

Restoration of the Fallen

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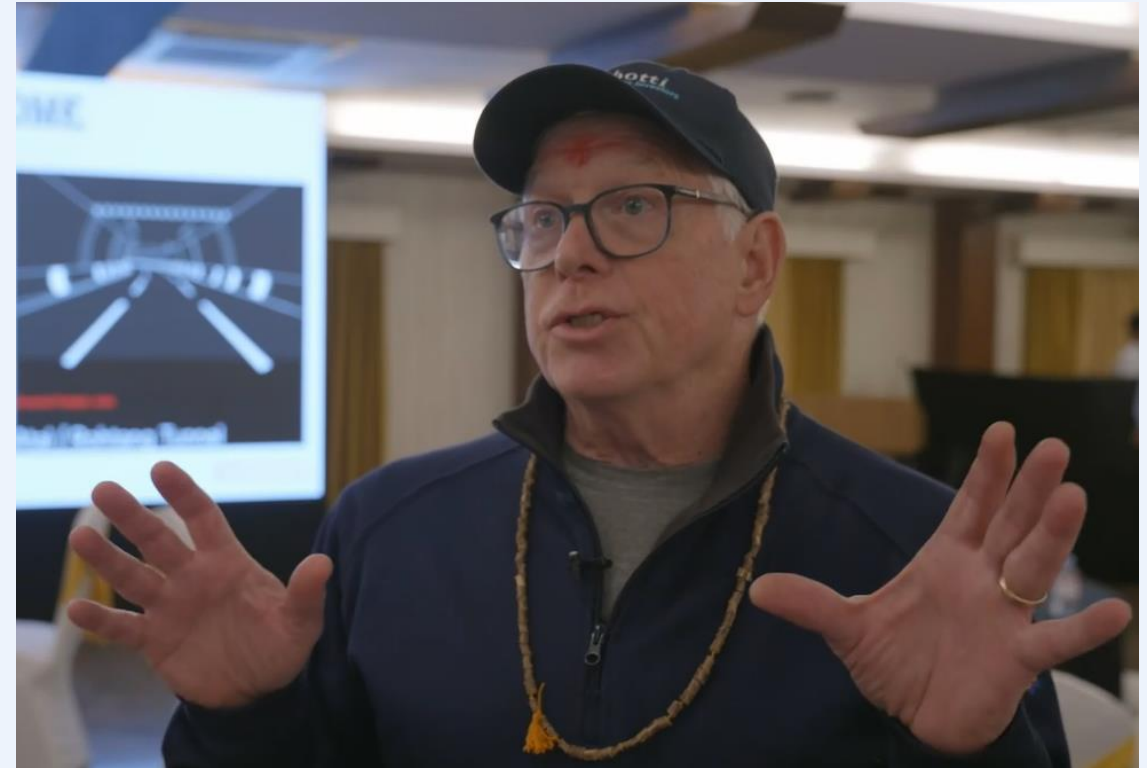
The Ben Graham Centre's 4th European Value Investing Conference
October 17, 2024



1. Where the opportunities are today
2. Why market forces continue to set the stage for outsized returns
3. Macroeconomic secular trends supercharge these opportunities



- Focused on a single philosophy dedicated to the investment principles that trace back to Benjamin Graham
- A research-oriented investment firm managing private funds & separate accounts
- Over four decades of building an entrepreneurial culture that has attracted independent thinkers passionate about investing
- A business infrastructure modeled after Tweedy, Browne and Gabelli
- Focused mainly on small and mid-cap equities – where value can be found
- Independent and employee-owned





- The Russell 2000 is well positioned
- The Zombie 1000 – making money by digging through the garbage heap
- Valuations are so discounted you do not need external corporate action

Schumpeter's Process

Taking advantage of the cyclical process to generate superior, long-term returns

Transition Phase:
Where you want to invest and where we are now!

Improving supply side causes returns to rise above cost of capital: **Share Price Outperforms**

New entrants attracted by prospect of high returns: **Investors Optimistic**

Rising competition causes returns to fall below cost of capital: **Share Price Underperforms**

Business investment declines, industry consolidation, firms exit: **Investors Pessimistic**

Source: Capital Returns, Edward Chancellor, editor (2015)



“In economics, things take longer to happen than you think they will, and they happen faster than you thought they could.”

-Rudiger Dornbusch

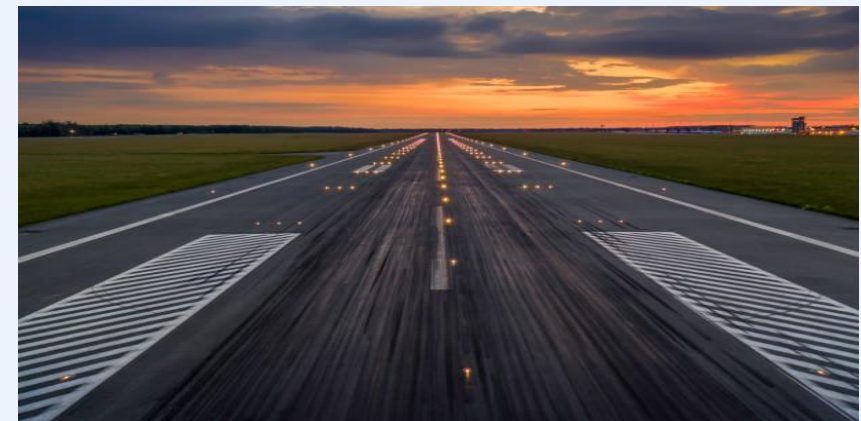


Ugly Ducklings

- Look for companies or industries that are beaten-up, out of favor, or out of fashion
- Commonly investors avoid near-term uncertainty and only invest once the dust has settled
- We concentrate on understanding the long-term normalized earning power of a business well before it turns into a swan

Long Runways

- Industries facing significant short-term headwinds / “unknowns”
- The dynamics are in place for very long runways of growth once headwinds dissipate



2004 - 2020

Bob Robotti invited on the board of PHX Minerals Inc. (fka Panhandle Oil & Gas) based in Oklahoma City, Oklahoma as the firm was the largest outside owner of PHX.



2019 - 2023

Canadian asset manager Edgepoint, the largest shareholder of PrairieSky recommended Bob to the board. PrairieSky Royalty Ltd. is based in Calgary, Alberta.



2007 - present

Bob becomes chairman of the board in 2013 for Pulse Seismic Inc. based in Calgary, Canada. The firm owns ~16% of the company.



2016 - present

Bob joins the board of AMREP Corporation based in Rio Rancho, New Mexico. The firm owns ~10% of the company.



2012 - 2015

Bob becomes board member of BMC – Building Materials and Construction Services after fellow shareholder Davidson Kempner’s recommendation. BMC merged with Builders FirstSource, Inc. in 2021 where the firm still holds a significant position.



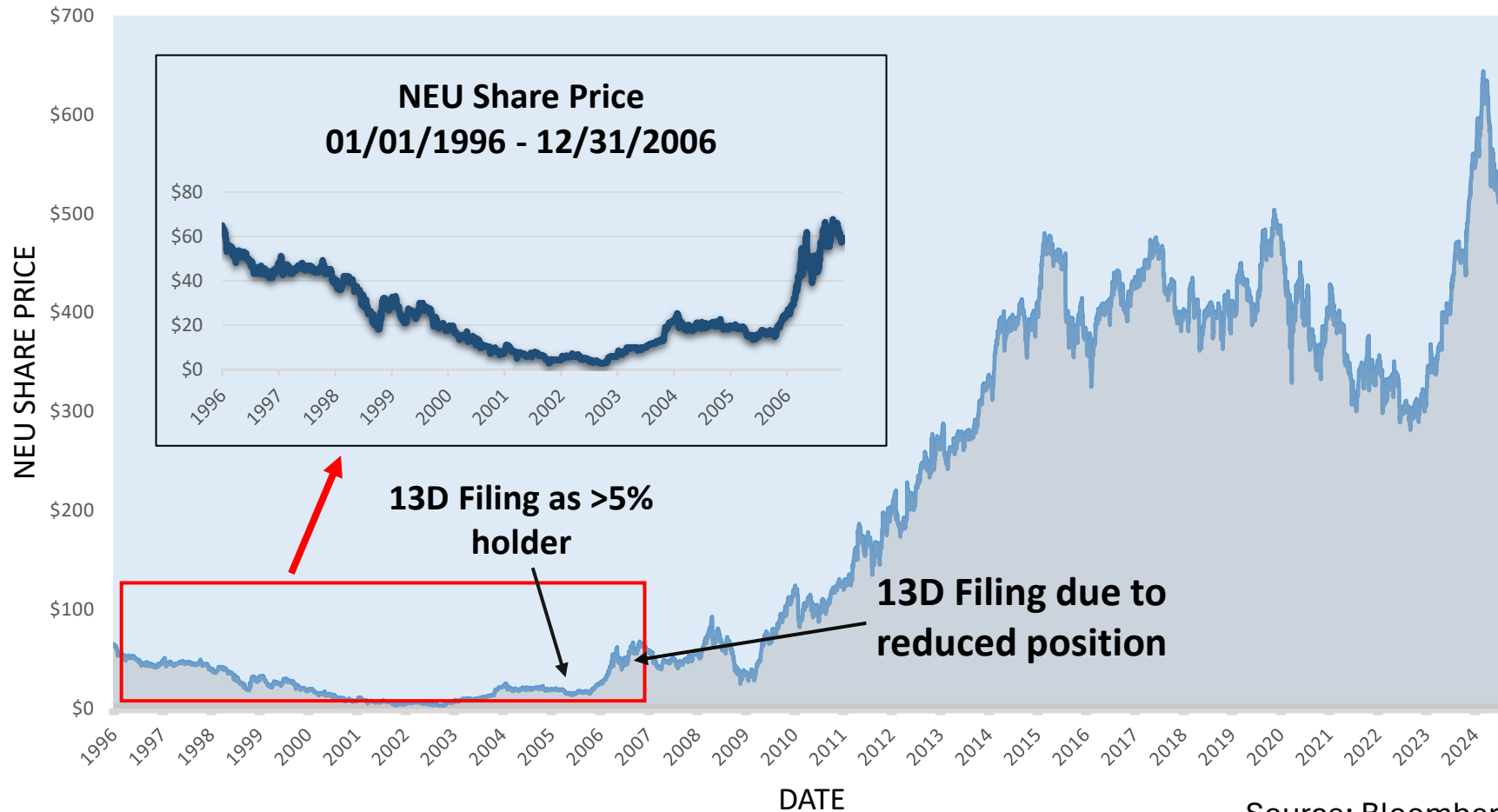
2021 - present

Bob invited to be on the board of Tidewater based in Houston, Texas and named to the board’s ESG committee in 2022. The firm is TDW’s second largest shareholder.



Ethyl Corp / NewMarket (NEU)

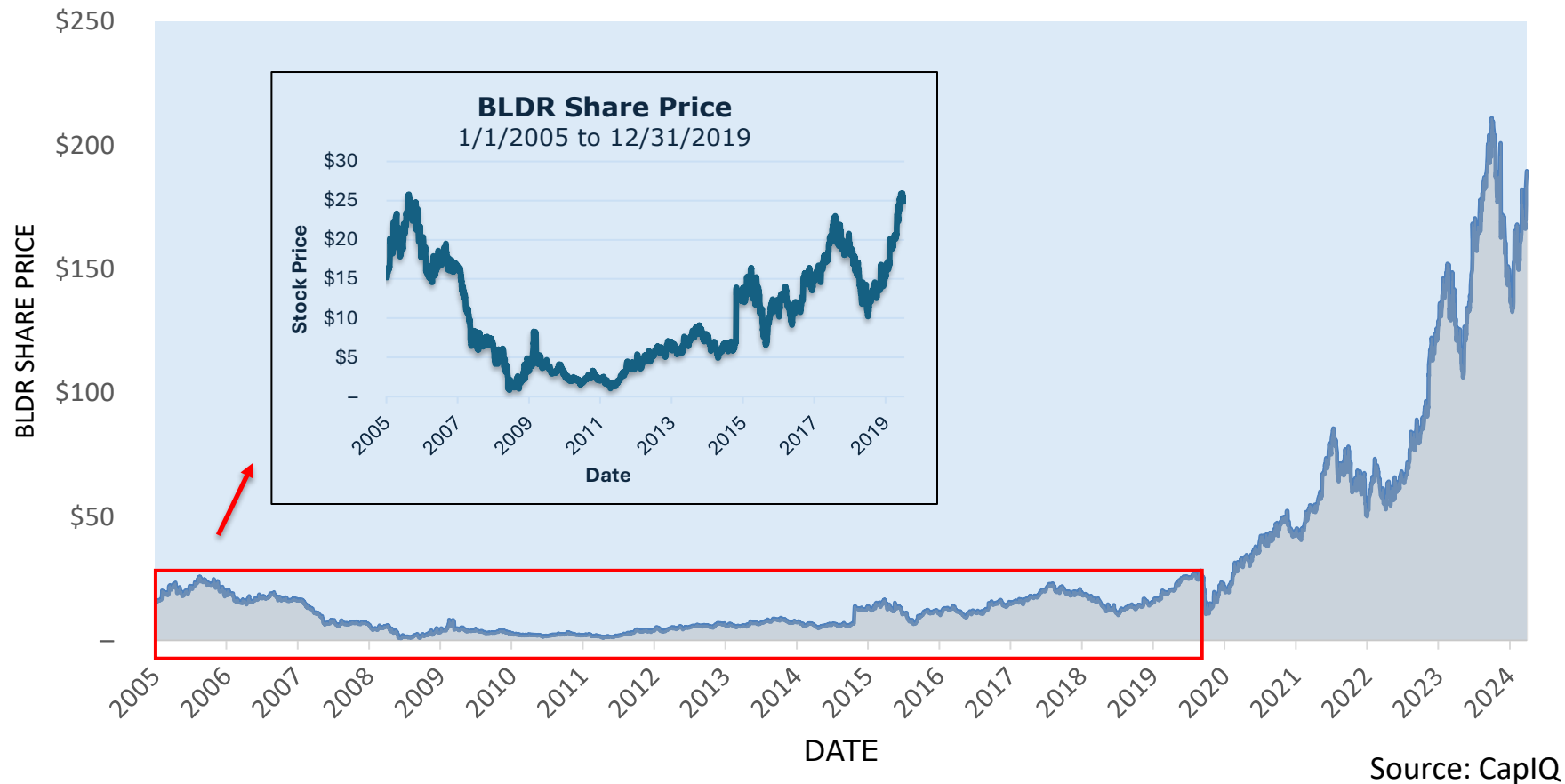
January 1, 1996 - Present



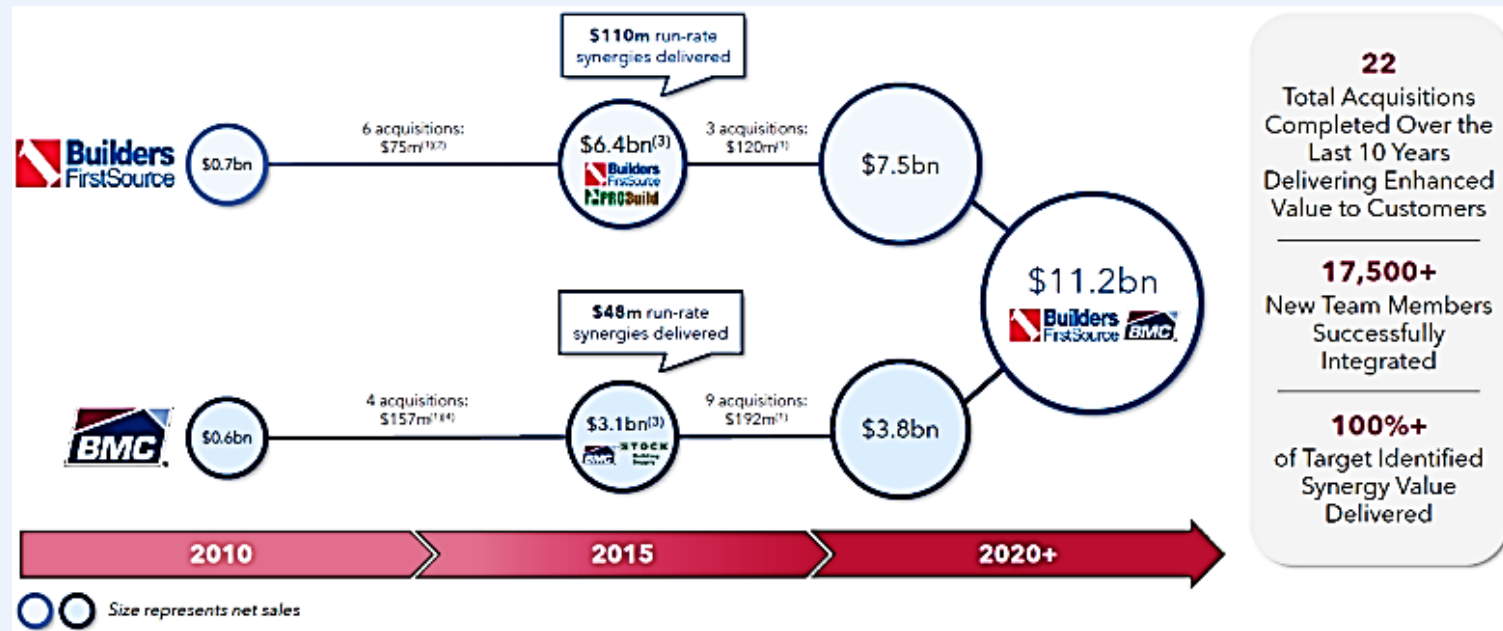
Source: Bloomberg

Builders FirstSource (BLDR)

January 1, 2005 to Present

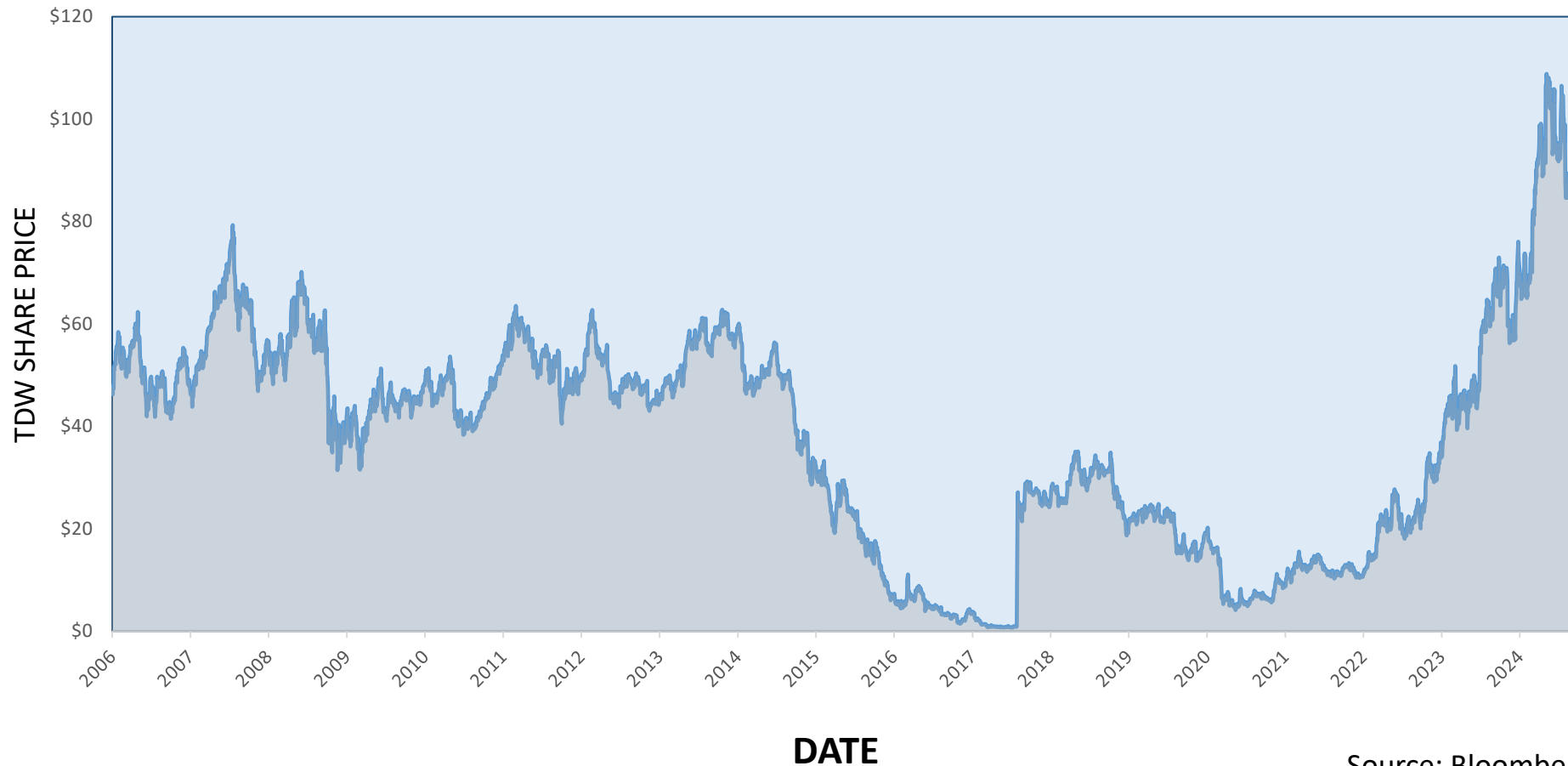


Today, BLDR is the amalgamation of the 5 largest professional building products distributors in the US post-Global Financial Crisis

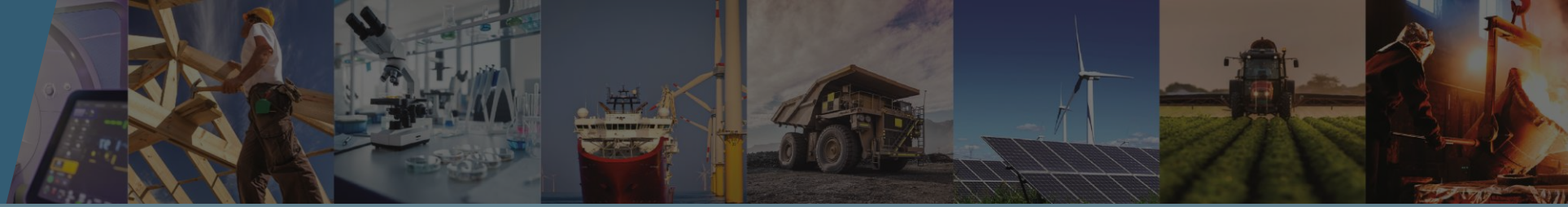


Source: BLDR Investor Presentation

Tidewater (TDW) January 1, 2006 - Present



Source: Bloomberg



Why market forces continue to set the stage for outsized returns

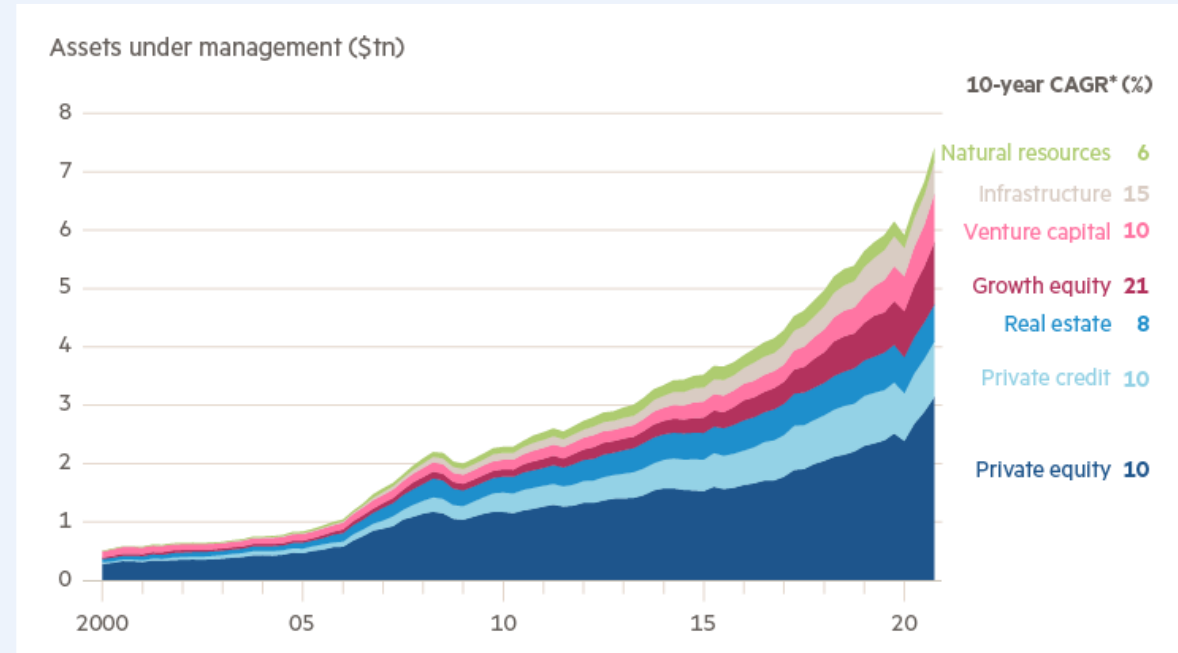


10 Year US Treasury Bond Yield

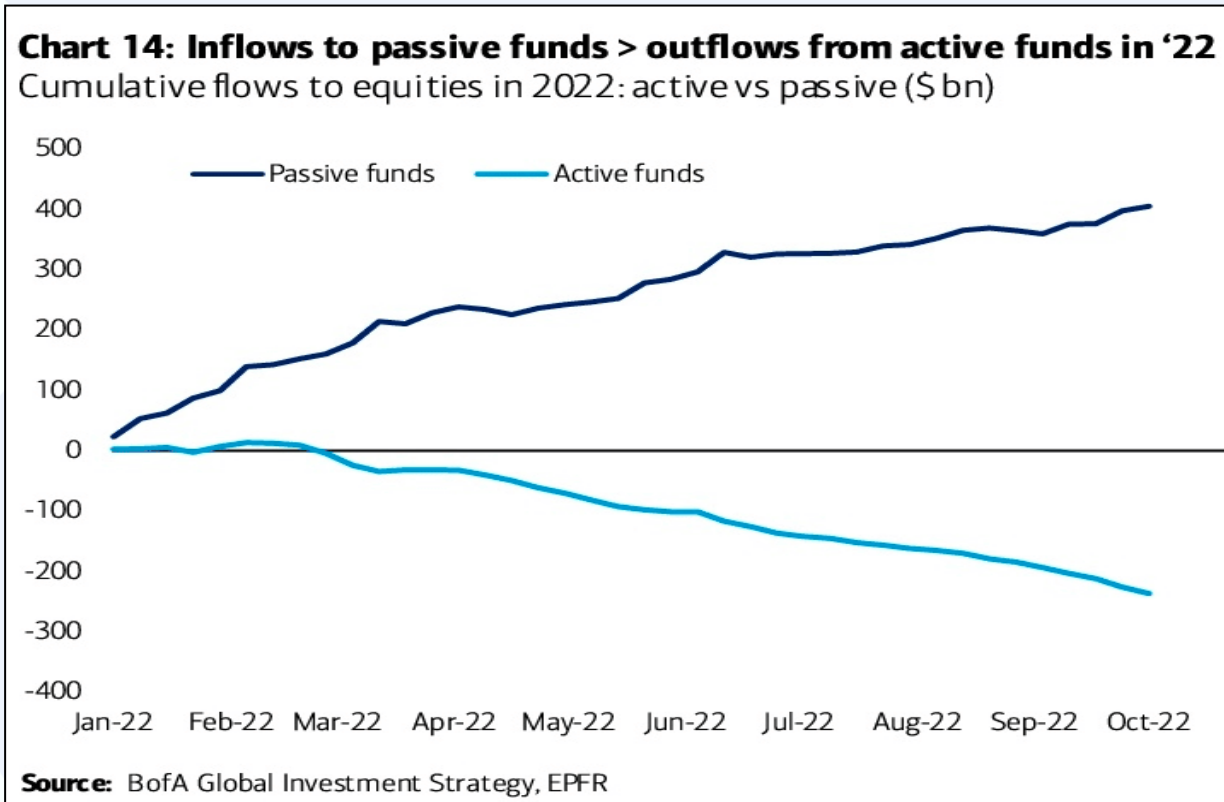


Source: Macrotrends.net

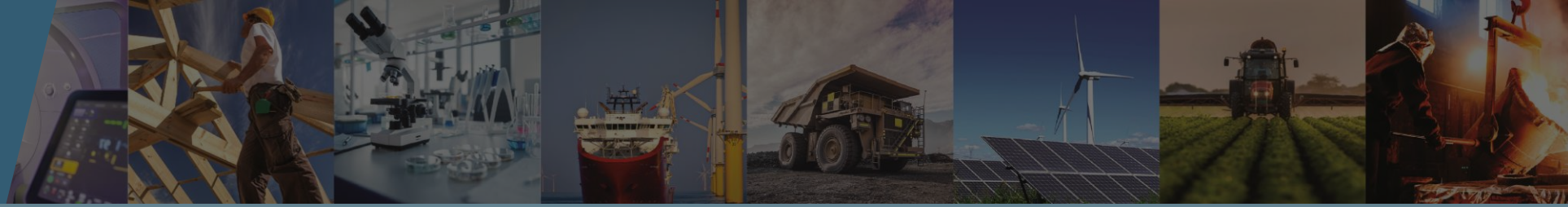
The Growing Power of Private Capital



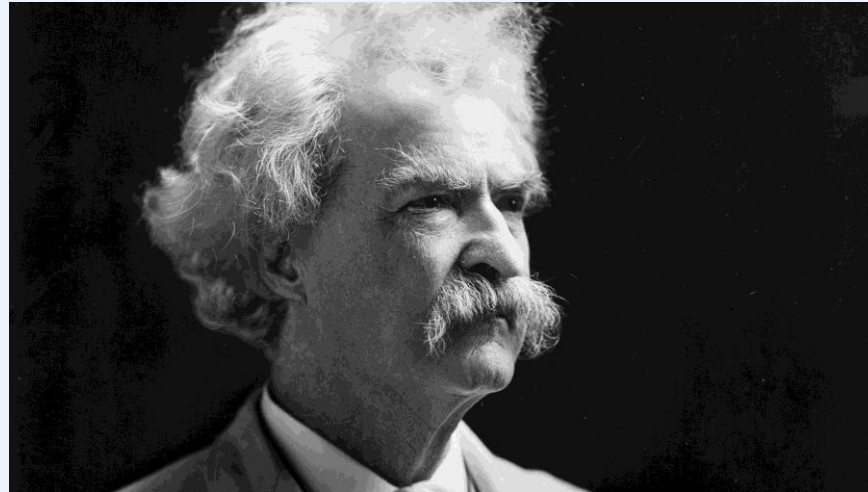
Source: Morgan Stanley Research



Investors are still piling into passive funds!



“It ain’t what you don’t know that gets you into trouble...



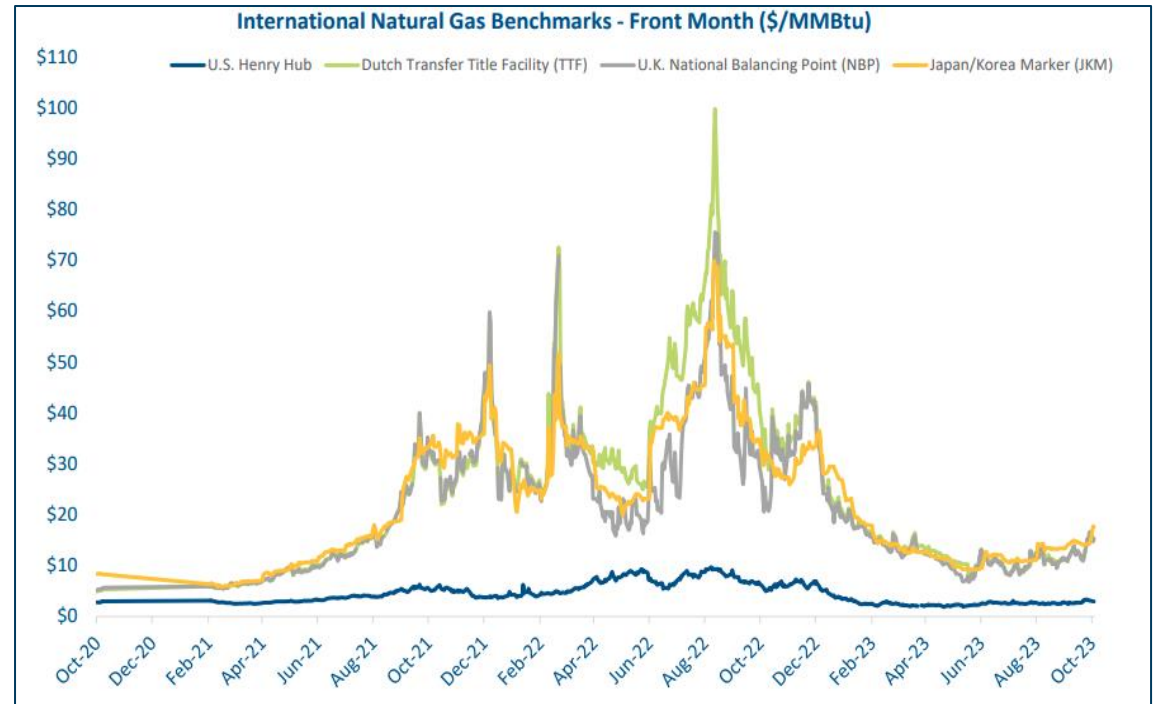
It’s what you know for sure that just ain’t so.”

-Mark Twain

The Industrial Renaissance

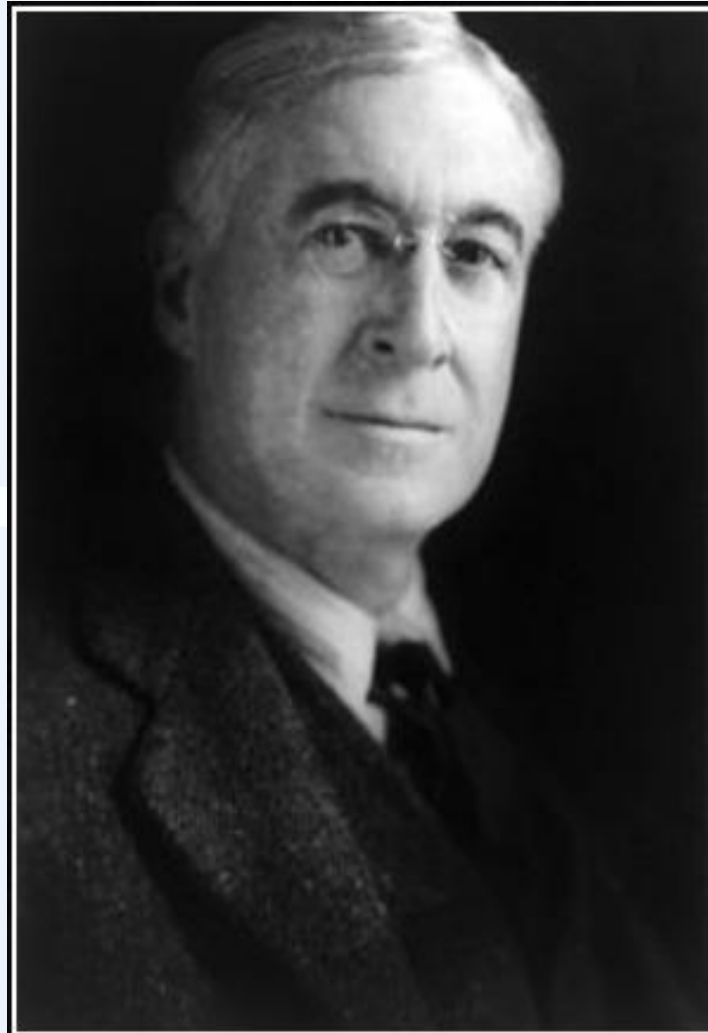
NORTH AMERICA: DRIVEN BY COMPETITIVE ADVANTAGE

- Durable competitive advantage driven by supply of cheap energy, mainly natural gas
- Globally low-cost production in many industries, especially energy intensive businesses
- Inflation Reduction Act supercharging the buildout of infrastructure and manufacturing capacity in the US
- Additional reshoring to Mexico and other neighboring countries
- Largely separated from major geopolitical issues and spillover effects



Source: LSB Industries Investor Presentation December 2023

- The risk of conventional wisdom
- Underlying economic environment is better than ever
- The pressure is on active managers
- Europe is de-industrializing
- For decades, we had no cost of capital – we are not going back there
- Private equity doesn't know what to do – it's a slam dunk for securities that private equity should own



Information cannot serve as an
effective substitute for thinking.

— *Bernard Baruch* —



Where to Look in the Zombie 1000

- Steel Industry
- North American Lumber Industry
- North American Fertilizer Manufacturing
- Canadian Oil & Gas companies
- Energy Services
- Land Development companies

<u>Disclosures</u>	NewMarket (NEU)	Builders FirstSource (BLDR)	Tidewater (TDW)
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