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DENVER, COLORADO

Saturn Five Annual Letter

Dear Investors in Saturn Five,

Last year I wrote a letter and called it an “annual letter.” To be fair, it really only became “annual” now with this second letter. Anyway, I intend to make these a habit if you find them helpful. Given that many people who are just getting to know us will also read this, let me start with a little (re-)introduction.

At Saturn Five, our core focus is buying and building a diversified portfolio of cashflow-generating small businesses known for their excellence and committed to the long-term flourishing of their employees and communities.

Initially, our firm also invested in early-stage startups. We had good success with that and my co-founder Evan has spun out a separate fund, Overmatch, to continue investing in startups (more on that later). Meanwhile, at Saturn Five, I’ve focused our energy exclusively on buying small companies that are established, profitable, and healthy.

We want to be the buyer of choice for legacy-minded business owners who care about their people, their communities, and their reputations. Our ambition is to help them achieve their dreams both in realizing great financial outcomes and in securing the future of the businesses they have spent their lives building.

We think companies have a better chance to win in the long-run when their owners have a long-term mindset. So we aren’t looking to buy and flip. We buy and hold. Of course, we might sell if that seems like the right thing to do, but to paraphrase Warren Buffet, our favorite holding period is forever. This approach is a big part of why business owners love to sell to us. The owners we work with care about whom they are giving their baby to and like our values and our track record of patient management.

Many of our competitors employ a strategy of slashing costs and “cutting heads” from underperforming businesses. That’s not what we’re trying to do. We’re trying to find businesses that are already excelling and to steward them faithfully into the future. At the beginning our goal is to “not break anything” - if you’ve found a healthy cash-flowing business, you don’t want to go mucking it up with a bunch of changes all of a sudden. As we get to know the company better, we often uncover opportunities that help the businesses perform better and grow and that help employees excel and thrive.



That last part gets me really excited. Every person is made in the image of God and deserves to be in a job where they are challenged, respected, compensated fairly, and cared for by their manager and team. People should feel like their work is valuable and that they have a real opportunity to contribute meaningfully through their work. Every business can create this kind of environment (though not every business does).

When I was in grad school, "Social Enterprise" was a hot buzzword. It meant that some businesses might actually benefit other people in addition to making a profit. It was an exciting idea at the time. In retrospect, I think that framework was faulty.

I don't think just *some* businesses can be "social" enterprises. I think *all* can be. And should be. Every business can serve its customers well. Every business can create meaningful work and good jobs for people. Every business can treat vendors fairly. Every business can be a good neighbor in its community. If every business did these things, our society would work a lot better, and our social challenges would be fewer.

Now don't get me wrong, I don't think our Saturn Five companies are inspirationally saving the world by paving roads or fixing electrical wiring or installing a building's drain pipes. But I also don't believe that white-collar office work is any more valuable to the world than blue-collar fieldwork. The world would likely be okay if we went a while without email or powerpoint presentations, but we'd find out very quickly how important blue-collar work is if the potholes didn't get fixed, the electricity was on the fritz, or the plumbing backed up (Lord, have mercy!).

So I don't think that just some small group of special businesses should be "social enterprises." I think every company ought to be looking out for the interests not only of its shareholders but also of its customers, vendors, employees, and community. I wrote a book about this with Peter Escher when I graduated from business school fifteen years ago and I feel the same way today.

But just to check myself, I did a little research on what the definition of a company is. What I found surprised me, but made a lot of sense.

What is a Company?

The word "company" has several meanings in the dictionary. In our context, the obvious meaning of a "company" is "a business enterprise." But there are lots of other definitions and each one adds to a subtle depth to understanding the others.



A "company" can also be a subdivision of a military regiment (like a *company* of soldiers). It can be a unit of firefighters. It can be a troupe of dramatic performers (like the Royal Shakespeare *Company*).

"Company" can expand broadly to mean any group of people (you're known by the *company* you keep). It can be limited to describe a guest or group of guests (we're having *company* for dinner). It can also mean the state of fellowship generally: (I'm grateful for your *company*.)¹

These definitions are distinct from each other, but they also relate to each other. And you can start to understand why when you consider the word's roots. The roots of "company" are from Latin *com* which means "with, together"+ *panis*, which means "bread." At its root meaning, a "company" means "with bread," or a little more poetically, a company is *a group of people who eat bread together*. This isn't the definition I had in mind, but I think I like it.

Eating is the most elemental of human experiences. There is a reason first dates, family gatherings, and friendly reunions are usually oriented around food. Eating brings us together, and it reduces the barriers between us. I can pretend to be something I am not and remain interpersonally distant when I am delivering a presentation, reading an email, or doing other kinds of work. But when I am eating, I am being human. The mustard on my chin and the accidental smacking of my gums prove it. To eat is to feed our bodies. To eat *together* also feeds our souls. It reminds us that we are not alone. We are human. We are known. When we break bread together we are part of a *company*.

I wonder how many people would agree that their workplace fits this definition of a company, where they are *known* in a human way. I'm not going far out on a limb to guess it isn't many. According to Gallup, only one-third of American workers are "actively engaged" in their work. 14% are actively disengaged and 54% are "unengaged", meaning they are psychologically unattached to their work and company.

A growing number of people are lonely, period. The Atlantic monthly recently claimed that we are living in "The Anti-Social Century." The stats are striking:

- According to data gathered by the online reservations platform OpenTable, solo dining has increased by 29% in just the past two years.
- People used to go to movie theaters, a collective experience. Today, the typical American adult buys about three movie tickets a year—but watches almost 19 hours of television at home (the equivalent of roughly eight movies) every week.
- Men who watch television now spend seven hours in front of the TV for every hour they spend hanging out with somebody outside their home.

¹ Thanks to The American Heritage Dictionary for these definitions and examples.



- The typical female pet owner spends more time actively engaged with her pet than she spends in face-to-face contact with friends of her own species.
- Since the early 2000s, the amount of time that Americans say they spend helping or caring for people outside their nuclear family has declined by more than a third.

No wonder two in five Americans report that they sometimes or always feel their social relationships are not meaningful, and one in five say they feel lonely or socially isolated. We aren't spending time with each other like we used to.

A great deal of people aren't experiencing the intimacy of friendship at all. They have no group with whom to eat bread together. They may work in a business or some other organization, but they have no *company*.

The first year we owned All Demolition Excavating I hosted a holiday party for the employees and their families. We had a lot of fun - giving away raffle prizes, telling stories, and eating together. I remember talking to the employees and asking them what they were doing for Christmas and New Year's. At least a third of them had no plans. They weren't going anywhere. They had no family to be with. They planned to just watch TV. Our company party was the only party they were going to that year. We were their only social network or at least one of the most important parts of it. I thought we had just bought a business, but it turned out we had a *company*.

I've been thinking about this a lot. You can work just to build a business, where the sole goal is to have a profit-maximizing machine. The other alternative is to build companies, where people feel they are on a shared mission together, where they eat together, where they know each other and where they are known, where they not only have co-workers but have companions. That's what I want us to do at Saturn Five.

The employees of our portfolio aren't nameless and faceless. At All Demolition Excavating, I know Dennis who operates that excavator, Vickie who pulls permits, and Benito who crushes concrete. The Operating Partners on our team have similar relationships, not just with the company presidents, but with many of the line-level employees who are doing the hard work.

I love that we get to operate like this. We've been able to operate like this partly because we've been small. But we're not as small anymore, and we continue to grow. Our challenge now is to not lose the habit of eating together as we grow.



Our Company

We launched Saturn Five with an initial fundraise of \$3.2 million. Today across all of our funds, Saturn Five manages more than \$450 million for our investors, including more than \$115 million in startup and real estate investments and more than \$335 million in our cash-flowing small business strategy. Early-stage venture capital investing was a goal when we started the firm and my co-founder Evan Loomis is carrying that on with his newly launched Overmatch fund. Overmatch closed on \$70 million last year to fund the growth of companies at the frontiers of space, national security, and critical technologies.

Meanwhile, Saturn Five's core focus remains on buying and building some of the best small businesses in America. Across our funds, Saturn Five now owns a controlling interest in 24 operating companies. In the last year, they generated over \$350 million in sales and provided good jobs for more than 1,700 people.

We acquired six of those companies in the past year:

- **Bestway Transportation** is a last-mile and same-day delivery and warehousing business serving the greater New Jersey and New York City metropolitan area.
- **NuAge Builders** (Sioux Falls, SD) is one of the larger and one of the best metal building erectors in the Midwest, driven by a reputation for being a prompt and trusted construction partner that honors its word and exceeds expectations.
- **Magic Plumbing** is the market-leading plumbing installation company in Boise Idaho, providing rough-in and finish plumbing installation services to residential and commercial developments.
- **Good Times Adventures** is the leading snowmobile and dogsledding outfitter in the Breckenridge, CO area. It is SO fun. If you are visiting Summit County, Colorado in the winter, you must come and visit. You'll fall in love with the dogs.
- **Collins Land Service** is an outstanding provider of maintenance services to the Florida DOT and other government agencies in Florida.
- **Flamingo Road Garden Center** is a gorgeous garden center in Davie, Florida offering outstanding plants and garden decor to discerning retail customers, and hosting multiple seasonal festivals throughout the year.

With these new companies and with our historical holdings our approach is the same. We find a hard-working, high-integrity, smart leader to serve as a boots-on-the-ground manager of the business. We then have a high-capacity



Operating Partner from our team work with them to build and execute the company's strategy, open doors, and build a culture we are proud of. It isn't easy and we've had our share of both challenges as well as success, but the model is one we believe we can replicate and will allow us to grow while keeping people at the center.

At the turn of the year we finished investing our Frontier Fund, which we launched at the end of 2021 / start of 2022. Now we are launching our next fund: The Saturn Five Next Frontier Fund. It will continue the same strategy of buying attractive cash-flowing small businesses and holding them for long-term cash flow. Here's our thesis:

There are 10 million American small business owners who are 55 years old or older. In the next twenty years, nearly all of them will retire and either close their business, pass it to their children, or sell it. We are providing them an exit option to capitalize on the value they've created in their companies.

These companies can be incredible investments because they offer investors:

- Much better value (far lower multiples than traditional private equity deals):
- Real diversification away from public stocks and real estate:
- Attractive cash-on-cash returns, which we provide through quarterly distributions of free cash flow.

However, this opportunity is hard for investors to access. The market for these companies is incredibly fragmented and opaque. If you do find a deal, it's a challenge to do diligence because companies this size are rarely "professionally managed." Even if you do find something you like, there's no guarantee you can persuade a business owner to sell. He or she is probably an independent-thinking entrepreneur and won't just give up his or her life's work on a whim.

I know these things are true because we've spent the past eight years learning how to find attractive small companies, how to look out for small business risks in due diligence, and how to work with business owners to create win-win deals. It's hard. Lord knows we've failed our fair share of times. But with each success and each failure we've learned. And we've improved.

Our Team

One way we are improving is through the growth of our team. We started the company with only two of us. In 2024 we only added one new person to the team - Bennett Dykstra, who serves as an Associate on our Operations team. Bennett is a new graduate of TCU but his maturity and emotional intelligence would fool you into thinking he was much older. We met Bennett through our friends at Praxis and couldn't be happier for that introduction.



In 2025 we will grow a lot more. We figure we'll advance from 10 people to something like 17 or 18 by the end of the year. We've already hired three folks who are starting this month:

- **Andrew Walker** will serve as our new CFO, filling Leo Jaschke's shoes. Andrew is a CPA and has served as CFO in a number of operating companies, most recently at TIFIN Group, a holding company of fintech businesses. Andrew's spirit and values seem to fit hand in glove with our own. Andrew has two kids, a passion for numbers, and experience with building multiple businesses including one of the world's leading podcast companies. Who knows maybe you'll be able to stream these letters by audio in the future?
- **Andrew Aymami** will be our next Operating Partner, helping us oversee our portfolio and working hand-in-hand with the operators of our companies. Andrew has operations and strategy chops from long stints at Sun Microsystems and GE Healthcare. He added nimble, small company experience while serving as Chief of Staff at fintech startup, Maxwell. He is a proud and good father.
- **Phil Martin** will be joining our team as an Investment Associate, scrubbing deals and helping us perform due diligence on companies we might buy. He is a proud CSU Ram who comes to us from Resource Capital Funds. Phil impressed us with his facility for financial modeling and also for his self-deprecating sense of humor. I like having quick, funny, and humble people on our team.

We're grateful for the other wonderful candidates we've met in these hiring processes. In the coming months, we'll be hiring additional Operating Partners. The role of Operating Partner is to act as a "chairman of the board" for 4 to 5 of our operating companies. It requires strong strategic thinking, good operating instincts, fantastic interpersonal skills, and an ability to switch contexts rapidly.

We're also launching a new role this year that we are calling Operator-in-Residence (OIR). OIRs will join our team at Saturn Five for 12-24 months in a training capacity - learning our values, operations, and approach - in preparation for taking a role as a leader of one of our portfolio companies. We think this is an exciting opportunity for early-career leaders who want the challenge and responsibility of running a business. We'll expose them to real-world case studies, surround them with peers and mentors, and prepare them to step into a major leadership role.

If you think you or someone you know would be a good fit for any of these roles, please reach out to us, say hi to Molly at hire@saturnfive.com and she'll get you connected.



Portfolio Challenges and Highlights

The longer we operate, the more I see how our holdings are a portfolio of returns, some of which have surprised us to the upside and some of which have disappointed us to the downside.

In the challenging category, last year we faced a couple of situations where companies persistently underperformed our expectations. Beyond our initial investment, we've invested countless hours in these businesses and, in some cases, invested additional capital, either as equity or in the form of a loan. When you make those investments of time, energy, focus, and money, and they don't pay off, do you throw in the towel? Or do you double down with new energy, ideas, and capital? This question is critical and is one that I think about a lot. You want to avoid throwing good money after bad. You also don't want to quit on an investment too quickly. These decisions require wisdom, creativity, and common sense. They are among the hardest decisions a manager has to make. We approach these decisions collaboratively, with a lot of debate and discussion, always trying to learn from our experience and sharpen our thinking. We don't always get the decision right but we're always working hard to make the decision well.

We also had a number of highlights last year. We expanded our real estate portfolio with three property acquisitions that will make a few of our companies stronger either through securing ownership of property that is critical to their operations or through providing an opportunity for affordable employee housing. We had two companies crest over \$10M in EBITDA for the first time and several others experienced record sales years. One of our earlier companies celebrated five years under our ownership by doing a special employee bonus to reward the team for helping us operate and grow the business so successfully. We love sharing our success with the people who are working to build it.

I think a lot about what attributes might connect the companies that outperform others. There's no "one thing" that I can yet boil it down to, but a theme I'm reflecting on is that our outperformers tend to have a strategic competitive advantage. The types of advantage I'm seeing include:

- **Location** - The business serves a specific geographic area that is hard for competitors to serve.
- **Stickiness** - The business provides a service so consistently well that the perceived switching costs for customers are high enough / risky enough that they remain long-term loyal customers.
- **Size** - Some of our companies are larger than their peers and can do bigger jobs that others can't take on. On the other side, some of our companies outcompete larger players because their smaller size makes them more



personal / less bureaucratic than competitors.

- **Qualifications** - Some of our companies' customers only work with "qualified" service providers. Qualifications differ by industry but higher qualification standards favor incumbents who have already passed the qualification tests.

These kinds of advantages are structural and can be more powerful factors in a company's performance than the broader market conditions. But no company is an island. Each exists in the context of an evolving macro environment, and this year it feels like the world is in the middle of a lot of change.

Our Companies in this Changing World

Some investors have asked me how I think about the big developments happening in our current moment and how they might affect Saturn Five. I'll share some of those reflections with you, focusing on two of the bigger shifts we're seeing in the world: the advent of generative artificial intelligence and the second Trump administration.

Artificial Intelligence

Marc Andreessen famously predicted that software will eat the world - it did. And with AI, software seems to be eating the world again. Given the rapid developments and pace of change in the field, I would look with suspicion at anyone who claims to have a crystal ball about exactly how AI will change things in the coming years. The biggest companies in the world are all focused on how to capitalize on AI. Saturn Five has no special advantage in the area. Everything we know is from reading about it second-hand or experimenting with it in limited ways first-hand.

So how do I think AI might affect Saturn Five? It's hard to say. On one hand, it may transform things for our Saturn Five team more quickly than it does for our portfolio companies. It seems office jobs and white-collar work are more easily enhanced (replaced?) with AI than blue-collar work. If you add value to the world with the work of your hands, not just your mind, you may have relatively more job security in an AI-centric world. For all the talk about AI replacing people, we have huge hiring shortages in construction, in transportation, and in basic manufacturing. It seems unlikely that robots will replace humans in those areas in the near term. However, one must be light on one's feet and be open to being wrong in a world that is changing so rapidly. Self-driving trucks are on their way, and one of our own companies, ICON, is transforming the way homes are built with the use of advanced robotics.

Others of our companies have a focus on human experience that is central to their offering - our garden centers and outdoor adventure businesses. These



companies may have their own challenges, but as of now, their whole value is allowing humans to experience the beauty of plants or the thrill of adventure. And those things are timeless.

I sense no industry will be entirely insulated from the effects of AI. Those who make that assumption may find themselves caught on their heels and at a disadvantage versus nimbler competitors who adopt and exploit these powerful technologies to create more value for their customers. Therefore we are taking a position of active exploration - looking to learn and experiment. It is unlikely that we will be an innovator with frontier technologies, but we hope to be a quick adopter of those uses that can make our companies stronger.

The Second Trump Administration

The new Trump administration is making change at a historic pace, from DOGE defunding federal agencies to inaugurating the first usage of The Gulf of America. To try to address all the current and potential changes this administration might make would require more time than you'll give me. Instead, I'll focus on just three areas that might have particular resonance for our business: Tariffs, Immigration, and Interest rates.

Tariffs

The tariff wars have already begun. Where they will end is anyone's guess. It might be right that in the medium to long-term these measures will create more American jobs as products from overseas become relatively more expensive. It might also be right that these measures could be inflationary - raising costs to producers and prices for consumers.

We expect a number of Saturn Five's companies may face pressure on profit margins as costs go up from imported inputs. Our businesses will attempt to pass those prices on to their customers where possible, aware that sudden hikes could cost them business. We will see what the market will bear.

I don't have reason to think Saturn Five's businesses will be in a worse position vis a vis their competitors, nor do I think we will be spared. Some of our companies have purchased particular inventory items in advance of these potential cost increases but you can only store so much. Costs for parts made in China and other nations will go up. If there is good news for Saturn Five, it is that most of our companies are service businesses. That doesn't mean they don't have materials costs, but for most of our businesses the biggest expense is labor. That brings me to immigration.



Immigration

We have an immigration problem in this country. We don't let enough qualified people in, both H1B and H2B workers have caps that are too low and limit our productivity. On the other hand, we've had a flood of illegal immigrants that threaten our security. Trump's policy of tightening the border and deporting illegal immigrants is an inevitable reaction to an unsustainable situation. Since many of our companies are in construction some folks have asked whether I am nervous about risks to our workforce with these policies. I am not. Our companies follow proper screening procedures when hiring. We pay market wages. We're not trying to cut corners.

Might I be wrong about the risk? I might. We might also be affected in indirect ways. If millions of illegal immigrants are detained and deported, that could have an inflationary impact on wages as firms compete for fewer workers. I am, however, a pragmatist on this matter. Given current government resources, I am not forecasting so many deportations that it radically alters the landscape. We will watch and see and adapt as needed.

Interest rates

In the previous two sections, I've shared reasons to think that some of Trump's policies may be inflationary, or at least may drive more growth. If they are, then the Fed will feel pressure to maintain interest rates or increase them. So, investors may ask, how would prolonged higher rates affect Saturn Five?

Higher rates aren't a boon for most businesses, including ours. But as private equity strategies go, ours is fairly well protected. First, we buy companies at relatively low leverage levels. In our typical deal, we employ one-third to one-half of the level of debt our competitors might use. That might not make us the highest bidder sometimes, but on average it makes our investments safer. I learned years ago that it isn't fun to have debt payments you fear you can't make. I prefer to sleep at night. Given that we are buying companies at much lower prices than large companies trade for, we don't need so much debt to produce good returns.

The world is changing fast and to succeed we will have to change with it. But sometimes the most difficult changes to accept are those that happen internally. An unexpected crisis often reveals what you value and who you really are.



Leo, and Being a True Company

The hardest change we went through in 2024 was the death of our friend and Chief Financial Officer, Leo Jaschke. After a long fight with cancer, in which he bravely continued to work even while undergoing treatment, he fell suddenly ill last November. He and I were on a Zoom call together the day before he checked into an ER with pain. He died about a week later. He was in his early fifties and left behind a wonderful wife and two sons. He was a good man, an incredible teammate, and a dear friend.

Leo was someone I broke bread with frequently - at quarterly planning retreats, at regular team meetings, and over random lunch runs for Gargaro's sandwiches. I spent the last four years working 12 feet away from Leo, in the office next door. I had a bad habit of interrupting him constantly. He was ever patient, kind, and clear-thinking - always open to considering my latest bad idea, but also helping me see other (usually better) alternatives. Leo had a wonderful ability to think strategically at the highest levels and also to get into the details. His ethics were unimpeachable. He was always thinking about how we might do the right thing for our investors. His advice to me over the years has been invaluable - helping me keep the true north of our values.

Leo was just the man we needed at just the right time. He was as kind as he was smart and he was very smart. I can't imagine being where we are today if I hadn't had him by my side. It is an honor and privilege to work with people you admire. In Leo, I had not just a colleague, but a friend.

Every quarter our team does an offsite retreat to review our goals, our outcomes, and our values. At our last meeting, I got to go for a 1:1 walk with Leo. We were in the Rockies where Leo spent many happy days hiking or snowshoeing and enjoying creation. As we were walking, Leo brought up one of our principles we hold as a team: "Life is too short." It's too short to do work that you don't love. It's too short to work with people you don't enjoy. It's just too short, period.

Leo shared that he felt his own life would be too short. But he wanted me to know how much he loved his job, loved our team, and loved Saturn Five. He was grateful. And yet as much as he enjoyed Saturn Five, I know he loved his family even more. They were his true joy.

I had the sad duty of calling many of our partners to share the news. I can tell you I've never had a banker get choked up on a call before. But they did. They insisted on telling me how wonderful Leo was as a counterpart for them. That is as good a testimony for a CFO as any: if your passing leaves your banker in tears, you've done a good job and been a good person.

The night Leo died, several of us from the Saturn Five visited him in the hospital and held vigil with his family. We stood and listened as his breathing grew more difficult. We hugged and cried and prayed and stood by him in some of his last hours on this earth.



In the months since I've reflected on the sacredness of that moment - to be there in the passing from this life to the next. It felt obvious and right at the time, how could we not be there? With some distance however, I see how unusual a situation it was that on the night he died, Leo's room was filled with his family and with members of his company. We weren't just co-workers. We were companions. We were those who ate bread together. I hope someday we will break bread together again.

All work can be sacred work. And that is the kind of work I want us to do. I don't just want us to build businesses. I want to build companies.

Best,

February 24, 2025

Max Anderson
Managing Partner