

ARENA SECURITIES

Arena Securities Performance update June

3 Months	6 Months	1 Year	Since Inception*
6.02%	1.09%	13.11%	39.51%

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,

This quarter has been eventful, with a combination of company specific announcements and broader macroeconomic developments prompting a reassessment of several portfolio holdings.

RPM Automotive group (ASX:RPM)

During the quarter, RPM Automotive Group (ASX:RPM) opened a new tyre recycling facility. RPM operates as an automotive retailer along the east coast of Australia, a sector traditionally characterised by low margins. This move into tyre recycling is particularly exciting as it offers RPM the opportunity to turn a cost into a modest profit.

The recycling operation is expected to save the company around 2 million dollars a year. I believe this new segment will generate a small profit, estimated at approximately \$450,000. While modest in size, the strategic value lies in the structural shift: transforming a recurring expense into a revenue-generating initiative.

A key advantage for RPM is its access to a steady supply of end-of-life tyres, thanks to its existing retail footprint. In contrast, a previous ASX-listed business attempting similar recycling ventures has struggled due to supply constraints, often needing to purchase raw material at scale. RPM's integrated position in the automotive value chain should allow it to avoid that issue by maintaining consistent volume.

If this new venture proves successful, the company is expected to expand the facility in Melbourne, with potential for future sites in New South Wales and Queensland.

Brickworks (ASX: BKW)

During the quarter, I exited our position in Brickworks to free up capital for other opportunities — specifically, AHC.ASX, MXO.ASX, and VYS.ASX. Brickworks was the only reasonably liquid position trading near a price I was comfortable selling at.

To be honest, I thought the stock was worth closer to \$35 per share, but for the market to reflect that valuation, it would need to price Brickworks stake in SOL: ASX fairly. In my view, the market has consistently undervalued Brickworks, and I outlined this previously in a quarterly letter.

Realistically, I felt it could take years for that value to be realised —and at the time, a merger between BKW and SOL seemed unlikely. Ironically, I sold our position just two weeks before BKW and SOL announced a merger. That timing cost us around 1% in performance, which isn't significant in the bigger picture, but it's definitely frustrating. Fortunately, I've already made up for that performance in the stocks I rotated into.

I just wanted to be transparent and let everyone know we no longer hold Brickworks. It would have been easy to omit this update, but I believe in being open with shareholders, even when the outcome isn't perfect.

Prophecy International Holdings (PRO: ASX)

During the quarter, I also exited my position in Prophecy International Holdings (ASX:PRO), which represented less than 1% of the portfolio. While the position was small, there were a few red flags that led me to reassess the investment.

One key concern was the lack of investor communication this quarter, which I view as a basic expectation for a listed company. More broadly, I felt the management team didn't meet the standards I look for in publicly traded businesses.

Mineral Resources (MIN:ASX)

During the quarter, Mineral Resources appointed a new chairman. Since my last letter, the company's share price has nearly doubled. Given that sharp move, and ongoing concerns about the company's balance sheet—I've now exited my position.

While the business is vertically integrated and backed by high-quality assets, its financial position remains under pressure. Both the lithium operations and the Onslow iron ore project are contributing to that strain. Mining services continue to perform well, but they can't carry the weight of the company's capital-intensive strategy alone.

Onslow has recently begun generating cash, which is a positive development. However, further capital will be required to ramp up production, adding to the company's already significant financial obligations.

Lithium prices, meanwhile, have risen 7–8% over the past 11 trading days, sparking renewed investor enthusiasm. But this comes after a 90% decline, and the fundamentals remain weak. The lithium division is still loss-making and consuming cash, yet the market appears to be pricing the stock as if lithium is already delivering returns. It's not.

This optimism seems to assume lithium will help MinRes deleverage. However, with losses ongoing, I believe management may need to consider asset sales. If lithium can't be sold at a fair price, they may be forced to divest parts of their iron ore infrastructure or the Mining Services division. Whether full or partial, there's a risk they'll end up keeping the weaker parts of the business while selling the stronger ones.

That dynamic doesn't appeal to me. As debt compounds and cash continues to flow to underperforming segments, the long-term risk to equity holders rises.

For now, I've stepped away. That said, shares aren't ex-girlfriends—you can always go back. If the valuation begins to reflect these risks, or the debt position becomes more manageable, I'd be open to re-entering.

Motio Limited (ASX:MXO)

I've had my eye on Motio (ASX:MXO) for quite some time, but I wanted to see more execution from the management team before taking a position. I stayed on the sidelines when they first upgraded their EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) guidance. Normally, when a company focuses on EBITDA as its primary performance metric, it's a red flag for me. But in MXO's case, it makes sense.

By the end of this financial year, I estimate the company will have around \$18.5 million in accumulated tax losses. If the business is only earning around \$2 million annually, it will be a long time before it needs to pay tax. So, in this context, EBITDA is a fairer representation of earnings.

Management initially upgraded EBITDA guidance to \$1.35 million for the year. I was trying to buy shares at that time, but couldn't get the volume at the price I was chasing. Two months later, the company announced another upgrade. That was my opportunity to finally build a position, even though the share price was significantly higher.

You might be wondering—what does Motio actually do? The company installs digital advertising screens in high-traffic indoor environments—not highways, but places like medical practices, health clinics, gyms, leisure centres, and wellness venues.

Yes, it might sound like a boring business—putting ads on TVs. Some of you are probably thinking, “Why can't I just AirPlay ads to a screen at my small business?” But Motio's edge lies in its infrastructure, scale, and leadership, especially its CEO, Adam Cadwallader.

Adam has been in the media industry since 1993. He joined oOh!media in 2012, rose through the ranks, and left in 2019 to take on what appears to have been a better opportunity: the CEO role at Motio. In 2022, Motio acquired the café and venue-based digital screen networks from oOh!media—the very segment Adam once oversaw. That level of insight and familiarity, in my view, made the acquisition highly strategic and transformative for the business.

The deal itself was also very well structured. Motio acquired the assets for \$2.35 million using vendor financing, meaning the company financed the purchase through a loan provided by oOh!media. As of now, Motio holds approximately \$1.1 million in net cash, which underscores how well the deal has worked out.

I also believe Harley Grosser, a non-executive director, played a meaningful role in that outcome. Harley runs his own fund and owns around 20% of the company, held both personally and through his fund. I've crossed paths with him before, he's a sharp capital allocator. Having someone like Harley involved is, in my opinion, a significant asset for Motio.

Karoon Energy (ASX:KAR)

Following the U.S. decision to bomb Iranian nuclear sites, oil prices spiked. I viewed this as a short-term reaction, driven primarily by concerns that Iran might block the Strait of Hormuz, a key transit point for around 20% of the world's oil supply.

In my view, Iran didn't have the military capability to sustain such a blockade, and any disruption would be temporary at best. When it comes to military power, the U.S. and Iran aren't on equal footing. To put it bluntly, it would be like the Kalamunda Cougars going up against the 2024 Brisbane Lions, a completely one-sided contest.

As oil prices surged, Karoon's share price rose in tandem, pricing in the assumption that elevated oil prices would persist. I didn't share that view, so I took the opportunity to sell our position at what I believed was an inflated oil price. In my opinion, the market was overestimating how long the geopolitical premium would last.

Adrad Holdings (ASX:AHL)

During the quarter, Adrad made the decision to exit its New Zealand operations. While this move will have a negative impact on the company's financials in the current year, management expects it to deliver a long-term benefit, projecting an increase of approximately \$300,000 in net profit annually from FY26 onward.

As a shareholder, I view this development positively. It reflects a more disciplined focus on profitability, signalling that the business will likely generate stronger free cash flow in the years ahead. My investment approach is grounded in assessing a company's ability to produce free cash flow, both now and in the future. I apply a discount to future earnings to ensure a margin of safety, which helps protect our capital in case the investment thesis doesn't play out as expected.

Kip McGrath Education Centres (KME: ASX)

Since the last quarterly update, there have been major leadership changes at Kip McGrath (ASX:KME). Former CEO Storm McGrath has departed, and Melinda Smith has been appointed as the new CEO. It's understood that Chairman Damien Banks, who joined the board just over a year ago—played a key role in this transition. His involvement appears to already be influencing the business, particularly around improving cost control, reducing operational overheads, and dialling back one-off growth-related spending.

Notably, the shutdown of TutorFly—an ongoing loss-making venture—came shortly after Storm's departure. This move should help the company return to generating around \$4 million in free cash flow.

In its latest guidance, following adjustments related to the US business, Kip McGrath announced full-year revenue is expected to grow by approximately 7% to \$30.8 million, with EBITDA projected to increase 20% to \$8.4 million. These results support my long-standing thesis: that the company's core franchising model is both resilient and profitable, traits that were previously masked by heavy investment in technology and inefficient capital allocation, especially in the US. The market has responded positively, with KME shares rising nearly 50% since the update.

Regards

Aleck Arena



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