

GOUDY PARK CAPITAL

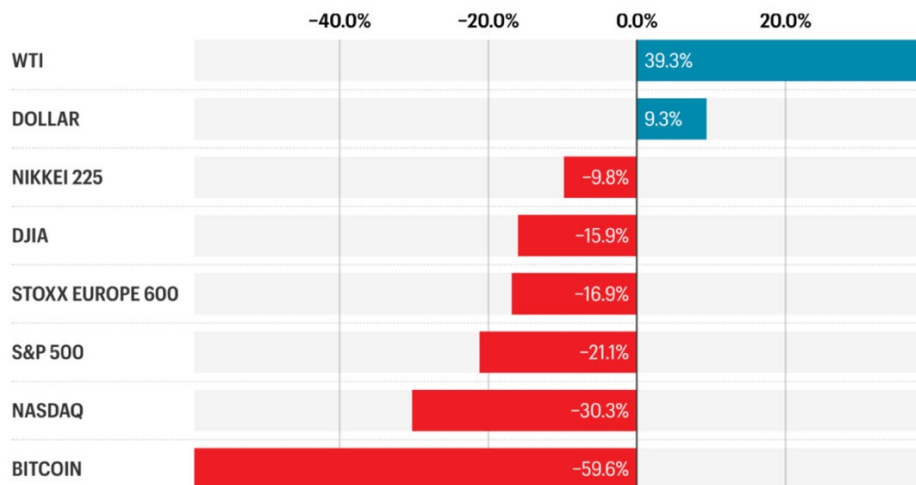
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	2Q2022 Return	1H2022 Return
Goudy Park Capital	-14.08%	-22.41%
Russell 2000 Growth	-19.25%	-29.45%
S&P 500	-16.10%	-19.96%
Nasdaq 100	-22.47%	-29.51%

Dear Goudy Park Limited Partners,

Goudy Park was down 14% in Q2 2022 versus the S&P 500 return of -16% and the Nasdaq 100 return of -23%. The fund finished the first half of 2022 down 22%, while the S&P finished H1 2022 down 20% and the Nasdaq declined 30% as the markets experienced their worst performance since 1970. It was a perfect storm as the markets suffered from rising inflation and the expectation that the Fed would continue to have to raise interest rates throughout the year, creating the fear of the economy going into a recession. As a result, risk assets plummeted and for the first time in a decade, technology stocks sold off and significantly underperformed the market.

Chart 1:



NOTE: ALL VALUES YTD AS OF CLOSE OF MARKETS ON JUNE 30, 2022.

Chart Source: Fortune <https://fortune.com/2022/07/01/horror-story-charts-first-half-2022-stocks-crypto/>

Note: Discrepancies between chart values and values provided in letter are due to Fortune's exclusion of dividends in their calculations

Goudy Park didn't fare any better initially as we had exposure to technology stocks and we had a lot of equity exposure early in 2022 as we didn't fully appreciate the impact the Russia Ukraine war would have on rising inflation and its persistence in the world economy. However, by June we had re-positioned our portfolio more defensively which allowed us to outperform the market by 700 basis points in the last month of the quarter. While we don't emphasize short term performance, after a tough start to the year, our fund was down 1.3% versus the S&P down 8.3% in June and in July our fund was up 4.3% versus the S&P being up 9.2%, demonstrating lower volatility and higher performance. Despite near term performance challenges, the fund has returned 290% since the beginning of 2017 versus 87% for the S&P 500, 39% for the Russell 2000 Growth Index (our benchmark) and 137% for the Nasdaq. From the standpoint of a compounded rate of return after fees, Goudy Park Capital has returned 28% annually versus 12% for the S&P 500, 6% for the Russell 2000 Growth and 17% for the Nasdaq.

We have continued to make progress during the third quarter, while maintaining a more defensive posture. Our view remains that while the markets may have had a very strong rally over the last 6 weeks with the economy having arguably reached peak inflation, we don't believe the markets are factoring in as many rate hikes as we expect the Fed to continue to make going forward. We now believe that high inflation is going to be persistent. The Russia Ukraine War is going to last longer than anticipated causing continued disruption to the supply chain and elevated commodity prices. In addition, wage inflation is going to persist as long as companies find it difficult to hire workers. As a result, this is going to force the Fed to have to raise rates higher than they would prefer, which will continue to slow GDP growth and put more pressure on consumers. What we have witnessed thus far is that lower end consumers are under pressure. The data can be seen in weaker margins and discounted sales at companies such as Target and Walmart and rising delinquencies in sub prime auto and rising and aging balances on credit cards of lower end consumers. The non-sub prime consumer is still strong although we anticipate that spending is going to slow as rates continue to rise and inflation remains persistent.

In terms of our portfolio, we have continued to place an emphasis on market share leading companies with durable cash flow growth and companies going through business model transitions, which often leads to revenue acceleration and margin expansion and ultimately increased value. In terms of sector exposure, while we are still long technology, we have reduced our exposure to the sector and remain focused on durable companies that are generating strong free cash flow. We have also been increasing our exposure to financial service companies as interest rates have been rising. DigitalBridge Group and Equitable Holdings are two new top 10 positions that we added recently that fit our current portfolio.

DigitalBridge Group (DBRG):

DigitalBridge is building a premier global digital infrastructure platform through its Investment Management and Operating businesses. The Digital IM business currently has \$45b+ under management after raising ~\$15b in 2021, and targets investments in evolving, high-growth digital infrastructure companies such as cell towers and data centers that provide investors with steady and predictable asset

management fees. The Digital Operating business is focused on steadier mid- to high-single-digit growth businesses that have a proven, predictable business model and operating results generally backed by long-term contracts with escalators. The company has an excellent and experienced management team led by President & CEO Marc Ganzi. The two businesses have strong secular trends helping drive growth and DigitalBridge will continue to add incremental growth through acquisitions.

What attracts us to DigitalBridge now is its recent announcement to shift to a pure play asset management model which will simplify its business and concentrate exposure on its high-growth IM platform. This will remove a perceived share price overhang related to uncertainty among investors about what the business will look like in a few years' time. Additionally, it will concentrate DBRG investor exposure on the high-growth IM segment, in which fee-related earnings (FRE) is expected to compound at a 20% plus CAGR for the foreseeable future versus the current blended exposure to IM and the slower growth Digital Operating segment.

This will also create a much simpler story for public investors to understand and value with relatively clean asset management comps in the public markets (BX, KKR, APO, CG, ARES, TPG, etc). We believe DBRG's rangebound trading over the last year is partially due to investor uncertainty about what the business will look like longer term. While this decision to de-REIT should partially address this uncertainty overhang, a more explicit transition towards the asset management model goes a step further. In addition, we believe DBRG will grow faster and get a higher multiple as a pure play infrastructure investment manager.

Equitable Holdings, Inc (EQH):

We also added a position in Equitable Holdings which is a financial services company offering insurance and investment management products. We were attracted to Equitable given its 11% free cash flow yield and its strong focus on returning cash to shareholders through its 2.9% dividend and aggressive share repurchase program given the undervaluation of the stock. We also really like its 65% percent ownership stake in Alliance Bernstein, which is a premium asset manager that holds further upside optionality. The company's protection solutions segment is also benefitting from falling Covid mortality rates as they declined from 158K deaths in Q1 to 30K in Q2 as well as a greater than expected decline in overall mortality rates. We purchased the shares after Wall Street cut numbers for the company given that its asset management business had declined in Q2 after the markets declined by 20%. Since markets have rallied thus far in Q3, we also think there could be upside to Equitable's Q3 earnings. Given Equitable's strong free cash flow generation from its insurance business, we see value in that the business can return that cash to shareholders as well as continue to buy high quality asset managers that have durable, recurring revenue asset management fees. Lastly, despite markets being weak, Equitable's risk based capital remain unchanged given their strong hedging program and the company continues to have positive asset inflows.

Franklin Covey Co. (FC):

A company that we have owned since the inception of our fund that we added to on weakness during the second quarter was Franklin Covey. Franklin Covey is a software education and training company. It provides subscription based software to enterprise companies and schools. The company has been transitioning from a people based consulting firm to a recurring revenue software and licensing model and has seen its subscription revenue growth accelerate to 30%+ with total revenue growing in the double digits. As faster growing subscription revenues continue to become a larger percentage of total revenues, total revenue growth will increase to 20% annually by 2026 and EBITDA margins will rise to 20%. The company is benefitting from a tight labor market and the need to train workers and retain them in a hybrid work environment where improved productivity is at a premium. Despite the macro uncertainty, Franklin Covey's customer retention rates are stronger today than they were a year ago. The company has a strong track record of execution and has reduced its share count by almost 30% over the last decade as it continues to use its strong free cash flow to buy back shares. The stock trades at 14x next year's EBITDA estimate, while peers trade north of 20x. We are confident that as the company scales and becomes a pure play subscription business that it will trade at a higher multiple.

NZME Limited (NZM):

The rest of our top 10 holdings include NZME, Vitec, Temple and Webster, Tucows, Valvoline, Konatel and Verint. NZME has a 20% free cash flow yield and remains deeply undervalued. The stock is illiquid and therefore has attracted less buyers during this time of macro uncertainty. However, management continues to execute and remain confident about the business. The company reported 1H results recently and shared that advertising bookings growth has accelerated in Q3. This is a classic example of a high quality business with great cash flow that isn't delivering share price performance in the near term and not helping the fund's performance, but we continue to hold because the intrinsic value is arguably 100% higher. The company has also returned 10% to shareholders between its regular dividend and special dividend in addition to share repurchases.

Vitec Software Group AB (VIT B):

Vitec continues to generate strong cash flow and make larger accretive acquisitions outside of Scandinavia, which is an encouraging sign that it can scale its business. In July, the company announced its largest acquisition yet: the Dutch software company ABS Laundry Business Solutions. The company acquired is currently converting from selling software licenses to selling recurring SaaS and, despite being one of Vitec's largest acquisitions, will generate as great or greater organic growth in recurring revenues as Vitec's other software business units. Vitec serves a great range of different industries and verticals and the software they sell is mission critical. Their customers won't pull out the software in rough patches and Vitec does not have high exposure to any one industry. The stock price has underperformed recently, but we love the model of sticky, high retention recurring revenue that allows the company to use its free cash flow to make accretive acquisitions.

Temple & Webster Group Ltd (TPW):

Temple & Webster has underperformed the last 12 months given its extremely difficult Covid-19 pandemic comps and given it is a consumer discretionary based company in a high inflationary market. However, the company recently reported Q4 and year end results that significantly surpassed expectations and the stock rallied 30%. The current quarter will be the company's last difficult covid comparison and therefore we expect revenue growth to accelerate going forward. We bought Temple and Webster at \$.55 AUD in 2019 initially and it rose as high as \$14 AUD last year. We sold 30% of our position last year and rode it down this year before adding to our position before the company recently reported results. The stock currently is around \$5, but we believe it can be worth \$30 in the next 4-5 years as revenue returns to a 35% growth level and operating margins expand leading to a higher multiple for the company. Temple & Webster is the leading online furniture and homewares company in Australia and the Australian market has only transitioned to about 10-12% online, so there is significant runway still for growth. We believe the company can ultimately reach \$3B plus in revenue, which at 13.5% EBITDA margins is a \$450m plus EBITDA business. Using a 12x multiple would result in a \$44 stock price.

Tucows Inc. (TCX):

Tucows is another company that's stock has underperformed this year. I have owned this stock for over 15 years, from even before I started Goudy Park. Elliot Noss, the CEO, is an exceptional operator and capital allocator. The company has declined over 30% this year, despite being up 10x in 10 years, because the stock is illiquid and the company is using all its free cash and debt to fund its fiber business. This is an example of making investments in the short term that generate significant future high margin recurring growth, but we are not seeing the value creation in the stock because cash flow has gone from positive to negative. We are paying less than 1x capex to fund a future business that is growing 85% that will have EBITDA margins of 60%. We have confidence in Elliot not only because he has succeeded in growing the other segments of Tucows (domains and software for telecom) and used prior free cash flow to buyback half the outstanding shares, but if you look at the infrastructure assets that companies such as DigitalBridge and American Tower are acquiring, the multiples are 20x-30x EBITDA and Tucows is growing much faster. Tucows is another company that can grow at a high rate with strong free cash flow that has the ability to be a 5x overtime; one we are willing not to get paid on in the near term, but are buying at a significant discount to future cash flows. The domain and telecom software business are growing Free Cash Flow double digits and those segments are worth over \$25 per share today on their own and the fiber assets of the company today without investing another dollar of capex are worth at least \$50 to a strategic buyer once they start generating free cash flow. The stock is \$50 today, so we feel good about our margin of safety, while we wait for the market to re-value the company. In the interim, Tucows continues to expand its fiber business across select markets in the U.S.

Valvoline Inc. (VVV):

Valvoline is another high cash flow business that we recently added to on weakness. The thesis here is that the company recently sold its oil consumer products business, which comprised over 60% of the revenue of the company and is now transitioning itself into a pure play quick lube retail operator with both company owned and franchised stores. There are 450m oil changes a year in the US, and 24m of

them are done by Valvoline. They are in a strong position to gain market share as they plan to expand their number of retail stores by 100+ a year. We like how oil changes are relatively non-discretionary. Valvoline tracks their customers license plate info, and estimates its customers get oil changes from them twice a year. The company has historically been viewed as an oil and chemical company with a single digit multiple, while retail franchise businesses typically are valued between 15-20x EBITDA. The retail business is a mid 20's EBITDA margin business with double digit annual sales growth and room to expand. Once the sale of its Global Products business to Saudi Aramco closes and Valvoline becomes a stand alone pure play retail business with a high percentage of franchised stores, we expect the stock will trade higher as investors further appreciate the higher value of the retail business. We also like that Valvoline will be aggressively buying back stock with the \$2.65B of proceeds from the sale of its global products business.

Verint Systems (VRNT):

Verint is a call center software business that is in the midst of transitioning from an on-premise software company to a cloud based SaaS company. The SaaS business is growing 30% and as the transition continues the overall growth rate of the company continues to improve, which will continue to increase Verint's multiple. Banks, healthcare companies, insurance telecom and government are Verint's primary customers – all durable industries. We also like Verint's strong free cash flow and track record for buying back stock. Verint's closest competitor, Nice Systems trades at close to 20x EBITDA, while Verint trades at 13x so we believe there is continued room for multiple expansion. The company may experience some F/X headwinds in the near term, but that is not core to our investment thesis.

KonaTel, Inc (KTEL):

The smallest market cap companies in our portfolio underperformed the most in the first half of 2022 as investors sought out more liquid and more profitable alternatives. However, I am pleased to share that Konatel and Endor remain our 2 core microcap positions that continue to perform well despite being out of favor with the market. We added to our positions during Q2 and were pleased with both companies recent Q2 results.

Konatel is a voice and data telecommunications company that recently reported Q2 numbers during which revenue grew 76% and subscribers grew 130% Y/Y. As one of only a limited number of FCC approved national wireless resellers under recently expanded government programs, the company is moving aggressively to leverage its first mover advantage and capture new customers at a rapid pace. The increase was due to growth in the Mobile Services segment. Mobile Services expansion continued under the Lifeline and Affordable Connectivity Program (ACP). The revenues were derived as a result of delivering high-speed mobile data service to low-income consumers. The stock is illiquid and fell significantly in the first half of the year, but has rebounded almost 100% since the middle of May. The stock trades at less than 4x our 2023 EBITDA estimate, so we are confident that significant upside remains for the shares.

Endor AG (E2N):

Endor AG develops and markets high-quality input devices such as high-end steering wheels and pedals for racing simulations on gaming consoles and PCs, as well as driving school simulators. Endor sells its products primarily to end customers in Europe, the US, Canada, Australia and Japan under the FANATEC brand, largely via e-commerce. The company recently reported first half results where revenue grew 124% and EBITDA grew 567%. The company has guided revenue to approximately \$110m and 20m of EBITDA this year. We believe the company can reach \$300m of sales in the next 3 plus years with 25% EBITDA margins, which would generate approximately \$5 in EBITDA per share. At a 15x multiple, the stock would be worth 5x more than today's valuation. The company needs to get more product inventory and it needs to uplist from the Munich exchange to XETRA exchange, Germany's primary exchange, so it can increase its float and investor awareness. As these things occur, we believe the company will see a significant increase in value. Again, we are buying shares for 7x EBITDA in a profitable company growing over 100%, but this investment isn't being realized in the fund returns today.

ACV Auctions Inc. (ACVA):

Lastly, we have been adding to our position in ACV Auctions. ACV is the leading provider of dealer to dealer auto auctions and they also operate their own financing unit, which provides dealers with floor plan financing and inventory financing. We like the business as it is another example of a company benefitting from the trend of an industry moving from offline to online. Historically, auto dealers have purchased and sold used cars at physical auto auctions (other than trade ins). The industry is now moving towards an online marketplace auction model because (1) the digital channel is far more efficient and transactions occur much faster and at a lower cost to dealers and (2) dealers can attract buyers and sellers nationally instead of just locally. ACV has provided investors with 2026 guidance that has the company generating \$1.2B in revenue with 25% EBITDA margins. The company is generating approximately \$400m in revenue today and is the leader in the market with only 7% market share. The company is also adding additional software products and services that is further increasing its ARPU with its dealer customers. Given that the company won't be profitable until the end of 2023 as they invest further for growth, it is not a stock that is garnering a lot of investor attention in the near-term. In addition, new car inventory is still near all time lows, which is contributing to dealers holding onto more trade-ins as opposed to moving those cars to auction. We believe this headwind will go away as new car inventory increases and used car prices start dropping more rapidly. ACV's stock moved 30% higher after its better than expected earnings. This is another example of a long term 30% growth story with 88% gross margins that can scale and be a 4x return for us over time if we are willing to be patient.

Conclusion:

We are trying to build a portfolio that will generate long term significant outperformance. We have achieved this over the last 6 years despite having periods within where we underperform. There are periods where a manager has to shift its portfolio construction due to an abrupt change in market conditions, which is what has occurred over the last 12 months as growth companies have lost favor for

the first time in a decade as we experience the highest inflation in over 50 years. Some of the best large cap growth stock oriented funds managing billions and billions of dollars for the most elite institutions in the country over the last decade were down 35%-60% in the first half of this year.

The only way to significantly outperform the broader indices is to take selective risk and to have the benefit of time, which allows you to buy great assets that are temporarily undervalued with a margin of safety and having the benefit of compounding and deferring your taxes. However, this requires being willing to accept periods of underperformance and higher volatility. These periods are not fun (I know because I have 75% of my net worth invested in my firm), but the reality is we should be investing more money when the market is down and buying high quality assets when they are undervalued. Instead, people get nervous when the value of their assets go down and they often feel compelled to sell in periods of high volatility. The market declined the most it has in 50 years during the first half of 2022 because the risk of a potential recession increased and portfolio managers decided to de-risk and cut their exposure. However, many managers also went to cash because they feared their L.P.'s could not stomach the market's decline and didn't want redemptions. The amount of risk a fund manager can take is largely attributed to the quality of the limited partners he or she has in their fund and whether the fund has long term capital or short-term capital. A manager with short term capital cannot buy stocks that are not going to perform in the short term, but have very high rates of long term return. A manager with short term capital is compelled to buy momentum stocks that are working in the near term, but come with much higher risk. If I was only managing my own money, I would only be investing for the long term because that is how we generate the highest after tax compounded return while taking on less risk. Instead, what I am trying to do is outperform over the medium term to long term to accommodate those of you who want lower volatility and smaller draw downs. While one should judge investment manager returns over a longer term cycle, one should judge a manager in the short-term by the underlying quality, valuation and performance of the assets in a manager's portfolio. We like the upside to downside ratio and durability of the stocks in our portfolio and we are confident that these assets will continue to deliver outperformance overtime, knowing that some of these investments could underperform in the near term.

I want to thank Ebin and Brian and Michael for their continued hard work and commitment to the success of our fund. The first six months of this year has been challenging and stressful. There is a lot of uncertainty in the world and many macro issues that make managing money difficult today. We will continue to defend our capital first and invest it prudently second as we navigate the volatile current environment. As always thank you for your ongoing support.

Regards,

Jamie

A handwritten signature in black ink that reads "James W. DeFary Jr". The signature is written in a cursive style with a large, stylized "J" at the beginning and "Jr" at the end.