DMX ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

August 2018 – 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
PO Box 916, Milsons Point, NSW 1565

Opening NAV (1 August 2018) (1,2) **Closing NAV (31 August 2018)** (1,2)	**$1.6927** **$1.7623**	Fund size % cash held - month end (4)	$7m 18%
NAV Return (August)	+4.112%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.7623**), 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**					**+2.62**	**+4.19**

Dear Shareholder,

DMXCP returned +4.11% after all accrued fees and expenses for August 2018. The ASX All Ordinaries Index rose +0.97% during the month. DMXCP's NAV as at 31 August was **$1.7623**, up from **$1.6927** in July. For the first two months of the financial year, the fund is up +5.17%.

We were pleased to see our portfolio holdings report generally strong results for the 2018 financial year, with the majority of the portfolio delivering annual earnings per share (EPS) growth in excess of our 15% target. Four companies (Easton Investments (ASX: EAS), Zenitas Healthcare (ASX: ZNT), People Infrastructure (ASX: PPE) and Sequioa Financial (ASX: SEQ)) all declared their maiden full year dividends.

The most significant contribution to performance during August came from Zenitas Healthcare (+28%) which reported a strong FY18 result, and at the same time announced it was subject to a $1.46 takeover offer from a private-equity led consortium. We first acquired shares in ZNT in December 2015 when it was being re-capitalised and had a market cap of $4m; and we subsequently participated in further capital raisings in late 2016 and late 2017. The takeover offer implies an equity value of ~$110m. We are pleased to have supported the growth of ZNT into a leading community healthcare provider over the past 3 years, However, we believe that the offer as it stands undervalues ZNT, and also note that two current ZNT directors are associated with the bidding consortium.

Pleasingly, the portfolio continues to own many other fast growing, undervalued, emerging businesses in attractive sectors (including healthcare, tourism and education) on very undemanding multiples that we also consider to be potential takeover targets due to their compelling valuations. As we have seen with ZNT, if the market does not appropriately price these companies, then it is likely that at some point others will.

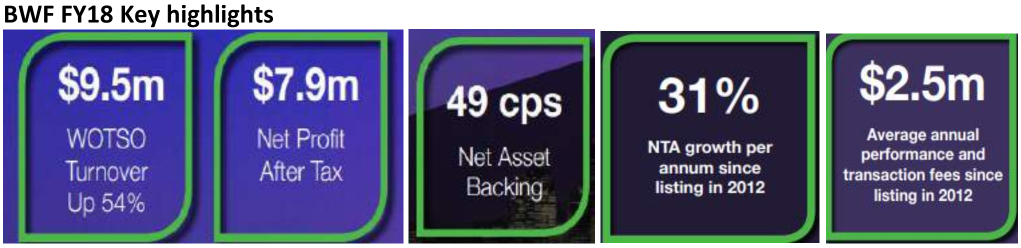
Other strong contributors during August included People Infrastructure (ASX: PPE +26%), Legend Corporation (ASX: LGD +15%) and Easton Investments (ASX: EAS +20%).

In our July update we previewed the results for a selection of our holdings and set out our expectations. Below, we comment on the results of each of those companies that we had previewed.

<table>
<tr><th>Company</th><th>FY18 result highlights</th><th>Comment</th></tr>
<tr>
<td>Pioneer Credit Limited (ASX: PNC)

(August return: +7%)</td>
<td>Revenue +45%
NPAT + 64%
EPS +39%
Dividend +51%</td>
<td>Debt purchaser PNC delivered another impressive result with substantial improvements recorded across all key metrics. In particular, strong delivery on its key metric – PDP liquidations, saw PNC collect $102m for the year (up from $71m in FY17), and provide guidance of $120m for FY19. The strong level of collections resulted in a 64% increase in profit after tax.
PNC Results highlights FY17 vs FY18
<table>
<tr><th></th><th>FY17</th><th>FY18</th><th></th></tr>
<tr><td>PDP liquidations</td><td>$70.7m</td><td>$101.7m</td><td>+44%</td></tr>
<tr><td>Services & lending revenue</td><td>$1.9m</td><td>$2.9m</td><td>+53%</td></tr>
<tr><td>Net revenue</td><td>$56.3m</td><td>$81.5m</td><td>+45%</td></tr>
<tr><td>EBITDA</td><td>$35.0m</td><td>$54.3m</td><td>+55%</td></tr>
<tr><td>EBIT margin</td><td>31.0%</td><td>35.4%</td><td>+14%</td></tr>
<tr><td>NPAT</td><td>$10.8m</td><td>$17.6m</td><td>+64%</td></tr>
<tr><td>EPS</td><td>20.77cps</td><td>28.88cps</td><td>+39%</td></tr>
<tr><td>DPS</td><td>9.50cps</td><td>14.33cps</td><td>+51%</td></tr>
</table>
Entering FY19, PNC has significant momentum with another solid year of purchases forecast, and PNC's new personal loan division, Credit Connect, continuing to target a $30m loan book by December 2018. We see upside to PNC's guided level of purchases and NPAT, and believe the market is likely to reward PNC with further share price increases when it sees earnings emerging from its loan book. This too would indicate that PNC's diversification strategy is taking shape.</td>
</tr>
<tr>
<td>Blackwall Ltd (ASX: BWF)

(August return: -10%)</td>
<td>Revenue +49%
NPAT + 125%
EPS +125%
Dividend +12%</td>
<td>Blackwall, the property fund manager and manager of the WOTSO co-working business, reported a 125% increase in profit after tax, after recognizing a significant performance fee during the period.

BWF FY18 Key highlights


BWF's fast growing shared workspace business, WOTSO, showed very strong growth with turnover up an impressive 54%. Annualized WOTSO turnover today is tracking at $13.4m (up from $8.4m six months ago), with the existing 14 sites having the potential when mature to generate turnover of over $30m. While it can take up to 3 years for a new WOTSO location to achieve economic maturity, margins at this point are generally more than 25%, suggesting a long runway of significant revenue and margin growth from here.

BWF continues to progress the global expansion of WOTSO with two sites due to open in Malaysia later this year. BWF also noted that the take up at Chermside Westfield has been faster than any new site so far, suggesting further partnerships with Westfield may be on the agenda.

With net tangible assets of 49 cents per share, BWF has over half its market capitalisation supported by its on-balance sheet investments, with the implied total value of its profitable WOTSO, funds management and property management businesses currently sitting at around $25m. Significant value remains unlocked here, particularly in relation to WOTSO.</td>
</tr>
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CML Group (ASX:CGR)

(August return: -8%)

Revenue +17%
NPATA +71%
EPS +31% (underlying)

CGR provides invoice and equipment finance to Australian SMEs through the brand 'Cashflow Finance'. It is the number two player in invoice factoring after Scottish Pacific. CGR beat its FY18 guidance, delivering a **71% increase in underlying net profit after tax**, and upgraded its FY19 guidance from $19.5m to $20-21m. They business had a very strong year with growth from acquisition and organically with 17% growth in invoices purchased.

CGR FY18 Key Highlights

+33%	+32%	+34%	+71%	+31%	0.75c
Invoices Funded	Finance Revenue Growth	Group EBITDA Growth[1]	Group NPATA Growth[2]	Underlying EPS Growth[3]	Final Dividend

We met with management post the result to understand their equipment finance strategy and get comfortable around provisioning in light of recent disclosures by Access Today. On both counts we were impressed with their conservatism in provisioning and lending. Any equipment being lent on is being independently valued reducing the risk of loss in the case of default.

The outlook provided by management is also conservative and we expect upgrades to the forecasts as any organic growth has not been factored in. Pleasingly, the invoice factoring market has been growing and we expect this to continue in FY19.

Legend Corporation (ASX:LGD)

(August return: +17%)

Revenue +15%
NPAT +60%
EPS +65%

Div +21%

Legend provides consumables, tools and equipment for electrical projects, and reported a strong result, **increasing its NPAT by 60%** to $6m (EPS of 2.8c) beating its previous guidance and our expectations.

LGD FY18 Key Highlights

Revenue $114.9 million	15%	**NPAT** $6.0 million	60%*
Gross Profit $49.4 million	10%	**Earnings Per Share** 2.8 cents	65%
EBITDA $12.4 million	19%	**Dividend Approved** 0.75 cents per share	25%
EBIT $10.0 million	43%	**Annual Dividend** 1.45 cents per share	21%

A highlight for us was the organic growth across all divisions. As expected, and one of the key reasons for investing in Legend, the result was driven by the Electrical, Power and Infrastructure division which is leveraging the strong East Coast infrastructure spending.

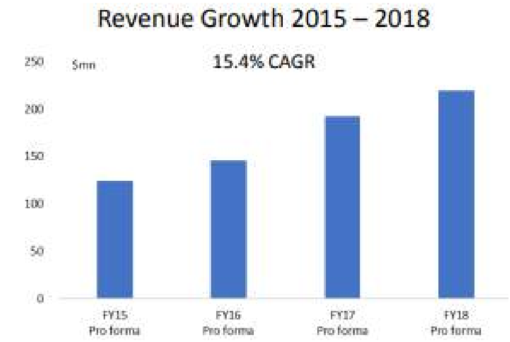
LGD's recent acquisition of Celemetrix did not materially contribute to the result due to acquisition and integration costs but is expected to contribute an additional $2m+ in earnings in FY19. With continued growth in the core business and contribution from Celemetrix, we expect a strong FY19 result.

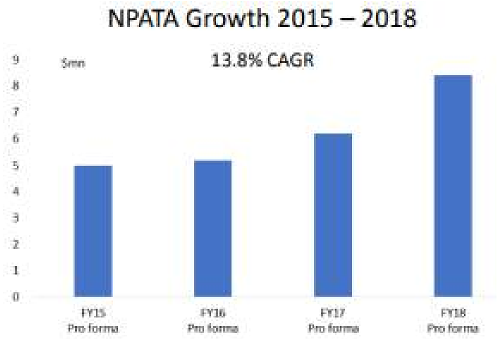
Even after rallying after the result, we estimate Legend is trading on a PE ratio of less than 7x FY19 NPAT. Legend is under-owned by institutions. We expect further acquisitions in FY19 which should add to LGD's revenue diversification and may bring institutional interest to the register and PE multiple expansion.

People Infrastructure (ASX:PPE)
(August return: +26%)

Revenue +14%
NPATA +35%
EPS +34% (underlying)

People Infrastructure provides contracted staffing solutions to its clients, with a focus on high growth sectors where labour is in demand – including childcare, healthcare and disability sector.





Pleasingly, PPE exceeded its IPO forecasts and broker expectations, delivering **a 35% increase in NPATA** to $8.4m, and strong pre-tax (and IPO costs) operating cash flows of $9.5m

Earlier in the month, the company acquired a leading NSW Nursing Agency on ~3.5x, providing EPS accretive and defensive earnings. PPE is now the largest provider of community services employees in Australia and is the largest provider of nurses in the Sydney market.

Whilst the stock has performed strongly since its IPO last November, we still see upside as the company grows organically and through acquisition. With a strong base in Queensland, the company is leveraging its customer relationships to expand into new territories. This has been especially evident with its expansion into NZ.

Zenitas Healthcare Ltd (ASX: ZNT)

(August return: +28%)

Revenue +78%
EBITDA +99%
NPAT +78%
Maiden dividend Declared

Zenitas continues to execute on its organic and acquisition growth strategy to become a significant national provider of community healthcare services. Consistent with its recent guidance, ZNT delivered a strong result with a **78% increase in NPAT** to $5.7m.

ZNT key FY18 Highlights

Zenitas highlighted a number of key operational developments to support the ongoing growth of the business. A key focus has been on building out a strong senior management team with the appointment of a COO and senior marketing, IT and HR management. Notwithstanding this investment, organic EBITDA growth of 7.3%, was achieved, and clinics in the ZNT network were up to 70 (from 50 in FY17) and clinicians and care providers increased from 1600 to 2600.

As mentioned above, ZNT also announced it was subject to a $1.46 takeover offer from a private-equity led consortium. We believe that the offer as it stands undervalues ZNT, and note that two current ZNT directors are associated with the bidding consortium. We provide additional comment on the proposed takeover in a Livewire article here.

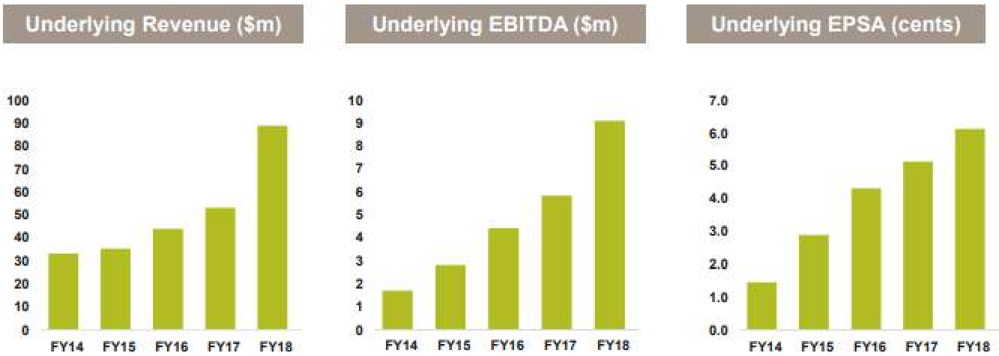
Konekt Limited (ASX:KKT)

(August return: +6%)

Revenue +67%
EBITDA +56%
NPATA + 65%
EPSA +20%
DPS +33%

KKT, a leading provider of workplace injury management and employment services, reported a **65% increase in NPATA**, aided by the FY18 contribution from its employment services acquisition Mission Providence (now known as Konekt Employment).

KKT key financial metrics: FY14 – FY18



KKT delivered a result in the middle of its revised guidance range provided in April, which was helpful in rebuilding some confidence after its surprise downgrade. In line with previous commentary, KKT's underlying business contracted, with reform in the NSW workers' compensation market reducing volumes. The Konekt Employment acquisition has proceeded smoothly, with business performing well and in line with expectations. Growth in FY19 will be driven by the 12-month Konekt Employment revenue contribution, property synergies partially offset by labour cost increases, investment in DES establishment and property inflation.

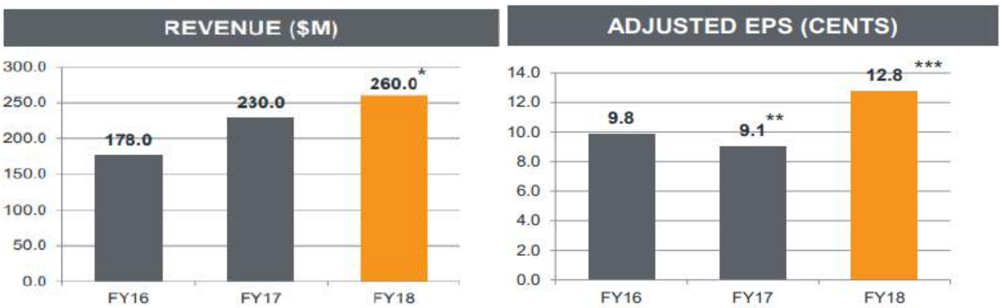
The market will now be focused on KKT's business update at its November AGM, and the announcement in relation to the results of the re-tender of its ADF/Medibank contract. Any positive news here will help to further rebuild confidence in this neglected stock.

SRG Global Limited (ASX: GCS)

Note: GCS and SRG merged in late August

Revenue +13%
EBITDA +49%
EPS +41%
Dividend – 7%

International engineering and mining contractor SRG reported at the upper-end of its EBITDA guidance, delivering a result of $19.4m vs a forecast range of $18 – $20m.



Work in hand for FY19 of $218m (compared to $160m in the PCP) reflects growing revenues into FY19. SRG's international opportunity pipeline was $600m (compared to $120m in PCP) reflecting the investment into growing SRG's international operations in FY18. This international strategy that leverages SRG's specialty expertise in dam and bridge engineering is one of the key reasons for our investment in SRG. While international revenue was up 173% in FY18, albeit off a low base, it is too early to say to judge as to whether this strategy will bear fruit.

Now that SRG has merged with GCS, the results of GCS are equally important in determining the prospects of the group. Pleasingly, GCS beat its profit guidance and updated the market with strong work in hand. GCS has already announced 2 contracts where SRG has been subcontracted to perform part of the work, suggesting there are some legitimate revenue synergies from the merger.

The share price performance has been weak since the merger announcement, which we believe is due to disaffected shareholders on both the GCS and SRG register exiting.

Joyce Corp Limited (ASX: JYC)

(August return: +4%)

Revenue +22%
NPAT +19%
EPS +22%
Dividend -flat

Joyce Corporation is an investment company that owns the Bedshed franchise, Australia's largest kitchen renovation company (KWB) and a leading online auction company (Lloyds Online). It reported a strong operating result with a **22% increase in NPAT**, while net operating cash was $9.1m, up 70%.

JYC Results highlights FY17 vs FY18

Joyce Corporation	FY18	FY17	Variance
	$000's	$000's	
Revenue	96,392	78,770	22%
Profit after tax from continuing operations	6,723	5,640	19%
Profit attributable to Joyce shareholders	3,380	2,764	22%
EPS (Diluted) cents	12.1	9.9	22%

KWB delivered a stand-out result with same store sales growth up 12%, total revenue up 27% to $60m and profit up 40% to $8.4m. In addition to KWB's core kitchen business, flooring and wardrobe categories are now contributing material revenue. On the back of favourable macroeconomic settings, double digit earnings growth is again forecast for this year.

Lloyds Online grew overall auction turn over by 27% year on year, with growth in niche categories such as classic cars and fine arts offsetting reduced insolvency liquidation activity. Lloyds continued to re-invest in the development of its systems and IT infrastructure to ensure long term sustainable growth. JYC's smallest unit, Bedshed delivered solid growth with a 44% increase in profit contribution.

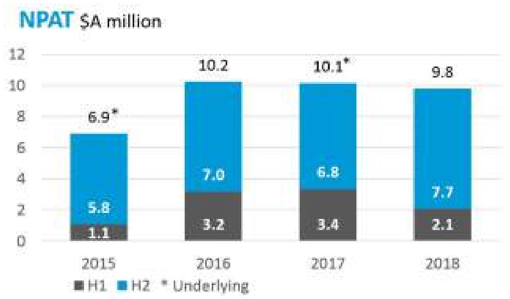
JYC trades on an 8% fully franked yield and has forecast growth across all its business units in FY19, to build on its strong track record of growth that it has delivered over the past five years. We expect the recent appointment of a COO to drive further organic and acquisition opportunities as well as improved disclosure/communication to the market – which should be positive for the JYC share price.

Gale Pacific Ltd (ASX: GAP)

(August return: +3%)

Revenue -6%
NPAT -3%
EPS -flat
Dividend - flat

A record second half of profit ($7.7m) from shade sale, and fabric manufacturer & distributor, Gale Pacific, was not enough to make up for a poor first half. As a result GAP reported flat EPS growth for FY18.



As illustrated above, GAP hasn't delivered any earnings growth over the last three years. Ordinarily, in such circumstances, we would be sellers. However, we continue to hold as we believe the underwhelming recent results mask some significant progress within the business: the exit of a number of non-core product lines with the core product focus now delivering meaningful cost savings, significant investment and progress in US growth (12 times the size of the Australia market), and China manufacturing efficiencies & service improvements.

While the poor grain harvest will again impact sales of commercial fabrics in FY19, sales to the US are getting strong traction. GAP offers a market leading product, a global distribution network, including selling into all major US hardware stores and a strong Amazon presence, state of the art Chinese manufacturing facilities, and a growing R&D capability. At less than 10x FY19 net earnings, we consider this a compelling valuation for a business that is likely to deliver strong long term value creation.

Apollo Tourism (ASX: ATL)
(August return: -4%)

Revenue +107%
EPS +19%
Dividend +100%

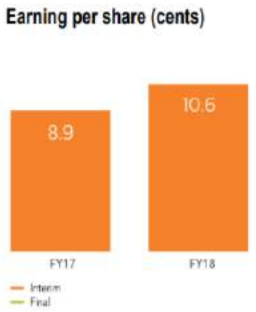
Apollo Tourism is a Campervan rental and retailer. Its operations span Australasia, North America, and more recently, Europe.

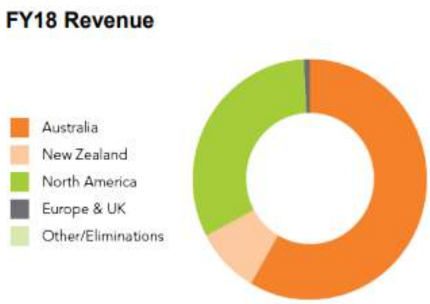
The FY18 underlying NPAT result came in above market expectations with impressive 19% EPS growth. However, the stock was sold off on the results due to concerns over ATL's rising debt levels. While ATL has no net corporate debt, the rising debt levels associated with the fleet (owed to the OEM's of the vehicles) are reflective of the increased investment to support growth initiatives. It is important to note that the debt is more than underpinned by its fleet assets.

Geographical expansion continues with expansion into Germany. As always, the company will be leveraging local management from the recent acquisition of Camperco to help with its rollout in Europe.

The company is experiencing strong forward bookings across all geographies going into FY19. We suspect the forward guidance provided by management is conservative and upgrades can be expected.

Luke Trouchet (CEO) and Karl Trouchet (CFO) collectively own more than 50% of the company. Their shares come out of escrow later this year. During a post-result meeting they expressed full confidence in the company's progress and committed to hold onto their shares after the escrow period while they also will be participating in the upcoming dividend reinvestment plan.





Paragon Care (ASX:PGC)
(August return: -9%)

Revenue +16.5%
EPS -38%
Dividend + 3%

Medical products and consumable distributors Paragon Care reported a disappointing result. While the headline numbers read well, the EBITDA numbers were inflated by a non-operating adjustment for $4m meaning the company missed its guidance. This was due to a weak last quarter in its capital equipment division as a result of a lack of large hospital projects.

PGC also announced that it had placed 45.2m shares at $0.91 per share to a Hong Kong based entity, China Pioneer, giving it a 15% strategic investment in PGC. The funds will be used to acquire to new businesses in FY19.

In FY19 the company is forecasting a strong up lift in EBITDA to $36m (which was in line with consensus estimates). This includes the full year contributions from acquisitions in FY18, cost synergies, and organic growth. The flagged acquisitions are likely to add an additional $7m to $8m in earnings. The lumpiness in revenues driven by large capital equipment sales is expected to reduce as they become a smaller part of the business.

Management has announced a new aspirational target of $500m in revenue. If they can continue to execute on its strategy, it is likely to become a much larger company. PGC is another holding that represents a likely potential takeover target.

We note that the Paragon result highlights the importance of undertaking detailed analysis of the accounts and not just relying on company presentations.

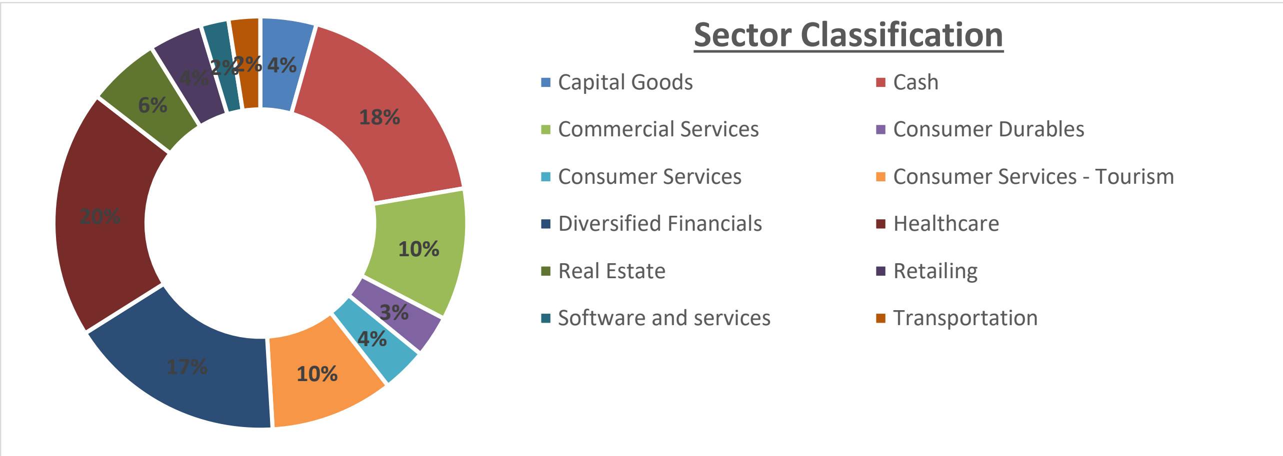
	Note	2018	2017
		$	$
Revenue from continuing operations			
Revenue	3	136,747,265	117,192,924
Cost of sales		(81,836,092)	(71,124,867)
Gross profit		**54,911,173**	**46,068,057**
Other income	4	4,674,896	364,325
Operating costs		(11,575,889)	(7,786,665)
Corporate costs		(1,309,992)	(321,121)
Finance costs		(2,205,128)	(1,792,897)
Selling and distribution		(1,756,150)	(1,302,144)
Employee and consultants costs (incl. Directors fees and remuneration)		(29,070,218)	(20,995,757)
Profit/(loss) before tax		**13,668,692**	**14,233,798**
Income tax expense	7	(2,718,137)	(4,059,037)
Profit/(loss) from continuing operations		**10,950,555**	**10,174,761**

NOTE 4 Other Income	2018	2017
	$	$
Write back of vendor earnout payable (i)	4,072,517	268,637
Other income	602,379	95,688
	4,674,896	**364,325**

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.



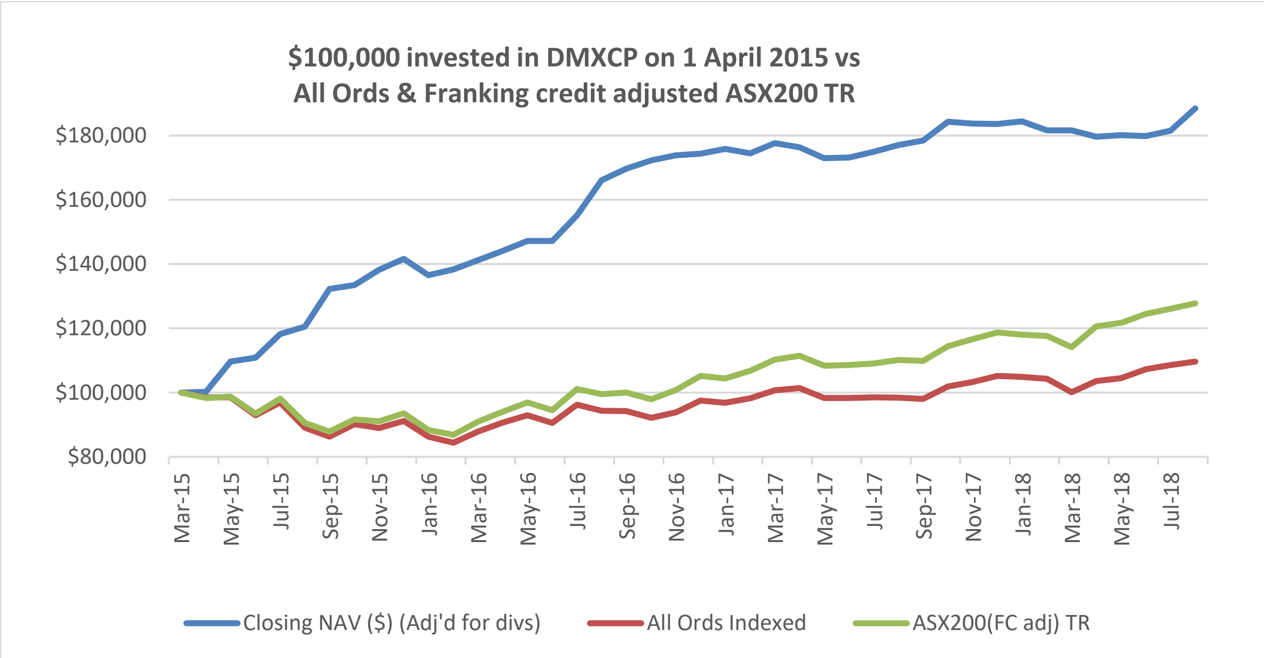
Outlook

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

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. The fund is benchmark unaware, however for illustrative purposes, also presented below is 1) the corresponding indexed returns of the ASX All Ordinaries Index and 2) the S&P/ASX 200 Franking Credit Adjusted Annual Total Return (TR) Index (that adjusts for dividends and the tax effect of franking credits).



We look forward to updating you again in early October.

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