Robotti
Value Investors

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Dear Investor,

First, I hope this update finds you and your family in a position of continued health and safety.

Although we shared an update just a couple of weeks ago, with circumstances surrounding COVID-19 and the markets so rapidly evolving, we thought it important to provide you with a meaningful update.

We continue to reiterate the mantra expressed in our prior note:

1) Pause
2) Don't Panic
3) Wash your hands
4) Think calmly and respond thoughtfully

This letter is intended to (1) update you on some of the early themes conveyed by the executive managements of our investee companies with whom I have been in direct dialogue and (2) spend a bit of time focusing on the companies that comprise the bulk of our portfolio.

We hope you found the interview with John Mihaljevic, founder of Manual of Ideas Global (https://soundcloud.com/moiglobal/crisis20-bob-robotti/s-oDvQ9BwgtiB) that we sent last week informative. We covered a number of relevant topics in a short period of time and believe it is worth a listen if you have time. While we spent a lot of time discussing energy during this interview, ***it is important to keep in mind that over 75% of our investments are outside of conventional oil and gas*.** Across the portfolio, we are looking for businesses that exhibit common core qualities:

1) Financially strong, well capitalized companies (staying power is most important through this current period of time) that have
2) Differentiated business models that provide a company with a competitive advantage versus its competitors and with
3) Managements/owners with significant experience running cyclical businesses and navigating business cycles with dramatic variation.

Our portfolio largely contains companies and management teams that have seen industry upheaval before. They have shown the ability to position themselves for when the 'dust settles' to improve their competitive positions. Understandably, the current environment may very well be their most arduous test yet, but through our abundant communication and research, we maintain confidence.

Over the past two weeks we have spoken with the senior C-suite executives of our portfolio companies as well as with industry peers and competitors. This research allows us to obtain a full view of how the current environment is having an early impact on the industries in which we invest. We will continue to stay in close contact with these managers given the fluid nature of events and will be vigilant and prompt in enacting any resulting changes in our portfolio.

While early days, we are seeing some common themes emerge from the companies with which we have spoken. They are:

- Taking additional steps to strengthen and solidify balance / sheets;
- Minimizing costs and drawing down on revolvers (as needed);
- Buying back stock;
- Utilizing cash on hand strategically and
- Positioning themselves to act on opportunities for consolidation as they arise.

Not only do we feel fortunate that we have long-standing relationships with our investee companies and their management teams, but we also believe that this provides us with an edge in informing our portfolio decisions and actions.

VALUATION

An important common attribute of our investee companies, regardless of sector, that we continue to emphasize is valuation. Before the onset of the market's responses to the spread of COVID-19 these companies universally had very modest valuations, and, in many cases, the companies had adjusted to already difficult conditions in their end markets. As many of you know, we tend to own economically sensitive companies which are being particularly impacted by the current unprecedented economic environment and lack of visibility that is prevalent. (Case in point: many of the companies we own are VERY cheap and trading at massive discounts to what they are worth in a normal economic environment.)

Below is a summary of two of our core holdings:

Westlake Chemical (NYSE:WLK) has a very strong balance sheet and strong free cash flow, with a very modest valuation. The owner/manager, the Chao family, has an excellent record of thoughtful and opportunistic capital allocation and is exhibiting that prowess by buying shares in the current stressed environment (to the tune of roughly $6m worth) for their personal accounts in the open market. In 2016, the company made a substantial acquisition of Axiall (a competitor that expanded an existing product offering). Subsequent to this, the company judiciously paid down and refinanced its debt. This has reduced its overall leverage (by over $1.5B), pushed out maturities, and reduced their interest expense. These were prescient actions given the current environment. Today the company is trading at roughly 1x its tangible book value, and 3.5x the normalized earnings power of the business. Their record, experience and financial position give us confidence not only in their ability to weather this storm, but to possibly make very opportunistic M&A actions to further position the company for when a return to normalcy arrives.

Lincoln Electric (NASDAQ:LECO) has been in business for 125 years and is the preeminent company in the welding equipment and materials industry. The company has a very solid balance sheet, and generates ample cash flow to fund its growth. They have over $200m in cash, and their earliest debt maturity is for $100m in 2025, providing them plenty of runway. Lincoln Electric does operate 5 plants in China that shut down for a month, but are already gearing back up for only an anticipated $5m loss. The management team remains active in looking for tuck-in acquisitions, which they may be able to get at greater discounts than normal. Additionally, they are continuing to buy back their shares at today's depressed levels. There is obvious demand side uncertainty due to the COVID-19 slowdown, but its strong balance sheet and cash flow generative business model give Lincoln Electric staying power and should help to position it for success in a more normalized environment.

While the above represents a sample, these companies exhibit the very fundamental underpinnings we outlined at the outset of this note, and we believe that they exhibit the qualities to endure and be advantageously positioned.

In summary, between continuing to speak with companies' managements and stress testing our investment theses, ***we are continuing to invest in high quality companies across industries***. With those companies where we maintain our long term conviction, we would emphasize that ***the current environment, while frenetic and unpredictable, will likely be transitory. This too shall pass, and when it does, we believe we have a portfolio full of companies that are built for survival*** given the common attributes described above.

These are scary times to be sure, and we can relate to how you are feeling. BUT we are also confident. We continue to invest, as we affirmed in our earlier note, and for those of you who can, we recommend the same. Although, here, we do recommend that if you are not in such a position adhere to our initial mantra.

Now is not the time to panic and sell, but remain invested.

We will continue to reach out and share updates, but please feel free to contact us any time with questions.

All the Best,

Bob Robotti

DISCLAIMER:

The attached letter, dated March 24, 2020, should be read in conjunction with the following disclosure information.

This information in this letter is for illustration and discussion purposes only and is not intended to be a recommendation, or an offer to sell a security. The information is furnished as of the date shown, and is subject to change. 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 before investing.