

# Chairman's Letter

## 2025

### WISTLR Annual Performance

(\$ in thousands)

Year	Advisory Headcount <sup>(1)</sup>	Platform Investments <sup>(1)</sup>	Super-minority Investments <sup>(2)</sup>	Pre-tax Income <sup>(3)</sup>
2021	2	1	0	\$1,227
2022	2	1	0	\$2,405
2023	4	1	0	\$2,862
2024	5	2	0	\$4,151
2025	4	3	1	\$2,566 <sup>(4)</sup>

(1) At year-end

(2) Investments where WISTLR owns <10% of the business

(3) Excludes amortization of goodwill related to acquisitions

(4) Final results pending audits and completed 2025 figures



## WISTLR's Year in Review

Alas, even investment bankers, known for charts that go **up to the right**, can't make our own earnings increase each year. And though it was WISTLR's first year that lacked earnings growth, it was not devoid of progress entirely. We were able to acquire a business on the last day of the year, make one super-minority investment, advance our public portfolio positioning, and survive a tumultuous year in our advisory business.



Yes, the year had successes, mistakes, and comically poor luck at times, but we learned a few things along the way that we hope contribute to future progress.

As we've written before, we publish these letters to chronicle our journey, perform in front of an audience, and hopefully attract like-minded people into our world. So, if the contents appeal to you please reach out.

## WISTLR's Advisory Business

Unsurprisingly, our advisory business did not live up to expectations in 2025 given our focus on the government services sector and the upheaval that took place in that market during the year. 2025 was anything but normal in GovCon, as the new administration changed the status quo abruptly, and effectively closed the M&A market for the first six months of the year. We can't complain though; no sector is immune to vicissitudes, and 2025 just happened to be a down year for the average GovCon participant. C'est la Vie.

Given GovCon had a particularly public year we thought we would share some observations on nuances of the market. Nuances that primarily result because:

1. The system lacks the normal incentives of private markets,
2. The Government has effectively unlimited funds, and
3. The Government has created a complex set of rules to guard against cronyism and support small businesses and other socioeconomic participants.

In service of the government, contractors perform everything from mundane tasks (think janitorial services) to the most advanced (think submarine manufacturing) and are a significant amount of the country's expenditure. To govern this spending, a series of intertwined regulations and case law has evolved to promote the government's agenda, and unsurprisingly, this web of requirements has created convoluted processes and weird evolutionary outcomes. As a result, citizens are right to be wary of waste in the system.

With that said, **it's not all bad**. Any honest actor would likely look at virtually any contracting rule in isolation and view it as relatively well thought out (**if looked at in isolation**). It's the layers and layers of rules that create the challenges. But we aren't identifying anything novel here; we're merely suggesting that the contracting market has some *good attributes*, and well-publicized *bad ones*.

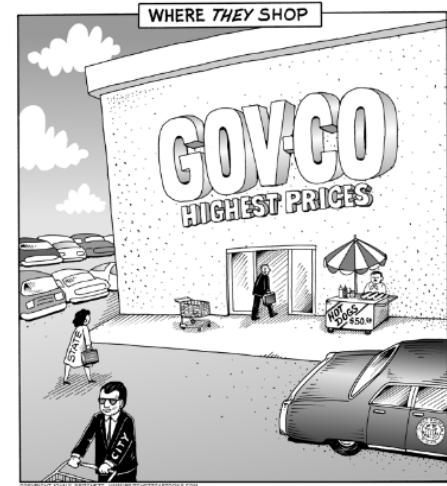
*The good...*

The primary benefits of the Government using contractors are:

- **Competition** amongst contractors *should* result in cheaper prices & better solutions.
- In the event of poor performance, it is **easier to switch out contractors**, or have contractors replace employees than the Government.
- It's logical to want a **robust industrial base** across the country to both create testbeds of ideas as well as increase redundancy in the system (*better to be redundant than deficient*).
- **Transparency** in the contracting decision-making process does a good job of preventing cronyism between government officials and businesses.

*The bad...*

A major detriment of the government contracting system results from the fact that the government props up **small businesses** and other **socioeconomic demographics** through required spending objectives (~20% of the contracting expenditure goes to small businesses). These **spending goals** have the pernicious effect of driving



government procurement decisions vs. small business **capability development**, and results in the creation of too many *services* businesses and *resellers*, and few small businesses that *make anything* as it is easier to meet spending goals through *services* businesses and *resellers*. In addition, because of these spending goals, contractor leadership, in aggregate, **spends far too much time navigating nuanced rules** vs. focusing on customer requirements and their businesses.

*How to change the system...*

As for how to change the system to promote better businesses and eliminate bureaucracy in government contracting, ultimately **that is our elected official's job to correct**. They and their appointees need to define the requirements. Contractors and bureaucrats will respond accordingly. As an example, we've observed many market participants once espouse strong interests in "DEI" and "high-end consulting" who are now only one year later talking about "speed to the warfighter," "defense tech," and "shipbuilding capacity." And though watching these participants whipsaw their focus can be cringeworthy, it offers a lesson for the elected officials: **put out a clearly defined game plan and the market will respond**. Anduril and other new start-ups are brave (even patriotic) to build systems ahead of their customers' directive, but this is not a viable strategy for most businesses in the sector. So, while Anduril's model is laudable, we think there are better avenues for traditional contractors to serve their customers well (even patriotically) without raising billions from Silicon Valley.

*Our recommendation for business owners is to...*

- **Keep costs low.** Avoid the trap of having too many employees and expensive third-party consultants for every minor detail. Instead, model Costco, and focus on providing as much value as inexpensively as possible.
- Be maniacal about finding the government the **best people, solutions, and technology**.
- Create **strong partnerships with other market participants**. It's one of the few industries where teaming with other industry participants is a benefit for the whole system.
- Remember that the constituent at the other end of the deal isn't an unincentivized bureaucrat but your **country**, so heed JFK's inaugural advice.



*Finally, our recommendation for the elected officials is...*

- Focus small business goals on **industrial capacity**, not spending targets.
- Focus as much on **physical projects** and **technical services** as IT “bridges to nowhere.” IT consultants make fortunes building systems that hardly ever get used, while welders and technicians on important DoD platforms make hardly enough to live.
- **Remove** small business socio-economic goals and Mentor Protégé Joint Venture rules (with the exception of Veteran Owned & Service-Disabled Veteran Owned small businesses).

*With these changes, and others, our country can have a true win/win/win:*

- **Government Win.** Receive a great product & service at a great price.
- **Contractor Win.** Make a fair but not excessive return.
- **Country Win.** Build companies intelligently that act as testbeds of ideas and shock absorbers for the system.

## **WISTLR’s Operating Businesses**

At the end of 2025 we own sizeable positions in three operating businesses. Two we owned for the entirety of the year, and the third is a business we purchased at the end of 2025. We continue to align our incentives with our **partners**, abiding by an even more onerous Buffett Partnership incentive model: 0% management fee, 7% hurdle rate, 20% of the economic profits above the hurdle rate. An incentive structure we think will drive successful outcomes over time and one we will continue to experiment with. We don’t expect every transaction we complete to work out well, but taken together, we hope will result in adequate returns on capital over time. So far, so good.

## **WISTLR’s Public Portfolio**

Over the long run it is **earnings** of the businesses an investor owns that will determine their public portfolio result. And even more, it is the **qualitative attributes** of the companies that investor owns that will determine how large those earnings grow and how long those earnings last. Harking back to earlier letters, our favorite way to determine the probable longevity of earnings is to find the **physical, biological, and**

**human** attributes that will contribute to a company's survival. We've presented a table of our current public portfolio and the physical, biological, and human **reasons** those businesses may survive.

Company	Pre-tax Yield (1)	Reasons for Survival
 Enterprise Products Partners L.P.	~8%	<b>Physical:</b> Network effect of hub & spoke distribution system. Cost advantages resulting from proximity to customers and first-mover advantage. Near infinite supply of American natural gas, and the efficiency of natural gas for energy consumption. <b>Biological/Human:</b> Regulatory difficulty in permitting as a result of NIMBY.
 Capital One	~7%	<b>Physical:</b> Efficiency of scaled distribution system. <b>Biological/Human:</b> Efficiency in specialization. Customer switching costs. Brand. Regulatory hurdles that block new entrants.
 Comcast	~16%	<b>Physical:</b> Network effect of hub & spoke distribution system. Effectively no difference in the physics of HFC vs Fiber broadband delivery. <b>Biological/Human:</b> Switching costs. Brand. Regulation creating regional monopolies.
 Altria	~11%	<b>Physical:</b> Efficiency of scaled distribution system. <b>Biological/Human:</b> Secondary reinforcers & addiction. Community. Brand. Regulation governing advertising and new market entrants.
 Markel	~9%	<b>Physical:</b> Efficiency of scaled distribution system. Shock absorbers and margin of safety. <b>Biological/Human:</b> Human's predilection to <b>fear</b> outcomes (and desire insurance) will result in the purchase of insurance from those they <b>trust</b> . Biological barrier to those serving tough niches.
 Core	~9%	<b>Physical:</b> Thermodynamic attributes of burning energy dense fossil fuels. Cost advantages resulting from proximity to low-cost transportation and customers. <b>Biological/Human:</b> Regulatory difficulty in permitting. Boom / Bust commodity cycles removing levered participants.
 FOX	~8%	<b>Physical:</b> Efficiency of scaled distribution system. <b>Biological/Human:</b> Tribal impulses and Brand.
 Toll Brothers	~13%	<b>Physical:</b> Efficiency of scaled distribution system. <b>Biological/Human:</b> Efficiency of specialization. Regulations resulting in NIMBY. Brand.

(1) FY2025 estimated figures. Normalization adjustments made to represent "owner pre-tax earnings."

## The Purity of Pre-tax Earnings

If a business owner sells a business that makes \$10mm of pre-tax earnings per year for \$100mm (with no income taxes) and buys the S&P500 that in aggregate yields ~4% pre-tax, are they richer or poorer? Their Morgan Stanley account shows \$100mm when previously it did not, but does this mean they are better off?

How about if an investor owns Google stock that earns ~\$120bn pre-tax at a \$2 trillion market cap and then the market cap goes to \$4 trillion (with no corresponding increase in earnings) how should that investor measure their performance if they have determined they will *never sell the stock*?

Even more opaque still are “hard assets” and other non-income generating “investments.” How much is a painting worth? How does one arrive at value for a business that loses money? How about a building with no tenants? Surely these have value, but how should that be measured? Most market participants rely on “comps” but that is fraught with user error and over optimism.

As a result of the difficulty determining the *value* of investments and tracking it to measure performance, we’ve never liked to use it for our own record. For this reason, the primary KPI we monitor each year is pre-tax earnings, as we find it most closely tracks our performance over time. We intend to play the business game for a very long time (indeed, you never really leave the game: think back to the business owner that sold their company and invested in the S&P500) and so we are trying to track what we think will most accurately measure our results over time. If you have a better way to do it, we’re all ears, but we haven’t found a better methodology, yet.

## The Greats Rhyme

*McCullough and Munger*

Both David McCullough and Charlie Munger are examples of the modern Stoic man and illustrate the benefits of lifelong learning. Both set out to learn and, in that learning, found some “iron rules of life” that they were kind enough to share with the rest of us mortals. And while we have no tangible evidence of either referencing the other, they have some uncanny similarities in both the stories they tell and the examples they espouse. Take for example, a line Munger repeated often: *“I have a rule for politicians — it’s a Stoic rule. I always reflect that they are never so bad you don’t live to want them back.”*



Likewise, McCullough had a similar story he shared regularly: “*I remember the night of the '48 election, I was in high school and my father - very Republican family - and my father was listening all night. I tried to stay awake, I couldn't, I went to bed. The next morning, dad was shaving and I went in and said, "Dad, Dad, who won?" He said, "Truman", like it was the end of the world, and I don't know, 30 years later I was back home. We sat down to have a chat after dinner and he started telling me about how the world was going to hell and the country was going to hell, and then he paused and he said, "Too bad old Harry isn't still in the White House".*”



It's good to find the greats and study them relentlessly. Moreover, the more you study them the more you see them rhyme. Life's been figured out by amazing people that we should all endeavor to learn from, and it's hard to find two better modern examples to start with.

### *Washington & Napoleon*

WISTLR's offices are located close to George Washington's Mt. Vernon, so we often think about the great man. The late 18<sup>th</sup> and early 19<sup>th</sup> centuries gave us two of the most accomplished men in history: **George Washington & Napoleon Bonaparte**; both achieving their “records” at roughly the same time. More than just time in history though, the two men shared many other overlapping attributes:

- Conquering & successful generals
- From well-off families but not aristocratic means (often outside looking into the higher echelons)
- The founders of new governmental systems and “nations”
- Menaces to the ruling European Monarchies
- Known to be astonishing men and demi-god-like both posthumously as well as in their own time
- Given the opportunity to become “Emperors”



The greatest difference in their behavior was a **poetically divergent decision...**

One returned to his farm and **willingly gave up his power**, while the other quite literally **crowned himself**.

As we arrive upon America's 250<sup>th</sup> anniversary, **the “system” Washington created has lasted**, while Napoleons crumbled almost immediately despite his epic abilities. There's a lesson in that: **give it away to get it back**. Washington was bestowed with the opportunity to take almost unmatched power in the world, and he gave it back. Talk about the ultimate gift for those who came after him. And in return US Citizens for 250 years have voraciously protected what he gave them; **their gift in return**.

## Conclusion

A physical trainer told us this year two things are paramount for lifting heavy weights:

1. First **balance** yourself, *then* execute.
2. **Flexibility** is power.

Those are good ideas for weightlifting. They're also apt for business. In the years ahead we will look to **balance** our business affairs and remain **flexible** for opportunity. We hope it will afford us the ability to lift heavier things over time.

We look forward to reporting again next year.

Most sincerely,

**Eric Urda**  
Chairman  
WISTLR, Inc.