Greystone Capital Management
Concentrated Value Investing

Q4 / January 2025

Clients and Friends,

During the fourth quarter of 2024, returns for separate accounts managed by Greystone Capital ranged from +0.5 to +2.6%. The median account return was +1.7%, net of fees. The median account return for the full year 2024 was +19.9%, net of fees. Since inception in Q4 2019, an account opened with Greystone has returned a cumulative +168.8% or +24.3% per year, net of fees. During this period, our strategy has outperformed both the S&P 500 and the Russell 2000 by an annualized +6.0% and +14.1% per year, while also posting significant cumulative outperformance against both benchmarks.

Greystone Capital Management [1,2]				
	Gross Return	**Net Return**	**S&P 500**	**Russell 2000**
Q4	0.9%	0.5%	2.4%	0.3%
FY 2024	24.2%	19.2%	25.0%	11.5%
Since Inception (Cumulative)	216.5%	168.8%	70.1%	38.9%
Since Inception (Annualized)	29.2%	24.3%	18.3%	10.2%

1. *Returns are unaudited and represent an account opened with Greystone Capital Management at **inception Q4 2019**. Past performance is not indicative of future results. Investor's actual returns may differ from the returns presented due to several factors, including the timing of each investor's capital activity and position weightings within each portfolio.*
2. *Fees consist of a 1.5% management fee and a 20% performance fee above a 5% hurdle rate.*

Our track record since inception is something I'm proud of, but not super meaningful in the context of what we are trying to accomplish. What I'm most proud of is how our returns have been generated by sticking to a process rooted in ground rules and principles that are non-negotiable. The beginning of 2025 will mark five years since we launched, but as you know, it's the *next* five years that matter. I will spend more time on lessons learned in the Q2 2025 letter.

Fourth quarter and FY2024 results compare unfavorably and favorably to the S&P 500 and Russell 2000 returns of +2.4% and +0.3% during the quarter and +25.0% and +11.5% 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.

During the year, we witnessed strong business results from Sylogist, Limbach, Innovative Foods, Medical Facilities and Bel Fuse, our largest contributors to performance. Revenue growth, margin expansion, earnings growth and strong capital allocation from each is an acceptable summary. These companies make up nearly half of your portfolios as their future outlooks are positive and further upside remains, as you'll read below. Finding, purchasing and holding these investments is the part within our control. The part outside of our control is share price performance, which this year can be attributed to the market recognizing positive changes in earnings power, a dynamic that has been eluding us for some time.

It's worth a reminder that over any reasonable time frame the value of your portfolios will approximate the change in value of our companies. Some years our investment performance will exceed the growth in value of our businesses, in others the reverse may take place. The adage describing the market being a weighing machine in the long run remains true. We are investing in companies that will eventually be weighed correctly, and who are doing everything they can to make themselves heavier.

With that said, our results could have been better. First, just weeks before the quarter closed, your portfolios declined by nearly -10%, marking the third worst monthly drawdown since the inception of the firm. Three of our top five holdings drew down -15%, despite the positive operating results I just mentioned. This price action corresponds to interest rate news, along with continued poor sentiment for small companies. Small value stocks saw 14 straight losing days at the end of Q4, making the spread of returns between the Russell 2000 vs. the NASDAQ/QQQ the widest it's been over any rolling three-week period since 1979 (-8.1% vs. +2.8%). Only brief periods in 1999, 2001 and March 2020 were worse.

Second, I made a costly mistake of omission in failing to purchase shares of Despegar below $10/share this year, or at any point during the past few years. I've followed Despegar, a South American focused online travel agency, since its IPO and came to know it as a very high-quality business, with a very good management team, and a long growth runway. In late December, Despegar entered into a deal to be acquired by Prosus, for $1.7B in cash, or $19.50/share. Had we owned Despegar years ago, our compound annual return would have been in excess of 25% per year. Moving forward, the aim is to make less mistakes of this nature. Great businesses run by strong and capable management teams, with long growth runways, available at cheap prices, are to be purchased and held on to for dear life.

To that end, we made several new investments this year, as small caps and microcaps are providing an excellent opportunity set for the patient investor, largely remaining so due to the current market environment that favors the largest businesses in the world. It is for these reasons I'm optimistic about our prospects. My family and I remain invested, firmly aligning our interests.

"The most contrarian thing of all is not to oppose the crowd, but to think for yourself."

- *Peter Thiel*

During 2024, it was difficult to ignore commentary about how a handful of companies, particularly the 'Mag7', have been driving the bulk of broad market returns. Looking no further than the disparity of returns between the *market cap weighted* and *equal weighted* S&P 500 indices (+25.0% vs. +13.0%), one can see how most investors are dependent on the same, select group of securities for their future gains.

There are byproducts of the market strength arising from this concentration, one of which is the belief that the market only goes up, and one should not bother investing in anything else. The other is the horrid possibility that one does not participate in this easy to achieve upside. Lately, it seems FOMO, not RISK, is the operative four-letter word driving investment decisions.

Luckily for you, this will not be the nth commentary you read bemoaning the Mag7, their valuations, or their business prospects. I like those businesses, I am a user of their products and services, and it's obvious they are incredible companies. Maybe the best businesses that have ever existed. Furthermore, due to their quality, they likely deserve to trade at multiples higher than historical market averages. Which means, despite their dominance thus far, there could be even further upside for them, and thus, broad market indices.

As a strategy designed to be different, this can be an uncomfortable position. We are deliberately choosing to not be dependent on those businesses to earn our returns, so during any given year we may look worse than the crowd. Lately, the crowd has been very right.

Where I take comfort is not in my self-righteousness in avoiding the Mag7 but in the fact that there are plenty of bargains elsewhere, with pockets of the market offering tremendous value along with better risk/reward profiles. Our approach seeks to capitalize on this value. In other words, we don't have to follow the crowd. Greystone is structured to be the anti-index. We own zero companies in the S&P 500 and just two in the Russell 2000. Our businesses on average are growing faster, generating more cash, trading at cheaper multiples and have better leverage profiles than the average business. They are also smaller by average market cap, allowing for growth into larger businesses.

This alone is not the recipe for outperformance. Patience is a key ingredient. Time will tell if our approach is the correct one. I believe it will be. Buying good businesses with a margin of safety and having the patience to see through years of positive operating results is a tried-and-true approach, even if it doesn't work on command. The lag that often exists between investment decisions and eventual reward means we must be comfortable walking the path from here to there with our businesses. *Here* being undervalued, *there* being appropriately valued.

To do that, a detachment from short-term events and emphasis on longer term behavior and structure is necessary. Multi-year timeframes are what matters. We are trading popularity today (with fragility tomorrow), for unpopularity combined with extremely high IRRs to be patient.

My experience with Despegar is illustrative (again, please rub my nose in this mistake). Despegar stock declined -50% shortly after its IPO and traded below that price for nearly four years. As earnings power grew (revenues and cash flow expanded significantly post-COVID), the valuation gap finally closed. Yet, if your time horizon was one quarter, or six months, or one year, Despegar would have been considered a terrible investment. Especially if the market continued to climb.

For an example closer to home, one of our companies, Franklin Covey, recently announced that near term cash flows would decline as they invest more into their salesforce to grow the business. These high return investments are expected to raise long-term revenue growth, margins and cash flow (to record levels) yet the stock declined -20% following the announcement as the short-term outlook muddied the long-term picture. In other words, Franklin Covey was punished for doing the right thing. If the success of our investment hinged on a three-month period, we'd be in trouble.

Sylogist and Bel Fuse, both far from intrinsic value, have each declined at least -20% during our ownership (Bel Fuse was *twice* during 2024) despite obvious evidence that earnings power was improving. There are of course more examples, but it's this kind of short-term behavior that gets

me excited (I added to our positions in each case) and is the foundation for long-term and independent thinking. Eventually, our patience will be rewarded.

During my time working in professional basketball, I noticed the way a team started the season was never how they finished. Even championship teams experienced ups and downs, setbacks, trade rumors, and adjustments. The only thing that mattered was sticking to a process (aka, what we could control), ignoring outside influences and getting from the beginning of the season to the end. Here to there.

It seems quite likely that over the next few years, as investors continue to pile into the largest businesses, there will remain pockets of value in overlooked areas of the market. I'm in favor of sticking to our process while diverging from the crowd, even if the crowed has been right…in the short term.

Portfolio Commentary

At year end, our top five holdings representing greater than 65% of your capital consist of **Sylogist**, **Innovative Food Holdings**, **Limbach**, **Natural Resource Partners** and **Bel Fuse**.

Sylogist, Limbach and Bel Fuse were among our top five positions last year, and missing from this bunch is APi Group, which remains right outside of the top five. We will benefit from the continuity of longer-term holdings, as I get to know the businesses, industries and competitive environments better after owning shares for multiple years, helping to increase conviction in both management and the long-term value creation path on which each business is embarking. As we head into 2025, there is still tremendous value among this group. Our companies are not without their issues, and new opportunities will emerge, but high-quality businesses with attractive risk/reward profiles and strong forward IRRs is a good way to be positioned.

Below, I focus my remaining commentary on our top five positions along with details surrounding our investment in **Natural Resource Partners**, appended to this letter.

Top Five Positions

Sylogist (SYZLF)

For Sylogist, one of our longest tenured holdings, I'm not sure which is easier to understand, the business, or the investment case. Selling high value prop ERP and CRM software to sticky customers with growing demand, with the opportunity to cross sell and raise prices over time is the business in a nutshell.

As far as the value I see, companies with Sylogist's fundamentals, nearly 70% recurring revenue, >15% annual revenue growth, 60% gross margins (75% for software), 25% EBITDA margins and strong cash flow conversion don't trade at a high single digit multiple of cash flow. Especially when they are non-discretionary with counter-cyclical aspects. Public sector organizations that rely on their ERP systems, fund accounting and donor management capabilities don't rip out their software when the economy hits a snag.

Whenever I get frustrated at the market's reaction to Sylogist's operating performance, I remind myself about how the business has moved from here to there since our first purchases. Revenues have grown 17% per year since 2021, organic growth in recurring subscription revenue has gone from negative in 2022 to a mid-teens rate today, and Sylogist has gone from a standing start in their Gov and Ed initiatives to generating nearly $30mm in high margin revenue between the two segments. Were it not for growth investments being made, EBITDA would be accelerating nicely along with top line growth. The market is skeptical these investments will ultimately pay off. I am not. This is the year that accelerated growth and operating leverage will materialize.

We added to our position toward the end of the year, and we were not alone. I was thrilled to see multiple members of the management team, including CEO Bill Wood, purchase stock in the open market toward year end. In addition, management has complemented their efforts by repurchasing stock at opportune times, providing a boost to free cash flow per share. Sylogist is our largest position for good reason. I see upside of greater than 100% over time, and I am optimistic about 2025 and beyond.

I'm excited to share that **CEO Bill Wood** will be virtually attending Greystone's Annual Meeting to conduct a short fireside chat and Q&A with me about how he is positioning the company for the future.

Innovative Food Holdings (IVFH)

IVFH is our specialty food distribution business. Few businesses in our portfolio have moved from here to there in such a short period of time. This includes a name change to Harvest Group Holdings, which will be consummated during early 2025. I won't rehash all the strategic moves from the past two years, but some include divesting non-core assets, reducing the cost structure, receiving their largest ever purchase order in partnership with a large retail chain, and acquiring two distribution businesses. By consistently hitting singles and doubles, IVFH has drastically improved their future earnings power, going from a loss-making company to one that will start to show sustained profitability when they report their Q4 results.

At the heart of the company sits a strong core business, where IVFH operates a specialty food distribution marketplace to connect vendors to a nationwide group of chef customers. This business has always been cashflow generative and possessed strong growth prospects but will now be complemented by inorganic growth and additional retail partnerships. Previously encumbered by a money-losing e-commerce segment which is now divested, core food distribution returned to growth during Q3 of 2024, indicating progress is being made.

The investment thesis for IVFH since our initial purchase has evolved, while the business has been de-risked. Initially, common sense cost reductions and a focus on core food distribution would lead to an immediate increase in earnings power. That alone would have been enough to do well here. Today, there are several organic and inorganic growth avenues outside of the core business that could result in high returns for years to come. Management's medium-term goals of $100mm in revenues and 10% EBITDA margins are no longer farfetched. A single partnership with a top ten retailer to supply gourmet cheese should, on its own, add double digit revenue growth to the top line with a nice EBITDA contribution.

IVFH recently raised $3.0mm via a rights offering in which insiders and the Board were happy to up their stakes (at recent highs for the stock price, I might add). This is one of the many advantages of having a Board of Directors who think like owners, because they are. Our shares have more than doubled since our initial purchases, but upside remains. The future is bright for IVFH and I'm looking forward to seeing what management can accomplish over time.

Additionally, **CEO Bill Bennett** will be attending Greystone's Annual Meeting to speak more in depth about IVFH. I'm excited for you to see what I see.

Limbach Holdings (LMB)

Limbach was the largest contributor to performance during 2024, for good reason. Their journey from here to there has been executed flawlessly (which, as an investor, I have the luxury of proclaiming), with earnings power increasing at a tremendous rate during the past 24 months. On the back of low single digit revenue growth aided by their ODR segment growing 20%, gross margins have expanded nearly 1000bps, EBITDA margins have expanded 500bps, and adjusted EBITDA has more than doubled. This has translated nicely into free cash flow, which Limbach has used to acquire additional service businesses for 4-5x EBITDA.

During 2024, Limbach invested $38mm to purchase two businesses, Kent Island Mechanical and Consolidated Mechanical, two building systems solutions companies with long histories. The average multiple paid was 3.75x and when combined, should add between $8-10mm EBITDA beginning in 2025. Additionally, now that Limbach has spent over $50mm on acquisitions during the past two years, they should see increased deal flow with the opportunity to consistently acquire 3-4 businesses per year, or between $15-20mm in EBITDA.

There will also be more opportunities for organic growth and margin improvement as Limbach continues its mix shift toward increased ODR work and develops their brand. With time, improved offerings, and growing their national identity, there could come a time when 'nobody gets fired for hiring Limbach'. Working with building owners on capital budgeting plans as opposed to just being a part of the operating expense budget for service means Limbach can become even more entrenched with their customer base, adding some pricing power to the mix.

Limbach was the rare situation last year whereby I kept updating my estimates…to the upside. Although I don't expect the same beat-and-raise cadence or stock price performance during 2025, there is plenty to be optimistic about. We have done very well since our initial purchases, but I've made too many mistakes selling good businesses run by strong management teams earlier than I should. We will continue to own Limbach until the thesis changes.

Natural Resource Partners (NRP)

Please refer to the appendix attached to this letter.

Bel Fuse (BELFB)

Bel Fuse was a strong contributor to performance this year, having exited a multi-year turnaround whereby CFO Farouq Tuweiq improved nearly every aspect of company operations, from pricing to cost structure, to capital allocation. Yet, the journey from here to there was made with little fanfare. In last year's Q4 letter, I wrote that *despite considerable evidence that earnings power has increased, Bel Fuse is still valued at a multiple below peers.* My comment stands true today, but recent developments engender optimism that the gap will close.

With limited organic top line growth prospects, I envisioned Bel Fuse eventually looking to M&A to bolster their product set, geographic presence and top line growth. What I didn't expect was the home-run acquisition they made in September, acquiring 80% of Enercon Technologies, an Israeli based electronics manufacturer, for $320 million. The acquisition not only provides immediate top line growth but gives Bel exposure to some of the most attractive end markets in the industry, namely aerospace and defense, by broadening their manufacturing base and providing them with significant R&D resources for new products. The deal also solidifies management's operating prowess, demonstrating their ability to create value. The purchase was made without issuing stock, and the multiple paid presents the opportunity for strong earnings accretion.

Importantly, earn out targets as part of the deal call for Enercon to generate $43-50mm in EBITDA during 2025 and 2026. Based on my pro forma numbers for the deal, Bel could generate in excess of $140mm in EBITDA during 2025 and close to $150mm in 2026, against an enterprise value of less than $1.2B. Half of peer valuations is far too cheap for a quality business whose margins are now in line with peers and has sustainable top line growth for the first time in years. As Bel de-levers from the deal, management will resume share repurchases as well. Further upside remains.

Recent Developments

During the quarter, I was invited on The Investor's Podcast with Kyle Grieve, where we talked about my time working in sports and various aspects of my investment process. I've been a listener to the show for over 10 years and always learn a lot, so it was fun to finally be a guest. The episode should be published in February or March.

As mentioned, I will be conducting our annual meeting virtually this year to accommodate broader attendance. The date for the meeting will be **Wednesday February 5th, at 10:30am ET**. The invite link has been sent to each of you, and if you aren't able to attend the live meeting, it will be recorded and distributed within a few days. I hope you can attend and look forward to seeing each of you there.

The biggest difference (and our main advantage) between Greystone and the average fund is our ability to think and act like a long-term owner, which is enabled by selectively taking on the right partners. You allow me to do things that most managers can't do, and I value greatly your trust and alignment. Thank you as always for allowing me to manage your hard-earned savings. I am incredibly appreciative and wish everyone a happy and healthy 2025.

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

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

Appendix: Natural Resource Partners (NRP)

"So it's sort of a tale of 2 cities. It's a bad time for the business outlook. Actually, collectively for all 3 of our commodities together, I would say that with the exception of COVID, this is the worst collective business outlook we've had in my almost 10-year tenure here at NRP. ***But it's certainly the best outlook from the standpoint of an equity holder that we've had in the almost 10 years that I've been at NRP."***

- NRP President and COO Craig Nunez, Q3 2024

During Q2 last year, we started accumulating units of Natural Resource Partners, a coal royalty business with significant durability, ample free cash flow, excellent management, and a cheap valuation. Both the business and investment thesis are simple, resting on two pillars for value creation: debt paydown and increased distributions.

NRP is a royalty business. The company owns mineral rights on 13 million acres of land in various parts of the US, with coal as the underlying commodity on a large portion of this land. NRP leases its properties to coal miners, including some of the largest and lowest cost producers in the world, for a royalty based on a percentage of the price per ton of coal mined. NRP's leases range from 5-40 years in length and have built in minimum payments owed, regardless of volume mined. NRP also owns a 49% stake in a large soda ash business called Sisecam Wyoming, discussed more below.

Lessees mine two types of coal from NRP's properties, Thermal coal and Metallurgical or 'Met' coal. Thermal coal is a key commodity used for electricity generation, and metallurgical coal is a key commodity used in the production of steel. Currently, NRP revenues are split 70/30 between metallurgical coal and thermal coal, with met coal being the more favorably priced commodity, with a much longer runway for royalty revenue.

In the coal industry, as with most commodity markets, producers (i.e. miners) rarely possess wide moats or differentiation. The price of coal is set by the market, and fluctuates depending on many factors, positively or negatively impacting producer's revenues and cash flow. As a result, the lower each company sits on the cost curve, the more effectively they can compete (greater profits, lower breakeven point). I have no interest in the producer business model, where nasty operating leverage can wipe out near-term profitability, something past boom and bust cycles have demonstrated.

The royalty business model, however, one of the best business models in the world, provides NRP with unique advantages, including a favorable cost structure leading to durability and resilience, as demonstrated during the past two decades. NRP's lessees shoulder all the expense of mining the coal, maintaining the properties, and paying the workforce, so NRP benefits from higher volumes and revenues when coal prices are high, and bears none of the operating expense burden when prices are low. This low-cost structure, with no ongoing opex (excluding some corporate costs) or capital investments, a staple of royalty businesses, allows NRP to generate 90% free cash flow margins. A quick detour through the past two decades of operating results would reveal zero years of negative free cash flow through a multitude of coal price environments. With 30-40 years of reserves in the ground, I'm envisioning a long runway for continued cash flow generation.

I initially found it hard to believe that a business with the above characteristics was available to be purchased between 4-6x normalized free cash flow. However, there are a few reasons for the discounted valuation, including NRP's industry affiliation, tax status and recent history, all of which distract from the positive long-term economic picture.

First, NRP is in the coal industry, a discarded sector due to political opposition and anti-ESG sentiment. Given the strong ties between coal and carbon emissions, there is near zero capital being invested into the industry directly (at the company level), and most fund managers are to avoid coal investments like the plague. As a result, company valuations are incredibly cheap, and the current narrative is one of coal's near-term future in question. Although the use of thermal coal is being phased out in the US and has gone from nearly half of all electricity generation a few decades ago to below 20% today, it remains very much in demand in other parts of the world. In fact, global coal consumption reached a record high of 8.7 billion tons during 2024. Demand for both met and thermal coal is expected to increase moving forward due to rising global electricity demand, high natural gas prices and growing global economies.

The second reason for the discount is related to NRP's corporate tax structure. NRP is a Master Limited Partnership, or MLP. MLPs have a unique tax structure whereby income is not taxed at the corporate level. MLPs pass their profits directly to unitholders in the form of periodic distributions, which are tax deferred until the sale of the units. This arrangement avoids the double taxation of corporate income and dividends affecting traditional businesses, and in theory should deliver more money to unitholders. The downside is the issuance of K-1s and the perceived tax complexity.

MLPs are not where I'd start my search for an attractive investment. Often sold as vehicles for passive income, corporate governance concerns, low business quality and bond-like correlation to interest rates means that if you find yourself on the receiving end of a mid-stream pipeline MLP pitch, I'd encourage you to run in the opposite direction. However, NRP is unique in that they are massively profitable, business quality is high, and they have a large, stable customer base serving an undersupplied market. Most importantly, corporate governance has been excellent, and we are invested alongside an owner/operator in Chairman and CEO Corbin Robertson. This is not your typical MLP.

NRPs history, however, contains some mishaps, likely the third reason for the discounted valuation, and the context for the quote at the beginning of this appendix.

To reiterate, the beauty of a royalty business lies in its cost structure, or lack thereof. One should not enter the royalty business for excitement. When I visit NRP management at their headquarters next month, I'm half hoping to show up to an empty office. Throughout the life of this business, management would have been best served distributing all NRP's cashflow to unitholders and spending the rest of the day playing Solitaire. However, as Pascal tends to remind us: 'all of humanity's problems stem from man's inability to sit quietly in a room alone.'

Leading up to 2016, NRP's former CEO went on an acquisition spree, purchasing a number of sub-par assets to diversify the business into oil and gas, aggregates and other non-core minerals. These acquisitions had the effect of bloating the asset base without contributing to profitability, and worse, NRP took on a large amount of debt to finance the deals. In 2016, when coal prices plummeted, NRP found itself levered nearly 6.0x, unable to repay their debt, and nearly filed for

bankruptcy. The company was bailed out by various third-party lenders and was forced to issue some punitive preferred stock and warrants in exchange for debt refinancing.

The former CEO was removed, and after turning the page on a rough chapter for the business, for the past 8 years, NRP has been manically focused on reducing outstanding debt. The preferred stock and warrants have been eliminated, and depending on free cash flow assumptions, NRP has around 1-1.5 years of term debt remaining on the balance sheet, after which point they will distribute the entirety of free cash flow to unitholders. This is significant for two reasons. One, further debt paydown will have the effect of increasing equity value to unitholders by reducing competing claims on the company's cash flow. Second, if coal prices decline, unlevered free cash flow will actually *increase*, given the absence of interest payments. This change in capital allocation strategy has been telegraphed for years (to little fanfare) and will result in a substantial return to unitholders, whereby NRP can return their entire market cap in cash within 5-7 years, giving us a cheap or free option on what it earns after that.

The biggest challenge when valuing a company like NRP is the price of coal, which is impossible to predict (and I won't mislead you with my attempt). My shrewd analysis is that the price has fluctuated wildly in the past and will do so in the future. Although thermal coal consumption should decline, in particular, as renewable energy usage increases, so too will supply. Existing mines have limited capacity (albeit, decades) and there remains a lack of investment industry wide given coal's anti-ESG status. Dwindling supply, along with elevated costs for producers should help create a floor for both met and thermal pricing. I could be wrong.

An easier challenge is predicting how much cash NRP should generate under different coal price scenarios, where precision isn't required to do well. Using coal price forecasts (taken with a grain of salt) through 2028 that range between $180/mt and $230/mt for various types of met coal, I estimate NRP can generate between $14-18 of free cash flow per share, for a 15-20% yield on our cost basis. This would represent between 50-65% of its current market cap during the next four years.

I view these estimates as conservative considering where most producers sit on the global cost curve, along with minimal upward projections in revenue per ton for NRP. The more accurate estimates might come from examining NRP's 10-year and 20-year average free cash flow figures (capturing a multitude of pricing environments), which reflect average free cash flow of $20/share, or a 22% yield based on our cost basis. NRP will finish the year close to this average, having generated $185mm in FCF ($14/share) through Q3 of 2024, despite the unfavorable business outlook.

Boosting my confidence is management, who have shown themselves to be rational and thoughtful capital allocators, doing the obvious things to create value. Debt paydown and increasing distributions are the obvious things. Management owns 30% of the business and would benefit both from a higher distribution along with repurchasing units, which they've also talked about.

Lastly, there are two very interesting and potentially substantial sources of optionality worth discussing. First, as mentioned, NRP owns a 49% stake in the world's leading low-cost provider of natural soda ash, Sisecam Wyoming. Soda ash is a key commodity in the manufacturing of glass,

along with products like soaps and detergents. Demand for soda ash is expected to grow around 4% during the next decade in line with growth in global construction and auto manufacturing, currently in cyclical downturns. Sisecam Wyoming is located in the Green River Basin in Wyoming, which holds the largest and one of the highest purity deposits of trona ore (key input in soda ash) in the world. Sisecam has annual production capacity of 2.5mm tons, with proven and probable reserves of greater than 50 years.

Historically, NRP's soda ash royalties were between $25-40mm annually. However, soda ash pricing has reached a decade low, driven by Chinese oversupply and global construction softness, impacting current distributions. Although distributions from Sisecam are likely to remain depressed for the next few years, there is value here that should be factored into the valuation eventually. Furthermore, Sisecam, formerly part of a publicly traded business, was purchased in part, by its owner during 2023, marking to market NRP's 49% stake at around $500mm, or 35% of the current market cap. I don't view it as likely, but it's possible NRP could monetize their stake at some point, leading to additional upside.

The second source of optionality comes in the form of carbon capture utilization and storage initiatives. For the uninitiated, carbon capture is the process of trapping the carbon dioxide that is produced by burning fossil fuels and storing it underground, or in a way that eliminates exposure to the atmosphere. The industry is in its infancy, but large amounts of capital have been raised in the past few years with consulting firm Wood Mackenzie estimating the industry may attract $150 billion in global investments this decade. Some of that capital has flowed and will flow to the massive and capital-intensive technology of Direct Air Capture.

I'm certainly not the authority on direct air capture technology, but what I can tell you is that direct air capture facilities are massive. As a result, to capture and store carbon successfully, you need two things: plenty of contiguous acreage, and sequestration (storage) rights. NRPs 13 million acres of land ownership includes both. NRP is uniquely positioned for carbon sequestration because it owns large contiguous tracts of land with the full ownership of storage rights. While only a few million of that acreage will prove acceptable for carbon capture, the land will prove valuable to larger oil and gas businesses as time goes by. To illustrate, NRP has already entered into two long-term agreements with Occidental Petroleum and a subsidiary of Exxon Mobil for construction rights to build DAC facilities on NRP properties in exchange for cash payments to NRP. Like the royalty business, NRP bears no upfront or ongoing costs for these construction projects, simply collecting a royalty on metric tons of carbon captured.

Early details surrounding the potential scope of the projects are publicly available, with Occidental outlining the potential for 20 DAC facilities to be built on the 65k acres they lease from NRP. Each facility could be responsible for capturing 1 million metric tons of carbon per year. NRPs estimates $1-2 dollars per metric ton as a royalty, which would equate to $20-40mm in free cash flow, with no upfront cost or capital expense on the part of NRP. Keep in mind, this is just 65k acres of land, compared to millions of acres suitable for carbon capture. To manage expectations, any meaningful carbon capture optionality (if it materializes at all) is likely 5-10 years away, but it doesn't make it any less significant and would also provide further upside over time.

Without underwriting any meaningful soda ash distributions nor any contribution from carbon capture initiatives, we are still left with a quality mineral rights business, abundant free cash flow, a built-in return stream and tremendous durability. I like our odds. Researching NRP reminded me of

our prior investments in SPACs, some of which ended up compounding at very high rates of return. Behind any strong stigma toward a particular asset class are opportunities to find value.

It's likely you were surprised to see NRP show up as a new investment in your accounts. Given that my strategy consists of owning good businesses with strong competitive positions, you may be wondering whether I'm straying from what we do by investing in a coal business, our first investment in energy since the start of the firm.

First, it's not unusual for me to invest in a new sector or business and is something you should expect to see periodically. The types of businesses found in Greystone's day one portfolio looks vastly different from today's. I expect that to continue as I learn more and broaden my knowledge base. Second, the way I approach an investment in a coal company is the way I approach any other investment. I look for a strong competitive position, great management, ideally those who are owners, and an attractive valuation. NRP checks these boxes. Furthermore, valuations in the coal sector have been attractive for a while. Where the industry previously fell short was the presence of good management teams who think like owners (ironically, this is a large swath of the industry today). In this respect, I am excited to have found NRP, now a top five position. I look forward to discussing the business in more detail over time.

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.*