



FEBRUARY 2024
DENVER, COLORADO

Saturn Five Annual Letter

Dear investors in Saturn Five,

Around this time of year in 2017, my co-founder Evan and I started dreaming up the idea that would become Saturn Five. At the beginning, it was a small dream. To launch our first (tiny) holding company, Saturn Five LLC, we raised just a hair over \$3 million. It's hard to believe that today, across all our entities, we manage nearly 100x that. We have 20 controlling-interest small businesses, and about two-dozen startup investments. Our "small" businesses collectively did more than a quarter-billion dollars in sales last year.

Some business leaders I admire have made a practice of writing regular public "letters" to their investors and friends.¹ Although for nine years I've written The Weekend Reader (a semi-regular newsletter on technology, politics, and culture), I haven't made a habit of writing publicly about Saturn Five. I thought it might be a good time to step back and reflect on the journey of building this business so far.

What follows is a short summary of who we are and where we've come from. I'm writing this letter primarily to our investors - to you I owe my sincere gratitude for trusting us with your money. We'll also share this letter on our website. I assume that business owners and employees who might consider working with us will want to know who they are dealing with. I hope this can give a helpful start.

Who We Are

Saturn Five is a long-term-hold investment firm focused on buying and operating some of the best small businesses in America. We meet owner-operators who are looking to transition out of their businesses and help them have a great outcome.

To us, small business entrepreneurs are the unsung heroes of the American economy. Small businesses create two out of every three new jobs in our country. They provide the goods and services that their communities need. We've found the men and women who create these businesses to be some of the most interesting and admirable people we know - smart, hard-working, honest, and practical. It is our privilege to help an owner achieve his or her personal financial goals with an exit and to steward the legacy of that company.

¹ Among my favorites are Warren Buffett, Jeff Bezos, Paul Graham, Howard Marks, and Brent Beshore.



Both of my grandfathers were small businessmen. Elwood Swanson raised turkeys and almonds in California's central valley. Leonard Anderson was a general contractor here in Denver. I grew up watching uncles, cousins and my own parents run their own businesses and always had an admiration for their willingness to take on risk to build something.

Despite this background, our focus on small business isn't something we planned. In fact, our founding vision for Saturn Five was very different from what it has become. Initially, Evan and I wanted to create a "startup studio" - an enterprise that produces startups, in the same way a movie studio produces movies. We would be the "producers," bringing together ideas, talent, and capital to launch new startups from scratch.

Given that we would be "launching" companies, Evan thought to name our business Saturn Five, after the first rocket that took the astronauts to the moon. We were pretty excited about the whole thing.

The only problem was that none of the investors we talked to were as excited as we were. We made our pitch to dozens of people but got rejection after rejection. We couldn't raise the money we needed to get started. Eventually we figured out an important element was missing from our model: cash flow.

We decided that, in addition to building companies from the ground-up, we would buy a small cash-flowing business that we could "run on the side" to spin off enough cash to pay our overhead expenses. When we made this pivot, we were finally able to convince a few brave souls that by investing with us they might get their money back.

We identified a target company to buy: a concrete paving business in the Denver metro area called Concrete Curb and Paving. It had several characteristics that we continue to look for in companies we acquire:

- A long and stable track record of profitability
- A simple business model that we could understand
- An owner-operator with a great reputation
- A strategic advantage over its competitors (in this case, the ability to pour concrete faster than any other company in its market)

We bought that company in December of 2017 and I promptly got to work learning the business. While I was doing that, Evan was busy leading our work getting new startups off the ground. Ironically, the most successful startup was the very first one: ICON, a business Evan co-founded with his college buddy Jason Ballard. ICON embodied Evan and Jason's vision of transforming construction through automation, starting with 3D-printing buildings out of concrete.



ICON grew so fast and the opportunity was so big we decided it made sense for Evan to dedicate all his time to that one opportunity. We were right. ICON has succeeded beyond our wildest imaginations. Today billions of people have seen videos about ICON. The company has won contracts not only to print whole subdivisions of homes but also to explore printing on the moon. Somehow they have made the unimaginable a reality. ICON is beginning to inspire a reimagination of the trillion-dollar construction industry.

Though Evan and I were co-founders, our daily work could not have been more different. Evan was building the technologies of tomorrow, meeting with four-star generals and Fortune 500 CEOs. Meanwhile I was re-learning my high school Spanish to be able to communicate with our construction crew, estimating concrete yields, and figuring out how to make payroll when your customers are late paying their invoices.

My prior job had been as an executive at Bridgewater Associates, the world's largest hedge fund. There I managed a team of Ivy League graduates and had seemingly unlimited resources. They served us fresh cut fruit in the office every morning. Now I made my office in a cinder block building in the middle of a construction yard. It wasn't glamorous, but I didn't mind. It wasn't easy, but I was committed to succeeding.

My eyes had been opened to the incredible opportunity available in acquiring and operating cash-flowing small businesses. Instead of building companies from scratch like we had planned, I learned we could buy businesses that were already profitable, already had great teams, and already had loyal customers. And we could buy them at a price that rewarded the sellers for their hard work while giving our investors the chance to experience terrific returns.

I was hooked.

Over time, we've gradually reoriented Saturn Five so that buying and operating small businesses is our north star. And it seems to be working. Getting here has not been easy. At times it has been really stressful. I've made more than my share of mistakes. Yet, by God's grace, it feels like we're hitting our stride. Our mission is to build a diversified family of cash-flow-generating small businesses known for their excellence and committed to the long-term flourishing of their employees and communities. And we are on our way there.

What Makes Us Different

Buying small private companies isn't new. There's a whole industry dedicated to it called private equity. While I know some wonderful people who work in private equity and I'm aware of many good firms, as a whole, the industry hasn't prioritized the well-being of line level employees and the sellers they buy from. We think of Saturn Five as a redemptive alternative to Private equity



(or "PE"). Here are a few reasons why:

First, we have a long-term-hold mentality. By and large, PE has a "buy it and flip it" approach. That's because their funds usually have 10-year life spans where they have a few years to invest, a few years to run the companies, and then a few years to liquidate everything. In contrast, when Saturn Five buys a business, we go into it thinking that we might own that company forever. We figure if you have a business that's working well, you shouldn't sell it because of some artificial timeline. That said, we don't promise that we'll never sell. That would be foolish. What we promise is that our structure lets us do what is right for the company, regardless of the timeframe. Our aim is to give investors returns through regular distributions of free cash flow in addition to growing equity value, and those distributions could continue indefinitely.

Second, we use modest amounts of debt. PE firms tend to use a lot of debt because the prices they pay for the large companies they buy are high. To get a return, they use as much debt as they think a company can handle. But sometimes they are wrong, take on too much debt, and they drive an otherwise good company to fail. By contrast our bankers tell us that in most cases they would lend us 2-3x more money for a deal than we usually take. If we took more debt, we could make more money, but we'd be adding a lot more risk. What can I say? We like to sleep at night.

Third, we buy healthy companies and seek to retain the people in them. PE often needs to quickly reduce a company's costs in order to hit their return targets. Cost-cutting sounds great until you realize that mostly means firing people. We, on the other hand, are trying to buy companies that are already healthy, where we can focus on steady growth rather than high-stress turnarounds. Our dream is to find companies already running well and staffed with competent, motivated employees whom we keep for the long-term through an enlightened approach to team building and re-investment.

Our Three Core Principles for Buying Businesses

Our success begins with picking the right companies to work with in the first place. That sounds simple but turns out to be difficult. If you've invested with us for a while you know we have a great track record but we are far from perfect pickers. We've gotten kicked in the shins and punched in the gut a few times. But we study every experience, good or bad, and use it to refine our approach. We're still not perfect, but we are continuously getting better.

When I worked at Bridgewater Associates, Ray Dalio beat into me the idea that the best way to run an organization is to operate by a set of clear operating principles. I've taken that to heart and have been writing and revising a set of



principles for Saturn Five since the beginning. When it comes to investing, we have a number of principles, but I boil them down to three core ideas that guide our thinking:

1. Find a horse worth riding in a race worth winning.
2. Bet on the jockey, not just the horse.
3. Do good deals with good people.

“Find a horse worth riding in a race worth winning”

I took this phrase from Ed Zschau, my entrepreneurship professor at Princeton. He had a way of boiling big ideas down to quotable common sense, and this one stuck with me. For us, a “race worth winning” is a market that is healthy, nichey, but large enough for attractive growth. A “horse worth riding” is a company good enough to compete and win in that market. We don’t want to buy mules; we want to buy thoroughbreds.

Our company Landtech is an example of this principle. Landtech is one of the largest commercial landscape contractors in the state of Colorado. Operating on the fast-growing Front Range from Ft. Collins to Denver to Colorado Springs (a race worth winning), the company is one of only a few in the market that has the expertise and scale to do the largest and most complex commercial landscaping in the region (a horse worth riding). Its expertise, systems, and reputation give it a sustainable competitive advantage over its peers.

“Bet on the jockey, not just the horse”

Small businesses don’t run themselves. They are run by leaders and those leaders are the secret to any success we have as investors. The businesses we buy, by and large, don’t compete with technology, IP, or huge advertising dollars. They compete based on quality, service, and hustle. And those things all come down to leadership.

In college, it took me a few semesters before I learned that a bad professor could turn an interesting topic into a terrible class. Conversely, a great professor could take what sounded like a boring topic and make it into a terrific class. A similar dynamic is true with small businesses. Few businesses are better than their leaders. And great leaders can make fair businesses great.

Jon Redeker is an example of the kind of jockey we want to bet on. Jon’s parents started Redeker Excavating decades ago. Jon took it over when he became an adult, and oversaw the company’s shift into its current focus of providing premier excavating services to utility companies. When we bought a controlling interest in the company Jon retained some equity and became our partner. I couldn’t be more glad that he did. I don’t care how hard you work, Jon will outwork you. He earns the respect and affection of his team through



leading by example and by leading through service. He doesn't have a big ego, but he has a high bar for quality. That's why his customers are loyal and his employees are steady. Jon has developed a great jockey right behind him in his #2, Chadd, because truly great jockeys know that their horse may outlast them and prepare the next leader for success.

"Do good deals with good people."

Some people approach business as a winner-take-all, zero-sum game. That might work if you're playing a one-time game, but that's not the way you build a reputation long-term. To me, a good deal is a win-win. We're trying to buy good companies and pay a price that gives us an attractive return. On the other side of the table, the seller is trying to protect his legacy and get paid a price that gives him an attractive incentive to sell. If it's the right company and the right deal, both goals can be achieved and both parties can feel good.

But a good deal is only half of the battle. The other half is doing deals with good people. We often become business partners with the sellers we buy from because in almost all cases they retain some ownership or have an earnout (often both) as part of the deal. We like that because it means the seller has skin in the game. Sellers like it because it means they have a chance to have "another bite at the apple" if we grow the company and increase the value. That means we become partners. And the truth about partners is: it is best if you like each other, but it is necessary that you trust each other. If you don't, you are in for a bumpy ride. So we're trying to work with good people.

There's no secret to what I mean by "good people": they are people you can trust, who honor their word, who are kind, and who aren't just out for themselves. Our kind of people also tend to have a good sense of humor and enough humility to laugh at themselves. We aspire to be those kinds of people ourselves and those are the kinds of people we want to work with. We've made the mistake a few times of doing a "good deal" with people who have turned out not to be who we thought they were. Now, we will walk away from a deal if we don't believe there's a good person on the other side of it. Life is too short to do anything else.

Gregg Curtis of The Good Earth Garden Center in Little Rock, AR is an example of the kind of owner we want to work with. We bought The Good Earth in early 2022. From the start, I was impressed with Gregg. He gives back generously to his community. He takes a personal interest in the well-being of his team. Gregg's word is his bond, and he will keep it even if it hurts his own interests. Over the course of a few months of getting to know Gregg, he proved time and again that he was looking out for our interests, not just his own. He wanted us to succeed because he wanted his company to thrive beyond his time leading it. It's a treat just to meet someone like that in your life. It is a greater honor to get to work with him as a partner.



Our Track Record

Our fund advisor company, Saturn Five Advisors LLC, manages four funds that we have raised since our founding in 2017, with another coming online this year. This is how it has been going:

- **Saturn Five LLC:** This was our original "fund." It's really an operating company and we've invested from our balance sheet. Besides ICON, our other big winning investments in Saturn Five LLC have been a construction and recycling business called All Demolition Excavating, and our original company Concrete Curb. Altogether Saturn Five LLC has produced a net IRR of 48% and a 9x multiple of invested capital (MOIC), net of all fees and expenses.²
- **Saturn Five Opportunity Fund:** This is a small fund with only four investments, designed for the purpose of investing in federally designated Opportunity Zones. Returns on this fund are flat to-date. One-third of invested capital is with the modular housing manufacturer and developer Fading West. While that business is growing fast and was named one of the 100 most influential companies of 2022 by TIME magazine, it is a from-scratch startup whose earnings are following a J-curve. Another investment, a property management company, struggled out of the gate, being less robust than we had predicted. After a couple of years of wrestling with that investment, we believe 2024 is poised to be a year of growth.
- **Saturn Five Alpha:** This fund, launched in 2020, was built to focus on buyouts with about 10% dedicated to early stage startup investments. To date, Alpha has achieved an 18% net IRR and a 1.6x multiple of invested capital, net of all fees and expenses.
- **Saturn Five Frontier:** We've launched our newest fund, Frontier, in January, 2022. This fund is 100% dedicated to small business acquisitions. This is the first of our funds with that exclusive small business focus and early results have been terrific: Frontier has already produced a 1.3x net multiple of invested capital and a 25% IRR net of all fees and expenses.

Through our management company, Saturn Five Control, we've also passed the hat on numerous direct investment opportunities into both startups and small businesses. We've had some stunning wins, a couple frustrations, and overall results that we're proud of. Going forward, I anticipate most of our investments will be through our funds.

In the coming years, Saturn Five's focus will continue to be buying and operating small cash-flowing businesses. That's my passion and interest, but my co-founder Evan's passion remains with startups. Because of that, he is currently launching a newly-branded strategy, Overmatch, to make early stage venture investments in companies focused on outer space, critical technologies, and

² All performance numbers are as of December 31, 2023



national security. He is finishing the fundraise and just beginning to invest. Evan and I will be “running buddies” (as Evan colorfully describes it), advising each other and supporting each other with the help of our respective teams. I couldn’t have asked for a better co-founder than this man. I’m excited to be along for the ride for what he’s building with Overmatch, and I’m thankful to have his friendship and support as I continue building Saturn Five.

Truth be told, this stopped being the Max-and-Evan show a long time ago. We wouldn’t be where we are today without the amazing people we call our partners and team. Our castmates, in order of appearance, are Jim Howey, Molly Ray, Leo Jaschke, Trevor Boehm, A.W. Simmons, Karen Barnes, Jed Helvey, Jake Horowitz, and Tim Miller. I’ve had the opportunity to work with brilliant individuals and friends at Bridgewater and McKinsey and Google, but this is the best culture and team I’ve ever worked with.

What’s Next For Us

We have three big goals for this coming year. **First, we want our current portfolio companies to perform and grow.** Our approach to overseeing them is a topic I’ll address another time, but the short version is that we have been moving from playing whack-a-mole with problems to developing a consistent system of oversight, consulting, and direction. That system, led by our team of talented Operating Partners working alongside company leaders, is what will deliver stable growth over the long-run.

Second, we want to get the first Overmatch fund off to a great start. This will be Evan’s new baby and Evan’s babies tend to grow fast. I can’t wait to see what this one will do.

Third, we want to finish investing the rest of the capital from our Frontier strategy. We’ll need to complete a handful of more deals to close out the fund. Given the pipeline of companies we are in talks with, I think we can get there by this summer.

Finally, we are planning to raise another fund, one that will probably look a lot like Saturn Five Frontier, with the same focus on long-term holdings of strong, cash-distributing small businesses. I anticipate this next fund will be larger than Frontier, so I’ll be making friends and meeting new investors in the coming months as we look to grow.

I’ll close with my favorite email from the year. One of the core elements to our strategy is to build and sustain company cultures where employees flourish. We figure if we go the extra mile for them, they’ll go the extra mile for us. If those two things happen, our investors will be taken care of.



This email came from Andy Stallings, one of the leaders of our Saturn Five Alpha portfolio company, Columbine Hills, who wrote me just before Christmas:

"We got the ultimate compliments when we handed out bonus checks to our lead guys today. The common comments were that things are so much better here than they used to be and that the reason they work at Columbine is because of how they are treated by us. I feel so proud to be able to give these guys family wage jobs where they take pride in their place of work and they are truly happy to be here... Saturn Five has enabled this culture that James and I align with. Thanks for taking a chance on us!"

Columbine was already a great company when we bought it but it's been a pleasure to come alongside Andy and CEO James Letson to see them grow as leaders and continue to improve the culture. That culture has paid off—Columbine has grown sales 60% in the four years we've owned it. Not all of our investments work out as well as Columbine, but emails like this are a glimpse of what we hope to build—a family of companies that produce great returns and that help employees and their communities flourish.

February 16, 2024

Max Anderson
Managing Partner