The Standfast Report

COMMENTARY FOR INTELLIGENT INVESTORS
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Dear Reader, Wilkesboro, NC, November 29, 2025

The rates on T-Bills have come down along with other interest rates. Some time ago I stopped rolling T-Bills because it didn’t feel worth the effort and instead put cash in Fidelity’s Treasury Only Money Market Fund (FDLXX) that has about 90% of its assets in T-Bills. Rolling T-Bills is probably still a good idea for larger amounts of cash where ~1% would move the needle.

I recently discovered a delightful value investing podcast called *Value Investing with Legends*. I cherry-picked a few episodes (the episodes with Ray Dalio, Todd Combs and Bill Ackman) but then went back to start with the first episode. Now I am listening to episodes produced in early 2020 and while I don’t agree with everything I have heard on this podcast, the guests are intelligent, successful value investors who are worth listening to.

I wrote about the spectrum of passive vs active investing in issue #7 of *The Standfast Report*. But there are at least two more dimensions in which to categorize an investment strategy, namely growth vs value and technical vs fundamental. For now, suffice it to say that I fancy myself an active, fundamental, value investor who also appreciates other things like gold, T-Bills and the simple wisdom of settling for the average return of the market over time via a low-cost total U.S. stock market index fund. My active, fundamental, value investing tends to focus on American businesses that are financially strong, profitable and easy for me to understand, but I do other things too.

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Alpha Metallurgical Resources, Inc. (AMR) is financially strong (L/A 0.32, CR 3.95, QR 3.11), has been profitable over time (net profit margin AvgL10Y[1] 8.31%) and appears relatively easy to understand. It is an American coal business[2] based in TN with operations in Virginia and West Virginia.

P/E ttm is negative (-44.64) because net income ttm is -$46.55MM, but this negative earnings is more than accounted for by depreciation of $173MM ttm which prompted me to look at the statement of cash flows which shows that in the trailing nine months the company generated $126MM of cash from operations, invested $166MM (capex $98MM, net bought securities[3] $39MM, capital contribution to equity affiliates[4] $28MM) and used $30MM in financing activities of which $25MM was used to repurchase shares. Overall, AMR is generating cash from operations and reinvesting, making (hopefully) conservative "cash equivalent" investments, and returning cash to shareholders.

Revenue and net income are unpredictable in the short-term but trend positive in the long-term. Revenue, net income and net profit margin have been trending down in the trailing 3 years and in the trailing 12 months, but I think this presents a buying opportunity while the revenue, earnings and price are depressed *apparently* due to short-term political uncertainty regarding tariffs and international trade (revenue is about ~83% from exports and only about ~27% domestic).

I have no way of knowing if the stock price has bottomed, but regardless, AMR falls into the category of American businesses that I want to own, it is financially strong, the P/E AvgL10Y is 11.28 and it has the ability to sell domestically and internationally. In the long-term context, this looks like the right time to buy even though the short-term trend of revenue, profit and net profit margin look pretty bad.

Warrior Met Coal, Inc. (HCC) is larger by market cap than AMR but produces a narrower category of product namely "non-thermal steelmaking coal used as a critical component of steel production by metal manufacturers in Europe, South America and Asia...a large-scale, low-cost producer and exporter of premium quality steelmaking coal, also known as hard-coking coal ('HCC')...operations in...Alabama."[5] All the company's mines are in Alabama, but "We sell substantially all of our steelmaking coal production to steel producers outside of the United States."[6]

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[1] I use AvgL10Y as shorthand for "average of the last 10 years."

[2] "The Company earns revenues primarily through the sale of coal produced by Company operations and coal purchased from third parties. The Company extracts, processes and markets met and thermal coal from deep and surface mines for sale to steel and coke producers, industrial customers, and electric utilities" (page 15 of the 10-Q for the quarterly period ending 09/30/2025).

[3] "...Typically includes U.S. government securities..."

[4] AMR has a 65% partnership interest in Dominion Terminal Associates LLP which operates a ground storage-to-vessel coal transloading facility in Newport News. Basically, the partners contribute to this entity in exchange for using its service–It does not seem intended to generate a profit. NOTE: "Equity loss in affiliates" in same period is $20mm, so it would seem that AMR contributes capital to cover their share of the losses.

[5] See page 7 of the 10-Q for the quarterly period ending 09/30/2025.

[6] See page 17 of the 10-Q for the quarterly period ending 09/30/2025.

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HCC has a strong balance sheet, but its revenue, profit and net profit margin all seem to be decreasing, and not just since President Trump was elected and began raising tariffs. Management uses relatively strong language around their product focus and seems content to export substantially all their product to other countries. My greatest concern about this company is their apparent lack of sales in the American market which could become an issue if their six largest customers decided to import their hard-coking coal (or an alternative) from another country. I would prefer to see at least some significant portion of revenue coming from selling this specific kind of coal to users in America.

HCC is a focused American business that serves an apparently important segment of the international steelmaking industry, has production based 100% in Alabama, has a strong balance sheet, and has been quite profitable on average over the past 10 years (21.87% net profit margin AvgL10Y). Over time I think such coal producers will continue to be profitable, and so I want to own this company, but would prefer to own more than just two coal producers and would like them to have substantial sales to users in the United States.

<u>Sturm, Ruger & Company, Inc. (RGR)</u> and <u>Smith & Wesson Brands, Inc. (SWBI)</u> are very similar companies in terms of size, balance sheet strength, P/E AvgL10Y, revenue and profit AvgL10Y and even in terms of net profit margin AvgL10Y. While these companies will go through seasonal ups and downs (we are now in a downturn of revenue, profit and stock price for both) I believe that they both have the financial discipline to pare down overhead in times of less demand for firearms and that they will maintain *profitability* and continue returning value to shareholders even if absolute revenue and absolute profit go through depressed periods of time.

These companies are boring in the sense that there is no major growth opportunity in the domestic civilian firearms market, but Americans will continue to buy some firearms over time as long as they are allowed by law to do so, and these two companies do a good job of serving American civilian and government/LE demand for firearms. The only two significant growth opportunities that I can imagine are (1) that a period of high societal fear of potential future gun purchase, ownership and use restrictions imposed by the federal government could prompt mass purchase of guns temporarily increasing demand for and revenue and profit from firearms sales (as happened in fiscal 2021 when SWBI had record high sales) and therefore a temporary significant increase in the stock price, buybacks and dividends and (2) that either (or both) of these companies could make significant headway into the government and L/E markets in the U.S. and in other countries, but if either of these two things happened they would be icing on the cake for me.

<u>Cal-Maine Foods, Inc. (CALM)</u> has a very strong balance sheet and is historically quite profitable. Their revenue is 85% from selling shell eggs and

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the other 15% is pretty much from miscellaneous prepared-food related businesses or partnerships. I do not fancy the diversification of business operations that CALM seems to be pursuing,[7] but in the meantime they are reasonably priced relative to earnings (P/E ttm 3.18 and P/E AvgL10Y 14.27) while revenue, profit and net profit margin are all on an up-trend judging from the comparison of ttm to AvgL10Y.

CALM seems to have pricing power, which ties in with anti-trust related legal proceedings to which they are a party that could produce fines etc. I believe it is primarily the political pressure of legal proceedings that is depressing the stock price and that this is a buying opportunity for the long-term, but I need to watch the development of their business diversifications which could potentially waste capital that could be returned to shareholders and could distract management from their core business.

Vital Farms, Inc. (VITL) is another company that I would almost like to own since they are in essentially the same business as CALM, but their balance sheet is not nearly as strong, the price is much worse, and net profit margin is unimpressive. VITL warrants a closer look with a view to growth potential but does not immediately appeal.

Mueller Industries, Inc. (MLI) has a strong balance sheet, growing revenue, growing profit and growing profit margin (comparing ttm to AvgL10Y), but the business simplicity score is only 54.85%, an unclear amount of their production/manufacturing is overseas with 75% of sales in the U.S. and the P/E AvgL10Y is an unattractive 41.3 which could represent the market's expectation of growth, but I am not good at predicting growth. The company makes important copper parts for HVAC systems and other important things, but the degree of business diversification, uncertainty in my mind about where their production is geographically located and the price relative to earnings AvgL10Y make me uncomfortable buying the stock.

Hennessy Advisors, Inc. (HNNA)[8] is an "...investment management firm whose primary business activity is providing investment advisory services to a family of 16 open-end mutual funds (collectively, the 'Hennessy Mutual Funds') and one exchange-traded fund ('ETF') branded as the Hennessy Funds."[9] In other words, the company collects fees on assets under management (AUM). It is a beautifully simple business model.

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[7] All profitable businesses must decide what to do with their excess capital. By "excess capital" I mean capital that is not needed for reinvestment to maintain the core business and that cannot be used to grow the core business. Some businesses (my favorite kind) return excess capital to shareholders via share buy backs and/or dividends, some use it to diversify their business by buying related businesses and some just sit on it. Personally, I generally prefer businesses that stay focused and return capital to shareholders, but I acknowledge that the management teams of many large and successful companies (the Berkshire Hathaways, Microsofts and Googles of the world) would rather use excess capital to grow their companies via diversification.

[8] Hennessy Advisors, Inc. has apparently not yet filed their 10-K for the fiscal year ending 09/30/2025, so this take is based on the 06/30/2025 10-Q and prior information.

[9] See page 1 of the 10-K for the fiscal year ending 09/30/2024.

Before getting into the fundamentals, it is worth noting that HNNA has the potential issue of extremely low share volume. For example, 687 shares traded on 11/28/2025 and the average volume is 11,315. If I can buy shares at a reasonable price then this is OK in regard to buying, but in regard to selling...If something significantly changed suddenly that negatively affected the fundamentals and my desire to own the company, then it might not be possible to sell shares at a reasonable price. In order to buy these shares now, I must believe that no such significant thing will happen suddenly, or that if it does I would be comfortable owning the stock anyway.

On first glance the balance sheet is very strong with L/A 0.39, CR 15.58 and QR 15.46. Total assets are ~$158MM at 06/30/2025 (roughly 2x the MC) which I find almost shocking since that makes the book value $96.55MM and P/B a mere 0.82. If the company had paid off the ~$40MM notes payable in 2025 Q2 then the balance sheet metrics would be L/A 0.18, CR 7.24 and QR 7.11.

On second glance the balance sheet is less strong, but I would not say weak. It is worth noting that the company's "Management contracts" ($82MM) account for 52% of the company's assets and, if the notes payable of ~$40MM were paid off, would then account for 70% of the company's assets. The "Management contracts" basically represent all the management contracts of outside investment funds that the company has ever purchased and recorded at cost. These are intangible assets, or what I am inclined to call "fluffy" assets, sort of like the goodwill asset that a company might record after purchasing another business. "...intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment".[10] So, in buying shares of the company I am implicitly trusting that the management has been testing and will continue to test these management contracts for impairment in good faith.

Revenue ttm, profit ttm and net profit margin ttm are all roughly in line with AvgL10Y. Given the net profit margin of ~27%, the P/E ttm of 7.59 and P/E AvgL10Y of 7.42, this company looks very attractive. But why does it look so attractive? Will it *always* look this attractive and never appreciate in market value? If it never appreciates in market value, then how will the apparently high earnings accrue to shareholders? I think it looks attractive (and will continue to look attractive indefinitely) because it is such a small company (by market cap) with such small trading volume and probably does not get attention from big players. Most likely the company will not pay out increased dividends depending on earnings (like Ruger which aims to pay out 40% of net income in dividends) as demonstrated by their very steady dividend history, and most likely share repurchases by the company will be unimpressive.[11]

[10] See the 10-Q for the quarter ending 06/30/2025.

[11] To make some *very rough* estimates...The company has only repurchased about ~900,000 shares since 2010, which I estimate as about ~10% of the amount of shares outstanding in 2010, or about ~0.7% of the shares outstanding each year since 2010.

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Insider ownership is reportedly about 40%, there are 18 employees and annualized compensation is about $10MM or about 30% of revenue (looking primarily at the trailing twelve months as shown on 10-Qs and 10-Ks). It would seem that the employees, who likely control the company, are doing very well for themselves. To think that employees in such a position would return much value to shareholders instead of increasing their own compensation may be naive, but I think this is at worst a small risk because of the alignment that their insider ownership implies between management and ownership.

The "issue" of redemptions (from the Hennessy Funds by investors in those funds) exceeding organic inflows that I pointed out in Issue #1 of The Standfast Report on July 31, 2022 continued during 2023 then reversed in 2024 to where organic inflows exceeded redemptions by about 50%. Also, market appreciation (of the Hennessy Funds) in 2023 and 2024 more than made up for the market depreciation in 2022. In the first two quarters of 2025, redemptions again exceeded organic inflows, with market depreciation in Q1 and market appreciation in Q2. All that is to say, I cannot necessarily attribute redemptions (in excess of organic inflows) to a specific problem facing HNNA, but perhaps deeper analysis on the growth and shrinkage of the Hennessy Funds over the long-term would be interesting.

While the company could seemingly continue as-is for a long time, it is possible that it could be acquired by a larger firm. The company discusses how certain compensation stipulations could make them an unattractive target for acquisition, but terms can always be renegotiated and certainly the current managers must eventually retire at which point they could reconsider whether it is better to take a big pay off all at once or accept a trickle of dividends and share buybacks over a long period of time. Either way, the company has reported equity capital of $96.55MM as of 06/30/2025 (which is in excess of MC $79MM) which presumably the insiders will be sure to get a piece of via dividends, share buybacks or a total buy out.

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