DMX Capital Partners Limited

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

DMX ASSET MANAGEMENT

DMX Capital Partners Limited

July 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 July 2018) [1,2]	**$1.6757**	Fund size	$7m
Closing NAV (31 July 2018) [1,2]	**$1.6927**	% cash held - month end [4]	16%
NAV Return (July)	+1.017%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.6927**), 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						**-1.17**	**+3.23**

Dear Shareholder,

Portfolio Review

DMXCP returned +1.02% after all accrued fees and expenses for July 2018. The ASX All Ordinaries Index rose +1.23% during the month. DMXCP's NAV as at 30 July was **$1.6927**, up from **$1.6757** in June.

During the month, pleasing contributions to performance came from:

- Euroz Limited (+10%) – EZL reported a 61% increase in annual profit, driven by fund growth and performance fees on the back of a recovering commodities market and Western Australian economy.
- Zenitas Healthcare (+11%) – ZNT reported a strong quarterly cashflow result of $3.7m, with ZNT's pre-tax operating cash flow for the year of ~$12m underpinning Management's EBITDA guidance of ~$13m.

Detractors for the month included:

- SRG Global Limited (-10%) – SRG confirmed its strong guidance for FY18 ($18m to $20m EBITDA) but weakened ahead of its merger with GCS Limited, on the back of selling pressure from investors unhappy with the merger.
- Janison Education (-6%) – JAN pre-released an earnings result in line with consensus ($3m EBITDA). However, as expected, due to investment in product and business development, the second half was not as profitable as the first. We view JAN as a compelling opportunity in the education technology sector.

Reporting Season Preview

August will see all our portfolio holdings report their annual profit results. This provides the market the opportunity to re-focus on the fundamentals of companies, rather than having share prices driven by momentum or speculation as often happens in other parts of the year. A large number of our holdings have already pre-released their results, and given the market is forward looking, the focus will be as much on the outlook statements as it will be on the results being reported. Our portfolio is focused on stocks with good business momentum and/or in upgrade cycles, so we look forward to reporting season with confidence.

Below, we preview the results for a number of our holdings and comment on our expectations.

Pioneer Credit (PNC)

Debt collector Pioneer reported a very strong first half result (cash collections increased 47% for H118) and upgraded its FY18 guidance to more than $17m (FY17 profit was $11m). With economic conditions for the business stable, we expect PNC to comfortably meet its guidance and report a positive outlook, continuing the strong momentum experienced over the last 3 years.

There has been no material news flow released by PNC since its half year results. Accordingly, we expect the full year result to refocus investors on the compelling fundamentals that PNC offers.

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

- Continued growth in cash collections.
- Progress in PNC's new market of collecting LMI residuals - it was previously reported that initial results indicated performance to be slightly ahead of expectations.
- Progress in PNC's new personal loan division, Credit Connect, where PNC has said it is targeting a $30m loan book by December 2018.

Blackwall (BWF)

Blackwall will report a strong full year result – underwritten by its first half result where recognition of performance fees saw it deliver a record NPAT of $6.8m. Of most interest when BWF reports will be the progress of its flexible workspace business WOTSO, which continues to grow quickly in a fast-growing market. In March, WOTSO's annualized turnover was at $8.4m, and we expect to see further good growth here on the back of new locations in Chermside (Westfield), Bondi Junction and Sippy Downs. We also expect an update on WOTSO's South East Asian roll-out, with new locations set for Kuala Lumpur and Johor in Malaysia through a joint venture with its Malaysian partner property developer UEM Group (owned by the Malaysian Government).

BWF continues to have approximately 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 $30m. Significant value remains unlocked here, particularly in relation to WOTSO. 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.

CML Group (CGR)

CML Group is a portfolio position added during 2018. CGR provides Invoice and Equipment finance to Australian SME's through the 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% of the market. In 2018, CGR acquired Thorn Group's Debtor Finance (TDF) business. This has been successfully integrated and performing ahead of expectations. Another highlight for FY18 has been a material reduction in the effective interest rate across its facilities. Both the TDF acquisition and the reduction in funding costs will underpin strong growth going into FY19. Importantly, the business has funding capacity to increase its loan book through organic activities.

While the upcoming FY18 financial result has been pre-announced, we will be paying close attention to the loan book as any organic growth should translate to profit upgrades for the FY19 year. We will also be watching the progress of the newly formed equipment finance division as this provides another avenue for growth.

Legend Corporation (LGD)

Legend is another new position for 2018. The company provides consumables, tools and equipment for electrical projects, and has had a checkered history of cyclical earnings. A repeating characteristic has been for new acquisitions to plug the declining earnings or another operating business. However, in recent results this trend appears to have abated and organic growth has returned to its operating businesses on the back of recovering infrastructure spending. Our entry into the position considered this history, but at less than 8x FY19 profits, we felt there was a significant margin of safety to take a position. With the full year result pre-announced and significantly up on the previous year, our focus will be on the progress of its recent acquisition, the organic growth of its existing businesses, and the outlook for FY19 which we expect to be positive.

People Infrastructure (PPE)

We added People Infrastructure to the portfolio when we participated in the IPO in November. The company 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. After a strong first half, we expect the company to comfortably exceed its IPO forecasts. FY19 will see the inclusion of the recent acquisition: Recon Solutions. Recon is the first entry for IT sector for PPE. Additional growth should come from demand for disability services through the implementation of the NDIS - PPE is the largest provider of labour to the NDIS. We also expect further bolt-on acquisition though FY19.

Zenitas Healthcare (ZNT)

Community healthcare provider Zenitas has an opportunity when it reports to demonstrate to the market it is delivering on its growth objectives. In H1, Zenitas reported strong organic growth (7.5%) and noted that its acquisitions were performing well. ZNT is expecting up to 10% organic growth for FY18 and delivering this and a result in line with guidance will provide confidence that Management is executing on its strategy.

There have been significant operational developments since Zenitas last reported. We will be looking for an update on this activity including:

- The development of ZNT's mobile health strategy across several modalities including physiotherapy, podiatry and GP services.
- Growth of its homecare business, which has seen a significant increase in government funding and private funding, as the shift in focus from hospital care to home care gains traction.
- Progress of organic growth initiatives Management have put in place over the past year, particularly from cross-referrals and group marketing strategies.
- Progress in relation to its recent acquisitions.

Konekt (KKT)

At the start of FY18 Konekt completed a transformational acquisition with the purchase of Mission Providence, to diversify its service offerings. This business has performed well. However, KKT's core business softened with weaker workers compensation markets in NSW and South Australia impacting performance. In April, KKT advised it expected FY18 EBITDA of between $8.5m to $9.5m (previously expected $10m, FY17: $5.5m). At the time of the update, Konekt said it expected its FY19 results to be strongly up on the FY18 results, reflecting the first 12-month contribution of the acquisition plus targeted occupancy synergies of $2.5m - $3.0m (which were on track to be achieved as a run rate by the end of December 2018).

Confirmation of this FY19 growth, and signs that the workers compensation market has stabilised will help to restore some confidence in KKT's outlook, as will continued growth from other service offerings including mental health, pre-employment and consulting services and Mission Providence (now rebranded as Konekt Employment).

SRG Global (SRG)

Operationally and financially, SRG has had a strong year while investing in its international expansion. It has achieved its stated strategic objective by forming a JV for the massive North American Dams market. SRG also acquired the NZ-based TBS group. TBS will provide strong annuity-type revenues with a focus on maintenance. However, most notable is the proposed merger with GCS. The merger of equals will create a larger group that cross sell and produce cost synergies.

With the guidance for recently FY18 narrowed to underlying EBITDA of $18 - 20 million (a strong increase from $11.4m in FY17), our focus will be on the progress of its international expansion, integration process with TBS, and work in hand. Of course, we will also need to pay close attention to the GCS result, which SRG merges with at the end of August.

Joyce Corporation (JYC)

FY18 has seen Joyce continue to invest and grow its business units - we expect to see organic revenue growth for FY18 of at least 15%, driven by the continued roll out of KWB Kitchen and Bedshed stores, and a significant increase in turnover in the Lloyds Online Auction business (to more than $100m). In an environment where genuine organic growth is hard to come by, Joyce is delivering some encouraging results.

With significant investments made across all business units over the last two years, establishing a number of market leading positions, we expect Joyce to provide a positive outlook for FY19 when it reports.

Substantial value remains unlocked within its subsidiary investments, in particular Lloyds, so it was pleasing to see the recent strengthening of the JYC executive team with the appointment of a chief operating officer to provide additional management support and assistance with potential merger and acquisition activity.

Gale Pacific (GAP)

GAP has had a somewhat disappointing year. We were originally looking for strong earnings growth for FY18, however management have now guided for a flat EPS result. Weather related events in both Australia and US have impacted revenues. Given this was probably an abnormal year and the long-term thesis remains intact, we continue to hold. Going into FY19, there are still clouds on the horizon with a poor Australian grain harvest due to draught hitting some of its Australian commercial customers, however Management remain very positive on its many US opportunities. We are supportive of management buying back shares while the share price is depressed and debt levels low.

Apollo Tourism (ATL)

Apollo has had another busy year. After completing the acquisition of Canadream early in FY18, the company has made further acquisitions during FY18:

- George Day Caravans - one of Western Australia's largest range of new and used caravans, campers and motorhomes
- Camperco, a small UK based Campervan rental operator. This provide Apollo a beachhead into Europe
- The caravan brands Coromal and Windsor from Fleetwood. The acquisition "is expected to result in a more rational market and improved margins"

The FY18 NPAT result is expected to be around $18.5m and in-line with our expectations. If this is achieved, it will be a credible result for Apollo's first full year as a listed company. We will be expecting further growth in FY19 driven by organic growth, cost savings in manufacturing, and contributions from the recent acquisitions.

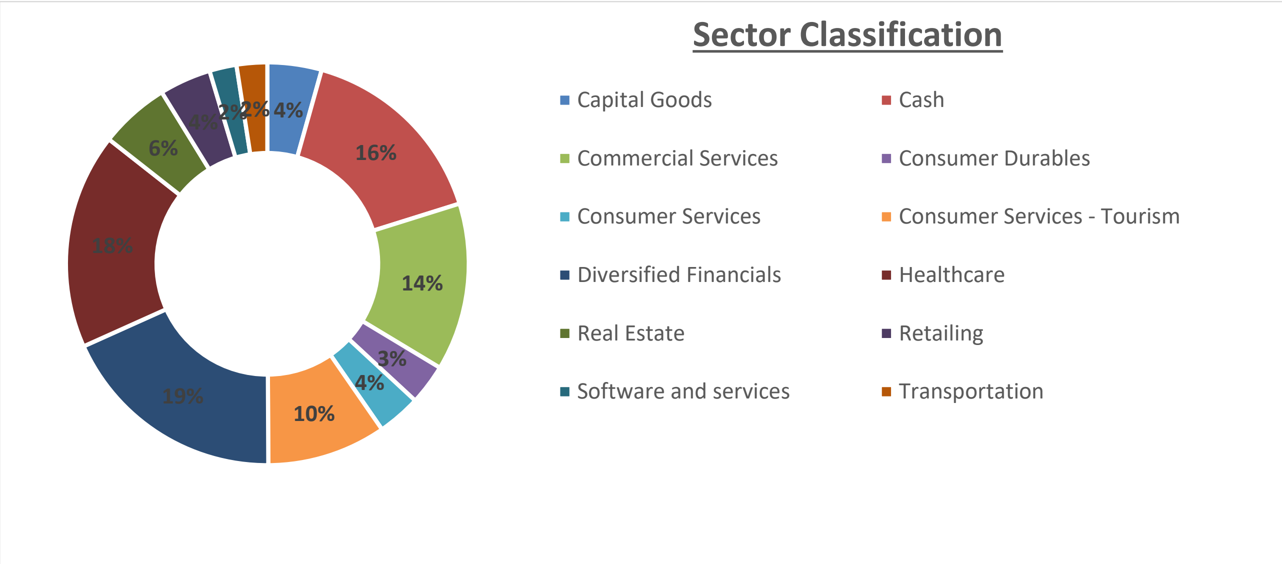
Paragon Care (PGC)

Back in 2016, when it had revenues of under $100m, Pargon set an aspirational goal of $250m revenues. With a capital raise and a string of acquisitions in FY18 (including expansion in New Zealand), PGC is on target for $265m in revenues in FY19. Paragon are now a substantial company and have certainly executed on its goals. While Paragon has an excellent track record at integrating acquisitions, the FY19 year will represent both a challenge and an opportunity given the number of new businesses in its stable. Long serving CEO, Mark Simari stepped down in February to focus on integrating acquisitions and was replaced by experienced healthcare executive Andrew Just.

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

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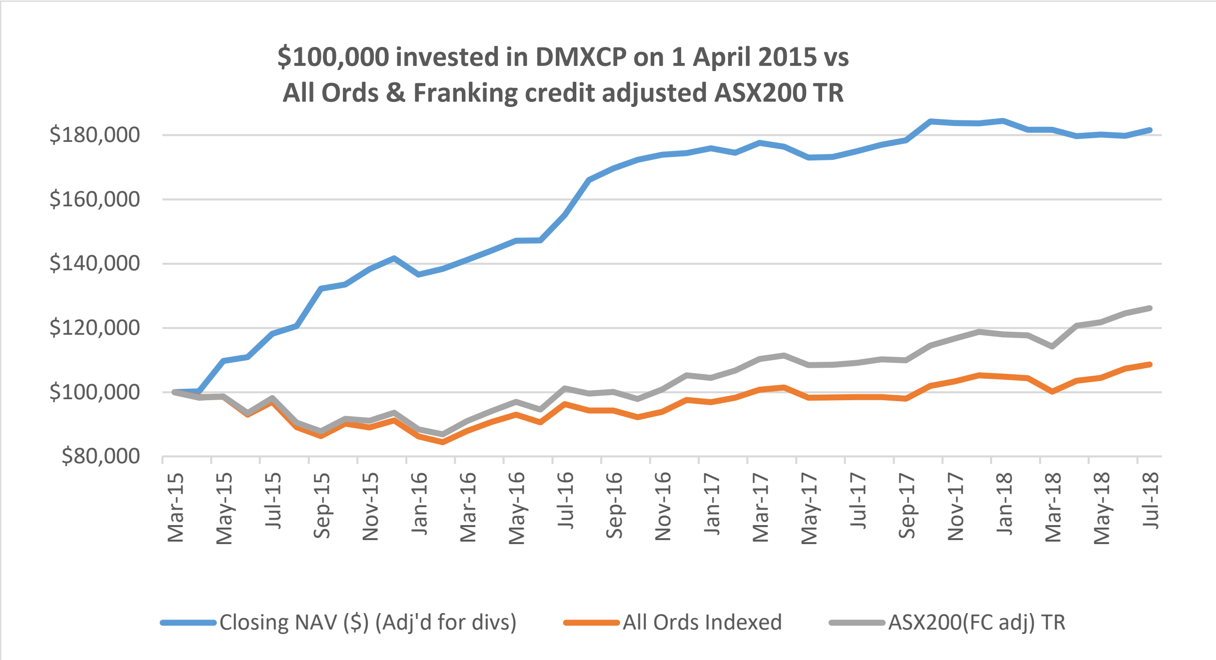
The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (April 2015). DMXCP is an absolute return fund, focused on generating positive (absolute) returns over the medium to long term. The fund is benchmark unaware, 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 September.

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