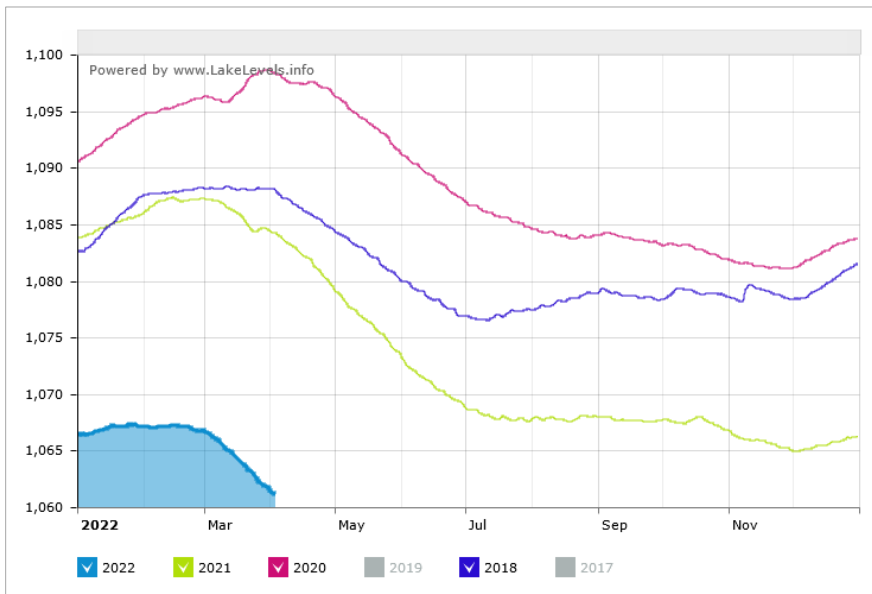




Vidler getting more attention

Vidler rose more than 40+% in the last few weeks. I don't see a particular reason for this rise, so it's probably a combination of the following recent developments:

- Russia's invasion of Ukraine sparked commodity and energy prices to spike. Now people have to worry about food security which is obviously related to water security.
- The Spring/Summer seasons are upon the US. Even though Lake Mead's water levels were lower this winter than they were in prior summers, Mr. Market is an irrational fellow that only cares about water when it's hot out.



- The mainstream media and Mr. Market are publishing more articles on the water shortage.
- Vidler Water published FY2021 results.



Additionally, Vidler has made progress selling more LTSCs soon after the last update. A detailed summary has been provided by @LakeMeadPut:

We start with a starting point of 12/31/17 to now and this is pre-LTSC sale closure. I use EV/LTSC calculation to have a constant “break-even” on LTSC that would get to current EV. If in fact, LTSCs are viewed as an “option”

<https://twitter.com/LakeMeadPut/status/1471835553243058180?context=HHwWiMC-7eaoge0oAAAA>

Date	12/31/2017	12/31/2021 (proj.)	Change
Shares O/S (in millions)	23.15	18.32	-20.9%
Share Price	\$12.80	\$11.40	-10.9%
Market Cap	\$296.3	\$208.8	-29.5%
Plus: Debt	\$7.2	\$1.9	
Less: Cash	\$37.1	\$6.1	
EV	\$266.5	\$204.7	-23.2%
LTSC Inventory			
Harquahala LTSCs	251,000	250,682	-0.1%
Phoenix AMA LTSCs	44,000	27,397	-37.7%
Total LTSCs	295,000	278,079	-5.7%
EV/LTSC	\$903.24	\$736.01	-18.5%

Based on above table, you see that even though VWTR sold less than 10% of their LTSCs during this time, due to share repurchases, the EV/LTSC breakeven declined by almost 20%. The share repurchases from LTSC proceeds are incredibly accretive.

Here is the LTSC inventory and the most simplified “model” of how sales of LTSCs can look at different prices over the next three years. It is my view that over the next three years over 50% of EV can be converted into cash, protected by NOLs & returned to shareholders.



TLDR Summary	"How It Started" 2017		"How It's Going" 2021		"How it could be going by 12/31/24"					
	Period 12/31/2017	EV	Period 12/31/2021	EV	Downside	Base	Upside A	Upside B	Upside C	
Period	12/31/2017	\$ 266.46	12/31/2021	\$ 204.67	12/31/2024	12/31/2024	12/31/2024	12/31/2024	12/31/2024	
EV					\$109.2	\$100.4	\$63.7	\$54.3	\$44.9	
Harquahala	251,000		Harquahala	250,680	125,341	125,341	62,671	62,671	62,671	
Phoenix AMA	44,000		Phoenix AMA	27,397	13,699	13,699	6,849	6,849	6,849	
LTSCs	295,000		LTSCs	278,079	139,040	139,040	69,520	69,520	69,520	
EV/LTSCs	\$933.24		EV/LTSCs	\$738.03	\$922.15	\$722.15	\$915.97	\$780.75	\$645.53	
Sold			Sold		Sold	Sold	Sold	Sold	Sold	
LTSCs	N/A		LTSCs	16,921	139,040	139,040	208,559	208,559	208,559	
Sold As a %	N/A		Sold As a %	-5.7%	Sold As a %	-50.0%	-75.0%	-75.0%	-75.0%	
ASP	N/A		ASP	N/A	ASP	\$550.00	\$750.00	\$800.00	\$850.00	
Remaining Inventory	295,000		Remaining Inventory	278,079	139,040	139,040	69,520	69,520	69,520	
Pricing			Pricing		Pricing		Pricing		Pricing	
	As % of EV		% of EV		% of EV		% of EV	% of EV	% of EV	
\$200.00	22.1%									
\$250.00	27.7%									
\$300.00	33.2%									
\$350.00	38.7%									
\$400.00	44.3%									
\$450.00	49.8%		\$450.00	61.1%	\$450.00	48.0%				
\$500.00	55.4%		\$500.00	67.9%	\$500.00	54.2%				
\$550.00	60.9%		\$550.00	74.7%	\$550.00	59.6%	\$550.00	76.2%	49.1%	
\$600.00	66.4%		\$600.00	81.5%	\$600.00	65.1%	\$600.00	83.1%	54.6%	
\$650.00	72.0%		\$650.00	88.3%	\$650.00	70.9%	\$650.00	90.0%	60.0%	
			\$700.00	95.1%	\$700.00	75.9%	\$700.00	96.9%	65.5%	
			\$750.00	101.9%	\$750.00	81.3%	\$750.00	103.9%	71.0%	
			\$800.00	108.7%	\$800.00	86.6%	\$800.00	110.9%	76.4%	
			\$850.00	115.5%	\$850.00	92.0%	\$850.00	117.9%	81.9%	
			\$900.00	122.3%	\$900.00	97.6%	\$900.00	124.9%	87.3%	
					\$950.00	103.9%	\$950.00	131.9%	92.8%	
					\$1,000.00	138.0%	\$1,000.00	139.4%	98.3%	

It requires two variables: a) Average Selling Price, b) amount of LTSCs sold. The EV assumes cash goes on balance sheet (hard to model assumed repurchase price).

This is a very conservative "NAV" because a) I hold Fish Springs Ranch at pref capital accruing 1ML+450bps (vs. FMV based on \$/AF) and b) I'm only valuing other assets at \$20m (\$1.1/sh) and those assets have been monetized at higher marks.

Summary	2017	2021	Downside	Base	Upside A	Upside B	Upside C
LTSC Remaining Inventory	362,871	\$126.11	\$56.4	\$75.2	\$52.1	\$55.6	\$59.1
Harquahala	\$15.4	\$15.1	\$7.5	\$9.8	\$6.8	\$7.1	\$7.3
Phoenix AMA	\$15.4	\$15.1	\$7.5	\$9.8	\$6.8	\$7.1	\$7.3
Remaining Inventory	\$76.2	\$140.2	\$63.9	\$84.9	\$52.1	\$55.6	\$59.1
Monetized Inventory	\$0.0	\$0.0	\$0.0	\$0.0	\$196.4	\$196.8	\$177.3
Remaining LTSCs / Share	N/A	\$7.71	\$3.5	\$4.9	\$3.8	\$3.0	\$3.2
Monetized LTSCs / Share	N/A	\$0.0	\$4.2	\$4.9	\$8.5	\$9.1	\$9.7
Remaining & Monetized LTSCs / Share	N/A	\$7.71	\$7.7	\$9.8	\$11.4	\$12.1	\$12.9
Monetized LTSCs in \$ As % of 12/31/21 EV	N/A	0.0%	37.4%	44.2%	76.4%	81.5%	86.6%
Remaining LTSCs in \$ as % of 12/31/21 EV	N/A	68.5%	31.2%	41.4%	25.5%	27.2%	28.9%
Monetized / Remaining LTSCs as % of 12/31/21 EV	N/A		69.8%	85.6%	101.9%	168.7%	116.5%
Assets Summary (in millions)							
LTSC Summary - Remaining / Monetized	\$ 78.2	\$ 140.2	\$ 140.4	\$ 175.2	\$ 208.6	\$ 222.5	\$ 236.4
Fish Springs Ranch	\$ 189.6	\$ 218.4	\$ 237.4	\$ 237.4	\$ 237.4	\$ 237.4	\$ 237.4
LTSC & FSR	\$ 267.8	\$ 358.6	\$ 377.8	\$ 412.6	\$ 446.0	\$ 459.9	\$ 473.8
Shares O/S	23.2	18.3	18.3	18.3	18.3	18.3	18.3
Assumed Value of LTSC / FSR	\$ 10.7	\$ 19.5	\$ 20.6	\$ 22.5	\$ 24.3	\$ 25.1	\$ 25.9
LTSC (Monetized & Inventory) / Share	\$ 3.4	\$ 7.7	\$ 7.7	\$ 9.6	\$ 11.4	\$ 12.1	\$ 12.9
Fish Springs Ranch / Share	\$ 7.3	\$ 11.8	\$ 13.0	\$ 13.0	\$ 13.0	\$ 13.0	\$ 13.0
Other Assets	\$ 0.9	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1
Assumed Value	\$ 11.6	\$ 20.0	\$ 21.7	\$ 23.8	\$ 25.4	\$ 26.2	\$ 27.0
Other Assets							
\$10	\$ 0.4	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
\$20	\$ 0.8	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1
\$30	\$ 1.3	\$ 1.6	\$ 1.6	\$ 1.6	\$ 1.6	\$ 1.6	\$ 1.6
Assumptions							
1ML	1.70%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Spread	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
"All in"	6.20%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

What you see is, at \$11.8/share for FSR, the LTSCs are really "free options" that have the potential to convert 50%+ of current market cap into cash and returned to shareholders. I was getting ~\$22 as "downside" in three years. The FMV of FSR is closer to \$400m+, \$20/sh+ (imo).

Obviously if VWTR pursues share repurchases, hard to model those assumptions. This also doesn't include the growing re-curring revenue.



In summary, VWTR owns some of the best inflationary assets (FSR 5% semi-annually, LTSCs 15-25%/annually) with a ~\$4m/yr. burn rate as of FYE'21 that I believe will go to \$3m (2022), \$2.5 (2023) to \$2m (2024).

You end up with a structure that will generate 80%+ margins, zero capex & mgmt./BoD with 100% interest aligned. Their underlying assets are going through "price discovery" and there's only ONE public company that owns water assets Berkshire, clean energy & semi/data centers need

Lastly, valuation exercises include assumptions. Those assumptions are made by in this case me, who happens to have a positive bias on assets VWTR owns. Two years ago, there wasn't much talk of Harq LTSC value, now we know just 20% of those is 10% of market cap.

That's the big change. This sale and price \$400/LTSC (\$450/LTSC at 1/31) is happening at much faster pace and better pricing than I assumed almost six months ago. Water is more supply constrained today vs. six mo. ago, VWTR is cheaper. Please do your own dd.

One last comment, I've listened to a lot of commodity calls, investors want to know when cash will be returned to shareholders. \$VWTR has no debt and if last three years are any guide, all the monetized sales will be returned to shareholders.

The commodity universe doesn't have 80%+ margin, zero capex, with tax assets & underlying commodity going through gov mandated supply shortage, with no price down ticks if you assume we are '21 (tier 1), '22 (tier 1 or 2) and '22 (tier 1 or 2).

The mgmt and board here are very good imo. They had patience to wait for these assets, retuned capital during lean years, dramatically cut burn rate. Their actions have aged well & we are "transitioning" from "famine" to "feast".

Despite the progress and solid foundation Vidler stands on, it's worth keeping in mind the conservative price target is USD 25. We covered a lot of ground in the last few weeks and have about 55% more to go, at which point we can discuss whether



we should continue holding or not depending on the drought situation. I have a feeling this will go well above USD 25 steadily over time considering the situation isn't getting better at the slightest.

That being said, I feel a chunk of VWTR's recent rise was due to Mr. Market and not the fundamentals developments, so I suggest holding and not chasing.



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