DMX
ASSET MANAGEMENT

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

DMX Capital Partners Limited
November 2020 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
Dean Morel
Steven McCarthy

Opening NAV (1 November 2020) [1,2]	**$2.3362**
Closing NAV (30 November 2020) [1,2]	**$2.5206**
Fund size (gross assets)	$15m
Gearing	nil
% cash held - month end [4]	17%

1-month return	7.86%
3-month return	29.30%
12-month return	39.74%
3-year return (CAGR p.a.)	17.81%
Since inception (*5 years, 8 months*) (CAGR p.a.)	21.93%

*DMXCP Share price = Closing NAV (**$2.5206**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends reinvested and franking credits paid. Since inception 41c of dividends & franking credits have been declared

Dear Shareholder,

DMXCP's NAV increased 7.86% (after all accrued performance and management fees and expenses) for November 2020. The NAV as at 30 November 2020 was **$2.5206**, compared to $2.3362 as at 31 October 2020. The 2020 dividend of 12c plus franking credits, was paid in November 2020. Shareholders who elected to have their dividend reinvested had their new DMXCP shares issued at $2.1027 and will be sent updated holding statements from Advanced Share Registry reflecting their increased holding. We remind shareholders that they can view details of their DMXCP holdings online at www.advancedshare.com.au/investor-login .

DMXCP has returned 39.55% for the calendar year to date (since 1 January 2020), and 50.85% for the financial year to date (since 1 July 2020) (after all accrued performance and management fees and expenses). All indices were stronger during the month, with the All Ordinaries up 9.76%, while the ASX Small Ordinaries Index increased 10.19% and the XEC Emerging Companies Index was up 12.87%.

Attractive growth profiles

As we have communicated in previous correspondence, we seek to construct and manage a portfolio comprising a broad range of interesting small cap investment opportunities that have a compelling valuation thesis and offer attractive risk/reward profiles.

We particularly like small, illiquid companies that have a genuine opportunity to grow into much bigger companies. As they grow and their profile increases, they attract a wider range of investors, which brings more liquidity and often a willingness by the market to pay higher multiples. We like buying these small companies *before* this happens, while they are under the radar, and are available on attractive valuation metrics.

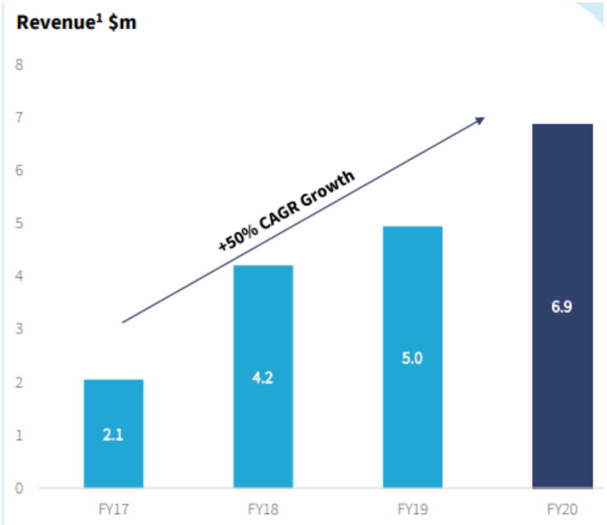
In recent AGM and November trading updates, we were pleased to see a number of holdings report strong growth, but, more importantly, articulate a long (and reasonably believable) runway of future growth and market opportunity ahead of them. If these companies continue to execute as they have been doing, over time we can expect them to continue to grow strongly into larger, higher profile, more liquid and more valuable companies. And as they do, they will underpin our portfolio growth over the medium to long term.

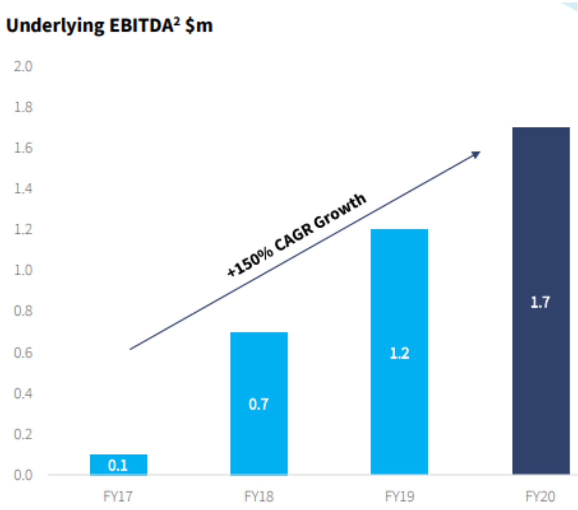
We highlight below some of these longer-term portfolio holdings that have reported encouraging growth, and which looks set to continue for some time.

Australian Family Lawyers (ASX:**AFL**) (Market cap: $30m)

AFL reported a very strong 1Q21. Compared to the previous corresponding period (PCP) revenue was up 34% to $2.4m while underlying EBITDA was up 130% to $0.8m. These encouraging results build on a strong performance by AFL prior to, and subsequent to its listing in mid-2019, as illustrated below.

AFL Track record:



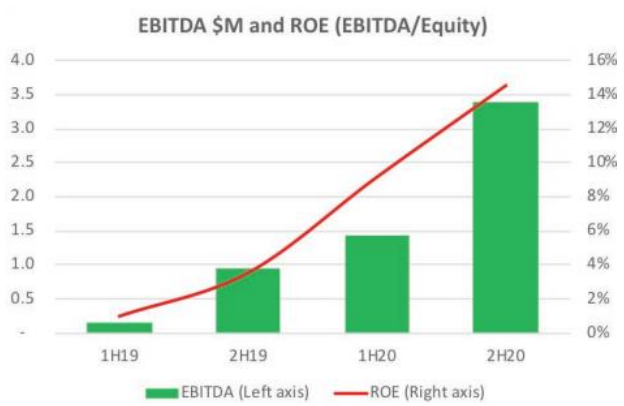


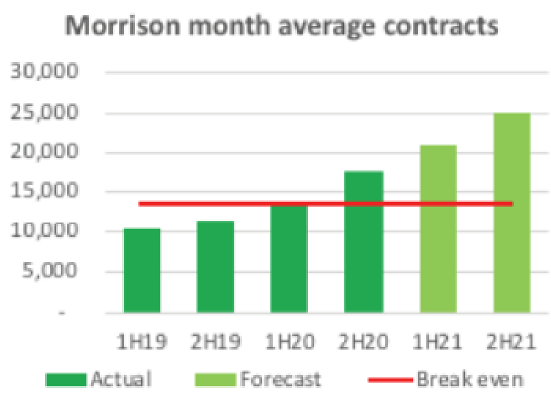
AFL Medium term opportunity
AFL is confident there is further strong growth ahead. The company has articulated *a 3 year target of 10% share of the family law market in Australia*. With a market size of over $1b, this would translate into a potential $100m revenue a year opportunity, which would deliver EBITDA margins north of 30%+. While this seems rather ambitious, it is clear that there is a large opportunity ahead of AFL to continue to quickly and strongly grow its revenue. In recent weeks, AFL has opened new offices in Perth, Gold Coast and the Mornington Peninsula. AFL has a strong pipeline of organic, lateral hire and acquisition growth opportunities currently under review to support continued strong growth in the periods ahead.

Sequioa Financial Group Limited (ASX:**SEQ**) (Market cap: $46m)

In November 2018 new management took control of SEQ and embarked on a 5 year business plan to make SEQ a bigger and more profitable company. Two years into the plan, impressive progress has been made. SEQ is currently tracking ahead of its FY21 budget which was to grow revenue by 20%, and to increase EBITDA by 25% and NPAT by 50%. SEQ's ROE has improved to 15%, while Morrison's Securities, one of its key business units, has built scale, and is now contributing strongly to profits after a long period of underperformance.

SEQ Track record:



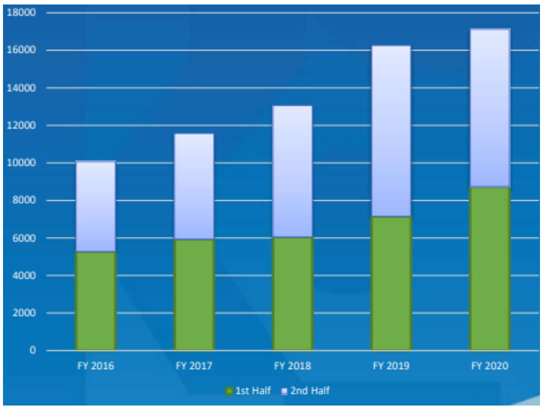


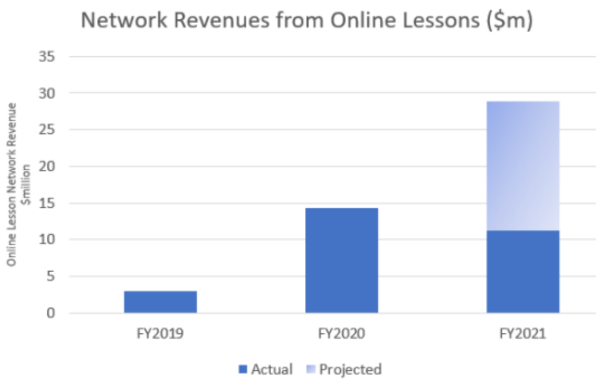
SEQ Medium term opportunity
SEQ has a goal of being the leading provider of adviser services in the financial advisory market and aims to increase the number of advisers they act as the licensee to from 415 at present to over 1,000 by 2024. *SEQ have also stated their ambition to increase group revenue towards $400 million by 2024 at 8% EBITDA margins*. This would see SEQ generate $32m in EBITDA in 2024. Similar to AFL, while this seems bullish, it is clear that there is considerable scope for growth ahead of SEQ, and they are currently executing well in delivering this growth.

Kip McGrath Education Centres (ASX:**KME**) (Market cap: $79m)

While COVID-19 impacted KME's 2H20 growth, online tutoring revenues grew significantly in all key markets. Online revenue across the KME network for FY20 was $14.3m (up 372%), while October 2020 YTD revenues from online have already exceeded $11m, averaging over 11,000 online lessons per week. KME is expecting network revenues from online tutoring to land between $25m and $30m, which, together with growth in corporate revenue, is expected to drive overall revenue growth in FY21, notwithstanding ongoing COVID-19 disruptions to face-to-face lessons.

KME Track record





KME medium term opportunity
KME's FY20 global network revenue (franchise and corporate) was ~$84m compared to KME's booked revenue of $17m. This represents less than 2% market share. A key KME strategy is to buy back franchised centres (at relatively low multiples) and run them as corporate centres. *This strategy would see KME's revenue increase up to 5x, without having to grow its market share at all*. KME would expect to make EBITDA margins of 30% to 40% on this revenue base. However, given KME's market leading learning management system, and exposure to high growth online tutoring, we would also expect KME to capture significant further market share in the years ahead.

These three companies, along with many others in the portfolio, have had encouraging starts to the financial year. However, given the growth opportunities here, we are more interested in what their results may look like in 2 to 3 years' time. We are firmly of the view that investing in growing, profitable, well managed, relatively undiscovered, small companies, taking a long term perspective, and having the conviction to hold as they execute and work through the inevitable stumbles, will result in compelling portfolio returns over the medium to long term.

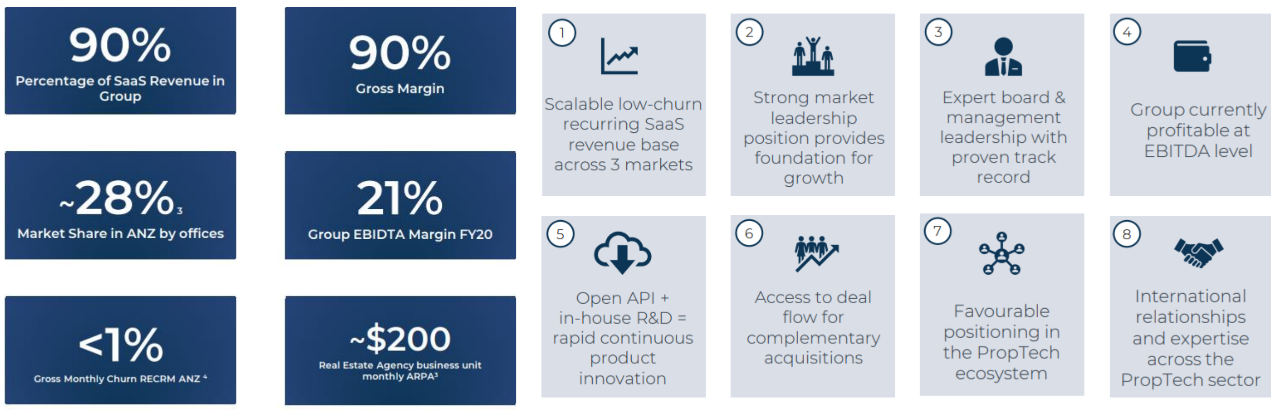
Value + growth = corporate appeal

A somewhat unfortunate reality however, is that many of our holdings are likely to be taken over before we have had a chance to really see and benefit from this longer term earnings potential. Small, growing, well managed companies trading on low valuation multiples are attractive takeover candidates, given the earnings accretion they can contribute to an acquirer. *We have seen this play out time and time again in our portfolio over the years*. In November, long term holding Primero Group (ASX:**PGX**) announced it had received a takeover offer from larger rival NWR Holdings (ASX:**NRH**). PGX is a position we have held since its IPO, and which we added to when it was sold down in recent months to be trading on 2x EBITDA. While the stock has rebounded strongly from its lows, the NRH offer is still priced at less than 10x PE. However, we acknowledge that PGX's strong growth outlook and larger project size does necessitate a stronger balance sheet, which NRH will be able to provide.

A compelling new under-the-radar position: Proptech Group (ASX:PTG)

We continue to seek new, interesting, under-the-radar, attractively valued ideas, with meaningful upside to add to the DMXCP portfolio. That is our focus and our passion.

During the month, we participated in the reverse takeover transaction that saw the ASX listing of Proptech Group Limited (ASX:**PTG**) – an owner of technological assets used by residential and commercial real estate agents and property managers. PTG's flagship asset is the market leading CRM platform for real estate agents in Australia (25% market share) and New Zealand (32% market share), which was purchased from Domain (ASX:DMG).



The chairman of PTG is Simon Baker, the founding MD of realestate.com.au (ASX:**REA**) and a previous Chairman of Mitula (ASX:**MUA**) and iProperty (ASX:**IPP**) before they were both acquired. The CEO of PTG is Joe Hanna who is a founder & director of a number of start-up technology companies including LatamAutos (ASX:**LAA**) and MUA.

With a market cap at listing of $30m, $10m cash and EBITDA of $2m, we considered PTG to be a very attractive set up. With the pedigree of management here, we see significant potential for PTG to use the platform of its existing market leading CRM to become a supplier of a range of high margin technological solutions to real estate agents in Australia and globally. The $10m raise was, not surprisingly, heavily oversubscribed (including significant priority entitlements to real estate agents, existing holders and industry insiders), and whilst our initial allocation was modest, we are likely to build on this over time.

Over the years, we have participated in various RTO opportunities and have found them to be a source of some interesting new ideas. We think this will be an interesting company to follow over the next 2 to 3 years.

Christmas wishes and concluding comments for 2020

As we head towards the end of a most eventful 2020, we can reflect on what has been a pleasing year for DMXCP. Throughout the disruption, uncertainty and volatility, we have remained disciplined, focused and committed to identifying the most interesting and compellingly valued small companies with material asymmetric upside.

It was satisfying to see the theses of some of our longer term positions play out during the year. It was equally pleasing to have identified a number of compelling new holdings that will position the portfolio well for future growth. We are proud of the portfolio that we have constructed and the unique, not widely known opportunities that the fund has exposure to. In a market with plenty of hype and bullishness priced into many stocks, we are pleased that our portfolio is very much weighted to profitable, attractively priced positions with defendable valuations.

We thank all DMXCP shareholders for their support, and for the confidence you have shown in us, particularly early in the year, when there was so much uncertainty. In the calendar year to date, we have received inflows from new and existing investors in excess of $3m, while total outflows have been less than $75k. We are privileged to have such a loyal and supportive group of long-term investors. We look forward to delivering you further growth in your investment in the years ahead.

As this is the last newsletter before Christmas, we would really like to take this opportunity to sincerely wish you and your family a very safe and merry Christmas and a most enjoyable new year.

Kind regards and best wishes

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 (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	+4.525	+6.213	+10.09	+8.669	+6.518	+11.10	**+7.86**		**+39.55**	**-0.88**

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.