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

DMX Capital Partners Limited
April 2020 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
Dean Morel
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Opening NAV (1 April 2020) [1,2]	**$1.4811**
Closing NAV (30 April 2020) [1,2]	**$1.6074**
Fund size (gross assets)	$7.4m
% cash held - month end [4]	25%
Gearing	nil

1 month return	**8.53%**
3 month return	-16.43%
12 month return	2.58%
3 year return (p.a.)	1.91%
Since inception (*5 years, 1 month*) (p.a.)*	16.74%

*DMXCP Share price = Closing NAV (**$1.6074**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
**Return since inception (1 April 2015) includes 24c of dividends and franking credits paid*

Dear Shareholder,

DMXCP's NAV increased 8.53% (after all accrued fees and expenses) for April 2020. The NAV as at 30 April 2020 was **$1.6074**, compared to **$1.4811** as at 31 March 2020.

For the first ten months of the FY20 financial year, DMXCP's NAV has declined 0.56% (after all fees). The NAV is up 2.58% over the past 12 months.

In recovery mode, the All Ordinaries was up 9.53% in April while the ASX Small Ordinaries Index increased 14.24% and the XEC Emerging Companies Index rebounded 25.02%.

<u>Portfolio management during April</u>

Relative to March, April was a somewhat calmer month for global markets. Our focus this month was on rotating out of, or reducing, some positions that had benefitted from strong market movements, adding to positions that had not increased in price, and deploying funds into new opportunities. During the month, we continued to hold elevated levels of cash, and we remain cautious on the recent strength of the market generally.

There was a significant amount of news flow to review and digest during the month, as a large number of holdings reported quarterly updates and COVID-19 related trading updates.

<u>Sub $10m market cap positions</u>

April saw a number of our smaller companies report their March quarter activity and cash flow results. We provide updates from some of our key nano-cap holdings below.

- Over the last 12 months we have done well to accumulate over 6m shares in Stream Group (ASX: **SGO**), representing ~3% of the shares on issue and around 75% of all shares traded over the period. During the month, SGO confirmed receipt of $1.6m cash relating to an earn-out from the sale of a previously owned business. As a result, SGO's cash balance now sits at over $4m versus its market cap of $4.5m. In addition to cash, SGO also has ~$3.5m in franking credits, owns a small insurance claims SAAS business, has value as a clean listed shell, and there is potential for corporate activity to take advantage of the shell. During April, a total of <u>800</u> SGO shares traded – highlighting how tightly held it is.

- DMXCP and associates own ~8% of Chant West Holdings (**ASX:CWL**). With an EV of less than $6m, CWL owns two growing national businesses; Chant West which provides superannuation data services, and Enzumo which provides software services to financial services participants. The market volatility resulting from COVID-19 has resulted in increased demand for the services of both businesses. In relation to Chant West, the number of user reports generated across the suite of Chant West research tools has increased 22% YTD, while Chant West consulting services experienced an impressive 30% increase in revenue for the March quarter, which should lead to further subscription revenue growth. We understand that growth, and demand for Enzumo's services (particularly from its UK partner that can no longer send implementation teams to Australia) has continued into the fourth quarter.

  CWL reported EBITDA of $1m for 1H20, which if annualised, means CWL is trading on less than 3x EBITDA, with approximately half of its market capitalisation represented by cash. We believe it would be a challenge finding many other growing ASX company with favourable tail winds and little COVID-19 impact, trading close to those metrics. (However, if any readers are aware of others – please let us know!).

- We are a top 20 shareholder in Australian Family Lawyers (**ASX:AFL**), one of the largest networks of family lawyers in Australia, specializing in divorce, family violence and children's matters. During the month AFL reported year to date revenue growth of 37%, with new file openings up 50%. Unfortunately, one of the impacts of COVID-19 is an increased amount of relationship stress, with applications to the Family Court up 40% since the start of COVID-19. AFL is likely to see increased demand for its services and has an ambitious growth outlook as it seeks to increase its market share from ~1% to 10%.

We highlight these positions as they represent a key tenet of our investment strategy. That is seeking to capitalize on potential for genuinely asymmetric returns from companies with low market capitalisations and attractive growth profiles. We like to focus on opportunities where we feel the potential upside is significantly higher than the potential downside, and where we can get good comfort around the downside. In this environment, as prices fall, that downside/upside equation tilts far more in our favour.

The enterprise value of each of the companies highlighted above is less than $10m. With downside clearly limited by either cash holdings or a business with strong market positioning, we feel the potential for asymmetric returns from these companies trading on very low market caps is high.

This focus on the downside risk, together with the idiosyncratic nature of our holdings, helps protect the portfolio on a relative basis during periods of weaker market movements (as we experienced last month), but the lack of market correlation does limit performance during stronger periods. We are absolutely convinced that at some point significant value will be realized from these idiosyncratic type positions that are currently trading on very low enterprise values. This value will be realized independent of how the market is behaving.

Adapting to COVID-19

One of the attractive characteristics of well led small companies is their ability to be nimble and to adapt to changing business conditions. A feature of portfolio companies announcements this month has been the number of businesses that have quickly taken steps to protect or grow revenue in the face of COVID-19 challenges. Some of our key positions are highlighted below:

- Kip McGrath Education Centres (ASX:**KME**) announced that as a result of lockdowns, there had been a near complete cessation of face to face teaching, with KME centres in Australia, the United Kingdom, New Zealand and South Africa all temporarily closing. For most tutoring businesses this would have been a disastrous situation to face. However, KME, having invested significantly in an online teaching platform over many years, was able to scale their online offering to more than 10,000 lessons in the first week of April, compared to <500 online lessons per week pre-crisis. As Veritas Securities commented: "*More has been achieved to advance online adoption over the past few weeks than in the prior three years. The disruption to children's education from school closures increases the overall market for remediation which is Kip McGrath's specialty*". In the very short term, notwithstanding the strong initial take up of online tutoring (at higher margins), there will be a revenue shortfall versus pre-COVID-19 expectations. We've reduced our earnings expectations for the year ahead accordingly. Looking to the medium and long-term, KME is in an excellent position to win market share from competitors who don't have the scale, balance sheet strength, or adaptability to survive the COVID-19 environment. And to do so against the backdrop of a secular growth market.

- SkyFii Limited (**ASX:SKF)** is a data intelligence company that collects and analyses data points from a range of venues around the world. SKF's data scientists and software engineers quickly responded to COVID-19 by developing a range of new relevant products. SKF's people counting technology and software have been utilized in a new product to provide customers the ability to monitor venue occupancy rates and adhere to Government policies on social distancing as well as to facilitate contact tracing. These new products can be quickly rolled out using existing hardware. This has now become SkyFii's key marketing focus, generating approximately 100 new leads and ensuring that SKF's new business pipeline remains at elevated levels. During the month, SKF confirmed their guidance of a positive EBITDA result for the FY20.

- Easton Investments (**ASX:EAS**) provides services to accountants and financial advisers. A key focus of the business is training initiatives. During the month EAS updated the market noting that the majority of its scheduled face-to-face training sessions had moved to an on-line delivery format. EAS also highlighted an increase in demand for training following the release of new state and federal tax and stimulus measures. In response to this demand, we understand online training sessions hosted by EAS' Knowledge Shop business, particularly around the JobKeeper package, have proved very popular. Knowledge Shop has also experienced record demand for its help-desk support as most accountants have moved to work remotely.

New opportunities

In our March update, we stated we were focusing on three key types of new potential investments in the current environment: 1) Oversold high quality names 2) Capital raise opportunities and 3) Turnarounds.

Adopting this framework, some oversold high-quality new positions added to the portfolio during March and April have included:

- ICS Global Limited (**ASX:ICS**). ICS is the largest billings and collection company in the United Kingdom. ICS manages the billing and payment collection cycle for over 1000 clinics and medical practitioners, "clipping the ticket" of funds collected. After reporting an outstanding half year result where AUD reported revenues were up 24% and profit up 100%, ICS traded as high as $2.44 in early March. We acquired our holding at below $1.50. ICS has subsequently confirmed that year to date trading was in line with guidance (implying a PE of ~11x), however guidance was withdrawn given the uncertainties around current operations. Any disruption to the ICS business is expected to be short term in nature.

- People Infrastructure (**ASX:PPE**) is the largest provider of temporary nursing staff and aged care workers on the Eastern Seaboard and has some strong tailwinds. We know the company well, having held the stock from its IPO in 2017 until mid-last year selling out above $3.00 in 2019. The stock subsequently went on to trade over $4.00. We were able to buy back into PPE during the month at ~ $1.20, at which point it was trading on a mid-single digit PE ratio. Subsequent to our purchase PPE raised capital in a heavily oversubscribed raising.

- Eureka Group Holdings (**ASX:EGH**) is an owner of senior villages which we purchased at a ~20% discount to NTA. It has a high-quality earnings stream, with over 90% of cash-flows from contracted rental payments funded by pensions. Based on this earning stream, EGH was attractively priced at ~11x PE. EGH is a stock that we have been watching for some time, and with re-focused management and the recent sale of non-core assets this stock is looking increasingly interesting.

Capital raisings that we participated in during the month were Janison Education Limited (**ASX:JAN**), and PPE (mentioned above). Both of these were existing holdings.

Despite recent market strength we are continuing to see plenty of interesting opportunities. There are various portfolio holdings that have not re-rated that we continue to add to, while there are numerous names in our universe that have also not yet re-rated. We are happy to hold modestly elevated levels of cash while we wait for the right opportunities and while we get more visibility around the medium term economic impact of COVID-19. Taking a more long-term perspective, we are incredibly excited about constructing a portfolio in this environment that has the potential to provide compelling returns in the years ahead.

We're proud of the investor base we have attracted over the past five years. Through this most uniquely challenging and interesting period (and in many respects, this dynamic will likely persist), we can report that we have had no redemptions at all during 2020. Many investors are taking the opportunity to add to holdings, and we have a number of new investors that we are pleased to welcome to the DMX Capital Partners family. While we're perfectly happy for any investors to seek to redeem any of their investment at any time for any reason, the loyalty and support we've received gives us a real boost and affirms our enthusiasm for what we're passionate about doing every day. Thank you all for your support, and welcome to our new investors!

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

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

Kind regards

Roger Collison

Chairman

Steven McCarthy

Portfolio Manager

Chris Steptoe

Research Analyst

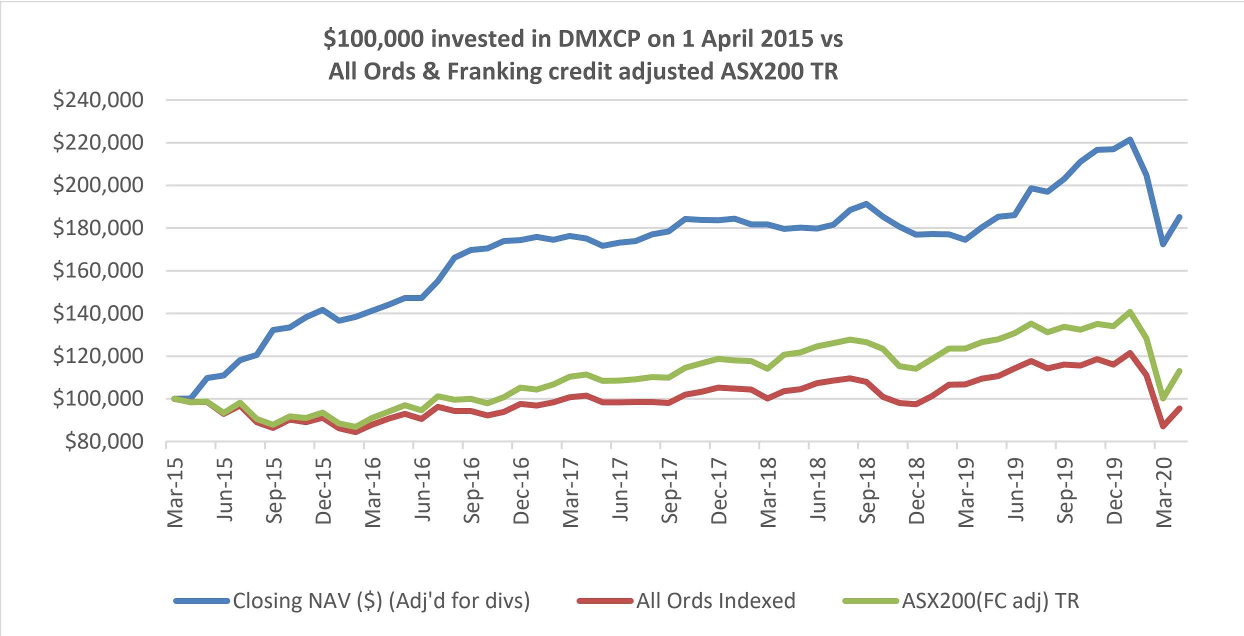
Note 1: Net asset value (NAV) is after all tax accruals but includes an estimate of franking credits available. Refer note 5, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Excludes cash received during the month for 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									**-14.69**	**-17.70**

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



Appendix 2: Portfolio Sector classification