Greystone Capital Management
Concentrated Value Investing

Q4 / January 2022

Dear Clients and Friends,

During the fourth quarter of 2021, returns for separate accounts managed by Greystone Capital ranged from +3.6% to -14.5%. The median account return was -10.8%, net of fees. The median account return for the full year 2021 was +39.4%, net of fees. Since inception in Q4 2019, an account opened with Greystone has returned a cumulative +96.8% or +48.4% per year, net of fees*. Please continue to check your individual account statements and feel free to reach out with any questions or concerns. As the firm grows and new capital onboards, it is my expectation that our returns will continue to be sporadic across client accounts given the timing and inflow of new capital.

Fourth quarter and YTD results compare unfavorably and favorably to the S&P 500 and Russell 2000 returns of +11.0% and +2.0% during the quarter and +28.7% and +14.8% for the full year. Because client portfolios are invested in a concentrated way consisting of small companies mostly outside of the major indices, our returns should typically vary from the returns generated from those indices. Additionally, we've been able to outpace the indices by avoiding portfolio leverage, options, and sexy story stocks, while sticking to a rigorous and consistent process of good research, conservative estimates about the future, saying no often and concentrating our share ownership into a small collection of good businesses. The backbones of Greystone are the firm's structure which provides me with the freedom to focus on investment research, and the group of clients we've attracted thus far who allow me to invest in off the beaten path opportunities, build concentrated portfolios and adopt holding periods much longer than the average investor.

As a reminder, Greystone was established to be structurally different from most hedge funds and investment firms and incorporates into the firm's structure, philosophy, and process some of the following characteristics:

- Long-only strategy with a focus on small companies
- View stocks as ownership shares of businesses with cash flows and valuation paramount
- One-man investment committee with a focus on deep fundamental research
- Concentrated portfolio with no conventional diversification – best ideas only
- Adopt long holding periods through volatility in the pursuit of high returns
- Eventual cap on AUM to preserve my investable universe, strategy elements, and return potential
- Client and portfolio manager alignment where I 'eat my own cooking' and always will

Additional details can be found in both the firm's Introductory Letter and Founder's Letter located on my website.

Although I've been pleased with our level of performance so far and riding this cadence of returns has been fun, there should be no expectation for results to continue along this trajectory. In two short years I've already made plenty of mistakes, and they certainly won't come to an end with the conclusion of this letter. My aim however is to reduce their severity via better decision making, improved portfolio

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**All performance figures are unaudited. Past performance is not indicative of future results. Investor's actual returns may differ from the returns presented due to several factors, including the timing of each investor's capital activity and position weightings within each portfolio.*

***Fees consist of 1.5% management fee and 20% performance fee above a 5% hurdle rate*

management and continuing to tweak my process to implement new learnings and iterations in favor of compounding at the highest possible rates.

Looking ahead, our sequence of returns will be volatile (the timing and magnitude of which remain unpredictable) and random, but over a long enough period I believe my investment strategy should provide us with the opportunity for above average returns. For us, the road forward will be paved bottom up, company by company with attractive risk rewards and investing alongside the right people. Additionally, my investment in the firm remains significant, which consists of the majority of my and my family's net worth. Our interests are aligned.

Portfolio Commentary

There must have been something in the water during 2021 as several of our holdings posted record results including very strong growth in revenues, margins and free cash flow. In some cases, fundamentals grew much faster than the share prices of these businesses, causing some of our holdings to be cheaper today than they were at the beginning of the year. These companies are simply outperforming their competition, making incredibly effective capital allocation decisions, and either raising guidance targets or re-affirming their bullishness regarding long term business prospects. I remain pleased and would expect the strong results to continue heading into 2022. I've been adding to certain positions accordingly and would imagine that share price activity will continue to align with business results.

At the end of 2021 our top five positions made up greater than 60% of client accounts and range in market caps from $60mm to nearly $3.0B. The majority of client portfolios consist of companies with market caps below $1 billion, capable of growing into significantly larger businesses. As a reminder, I am seeking to own profitable/cash generative businesses at fair valuations with growth potential, run by people who have our best interests in mind. Over a long enough period I would expect to avoid losing money with this approach, although mistakes will certainly be made.

Anecdotally, most of our positive investment outcomes during the past two years have come on the back of investing in owner-operator led businesses. While there isn't a direct cause and effect relationship, we can at the very least be assured that certain owner operators have shareholders best interests in mind, as they are typically the largest ones (fostering alignment as they stand to be affected by any bad decisions) and have either 'been there done that' or have made the act of building the business their life's work and primary source of wealth. Typically driving positive results is a lack of fear regarding job security leading to the advantage of being able to think long term, which in my view is the investing equivalent of a superpower. Currently 70% of client portfolios consist of owner-operated businesses, which has become my preferred hunting ground outside of special situations.

RCI Hospitality (RICK)

There are certain investments that I've lost sleep over and others that require less tossing and turning. RCI Hospitality is in the latter camp. The company's Q4 2021 and FY21 earnings release reflected record results and the business continues to execute tremendously well, posting record revenues, EBITDA and free cash flow for the year. Bombshells early progress has been exceptional and is on track to $100mm in revenues over the next few years followed by operating margins in the 18-22% range. During the year end call, management outlined the current free cash flow profile whereby the company is doing $1 million per *WEEK* after debt service, all of which is before their recent 11-club acquisition (which should meaningfully add to EBITDA and free cash flow) and future club M&A. Management took an incredibly bullish stance

during the Q4 conference call about their ability to continue to grow organically, reinvest cash flows and execute further M&A, while pointing to a FY22 run rate of $100mm in EBITDA. RICK's current market cap is below $600mm.

There remains a significant reinvestment runway for RICK to deploy free cash flow at anywhere between 25-35% returns with the goal of using cheap equity to do so. One risk is that the company fails to garner an attractive multiple of EBITDA or free cash flow given the nature of the industry and strongly held (yet lacking nuance) views on the management team. In that case, I'm confident RICK will do two things, one, continue to increase per share business value and cash flow per share, and two, aggressively repurchase shares at high free cash flow yields. In other words, I believe time will be our friend. Not only is RICK the best-executing and cheapest stock in our portfolio but is now one of the cheapest stocks in the entire restaurant universe. I continue to see a path to greater than 100% upside over the next few years.

1847 Goedeker Inc. (GOED)

Following a year that was marked by inflationary concerns, raw material price surges and supply chain issues, Goedeker achieved record results as a newly combined entity between Appliances Connection and legacy 1847 Goedeker. I say record year in terms of total revenues, revenue growth, margins and profitability. This is despite the company's 'fill rate' (the percentage of order value that is completed and shipped as actual orders) touching historical lows and sitting 25% below its average. *Despite* the massive demand picture created by COVID, consumer access to stimulus funds and all things work from home, there remains significant industry tailwinds at Goedeker's back, and offsetting any supply chain and inventory issues is the pricing power within appliances where during periods of strong demand, discounts can be eliminated. The combination of the appliance replacement and upgrade cycle, the current state of home building and mom and pop appliance retailers going out of business should continue to allow Goedeker to take share moving forward, especially as we see a larger percentage of appliance sales shift online. Goedeker's scale, product offerings, logistical capabilities and SEO expertise puts them miles ahead of smaller mom and pop e-commerce operations and will provide significant revenue and margin opportunities moving forward. The current valuation remains head-scratching as *none* of the above is being reflected in today's share price. Additional research can be found here.

PARTSiD Inc. (ID)

As disclosed to you via email during Q2, we currently hold a position in PARTSiD Inc., which is attacking head on the problems of 'fitment' and the friction of shopping digitally in the aftermarket auto accessories category. PARTSiD is an auto parts retailer that operates primarily via e-commerce channels and is focused on taking share from independent retailers and brick and mortar incumbents by serving what the company calls the aftermarket 'wants' segment of the industry. ID has been our biggest underperformer to date, and while I want to be careful about using our long-time horizon as an excuse for said underperformance, I don't believe many of the attractive aspects of the business nor the potential future value creation are being accurately reflected in the price.

Underpinning the investment thesis is the idea that the internet has disintermediated both the role of brick-and-mortar stores as well as dealership networks in providing value within the accessories ecosystem with both customers and suppliers. With the large number of SKUs available, curation or solving for fitment has been adopted by digital channels thereby providing ID with a meaningful opportunity to continue to take share, improve unit economics and grow brand awareness moving forward. Currently, there is a significant amount of low hanging fruit to address which should aid in

execution from here. For example, ID's conversion rates sit below the e-commerce average, repeat purchases are low, and lifetime value is likely immeasurable at this stage given the steps being taken to address customer loyalty to drive a larger share of wallet.

I've spent a lot of time with the management team as I think the opportunity in front of them is very attractive (for which they've already solved a huge customer pain point), and I believe they are being thoughtful about execution and managing the business for the next five years, not five quarters. This includes an extremely aligned Chairman, also the company's largest shareholder who believes in a decentralized management approach and whose private equity firm adopts fund vintages and holding periods of nearly three decades for their companies.

Whichever way the business results trend over time (which is what I urge you to focus on), we have what I believe to be a margin of safety with the valuation, cash flows, balance sheet and what I believe a knowledgeable buyer would be willing to pay for this business in a few years. The bad news is that some clear headwinds remain consisting of former insiders with large share ownership potentially looking to exit on the back of any increase in the stock price, two more very tough 'COVID comps' to lap including Q4, and continued supply chain issues, which may not abate until FY23. However, I believe the real thesis breaker would consist of a lack of revenue acceleration beginning in the back half of this year following better targeted marketing spend and what I hope to be a post-COVID normalization of e-commerce trends. I'm optimistic that many of the temporary headwinds will fade, and growth should meaningfully accelerate within the next few quarters.

New Positions

Houghton Mifflin Harcourt (HMHC)

During the quarter we entered into a core position in Houghton Mifflin Harcourt, a small cap education company undergoing a strategic business shift set to enhance their customer captivity, value prop and margin profile. Houghton Mifflin is a leading education and learning technology company that primarily services both students and teachers throughout K-12 school districts in the areas of core curriculum, supplemental services and professional learning services. Houghton Mifflin was founded in the early 1900s and there are most likely few readers of this letter who don't recognize the name from your time as a student. During the past few decades, HMHC has become an industry juggernaut, with their core curriculum products of math, science and reading penetrating over 90% of K-12 elementary schools, reaching 56 million students annually. Their education business consists of **Core** curriculum offerings in which they have 30% market share as part of an oligopoly, as well as the faster growing **Extensions** business which consists of supplemental materials, professional learning services, and intervention programs for students in need of extra learning support. Due to their scale, resources and investment in technology, Houghton Mifflin offers the most comprehensive and results-driven solutions across the elementary landscape. While the core business is strong, the most attractive aspect of this investment is HMHC's digital efforts as well as their extensions offerings which suggest additional opportunities for growth at very high incremental margins as they increase their penetration of annual education material spend.

Despite shares rising significantly since their COVID lows, I believe HMHC is being categorized (and valued) as a slow growing unprofitable cyclical with a poor history of value creation. Reality suggests that HMHC is a dominant cash generative business currently at an inflection point, with a new streamlined cost

structure capable of delivering strong fundamentals through all cycles. I believe poor trailing financials, the nature of education spending tied to state adoption cycles, not-so-straightforward accounting related to digital product sales, and COVID related impact on the education world has provided an interesting investment setup with the opportunity to purchase shares at a very favorable price.

It should come as no surprise given HMHC's track record, relationships and market share in Core offerings that the company has been able to capture significant customer demand for their digital learning tools. Prior to the pandemic, many school districts that significantly lagged behind the student to device (computer, tablet etc.) ratio found themselves with no choice but to adapt during a period which left many schools permanently closed for extended durations. These factors necessitated the demand for remote learning tools which quickly shifted the industry to a 1:1 student to device ratio in nearly all elementary classrooms, setting the stage for Houghton Mifflin's continued digital transformation. Moving forward, this is the rare situation where structural shifts accelerated by COVID will provide positive and lasting tailwinds for the business. This massive and accelerated repositioning should prove permanent as it would be hard to imagine many districts being interested in taking a step back from using effective, time saving and efficient digital tools so that students could continue lugging around textbooks and physical worksheets.

With the best products, largest sales presence in the industry, and longstanding district relationships, HMHC has been able to make significant inroads into this new and growing digital landscape by providing the necessary, accredited and outcomes driven tools needed to keep COVID related learning loss at bay. Multi-year efforts have resulted in the development of a fast-growing digital business doing over $120mm in annual recurring revenue currently responsible for over 40% of TTM billings. HMHC has nailed product-market-fit as digital sales grew 123% year over year as of Q3, and sport 150% net retention numbers. As expected, the digital business comes with a much higher margin profile and moving forward, the continued mix shift toward digital learning products should have the effect of boosting the overall margins of the business as well as significantly increasing free cash flow generation. Should this happen, I believe the incorrect categorization of HMHC described above goes away, leading to potential multiple expansion.

A good investment setup can sometimes consist of management making a large bet – either personally or via shifting resources – on a specific product or service line, which is exactly what is taking place within HMHC. Following the early 2021 sale of HMHC's large print and media division – HMH Books & Media – its no secret where management's focus lies as the company freed up the resources to direct into digital ed-tech services while shining on the capital allocation front by paying down a large chunk of debt and meaningfully slashing fixed costs.

In addition to highly effective internal efforts from the management team, there are currently significant industry tailwinds that exist in the form of increased education spending by state and local districts, with a large boost being provided by 'catch up' spend earmarked for COVID related learning loss. These incoming dollars – in the tens of billions – not only provide some interesting downside protection but also should flow disproportionately in some cases to industry leading education businesses. With over $10 billion being spent on education materials per year ($7.5 billion of which is directed toward Extensions offerings), there remains a long runway for growth given HMHC's dominant industry sales force and only 10% billings penetration. Curriculum adoption is an interesting process that unfortunately isn't always focused on the student or driving the best outcomes, but HMHC's track record, industry presence and reputation provide huge competitive advantages as their pitch will always be listened to, their RFP inputs will always be read, and purchasing their products will never get anyone fired. I see no reason why HMHC won't be able to capture a large share of the shift to digital education spend as time goes on.

Moving forward, I'm confident that HMHC will be able to effectively deploy future cash flow into sales resources, product development, share repurchases and potential tuck-in M&A to further drive value. We should continue to see very strong results over the next few years, and there are multiple avenues to do very well owning our shares especially given our purchase price of what I estimate to be a single digit multiple of normalized free cash flow. I look forward to providing more detail about this investment in future letters and potentially adding to our position should the opportunity present itself.

***HMHC Update**

In early January a [seemingly] leaked news story gave rise to a rumor indicating that Houghton Mifflin was potentially exploring a sale following an offer made by a private equity firm. Details were not disclosed and this rumor has not been confirmed or denied by management. It remains unclear to me the benefit of putting the company up for sale at this stage, nor is it clear why management would entertain accepting a price below anything significantly higher than today's valuation, especially given the company's strategic efforts and digital transformation are just beginning to inflect and could provide a sustainable runway for increased growth and free cash flow generation moving forward.

IDT Corp. (IDT)

My prior comment on owner-operators is fitting, as during the quarter we entered into a core position in IDT Corp., a founder-led company with an incredibly strong history of value creation and multiple catalysts on the horizon for potential share price appreciation. IDT is a telecommunications company with zero comps that is both misunderstood and overlooked as a confusing, slow growing secularly declining telecom business that pays no dividends and has unappealing historical financials. IDT is not for the industry specialist crowd, wouldn't make sense for quant or momentum strategies, isn't included in any passive indices and has a market cap below $1 billion with 70% of the voting power held by insiders. This leaves the small group of active small cap investors as the only participants who might be interested in analyzing IDT. Throw in the fact that management participates in one investor conference per year and has done little to gain research coverage for IDT or any of their subsidiaries, and there is the potential for mispricing here. These factors along with the recent market selloff have caused IDT to appear undervalued looking a few years out, using conservative business assumptions. Until recently, I was among the group described above, as studying IDT took some getting out of my own way to appreciate.

The reason for the above ground lack of appeal involves the historical playbook for IDT, where the development of subsidiaries starts with idea implementation, followed by execution and incubation, and ends with value unlocks via tax free spinoffs or dividends. Since 2012 when this spinoff strategy was enacted, IDT has parted ways with five businesses valued at nearly $3 billion and has collectively distributed over $200mm in dividends. This track record of value creation has resulted in every $1 invested in IDT in 2012 to be worth over $45 today. That's not a typo. Yet a look at IDT stock price and consolidated financials from 2012-2020 would reveal nothing short of a 'loser' with 8 years of flat returns and limited revenue or operating income growth at the consolidated level. In my view, this focus on trailing or consolidated numbers – still happening today – has caused IDT stock to be overlooked and ignored by most investors.

IDT is also considered by many as a sum of the parts story, and while that is not incorrect, dislike for SOTP investments, limited disclosures and low float have reduced the universe of investors interested in uncovering the appealing aspects of the business. For every sum-of-the-parts thesis that works, there

remains another where real estate values aren't what they seem, a legacy business line is worse than investors thought, or one 'part' of the 'sum' ends up being worthless. In that way, certain sum of the parts valuations are like beauty….existing in the eye of the beholder. With IDT however, the subsidiary 'parts' are proven businesses executing tremendously well, not reliant on capital markets to grow with room for significant upside moving forward. The management team has also made a career out of building long-term value per share in patient, unconventional ways. Today, I don't believe investors are paying much for *one* of the parts, let alone the sum.

In addition, among the very thorough publicly available analysis for IDT that has been released by Alta Fox Capital and Immersion Partners, there has been a large focus on revenue multiples for each of the growth subsidiaries. I don't believe this is the wrong approach given peer comparisons, reinvestment, and (until recently) elevated multiples for comps such as RingCentral, 8x8, Lightspeed, Toast and PayPal among others. But market conditions drive revenue multiples (as some are painfully experiencing right now), and IDT has been somewhat levered to this compression despite having what I believe to be best in class businesses with differentiated focuses, less competition, long runways for growth and superior financials in the areas of Money Transfer, Point of Sale and Unified Communication Services. As a result it might be more instructive to try and project margins and operating income a few years out, which only serves to further highlight the mispricing.

I'd like to outline my view on each of the various business segments and project what they could potentially be worth within a few years.

Traditional Communications

IDT's Traditional Communications segment is made up of three separate businesses consisting of BOSS Revolution calling services (prepaid calling cards and other prepaid services), Carrier Services wholesale calling (for global minutes termination), and Mobile Top Up (a global wireless minutes 'top up' service). Together, these businesses make up 92% of IDT revenue and generate 100% of EBITDA as of FY21. As internet-based calling, mobile calling services and the use of VoIP technology grows, there are few who would argue that traditional calling services aren't in decline. As a result, Traditional is viewed by most as a melting ice cube, but still generates significant free cash flow through which to invest in IDT's numerous growth subsidiaries. More importantly, segment growth has recently been restored by management who has removed a large amount of fixed costs, invested in new products and verticals and incubated a fast-growing subsidiary (Mobile Top Up) that could have the potential to transform the entire margin profile of Traditional Communications. Today, management has shifted Traditional from a declining top line and flattish margin business to one growing at high single digits with some room for margin expansion. While Carrier Services and BOSS Revolution calling should continue to decline in line with industry trends, Traditional should be kept propped up by Mobile Top Up and as a result be able to grow revenues and EBITDA at mid-high single digits. Traditional Communications posted $91mm in EBITDA for FY21 which I have conservatively growing to $115mm by 2026.

I'd estimate that Traditional Communications alone could be worth **$20/per IDT share** within a few years (or 5x EBITDA), netting investors (at the mid-point) cash and investments *plus* the remaining three growth businesses for less than $350mm. This would be in my view less than what a knowledgeable buyer would pay for just ***ONE*** of the growth subsidiaries.

Optionality here exists with the not-yet-broken-out Mobile Top Up business ('MTU'), a surprising growth story within Traditional Communications given the recent demand trends for mobile top up services

across world. Mobile Top Up enables the transfer of airtime, messaging, and data to mobile accounts within the U.S. and internationally where customers can purchase a transfer of airtime minutes by adding a credit to a recipient's local prepaid mobile number within minutes. MTU now generates 35% of IDT's total revenues and has been growing in excess of 20% throughout the past few years. Mobile Top Up sells their services through both retail partners and direct to consumer. The retail channel is very low margin given payments to suppliers while direct to consumer sports about 3x the margins given less reliance on mobile carrier partners, thus lower fees and commissions. COVID drastically increased MTU's shift to direct to consumer sales, which if persists will have the result of significantly transforming the entire margin profile of Traditional, resulting in significantly higher cash flow generation.

While unit economics for MTU are not yet broken out, my work indicates that as the percentage of direct-to-consumer sales continues to grow over the next few years, MTU could generate a significantly higher portion of Traditional Communications revenues with a path to doubling gross and EBITDA margins from mid-single digits today to low double digits. A business growing over 20% per year while expanding margins, valued at 15x EBITDA could potentially be worth close to the entire enterprise value of IDT today. As a sanity test, global top up business Ding Mobile, a decent comp for MTU, received a strategic investment in September of 2021 valuing the business at 20x EBITDA. Using the same multiple for Mobile Top Up – which has higher gross and EBITDA margins – would reflect a $600mm valuation or **$22/per IDT share** for Mobile Top Up alone. Furthermore, Mobile Top Up has additional avenues for growth including geographic expansion and upsells such as the delivery of gift cards.

Saying nothing for Mobile Top Up, at today's price, investors are paying 8.6x EBITDA ***for all of IDT*** while getting the three growth businesses, management's capital allocation prowess and future optionality included in that price.

Boss Money Transfer

One of IDT's biggest strengths consists of the ability to leverage existing customer relationships into new products, services and business lines. BOSS Money Transfer is a carve out from IDT's BOSS Revolution calling brand whereby IDT is leveraging existing customer relationships and distribution by developing a money transfer business targeted to BOSS Revolution customers (a group of 3mm in the US alone), among others. BOSS Money Transfer is an international money remittance service designed to let customers send money to recipients in 37 countries, to 306,000 locations or digitally via the Boss Money app. Customers can make cash available for pickup, select home or digital delivery to a mobile wallet, or route a transaction to a bank account. During the past twelve months over 8 million transactions have been processed, with BOSS Money on track to report over $60mm in revenues for FY22.

BOSS Money generates revenue on a fee per transaction basis, where transactions should continue to climb higher as IDT explores new geographies, increases retailer penetration and as the BOSS Money app continues to take hold. That last point is important as a large percentage of transactions currently take place through the app, which comes with lower customer acquisition costs due to the direct nature of transacting, high repeat customer rate at 80%, low churn and higher gross margins as retailer commissions are eliminated. The money remittance industry is massive and highly competitive with Boss Money a small player, but they serve a critical need for customers who rely on money remittance services to send funds to friends and relatives outside of the US. This, plus the growing market for digital remittance services should continue to provide a long runway for customer and transaction growth.

Efficient customer acquisition, the expansion of the payout network and the entrance into new geographies such as Canada and the UK have allowed BOSS Money to nearly double their transactions each year during the past four years. Transactions grew 18% year over year during Q1 2022 and excluding the impact of foreign exchange market conditions that positively affected revenue and transactions during the second half of fiscal 2020 and the first half of fiscal 2021, transactions would have increased 38% year over year.

I estimate BOSS Money transaction volume will grow at a low to mid-teens rate on their way to processing over 15mm in transactions by 2026 with transaction fees growing low double digits to around $6.75/transaction. I'd estimate in line with payment companies and digital payment peers that BOSS could earn 18-20% EBIT margins over time, generating (at the mid-point) $19mm in EBIT on slightly over $100mm in revenues over the next few years. Given BOSS's competitive positioning, expansion opportunities, digital transaction opportunity and growth, I believe a market multiple of operating income is warranted. At 15x EBIT, BOSS Money would be worth $285mm or **$10/per IDT share**. I believe this valuation may prove to be conservative at 2.8x revenues.

Net2Phone

Net2Phone is IDT's fast growing Unified Communications Services (UCaaS) business that was founded in the 1990s prior to advancements in cloud-based technology, then sold to AT&T and subsequently repurchased by IDT in 2006. Put simply, UCaaS services are modern, cloud-based business communication tools consisting of features such as cloud-based calling, in-office messaging, video conferencing and conference center outsourcing capabilities.

The UCaaS industry is large (estimated to be a $70+ billion market within a few years) and rapidly growing between 20-25% per year. There is a massive opportunity for UCaaS businesses to play a part in transitioning the majority of on-premise or private branch exchange (PBX) customers to the cloud with many of the top UCaaS players citing a TAM of over 400 million potential customers or 'seats'. Anyone who has ever used modern office communication tools would understand the advantages and benefits over traditional office phone lines as UCaaS requires minimal to no hardware, less ongoing maintenance and provides more seamless communication. Net2Phone has been developing their own communication platform for five years and now sells their services through direct sales reps, master agent partners and a network of over 5,000 channel partners (reseller, service provider, vendor etc.).

The UCaaS industry in the US is highly competitive with low barriers to entry, little differentiation in the form of commoditized technology, and currently undergoing among incumbents an all-out 'land grab' resulting in discounting, massive incentive payments to channel partners, and a pricing / ARPU 'race to the bottom' (sounds attractive, right?). The focus on land and expand is a result of the stickiness exhibited by customers as many want to choose an all-in-one provider for UCaaS services, and revenue in the back end of a contract is very high margin following high customer acquisition upfront to grow your seat count.

IDT and Net2Phone made the conscious (and smart) choice to differentiate themselves by attacking geographies outside the US including South America and focusing on small and mid-sized businesses with as little as 25-100 seats where there is less competition and the inability for large enterprise sales forces to make the unit economics work. Despite the very low barriers to entry in the US, South America is a very different market that requires relationships, channel partners and established infrastructure to succeed. Today over 50% of Net2phone seats are outside of the US, and their first mover advantage, use of channel partners and favorable customer acquisition costs allow them to earn gross margins higher than their

UCaaS peers. While investors might balk at paying an above peer multiple for a business that sells 25 seat accounts to Joe Shmoe's accounting office in Brazil, Net2phone's award winning solutions, value proposition and incentives to channel partners have earned them customers such as ESPN Brazil, Allstate, Shopify and Berkshire Hathaway Home Services.

This geographic focus has resulted in faster than peer seat growth of over 50% during the past few years to over 250,000 total seats with the non-US markets representing the fastest growing segments. During Q1 2022, Net2Phone reported 58% growth in Latin America year over year vs. 42% in the US. The South America opportunity is tremendous as there is significantly less competition for Net2Phone in these geographies given the large focus on US, Europe and APAC regions. To put this in perspective, a read through of every competitor's annual reports and conference calls as well as speaking with industry experts, competitors, suppliers, employees, customers and management teams reflected a *near zero* focus on South America. Oddly, this is not due to the unattractiveness of the geography. While large accounts don't make up the bulk of potential seat additions, South American infrastructure is largely PBX based providing a long runway for growth among the many businesses available to transition to UCaaS during the next five years. Especially long for the first mover with the most channel partners.

Given the small business focus and US competition, Net2Phone likely won't be immune to slight declines in ARPU moving forward, so with conservative estimates for both seat growth and ARPU decelerating from their recent growth rates, I estimate Net2Phone can reach over 600,000 seats by 2026, earning around $16/seat in monthly recurring revenue, down 11% from today. This would peg total revenue for Net2Phone at $115 million. At a projected 20% operating margin, slightly below at-maturity peer projections, Net2Phone could generate around $23mm in operating income. I don't believe applying a slightly above market multiple of 16x would be egregious given Net2Phone's geographic advantages, gross margins, industry leading growth rates and continued runway for expansion. In this scenario IDT's 86.4% ownership in Net2Phone would be worth $317mm or **$12/per IDT share**. I believe this is an incredibly conservative valuation as this scenario implies a valuation of 3.2x revenues when peers in the space have regularly traded for a median of 6.6x revenues with slower growing mature businesses on the lower end and faster growing ones sporting high teens to low 20's multiples.

National Retail Solutions

National Retail Solutions or 'NRS' is IDT's point of sale and payments platform sold into the single operator convenience store, bodega and grocery markets. NRS followed the path of 'businesses being incubated within IDT' and was officially launched in 2016 by leveraging the 40,000+ retail relationships IDT has through selling their BOSS Revolution prepaid calling card products. Point of sale terminals (hardware) are sold to customers for a one-time payment upfront, while NRS also generates revenue through monthly software subscriptions, payment processing fees via NRS Pay and the sale of data and out of home advertising displays. Developing a customized point-of-sale solution for its pre-existing base of customers not only allowed IDT to make first-mover inroads into the immigrant, convenience store and bodega markets, but also allowed them to purpose-fit a specialized solution outside of the one-size-fits-all approach for other enterprise POS businesses.

IDT's efforts in this area have resulted in NRS terminal growth of around 40% per year for the past three years, having just crossed 15,000 installed terminals as of Q1 2022. Importantly, the installed base of terminal customers can now be upsold payment processing / merchant services capabilities through NRS Pay as well as additional features and functionality such as inventory management capabilities and remote cash protection, among others. Today, payment processing accounts represent just 45% of total terminals,

indicating a long runway for growth that will provide both an ARPU and gross margin uplift for new NRS Pay accounts.

Investments in sales reps and a bi-lingual call center have begun to pay off as the most recent quarterly results reflected a 104% increase in revenues year over year while revenue per terminal grew 63% during that same period. This follows the triple digit growth trajectory NRS has seen since publicly disclosing segment details in 2018. For IDT, the sales process is less intensive than it would be for competitors due to the built-in relationships as well as the bilingual requirements for IDT salespeople to penetrate these markets. Typically, NRS would be replacing a legacy cash register as opposed to another POS system, both because many store owners were made up of immigrant families less familiar with modern POS technology and because this market remains underpenetrated given the one-size fits all nature of larger enterprise POS businesses and lack of specialized sales forces. IDT estimates the TAM for NRS is a large percentage of the 200,000 single operator convenience stores and bodegas throughout the industry, providing a significant runway for growth. Importantly, IDT recently rolled out self-install capabilities for merchants, no longer requiring the physical presence of a sales or tech person which should have the effect of further accelerating growth.

While there are certainly larger and better capitalized competitors, especially on the enterprise side, IDT is content to let peers fight it out for multi-location convenience stores, restaurants and gas stations as NRS continues to attack its niche. Most importantly, there remain zero competitors with the data and advertising opportunity which *cannot be overstated*. NRS collects incredibly valuable scan data on each transaction, providing a look at consumer behavior in typically under-served markets and geographies. NRS merchant customers could provide CPG companies with purchase behavior information on key convenience store categories such as alcohol, tobacco, beverages and snacks. Multiple industry operators have confirmed that basic transaction data (such as tobacco / beverage purchases) can be sold for amounts up to $1,000/month. NRS monthly recurring revenue per terminal is currently $196. In addition, NRS can package, slice and dice the data to provide it in a customized way to CPG and tobacco companies meaning they could potentially sign multiple deals per terminal moving forward. The opportunity can be illustrated as such: if NRS entered into 5 data deals at just $65/month, they would earn $325 monthly recurring revenue from ***JUST*** data alone, compared to ***TOTAL*** MRR of $196 right now. Removing any conjecture are the deals NRS currently has with both Swisher and Turning Point Brands for tobacco purchase data. In my opinion, there is a **$400-500 MRR per terminal** opportunity for NRS moving forward that is currently in the very early stages. In this case, the economics would accrue to NRS very quickly and very lucratively. The current installed base of terminals is 15,100. At 25,000 terminals within a few years doing potentially $5,000 ARR per terminal gets NRS to $125 million in recurring revenue. At a conservative 10x revenue, IDT's 83.5% ownership in NRS would be worth over $1.0 ***billion***, or $38/share compared to an enterprise value of $776mm for ***ALL*** of IDT today. Notably, 25k terminals would only represent a small fraction of the total addressable market.

Although it would be disingenuous to project revenue growth at triple digit rates moving forward, I estimate that NRS could finish 2026 with revenue in the range of $160-190mm, the higher end of which would represent just 35% growth from today. As data and advertising sales become a higher percentage of revenue per terminal – nearly 100% cash margin – I estimate NRS could post somewhere between 30-35% operating margins. A business growing in excess of 30% with recurring revenue, low churn, limited competition and a continued long growth runway with those unit economics should be worth at least 20x EBIT. At the low point of that revenue and margin range and utilizing a 20x multiple, NRS would be worth $960mm or $35/per IDT share. I believe these assumptions will prove to be incredibly conservative especially as the data opportunity takes hold. I think NRS best in class gross margins, highest ARPU and

revenue CAGRs among peers and location value with limited competition should allow them to trade at a premium to comps (although there aren't great comps). Furthermore, a transaction was completed in September whereby Alta Fox Capital acquired 2.5% of NRS for $10mm, implying a $400mm valuation or 19x current revenues. Annualizing NRS revenues from Q1'22 implies that by year end, revenues will have doubled from when the deal was announced.

According to management, value for NRS will be unlocked via a tax-free spinoff within 12-24 months dependent on business progress and market conditions. Most importantly, growth in terminals requires nothing more than continued blocking and tackling on a product with a very high value proposition to customers.

Putting It All Together

As mentioned above, valuing IDT's growth subsidiaries has typically required a revenue multiple approach given they are in growth mode and thus reinvesting (as they should be) while generating slight operating losses.

Utilizing *conservative* revenue multiples below peer valuations despite the competitively advantaged aspects discussed above would yield a share price of around $60 by 2023, or 70% higher than the current price. I stress the word conservative given the lower than peer multiples, exclusion of Mobile Top Up optionality, and a low multiple of EBITDA for Traditional Communications while assuming zero growth in cash flow from today.

IDT Share Price (1/25/22)	**$35.85**
Shares Outstanding *(mm) (Class A&B)*	25.7
Market Cap	$921.3
Cash	$145.0
Debt	$0.0
Enterprise Value	$776.3
2023	
Traditional Communications @ 5x EBITDA	$450.0
Net2Phone @ 3.0x revenues	$225.0
Boss Money @ 3.5x revenues	$210.0
NRS @ 8.0x revenues	$600.0
(+) Cash	$153.0
(-) Corporate	-$80.0
EV	$1,558.0
Per Share Value	**$61.10**
Upside	**70%**

With an enterprise value of $776mm today, investors are paying 8.6x Traditional Communications EBITDA for ***ALL of IDT*** and paying little to nothing for the three growth businesses set to generate over $200mm in recurring revenue by 2023, with spin-offs on the horizon. Notably, shares traded above this price as recently as November following two phenomenal quarters, only to decline significantly due to the market wide selloff that hit small caps especially hard.

Adding up the 2026 valuations described above would yield a share price of **$75/share** or greater than 100% upside from today's price. Keep in mind this excludes a breakout of Mobile Top Up, as well as reduces cash and investments to $20mm, setting aside $125mm for potential damages relating to IDT's ongoing lawsuit with Straight Path Communications (touched on below).

IDT Share Price (1/25/22)	**$35.85**
Shares Outstanding *(mm) (Class A&B shares)*	27.5
Market Cap	$985.9
Cash (subtract $125mm for lawsuit)	$20.0
Debt	$0.0
Enterprise Value	$965.9
2026	
Traditional Communications @ 5x EBITDA (incl. MTU)	$575.0
Net2Phone @ 16x EBIT	$317.0
Boss Money @ 15x EBIT	$285.0
NRS @ 20x EBIT	$960.0
(+) Cash	$20.0
(-) Corporate	-$80.0
EV	$2,077.0
Per Share Value	**$75.53**
Upside	**111%**

Assuming my NRS projections are supported by execution, investors are getting NRS for the entire enterprise value of IDT, netting you Traditional Communications, Boss Money and Net2Phone for nothing. Alternatively, netting out Traditional from the above enterprise value leaves $390mm being paid for the remaining three growth businesses. In other words, no matter how one slices it, IDT appears to be severely undervalued as investors are paying little today for growth and optionality. Furthermore, I believe the potential spins of Net2Phone and NRS would not only serve to highlight the attractiveness of these businesses but also remove the management teams of each unit from the constraints of IDT which has historically been very disciplined on spending for growth. In this case, the upside could be even more significant.

Working in IDT's favor is their track record of customer satisfaction earned by providing critical support and services to under-served groups of people and communities. When the market zigs, IDT zags, and as a result has made it their focus to spend time with less competitively burdened geographies and markets whether that is the focus on single location convenience stores through NRS in immigrant communities (as opposed to enterprise sales) or their market presence in South America and Brazil with Net2Phone (as opposed to the dog-eat-dog worlds of the US, Europe and APAC regions). It shouldn't come as a surprise then that NRS, Net2Phone and Boss Money Transfer services are the preferred providers for each of their end markets with customer satisfaction leading to stickiness, low churn and the potential for upselling in order to drive higher ARPU within each business.

A bear argument against IDT consists of nepotism claims as a look through proxy statement and board makeup would reveal they certainly like to keep it in the family. There is also an outstanding lawsuit involving Straight Path Communications where any potential damages should be resolved via the

outstanding motion to dismiss or a small settlement. Mitigating this are the people inside of the organization as well as IDT's track record of value creation which is undeniable. I would put the management teams at the head of each of their business units up against any business operators I've come across. This group is passionate, hungry, knowledgeable and out to prove themselves, while maintaining discipline on costs and thoughtfully implementing their strategies. Many of IDT employees have tenures greater than 10-15 years which can be attributed to the strong and decentralized employee led culture where calculated risks are allowed (and rewarded), entrepreneurial attitudes are adopted, and managers are given the leeway and freedom to take control of their business units to drive the best results. I am thrilled to be a part of the IDT culture, which will continue to drive their various businesses forward. I like the setup here and believe that our shares could be worth significantly more than what we paid within a few years.

Broad Market Commentary

As I write this letter, markets are responding negatively to the fear and uncertainty regarding rising inflation, potential rate increases and multiple contraction among a universe of large, unprofitable tech companies. It's unclear to me whether the slide will stop or if the market drawdown is just getting started. While talk of rate hikes as opposed to actual rate hikes (which the market can at times shake off) seems to send the market careening downward, it's possible that fear vs. rationality is starting to takeover, as lately I've been able to sift through baskets of stocks containing good businesses, down anywhere between 30-70% from their recent prices. Unfortunately, many of our holdings have not been immune to this negative market activity and in fact, during the one-month drawdown between November and December when indices barely budged from all time highs, there was notable carnage under the surface among our universe of companies, some of which we own.

Although I can't predict how the Federal Reserve playbook or near-term volatility will affect client portfolios, perversely, the lower markets tick, the more optimistic I get due to my willingness to go bargain hunting and the increased chances for outsized returns moving forward. Despite the pandemic wreaking havoc on a large majority of private small businesses, in some areas of the public markets it did the opposite, strengthening value propositions, and forcing management teams to take swift and necessary actions to streamline cost structures, trim fat and dedicate time to high value projects/reinvestment initiatives. I am starting to find opportunities that fit this mold and have been intrigued by potential new ideas I am researching. Furthermore, if the market's chosen direction is down, I will be adding to my family's holdings in Greystone as we are aligned and patient enough to stick with investments that may take time to pay off.

Recent Developments

Greystone added one new client during the quarter, with Twitter, various investment platforms, and referrals being our greatest sources of new partners. I'm incredibly grateful for the knowledgeable and diverse group of clients we have, many of whom added to their accounts during this recent bout of volatility. I've said this before to many of you, but we will go as far as you allow us to go, and with the current group of people invested in the firm, I like our chances for long term investment success. With that said, I welcome new additions to the firm, and referrals are always helpful as the right partners only serve to strengthen our resource base and chances for success. Greystone is certainly not for everyone, but as I said at inception, my naïve view is that if our results are strong and I make myself easy to find, the right people will join us.

I'm incredibly grateful to the clients who appreciate what I am trying to build and have decided to be a part of it. There remains an incredibly long way to go, but I'm pleased with what we've accomplished so far, and I've had more fun operating Greystone than I've had doing anything else in my life. Thank you for the opportunity to manage your hard-earned savings and I hope 2022 is a healthy, happy and productive year for everyone.

Please feel free to reach out anytime. Thank you for reading.

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