

2026 Our 45th Anniversary Year

SANTA MONICA PARTNERS, L.P.

Founded 1982

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Dear Partner:

In the fourth quarter, partners' capital fell 3.6% leading to the full year ended December 31, 2025 to a decline of 2.9%.

It is always difficult to report a year with nominal returns. Frankly, I don't understand why a calendar year needs to be such a holy period. Indeed, if the past year were comprised of the latest 13 month period, rather than 12 months, as of this writing we would be reporting a much-improved result than the flat performance in the prior twelve. In fact, if we were to look at the last 24 months' performance to include 2024, your capital account growth exceeded well over 30%.

As I have discussed with you in the past, ideally, although recognizing it would not seem like fun, I would welcome everything we buy to go down every day so we can buy more shares at lower and lower prices when we see businesses that will be increasingly prosperous in the long run. In the end, if one could buy a stock worth dollars fall to cents, why wouldn't one say "yippee" when holding on to the belief that the business is going to be worth many more dollars in the long term.

A case in point is our large position in Texas Pacific Land Corporation (TPL). It had a significant negative effect on results during the year. We began investing in 2005 at an average cost (adjusted for several stock splits) of \$3.33 per share. For perspective, TPL reached an all-time high of \$576.67 per share on November 22, 2024 (adjusted for its December 23, 2025 three-for-one stock split), at which time our position was valued at approximately \$93.4 million. Had the market value of TPL remained at that level through year-end, Santa Monica Partners' 2025-year end results would have been approximately 3.9%.

Despite this stock price pullback, our assessment of TPL's intrinsic value remains well above the 2024 peak price. As you know, we are very patient, long-term investors so our conviction has led us to resist all temptation to lock in huge taxable gains prematurely. Instead, we have chosen to remain patient, as we believe the long-term profit potential is quite substantial. As we have mentioned in prior letters, for many reasons, TPL's long-term royalty and water sales, recycling and disposal prospects, in our view, are compelling, including the fact that they are uniquely positioned to benefit from future demand for data centers. The AI innovation wave is creating strong demand for

infrastructure. Data centers are a critical bottleneck. With its vast low cost land in sparsely populated areas—where towns and cities are less likely to oppose heavy data-center power demand—along with abundant natural gas and a plentiful water supply, the region has all the key inputs required for very large-scale data center development. There is no better place to locate them than on TPL property. It is important to note that none of the above appears on the balance sheet. The first hint of data centers has been announced and, as we anticipate, has sparked TPL's share price. It should be obvious that many investors will not attribute value to what they cannot see but it is clearly of immense value. In the meantime, TPL's existing highly profitable royalty income streams continue to grow steadily.

Now let me give you a taste of some important technical facts about why TPL's abundance of land, most of which is not on the balance sheet, so you should note at *zero cost*, *the land* is an enormously value valuable “hidden asset.”

Let's now look at just its very important plentiful water position. The selling price of water today is maybe 50 cents a barrel for utility water which uses recycled (produced) water and \$1 to \$2 a barrel for higher quality sourced water. The cost of water for a 1 GW gas fired cogeneration plant might consume roughly 120,000 barrels of water daily, which equals 44 million barrels of water yearly and would at \$0.50 a barrel mean revenue of \$22 million. Presently, the price of the water is close to a dollar per barrel. A 1 GW data center constructed today which is cooled 50% wet and 50% adiabatic which in lay terms is an energy efficient cooling system that uses water evaporation in order to chill air, acting as a hybrid between a dry cooler and a traditional very water guzzling cooling tower. A data center of the size you need must reject heat of some 8.76 terra watt-hours yearly. This is the amount of heat used in about 800,000 typical homes. As a friend pointed out, this is not only a lot of heat to dissipate, but it's exacerbated by pretty high temperatures in Texas in summer. Evaporation cooling of half that load will require a lot more additional water and hence more cost to the user, but more revenue for the seller. The 1 GW data center annual water bill is now at least \$125 million. As reference to show the value of water, Bolt Energy & Data Centers intends to build a 10 GW campus. The Chevron Data Center is apparently planning to scale to 5 GW.

While TPL's substantial share price weakness has caused our portfolio to underperform, SMP has nevertheless still prospered in the year to date.

I keep thinking, obviously, investors always have too many poor performers and not enough good ones in some years. I'd like to point out that if you begin a fund and own 100 stocks and hold onto them and you fast forward 10 years or more, do you know what you will find? If you are very successful, most of them will have appreciated. However, a handful of them will have appreciated so much that they dominate the whole list. Our long-term success is no exception to that experience over our past 43 years.

For example: Through thick and thin we own Bel Fuse Class B (BELFB), which was originally acquired at a split adjusted cost of \$0.94 per share some 30 years ago. That is a 21,176.6% increase to its present price of \$200. The compound annual rate of growth for a \$0.94 stock growing to \$200 is 19.6%.

We still hold some of our Balchem Corp. (BCPC) which we originally purchased at a split adjusted \$0.41 per share, which we began distributing to heirs of limited partners in SMP in the past several years. These distributions, by the way, benefit all partners remaining in our partnership because it is as if we sold the shares, but neither we nor you have to report the huge capital gain profit to the IRS. Subsequently, we have been gradually reducing our Balchem position for what I believe to be a good and sufficient reason since the shares hit \$180. One of our investors, an accountant, calculated that if we had not had to distribute a majority of the shares, we would have had a 1 billion portfolio today. Mind you, as we reported some years ago, we did turn some \$324,000 into over \$50 million.

And then there is MasterCard which only cost us a couple of bucks which is worth a lot of millions today. Take a peek at the very large over achievers on the list of our investments when you receive it. From the get go, we have considered MasterCard a royalty company on consumer spending because it takes a percentage of everything spent. Moreover, for decades until fairly recently, credit card holders were charged an annual fee for the card. American Express still does and appears to get away with doing so.

As for TPL we have shares which adjusted for stock splits cost as little as \$3 and closed in January just below \$350. As for underperformers, please refer to the audit report when it is released, which will, as usual, list all investments at their cost and year-end 2025 market values. If you would prefer to review this information sooner, feel free to give us a call. None of this is a secret.

Fortunately, with SMP we've experienced more strong performing years than weak ones over the majority of years. Moreover, as you well know, we are and have always been extremely patient, long-term investors and rarely ever trade. Our portfolio turnover is maybe 1%. We aim to go after the big pot of gold over long periods of time and avoid making highly taxable short-term transactions which you can readily observe when you look at our audit report and your K-1 each year and see any realized gains or losses as well as the cost and current value of each and every one of our investments. Few others do this.

Speaking of cheap, allow me to segue to our investment in a private market (formerly called the Pink Sheets) stock. For the obvious reason that we want to buy more of it—hopefully without any competition though there is some. I am not disclosing its name right now but refer to a company whose stock has been advancing slowly since we began acquiring shares.

It trades in what is today officially called the professional market because it is not registered with the SEC so they call it a private company. It only issues an

annual report which is always a single page of interesting text with the back of it showing the annual financials. By attending the annual meeting, however, we get a lot of information because the president is always forthcoming at the meeting.

In the last few years, the company has acquired two major customers, Starbucks and Costco, which we monitor closely and can see they are steadily adding the company's products to their shelves and display cases, respectively. We believe the founder, CEO and his family own half the company with the other half of the outstanding common held by rather savvy very patient shareholders.

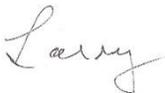
Here is an extremely interesting fact. Three years ago one of the world's largest private equity firms, Bain Capital, LP, invested \$250 million in the company, which was an addition of equity of about five times the equity of the company, in a convertible preferred stock which had a conversion price about three times the inactively traded common share price at the time. In other words, the common stock would have to triple before the private equity firm would make a cent on its investment. Since the latest purchase, the common shares have roughly doubled. But it would have to double again to be a breakeven for the investor. Most assuredly Bain did not make this investment to see the common stock triple and they did not make a cent. Well, guess what, Reuters News Service recently ran an article stating Morgan Stanley was hired to sell the company discussing the company's potential sale of more than \$2 billion which would imply our common shares being worth at least \$70 a share, if not more—well in excess of our cost in the teens.

Nice deal if you can get it and admittedly very exciting news. That said, we frankly, see the company growing a hell of a lot more. We would like to continue to acquire additional shares and would certainly be willing to remain very patient shareholders, as we believe the company has substantial further growth ahead and that both the price and the value of the company would be significantly higher in the fullness of time. We are not going to count eggs as chickens, but I will say this, Pink Sheets' stock investing is well and alive.

Please do not hesitate to call me should you have any questions at all. I would very much welcome hearing from you

All the best to you in the new year!

Warmly,



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