ARENA SECURITIES

Arena Securities Performance update September			
3 Months	6 Months	1 Year	Since Inception*
14.57%	19.99%	38.97%	41.30%

Indicative performance is reported net of all fees. Past performance is not a reliable indicator of future returns.

Dear fellow investors,

I am pleased to bring the September quarterly update to shareholders. Overall, the portfolio performed strongly this quarter. I have written the following about fundamental updates in the portfolio.

Update on portfolio holding PRO:ASX

Prophecy International (PRO) has a projected full-year revenue of $23.2 million, which is slightly below my anticipated $24 million and a breakeven cash flow result. Nevertheless, a robust last quarter for contracted recurring revenue suggests a favourable outlook for the upcoming financial year. This revenue was enhanced by a contract with Services Australia secured earlier this month, contributing an additional $1.1 million annually and raising the total to $28.4 million.

Although management is forecasting an EBITDA loss for the recently ended financial year, they are optimistic about achieving positive EBITDA this year, which is expected to generate $12 million in free cash flow, thanks to the business's negative working capital model (customers pay cash upfront prior to revenue recognition). With a market capitalisation of under $60 million, PRO is valued at approximately 2x recurring revenue, holding $12 million in cash, carrying no debt, and experiencing about 20% organic revenue growth. Given these factors, I believe the anticipated shift to statutory EBITDA profitability in FY25 will be positively received by the market, provided management executes its strategy effectively.

Update on SKS: ASX

July was a particularly active month for electrical contractor SKS Technologies (SKS). They kicked off the month by raising their FY24 revenue guidance from $120 million to $130 million, accompanied by optimistic remarks about their outlook and pipeline. Management noted that the "opportunities for new work show no signs of slowing down." Shortly after, the company secured a significant $90 million contract for a hyperscale data centre in Melbourne. Following this major win, management provided preliminary revenue guidance for FY25, projecting $200 million. Considering that just five years ago, the business reported revenue of $27 million, the growth trajectory of the company looks promising.

Update on VYS: ASX

VYS has disclosed that they have received licenses to initiate drilling and test pumping operations at two isolated sites located within the Kariyarra native title area to advance their developing Vysarn Asset Management (VAM) division. Although the VAM initiative is still in its initial stages, VYS is making steady progress through the necessary regulatory approvals. As the potential of VAM becomes increasingly clearer and more substantial, I anticipate a significant re-

evaluation of the VYS share price. Addressing the challenge of accessible water in the Pilbara is complex, but thanks to their vertical integration across the water sector, VYS is well-positioned to take advantage of the situation.

Update on LBL: ASX

Unfortunately, not every full-year report met my or the market's expectations. Laserbond (LBL) continued to suffer from labour and supply chain impacts, which hindered their first-half result. This was disappointing as management had indicated that those impacts were abating and the second half would see a recovery. Unfortunately, LBL saw further delays with labour. This affected their bottom line as they had to pay upskilled staff to do jobs they were overqualified for and pay staff double time to complete their orders. I spoke with management after the result to better understand the timeline around their labour issues. While unfortunate, they appear to be short-term, with most already rectified by the back end of the financial year. Even on the weaker than expected result last financial year, LBL trades on 18x earnings and just 13x earnings on the stronger prior financial year. With the business continuing to grow its revenue, I expect the experienced management team to return operating margins to their previous levels in the future.

Update on SMR:ASX

This quarter, I decided to cut Stanmore (SMR: ASX). The reasoning for this was that Stanmore's free cash flow yield dropped, which is at no fault of their own. They simply mine Met coal, and the Met coal price fell, which means they now make less money.   I wouldn't have sold this stock if it weren't for more compelling opportunities in the market. I decided to buy AHC Austco Healthcare Care as I liked its future growth prospects and current valuation.

Why I Decided to Invest in Austco Healthcare AHC:ASX

First and foremost, AHC delivered an impressive trading update that showcased significant growth. The company expects to report $58 million in revenue and $8 million in EBITDA for the financial year, representing increases of 38% and a staggering 122%, respectively, compared to the previous year. When a company demonstrates such robust growth, it often signals not only current strength but potential for future success.

The numbers I found particularly compelling were the year-over-year improvements, and the momentum exhibited. In the first half of the financial year, AHC reported an EBITDA of $2.1 million, which surged to $5.9 million in the second half, including a standout $3.4 million in the fourth quarter alone. This growth trajectory indicates that the company is not just surviving but thriving, adapting effectively to its market conditions.

Moreover, while the project's lumpiness in their business model can introduce risk when forecasting future performance, the recent momentum and the full impact of the Amentco acquisition give me confidence in AHC's potential to achieve over $12 million in EBITDA in FY25. This optimism is backed by AHC's ability to increase its order book from $44.4 million to $46.2 million in just six months, combined with a solid $5 million contract for a Canadian hospital. Such expansions and contracts indicate a healthy demand for AHC's products and services—particularly their advanced nurse call and clinical workflow solutions.

From a financial perspective, AHC's modest capital and development expenses mean it is positioned to convert a significant portion of its EBITDA into net profit. In addition, the presence of tax losses that can be utilised further enhances their profitability outlook, making the company's financials even more attractive.

Lastly, with a market capitalisation of only $75 million and no debt, AHC is trading at a compelling valuation. Estimates suggest a forward earnings multiple of less than 10-12 times, particularly at the smaller end of the ASX spectrum. For an investor like me, such valuations indicate strong potential for growth and an opportunity to capitalise on a stock that may be undervalued relative to its performance and future prospects.

In summary, my decision to invest in Austco Healthcare was driven by strong financial performance, a promising growth trajectory, a healthy order book, and an attractive valuation. All these factors together make AHC not just a stock worth buying but one I believe could deliver significant value in the coming years.

MIN: ASX A Buying Opportunity in Turbulence

Chris Ellison, founder of Mineral Resources Limited (MinRes), presented the company's full-year results amidst a challenging landscape. Despite his usual bravado, it was clear that this year posed significant difficulties for the organisation, particularly in the lithium sector. However, I think the current opportunity presents a compelling buying opportunity, as the potential for recovery and future growth remains strong.

Declining Earnings

MinRes faced a substantial downturn, with EBITDA (earnings before interest, tax, depreciation, and amortisation) dropping by 40% year-over-year. The company's net profit plummeted nearly 80%, primarily due to escalating depreciation charges and interest costs. This decline was anticipated, especially as lithium prices collapsed by up to 90% in some cases. The lithium segment generated EBITDA of $384 million, a staggering $1 billion lower than the previous year.

Current State of Lithium and Iron Ore Businesses

The lithium sector has experienced another halving of prices, leading to a profitless status for MinRes in this market. Conversely, the iron ore business exhibited resilience, delivering EBITDA of nearly $400 million, supported by favourable pricing from legacy high-cost mines.

Overview of Onslow

MinRes's Onslow project, which is now in production, is expected to halve production costs and significantly boost output. At full capacity, anticipated by mid-2025, Onslow could generate $1 billion in operating cash flow at current iron ore prices. Even with potential price declines, the project is projected to remain profitable, making it a critical component of MinRes's future.

Financial Implications

However, the Onslow project has absorbed about $3 billion in capital, currently yielding no returns. It represents both a financial strain on MinRes's balance sheet and a potential lifeline as operations ramp up. As the iron ore market stabilises, the cash flow from Onslow could substantially reduce debt levels.

Mining Services: A Stable Revenue Source

Among MinRes's segments, mining services emerged as a strong performer, generating $550 million in EBITDA. As Onslow reaches full capacity, earnings from this segment are expected to double, providing critical cash flow to support debt repayment. By 2027, cash flow from services and iron ore could reach approximately $2.5 billion, even if the lithium segment remains unprofitable.

Debt Structure and Management Strategy

MinRes's debt structure is relatively favourable, featuring no covenants, fixed interest rates, and staggered repayments between 2027 and 2030. Management has indicated a commitment to prioritising debt repayment.

Options for Financial Flexibility

The company possesses various options to mitigate debt concerns, including life-of-mine contracts in its services business that ensure consistent cash flow. Additionally, there are possibilities for asset sales or prepayments for iron ore output, akin to strategies employed by other mining firms.

Historical Allegations Against Management

Recent governance issues have arisen, including allegations against Ellison for failing to pay taxes between 2006 and 2009 and scrutiny over financial practices in MinRes's early years. The board is currently evaluating potential responses, which could range from inaction to the dismissal of Ellison—though the latter seems unlikely given his significant influence and ownership stake.

Potential Impacts on Business Operations

The timing of these allegations is particularly concerning as MinRes navigates a critical phase with the Onslow project. Any instability in leadership could jeopardise ongoing operations and the successful production ramp-up.

Market Sentiment and Stock Valuation

The market's reaction to the recent controversies has resulted in a significant dip in MinRes's valuation, wiping more than $1 billion in value from the company. Despite this, the fundamentals of the iron ore business remain strong, particularly with prices above $100 a tonne.

Navigating Challenges Towards Growth

While MinRes faces many challenges, particularly in its lithium business and governance practices, significant opportunities are on the horizon, especially with the Onslow project and the stability of its mining services segment. As the iron ore market stabilises and the Onslow project ramps up production, the financial fundamentals could improve dramatically. For investors, careful consideration of both the risks and the strategic paths available to MinRes will be essential in navigating this complex landscape, positioning them to benefit from the company's potential rebound and long-term growth.

Regards

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