

October, 2025

Dear Partners,

As you know, I prefer to NOT write every quarter due to the long-term nature of our strategy. However, I am of the view that knowledge is the best support system for a concentrated portfolio, so when I have something to say, writing is appropriate. I want you to know what we own and why.

In the third quarter, Laughing Water Capital (“LWC”) declined by approximately -1%, bringing our YTD returns to approximately -2.7%.ⁱ In contrast, the SP500TR and R2000 returned 12.4% and 8.1% in the quarter, and are now up 14.8% and 10.4% respectively for the year. As always individual results may vary, so please check your individual statement for the most accurate reading of your performance.

In every letter I remind you our portfolio is different from the indexes by design, so there is no reason to expect that our portfolio will track the indexes over shorter periods of time. Notably, in the nearly 10 year history of LWC, September was the worst month we have ever had vs. the indexes, and in the blink of an eye we went from approximately matching the indexes this year, to badly trailing them.

Importantly however, in my view this drawdown was not caused by any fundamental deterioration of the long-term prospects of our businesses. Rather, it seems as if the violent move downward was caused by market participants whose approach to investing playing the market is more short-term focused than our own. In fact, in several instances our businesses announced news that is undeniably positive if your interest is long-term value creation, yet the stocks were punished due to other factors that should soon prove to be fleeting in nature.

I remain confident that over longer periods of time, if our management partners can successfully steer our businesses, we will be well rewarded. On that front, we remain well positioned, despite the fact that the market has not yet recognized the good news that I see just over the horizon. History has shown that with time common sense prevails, which is why almost the entirety of my and my family’s money is invested in our strategy, right next to your money. Our interests are aligned.

Trees, Fundamentals, and Patience

“If a tree falls in the woods, and no one is there to hear it, does it make a sound?”

The above question is one of life’s great mysteries... at least in the eyes of precocious children, like my own. While wrestling with questions like this can be a good way to entertain children for a few minutes during long car rides, more recently I have been on the mental mat with a similar version of this question that is more specific to our portfolio.

Approaching investing by managing a concentrated portfolio of businesses that are off-the-beaten-path and most often out-of-favor can be frustrating, especially in a world that quite obviously does not care about these things. Many many times in these letters and elsewhere I have referred to a 2019 JP Morgan piece that stated that by their estimate, 80% of the investing world relies entirely on

quantitative inputs for their investment decision making. The problem with this approach is that by definition quantitative models assume that GAAP financials are a perfect tool, when this is clearly not the case. More recently, unless you are living under a rock (which I try to do!) you are aware that the market is fixated on all things related to artificial intelligence, where the problem as I see it is that the entry fee is very high, but the future is very uncertain.

By contrast, I am simply trying to focus on good businesses, led by good people, while they are dealing with some sort of operational, optical, or structural problem that leads them to be mis-priced by the market. Over time, as our management partners deal with these problems, the market should recognize the improving potential of our businesses, and we should be rewarded by the dual forces of increasing earnings power and multiple expansion.

This sounds quite simple, but the problem with this approach is that it requires patience; sometimes in enormous quantities. This is because in a world that seems to be solely focused on quantitative inputs and artificial intelligence, clear fundamental improvements in off-the-beaten-path businesses can be ignored by the market for long periods of time. This begs the question:

“If an investment thesis has clear positive developments, but they don’t show up in the numbers yet, do they make a sound?”

Of late, the silence in our portfolio has been deafening.

But unlike the falling tree, where the sound rapidly dissipates, fundamental business improvements reverberate into the future, and eventually reach a crescendo that the market cannot ignore. In my view, the best way to remain patient at a time when it feels like we are being left behind by the market is to focus on logic. While this seems obvious, I would note that focusing on logic is at direct odds with a market that seems to focus on quantitative inputs and momentum above all else.

A few examples of the logic I am leaning on are found below:

- If the thesis is that private market value of a business is significantly higher than its public value, and then management says that they will be evaluating all options to realize this value, this is logically thesis validating, and should move shares higher.
- If the thesis is that unused capacity being filled will lead to tremendous operating leverage, then news that capacity is indeed being filled is logically thesis validating, and should move shares higher.
- If the thesis is that a company is a winner in a “winner take most” market, then news that the company has a record-large pipeline and is in position to win the biggest customers in the market, this is logically thesis validating, and should move shares higher.

- If the thesis is “addition by subtraction” and that selling off underperforming units will unlock value, then selling off underperforming units is logically thesis validating, and should move shares higher.
- If the thesis is that the government needs something from a business, and then the Chair of the government agency that oversees that business makes a speech reaffirming that need, that is logically thesis validating, and should move shares higher.
- If the thesis is that the government needs something from a business, and then puts in place a massive funding program to ensure delivery, logically that is thesis confirming, and should move shares higher.

Admittedly, the above examples are all gross simplifications of recent developments at some of our businesses, and the reality at each of them is of course much more complex. In some cases, this complexity includes news that is negative in the short term. However, from 40,000 feet if I am right on these gross simplifications, the short term will quickly fade into the background, and the investments should work well for us over time. The problem as I see it in the immediate term is that these long-term positive developments are not yet “in the numbers” and won’t necessarily affect this quarter’s earnings or even this year’s earnings. Thus, in a market that seems to only care about the GAAP financials and short term “beats” or “misses” vs. consensus, these clear positives are easily ignored, causing our stocks to languish.

Of Note:

Below are a few specific examples from our portfolio that should help to illustrate my points above.

Clarus Corp (CLAR) – Clarus, owner of Black Diamond climbing gear and Rhino Rack roof racks, was introduced in our [H1’25 letter](#). The thesis is simple. These are strong brands that are valued by the market well below where private transactions for similar assets take place, and the Chairman and largest shareholder of Clarus is properly incentivized to realize full value, most likely through a sale of the business.

In Q3 multiple insiders bought stock on the open market, and when Clarus reported their Q2 earnings in July, they stated, “we have initiated an internal review to ensure we are evaluating all possible opportunities to create value for shareholders” and further indicated they are “committed to seeking to maximize long-term value.” Typically this sort of language is just a hair shy of hanging a “for sale” sign on the business.

In my view, if the thesis is that the stock trades well below private market value, and insiders are incentivized to realize full value, and then those insiders increase their own exposure and indicate that they have initiated an internal review to realize value, then the thesis is very clearly on track.

Nevertheless, Clarus declined ~21% from a few days before earnings to after earnings as they “missed” expectations for quarterly earnings. I suppose the miss is unfortunate, but when the real prize is realizing a private market value that should be multiples higher than the stock market would have you believe, it is completely inconsequential.

Lifecore Biomedical Inc (LFCR) – Lifecore is our fill-finish CDMO. Essentially they put liquid medicines into vials or syringes. The thesis is that Lifecore has excess capacity to sell in an industry where demand far outstrips supply, and it takes years for new supply to come online. High fixed costs and low variable costs means that additional revenue will come with tremendous operating leverage. In the quarter the company announced multiple new customer wins including a GLP-1 and a large international pharmaceutical company, and there were several signs that winning additional business should be getting easier. Notably, the Food and Drug Administration (FDA) announced that drugs that are manufactured domestically will receive priority review. Further, while the news here is fast-changing, Trump indicated that companies that manufacture their drugs abroad will face 100% tariffs unless they are in process of developing domestic capacity. Lastly, an industry rag published a piece noting that recently there has been a problem with CDMOs leading biotechs on and then backing out of any potential deal. The implications of this are not crystal clear, but I believe CDMOs have been bailing on biotechs (smaller customers) so that they can focus on the bigger and better opportunities that are surfacing due to regulatory pressures on international pharmaceutical companies to move production to the U.S. All of these developments seem to be very good for the thesis.

On the flip side, the company filed an S-3 that included a shelf that could be used to raise equity capital, and the market seems to have interpreted this to mean that dilution would be forthcoming. However, the company has made clear that this is just good corporate housekeeping, and they have no intention to raise capital. Rather, as they only became current on their filings a year ago, this was the first time they were S-3 eligible, and a survey of other companies of similar size reveals that having a shelf in place is standard practice.

The net of these clear long-term positives and meaningless short-term negatives is that the stock declined 22% from intra-quarter high to quarter end.

NextNav Inc (NN) – NextNav is our wireless spectrum and alternative GPS investment. The thesis is that since the United States desperately needs a terrestrial backup to the GPS system, the Federal Communications Commission (FCC) will allow NextNav to repurpose its existing spectrum for 5G wireless communications that will also bring a terrestrial backup GPS system to the masses. When greenlit for 5G, NextNav’s spectrum should be worth multiples of where NN stock currently trades.

During the quarter there were several positive developments for NextNav. First, Brendan Carr, Chairman of the FCC, again made a speech highlighting that the U.S. needs a backup to the current GPS system.ⁱⁱ Second, NextNav filed papers with the FCC documenting certain *ex parte* meetings that had taken place between NextNav management and the very members of the FCC that would be responsible for drafting a Notice of Proposed Rulemaking (NPRM), which would be the next step in the process to greenlight the spectrum for 5G.ⁱⁱⁱ This is important because the risk with the FCC is

that NextNav's proposal just winds up lost in a drawer somewhere. That is clearly not the case. Third, NextNav moved long-term CFO Chris Gates out of the CFO role and into a corporate development role. Gates is not just a numbers guy. He is listed on Nextnav's patents and has deep knowledge of spectrum, which will be important when it comes to monetization. I believe the signal value of this move is high; why move the CFO into a business development role unless you thought you would imminently have approval from the FCC? Last, it was announced that AT&T (T) would be buying spectrum from EchoStar (DISH). The deal includes low-band (similar to NextNav's spectrum) and mid-band spectrum so it is not possible to know how much was paid for the low-band spectrum with 100% accuracy, but my best guess is that the price was ~\$2.50 per MHz/pop. This is not necessarily apples to apples with NextNav's spectrum and there is still considerable uncertainty around what monetization of this spectrum will look like, but at \$2.50 per MHz/pop that would imply a price for NN's stock that approaches \$60 per share.

In addition to these clear long-term positives, during the quarter there were some short-term negatives. Most notably, fears of a government shutdown – which of course have come to pass – weighed on the stock based on the (erroneous) assumption that closing the government would delay NextNav's process with the FCC. Additionally, NextNav announced the successful closing of a previously announced transaction whereby the company purchased additional spectrum licenses. The seller of these licenses was paid in shares, and as the seller is the estate of deceased individuals, the thought is that this estate will be a forced seller of sorts.

The net of these clear longer-term positives and meaningless short-term negatives is that the stock declined approximately 20% from its intra-quarter highs to quarter end.

PAR Technology Corp (PAR) – PAR is the leading player in enterprise software for enterprise scale quick serve restaurants. In the quarter the company reported a record backlog, noted that customer win rates remain very high, noted that multi-product wins are accelerating, indicated that 2H'25 should be very strong, and indicated they are pursuing 3 mega-tier one deals, 2 of which they hope to hear on by YE'25, and one that is likely Q1'26.

In addition to these clear positives, the company also offered cautious guidance around FY'25 revenue due to a combination of customers delaying the rollout of already contracted business due to macro uncertainty, and an internal decision to delay some business in order to divert resources toward winning the previously mentioned business with mega-tier one customers. None of this business has been lost. It has only been pushed out a bit, but the net of these long-term positives and near-term negatives has been a stock that declined more than 40%.

In my view, if the thesis is that PAR has the best product suite in a world where restaurants are increasingly software-centric, an easily explained temporary delay in revenue should not lead to blood in the streets. It is not as if a new competitor with a better product has emerged. It is not as if restaurant owners have decided that software is no longer the future. The thesis is still on track, and I expect that in the coming months PAR will win at least one of the mega-deals they are currently pursuing, further validating the thesis.

Thryv Holdings Inc (THRY) – Thryv is our small and medium business software company. The bottoms up thesis is that a declining business (that is spitting off a ton of cash) has been masking the growth in the software business. From the top down, there are millions of small businesses in the U.S. and other geographies that are run on excel and sticky notes. As the baby boomer generation moves on, the next generation of business owners is investing in software that increases their revenue and decreases their costs. Thryv’s SAAS business is a rule of 40 company (Q2: 25% organic YoY organic revenue growth, 20% adj. EBITDA margin) with rising ARPU, net revenue retention of ~100%, that has been rapidly paying down debt. As a result, now for the first time the company has some flexibility on how it will allocate their capital going forward. Insiders appear excited about the future, as 4 of them have bought shares in the open market this year, and the company recently raised guidance.

However, the GAAP financials remain messy due to the declining Marketing Services business, which will have been completely exited by 2028, and the company still “screens” as a “Media / Advertising” business, despite the fact that the SAAS business has eclipsed the legacy business. Additionally, recent growth has been tied to upselling existing customers rather than growing total customer count, which causes some to question the growth model. This has been a deliberate decision made by management; the return on SG&A dollars is simply higher when they are focused on the upsell rather than new customers. To me, trying to maximize your return on spend is completely logical and management has indicated that in 2026 they will once again shift focus toward increasing customer count rather than upselling. But for now, it seems as if the market disagrees.

At present THRY stock trades at ~9x my estimate of FY’26 EBITDA from the SaaS business, giving no credit for the cash they expect to receive over the next few years from the runoff of their legacy business. This despite the fact that the company expects this cash to be more than half of the company’s current market cap. If we do a present value calculation of this cash, aggressively discounting it at 20%, at present THRY trades at ~1.1x my estimate of next year’s SAAS revenue and ~6.2x my estimate of next year’s SAAS EBITDA. I acknowledge there are some concerns around the health of the consumer these days, but the valuation here has entered the realm of absurdity... unless you think that small businesses will forever eschew the benefits of software in favor of the artistic appeal that comes from a wall full of colorful sticky notes.

Vistry Group PLC (VTY.L) – Vistry, is our U.K. based home builder that is focused on lower income customers. The U.K. has a massive shortage of affordable housing, and Vistry is the largest provider of affordable housing in the U.K by a factor 5. Their Partnerships approach to building homes is capital light, and historically has proven resilient through cycles. Admittedly the thesis was knocked off track a year ago when the company disclosed that during the wind-down of their legacy, more capital intensive, Housebuilding business they discovered accounting irregularities. The stock has been in the penalty box since that time, and remains ~50% below where it was when the news was announced. This despite the fact that the issues were unrelated to Vistry’s core business, and have since been remediated. Additionally, the sunseting of the U.K.’s prior funding program for affordable housing led to a decline in business.

However, the U.K. has since announced a new ten year, £39B funding program that dwarfs the previous program in both size and duration. Management recently announced they expect to grow EBIT in the high teens in H2'25, more than 20% in 2026, and that “the real step-up” will come in 2027 as the recently announced funding flows through the market. This trajectory seems to match comments from the U.K. housing Secretary, who recently stated “We are doubling down on our plans to unleash one of the biggest eras of building in our country’s history and we are backing the builders all the way.”^{iv} Further, Vistry CEO Greg Fitzgerald seems to be a believer as he has purchased ~£1M of stock in the open market this year. Despite all this, Vistry shares still trade at ~4.5x 2026 EBIT, while transaction comps indicate a low double digit multiple would be more appropriate.

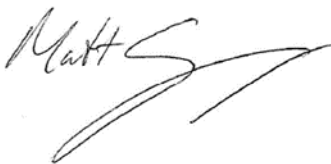
Looking Forward

As I say at the end of nearly every letter, I have no idea what will happen next in the stock market, and neither does anyone else. Where I feel more confident is that clear fundamental improvements at our businesses will not be ignored forever, even if at the moment the market seems to care about artificial intelligence and immediate term results above all else. Ultimately, if my analysis proves correct, our stocks will benefit from increasing earnings power and improving sentiment. This is true whether AI takes over the world or not, and this is true even if the path our businesses take is a bumpy one.

As always, I am open to pushback and admit that I am often wrong, but above I think I demonstrated how the prospects of our businesses are steadily improving, and that the theses remain on track, despite the stock market not caring. Part of the problem is that in many cases these improvements are happening in the real world rather than in the financial statements. This makes it hard for a quant-dominated, short-term focused market to appreciate them.

However, as the positive developments simultaneously develop alongside a stock market that does not care, our future prospects become more and more attractive. This has me feeling a bit greedy, and I have been steadily increasing my personal investment in our partnership. As always, there are things that can go wrong with both the macroeconomy and at our businesses. But with time the financial statements will catch up with the real world, and I suspect we will be amply rewarded for our patience.

Please let me know if you have any questions,



Matthew Sweeney
Managing Partner



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ⁱ “Laughing Water Capital” or “LWC” refers to investments in Laughing Water Capital, LP, Laughing Water Capital II, LP, and related entities.

ⁱⁱ <https://docs.fcc.gov/public/attachments/DOC-414444A1.pdf>

ⁱⁱⁱ <https://www.fcc.gov/ecfs/document/1090825205787/1>

^{iv} <https://www.gov.uk/government/news/housing-secretary-issues-call-to-arms-to-build-baby-build>