Greystone Capital Management
Concentrated Value Investing

Q4 / February 2024

Dear Clients and Friends,

During the fourth quarter of 2023, returns for separate accounts managed by Greystone Capital ranged from +16.4% to +20.4%. The median account return was +18.1%, net of fees. The median account return for the full year 2023 was +11.8%, net of fees. Since inception in Q4 2019, an account opened with Greystone has returned a cumulative +114.8% or +21.1% per year, net of fees. During this period, our strategy has outperformed both the S&P 500 and the Russell 2000 by an annualized +6.9% and +12.0% per year, while also posting significant cumulative outperformance against both benchmarks.

| Greystone Capital Management [1,2] | | | | |
|---|---|---|---|---|
| | Gross Return | Net Return | S&P 500 | Russell 2000 |
| **Q4** | 18.9% | 18.5% | 11.7% | 14.0% |
| **FY 2023** | 7.9% | 7.3% | 26.3% | 16.9% |
| **Since Inception (Cumulative)** | 156.3% | 114.8% | 70.1% | 41.5% |
| **Since Inception (Annualized)** | 26.5% | 21.1% | 14.2% | 9.1% |

1. *Returns are unaudited and represent an account opened with Greystone Capital Management at inception Q4 2019. 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.*
2. *Fees consist of a 1.5% management fee and a 20% performance fee above a 5% hurdle rate.*

Our fourth quarter and FY2023 results compare favorably and unfavorably to the S&P 500 and Russell 2000 returns of +11.7% and +14.0% during the quarter and +26.3% and +16.9% 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, our separate account structure means that your individual returns will vary by the timing of your onboarding, and as a result, certain clients have not experienced the positive since inception results that we've achieved from the early part of 2020. During the past 24 months in particular, performance has lagged both my expectations and what I think we can achieve moving forward. This is likely to change for a multitude of reasons as we are currently being presented with tremendous tailwinds for our strategy. During Q3 I sent clients a separate communication regarding moving past some recent mistakes, as well as an outline of important takeaways from the past two years. I won't re-hash my comments here as they remain applicable.

Despite the headline underperformance, I'm pleased with how the year unfolded. Our businesses took positive steps toward growing their earnings power, and my investment process continues to prove capable of identifying quality investment ideas, that when sized appropriately with a good risk management framework, can deliver outsized returns. As always, I encourage both current and potential clients to view your investment in Greystone through a long lens, as I'm not overly focused on any specific month, quarter, or year. To reiterate, I am attempting to do something differentiated by focusing on less followed areas of the market and thinking long term, at a time when neither thing is a popular approach. These are advantages that should lead to the compounding of returns, as my earliest career experiences taught me.

My North Star for evaluating our results will continue to be the operating performance of our businesses, which should converge with share prices over time. I'm excited about our future prospects as we remain exceptionally well positioned moving forward.

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The sentence above, copied and pasted into most letters, is worth highlighting again. As I've said since inception, we are not attempting to replicate or track the indices in any measurable way, and therefore will look very different in terms of both our portfolio construction and yearly returns. This is more important than ever in today's investment environment.

It can't be overstated how much the public market structure changed with the launch of the first passive investment vehicle in the 1990s. Industry estimates now point to around 55% of equity assets being managed by passive investment funds. There's also a large group of active investment managers who charge fees and lack the ability to operate with a long-term view, forced to chase these returns by looking and acting like the index. So, you have one group buying and selling securities without regard to price or value, and another group attempting to mimic that return profile. Despite the diversification benefits touted by owning an S&P 500 index fund, these investors are now overly concentrated in many of the same securities.

Add in the forced buying from retirement accounts and the market cap weighted construction of the indices, and the current makeup of the S&P 500 has become so skewed, that the return profile is being driven by just a handful of large businesses. This is likely the opposite of what was intended in the '90s. What's more, is that these businesses are expensive relative to their future growth outlooks. The S&P 500, 30% of which is made up of just five companies, is currently valued at a trailing 22x earnings. That puts the valuation in the 92nd percentile looking back 20 years. Although the largest constituents are excellent businesses, at current valuations, they are less likely to represent excellent investments.

Which brings me to my point. This has created a void where very few investors are choosing the approach of owning small caps and microcaps to outperform. Due to large cap valuation expansion, small caps now make up less than 4% of the U.S. equity market. Microcaps even less. This is a rarity looking back almost 100 years. When the majority of investors are being forced to pile into a small group of large businesses, future sources of outperformance are likely to come from many of the small companies that have been discarded as a result. And there are plenty. Markets in both the US and Canada are offering tremendous bargains consisting of well-managed, growing businesses that generate cash, trading at single digit multiples of cash flow.

I learned many valuable lessons when I started my investing career, two of the most significant being, when you find a good investment, don't overpay, and when attempting to outperform the market, ***don't do what everyone else is doing***. By remaining small, and focusing on less followed areas of the market, we give ourselves a tremendous advantage to outperform over time. Based on the above, the opportunity set for this approach is *better today* than when I started Greystone.

All of this reminds me of the Spurs differentiated strategy of scouting European players well before it was popular. They refused to think and act like the rest of the league, overly focused on high school and college players, which led to the drafting of Manu Ginobili and Tony Parker. The rest is history. The willingness to look different led to the compounding of returns and relationships for decades.

If you are a patient, long-term investor, this is likely music to your ears. If you are someone who needs to look and behave like everyone else, then it won't sound like the right approach. But the path to outperformance is paved with differentiation, which will help us compound returns and relationships for decades to come. As always, we remain invested alongside each other and thus firmly aligned in our interests.

## Portfolio Commentary

At year end, our top five holdings consist of **Sylogist**, **Bel Fuse**, **Limbach**, **Currency Exchange International** and **APi Group**. These businesses, which represent over 65% of your capital, are poised to grow sales and earnings power significantly into the future at above average rates, and in some cases can reinvest those earnings into large addressable markets. Many of the businesses also possess low hanging fruit to address for growth, margin, and cash flow benefits, while still possessing valuations below what would be considered reasonable given their fundamentals. High quality businesses with attractive risk/reward profiles and strong forward IRRs is a good combination. Our smaller positions are also cash flowing machines with good growth prospects and smart capital allocation, the types of opportunities that seem to be coming across my desk on a weekly basis.

Below, I focus my remaining commentary on our top five positions along with a brief outline of two new investments made during the quarter.

# Sold Positions

## Seneca Foods (SENEA)

We sold our position in Seneca Foods during the quarter, shortly after it was featured as a new position in the Q3 letter. In early November, the company reported their Q2 results which revealed an over-inventoried, highly levered company whose earnings contracted year-over-year, on top of a continued cash burn due to the substantial inventory requirements for canned goods. After the earnings report, Seneca also announced the acquisition of Green Giant foods, the rationale for which I didn't understand, despite the cheap price paid.

Although some of these developments were expected, what I didn't expect is the stress that the company would put its balance sheet under in such a short period of time. For canned vegetable processors, the largest seasonal pack takes place from July to November. This means the bloated inventory position makes sense for this time of year. However, Seneca now has to move through their goods in an industry with declining volumes, which makes me nervous given where the balance sheet sits today. It's clear that there is substantial upside should the business ever trade closer to its true book value but given the number of opportunities available in today's market and my preference for cleaner balance sheets, it made sense to exit the position with a 40% gain.

## New Positions

During the quarter, we entered into two new positions in **Thryv Holdings (THRY)** and **Franklin Covey (FC)**, companies I have been following for years and one of which we owned previously. We purchased these businesses during the market drawdown late in the year, providing us the opportunity to own each at very undemanding valuations.

Importantly, for both businesses, investors seem narrowly focused on the short term as opposed to the long-term earnings power of the companies, meaning that if I am correct in my assumptions, and we can be patient, we will do very well over time.

For **Thryv**, it's unlikely you remember my commentary from years ago, but this business consists of a shrinking Marketing Services segment (formerly known as Yellow Pages), and a newly created SaaS segment whose offerings makes life easier and more efficient for small business owners. Thryv shares finished flat on the year, and down -50% from the end of 2021, despite taking steps to considerably increase earnings power during that time.

The cash flow coming from Marketing Services provides a strong current free cash flow yield, but Thryv has debt (a short-term issue), eating up a chunk of that cash flow. Consolidated results also reveal an unprofitable business. After 2022, the words 'SaaS' and 'unprofitable' won't immediately compel investors to sharpen their pencils. However, the SaaS segment is where the potential return profile lies, as management has a goal of reaching $1 billion in revenues by 2027, along with 20% EBITDA margins. Were that to happen, Thryv would be trading at sub-4x EBITDA on the SaaS business alone, which seems overly punitive given the stickiness, somewhat non-discretionary revenues (small businesses aren't going to cut their appointment scheduling or payment software during an economic downturn) and runway for growth.

Furthermore, if I were to line up the SaaS KPIs from the time of our initial involvement years ago, to today, it would reveal significant progress in terms of customer count, revenues, monthly active users and ARPU. In other words, the company is executing brilliantly on the opportunity set, and the thesis that I laid out *years ago* is still very much intact. Yet, we were able to purchase our shares for nearly the same prices we paid in 2021.

Since 2015, **Franklin Covey** has consistently executed its strategy to grow their subscription business, which has proven to be a sticky, high margin, and high LTV service offering. The transition from now to then in terms of business fundamentals has been astounding. Yet for a time, there were non-believers. During the initial phase of the transition, between 2015 and 2018, Franklin Covey saw their EBITDA decline by nearly 50% as a result of increases costs undertaken to make the switch to a subscription offering and grow the customer count. A short-seller even wrote a 50-page report about how management was ruining the business. Even though shareholders had to put up with increased costs and margin declines up-front (a short-term issue), the transition worked beautifully. This was happening with the goal of increasing customer lifetime value significantly (a long-term benefit).

Today, Franklin Covey has the majority of revenue on a recurring basis with 60% of that revenue on multi-year contracts. Contract values have increased by 10% per year since 2018 and EBITDA margins are up 500bps over that time frame. In other words, FC is a much more valuable business, yet shares trade at a single digit multiple of EBITDA. Unlike Thryv, FC's share price has moved up since their transformation, but not nearly enough given the fundamentals and growth runway. Management agrees, because as the stock has fluctuated, they've been active repurchasers during the past four quarters, to the tune of $50mm. I believe there is plenty of continued runway for both businesses and I look forward to disclosing more details in future letters.

# Top Five Positions

## Sylogist (SYZLF)

Sylogist is our public sector software business that, like Franklin Covey, has undergone a significant strategy shift in pursuit of becoming a much higher quality and much more durable business. The company has successfully transitioned their business to a cloud-based SaaS platform, repaired relationships with customers, entered significant new whitespace opportunities, improved the management team and Board, strengthened investor communication, and attained sell side coverage, all in the span of a few years. The past three quarters for the business have all shown record results from both top line and organic growth perspectives, and the company shows no signs of slowing down. Not to mention they have been consistently cashflow positive. Yet, shares languish well below peers, at a valuation not reflective of the underlying business quality and growth runway.

Outside of excellent operating results, I don't believe there is much more that Sylogist could be doing to increase per share business value, other than repurchasing stock, which they have been very active in doing. It's only a matter of time before the market finally takes notice.

Sylogist is not a 50% top line SaaS growth business. But there aren't many publicly traded businesses that exist with Sylogist's fundamentals, trading at Sylogist's valuation. There was a time not too long ago where investors were eagerly paying >10x ***revenues*** for SaaS based businesses. Sylogist trades at <10x ***EBITDA.*** With continued execution, and as they continue to repurchase their own shares, I am hard pressed to find a scenario where the stock doesn't trade meaningfully higher than today's price.

I've also done my part to bring awareness to the business and help communicate the story, given I believe the upside from today's price could be meaningful. I was recently invited to the

Yet Another Value Podcast, where I talked about the investment thesis more in depth. I look forward to seeing how the next few years unfold for this business.

## Bel Fuse (BELFB)

Not much has changed for Bel Fuse since introducing it as a new position in the Q3 letter, so I will keep this update brief. Bel Fuse is our electronics component manufacturer that has executed a successful multi-year turnaround, making them a better, higher margin and more valuable business today.

Bel Fuse had an outstanding year, and an even better past two years. When looking at quarterly averages since 2022, Bel Fuse has delivered 20% revenue growth, a 500bps expansion in gross margins, and a 600bps EBITDA margin expansion while growing their cash flow profile by nearly 2x. They've also entered new markets, paid down debt, built cash on the balance sheet, and mentioned for the first time in company history enacting a potential share repurchase program. Yet, despite considerable evidence that earnings power has increased, Bel Fuse is still valued at a multiple below peers.

I continue to believe that there remain misconceptions about the strength of this business and what management can accomplish over time. What I'm most excited about moving forward is that Bel Fuse has been operating at less than 100% strength within some of their segments, the recovery of which, along with continued cash generation, will provide an even further boost to the top and bottom lines.

With a return to normalized operating performance, cash flow generation, positive capital allocation optionality and a single digit multiple of cash flow, Bel Fuse won't stay cheap forever. Significant upside remains.

## Limbach Holdings (LMB)

Limbach is our construction and engineering services business, that was our best performer during 2023. Both intrinsic value changes and multiple expansion took place quickly for Limbach this year, but significant upside remains. A powerful investment thesis can exist when a company stops doing dumb things. A poor strategy, bad capital allocation and public market reputational damage plagued this business prior to our involvement.

The Limbach of today does smart things, by focusing on higher margin, more durable Owner-Direct revenues, and is being much more selective on General Contractor work, eliminating the bid-for-a-project-at-all-costs mentality that hampered progress previously. This led to record profitability for the business during FY23 and has turned the company into a cash flow machine, which will only continue as the business mix continues to shift more toward Owner Direct revenues, up from the 50/50 split between ODR and GCR today. This cash flow will also help on the M&A front, as Limbach is once again using their balance sheet to acquire complementary businesses within their fragmented industry, for 3-4x EBITDA, on which they executed two smaller deals in FY2023. As more deals come through the pipeline, at historical multiples, the combination of organic growth and M&A will juice free cash flow per share considerably.

In my prior experience as an NBA scout, my favorite players to watch (and recommend) were the guys who *demanded* the ball at the end of a close game. Prior to being promoted to CEO, Mike McCann was demanding the ball. It's not often you see a microcap CEO attack his role with such vigor, and we've benefitted because of it. In addition, we are aligned. During Q3 of this year, Mike (along with CFO Jayme Brooks) purchased over $150k in stock on the open market, *after* the shares had appreciated over 200% on the year. I am thrilled to be invested alongside this management team and look forward to seeing what they will accomplish over time.

## Currency Exchange International (CURN)

Moving now to our foreign currency exchange business, this $18/share stock will likely see its earnings power approach $2.25-2.50/share within the next few years, which is too low a valuation for the growth runway, incremental margin potential, net cash balance sheet and profitability. Additionally, at the urging of many shareholders, management has for the first time in company history, put in place a share buyback program for up to 5% of shares outstanding, which will provide a further boost to EPS growth.

CURN stock was flat on the year, despite finishing FY23 with record top line results, handily exceeding pre-COVID revenue figures. As expected, the inflection point in CURN's business post-COVID has come with some incremental costs which come before the eventual incremental revenues and profits from these initiatives. Some of the company's growth levers include their Payments business, increasing agent locations at high traffic airports, and providing online FX services across the US. None of these are as exciting as the opportunity within CURN's Exchange Bank of Canada subsidiary, where trust accounts are being established to help CURN facilitate ever larger foreign exchange transactions with larger financial institution customers previously unavailable to the company. The implications for this are many, but most importantly should add significant high margin revenue over time. As a reminder, this business has demonstrated significant operating leverage in both Banknotes and Payments.

Although we've taken a brief step back from that leverage as CURN prepares to enter the next phase of its growth, I believe the market will begin to see the earnings power unfold over time. With the stock trading at liquidation value, our downside remains well protected, and with patience, there remains a comfortable path to 100% upside from here.

## APi Group (APG)

APi Group, the largest business in your portfolio, is our fire safety and service business that has executed brilliantly since it's inception as a public company via SPAC during 2020. We have owned shares on and off since then and have watched the Chairman and CEO grow every relevant KPI in the right direction. The market finally began to take notice during FY23, with the stock up 50%, but plenty of upside remains. Absent unforeseen circumstances, we are likely to stick around this time.

Management at APG has been largely successful in growing the recurring revenue, service-based portion of the business, while moving away from lower margin, higher risk projects. As a reminder, growth in service revenues strengthen the company's competitive position, improve margins, and reduce investment spend. Capital allocation has also been excellent. The resulting increased cash flow from these efforts have been used to pay down debt and make accretive tuck-in acquisitions within APG's fragmented industry. APG has purchased five businesses YTD and plans to end the year below 2.5x debt/EBITDA.

As the mix of service revenues grows, the acquisition of Chubb is fully integrated, and as more M&A is executed, there is upside to revenues, margins and the multiple. In addition, along with Bel Fuse and Limbach, we have a 75-year-old business run by a management team who has been there, done that, with a history of strong operating expertise and smart capital allocation. I like our odds to continue earning strong returns here and believe the future remains bright for APG.

## Broad Market Commentary

I am likely not alone in saying that this year defied many of my broad market expectations. Despite most investors bracing for the opposite, stocks posted incredibly strong years, including the Nasdaq which posted its best finish since 1999, and the Russell 2000 which notched its fastest recovery on record from 52-week low to 52-week high. In addition, despite the carnage taking place across the housing market, aided by higher rates, home builders were some of the best performing stocks of the year, proving, as always, that predictions about the short-term direction of markets rarely come to pass.

The past four years brought with them a global pandemic, geopolitical strife, a speculative boom in stock prices, elevated inflation across the world, and the fastest interest rate hiking cycle in US history. To be sure, bad things have not stopped happening in the world, but this macroeconomic performance is unlikely to be repeated. It also could never have been predicted.

Yet, we'll continue to see many pundits with crystal balls planted firmly on their desks. I threw mine away long ago. Nearly four years into operating Greystone and over a decade in public markets, it's become very clear to me that are near zero events in financial markets that I'm able to predict with any accuracy. Therefore, the path forward for us will not be to anticipate any of the unpredictable and unlikely macro related events that take place, but rather company by company, with strong selection criteria, good risk management, and patience. The setup for us remains incredibly favorable and I look forward to executing our strategy into the foreseeable future.

## Recent Developments

I continue to find talented and qualified interns to assist with all aspects of the firm's research process, one of whom we brought on this quarter. Given the high volume of opportunities to sift through, their contributions have been very meaningful thus far, allowing us to increase the efficiency of idea generation.

We also added one new client during the quarter with the goal of continuing to add like-minded and patient investors to the firm. The past year was also full of productive and meaningful conversations with thoughtful high net worth, family office and institutional investors. Referrals continue to be welcome and if you know anyone that might be a good fit for the firm, please feel free to pass along my information. Thank you as always for allowing me to manage your hard-earned savings. I am incredibly appreciative, and I hope 2024 is a happy, healthy year for everyone.

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

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