

ROBOTTI

& COMPANY ADVISORS, LLC

ROBERT ROBOTTI

The Ben Graham Centre for Value Investing
The Richard Ivey School of Business

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About Robotti & Company

History

- Established in 1983 by Robert Robotti.
- Our niche is small-to-mid capitalization equities of misunderstood, neglected, or out-of-favor companies.
- Until 2004, our primary focus was on North American investments.
- In 2005, Isaac Schwartz launched Robotti & Company's international investing initiative, initially focusing on Asia.
- Putting his "boots on the ground," Isaac moved to Singapore in 2007. He currently resides in Hong Kong.

About Robotti & Company

Philosophy

- Value is the foundation of our investment process.
- We believe that market prices of securities do not necessarily indicate their true economic worth.
- Guided by this philosophy, our analysts research and identify equities selling at significant discounts to their “intrinsic value.”

Background

- Seek out great mentors
- On the ground MBA
 - Nothing can replace real world experience.

Accounting

- The language of business.
- Understanding financial statements by understanding the process behind creating them.

What is Value Investing?

- Price vs. Value
- Margin of Safety

<http://youtu.be/yypj-aYtp9c>



Margin of Safety

- Safeguard against ourselves.
- We do not look to buy stocks where a small change in our assumptions will affect our buy/sell decision.

“You also have to have the knowledge to enable you to make a very general estimate about the value of the underlying businesses. But you do not cut it close. That is what Ben Graham meant by having a margin of safety. You don't try and buy businesses worth \$83 million for \$80 million. You leave yourself an enormous margin. When you build a bridge, you insist it can carry 30,000 pounds, but you only drive 10,000 pound trucks across it. And that same principle works in investing.”

-Warren Buffett

Idea Generation: What's the Secret?



We search for stocks where the risk / reward asymmetry is greatest.

Special Situations

- Rights offerings
- Spin-offs
- Warrants
- Recapitalizations

Screens

- 52 Week lows
- Low price to earnings multiple
- Laggards within an industry

Asset Plays

- Hidden assets
- Undervalued on the balance sheet

Out of Favor Stocks / Industries

- Busted IPO's
- Recent bankruptcies
- Earnings misses
- Hated in the headlines

General Reading / Networking

- Constant reading
- Sharing ideas with like-minded investors
- Learn about companies as a result of being on boards, visiting companies, attending trade shows, etc.

Value Investing: A Big Tent



Small, Obscure, Ugly

- Focus on small-to-mid cap companies
 - Realized the importance of that while serving on Sarbanes-Oxley committee.
- Know where to fish – look for asymmetrical opportunities
- Illiquid, international, cyclical, dealing with operational issues, corporate restructuring, undergoing management change

Ugly Ducklings



- Many value investors say they look for companies or industries that are beaten-up, out of favor, or out of fashion - ugly ducklings.
- However, we find it most common for investors to avoid near-term uncertainty at all cost and only invest once the dust has settled.
- Our ability to tolerate losing money before we make it, allows us to concentrate on understanding the long-term normalized earning power of a business well before it turns into a swan.

Avoiding the Herd Mentality

- First investment was New York City Housing Authority Bonds – when people thought New York City was going bankrupt.
- If you want your performance to be *different* than the market, then you must be doing something *different* than the market.

Our Job as Contrarians

“...most people say, “We’re not going to try to catch a falling knife; it’s too dangerous.” They usually add, “We’re going to wait until the dust settles and uncertainty is resolved.”



The one thing I’m sure of is that by the time the knife has stopped falling, the dust has settled and the uncertainty has been resolved, there’ll be no great bargains left...

Thus a hugely profitable investment that doesn’t begin with discomfort is usually an oxymoron.”

Howard Marks, Oaktree Capital

Identify Long Runways

- ✓ Industries facing significant short-term headwinds / “unknowns.”
- ✓ Individual companies that are certainly not immune to the industry-wide issues and may even have more serious complications.
- ✓ **The dynamics are in place for very long runways of growth once headwinds dissipate.**



Behavioral Edge: Patience and discipline are essential, since a catalyst may not be readily identifiable and the timeline generally unpredictable.

Having an Edge

Analytical

- Superior/unique analysis of information leads to a different conclusion than the market.

Behavioral

- The ability to overcome inherent behavioral biases and make rational investment decisions.
- Temperament, Process, Intestinal fortitude.

Informational

- Superior information not readily understood by the market.
- Multiple data points help to create a mosaic.

Investment Edge

Behavioral Edge

We take a longer-term view and have the ability to tolerate losing money before we make it.

Leads Us To

Analytical Edge

Within the context of a longer-term perspective and 30+ years of experience, we have the ability to develop a different conclusion than that of the market.

Informational Edge

Our network of industry relationships, focus on deep primary research, and experience serving on company boards, provides us with more pieces for building our information mosaic.

Two Edges Too Many ?

- Analytical or informational edges, alone or in combination, *can* lead to superior investment results.
- We believe, however, that a **behavioral edge** – maintaining the proper temperament – is much more important in the context of long-term investment performance. It is also the most difficult edge to explain, teach, or learn.

3 Fundamental Questions

- Why does anyone buy a stock?
- What makes a stock go up?
- What is so important about cash flow?

Implications for Investing

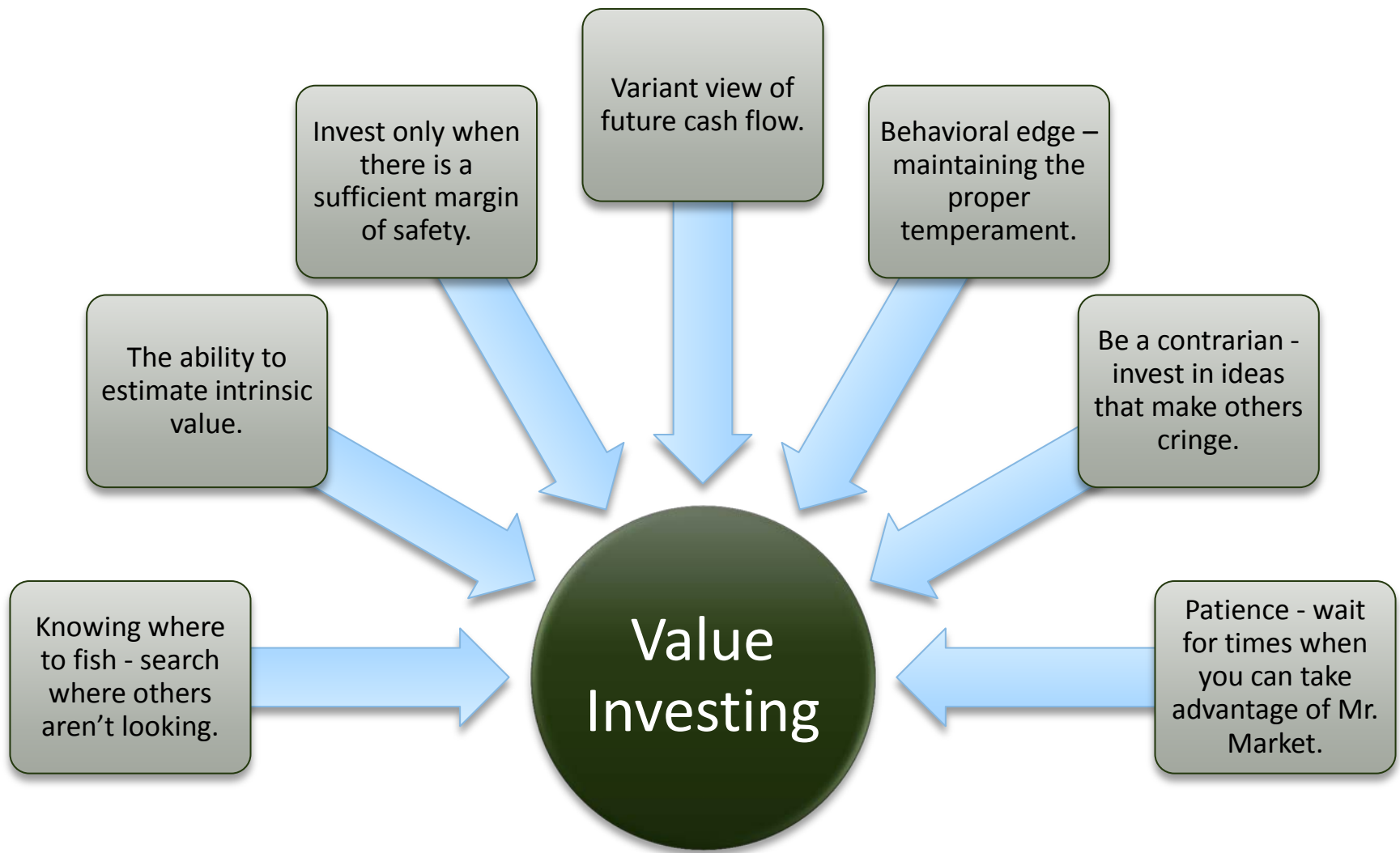
For Value Investing to work

- You must be able to determine intrinsic value
- The market must misprice the security.
- The market must eventually recognize its mistake and re-price the security.

Translation from Theory into Practice

- Low Price / Book: The purchase of assets that are currently producing no, or insufficiently low cash flows.
- Low Price / Earnings: The purchase of assets that are producing cash, but the market expects these cash flows will degrade.
- The purchase of assets where some new development is or will be occurring to increase cash flows. Must have gone unnoticed by Wall Street.

Value Investing



FROM THEORY TO PRACTICE

“In theory there is no difference between theory and practice. In practice there is.”

-Yoggi Berra

Builders FirstSource, Inc. (Nasdaq: BLDR)

- Builders FirstSource is a leading supplier and manufacturer of structural and related building products for residential new construction.
- The company operates in 9 states, principally in the southern and eastern United States, and has 53 distribution centers and 44 manufacturing facilities.

Data as of 01/22/2013

| | |
|-------------------------|--------------|
| Price | \$5.91 |
| Diluted Shares | 95.0 |
| Market Cap | \$569 |
| Long-Term Debt | 298.5 |
| Cash | 90.7 |
| Enterprise Value | \$777 |

Builders FirstSource Chart (6/27/2005 to present)



Source: Capital IQ

Builders FirstSource, Inc. (Nasdaq: BLDR)

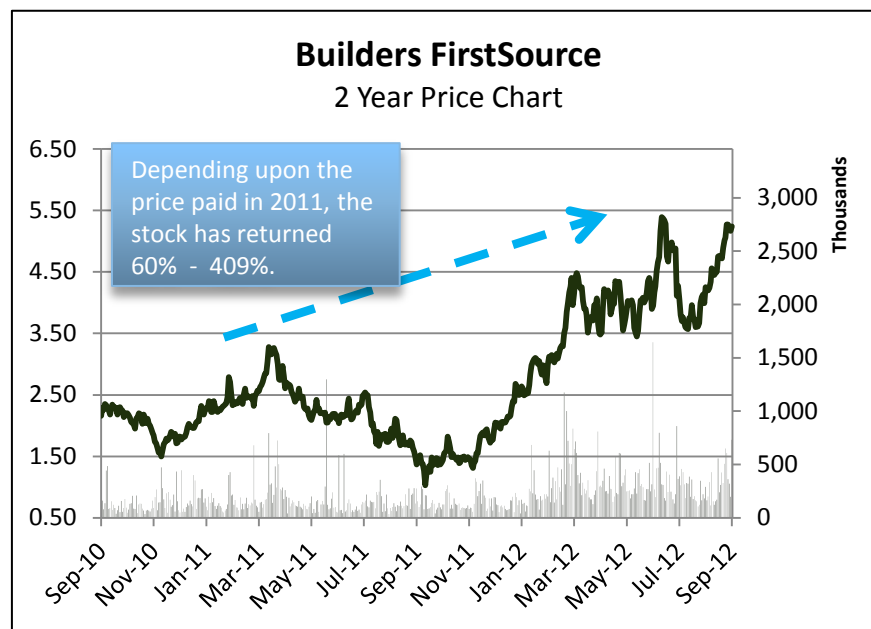
- Mentioned Builders FirstSource (BLDR) in February 2011 interview with Columbia Business School's *Graham and Doddsville*.
 - The stock was trading at \$2.00 with an enterprise value of ~\$250 million.
 - We suggested that normalized earning power, based on building ~1 mm homes in the U.S., was \$100 - \$200 mm of EBITDA or approximately \$1.00 - \$2.00 per share.
 - *However, there was no end in sight to the housing crisis.*
- Mentioned BLDR again in August 2011 interview with *Value Investor Insight* when the stock traded at \$2.09.
- ❖ (BLDR closed at low of \$1.03 in October 2011.)

Investor Interest Rises as Uncertainty Falls

- While the housing market is certainly not out of the woods, headlines and rhetoric have changed tone.
- We argue that the dust is just beginning to settle and people are just beginning to accept that the uncertainty will somehow be resolved.
- Over the long-term, we still believe that Builders FirstSource is undervalued.
 - However, the argument that the stock is near-term fairly valued is more credible at the current valuation.



Source: CNBC.com



Source: Capital IQ

Calfrac Well Services, Ltd. (TSX:CFW)

- Canadian based independent provider of specialized oilfield services with operations in Canada, the United States, Russia, Mexico, Argentina, and Columbia.
- Majority of revenue (92%) is generated by hydraulic well fracturing.
- Other services include coiled tubing, cementing and other well stimulation services.

Data as of 01/22/2013

| | |
|-------------------------|----------------|
| Price | \$25.96 |
| Diluted Shares | 45.0 |
| Market Cap | \$1,168 |
| Long-Term Debt | 449.1 |
| Non-Control Interest | 0.7 |
| Cash | 97.9 |
| Enterprise Value | \$1,519 |

Calfrac 10-Year Price Chart



Source: Capital IQ

Industry Map: Oil & Gas

Exploration & Production (Upstream)

- Casing & Completion
- Contract Drilling
- Drilling Related Services & Equipment
- Fluids, Pressure Pumping, Hydraulic Fracturing
- Infrastructure Engineering / Design / Fabrication
 - Subsea / Surface Equipment
 - Compression
- Lease Access
- Seismic Data Acquisition & Processing

Transportation (Midstream)

- Consulting
 - Environment
 - Engineering
 - Safety
- LNG Liquefaction
- NGL Extraction
- Oil / Gas / NGL Storage Services
- Pipeline Services
- Processing
- Transportation, Ship, Pipeline

Refining & Marketing (Downstream)

- Asphalt
- Gas to Market
- Heating Oil
- Jet Fuel
- Kerosene
- LNG Regasification
- Lubricants
- Motor Fuel (gasoline / diesel)
- Naphtha
- Specialty / Commodity Chemicals



Investment Highlights

- ✓ Canadian leader and #6 in the world – with ability to compete internationally.
- ✓ Very long runway for growth of hydrocarbon production in both North America and also around the world.
- ✓ Trend towards longer, more complex, multi-stage fractures.
- ✓ Solid balance sheet and ample liquidity provides Calfrac with the ability to pursue opportunistic acquisitions.
- ✓ High returns on capital, high inside ownership and 4.3% dividend yield.
- ✓ Potential upside of 80% - 100% assuming a normal scenario where natural gas demand remains flat.
- ✓ Potential upside of >100% assuming a scenario where increased global demand for natural gas provides a long runway for growth.

Stolt-Nielsen Limited (OB:SNI)

- Stolt-Nielsen is the world's leading chemical shipping company founded in 1959 by Jacob Stolt-Nielsen, a pioneer of the parcel tanker industry.
- The company has over 5,400 employees worldwide with 33 offices in 29 countries.
- Three main segments include: (1) Stolt Tankers, (2) Stolthaven Terminals, (3) Stolt Tank Containers.
- Additional segments include: Stolt Sea Farm, Stolt-Nielsen Gas, and Stolt Bitumen Services.
- At roughly 2/3 of tangible book value, shares trade at <35% of the company's estimated sum of the parts value.

Data as of 01/22/2013

| | |
|-------------------------|----------------|
| Price | \$20.35 |
| <u>Diluted Shares</u> | <u>58.0</u> |
| Market Cap | \$1,180 |
| Long-Term Debt | 1,685.9 |
| Non-Control Interest | (12.0) |
| <u>Cash</u> | <u>71.0</u> |
| Enterprise Value | \$2,811 |

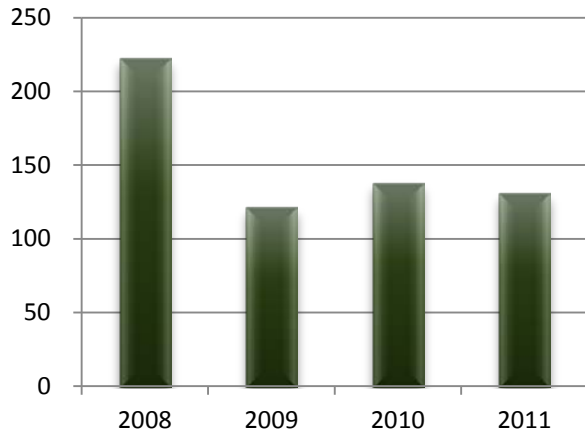
Stolt-Nielsen 10-Year Price Chart



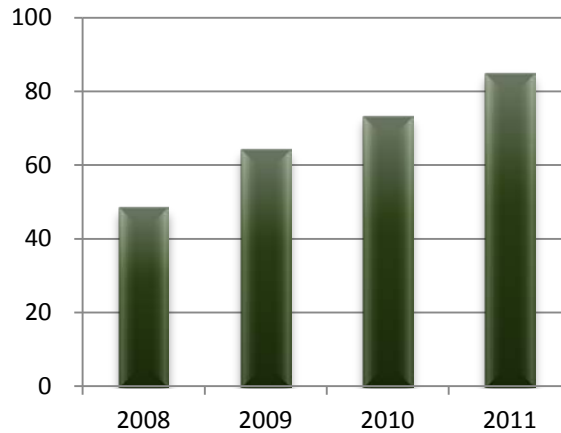
Source: Stolt-Nielsen, Capital IQ

The Business: Segment EBITDA

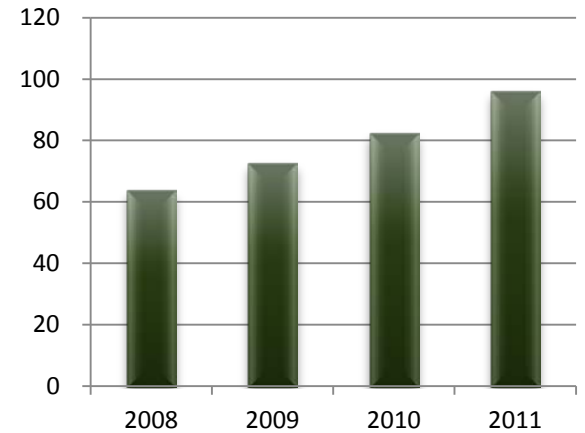
Stolt Tankers EBITDA



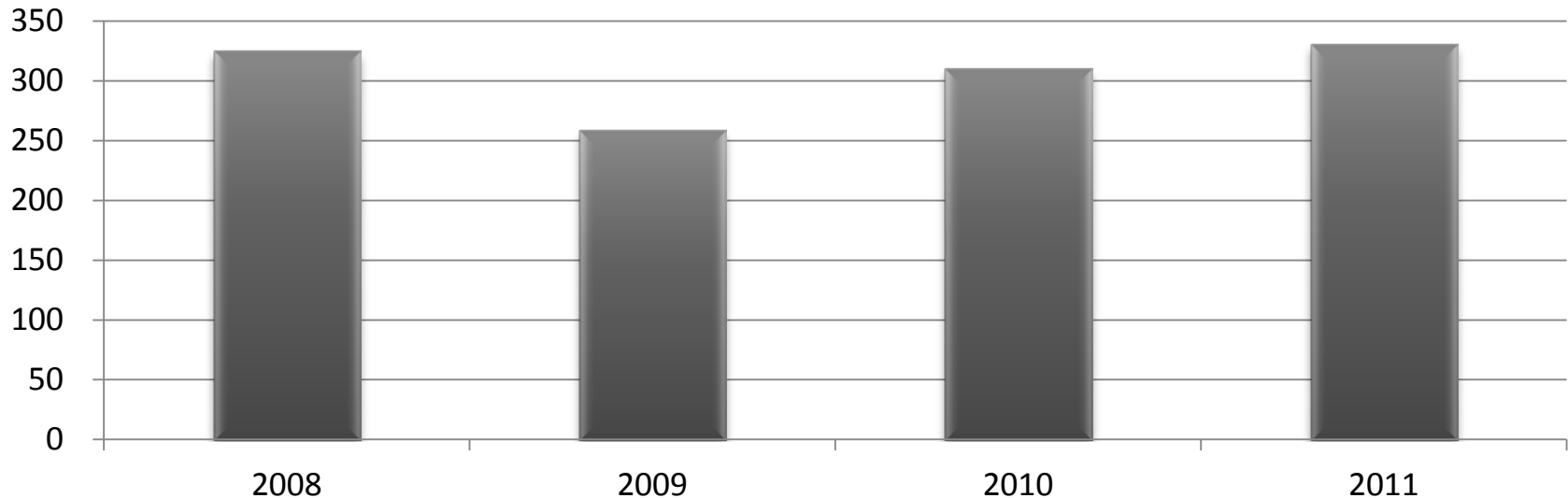
Stolthaven Terminals EBITDA



Stolt Tank Containers EBITDA



Stolt-Nielsen Ltd EBITDA



Thesis / Variant View

- Stolt-Nielsen is the world leader in a niche oligopoly.
- The chemical tanker business has certain dynamics that differentiate it from other segments of the shipping industry.
 - Much more complex with barriers to entry based on technology necessary for segregated cargo.
 - New build activity for chemical tankers is relatively limited.
- Headwinds over past years four years cloud the underlying structural changes – creating an opportunity.

Thesis / Variant View

- We believe that the industry is in the midst of a structural shift that will affect the long-term supply/demand balance and allow constituents to realize an appropriate return on their assets.
- Economic activity should rebound at some point – which means increased chemical manufacturing and production.
 - As a result of shale drilling there is a resurgence of chemical manufacturing in United States. This will continue to fragment the chemical manufacturing process, and therefore increase the need for the efficient and economic transportation and logistics services.
- Activity in the Middle East will provide additional growth opportunities.

Valuation

SNL – Sum Of The Parts Valuation

| <u>Business</u> | <u>2011 EBITDA</u> | <u>2013 EBITDA</u> | <u>2011 Valuation</u> | <u>2013 Valuation</u> |
|--|------------------------|------------------------|---------------------------|---------------------------|
| Tankers (Broker Valuations) (a) | \$127 M | \$197 M | \$1,958 M | \$1,958 M |
| Construction in Progress | | | \$147 M | \$147 M |
| Stolthaven Terminals (10x) | \$86 M | \$120 M | \$860 M | \$1,200 M |
| STC (8x) | \$94 M | \$99 M | \$752 M | \$792 M |
| SSF (8x) | \$22 M | \$18 M | \$176 M | \$144 M |
| Other (Bx) | \$15 M | \$15 M | \$120 M | \$120 M |
| Investments in JVs (b) | | | \$275 M | \$301 M |
| <i>Subtotal</i> | | | <i>\$4,288 M</i> | <i>\$4,662 M</i> |
| Net Debt (Basis 2011 Actuals and 5-yr plan) | | | (\$1,397) M | (\$1,617) M |
| Sum Of the Parts Valuation | | | <u>\$2,891 M</u> | <u>\$3,045 M</u> |
| Market Cap as of May.10.12 | | | \$1,133 M | \$1,133 M |
| Market Cap in % of Sum of the Parts Valuation | | | 39% | 37% |
| SNL EBITDA (c) | \$344 M | \$449 M | | |

(a) Stolt Tankers: \$1,958.0 M accounts for the value of the broker valuations of the ships used as collaterals in our loan facilities

(b) Investments in Joint Ventures: exclude the equity income from Joint Ventures in Terminals

(c) 2011 and 2013 EBITDA info as of YTD actuals

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Samson Holdings (SEHK:531)

- Furniture company selling in U.S., manufacturing in China, listed in HK.
- 2011 Revenue: \$423.4 million
- Established in 1980 by current chairman as Taiwanese OEM selling in U.S.
- Re-invented in early 1990s as a manufacturer in Mainland China (many Taiwanese competitors didn't successfully transition over).
- Re-invented again in early 2000s, after buying brands in bankruptcy, repositioning from an OEM into a fully-integrated wholesaler.
- Today, branded product accounts for 85% of sales.
- Corporate headquarters in Dongguan, China.
- Distribution headquartered in High Point, North Carolina.

Data as of 01/22/2013 (USD millions)

| | |
|-------------------|----------------|
| Price | \$0.17 |
| Dil. Shares | 3,043.6 |
| Market Cap | \$514.3 |
| LT Debt | 127.1 |
| Cash | 339.9 |
| EV | \$301.5 |

Source: Capital IQ

Samson Holdings (SEHK:531)

- Industry has been in turmoil for years.
 - Samson's financial strength provides flexibility, including for acquisitions.
- Operating far below capacity. Can expand significantly with minimal capex.
- Samson can return to its former level of profitability at some point in a rationalized industry.
 - At \$70 million of EBITDA (less than 2/3 peak), its implied value would be just over 4x EBITDA.

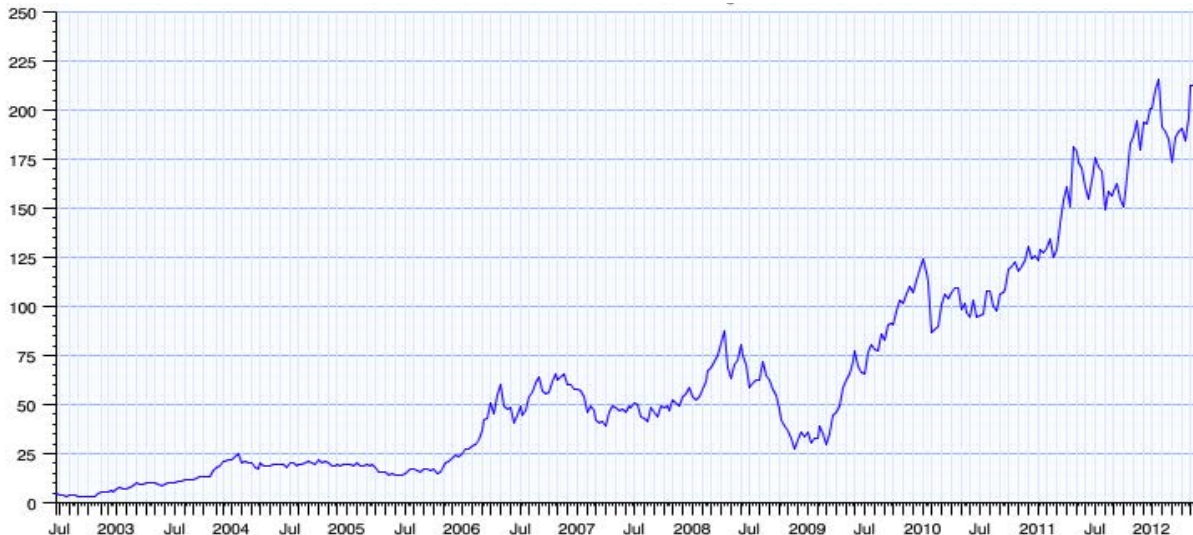
NewMarket Corporation (NYSE: NEU)

- Niche specialty chemicals business that produces petroleum additives used in fuels and lubricants.
- The company also markets tetraethyl lead in the U.S. and has a real estate development business in downtown Richmond, VA.

Data as of 01/22/2013

| | |
|-------------------------|----------------|
| Price | \$283.20 |
| <u>Diluted Shares</u> | <u>13.4</u> |
| Market Cap | \$3,800 |
| Long-Term Debt | 183.8 |
| <u>Cash</u> | <u>79.7</u> |
| Enterprise Value | \$3,904 |

NewMarket 10 Year Price Chart



Source: Capital IQ

“It never hurts to take a profit.”

-Wall Street Aphorism

“You wanna bet?”

-Bob Robotti

Superior National: Not Always a Bed of Roses

- California based provider of workers' compensation insurance.
- Inside ownership was high and the company was repurchasing shares at close to book value.
- Resulted in a violation of Buffett's Rules #1 and #2.
- The lesson, however, was not what you might think.

Disclosure: Ownership Information

| <u>Disclosures</u> | Builders FirstSource (NASD:BLDR) | Calfrac Well Services (TSX:CFW) | NewMarket Corporation (NYSE:NEU) | Samson Holdings (SEHK:531) | Stolt-Nielsen (OB:SNI) |
|---|---|--|---|---|-----------------------------------|
| Robert Robotti and/or members of his household have a financial interest in the following securities | Yes | Yes | Yes | Yes | Yes |
| Robotti or its affiliates beneficially own common equity of the following securities | Yes | Yes | Yes | Yes | Yes |
| Robotti or its affiliates beneficially own 1% or more of any class of common equity of the following securities | Yes | No | No | No | Yes |
| Robert Robotti serves as a Director or Officer or Advisory Board Member of the following securities | No | No | No | No | No |

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Disclosure to Slide 24

Below are all of the stocks mentioned in the February 2011 interview with *Graham and Doddsville* and the August 2011 interview with *Value Investor Insight*.

| Graham and Doddsville Interview | Ticker | 2/4/2011 | 1/23/2013 | % Change |
|----------------------------------|-------------|-----------|-----------|----------|
| Builders First Source | BLDR | \$2.22 | \$6.10 | 174.8% |
| Subsea 7 | OB:SUBC | \$142.10 | \$136.20 | (4.2%) |
| NewMarket | NEU | \$130.45 | \$283.51 | 117.3% |
| Value Investor Insight Interview | Ticker | 8/31/2011 | 1/23/2013 | % Change |
| Cavco | CVCO | \$36.37 | \$51.59 | 40.7% |
| Sawada Holdings | JASDAQ:8699 | 746 JPY | 535 JPY | (28.3%) |
| Panin Insurance | JKSE:PNIN | 560 IDR | 550 IDR | (1.8%) |
| KazMuniGas | LSE:KMG | \$16.95 | \$18.10 | 6.78% |
| Enerflex | TSX:EFX | \$10.70 | \$12.32 | 15.1% |
| Panhandle | PHX | \$28.39 | \$28.36 | (0.1%) |
| Builders First Source | BLDR | \$1.93 | \$6.10 | 216.1% |
| Pricesmart | PSMT | \$65.46 | \$77.43 | 18.3% |

(Prices from CapitalIQ)

Questions

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