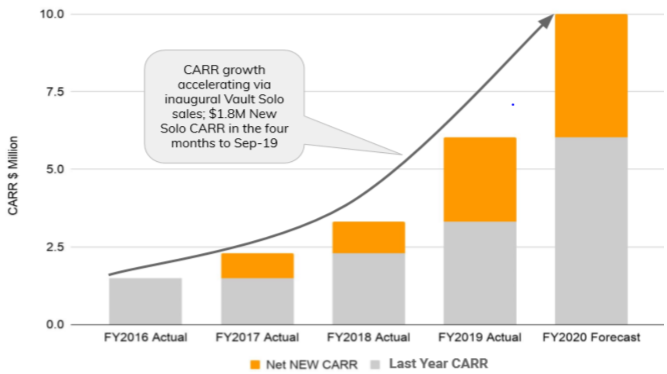
- McPhersons Limited (ASX:**MCP**) continued its re-rate (+20%) on the back of its strong FY19 results. The stock is likely trading cum a large acquisition which the company has flagged as imminent. With the stock up over 100% since our purchase several months ago, we have taken some profits here.

One stock that did have a significant announcement was invoice factoring company CML Group (ASX:**CGR**). CGR announced an acquisition that grows its Invoice Discounting and Equipment Finance businesses, increasing both divisions' funds advanced by 5x. The acquisition is an Australian owned financial services company with over 25 years' experience and is a business that CGR knows well, having made its first approach to the company over two years ago, and has been in monthly contact with them since. The market responded well to this strategic initiative, with the CGR share price up 17% for the month. CGR continues to trade on a sub 10x PE multiple.

At the start of the month we received our takeover proceeds and special dividend from Legend Corporation Limited (ASX:**LGD**) which has now delisted. As mentioned above, we have taken some profits from our MCP holding, and also have begun to sell out of a long term holding that has failed to meet our expectations.

These proceeds were put to work during the month across both our existing portfolio and into some new holdings. We added to our position in the capital raise of Vault Intelligence (ASX:**VLT**), which we have held for some time. VLT finished FY19 strongly and has continued that momentum into FY20 with some strong wins including a substantial five-year deal with M1, a leading Singapore telecommunications provider, generating contracted revenue of ~$3m.





Encouragingly, the capital raise was undertaken at a premium to recent VWAP prices. VLT is chaired by Ross Jenkins, a prominent ex-Xero senior executive (CFO and COO) who is keen for VLT to follow the Xero playbook of land grabbing the large addressable market for its wearable and mobile people monitoring technology. With a strong balance sheet, we look forward to VLT achieving its FY20 target of $10m ARR.

We also initiated a new position in an under the radar opportunity that delivered a 64% increase in booked recurring revenue ($3.7m to $6m) during the year from Tier 1 customers, and exited FY19 with annualised recurring revenues of $7m. The company has a market leading cloud-based software offering which is gaining increasing traction, operates in four continents and at the time of purchase had a market capitalization of less than $20m (although subsequent to our purchase it has increased 33% month to date).

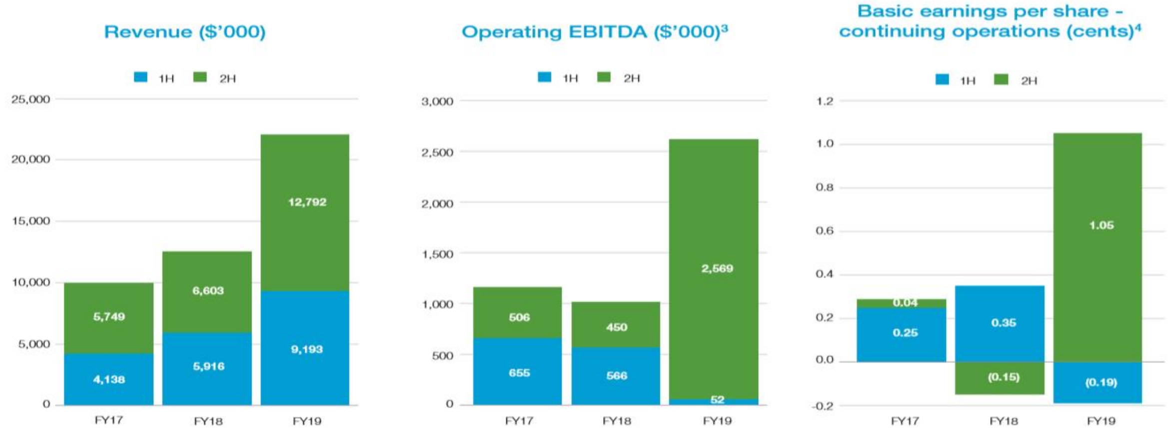
Stock highlights

In last month's newsletter we provided some feedback from some of our recent meetings with Management. In September, we again conducted a large number of management meetings for stocks that we either hold or are on our watchlist. Below we highlight three stocks in the portfolio that reported notable results/developments during the month, together with some further insights from our follow-up discussions with Management. These insights provide some additional colour to the results/opportunity.

UCW Limited (ASX:UCW) – market cap $21m

As we noted last month, UCW reported a remarkable second half performance. FY19 EBITDA was $2.6m (+149%), with the entire profit being delivered in the second half (after significant investment in growth initiatives in the first half). We have been strong supporters of UCW, so it is pleasing to see execution on its strategy, and investment in growth initiatives paying off. In 1H19, UCW's ALG business incurred a loss of $500k+ in relation to the start-up costs of its Melbourne campus, which is now operating profitably.

UCW FY17, FY18 & FY19 Revenue and profit metrics



After the results, we met with UCW's Adam Davis (CEO) and Lyndon Catzel (CFO).

UCW Management Insights:

- The development by UCW of two new bachelor's degree programs in early childhood education is progressing. It is generally a two-year period from course inception to accreditation – UCW are halfway through this process, with the new degree likely to be offered in the first semester of 2021. UCW currently charge $47k for their existing degrees (over 3 years).
- As well as expanding UCW's higher value higher education offerings, these courses will also be offered to UCW's vocational students, providing them with a logical pathway to continue their education within the UCW group.
- There are only ~130 accredited higher education providers nationally – the rigorous accreditation process provides strong barriers to entry here.
- In the vocational sector, low quality providers continue to exit the sector in part due to increasing compliance – UCW recently took over the lease of a Sydney CBD property where the vocational education provider tenant had gone into administration.
- UCW continue to invest to ensure they focus on quality and compliance – a recent initiative is the appointment of a Dean of Education for the first time.
- Given the large number of organic growth opportunities that it is focusing on, UCW would be open to exiting its under-performing Gradability investment (25% holding) should a liquidity event emerge at an appropriate price.

<u>Easton Investments Limited (ASX:EAS) – market cap $30m</u>

EAS, a provider of products and services to the accounting and wealth industries, delivered a solid FY19 result.

Accounting solutions

Knowledge Shop accounting channel (subscribers + training)	3,106 firms ▲ 16%
Training hours delivered	48,166 hrs ▲ 28%
Online documents delivered	6,433 docs ▼ 17%
Accounting firms signed up to Law Central	746 firms ▲ 18%

Wealth solutions

Funds under advice	$3.8 bill ▲ 11%
Risk premium income	$65.2 mill ▲ 9%
LARs	573 ▲ 41%
Funds in CARE Managed Accounts	$1.20 bill ▲ 28%

The outlook was positive, with FY20 expected to deliver:

- Higher earnings flowing from the Wealth Solutions division as a result of the continued growth in adviser numbers;
- Continued growth in its managed accounts product "CARE", as it gains broader acceptance across EAS's expanded adviser network;
- Further growth in Knowledge Shop's membership base and training hours delivered to the accounting profession;
- Expansion of training into the Wealth space to meet the FASEA education requirements; and
- Contribution from extension products and services introduced into EAS's accounting and wealth markets.

Post results, we met with EAS's Managing Director, Greg Hayes.

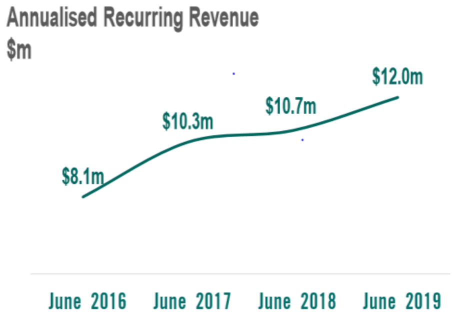
EAS Management Insights:

- Approximately $500k of growth investments were expensed during FY19. These relate to: developing an estate planning capability; building out training resources for the wealth management sector and establishing a finance broking service to offer to its client base.
- Ex these growth initiatives, EBITA growth would have been materially higher than the 17% profit growth reported.
- Training hours are expected to increase significantly this year to 60k – 70k, underpinned by an increase in training provided to the wealth sector. FASEA Continuing Professional Development (CPD) training requirements are expected to lead to significantly increased demand for training hours in the wealth sector.
- Kaplan and EAS are now the key players offering financial advisor CPD training solutions in this post royal commission environment where training and compliance is becoming a critical focus. Each financial adviser is now required to complete 40 hours of CPD training each year. With over 20,000 financial advisers in Australia, this equates to CPD requirements of 800,000 hours, a large amount of which is expected to be outsourced to external training providers.
- Each training hour generates in excess of $100 an hour in revenue, at high gross margins.
- Very powerful distribution base of 3100 accountants and 770 advisers. Accountants in particular are receptive to software solutions that increases productivity and improve administration.
- Given this distribution base, EAS are keen for further 'extension' products to offer its network. These may be internally developed (i.e. Wealth training, estate planning capability) or acquired products.
- EAS is focussing of potential acquisitions of SAAS products to sell to their distribution base. A potential opportunity is software which improves debtor administration and offers a client financing solution.
- EAS is increasingly becoming a product/IP owner – generating recurring income through providing ongoing products and services to its distribution base.
- Up to 3 acquisitions with a focus on 'extension products' may be completed this financial year.

Janison Education Limited (ASX:JAN) – market cap $58m

Education technology company JAN had a busy year. Highlights included:

- Securing a number of new international and national long-term contracts, including a partnership with the OECD to provide a digital assessment solution for the international PISA school testing.
- The acquisition of LTC which provides an opportunity for JAN to transition LTC's 40 clients, primarily large Australian universities and professional bodies from traditional paper-based examinations to the JAN's digital Assessment product.
- The development and going live of the platform to enable digital assessment of NSW's RMS driving license tests.
- Continued increases in recurring revenue and average revenue per client as set out below.



CONSOLIDATED GROUP	FY18	FY19	Change
Total Clients	86	138	+60%
Average Revenue per Client (ARPC) $'000s [1]	201 $	247	+23%
Customer Retention	99.9%	97.5%	(2)pps
Gross Margin [2]	39%	40%	+5%
Customer Concentration (Top 10 clients) [3]	74%	61%	+13pps

After the results, we met with Tom Richardson, JAN's CEO.

JAN Management Insights:

- Key recent contract wins have been achieved through closed tenders (including both the OECD/PISA contract and the NSW RMS driver licenses contract mentioned above) highlighting JAN's compelling offering against global competitors in the market.
- Key focus for FY20 is 1) Digitisation of LTC client base that is currently using paper-based testing 2) OECD opportunity with its PISA testing – JAN receives a ~$100k annual license and hosting fee per country with a variable fee based on the number of students tested. JAN has currently contracted with Russia and Brazil and is targeting signing one new OECD country per month; 3) Expanding on its relationship with Cosector (cosector.com) in order to sell its digital assessment platform to universities and higher education organisations in the UK.
- With the JAN software now well developed, JAN is able to consider licensing its software to global operators to more efficiently expand its geographical reach.
- JAN's new CTO commenced during the month, rounding out the JAN executive team that has been built up since listing.
- JAN remains comfortable with consensus estimates of $5m EBITDA for FY20 (up from $2m in FY19).

We have recently released the DMXCP Annual Report and Nexia Australia's Audit Report for the year ending 30 June 2019. During FY19, total assets of DMXCP increased to $7.05m, and a net profit after tax of $177k for the financial year was reported. The Annual Report can be found here.

We have also released an updated Investor Presentation which can be accessed here.

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 November.

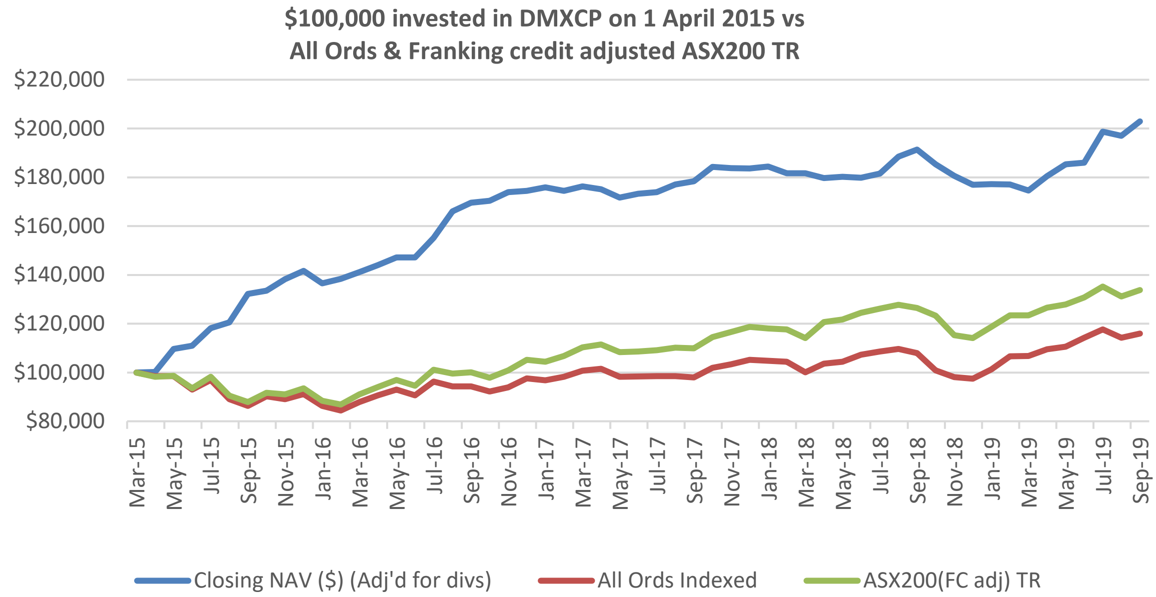
Kind regards

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