December 2020

Dear Clients and Friends,

During the fourth quarter of 2020, returns for separate accounts managed by Greystone Capital ranged from +28.0% to +57.2%. The median account return was +49.1%. Year-to-date returns for separate accounts managed by Greystone ranged from +51.7% to +83.2%. 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 following our first full year of operation.

Fourth quarter and YTD results compare favorably to the S&P 500 and Russell 2000 returns of +12.1% and +31.4% during the quarter, and +18.4% and +19.9% for the 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. 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.

Positive results were largely driven by client positions in RCI Hospitality, APi Group, Sharpspring Technologies and Power REIT. Outside of those, it just seemed as if everything 'worked' this year. While investing at times felt easy during 2020 (which makes me uneasy), I can only continue to use what I have at my disposal to drive good returns which consists of your capital and patience, as well as the opportunity set in front of me. If we happen to be aided by a rising market or Federal Reserve actions in one or multiple years, I'll take it. With that said, our 2020 results are unsustainable, and are likely to never be repeated. Moving forward, I would warn against forming hard conclusions based on any short-term successes, as results will without a doubt fluctuate quarter to quarter and year to year. There is plenty of data available showing that some of the best performing managers of all time spent periods of years underperforming the market. I will at some point find myself in good company with them.

While we certainly benefited from luck in the form of 'bottom ticking' (many clients joined the firm in March) as well as a rising market, our result were achieved without the use of leverage, derivative strategies or a participation in anything sexy or 'flavor du jour'. Our concentrated, long-only approach is boring by every measure and is made up of 'not fun to talk about' businesses in the areas of marketing software, document distribution, vending management and construction consulting among others. However, I believe my strategy of finding mispricings among small, illiquid, boring businesses, buying large chunks of those opportunities and being able to hold them until the mispricings correct should continue to work well over time. Sometimes macro conditions and investor sentiment will provide a boost, and sometimes they won't. Returns during 2018 for predecessor clients provide a good example of how the tide can change in a strong way despite following the same strategy and even owning some of the same businesses. Returns for that year were negative despite executing the same playbook we currently use.

While pleased with our early results, I remember being in the Spurs coaches' locker room following a big playoff win when one of Coach Popovich's assistants made a comment about the quality of the team's efforts. Coach Pop turned to the entire room and asked; "Do you want me to go in there and tell them they're f*cking special??...we need to get back to work tomorrow."

Couldn't have said it better myself.

As of now, I have no plans on retiring or returning any capital, so its back to work in order to try and find the next RCI Hospitality, Sharpspring Technologies or Power REIT. I have one aim which is to compound your capital at the highest possible rates of return over long periods of time. I'll take a positive year whenever we can get one, but one year will ultimately mean nothing in the context of what we are trying to accomplish. Most importantly, my family and I continue to be invested alongside clients, and I'm happy to share that the firm received significant additional capital contributions from family members and friends during the quarter. Furthermore, if you know of any patient, long-term investors who might be interested in putting capital to work, referrals are always welcome.

Good investment ideas and utilizing starter positions

Very good investment ideas are rare. I invest in a concentrated way when I find one, and in line with historic results and what I believe will be the case moving forward, the majority of our returns will most likely be driven by a few stocks, carried in large percentage weights in your portfolios. I feel we currently own some great ideas, and what is often the case when researching new investments is that I decide that I like what we currently own even more, as ideas we already own are higher conviction names and may provide higher upside. But occasionally, I find investment ideas that I feel deserve a place in your portfolios if there appears to be material upside. It's at this point I try to weigh owning the idea against holding excess cash and against what we currently own. Things like risk management, position sizing, opportunity cost and future upside all come into play here.

I believe that during the company research process there can always be more to know. I don't ever think the information flow about a business, competitive environment, competition, or management team ever stops. I do think there is a point where one has enough information – investing is about making decisions with imperfect info, after all – but that point is usually very deep into getting to know a business. Sometimes it takes years to build conviction in a management team or product / service.

While deep research and information gathering are a necessary part of my process, where it can hurt me is when it comes time to take action. I often miss a good portion of immediate upside (it seems like undervalued stocks don't stay that way for long in this market) by attempting to do more research, and I believe a lot of these errors of omission can add up to be quite costly in the long term. In addition, many of my 'I'll just do a little more work' processes are often in order to seek out information that might help me, but ultimately may not materially add to the original investment thesis. I usually know whether I'd like to own something a few days into researching it – although I might not have an exact price target – the pieces of the puzzle can at least be put together in that amount of time. I can think of multiple instances during the past few years where my lack of aggressiveness (as its required) has led to me missing out on investments I knew I wanted to own. I could of course purchase them at higher prices, but this however leads to a virtuous cycle where my lack of conviction to make these types of investments full position sizes (due to it being early in the research process) leads me to anchor to the original price at which I stumbled upon, and leads to a lack of confidence in my entry point. This is the dreaded 'I missed that one' or 'error of omission' which can be very costly. I've tried to refine my thinking and actions around this idea, which may lead me to utilize more 'starter' positions of 1.5-3% weightings in client portfolios. However maddening it is to capture a large chunk of upside when we only own a tiny portion of a business, it helps us accomplish a few things if I am correct. I get incentivized to know more about the company, there is the potential to add more down the road as solid execution takes place and the valuation is revised, and we can hopefully make a little bit of money.

On the downside, if we buy a starter, do more work, and ultimately decide it's not for us to own or the thesis isn't originally what I thought, there are times when we've already experienced marked to market losses. I believe moving forward it's possible that we will (and have before) lost small amounts of money this way. However, if this process helps lead us to the next great investment idea, I believe it is a cost we should absorb every single time.

Portfolio Commentary

During the quarter, I made several new investments in what I deem to be market leaders in their respective niche product or service categories. These businesses have clear leads from a competitive standpoint in the areas of installed bases, scale, reputation, brand, and customer value prop. Most of the time businesses with these characteristics are larger than the ones we own, well-covered by analysts, and loved by investors as current or future 'compounders', which makes them unavailable to us from an investment perspective usually due to the valuation or expectation of future potential. With our new investments however, some structural, operational or other issues have caused the share prices to decrease and the business values to decline as the shareholder bases turn over and frustrated investors head for the exits. What's exciting about our new investments is that many of these issues are backward looking, and more importantly their strong competitive positions have not been eroded even throughout financial and activist issues, management changes, under-spending on key initiatives and poor capital allocation. While I believe downside is limited and our new investments have near-term catalysts in place to help drive the share prices in the short term, I am very optimistic about the long-term value of each business which – if things go well – could be multiples of our entry prices. Things certainly won't be linear from business execution and share price performance standpoints, but I feel as though client portfolios have been made much stronger with these new additions.

During the year/quarter, we purchased three new businesses, and sold two core holdings. It always pains me to sell a quality business and a large holding, but when the reason is to buy another better quality business or higher potential risk/reward investment, I will make that trade every time. I have yet to find the optimal / perfect approach to portfolio management, but I am more optimistic about client portfolios today than I've been since the inception of the firm and since the beginning of my relationship with some of you.

For some accounts, cash was somewhat of a drag on performance this year. While the timing and size of new account onboarding will always be unpredictable, some client accounts may hold positions that others do not due to timing and risk/reward. Of note, multiple larger accounts onboarded toward the end of this year – while posting solid returns thus far – are still holding 15-20% cash positions. I am eagerly awaiting the chance to deploy additional capital into our portfolio companies and new ideas, but as always will be patient and selective when doing so.

Let's start with positions we've sold and/or reduced. I made the decision to sell out of both Terravest Industries and longtime core holding CRH Medical Corp. as well as reduce (for some clients) our exposure to Hill International. In investing, there are a few 'good problems' to have, one of which is having to decide what to do with a successful investment that has significantly increased in value. The other is having to sell a good business with a good risk/reward profile in order to buy another one with stronger qualities and perhaps a better risk/reward profile. While the potential outcome could never be known at the start, I believe that's what I've done by initiating the sales of the abovementioned companies in order to better position client portfolios moving forward. You'll notice that you've become a little more concentrated, with (in my opinion) better quality investments. This is a good combination.

During the quarter I also added to client positions in Research Solutions, Power REIT, RCI Hospitality, APi Group and Rimini Street. Below, I discuss three new investments in Whole Earth Brands Liberated Syndication, and USA Technologies. For the sake of space / time, I will be emailing each of you individually my longer research / writeups for each of these businesses. Please contact me with any questions or anything you'd like to discuss.

Sold / Trimmed Positions

CRH Medical Corp. (CRHM)

During the quarter I sold client positions in long-time holding CRH Medical following the announcement that they lost their largest service contract with United Digestive, representing over 20% of Adjusted shareholder EBITDA. While the effect of the contract loss won't show up in the company's financials until 2022, this news, combined with the already rough 2020 due to COVID forced me to re-evaluate the risk/reward and potential upside of the business.

Having become familiar with the business over the years and watching management grow the company through accretive M&A, I was comfortable managing the holding (and even adding to it) during the pandemic. However the loss of a large service contract is not as 'solvable' an issue as people eventually returning to their GI doc post-COVID, which opens the business up to continued decreases in revenues and profitability. CRH has some nasty reverse operating leverage given small declines in revenues, and this dynamic may be likely to continue into the foreseeable future. While some excess liquidity including a PPP loan helped get them through the year, I don't believe I'd be willing to sacrifice another year of poor results when there are much better investments available to us.

While I've been burned by customer concentration before, I tried to zoom out and assess the situation rationally which still brought me to the same conclusion. I would find it very difficult for CRHM to return to their highly free cash flow generative state without replacing that contract very soon, and combined with potential reimbursement rate uncertainty and potential GI practice consolidation or a shift in post-COVID business practices, my view of the future became a lot less clear. I will continue to follow their progress and revisit the opportunity should it become attractive again.

Terravest Industries (TRRVF)

During the quarter I sold out of client positions in Terravest Industries due to an assessment of the risk/reward measured against other opportunities available with the positions capital. Terravest is a market leader in their respective operating niches which include natural gas storage and transportation equipment as well as oil and gas processing equipment which historically (combined with their access to low cost capital) has given them an advantage during periods like this from a survival and acquisition standpoint. Terravest has used the cyclicality of their own industries to acquire mom and pop operations at steep discounts usually due to distress and then turn them around until they ultimately contribute meaningfully to revenues and free cash flow. This strategy worked very well for a number of years, as Terravest made a large number of acquisitions which helped grow free cash flow per share at a 20%+ CAGR over the past 6 years. Following the onset of the pandemic, mid-year conversations with management revealed estimates for large decreases in revenues and adjusted EBITDA as a result of the pandemic, and the base portfolio of businesses saw just that – although offset by cost containment. Results came in as expected, with net income down nearly 40% on the core business, offset by a large relief payment from the Canada Emergency Wage Subsidy program.

Terravest is a business and management team I've grown to like a lot, and they've done a phenomenal job of managing through the COVID-19 pandemic as a somewhat capital intensive and cyclical business. Fiscal year 2020 results showed flat revenues and higher net income / adjusted EBITDA on a lowered cost structure. Terravest converts a very high percentage of adjusted EBITDA to free cash flow, ending the year with a 15% FCF yield, putting the valuation at sub-6.5x FCF. While certainly not demanding – especially for a business expected to grow that free cash flow at a mid-teens rate moving forward – the decision was made to part ways for now given the future lower demand for Terravest's NGL storage and distribution equipment, oil and gas processing equipment and well service product lines in Western Canada, which is the result of the impact of the COVID-19 pandemic and commodity prices in an already challenged industry. The more I learned, the more it became clear to me that my confidence in the future wasn't as strong as it once was, and I was having a more difficult time attempting to figure out a normalized earnings/free cash flow number. I will continue to study the business, and there may be a point in the future where we will revisit owning shares again should the opportunity present itself.

New Positions

Liberated Syndication (LSYN)

Among the factors that drive business value over time, revenue growth, earnings growth and cash flow growth are at the top of the list. Businesses can achieve those things through organic or acquired growth, or they can achieve them through operational efficiency. While I prefer the former, I'm always interested in growing, cash flow generative businesses that appear to be under-earning based on unnecessarily elevated cost structures. This can be a low bar to step over to improve a businesses' financials, especially when the majority of the costs take the form of elevated compensation to a former management team. I believe our new investment in podcast hosting platform Liberated Syndication is a good example of the above and how value can be created (or accelerated) by addressing some low-hanging fruit.

During the quarter I purchased shares of Libsyn in clients accounts as the opportunity appears to be 'hiding in plain sight'. Libysn is a solid business that generates a lot of cash, has historically reported earnings well below what I believe to be the true earning power of the business, has cleaned up much of the 'hair' around the company with the involvement of an activist investor, and is now at what I believe to be an inflection point. With increased IR efforts in place to help communicate the story, a right-sizing of the cost structure, and continued market share gains as the leading podcast hosting platform in the industry, I believe the future potential of the business offers material upside over the next 12-18 months.

With that said, we were able to buy shares of this recurring revenue business, growing the top line 20%+, at a low double digit multiple of free cash flow. I'm confident we should do well if Libsyn just continues to execute as they have been, but with a new management team and multiple catalysts on the horizon, we could see the opportunity for higher revenue growth, margin expansion and multiple expansion moving forward. Although Libsyn doesn't quite have the SaaS level of growth rates to garner say a 10x revenue multiple or 30x FCF multiple, the company trades at a discount to every relevant SaaS peer in addition to recent podcast industry M&A transactions that typically take place at 4.5-7x revenues. Also, unlike Anchor, Megaphone and Wondery, Libsyn is profitable, and highly cash generative.

In addition, investor excitement has been dampened given a lack of analyst coverage, no sell side reports, and limited IR efforts to communicate the story. Until recently, no conference calls or guidance was given by the old management team, and there is an incredibly frustrated shareholder base despite the stock doing well during the past five years. Despite management's past mis-steps or lack of effort, I'd argue that the business performance and share price appreciation is reflective of LSYN's business quality and strength of their competitive positioning. This should bode well for future results as a new – and hopefully better – management team takes aim at growing shareholder value. Over the next year or so, as one-time elevated costs roll off the income statement, a new CEO is put in place and the company has the option to plow free cash flow into growing their core podcast hosting business, I expect shares to re-rate higher with the potential to compound in value over the next several years.

I don't believe we paid a high price for our shares or the future growth potential of the business, especially if we can realize any uptick in ad revenue (something recent M&A deals value highly) if LSYN can figure out how to scale their advertising platform. In addition, there are incentivized parties who have done a lot of work to right the ship here, and who own a lot of equity wanting to see a good outcome for the business. The major risk is that we are at 'peak podcasting' with growth set to slow over the next few years, and bigger more powerful platforms like Spotify set to take much more share and become the host of choice for new producers. I believe risk is mitigated here with a sticky customer base which includes LIbsyn serving as the host to more top 400 podcasts than any other platform.

Finally, while Libsyn's installed podcast base, net cash balance sheet, 80% gross profit margins and higher than necessary SG&A costs would provide plenty of strategic and financial value to an acquirer, absent M&A, this is a solid business that will continue to generate cash into the foreseeable future with the potential to reach $10mm+ in FCF in the next 12-18 months. With an enterprise value of around $95mm, 9.5x FCF is way too low for the industry leader, growing podcast revenue 20%+ with strong competitive positioning, high margins and a clean balance sheet.

For the sake of brevity, please refer to the longer more detailed writeup in the Appendices emailed to you, or on the blog at www.poundtherockinvesting.wordpress.com.

USA Technologies (USAT)

Clients now own shares of USA Technologies, a vending machine management business that provides a full suite of services to the vending and unattended retail spaces including cashless payment services, installation and servicing support, and enterprise software. If you've ever used a payment method other than cash at a vending machine, chances are you've come across one of USAT's ePort terminals where you can buy a soda or bag of pretzels, no cash involved. USAT was founded in 1992 and has a long history of unprofitability and mismanagement which is partly why I believe an opportunity exists today, and what entered client portfolios as an interesting special situation has the potential to grow into a solid business with a positive transformation underway. Today, USAT is led by a new management team set on improving the business fundamentals, re-directing the core strategy and improving investor perception.

USAT is a business I've followed for some time as I like the industry including the attractiveness of the transaction / payments space as somewhat recurring revenue that can be recession resistant and sticky when tied to vending machines in the right locations. However, despite some positive characteristics, USAT was un-investable until recently as the story consisted of unprofitability, a revolving door in the CFO chair, a bloated cost structure, accounting issues and a poor culture.

Fast forward to today, and USAT is similar to our investment in Liberated Syndication, with the result of a lengthy activist battle ending with a new board and management team in place (including former Verifone Chairman/CEO Douglas Bergeron) who possess extensive experience in technology, software and payment processing among other things. In addition, before we even get to potential operational improvements, this new management team appears intent on addressing the incredibly large amount of low hanging fruit that should alleviate many investor concerns and help communicate the story in a more positive way. USAT has already checked off many of these boxes including a debt refinance, an equity raise to bolster the balance sheet and the disclosure of their SaaS business unit economics in future investor communications.

What I found interesting when getting up to speed with the positive changes being made at USAT was that the primary bearish arguments were made up of past management mis-dealings as well as the poor history of the business fundamentals. Part of my process when researching a new investment is trying to 'kill' the company by tearing down the investment thesis. When nearly all of the negative points relate to *backward* looking issues, that opens up the possibility for a favorable setup.

To help illustrate the opportunity, USAT has two separate business segments, Equipment and Licensing & Transactions. The equipment segment (responsible for 20% of revenues) is relatively straightforward, as USAT sells their cashless hardware readers to vending operators (a sticky product as once you've chosen a cashless operator, you'd be unlikely to switch it out following the install) which also allows USAT to gain access to the transactions side of the business as well as cross sell their vending management software platform SEED, which I will discuss more below. USAT will typically subsidize the hardware that allows cashless payments to be accepted, selling them at a negative gross margin in order to gain access to the potential recurring revenue side. Every time an ePort or cashless device is installed, USAT counts that as a 'connection', of which they currently have over 1.3mm. This growth in connections has without a doubt helped grow the installed base and should help with the software platform opportunity moving forward, but historically the growth in connections alone was prioritized over all else, including profitability. Moving forward, the new management team has committed to profitable growth so we will likely see a decrease in the connection growth rate but improvements in gross margins and profitability over time.

The Licensing & Transactions segment makes up 80% of revenues and consists of the share in transaction revenue as well as a monthly service fee for USAT's cloud based vending management software. The cashless payment segment handles all elements of cashless transactions for vending owners, including serving as the merchant of record for those transactions, while the vending management software provides a platform for vending machine owners to run all elements of their business including inventory monitoring, price changing capabilities and route scheduling for restocking. The software has shown to reduce costs and improve efficiency.

As I mentioned above about a special situation turning into a good business, the software platform is where my hope lies in USAT realizing that goal. In 2017, USAT acquired Cantaloupe Systems, the logistics software provider for the vending and unattended retail spaces. The idea was to acquire a complementary platform in SEED to integrate into USAT's payment systems as well as expand to new markets and develop a one-stop-shop for vending operators to run their businesses. I thought the acquisition was a positive move for a number of reasons, but until recently, prior management did a poor job of cross-selling and integrating the logistics platform into their existing customer base.

Today, its no secret where management's focus lies as they have been vocal about wanting to improve the revenue mix geared more toward the software platform. This view is confirmed by USAT recently [announcing a re-branding](#) from USA Technologies to Cantaloupe Inc., reflecting their desire to focus on and grow the enterprise software side of the business moving forward. If they are able to execute, both recurring revenue and gross margins should improve, which should in turn make USAT less dependent on the transactions side of the business, which will improve gross margins further and help improve overall fundamentals. According to USAT, existing customers manage a fleet of machines over twice the size of their existing connections of 1.3mm, indicating a very good starting point to grow the SEED installed base. Finally, with a large portion of the current vending machines in existence not setup for cashless payments, and a potential TAM in the tens of millions, the runway for growth looks sizeable.

We were able to purchase shares at prices below 4x revenues for the entire business, which in my opinion fails to take into account the growing software platform, potential margin expansion, re-listing dynamics and non-recurring elevated costs rolling off of the income statement. As management (who made a commitment to do so) begins to disclose SaaS unit economics and if they are able to execute moving forward, I believe we have the chance to see revenue growth, margin expansion and multiple expansion in line with faster growing software and payments peers.

The situation at USA Technologies reminds me of watching certain NBA teams in the past who had their fair share of talent or a decent coach but were one or two pieces away from really contending. It's not always linear but occasionally these teams get a new head coach that works, or the right role players that fit and are able to put the pieces of the puzzle together to contend for a championship or make deep runs into the playoffs. Think Nick Nurse being hired in Toronto as an example or Jason Kidd being added to the 2011 Dallas Mavericks team. It's quite possible that the 'players' involved here represent the missing pieces needed to drive USAT forward, as the business is now being run by highly qualified and experienced people who clearly understand the opportunity set and have taken positive steps forward to begin delivering results.

For the sake of brevity, please refer to the longer more detailed writeup in the Appendices emailed to you.

Whole Earth Brands (FREE)

During the quarter I purchased shares of Whole Earth Brands (FREE) for client accounts which now makes up a top six position in most SMAs. Whole Earth recently became public via SPAC, and among the heaping piles of trash or just outright nonsense that has made up most SPAC IPOs this year, the circumstances surrounding Whole Earth – and the reasons why we were able to purchase shares at the prices we were – are some of the most interesting and potentially rewarding I've seen among all of the SPACs I've looked into this year. We have Matt Sweeney of Laughing Water Capital to thank for introducing me to the business and to the opportunity. I recommend checking out his fund and reading his letters at www.laughingwatercapital.com.

Whole Earth Brands, through their branded CPG segment is the global market leader in natural and free-from sugar sweeteners and other sweet categories. Recognizable brands include Equal, Pure Via and Canderel, a popular sweetener overseas. Whole Earth also consists of a Flavors and Ingredients segment where FREE produces and distributes natural licorice extract and derivative products utilized in CPG among other industries for flavor enhancement, masking and other benefits. I like this category of products for their stable, recession resistant characteristics, but our investment should also be aided by the strong secular shift toward 'sugar free' and sugar substitute products driven by increasing consumer awareness and health trends moving forward.

Today, FREE has dominant market share in France and parts of Europe with its Canderel brand, leading market share in its licorice-based flavorings business, and strong growth brands in its Whole Earth and Pure Via natural non-sugar sweeteners, where the Whole Earth brand category has grown in excess of 70% year over year from the first half of 2019. Moving forward, FREE will be pursuing an acquisition strategy designed to increase market share and distribution capabilities while improving margins. This, combined with moderate organic growth and share buybacks sprinkled in should provide a meaningful tailwind to the stock especially as the story is communicated. These efforts are being overseen by Chairman Irwin Simon of Hain Celestial fame, who grew his natural food and products company to over $2.5B in revenues over a 25-year period.

For all this, FREE is currently trading at less than 1.5x revenues and sub-8x EBITDA, putting the valuation way out of line with slower growing, lower margin CPG companies that don't possess the balance sheet or runway for growth. A quick glance at the situation – low deal price, SPAC IPO, low valuation – might signal a business of low quality or misaligned founder comp/incentives, but in fact points to the structure of and reasons for the deal price as opposed to a reflection of FREE as a business. Were FREE to trade in line with its packaged food and ingredient peers, shares would more than double from these levels. This is before organic growth, accretive M&A and of course, share buybacks. In addition, any multiple increases would help kick the tires on future stock-based acquisition efforts, but before we get there, buybacks would add meaningfully to shareholder value as FREE trades at a double digit FCF yield. To that end, it was a positive to see management and the board announce a $20mm stock buyback program in September which would potentially reduce the total share count by 7% moving forward.

So getting back to the deal dynamics, why do we happen to be so lucky with this opportunity?

Everything I know about selling a **private** business has revealed that most of the time, the seller is the smartest person in the room. Those assets are illiquid, transactions take massive amounts of time and brainpower, and very seldom can interested parties (having not been privy to the company's financials as they are private) step in at the last minute and scoop up the business at a bargain price. The price is the price, and the value of the business is usually based on the future cash flows + the tangible and intangible assets, with exceptions of course.

In the stock market, however, businesses regularly go on-sale for a variety of reasons, sometimes none of which have anything to do with the *actual value* of the company being sold down. A bargain could be the result of a number of things including liquidity needs, structural constraints, changes in sentiment or possibly the need for a large shareholder to exit.

FREE's discount comes on the back of that last reason, as the business was sold as part of some recent liquidation efforts involving Revlon chairman and 'debt king' Ron Perelman who is in the process of selling off some of his assets following the need to de-lever as a result of pandemic related issues among other things.

To step back for a moment, Whole Earth Brands was formed as a combination of two of Perelman's portfolio companies – Merisant (sugar free and low-calorie sweeteners) and MAFCO (licorice and licorice extract products) – into one scalable platform that was acquired by previously mentioned Irwin Simon's SPAC, Act II Acquisition Corp. during 2020. The situation at Revlon [seems to be quite messy] to say the least, and as Perelman (stated publicly) longs for 'the simple life', his need to sell assets to service his company debt load opens up an opportunity for us. What's *even more interesting* though, is the purchase price was negotiated prior to the onset of COVID-19, but as the pandemic further magnified Perelman's issues, the price was negotiated downwards not once, but twice! My assumption for the reason behind that is a simple one. As Perelman became more desperate to raise cash, he had no choice but to accept a lower offer. However, in line with my comments above about private business sellers being the smartest in the room, Perelman is clearly the most knowledgeable seller when it comes to Merisant and Mafco, which is why following the close of the transaction he purchased over three million shares in the open market with the logic that he too was getting a bargain. Then, when the shares did not immediately jump following the transaction, he again had no choice but to sell those shares, which opened up the opportunity for us to purchase our stake at a price *below* what the most knowledgeable person in the room was willing to pay.

The most attractive part of this dynamic is that FREE, having been released from the Perelman empire, will no longer need to use valuable cash flow from the business to service the Chairman's debt. I can't overstate how valuable this now freed up cash will be to the business and the management team overseeing the growth, as FREE can now complement their mid-single digit organic growth profile with accretive M&A set to drive sales much higher moving forward. This strategy has already been put the test as the company acquired Swerve in late November – a fast growing maker of all natural lines of sweeteners – for $80mm. Taking into account expected synergies from the transaction, FREE paid less than 10x EBITDA (without issuing any stock) for a brand that has grown revenues at 150% CAGR since 2016 and significantly bolsters FREE's market share in the overall sweetener category.

Investors can currently purchase the business for a total enterprise value of around $450mm, which is an extreme bargain given managements 2020E guidance for adjusted EBITDA in the range of $54-60mm which doesn't include expected cost synergies from both the Swerve acquisition and consolidating their manufacturing footprint (which management is estimating to be over $10mm in total savings). The above estimates also don't include future acquisitions for which management has shown the ability to deliver on in the past and has the balance sheet flexibility to execute today.

I'm not sure exactly where we end up in terms of intrinsic value within the next 12-18 months, but I'm not sure how precise one has to be when taking into account the above. There seems to be a severe mispricing for this asset light business with strong market and category leadership and stable organic growth with massive secular tailwinds, and a strong management team capable of executing accretive M&A or using excess cash to repurchase shares. I like the setup here and feel optimistic about the potential for good returns moving forward.

Market Commentary

There were times this year when investing felt easy, which makes me feel uneasy. While there remains plenty of momentum and positive catalysts for stocks heading into 2021 including a COVID vaccine, additional stimulus money that could reach up to $2,000 per individual per family and plenty of pent-up consumer demand for things like food, travel, leisure and physical shopping, it doesn't feel great to see such large groups of people earning incredibly high returns during the year. A microcosm of this would be a simple scroll through Twitter where investors of all shapes and sizes, retail and professional, are posting high double digit and even triple digit returns (with the expectation that this is the new norm). While at this stage it remains unclear to me what the catalyst for a market correction might be, it will most likely be a smart approach to proceed with caution after a successful year.

From a macro standpoint, there is both favorable and unfavorable data to lean on, which gives me even less of an idea about where the market is headed. With that said, our portfolio construction is and always will be a result of bottom-up fundamental research as opposed to making decisions based on any macro factors outside of my control. While there is certainly speculative behavior taking place in the form of continued buying at full valuations, a resurgence in SPAC related IPOs (nearly 250 of them during 2020), and stock splits regaining their popularity, the next year plus could continue to be a good environment for stocks. History tells us that occasionally, slow driving bull markets can spend plenty of time at levels above what I or anyone else believes to be rational or 'fair value'. Sometimes many years.

The most interesting – and potentially worrisome – dynamic taking place is that while the stock market is supposed to represent on some level good economic conditions, current valuations persist despite what I would call a partly recovered economy with a large amount of uncertainty brewing. While this is news to nobody, accommodative monetary policy and near zero interest rates are now being used to justify lower returns on very highly valued assets in some areas, which corresponds with higher prices, which certainly won't last forever. While it's very possible I will go my entire investing career without ever calling a market top, bottom or predicting any sort of crash, I've thought more about hedging client portfolios this year more than any year in my lifetime. I was not investing on behalf of others before 2008-2009, where I may have thought about the same thing, but it can be very tough to get the timing right. For now, client portfolios hold excess levels of cash as I search for good investment ideas, and I will update you with any strategic decisions before they take place.

A year like 2020 helps reinforce my investing beliefs as well as highlight the importance of risk management, where I will continue to keep a high hurdle rate for new investment ideas and avoid getting complacent following any successes. Given that my investment strategy doesn't involve leverage, options, investing in low quality companies, nor do we participate in the SPAC mania or cryptocurrency craze, continuing to monitor current holdings in client portfolios as well as identifying quality businesses that happen to be mispriced for solvable reasons should allow us to earn above average returns over time independent of overall market behavior. Greystone invests in a way that is quite different from what you find inside the broad market indices, and in much different concentrations, so continuing to focus on making good decisions with respect to positive risk/reward scenarios and driving good returns will be my focus throughout 2021 and beyond.

Thank you for the privilege and responsibility of letting me manage your hard-earned money. As always, feel free to reach out anytime and I look forward to a healthy and happy 2021.

Adam Wilk
Greystone Capital Management
www.greystonevalue.com
Email. adam@greystonevalue.com
Direct. 302.593.4483

Disclaimer: *Past performance is no guarantee of future results. Investing involves risks which clients should be prepared to bear, including but not limited to partial or complete loss of principal originally invested. Investing in small and microcap companies can result in additional volatility and higher risk due to comparatively low market capitalization, more sensitivity to economic and market conditions, and more limited managerial and financial resources. In addition, small companies typically trade in lower volume, making them more difficult to purchase or sell at the desired time and price or in the desired amount. Please refer to Form ADV Part 2 brochure for more information about Greystone Capital Management and its personnel.*