DMX ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

February 2018 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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Opening NAV (1 February 2018) [1,2]	**$1.7218**	Fund size	~$6m
Closing NAV (28 February 2018) [1,2]	**$1.6939**	% cash held - month end [4]	28%
NAV Return (February)	-1.63%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.6939**), 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**
2 018	+0.445	-1.625											**-1.18**	**-0.83**

Dear Shareholder,

DMXCP returned -1.63% after all accrued fees and expenses for February 2018. The ASX All Ordinaries Index decreased -0.48% during the month. DMXCP's NAV as at 28 February was **$1.6939**, down from $1.7218 in January. For the first eight months of the 2018 financial year (July – February), DMXCP has returned +5.22% after all accrued fees and fund expenses. The fund has returned +81.63% after fees (including dividends) in the 35 months since inception (April 2015).

The fund continues to have the majority of its invested portfolio allocated to sub-$100m market capitalisation companies. What this means for investors is that DMXCP provides exposure to a genuinely differentiated portfolio of profitable companies, with bright prospects, at attractive valuations. The portfolio is different from other assets most investors are exposed to, is lowly correlated (fundamentally and in terms of price movement) with the broader market, so brings diversity as a building block for investors' broader portfolios.

<u>Portfolio Review</u>

The portfolio finished February down, against the back drop of generally weak equity conditions. Key contributors to the month's negative performance were:

- Paragon Care (PGC) announced a large equity raising, with a subsequent softening of its share price;
- Share price weakness following the Apollo Tourism (ATL) and Konekt (KKT) results, notwithstanding both companies confirmed their full year guidance numbers; and
- A poor result from Dreamscape (DN8) where additional costs more than offset very strong revenue growth.

There were a number of positive developments during the month:

- Pioneer Credit (PNC) reported a stand-out result with earnings substantially up;
- Joyce Corporation (JYC) reported very pleasing revenue and underlying profit numbers; and
- Blackwall (BWF) announced a very strong profit result, and the roll-out of their growing WOTSO business into SE Asia.

February was a busy month for the team with many results to digest. Post-results, we will be catching up with management of our core positions as well as potential new positions - we look forward to discussing these in the months ahead. A summary of notable half year results from a selection of portfolio positions held during the month is detailed below:

<table>
<tr><th>Company</th><th>HY18 result highlights</th><th>Comment</th></tr>
<tr><td>Zenitas Healthcare Ltd (ASX:ZNT)

(February return: -5%)</td><td>Revenue +53%
EBITDA +67%
Maiden dividend Declared</td><td>Zenitas continues to execute on its organic and acquisition growth strategy to become a significant national provider of community healthcare services. The half year results confirmed the growth of the Zenitas footprint, with annualized revenues now tracking at over $120m, and Zenitas now operating from 50 locations and employing over 1,700 healthcare professionals. ZNT’s market capitalisation remains below $100m.


Zenitas remains on track to deliver FY19 EBITDA of close to $20m which translates into net earnings of ~12cps. This puts ZNT on a p/e multiple of below 10x and offers significant share price upside potential in our opinion. Subsequent to reporting, we met management and they are confident there will be further near term strategic acquisitions, and ZNT is well placed to enter FY19 with annualised revenues in excess of $130m. ZNT remains the largest position in the fund.</td></tr>
<tr><td>Pioneer Credit Limited (ASX:PNC)

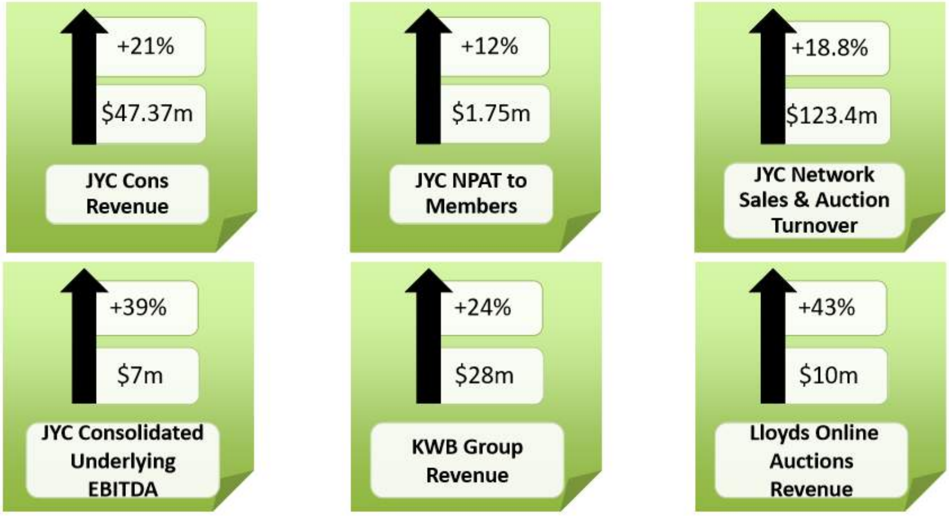
(February return: +10%)</td><td>Revenue +50%
NPAT + 93%
EPS +57%
Dividend +57%</td><td>Debt purchaser PNC delivered one of the stand-out results of the reporting season, with substantial improvements recorded across all key metrics. In particular, strong delivery on its key metric - cash collections (liquidations) of $46m, puts it on track to collect $100m for the year (up from $70m in FY17).
PNC Results highlights HY17 vs HY18
<table>
<tr><th></th><th>1H17</th><th>1H18</th><th></th></tr>
<tr><td>PDP liquidations</td><td>$31.3m</td><td>$46.1m</td><td>+47%</td></tr>
<tr><td>Net revenue</td><td>$24.6m</td><td>$36.8m</td><td>+50%</td></tr>
<tr><td>EBITDA</td><td>$15.2m</td><td>$24.3m</td><td>+60%</td></tr>
<tr><td>EBIT</td><td>$7.0m</td><td>$12.8m</td><td>+83%</td></tr>
<tr><td>NPAT</td><td>$4.2m</td><td>$8.1m</td><td>+93%</td></tr>
<tr><td>EPS</td><td>8.48cps</td><td>13.33cps</td><td>+57%</td></tr>
<tr><td>DPS</td><td>4.22cps</td><td>6.62cps</td><td>+57%</td></tr>
</table>
PNC has increased its forecast FY18 NPAT from at least $16m to $17m, notwithstanding it is investing in a further 50 staff across the business, which will clearly lead to earnings upside in future reporting periods. The company continues to differentiate itself from its competitors with a business model that minimizes the original lender to bad press. This gives them a key competitive advantage when buying debt. PNC has strong earnings and business momentum which led to large upgrades in target prices from brokers following its result - it remains the second largest position in the fund.</td></tr>
</table>

Joyce Corp Limited (ASX:JYC)

(February return: +3%)

Revenue +21%
NPAT +20%
EPS +20% (underlying)

Joyce Corporation, an investment company that owns the Bedshed franchise, Australia's largest kitchen renovation company and a leading online auction company, reported a strong operating result relative to the previous corresponding period.



JYC continues to invest in inorganic growth initiatives across all its business lines, that are expected to benefit future reporting periods. The business has a comprehensive 5 year strategy to deliver sustained strong earnings growth which in our opinion will drive significant upside from current levels.

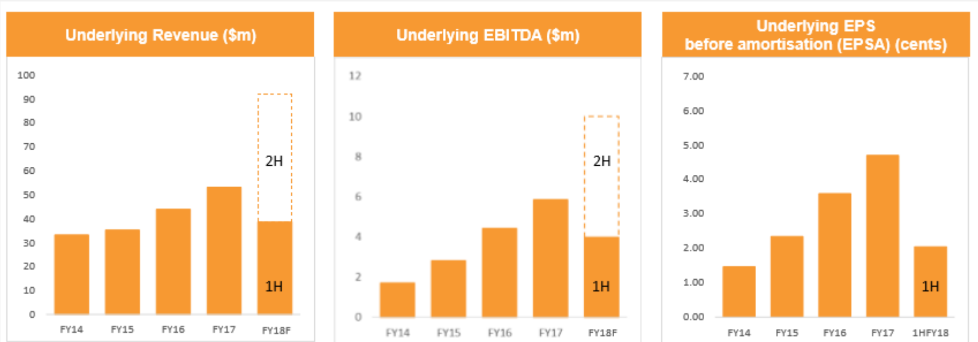
JYC re-affirmed its full year dividend intention of at least 11cps – putting it on a 7.5% yield fully franked.

Konekt Limited (ASX:KKT)

(February return: -15%)

Revenue +47%
EBITDA +34%
NPATA + 10%

KKT, a leading provider of workplace injury management and employment services, reported a substantial increase in revenues and underlying EBITDA, reflecting a three month contribution from its employment services acquisition Mission Providence.



While Mission Providence performed strongly, KKT's underlying business contracted, with reform in the NSW workers compensation market reducing volumes, and KKT's contract with Medibank also appearing to have come under margin pressure. This lower than expected performance of its core business saw the share price fall on the results release, and as a result it was a significant detractor to the month's performance.

KKT re-affirmed its full year guidance of a 70% increase in revenue and EBITDA. The company also guided that there will be significant lease costs savings as they combine the offices of Mission Providence and the core business. These costs savings and additional uplift in earnings from Mission Providence puts KKT on a very modest (7x NPATA) earnings multiple for FY19.

At the end of February, KKT was successful in a significant federal government tender to provide disability employment services across Australia. This organic growth initiative represents a new business line for KKT and whilst initial contributions will be small, it offers material medium term earnings potential to the business.

Blackwall Ltd (ASX:BWF)

(February return: +2%)

Revenue +145%
NPAT +521%

Blackwall, a property fund manager and manager of the WOTSO co-working concept, reported a 521% increase in profit after tax, after recognizing a significant performance fee during the period.

BlackWall Limited (BWF)

BlackWall Limited has recorded a strong result for the six months to December 2017 with recurring revenue from WOTSO and the property/funds business up 35% on the corresponding period last year.

An interim fully franked dividend of 1.9 cents per share has been declared to be paid on 11 April 2018.

BWF December 2017	
Recurring Income up 35%	$6.6 m
Performance Fees	$8.1 m
NPAT	$6.8m
EPS	11.5 cps
Net Asset Backing	49 cps

Pleasingly, BWF's recurring income demonstrated strong growth, with WOTSO revenue growing 37%, at a 12% margin. With WOTSO annualized revenue tracking at $8.2m, at current margins that suggests an operating profit from WOTSO of ~$1m. It can take up to 3 years for a new WOTSO location to achieve economic maturity at which point margins are generally in excess of 25%. Significant revenue and margin uplift therefore exists from here, however, as long as BWF is investing in new sites, the blended margin will be constrained.

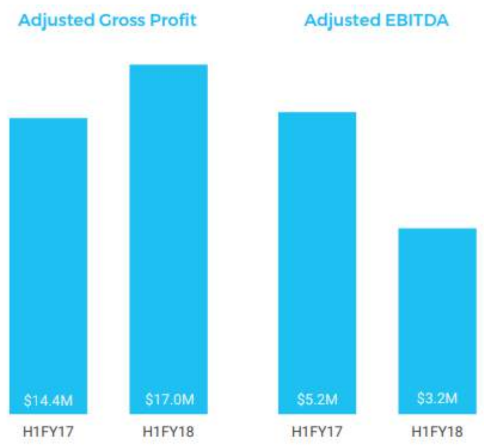
To further drive growth, BWF has also announced:

- WOTSO had secured its latest operation in Brisbane, with a 1,400 sqm facility located in Westfield Chermside - this will be one of the first Australian collaborative workspaces in a super-regional shopping centre.
- A joint venture with a listed Malaysian property developer to roll out WOTSO in new developments in Singapore and Malaysia, expanding on WOTSO's existing Singapore operation.

Dreamscape Ltd (ASX:DN8)
(February return: -32%)

Revenue +30%
EBITDA -38%

Online solutions provider Dreamscape (DN8) recorded strong growth in revenues (+30%) and gross margin, but due to an unexpected large increase in personnel and marketing costs delivered a poor profit result, with underlying EBITDA down 38%.



DN8 continues to hold the largest market share of domain brands in Australia and has recently become the largest player in Singapore. Whilst the South East Asian business is growing rapidly, the Australian business continues to face headwinds and with the increased group cost structure, the company is likely to remain out of favour for some time.

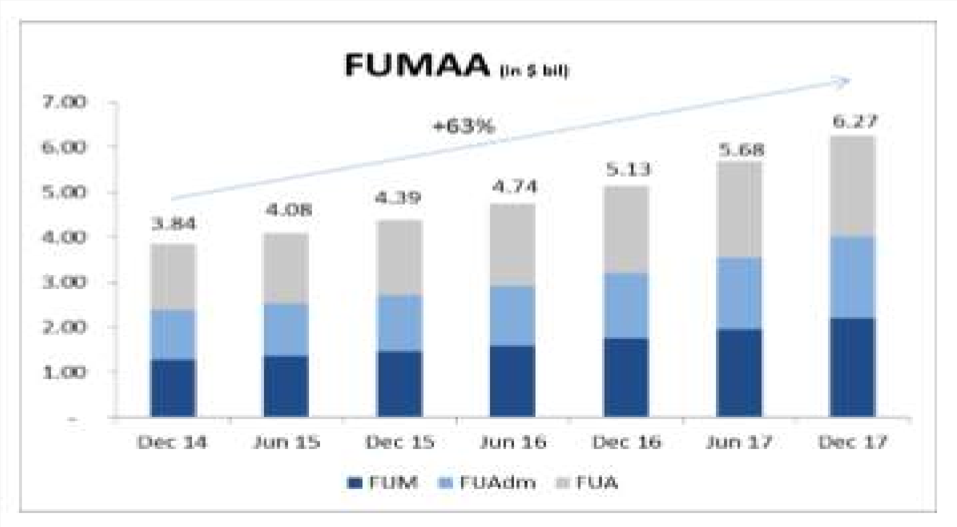
While this result is disappointing, DN8 represented only a minor portfolio weighting.

Fiducian Group (ASX:FID)
(February return: -2%)

Revenue +12%
NPATA +24%
EPSA + 23%
Dividend +28%

Integrated financial services company Fiducian reported another strong increase in its underlying after tax profit in FY18 of 24%. Its total funds under management, administration and advice (FUMAA) increased 22% to $6.2b across the period. The operating leverage inherent in the business continues to improve, with FID's Cost to Income ratio reducing significantly in recent years as the business scales up (2013: 70%, H118: 57%).

FID's FUMAA has been growing strongly in recent years:

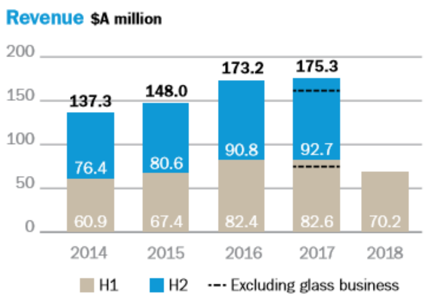


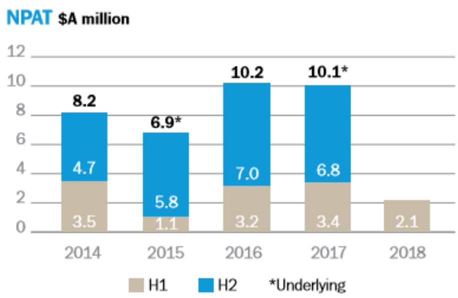
With 44 offices throughout Australia, FID is now a substantial national financial services business, benefitting from increasing recurring revenue. FID is well placed to continue to build scale organically and through acquisitions, and to leverage its integrated service offerings to deliver consistent double digit earnings growth.

Gale Pacific Ltd (ASX:GAP)
(February return: -2%)

Revenue -6%
NPAT -38%
EPS -38%
Dividend - flat

Shade sale and fabric manufacturer and distributor Gale Pacific reported a messy result that masked some significant progress within the business. The poor grain harvest from the East Coast significantly impacted sales of commercial fabrics to GAP's largest commercial customer Graincorp, while hurricanes in the southern American states impacted upon retail sales in those geographies. GAP also continues to divest its non-core assets. Notwithstanding these issues, GAP confirmed its FY18 profit is still on track to exceed FY17.





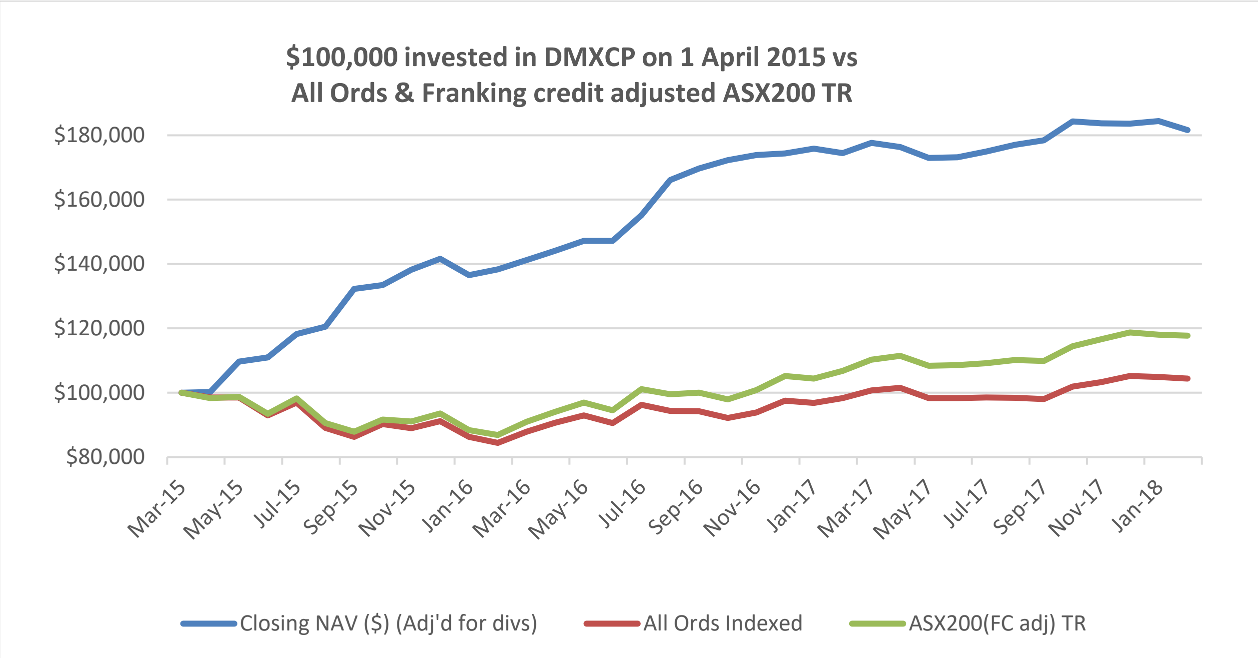
With a market cap of approximately $100m and profit of ~$10m expected in FY18, GAP trades on an undemanding p/e of 10x. We have met with management post-results who are excited about the potential for continued growth in America, which has become the most profitable region for the company. Revenue from America increased 16% in FY17, and is expected to continue to record double digit increases over the coming years. After 2 years of business restructuring and profits going sideways, FY19 is likely to see a return to meaningful profit growth for GAP, driven by its US operations. As the market starts to turn its attention to FY19 we see potential for a significant re-rate from GAP's current valuation.

Please feel free to follow us on twitter to keep up to date with our articles and commentary: https://twitter.com/DMXAsset

Fund Monitors have recently started maintaining an analysis of DMX Capital Partners available at:

https://www.fundmonitors.com/fund-factsheet.php?FundID=1265&AccCode=fsoljcoh0

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 April.

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
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