DMX ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

January 2019 – Shareholder Update

An investment company managed by:
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Opening NAV (1 January 2019) [1,2]	**$1.5945**	Fund size	$6m
Closing NAV (31 January 2019) [1,2]	**$1.5965**	% cash held - month end [4]	22%
NAV Return (January)	0.122%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.5965**), 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**												**+0.122**	**+3.88**

Dear Shareholder,

DMXCP's NAV increased 0.12% after all accrued fees and expenses for January 2019. The NAV as at 31 January was **$1.5965**, up from **$1.5945** as at 31 December. The ASX All Ordinaries Index increased 3.88% during the month, while the XEC (Emerging Companies Index) was up 4.77%.

For the first seven months of the 2019 financial year, DMXCP's net asset value has decreased 1.59%.

During the month, there were no significant contributions or detractors to the portfolio, reflecting the limited newsflow and general lack of interest in micro-cap industrials. As a result, the portfolio didn't share in the broader market recovery experienced in January, which saw more liquid and oversold stocks rebound following a difficult last quarter of 2018.

Positive contributions to the portfolio over the month included Pioneer Credit (+8%), People Infrastructure (+9%) and Sequioa (+7%). Detractors included UCW Limited (-6%), Konekt (-6%), and Mainstream (-6%).

Reporting Season Preview

After a period where market sentiment has been dominated by global macro issues, we see February half year reporting as a chance for the market to refocus on fundamentals, and an opportunity for companies to highlight their attractive investment cases.

We are looking forward to seeing our companies report. We take confidence that the DMXCP portfolio owns well run companies that share the following fundamentals:

- The businesses are not expensive relative to near term earnings. The portfolio has a median price to earnings (PE) multiple of less than 10x this years (FY19) earnings forecast. The broader market is trading closer to 16x.

- The businesses are growing. In our holdings, we want to see a track record of revenue and earnings growth, and we want to have good visibility that this growth will continue. Simply put, we want to own a small company that has a solid pathway to grow into a much larger company. However, at the same time we recognise that in a low growth, very competitive macro environment, with significant ongoing disruption happening across most industries, achieving consistently strong ongoing earnings growth is challenging, and there will be times when even the highest quality and most reliable companies may disappoint. For this reason, we run a diversified portfolio that helps to limit the impact of these disappointments.

- Whilst the companies we own are small, in many cases they have market leadership positions in their particular niche. This strong competitive position helps to ensure pricing power, whilst providing the businesses with the scale to ensure they can continue to innovate and improve their offerings to stay ahead of their competition.

- By focusing on companies that can generate strong organic revenue growth, we avoid turnarounds or opportunities that appear cheap on valuation metrics, but because of uncertain industry conditions or structural forces, have a good chance of getting cheaper.

There are a number of stocks in the portfolio which have the potential to re-rate on the back of pleasing half year updates. In this update we cover a selection of stocks in the portfolio ahead of their half year reports and highlight some of the areas where we will be focusing our analysis when they report.

Blackwall (BWF)

We are keen to see the progress of BWF's flexible workspace business WOTSO, which continues to grow quickly in a fast-growing market. In August 2018, WOTSO's annualized turnover was at $13.4m, up from $8.2m in February 2018. On the back of new locations in Chermside (Westfield), Bondi Junction and Kuala Lumpur, we expect to see a ~100% uplift in WOTSO turnover versus the $3.7m reported in the PCP. As the portfolio is maturing, we would also expect to see an uplift in margins, with BWF management continuing to target (and achieve) 25% EBITDA margins for mature sites. However, we do note that overall margin growth will be tempered by the investment in new locations that have opened during the period. We expect steady growth in BWF's two other businesses (funds management and property management) although note that the funds management business is cycling a large one-off performance fee in FY18, that won't be repeated.

BWF's three operating businesses have a current enterprise value of ~$20m, so we think significant value remains unlocked here, particularly in relation to WOTSO, given its scalability and growth profile. In previous updates, Management have talked about how WOTSO is structured to enable a spin off, a trade sale, investment from or merger with a strategic partner, any of which would likely realise value for BWF – so an update on this would be positive.

After some delay, the sale of the Bakehouse Quarter property managed by BWF is due to complete in the first half of 2019. Together with some associated transactions, this will generate $15m of cash for BWF (providing a range of investment and capital management options) and will result in the BWR Property Trust (ASX:BWR - managed by BWF) growing its asset base by $110m, increasing the recurring management fees paid to BWF. This will underpin additional future growth for BWF.

CML Group Limited (CGR)

CGR provides invoice and equipment finance to Australian SMEs through its brand Cashflow Finance. It is the number two player in invoice factoring after Scottish Pacific. Both companies have been acquiring smaller competitors in recent years and now have a combined 95% share of the market. In early 2018, CGR acquired Thorn Group's Debtor Finance (TDF) business. We expect CGR's half year result will show a strong uplift in profit, due to lower finance costs and the accretive impact on earnings from the TDF loan book. The company upgraded its full year guidance at its November 2018 AGM, with Underlying NPATA in FY19 expected to be $9m+.

More specifically, when CGR reports, we will be monitoring the following:
- That invoices purchased are tracking to full year guidance ($1.7b);
- The margin on invoices purchased reverts to Pre-Thorn book levels;
- The company announced the entry into invoice discounting at the AGM. While we expect this to be initially loss-making, we will be monitoring how this new business is tracking;
- Growth in the Equipment Finance division; and
- The level of arrears has not deteriorated.

CGR trades on around 10x FY19 NPATA, a significant discount to the 17x multiple paid by private equity for its key competitor, Scottish Pacific, in late 2018.

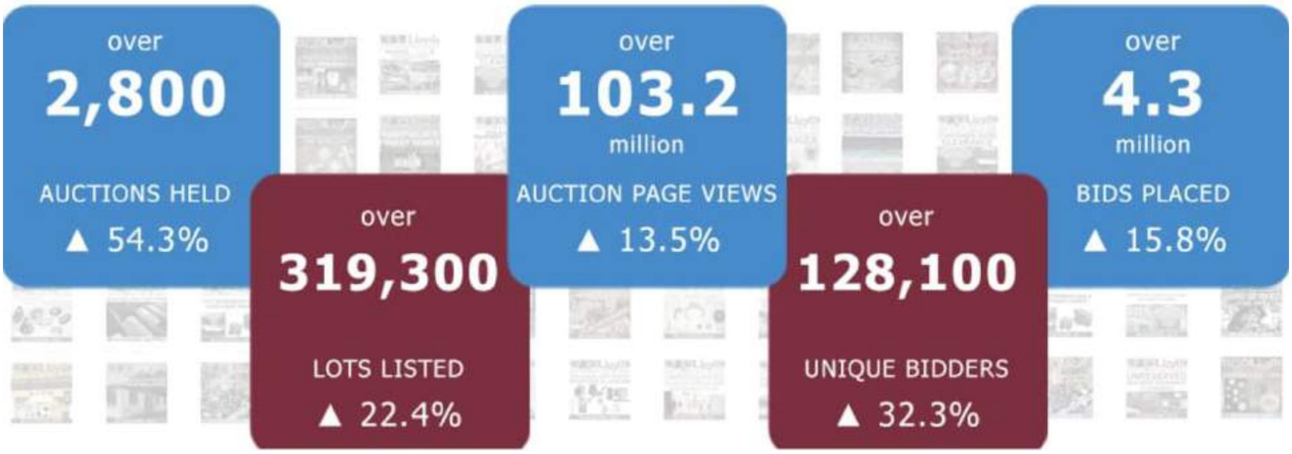
Joyce Corporation (JYC)

Investment company JYC, in recent years, has taken stakes in a portfolio of well-run businesses that have delivered impressive growth metrics. At its recent AGM, JYC noted that its revenue and underlying earnings growth were tracking to plan (in FY18 JYC benefitted from a property revaluation gain of $933k) In the relatively unsexy world of kitchen renovations, JYC's KWB business recorded revenue growth in FY18 of 26% to $60m (like for like sales growth of 14% and new site sales of 12%) and EBIT growth of 40% to $8.3m. While these growth rates will be harder to replicate in FY19, new showrooms in regional Queensland and NSW underpin further group growth. We note that the business has no exposure to the metropolitan Sydney and Melbourne markets where falling house prices may be expected to dampen renovation spending.

Similarly, JYC's regional Bedshed business grew its EBIT 44% in FY18, and the roll out of further franchise stores will drive growth in FY19.

Of most interest when JYC reports will be the progress of its Lloyds Online Auction business which grew auction turnover 27% to more than $111m in FY18. During FY18, Lloyds invested $2.4m in various growth initiatives so we are keen to see evidence of some return on this investment. We understand that new business initiatives are more than offsetting the slowing traditional insolvency and industrial auctions. Substantial unappreciated value remains within its subsidiary investments, Lloyds, so we continue to look for initiatives from Management to unlock some of this value.

A summary of Lloyds' operational highlights of 2018 can be found here: https://www.lloydsauctions.com.au/insider/our-year-in-review/.



Pioneer Credit (PNC)

Debt collector Pioneer Credit provided an encouraging AGM update, reaffirming guidance of at least $120m of liquidations, $65m of EBITDA (+20%) and NPAT of $20m (+14%) in FY19. Importantly, PNC noted that its increasing operational scale was underpinning continued earnings growth. Investment opportunities were described as plentiful while the Banking Royal Commission has increased focus on quality services, with engagement for Pioneer's services increasing.

With key competitor Collection House reporting a better than expected start to the current financial year with improved core cash collections, and with economic conditions for the business generally stable, we expect PNC to again report a positive outlook, continuing the strong momentum experienced over the last 3 years.

Key points of interest that we will be looking for in the full year results include:

- Continued growth in cash collections to meet PNC's guidance of +20%.
- Progress in PNC's new personal loan division Credit Connect.
- Details of potential merger/acquisition initiatives, which PNC have said they continue to progress.

Legend Corporation (LGD)

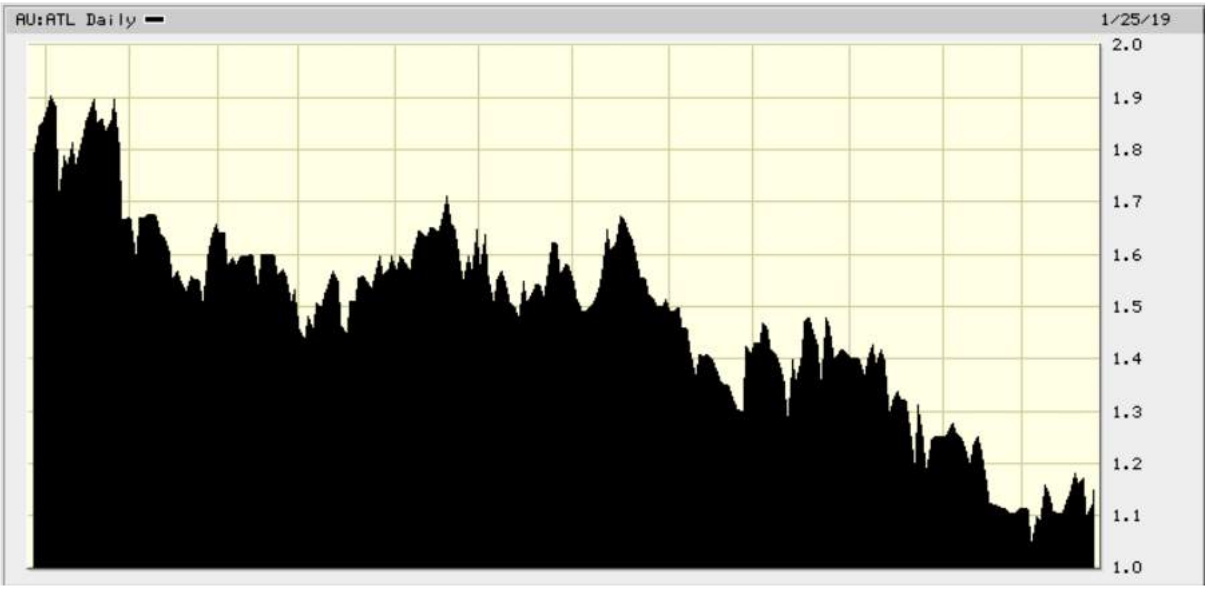
LGD provides consumables, tools and equipment for electrical projects and is currently benefitting from the extensive infrastructure projects underway particularly on the Australian East Coast. The company has already given 1H19 guidance at its AGM in October. EBITDA is forecast to be 32% to 37% higher than the previous corresponding period. Approximately 20% of this growth will come from recent acquisitions, with the remainder from organic growth.
When LGD reports, we will be looking for signs that its recent acquisitions, Celemetrix and PCWI, are performing to budget; as well as how LGD is seeing the state of each of the key markets that they operate in, in particular infrastructure and mining.

While we don't expect LGD's second half growth rate to be as strong as the first, we are forecasting LGD to be trading on a PE multiple of less than 10x and paying a healthy dividend (6%).

Apollo Tourism and Leisure (ATL)

A casual observer of the ATL price chart might assume that the company had performed poorly over the last year. While they have not shot the lights out, they have met their guidance and at their AGM again confirmed their FY19 earnings forecast ($22-24m). With peer weakness, poor consumer sentiment, and a slowdown in overseas visitors, the market may already be factoring in a downgrade. With good visibility around forward bookings, any downgrade is likely to come from the retail (Recreational Vehicle sales) business. We have seen some weakness in new car sales, so it will be interesting to see if this translates to RV's.
Of interest will be the progress in Europe. The company acquired the UK based Camperco in March 2018. This is being used as a platform for mainland Europe expansion. Evidence of traction in this region will increase the growth profile of the company.

While only reporting their half year result in February, we would expect the company to comment again on its full year guidance. If ATL meets the midpoint of guidance, they will be trading on a pe of 9x. If guidance is met, the current price would appear to be a great entry for a company that has a strong diversified global business and a track record of growth.



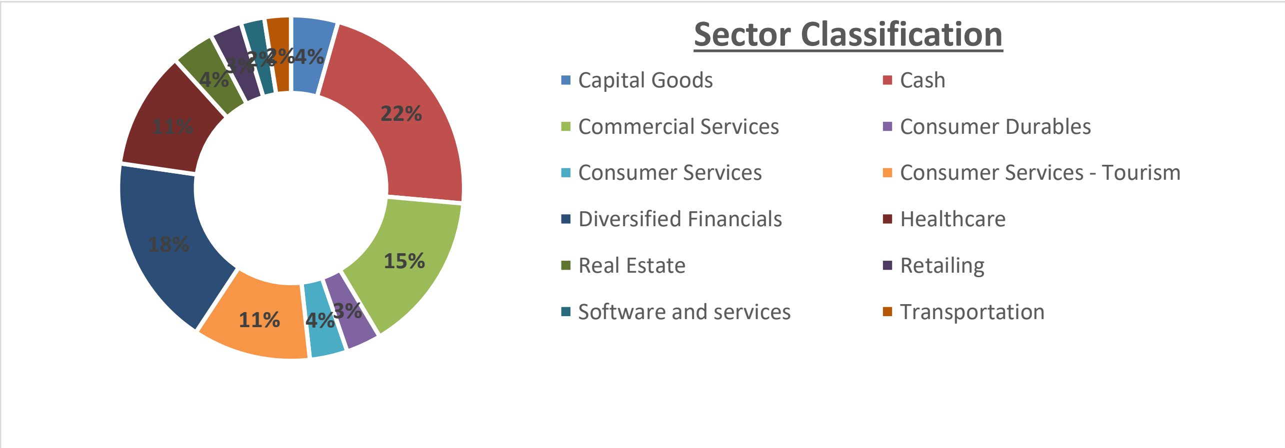
People Infrastructure (PPE)

People Infrastructure (PPE) is an Australian and NZ workforce management company and the largest Australian provider of contract staff to the community services sector. This sector is experiencing very strong growth due to the roll-out of the National Disability Insurance Scheme (NDIS), as well as from the ageing population.

Despite trading up 100% on its 2017 IPO price, PPE continues to screen attractively at 11x FY19 NPATA, with its capital light operations continuing to generate substantial free cash flow.

FY19 represents a large step up in spending by the federal and state government on the NDIS (+70% to $17b) with a corresponding increase in workers required. PPE provides an attractive exposure to this increasing spend. PPE's half year result should confirm that this theme is playing out as expected.

Portfolio Sector classification



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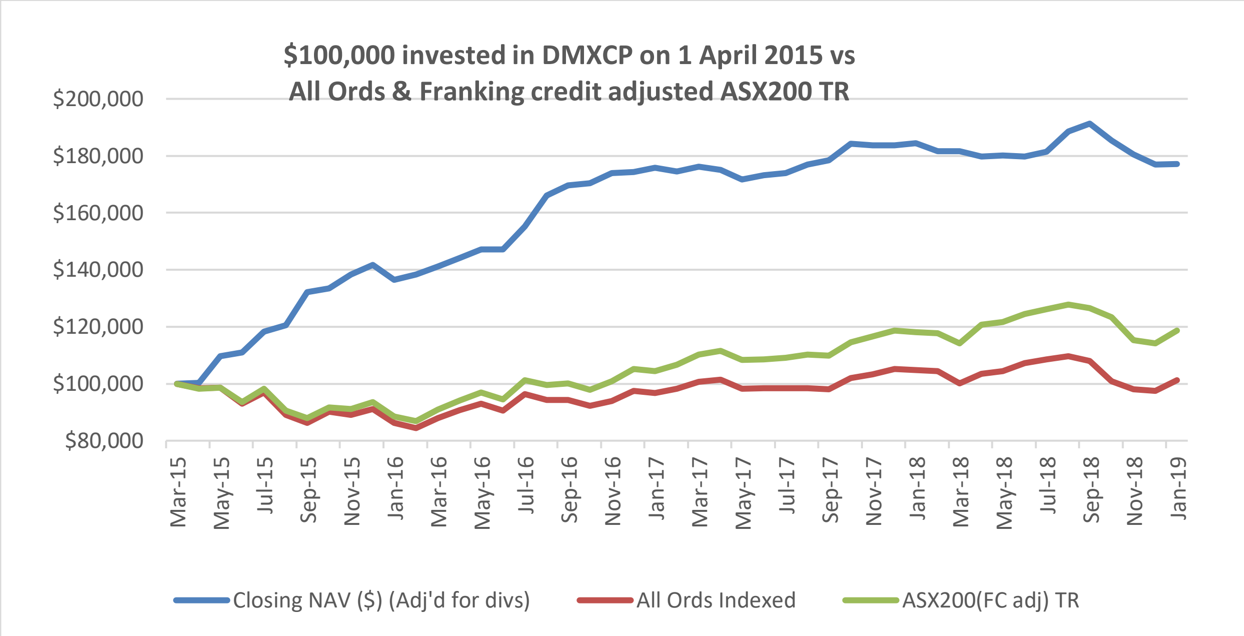
Performance

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.



We recently announced that Simon Turner will shortly finish up in his role with DMX Asset Management in order to pursue an opportunity outside of the funds management industry. Simon will continue to be a part of the wider DMX family as an ongoing shareholder in DMXCP. We really appreciate all of Simon's efforts over the past 3 years and wish him and his family all the best in his new endeavor.

We look forward to reporting to you again in early March.

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