

KANBRICK

April 22, 2024

Dear Partners and Friends,

History moves in cycles, and it feels like we've entered a new more turbulent period over the last few years. The U.S. economy has held up well despite interest rate hikes, but inflation persists and the national debt is growing faster than corn in Kansas. Technology is reshaping society at an accelerating rate. Perhaps most concerning are rising geopolitical tensions — with war raging in Ukraine, conflict in the Middle East, and increasing rivalry in Asia.

As in every era, we have real challenges. Fortunately, uniting to address new challenges is as American as John Deere tractors. A Harper's Magazine editorial offers an interesting perspective:

"It is a gloomy moment in the history of our country. Not in the lifetime of most men has there been so much grave and deep apprehension; never has the future seemed so incalculable as at this time. The domestic economic situation is in chaos. Our dollar is weak throughout the world. Prices are so high as to be utterly impossible. The political cauldron seethes and bubbles with uncertainty. Russia hangs, as usual, like a cloud, dark and silent, upon the horizon. It is a solemn moment. Of our troubles no man can see the end."

Although this sounds like it could be from today, this quote was originally printed in Harper's Magazine in 1847 and then reprinted in Sequoia Fund's Q1 1979 Quarterly Report. As Mark Twain noted, "history never repeats itself, but it does often rhyme."

We often find ourselves being short-term pessimistic and long-term optimistic. Things have certainly improved since 1847, and we expect 2201 to be better than today. Undoubtedly there will be problems along the way, but we expect over time the world to continue to get better barring a global catastrophe. And as Malthus can attest, gloom and doom prophesies have a much better track record of attracting attention than predicting the future.

Being long-term optimistic is fundamental to most investing given investing entails parting with money today for future returns. In addition to our historical perspective, we also have a unique lens, one that is different than the divisions that dominate the news cycle. Every day we see the power of people coming together to solve problems, the joy of a shared purpose and common goals, and the impact of American ingenuity. These factors reinforce our belief that owning and building exceptional American businesses will continue to be rewarding across a range of future environments.

Much like disruption requires companies to rethink their approach, we think the shift in conditions will require America to refocus. We spend a lot of time thinking about how to build enduring companies with clear strategies and empowered leaders. Charlie Munger preached the value of applying a latticework of cross-functional mental models. Running a country is obviously more complex than a midsize company, and we can't help but consider the ways in which these approaches are relevant beyond the boardroom. This letter isn't a medium to cover in sufficient detail, but a few areas stick out:

- **Uniting Around Purpose:** Having a clearly defined purpose or vision (and ideally both) provides the connective tissue to inspire people to work together toward something bigger than themselves. Examples abound, like Kennedy's call to land a man on the moon, or LEGO's aim to develop the builders of tomorrow. Since the end of the Cold War and attacks of 9/11, it feels like we've moved away from uniting around a shared purpose and embracing our role as a "shining city on a hill".
- **Defining a Focused Strategy:** Much like the latest business buzzwords, short-term tactics make great sound bites and campaign pitches. Strategy often has a timeline beyond the election cycle, making it all too easy to become entangled in the tactical. It is also hard to prioritize; choosing what not to do is the hardest part of the strategy process. However, the reality is that we are making strategic choices whether

consciously or not, and the decisions we make now will determine our future. Great strategies typically have 3-5 priorities with clear goals that drive a flywheel and create a moat. The U.S. has multiple “moats” or strategic advantages at the national level including scale (e.g., largest economy and military), geographical advantages (e.g., natural resources and being protected by oceans), leadership in innovation and intellectual property (and the associated legal and regulatory regime), and network effects (e.g., dollar is the world’s reserve currency). Building a cohesive strategy requires thinking through many interconnected areas such as economic growth, standard of living, national security, education, demographics, and technology. And acting sooner rather than later is important. We have a unique position, but other nations are competing to catch up.

- Investing in People and Culture: We focus deeply on investing in people and culture to attract, develop, and engage our teams, as people and culture are the foundation for every business. When it comes to attracting talent, we think this is an area where America has a clear edge – the world’s best and brightest want to live here. This is an underutilized advantage every company would love. Our development and engagement pillars translate to improving efficiency and outcomes in spheres like civic engagement, education, and healthcare. Prioritizing efforts in these areas, which is inherently political and outside our scope, will undoubtedly be challenging and involve many tradeoffs and stakeholders. Companies have long realized that people and culture are vital to long-term success, and we believe this same mindset is relevant at the national level.
- Setting Clear, Measurable Goals: We find companies operate best when strategies are broken down into clear goals with individual owners. As an illustrative example, if we want to grow the economy 4% on real terms, then perhaps relevant goals would be 2% population growth and 2% productivity growth, which in turn can be further broken down. Specific goals are clear and measurable and drive accountability in a way that we think would improve results. In the words of Lincoln, our government should be “of the people, by the people, and for the people” and clear goals are a way to reinforce this servant leadership mindset.
- Allocating Capital to Achieve Goals: Money is limited, and where we invest determines future outcomes. From Danaher to Berkshire Hathaway, the best companies have focused incessantly on capital allocation. The reason is simple: If we pick high-return projects in a company or country, then we’ll see more value created; on the flipside, low-return projects destroy value. Lee Kuan Yew’s transformation of Singapore is an example of excellence resource allocation in action; however, traditionally governments have not been superb capital allocators. In 2023, the U.S. government spent approximately \$6 trillion so even a 1% improvement in value creation is worth \$60B. Increasing transparency and rewarding strong capital allocation will compound value over time. This will benefit all Americans and also help to mitigate the impact of rising debt levels.

Having a purpose, strategy, and goals – whether for a company or country – provides the ingredients for long-term success. Or if we invert, lacking these is a clear recipe for decline.

Our approach to building businesses follows a similar philosophy. While we advise owners to keep their business as long as possible, at some point most businesses go through an ownership transition for various reasons. We strive to provide families and founders a differentiated, long-term home for their business. A home that preserves and enhances their legacy. We aim to steward and build companies for the long term by:

- (1) Acquiring great companies in growing markets
- (2) Attracting and empowering exceptional people
- (3) Compounding growth via the Kanbrick Business System and a long-term mindset

This strategy is grounded in our roots growing up in family businesses: We think in decades not quarters, know great companies are built by people, not in spreadsheets, and have rolled up our sleeves to run companies vs. spending all our time in the cheap seats of the board room. In this letter, we are excited to share more about what we are building across Kanbrick.

Year in Review

“Mimicking the herd invites regression to the mean.” –Charlie Munger

We are honored and humbled to work with many exceptional partners – from coworkers to customers to investors – across Kanbrick. Together, we are focused on building something different. We are proud of all the progress our companies and our Kanbrick team made in 2023. Fully capturing this would require multiple volumes vs. this short letter, but a few highlights include:

- Our Kanbrick team grew to 10 full-time team members including new hires for the SVP of Investing, SVP of People, and Strategy Analyst roles. We also had several well-earned promotions across the team.
- We counsel companies about the importance of operating in growing markets and are eating our own cooking as we build Kanbrick. In 2023, we opened our Charlotte and Nashville offices. We are excited to be part of these growing, dynamic communities.
- As covered in the [Wall Street Journal](#), we completed a capital raise for our long-term partnership with an exceptional group of long-term partners.
- In its first year as part of Kanbrick, JM Test Systems continued its growth with a record year. The team also made significant progress strengthening the foundation of the business and accelerating growth. Just as importantly, they are building the business the right way, for the long term. This is an entirely different mindset and approach than that taken by quick flippers focused on maximizing next quarter’s EBITDA.
- Marine Concepts continued to grow revenue and expand its dealer footprint in 2023 despite a challenging macro environment in the boating space. Behind the scenes, the team continued to build the systems and processes for future growth. If you have a boat and hate covering it, reach out to us at <https://www.worldsbestboatcover.com/>
- Our Kanbrick Community has grown to 2,000+ owners, CEOs, and executives united by a growth mindset and a desire to build better businesses. Running a business is hard, and while there are a lot of great resources for Fortune 500 companies and start-ups, there is a gap in the middle for midsize companies. We are building the Community to be the resource we wanted when we were executives. We continue to invest in building and growing this dynamic group of leaders and now offer a great combination of events, programs, and content including:
 - o Kanbrick CEO and Owner Summit – we are hosting our 3rd annual invitation only event in Omaha this May.
 - o Business Builders – we hosted our first annual Business Builder event in Nashville last fall for CEOs and leaders who wanted to spend more time working “on the business,” not just “in the business”. We will be offering this event again this fall in Nashville.
 - o Build with Kanbrick – our flagship accelerator program for midsize companies recently launched its 7th cohort and we’ve had over 35 participants to date.
 - o Content, webinars, and local meet-ups – we’re creating more opportunities to connect and learn across the Community. A few highlights include our webinars on topics ranging from Executive Hiring to How to Build a Strategy, as well as benchmarking surveys on Compensation and Family Businesses.
 - o Brick by Brick – we kicked off our monthly digest where Community members gain access to events, programs, content, templates, and more to foster a community of like-minded CEOs, owners, and leaders learning together.
 - o If you are a CEO or owner of a private company, you can learn more or apply at [Kanbrick.com/community](https://kanbrick.com/community)

In addition to the above highlights, we are energized by the countless day to day wins across Kanbrick. From finding ways to better serve customers to helping a coworker complete a challenging task, these wins highlight the quest for full potential. Great things are built brick by brick, and we are excited to keep building in 2024!

Building Together

The world doesn't need another private equity firm, but midsize companies do need a long-term partner focused on helping them fulfill their potential. Unfortunately, many of the owners we know well have had regrets after selling their companies to a strategic acquirer or a private equity firm, where the primary focus is realizing synergies (i.e., cost cuts) and maximizing short-term returns. That's why, four years ago, we founded Kanbrick.

While building a great business takes years (and lots of sweat, tears, and stress), selling it only happens once. This is why we counsel folks to hold onto their business as long as possible — counsel that often runs counter to the prevailing wisdom of Wall Street or those in the business of flipping businesses. After all, selling does not make one richer, but it will shift the form of wealth and enables accomplishing other goals, like managing succession issues, finding a partner for growth, or diversifying one's portfolio.

Auctions work great for buying used tractors, but finding a partner for a business should be more like a matchmaking approach. Our goal is to partner with 1-2 special owners and families each year who view their companies as family versus a commodity. That's why we like to build relationships with families and founders directly. We partner with leaders who care deeply about their business, their people, and the company's future success. We are proud that all of the owners we've worked with have maintained meaningful ownership stakes. Scott Morrison, the CEO at JM Test Systems, described his family's thought process as:

"Kanbrick was the clear choice given their long-term perspective, experience building businesses, and focus on partnering with family and founder-owned businesses."

It is an honor to work with exceptional founders and owners. If you or someone you know is thinking through this decision, we would welcome the opportunity to confidentially discuss the business and the right decision for you, your family, and your business. We promise to help think through different options (even if it doesn't include Kanbrick) while being responsive and maintaining confidentiality. For our part, we typically focus on high-quality companies with the following characteristics:

- Industry: Consumer, Business Services, and Manufacturing / Distribution
- Size: Greater than \$5M of pre-tax profit
- Location: Headquartered in North America

In 2024 a few focus areas include franchisors, value-added distributors, mission critical components and niche commercial services. In addition, Marine Concepts is looking for aftermarket marine acquisitions, and JM Test is seeking acquisitions in the calibration services space.

Many of our best relationships come from referrals. All we need is an email or phone introduction, and then we'll take it from there. We even have a referral program for those interested¹ – to learn more, make an introduction, or connect with us, please reach out at build@kanbrick.com.

Other Thoughts: Munger – One of a Kind

"I think that a life properly lived is just learn, learn, learn all the time." – Charlie Munger

¹ Our lawyers wanted us to note that the full terms and conditions are available upon request and defined in our Referral Agreement (e.g., company must not be in auction process or already have relationship with Kanbrick). There is no obligation to make payments under the program except pursuant to the terms and conditions of a Referral Agreement signed by a participant and Kanbrick LLC. The payment of any amounts under the Referral Agreement is subject to applicable law and the terms and conditions of this program may change at any time at Kanbrick's sole discretion. The referral program is not for licensed brokers.

Last year, the extraordinary Charlie Munger passed away. He was an exceptional person, and the world is a better place because of Charlie's wisdom and wit. We have reflected on the ways that his influence shaped us and wanted to share a few examples in honor of his extraordinary life.

Learning Machines: *"I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you."*

Get better every day is one of our core values, which is closely tied to this way of thinking. Munger highlights the value of being a learning machine and getting better each day. As a modern-day renaissance man, he has countless examples of this including building a latticework of multidisciplinary models, carefully studying the biographies of exceptional people like Benjamin Franklin, and spending the time to reflect and learn from mistakes.

Rationality: *"To the man with only a hammer, every problem looks like a nail."*

Striving for rationality is a second common theme. Munger has multiple examples of this – from clearly listing sources of cognitive bias in the Psychology of Human Misjudgment to focusing on circle of competence (and frequently saying no) to simply avoiding dumb mistakes. We believe remaining rational is key to successful investing and company building.

Thinking Long-Term: *"The big money is not in the buying and the selling, but in the waiting."*

Playing the long-term game unlocks the power of compounding. In the words of Munger, never interrupt compounding. But it does more than this, it is a different way of thinking. Long-term thinkers focus on finding win-wins, building a strong reputation, and doing things the right way vs. maximizing short-term value.

Closing

Getting better every day is one of our core values and reading plays a key role in this quest. In the words of Munger: "in my whole life, I have known no wise people who didn't read all the time — none, zero. You'd be amazed at how much Warren reads — and at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out." Which leads to our traditional closing – a few of our favorite books over the last year:

- *Poor Charlie's Almanac*
- *Unreasonable Hospitality: The Remarkable Power of Giving People More Than They Expect*
- *Outlive: The Science and Art of Longevity*

Thank you for making it this far. We are blessed to have a wonderful group of partners, teammates, community members, and of course families supporting our journey. Please send us an email at build@kanbrick.com to receive our full reading list or visit Kanbrick.com to sign up for our email list or to apply for the Kanbrick Community.

Thank you.

Best,



Brian Humphrey



Tracy Britt Cool

This letter expresses the views of the authors as of the date indicated and such views are subject to change without notice. Kanbrick LLC has no duty or obligation to update the information contained herein. Further, Kanbrick LLC makes no representation, and it should not be assumed, that past investment performance is an indication of future results.

This letter is being made available for educational purposes only and should not be used for any other purpose. The information contained herein does not constitute and should not be construed as an offering of advisory services or an offer to sell or solicitation to buy any securities or related financial instruments in any jurisdiction. Certain information contained herein concerning economic trends and performance is based on or derived from information provided by independent third-party sources. Kanbrick, LLC ("Kanbrick") believes that the sources from which such information has been obtained are reliable; however, it cannot guarantee the accuracy of such information and has not independently verified the accuracy or completeness of such information or the assumptions on which such information is based.

The information in this letter is confidential and for investors in Kanbrick Holdings only and should be shared or reproduced. If you received this message in error, please contact us and delete it.

This memorandum, including the information contained herein, may not be copied, reproduced, republished, or posted in whole or in part, in any form without the prior written consent of Kanbrick. © Kanbrick, LLC 2024