DMX ASSET MANAGEMENT

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

DMX Capital Partners Limited
July 2020 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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13/111 Elizabeth Street, Sydney, NSW 2000
DMXCP directors: Roger Collison
Dean Morel
Steven McCarthy

Opening NAV (1 July 2020) [1,2]	**$1.7846**
Closing NAV (31 July 2020) [1,2]	**$1.9647**
Fund size (gross assets)	$9.4m
% cash held - month end [4]	12%
Gearing	nil

1 month return	10.09%
3 month return	22.21%
12 month return	12.10%
3 year return (p.a.)	8.26%
Since inception (*5 years, 4 months*) (p.a.)	22.65%

*DMXCP Share price = Closing NAV (**$1.9647**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends and franking credits paid. Since inception (1 July 2015) 24c of dividends and franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 10.09% (after all accrued fees and expenses) for July 2020. The NAV has now increased 32.65% since March, and is up 2.14% since 1 January 2020.

The All Ordinaries was up 0.95% for the month, while the ASX Small Ordinaries Index increased 1.31% and the XEC Emerging Companies Index added 6.89%.

In last month's update, we noted the encouraging company announcements across the portfolio during June that we felt highlighted the opportunities and potential within our portfolio. We were pleased to see these positive developments continue during July, with a number of holdings reporting strong 4th quarter results and preliminary full year results.

The broader market continues to be strong, with sentiment towards smaller companies particularly bullish. Whilst our portfolio has benefitted from some of this positive sentiment during the month, the majority of the portfolio's gains were on the back of several of our companies reporting strong operating performances and updates. The 4th quarter was obviously a difficult one for many businesses, as Management teams were forced to respond and adapt to the unique challenges of operating during a pandemic. It is still very early days as to how the impacts of COVID-19 play out, but we believe the encouraging recent operating performances reported across our portfolio holdings reflects how the portfolio has been positioned post COVID-19, and the resilience to date of the businesses that we have invested in.

ASX:CWL and **ASX:AVA**, are two holdings that we have held with patience and conviction for some time. Both announced positive developments consistent with our investment thesis. For us, it is most satisfying to see these opportunities play out in line with what we had anticipated, and to validate our research, thesis and conviction.

Other portfolio companies also achieved significant quarterly milestones as they progressed their journeys towards becoming bigger, more robust, profitable businesses. In particular, **ASX:SES** (a recent holding) and **ASX:UBN** (a long term holding), reported their first quarters of positive operating cash flow. The delivery of this milestone, and consistent improvement in cash flows of both companies over many quarters, gives us confidence that this upward trend of increasing cashflows should continue from here. And again, for us, it is satisfying to have identified, invested in and supported companies where management are delivering improving results and achieving milestones in accordance with our thesis.

So whilst the recent portfolio performance has been encouraging, for the most part we feel as though these gains have been 'earnt' – that is, improved fundamentals of our holdings support the improvement in share prices. Where we think that share price increases have not been 'earnt', i.e. market exuberance/momentum (rather than fundamentals) has led to irrational pricing, we have trimmed or exited positions.

We discuss some of the key updates during the month below.

Consolidated Financial Holdings (ASX:CWL) Market cap: $14m; +44% during July.

As reported in previous updates, DMX Asset Management is a substantial shareholder in CWL – a holding company that until recently owned two profitable financial services businesses - Chant West & Enzumo (which was sold in June). Our thesis on CWL following the sale of Enzumo, was set out here.

In early July, CWL confirmed the completion of the sale of its Chant West business. With the cash proceeds from the divestments, CWL is planning to fund an 11c capital return in September. CWL will retain approximately $1m in cash and will have value as a relatively clean listed shell.

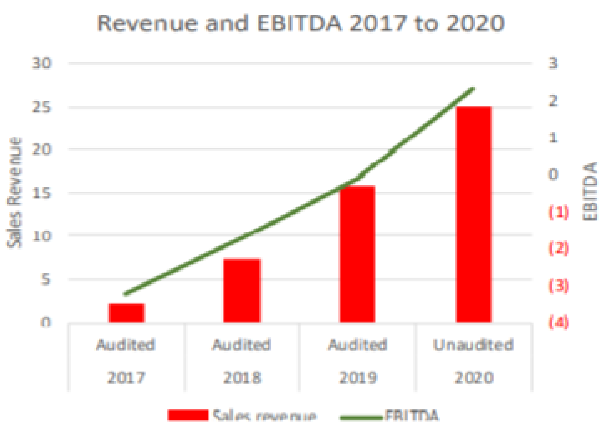
The 11c capital return compares favorably to our 6c initial entry price a little over 12 months ago. At that time, CWL had a $7m market cap, $3m cash and was profitable. CWL has always been a high conviction hold for us that represented compelling value, given its low single digit trading multiple and significant net cash position. Therefore, given its low valuation, we consider that the return we have generated here has been achieved by taking on comparatively little risk. We believe it highlights the type of inefficient pricing evident among smaller companies that is much harder to find in companies with larger market caps.

The capital return will result in a significant increase to the cash balance of DMXCP, and we look forward to seeing what the directors have planned for the CWL shell.

AVA Risk Group (ASX:AVA) Market cap: $55m; +48% during July.

We have previously set out our thesis on AVA here.

During July, AVA announced an EBITDA upgrade for FY20 from $5m to $6.8m, and reported positive operating cash of $5.8m for the year. AVA also announced a very encouraging update in relation to its logistics/services business, AVA Global. A key element of our bull case on AVA was the improving performance of this segment, which AVA established a little over 3 years ago. Highlights from the AVA Global update are set out below.

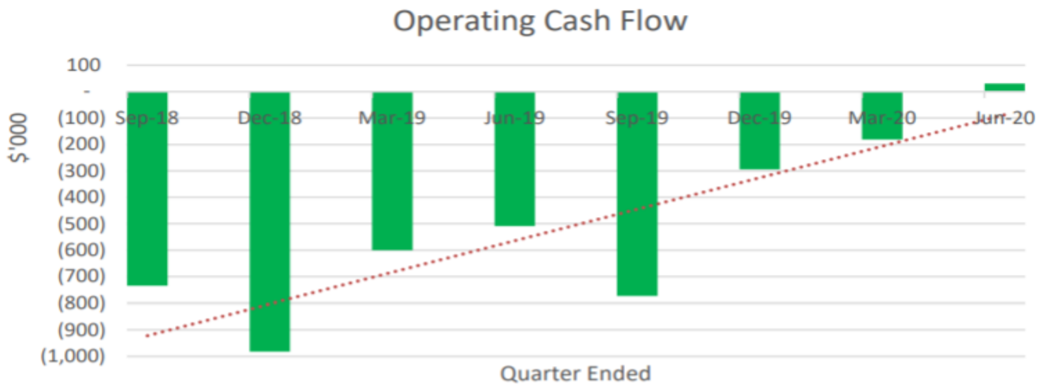


- Revenue increased by over 60% in FY20 to $25m, generating a maiden EBITDA of $2.3m
- Second half EBITDA of $1.9m, implying an EBITDA exit run-rate for FY20 of $3.8m.
- Gross margins increased from 21% to 25%.
- Three-fold increase in new clients, with a total addressable market now of over $1b.
- Forecast continued and consistent revenue and EBITDA growth in FY21.

We expect the value of AVA's logistics division to now underpin much of AVA's market cap. AVA also continues to generate significant cash from its flagship Indian Ministry of Defence contract. The increasing cash position and value of the logistics business supports the key tenet of our thesis set out in our AVA paper: that the market is attributing little or no value to AVA's technology businesses. Amongst all the positives, there was a negative being the resignation of Scott Basham, after a little over a year as Group CEO. Mitigating this to some extent is the experience of the two AVA divisional CEOs that continue to lead and drive growth in their respective divisions.

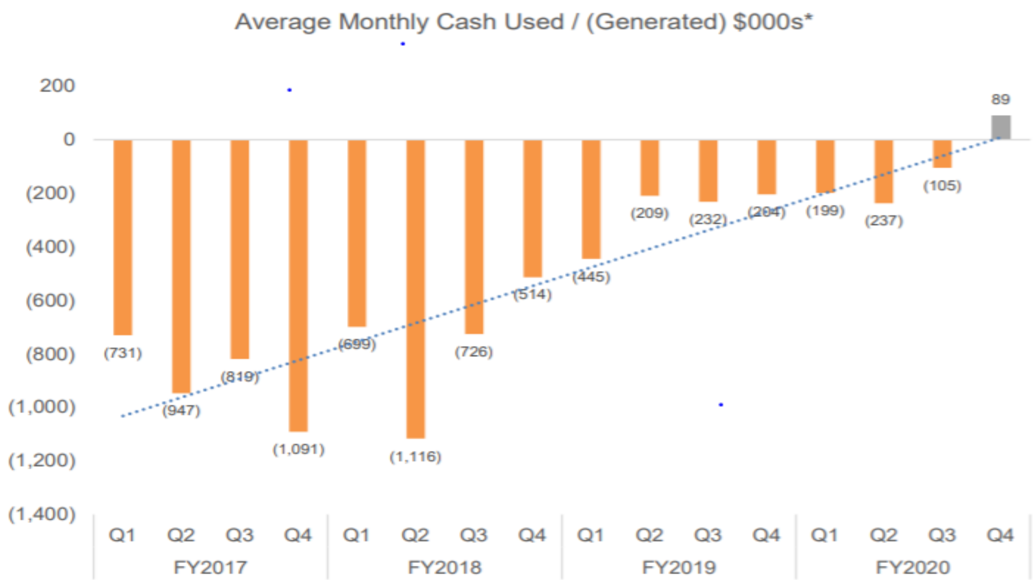
Secos Limited (ASX: SES) Market cap: $55m; +108% during July.

We introduced SES, a manufacturer of compostable, biodegradable (and traditional) plastic bags and packaging, in [last month's update](). We noted that we expected the business to be trading profitably in FY21. During July, SES announced that it had achieved its maiden EBITDA profit for a half, as well as a positive operating cash flow quarter for the first time. This improved result was driven by increasing sales of its higher margin, compostable products and manufacturing efficiencies. The chart below highlights this improvement in cashflow over the past 2 years. SES is a business that benefits from scale and operating leverage. With a growing pipeline of sales opportunities for its compostable product, as consumer preferences move towards more environmentally friendly products, we expect SES's results to continue to improve from here.



Urbanise Limited (ASX:UBN) Market cap: $45m; +9% during July.

Facilities and strata management software company UBN, also reported its maiden operating cash flow, although the company did acknowledge that the position had been improved as a result of deferring the payment of certain taxes in accordance with the government's COVID response. The chart below powerfully highlights the significant progress UBN has made in recent years.



Solid growth in its high margin recurring revenue, together with little churn, strong cost control and sensible management, has seen UBN deliver significant improvements in all operating metrics. Impressively, this progress has been achieved despite UBN's capital constraints and limited ability to date to invest in sales (UBN has a sales team of just 5 people). UBN is transitioning into a high quality, market leading software company with a Tier 1 customer base and global opportunity (e.g. IKEA is increasingly using UBN software for its properties in multiple geographies). As its capital position and earnings strengthen, UBN will be able to invest more into its sales capabilities. We look forward to this driving further global growth for UBN.

The examples highlighted above, we believe, showcase what we are focused on identifying: unique, under the radar, attractively valued opportunities where there is a compelling investment thesis.

We operate in a part of the market where this is possible, because there are many over-looked and illiquid companies that most investors prefer to stay away from. We are happy to let other investors look at the larger, more liquid and efficiently priced (and often more richly valued) companies, while we take advantage of the inefficient pricing and opportunities among under the radar companies. We look forward to continuing this strategy during FY21.

DMXCP is currently open for investment. We believe current conditions are favourable for us to take advantage of some particularly prospective opportunities. Instructions for adding new funds can be found here.

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

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

Kind regards

Roger Collison	Steven McCarthy	Chris Steptoe
Chairman	*Portfolio Manager*	*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 (July 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	+4.525	+6.213	**+10.09**						**+2.14**	**-10.38**

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