

ARENA SECURITIES

Arena Securities Performance update March

3 Months	6 Months	1 Year	Since Inception*
-4.64%	-6.87%	11.75%	31.59%

Indicative performance is reported net of all fees. Past performance is not a reliable indicator of future returns. Inception date 1 August 2023

Dear Fellow investor

In this update, I want to share my thoughts on what I believe is the market's overreaction to Trump's tariffs.

The resulting volatility hit equity markets hard toward the end of the quarter, and Arena Securities was no exception, posting a -4.64% return. However, I believe the long-term value of the portfolio remains intact, and that this dislocation has created some good opportunities.

As of writing, Trump's proposed tariffs are paused for another 75 days. Current expectations are that they'll reset at a 10% global rate. The Republican Party is trying to offset the cost of its tax cuts, which are expected to add \$4.5 trillion to the U.S. deficit over the next decade.

There's a lot of misinformation out there. Trump tells voters that foreign countries pay the tariffs — but that's simply not true. Tariffs are a tax on imports, meaning U.S. consumers end up footing the bill. It's politically easier to frame it as "getting tough on China," but what it really does is raise domestic prices. If Trump got on stage and said, "Vote for me, I'll increase your taxes," it wouldn't land well — especially with a right-wing base that values business and low taxation.

Portfolio Implications

Below are brief updates on the portfolio holdings and my thoughts on how tariffs or broader macro factors may impact them.

AHC.ASX

I initially had some concerns about the impact of Trump's tariffs on AHC. However, only around 5% of their revenue comes from the U.S., and they manufacture across both China and Malaysia. This gives them greater flexibility than competitors who manufacture exclusively in China.

Management has already confirmed that if tariffs on Chinese goods remain above 25%, they will shift all U.S.-bound production to Malaysia to avoid the higher tariffs.

In addition, AHC recently acquired a New Zealand business that is expected to contribute \$2.7 million in EBITDA.

Based on these developments, I believe AHC is currently undervalued by around 50%, and I've been steadily adding to my position.

VYS.ASX

Vysarn (VYS) is down 32.08% since the tariff news broke. They operate in hydrogeological drilling — essentially, taking water out of the ground and putting it back in — and have divisions in water consulting and engineering infrastructure.

They recently launched a new division called VAM (Vysarn Asset Management) focused on owning and operating water infrastructure, particularly for mining clients. I think this could be a strong long-term play.

During reporting season, VYS quietly upgraded earnings by \$1 million, and the market largely missed it. Based on current business alone (excluding VAM upside), I estimate fair value is around \$0.60 per share.

SKS.ASX

SKS Technologies is a Melbourne-based business that installs AV, communications, and electrical systems for government departments, hospitals, defence, and universities.

The share price is down 32%, likely due to recession fears. Tariffs might actually lower input costs slightly. Even with no growth priced in, I believe SKS has around 34% upside from here.

FND.ASX

FND is an Indian ATM network operator. Tariffs don't affect them, but a global recession might slow growth.

India's economy is booming. GDP grew 8.2% last year, and forecasts show 6.5% growth this year and 6% in 2026. Much of India is still unbanked, and cash is the dominant form of payment in many regions — which is exactly where FND operates.

The stock is down ~50% since a missed earnings result in September 2023, but I believe growth prospects have improved. Management has flagged plans to list their subsidiaries on the Bombay Stock Exchange in 2026 with a target valuation over \$1 billion AUD. Meanwhile, the entire business trades on the ASX at just \$250 million. I'm being mindful of position sizing here, but the upside is clear.

CXZ.ASX

Connexion Mobility provides a SaaS platform used by car dealerships to manage test drives, courtesy shuttles, and loan cars — especially for General Motors in the U.S.

FY24 Revenue: \$16.45 million AUD

Net Profit: \$3.45 million AUD

Net Cash: \$7 million AUD

The business has no debt, is running a share buyback, and trades at a \$23 million market cap. That means I'm effectively paying \$16 million for a profitable, cash-rich software business. Since they provide software, they're not impacted by tariffs, although dealership demand could be indirectly affected.

KAR.ASX

Karoon Energy produces offshore oil in Brazil and the U.S. Gulf of Mexico. Their flagship Brazilian asset, Baúna, should continue producing into the 2030s.

FY24 Revenue: US\$776.5 million

Underlying Net Profit: US\$214 million

Operating Cash Flow: US\$434.6 million

Market Cap: A\$1.01 billion

Based on these figures, I believe KAR has about 50% upside. U.S. tariffs don't impact them unless U.S. customers start importing Brazilian oil — which is unlikely, given the U.S. is largely oil-independent.

MIN.ASX

I still agree with the core thesis on Mineral Resources (MinRes). If they avoid a major equity raise and manage to sell assets, the stock could trade up to \$60–80 — a 5x return. Even in a diluted scenario, with a \$2bn raise, I see upside to \$30–40 if Onslow performs.

But risks have gone up. MinRes holds \$5.8 billion in U.S. dollar debt, and interest rates are high. The Onslow haul road is critical and expensive. Execution risk is real.

What changed my conviction is governance. Two respected directors — Jacqueline McGill and Susan Corlett — resigned unexpectedly. Both were appointed to improve governance. Their departure ahead of the new chair is a red flag.

I initially sized this position at 2% of assets, which has naturally fallen to 1%. I'm not adding at this stage. I'm holding — but watching very closely.

KME.ASX

Kip McGrath Education Centres posted a 46% EBITDA increase to \$3.4 million, reinstated its dividend, and slashed CAPEX from \$2.7m to \$0.9m.

With better cost control, I think profit margins will return to ~12%, allowing the company to generate \$4 million+ in annual free cash flow. Yet it trades at an EV of ~\$24 million — only 6x forward free cash flow. I believe a fair multiple is closer to 10x, suggesting a valuation of \$50 million.

The market is hesitant due to past mismanagement. But I see signs of change. The new chairman is buying shares on-market, and both OPEX and CAPEX have dropped sharply. That's encouraging.

Importantly, the U.S. business, which dragged results down, is either going to be cut or break even within the next 12 months. If that happens, I believe earnings and sentiment will both improve.

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At the time of writing, Arena Securities holds a position in all securities mentioned in this update. I have written this quarterly letter to express how compelling I believe the current investment opportunity set is. This is the most bullish piece I've ever written — but it's important to remember that investing involves risk.

I haven't highlighted every positive or negative — if I had, this document wouldn't be published until the end of next quarter. Markets are complex and uncertain, and while I believe stock prices ultimately reflect a company's present and future cash flows, those cash flows can be significantly impacted by black swan events.

Regards

Aleck Arena



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