Robotti & Company Annual Investors Meeting

November 19, 2021

Bob Robotti, Curtis Jensen, David Kessler & Theo van der Meer

The below transcript has been edited for clarity.

Robotti & Company Annual Meeting Transcript

Bob Robotti:

Hi, everyone. This is Bob Robotti from Robotti & Company Advisors. Thanks for joining us for the 2021 Annual Investors Meeting. For the format today, we're, still doing this remote and virtual – necessity, the mother of invention – the fact of the matter is that we can do this really is a progressive thing that we'll get benefits from permanently.

We've recorded some presentations, and so you'll hear from some of the members of the research team. Curtis Jensen will speak first, I'll speak for a while after that, and then David Kessler, and Theo van der Meer. We want to remind you that this is only part of the research team at Robotti & Company.

We want to point out a couple of things. One of them is there is a Q & A function on Zoom. So therefore as you're listening to us, I'm sure there are potentially questions that will come to mind. So you have the capability to note that immediately, and transmit it to us for the questions and answers section that will be available after, when we're back in a live format. As you've got questions and as they come, don't hesitate; continue to bring those in.

And you'll probably see us during the piece, although you may not see Theo van der Meer. He's not really doing that well. He's at home, he's ill, but he should be better soon. So he probably won't be in the question-and-answer period after when we have it. So with that, Theo, I'm going to ask you to run the video so they can see the pre-recorded piece before we re-join you. Thanks, all. Thanks for being here. We look forward to the event. Thanks.

CURTIS JENSEN:

Hi, and thanks for joining us. I'm Curtis Jensen. I manage JEN Capital Partners at Robotti & Company. Despite a name change this year, our investing approach remains exactly the same, and that's what I hope to share with you today. As I think back on this past year, three themes really occurred, and I term them the three R's: a rational approach, a resilient portfolio, and the realization of value.

I describe my approach as the search for investments that I term rational, which is to say that while they're intrinsically risk-averse, the approach also recognizes the importance of underlying growth in the business and identifying multiple credible avenues by which the business can grow.

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For example, these might be operational initiatives, capital allocation decisions, external factors like mergers and acquisitions.

I think it's fair to say that there are large pockets of speculative excess in both the public markets and the private markets, and I want to distance myself as far as I can from those forces.

I believe the rational framework that I employ creates a margin of safety in our investments. And it's particularly comforting to me when economic conditions deteriorate or when market conditions get more challenging.

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A focus on resilience. 2020, resilience was about the public health crisis. In 2021 we faced new challenges. If you think about, for example, the ice storms that gripped Texas back in February and how disruptive and how unprepared that state's infrastructure was for those storms. You fast forward to today and you look at the supply chain disruptions that are rippling across industry.

So a key focus for me at both the business level and the portfolio level is this idea of resilience. It might come from characteristics such as barriers to entry, contracted revenues, customer switching costs. It might even include investments that managements are making today whose payoff might not show up for years. We own a company called CACI, it's ostensibly an IT services provider to the federal government, and they work in a variety of areas, for example, providing everything from cyber security programs for the NSA to creating supply chain management systems for the agriculture department.

The company works under multi-year, long-term contracts. And I think they enjoy a scarce resource in the form of their workforce, 70% of whom have security clearances. They've really distanced themselves from their competitors, I believe, in two major ways. First, is their culture, which was multiple decades in development. But more recently, by their investments in technology, and that's starting to show up in improving margins and improving returns.

So foundational to this idea of resiliency is identifying fundamentally strong or improving business models, strength in the balance sheet, and identifying management teams who think and act like owners, smart capital allocators. In the case of CACI, for example, they bought back 8% of the company in the past year. They did so at prices well below current levels and well below what I estimate as intrinsic value.

The third R is the realization of value. I have an intentional bias in my investing toward companies where there's a founder, a large shareholder, a group of shareholders, a family involved, or where management has evidenced a very clear owner-operator mentality. Such conditions, I think, to put it bluntly, really reduce the odds of getting screwed in an investment. And they improve the odds that value can be built and realized irrespective of what's happening in the general market.

The portfolio today, more than half of it by weight, comprises companies with at least a 10% shareholder, and in many cases that's 20% or even higher. That profile is very clear at our largest holding, FRP Holdings, a real estate development company. The Baker family and executives own 34% of the company. And the Bakers themselves have a long history of value creation. At FRP, they're doing it through multiple ways. They're doing it through ground-up development, they're doing it through asset sales, they re-purchased 5% of the company's shares in 2020. Not a lot of companies had the wherewithal to do that in the distressed conditions of 2020.

And today the company sits with a debt-free, cash-rich balance sheet. They've also got a nice pipeline of funded growth projects that I think sets them on course to build intrinsic value over the next three to four years. Since initiating the investment five years ago, I estimate that per share intrinsic value has grown more than 60%. There's very clear evidence, in my mind, that the Bakers know how to build value and are willing to monetize it when the time is right.

By design, I've assembled a group of investments that, I think, look nothing like the broad market indices, and they have characteristics including financial strength, attractive valuations, business resilience, and aligned management teams, all of which create a recipe that not only brings a modicum of valuable diversification away from ETFs and passive indices, but it also improves the odds that intrinsic values can be grown and realized irrespective of what's happening in the stock market.

So there it is, a rational approach based on identifying resiliency, with the idea that value can be realized and prove out even with the ups and downs in the stock market. Thanks for listening. I'd like to turn it over to Bob.

BOB ROBOTTI:

Hi. I'm Bob Robotti of Robotti & Company Advisors. Thanks for joining us for our 2021 Annual Investor Meeting. As you can see, we're doing this again virtually. I look forward to next year being able to do it in person. So today what I want to do is cover our views on the investing climate, how we're invested today, and why we're excited about the opportunities over the next few years.

I want to start off by talking about R's. So here at Robotti, I guess we love our R's, and there are three R's I want to talk to you about today. The first one is recency bias, the second one is the revenge of the old economy, and the third one is the revenge of the stock picker. So obviously, from what I said, you can understand that we have a very different view on the investment world today than many others.

So I think it's most important that you have a historical perspective. I've been investing for over 45 years, and I've seen many different economic environments, and a historical perspective is important. We think that's particularly important today. The decade of 2010 to 2019 was a unique decade. That's right, I said "unique" meaning one of a kind.

And what we look at are things like there was no recession. The economic activity was very modest and tepid in terms of the recovery that did go that entire decade. And, of course, that makes sense that with that kind of tepid recovery, there was no boom. So, therefore, there was no bust. And the reasons for that, in large part are government's actions and responses to the world's financial crisis, flooding the system with liquidity. So, therefore, that constant flow that lasted pretty much the entire decade from central banks and world governments to stave off financial disaster, extended for an extremely long time and had an economic backdrop that had a very significant impact.

In many ways, for the S&P 500 companies, the larger companies, clearly this was an environment that was extremely positive for those companies. And the S&P was the best-performing stock market probably in the world over that decade, which, of course, is something that we as Americans fail to kind of think about because it's the home market. But it really was a unique decade even for the U.S. stock markets. At the same time, it was hospitable to some companies, it was inhospitable to many other companies.

So the first item is recency bias. And recency bias, is a cognitive process that gives more weight to what's happened more recently than what's happened in the past. And the novelty of the last decade really has been lost on people because of the extended period of time, and it makes sense that this has happened because it wasn't a three-year period, it wasn't a five-year period, it was at least a ten-year period. That constancy has had a huge impact on the flow of funds and the allocation of capital, and, therefore, who have been the winners in the stock market.

What that also means is that there's a lot of capital that's invested in the idea that the next ten years, or at least the next number of years, stock markets and public security markets will be like the last decade was. There's a phrase that's attributed to Mark Twain, and it is, "It ain't what you don't know that gets you in trouble, it's what you know for sure that just ain't so." And we think that phrase is particularly relevant and creates a lot of risk for investors today.

So in our view, we think the current decade of the '20s will be very different than the last decade. In the meantime though, the S&P 500 juggernaut really has siphoned off capital. There are certain orphaned businesses and industries out there. And the valuations of those underperformers we think have been, in many cases, disconnected from what the economic value of those businesses are and what the earnings power and potential of those businesses are.

What's also happened is there has been structural changes that have gone on, and we think that's been little noticed by the marketplace. And that makes sense because people just aren't interested in those businesses. Poor returns have meant that those businesses have underinvested and rightsized the business and downsized. What it also means is that in that process there's been a significant amount of consolidation with the remaining industry participants.

And because this has gone on for not three years, five years, but at least ten years, that cathartic process of correction, consolidation, rightsizing, and underinvesting in the businesses to get the supply to meet the end market demand has really changed structurally a number of these industries.

We're at the precipice here of the revenge of the old economy because, we may live in a digital world, but there's a physical, tangible aspect to this world, and that's been underinvested in.

As we come out of the pandemic, the economic activity has already started to change. And that economic activity and the recovery has been for many of the businesses we're investing in, these industrial-type businesses that had been forgotten, has been a really positive period of time that have manifested the changes that have gone on that people haven't noticed.

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And what that's really meant is the end market demand for their product, in many cases, which continue to produce and sell throughout even the beginning of the pandemic period because the products they made were things that were considered essential services. So it wasn't that there was a shutdown and therefore there's a restart and therefore you're supplying demand that had been pent up. No, instead it's supplying the entire time.

So the end market demand for their products has been extremely strong and have really captured and taken up most of the capacity of these businesses. That means over this past year, these companies have generated very significant, positive returns that continue to improve. And what's really happened is the cashflows from those businesses continue to come in. We own many stocks today that trade at very attractive valuations. So in that process, we've performed well this year. Both the separate accounts we manage and the private funds that I manage are up 30%+ this year. And so, yes, it's been really good performance.

The fact of the matter is markets are still up quite a bit, too. So, yes, we've outperformed them by some, but that's not the key and relevant piece of information. The important thing is where we are today, what we own today, what's the valuations of what we own today, and that's why we're really excited because we're owning companies that trade at single-digit PE multiples eight times, seven times, six times, five times, trailing earnings bases even lower than that.

So these businesses are extremely modestly valued today. And why is that? It makes sense because everybody knows that these businesses, historically, have been cyclical. And, yes, they're doing really well today, but the cycle will turn again. You haven't looked at the underlying fundamentals, these businesses have consolidated down and are structurally different than they've been in the past. And not only sustainability, the ability to continue to grow profitability we think is clear and demonstrable.

So the excitement we have is where we are today and what we own. And in the process, I did talk about cost increase. So many of these businesses didn't have that same experience. As the end market improved for them and, they were able to raise prices because of end market demand, they saw cost increases. But they've been more than able to make that up in terms of the increased pricing that they've gotten, given end market demand.

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So with their rising cost environment, they've been able to expand margins and improve the profitability of these businesses. And, of course, that cost increase and their ability to raise prices are part of what we're seeing today in terms of what the world is experiencing, the United States is experiencing inflation that it hasn't seen in a long time.

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The question becomes-- it's prevalent, you see it all over, is the inflation that we're going through and experiencing today transitory? Or is it sustainable? We don't know that answer on inflation. We don't know the sustainability of inflation. But what we do know is our individual companies and the competitive, consolidated positions of those businesses and their abilities to continue to maintain those prices and profit margins and probably to expand pricing and margins with identifiable levers to be pulled from here. So we have very high conviction that those earnings really are sustainable because of the structural changes that our management teams are focusing on.

So the third point I want to talk about is the revenge of the stock picker. We've gone through a decade where passive management continues to bring in capital to it, and it makes sense. The idea that you can efficiently allocate capital at low cost basis if you're buying the top companies in the concentrated few, that makes sense. You buy it and you buy it all. It's okay because there are relatively few companies that have been extremely successful that drive the S&P 500 stock market, and it's continued to concentrate down to a select few.

So that's an efficient way to do it that's low cost that makes sense. What you have seen also though is recently this past year small caps really have started to perform well, value has started to perform well. So, therefore, people are looking to now allocate capital to those segments of the market. How do you do that? The quick-and-easy way is you buy some kind of index. And again, buying the index means you've got to buy them all. And so, therefore, here you've got many more companies. And the differentiation and dispersion between the results of those companies is dramatic.

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A lot of these companies are probably doing reasonably well and their earnings have improved, but really maybe from transitory factors. Instead we know we own companies that have structurally changed, and, therefore, the sustainability of that and the ability to continue to grow those earnings, we think, is clear. And that's what differentiates us and we think that will mean the performance that we're going to get will be much better than what the indices will get for small cap because it's all about bottom-up stock research on companies, understanding the companies, understanding their industries. Those dynamics will enable us to differentiate and understand and own the cheap stocks that will have sustainable earnings that will grow earnings from here and in that process have strong financial positions.

So, therefore, the risk associated with the balance sheets and financial positions of the companies we're invested in today, not only did they trade at low multiples, their financial stability and strength is dramatic. So Builders FirstSource is a company that we've owned for a decade. We've identified it as a business that was radically changing that has these structural changes to it. We've been right on that process. We think the earnings results today are demonstrating the expectations we had and how we saw that business was changing. And what they're doing with the money is they continue to make tuck-in acquisitions in geographies where they do not have a competitor today, so, therefore, have very good market position there. They also made some investments in technology, how a home is built, and, therefore, continuing to help homebuilders advance that process and improve in that process as something that's value added to themselves and value added to the customer and, therefore, further differentiates them.

But also they have very significant cashflow and what they're doing is buying back stock. So they're already in the process of completing a $1 billion stock purchase program and they've just announced the other day an incremental billion-dollar stock repurchase program. So what they're doing with the capital is making sure they continue to have this structural competitive advantage, and not growing capacity to meet the current market demand, which would potentially oversupply and then repeat the process. And so that's one of the key differentials.

So why are we so dang sure? Again, it all comes from that bottom-up stock research and understanding these businesses and having watched this evolved over a long period of time. And understanding that some of those dynamics, have other applications in other industries that are similarly situated.

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So, again, it's a digital world, we know that, and that's not changing. The fact of the matter is there are critical, tangible, physical aspects to this world that have been underinvested in, and that's what's being invested in today. So one of the things is the government has obviously identified is that infrastructure needs spending on. So, therefore, that's also one of the tailwinds that we think our companies provide.

There's an economist, Joseph Schumpeter, who was an economist in the 20th century. And a long time ago he came up with a concept of creative destruction. And what that really is, is the downsizing and the rightsizing of businesses in cyclical downturns to increase the efficiency, the dynamism of the company and, therefore, in the process get high returns on capital.

The cycle is that inevitably new capital comes in and new capacity. At least for the time being, that's not happening. Those companies have consolidated out to a handful and sometimes fewer, so there really is an oligopoly. They aren't in a rush to oversupply the market, understanding the past dynamics. And as I said, what they're doing is they're doing things like continuing to consolidate the landscape that they're in and, therefore, further narrowing down the number of competitors or they're doing things like buying back their own shares at a fraction of the worth because the market is convinced this is a cyclical business and has unsustainable earnings. And if they're right and we're right that these are sustainable, there's a huge economic benefit to shareholders.

These companies really are the survivors and the fittest. They understand capital allocation. They are extremely well-positioned today. They understand the ability to sustain it and what you need to do to make those earnings sustainable. So that's why we're excited and that's some of the things that we're investing in today. Thank you very much, and we look forward to your questions after. Give us a call and talk to us because we love talking about the businesses, and that's where the rubber meets the road. It's in individual stock analysis, that bottom-up research that is something that we've done throughout the entire decade.

So even though it hasn't been the thing to do, other people have gotten out of that process, we've continued to hone our skills and understand it and the people here have a lot of experience doing it, decades of experience. And that's what's going to be a real differentiator for us. And as I said, feel free to give us a call if you have questions. Thanks a lot. Bye-bye .

DAVID KESSLER:

My name is David Kessler, and I'm joined by Theo van der Meer. We're very excited to introduce a new strategy just launched by Robotti Advisors on September 1st. Since this is our first opportunity to speak about the new Robotti Select Value Strategy, we want to introduce it in two ways. First, I'll explain how the strategy will and will not differ from the current strategies managed by Robotti Advisors. Second, Theo will discuss one of the new investments in the portfolio to illustrate our investment process.

While widely known as fundamental value investing, Bob often says that our style of investing should be called valuation investing. It's this value-oriented philosophy that has guided Robotti Advisor's approach to investing since Bob opened the firm almost 40 years ago, and it continues to align all of Robotti Advisors' strategies even as each is expressed in a slightly different way.

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All of the research that we perform at Robotti is focused on the goal of determining with a high degree of conviction a range of intrinsic value that an owner would pay for an entire business so that we can then compare the price we'll price for a fractional ownership stake of that business, or its stock, to the value we'll receive. Robotti's never waivered from that simple principle even in the face of the past decade, which has seen many seasoned value investors close shop while others have drifted towards other investing philosophies.

While we agree with what Curtis has said in prior meetings - that much of the commonly accepted views are value and growth in terms of investing is really a bunch of bologna - To twist the famous words of Supreme Court Justice Stewart, we do recognize what is not value or fundamental investing when we see it. And as our competition has become increasingly focused on figuring out on which company or stock is the best or highest quality, at Robotti we continue to seek out securities offering odds that exceed their actual chances of a successful outcome – stocks that are simply mispriced.

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While we would always prefer consistently growing businesses with a competitive advantage that can earn high returns on capital, generate significant amounts of free cashflow, have a strong balance sheet, and are run by managers who have a proven history of both operating and capital allocation success, we're obsessively focused on weighing all of these traits against the intrinsic value of a business as defined by the present value of all future free cashflows the business can generate. We only invest when there's a proper margin of safety.

The Robotti Select Value Strategy will follow in this tradition. We'll continue to seek out these opportunities in spots with limited competition even from other value investors with cyclical industries being a good example. We'll also build upon one of Robotti's long-term competitive advantages by manifesting our behavioral edge in our research process developed specifically to ignore short-term swings of Mr. Market and instead seek an edge that allows us to form a different view on the long-term normalized earning power of a business so we can capture asymmetric risk reward opportunities that often present themselves due to short-term misperceptions.

The new strategy will also benefit from another of Robotti Advisors' competitive advantages, perhaps our strongest, and it's one that's shared by each investment strategy managed at Robotti. Over the almost 40 years that Bob has led the firm, he's attracted a team of a dozen seasoned investment professionals who all share a passion for uncovering mispriced securities. Each of these individuals has a different background and a varied range of interests whether it comes to different industries or different investment situations, but we all share a common bond and we all collaborate all the time.

Our water cooler talk is about where we're finding value in the markets. This will allow us to continue to draw from a deep well of shared ideas, viewpoints, and research all driven by the same underlying philosophy.

So why introduce a new strategy? And how will it differ from those that are already a part of the Robotti family? For some time, several of our institutional clients have suggested to us that Robotti Advisors, a boutique firm steeped in classic value investing, was becoming an increasingly rare breed and that there was a tremendous untapped opportunity to bring our investment style to a wider audience.

"So why introduce a new strategy? And how will it differ from those that are already a part of the Robotti family? For some time, several of our institutional clients have suggested to us that Robotti Advisors, a boutique firm steeped in classic value investing, was becoming an increasingly rare breed and that there was a tremendous untapped opportunity to bring our investment style to a wider audience."

It's with this feedback and advice that we decided to launch the Robotti Select Value Strategy. The first break with tradition is that the strategy will be managed by three portfolio managers instead of one. Bob, Theo, and myself have worked together for more than a decade, and Theo and I are honored to be able to manage the strategy with our mentor.

Another area where we received valuable and constructive feedback was on industry and sector concentration, or diversification. Now we do generally believe that investors should focus on what they know best, what sits squarely within their circle of competence. However, at times, this has resulted in significant industry concentration and intermediate periods of time where performance was driven more by industry selection than by stock selection.

Often our investments did dramatically improve their fundamentals and earning power, and this was eventually recognized and generously rewarded by the market. But it required tremendous patience because the market was unable to see the trees because of the forest. Now, many investors prefer this, including Warren Buffet, who has been quoted as saying, "Charlie and I would much rather earn a lumpy 15% over time than a smooth 12%."

We have learned, however, that there's a large audience of investors, advisors, and allocators that prefer or even require more diversification of their equity investments. We still believe that the only way to produce superior performance is to invest differently than the markets. So we still expect our results to be lumpier than the broader marker indices. But we also believe that we can leverage the depth of Robotti's investment team to find attractive ideas across additional industries, and we only need a few, to build a more benchmark-aware portfolio.

The Robotti Select Value Strategy will accomplish this by investing in a portfolio of roughly 25 to 35 mid to small-cap North American-listed securities with limits on the size of any individual position of cost and limits on the portfolio industry weighting relative to its Russell 2,500-value benchmark. While the strategy will follow essentially the same research process that's evolved at Robotti for over 40 years, we've also given that process a bit more definition.

We've also set firm triggers for when to do a comprehensive review of an individual thesis or of the entire portfolio. Now, I don't want go too far into the weeds. Bob, Theo, and I are glad to discuss the new strategy in detail with any of few at any time. We encourage you to reach out to us.

We spent a tremendous amount of time constructing a strategy that has just enough guardrails in place to meet the needs of a new, broader audience while keeping in mind that our best returns often do come from our best ideas, and making sure each investment can be meaningful enough to fully contribute to the portfolio. Most important, it's a strategy that can remain true to the Robotti tradition. The result is the Robotti Select Value Strategy.

I'd like to now turn it over to Theo who will walk us through one of our new investments, which will hopefully illustrate much of what I've just discussed. We look forward to meeting with you again next year when we'll have finished our first full year managing the new strategy.

THEO VAN DER MEER:

Thanks, David. An area we've invested in for nearly a decade is heavy equipment dealership companies, namely our investments in Finning and Toromont. A great part of those businesses has been their service contracts and the relationships they have with their customers. So when we were hunting for new investments for the Robotti Select Value Strategy, we found a company called InfuSystems that we think is a very strong example of how you can use the same process and apply it to different areas of the market.

Now this isn't a one-to-one analogy, but there are definitely aspects of it that at least rhyme, and that's a theme that we see throughout our investments. We lean on our extensive library of previous work and take the lessons from one industry or one economic cycle and apply that to a new investment in a different industry or environment. By listening for those rhymes, we can help our theses and, ultimately, our returns.

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Moving back to InfuSystems, like those heavy equipment companies, they have a great relationship with their customers that provides a barrier to entry. And both the heavy equipment companies and InfuSystems have extremely valuable repair-and-services businesses, which InfuSystems is actively growing. The difference is that InfuSystems is a medical device distributor and operates in the healthcare sector selling and renting mainly infusion pumps for oncology uses, whereas the heavy equipment are selling large Caterpillar equipment to agriculture, mining, and energy spaces.

But more generally, the similarities that we see with the types of companies we look for and InfuSystems is in its strong cashflow generation, large insider ownership, and aligned interest along with finding an attractive entry point. To that last point, in 2020 the company got a substantial bump due to extra COVID demand with hospitals needing more equipment to help fight the pandemic. But earlier this year, much of that demand dissipated and the market reacted harshly giving us an excellent entry point.

This was somewhat surprising to us given that management had made it clear that this demand would fall off over time. It was a when not an if situation, and what the market missed was that management had taken the extra profits they had earned during that period of outsized earnings and reinvested it into the business. They grew higher margin product lines, further improved the barriers to entry, and grew the relationships with their customers. In addition, they were able to sell off some fully-depreciated equipment that gave them extra cash and reduced inventory that was no longer going to earn good returns going forward all while returning cash to shareholders.

But valuation is what matters most, and this is a company that trades at six to six-and-a-half times forward EBITA, and it has a ton of tailwinds behind it and a modest valuation. So long runway and modest valuation is the type of company that we really like. And moving back out to the scope of the Robotti Select Value Strategy, this new strategy encourages us to look in different areas, but the type of investments we find and uncover in those areas are largely the same. We remain bottom-up stock pickers looking for strong cashflow-generating businesses that the market is not appreciating properly.

I think as you can tell from myself, Bob, Curtis, and David, we're all very excited about the companies that we own, the work that we do, and we enjoy talking about it. We want this to be a collaborative experience, and so we look forward to your feedback and your questions and comments and the discussion that we're going to have. So with that, I'll hand it back over to Bob, and maybe we'll get to some Q&A. Thanks.

Question and Answer

DAVID KESSLER: Hi, thank you. Thank you, everyone for taking the time to join us today. If you have any questions, on the bottom of your screen you'll see a Q&A icon. You can click that and submit your questions. We've had a couple submitted so far. We'll take a minute to see if anymore come. But I think we'll start off perhaps with one for Bob. The question is "At what level of assets does our investment approach reach capacity before we would have to change the approach we have followed for the past 40 years?"

BOB ROBOTTI: It's an interesting question, it's a transitional question. The fact of the matter is, I think, there's plenty of companies today in our universe that we know really well that we think are significantly undervalued. And, therefore, I'm constantly confronted with the problem of finding things, identifying things, or knowing companies that have a just (?) state and come to a point that I'd like to put more capital in it. But you're never going to go on margin, never going to borrow money to do that. Selling things that I already own that I also think are extremely attractive today have (UNINTEL) to things that, therefore, minimize the idea that I'm going to reallocate capital to do that. So that's one of the deterrents.

But I actually think today given where we are in the world, I think there are a lot of things that are investable and that we've identified, and if I had more capital I could invest in. So I don't really think that that's really an issue for the foreseeable future and where we are today.

DAVID KESSLER: Thank you. I'll actually take the second question. The second was--

ROB ROBOTTI: Let me go back to that for a moment though. That is, of course, based on what we do and how we pick stocks and the nature of the stocks we've been investing in, that's not an issue. People aren't knocking down our door saying I want to give you money, because that's part of the process. Part of the process is where capital has flowed to and where it has flowed out of. We know contemporaries in our business, they've all lost capital, they've all had capital withdrawals.

And that's what's driven the security prices to create the environment that is existing today that means this is a fertile place to be investing today. And I think that's clear and obvious if you do the research on our (?) companies, there's plenty of things today that are differentiated businesses that over time these businesses have actually consolidated and have barriers to entry.

So, for example, Westlake Chemical, it's not even a small-cap company, but something we've been investing in and watching probably 15 years, we've been invested in for ten years. The chlor-alkali business we have that they're in is really critical. And so this is an example. Here's a business that has narrowed down to four players in the United States. Everything made here in the United States and consumed here in the United States we export because we're competitively advantaged against the rest of the world.

So this is an industry that not only controls the supply here but exports. What you had in that business was five years ago, six years, the leader in, Olin, bought out one of the competitors' Dow and took it down to these four. They never took advantage of the fact that they consolidated this business. And that's what's happened over time, the demand for chlor-alkali products, that's vinyl (?) and that's (UNINTEL PHRASE) which is ubiquitous; it's so many things that people consume today.

So those businesses are really strong. But the consolidated situation of the business was never take advantage of. So we own Westlake, we continue to own Westlake, but from that work, we've looked at Olin, have spent a lot of time on Olin. And Olin's business in the last year is radically different because they've suddenly realized we've got 30%+ market share, the market takes everything we can produce, we have this thing where we produce chlor-alkali, we produce caustic, we have to produce one, we produce the other, and they were manufacturing to meet the demand of the stronger market. Instead, they've shifted around and now meet the demand of the weaker of those two end markets, and that's made all the difference.

This is a company that's gone from 600 million of EBITA to $2 billion of EBITA. It's gone from seven times debt lever two years to today being one-and-a-half times debt levered. It's generating huge amounts of free cashflow. What are they doing? They're shutting two more plants because when they look around and see what the business is they say, hey, in caustic, that's still the weaker end of this equation. We still have plenty of room there in terms of capability, in terms of pricing because today-- and again, things get disconnected from economic value.

So this company today is going to generate (UNINTEL PHRASE) clearly has the ability to do $10 of earnings. The stock trades in the mid-sixties. And the debt's gone away on this business, it's totally unlevered given how much free cashflow it has. So here's a company that has nibbled that. I would love own more of this thing. I think the valuation's, A, attractive, B, the ad industry dynamic of an oligopoly that understands it's not going to produce more end product just to oversupply its market and then it's going to constrain that, instead shuts two plants and further reduces capacity and has plenty of room on those two levers and that is the caustic side of the market still is way below what you would need to build a new facility.

So they, or anyone else, is not going to build a new facility. And, therefore, that gives upside earnings potential because the ability to continue expand prices and margins is clear and demonstrable. And so that's some of the things we're excited about. And if I had more capital, I would buy more of it. The fact of the matter is I don't have more capital, I don't want to sell something else 'cause I still like Westlake 'cause Westlake maybe be more expensive on a valuation basis, but it does have the (UNINTEL) to own or operate 70% of the company-- great at reallocating capital, and this company is just flowing cash given the other end of the business really is the petrochemical business, and natural gas is a key raw material, and that is a differentiator between them and the rest of the world. So U.S. produces first the rest of the world; huge competitive advantage.

So if I had more capital, I got plenty of ideas of things trading at six times earning that could grow earnings over the next three years, that are going to take that capital and either consolidate their businesses further or they're going to buy back stock and, therefore, further increase the earnings power of the business. How could you not get excited about these things?

DAVID KESSLER: Thank you, Bob. And (UNINTEL PHRASE) the same theme that we're seeing across many industries that we're invested in right now.

BOB ROBOTTI: It's prosaic businesses that have barriers to entries now. So not only (UNINTEL PHRASE) so it has all the attributes that you think of, oh, this is a great business. But you think of chlor-alkali as a great business. Well, the fact of the matter is it hasn't been a great business for so long, it's actually consolidated down, so it is a good business.

DAVID KESSLER: Right. Excellent. Thank you. I'll take the second question that is "will the Robotti Select Value Strategy be offered as a mutual fund to the public?" And the answer is actually, well, right now it's going to be offered as a separately managed account strategy, and that's how it's going to be offered initially. And please reach out to us and we'd be glad to discuss that further with you.

The third question is also for Bob, and it's a specific one on one of our investments in Subsea 7. So the question is "the revenues in 2022 were roughly in line with where they were in 2021, but in 2023 to 2025, revenues are expected to increase dramatically. Do you think Subsea 7 will be able to pass on higher (UNINTEL) cost? And what do you think the potential earnings power will be during the 2023 to 2025 period?"

BOB ROBOTTI: Yes, yes, and yes. So, first off, that business has consolidated down dramatically. There's really four players at various levels. There are two who are at the top of the pyramid and there's two others. If you look at the industries chart in 2013, there were 20 people probably in the business and there were people had gotten into the business. So that's all gone away.

And now you've really narrowed it down and the business has fundamentally changed at how you develop offshore fields. And TechnipFMC and Subsea 7 really have processes, technologies, all kinds of abilities to develop fields that other people don't have. What you also have is collaboration. So you consolidated down to four guys, but it's consolidating more than that.

So now you have a joint agreement to work between Technip and Saipem, so two of the large competitors. So the two of them are working cooperatively and some of that is to use the same assets because they're not going to go out and build too many assets and oversupply to the market, they're not going to do that, or at least not for a long time into the future.

So the capacity is fixed, the demand is clearly growing because offshore is definitely part of-- energy transition is absolutely happening. You've got to get me into this one. Energy transition is absolutely happening. Renewables are definitely part of the equation. We see the growth in that, it's dramatic, there's no doubt about it, and that's a great thing. The fact of the matter is the world thinks you can get there tomorrow. You can't, you can't get there tomorrow.

And you see that today across the rest of the world. Not in America you don't see it that much, but you see it across the rest of the world. So Europe and Asia are having problems with sourcing power and sourcing raw materials with fossil fuels because that's incremental producer of power today. As quick as you can bring renewables, fine, they go there.

So natural gas is the bridge fuel between here and renewables. You need to generate power in the interim, you need to heat people's homes, they're going to want to air condition the house in the summer, you need to run the industries. We're electrifying the world, we're increasing the demands of power generation. So you can't grow renewables fast enough. Natural gas is the key element here and natural gas in Europe and Asia trade for two times the price of oil, two times the price of oil.

There's a world energy crisis going on, we don't know about it in America because it's not here because we have plentiful, relatively low-cost natural gas that enables us to supply our power system. That's not the case in many other parts of the world. Natural gas is a key element and that's also a key driver for their business. And they've built out this renewable business.

So the earnings power of the business today is definitely higher than where it was today. You've got a consolidated industry, you've got lower cost structure, the ability to pass on (UNINTEL) differentiated services, two legs of the stool because you're renewables as well as you're doing conventional oil and gas. And so we think the future of Subsea 7 is extremely bright and it's got a strong balance sheet. Through this whole time they paid out dividends and they bought back stock. So it has net cash still in the balance sheet. So a really strong, financially-positioned company that we think provides an essential service that's clearly growing in demand today and will be for the next number of years.

DAVID KESSLER: Thank you. We don't have any more questions right now. I welcome anyone online please to submit additional questions. I don't know if Curtis or Bob if you want to expand on anything that you spoke about in your pre-recorded sessions.

CURTIS JENSEN: I remain extremely enthusiastic about the investments that we have. They've appreciated over the course of this year. But in many, many, many cases they still remain very cheap. And if you go down the list, you talk about a name like Tidewater Midstream, the stock's up probably 60% this year, but it's still probably 40% undervalued in my mind. The balance sheet has gotten very strong (UNINTEL) some very savvy capital allocation decisions.

That business is a very high barriers entry midstream business in Canada. And they're pushing into the renewables business in their refinery in British company. So stock is very cheap despite strong performance this year. I think people have this misperception that a strong stock market means that everything is overpriced, but as Bob was saying, the majority of the portfolio, if I had fresh capital I'd be happy putting that capital to work across the board.

BOB ROBOTTI: Let me piggyback on something Curtis said there. So he talked about it's a significant discount to what the business is worth. That business probably has really great growth associated with it. Hydrocarbons in Canada are extremely well-positioned. One of the things I touched was natural gas. Natural gas is the bridge fuel to energy transition. It's obviously and clear, and what's going on today demonstrates that.

There's a fight to get LNG in Europe and Asia, and China's winning because it has more money. So natural gas in the rest of the world, the rest of the developed world, trades for the equivalent of $200 a barrel of oil. In the United States, it's gone up dramatically this past year. And so today probably trades for $30 a barrel. $30 a barrel versus $200 a barrel. And that's not changing any time soon because you can't pick up gas and fly it over to China or fly it to Europe or put it on a ship.

The infrastructure associated with transporting that is a huge amount of dollars, a huge amount of time, that's happening. And you continue to see that happening because the economics make sense, and that's an opportunity set. But what it also means is the United States, North America (because that includes Canada) has a huge amount of natural gas that's economic and be produced at a fraction of what that is.

So whether that's the chemical business we're invested in, whether that's the fertilizer business we're invested in, LSB Industries, fertilizer in America is cheaper than you can make it anyplace else. The rest of the world, they're using some other product. They're shutting down fertilizer plants in the UK because the cost of natural gas is-- you can't make money, it's a losing proposition.

So therefore the dynamism, I think, of the North American industry is really interesting. And one of the things that's feeding that is an energy shortage, and we're not short of energy. We have natural gas in plentible supply and the ability to continue to produce it and, therefore, price it at a price-- so a significant cost of industrial businesses is much lower here than it is rest of the developed world. And that means a lot of incremental activity.

So tremendous growth in the core business in Canada that they're extremely well-positioned, they are smart pretty. That business over the next year has really great growth to it. So here we are, are we value investors or are we the growth investors? We think the growth of a business, right, 'cause the future of cashflow is what the value of the business is today are very dynamic.

So Curtis' investment there in Tidewater Michigan, we think, is an extremely compelling and interesting investment with great dynamics in terms of what's happened. Grassroots macroeconomics is a concept Theo van der Meer mentioned five, six years ago. You know, what the hell do we know about macroeconomics? What we do know is fundamental things about certain businesses and certain industries, and that gives us conviction that really does have a broad application to the rest of the world and the economic world.

North America's extremely well-positioned at (?) natural gases, the bridge fuel, and we're the ones who's got the low-cost bridge fuel. That's a dynamic aspect that enables us--there's plenty of things that we identify that are the beneficiaries of that, and that's not going away. That's a ten-year beneficiary thing that we have here in this marketplace, and we know companies 'cause that's what we spent all this time looking at - those businesses and understanding those drivers.

DAVID KESSLER: Excellent. Thank you, Bob. A few questions have come in. This is for Curtis. Curtis, the question is the (UNINTEL PHRASE) insider ownership should inherently mean an alignment of interest. But over the years, the questioner has seen cases where that has not been the case. So what are the things you're looking to make sure that insiders' interests both are and stay aligned with shareholders?

CURTIS JENSEN: Well, it goes beyond just the ownership. I think it also to the incentives that are in the company: compensation systems, the behavior, what kind of things management's doing, how are they financing the business. We've owned companies where there's high insider ownership, the management teams have borrowed tons and tons of money and put the business at risk.

So what I call it is footprints in the sand; what is management actually doing, where have they been as opposed to what are they just talking about on conference calls. So I look for their action. I think actions and behaviors speak louder than words. And I think one of the downsides, honestly, of the approach of investing alongside a family or a large shareholder is that you can get taken out. I mean, a large shareholder controls the timing of takeover. We saw that with one of the largest investments we had in CPL Resources. In that case, the CEO, Anne Heraty, owned 30% of the company, she had built it over 35 or 40 years, and decided it was time to partner with somebody.

And CPL got a nice premium, a control premium, in the market, something like a 30%, 35% premium when they decided to sell themselves. But that was a decision that that management team made. I thought that the valuation that they went out at undervalued the company, but I could understand the motivations of the management team to want to build the business in a different way.

So there are downsides to aligning oneself with a large shareholder like that, and it takes a little bit of scrutiny, scrubbing to figure out what their motivations are and what they're likely to do.

DAVID KESSLER: Excellent. Thank you, Curtis. This could be for Curtis or for Bob. The question is "How can you tell when the barriers of entry for a business are actually beginning to decline or fall?"

BOB ROBOTTI: Well, probably what's happening is the business is doing really well. The returns have been really high, but the business is generating a lot of cash, and, therefore, that's, of course, when people are tempted to try to get into a business. So that's when you test the business barrier of entry.

However, I would suggest there are certain industries we're invested in, specifically, that chlor-alkali business. To build a chlor-alkali business, plant, first off, you would need pricing substantially higher than where it is today to make a return on the capital required to enter that business. So, therefore, A, the participants (?) in the business aren't going to add capacity because that is not economic, and no one's going to trying to get into the business because to get into the chlor-alkali business and build a chemical plant like that someplace in America is really not (?) difficult.

One of the questions is about regulations and all of these things. Regulations mean the barriers to entries in a lot of these fundamental industrial businesses are much higher. Who the heck wants to get in? Who's going to finance? Who wants to allow the building of these things in their neighborhoods?

And so, therefore, the barriers in many of these businesses (UNINTEL PHRASE). So where do you identify-- now other businesses we're invested in, and so, therefore, the lumber business. (UNINTEL PHRASE) unwilling investor in it. Not unwilling, but we got pulled in. We owned Oriented Strand Board. Oriented Strand Board is an industry that really consolidated down to-- there are five guys who pretty much are the only guys in the business, and all of the capacity that they had was being used. To build new capacity we thought took two to three years.

New capacity means a billion board feet on a 25 billion board feet industry capacity. So, therefore, you would need multiple plants before you start to impact that. End market demand was not just in homebuilding but new uses of the product. So the demand for the product grew and continues to grow, capacities not. And one of the key players, the number two player, Louisiana Pacific, is actually taking capacity out, and the reason is they're converting into a different product, a siding (?) product, in a different end market with a different demand.

So, therefore, in a tight market you have new uses, new demand, and constriction and reduction of supply. That's an extended period of time. And building that-- where do you build it, how do you locate it, where's a wood basket that you can use to, therefore, service that plant? These are all hurdles and issues.

In the meantime, when that business, which it is now, is making really high returns, there's a two or three-year period, I'm sure, that'll be very high returns. There's a risk. The industry does start to overbuild itself. So it can happen, but I don't think that happens until the returns are much higher and, therefore, that means the stock prices are much higher because people accept not only new capital coming in but investors in the marketplace (UNINTEL) businesses at different levels of earnings, and those earnings are sustainable and the company has demonstrated what they had done because that's what they're doing with it. They continue to consolidate their businesses and they buy back stock because the market says evaluations shouldn't be higher. Well, I'm going to be opportunistic and take advantage of that because I know the replacement cost of my business and I know you've got it wrong and I've got it right. I know more than you do.

DAVID KESSLER: Excellent. Thank you, Bob. I'll go on to one that you referred to in that question and that's whether potential shifts and policy from Washington D.C. impact our investment decisions or the timing of taking positions with more regulation and the possibility of increased spending on infrastructure and with higher taxes.

BOB ROBOTTI: It's a mosaic. Every investment is predicated on a lot of (UNINTEL) inputs and what the government's doing in certain cases still have an influence, you know, at the margin and in certain cases it's probably significant at the margin. I guess if anything-- you know, one of the companies that we think about-- we had an investment for many years at a company called Insteel, which consolidated its business, which is wiring meshing, which really facilitates heavy construction roads, bridges, things like that, and is a better way to do it at a lower cost.

And, therefore, we think that business, of course, is extremely well-positioned today because we think inevitably it was going to be more money spent on roads and bridges. But that said, I will say, personally (Curtis and others may think differently), I tend to minimize the impact of government in many ways because one of the things I will say is the United States over the last decade has actually reduced its carbon footprint. And why did that happen? That didn't happen because of regulation, that happens because of market forces.

Market forces are what really determine the profitably of a business and the outlook for that business. And understanding those drivers are the critical element and understanding how the wind blows a little bit one way or another is probably interesting and probably are (?) relevant. Certain cases maybe have more relevance.

But, as I say, that happened because natural gas was found plentiful here in North America and, therefore, displaced the burning of coal. So it wasn't that regulation said you can't burn coal, it was that natural gas is much cheaper, a better alternative, and took huge share away from coal burning. And so that's had a huge positive impact on-- you know, we actually do produce less CO2 than we did a decade ago. So we're one of the few developed countries that actually probably are better off than others. Instead, you've got Germany burning off coal--it's one of the factors you consider, and in certain cases it might be more significant, and the timing of it might have some relevance, too.

DAVID KESSLER: Excellent. Thank you. So we have one more question right now. If you have any more last-minute questions, I can type it in right now. But for right now, the last question is for Bob just on a specific position, and that's how does Stolt-Nielson fit into this new world, and what does its future look like?

BOB ROBOTTI: Murky. So we spent the other day talking with the CEO, who we've known forever. The core business has consolidate down dramatically. So the kind of attributes: a business, low returns on capital. Of course, all shipping was hurt in the middle of the last decade. So 2015, '16, I don't know when it was, private equity decided that shipping was an interesting business and they went out and raised a whole bunch of money and they went out and built a whole bunch of ships and they killed the goose that was going to lay a golden egg and they oversupplied the market.

And what they've done since then is-- the industry generated poor returns on those shipping assets. Those guys are now getting out of the business because they didn't make money in it and they're capitulating and getting-- and that's what you do have in the high end of its market. It's consolidated down, it took out a company called Jo Tanker five years ago, a year-and-a-half ago bought another company and consolidated it and picked up some assets. The largest competitor to Odjfell took out Sinochem, took out one of two other companies.

So the industry has consolidated down to three guys left in the business. And, therefore, the rationality is at a point where potentially there's a tipping point to it. And the other side of the business is the terminal business that they own. The terminal business really should be a phenomenal business with really high returns, but you own a piece of real estate in a port that there is a limited space and capability to do that. The demands for chemical movements in a place like Houston and New Orleans where they have these ports or Amsterdam continues to grow the chemical production in spite of all of the issues that industry has and it's addressing, but it's still critical to the world's economy.

Those businesses continue to grow, the demand continues to grow. They've just got to stop building new assets to be able to meet that demand, to be able to capture the market and the return potential from it. So they're frustrating to me. I'm frustrated. But sometimes that means it's at an inflection point; potentially the thing tips, but maybe not.

DAVID KESSLER: Thank you, Bob. We're just over an hour, so I think it's probably a pretty good time to wrap this up. I want to thank everyone for joining us today. I don't know if Bob or Curtis, if you have anything you want to leave us with or...? No?

CURTIS JENSEN: Not so much. I just want to say thank you.

BOB ROBOTTI: So I want to say one thing. The securities markets today are largely-- really it is the myopia of linear thinking. You've had a decade where there's been a continuum of economic environment, and trends and capital have moved and who's been the beneficiary. And what you're doing is what's the next step in front of you. And how do I get really clever to take advantage and get one step further in front of me? And where have you gone in that process?

So the myopia of linear thinking means much of the world today is at very high valuations. A key thing is after all the difficulty we've also had, what did people do? A safe haven is you go to fixed income, you go to treasuries, you buy treasuries. Linear thinking. And what's happened is you just continue to do that. And then you throw in the pandemic. What's the linear thinking? I better go to treasuries 'cause they're safe.

You went off the path. You're in the middle of the woods. Look where you are. The interest rate's the wrong number. In a world in which we've got inflation, maybe it settles down to 2% to 3%. You got a ten-year treasury that's priced at 1.5%. I'm guaranteeing you a real loss. How's that the right number? It's not. Linear thinking and manipulation. And that guy whose been manipulating it, he's running out of money, and everybody believes he can do that forever.

Well, there's a real risk that you wake up that day he doesn't do that. And if that's the case, that's the foundation, that's the risk-free rate of return. And the foundation's potentially in the wrong place. And conversely, the other part of linear thinking is I don't want to own Tidewater, it's a terrible business, it's never coming back and it's all of these things, and it's a $500 million valuation with no net debt. It's generated cash through a horrible environment. Yeah, some of it's from the sale of assets, but those are old assets that aren't economic. And what does it own?

So it's a free-debt company that's valued at $500 million that owns assets that were built five and ten years ago that were state of the art for $4 to $5 billion. That's not the right number, but it's where it is because poor, it went down, poor, it went down. The valuation just continued to decline. It's become disconnected from the economic reality of what that business is, what it's earnings potential is.

And clearly I think the next two years is finally, and it's been delayed a number of times, finally that business really does have a return because the supply's dramatically been reduced. They've got rid of stuff, it's been liquidated, other people have done the same thing, the supply's been reduced. And through this whole time, a lot of those assets continue to work in a horrible environment. There's still demand, and demand now is at a point where it's really growing. And, therefore, the pricing leverage on that business is dramatic. Nobody cares, nobody cares.

DAVID KESSLER: Thank you, Bob. And with that, I think we'll wrap it up. I just want to mention that Isaac Schwartz, who is traveling today, will be hosting his meeting for the Robotti Global Strategy on December 1st. And if you'd like any information on that, please free feel to email any of us or email the general Robotti email. And thank you very much for taking the time out of your day to join us, we really appreciate it.

BOB ROBOTTI: Yeah, thanks so much. We appreciate it. Stay healthy. Be well. Look forward to do this next year in person. We'll still video it so you still have that capability, so no matter where you are or you can't make it at that time, but we'll have the opportunity to potentially meet in person and maybe even do something as odd and strange as shake hands. Take care. Be well.

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Robotti & Company, Inc. 60 East 42nd Street, Suite 3100, New York, NY 10165-0057,

Ph: 212-986-4800

www.Robotti.com