Greystone Capital Management
Concentrated Value Investing

March 2021

Clients and Friends,

During the first quarter of 2021, returns for separate accounts managed by Greystone Capital ranged from +39.9% to +71.0%. The median account return was +45.7%, net of fees. Excluded from return calculations is one account where the client joined the firm toward the end of the quarter. For the highest account return, the client requested an atypical concentration in one stock which drove abnormally positive performance not reflective of how I would normally build an individual portfolio. Since I am managing a portfolio of separately managed accounts (SMA's) with irregular intake periods and varying client risk profiles, variances between account returns are expected to continue. This would change if / when I transition to a fund structure, but my preference for the time being is to manage SMAs, which allows me to keep our administrative costs and fees low. In addition, I look forward to publishing more in-depth performance data at the end of the 2021 fiscal year.

First quarter results compare favorably to the S&P 500 and Russell 2000 returns of +6.2% and +12.7% during the quarter. 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. As of today, we own 0 businesses in the S&P500, and two (recently added) in the Russell 2000. Of note, you should be receiving monthly statements as well as performance data measured against our selected benchmarks. If this is not the case or if you have any further questions, please do not hesitate to reach out.

The bulk of our returns for the quarter were driven by a near-doubling of our largest position in RCI Hospitality, with additional top-five holdings in Whole Earth Brands and USA Technologies appreciating significantly following a set of strong earnings reports. Other positive contributors included a large increase in Sharpspring Technologies as well as the appreciation of two new mid-sized positions purchased early in the quarter.

While I'm pleased with year-to-date returns, it's worth repeating that it would be foolish to read too much into any three or even twelve-month period. Although I'd love to take all the credit for our early results, we've benefitted from being in the right place at the right time. Our returns have been driven by a combination of good timing, a rising market, favorable macro backdrops and least of all decent stock selection. While some of these factors might persist, there are multiple elements that are neither predictable nor sustainable, leading me to wonder what will happen when the rising tide *stops* lifting all boats, including ours.

With that said, I believe my investment strategy should work well in all market environments and continuing to stick to my process through ups and downs should at the very least help me continue to identify good investment opportunities and be able to deploy capital when I find them. Though I don't expect to reproduce our past 12 month returns this year, I remain optimistic – even excited – about client portfolios and believe we are positioned well to benefit from the continued narrowing of the growth / value gap as well as an eventual return to economic normalcy.

To avoid the very strong tendency to ease off the gas (the 'gas' being investment criteria and risk management) following some easy wins, I believe remaining flexible and cautious about what might go wrong will be the best approach to managing client portfolios moving forward. Our risk management framework will continue to remain front of mind, and my aim is to shore up any potential weak spots in my process and our portfolios.

Portfolio Commentary

There was a decent amount of activity this quarter across client portfolios which included making two new investments, trimming / selling certain positions, and raising client cash levels. While I believe we own some great businesses that remain undervalued, the market has decided to correct many of the initial mispricings I saw at our inception. Time will tell, but I believe I have better positioned client portfolios moving forward, and feel optimistic about our current holdings, concentration levels and cash availability. During the quarter I sent out an update regarding our position in RCI Hospitality. While the stock has appreciated significantly since the update, I believe the commentary remains applicable and relevant. If for some reason you did not receive the email update, please reach out and I will be more than happy to provide my thoughts.

Power REIT (PW)

Following a 70%+ gain in our holding of Power REIT, I made the decision to trim some of the position as my original thesis is playing out nicely and the market has started to digest the fundamentals of the business. Power REIT conducted a rights offering during the quarter in which we did not participate in order to allocate capital to higher return opportunities. The terms of the rights offering, where PW will issue around 2.0mm shares should allow them to fully fund their business strategy into the foreseeable future, on which they are firing on all cylinders. PW announced two more accretive acquisitions during the quarter which served to both increase their annual FFO run rate significantly and diversify their geographic exposure. Still trading at a market multiple of FFO (growing faster than any industry peers), there remains a path for PW to reach $4-5/share in FFO over the next few years, which would make today's price look like a bargain.

Sharpspring Technologies (SHSP) and Hill International (HIL)

I made the decision to trim and/or exit client positions in Sharpspring Technologies and further reduce certain client positions in Hill International (HIL) following a 100%+ return in our Sharpspring position and further price increases in shares of Hill International. The decision was made in order to funnel some capital into current and new positions that based on my estimates have higher upside and better risk/reward profiles. For our continued ownership in HIL, I'm expecting a very positive 2021 where we may see the business return to top line growth and increased free cash flow generation as we continue to move past the effects of COVID-19. As for Sharpspring, I remain a fan of the business and believe upside still exists as the company continues to tackle their marketing software niche and focus on driving new customer growth. For Sharpspring, recent capital raises, additions to the Board and increased revenue growth during 2020 all point to positive operational signs. However, it is not as clear to me at these price levels whether we will be able to meet our 15-25% per year return criteria moving forward. I will continue to follow the business and look forward to any opportunities to purchase shares at lower prices.

Starter Position Update

This update couldn't possibly be more timely, as last quarter I wrote about beginning to utilize starter positions in client accounts for a variety of reasons. During Q1, I bought and sold a starter position in **Thryv Software (THRY)**, a combination marketing software business that also sells (or gives away) digital and print versions of The Yellow Pages. Yes, the Yellow Pages still exist.

The circumstances surrounding the investment were very interesting and included a legacy business in decline that generated a ton of cash to plough into a faster growing and somewhat hidden marketing software platform for small businesses, insider buying and changes to management compensation terms surrounding option grants that might indicate a sale of the business, and the potential spinoff of the faster growing software segment. The cheap valuation, opportunity (and need) to de-lever, and the presence of some activist heavy hitters all presented what looked like a stock that could potentially be worth multiples of the current price.

I'll keep the business update quite short as we are no longer owners of the business, but at a high level, Thryv is a marketing services business that operates two segments, print and digital marketing services (Yellow Pages) and SaaS (Thryv Software). The business has over 300,000 SMB customers and a decades long history of serving such customers from a marketing standpoint. As mentioned above, the Yellow Pages segment brings in a large chunk of revenue and cash flow for the business which has been historically used to pay down Thryv's significant debt load.

What will come as a surprise to no one is that both the print and digital Yellow Pages segment of the business is in decline (by about 20% per year) given the rise of the internet and the decrease of landline phone usage. The declines have been tempered somewhat by the businesses' variable cost structure and cash generation (somewhere around half of the current market cap), which again will be used to pay down debt, lowering interest expense and increasing profitability.

With the marketing software platform the focus moving forward, Thryv's go-to-market strategy consists of taking the established Yellow Pages customers and transitioning them to Thryv software as there are minimal incremental marketing costs to do so and the software is quite sticky. Execution has been solid to date, with Thryv boasting over 45,000 paying subscribers representing about 10% of their Yellow Pages customer base. The platform has a very high value proposition and seems to be loved by customers, as it can handle everything from marketing and payments to scheduling and website support. The goal is to continue to execute against this low penetration growth runway which should have the effect of transforming the margin profile of the business. Lastly, there are four large funds representing a group of billionaires with an activist bent that own over 90% of the outstanding shares as well as the majority of debt, indicating at the very least that they wouldn't be interested in lighting their own money on fire.

Ultimately, what I couldn't get comfortable with was an estimate of the future decline of the Yellow Pages segment, and how that would affect Thryv's ability to service their debt. Without being able to understand that piece – even with the attractive software business – it would be hard for me to make Thryv a sizeable position or buy more at current somewhat elevated levels. Basically, an increased decline in the Yellow Pages business above what management has projected would make it difficult for Thryv to service their debt obligations and cross sell the marketing software to current clients or SMBs on their way out the door.

Fortunately (or unfortunately), the market seemed to disagree, and following a quick 35% price jump before I was able to get comfortable with my valuation framework, I sold out of the position, happy to take the tax inefficient 35% gain while I do more work and seek out a lower price if given the opportunity.

Rimini Street (RMNI)

During the quarter I significantly added to client holdings in Rimini Street which has now become a top four position due to both additional purchases and share price appreciation from our initial cost basis. The reasoning behind the purchases, especially at prices 70-100% above where we initially started buying include information gleaned from management during the company's February investor day event, as well as what I believe to be the business hitting an operational inflection point. I wrote about Rimini Street in the Q3 2020 letter, but things have progressed quickly in a positive way and there have now emerged what I believe to be multiple paths to achieve a very favorable return moving forward with a strong risk/reward profile.

With a clear valuation disconnect in place from an EV/ARR or EV/Gross Profit basis, Rimini Street is currently one of the cheapest profitable SaaS related stocks among a universe of inferior software companies. While I can point to some clear reasons for the undervaluation (which I believe will be transitory), the valuation discrepancy compared to lower quality businesses trading at high multiples of revenue does not make sense to me. Furthermore, as discussed below, I believe the company is taking the necessary steps to clean up the story which will have the effect of shining a light on the strength of the business and competitive position.

In a recent industry report, Gartner estimated the size of the third-party software support industry will increase by nearly 3x within the next three years (from $300mm to $1.0B) and has highlighted Rimini as the clear leader in the space with greater than 80% market share. Rimini backed up those estimates by issuing for the first time their five-year strategic plan to reach $1 billion in revenues and 20-25% operating margins by 2026. While estimates five years out should always be taken with a few grains of salt, conversations with industry experts reveal this target to at least be credible. And I believe credible is all that is needed here. In my view, this represents a situation where I believe one does not have to be precise in order for the investment to work. In fact, failing to meet the above targets for growth and margins laid out above should still result in a stock price significantly higher than the current price of $8.20/share. This is a stock that could increase 50-100% JUST to trade closer in line with slower growing, lower margin comps, and still be considered very cheap. If I am even partially correct about the prospects for the company, I believe shares could be worth multiples of the current trading price, which would represent a perfect example of my investment strategy playing out – find wide mispricings and hold until the mispricings correct.

In addition to the core business hitting what I believe to be an operational inflection point, Rimini is now beginning to cross sell their Application Management Services (AMS) into the existing client base. The company has stated a potential $1B revenue opportunity *just* by executing on this front, not to mention that each AMS contract cross-sold will help drive an ARPU increase from the core support business that is multiples above current levels.

Lastly, there remains what I believe to be two catalysts that will hopefully improve the market's perception of the business, and one of which that will help clean up the capital structure. The company has completed two capital raises in the last six months and has begun purchasing (to retire) their Series A Preferred Stock, which comes at a hefty price of 13% dividend payments per year, or around $18mm in

interest on a $154mm balance. I believe the company is positioning itself to repurchase the preferred stock by July of this year, which will reduce cash outlays for interest, lower their cost of capital and clean up the capital structure. In addition, before or during 2022, investors should finally receive some clarity surrounding the company's trial with Oracle (Oracle vs. Rimini II), where I believe courts will rule in Rimini's favor and cause the lawsuit overhang to disappear further saving more money in litigation expenses. Rimini has been able to continue to execute in a big way despite these two overhangs, and the elimination of them, while independent of the actual business execution should help clean up the story and move the shares higher in the short term.

Liberated Syndication (LSYN)

I recently shared some updated thoughts on Liberated Syndication and recent developments here, so I won't go into full detail, but I added to client positions during the quarter following some negative price action. While the thesis and subsequent results may take longer to play out than originally anticipated, the more I learn about this business and the management team, the more optimistic I become about the setup here.

To provide a brief recap, through a recently filed lawsuit, Libsyn, among other things is attempting to have over 7 million shares cancelled from parties who came to own them fraudulently. This would mean that based on the current outstanding share count of 26mm, nearly 30% more of the company would accrue to current shareholders and given the same market cap minus divided by the new share count, share would trade close to $6.00/share vs. the current price of $4.40.

While I don't have the ability to predict the outcome or the timeline for the lawsuit, I would say there is a non-zero chance that something positive comes out of the suit. I am not a securities lawyer, and the information I've gathered from knowledgeable people in the space doesn't point to much precedent, but in my view the above might help explain a number of things, including why a company like Libsyn hasn't found themselves the recipients of an attractive acquisition offer given current M&A activity in the space. The lawsuit, combined with the management changes, elevated costs rolling off the income statement, improved product platform and imminent CEO hire indicate that the business is being cleaned up in order for the initial activist groups to be able to monetize their investment. However, the best part about the above is that the investment thesis is not tied to a positive legal outcome. Cleaning up the business and improving the product have their own set of benefits including increased free cash flow generation. The lawsuit is truly a free option worth an immediate 30% return. Moving forward, I see no reason why Libsyn's attempts to build an all-in-one platform (hosting, distribution, monetization) for podcast hosts and creators can't come to fruition.

If we get there, its at that point I believe the market will start to recognize the strength and attractiveness of the business, AND the company will be able to increase the attractiveness of a potential M&A scenario where they would be able to garner one of the high revenue multiples that peers have been granted. The two activist firms currently involved will be in need of an 'exit' strategy, and M&A could be a likely (not to mention attractive) scenario. Currently, the market values Libsyn as a 'show me' story. I believe they've already started to, and I'm optimistic about the future of the business.

New Positions

Toward the end of the quarter, I started purchasing shares of a small cap home goods retailer whose shares I believe were unfairly beaten down following a very strong FY21 earnings report. This is a business

I've followed for some time and have been impressed with their business model, historical growth metrics and unit economics. In addition, while they were affected negatively by the pandemic (as were most retailers) due to temporary store closures, I thought they navigated that time period very well and seem to be returning to a strong growth profile as they take advantage of emerging stay at home trends, the current housing boom, and the bankruptcies/closures of many of their peers.

This is a business that I estimate has a few hundred million dollars in normalized earnings power, against a market cap only a few multiples above that, and trades at a wide discount to nearly all relevant industry peers despite having higher growth rates, better margins, and a longer runway for growth. I look forward to providing more in-depth research and updates about the position moving forward.

Mountain Crest Acquisition Corp. (MCAC) / Playboy Enterprises (PLBY)

During the quarter, we entered into a mid-sized position in Mountain Crest Acquisition Corp., a SPAC that during late last year inked a deal to merge with Playboy Enterprises (yes, that Playboy) and take the company public. The deal was consummated in February and shares now trade under the ticker symbol PLBY. In line with my occasional attempts to exploit investor biases, the stigma surrounding the Playboy brand especially as it relates to the legacy magazine business helped create the opportunity to purchase shares for what appears to be an incredibly favorable valuation. This is one situation where a SPAC IPO benefitted us greatly as I believe if Playboy underwent the traditional IPO process including roadshow and investment bank involvement, shares wouldn't have been available anywhere near our initial purchase prices which consisted of an absurdly low EBITDA multiple following the deal close.

While the market may be forward looking in how it perceives and values companies, it seemed difficult for investors to overcome the past of Playboy, likening it to a money losing dead brand whose primary customer base consisted of 'boomers'. When we started buying shares, it seemed as if the Playboy brand had no shortage of non-believers (some earned, some not so much), but in my opinion, Playboy is one of the most recognizable brands in the world with a rich history that should continue to be monetizable. I believe the management team has set themselves up for the post-Hugh Hefner/magazine era much better than the market is giving them credit for and in a way that will showcase their brand strength and various paths to monetization that are nearly 75 years in the making.

Playboy was founded by Hugh Hefner in the 1950s, and while I don't need to dive into the rich history of the company nor their exploits, I can assure you that we are not investing in the same business that allowed your fathers and grandfathers to amass a collection of magazines with or without their wives' permission. Today, Playboy operates four consumer product categories with large, fragmented markets and no clear channel leader. With a licensing business bringing in high margin contracted cash flows of over $400mm through 2029, the focus will be on growing the direct-to-consumer segment to drive new customer growth while leveraging the near 50 million social media followers behind the brand. Accretive M&A and higher take rate licensing deals will be the focus and given the large cash balance following the close of the Mountain Crest deal, and team of M&A savvy managers with backgrounds in all things brand management and licensing, I'm optimistic about what the company will be able to achieve.

Leading these efforts is CEO Ben Kohn who has already flexed his M&A muscles by acquiring Lover's chain of sexual wellness stores as well as e-commerce retailer Yandy.com for low multiples of revenue in order to complement Playboy's organic growth. Kohn has been involved with Playboy for over a decade (following private equity group Rizvi Traverse's efforts to take Playboy private in 2011) and has lived through two CEOs, legacy family issues and the decline of the publishing business. Similar to our

investment in Whole Earth Brands, this is a good example of a business that is now freed from the shackles of a prior Founder/Chairman and will be able to direct cash flow (previously being spent on keeping the publishing arm alive) to higher value initiatives. Moving forward, the group will be able to use stock as currency to make additional acquisitions at a low cost of capital.

In the hands of a capable management team there are many paths for Playboy to monetize their brand, and examining case studies such as Authentic Brands Group, a private brand management, licensing and lifestyle business, one can see that the strategy of complementing a cash flowing licensing arm with a direct-to-consumer retail offering has been executed before. By following the playbook of monetizing young and legacy brands by leveraging retail footprints against large social media followings, Authentic has been able to buy and monetize over 50 brands to the tune of $10 billion in revenue. ABG's licensing brands among others include Elvis Presley and Marilyn Monroe, who have demonstrated the long-life cycles of older iconic brands with historical archives of intellectual property similar to what Playboy brings to the table.

One of the things that really jumped out at me following the release of Playboy's stellar Q4 / FY20 results was measuring that performance against management's guidance of 2025 revenues and EBITDA of $296mm and $100mm. Playboy reported revenues of $148mm for FY2020 (including a guidance for over $200mm revenues for FY21), and adjusted EBITDA of $28mm. Revenues grew 89% year over year. If PLBY is able to reach the $200mm revenue mark during 2021, and if management's guidance is to be taken seriously, that leaves *four years* to reach $296mm in revenues, or $24mm per year, assuming zero revenue growth moving forward. Hardly aggressive expectations for a business that posted $46mm in revenues during Q4 alone and grew revenues nearly 90% year over year. With a war chest of cash for the new management team, who again, are no longer tied to the legacy business, for the first time in the company's post-Hugh Hefner history Playboy has the resources and willingness to deploy capital into things like marketing and M&A. I would say there's a decent chance the 2025 guidance ends up looking conservative.

At more normalized growth rates, the cleanup of old licensing contracts, new business wins and additional M&A, I believe we could see PLBY finish 2025 with over $400mm in revenues, and with their guided 30% adjusted EBITDA margins would deliver over $120mm in adjusted EBITDA, putting the current valuation around 4x EBITDA. Next year's projected EBITDA multiple sits around 12x, a valuation that in my opinion doesn't factor in growth, management or M&A. I believe the core business potential as well as massive optionality should provide an opportunity for decent returns moving forward.

PLBY Update

Toward the end of Q1 / beginning of Q2, PLBY stock ripped higher as the company continues to beef up their IR efforts, communicate the story and showcase CEO Ben Kohn and his business strategy. In addition, Kohn recently mentioned entering into potential non-fungible token or 'NFT' deals using Playboy's old content archives, which further caused the stock price to increase as one such deal was announced in the beginning of April. My ability to quantify the potential impact of such a development is limited at this stage, and the share price has gotten somewhat ahead of my expectations for business growth and potential moving forward. In other words, the wide mispricing I initially saw has begun to correct itself, and with shares more than tripling from our initial purchase prices, I have started to trim the position in line with my risk management criteria.

A Quick Note on our SPAC Ownership

Playboy Enterprises represents the fourth SPAC owned in client portfolios, alongside Rimini Street, Whole Earth Brands and The APi Group. While not my intent to build a portfolio of SPACs or recent SPAC IPOs, in a concentrated portfolio, these positions make up a good chunk of what we own, so I thought it would make sense to share the thought process behind it.

If asked, I would say that the businesses we own that happened to go public via the SPAC route are among some of the higher quality businesses throughout the SPAC universe. I'm happy to say that all of our companies represent good businesses that are profitable, have long operating histories and strong brands, generate high amounts of free cash flow and are being run / chaired by smart and high-quality management teams. Our managers have collective experience buying, operating, and selling businesses, in addition to capital allocation prowess that should benefit client portfolios moving forward. They also treat our capital like their own (which runs counter to many SPAC ownership structures and incentives) because it is, as nearly all of our company insiders rolled their equity into the new operating companies in order to participate in the value creation of their businesses moving forward.

While the bar for quality among SPACs has been set quite low, I'm working on gathering SPAC IPO / company data that will hopefully highlight the strength of the businesses we own. With the amount of money raised via SPACs during 2020 and with the limited number of good businesses that will be available to absorb (in addition to the usually quick timeframes needed to complete a deal), there are likely to be plenty of awful acquisitions taking place moving forward which should further highlight the strengths of our SPACs. Furthermore, I'd like to desperately avoid playing a game where we end up owning 'story stocks' or pre-deal SPACs consisting of cash in a trust and a sponsor group itching to get a deal done lest they have to return the money. As long as I am sifting through the SPAC universe, I will continue to search for high-quality businesses backed by experienced sponsors with post-deal prices a fraction of what the businesses could be worth. Lastly, the mental model of 'all SPACs are bad' that is closely held by many investors may continue to present mispricings among this universe of businesses that I will make sure to keep an eye on. In my opinion, the delta between ***all*** and ***most*** is a few miles wide, and that gap may continue to present good investment opportunities.

Broad Market Commentary

While I believe that liquidity and low rates will continue to be the catalyst behind any upward movements in stocks, its clear that there are pockets of the market that have given way to extreme hype. In addition, passive investment flows have without a doubt distorted market valuations (and increased inefficiencies) in a way that may prove to be permanent. While overvaluations in some areas persist and chatter regarding a market top along with comparisons to the 1999 'dot com bubble' isn't hard to find, I believe there exists a bit more nuance than investors are factoring into their comparisons.

Consider the following data points:

- Consumer balance sheets are incredibly strong measured against historical levels, despite the persistent wealth gap and damage at the lower end of the scale
- Debt service and financial obligations for consumers are at all-time lows
- Household net worth and wealth have exploded given the market rise and increase in home prices
- As of Q4 2020, earnings for businesses in the S&P500 finished above consensus estimates by a decent margin
    - Forward guidance for those same businesses seems to be incredibly strong

- US corporate debt consists widely of long-term maturities, low fixed rates and low net debt/total asset ratios

While I'm anything but a macro strategist, the above bodes well for the US consumer and thus the economy, where the importance of consumption cannot be overstated. With an additional stimulus package pushed through Congress in March, vaccine distribution increasing, and plenty of pent-up demand for those who felt 'locked away' for over a year, it's very possible that consumers will have no problem turning excess savings into excess spending.

As concerns about rising rates and inflation have given the financial news media plenty to report during the quarter, I've continued to implement my strategy as I see fit, by attempting to find wide mispricings among our universe of businesses and adding to what's working as our current holdings continue to execute. I'm as optimistic about client portfolios today as I've ever been, and believe we hold a strong portfolio of companies with a great combination of growth, strong competitive positionings and cheap valuations. While I believe the market has under-reacted to a few of our businesses recent earnings reports and forward guidance (investors can be a stubborn group), when our mispricings begin to correct it should result in good returns moving forward.

Recent Developments

Greystone added two new clients this quarter, both of whom 'self-selected' into the firm and both of whom I believe will make great long-term partners. Other than my presence on Twitter and publicly sharing my investment letters, I have done little to no marketing to date as my focus has been to generate good investment returns. With that said, if existing clients or readers of this letter know of any long-term investors who might be interested in putting capital to work, referrals are always welcome. As of now, our AUM levels remain far below what I believe to be the capacity of the strategy.

Also during the quarter, I had the pleasure of serving as a guest on the **Market Champions** podcast hosted by Srivatsan Prakash. The interview can be found here or anywhere you listen to podcast episodes. Srivatasan has a history of interviewing very high-quality guests (which makes my appearance questionable), and he's only 17 years old! I discuss some investment philosophy, strategy, and a few of our positions. Give it a listen if you've got an hour to kill.

Thank you for allowing me to serve as the manager of your hard-earned savings. I am incredibly grateful and have made it my goal to reward your trust and patience. As always, please feel free to reach out anytime. Thank you for reading.

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