Q1 / April 2022

Clients and Friends,

During the first quarter of 2022, returns for separate accounts managed by Greystone Capital ranged from -6.4% to -17.9%. The median account return was -12.7%, 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.

First quarter results compare unfavorably to the S&P 500 and Russell 2000 returns of -4.6% and -7.5%. 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. While we had a strong start to the quarter, the market selloff that began in Q4 2021 continued through March, dragging many of our holdings down with it. I am disappointed with our performance, and despite volatility being a necessary part of earning good returns, I painfully felt every percentage point decrease along with you as my own capital remains invested in the firm.

During periods such as this, I tend to look inward, then outward, first in the mirror, at my decision making and investment process, and second, for company level deterioration including missed earnings, declining revenue, management abandoning strategic plans, pessimistic attitudes or a changing competitive landscape. While I won't get every decision right, nothing seems to be 'off', as our process is intact, my investment criteria isn't being loosened, and strict risk management controls remain in place in the form of checklists and stress tests. More importantly, the operational results being reported by each one of our businesses remain very strong if not better than ever. As a reminder, we do not own any COVID beneficiaries (where the benefits will not continue to accrue), unprofitable technology growth businesses, or companies trading at ridiculously elevated valuations set to be hurt in a rising rate environment.

Calibrating the above against the macro environment and investor sentiment, there is clearly a significant amount of fear sweeping through the broad market surrounding the risks of rising interest rates, inflation, continued supply chain issues and most recently war in Ukraine. Some of these fears may materialize into continued negative prospects for equity returns, while some will prove irrelevant. As I've said before, pick a period in history and you'll be granted a corresponding set of concerns.

We are not immune to bad things happening and every decision I make won't be the correct one. However, I am not as worried as we are being encouraged to be. I know what we own and have strong reasons to believe that our businesses will be worth far more than what we paid, setting us up for favorable returns over time. We own well-run businesses that are profitable, generate cash, are growing, and trade at cheap valuations. We've invested alongside many owner-operators, strong brands, and management teams with smart capital allocation prowess. Owning businesses like these – whether their share prices go up and down over time – is key to my strategy and should help us to avoid losing money.

So how do we navigate this environment? I believe prudently. Now is not the time to swing for the fences. Although there are pockets of the market creating the desire to be full-on greedy and many of the bargain prices we paid for some our holdings have now become clearance sales, I am doing my best to avoid

swimming against the current. As a result, I've been carefully adding to select investments while maintaining a strict focus on downside protection for new ideas. As always, I continue to stress-test all assumptions and should evidence support the need to trim or sell any of our holdings, I will take action immediately. In my view, the best thing I can do during periods like this is to stay level-headed, control what I can control, and use these opportunities to make both the firm and our portfolios more resilient.

Portfolio Commentary

It would be safe to say that the market is valuing our businesses much differently than I am. Investors have all but shunned businesses with strong competitive positions, growing revenues, and free cash flow, while placing little weight on value-accretive management actions as macro factors seem to be dominating both the narrative and price action. Broadly speaking, small caps are trading as if every business will suffer equally in the event of inflation, stagflation, war, recession, or rising rates. As I constantly strive to figure out where I might be wrong, I can also point to the market's long history of over-extrapolating both good and bad news. Although it's painful to be on the wrong side of these over-extrapolations, these same overreactions present the very opportunities for long-term outperformance we are seeking. That last point is important, because while we might not be able to prevent nasty market selloffs from occurring, it's my job to be mentally prepared for them and have a structure that allows us to withstand these drawdowns and keep moving forward.

My preferred antidote is to continue wearing my ***business owner's*** hat, the one that reminds me of our preferred multi-year investment horizon, as opposed to those who may sound prophetical in the moment, but rarely think or operate beyond short-term measures. This simplified attitude helps focus my mind on long-term earnings power and business value above anything else.

In that vein, we had a number of investments report record quarterly results over the past few months, indicating at the very least that the business cases and investment theses remain intact, with few readily apparent signs of slowing down despite the current macro environment. Our businesses have no direct exposure to the price of oil or geographic ties to Ukraine, nor do they have plans to access debt or equity markets to fund growth for which the runways remain long. Strong business execution and the continued removal of downside risk with share price activity that doesn't match can be a good recipe for strong returns. Leaving aside the possibility for a prolonged market drawdown from here, I remain optimistic about how our businesses will look within a few years.

Position Updates

Houghton Mifflin Harcourt (HMHC)

In my Q4 2021 letter, I outlined a news story about Houghton Mifflin potentially exploring a sale following a leaked rumor indicating that private equity groups were circling. The story turned out to be more than a rumor as a few weeks later Veritas Capital submitted a tender offer to acquire HMHC for $21/share or $2.8 billion. The final offer grossly undervalues the business, and a flawed, poorly timed sale process led to Veritas being able to acquire the business for less than 7x free cash flow looking a few years out. As a reminder, HMHC was at a major inflection point set to see their billings growth and digital recurring revenue explode consistent with a large industry shift to digital education tools alongside massive tailwinds provided by COVID and the federal government.

This is the second time since inception that we've been subject to a top five position being taken out via tender offer prematurely (At Home Group was acquired during 2021) as growth is set to inflect, and in a manner not conducive to having shareholders best interests in mind. Enough ink has been spilled on the merits of the tender, including here, here and here, so I won't rehash the details, but my expectation is that this will keep happening from time to time as there is a significant amount of private equity dry powder on the sidelines, it's very hard to be a public company management team, and the cost of capital for public companies remains low, allowing PE firms to lever up a transaction with minimal equity issued. I applaud the funds who took action against such a lowball offer. As for us, I've begun allocating the capital from HMHC to one new position outlined below as well as a smaller, housing-related position that I look forward to disclosing in future letters.

1847 Goedeker (GOED)

In March, Goedeker reported very strong Q4 and FY21 results where revenues grew 32%, both gross margins and EBITDA margins came in higher than expected, and despite an incredibly challenging environment for all retailers, GOED grew faster than any industry peer while outlining levers to pull for sustained performance of this kind. Furthermore, GOED provided FY22 guidance of high-teens to low-twenties percentage revenue growth and flat margins despite the headwinds of freight costs, inventory availability and increasing personnel costs. Despite these phenomenal developments, shares trade *below* the price they were prior to the results being reported. Should this persist, and if GOED continues to execute in line with their guidance, the company's valuation – as a fast growing, asset light, high return on capital e-commerce business – will fall below 3x EBITDA. This is all before the buildout of the company's two new fulfillment centers (designed to increase conversion and provide margin uplifts), a normalization of the supply chain (to bolster inventory availability), and any execution of the recently announced $25mm buyback (which if executed in full could retire 15% of shares outstanding and be massively accretive).

The recent developments and subsequent valuation have left me confused, and I've voiced my concerns to management along with other larger shareholders about making sure this business development story is being told properly. I think very highly of CEO Albert Fouerti who has proven to be an excellent operator, but there is much lacking in the capital markets and investor relations side of things. While I believe our concerns are appreciated by the management team, its my aim to stay in their ear until things begin to correct and some of the low-hanging fruit is addressed. Goedeker has made tremendous strides in a short period of time in areas such as the c-suite and has navigated this difficult time period for retailers very well. However, communication with investors should be polished, sell side relationships should be explored and the company needs to (and will) treat their share repurchase program with the utmost seriousness. The market is currently not believing, but the opportunity for GOED remains massive and I'm optimistic we will be rewarded over time.

New Position

Currency Exchange International (CURN / CXI.TO)

During my time working for the Spurs, I was lucky enough to spend considerable hours learning from some of the best talent evaluators in the business, who taught me to search for things in players that others didn't care about or wouldn't see. Because the Spurs regularly won a lot of regular season games, they tended to receive draft picks toward the end of the 1st and 2nd rounds. For those not familiar, players selected toward the back end of each round are typically not All-Star caliber. As a result, we made it a point during scouting evaluations to highlight lesser-known skills or intangibles in the pursuit of an impact

player. There was a phrase for players who were less skilled overall but played hard or made an impact in other ways, consisting of 'he plays bigger than he is'. This implied that the player's effort level and impact made on the floor outshined his actual skillset or physical abilities. 'Punching above his weight' would be the boxing equivalent for our non-basketball fans.

In the case of Currency Exchange, I'm convinced that both the company and management are punching above their weight by quietly attacking a number of profitable initiatives while operating in a forward-thinking manner set to capture several highly attractive opportunities. I'm partial to management teams that 'play bigger than they are' and I believe we've found one such group.

One element of my research process consists of 'spending a year' with a company early on in my due diligence. This involves examining how the business results unfold over time, and what a typical year might look like from start to finish. In the case of Currency Exchange, I spent a few. Typical with microcaps, few seem to be paying attention, but CURN's efforts began long before our involvement as shareholders. While toiling away in obscurity for the past decade, management's clear strategic vision about what they wanted to accomplish has started to unfold and to date CURN has nailed every operational and strategic target they've laid out. For a business somewhat tied to international travel, COVID provided a large step back, but the business emerged stronger than ever and in my view is at a major inflection point as of this year. The Currency Exchange business model has a few moving pieces, which in my view is partly why the mispricing exists.

Currency Exchange is a provider of foreign currency exchange services in North America, with several adjacent business lines in addition to their core. Currency exchange 'provider' comprises several things, but the majority of revenue today comes from selling foreign banknotes. Selling banknotes takes place through the company's retail and wholesale channels, and there is also an international payments business, an online FX service for home currency delivery, and a retail business within airports that CURN has entered into via agency agreements with existing providers. For those less familiar, think of CURN's banknotes business as the exchange of US dollars for foreign banknotes (or vice versa), where customers pay a small fee to undergo the transaction. The payments business also offers transaction-based check cashing, wire transfers and FX forward transactions, mainly for import/export activity.

Revenue segments are currently broken out into Commission Revenue and Fee Income, but I believe it makes more sense to look at CURN through their **Banknotes** segment and **Payments** segment. Banknotes comprises retail and wholesale transactions, the airport agency business, and Online FX, while Payments consists of the company's international payments business with financial institution customers.

Within banknotes, as mentioned, there are two main customer types, retail and wholesale. On the retail side CXI operates 36 storefronts in high tourist traffic locations like New York City and shopping malls in parts of Florida. The wholesale business supplies banks and third-party FX retailers with currency to sell through their branch locations. Retail transactions involve the individual customer, where CURN serves as a net buyer of foreign currency, making a decent margin on each transaction. Wholesale transactions involve CURN acting as a net seller of currency to meet the physical FX demands for bulk banknote trading. While the retail business sports higher margins, the wholesale business has much greater scale, higher transaction volumes and can be expanded at a greater pace. CURN earns a profit on the spread between the spot purchase price of the currency and their final sale price. CURN also competes on things like service and compliance, two areas in which they excel.

An examination of historical financials wouldn't reveal much to get excited about, especially as EBITDA and margins have failed to increase along with revenue growth. This is both misleading and intentional. Instead of issues relating to an unprofitable business model or competitive dynamics, CURN spent the past decade building out their banknotes, payments, and software infrastructure, while navigating the regulatory environment on their way to becoming a stronger, more profitable business. Today, CURN has a competitively advantaged and proprietary software platform, a Schedule 1 Canadian bank charter and a number of adjacent revenue generating opportunities that are inflecting as we speak.

While CURN is somewhat levered to international travel as well as economic activity through their payments segment, efforts to diversify the business away from banknotes have been largely successful and proven beneficial as payments revenue GREW during the pandemic while payments revenues as a percentage of total revenues grew from 7% in 2019 to over 20% today. With relatively low fixed costs, 'scale' in the payments business is said to be above $10mm in annual revenues, the current run rate, where incremental EBIT margins come in at 30-40%. Payments have been growing in excess of 30% for the past few years. Inherent in this business in both banknotes and payments is an incredible amount of operating leverage which has just begun to reveal itself following years of the aforementioned reinvestment in building out core and additional services and navigating the regulatory environment.

That last point is important, as the most significant part of this story took place in 2012, when Currency Exchange applied for a Canadian bank charter through their Exchange Bank of Canada (ECB) subsidiary in order to become a 'banker's bank'. The importance of being granted a Schedule 1 bank charter cannot be overstated, as it affords the company numerous advantages, including being able to bank with central banks (through the Federal Reserve Foreign Bank International Cash Services Program) in order to source US dollar cost effectively, reducing collateral obligations and enhancing existing bank relationships. Furthermore, the charter being granted serves as a huge competitive barrier (CURN is one of now three banks approved for international distribution through the FED program) and will ignite the operating leverage within the business. With the costs to obtain this license along with the required infrastructure behind them, I expect CURN to both win much larger customers and experience significant cost savings moving forward. It's estimated that incremental banknotes revenues from here should provide 50% EBIT contribution margins. Normalized international travel, combined with CURN's other initiatives means it wouldn't be hard to see the banknotes business significantly exceeding pre-COVID levels this year and beyond.

The management team has roots in foreign exchange dating back to the late '80s, when current CEO Randolph Pinna founded Foreign Currency Exchange (FCE), the predecessor to CURN. Foreign Currency Exchange was eventually acquired by the Bank of Ireland, where Mr. Pinna continued growing the business until 2007. The Bank of Ireland, under stress from the financial crisis, started selling off assets, at which point Mr. Pinna bought back a number of forex retail locations and established the current version of Currency Exchange International. During the subsequent few years, the early version of CURN developed a proprietary software platform called CEIFX, used to enhance the trading of currencies and other travel related aids for both retail locations and bank branches. In addition to their bank charter, this is one of CURN's most significant competitive differentiators and an asset for which I don't believe they are getting credit, given its built-in and difficult-to-replicate compliance system. CURN's compliance verification system (CVS) has allowed them to win a large number of bank customers as heavily regulated financial institutions feel safer working with all compliance checks in place and a company with a history of strong compliance practices. The software can be plugged directly into most banks enterprise resource planning systems (ERPs), leading to faster, more secure and more efficient foreign currency management. This has led to significant growth in financial institution customers, and during 2019 and 2021 CURN

entered into partnership agreements to integrate their software with Fiserv and Jack Henry's core bank processing systems. These integrations significantly increase the addressable market for CURN by over 1,000 potential bank customers.

The North American foreign exchange market has two major entities, Bank of America and Wells Fargo, and until recently, two lesser players, Travelex and Currency Exchange. As Travelex recently filed for bankruptcy while exiting the Americas, the door has been opened for CURN to capture a significant amount of market share on the retail side and continue growing their agency relationships at high traffic airports, something that should prove massively profitable over time (think of using high traffic airport locations as a partner without the associated rent and payroll costs). In addition to CURN's software advantages, foreign banknotes sourcing has incredibly high barriers to entry with high returns on capital and limited risk from currency movements. Scaled players should be able to generate EBITDA margins of around 25%, and there has been significant interest in the space from private equity over the years. With advantages in both service and technology, CURN will be able to continue taking market share on the back of deploying their proprietary software platform, growing their financial institution customers, and expanding their transacting locations. As a sanity test for market share gains, revenue growth since 2014 has come in at a 21% CAGR in a low to-no growth industry, helping this sleepy microcap become the largest nonbank distributor of foreign exchange in the U.S. and Canada.

CURN is led by Founder and CEO Randolph Pinna, an industry operator for multiple decades who seems to eat, sleep, and breath his business. This would make sense as he is the company's largest shareholder who owns around $20 million in stock. Mr. Pinna has seen multiple iterations of the foreign exchange industry including many players that have come and gone, and after surviving the worst two years of his career during the pandemic, CURN is moving forward stronger than ever with a leaned-out cost structure, the approval of their bank license, and new adjacent business lines and services. The business model is also fully funded.

As banknotes and payments grow, online FX is adopted in more states, and cost savings are realized through the Exchange Bank of Canada, EBITDA margins have the potential to expand, and there is a reasonable path to CURN being able to generate somewhere between $20-25mm in free cash flow within the next 12-24 months. The current market cap, *excluding* the excess cash on the balance sheet is $88mm. Importantly, no heroic assumptions are required to get there, as simple execution with high incremental margins will help layer free cash flow on top of the current $10-12mm run rate.

There are few comps for CURN. They are not a bank, not a true money service business, and not a fintech. Although they have elements of a bank, and payments sports some fintech-type characteristics, I don't believe shares will ever trade for revenue multiples of 10-15x. However, I also don't believe that a low single digit multiple of free cash flow is the correct value to place on this business, one with growth, customer stickiness, market share gains, high returns on equity, and a strong balance sheet. Our downside is significantly protected by the nearly $15/share in cash on the balance sheet, while buybacks and adding some leverage to the business to lower the cost of capital are also on the table to help bolster returns. I am optimistic that the price we paid for our shares is a favorable one. At the time of our investment, only Peter Rabover of Artko Capital was pounding the table.

Broad Market Commentary

Before I provide a brief outlook, a dose of optimism is needed.

During the past 30 years there have been nine different times when small caps corrected by at least 20%. Here's what happened afterwards if you had the courage to buy: you almost always outperformed large caps; and you made money in almost every scenario. Relative to large cap companies, small caps have not been this cheap since the early 2000s, the beginning of a very rewarding period for owning small companies. Although there's no guarantee that history will repeat itself, investing in small caps at these valuations typically works. It may work even better for us, as we own selectively great businesses growing faster than the market at cheap valuations.

I believe the outlook for us remains positive. There is the possibility of a continued drawdown scenario where our already cheap companies become cheaper in the short term, and the possibility that portions of client portfolios will struggle, most notably in the consumer segment of our holdings. The timing and predictability of either scenario remains unknown to me (and everyone else), so for now, I'm keeping my head down and moving forward carefully. Although I won't be correct about everything, my high-level view is that the difference between our companies' market values and my estimates of what they are worth remains greater than 100%. I'm confident at some point the gap will close.

Recent Developments

Greystone added one new client during the quarter, with the goal of continuing to attract like-minded, patient investors to the firm. I've been incredibly encouraged by the interest and outreach from prospective clients and appreciate any and all referrals to thoughtful investors. As a reminder, the firm remains far from our desired AUM capacity, and my hope is that we can continue to take positive steps forward in that regard. For non-client readers, please feel free to drop me a line anytime.

Also during the quarter, I was interviewed by Seeking Alpha, where I talked Greystone Capital's strategy, process and share some thoughts on 1847 Goedeker. For those interested, the interview can be found here. Thank you for the opportunity to manage your hard-earned savings. I look forward to next quarter's update as well as the rest of the year. In the meantime, please feel free to reach out anytime.

Thank you for reading.

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