

Ivey Business School Presentation Ben Graham Center for Value Investing

Value Investing Class | George Athanassakos

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Curtis Jensen

Robotti & Company Advisors | JEN Capital Partners

My Professional Background

2016 – PRESENT **Robotti & Company Advisors, LLC**

- ▶ JEN Capital Partners

1995 – 2014 **Third Avenue Management LLC**

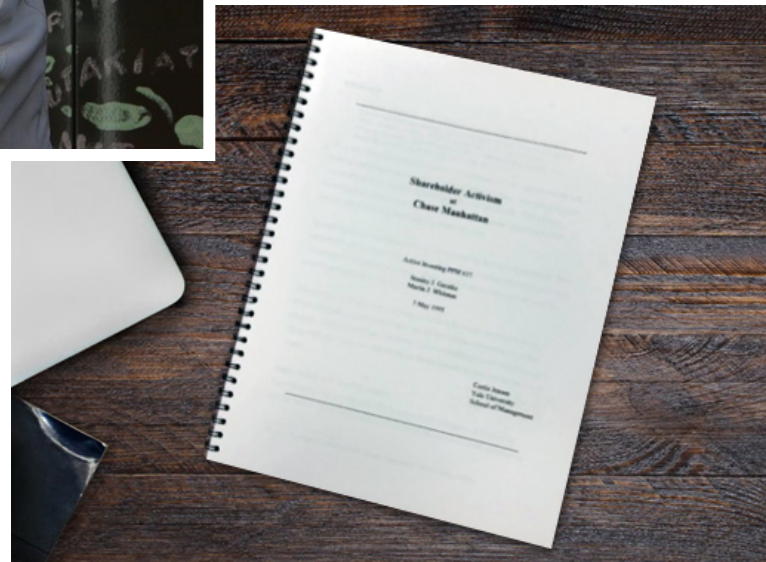
- ▶ Partner, CIO, PM, Senior Analyst
- ▶ Senior PM: Small Cap Value Strategy

1984 – 1993 **Banker & Business Owner**



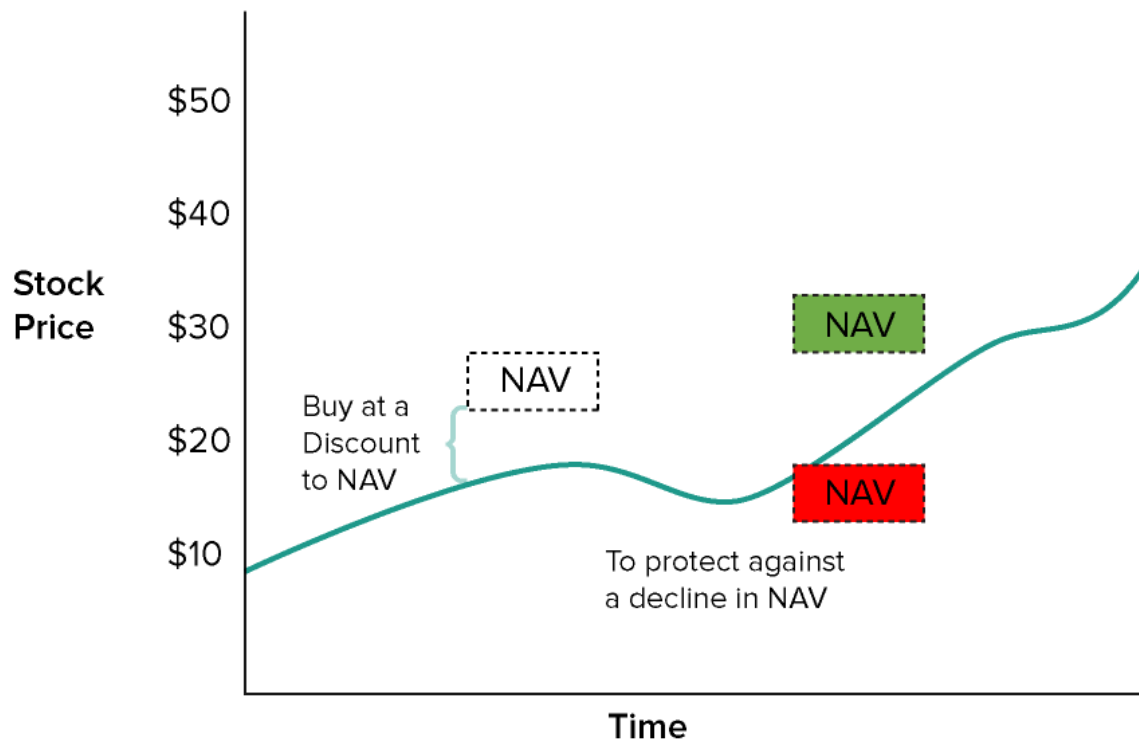
Martin J. Whitman, Founder
Third Avenue Management

**“Think like Main Street,
not Wall Street.”**



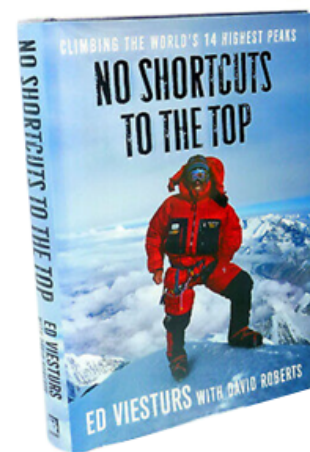
Rational Investing: “Growth” and “Value” are Joined at the Hip

Cheap is a necessary, but not sufficient condition, for an investment.



How Do You Lose Money in Investing?

- X** Buy a Buggy Whip Business
(competition, substitution, obsolescence)
- X** Too much leverage
(inappropriate capital structure)
- X** Overpay
(exposes downside with stagnant or declining business value)
- X** Position size
(overconfidence, poor process)



Getting to the top is optional. Getting down is mandatory.

- Ed Viesturs

Traits That Can Protect Capital – Questions I Ask

Things don't always go according to plan. Uncertainty is a certainty.

Some Key Questions to Consider:

- ▶ Can you identify multiple, credible avenues for improving business economics?
- ▶ Why might the securities carry a discounted valuation? Complexity, neglect, weak short-term outlook?
- ▶ Does the current valuation offer an asymmetric return profile with plausible downside protection?
- ▶ Can the balance sheet sustain the business through difficult business conditions?
- ▶ Do management's incentives and track record suggest an alignment with outside shareholders?



Valuation Considerations

Develop multiple perspectives; decide what is relevant, weight it; be wary of the pitfalls

EBITDA \neq Cash Flow (Real Rule #1)

- 1. Going Concern (Enterprise / Equity Market Value)**
 - EBITDA, EBITA, earnings, cash flow, sales/revenue, GAAP book value
 - “Owner earnings” (earnings, adjusted for D & A, maintenance cap-ex and working capital)
 - Free cash flow yield (levered v. unlevered)
- 2. Historical (relative to the company’s prior valuation history)**
 - What has changed? Balance sheet, growth, margins, returns on capital, competition
- 3. Public company comparables**
 - What might account for differences? Accounting, financial leverage, growth, margins, business mix, ownership
- 4. Precedent transactions (M&A, trade sales)**
 - Arm’s length transactions of similar businesses among knowledgeable buyers and sellers
- 5. Discounted Cash Flow (DCF)**
 - The “Hubble Telescope” of valuation techniques (Garbage In, Garbage Out)
- 6. Replacement cost or asset based**
 - Relevant in cyclically depressed, capital intensive industries with cyclical earnings
 - Examples: oil/gas, mines, pipelines, ships, heavy industry, timber, real estate

Valuation Considerations (Cont'd)

- 7. LBO or Purchase of Control**
 - Input / assumption dependent, availability of capital

- 8. Adjustments / Supplemental**
 - Hidden / under earning assets, contingent liabilities, contracts, tax attributes, brands, other intangibles.
 - Subscribers/customers (cable, telco); maintenance/recurring revenue (software, asset management).

- 9. Avoid Precision!**
 - Create a range of “fair value” with a credible downside valuation

- 10. Corporate Values are Dynamic**
 - Consider that dynamism before selling/adjusting position size

- 11. Why are you doing this? To protect your downside!**
 - Develop an asymmetric upside / downside scenario (e.g., 3:1)

- 12. Consider a “corporate finance” or “control buyer’s” perspective**
 - What might the business be worth were the assets re-deployed or liabilities refinanced?
 - What might someone pay for control of the firm?

- 13. Public market prices reflect the marginal buy/sell, not the value of the business!**

Make Life Easier – Avoid Crooked People, Dumb Ideas, Poor Incentives, Hype

Find the “one foot hurdles, not the six foot hurdles.”



Fish Where Others Are Not

With information and data commoditized, how do you get an edge?

Advantage	Others Experience/View	Where to Find
Time Horizon	Short-Term Stock Price Performance	Cyclical Industries (“Where are we in cycle?”)
Temperament	“Dead Money” / Short-Termism	Business Transitions Earnings “Disappointers”
Informational	Neglect, Complexity, Pessimism	Conglomerates; Spin-offs/Corporate Action; Business Transitions
Structural	Liquidity, Capital Flight, Orphaned	Small Caps, Multi-Class Shares, Limited Float, ESG mandates

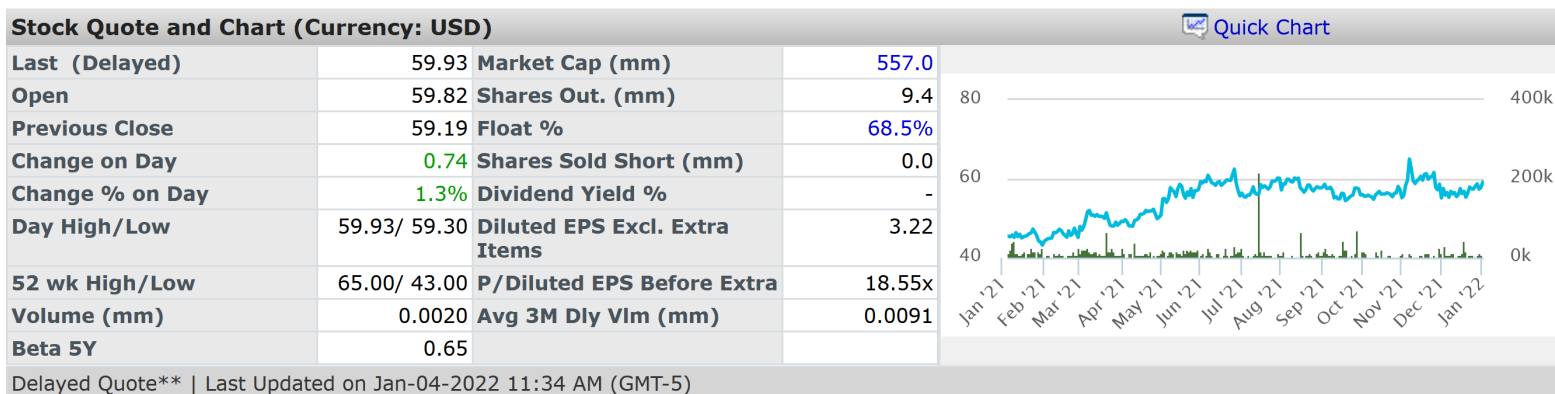


Case Study 1 – FRP Holdings, Inc.

Diamonds in the rough don't always “screen well.”

Business description:

Holding company with interests in real estate development and aggregates mining royalties.



Financial Information (Currency: USD, in mm) [View Details](#) | [Financial FAQs](#)

Total Revenue	22.8	Market Capitalization	557.0	TEV/Total Revenue	26.5x
EBITDA	8.9	Total Enterprise Value	602.5	TEV/EBITDA	67.6x
EBIT	(2.3)	Cash & ST Invst.	162.9	P/Diluted EPS Before Extra	18.4x
Net Income	30.3	Total Debt	178.4	Price/Tang BV	1.4x
Total Assets	678.8	Total Debt/EBITDA	20.0x		

Case Study 1 – FRP Holdings, Inc.

Getting beyond the statistics. Baker family has created massive wealth over multiple generations.

FRP Holdings / Baker Family Milestones

1929

Thompson
Baker enters
building materials
business

1970s



Company goes
public and
becomes Florida
Rock Industries

1986



Patriot
Transportation
spun off from
Florida Rock

2007



Baker family sells
Florida Rock to
Vulcan Materials -
\$4.6 billion

2010



Baker family
founds Bluegrass
Materials Co,
with Griswold
family and Lindsay
Goldberg

2015



FRP Holdings and
Patriot
Transportation
split operations
via spin-off

2017



Bluegrass Materials
sold to Martin
Marietta Materials -
\$1.6 billion

Present

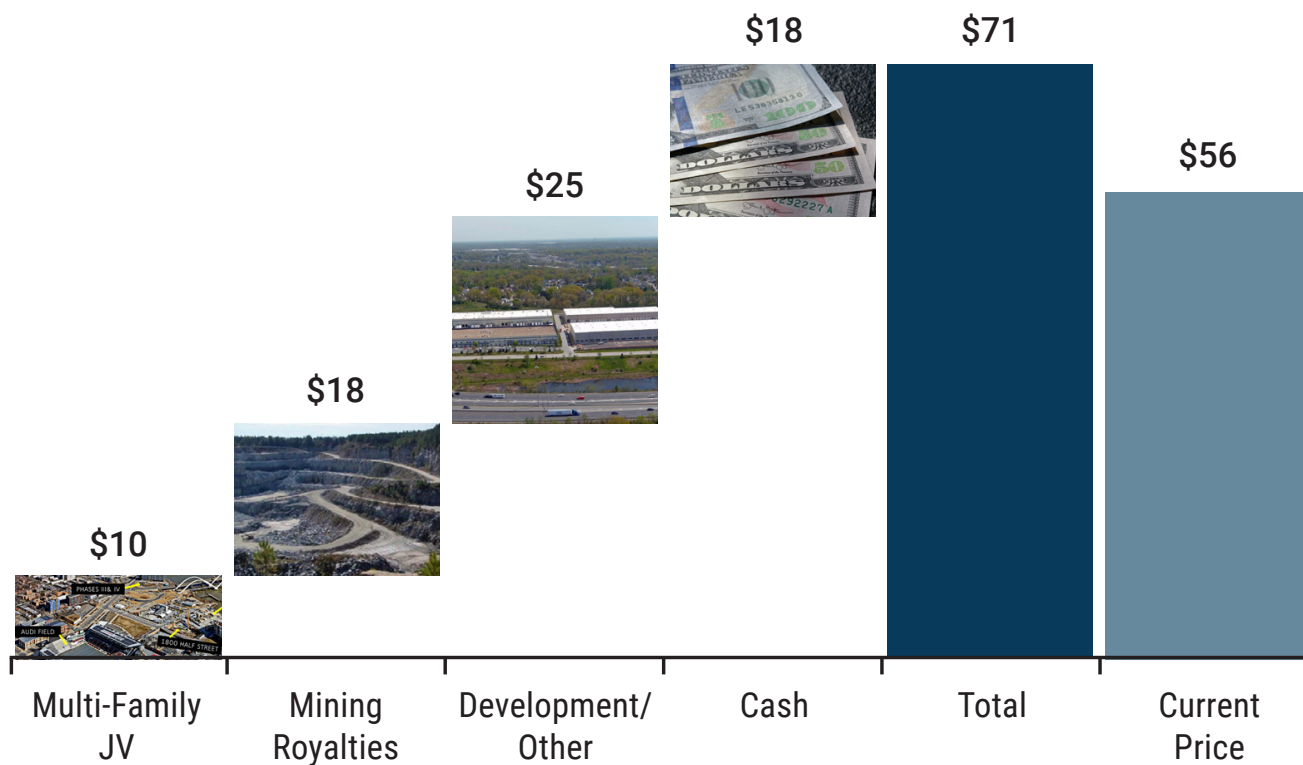


Sale of industrial
portfolio \$350
million in 2018

Expansion of multi-
family portfolio

Case Study 1 – FRP Holdings, Inc.

Sum-Of-The-Parts (SOTP) tells a different story about value.



Case Study II – Exor N.V.

Value hiding in plain sight.

Breakdown of Net Asset Value in U.S. Dollar

US\$ million	Ownership %	Valuation methodology	31/12/2020	31/12/2019	Change vs 31 December 2019	
					Amount	%
INVESTMENTS			33,288	28,923	4,365	15.1 %
Companies			32,811	28,652	4,159	14.5 %
Ferrari	22.91%	Official market price	10,286	7,383	2,903	39.3 %
PartnerRe	100.00%	Fair value ^(a)	8,250	9,000	(750)	(8.3)%
Fiat Chrysler Automobiles	28.54%	Official market price	8,085	6,661	1,424	21.4 %
CNH Industrial	26.89%	Official market price	4,649	4,036	613	15.2 %
Juventus Football Club	63.77%	Official market price	848	1,188	(340)	(28.6)%
The Economist Group	43.40%	Fair value	343	368	(25)	(6.8)%
GEDI Gruppo Editoriale ^(b)	89.62%	Fair value	254	16	238	n.a.
SHANG XIA	77.30%	Fair value	96	—	96	n.a.
Partnerships^(c)		Fair value	248	108	140	129.6 %
Seeds^(d)		Fair value	140	64	76	118.8 %
Other investments^(e)		Fair value/ Official market price	89	99	(10)	(10.1)%
OTHERS			1,256	1,074	182	16.9 %
Cash and cash equivalents and Financial assets			1,054	886	168	19.0 %
Treasury stock^(f)			202	188	14	7.4 %
Gross Asset Value			34,544	29,997	4,547	15.2 %
Gross Debt			(5,043)	(3,842)	(1,201)	31.3 %
Net Asset Value (NAV)			29,501	26,155	3,346	12.8 %

Source: Exor 2020 Annual Report



Case Study II – Exor N.V.

Disciplined and patient capital allocation has produced good results.

EXOR NAV PER SHARE PERFORMANCE vs. THE MSCI WORLD INDEX (in US Dollars)

Annual percentage change				
Year	1 - Exor NAV per share in US\$	2 - MSCI World Index in US\$	Relative results (1-2)	
2009	113.2	55.6	57.6	
2010	33.7	9.6	24.1	
2011	(26.2)	(7.6)	(18.6)	
2012	21.6	13.2	8.4	
2013	21.0	24.1	(3.1)	
2014	0.8	2.9	(2.1)	
2015	8.4	(2.7)	11.1	
2016	9.6	5.3	4.3	
2017	56.9	20.1	36.8	
2018	(13.6)	(10.4)	(3.2)	
2019	34.5	25.2	9.3	
2020	13.1	14.1	(1.0)	
Compound annual rate	18.7	11.4	7.3	

Note: data in 2009 starts from March 1st, the date before Exor's listing on Borsa Italiana

Recommended Reading – Books I Enjoyed

Against the Gods

Peter L. Bernstein, John Wiley & Sons, Inc., 1996

The Outsiders: Eight Unconventional CEOs

William N. Thorndike, Jr., Harvard Business Review, 2012

Lords of Finance

Liaquat Ahamed, Penguin Books, 2009

Capital Account

Edward Chancellor (edited), Thompson, 2004

Dear Chairman

Jeff Gramm, Harper Business, 2015

Think Again

Adam Grant, Viking, 2021

Thinking in Bets

Annie Duke, Penguin Random House, 2019

The Undoing Project

Michael Lewis, W.W. Norton & Co., 2016

When Genius Failed

Roger Lowenstein, Random House, 2000

Moneyball

Michael Lewis, W.W. Norton & Co., 2003

Thank You!

Q&A