

July, 2025

Dear Partners,

For Q2 of 2025 a Class A investment in Laughing Water Capital returned approximately 13.1% net of all expenses.<sup>i</sup> Over the same period, the SP500TR and R2000 returned 10.9% and 8.5% respectively. As always, please check your individual statements for the most accurate measure of your individual return, which may vary based on fund, class, and timing.

We finished the first half of 2025 within spitting distance of flat. This feels somewhat odd given all the noise around tariffs, DOGE, and inflation over the last few months. It is of course too early to declare victory, but it seems as if my decision to change very little about our portfolio despite all of the negative headlines was wise.

I suspect that going forward, sticking to our time proven and battle tested approach to investing will remain the best path. All I am trying to do is identify good businesses, led by properly incentivized people, during periods of uncertainty. The uncertainty typically leads to attractive purchase prices, and with time I expect that our management partners will navigate past any near-term problems. Buying businesses during difficult periods means we are willfully embracing potential volatility; we should not be surprised by bumps in the road. However, over time in exchange for accepting this volatility we should be able to benefit from the dual forces of operational improvement and multiple expansion. This combination can lead to out-sized investment returns. The only guarantee I can make is that I will make mistakes along the way, but I continue to think that the commonsense nature of this strategy will prove timeless. For this reason, almost the entirety of my and my family's wealth is invested right next to your capital. Our interests are aligned.

## **Bedtime, Buy Outs, & New Investments**

Every night, as part of her bedtime routine, my 4-year-old daughter insists that she and I play a quick game of hide and seek. On the surface this seems totally reasonable, and I truly look forward to it. But when you consider that her options for hiding are limited to in the closet, under the bed, or behind the chair, and that she typically asks me to help her get into one of these spots before I count, the logic of it all begins to break down. As she also insists that I check all the other potential spots first, and then insists that I act surprised when I "find" her, it is all more than a bit ridiculous. However, given that at four years old doctors estimate that a child's ability to reason is only about 25% formed, it makes more sense. She simply can't recognize the ridiculousness of it. From my perspective, as long as it ends in squeals of delight I am happy to participate.

In many ways, the modern stock market is like a 4-year old's brain. With 80+% of the market relying on quantitative inputs for decision making, the market simply can't see certain things.<sup>ii</sup> Fundamental quant strategies are largely confined to trailing GAAP financials and forward analyst estimates, and they are designed to benefit from the law of large numbers. Over enough iterations – and over a sufficiently diversified portfolio – certain characteristics should lead to acceptable returns. Quite simply, quants are not designed to dig past the surface level information in front of them.

Businesses in transition, misleading accounting, and hidden asset value are a few of the tangible items that quants can't readily see. Intangibles like management skill and alignment are also invisible. Yet, over time if we own good businesses led by good people at times when their true value is not evident, eventually either the public market will get it right, or the private market will get it right.

We have seen this latter path repeatedly over the last several months, with Avid Bioservices (CDMO), Playa Hotels & Resorts (PLYA), and most recently Cantaloup (CTLP), all having been bought out from underneath us over the last seven months. The prior path can often be effectively influenced by properly aligned management partners. If their stock remains undervalued for too long, it is in their own best interest to pull all available levers to force the market to appreciate them.

We have two new investments in the portfolio, and in my view both are presently hidden from the quantitative screeners that dominate the markets, as both “screen” poorly. Yet, if you look past the quantitative elements and instead view them more holistically, I believe the value is as obvious as my daughter's hiding spots. I suspect that in both cases incentivized management partners will force the market to recognize this value in the not-too-distant future.

## **New Investments**

**Clarus Corp. (CLAR)** – Clarus is a consumer products business focused on outdoor adventure gear. Their Outdoor segment is best known for Black Diamond climbing gear, and their Adventure segment is best known for Rhino-Rack roof racks. Clarus is subscale and undergoing a reset after expanding their SKU count a bit too much. The lack of scale and previous lack of focus leads to GAAP financials that are not pretty; the company struggles with profitability.

However, looking past what the quants can see, in my view the company has real brand value. Reviewing precedent transactions suggests that outdoor adventure brands trade

hands at 1-2x sales, yet Clarus is valued by the market at less than 0.4x sales. By itself this smells like a value trap, but when you consider the alignment and interests of largest shareholder and Chairman Warren Kanders, the picture begins to change. Kanders owns ~18% of the shares at present, has recently bought shares in the open market, and also owns a series of options on 1,000,000 more shares that will only vest if shares trade at greater than \$15, \$18, or \$50 by 2033. Kanders has a long history of value creation, and while thus far his tenure at Clarus has not mirrored his other successes, he is unlikely to sit still. The most recent evidence of this was the May announcement that Clarus would be selling PIEPS, a small subsidiary focused on snow safety, for 1.7x sales and effectively an infinite multiple of EBITDA.

It is not exactly clear what will happen next with Clarus, but with plenty of cash on the balance sheet, no real debt, a motivated and experienced operator at the helm, and a totally bombed out valuation, there are multiple ways for us to win. If I had to guess, I would say that over the next 6 to 18 months or so the company will continue to rationalize its operations, and then run a sale process for its remaining assets. Assuming the mid-point of the historic range, shares would be worth around \$11.00 gross of any taxes (which are likely to be limited) in an out-right sale of the company. However, given Kanders's options, it is also possible the assets are sold while the entity survives. In this case, I would think that shares would price in some discount to the cash on the balance sheet while Kanders finds some other way to deploy the cash. In both cases, I believe shares are worth more than double today's prices.

**SECURE Waste Infrastructure Corp (SES.TO)** – SECURE is primarily a waste management business catering to the needs of Western Canada's oil industry. You will find a longer more detailed writeup of SECURE in the appendix to this letter. The short version is that SECURE was formerly an oil services business characterized by extreme cyclicity, and in fact only changed its name from SECURE Energy Services to SECURE Waste Infrastructure earlier this year. However, today ~80% of cash flows are recurring in nature, while previously 60% of cash flows were highly cyclical. Additionally, in my view the company's accounting is completely misleading, and hides the fact that following certain common-sense adjustments, economic EBITDA margins are north of 30% while mechanical screeners would tell you that EBITDA margins are closer to 4%. This explains why shares remain cheap, and a recent forced sale of comparable assets provides a valuation floor at multiples that are higher than the prices we paid for our shares, and confirms that they are indeed cheap.

Further evidence of downside protection comes from a recent tender offer that was undersubscribed, suggesting that the supply of sellers near current prices is limited. At the

same time, management is properly incentivized to be buyers of their own stock, and they are doing exactly that, having repurchased 19% of shares in 2024, and continuing to aggressively repurchase shares this year.

With stable and predictable cash flows and an under-levered balance sheet, I expect this pattern of shrinking the float to continue for the foreseeable future, which by itself suggests that an equity CAGR in the low 20% range in the years to come is possible even absent multiple expansion. However, given that the starting valuation is in line with that of a forced sale, multiple expansion is likely. There is quite a bit of path dependency here, but assuming SECURE's multiple does re-rate closer to other waste industry peers over the next few years, an equity CAGR of 30 to 40% is possible.

## Top 5 Positions

**Lifecore Biomedical Inc. (LFCR)** – Lifecore, our fill-finish CDMO, continues to work toward their dual goals of increasing capacity utilization and expanding margins. I continue to believe that achieving these goals is very much a “when” rather than an “if.” This belief was founded on global supply and demand dynamics, strengthened by the BIOSECURE Act, and reinforced by the National Security Commission delivering a report and action plan to Congress, which calls for the re-shoring of the biotech supply chain.<sup>iii</sup> To top it off, Trump has recently stated that pharmaceuticals manufactured abroad will be subject to 200% tariffs. Considering that building and certifying new fill-finish capacity can take 4 or 5 years, it seems that it would be much easier to partner with a company like Lifecore.

The sales cycle here is slow, but all indications are that the pipeline is active, and major international pharma and biotech companies have been conducting diligence on Lifecore's facilities. Shares continue to trade well below where frequent industry M&A has taken place, and as the last public domestic CDMO of any size, I believe LFCR will eventually be acquired. ~6x revenue would be a reasonable multiple based on past transactions, suggesting a price of more than \$13 per share today, and closer to \$16 on 2026 numbers.

**NextNav Inc. (NN)** – NextNav, which is our next-gen GPS and spectrum company, continues to march the ball forward in their quest to have the FCC greenlight their spectrum for 5G use. I continue to believe that the odds of NextNav succeeding are very favorable. This belief comes from the obvious, such as reading FCC filings where NextNav is specifically named, but also from more and more articles highlighting the vulnerabilities of the existing GPS system and the National Security needs of the United States. Additionally, it is hard to interpret the official FCC Twitter/X account re-tweeting articles written by NextNav's CEO as

a bad sign, and perhaps most important is reading the tea leaves and digging up the scuttlebutt surrounding the various personalities involved behind the scenes.<sup>iv</sup>

None of this stuff goes in the spreadsheet, but all of it suggests that a Notice of Proposed Rule Making (NPRM) that supports FCC Chairman Brendan Carr's stated goals of freeing up spectrum and focusing on National Security and First Responders will be forthcoming. Carr is clearly passionate about these goals, but he lacks the budget to independently see them through. NextNav is the only solution that tackles these problems with no cost to taxpayers.

Assuming an NPRM, I suspect that NextNav will find a way to monetize their spectrum in some sort of partnership or transaction with one of the mobile network operators at prices significantly higher than where shares trade today. Comparable transactions have taken place at a wide range of prices, and anything from \$35-\$60 per share is within the reasonable realm of possibility, although history has shown that crazy things can happen in spectrum land.

**PAR Technology Corp (PAR)** – PAR, our restaurant and convenience store technology company, continues to grow revenue while keeping costs nearly flat. The first half of the year was characterized by multi-product customer wins that will bear fruit later this year. The second half of the year should see an acceleration of the Burger King rollout, as well as other large wins. CEO Savneet Singh recently indicated that the customer pipeline is bigger than it has ever been, and additional M&A is likely at some point.

**SECURE Waste Infrastructure Corp (SES.TO)** – Discussed above and in the appendix to this letter.

**Vistry Group PLC (VTY.L)** – Vistry, our asset-light U.K. homebuilder, remains in the penalty box after the winding down of its traditional homebuilding business led to accounting problems in the 2<sup>nd</sup> half of 2024. Further challenges came from affordable housing starts being down 35% in the 2023/24 period as the existing funding program approached its sunset. However, the U.K. government recently announced a new series of grants to local authorities, housing associations, and developers to focus on low-income housing, which will total £39B over 10 years. This is an improvement from the previous program, which was £11.8B over 5 years.<sup>v</sup> This funding should benefit Vistry in the 2<sup>nd</sup> half of 2025 and into 2026, and power the company a long way toward their intermediate term goal of reaching \$800M in operating profit. The market seems to think this goal is not attainable, but at a discount to tangible book value, Vistry could fall well short of its goals, and we should still be rewarded. I do think this goal is attainable, and if it is, we should be rewarded with multiples of our current investment with time.

## Another One Bites The Dust

**Cantaloup Inc. (CTLP)** – Cantaloupe, our vending machine software and payments company that was quickly evolving into all things unattended retail, was snatched away from us during the quarter by a private equity buyer. While we earned a solid return on our investment, I am disappointed in the price Cantaloup accepted. However, I am not totally surprised as the company's largest shareholder – who also had a representative installed as Cantaloup's chairman – is reportedly in wind-down mode, and thus seeking liquidity. The fact that the proxy reveals that this chairman will be rolling his equity, effectively maintaining his investment while smaller shareholders like us are shown the door, of course leaves a sour taste.

## Also of Note

**Thryv Holdings Inc (THRY)** – Thryv, our small and medium business software company that is also harvesting cash flows from a legacy business that is in runoff mode, declined approximately 40% from its February high until quarter end. The high price came in the wake of the company becoming “rule of 40” with greater than 100% net revenue retention, while the low price came in the wake of the company slightly cutting FY'25 guidance due to tariff uncertainty. The real issue here is the assumption that small and medium businesses will suffer in a recessionary environment, and the assumption that tariffs will lead to that recession.

From my view, at current prices the stock is trading as if the business is imploding. Yet, according to the National Federation of Independent Business, small business optimism remains above its long-term average, which suggests that Thryv should be able to continue executing their playbook. To be fair, Thryv does need to prove to the market that they can shift their growth model from relying on the transition of legacy customers to their software and more toward relying on product led growth, and at this point we have limited visibility on that front. However, I gain some comfort from the announcement subsequent to quarter end that HubSpot's (HUBS) former VP of Product is joining Thryv's board. Presumably, he does not think the business is imploding either. Let's hope that he brought some of HubSpot's multiple with him, as HubSpot trades at more than 9x 2025 revenue, while Thryv trades at less than 2x 2025 SaaS revenue, giving no credit to the cash that the legacy business continues to generate.

## Looking Forward

As always, I have no idea what to expect from the market in the near term, and neither does anyone else. While the fear around tariffs and inflation has abated for now, it is possible that either or both come roaring back in the not-too-distant future. It is also possible however that tariffs turn out to be mostly a non-event, and that animal spirits return to U.S. markets, and continue to push stocks higher. In any case, I believe our businesses and stocks specifically are primed to perform well in the years to come, and small cap stocks more broadly remain approximately 30% cheaper than their larger peers.<sup>vi</sup> This has been a headwind for us in recent years, but if history is any guide, at some point it will become a tail wind.

Please let me know if you have any questions,



Matthew Sweeney  
Managing Partner

## Appendix

**SECURE Waste Infrastructure Corp (SES.TO)** – Headquartered in Calgary, SECURE operates a network of waste processing facilities, produced water pipelines, waste transfer stations, industrial landfills, metal recycling facilities, and a specialty chemicals business that form the backbone of a business that is focused on the collection, processing, recovery, recycling and disposal of waste generated by energy and industrial related customers. Broadly speaking, waste management as an industry is characterized by strong moats created by regulatory compliance and local geographies, as well as long term contracts and stable demand.

In layman’s terms, waste management is typically a good business because customers’ largest costs are tied to transportation of waste, which restricts their potential options for waste management by distance travelled. The supply of options is further limited by regulations that prevent more than a certain number of waste facilities from existing within a certain proximity to customers. Limited options for a customer in need of a service is typically good for the supplier of that service.

Historically, waste management companies have also benefitted from a fragmented market and the benefits of scale. This dynamic has allowed larger players to consolidate the industry around local geographies while removing cost from combined operations.

I believe that SECURE’s collection of assets benefits from the above-mentioned factors, yet the potential for outsized returns to SECURE’s equity remains underappreciated. In my view this is largely because SECURE’s current business is the result of a multi-year transition that obscures the operating history, while the vagaries of “generally accepted account principles” (GAAP – in this case Canadian GAAP) fail to capture the true economics of the business that will power the equity CAGR over the long term. Importantly, SECURE management is properly incentivized to exploit SECURE’s current (under) valuation, and has been pursuing an “Outsider” like approach to capital allocation, having retired 19% of shares outstanding in 2024, while continuing to aggressively pursue share count reduction in 2025, with an additional ~5.4% reduction as of late May.<sup>vii</sup>

## Brief Background

Up until the beginning of 2025, SECURE Waste Infrastructure was known as Secure Energy Services. As the prior name would have you believe, historically this business operated a variety of energy services businesses that were tied to the booms and busts of oil drilling primarily in Western Canada, with additional operations in North Dakota. In fact, looking



back a decade ago, 60% of cash flows from this business were tied to the drilling and completion of oil wells, which could swing rather unpredictably based on oil prices. This was of course a cyclical business, and thus deserving of a low multiple like other oil services businesses that typically trade at low to mid-single digit multiples of EBITDA, and often flirt with bankruptcy during down turns.

## **Where Are We Now?**

Fast forward to today, and after a series of acquisitions and divestitures SECURE has gone from 60% of cash flows being *cyclical* in nature, to 80% of cash flows being *recurring* in nature. In brief, the company has moved away from cyclical oil services, and largely remade itself as a recurring revenue waste management and infrastructure business, that is admittedly mostly adjacent to the oil industry. Specifically, the company's Waste Management segment (75% of adjusted EBITDA) is primarily focused on processing waste generated by oil production, and the company's Energy Infrastructure segment (25% of adjusted EBITDA), includes oil pipelines, terminals and storage facilities, as well as an oil purchase and resale business, which is also largely tied to production.

In my view, "adjacency" should not be a punishable crime.

Rather, a business should be valued based on the type of work it actually does and the quality of the cash flows that it actually produces, not the industry or the cash flow profile of its customers. The distinction between companies that rely on spotty oil drilling and consistent oil production is subtle enough that an investor relying on surface level quantitative work and a one size fits all industry classification system may miss it. At the same time, this distinction is significant enough that in my view those willing to think like an intelligent business person rather than a quant have the opportunity for outsized returns.

SECURE primarily operates in Western Canada, which is the 4<sup>th</sup> largest oil reserve in the world. Broadly speaking, oil recovery in this region is characterized by high upfront costs, but lower on-going costs, due to slow decline rates of 5-10% per year, versus 40-70% per year for U.S. shale oil. Faster decline rates require more frequent drilling, and quite simply, exploring and drilling is more expensive than managing a slow decline. The low on-going costs of Western Canadian wells allow oil companies to keep producing even in the face of low oil prices. Further, the decision to shut in a well is not as simple as managing for marginal

cost. Shutting in a well presents the risk that when the well is re-commissioned it will not produce as well as it did previously. As such, Western Canadian oil production is relatively stable, and severe declines in oil prices typically result in only moderate declines in oil production. Additionally, breakeven prices for new drilling

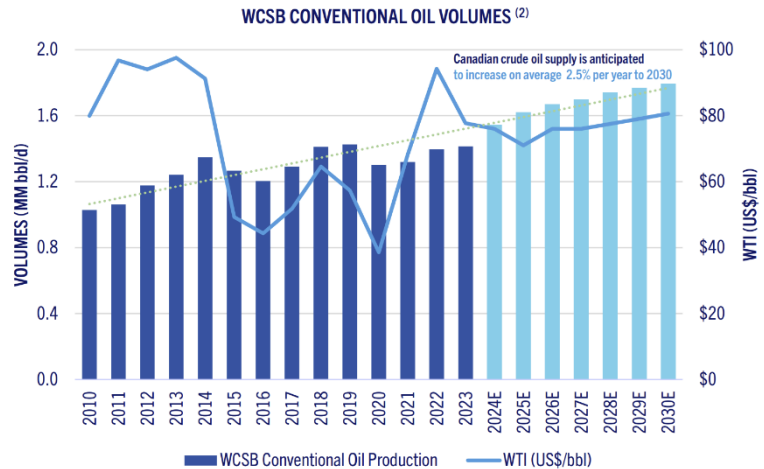
are lower in Western Canada than they are in most of the U.S. oil deposits, which means that when oil prices do decline, drilling activity in the U.S. is typically curtailed first. As the cure for low prices is low prices, this provides a buffer for SECURE's clients, and contributes to the stability of SECURE's business. Thus, the vast majority of SECURE's business operates independent of the oil cycle, and functions more as a waste management business.

SECURE's President and CEO Allen Gransch commented on this dynamic on a conference call in December of 2023:

*We're talking 80% of our revenue is generated from production, which has slightly grown here over the last 10 years. And so that's where you get that stable cash flow. I think if you go over the last 4 quarters, excluding Q2 obviously with spring break up, we've consistently shown 150 plus in EBITDA each quarter, showing that stability. And you look at 2 different environments. You look at 2022, WCI was \$95 on average. And you look this year, we're hovering below \$75 as an average, and yet the cash flow remains the same. And that's really your fundamental principle here of recurring cash flows, and so we're going to continue to drive that message here.<sup>viii</sup>*

For a second opinion, consider the commentary below from Waste Connections' (WCN) CEO following the acquisition of certain assets from SECURE in February of 2024 (more on this below):

*We looked back over a 5-year period during diligence of the assets we would be acquiring. And crude moved – Western Canadian crude moved from a high of about \$80 a barrel to around \$32. So that's a pretty significant swing and revenue changed 8% peak to trough and EBITDA changed 12% peak to trough. So I think that shows the significant difference between a production-oriented model and a drilling-oriented model. And quite honestly, one of the things we loved about the assets is it derisked our combined portfolio.*



## Improper “Classification”, Misleading Financials

Despite a wholesale remaking of the business toward waste management tied to oil production, the company is still classified as “Energy / Oil & Gas Refining and Marketing” by the GICS system that governs quantitative screens, as it was when the business was actually tied to the

oil cycle. This effectively hides SECURE from investment analysts who typically avoid cyclical industries like “Oil & Gas Refining and Marketing” (like yours truly).

In addition to what I believe is a classification that makes sense heuristically, but not “common-

SEC.TO 2024 F/S	As Reported	Adjust	LWC Common Sense
LWC Base Revenue	\$ 1,403		\$ 1,403
Oil purchase and resale	9,269	9,269	
Total Revenue	\$ 10,672		\$ 1,403
COGS			
LWC Base COGS	981		981
Oil purchase and resale	9,269	9,269	
Total COGS	\$ 10,250		\$ 981
Gross Margin	422		422
G&A	150		150
Transaction & related	4		4
EBIT	\$ 268		\$ 268
<i>gross margin %</i>	4.0%	→	30.1%
<i>EBIT margin %</i>	2.5%	→	19.1%

sensically,” the picture is further muddled by the company’s accounting, which in my view does not accurately reflect the economics of the business. Thus, when viewed through a computer-powered quantitative eye that is only looking at the accounting numbers from a surface level, SECURE appears to be a low margin business.

This is because SECURE’s Energy Infrastructure segment includes an “Oil purchase and resale” line item as both Revenue and COGS in equal amounts. Essentially, this is a pass-through item which an intelligent business person would recognize does not actually impact the margins of the business. As illustrated above, when making these commonsense adjustments, gross margins and EBIT margins explode higher, and reveal an attractive margin profile that is wildly different to what a mechanical screener would present.

In fact, while SECURE screens as a low margin business, when backing out the “Oil purchase and resale” line items, SECURE has industrial waste management industry leading EBITDA margins.<sup>ix</sup>

Adjusted EBITDA Margin <sup>2</sup>	
SECURE	33.6%
Peer A	32.5%
Peer E	31.1%
Peer D	29.7%
Peer C	28.6%
Peer B	23.2%
Peer F	19.0%

It should be further noted that the Oil purchase and resale line also makes SECURE's revenue look less stable than it actually is. Whether oil is at \$50 per barrel or \$100 per barrel the net impact of this line item is the same: \$0. However, higher or lower oil prices can have a large impact on the consolidated revenue line that mechanical screeners depend on, creating the impression that SECURE's top line is unstable, and thus undeserving of a premium multiple.

## **Business Quality**

The core of SECURE's Waste Management businesses are its waste processing facilities, which are fully integrated with produced water pipelines, industrial landfills, and waste transfer stations. Oil drilling is a messy business, and SECURE exists to handle that mess. "Produced water" is the contaminated water that comes out of the ground with oil when it is pumped to the surface, either because it is naturally occurring, or because it was injected into the earth. This produced water can be more than 80% of what comes out of an oil well, and combined with contaminated soil represents an environmental and logistical challenge for oil companies.

Waste arrives at SECURE facilities either by pipeline or truck, and is then processed mechanically and/or chemically to separate solids, oil, and water. Solid waste is then typically moved to a SECURE landfill, liquid waste is typically disposed of by deep well injection, and oil is optimized (through SECURE's Energy Infrastructure business) and shipped to market by pipeline. SECURE's Specialty Chemical business provides the chemicals that aid in chemical separation of water, oil, and other materials.

While it is possible for oil drillers to handle their own water by reinjecting it into a well, they would not typically be equipped to handle slurries and/or the separation of oil, water, and solids. There is a trend toward outsourcing this process as over the last ~decade oil companies have sought to become more capital efficient, and outsourcing water treatment as an operating expense rather than building and maintaining in house capabilities can lead to higher ROICs.

Further, the landfills are the real moat. Stringent environmental regulations ensure that new landfills can't just be opened on a whim. Rather, very specific topographic and geological requirements must be met to ensure that the waste is actually contained within the landfill,

rather than leaching out into the wider environment. Geography also acts as a moat, as a customer's largest cost is transporting the waste from the drill sight to a waste facility. Quite simply, travelling further to the next facility up the road is not worth the cost. Of particular note, customers typically transport their waste on their own trucks. This is in stark contrast to larger municipal waste players that own thousands of trucks, which helps explain why SECURE maintains higher ROICs than other waste players.<sup>x</sup>

I estimate that SECURE controls 70% of the industrial waste processing in its primary geographies, with most of the balance controlled by Waste Connections ((WCN) – more on this below). Waste Connections is known to be a disciplined operator, and I believe the dynamic between SECURE and WCN is akin to “mutually assured destruction.” In other words, if one of them were to try to compete on price in a certain geography, the other would then compete on price in the same or in other geographies, and a race to the bottom with no winner would ensue. As such, pricing is stable, and low single digit annual increases are the norm.

Return on Invested Capital <sup>3</sup>	
SECURE	21.1%
Peer E	13.7%
Peer D	13.5%
Peer F	12.5%
Peer A	7.1%
Peer B	3.9%
Peer C	3.0%

### Aligned Insiders

Insiders at SECURE appear to be well aligned with minority shareholders. Founding partner, former CEO, and current Vice Chair Rene Amirault owns ~\$30M of stock, and bought shares in the open market as recently as April, 2025. Other board members (excluding TPG Angelo Gordon) own approximately \$17M in stock. Private Equity fund TPG Angelo Gordon maintains control of one board seat, and owns approximately 16.7% of SECURE equity valued at more than \$550M, and bought shares in the open market as recently as March of 2025. Management's Long Term Incentive PSU grants vest on a 3 year cliff, and are 50% tied to relative Total Shareholder Return, and 50% tied to Discretionary Free Cash Flow per Share.

Between existing equity positions and clear incentives for management to focus on per share value creation in the future, minority shareholders appear to be in good hands.

### Capital Allocation: Buybacks, Reinvestment, & Bolt Ons

From a high level, SECURE management deserves credit for the wholesale transformation of their business. In fact, acknowledging a sample size of 1, it appears as if SECURE's management pulled a rabbit out of a hat with their July 2021, ~\$1.2B merger with Tervita, who was previously their largest competitor. This merger re-made the industry dynamics by

combining the two largest players in the geography. Canadian regulators took note of the decline of the competitive environment and moved to force SECURE to divest 29 facilities. This was completed successfully in February of 2024 through a sale to Waste Connections (WCN) for \$1.15B. Considering the cash flow generated in the interim, SECURE essentially wound up owning the majority of the Tervita assets for free. This pattern is of course unlikely to repeat in the future, but it is comforting to know that management was not afraid to act aggressively during a time of Covid-induced industry stress (also unlikely to repeat).

With the proceeds of this sale, management again acted aggressively by paying down debt, and beginning to repurchase SECURE shares, both in the form of a normal course issuer bid, and a \$250M substantial issuer bid. In total, SECURE repurchased 19% of its shares in 2024, including \$45M in Q4'24 at an average price of \$15.97 per share. As shares became cheaper in early 2025 due to tariff fears etcetera, SECURE became more aggressive, purchasing \$79M at an average price of \$14.96 in Q1'25, before announcing a second substantial issuer bid for up to \$200M in April of 2025, at prices up to \$14.50 per share. While this tender offer was undersubscribed – meaning there simply were not enough sellers – management has indicated that they expect to continue to repurchase stock going forward. These capital returns are supported by strong cash flow, and a balance sheet that is currently 1.3x levered (ex-leases), versus their preferred range of 2-2.5x. SECURE is on track to return ~\$400M to shareholders in 2025 between buybacks and dividends, equating to a ~12.5% shareholder yield.

In addition to these capital return plans, SECURE plans to invest ~\$100M in growth cap ex per year, including \$125M in 2025. This may take the form of extending water pipelines to customers, building greenfield water disposal facilities, expanding existing facilities, and/or increasing the efficiency of the existing business. Importantly, this capex is typically tied to long term contracts, and the company targets 20% after tax returns:

*When we look at our business development opportunities, our goal is to ultimately target a 20% after tax IRR. When we look at these specific projects, part of the project is guaranteed and backed by our customer, call it, in that 75% range. And we're typically targeting IRRs that are in that, call it 15, 16 percentage points. Where we're getting additional IRR points would be area dedications from that customer as well as third party volumes that we can take to make sure we get the utilization of that facility ramped up. So there's this level of confidence that you can go and execute on the project knowing that you got a base level of guaranteed returns, but you also have upside to hit our targeted threshold.*

*CEO Allen Gransch, Q1'25 Conference Call*

In addition to opportunities for organic growth in SECURE's oil-waste related businesses, the company's non-core metal recycling business (~10% of EBITDA) provides ample opportunities for bolt-on acquisitions. This business is centered around a recently acquired and under-utilized "mega-shredder" that sits at the center of a hub and spoke model. SECURE has the opportunity to buy smaller recycling operations and increase efficiency by tying them to the Edmonton based hub, while also increasing margins through increasing utilization of the mega-shredder, high grading batches through better sorting of loads, and reducing transportation costs by using company owned rail cars. Importantly, this business minimizes exposure to commodity prices by turning inventory ~1x a month, while ferrous scrap pricing is typically set monthly.

### **Growth & Operating Leverage**

Growth at SECURE is likely to happen along a 3 prong path, with none of those paths being super exciting, but all of those paths being dependable and able to conservatively contribute to 8-10% annual revenue increases (ignoring oil purchase & resale). Importantly, the company's current plant is underutilized, which should allow 8-10% revenue growth to translate into 10-12% EBITDA growth.

Organic growth – or what the company refers to as same store sales – should come without investing additional capital in the form of volume growth and pricing power. On average, volume should expand 2 to 3% per year. Over the last 2 years the company has increased price 5% per year, but as inflation moderates, 3 to 4% price increases are more likely.

As mentioned previously, further growth is likely through growth capital spending. On average the company should be able to deploy ~\$100M per year over the next several years, with anticipated after-tax returns of 15-20%. Off of the current base, this spend should drive topline 5-7% per year.

Lastly, as mentioned previously, the company has the opportunity to grow through bolt on M&A.

### **Valuation: Downside Protection**

As always, valuation starts by looking down. In this regard, an investment in SES.TO appears to be well protected.

First, as mentioned previously, in July of 2021 SECURE completed a merger with their largest competitor, Tervita Corporation. However, the Canadian Competition Tribunal ruled that



this merger “lessened competition in approximately 143 distinct relevant markets for the supply of three different types of oilfield waste disposal services in Western Canada” and required SECURE to divest 29 acquired facilities in order to restore competition.<sup>xi</sup> Thus, in February of 2024, SECURE closed on the sale of 29 of the facilities acquired from Tervita, in what was essentially a forced sale to Waste Connections (WCN). This sale took place at 7.5x EBITDA, and we acquired our shares at slightly less than this multiple. In my view, the multiple applied to representative assets in a forced sale should serve as a valuation floor for SECURE going forward.

Management seems to agree, as they have recently commented that they believe their stock is cheap on conference calls, multiple insiders have recently bought stock on the open market, and the company has been an aggressive buyer of its own stock at prices higher than where shares currently trade at through a Normal Course Issuer Bid. Additionally, in May the company completed a Substantial Issuer Bid / tender offer.

While clearly the world can change, this most recent tender offer is of particular note as the company was only able to purchase approximately 2/3rds of the shares it wanted at \$14.50 per share. A tender offer would typically be scrutinized by a fundamental owner, and the fact that the tender was undersubscribed suggests that there simply are no interested fundamental sellers at current price levels. At the same time, a tender offer would frequently be ignored by quantitative owners, suggesting that any recent post tender sales have been made by sellers that are fully blind to the dynamics illustrated above, allowing us to build much of our position at prices lower than the tender.

Between a recent forced sale providing a valuation marker, a clear lack of sellers in the market, and clear appetite to buy more shares by the company, it appears that the downside for SECURE stock is well protected.

## **Valuation: Today**

So what is SECURE worth?

I am of the view that simply slapping a multiple on current earnings power is sloppy. Any multiple is tied to the madness of crowds; it is not as simple as saying “on average the 6 other large public waste management companies trade at 17x EBITDA, SECURE leads the pack in adjusted FCF conversion, adjusted EBITDA margin, and ROIC so SECURE is worth \$37 today.”

I am *more* comfortable saying, “there is a ~5x multiple gap between SECURE and the next closest competitor for reasons I think I understand. It is not crazy to think that SECURE



should trade in line with the “cheapest” of the other large waste companies, so SECURE is worth \$25 today.”

I am *most* comfortable saying, “the downside seems to be well protected, so what can happen from here?”

### **Valuation: Vanilla Execution**

With the downside well protected, next consider what would happen if the company simply goes sideways over the next few years. If we assume no revenue growth, no margin expansion, a simple continuation of current capital returns through dividends and buybacks, and no change to the company’s FCF multiple, we can expect a low double-digit return over the next five years simply through dividends and share count reduction.

A low double-digit return is not particularly exciting, but at a time when broad market multiples remain elevated, this sort of return from a business as boring and stable as waste management is not the end of the world either. But now consider that every one of the assumptions in the above scenario are likely to be comically conservative over any reasonable period.

- Revenue growth is a near certainty. Canadian crude production is expected to grow 2-3% per year over the next 5 years. Supporting this assertion is the fact that shovels are already in the ground to expand Western Canadian pipeline capacity, and more expansions are expected. Importantly, produced water volumes should grow faster than crude supply, as the water:oil ratio typically worsens over time. Additionally, landfill volumes are expected to grow due to increased industry activity and government mandated remediation spending. Metal recycling volumes are also expected to grow due to the global shift toward EAF “green steel.” Additionally, historically SECURE has been able to take price up by low-mid single digits per year. Further, as indicated above SECURE has the opportunity to invest in future growth that is contractually guaranteed. Lastly, there are continued opportunities to deploy capital into bolt on acquisitions.
- Margin expansion is a near certainty as volumes are likely to expand while waste processing utilization at present is in the mid 60% range. Further opportunity exists in the metals recycling business as the company’s Edmonton based “mega-shredder” is under-utilized, and at the center of a growing hub and spoke model that will benefit from upgrading the company’s fleet of rail cars.
- Capital returns are highly likely to accelerate. Management has consistently indicated that they believe their stock is undervalued, while noting that their balance sheet is under-levered. This is not just talk; management has aggressively

repurchased shares in recent history, and as noted above they are properly incentivized to focus on per share metrics through their compensation plan. Increasing revenue and widening margins should of course increase free cash flow as well. The ability to increase leverage combined with growing free cash flow should provide ample ammunition for management to continue to shrink the float.

Considering the high likelihood of revenue growth and margin expansion, I believe it is reasonable to think that over the next 5 years on average SECURE can grow EBITDA by 10% per year. For additional context, consider that over the last several years, revenue has grown approximately 15% per year, and there is operating leverage in the model. If over the next 5 years SECURE slowly increases its capital return in the form of buybacks so that increasing FCF is put to use, and so that the company's leverage ratio expands to the approximate middle of their stated leverage goal of 2.0-2.5x, then over the next 5 years SECURE stock would trade to approximately \$39, resulting in a ~22% CAGR, assuming that the stock does not benefit from any multiple expansion over this period.

### **Valuation: Multiple Expansion Highly Likely**

However, in my view, multiple expansion is extremely likely for any company that starts out at a valuation level that is equivalent to a recent forced sale while also growing revenue, widening margins, and returning capital. According to SECURE management, peer waste management companies trade at an average of 17x 2025 EV/EBITDA, while SECURE trades at approximately 7.5x. Quite frankly, I am not convinced that SECURE should or will trade at 17x due to its Canadian domicile, smaller market cap, and energy adjacency rather than municipal focus. At the same time, SECURE converts EBITDA to FCF at a higher level than peers, has higher margins than peers, and generates higher ROIC than peers, so perhaps a premium is warranted. Supporting this conclusion is the recent sale by GFL Environmental (GFL) of a majority of their Environmental Services businesses to private equity buyers at 16.3x EBITDA. GFL retains a call option to repurchase this business which surely has some value, suggesting that the true multiple paid is higher than 16.3x. This business operates in a similar geography as SECURE and is also primarily focused on liquid waste (oil recycling, water treatment, fuel blending etc.) as well as soil remediation.

In addition to the above, management appears to be hell-bent on making sure the multiple does expand.

Not only have they been aggressively repurchasing their own stock, management has also been out working the sell-side community, so that at present approximately half of their sell side research analysts come from the Waste Management or Industrial space rather than

the Energy space. They are also likely to host an investor day later this year or early next year, and they are also actively petitioning the powers that be at the various financial data providers to report revenue from the oil business on a net basis rather than a gross basis so that the true economics of the business can be readily available to those analysts who have not dug deep enough to recognize how misleading the company's reported financials are.

If we assume that over the next 5 years the company benefits from EBITDA growing 10% per year while increasing their capital returns, and that over the first 4 years the multiple expands by ~1 turn of distributable FCF per year before moving to 20x DFCF or 11.7x EV/EBITDA in year 5, shares would end the 5 year period at approximately \$62, or a 34% CAGR. At this level, shares would still be well below the valuation levels of larger, more well known, waste peers. At 25x DCFC or 14x EV/EBITDA – still a notable discount to peers at an average of 17x EV/EBITDA – SECURE shares would trade at ~\$78 per share, or a 40% 5 year CAGR.

### **Valuation: Levers to Pull & Potential Event Path**

As mentioned above, I believe that a large part of the disconnect between SECURE stock and a more appropriate valuation is the complexity caused by the Oil Purchase & Resale revenue and COGS lines in the income statement. Quite frankly, for long term patient shareholders like LWC, this can be viewed as a positive, as it makes the idea of shrinking the share count more attractive/accretive. However, it is possible that management and/or activist shareholders will seek to unlock value on an accelerated timeline.

As mentioned previously, in Q1 of this year, waste management company GFL Environmental (GFL) sold 56% of their Environmental Services business to private equity buyers at more than 4x revenue and 16x EBITDA. This business operates a liquid waste and soil remediation business in the same geography that SECURE operates in.

SECURE could similarly sell a controlling stake in their Energy Infrastructure business. This would simultaneously make them closer to a pure play waste management company, clean up their financial statements as the Oil Purchase & Resale line items could be disaggregated, provide a valuation mark at levels likely well above where SECURE trades today, and lastly allow them to continue to benefit from the stable cash flow that the Energy Infrastructure business provides.

We do not have full information here, but making estimates around a corporate expense allocation to the Energy Infrastructure business, how much of the business would be or could be sold, taxes, and comparable multiples for pipeline businesses suggests that

SECURE could realize somewhere between \$650M and \$1.3B in after tax proceeds by pursuing a partial sale of this business. Versus the company's current ~\$3.2B market cap, and combined with the company's still under-levered balance sheet, the opportunity for value creation is substantial.

Given the insider ownership at SECURE – especially the more than \$500M of stock owned by a private equity firm – I would be shocked if the above scenario is not being investigated. After all, not only would the PE firm benefit from a return of capital following a monetization of the Energy Infrastructure business, the PE firm will need exit liquidity at some point. The best way to pursue that liquidity is likely through a sale of the whole company. However, the “Oil Purchase and Resale” line item represents a potential headache for strategic acquirors, who would be unlikely to want to add this accounting complexity to their financial statements. At the same time, given the high multiples that other large public waste companies trade at, they are capable of paying a full price for SECURE while still having a transaction be accretive. The trend toward consolidation in the waste sector is unmistakable, and there simply are not many large targets left, which should make SECURE a desirable M&A target at some point.

### **Potential Catalysts**

- Continued aggressive share repurchases
- Rising sell side awareness, as the analyst base continues to shift from Oil and Gas analysts to waste / industrial analysts
- The company is likely to host an investor day this fall or early next year
- GICS classification change and/or data clarity
- Activism / sale or partial sale of pipeline business
- WaterBridge IPO / future data center play?

### **Risks**

While I believe that this business should prove resilient through a normal oil cycle, extreme events like Covid 19 could lead to extremely low oil prices, which would reduce production. Additionally, there have been times when oil production in Western Canada declined absent oil price declines. Notably, during the 2016 Fort McMurray wildfires, around 1 million bpd of production was halted for several weeks. Additionally in early 2019 there were government mandated production cuts of 325k bpd due to record high differentials between WCS and WTI caused by pipeline bottlenecks. However, recent additions to pipeline capacity mitigate

this risk. Beyond these production related risks, typical oil related risks such as spills or environmental activism cannot be completely ruled out.

Additionally, U.S. tariffs are likely to cause a speed bump for the metals recycling business. As of this writing, scrap metal out of Canada is not subject to tariffs, however, finished steel is. As such, Canadian buyers of scrap have pulled back. However, SECURE's scale allows them to pivot to sell their scrap into U.S. markets, and SECURE has the physical space to store inventory. Smaller competitors are more challenged in this environment, which may put pressure on pricing and otherwise challenge their businesses. By extension this could harm SECURE's metal business in the near term (10% of EBITDA), but over the medium-long term SECURE is likely to benefit as struggling smaller players are more attractive as M&A targets for SECURE.



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<sup>i</sup> “Laughing Water Capital” refers to investments in Laughing Water Capital, LP, Laughing Water Capital II, LP, and related entities.

<sup>ii</sup> JPM US Equity Strategy, June 28, 2019

<sup>iii</sup> <https://www.prnewswire.com/news-releases/national-security-commission-on-emerging-biotechnology-urges-swift-action-to-protect-us-national-security-302422627.html>

<sup>iv</sup> <https://www.forbes.com/councils/forbestechcouncil/2025/06/11/gps-isnt-enough-why-the-us-needs-resilient-pnt-systems/>

<sup>v</sup> <https://www.theguardian.com/politics/2025/jun/10/rachel-reeves-to-unveil-39bn-housing-boost-in-spending-review-shake-up>

<sup>vi</sup> Yardeni research, relative forward P/E ratios for S&P indexes.

<sup>vii</sup> See “The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success”, by William Thorndike

<sup>viii</sup> 12/11/23 divestiture call

<sup>ix</sup> Company presentation

<sup>x</sup> Company presentation

<sup>xi</sup> <https://decisions.ct-tc.gc.ca/ct-tc/cdo/en/item/521191/index.do>