



## **Boutique Small & Micro Cap Investing**

Laughing Water Capital, LP  
Laughing Water Capital II, LP  
Investor Presentation  
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Matthew Sweeney – Founder & Managing Partner  
[msweeney@laughingwatercapital.com](mailto:msweeney@laughingwatercapital.com) | 917-306-0461

## **Value Investing In A Quant Driven World**

# Disclaimer

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This presentation is intended only for the 2024 Value X Vail conference, and is not intended to be financial advice.

Please see additional disclaimers at the end of this presentation.



# Founding Principles

It is possible for small pools of capital to outperform the masses. However, differentiated results require a differentiated approach.

Laughing Water Capital is dedicated to maintaining every possible competitive advantage an investment partnership can have:

- Small and micro-cap focused
- Go where others can't or won't = less competition
- Best ideas only
- High quality LP base
- Properly aligned investment manager



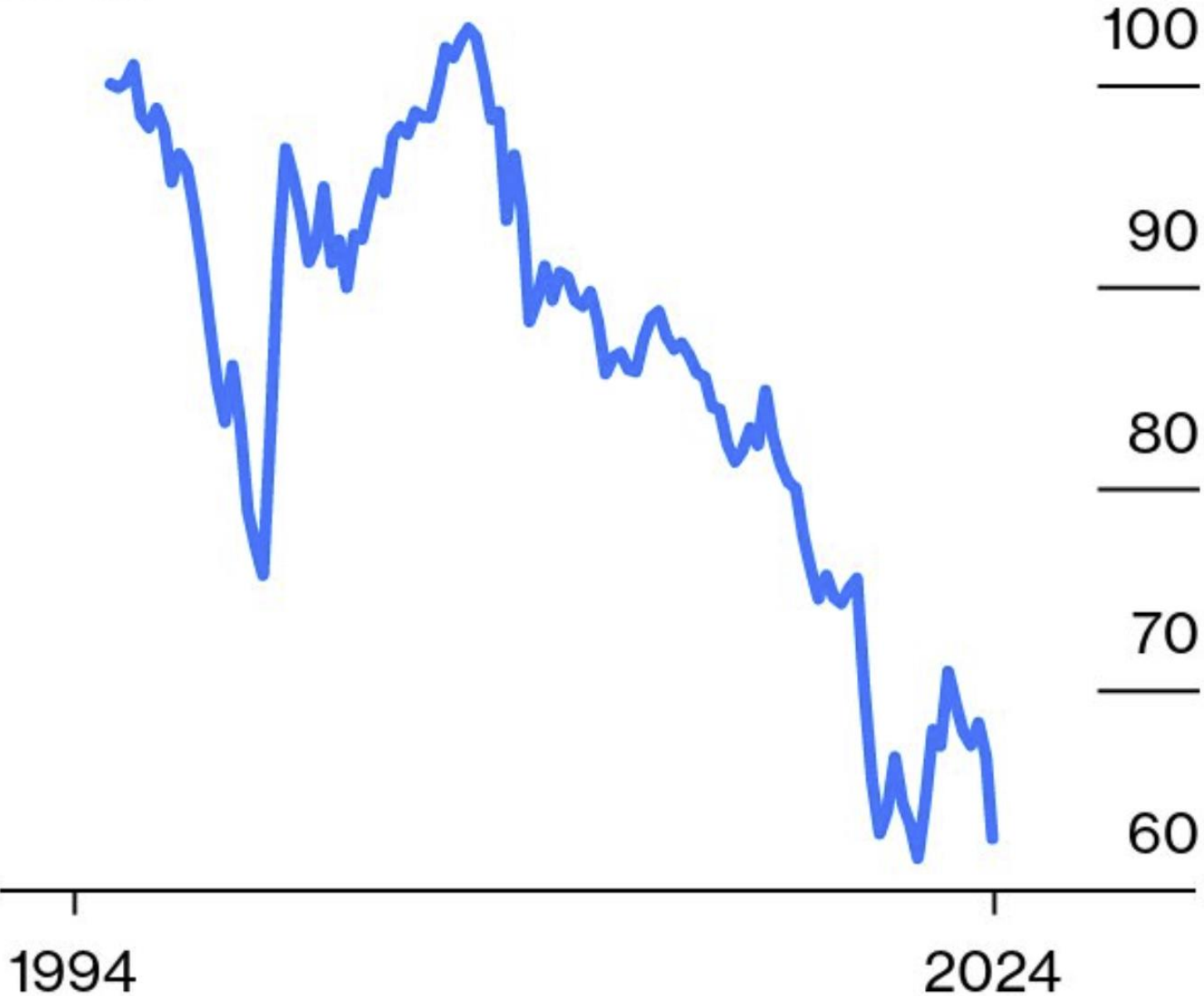
# Defining Value

In recent years, what has been most popular has been most successful.

That is unlikely to last forever.

- We believe value exists on a spectrum from undervalued assets to underappreciated growth potential - We diversify across this spectrum.
- The most important determinants of value are not quantitative, but rather are dependent on an objective, qualitative, variant perception.
- Much of our success has come from understanding the shortcomings of market structure and human nature – Exploiting these failings is timeless.

# S&P 500 Value Index relative to S&P 500 Index



Is value investing dead?



# Is the Market Broken?

“With the decimation of the active fund management industry, we don’t believe we can reasonably expect securities to be re-rated by investors who are actively trying to figure out what they are truly worth”





## **LWC View:**

The world has changed.

Instead of punching the rain,  
get an umbrella.



“The rearview mirror is one thing;

the windshield is another.”

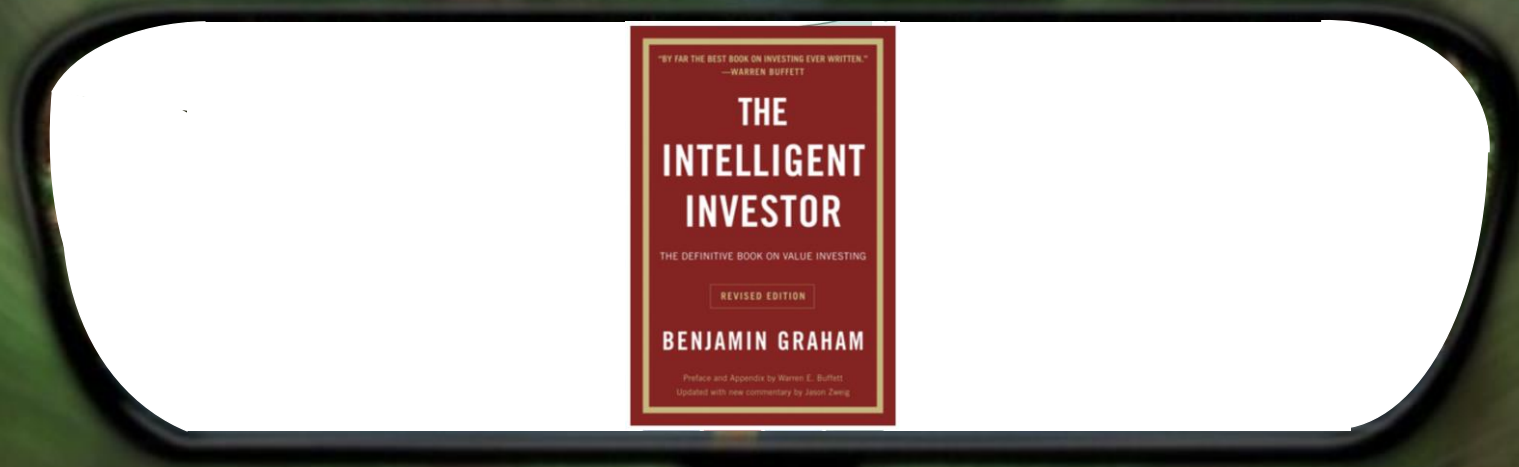
BRK Letter to Shareholders 1989



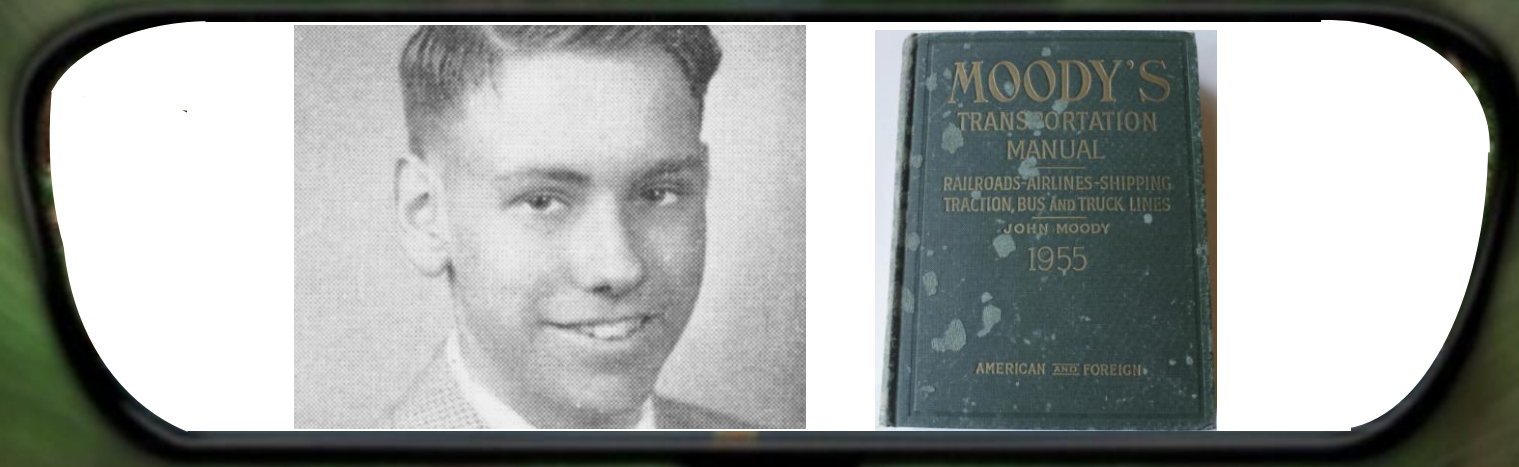
LAUGHING  
WATER  
CAPITAL



# The World As It Was.



# The World As It Was.



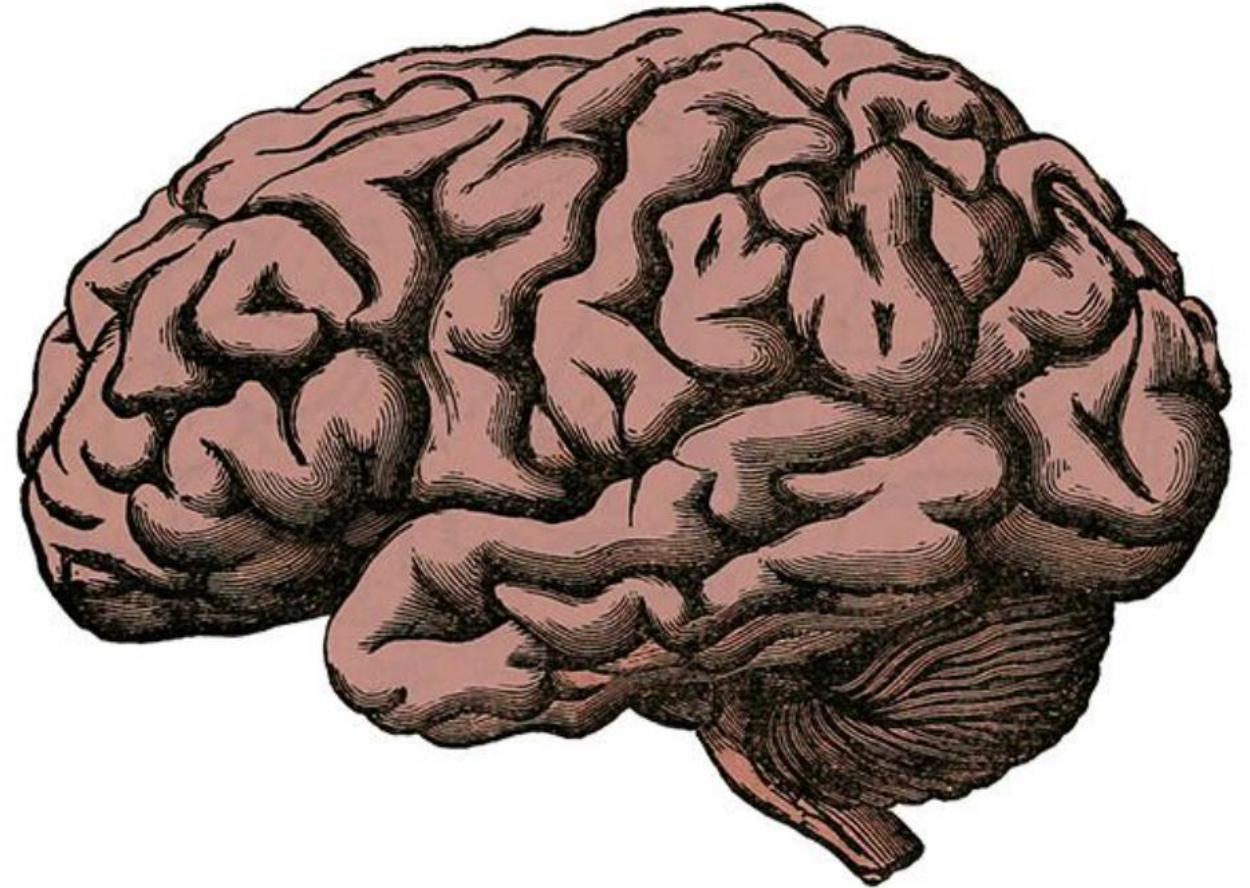
# The World As It Was.

“Value” = “statistically cheap.”

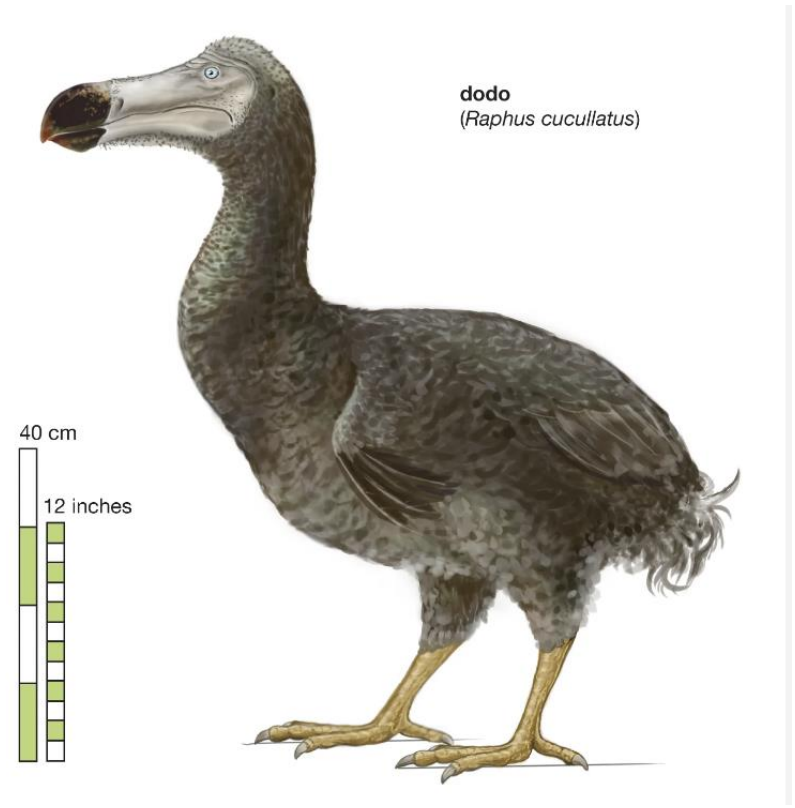
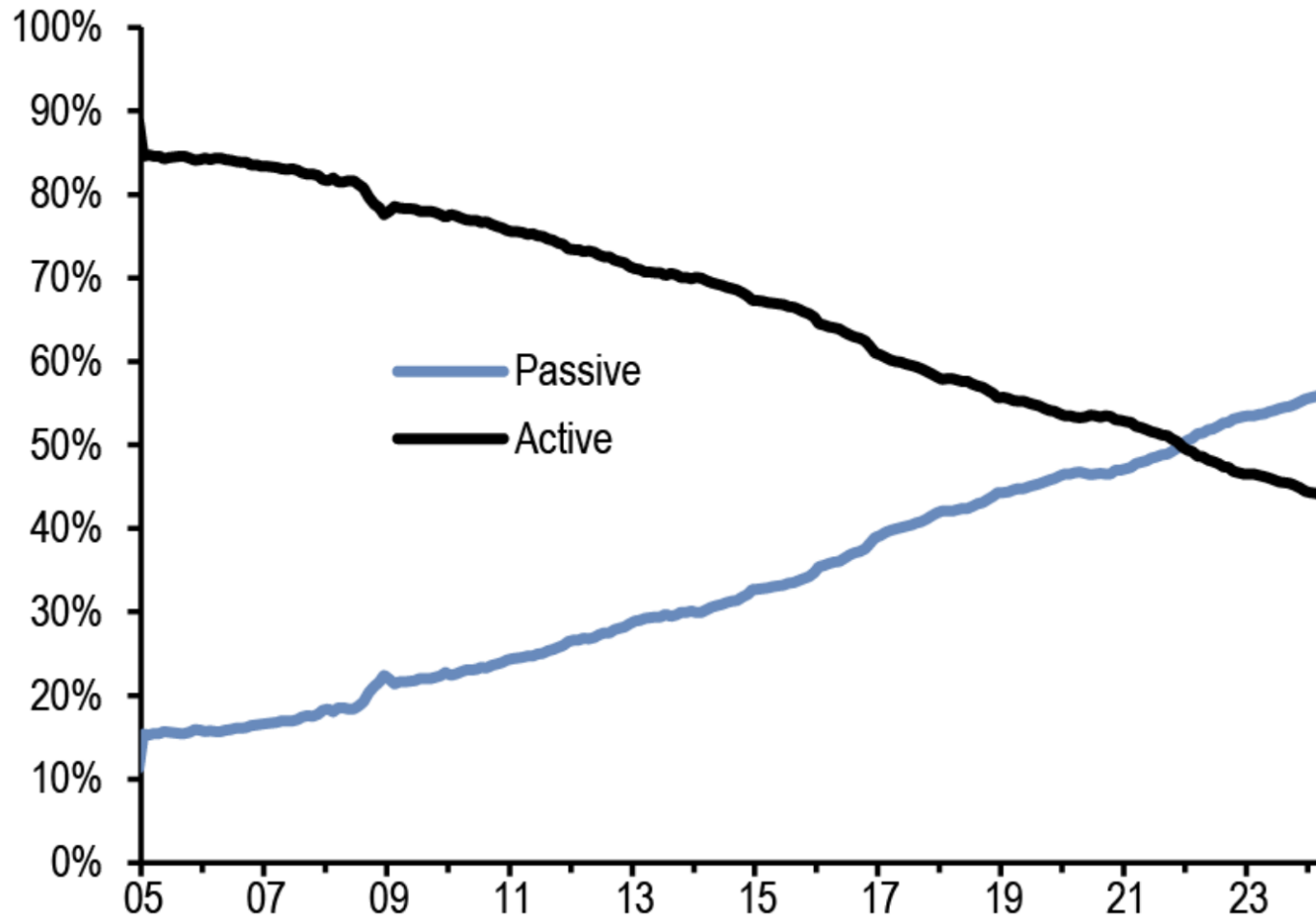
# The World As It Was.

In the rear view mirror, it required hard work to find statistically cheap stocks.

The world has changed.



# The World As It Is.



# The World As It Is.

**JP Morgan: 80%+ of investment decision making these days is reliant on quantitative inputs**

- Indexes / ETFs
- Quants



# The World As It Is.

Everyone with a computer or smart phone can instantly find “cheap” stocks.

If everyone knows it is “cheap” ...  
And it is *still* “cheap” ...

Might it be “cheap” for a reason?



# The World As It Is.

If you are starting with the numbers when the numbers are obvious to everyone, you are probably flirting with value trap risk.

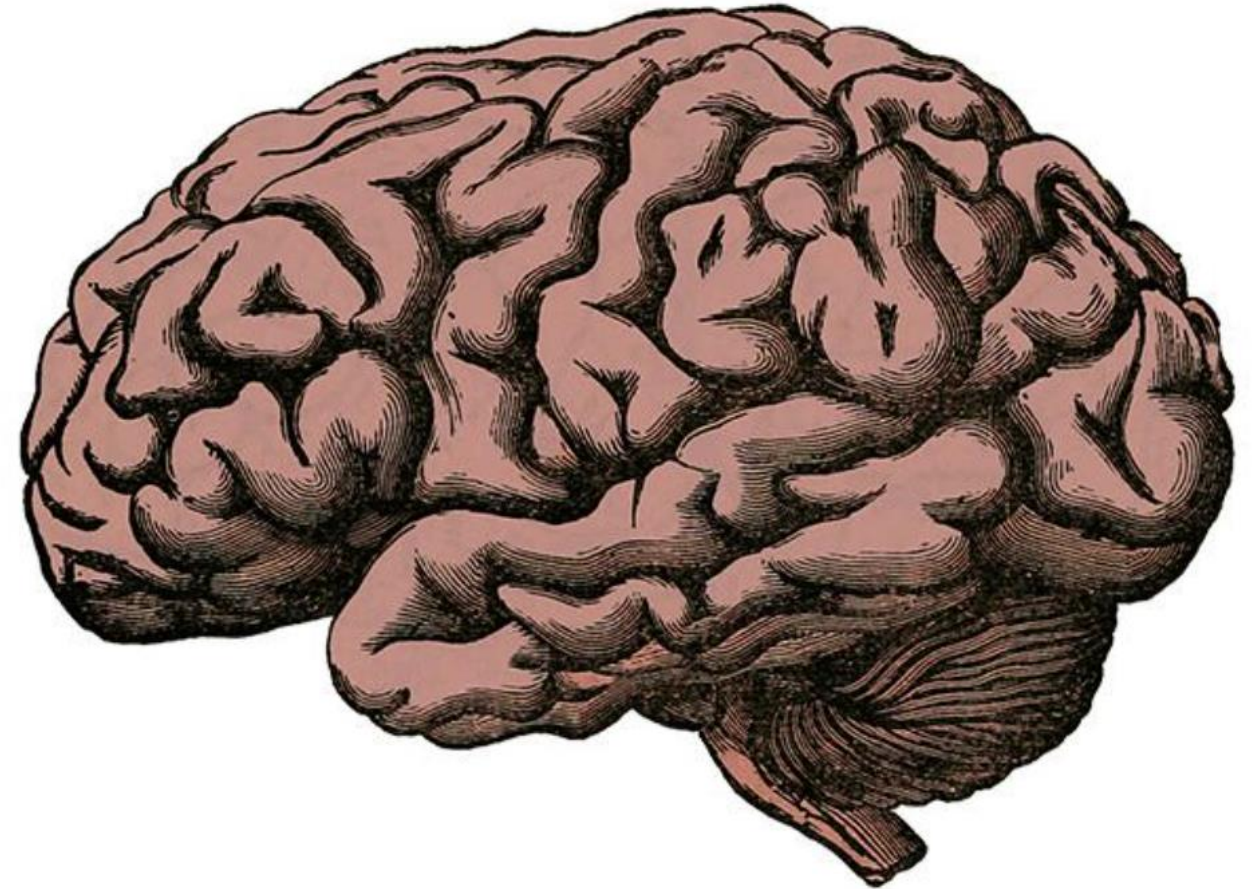




# The World As It Is.

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In the windshield, it *still* requires hard work to find cheap stocks.



# The World As It Is.



On a long enough timeline, fundamentals are all that matter. However, opportunity cost is real.

If 80% of the market is quant-driven, the incremental buyer is likely to be quant driven.

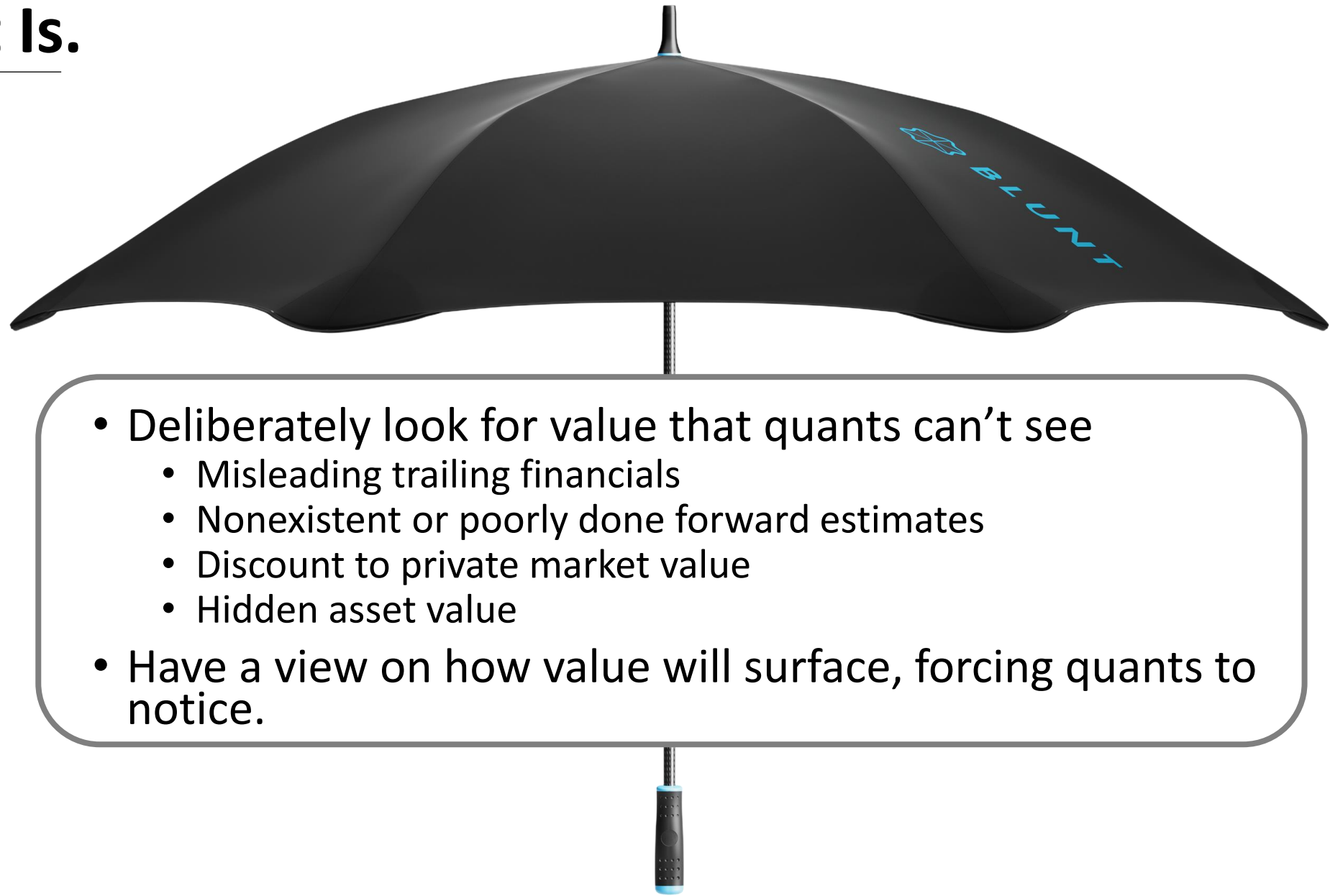
# The World As It Is.

Despite sophistication,  
fundamental quants  
ultimately rely on two sets  
of inputs

- Rearview mirror
  - Trailing numbers
- Windshield
  - Sell side projections



# The World As It Is.



- Deliberately look for value that quants can't see
  - Misleading trailing financials
  - Nonexistent or poorly done forward estimates
  - Discount to private market value
  - Hidden asset value
- Have a view on how value will surface, forcing quants to notice.

# Thryv Inc. (THRY)

## What Quants See NOW

USD	4/2021	4/2022	4/2023	4/2024E	4/2025E
P/E	356.7x	64.1x	180.5x	NM	NM
EV/EBITDA	78.6x	42.6x	114.3x	290.9x	28.7x
EV/Sales	12.9x	7.1x	8.3x	4.3x	3.6x
P/B	16.8x	4.8x	6.0x	2.7x	3.4x
FCF Yield	1.6%	NM	NM	NM	NM
Div. Yield	--	--	--	--	--

## What Quants Will See LATER

- Consolidated revenue growing, not shrinking
- Trading at ~2x EV/Revenue vs. comps at ~6x
- Widening margins
- Generating cash
- Buying back stock

## What Quants Can't See

- Curve cross story: consolidated financials misleading
- Huge secular tailwinds
- Strong competitive advantages
- Excellent management
- Mischaracterized under GICS

## How Value Will Surface

- Curves will cross
- Soon to be "Rule of 40"
- Software operating leverage kicking in
- Debt being rapidly paid down
- GICS will be recharacterize as software

# Avid Bioservices Inc. (CDMO)

## What Quants See NOW

USD	12/2021	12/2022	12/2023	12/2024E	12/2025E
P/E	14.8x	5.1x	84.8x	30.8x	15.6x
EV/EBITDA	5.6x	3.3x	5.6x	6.4x	7.4x
EV/Sales	1.8x	0.9x	1.1x	1.2x	1.3x
P/B	4.5x	1.7x	4.7x	-	-
FCF Yield	10.2%	18.2%	16.0%	-	-
Div. Yield	-	-	-	-	-

## What Quants Will See LATER

- ~\$400M run rate revenue
- ~1.7x EV / Revenue
- ~\$110M un-levered FCF
- ~6.2x FCF

## What Quants Can't See

- Huge discount to private market value
- Favorable FDA pipeline
- Global under-penetration of biologics
- BIOSECURE Act/Industry disruption tied to CTLT M&A
- History of rational supply response
- Strong competitive advantages

## How Value Will Surface

- Filling capacity is a “when” not an “if”
- Shift away from early phase and toward commercial
- Tremendous operating leverage
- Low / no near to mid term cap-ex
- Low / no cash taxes
- Large free cash flow

# Nextnav Inc. (NN)

## What Quants See NOW

USD	12/2021	12/2022	12/2023	12/2024E	12/2025E
P/E	NM	NM	NM	NM	NM
EV/EBITDA	NM	NM	NM	NM	NM
EV/Sales	977.3x	66.3x	118.7x	120.0x	50.7x
P/B	8.5x	3.1x	6.3x	NM	NM
FCF Yield	NM	NM	NM	-	-
Div. Yield	-	-	-	-	-

## What Quants Will See LATER

- Cash on balance sheet and/or FCF

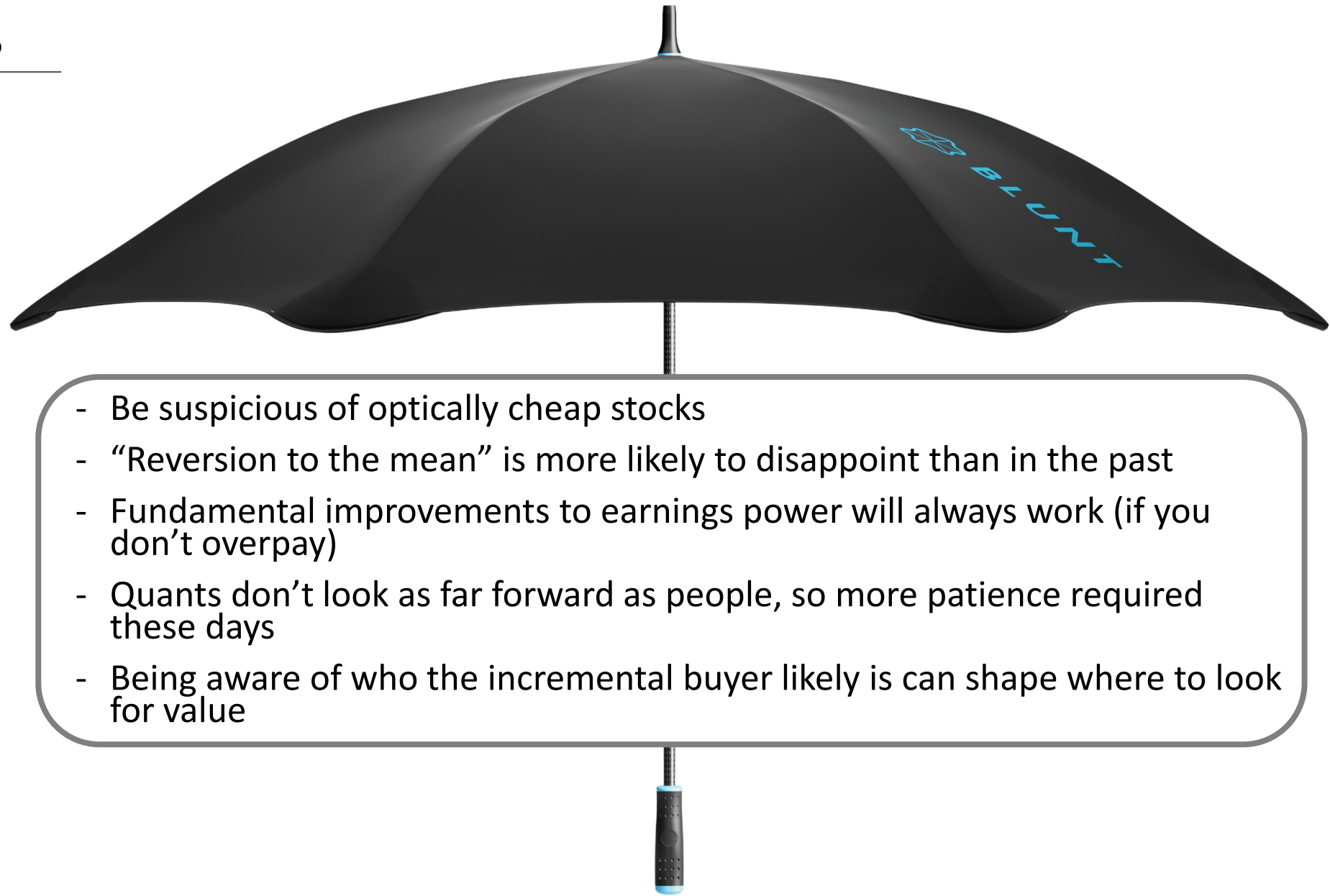
## What Quants Can't See

- Hidden asset value: wireless spectrum
- Strategic importance of next-gen GPS system

## How Value Will Surface

- FCC likely to re-purpose 900 MHz spectrum for NN
- NN likely to partner with spectrum-hungry bigger player

# Key Takeaways.



- Be suspicious of optically cheap stocks
- “Reversion to the mean” is more likely to disappoint than in the past
- Fundamental improvements to earnings power will always work (if you don't overpay)
- Quants don't look as far forward as people, so more patience required these days
- Being aware of who the incremental buyer likely is can shape where to look for value



# Appendix



# Ponderables & Problems

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- Sometimes stocks that look cheap are just cheap, but be suspicious
  - In a quant world, human nature is still human nature
  - “Reversion to the mean” theses are more likely to disappoint than in the past
- Cheap stocks that look like expensive stocks often trade like expensive stocks during down turns
  - If you were looking for a quant-based short basket, these names would likely show up
- The momentum factor

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