BONHOEFFER CAPITAL MANAGEMENT

September 21, 2022

Dear Partner,

The Bonhoeffer Fund returned -14.9% net of fees in the second quarter of 2022. In the same time period, the MSCI World ex-US, a broad-based index, returned -14.7%, and the DFA International Small Cap Value Fund, our closest benchmark, returned -13.7%. As of June 30, 2022, our securities have a weighted average earnings/free cash flow yield of 19.1% and an average EV/EBITDA of 3.6. These metrics are associated with a portfolio that has a projected earnings/free cash flow growth of 9%. The DFA International Small Cap Value Fund had an average earnings yield of 13.5%. These multiples are lower than last quarter primarily due to declines in share price more than declines in earnings. The difference between the portfolio's market valuation and my estimate of intrinsic value continues to be greater than 100%. I continue to believe the gap will close over time and the portfolio quality will continue to increase as we increase allocations to faster-growing, higher-quality firms.

Bonhoeffer Fund Portfolio Overview

As described in previous letters, our investment universe has been extended beyond value-oriented special situations to include growth-oriented firms using a value framework. This includes companies that generate growth through transition and consolidation. There have been modest changes within the portfolio in the last quarter in line with our low historical turnover rates. We sold some of our slower-growing names and invested some of our cash into Thryv (described in the case study below) and Berry Global Group, as well as to fund the Millicom rights offering and oversubscription. There are also some interesting developments in the US digital marketing market that I discuss below.

As of June 30, 2022, our largest country exposures include: South Korea, United States, United Kingdom, Italy, South Africa, and Philippines. The largest industry exposures include: distribution, telecom/media, real estate/infrastructure, and consumer products.

We added to some smaller positions within the portfolio and are investigating additional consolidation plays with modest valuations in industries that have nice returns on invested capital such as chemicals, distributors, and specialty finance.

Compound Mispricings (38.2% of Portfolio; Quarterly Average Performance -10.6%)

Our Korean preferred stocks, the nonvoting share of Telecom Italia, Wilh. Wilhelmsen, and some HoldCos all feature characteristics of compound mispricings. The thesis for the closing of the voting, nonvoting, and holding company valuation gap includes evidence of better governance and liquidity. We are also looking for corporate actions such as spinoffs, sales, or holding company transactions and overall growth.

A compound mispricing in your portfolio described in detail in the last quarterly letter is Countryside Properties (CSP). Over the quarter, CSP has had a takeover offer from a third-party fund, Inclusive Capital, for £2.90 and, subsequent to quarter end, received a merger offer from the second largest partnership firm in the UK, Vistry. All of the major shareholders groups have backed the Vistry deal. The deal makes a lot of sense, as combining the partnership groups will result in the largest partnership firm—3x the largest competitor—and control about 25% of the partnerships' nationwide market. The combined entity will also receive synergistic benefits from Countryside's environmentally friendly wood frame manufacturing process. Management expects £50 million in synergies from the transaction. Management has also agreed to spin off the combined partnership business if its value is not recognized by 2025.

Telecom Italia (TI) is still in negotiations about the sale/merger of their core network. Once the network is sold/merged, TI should be able to focus on improving their core business. There are proposals of nationalization of the core network and the constant delays and deteriorating short-term performance have further weighed on the price of the shares this past quarter.

Over the quarter, the common preferred discount for LG Corp increased to 20%, while the discount for Lotte Chilsung remained about 60%. Part of the difference in the discount between LG and Lotte Chilsung is the clearly communicated capital allocation strategy of LG in comparison to Lotte Chilsung's, especially considering what Lotte Chilsung's development plan is for its land plot in downtown Seoul.

Public LBOs (40.5% of Portfolio; Quarterly Average Performance -15.6%)

Our broadcast TV franchises, leasing, building products distributors, plastic packaging, and roll-on/roll-off (RORO) shipping fall into this category. One trend I've noted in these firms is growth creation through acquisitions which provide synergies and operational leverage associated with vertical and horizontal consolidation and the subsequent repurchasing of shares with debt. The increased cash flow from acquisitions and synergies are used to pay the debt and the process is repeated. The effectiveness of this strategy is dependent upon a spread between borrowing, interest rates, and the cash returns from the core business and acquisitions. Recently, interest rates have been increasing, and this has reduced the economics of this strategy; but a large spread still exists if assets can be purchased at the right price.

One example of public LBO firms you have in your portfolio is Berry Global (Berry). Berry is a plastic and engineering materials packaging firm that provides packaging solutions to health, hygiene products, and consumer products firms in the United State and Europe. Berry's growth model focuses on plastic and engineered materials continuing to take more shares of packaging from other materials, specifically in the health, hygiene, and consumer products realm where the growth is the strongest which provides 2-3% annual growth. Synergistic M&A is adding an additional 3-4% per year to growth. These sources of growth are enhanced by opportunistic operational leverage from scale and share repurchases (5% annual growth). Over the past eight years, Berry's net income margins doubled, with a 3x increase in revenues. These factors should lead to 10-12% EPS growth going forward. Berry has had 18% and 28% EPS growth over the past five and 10 years, respectively. Part of Berry's strategy is to lever up to purchase a geographically expanding or complementary product packaging firm and pay the debt down with cash flows post acquisition, similar to private equity funds. Berry has done this three times since its IPO in 2011. Once debt is paid down a reasonable level, Berry has been repurchasing stock if another reasonably priced acquisition cannot be found. This strategy is similar to that of Asbury, described in previous letters. Compared to other packaging firms, Berry has amongst the highest inventory turns and margins. This has resulted in 25% to 40% returns on equity over the past five years.

Berry currently trades for a FCF multiple of about 7.6x and a free cash flow yield of 13%. Berry's BBB-rated debt (with an EBITA coverage ratio of 6.2x) is currently yielding 6.2%, for a FCF-debt yield of 6.8%, which is high compared to the current market equity risk premium of about 5% and the projected growth in excess of the market. Given the projected EPS growth of 10% per year, Berry should trade at 29x earnings using Grahams' formula of 8.5 + 2 * growth rate. Even at half this multiple—15x—Berry would trade at two times its current price.

Distribution Theme (36.8% of Portfolio; Quarterly Performance -8.8%)

Our holdings in car and branded capital equipment dealerships, convenience stores, building product distributors, automobile transportation logistics, and capital equipment leasing firms all fall into the distribution theme. One of the main KPIs for dealerships and shopping is velocity or inventory turns. We own some of the highest-velocity dealerships in markets around the world. Over the past two years, there have been challenges in some markets hit by COVID, like South Africa and Latin America; but there should be recovery now that vaccines have been approved and distributed.

One of our holdings in the distribution theme is Wilh. Wihelmsen (WW), an automobile and offshore logistics firm. About 55% of WW's asset value is associated with automobile RORO shipping transportation, 34% associated with RORO logistics, 13% associated with supply bases and integrated offshore logistics, and 2% associated with renewable energy assets. WW's RORO shipping assets include a 38% interest in WWL (Wallenius Wilhelmsen ASA), the largest RORO shipping company in the world. Other RORO shipping assets include an 11% interest in Hyundai Glovis, a Korea-based RORO logistics company, via Treasure ASA. In Q2 2022, the RORO shipping market was tight due to the slow recovery from COVID causing limited increases in RORO shipping supply which generated high shipping rates and utilization. Historically, given the concentrated industry structure, RORO shipping has generated higher returns than commodity shipping such as container and bulk shipping.

WW's renewable energy assets include a 25.7% stake in Edda Wind ASA, a publicly traded company in Norway. WW Maritime Services (WMS OPS) provides both ship and port services and ship management for WWL's fleet. The applied multiple for WMS OPS is based upon the multiple of other logistic service providers. Norsea provides supply bases and integrated logistics for offshore operations in Norway. In Q2 2022, WW purchased 24% of Norsea, increasing its stake to 99%.

Adding together the assets of WW less WW's liabilities results in WW's NAV. A 25% holding company discount was applied to the NAV to account for the lack of control of the underlying businesses by minority shareholders. The resulting discounted NAV and the current prices discount are outlined below.

Wilh Wilhelmsen (NOK)										
NOK/$	9.831						WW			
	EBITDA	Mutliple	Value	% of NAV	Mkt Cap	% Owned	Value			
WMS Ops	983.1	7.0	6,881.7	34%						
New Energy			479.2	2%	1,864.7	25.7%				
WWL ASA			9,172.3	46%	24,259.1	37.8%	9,172.3			
Treasure			3,868.7	19%	5,582.6	77.0%	4,298.6	10%	Hold Co Disc to FMV	
NorSea	450.0	6.0	2,673.0	13%	2,700.0	99.0%	2,673.0			
Net Cash			-3,116.4	-16%	Cash less debt at Holdings & WMS & Investments					
Net Asset Value	EPS*	Multiple	14,968.9		25%	Hold Co Disc to FMV				
Shares			46.5							
NAV/Share	53.2		321.9		Discount					
A Shares		4.2	225.0		-30.1%	1.430721				
B Shares		4.1	220.0		-31.7%					
Book Value/Share	430.03	51%								

The current price/"look through" earnings multiple of 4.1x (25% earnings yield) and 51% price/book value is undemanding given the expected earnings growth of 8% over the next few years.

Telecom/Transaction Processing Theme (34.5% of Portfolio; Quarterly Performance -14.7%)

The increasing use of transaction processing in our firms' markets and the rollout of fiberoptic and 5G networks will provide growth opportunities. Given that most of these firms are holding companies and have multiple components of value (including real estate), the timeline for realization may be longer than for more mono-industry focused firms. Most of these firms have been strong given their continued growth in telecom and processing revenues.

Recently, we participated in Millicom's rights offering to purchase shares at $10.61 per share, a significant discount to the quarter-end share price of $14.37/share. We oversubscribed to the offering and were able to lower our cost basis significantly. If Millicom can achieve the goals it has laid out in its current business plan, its quarter-end price represents 5.3x 2022 free cash flow and 1.8x 2026 free cash flow. The expected growth of free cash flow from management's plan is 25% per year between 2022 and 2026.

Consumer Product Theme (10.6% of Portfolio; Quarterly Performance -5.8%)

Our consumer product, tire, and beverage firms comprise this category. The defensive nature of these firms has led to better-than-average performance. One theme we have been examining is the increase in sales of adult products (tobacco, cannabis, gaming product offerings) and the large consolidation opportunities in smaller convenience stores internationally.

Real Estate/Construction Theme (24.7% of Portfolio; Quarterly Performance -19.5%)

In my opinion, the pricing of our real estate holdings has been impacted by both a recession and the communist takeover in Hong Kong. The current cement and construction holdings (in US/Europe via Builders First Source and Countryside and in Korea via Asia Cement) should do well as the world recovers from COVID shutdowns and governments start infrastructure programs. The laggards in this theme—Ashtead, Countryside and Builder's First Source—have continued declines due to lower expectations for developed markets construction/housing demand due to increases in interest rates.

Transformation - Firms in Declining and Growing Businesses

One theme common in some of our holdings is transformation, where firms have both a declining legacy business and a newer growth business. Typically, the new business has been started to continue operations of the legacy business utilizing an innovation such as a new development technology or distribution channel. In many cases, the incumbent firms have an advantage over disruptive firms if the existing value chain is modified versus being developed totally anew in adopting the innovation. Consolidated Communications and our case study this quarter, Thryv, are examples of incumbent firms capitalizing on new innovations.

Sometimes, an innovation allows for an expansion of the legacy business into new areas. For Thryv, the transition to digital directories from paper also facilitates the sale of its SaaS automation software product to directory customers and associated referrals from those customers. Many times, these transforming businesses are not valued as the newer business until the new business represents 30 to 40% of the total revenues or cash flows. In the case of the Thryv, this will be in 2023 for revenues and 2026 for cash flow.

Unrecognized Growth and Sources of Growth

One common characteristic of our owned firms is what John Neff described in his book, *John Neff on Investing*[1], as unrecognized growth stocks. During his years running the Windsor Fund, Neff found the following characteristics as those of interesting unrecognized growth stocks:

(1) 12 to 20% earnings growth going forward;
(2) 6 to 9 times earnings;
(3) historical double digit EPS growth rates;
(4) sold return on equity; and
(5) dominance in an industry or participation in market with good returns.

Interest rates were higher when John wrote his book in 1999 (6.5% vs. 3.35% 10-year treasury rates), so the earnings multiple range for lower interest rates is closer to 9 to 14 times earnings. Examples during his tenure at Windsor include Tandy/Radio Shack and Pizza Hut. Some examples today in our portfolio include Ashtead, Asbury Automotive, and Berry.

Growth in earning or free cash flow per share comes from five areas:

(1) organic sales growth;
(2) operational leverage;
(3) accretive mergers and acquisitions (consolidation);
(4) paying down debt with firm cash flows; and

[1] Page 106-107, *John Neff on Investing*, John Neff w S.L. Mintz 1999

(5) share buybacks.

The first two sources are based upon industry structure (i.e., the hand you are dealt) and the last three are based upon company actions (i.e., how you play the hand you are dealt). Markets are pretty efficient at pricing the industry structure sources and less efficient at the company actions, as many of these are "to be deployed" strategies that are only ideas in management's minds. Our focus is to find managers who will deploy the company actions that will enhance firm value. Most of these are not in the best industry structures (like software) but in above-average industry structural situations with management teams that can execute on company-based growth strategies. Some examples in our portfolio include Ashtead, Asbury, Berry, Consolidated Communications, Millicom, and Thryv.

Conclusion

As always, if you would like to discuss any of the philosophies or investments in deeper detail, then please do not hesitate to reach out. As I am writing this letter, the end of the third quarter is just a few weeks away. With that in mind, I will be hosting a conference call with a Q&A session in mid-October. I hope you will be able to join us. Stay tuned for more details to come.

Warm Regards,

Keith D. Smith, CFA

CASE STUDY: THRYV HOLDINGS INC (THRY)

Thryv Holdings (THRY) is a marketing and automation software and service firm serving the small and midsized businesses (SMBs) market located in the United States and Australia. THRY is part of our transformation and consolidation themes described above. THRY is transforming itself from a traditional yellow pages marketing firm (that throws off excess cash flows) to a software and service provider of marketing and automation solutions (that requires cash flow for growth) to the same SMB customer base in the US and Australia. This model focuses on a segment of the SMB market that is not currently serviced by others—the SMBs run by non-tech enabled entrepreneurs who traditionally utilize directories for sales and marketing and have yet to adopt SMB automation tools. Thus the customer base of the legacy business of over 400,000 clients overlaps the target market for the automation software.

This transformation was facilitated by the emergence from bankruptcy of THRY's predecessors (Dex Media and YP Holdings), the development of THRY's software product, and the hiring of a CEO who can bring it all together, Joe Walsh. THRY is also consolidating the legacy yellow pages/online directories business in North America and Australia. The cash flow generated from the legacy directory businesses is being used to fund software development and sales and marketing. This consolidation is also being financed by debt, thus creating an LBO effect in addition to the growth from the software product.

THRY is nicely positioned to take advantage of two digitalization trends. First, the 2020s will be the decade where SMBs will incorporate automation software into their businesses much the same way larger enterprises have used software to automate their processes over the past 20 years. Second, SMB marketing and advertising will transition from print to digital. THRY emerged from bankruptcy as a print and digital marketing and advertising firm.

THRY's customer base is small and midsized businesses. One challenge of this customer base is high customer attrition. Paychex is an example of a company that provides essential services to this customer base. Historically, Paychex has had a customer retention rate of 80% due to vagaries of SMB. Despite the customer attrition rates, Paychex has been able to obtain high revenue growth via new sales and increasing ARPU. THRY is in a similar situation and thus needs to increase its ARPU to have revenue growth. Currently, THRY has a mid-80% customer retention rate, with a 10% increase in ARPU generating a recurring revenue rate in the low 90% range.

Many of the traditional marketing service customers utilize the THRY software. About 33% of new THRY software customers are referrals from traditional marketing services businesses. THRY's marketing and automation software product costs customers $200 to $500/month versus several thousands per month for HubSpot and ServiceTitan and $300/month for digital marketing service from Townsquare.

One of THRY's differentiators is customer service associated with its software sales and onboarding. THRY has achieved NPS scores in the 80s to 90s for its onboarding and customer support once onboarded. THRY also has illustrated good capital allocation in using an LBO strategy for its acquired legacy directory business. Namely, purchasing firms for low prices (2x EBITDA), debt financing them, restructuring them, and letting the cash flow from the restructuring pay down the debt and fund THRY's SaaS software development. The legacy directory customers acquired have become THRY's SaaS software product customers or referral sources for customers.

US and Australia SMB Marketing and Automation Business

The SMB marketing business (yellow pages and directories) is transitioning from print yellow pages (PYP) to digital online marketing sites, or internet yellow pages (IYP). Since 2008, the year print and digital directory revenues peaked, the digital and printed directory business has declined by about 7% per year. This rate is expected to continue increasing to a 20% annual rate of decline over the next 10 years. In 2022, 59% of revenue was from PYP while 41% was from IYP. By 2032, the mix is expected to be 85% IYP and 15% PYP. Despite the decline in revenue growth, the margins are expected to remain high at 35%. THRY's strategy for this market is to consolidate existing players and utilize the customer base to sell THRY's software. To date, the company has purchased an Australian directory firm, Sensis, for $215 million in March 2021 for 2x EBITDA and Vivial, a US directory firm for $23 million or about 2x EBITDA in January of 2022. These firms are purchased with debt and managed to maximize cash flow to pay down debt and fund the THRY software sales and development. The debt is expected to be paid off in the next three years and the remaining cash flows will be used to fund software sales and growth.

The SMB automation market includes small businesses from two to 50 employees. These clients include many service businesses and typically have $500k in revenues. Management estimates its SMB target market is about 4 million out of a total of 31 million SMBs in the US and 8 million out of a total of 70 million internationally. Over the next five years, THRY is expected to grow its software revenue to $1 billion from $217 million currently, representing a 35% CAGR. Over the subsequent five years, revenues are expected to reach $4 billion, representing a 27% CAGR. Over the past year, THRY has had a 27% growth rate with a 40% sequential annualized growth rate. HubSpot, Inc. (HUBS), THRY's closest comp, had a 35% annual growth rate with a 30% sequential annualized growth rate.

HUBS is the closest competitor to THRY, providing a more fully featured product selling for about $1,300 per month and a smaller, scaled down version for less. The HUBS target market is businesses with 20+ employees, so it is higher than THRY's target. The HUBS strategy is to attract customers via its marketing hub and upsell customers to other hubs like sales and operations. This has led to an ARPU growth rate of 10% per year over the past five years.

THRY's projected five-year growth rate of 35% is estimated to be comprised of 25% customer growth, with a 10% ARPU growth rate. By the end of five years, adjusted EBITDA margins are expected to be 20% up from break-even today and dollar retention of 100% up from 90% today. As a benchmark, HubSpot's dollar retention has increased from 100% five years ago to about 110% today, its ARPU is up about 10% per year, and its overall revenue about 35% per year over the last five years.

THRY's strategy is to obtain customers in the few hundred dollars per month range for its business center software and upsell them other automation tools such as THRYPay and marketing center tools, very similar to HUBS's strategy. THRY business center software allows service providers to get the job (via research and engagement), manage the job (via organizing, scheduling, and getting paid), and get credit for the job (via thank yous and nurturing the relationship for repeat business). The THRY marketing center software is a CRM package which allows users to analyze web traffic and analytics and manage multi-channel marketing campaigns and marketing tools. THRY marketing center will be available in H2 2022. In addition to PYP and IYP customers, the automation software business also targets referrals from the existing customer base and direct contact via call centers and meetings with target customers. New software customers are about 1/3 from existing PYP and IYP customers, 1/3 from PYP and IYP referrals, and 1/3 from new direct marketing efforts.

Downside Protection

The cash flow provided by the PYP and IYP provides downside protection for the software business as it is rolled out. The debt associated with these businesses should be paid off in three years; thus the residual cash flows can fund software development. The US software business has broken even in Q2 2022. The international business in Australia and Canada is scaling up and will not break even for a few years.

The management projections for the software business are as follows:

SaaS (Plan)												
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Subscribers		54.00					150.00					500.00
ASP		4.00					6.67					8.00
Revs	25%	216.00	295.92	405.41	555.41	760.91	1000.00	1320.00	1742.40	2299.97	3035.96	4000.00
			37.0%	*37.0%*	*37.0%*	*37.0%*	*37.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*
EBITDA	20%	-20.00	0.00	20.27	55.54	114.14	200.00	264.00	348.48	459.99	607.19	800.00
				5.0%	*10.0%*	*15.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes	26%	-5.20	0.00	5.27	14.44	29.68	52.00	68.64	90.60	119.60	157.87	208.00
Net Income		-14.80	0.00	15.00	41.10	84.46	148.00	195.36	257.88	340.40	449.32	592.00

These projections are reasonable based upon the historical subscriber growth, ASP growth data from HUBS over the past five years, and projected steady-state margin data for HUBS of 20%-25% EBITDA margins. The software business is projected to break even by 2023 and turn profitable by 2024.

The management projections for the PYP and IYP business are as follows:

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Yellow Pages												
Revs	-20%	962.50	770.00	616.00	492.80	394.24	315.39	252.31	201.85	161.48	129.18	100.00
EBITDA	35%	336.88	269.50	215.60	172.48	137.98	110.39	88.31	70.65	56.52	45.21	35.00
Interest Exp	8%	43.38	26.01	11.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Taxes	26%	76.31	63.31	53.04	44.84	35.88	28.70	22.96	18.37	14.69	11.76	9.10
Net Income		217.19	180.19	150.97	127.64	102.11	81.69	65.35	52.28	41.82	33.46	25.90
Debt	542.25	325.06	144.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net CF		0.00	0.00	150.97	127.64	102.11	81.69	65.35	52.28	41.82	33.46	25.90

As can be seen from above, the debt assumed for the Sensis and Vivial acquisitions will be paid off from cash flow generated by 2024. Thereafter, the residual cash flows from these businesses will be accretive to THRY's value.

Management and Incentives

Joe Walsh, the CEO, has a background in leading yellow-pages firms as the president and CEO of Yellowbook and in incorporating digitization into traditionally print service business as executive chairman of Cambium Learning Group (Cambium). He was brought into Cambium by Vernois Shuler to digitize the educational publishing business of Cambium. He has assembled a team for the digital transition of Thryv's business and set out a longer-term plan with goals described above. He owns 2.4 million shares, or 6.9%, of the common stock.

THRY's management incentives include short-term cash incentives, 25% based upon EBITDA, FCF, and SaaS revenue targets and individual incentives. The stock-based incentive is all employees can purchase common stock at a 15% discount to its trading price.

The major shareholders include a group of former bondholders who are slowly selling their stakes and include Paulson (6%), Murdock (20%), and Cerberus (5%). These shareholders will be an overhang to the stock price as the ownership transitions to non-distressed shareholders.

Valuation

SaaS (Plan)												
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Subscribers		54.00					150.00					500.00
ASP		4.00					6.67					8.00
Revs	25%	216.00	295.92	405.41	555.41	760.91	1000.00	1320.00	1742.40	2299.97	3035.96	4000.00
			37.0%	*37.0%*	*37.0%*	*37.0%*	*37.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*
EBITDA	20%	-20.00	0.00	20.27	55.54	114.14	200.00	264.00	348.48	459.99	607.19	800.00
				5.0%	*10.0%*	*15.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes	26%	-5.20	0.00	5.27	14.44	29.68	52.00	68.64	90.60	119.60	157.87	208.00
Net Income		-14.80	0.00	15.00	41.10	84.46	148.00	195.36	257.88	340.40	449.32	592.00
	Multiple											
Terminal Value	25.00											14800.00
Disc Rate	15%	0.93	0.81	0.71	0.61	0.53	0.46	0.40	0.35	0.30	0.27	0.23
PV of CF		-13.80	0.00	10.58	25.20	45.03	68.62	78.76	90.40	103.77	119.10	3547.87
Sum	4053.55											

SaaS (Low-end)												
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Subscribers		51.75					103.02					172.67
ASP		4.00					5.00					6.00
Revs	25%	207.00	248.40	298.08	357.70	429.24	515.08	592.34	681.20	783.38	900.88	1036.01
			20.0%	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
EBITDA	20%	-20.00	0.00	14.90	35.77	64.39	103.02	118.47	136.24	156.68	180.18	207.20
				5.0%	*10.0%*	*15.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes	26%	-5.20	0.00	3.88	9.30	16.74	26.78	30.80	35.42	40.74	46.85	53.87
Net Income		-14.80	0.00	11.03	26.47	47.65	76.23	87.67	100.82	115.94	133.33	153.33
	Multiple											
Terminal Value	25.00											3833.253153
Disc Rate	15%	0.93	0.81	0.71	0.61	0.53	0.46	0.40	0.35	0.30	0.27	0.23
PV of CF		-13.80	0.00	7.78	16.23	25.40	35.34	35.34	35.34	35.34	35.34	918.91
Sum	1121.03											

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Yellow Pages												
Revs	-20%	962.50	770.00	616.00	492.80	394.24	315.39	252.31	201.85	161.48	129.18	100.00
EBITDA	35%	336.88	269.50	215.60	172.48	137.98	110.39	88.31	70.65	56.52	45.21	35.00
Interest Exp	8%	43.38	26.01	11.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Taxes	26%	76.31	63.31	53.04	44.84	35.88	28.70	22.96	18.37	14.69	11.76	9.10
Net Income		217.19	180.19	150.97	127.64	102.11	81.69	65.35	52.28	41.82	33.46	25.90
Debt	542.25	325.06	144.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net CF		0.00	0.00	150.97	127.64	102.11	81.69	65.35	52.28	41.82	33.46	25.90
Disc Rate	15%	0.93	0.81	0.71	0.61	0.53	0.46	0.40	0.35	0.30	0.27	0.23
PV of CF		0.00	0.00	106.45	78.26	54.44	37.87	26.35	18.33	12.75	8.87	5.97
Sum	164.57											
Valuation												
YP		164.57										
SaaS		4053.55										
DTA		101.00		Imp Mult								
Plan		4319.12	$127.78	20.0								
Low-end		1222.03	$ 41.02	5.7								

The key to the valuation of Thryv is the expected growth rate. Since the firm has two major segments—software and IYP—its valuation was estimated under two scenarios. One is based upon management's five- and 10-year plans and a second is based upon lower software revenue growth.

The high-end scenario, with management's plan for software, is illustrated below. For the first five years, revenue will grow in the high 30% range followed by growth in the low 30% in the following five years. The company will become profitable in 2024 and approach a longer-term profitability target of 20% by 2027, remaining at that level for the next five years. The free cash flows are discounted by a 15% discount rate and a 25x FCF multiple is applied in the terminal year. The resulting value is $4.053 billion.

The low-end scenario is illustrated below. For the first five years, revenue will grow at 20% per year, then 15% per year for the following five years. The company will become profitable in 2024 and approach a longer-term profitability target of 20% by 2027, remaining at that level for the next five years. The free cash flows are discounted by a 15% discount rate and a 25x FCF multiple is applied in the terminal year. The resulting value is $1.121 billion.

The yellow pages business was modeled based upon a 20% revenue decline per year and keeping EBITDA margins steady at 35% per management's plan. The free cash flow is used to pay back THRY's debt over the first three years, then discounted back at 15% to estimate the value of the yellow pages business. This results in a value of $165 million.

In addition, THRY has an NOL carryforward worth $101 million. Therefore, the resulting high-end value for THRY is $4.3 billion and the low-end is $1.2 billion. The resulting per common share value for THRY is $41 to $127.

Comparables

SMB Service Business Software Comps															
	Share Price	Mkt Cap	Debt	MVIC	2022 EPS	2026 EPS	2022 Rev	2026 Rev	Earnings Multiple	Price/ 2026 EPS	EV/ Sales	EV/ 2026 Rev	Debt/ Sales	Implied Growth*	Proj EPS Growth
Thryv	**22.39**	**1,075**	**525**	**1,600**	**3.27**	**5.16**	**1,172**	**1,090**	**6.85**	**4.34**	**1.37**	**1.47**	**0.45**	**-0.8%**	**12.1%**
Hubspot	300.65	14,437	-500	13,937	2.28	22.59	1,300	3,848	131.86	13.31	10.72	3.62	-0.38	61.7%	77.4%
PAR	37.49	1,020	242	1,262	Neg	3.52	333	379	N/A	10.66	3.79	3.33	0.73	N/A	N/A
Olo	9.87	1,596	-440	1,156	Neg	0.47	183	610	N/A	20.79	6.32	1.90	-2.40	N/A	N/A

Benchmarking						
	Subscriber Growth	ARPU Growth	Recurring Rev Rate	Customer Retention	Revenue Growth	Rev/ Employee
Thryv	**11.0%**	**11.0%**	**91.0%**	**82.0%**	**26.0%**	**450,077**
Hubspot	36.0%	12.5%	110.0%	97.8%	40.0%	220,526
PAR	30.0%	0.0%		96.0%	30.0%	225,254
Olo	11.0%	12.0%			27.0%	286,385

* Implied growth using Graham formula & 4.4% AAA bond yield (8.5 + 2*G)

The comparable firms are SMB automation solutions providers. All of these firms have high revenue growth with growth in subscribers and ARPU. Compared to these firms, Thryv is undervalued given its growth rate and customer retention. Thryv has more revenue per employee and current positive earnings versus loss for two of the comparable firms. The valuation is currently at a significant discount to these comparable firms and should approach their valuations if management's business plan is realized.

Risks

The primary risks are:

- slower than expected growth of the SaaS business or quicker than expected decline for the legacy directory business; and
- quicker than expected decline for the legacy directory business.

Potential Upside/Catalyst

The primary catalysts are:

- rerating as business plan is realized;
- quicker uptake of the SaaS product from target demographics; and
- longer duration of the directory cash flows.

Timeline/Investment Horizon

The short-term target is $41 per share, which is 86% higher than today's stock price. If the successful business plan is realized over the next five years, then a value of $127 per share could be realized. This is a 42% IRR over the next five years.

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