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March 31, 2021

Dear Investor,

Please find attached your account's performance for the first quarter. You will note, it was a strong period for our investments and your account, as we outperformed the general market.

For better or worse, social media has become a mainstay in our society. Putting aside its usefulness and its dangers, if nothing else, it is a good historical record of how we feel as a society at any given moment. If you go back and look at it through 2020, we clearly spent much of that time simply waiting for "it" (the COVID pandemic) to end. 2020 was a difficult year for everyone, but as it ended, we finally had reason for hope. First, we got the announcement of a vaccine, and since then, we have been pleasantly surprised with how quickly the rollout has followed.

Now, we have hope that this difficult period of social isolation that has deeply affected all of us is coming to end, as the number of people that have been vaccinated continues to rise, and restrictions on businesses and social gatherings are beginning to lessen. I had my second vaccination two weeks ago and look forward to getting back out to meeting with management teams and with clients in person. There are genuine reasons to be excited for the future, and a growing realization that the pandemic and response to it being the "new norm" may not be how we live forever. Recall, as we have stated in prior communications, this crisis was different in that it was not just financial or economic, it was personal – we all feared for the health and well-being of ourselves, families, and friends.

As social life begins to reemerge, we find another reason to be excited which comes from what we're seeing in the the economy and manifesting in markets today. We believe there are several trends that are coming together to give us optimism for the future of our value-style of investing. The decade-long recovery post the financial crisis is no more the "new norm" than is the pandemic. Our investment focus on economically sensitive businesses has not flourished in this prolonged period of easy and cheap money dispensed by the Federal Reserve. Buying well-positioned companies with strong earnings potential, while a proven source for our long term out-performance, simply has not been the place to be.

For the last decade plus, there has been a trend where growth and momentum have significantly outperformed basically every other subset of the market. In the market we have seen this manifest as "growth stocks" substantially outperforming "value stocks." While this subdued economy hasn't provided an environment for our companies to "strut their stuff," our companies have continued to enhance that earning power and are prepared for stronger business activity. Robust economic activity has already started to manifest itself. We are getting past the pandemic and its draw on economic activity. A recovery is underway and gaining momentum.

We have always been bottom-up stock pickers, but we still are aware of the macro events which provide the background music that enables our companies to dance. Stepping back in time, we note that World War II cost the U.S. $4 trillion dollars (inflation adjusted)[1] and that influx of cash, mixed with a population ready to spend money, spurred a great economic boom for America in that post war period. Fast forward to today and the U.S. government alone has enacted six major bills putting $5.3 trillion dollars into the US economy, with more on the way. Treasury Secretary Yellen emphasized the need to provide more fiscal support to promote a robust and lasting recovery, telling her G7 counterparts "the time to go big is now."

What we have seen from our investments in the housing industry is that the average American is opening their wallet in a big way – there are even comparisons being drawn to a new "roaring '20's." We believe that there are very real reasons to be excited about the prospects of the U.S. economy. How many of you are already planning your first post-vaccine trip? Looking at remodeling your home, or buying a new one (or have you already moved to the suburbs)? Even simply just going out to a store again is cause for excitement! The outlook on its own is bright. As it seems, current government actions will catapult economic activity. A booming economy, plus additional stimulus, should lead to strong earnings growth for well-positioned, economically sensitive companies and further catalyze a return to value.

**Portfolio Update**

That long-awaited return to value is a theme that has already benefitted our investments in homebuilding, and one prime example is our investment in Norbord, which is a great "in-process" case study. The stock is up more than 60% since 11/18/20, the day before its announced acquisition by Canadian lumber and wood products producer West Fraser. (For an expanded version of our analysis on Norbord, please see the appendix to this letter). Prior to the acquisition, Norbord was the largest independent producer of oriented strand board (OSB) which is a replacement for plywood traditionally used in homebuilding (also used in furniture – think the furniture wood framework underneath the couch fabric). Norbord itself is the product of the #3 and #5 OSB producers merging to form the largest OSB producer in the industry. Like many other areas in homebuilding, we've seen massive consolidation that has positioned those companies that remain for very strong financial results.

[1] "Costs of Major U.S. Wars" Congressional Research Service, June 29, 2010 & Robotti & Co. Estimates

As a commodity building product, OSB (the product) historically experienced recurring boom/bust cycles. We have discussed the capital cycle here many times and the OSB industry provides us with another example of how this economic principal works.

The history of the OSB industry has been that of an industry held captive by the capital cycle. Many think it is still captive to that cycle, but as has been known to happen given our contrarian approach, our analysis led us to a very different conclusion. Industries can evolve. I love to point this out for the rail industry in America - a horrible capital destroying business when I got out of college. Today, the remaining rail companies are local monopolies with low cost, energy efficient transport services with strong economics. Similarly, the evolution of the OSB industry over the past 20 years has fundamentally changed the competitive landscape and changed the business. Today, it is well positioned for strong, sustainable, albeit still volatile earnings, and in an excellent phase of the market demand for its products.

Our analysis showed that if the annual number of single-family equivalent housing starts recovered to 1.2 million, the 50-year average in the United States during a period of steadily rising population and households, there would not be enough OSB capacity in North America for every new house. In addition, after the housing bubble burst, OSB producers were eager to find new uses and customers to diversify their exposure to homebuilding. By the end of 2015 roughly 15% of Norbord's OSB production was sold into industrial and specialty markets such as the furniture industry. This meant that single family home starts didn't even have to get to their 50-year average for demand to outstrip supply, and once they did reach the average, OSB supply would become severely constrained and prices would not rise in a smooth linear fashion – the one that analysts are fond of putting in their models.

Fast forward to 2020, and as lockdown orders spread across North America, Norbord's stock was hit especially hard, but to almost everyone's surprise, instead of causing a pullback in housing demand, the pandemic unleashed a previously dormant demand for new homes. When this surge in demand met even more limited supply, Economics 101 took over and the price of OSB skyrocketed (or "hockey-sticked") to all-time highs. At the end of March, the benchmark price of Ontario OSB was C$1,425/msf up 256% when compared to the prices at the same time last year, when it was C$400/msf. This increase in price, led to a significant increase in free cash generated by Norbord. These prices will most likely moderate, but still are likely to settle at a high enough price to sustain strong margins.

What happens to good businesses? Investors and smart capital notice. On November 19, 2020, it was announced that West Fraser would acquire Norbord. After analyzing West Fraser's historical business and the new combined entity, we continue to hold the shares we received of West Fraser and believe the opportunity for shareholders is still very compelling. West Fraser operates 33 lumber mills, 7 panel mills and 5 pulp and paper mills throughout North America. Much like the OSB industry, the capital cycle is facing a very different situation than ever before. In the past, there was always enough available or potential supply from North America to overwhelm increases in demand because there was always additional timber supply available. This is no longer the case, and West Fraser estimates that once we reach 1.3 million single family equivalent housing starts on an annualized basis, there will not be enough lumber to fulfill demand. Just like we are seeing with OSB, in such a situation West Fraser believes there will be a major spike in prices. We are already seeing this play out with lumber prices rising almost 200% from a year ago to an all-time high of over $1,000 per thousand board foot. As a result, the lumber industry should also experience an advantaged period where they will generate significant free cash flow and earn above average returns on capital. This will of course be on top of the dynamics we've already discussed relative to OSB.

OSB serves as a prime "in-process" case study of our process in action and our portfolio is replete with similar holdings, each with its own "in-process" arc.

**Conclusion**

So much of the investment world today has broadly accepted that the economic situation of the last decade (ex-COVID) is the new norm, and valuations have reflected that assumption. Widespread acceptance of this assumption *as fact* provides us with vast investment opportunities given our differentiated lens of analyzing economic, industry and business cycles.

Last spring's markets reflected the uncertainty and concern that the pandemic's economic impact was the new norm, but today we understand that the pandemic's disruption was largely transitory. We believe the anemic economy of the last decade is also transitory, and see a change already unfolding. The response to our reemergence from the pandemic's paralysis is setting the table for the next decade. Much of the world has accumulated capital through this crisis, and the propensity to spend at least some of those savings is becoming clearer. Government spending, including significant, and sorely needed, infrastructure spending, will further accelerate economic activity. The latent earnings potential of our companies, which have grown their earnings power over this period of drought, will be an important driver for our portfolio's companies. We are optimistic that the long-awaited return to value we are beginning to experience will benefit our portfolio, and as a result, your results.

Thank you for your continued support. Lastly and importantly, as we do emerge from the grip of the pandemic, I wish you and your families the best. I look forward to the time when many of us can once again share the beauty of human direct interaction.

Best to You Now and Always,

Bob

**Appendix**

Our investment in Norbord is a great "in-process" case study. The stock is up more than 60% since 11/18/20, the day before its announced acquisition by Canadian lumber and wood products producer West Fraser. Prior to the acquisition, Norbord was the largest independent producer of oriented strand board (OSB) which is a replacement for plywood traditionally used in homebuilding. Originally, it was another Canadian OSB producer, Ainsworth, that we identified as an attractive investment opportunity when that company tapped the public markets to raise capital through a rights offering that was backstopped by its largest shareholder. Ainsworth, which was the 5th largest OSB producer was eventually acquired by then 3rd largest OSB producer Norbord to create the largest OSB producer in the industry. Between the diligent work of our analysts and the insight I gained into the homebuilding industry from my experience on the board of BMC, we were able to quickly develop conviction in our view that the oriented strand board business presented us with an opportunity that was far greater than the transaction oriented "special situation" a rights offering often represents.

The consolidation of the OSB industry over the past two decades allowed Norbord to benefit from many of the same dynamics as another large investment in the homebuilding industry, Builders FirstSource. Still, as a commodity building product, OSB historically experienced recurring boom/bust cycles that began when more and more OSB was needed to satiate an increasing demand for new homes. As demand for OSB rose, so did industry-wide capacity utilization, a primary driver of OSB prices. With rising prices, OSB producers would begin to generate significant free cash flow and earn above average returns on capital. We have discussed the capital cycle here many times, and the OSB industry provides us with another example of how this economic principal works. Above average returns on capital would attract competition from both incumbents who expanded mill capacity, as well as new entrants to the OSB industry. More intense competition would drive both prices and returns on capital lower until the industry found itself in the midst of a downturn with competitors struggling to survive to see the cycle repeat.

The most recent example of this cycle occurred just after we made our initial investment in Ainsworth. As we ended 2012 and progressed into 2013, investors began to see the proverbial light at the end of the tunnel when new home starts finally began to show some continued signs of improvement. OSB prices, which were just below $200/msf at the start of 2012, began a steady march upward peaking at $417/msf in first quarter 2013. OSB producers began to generate significant amounts of free cash flow which motivated them to bring capacity that was idled during the financial crisis back online. One greenfield mill was also built for the first time since before the financial crisis. By the end of 2015, North American OSB capacity, which had reached a low of 20.4 billion square feet (bsf) in 2012, had increased by more than 20% to 24.8 bsf. As a result, OSB prices fell by more than 50% from a high of $417 in first quarter of 2013 to a low of $193 in the second quarter of 2015. Companies that were generating tremendous amounts of free cash flow were now struggling to remain cash flow positive. Analysts began pricing in low OSB prices in perpetuity, and OSB stocks suffered.

Everyone believed the OSB industry was just another industry held captive by the capital cycle. Our analysis led us to a very different conclusion. What no one seemed to be talking about was that by the end of 2015, the vast majority of operational OSB capacity in North America had been brought online. All the capacity from the remaining two OSB mills still mothballed, some de minimus capacity from a scattering of mills unlikely to ever operate again, plus any possible mill expansions would no longer be enough to have a significant impact on market prices. Of course, new mills can be built, but in the best possible case a new OSB mill would take 3.5 years (realistically +/-5 years) from permitting to first-board. This clears the way for industry incumbents to enjoy an advantaged period before new competition can enter the market.

Our analysis showed that if the annual number of single-family equivalent housing starts recovered to 1.2 million (the 50-year average in the United States during a period of steadily rising population and households), there would not be enough OSB capacity in North America for every new house! In addition, after the housing bubble burst, OSB producers were eager to find new uses and customers to diversify their exposure to homebuilding. By the end of 2015, roughly 15% of Norbord's OSB production was sold into industrial and specialty markets such as the furniture industry. With a stated goal to double the capacity sold into these markets, there would be even less OSB available for homebuilding. We believed that as demand for new homes would continue to slowly recover and eventually eclipse 1.2 million single family equivalent homes on an annual basis. At that point, OSB supply would become severely constrained, and prices would not rise in a smooth linear fashion – the one that analysts are fond of putting in their models. Instead, the price increase would resemble a hockey stick. Furthermore, if the annual level of single-family equivalent housing starts remained above 1.2 million, prices would remain significantly elevated for a longer period than expected due to the lack of OSB capacity available in North America.

No one could have predicted that the global pandemic would act as a catalyst for our thesis. As lockdown orders spread across North America, Norbord's stock was hit especially hard. Management quickly responded by enhancing its balance sheet liquidity and curtailing production capacity. These curtailments were on top of what had already been taken offline in the second half of 2019 as the industry focused on matching production with demand. To almost everyone's surprise, instead of causing a pullback in housing demand, the pandemic unleashed a previously dormant demand for new homes. When this surge in demand met even more limited supply, Economics 101 took over and the price of OSB skyrocketed (or "hockey-sticked") to all-time highs. At the end of March, the benchmark price of Ontario OSB was C$1,425/msf up C$1,025 or 256% when compared to the prices at the same time last year, when it was C$400/msf. These elevated prices have continued for longer than most through to be possible, even through the winter season when pricing has always dropped.

We previously mentioned that Ainsworth raised capital through a rights offering that was backstopped by its largest shareholder. It happens that the shareholder was Brookfield Asset Management, which was also the largest shareholder of Norbord prior to the merger with West Fraser. On November 19, 2020, it was announced that West Fraser would acquire Norbord in an all-stock transaction, with Norbord shareholders receiving 0.675 shares of West Fraser for each owned share of Norbord.

I began telling you about our investment in Norbord by saying that it was a great "in-process" case study. After analyzing West Fraser's historical business and the new combined entity, we continue to hold the shares we received of West Fraser and believe the opportunity for shareholders is still very compelling. West Fraser operates 33 lumber mills, 7 panel mills and 5 pulp and paper mills throughout North America. Our view on lumber is also driven by supply dynamics, which are much easier to identify than demand. The pressure on lumber supply has been unwinding for some time. Canadian lumber production is essentially at its peak due to timber supply limitations. Given the destruction caused by the pine beetle in the west, the only place in North America where there is still enough timber supply to expand capacity is the south eastern United States. According to West Fraser, there is enough available supply to add 3Bfbm of lumber capacity. West Fraser intends to take part in this greenfield expansion, but capacity will be slow to come online. Additionally, the rule of thumb is that 1Bfbm of lumber is required for every 100,000 single family home starts, and it takes roughly 4 new sawmills to produce 1Bfbm of lumber. So even if the industry builds 4 or 5 new sawmills per year, the additional 1Bfbm of capacity is not threatening to the industry. In reality, between 2017 – 2019 the industry added just 300Mfbm per year enough for only 300,000 additional home starts per year.

Much like the OSB industry, the capital cycle is facing a very different situation more than ever before. In the past, there was always enough available or potential supply from North America to overwhelm increases in demand because there was always additional timber supply available. This is no longer the case, and West Fraser estimates that once we reach 1.3 million single family equivalent housing starts on an annualized basis, there will not be enough lumber to fulfill demand. Just like we are seeing with OSB, in such a situation West Fraser believes there will be a major spike in prices. We are already seeing this play out with lumber prices rising almost 200% from a year ago to an all-time high of over $1,000/thousand board feet.

We agree with West Fraser's management who said that they believe the key investment factor here is: Where will additional lumber supply necessary to serve the markets come from once single-family equivalent housing starts eclipse 1.3 million on an annual basis? The answer comes back to two factors: (1) It will come in small increments and (2) It takes 3 – 4 years for a greenfield mill to ramp up to full production. As a result, the lumber industry should also experience an advantaged period where they will generate significant free cash flow and earn above average returns on capital.

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