Robotti Value Investors

Robotti & Company Advisors, LLC
125 Park Avenue, Suite 1607
New York, NY 10017-8501
www.robotti.com

December 31, 2024

Dear Client,

One can outperform the market over time, but one cannot outperform the market all the time. This should be intuitive, for to outperform over time, you need to be investing differently than the crowd. This divergence will lead to periods of underperformance, and for us, 2024 was one of those periods. Market timing is nearly impossible, and recoveries rarely follow a straight path. However, downturns create valuable opportunities for disciplined investors. Well-managed companies can consolidate their industries or make strategic investments during periods of dislocation, setting the stage for long-term success. Paradoxically, extended price weakness can be beneficial, allowing us to accumulate additional shares of a business at even lower valuations before the market fully appreciates their inherent earnings.

There are a number of factors which contributed to our underperformance as there are investments in our portfolio at various stages of gestation. This performance result is a byproduct of our investment approach of investing in companies that are facing headwinds. The companies we invest in can be grouped into a few different stages of these transitions:

- *Tempest Group* – These are companies in the throes of a downturn. Investor capital flees, causing stock prices to drop. We have investments in the group because we are keenly aware that it is impossible to predict the timing of a bottom. As you would expect, this group almost always detracts from our portfolio performance.
- *Unleashed Group* – After rightsizing and/or experiencing an industry shift, these companies are seeing the dust begin to settle. Signs indicating the onset of a consolidated recovery emerge as survivors increasingly allocate capital opportunistically. As a result, the markets are beginning to appreciate how changes in the business present a new and exciting opportunity and stock prices begin to rise.
- *Accelerating Group* – This is where asset valuation really begins to manifest. Earnings and margins have expanded, and investors recognize that investments and improvements made during the downturn are beginning to be rewarded. Consolidation opportunities often present themselves at this stage.
- *Breather Group* – Recoveries are rarely linear. Short-term traders are quick to sell at the first sign a recovery might, slow down in pace, pause, or temporarily reverse, increasing pressure on stock prices. This shakeout can refresh investment opportunities.
- *Fully Valued Group* – The market has fully accepted the improved business, and the stock price matches or exceeds intrinsic value. This is the optimal time to reduce or sell our investment and reallocate capital to more attractive opportunities.

This past year reinforced our knowledge that both market prices and recoveries rarely move in a straight line, even when the underlying business fundamentals remain strong. Our long-term focus, however, allows us to capitalize on these fluctuations rather than be driven by them. As a general recap for the year, we had very strong performance in the first half, followed by broad pullbacks in many of the companies we own. The companies we owned through this period remained fundamentally strong, and what we saw this past year was an illustration of the fact that most appreciation in market prices is not linear (even if the improvement in their business is linear, or even exponential). The last two months of 2024 also saw significant trading, which we believe was driven almost entirely by tax planning. We have already seen these effects reversing in the beginning of 2025. This is not to say that taxes aren't important, but it just highlights that in the markets the tail often wags the dog in the search for offsetting taxes.

I think it apt to bring back a quote from our year end letter in 2013

> *Models allow us to simplify the realities of the natural world by taking an abstract, theoretical idea and putting it into a form that we can understand and manipulate. A common model that we are familiar with is the solar year. By definition, however, this model is a simplification which has shortcomings, namely that it has limitations in evaluating investments. Regardless, custom dictates that the two should be correlated.*

The shortcoming of the one-year yardstick is why we focus on 3-5 year results and encourage our clients to as well.

	3 Year	5 Year	Inception
RVE, net	10.49%	13.80%	10.59%
Benchmark [1]	3.81%	8.44%	8.99%
S&P 500	8.94%	14.53%	10.58%

[1] *Inception through August 2011, benchmark was the Russell 2000 Index. September 2011 to present, benchmark is the Russell 2500 Value Index.*

A Roller Coaster Year

A significant portion of our portfolio consists of companies that have stabilized and progressed toward recovery. The market has responded by re-rating these investments, which were previously overlooked, ignored or simply out-of-favor. As businesses transitioned from marginal profitability to strong growth, the operational improvements made during the downturn became more evident, revealing to investors their inherent earnings power and potential substantial free cash flow generation. This dynamic was a key driver of our strong performance in 2023.

This re-rating trend continued through the first half of 2024, enabling us to outperform even the impressive gains of the S&P 500. However, market momentum and investor exuberance also played a role, with indexation and algorithmic capital flows accelerating inflows into several of our portfolio companies.

We discussed Tidewater in our last letter and have highlighted it several times over the years. Once again, it serves as an example of broader trends we have observed. The stock experienced a sharp rise, reaching highs of approximately $110 per share before retracing to around $50 by year-end. While we sold a significant portion of our holdings in the first half of the year above $80, we continue to hold Tidewater as one of our largest positions due to our strong conviction in its fundamentals and future opportunity. Importantly, while the stock price has declined, the business itself has not deteriorated. As a result, it is now valued at a sharp discount to the company's asset value and free cash flows. In the short-term, Tidewater may have fallen victim to its own success as its strong performance, both operationally and in the stock market, attracted trend-following capital with shorter holding periods, who are more prone to panic selling as their purchasers were not the result of financial analysis. Despite the price volatility, we remain focused on the company's valuation, which we find increasingly compelling.

Stolt-Nielsen is another company we have owned for some time and talked about many times. As a reminder, Stolt-Nielsen is a global leader in the transportation and storage of chemicals, liquids and specialty products through its fleet of highly specialized tankers, containers and terminals. Like many of our companies, Stolt had strong early gains throughout 2023 which continued in the first half of 2024, followed by a pullback. The stock's valuation remains compelling at just 3.5x earnings, with a 20% return of equity and less than 1x book value. When coupled with a strong track record of profitability and a disciplined capital allocation strategy, the company continues to generate solid returns at an increasingly discounted valuation. We believe Stolt-Nielsen may be at an inflection point after being stuck in a vicious cycle driven by a chronic lack of investor interest and persistent undervaluation. As a result, investors have overlooked just how complicated it is to engineer vessels capable of segregating and transporting highly volatile chemicals across the ocean and ignored the company's improved position within the industry landscape. This is a barrier to entry and therefore presents the ability to extract strong returns. We have high expectations for the company going forward.

We should note that in the beginning of 2025 we did trim some positions that had appreciated significantly in order to reallocate capital into holdings like Stolt that had been beaten down in 2024.

Changing of the Guard

We do not spend much time focused on politics, but it is always important for us to remain abreast of policies which may impact our portfolio investments. With the recent election there will be policy changes that will affect the businesses we own in one way or another. We are very aware of our inability to guess what policies or laws might change, or what political moves will or will not be made. We will continue to listen to the management teams of the companies we own and hear from those on the ground as to what changes are happening and how they affect our businesses. That said, we would be remiss to not note that we are basically invested in industrial businesses with exposure to the advantaged North American operations. The economic backstop is favorable for these businesses and public policy is broadly supportive and additive.

One area that we are specifically paying attention to (along with much of the world) is tariffs. It remains extremely unclear to what degree and on which products tariffs will fall, but they have the potential to affect many of our businesses. That said, much of the tariff discussion is creating short-term volatility and uncertainty. In the case of Canadian lumber tariffs, while they may impact specific producers, the majority of our investment exposure is to Canadian *headquartered* producers with a majority of their manufacturing in the U.S. and therefore not subject to these restrictions. In fact, the mills operated in the U.S. are beginning to receive higher prices in response to proposed tariffs. Furthermore, history has shown that tariffs often ebb and flow, making it difficult, and often counterproductive, to base investment decisions on short-term policy changes. With lumber in particular, we remain focused on understanding the quality of the business such as whether its mills are situated in a good lumber basin. Is there an adequate workforce? Is there an overall supply constraint?

Conclusion

We invest very differently from the overall market, which is why we are often up when the market is down and down when the market is up. This differentiation is not a top-down mandate but a result of our focus on individual bottom-up research. Our job is to find individual companies where we can buy a normalized stream of cash flows for less than we think is reasonable. Simple, but not easy. The world has become more digitized, more electrified, and more diversified over the last twenty years. This era of quick successive change has led to a migration of investor capital away from the old-world economy and anything not classified as growth or technology. What we have seen in the past few years, however, is the fact that the world still needs tangible goods, and these goods still need to move from point A to point B. Data centers still need to be powered, cooled and housed. Electronics continue to be manufactured with physical raw materials. People still need a place to live. The physical aspects of the world, while forgotten by the market, still exist and have been underinvested in for an extended period of time. The dislocation caused by this migration makes the markets a *stock picker's dream*. Through diligent research and decades of experience, we learned how to sift through these forgotten companies and have demonstrated our ability to find those who are (or will be) making exceptional returns. We highlight valuation because the price you pay for the earnings potential can be much more important than the earnings potential itself.

As always, we thank you for your trust and patience. Long-term investing requires long-term investors, and it is not lost on us how fortunate we are to have clients like you who understand our process and provide us with the latitude that allows us to all share in the results. Patience and discipline remain cornerstones of our approach, and we are confident that the companies we own will deliver meaningful long-term value. We hope that you will not hesitate to reach out with any questions you may have.

All the best,

Bob Robotti

Bob

The above letter, dated December 31, 2024, is an update letter of Robotti & Company Advisors, LLC ("Robotti Advisors"). This letter should be read in conjunction with the following disclosure information:

This information is for illustration and discussion purposes only and is not intended to be a recommendation, or an offer to sell, or a solicitation of any offer to open a separate account or become an investor in a private fund managed by Robotti & Company Advisors, LLC, as the case may be, nor should it be construed or used as investment, tax, ERISA or legal advice. Any such offer or solicitation will be made only by means of delivery of a presentation, prospectus, account agreement, or other information relating to such investment and only to suitable investors in those jurisdictions where permitted by law.

Further, the contents of this letter should not be relied upon in substitution of the exercise of independent judgment. The information is furnished as of the date shown, and is subject to change and to updating without notice; no representation is made with respect to its accuracy, completeness or timeliness and may not be relied upon for the purposes of entering into any transaction. The information herein is not intended to be a complete performance presentation or analysis and is subject to change. None of Robotti & Company Advisors, LLC, as investment adviser to the accounts, private funds, or products referred to herein, or any affiliate, manager, member, officer, employee or agent or representative thereof makes any representation or warranty with respect to the information provided herein.

In addition, certain information has been obtained from third party sources and, although believed to be reliable, the information has not been independently verified and its accuracy or completeness cannot be guaranteed. Any investment is subject to risks that include, among others, the risk of adverse or unanticipated market developments, issuer default, and risk of illiquidity. Past performance is not indicative of future results. If interested, please contact us for additional information about our performance related data.

The attached material was provided to investors in a specific Robotti Advisors vehicle at a specific past point of time, advice that may no longer be current or timely. References to past specific holdings of that specific vehicle and matters of related historic fact must be seen in context (as would have been apparent to investors in that vehicle) and are not intended to refer directly or indirectly to specific past recommendations of Robotti Advisors (other than as an indication of language sometimes found in the newsletters). Any reference to a past specific holding or outcome is not intended as representative. None the less, for individuals actively interested in investing in such vehicle, a list of recommendations made by Robotti Advisors with regard to the vehicle in question will be made available on request.

Note: certain statements in the attached material, including but not limited to (a) statements of things that "are well known" to be the case (other examples include: "In hindsight people often say, "I should have known better," and more often than not, they did."), (b) statements with the phrase "always", and (c) certain similar statements, are not intended to represent absolute literal fact, but rather represent certain colloquialisms/mannerisms expressed by select market participants (but not necessarily individuals associated with Robotti Advisors).

Opinions contained in this letter reflect the judgment as of the day and time of the publication and are subject to change without notice and may no longer represent its current opinion or advice due to market change or for any other reason. Robotti & Company Advisors, LLC may provide investment advisory services to clients other than its separately managed accounts and private fund clients, and results between clients may differ materially. Robotti & Company Advisors, LLC believes that such differences are attributable to different investment objectives and strategies between clients.

The information provided herein is confidential and proprietary and is, and will remain at all times, the property of Robotti & Company Advisors, LLC, as investment manager, and/or its affiliates. The information is being provided for informational purposes only. A copy of Robotti & Company Advisors, LLC's Form ADV, Part 2 is available upon request. Additional information about the Advisor is also available on the SEC's website at www.adviserinfo.sec.gov