January, 2025

Dear Partners,

For Q4 2024 Class A interests in Laughing Water Capital ("LWC") returned approximately 18.6% bringing our year to date returns to approximately 39.5% after all fees and expenses.[i] The SP500TR and R2000 returned 2.4% and 0.3% for the quarter, bringing year to date returns to 25% and 11.5% respectively. Our outperformance vs. the indexes – especially our most relevant index, the R2000 – was obviously considerable this year. This of course says nothing about what really matters: the next three to five years. As always, I remind you that over shorter periods of time the indexes are not relevant to our strategy because I am deliberately choosing to behave differently than the indexes. Only over longer periods of time will it become clear if our decision to stray from the herd is worth it. Thus far the evidence is clear, as in the ~9 years since inception, $1,000,000 invested in LWC has returned approximately 19.3% per year, compounding to approximately $4,810,000, vs. 15.7% and $3,668,000 for the SP500TR, and 10.5% and $1,917,000 for the R2000. As always, please check your individual statements for the most accurate reading on returns, as returns will vary based on class, fund, and timing.

I expect that going forward our performance will remain lumpy, with periods of boredom, periods of disappointment, and periods of excellence. In my view, the best way to maximize the effect of these up, down, and sideways periods is to mostly ignore them, and instead focus on the fundamental elements of our process. I am trying to own good businesses, led by incentivized people, at times when their true earnings power is not readily apparent to the world. If I am reasonably correct on the business, the people, and the normalized per share earnings power of the businesses looking out a few years, ultimately we will be rewarded, regardless of whether or not the path to those rewards is smooth or not (it is almost never smooth).

For this reason, almost the entirety of my and my family's wealth remains invested right alongside your capital. Our interests are aligned.

Where Are We Now?

2024 was a good year for our portfolio, but basking in past success is of no use in the investment world. What matters for us and our strategy is not what happened last year, but what will happen over the next 3 to 5 year period. In that regard, I believe we remain well positioned.

We typically own around 15 stocks. Our success in 2024 came primarily from just 5 of these names. In some cases, despite their appreciation, I believe the future remains bright for these investments. In other cases, as a result of appreciation or corporate actions we have or will shortly be exiting the investment, which will leave us with a double-digit cash position for the first time in ~2 years. I believe the opportunity set in smaller, off the beaten path equities remains rich, and I expect that this cash will be re-deployed into new opportunities in the not-too-distant future.

What is most interesting to me though is that for the most part, the businesses that did not contribute – or in some cases detracted from – our returns in 2024, continue to execute well. To be clear, they are not without their problems, and in some cases their progress in dealing with these problems has been less exciting than I had originally expected. These are businesses in transition; change takes time and rarely comes in a straight line. However, with each passing month I believe we are closer to the time when the market will be forced to recognize the fundamental improvements that are brewing just beneath the surface of these businesses. At that time, I expect that our patience will be rewarded, and that these investments will contribute to the next leg up for our portfolio.

While the distribution of our 2024 winners may seem narrow, if we can have 5 big winners every year, I assure you we will be very pleased with the outcome. As it stands now, when I look at our portfolio, I see:

- 2 businesses that are effectively buyback machines generating a lot of cash, and returning it to shareholders
- 4 business that have been executing well, and that are on the verge of benefiting from considerable operating leverage, which will completely change their earning's profile
- 5 investments that are divorced from the real economy, that should continue their march forward independent of what happens in the rest of the world, and several others that are mostly removed from the real economy
- 2 businesses that are consolidating their industries, and have long runways for reinvestment
- 5 businesses whose public valuation is drastically different than private market value in their respective industries
- A collection of management teams with long track records of success. Some of these managers are world class.

There is some overlap in the above, and this is of course not a scientific approach, but the point is that we have a collection of businesses with multiple paths toward investment success in front of them. Not all of them will mature as envisioned, but in each case, I believe the odds for success are heavily tilted in our favor. As such, I believe we are well positioned in the intermediate and long term, as over any reasonable period of time, there is no reason to believe that investments in good businesses, led by properly incentivized people, that are dealing with temporary problems will not do well as they benefit from the dual forces of improving earnings power and improving sentiment.

However, as always the near term is harder to decipher. Above I noted that most of our success in 2024 came from just 5 names. Out of a field of ~15, this participation rate may seem narrow, but versus the broader market, it is rather wide. For reference, consider that while the SP 500 returned 23.3% in 2024, without the "Magnificent 7," the return would have been 6.3%, and in 2023 while the SP 500 returned 24.2%, without the Magnificent 7, the SP 493 returned 4.1%.[ii]

I do not have overly strong views on the vary narrow participation rate in the SP500 of late, except to say that the Magnificent 7 are likely the greatest businesses the world has ever known, which helps justify this herding behavior to some extent, and that when everyone rushes to one side of the boat, it is probably worth paying attention. What is not clear to me however is how long the boat can handle being off keel, and whether or not the boat will capsize or rebalance itself with time. I would note however that the last time the market saw participation rates as low as we have seen recently, smaller cap stocks benefitted for several years when passengers returned to their seats. I would further note that the R2000's outperformance vs. the SP 493 over the last two years could be interpreted as a sign that this pattern will repeat.

Regardless of these broader market observations and tortured nautical analogies, as always, the best path for us is to stay focused on the businesses that we own, while acknowledging that the fact that they are not operating at peak potential right now both 1) explains why they are mis-priced and 2) can make them more volatile in uncertain seas. However, over time, as they execute, we should be well rewarded.

Top 5 Investments

In alphabetical order, our top five investments are:

Cantaloupe Inc. (CTLP) – Cantaloupe can most simply be thought of as our vending machine software and payments company, although the industry is evolving to more fully encompass "unattended retail," including micro markets and smart stores. After many disappointing years, under new leadership the Company has reached an inflection point and is growing at a high teens level into a cash machine focused on stable end markets, while also growing internationally and into adjacent markets. With time I expect the market will appreciate that cash flow generated from software and payments with very little churn is valuable, and re-rate shares higher. It should be noted that while CTLP is in our top 5, it is a medium sized position.

Lifecore Biomedical (LFCR) – Lifecore, our CDMO focused on injectable drugs, had a busy year as a new – and much improved – management team began to put their stamp on the business. Notably, we participated in an equity raise which helped remove balance sheet concerns, and the Company hosted an investor day that provided more detail on the plan to reach $300M of annual revenue by filling spare capacity. Of particular interest is a step up in contractually guaranteed revenue by 2027. The Company has also been building out their sales force, and all of this additional revenue will come with tremendous operating leverage on the Company's fixed costs. This is great news looking forward, but rewind to what the old management team said two years ago, and it seems as if the previous management team either misled investors or had a very poor handle on their business, which is of course frustrating.

Lifecore is now the last remaining small public CDMO, and in their most recent 10Q they indicated that internally they believe there is an 80% chance there will be a change of control event by 2028. Now that a new management team has arrived and is cleaning up – and growing - the business, I personally think the odds are higher. Examining comparable transaction multiples suggests that

Lifecore could have more than 100% upside today, and significantly more upside in the future as management executes vs. the plan. Presumably management shares this view as they have recently bought shares in the open market.

Nextnav Inc (NN) - Nextnav, our next-gen GPS / wireless spectrum investment, was our largest contributor to 2024 returns, and remains our largest position. At this time we are in a holding pattern with Nextnav as we wait for updates from the Federal Communications Commission (FCC) on the Company's petition to update the rules that govern the 900 MHz spectrum band in a way that will allow for the creation of a terrestrial GPS system in the U.S., as well as ~15 MHz of 5G spectrum.

There is some uncertainty surrounding this process, but commentary from incoming FCC Chair Brendan Carr and other Commissioners suggests the chances for approval are favorable as terrestrial GPS is a National Security priority, and refilling the spectrum pipeline is an FCC priority.

The stock has been under heavy pressure in recent weeks as two different private equity funds – one a 2005 vintage, and the other a 2012 vintage – appear to have reached the end of their fund lives and are thus aggressively selling shares. I suspect this overhang will clear with time.

The most recent relevant valuation marker for what this spectrum could be worth comes in the form of Verizon (VZ) paying $1.44 MHz / Pop for low band spectrum that is rural and regional. Nextnav's low band spectrum is nationwide, and could thus deserve a significant premium to this price. Even without a premium, based on this transaction, Nextnav's spectrum would be worth ~$40 per share, assuming the FCC grants Nextnav's petition in its current form, and there are no windfall penalties.

I believe the disconnect between this value and Nextnav's shares is because the market views Nextnav's FCC petition as being akin to a pharmaceutical company trying to develop a new drug; either it will be approved, or it will be rejected. That sort of binary view is unattractive to most investors.

However, in my view this analogy is incorrect.

In an FDA trial, a pharmaceutical company cannot move the goalposts mid-trial. Either the drug does what they say it does, or it does not. If it does not, they must go back to the beginning. Contrary to this, an FCC petition can be effectively negotiated along the way: there is room for compromise. To be clear, Nextnav's petition has been met with significant pushback from several parties, perhaps most notably transit and toll authorities (licensed users) that operate in specific geographic areas, and those that rely on RFID technology (unlicensed users) that are unbounded by geography. From my (admittedly biased) reading of the objector's filings, it seems as if they tend to focus on hyperbolic worst case scenarios of what could happen if the 900 MHz is modified as Nextnav has requested. From my similarly biased reading of Nextnav's response filings, it seems as if Nextnav is able to counter any objection with facts, data, and offers to have engineer to engineer conversations and tests in order to find a middle ground.

Regardless of my readings of the filings though, I think there should be room for common sense. I can see how operating 5G spectrum for cell phones in the same band that EZ-Pass uses at the George Washington Bridge could lead to conflict in the channel, but surely this conflict will not affect people who are hoping to make a phone call in Sheboygan. At the end of the day, I think the most likely result here will be some combination of these objectors extracting some economics from Nextnav in order to drop their objections and/or Nextnav making concessions along power or geography. If Nextnav and other interested parties cannot come to an agreement on their own, then the FCC will effectively act as referee, and tell all interested parties what they are getting, whether they like it or not.

I would note that there is a long history of significant opposition to FCC petitions being overcome in order to free up additional spectrum. In fact, in a recent speech, Brendan Carr, the incoming Chairman of the FCC, gave several examples of this including C Band, 5.9 GHz, L Band, and 6 GHz. Carr also authored the FCC section of "Project 2025," where "Promoting National Security" and "Unleashing Economic Prosperity" were two of his four stated policy priorities.[iii] My read of this document suggests that Carr sees China as a threat, and I would note that China already has terrestrial GPS capabilities. I would bet that Carr feels strongly that the U.S. needs a terrestrial GPS system as well, lest we be greatly disadvantaged in any potential conflict with China. Further, he explicitly states that America needs more spectrum for 5G, and that the spectrum pipeline needs to be refilled, while also noting that rural areas should be a focus. Low band spectrum, such as that owned by Nextnav, is particularly well suited to cover rural areas as mid band or high band spectrum would need 3-7x more towers than low band.

Additionally, FCC Commissioner Nathan Simington recently gave a speech where he declared "GPS vulnerabilities … are becoming one of America's biggest security issues."[iv] If Nextnav and other interested parties cannot reach an agreement, I thus believe that 2 out of the 5 "referees" that would step in to solve this problem would be highly likely to side with Nextnav. With the new administration, a 3rd Republican will be appointed to the FCC, and this yet-to-be-named commissioner is likely to be positively biased toward working with Nextnav as well. This is based on the fact that it was President Trump who first got the ball rolling on strengthening the U.S. Positioning, Navigation and Timing (PNT) capabilities through a 2020 Executive Order, and Nextnav seems to have the only viable solution to implement a terrestrial next gen GPS system with no cost to taxpayers.[v]

It thus seems to me that while there is significant opposition to Nextnav's petition, Nextnav will be negotiating with the opposing parties from a position of strength. This should fuel considerable additional upside to our investment.

PAR Technology (PAR) – PAR, our restaurant software business, continues its march toward being the best-in-class technology partner for enterprise scale restaurants. Notably, following the sale of its Defense business, PAR is now a pure play in this arena and its adjacencies, including convenience stores, which increasingly focus on fresh food. In a recent investor day, PAR detailed the operating leverage in their business, including expectations for continued ~25% growth and the fact that operating expenses have not really grown in two years. This combination should quickly lead to substantial free cash flow, which in the hands of a very capable capital allocator should be very valuable.

Vistry Group PLC (VTY.L) – Vistry, our UK homebuilder that is in the midst of winding down their traditional homebuilding business in order to focus fully on their asset light Partnerships model, had a wild ride in 2024. Shares rose ~50% through the first 3 quarters of 2025 as the market believed this business model transition was proceeding flawlessly. However, in early Q4 it became clear that the company had hit some bumps – including improperly accounting for costs - along the way, and shares ended the year down ~39%. Importantly, these bumps are almost entirely tied to the legacy business which is in the process of being shut down. As this business is in the process of being shut down, the problems tied to it are finite by nature, and thus should not be capitalized indefinitely. In fact, management has quantified the problem as £105M in 2024, £50M this year, and presumably zero in 2026. Given the amount of insider buying in the wake of these bumps, I suspect that those who know the most about the business seem to agree with this view.

To be fair though, part of the valuation disconnect is legitimate as related to market structure. Vistry's stumbles led to removal from the FTSE 100 index, which comes with forced selling. Additionally, Vistry management's credibility has been damaged, so perhaps the business deserves a lower multiple than I previously thought.

However, at present shares are trading below tangible book value, while historically traditional home builders in the UK have traded at more than 1.5x book value. Or another way to look at it is Vistry is trading at about 8x the Partnerships EBIT they generated prior to their 2022 merger with Countryside, while precedent transactions have taken place at low double-digit multiples. This of course gives no value to the Countryside acquisition, no value to undeniable improvements made to the business over the last two years, and no value to the on-going wind down of the traditional business and related capital return. This suggests that if Vistry fails at everything and just bumbles along as a run of the mill home builder, shares are still cheap.

More importantly though, I have not lost faith in the idea that a Partnerships focused homebuilder can succeed. This has been a frustrating investment to date, but despite recent troubles, homebuilding is not a business facing terminal risk. The transition has not proceeded as smoothly as hoped, but I do not believe there is evidence to suggest that it will fail. Over the next 12-18 months as the one time costs tied to the recent stumbles move to the rearview mirror, as the Company continues to repurchase shares, and (hopefully) as the new Labour government pursues housing friendly policies, I expect that the market will once again focus on the actual earnings power of the business, which I believe should be well north of 500M GBP in operating profit for 2025, suggesting that at present shares trade at less than 3x EBIT.

Also of Interest

Avid Bioservices (CDMO) - Our long standing on-again off-again investment in Avid looks to be coming to a close, as the Company recently announced they would be selling themselves to a pair of private equity firms at a disappointing price. In brief, for years we have been patiently waiting for revenue to inflect as the Company expanded its footprint. The new facilities are now operational, and rather than allowing the public shareholders to enjoy the fruits of their patience, management and the board are selling the company at a price that in my view gives no credit for these new facilities. The private equity buyers will thus enjoy the fruits of our patience. This outcome would boggle the mind, if not for management's incompetence around a convertible debt exchange earlier this year which I detailed in our Q1'24 letter. This blunder destroyed significant value, and ordinarily this level of incompetence would be career-ending. However, one way to avoid this fate is to quickly accept a low-ball bid for the company, so one can continue to work away from the public eye.

Thryv Inc. (THRY) – Thryv, our small and medium business software company, continues to execute well, and the market continues to not care. 2024 highlights include refinancing their debt on favorable terms, growing customer count 46% YOY through Q3, reaching rule of 40, bringing net dollar retention above 100%, and making an acquisition that will expand their go-to-market channels and add automation tools. To be fair, the acquisition was financed by an equity raise that was very poorly done, but the strategic logic behind the acquisition was explained at a recent investor day, and with time I think the market will come to appreciate it.

	Thryv Software[1]	HubSpot[1]	ServiceTitan[2]	Bill.com[3]	EverCommerce[1,4]
Total Revenue Growth	29%	20%	24%	18%	4%
GAAP Gross Margins	70%	85%	64%	82%	63%
Non-GAAP Gross Margins	72%	87%	70%	86%	66%
GAAP Profit Margin[5]	NA	(1%)	(24%)	2%	(5%)
Non-GAAP Profit Margin[6]	12%	19%	5%	19%	25%
Rule of 40[7]	41%	39%	29%	37%	30%
Client Growth	45%	23%	18%	(100%)	NM
Net Revenue Retention[8]	101%	102%	110%	92%	96%

Also at this investor day, management compared Thryv to similar businesses and demonstrated that Thryv is growing faster with higher rule of 40 than HubSpot (HUBS) and Service Titan (TTAN).[vi] It is true that HUBS has scaled further than THRY, but HUBS trades at ~12x '25 consensus revenue, and THRY trades at ~2x my estimate of '25 SAAS revenue, and THRY is inflecting right now. Service Titan just recently IPO'd at 10x revenues and quickly traded up nearly 50%. These comparisons are admittedly not apples to apples, but they are not apples to horse-apples either. As Thryv continues to execute the market will take notice eventually, and shares should re-rate significantly higher.

New Investments

There are presently 4 new investments in the portfolio as small positions, some of which will likely become larger in the not-too-distant future as I put our cash pile to work. As such, I will keep these new investments anonymous for now, and offer only a teaser rather than more detailed reviews of the theses.

- A cash rich consumer products company that is trading at a fraction of where similar businesses change hands privately. Importantly, this company is led by an owner-operator with a long history of either realizing value through M&A (as a seller or a buyer), or forcing value creation through share repurchases.

- A hotel company that trades at a drastic discount to transaction comps on a per key basis, that is led by a management team that is incentivized to close this gap, likely through M&A.

- A novel drug company that has been mired in years of patent disputes that are coming to an end, which will allow this drug to come to market and take share from the only competitor, whose clinical results are inferior to the new drug.

- An auto-services platform that both owns and franchises operations in several different verticals. Recently, problems in one vertical have overshadowed strength in other areas, but there are reasons to believe this problem business will not weigh on shares forever.

Operational Matters

The team at Spicer Jeffries is hard at work completing our 2024 audit an K1s. As in years past, I expect this work will be completed well in advance of tax day.

Looking Forward

The last weeks of 2024 saw the market shocked by the Fed's guidance toward two rate cuts in 2025, down from the previously anticipated four rate cuts. Depending on your point of view, this is a signal that either inflation may come roaring back, or that the economy is running well at current interest rates. This sort of uncertainty – compounded by a new administration whose policies may be inflationary (tariffs) or disinflationary (cutting government spending) leads to a difficult to decipher backdrop.

As always, my view is that anyone who claims to have a strong view on these factors should be mostly ignored.

Over reasonable periods of time, the factors that will matter for us and our portfolio are easier to predict. For example, as long as demand for wireless spectrum continues to grow, our investment in NextNav should prove lucrative. As long as the world does not decide to abandon injectable drugs, our investment in Lifecore should reward us. As long as quick serve restaurants continue becoming increasingly reliant on software, our investment in PAR will be just fine. These investments – and almost all others in our portfolio – are cheap on a bottoms up basis, and on a top down basis they are tied to favorable long term trends that are unlikely to change course, regardless of what happens with inflation, tariffs, and the level of – or lack of – Government spending discipline. As such I think our best path forward is to mostly ignore the world around us and wait for our incentivized management teams to execute on their plans. With time, if I am correct about the future earnings power of our businesses, the stock market will reward us.

Matthew Sweeney

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[i] "Laughing Water Capital" refers to investments in Laughing Water Capital, LP, Laughing Water Capital II, LP, and related entities.
[ii] JPM Guide to the Markets, Q1 2025
[iii] https://static.project2025.org/2025_MandateForLeadership_CHAPTER-28.pdf
[iv] https://docs.fcc.gov/public/attachments/DOC-407280A1.pdf
[v] https://onedrive.live.com/?cid=710CB4BC7024B1D1&id=710CB4BC7024B1D1%2113856&parId=710CB4BC7024B1D1%2113408&o=OneUp
[vi] Thryv 2024 Analyst Day 12/3/24 slide deck