Q4 / February 2023

Dear Clients and Friends,

During the fourth quarter of 2022, returns for separate accounts managed by Greystone Capital ranged from +5.0% to +19.9%. The median account return was +13.3%, net of fees. The median account return for the full year 2022 was -29.3%, net of fees. Since inception in Q4 2019, an account opened with Greystone has returned a cumulative +91.1% or +30.4% per year, net of fees*. As the firm grows and new capital onboards, it is my expectation that our returns will continue to be sporadic across client accounts given the timing and inflow of new capital. Please continue to check your individual account statements and feel free to reach out with any questions or concerns.

Fourth quarter and YTD results compare favorably and unfavorably to the S&P 500 and Russell 2000 returns of +7.5% and +6.2% during the quarter and -18.1% and -20.4% 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.

When I sit down to write my letters to clients, I try to put myself in your shoes and attempt to answer the following questions: what happened during the quarter within your portfolio and broadly, why did it happen, and good or bad, how are we moving forward? During a year like 2022, I tend to first look in the mirror for answers and only after that will I turn to external factors for clarity. I've learned that both outperformance and underperformance typically involve some combination of luck as well as good or bad decision making on my part. Therefore, a year of underperformance requires an attempt to separate the difference in declining share prices due to external factors and declining share prices due to company-specific issues or poor investment decisions on my behalf. I will try to answer these questions throughout this letter, but put simply, this year it was a combination of all three.

There are times when both the broad market and individual sectors undergo periods of extreme pessimism. These periods will affect the value of our businesses even in the face of strong operating performance. There will also be times when our companies will run into bumps in the road on their way to strong performance over time. Layered on top of that is the possibility that I will make mistakes. Unfortunately, these things (pessimism + company specific issues + mistakes) can occasionally happen at the same time.

The investing environment proved challenging this year as 2022 was the first time in decades that investors were forced to deal with meaningful inflation. Consequently, we found ourselves staring down the barrel of the Fed's monetary shotgun as the historical (and necessary) response to dealing with inflation has been to increase interest rates with the aim of slowing the economy. The swift execution of this strategy had a profound effect on all risk assets.

Among those risk assets, small companies suffered greatly in both the US and Europe. Consumer related businesses even more so. Given our struggles, I found myself rooting for a strong year-end rally heading into December before reminding myself to snap out of it in the context of our longer-term goals. If you've

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**All performance figures are unaudited. Past performance is not indicative of future results. Investor's actual returns may differ from the returns presented due to several factors, including the timing of each investor's capital activity and position weightings within each portfolio.*
***Fees consist of 1.5% management fee and 20% performance fee above a 5% hurdle rate*

ever been on the receiving end of my pitch for Greystone Capital, you'll remember that we are attempting to embrace the unavoidable volatility that will occasionally arise in public markets, leading to periodic uncertainty. This uncertainty is the market's worst nightmare, so quality assets can become valued inappropriately, thus helping to create the very opportunities we seek. But operating with the mindset that certainty is required would be the antithesis of successful investing.

Since 1939, the S&P500 has experienced 12 drawdowns of 25% or more, or roughly one every 7 years. **No one knew they were going to happen before they happened** (you're probably aware of the saying that economists have predicted five of the last nine recessions). As painful as these drawdowns feel, they often represent the best buying opportunities as history would show. It then becomes clear that any investment process worth its weight must embrace uncertainty, as there is no such thing as a clear state of the world.

With that said, our ability to compound capital effectively over long periods of time will undoubtedly boil down to how we act during periods when the future is not so clear. The core elements of my process continue to be implemented even when our strategy is out of favor…in fact…*especially when* our strategy is out of favor. These elements consist of deep research, a focus on quality, cheap valuations and requiring a large margin of safety. Although sentiment can bring short term uncertainty sharply into focus, my strategy attempts to separate near-term negatives from *actual* risk of permanent loss by focusing on the above criteria as opposed to wondering what the next few quarters might look like. This helps me remain level-headed but certainly doesn't eliminate future bumps in the road.

Notably, this is not an original approach. I am simply walking the path cleared for us by history's greatest investors. I'll reference the famous line about value investing consisting of the ability to 'be comfortable being uncomfortable'. Sitting through short-term discomfort isn't easy or fun, but if you truly understand what you own, this discomfort tends to go away. These are the building blocks of our differentiated investment strategy, one in which most market participants choose not to participate. According to JP Morgan, fundamental investors currently account for just 10% of equity trading flows. An even smaller percentage of those managed assets are value-based strategies. And a likely smaller percentage of *those* assets manage long only, concentrated strategies focused on small companies. In fact, famed value investor David Einhorn (a guy who made his career by purchasing undervalued stocks during periods of pessimism) held funerals for value investing on two separate occasions in 2017 and in October of 2022, citing serious changes to market structure and proclaiming that value investing may never come back.

That leads us to the current opportunity set in small companies which is incredibly compelling if we are at times willing to tolerate volatility and uncertainty. I believe we are, because if an edge exists within the walls of Greystone Capital, it's in our behavior. Key to embracing volatility is being able to take a long-term view, which is inherent in the structure of the firm. Along the way, if we can accept that things won't always work in our favor, and understand that mistakes will be made, I believe we can create major advantages over time.

Even if the near-term outlook is uncertain, my view remains that businesses growing their intrinsic value per share, eventually trade in line with that value. Just know that the path from here to there is guaranteed to look more like a squiggly line upward than a straight and narrow one. The current environment is very attractive and should result in returns that more than compensate us for the recent period. As a result, my family and I have added capital to the firm's strategy while continuing to remain heavily invested. Our interests are aligned.

Three Years In

The end of Q4 and FY22 marks roughly the three-year mark since the firm's inception. Three years is a very short period of time within the context of what we are trying to accomplish, so the idea that there are meaningful takeaways from returns since inception is up for debate. Not up for debate is that the past three years have been packed full of useful lessons and process improvements, as well as mistakes and successes. I'm operating today as a much improved and better equipped investor than I was in 2019 and suspect that will continue to be the case moving forward. Furthermore, I believe evidence is at least being created that the investment process has been able to lead us to good investment ideas, that when sized appropriately with a good risk management framework, should work well over time.

Portfolio Commentary

Heading into 2023, our top five positions make up somewhere between 60-70% of client accounts and consist of RCI Hospitality (RICK), Basic-Fit (BFIT), Currency Exchange International (CURN), Griffon Corp. (GFF) and IDT Corp. (IDT). There was one change to this group from 2022 with the addition of Griffon Corp., replacing Polished.com toward the back half of the year. Our businesses range in market caps from $40mm to nearly $2.5B and possess my desired characteristics of cash generation, fair valuations and growth potential, while being run by people who have our best interests in mind. Over a long enough period, I would expect to avoid losing money owning these types of companies, although mistakes will certainly be made. That statement held true during the year as almost none of our smaller positions worked, and there were times when I overstayed my welcome, didn't move fast enough, and where my analysis was just plain wrong.

Offsetting my errors of commission, the range of business performance during the year fluctuated between very good to better than expected, to outstanding. There were also some self-inflicted wounds among Basic-Fit and Polished.com, two of our largest detractors from performance. Despite well-documented concerns I believe the outlook for both businesses during the next 3-5 years remains very strong as discussed below. With those exceptions, our remaining businesses are managing incredibly well through this difficult environment, and believe they remain valued at very attractive levels.

Given the share price declines of Basic-Fit, IDT, and Polished.com, and the fact that we still own our shares, I spend a decent portion of this letter outlining the investment cases for each (and in the case of Polished, separate communications have been provided). Put simply, I believe the selling has been overdone, leading to the shares trading at substantial discounts to what I perceive them to be worth. Although these companies might not seem like obvious investments to make heading into 2023, beaten down stocks rarely are. Approaching these investments with a fresh perspective leaves room to participate in what I believe will ultimately be positive outcomes.

I will spend the rest of the letter outlining two new positions, reviewing our top five positions, discussing select investments and finishing with some broad market commentary.

New Positions

Griffon Corp. (GFF)

Last quarter I wrote about a new position in a small cap consumer products business that manufactures tools and home improvement items as well as residential and commercial garage doors. The company is

Griffon Corp., and is one of our top five positions heading into 2023. This is an attractive situation for several reasons, but mostly due to the strength of Griffon's Home and Building Products segment and the significant corporate governance improvements recently enacted.

Griffon Corp. is made up of two business segments, Consumer and Professional Products ('CPP') and Home and Building Products ('HBP'). CPP manufactures popular home accessories and garden tools through quality brand names such as ClosetMaid and Ames. HBP is one of the leading manufacturers in the US of residential garage doors and rolling steel doors, with a nearly 50% market share through their Clopay and CornellCookson brands. CPP has struggled under the weight of poor acquisitions, lack of cohesiveness and underinvestment, but possesses strong market share in garden tools and has typically done well through various business cycles. Griffon's HBP segment has cockroach-like elements, with a history of strong organic growth and resilience over multiple decades. Today, Clopay and CornellCookson are responsible for nearly half of Griffon's revenue and around 60% of EBITDA. Given their strong characteristics of resiliency, cash flows and returns on capital, these businesses make great acquisition candidates and recent industry consolidation adds a valuable element to the mix. Valuing HBP using an EBITDA multiple in line with similar businesses as well as recent transaction comps reflects a per share price that could exceed Griffon's current enterprise value.

One would think that quality like this would be efficiently priced. I don't believe it is. Despite strong organic growth and profitability, GFF has been its own worst enemy thanks to CEO Ron Kramer, an overpaid and entrenched CEO with a poor history of capital allocation. Ten minutes of research into Griffon Corp. would reveal years of nepotism, egregious management compensation, underinvestment into key areas and bloated corporate costs. This, plus an outdated conglomerate structure has made GFF difficult to analyze and value. Historically, nothing has been done about this, until recently. Voss Capital, an activist investor who currently owns around 6% of the business, has stepped in and demanded major changes, including a restructuring of incentives, initiating the sale of some business segments, facilitating the declassification of the board of directors and, for the first time in a very long time, outlined levers to pull to drive value for shareholders.

At the urging of Voss, the company is currently undergoing a strategic review where all signs point to a value-unlocking event occurring at the conclusion. It's possible that either the business is sold outright, HBP is sold in a separate transaction, or the two segments are separated into stand-alone public companies. Should I be wrong about my assessment of any value-unlocking event in the near term, we should be more than happy to own the business in its entirety with its strong demand tailwinds, room for margin improvement and increased returns on capital. Lastly, with new board members in place, underneath a quality business remains better capital allocation policies moving forward, allowing the business to be valued more appropriately over time.

It should be noted that COVID and housing related tailwinds have caused HBP results to look phenomenal during the past two years. In case they are overearning, conservative estimates surrounding sales and margins that are below management guidance for the segment would still indicate material upside from here. I would also continue to point to the favorable housing related replacement and repair dynamics as well as the resilience of the business over various cycles as a margin of safety here.

APi Group (APG)

During the quarter we re-entered into a position in APi Group, a leading fire safety service and inspection business focused on commercial end markets. We previously owned APi shortly after its SPAC IPO when I thought shares were severely mispriced given the strength of the business and future earnings power. We sold the position following a strong increase in price within a short period of time, and now find ourselves owners again. Since our initial ownership, earnings power has increased considerably as the company completed the acquisition of Chubb's fire and security business from Carrier Global, while continuing to execute tremendously well. Yet we had the opportunity to acquire shares at nearly the same price we were granted the first time around.

APG provides an incredibly necessary and recession resilient services where they have been able to gain a clear advantage through organic growth as well as M&A where decades of management experience allows them to acquire and improve complementary businesses. I believe APG has massive advantages from a scale, culture, pricing and work quality standpoints, to the point where they have very little national competition. As the business grows, they will continue to separate themselves as the premier provider of fire safety services, and should be able to flex some pricing power in exchange for quality. Importantly, APG has diversified the business away from new construction activity, so they are more insulated from industry downturns than in the past.

Organic growth and slight margin expansion is all that's needed to do very well owning this business, as I estimate APG can generate EBITDA in excess of $1.0 billion within the next few years on an enterprise value of less than $7.0 billion. Management is targeting a free cash flow conversion rate of 80% which I believe is achievable using conservative estimates, and would provide firepower for strong capital allocation, an area in which management excels. If APG turns on the M&A and share repurchase engines, the potential return math becomes even more attractive. My commentary from 2020 on the quality of the business and investment thesis remains applicable, and I believe the path to strong returns is more than likely from here. I look forward to sharing more about APG in future letters.

Top Five Positions

Griffon Corp. (GFF)

Discussed above as a new investment.

RCI Hospitality (RICK)

As our largest positive contributor to performance during the year, RICK continues to weather the economic storm by moving over, around and through any barriers put in front of it. On the back of incredibly strong operating results and phenomenal capital allocation, RICK grew revenues and EBITDA by 37% and 44% during the year, at a time when many restaurant and consumer related businesses struggled with elevated costs and reduced demand. Importantly, there seems to be no signs of slowing down as the company makes it no secret that they're in the market for deals, where they believe there is capacity to deploy hundreds of millions of additional capital during the next few years. As one of the most attractive buyers both in terms of industry knowledge and their ability to offer favorable terms such as seller financing, M&A should be a key part of the strategy moving forward.

If it were up to me, RICK would accelerate their nightclub acquisition strategy as the runway for growth remains very long and the historical cash on cash returns have been outstanding. The company's last two large acquisitions were homeruns, and during FY22 they deployed $141mm in capital ($45mm of which was cash) to acquire nearly $30mm in EBITDA from 15 clubs in new and existing markets. Luckily, as management is invested alongside of us, they are way ahead of me in their goal to deploy another

$200mm or so in M&A firepower within the next 12 months, leading to what they believe should be tremendous growth potential.

As a reminder, during periods of share price weakness, management has been more than willing to repurchase stock to complement their M&A strategy. Nearly 3% of shares outstanding were repurchased during FY22 at prices significantly lower than where the share trade today. Despite the strong returns during the year, RICK still trades at a multiple not representative of its quality or growth potential and in line with slower growing, lesser quality restaurant businesses. I think the opportunity set for RICK remains incredibly attractive from here and look forward to seeing what the business can accomplish during 2023.

Basic Fit (BSFFF)

Basic-Fit was the rare situation this year where most of the share price decline was attributed to a self-inflicted wound during the company's Q3 2022 trading update. As part of the update, guidance for FY22 surrounding membership totals, club count, revenues and EBITDA were all reduced, despite no mention of any deviations just two months earlier during their H1 2022 update. Compounding this blunder were the adverse macroeconomic conditions in Europe where high inflation, rising energy costs and consumer weakness caused market participants to panic, while making Basic-Fit's growth plans seem ambitious to say the least. Fearing the worst, Basic-Fit stock became an easy sell, with shares declining nearly 50% from peak to trough.

While I am respectful of the efficiency through which the market can incorporate good or bad news into a company's valuation, Greystone's risk management framework is less concerned with share price movements in a vacuum, and instead attempts to identify potential adverse outcomes to a particular business and underwrite such risks appropriately. As a result, I spent a considerable amount of time speaking with competitors, service providers and former employees, while stress testing my assumptions and re-underwriting my projections for the business. Despite the massive fumble by management, I came away thinking that the long-term investment thesis and competitive positioning of the business has not been impaired. The path from where we are today to our desired outcome will not be a smooth one, but I believe BFIT still contains all the elements of a successful investment.

Basic-Fit survived a rough three years after the onset of COVID, and exited that period with some fresh battle scars, only to face significant energy price hikes due to an ongoing war, massive cost inflation and the possibility of a consumer-weakening recession. Elevated energy costs, rising wages and higher construction costs don't bode well for a capital-intensive gym business, but Basic Fit has a decent amount of flexibility in their cost structure, is pulling levers to improve the model, and has rarely utilized any pricing power until recently updating their membership options during the back half of 2022. Keep in mind that anything negatively affecting Basic-Fit more than likely harms competitors as much or more, and as one of the only operators with continued expansion plans, industry weakness should allow Basic-Fit to grow stronger by absorbing higher percentages of members across their markets over time. Recent data indicates that Basic-Fit is responsible for roughly a staggering 85% of incremental new unit capacity in their core markets over the last twelve months.

Given that this is a unit-economics story, re-underwriting the business involved examining each cost line item and conservatively working through the risks and mitigants within this economic environment. I'd like to briefly outline the major expense categories for BFIT clubs and why I think the perceived near-term risks are overstated.

Energy (3-5% of revenues per club, varying)
Within Basic-Fit's cost structure, energy prices remain the wildcard. Although the company entered into fixed price contracts for energy through the first half of 2023, that will soon expire. However, European natural gas recently touched near a two-year low of €60 euros per megawatt hour, declining to pre-Ukraine War levels. Management estimates prices would have to more than quadruple for them to have a significant impact on a per club basis. I take a more conservative approach and estimate that a doubling of current energy prices per club (from €25k euros to €50k) could negatively impact EBITDA by around 15% during the next 12-18 months. Mitigating this is the large club network in France, where over 50% of Basic-Fit's clubs reside. France has some of the lowest inflation in all of Europe, and the government has effectively capped energy price increases to 15% for 2023. For the remaining clubs, price increases and additional membership share gains would have a similar positive effect on company EBITDA. Basic Fit recently changed their membership structure to focus on selling their premium membership for €29.99 euros/month. The results have been largely positive to date, with 50% of new joiners choosing the premium option, and 32% of the membership base on a premium plan, up from 26% during the middle of 2022. Should their premium membership uptake prove sustainable, the resulting ARPU increases should help offset variability in energy costs.

Wages (16% of revenues per club)
Despite the minimal staffing required per gym, wages are another cost bucket that is set to increase for BFIT, although the company already pays around 8-10% above minimum wages in all their geographies. Should wages continue to rise by 10% per year through 2025, I estimate an 8% impact to EBITDA. The company has been active in reducing labor costs by managing schedules more tightly, eliminating staff on public holidays and using technology to offset the need for locations to be staffed with personnel. The company spent around €50k euros per gym to outfit the buildings with security cameras with the goal of reducing staff to 1 FTE per gym. Competitors tend to staff gyms that are half the size of Basic-Fit clubs with 3-4 employees. The labor efficiency bodes well for Basic-Fit in the event that wages continue to rise.

Rent (15-17% of revenues per club)
Rent is one of the cost items where I've penciled in small increases of 3% per year, with membership pricing mix more than offsetting these increases. There is room for rent costs to decline over time as changes in use habits post-COVID shifted the commercial real estate market in Europe, and BFIT is a preferred tenant able to sign favorable lease deals. In addition, the company can construct a new club in a range of square footage, something competitors can't do, allowing them to be more flexible on locations or outfit an older building to fit a desired location. Competitors such as Anytime Fitness and Pure Gym have also confirmed the emergence of more attractive sites at lower rents than before the pandemic.

Growth Capital Expenditures
Despite the tough industry backdrop and continued delays in obtaining construction permits, BFIT has kept a lid on club construction costs which won't exceed €1.2mm euros during 2023. They've made changes to the equipment mix, leaning toward more popular weightlifting-based machines, helping to put a ceiling on growth capex. Conversations with industry operators indicate that Basic Fit has their expansion plans down to a science, as its incredibly difficult for competitors to manage even 50 new club openings per year, let alone 150-200 gyms. So it would be difficult to imagine the new club construction amount increasing over time and sacrificing the potent unit economics BFIT can capture.

Moving forward, Basic Fit is increasing their marketing spend and ploughing forward on growth during a time when competitors are struggling as there continues to be a significant expansion opportunity given scale and the ample reinvestment runway inside of the efficient operating model. As marketing spend continues to pay off, the blue-sky scenario moving forward involves higher members per mature club than pre-COVID, with stronger membership yields (on the back of premium membership uptake), in which revenue per club could increase by 15-25% higher than management estimates.

Importantly, at any point during their growth in 2024 and beyond, BFIT would be able to pause growth capex, at which point I estimate they would be able to generate between €7-10 euros per share in free cash flow, which they could use to retire a significant portion of the share count. Although the path forward will not be without additional bumps in the road, I remain optimistic regarding what the business can accomplish. As growth inflects, Basic-Fit will be trading for a low single digit multiple of EBITDA looking out a few years and as a category killer with a significant growth runway, superior unit economics and a strong management team, I believe we will be rewarded over time. We have David Polanksy of Immersion Investments to thank for providing useful data during the writing of this position update.

Following the share price decline in November, founder and CEO Rene Moos, invested alongside us as the company's largest shareholder, purchased an additional $3.3mm in shares. I would note Rene's history of open market purchases is strong, having also bottom-ticked the COVID-induced decline. Our interests are very much aligned and I look forward to seeing what Basic-Fit will accomplish during 2023. Notably, our shares in Basic-Fit have increased nearly 30% in the past month.

Currency Exchange International (CURN)

Moving on to Currency Exchange, this boring, yet incredibly profitable business ploughed through 2022 on their way to record operating performance following years of internal initiatives and investments that are now beginning to pay off. CURN was one of our best performing holdings for the year and represented a situation where share price activity actually followed strong business execution.

During the year, Currency Exchange generated a record $66mm in revenues, up 117% from 2021, on the back of strong travel demand and demand for US dollars, exceeding their pre-COVID run rate by 60%. Increases in international travel, market share gains and increased penetration in global banknotes through participation in The Federal Reserve Foreign Bank International Cash Services Program (FBICS) drove the strong results. As one of only three businesses approved for international currency distribution inside of FBICS through their Exchange Bank of Canada, CURN uses this advantage to source cost effective dollars from the Fed as well as win new and larger bank customers within their banknotes segment. I believe CURN can eventually gain a double-digit percentage share of this market on their way to continued growth driving high incremental profitability. Importantly, on the back of significant top line growth, Exchange Bank of Canada generated its first full year of profitability, opening the door for favorable borrowing opportunities from here. Turning to the Payments segment, whose merits deserve more than one sentence, top line growth remains strong, with revenues increasing 61% during the year while reflecting strong operating leverage and driving both diversification and resilience in the business away from banknotes.

The attractiveness of CURN's business model stems from the incredibly high operating leverage whereby incremental increases in banknotes and payments revenue fall significantly to the bottom line, driving massive EBIT expansion as the company grows. As with many of our businesses, CURN focuses on a specific and smaller customer niche, out of the reach of competitors such as Bank of America and Wells Fargo. In addition, the void left by Travelex exiting the banknotes business has created significant whitespace for CURN to not only gain export customers but enter into airport retail locations that Travelex left behind. Fee based agency agreements without the use of leases make the unit economics in large airports very attractive. Furthermore, despite misconceptions regarding the banknotes industry, demand for US dollars continues to strengthen, providing a decent growth runway for CURN in the years ahead.

Layered on top of my optimism for the business are the levers that management can pull on the capital allocation front to drive further value. CURN's market cap is around $120mm USD with $88.5mm in cash on the balance sheet. The majority of this cash serves as inventory located in CURN's vaults and is used for transacting, but I'd estimate there is $30-40mm of excess cash not needed for inventory purposes able to be returned to shareholders or put to use via M&A. Invested alongside us as the largest shareholder, founder and CEO Randolph Pinna should be interested in taking steps to unlock this value by introducing some leverage into the organization to free up some of the cash used for inventory, while thinking about share repurchases or dividends. In October, CURN took the step of hiring a new group CFO, Gerhard Barnard, who seems to understand the task in front of him. A situation where CURN continues to grow, operating leverage and profitability remain strong, and management consistently reduces the share count would help juice returns in a big way. I look forward to seeing what Currency Exchange can accomplish in 2023 and believe there is still room for significant upside from here.

IDT Corp. (IDT)

As another one of our largest detractors from performance this year, my assumptions surrounding the IDT investment thesis had to be rigorously tested in the same vein as Basic-Fit. Re-underwriting my valuation assumptions led to a change in my estimate of fair value to the downside, and I adjusted the position accordingly. As the year went on however, IDT's operating results exceeded all of my newly underwritten projections, and I repurchased a large chunk of the position. Separate from business performance (as you'll see), IDT remains a peel-back-the-onion story that requires analysis of each respective business unit to fully grasp the attractiveness of the opportunity. As capital markets weakness persisted during 2022, the perceived catalyst of a subsidiary spin-off was removed, and IDT stock sold off along with the broad market.

As a reminder, IDT is a telecommunications business that is using cash flows from its legacy calling services known as Traditional Communications to invest in and incubate high-quality, fast-growing subsidiaries with complementary customer profiles. IDT's subsidiaries include Boss Revolution, a Moneygram/Western Union-like digital payment service, Net2Phone, a unified communications as a service business, and National Retail Solutions (NRS), IDT's fast-growing point-of-sale business catering to the fragmented convenience store market. As Traditional Communications continues its persistent top line decline, it will be offset by the growth of Boss Money, Net2Phone and NRS. To date, IDT has been very successful in minimizing the bottom-line impact of Traditional Communications by optimizing their pricing strategies and distribution channels, as well as keeping a tight watch on operating expenses. The goal is to maintain as much cash flow as possible, a mission accomplished thus far, as the last two quarters reflected record consolidated adjusted EBITDA for the business.

In October, IDT reported their FY22 results that would cause one to question the share price decline for the year as the company generated record results in each business segment (with the exception of Traditional Communications, as expected) which drove an adjusted EBITDA increase of 6% to $79.1mm for the year.

BOSS Money remittance revenue increased 16% to $57.5 million with transaction volume increasing 24% to 9.4 million. BOSS Money benefits tremendously from favorable customer acquisition dynamics, able to cross sell money remittance services to Boss Revolution Calling customers, providing an essential service to many families who rely on cross-border payment capabilities. The entrance into new geographies and new partnerships during the year should help keep growth accelerated as new locations are brought online. Despite BOSS Money's growth (revenue also grew 45% YoY in Q1'23), the business is now generating positive adjusted EBITDA for the first time in its history.

Net2Phone reported another outstanding year, growing their award-winning subscription services revenue by 38% to over $53mm, and increasing their customer seat count to over 300,000. Revenue per seat also increased robustly in key markets as Net2Phone focuses on higher value customers and better channel partners. Also, despite its growth and reinvestment opportunities, Net2Phone is currently adjusted EBITDA positive, exceeding my expectations by a few quarters, with management already talking about the short time frame to becoming free cash flow positive. In addition, despite its early stages of growth, the conference-center-as-a-service (CCaaS) business that Net2Phone acquired in 2022 should have the effect of improving the overall value prop and product while increasing ARPU over time.

Keep in mind that Net2Phone is a recurring revenue business with low churn, and since management has proven adept at managing costs, continued top line increases should have a meaningful effect on the bottom line moving forward. As many UCaaS players struggle under the weight of high customer acquisition costs, pricing compression and higher costs of capital, Net2Phone is showing little signs of a slowdown and is in fact finding ways to reduce variable costs, develop new go to market channels and as mentioned, accelerating profitability. It was remarked by some at the IDT annual meeting that the larger UCaaS players should just 'buy us so we can show them how to run their business'. I would agree.

Inflation, higher interest rates, economic slowdown…we just aren't seeing it at NRS. In fact, every IDT earnings call makes me feel like a little kid on Christmas morning unwrapping NRS operating results. NRS remains the crown jewel of IDT, growing at a significant rate and reflecting fundamentals in line with some of the most attractive businesses in public markets. During FY22, NRS reported revenue growth of 129% to $45.3mm on the back of nearly 20,000 POS terminals now installed (20,800 as of Q1'23). In my view, the rapid and sustainable success is due to elements of both IDT's culture and customer base, whereby NRS is self-described as 'not just another POS provider' but rather truly understand the needs of their customers, participates in all their problems, and provide a solution that is unmatched and therefore increases stickiness and dependency over time. Management tentatively expressed their projections for generating around $80mm in revenue for NRS during FY23, and $30mm EBITDA. These figures are growing in excess of 75% and have arrived from a standing start just a few years ago. With IDT hitting a groove in the customer acquisition process and with minimal capital needed to reinvest, NRS will be doing over $100mm in revenues at nearly 40% EBITDA margins within a very short timeframe. I can't be precise in my estimates of what an asset like this should be worth, but I know that IDT's ownership should be worth more than the current share price over time.

In December, IDT's FY22 performance was followed up by an equally strong Q1'23 where growth remains significant, the company generated record quarterly adjusted EBITDA for the second quarter in a row and share repurchases were once again implemented. Despite the tremendous operating results, there are factors weighing on the stock which I discussed in past letters. Illustrating the lack of interest and negative sentiment surrounding microcaps, there was just one fund manager on the Q1 call despite phenomenal operating results and an asset that is unrivaled in public markets available to be purchased for what I view as a pittance.

I previously mentioned my desire to see management repurchase stock following such a large price decline, and they both surprised and rewarded shareholders by repurchasing more stock during the last few quarter than at any point in the past decade. As management is invested alongside us as the largest shareholders, they remain focused on delivering positive operating results for each of their business units and in line with IDT's historical playbook, monetizing them successfully over time. If results keep trending in this direction, we will own our shares for a low single digit multiple of EBITDA. There remains tremendous upside for IDT stock, and should I be wrong about some of the above, I believe we are well protected with a margin of safety consisting of cash flows, a net cash balance sheet, and a sum of the parts with significantly higher value.

Select Position Commentary

eDreams ODIGEO (EDDRF)

Despite the strong recovery in travel and equally strong operating performance, eDreams was one of our worst performers during FY22, declining at one point around 60% from peak to trough, pricing in more difficult times ahead than the COVID related shut down of the entire global economy. eDreams had a very strong year, posting record bookings (10% above pre-COVID numbers), revenue growth of 244% and significant cash EBITDA growth from a loss in FY21. More importantly, Prime, the company's subscription loyalty program tripled its member count from 2021 to reach 2.7mm subscribers (as of H1 '23, Prime subscribers have reached over 3.6mm). Earnings power will continue to grow with the acceleration of Prime growth, the entrance into new markets and the diversification of revenue. As Prime grows along with the increased contribution to total revenue, profitability should increase materially throughout the next few years.

At present, eDreams has doubters in the areas of growth, profitability, and the value of their subscription program. To be fair, analysts jobs are made more difficult with the lack of detailed unit economics disclosed for Prime, including churn. However, with the passage of time, the attractiveness of each Prime cohort in their second year will start to reveal itself and the fundamentals will be impossible to ignore. Management continues to focus on their 2025 targets of 7.25mm Prime members and cash EBITDA of €180mm euros. Should the company reach these targets, I believe shares could more than 4x from the current price.

In December, private equity firm Ardian, through a fund that owned 16% of eDreams shares, sold their position as the fund's life came to an end. The buying firm was an institutional quality investment fund with a focus in hospitality. That, combined with positive travel data emerging has led to our shares in eDreams increasing 50% during the past month.

Polished.com (POL)

It would be difficult to describe our investment in Polished as anything other than a disaster up to this point. Polished was our worst performing position during the year. Other than what has been shared in past letters and separate emails with each of you, there is little else to say at this stage other than sometimes the restatement of financials in conjunction with onboarding a new auditor takes considerable time to complete. I've lived through similar situations in the past that unfortunately were handled much better than the way Polished has navigated this situation during the past 6-7 months. Fortunately, it seems as though the end is near. The board has targeted the end of Q1'23 to file their long awaited 10K for FY22 as well as get current on their past due financials.

Last quarter I talked about the ongoing internal investigation that was being conducted into claims made by former employees. The company released the results of their investigation in December and among other things put to rest any concerns that fraudulent financial activity was taking place. Chief among the findings included CEO Albert Fouerti expensing less than $1.0mm in personal charges to company accounts along with improper inventory management practices that led to some labor related issues. Both Albert and CFO Maria Johnson have stepped down, clearing the way for interim CEO Rick Bunka to move forward in the role, with a very large success fee if a change of control is executed during his tenure. Albert also personally footed the nearly $4.0mm bill for the investigation.

The original thesis for Polished was that we purchased shares in a better than average, highly profitable appliance business that was growing faster than the industry with a runway to continue taking share, but trading at a distressed valuation given its strange path to IPO, microcap status and macroeconomic concerns. The path to a higher valuation consisted of continued growth in revenues and EBITDA which along with internal improvements in distribution and logistics would reveal a consistent 20-30% top line grower, higher than average margin profile and significant cash flow generation. In terms of the adverse macro environment, I estimated that Polished would have the ability to grow even through a downturn with pricing adjustments, continued share gains and a skew toward luxury appliances while leaning on replacement demand. The company was performing in line with this thesis until the investigation was announced. Currently, because we are operating with limited information and the macro environment has worsened, especially the housing market, that may no longer be the case. The range of outcomes here remains a bit wider than I would typically seek, but a return to normalcy would benefit us immensely and I believe 2023 offers that possibility. I remain confident the business is worth more than $0.50/share, especially to a potential acquirer. As always, I remain flexible and willing to change my mind about our investment upon the receipt of new information.

Polished.com Update

In late January, a 13D was filed by 5% shareholder Morgan Dempsey Capital Management, increasing their stake to over 8.0%. An explanatory note was included outlining a case to the board for a strategic review and potential sale of the business. Management and the board responded in a shockingly positive way, claiming they welcome the constructive input of investors, and explaining that 'following the receipt of multiple private expressions of interest in acquiring all or part of the company' they've engaged Jefferies to explore any potential transactions. This was a welcome surprise after the past six months and would at least indicate a path to improved returns is on the horizon. Most importantly, this was the first time in a long time that I've felt management and the board were aligned with shareholders. I will be monitoring the situation closely and will provide any updates as necessary.

Cannabis Related Investments

I mentioned in my Q3 letter that regulatory news would be the main driver of trading activity in cannabis stocks moving forward. Apparently, that was an understatement. A number of things did not bode well for stocks this year, but few sectors suffered as much as cannabis. After significant declines in 2021, cannabis stocks drew down another 70% (as measured by index declines) for a total decline of 88% during the past two years. Capital markets also dried up, and with such a tough operating environment especially for capital intensive retail businesses, I'd imagine we'll see both business distress and consolidation in the near term.

The stock declines are not surprising given the nascent status of the industry and largely retail ownership base. However, the dependence on favorable regulation – which hasn't existed since the industry went into effect – as a driver of share price activity is strange, especially as the industry and certain operators set record levels of revenue during 2022. Legal cannabis sales across the country topped $25 billion during the year, and despite the significant headwinds facing the industry it's clear that the demand picture is here to stay.

As a result of the headwinds described above, I've reduced our exposure to one cannabis company in Cansortium, one of the fastest growing and most profitable businesses in the space. Cansortium is a share-taking operator with levers to pull for value creation and at 2.5x NTM EBITDA, there is limited need for favorable regulation to occur in order to see a positive investment result.

Broad Market Commentary

My take on the macro environment, as always, should prove irrelevant, but if pockets of economic (and investing) success during the last few decades was largely due to the tailwind of declining interest rates providing cheap access to capital, then surely the sharpest rate increases in the Federal Reserve's nearly 110-year history should render the inevitable economic blowback unsurprising. What happens next (can inflation be tamed without entering a recession?) is the million-dollar question, one I'm not equipped to answer with any accuracy.

Zooming out, I don't believe accuracy is required. Greystone wasn't formed with the goal of predicting which way the macroeconomic winds will blow. From here, focusing on what I can control and attempting to tilt the odds in our favor will be the optimal use of my time. The path forward for us remains bottom up, company by company, with fundamentals front and center. Although the timeline is unclear, there will be a point when macro headwinds are removed, and company fundamentals matter again. Independent of the outlook for interest rates and a recession, small company valuations remain incredibly appealing. Valuation discounts can't be ignored forever, and my long-term belief is that share price activity will follow business performance over time.

The way I see it, we can either invest with hopes that the economy can be managed forever, or we can buy high quality companies at fair multiples of normalized earnings, be respectful of the business cycle and accept that there will be bumps along the way. I choose the latter and believe we will be fairly compensated.

Recent Developments

Greystone added two new clients during the quarter with the goal of continuing to add like-minded and patient investors to the firm. I continue to have very productive and meaningful conversations with thoughtful high net worth, family office and institutional investors. Referrals continue to be welcome as well and if you know anyone that might be a good fit for the firm, please feel free to pass along my information. Non-client readers are more than welcome to reach out anytime.

During 2022 we also completed a routine, state compliance examination that concluded in August. The process was lengthy, cumbersome and took a period of a few months whereby state examiners tore through every aspect of the firm during a process I hope we don't repeat for many years. I am proud to say that at both the personal and firm level, no deficiencies were identified, and we passed the compliance exam with flying colors.

Despite the challenging year, I remain incredibly invigorated and optimistic to go to work every day and do my job, which is to find the next set of opportunities that will help drive our performance over the next few years. Thank you as always for the opportunity to manage your hard-earned savings. I hope 2023 is a healthy, happy, and productive year for everyone.

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

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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.*