Greystone Capital Management
Concentrated Value Investing

October 2020

Clients and Friends,

During the third quarter of 2020, returns for separate accounts managed by Greystone Capital ranged from +10.4% to +22.4%. The median account return was +15.8%. 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.

While I would prefer to communicate on a semi-annual or annual basis to avoid the negative aspects of discussing short term performance, I wanted to provide some commentary on a few things including portfolio updates. However, I'd warn against forming any hard conclusions – good or bad – from our quarterly results. I was hoping to get this letter out sooner, but a number of what I believe to be very good investment ideas have come to my attention recently, and I've spent the past month slowly building positions in several new businesses at what I feel are very attractive prices and risk/reward setups. I look forward to disclosing more in my Q4 letter at the end of the year.

Third quarter results compare favorably to the S&P 500 and Russell 2000 returns of +8.9% and +4.9% during the quarter. Because client portfolios are invested in a concentrated way consisting of small companies mostly outside of the major indices, our returns should typically vary from the returns generated from those indices. As of today, we own 0 businesses in the S&P500, and two (recently added) in the Russell 2000.

While Q3 and YTD returns have been favorable – mostly the result of portfolio construction timing and a continued bull market aided by a strong second half of the year recovery period for stocks – there is plenty of time left in the year, with an election approaching and the country still navigating the effects of a global pandemic. In other words, a lot can happen prior to the end of the year. I'm reminded of my many conversations with NBA coaches during my time working in basketball, where there was a shared agreement that the worst feeling in the world was having a large lead heading into the fourth quarter of a game. While short term results for client portfolios will always be unpredictable, I am optimistic about the long term value of each company we own, and won't be using any short term price action as a lever to make investment decisions, only judging our holdings based on business quality, intact theses and operational execution.

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.

Broad Market Commentary

Let's get my always enlightening market commentary out of the way, where the theme remains that I don't know where the market is headed (told you, enlightening). During the first nine months of 2020,

investors witnessed the worst global GDP decline since WWII without entering an actual bear market, and in fact saw the stock market head in the other direction. Despite lofty valuations in some pockets of the market, and some brief multiple compression, there didn't seem to be any real enduring pain. In fact, at the onset of the pandemic, the March 23rd trough for the S&P 500 was still 40% above the prior bull market peak for stocks. What's more, is that the COVID death count has *stopped* falling, more isolations could be necessary, and as school will start soon and colleges welcome students back on campus, that should lead to a large increase in the number of cases. At the same time, retail investors are piling into the market at record numbers, stock splits have made a comeback as a result, and we've seen a record number of SPAC IPOs this year. The above indicates we could be headed for a market correction, but bad news seems to be less important to investors in the current environment.

While everyone – including some very prominent investment managers – seems to have an opinion about where the market is headed, speculative mania, tech bubble 2.0 and lofty valuations, I'd argue that for some, thinking too hard about what makes a good investment has been a liability for quite some time now. A negative picture can always be painted one way or another, but our investment process has never been guided by anything other than bottom up, fundamental research. I don't pretend to have any chance of making a correct 'market call' which is why Greystone doesn't hedge, nor why – despite thinking about it – I haven't sold some of our holdings to generate cash in order to sit on the sidelines through the end of the year. While it's important to pay attention to the macro environment, the companies in your portfolios should benefit in all market environments, regardless of who wins the election, or how fast GDP grows in Q4. The current environment seems to be one of continued low interest rates and massive government spending which should bode well for stocks moving forward. If that isn't the case, you should always know that I will attempt to take advantage of any market volatility and the opportunities it can create.

Portfolio Commentary / Updates

RCI Hospitality Inc. (RICK)

During the third quarter, I increased client positions in RCI Hospitality following positive announcements coupled with better than expected Q2 performance by the company. The increased allocation combined with gains in market value of 80-100% from our original purchase prices has caused RICK to become the largest position in your portfolios. While the possibility of reducing the position from a risk management standpoint occasionally weighs on my mind, we haven't sold a single share as I believe material upside still exists over the next 12-18 months. In addition, I think I'd find it counterproductive to sell a business I like a lot, with material upside available, only to then generate cash to be able to find another business like the one we are currently holding. Despite the price appreciation, RICK remains one of the better bargains in client portfolios as well as among the universe of companies on my watchlist. During 2021, RICK could exceed $200mm in revenues and generate somewhere in the neighborhood of $30-40mm in free cash flow. The current market cap is under $200mm. We are also invested alongside a CEO who has spent his entire career building this business and has a maniacal focus on delivering value to shareholders including himself as the second largest owner of the company. In addition, management has shown the willingness and desire to repurchase large amounts of shares when the opportunity presents itself as well as undergo strategic acquisitions at high cash on cash returns which have to date resulted in material value creation. Both of the aforementioned capital allocation moves were put on hold as the company was focused on moving through COVID-19. Now that it seems the worst is hopefully behind us, I would expect to see buybacks and eventual acquisitions taking place at favorable prices.

Part of the investment thesis for RICK was predicated on an eventual recovery in performance of their nightclub segment due to nationwide COVID-19 closures and restrictions. While RCI spent the majority of the past three to five months operating with a fraction of their venues open at reduced capacity, the business is slated to be fully operational by the end of this month (September 30th), and should see very positive operating results from key markets and locations in New York City, Florida and Texas. It's my belief that locations in New York City and Florida alone are capable of producing company wide EBITDA of $20-30mm on a potentially reduced operating expense run rate and the potential for increased prices from bottle service and cover charges.

Other positive developments include the company's stellar performance of their Bombshells restaurants during a period of time when nearly 1/3rd of US restaurants may not recover from the coronavirus impact. While Bombshells is capable of generating material EBIT as it stands right now, there exists significant option value in the future of this business segment. As of now, the concept has been expanded slowly as RCI tests their core markets, but moving forward there remains the potential for concept/market expansion, franchising, joint venture opportunities with a larger restaurant business, or the potential licensing of the brand name for high margin royalty income. I become even more optimistic about Bombshells when looking at their current comps (even adjusting for pent-up demand and higher than normal COVID traffic) and remembering that their current footprint is 10 restaurants. Ten. This compares to nearly 100 Twin Peaks locations and over 400 Hooters around the country. The potential runway for Bombshells growth is incredibly long.

Rimini Street (RMNI)

Our position in Rimini Street has been essentially flat following our initial purchases nearly two years ago. I've added to the position here and there during periods of share price weakness, and have been watching from the sidelines as the company has improved operations, consistently grown the top line, made key salesforce hires, expanded into global geographies, and cleaned up the balance sheet.

While it's possible that the original reasons for the mispricing still exist – SPAC structure, potential dilution in the form of warrants, low float, legal issue overhang – my attempts to study the software support industry and efforts to learn more about the business leave me feeling as though Rimini Street is a high quality business delivering a huge value proposition, and doing all of the right things from an operational and capital allocation standpoint, meaning its only a matter of time before the market notices and the share price catches up.

It's during times like these – when the scoreboard (a moving stock price) has remained dim – it becomes important to remind myself of Greystone's investment philosophy of long term thinking and multi-year holding periods, even if the trading prices of our positions are visible every day.

When I first started researching Rimini Street, it became clear to me that they were operating in a way that created win-win scenarios for both themselves and their customers. I later learned that this approach can be referred to as creating something called 'non-zero sumness'. The idea is that when a company creates a large amount of value for their customers, which then also creates value for themselves, it ends up creating a large amount of this non-zero sumness. You might think that every business is in the habit of creating as much non-zero sumness as possible, but I'd argue there's a large difference in customer delight between Amazon and Macy's, Wealthfront and Wells Fargo, and Oracle and Rimini Street. In fact, the historical operating environment in the software maintenance industry has, for the largest businesses,

typically been 'I win, you have to deal with it'. This is partly what created the opportunity for disruption by Rimini Street.

So taking that a step further, when a company's main focus is to create a large value proposition for their customers instead of just themselves in the form of say high prices, transaction friction, or locked in contracts, they can create even more positive win-win scenarios. It is precisely this focus on customers that has led Rimini Street to establish their current competitive position where they continue to step over the once-unbreachable moats of large incumbents such as Oracle and SAP. This value add still isn't totally captured on the income statement, but RMNI figured out that the correct way to run their business (after seeing this momentum develop) would be to spend as much as possible acquiring customers, providing excellent support, and widening their reach within the software maintenance and support industry.

These types of investments – damaging to short term results, but part of a long-term strategy – are precisely the types of things I love to see management underwriting, and are business strategies that the market is terrible at incorporating into long-term valuations. Although there remains plenty of dilutive scenarios within the company's capital structure, with a cleaned up balance sheet and nearly 100% recurring revenue, Rimini still trades at a valuation of less than 2x sales despite their top line growth and sticky product. Furthermore, modeling a draconian scenario for the business a few years from now including full dilution of convertible debt/warrants, slowed growth and higher than projected legal spend still gets me to a valuation over 100% higher than the current share price.

RMNI also has leverage within their business to pursue alternative courses of action in order to generate cash flow. I'd estimate even with slowed sales and marketing spend, and with gross margins unchanged from today, RMNI may be able to generate in the neighborhood of $100-150mm in EBIT by 2022. Significant for a company with a fully diluted enterprise value of less than $500mm.

RMNI was able to report very good results during the second quarter, with revenue growth of 12%, active customer count up 13%, and first half of the year free cash flow of around $44mm. This was all on the back of a 26% increase in operating expenses driven by higher sales and marketing spend, higher SG&A and lower litigation refunds received than in 2019. As RMNI continues to beef up their sales force (there were an additional nine hires made in the quarter), the company should see an inflection point where fully ramped sales capacity begins to show up on the income statement as increased revenue and bookings. There is quite a long onboarding and sales cycle for both new hires getting to full production as well as when Rimini enters a new geography where management estimates a nearly two year period before additional meaningful revenue starts to show up following new sales hires and additional business wins. As a result, Rimini has outlined a target of 100 sales hires by the end of 2020, and seems to be making steady progress. Management talks a lot about their multi-year view on things as well as what the business could look like in as far away as 2025. This is music to my ears as I feel as though management and the board have adopted a long-term strategy centered around doing what's necessary to create positive business results over many years.

RMNI is on track to generate around $65mm in free cash flow this year, which would put the company valuation at under 8.0x free cash flow (using a fully diluted enterprise value and elevated legal cost assumptions). That seems like a fairly low multiple given high teens revenue and customer growth, intentionally elevated sales and marketing spend depressing GAAP earnings, and a cleaned up balance sheet. A look at the share price performance may reveal one thing, but a look at the business performance reveals another, more positive thing. I prefer to focus on the latter, as the share price will eventually catch up to the operating results.

Of note, RMNI issued a decent chunk of equity in August – seemingly out of nowhere – which the market did not like, sending the shares down significantly following the announcement. My understanding is that with nearly $50mm cash on the balance sheet, the raise, at a low valuation for nearly $30mm, will be utilized to take out the company's preferred stock. If that happens it will only serve to simplify the story and clean up the capital structure.

Crawford United (CRAWA)

During the quarter, we sold out of our position in Crawford United for a small gain shortly after talking up the merits of the investment and the management team in our prior letter. Our reason for the sale was two-fold. One, similar to our in-and-out investment in MiX Telematics, I did not want to have exposure to a business where one of their largest segments is cyclical and was hit hard during the coronavirus pandemic. The second reason was opportunity cost. I believe there are better ways to allocate the capital into businesses that offer higher upside and more favorable risk/reward situations. It's possible that I'm being short sighted but I believe it was the correct decision to make. I will look forward to following the business and revisiting owning shares at a lower price should the opportunity present itself.

New and New(ish) Investments

Research Solutions Inc. (RSSS)

Client portfolios now hold 1.5-3% positions in Research Solutions Corp. which is a business I've owned on and off for the past four years. My initial research analysis which can be found here remains nearly the same, and as the company has continued to execute very strongly on the growth of their software document distribution platform, we were able to take advantage of share price volatility due to both COVID-19 declines as well as what I believe to be some forced selling among some of the company's largest shareholders.

The reason for the small position weighting is a combination of significant share price appreciation from our initial purchases years ago, as well as some execution risks that I'd like to see smooth out over time before increasing the size of our holding.

Power REIT (PW)

I spent a good chunk of the quarter doing a 'deep dive' on REITs as a potential investment opportunity for Greystone. I came away with the understanding that REITs can have their place within a concentrated portfolio but like most of our investments, ownership would have to be predicated on the right situation with material upside existing outside of just dividend income and inflation-like growth in rental income or capital appreciation.

The most well-run REITs with the best property types and locations typically trade above their net asset value (NAV) and can be difficult to purchase at a discount. Occasionally special situations arise, of which I found 2-3 during the quarter and subsequently purchased one for client accounts. Clients now own Power REIT (PW), a specialized REIT with legacy ownership in railroads and solar farm assets, now focused on the acquisition and ownership of Controlled Environment Agriculture (CEA) properties for use by growers and manufacturers of cannabis. This is an interesting area of property ownership that is ripe for growth as nearly all operators within the industry lack access to traditional sources of capital given the perceived

risks surrounding their industry and main crop. This is where PW comes in, serving as a landlord and renovation / construction financing arm for cannabis businesses. To date, Power REIT has acquired ten properties totaling nearly 200,000 sq. feet in the past two years alone. These acquisitions combined with their legacy assets should generate core FFO per share of nearly $2.00 for FY2021, with a large acquisition pipeline in place set to further boost earnings moving forward.

Like most microcaps, Power REIT comes with an embedded discount due to its small size, lack of analyst coverage, and until recently limited investor relations efforts. However, given their phenomenal performance during the past year, massive secular tailwinds, and limited competition, its only a matter of time before continued execution drives the share price higher as the market digest the story and fundamentals. PW currently trades at less than 10x core FFO, a below market multiple, and even cheaper compared to their only publicly traded competitor – Innovative Industrial Properties – which trades at more than 30x core FFO.

I've had numerous conversations with CEO David Lesser, who I believe is the right person to be running this business and someone who understands the opportunity in front of him. I like how he thinks about capital allocation, and I came away from our conversations and from my research thinking that PW is in the early stages of growth and the business could potentially be worth multiples of the current price.

Please see the Appendix at the end of this letter for a more detailed analysis.

Our positive performance this quarter benefited clients who made the smart – and sometimes unprompted – decision to add to their accounts during Q1 and Q2, realizing the opportunity set that was in front of us (or just getting tired of hearing me pound the table). What a remarkable advantage to have clients who not only understand what we are trying to accomplish, but who also believe in the approach and place their support behind Greystone in the form of adding to their hard earned savings. Our small firm is growing, and is now anything but an anonymous group of clients as we are made up of immediate family, best friends, college buddies and wedding guests, among others. I take very seriously the responsibility of managing your money and appreciate the privilege of being able to do so.

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

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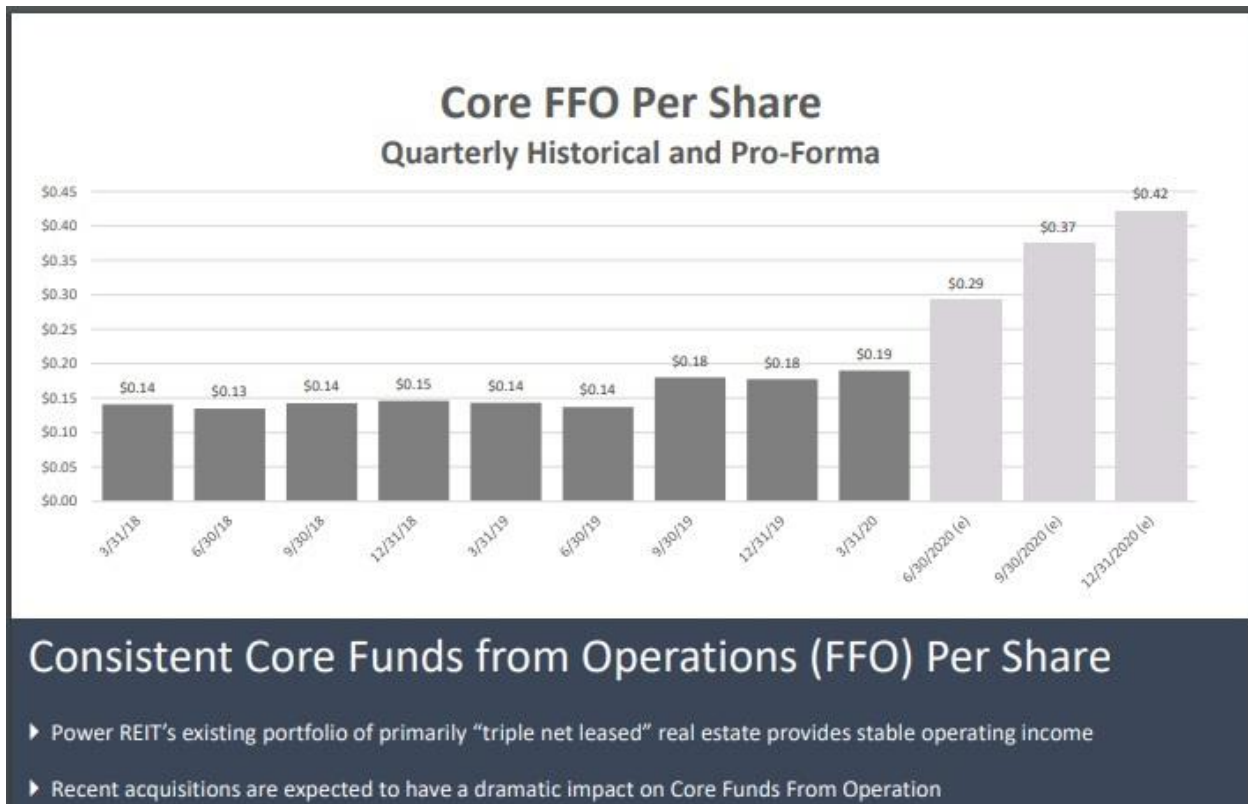
Disclaimer: *Past performance is no guarantee of future results. Investing involves risks which clients should be prepared to bear, including but not limited to partial or complete loss of principal originally invested. Investing in small and microcap companies can result in additional volatility and 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.*

Appendix I: Power REIT (PW)

Power REIT is a real estate investment trust that owns real estate related to infrastructure assets including properties for Controlled Environment Agriculture (CEA or greenhouses), Renewable Energy and Transportation. PW was founded in the 1960s to acquire railroad assets (more below) in agreement with a 99 year(!) lease with no modification or escalation options. In addition to PW's newly acquired greenhouse operations, they also own a portfolio of real estate related to solar energy. In short, the current portfolio consists of six greenhouse facilities, seven solar farm ground leases, and 112 miles of railroad. PW's legacy assets consist of railroad track located in the Marcellus Shale territory leased to Norfolk Southern as well as 600 acres of land leased to utility scale solar farms. These legacy assets generate around $2.0mm in rental income (on triple net leases) per year, or around $0.15-0.19 in core FFO. While PW trades at a very high valuation taking into account just the core FFO from legacy assets, the legacy properties have provided a stable base of operating results over the past few years and provide some downside protection (although minimal).



The company's new business strategy is where things get interesting, and takes PW from a no-growth microcap REIT receiving below market rents with no way out of their current lease terms to a high growth acquirer of cannabis assets set to increase FFO into the foreseeable future. Chairman and CEO David Lesser (owns, 20%+, more below) started buying shares in PW over a decade ago and began acquiring land underneath solar farms as a way to try and transform the business. He has now pivoted to the cannabis space, and in 2019 launched a new business plan focused on acquiring CEA – or greenhouse – real estate to participate in the growth of the cannabis industry and the need for indoor growing facilities. Since implementing this strategy, PW has acquired 26 acres of land with 130,840 sf. of greenhouse/processing space for medical cannabis cultivation (in place and under construction). PW now

owns five properties related to CEA agriculture generating over $2.4mm in annual rental income, and these leases as well as new acquisitions are poised to grow FFO at 20%+ for the next few years. One recent acquisition for example led to FFO growth of over 30%, and since the first acquisition in 2019, core FFO has grown from $0.14 in the second quarter of 2019 to $0.29 in the second quarter of 2020, or 107%.

Core FFO Assumptions (Historical and Pro-Forma)

all data as of 5/15/2020 unless otherwise indicated

Core Funds From Operations	2017A	*2018A*	Q1 2019A	Q2 2019E	Q3 2019	*Q4 2019E*	2019E(1)	Q1 2020E	Q2 2020E	Q3 2020E	Q4 2020E	2020E (2)	2021E (3)
FFO -Existing	$ 1,027,099	$ 1,043,633					$1,173,958	$ 258,842	$ 258,842	$ 258,842	$ 258,842	$1,035,366	$1,035,366
Incremental FFO - Tamarack 18	-	-						*50,450*	*50,450*	*50,450*	*50,450*	201,800	132,906
Incremental FFO - Maverick 1	-	-						*32,350*	*32,350*	*32,350*	*32,350*	129,400	207,259
Incremental FFO - Maverick 1 Exp.								41,159	41,159	41,159	41,159	164,634	164,634
Incremental FFO - Maverick Lot 14								59,077	88,615	88,615	88,615	324,923	354,461
Incremental FFO - Sherman Lot 6								57,635	86,452	86,452	86,452	259,356	345,808
Incremental FFO - Maverick Lot 5								-	48,332	48,332	48,332	144,995	193,326
Incremental FFO - Maverick Lot 5 Exp.									10,570	15,854	15,854	42,278	63,417
Incremental FFO - Sweet Dirt									114,981	229,962	229,962	574,906	919,849
Incremental FFO - Misc									-	45,481	136,442	181,923	727,692
Interest Income								30,000	10,000	-	-	40,000	
Interest Expense on PW PWV Financing								(179,750)	(179,750)	(179,750)	(179,750)	(719,000)	(713,000)
Total/Pro Forma FFO	$ 1,027,099	$ 1,043,633	*$ 267,927*	$246,243	$334,055	*$ 334,768*	$1,173,958	$ 349,762	$ 561,999	$ 717,746	$ 808,707	$2,380,580	$3,431,718
FFO Per Share	$ 0.56	$ 0.56	*$ 0.14*	$ 0.13	$ 0.18	*$ 0.18*	$ 0.62	$ 0.19	$ 0.29	$ 0.37	$ 0.42	$ 1.24	$ 1.79
Implied Growth (comp. period)							11.6%	29.5%	122.4%	111.1%	137.4%	99.2%	44.2%
												Per Quarter	$ 0.45

Notes:
Assumes balance of cash available for investment equally over Q3/Q4 at a 12.5% overall yield
Assumes no other capital raise or deployment

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The acquisition economics and lease terms for acquired CEA assets have been phenomenal so far, which can be attributed in part to the lack of traditional capital and banking services available to cannabis retailers, operators and growers. For cannabis assets, PW structures their leases as triple net, with a six-month rent-free deferral period followed by a 36-month full return of capital amortized monthly via rent payments. So after 42 months PW will have recovered their entire investment, at which point the rent structure switches to a 12.5% return on their original capital invested, increasing 3% per year. Should marijuana become legal in all 50 states, the post 42-month rent will be adjusted down to reflect a 9% return on original capital invested, still increasing at 3% per year. It would be fair to wonder if these rates will be sustainable, but according to management, all of their tenants are thrilled with the arrangement, and competition remains virtually non-existent. As someone with a short background / contacts in commercial lending, I can tell you that the traditional banking industry is nowhere close to lending to these types of businesses. They won’t even begin to underwrite the deals.

To give a quick example of a recent acquisition, PW acquired ‘Sweet Dirt’ (now their largest cannabis tenant in terms of rental income) in May 2020. PW invested $4.9mm to acquire the property in Eliot, Maine including add-ons and construction extensions. They entered into a 20-year triple net lease with the tenant at the terms stated above, and are now collecting $919k in annual rent, driving an 18% FFO yield. They will have recovered their initial investment 42 months from May. Not bad. Moving forward, if

PW can deploy additional capital at scale they should be able to add a few million in incremental FFO over the next few years.

Speaking more to lease terms, according to management there is a ton of capital flowing into indoor growing facilities right now. Indoor growth facilities cost the same or more to construct than outdoor facilities but are more expensive to maintain. While the economics of your typical greenhouse aren't great (AeroFarms for example has the largest 'vertical farm' in the world in terms of annual capacity producing over 2 million lbs. of greens per year at a cost of around $3.00/lb. at maybe 40-45% gross margin), cannabis growers realize selling prices much higher than say a head of lettuce. Again, with similar cost to build both indoor growing facilities and greenhouses, but with greenhouses costing less to operate (and where you have tenants selling a much more expensive product), some of those higher sale prices can be 'passed along' to your landlord in the form of higher rent. Add in the fact that there are few other providers of capital and you wind up getting the terms that PW does on their acquisitions and leases.

In short, we've got a REIT operating in an industry with limited competition/capital, forecasting 20%+ growth rates over the next 2+ years, with an even larger pipeline of opportunities, being run by a manager who owns 23% of the shares and treats those shares as valuable currency. Not a bad setup.

Industry

Power REIT's strategy shift comes on the back of explosive growth seen throughout the cannabis industry in all sectors. I'm not going to argue the use cases or benefits of medical marijuana, but it's clear that the industry is here to stay. As of today, 74% of the US population has legal access to marijuana, and recreational / medicinal marijuana sectors are expected to grow in the low to high teens through 2025 to a $12.5 billion dollar industry size. While industry growth is still hampered by state and local regulations (as well as financial; and as a side note there is an enormous opportunity lying in wait for banks / credit unions / traditional finance as soon as the stigma wears off) total legal sales of marijuana are expected to reach the $25-30mm range by 2023, with recreational demand even higher. I don't have much insight right now into regulations surrounding growing facilities (permits, licenses etc.), nor what more supply will do to pricing throughout the industry, but as growers expand and new capacity is built, industry participants will need land and sustainable places to grow.

Management

Chairman and CEO David Lesser (25 years in investment and real estate experience) started buying stock in PW ten years ago and wanted to use his share ownership to try and transform the business from a no-growth REIT into something different. Shortly after PW started acquiring land beneath solar farms in the energy space, they then pivoted into the cannabis space.

David currently believes the acquisition opportunity is multiples of the company's current market cap, and investor materials point to a $250mm acquisition pipeline in various stages of negotiation. I've spoken with David Lesser and came away impressed. I really like how he's thinking about running his business as well as his thoughts surrounding the current opportunity set. It's clear that PW is in the early stages of sizeable potential growth. As mentioned above, the future of the business will come down to their ability to raise capital and lower their overall cost of capital. PW is acquiring and funding expansions for small, upstart types of cannabis growers. While I don't believe this is necessarily risky, these businesses currently don't have other options for capital other than at loan shark type rates, driving up their cost of capital. It's a tough industry to try and raise money, even for PW. Management has explained that it's kind of a

blessing and a curse as cannabis is driving the opportunity set but also limits access to financing. I found it very comforting however that management has shown an unwillingness to issue stock given their valuation and growth rates. Decent financing options have been so hard to come by that PW has even tried crowdfunding. As mentioned above, PW has several term sheets out right now (multiples of what they currently own is what I was told) and the pipeline is pretty significant moving forward.

Of note, David Lesser has experience in the publicly traded REIT space, having sponsored the merger of two real estate firms in 1997 – through his investment firm Hudson Bay Partners – into a small cap REIT called Keystone Property Trust. Keystone grew through acquisitions using stock and secondary offerings and was ultimately acquired by Prologis in 2004 for a total EV of $1.5 billion, representing a 20% IRR over that time period.

Moving forward, it seems as though PW is now focused on IR efforts and strategic investor outreach.

Valuation

PW management is guiding for $1.80 in FFO for FY21. That would value the shares at 13.3x FFO, below it's closest peer Innovative Industrial Properties (IIPR). Although PW would deservedly require a discount given the lack of operating history, float and the fact that it is a microcap, if management can continue to acquire properties at favorable cap rates w/ high earnings yields, the shares should trade north of 20x FFO.

Long-term fixed rate bonds in the amount of $15.5mm were issued in late 2019 in order to bolster the acquisition war-chest, and if the runway for acquisitions is long enough and management can deploy the capital wisely, they should be able to grow FFO at high rates moving forward. If their biggest problem is lack of access to capital as opposed to competition or some operational issues, I'd like to think that they can remedy the situation favorably somehow.

Using the above acquisition example of Sweet Dirt (as well as the acquisition of another CEA property, Maverick), if PW is able to deploy even half of the $15.5mm at similar cap rates / yields / rates of return, they would be able to add an additional few million in incremental FFO over the next few years. This is not insignificant for a business that did just north of $2.0mm in revenue during 2019. In addition, the long-term nature of the debt / bonds, long-term leases from both CEA properties and legacy leases, and gross book value of the properties (around $35mm) provides some margin of safety at current prices.

This isn't a business that warrants a large position sizing at this stage, but a 1-3% weighting seems appropriate to participate in the capital allocation story and monitor the execution of the strategy moving forward. If investing in microcaps is more about management execution than valuation (it is), than this will be a very interesting story to monitor. I'm assigning zero upside to any indoor agriculture trends the company is able to take advantage of in the coming years. There is nothing material taking place at this stage, but consider those somewhat free options.

Risks / Mitigants

- **PW is just acquiring sub-par assets at high cap rates** – I'd spend some time reading about the recent acquisitions, the businesses behind them and the importance of the facilities to the neighboring towns / states

- **Legalization is somewhat of a risk.** Obviously when all marijuana related businesses are safe to operate in each state there will be tons of competition as well as a flow of capital into the industry. PW will no longer be the buyer of choice. As a result, PW has negotiated into all of their deals a decrease in rental income should marijuana become legal. David said they are interested in building long term relationships with their tenants and did that as a courtesy. Said that their tenants were very surprised and happy about that.
- **Need to rely on capital markets to grow** – discussed above, a big hurdle
- **Acquisition based model moving forward** – have to continue to pay favorable prices. So far, results have been very good
- **Short operating history in cannabis** – industry set to grow favorably moving forward and PW is one step removed as a landlord
- **Lack of deal flow** – doesn't seem to be a concern according to management
- **Competition** – almost non-existent at this stage given the industry stigma
- **Lease rates dropping due to increased supply / banking regulation changes** – hasn't happened yet
- **Tenant Concentration** – depend heavily on one large cannabis tenant and their legacy properties – legacy assets provide some protection with long-term leases and tenants should diversify over time