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

DMX ASSET MANAGEMENT

DMX Capital Partners Limited
September 2020 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
ACN 169 381 908 AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
DMXCP directors: Roger Collison
Dean Morel
Steven McCarthy

Opening NAV (1 September 2020) (1,2)	**$2.1350**
Closing NAV (30 September 2020) (cum-div) (1,2)	**$2.2742**
Closing NAV (30 September 2020) (ex-div) (1,2)	**$2.1028**
Fund size (gross assets)	$11.5m
% cash held - month end (4)	15%

1 month return	6.52%
3 month return	27.43%
12 month return	26.46%
3 year return (p.a.)	13.70%
Since inception (*5 years, 6 months*) (p.a.)	27.59%

*DMXCP Share price = Closing NAV (**$2.1028**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends and franking credits paid. Since inception (1 April 2015) 41c of dividends and franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 6.52% (after all accrued performance and management fees and expenses) for September 2020. On 30 September 2020, DMXCP went 'ex' a dividend of 12.0c plus 5.14c in franking credits. The NAV as at 30 September 2020 was **$2.2742** (cum dividend) & **$2.1028** (ex-dividend), compared to $2.1350 as at 31 August 2020.

DMXCP has returned 17.89% for the calendar year to date (since 1 January 2020), and 27.43% for the financial year to date (since 1 July 2020) (after all accrued performance and management fees and expenses).

All indices weakened during the month, with the All Ordinaries declining 3.79%, while the ASX Small Ordinaries Index fell 3.29% and the XEC Emerging Companies Index fell 1.50%.

<u>September developments</u>

At the start of the month we received a significant (11c per share cash) capital return from our investment in Consolidated Financial Limited (formerly Chant West Holdings – **ASX:CWL**) - our largest holding. This compares favourably to our 6c per share entry price, approximately 18 months ago. We continue to retain a small exposure to CWL which is currently a shell with no operating business. CWL is assessing a number of prospective backdoor listing opportunities, which may also be associated with a capital raise to fund the acquisition. We in turn will assess any proposed deal and potential associated capital raise with a view to participating if terms are attractive. We look forward to monitoring developments here and providing an update in due course.

The CWL proceeds increased our cash levels to ~20%. Towards the end of the month, some of this cash was applied to the purchase of two new positions that we consider to be highly prospective.

During the month we were pleased to be able to catch up with the management teams of many of our portfolio holdings as well as several potential new opportunities. Given the current environment, these catch ups were held virtually, which we found to be an efficient method of meeting. Virtual meetings also allowed more flexibility as to scheduling, and we believe the acceleration of communications through this medium through the year will prove to be a positive and enduring outcome from an otherwise challenging situation.

Finally, September also saw DMXCP have its FY20 audit completed and release its 2020 Annual Report. A 12c fully franked dividend was declared by DMXCP on 30 September 2020.

Management meetings

We are pleased to share below a summary of our notes and insights taken from meetings with management of several of our disclosed portfolio positions. We share these insights to showcase four of our holdings where we feel our discussions with management have highlighted some interesting aspects to the business, that are perhaps not well understood by the market.

AVA Risk Group (**ASX:AVA**)
Meeting with David Cronin (Chairman) and Rob Broomfield (CEO)

As previously noted, FY20 was a big year for AVA, as it delivered an impressive turn-around. In speaking with management, we were keen to focus on FY21 and whether that momentum could be sustained. Key insights are discussed below.

- AVA's logistics business ("Services") recorded \$3m sales in July 2020, with EBITDA in excess of 15% (compared to FY20 EBITDA of ~9%). Management confirmed they expect revenues to remain strong for the remainder of FY21, as it benefits from the full year contribution of client wins during COVID-19 (in 4Q20). AVA also expect Services to maintain its EBITDA margin of ~15% for the balance of the year. With the Services business due to be sold in the next 12 months, Management are looking to target an EBITDA sale multiple of 9x to 12x, given the capital light nature of the business. AVA are happy to take a commercial approach in relation to the timing of the sale in order to maximise the sales price.
- Technology revenues for FY21 are tracking ahead of the same period in FY20, while management continue to expect at least \$11m from its Indian Ministry of Defence (IMOD) contract this year (at close to 100% margin).
- A key feature of the FY20 result was the margin expansion resulting from both revenue growth and reduced operating expenses. AVA expect to maintain FY21 OPEX at similar levels to FY20.
- Management are particularly excited about the progress they are making with their powerful fiber optic technology. We believe this is a key part of the AVA thesis that is under appreciated by the market. AVA are positive about the commercialisation of AuraIQ (using fiber optic cables for conveyer belt monitoring) where one potential deal is currently progressing its way through a customer's CAPEX approval process. In addition to AuraIQ, AVA has been applying its fiber technology capabilities incrementally into other non-security applications such as condition monitoring for roads, rail lines and power cables. Potential distribution partnerships are being worked on for some of these use cases that are in early stage validation. One such example is monitoring the impact of wave motion on power cables in the Hudson River in New York.
- Management expect publicity around a similar focused company, chaired by technology entrepreneur Bevan Slattery, to drive further interest in what AVA is doing with its fiber technology.

In summary, we took a lot of confidence from our meeting with AVA. Its Services division has significant momentum, and when sold, we think has the potential to generate sales proceeds to AVA of \$50m to \$60m (before Management profit share is accounted for). Its technology business will grow in FY21 underpinned by the IMOD contract. AVA's fiber technology offering perhaps has the most upside, and its potential least appreciated by the market, but we acknowledge it will take some time for this potential to play out.

PTB Group Limited (**ASX:PTB**)
Meeting with Steve Smith (MD) and Daniel Zgrajewski (CFO)

PTB Group has been through a lot in FY20. Firstly, it concluded a transformative acquisition of US based Prime Turbine extending its footprint in the US, and then it had to contend with the impact of COVID-19 on the airline industry. Pleasingly, PTB came through COVID-19 relatively unscathed, actually beating its pre COVID-19 forecasts.

Management were very pleased with how they navigated COVID-19. While they lost contracted maintenance work from Trans Maldivian Airways, PTB's biggest tourism exposure, this was relatively low margin and was able to be replaced with higher margin, non-contract work. Steven Smith described this as "doing less for more".
PTB's big frustration arising from COVID-19 was not being able to travel to the US to visit its Prime Turbine acquisition, and to seize the many opportunities on hand. These opportunities in the US include:

- Winning Caribbean island airline work (much like their current operations in the Pacific).

- Instilling an upselling sales mindset into the staff at Prime Turbine. Steven felt there was a lot of easy gains to be made on this front, given the lack of previous sales culture at Prime.
- Acquisitions: Many US turbine maintenance business are struggling in the current climate. Acquisitions of further businesses at prices below NTA are likely. PTB would effectively be buying equipment and parts, and getting the customer base for free. We would expect some news in the months ahead.

We enjoyed our conversation with an incredibly experienced, sales focused, and a somewhat hard-nosed management team. We came away feeling enthused about the growth prospects for PTB that its US acquisition has presented.

Eureka Group Limited (**ASX:EGH**)
Meeting with Executive Chairman Murray Boyte

Seniors rental accommodation is a niche offering on the ASX, so we enjoyed speaking to industry veteran, Murray Boyte, about the sector and its challenges. While Ingenia Group (ASX:INA) does operates in the sector, EGH offers the only pure seniors accommodation exposure on the ASX. The sector has some interesting characteristics, as unlike other investment property types, there is the potential of upselling services such as meals and servicing units, in addition to collecting rent. The other attractive feature of the sector is that current valuation capitalization rates are around 10%, offering far better value than other types of property.

EGH has had an inconsistent track record, so it has been important for the current EGH management team to focus on systems and righting the ship, given some missteps from the previous management team. While recent operating metrics (95% occupancy) and financial results (EBITDA up 11%) show they are making good progress, Murray suggests there are more improvements to further improve efficiencies and margin. This includes a new IT system for real time reporting and analytics.

Murray explained that there is a high fixed portion in their cost base and having scale will achieve higher operating returns. In fact, EGH could double the number of units they own without a significant increase in head office costs. We expect an acceleration in number of villages in FY22.

House broker, Canaccord, are forecasting a 43% increase in revenue by FY23, with EBITDA margin improving from 31% to over from 40%. To achieve this, we are likely to see a cap raise, however this is expected to be priced above NTA.

With a highly fragmented sector, Eureka now appears to be on the verge of a large opportunity to expand the number of villages and extract operating leverage. The combination of low interest rates, rising revenue from new villages, and increasing EBITDA margins should provide a platform for earnings growth that we believe is not yet factored into the EGH share price.

UCW Limited (**ASX:UCW**)
Meeting with Adam Davis (CEO) and Lyndon Catzel (CFO)

UCW has been a frustrating hold for us. After a long period of investment in growth initiatives, the company was just starting to deliver strong operating momentum when COVID-19 struck. Despite the disruptions in 2H20, UCW delivered a very strong FY20 result. We were particularly keen to get a better understanding of current industry conditions.

Somewhat surprisingly, Adam noted that of the 600,000 international students in Australia pre COVID-19, around 80% have remained in Australia and continued on with their education. This has been despite limited government support for international students, who are primarily employed in the hard-hit retail and hospitality sectors and have not been eligible for Jobkeeper/Seeker payments. Recognising these welfare issues, UCW has provided food vouchers and offered tuition fee discounts to their students. These ‘on-shore’ students are the biggest market of new students for UCW.

Against our expectations, UCW actually <u>grew</u> its ALG student numbers in 1Q21 by 5% as it picked up students from a failed school, as well as sourcing new students who were already ‘on-shore’ and typically finishing up courses at other institutions. While student numbers today are currently ahead of where they were this time last year, we do expect that continuing to achieve growth in its ALG business will be a challenge in 2H21.

UCW's acquisition of domestic focused Ikon business two years ago has proved fortuitous in diversifying UCW's previous reliance on international students. Pleasingly, Ikon's new Bachelor of Early Childhood Education degree, that has been in development for over18 months, will commence in February, and UCW expect this to be profitable this year. Ikon is expected to grow revenue and student numbers this year.

After speaking to Management, we felt that UCW was in a better position than its current market pricing would suggest. However, the poor sentiment is likely to remain until there are signs that international borders, and the international student market, will reopen.

New positions

To keep our portfolio fresh, it is important that we continue to identify new opportunities to complement our existing holdings. The most compelling and mis-priced opportunities are often found in the most illiquid stocks. Therefore, once we have identified an attractive illiquid opportunity, we need to be able to obtain enough stock to make it a meaningful position for us. In this regard, we are pleased this month to have initiated new positions in two companies that we are particularly excited about. We expect to disclose these positions in more detail in the future, but in summary:

- *Position 1* is a profitable, cash flow positive business in the med-tech space that completed a transformational milestone during the month. With a market cap of less than $30m (based on our entry price) we expect material upside from here. We obtained our position through sub-underwriting the shortfall of an attractively priced rights issue.

- *Position 2* is a very profitable Australian business with a strong track record of growth in Australia. There is significant opportunity to export its technology to offshore markets. We obtained our position here through an off-market transaction that we initiated.

We are particularly pleased with these outcomes. An important and interesting benefit of investing alongside us at DMX Capital Partners is being able to gain exposure to capital raising and placement opportunities that are difficult for individual investors to obtain. We have built strong relationships with management teams and brokers over the past few years, and are increasingly being seen by nano and micro-cap companies as a source of liquidity, and as a rational, stable & supportive long-term capital partner.

As an example, last year we were able to secure a meaningful line of stock in Urbanise (ASX:UBN) in a forced sale situation. That stock has to date returned us almost 200% and was a position we would have struggled to build on-market. Similarly, the above-described new opportunities are the sorts of positions that we're enthused about being able to provide our investors with exposure to, and that help make DMXCP a genuinely differentiated investment.

DMXCP remains open for investment from both new and existing investors. As noted above, we are encouraged with how the portfolio is currently positioned. Instructions for adding new funds can be found here.

As always if you would like to discuss either initiating an investment or topping up your holding, please do feel welcome to contact Steve McCarthy on 0403 869 632 or email steven.mccarthy@dmxcorporation.com.au

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

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	+0.140	**+25.10**	**+19.02**
2020	+2.33	-8.42	-17.91	+8.521	+4.525	+6.213	+10.09	+8.669	**+6.518**				**+17.89**	**-11.67**

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.