

Has Contrarian Investing Become Conventional?

BEN GRAHAM CENTRE'S 2013 VALUE INVESTING CONFERENCE
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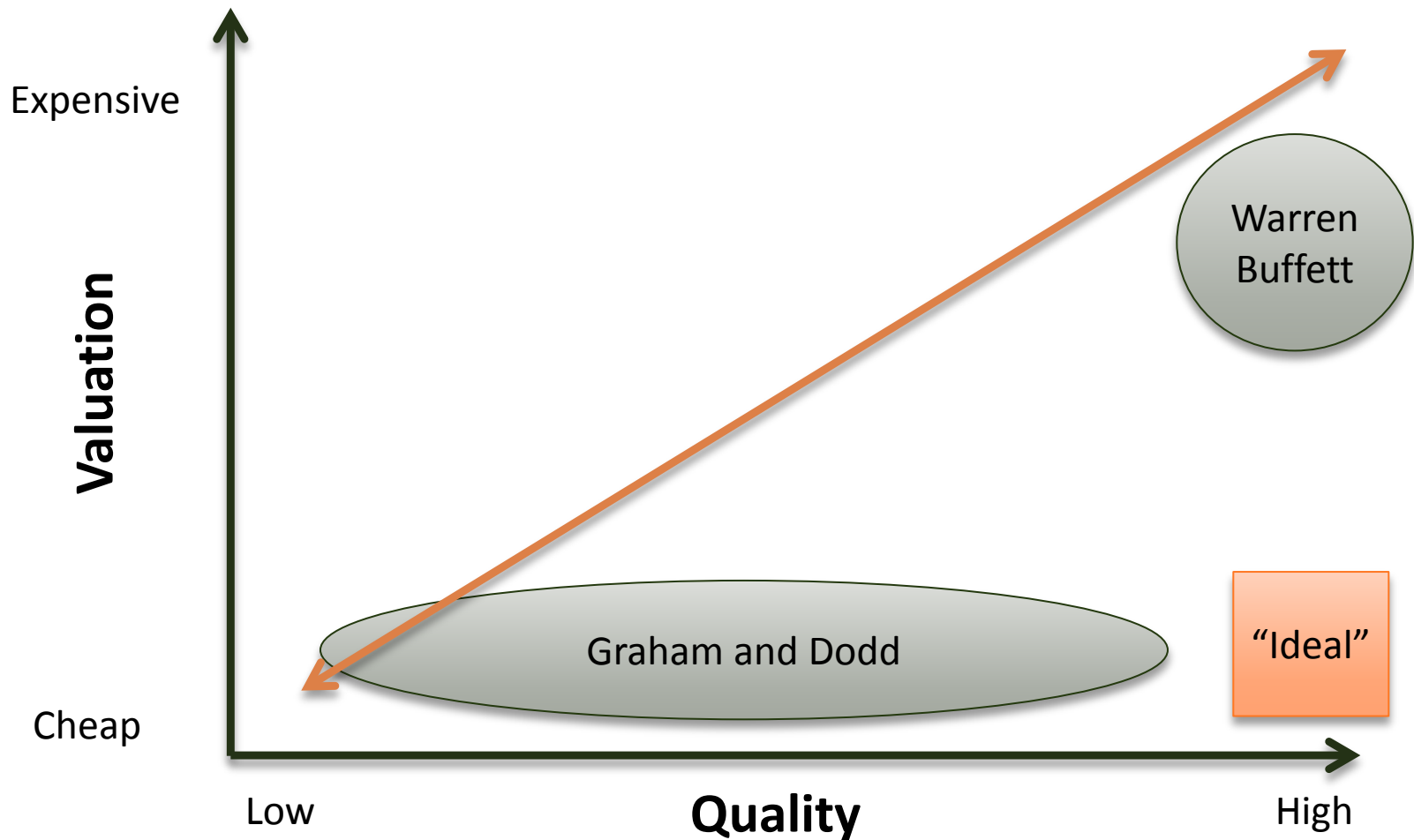
In reaching a determination as to the appropriateness of any proposed transaction or strategy, clients should undertake a thorough independent review of the legal, regulatory, credit, accounting and economic consequences of such transaction in relation to their particular circumstances and make their own independent decisions.

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 and lived in Hong Kong for five years.

Value Investing: A Big Tent

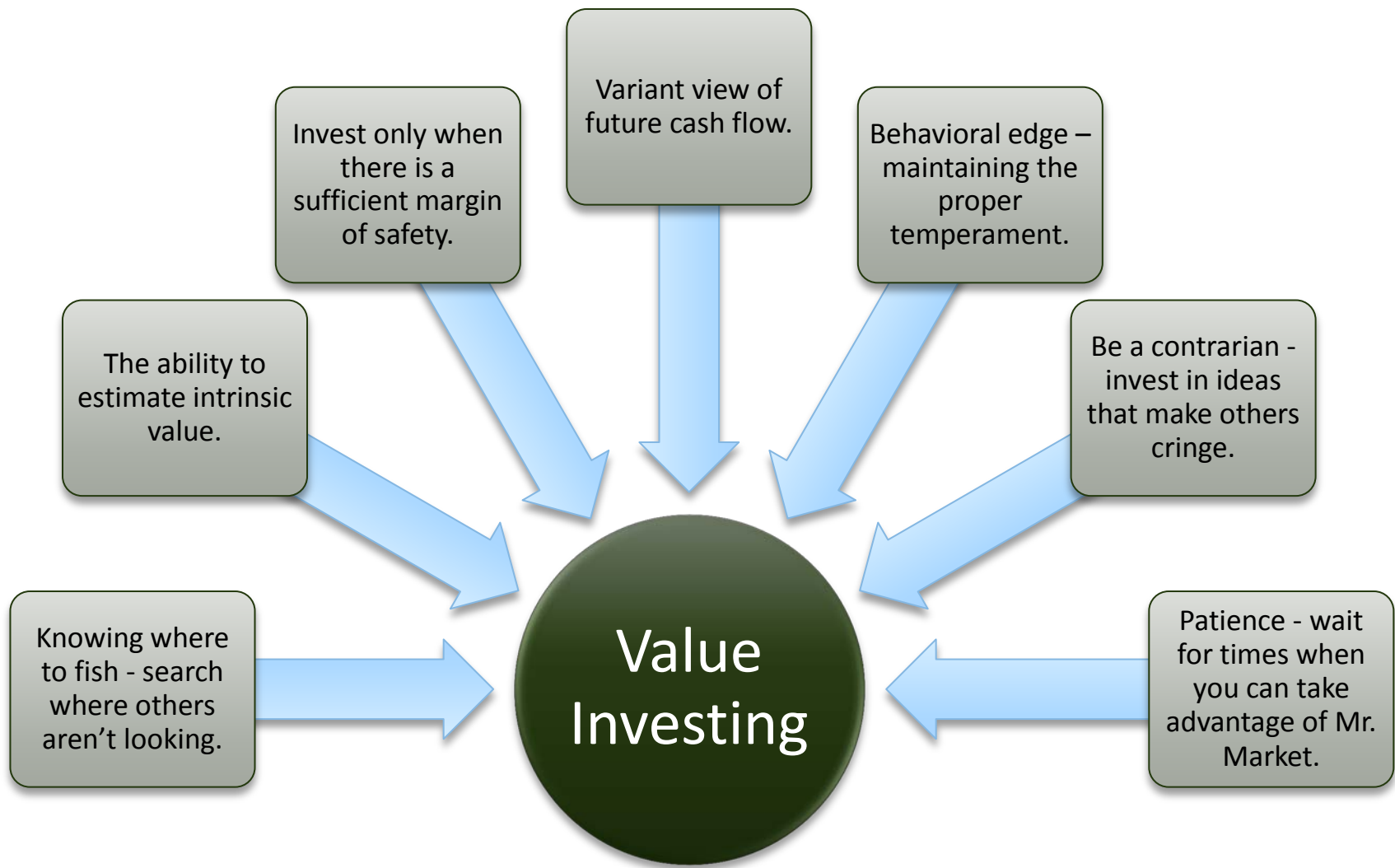


“To me, value investing is a big tent that accommodates many different people. At one end of the tent there is Ben Graham, and at the other end of the tent there is Warren Buffett, who worked with Graham and then went out on his own and made adjustments to the teachings of Ben Graham.”

Jean-Marie Eveillard

Graham and Doddsville – Winter 2007 Ed.

Value Investing



Three Investment Edges

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, Instestinal Fortitude.

Informational

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

Two Edges Too Many

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.

Contrarian Thinking

con·trar·i·an: (noun) A person who opposes or rejects popular opinion, especially in stock exchange dealing.



Value Investor or Value Pretender?

- “‘Value investing’ is one of the most overused and inconsistently applied terms in the investment business. A broad range of strategies make use of value investing as a pseudonym. Many have little or nothing to do with the philosophy of investing originally espoused by Graham. The misuse of the value label accelerated in the mid-1980s in the wake of increasing publicity given to the long-term successes of true value investors such as Buffett at Berkshire Hathaway, Inc. (BRK.A, BRK.B), Michael Price and the late Max L. Heine at Mutual Series Fund, Inc., among others. Their results attracted a great many ‘value pretenders,’ investment chameleons who frequently change strategies in order to attract funds to manage.”
- “These value pretenders are not true value investors, disciplined craftspeople who understand and accept the wisdom of the value approach. Rather they are charlatans who violate the conservative dictates of value investing, using inflated business valuations, overpaying for securities, and failing to achieve a margin of safety for their clients.”

Listening to “Legends”

“Many shall be restored that now are fallen and many shall fall that are now in honor.”
- *HORACE – Ars Poetica*

“The investors chief problem and even his worst enemy is likely to be himself.”
- *Benjamin Graham*

“The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”
- *Sir John Templeton*

“Be fearful when others are greedy and greedy when others are fearful.”
- *Warren E. Buffett*

Driven By Emotion

- Throughout history there have been many changes to, and developments in the financial markets.
- What has never changed is the fact that market participants – human beings – are always driven by emotion.
- In the financial markets, two of the most powerful and most troublesome emotions are: fear and greed.

Why So Hard?

- As far back as the early 1970s, Tweedy Browne partner Ed Anderson described the herd mentality of professional money managers:

“If a manager held IBM and it went down, it did not matter because everyone else owned IBM. Is today’s IBM Cisco Systems? If one owned a more obscure company with a recent poor track record that got into greater financial difficulty, there was a considerably greater risk of criticism and losing accounts. The concept that investment risk is less a function of the individual company than the price of its stock is not recognized by many investors.”

Nature or Nurture?

- The first question I am often asked is whether one can learn to be a contrarian investor?
- Three words rarely heard on Wall Street:
“I Don’t Know.”
 - Insisting these words remain a part of our vernacular adds to our behavioral edge.
- Seth Klarman has been quoted as saying that he believes there is a “*value gene*” – and that you are either born with it, or you are not. Warren Buffett has compared value investing to *an inoculation* – “it either takes or it doesn’t.”

Contrarian Investors: Born This Way?

- On December 11, 2012 an article on MarketWatch.com titled “The Missing Link of Investing” implied that there is some evidence to confirm Klarman’s statement.

“When asked why we trade, many of us would answer with traditional, rational responses. We see an undervalued company. We like a business, a brand or a strategy. Or, it’s the flip side: We’re selling because we may think the fundamentals point to trouble. We see an investment that looks overvalued.”

- As we know, most people follow the herd. But what about contrarian investors who consistently move against the herd?

So You're Saying I'm a Mutant

*“It’s what the academics describe as a relatively new intersection of financial economics, psychology, and evolutionary biology including new interpretations of mutation. And the upshot, to me at least, is that we may not be as deliberative as we might think when it comes to trading decisions. **In other words, we’re wired to trade a certain way...**”*



*According to Andrew Lo of MIT and Thomas J. Brennan of Northwestern claim that science evolution may explain both the herd mentality and also a contrarian one. In other words, many of us are bound to the pack. **A minority of us break away from it...** Both behaviors are necessary from an evolutionary standpoint because they’re necessary for the species to survive. **Every species needs its normal populations and its mutants.**”*

How Do We Avoid the Herd Mentality?



"Example isn't another way to teach, it is *the only* way to teach."

- Albert Einstein

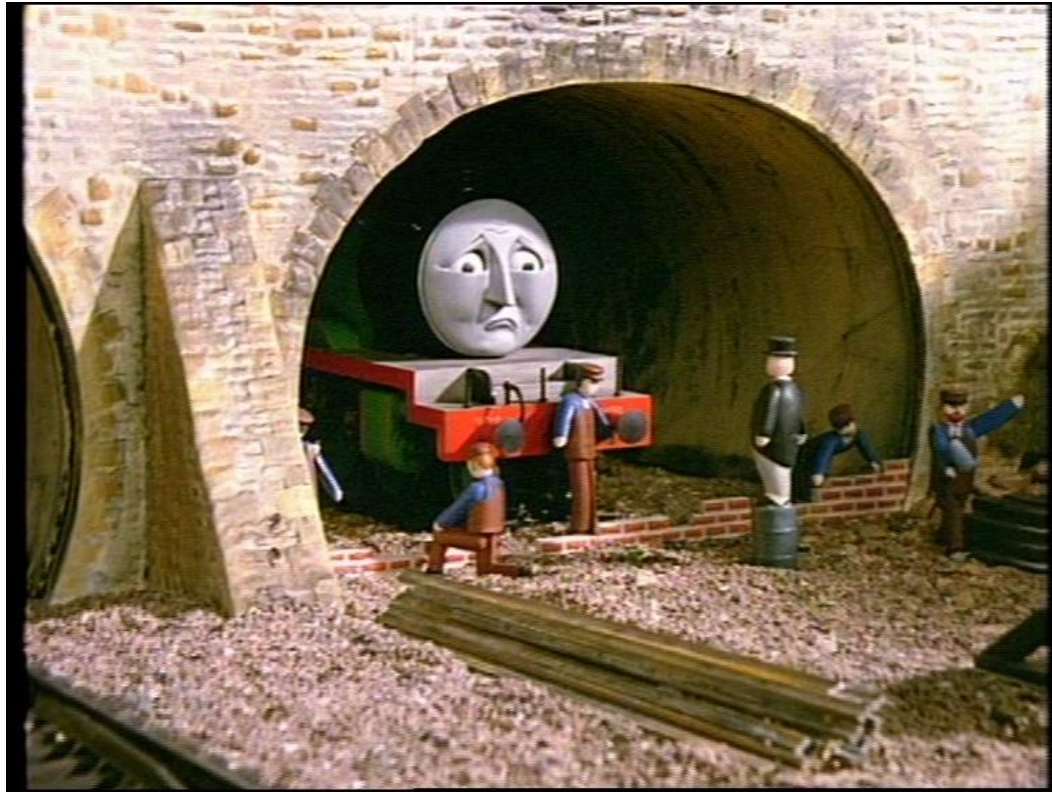
Case Study: Railroads

- In the early editions of *Security Analysis*, railroads served as a primary example used by Benjamin Graham.



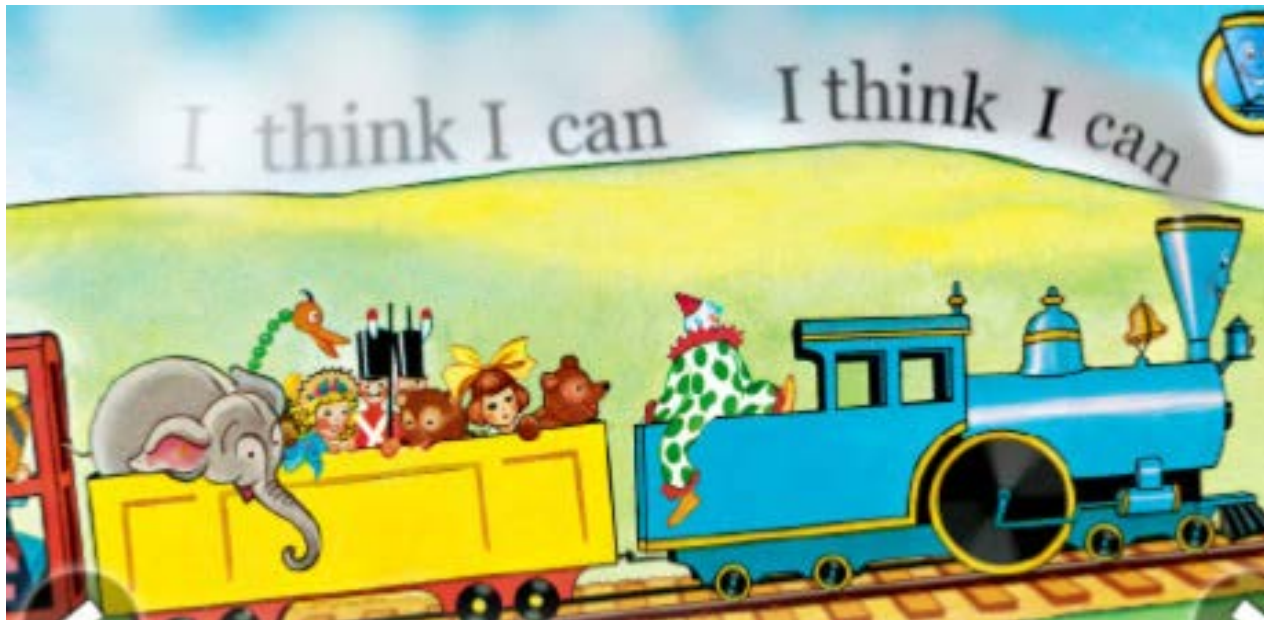
Case Study: Railroads

- As time went by the railroad industry fell out of favor.
- By the 1970's the entire industry almost collapsed.
- Owners were lucky to see 2% - 3% returns on capital.



Case Study: Railroads

- Things began to change, albeit slowly, with the passing of the Staggers Act in 1980.
- After a long climb, the tide turned in the early 2000's.
- Rates rose and the balance of power shifted to the rail owners who were now down to 4 major players.



Case Study: Railroads

- A significant sign of the industry turnaround happened in 2009 when the Oracle of Omaha “got on board” and offered to purchase BNSF.
- ROE is now average >20%.
- On March 26, 2013 an article in the Wall Street Journal heralded the “Revival of the Railroad Age.”



Stolt-Nielsen Limited

OB:SNI

\$19.52¹ (as of 3/25/13)

INVESTMENT IDEA



¹Stolt-Nielsen shares trade on the Oslo Bourse in Norwegian Krone. As of 3/25/2013 the exchange rate was \$1.00 : 5.84 NOK.

The following case study is presented strictly for informational purposes as an illustration of the investment process and approaches of Robotti and Company Advisors, LLC. This information should not be interpreted as a performance record or as an indication of future performance results.

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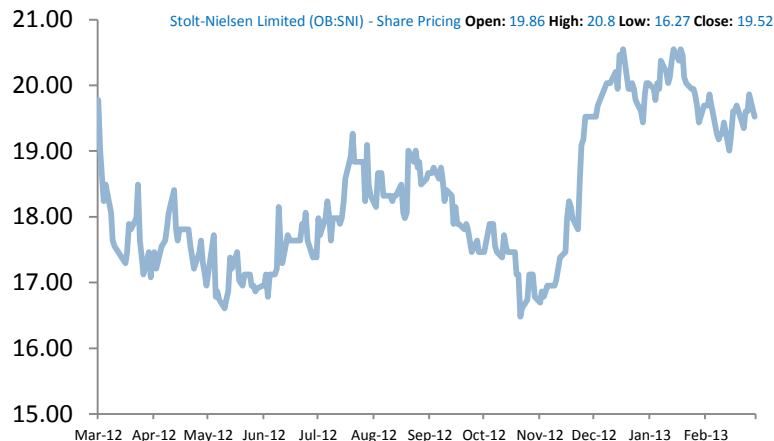
Stolt-Nielsen Limited (OB:SNI)

- 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 5,700 employees worldwide with 42 offices in 25 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 80% of tangible book value, shares trade at <50% of the company's estimated sum of the parts value.

Data as of 03/25/13

Price	\$19.52
Diluted Shares	58.0
Market Cap	\$1,132
Long-Term Debt	1,616
Cash	64.9
Enterprise Value	\$2,683

Stolt-Nielsen One Year Price Chart



Stolt-Nielsen Investment Highlights

- ✓ Leading player in an oligopoly market, with strong barriers to entry
- ✓ Ability to replace fleet is superior to dwindling competition – simultaneous ability to grow terminal and container businesses
- ✓ High insider ownership – skin in the game
- ✓ Oversupply in the late 90's started the chain of events resulting in 15 years of underperformance – current undersupply may do the opposite
- ✓ Poised to benefit from a strong chemical manufacturing resurgence
- ✓ Terminal and Container segment values are not reflected in the current market price and provide strong returns on capital
- ✓ Trades for < 50% of the company's estimated sum of the parts value

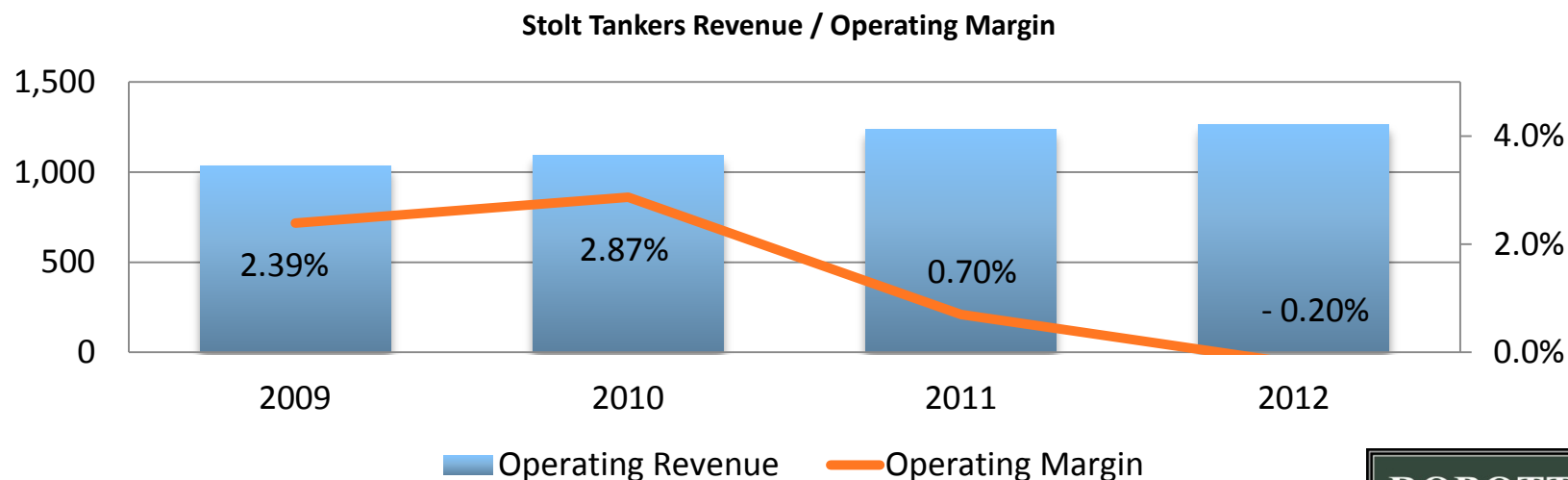
The Industry: Chemical Tankers

- Each segment of the shipping industry (*dry-bulk, tanker, container, crude carrying*) is very different.
- History shows that shipping is not a great business:
 - Cyclical,
 - Fragmented,
 - Competitive,
 - Limited / no barriers to entry.
- As a result, shipping businesses often have volatile earnings streams with less-than-stellar returns on capital.
- **Chemical Tanker Segment:** Oligopoly with the three largest owners, Stolt-Nielsen, Odfjell and Eitzen Chemical, operating roughly 45% - 50% of the total sophisticated deadweight tonnage.

The Business: Stolt-Nielsen Tankers

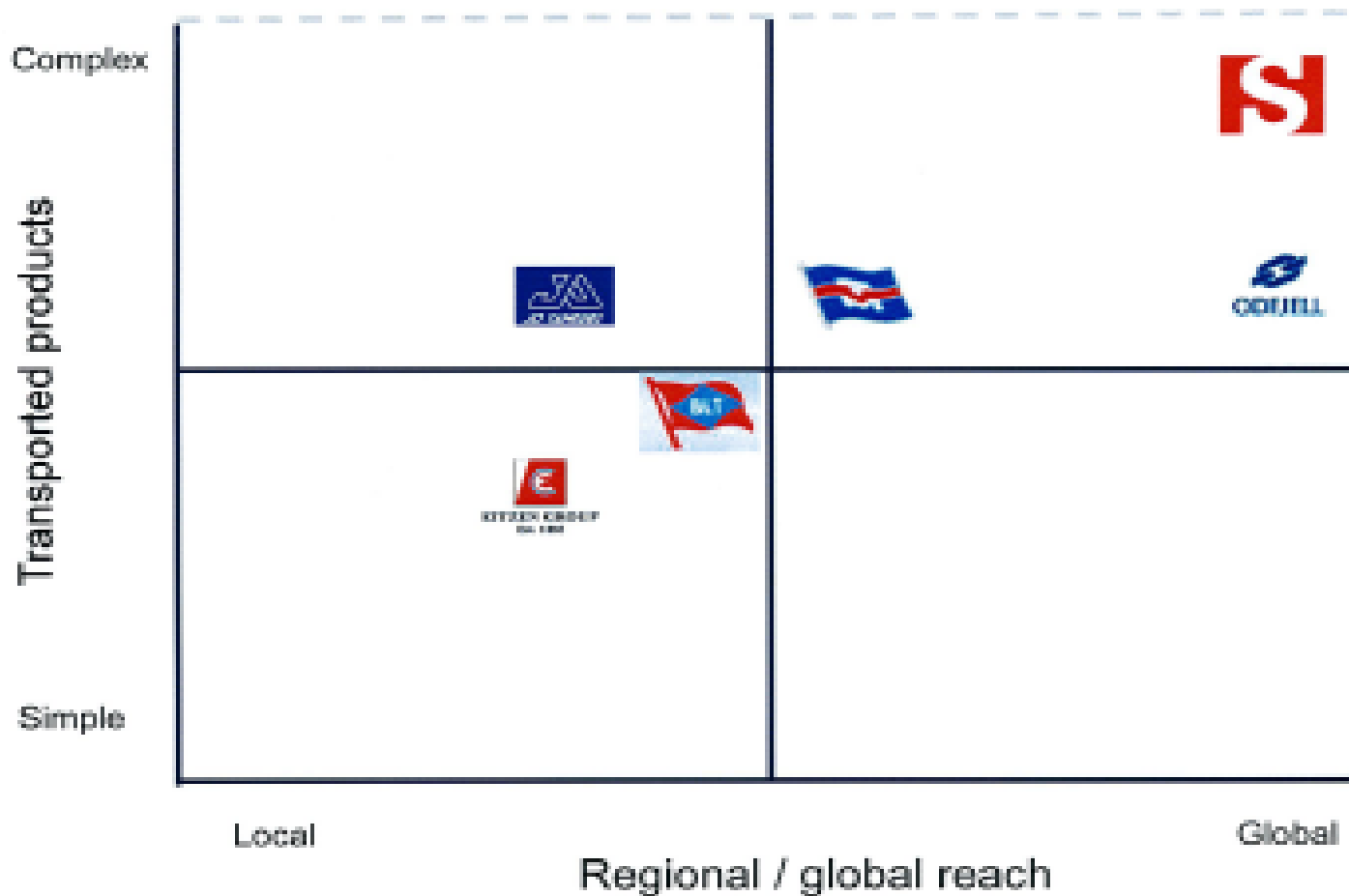
Leader in worldwide marine transportation of bulk liquid chemicals, edible oils, acids, and other specialty chemicals. Focused on higher quantity, smaller sized stainless steel segregations.

- Operates a fleet of ~155 tankers to ship highly specialized chemicals over the longest-haul intercontinental routes.
- Tightly integrated with Stolthaven Terminals to optimize the ship-to-shore process and reduce cargo delays.
- Business has been troubled for more than a decade.



Market Position of Competitors by Capability

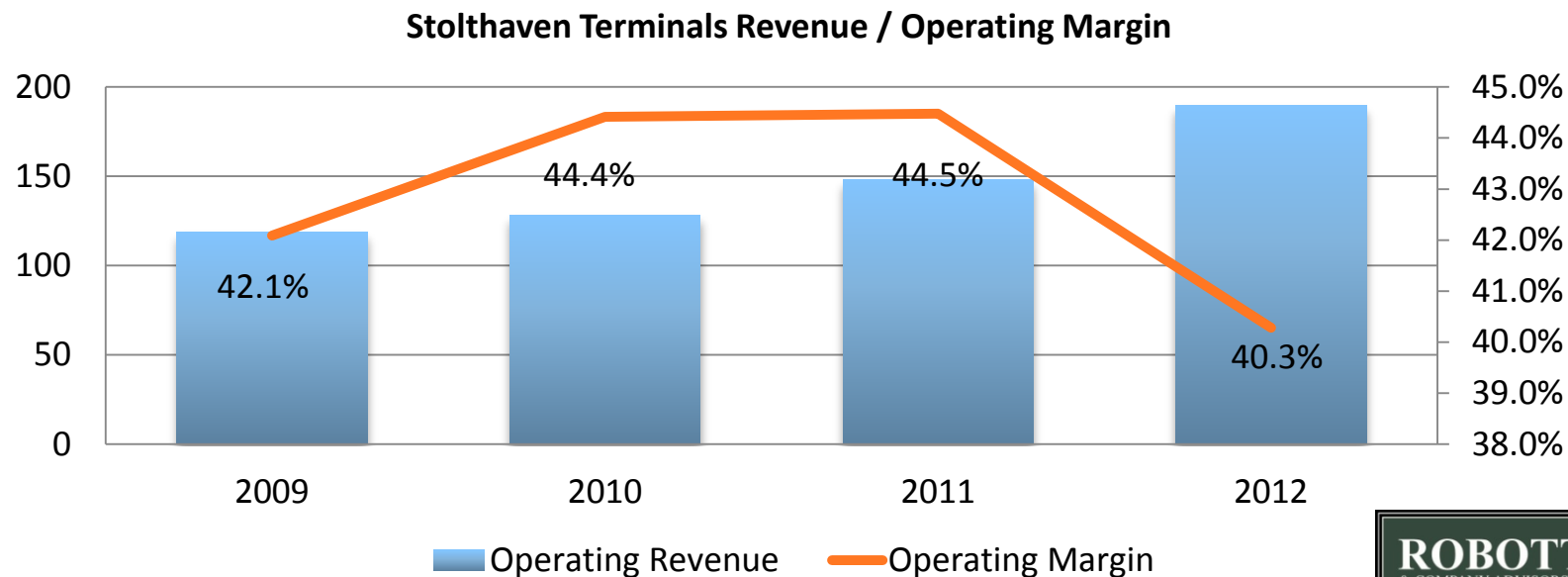
- Strong conviction level about shifting industry dynamics.



The Business: Stolthaven Terminals

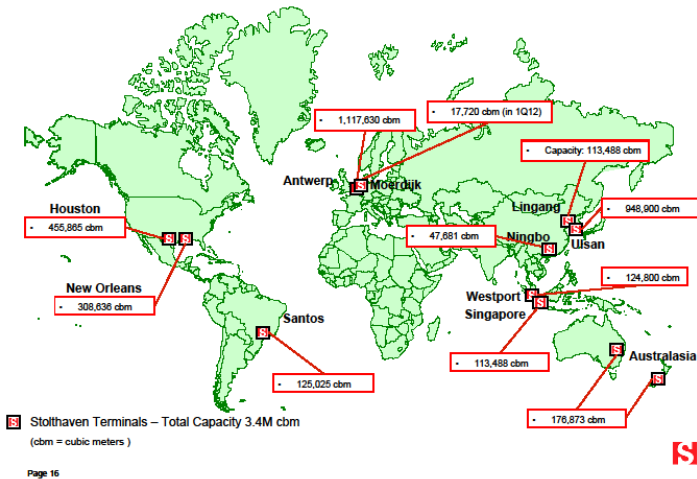
Global network of 20 bulk-liquid terminals that provide storage and distribution services around the world with a focus on chemicals.

- Combined with the tanker business, Stolt is able to provide integrated transportation, storage and distribution services.
- As of December 2012, the terminal business had 3.6M cbm of capacity. An additional 1.15M cbm (+32%) of capacity has been authorized through 2016.

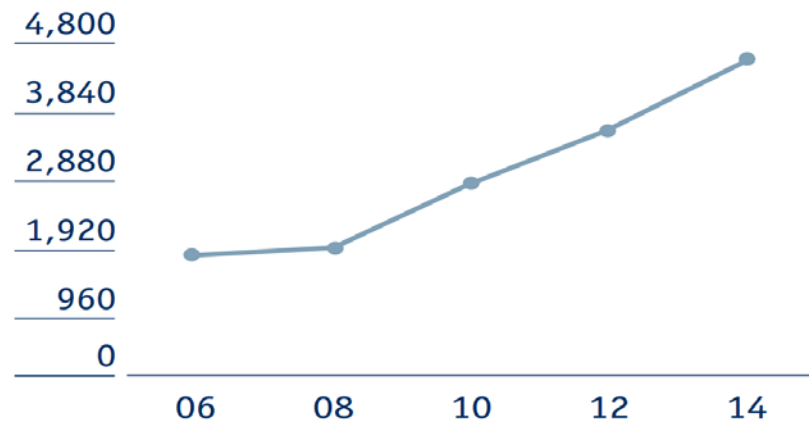


Terminal Capacity

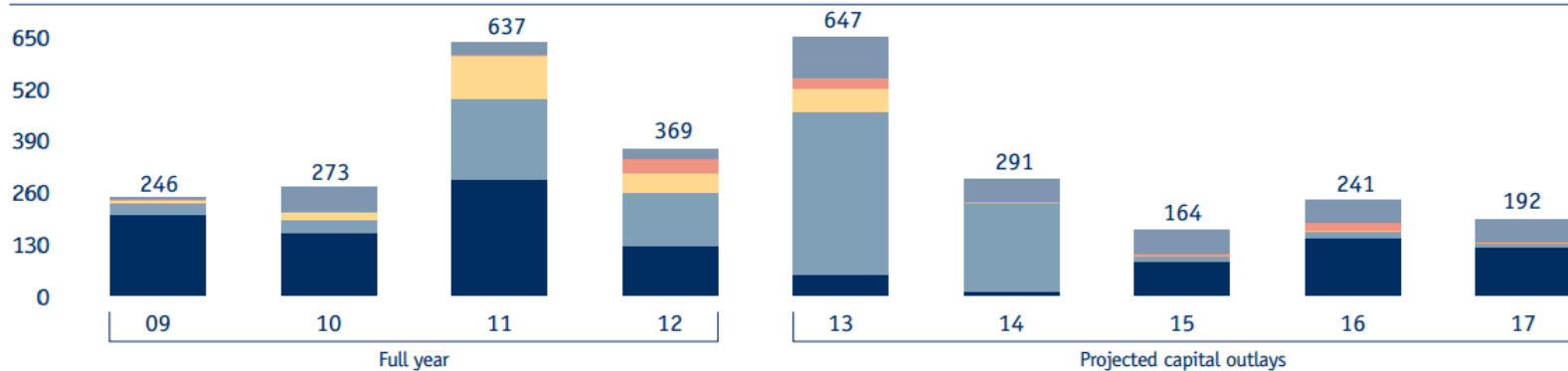
Stolthaven Terminals: Global Presence



Terminal Storage Capacity Growth (thousands cbm)



Capital Expenditure Programme (U.S.\$ Millions)

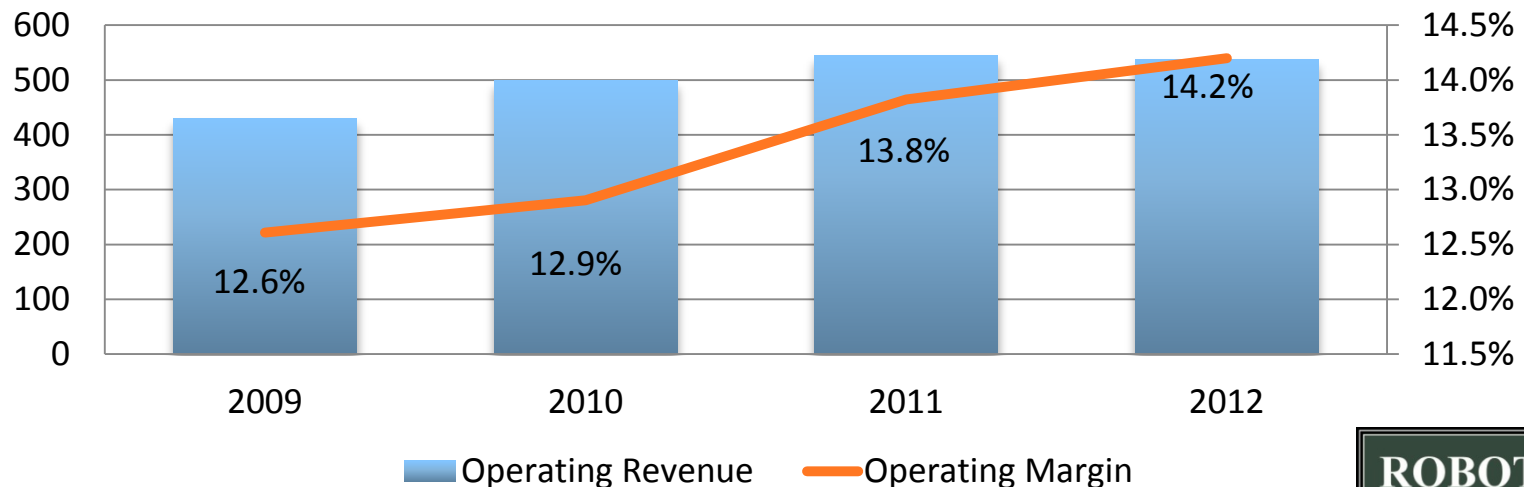


The Business: Stolt Tank Containers

World's largest international fleet of intermodal tanks designed for intermodal transportation by road, rail and container ship offering door-to-door transportation of bulk liquid chemicals.

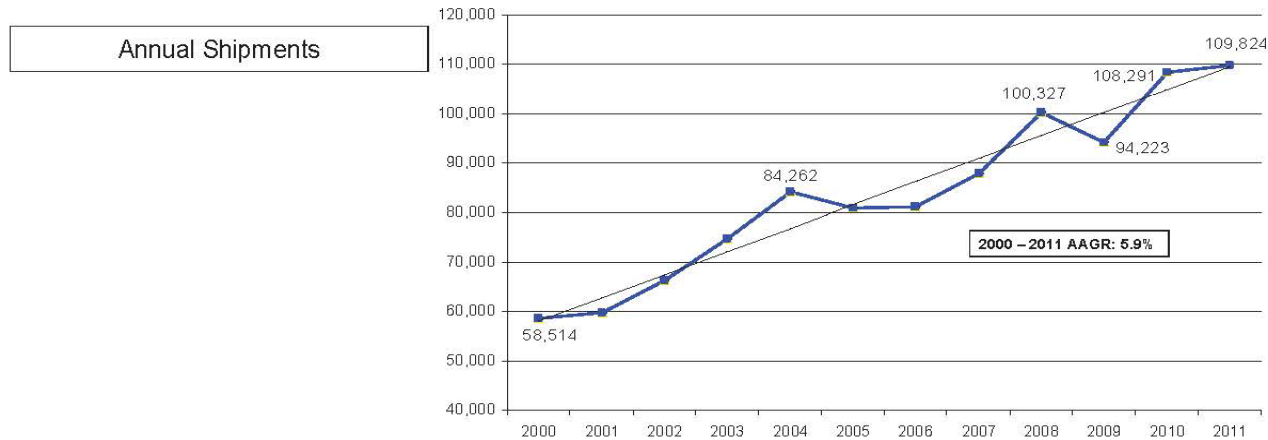
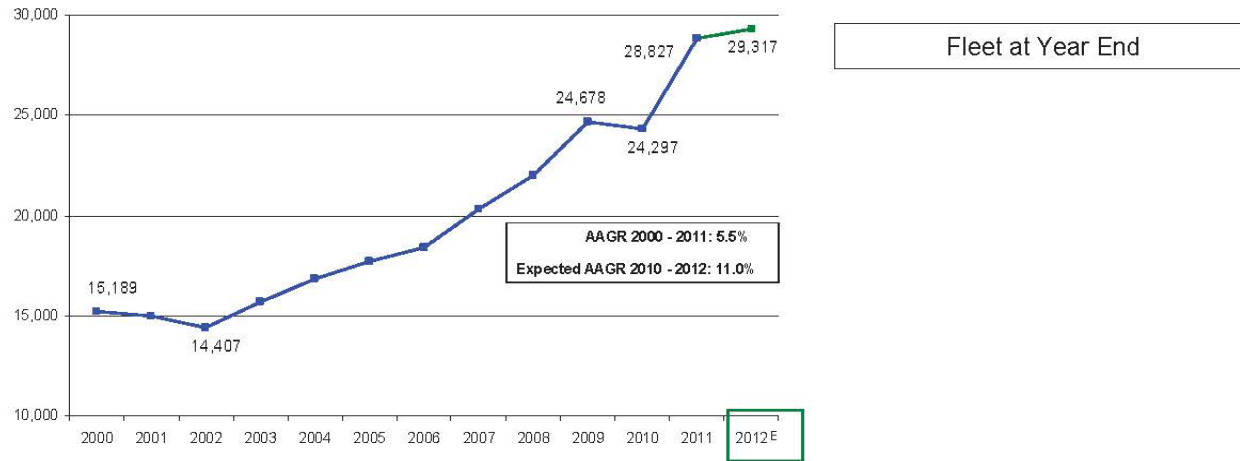
- 30,500+ tank containers across 15 depots, giving ready access to cleaning & repair capabilities for quick turnaround of tanks.
- Stolt is adding 3 additional depots during 2013.
- Competitive advantage based technology and economies of scale.

Stolt Tank Containers Revenue / Operating Margin



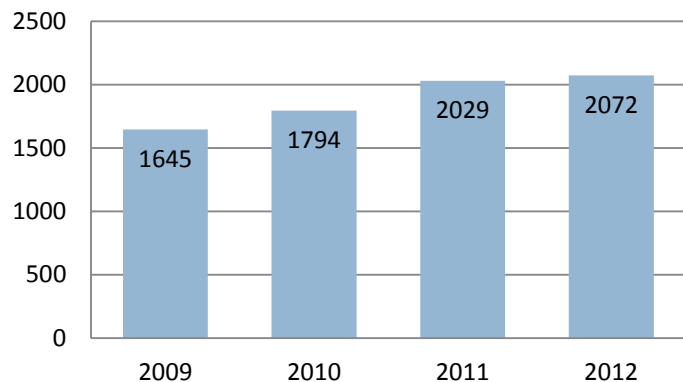
Stolt Tank Containers

Stolt Tank Containers: Fleet and Shipment Growth

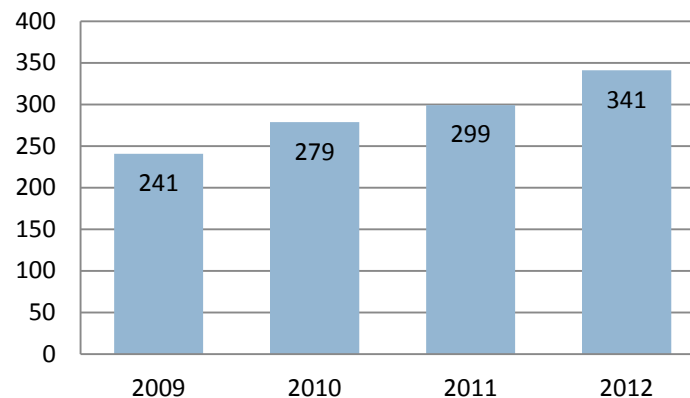


The Business: Stolt-Nielsen, Ltd.

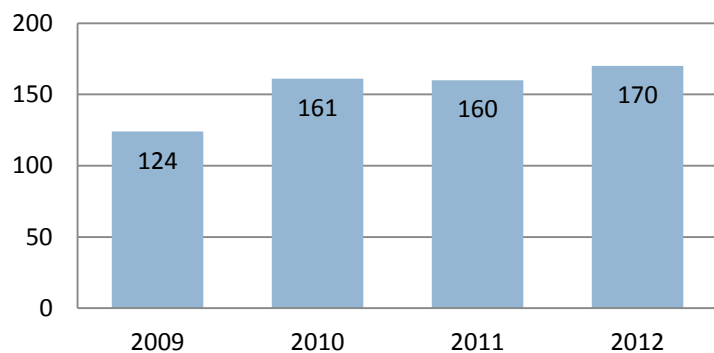
Operating Revenue



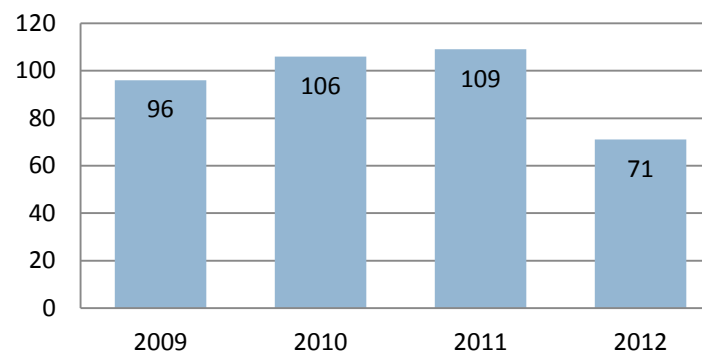
EBITDA



Operating Profit

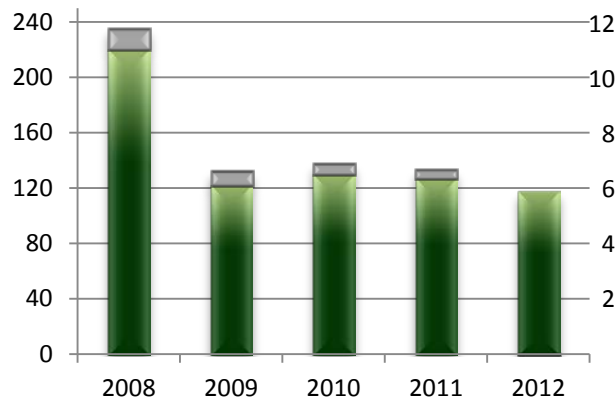


Net Profit

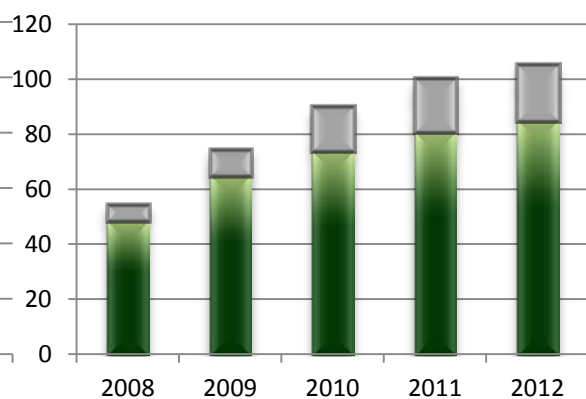


The Business: Segment EBITDA

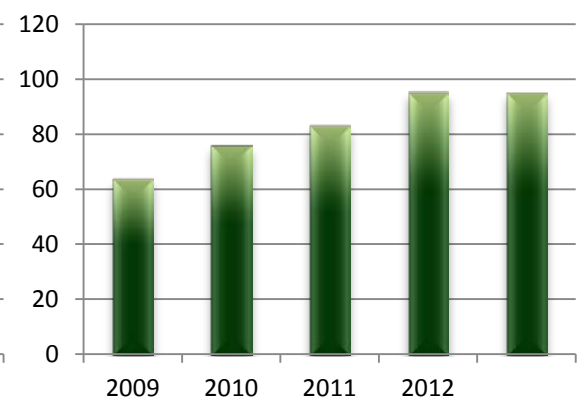
Stolt Tankers EBITDA



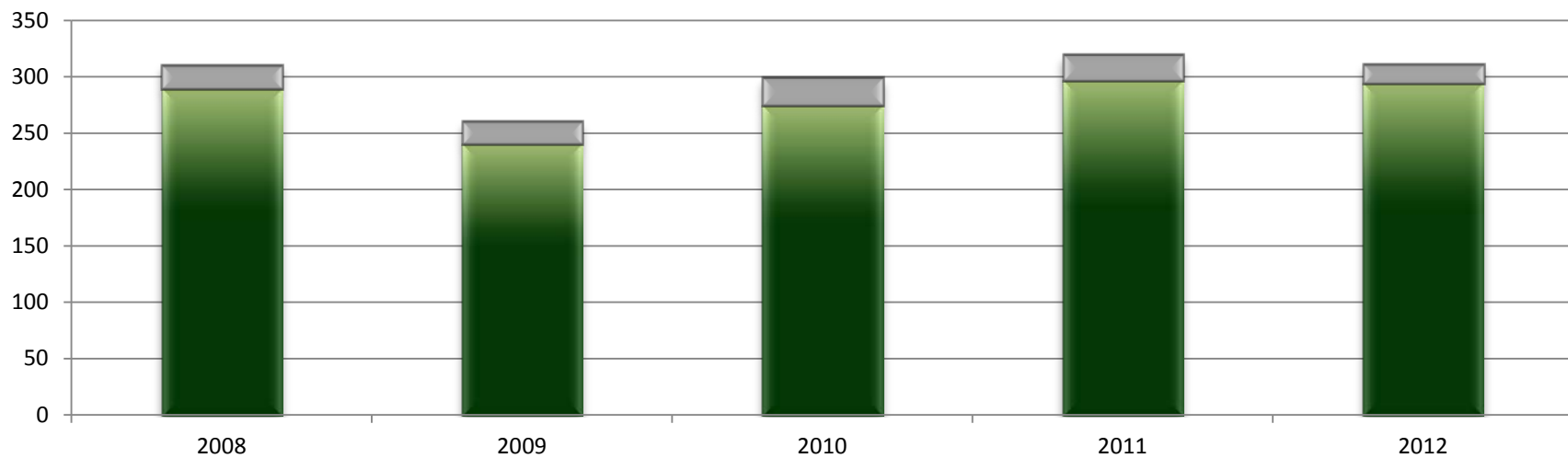
Stolthaven Terminals EBITDA



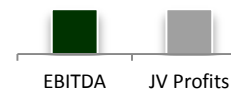
Stolt Tank Containers EBITDA



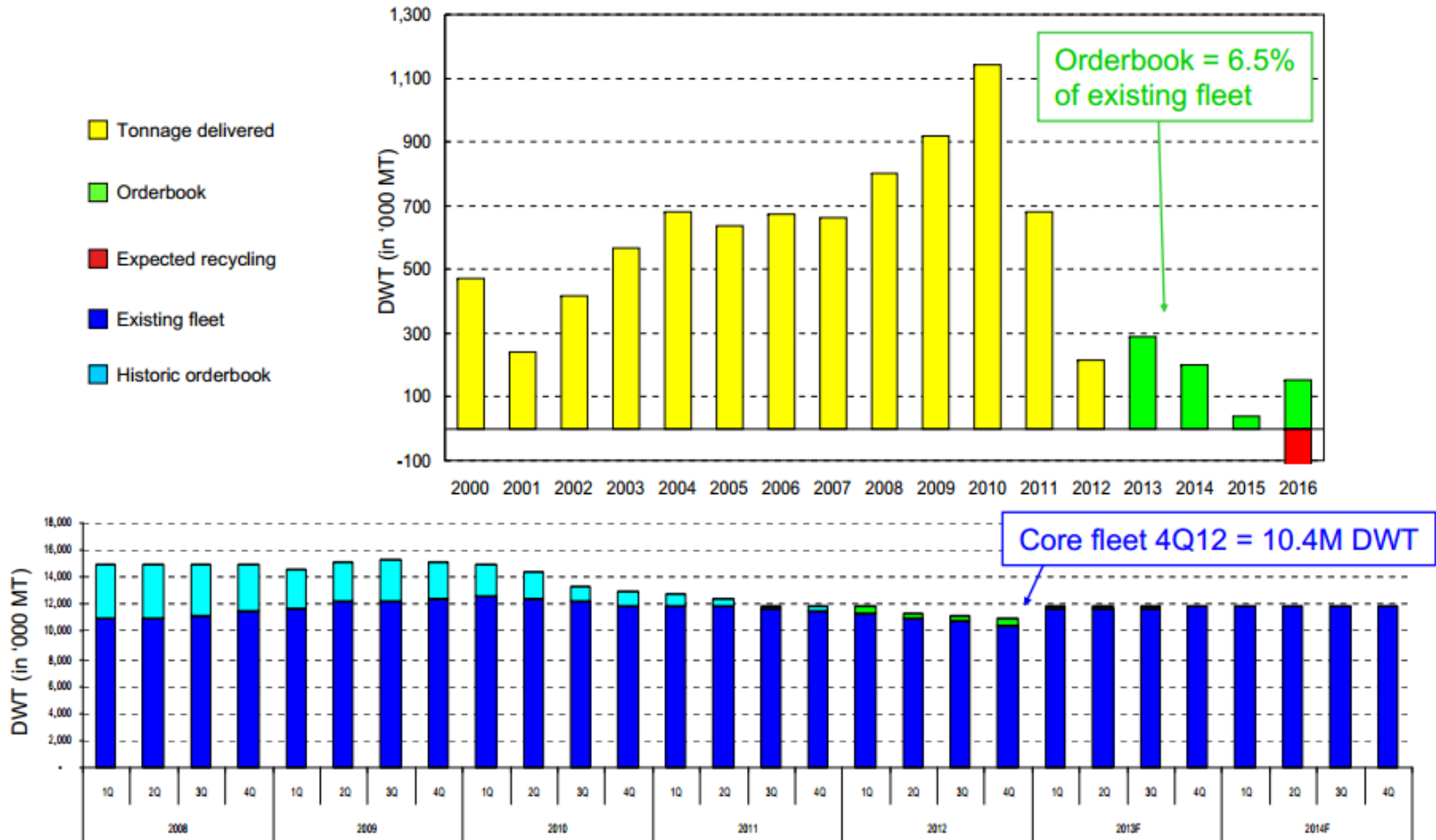
Stolt-Nielsen Ltd EBITDA



Source: Stolt-Nielsen Annual Reports, Quarterly Presentations; Robotti & Company calculations



Chemical Tanker Fleet and Orderbook – 4Q12



Source: Stolt-Nielsen

Note: Core fleet consists of fleets of 18 major parcel tanker operators; recycling at age 30 with exceptions



Identify the Bear Case

- Management could destroy value by allocating capital to lower return businesses.
 - Company founder, Jacob Stolt-Nielsen, and his family own > 50% of the company's shares.
- Industry competitors might be allowed to remain solvent and therefore irrational for longer than expected periods.
- Stolt-Nielsen could be a value trap.
 - While this has proven true until this point, we believe the underlying shifts in the industry that we have identified will eventually be reflected in supply/demand.
 - Case study: the railroad industry.

History of Capital Allocation

- In 2004, the company divested non-core assets:
 - Sold stake in Stolt Offshore (Acergy SA) and Stolt Sea Farm's salmon assets.
- The company spent approximately \$200 million in 2006 and \$50 million in 2010 / 2011 to repurchase shares.
- There is significant insider ownership – the family owns >50%.
 - Since 06/30/2011 insiders (including family controlled Fiducia, Ltd.) have purchased ~10.7 million shares.
- Stolt-Nielsen has a history of paying dividends.
 - The company pays a semi-annual dividend of \$0.50 per share and has paid a total of \$3.50 in special dividends since 2006.

History shows that management is concerned with creating shareholder value.

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 ten 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.
 - This will not only help the tanker business, but will also provide an additional boost to the terminal and container businesses which already enjoy high returns on capital.
- Activity in the Middle East will provide additional growth opportunities.

Valuation

- Stolt-Nielsen's current share price of \$19.52 is roughly 80% of the company's tangible book value of \$23.60 per share.
- The Company's net asset value is \$52.46 per share.
 - We think this value will grow over next 3 – 5 years, driven by growth of the terminal and container businesses and a rebound of the shipping business.
- Stolt-Nielsen trades for less than 50% of its sum of its parts value.

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>			\$4,288 M	\$4,662 M
Net Debt (Basis 2011 Actuals and 5-yr plan)			(\$1,397) M	(\$1,617) M
Sum Of the Parts Valuation			\$2,891 M	\$3,045 M
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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Disclosure: Ownership Information

<u>Disclosures</u>	Stolt-Neilsen Ltd (OB:SNI)
Robert Robotti and/or members of his household have a financial interest in the following securities	Yes
Robotti or its affiliates beneficially own common equity of the following securities	Yes
Robotti or its affiliates beneficially own 1% or more of any class of common equity of the following securities	Yes
Robert Robotti serves as a Director or Officer or Advisory Board Member of the following securities	No

As of the date of this presentation, Robotti & Company Advisors, LLC and/or its affiliates owns shares of Stolt-Nielsen Limited and does not have any current intention to exit the position.

Companies have been chosen solely as a case study to illustrate the investment process and approach of Robotti & Company Advisors, LLC. This information should not be interpreted as a performance record or as an indication of future performance results.



Questions

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