

January 25, 2024

# 2023 Annual Letter



## Wisdom Forged

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# Wisdom Forged

As I settle in to write our annual letter, I'm struck by the unique chapter each year contributes to Decada's story. Each letter serves as a time capsule filled with reflections from the previous year and our outlook ahead.

This tradition is about more than writing up summaries; it's about holding to our commitment to reflect on our hardest-earned lessons and chronicle our journey building the multi-decade life project that Adam and I have made in Decada Group

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This past year marked a shift from our initial period of rapid expansion. There were no flashy press releases or major acquisitions to announce. Instead, we chose to focus on fortifying our existing operations and strengthen our core, which was clearly reflected in our financial highlights for 2023:

- Organic Revenue Growth: 33.7% Year-on-Year
- EBITDA Growth: 297.1% Year-on-Year
- Debt Service Coverage Ratio: 5.1x
- Cumulative Return on Invested Capital (ROIC): 5.7x
- Decada Maturity Score: 40.1% increase Year-on-Year

The story of Decada Group is deeper than what our numbers can depict. They don't encompass Adam's and my initial motivations for building Decada. Our vision is anchored in building a life's work steeped in purpose and community – a journey so fulfilling that the concepts of 'exit' or 'retirement' lose their allure.

Instead of pursuing the most profitable businesses, our portfolio mirrors our passions: from our bespoke suit shop with the soul of NYC sub-planted in downtown Salt Lake City, to our art academy hosting thousands of classes that ignite creativity in our community. From a high-end construction firm, operating at the forefront of solving Utah's housing crisis through micro-housing, to our electrical contractor lighting up the Wasatch Front.

**These companies represent more than financial assets – they are integral community assets, embodying our commitment to tackle meaningful problems that matter to us, and to do it while working alongside people we admire and respect, both inside and outside the office.**

This letter delves into what underpins Decada Group. Our journey in 2023, navigating the challenging 'Death Zone' of small business, has honed key principles and imparted valuable wisdom: how to approach crucial 'Upstream Decisions', the balancing act between growth and profitability, and various lessons we crystallized that I think will resonate with entrepreneurs, team members, and fellow travelers in the realm of business and life.

As we close the year, we find ourselves inspired by the leaders who helm our companies and the founders who trusted us with their legacies. We're proud of our team, whose unwavering dedication has been a cornerstone of our success. Without them, there is no Decada.

**- Chase Murdock, CEO**

## Building In The Small Business “Death Zone”

When founding Decada Group in 2020, Adam and I immediately faced a fork in the road: given limited capital and our commitment to self-finance our journey, we could either acquire a couple businesses that were larger, more stable, and more expensive...or we could acquire several smaller businesses, where stability and size had to be built on the job.

Both paths would lead to a long-term holding company. But the choice to acquire a greater number of businesses promised more hands-on learning; more surface area. Like running multiple experiments at one time, allowing us to compound our learning – even if it carried more risk and some slogging uphill.

**So in our first two years, we acquired four businesses, growing our portfolio to five companies.**

The category of small business is inherently demanding. But the \$1-5M / year revenue range in which we acquired is a particularly full-contact sport, demanding even more. We call this the ‘Death Zone’ of small business – a precarious stage of maturity where the business is large enough to have a strong product, team, and serious expenses...but small enough that it’s exposed to risks larger businesses simply don’t have to consider.

The name is a nod to Mount Everest’s Death Zone, where each step above 26,000+ feet is a gamble against nature’s harshest elements. The margin for error vanishes in the Death Zone and the mountain claims lives with ruthless indifference.

The small business Death Zone is less extreme, but similarly perilous. Things go wrong more often here and every day can feel like an unending fight for survival. At this scale, there’s no financial cushion and there’s a notable absence of management redundancy. All around, there’s a general scarcity of HR, finance, and marketing practices.

It’s one of the reasons small business is so hard. Most businesses either die in the Death Zone or successfully grow out of it, with little in between.

Businesses in the Death Zone are not de facto bad – in fact, we seek them out, particularly those that bring vibrancy to our city. These businesses are often the neighborhood gems that make up the very fabric of our communities, led by a passionate founder and carried forward by a fire-eyed team who care deeply about the work they do.

Despite its name, we’ve come to enjoy this sweet spot. It’s where we’re able to bring the most expertise and structure that can turn these passion-led companies into more durable ones, capable of standing the test of time. They are companies that benefit from a long-term hold model. A strong operator. A honed sales and marketing strategy. The right technology.

It’s been a good strategy for us. **On average, our companies have grown over 65% in Decada’s first year of ownership.** But more importantly, choosing to acquire more smaller companies has sharpened us as operators. It’s given us more at bats, allowing us to hone our playbook and principles early in our journey.

This early decision to take the harder, more hands-on route has taught us, deeply, the attributes that make for a good business – and what makes for a bad one. It's honed our approach on leadership and what kind of leader a small business truly needs. These lessons may have left scar tissue, but they have forged wisdom.

## Upstream Decisions: From Operators to Allocators

Leadership is fundamentally about decision-making. The best leaders stand out not merely in their daily choices, but by adeptly identifying those crucial, defining decisions amidst a sea of hundreds. It's these pivotal choices that truly shape the course of a business over the long-haul.

At Decada Group, we've learned the importance of what we call 'Upstream Decisions.' These are the choices that, like a snowball rolling downhill, quietly set the tone for thousands of future actions and outcomes, influencing every aspect of our journey.

Upstream decisions are the choices of which businesses to start or acquire, the markets to venture into, the leaders to appoint, and the capital structures to implement. In these defining moments, a leader's role is to be reflective, strategic, and intentional, understanding the far-reaching consequences of their decisions.

One of the best illustrations of this principle has been selecting the right leadership for our companies. When we get it right, it's transformative. We've witnessed our leaders act not just as decision-makers, but as visionaries who inspire and ignite passion in their teams. The right leader at the helm doesn't just manage, they multiply value in the company and our role shifts to mentor and cheerleader, paving a smooth, powerful glide path for the business.

Choosing the wrong leader can have far-reaching and profound downstream effects, affecting almost every facet of our operating company. **When we identify a misalignment in a crucial upstream decision, even if off by just a few degrees, attempting downstream fixes is ineffective and costly, both in time and resources.** Instead, we've learned to act quickly and solve upstream problems at their root.

Last year, Adam and I faced a tough decision that profoundly tested our approach to upstream decision-making. We decided to part ways with our most recent addition to our portfolio, Tatton Baird. This was a difficult decision, but the right one to keep Decada Group's long-term vision intact.

Tatton Baird was more than a business transaction; it was a craft we deeply respected and admired. Despite falling outside our typical "buy box" and lacking any form of historical financials, we found common ground with the seller on a fair purchase structure that balanced our risk and gave opportunity for transition. The acquisition seemed promising: a seller ready to hand over the reins, a business in need of structure and refinement, and a potential integration with one of our existing companies.

However, as we got to know the business, it became clear it was not one we were well-equipped to help grow out of the Death Zone – our specialty. Despite its nearly decade-long history, it became apparent it was more of a nascent startup than established business, and the business either needed to stay small...or required significantly more investment of resources than both sides had anticipated.

Confronted with the choice to either continue pouring resources into correcting an upstream error downstream, or to tackle the issue at its root, we chose the latter. Continuing on the initial path would have

unfairly burdened our team, demanding extra effort to rectify a strategic misalignment, and significant capital.

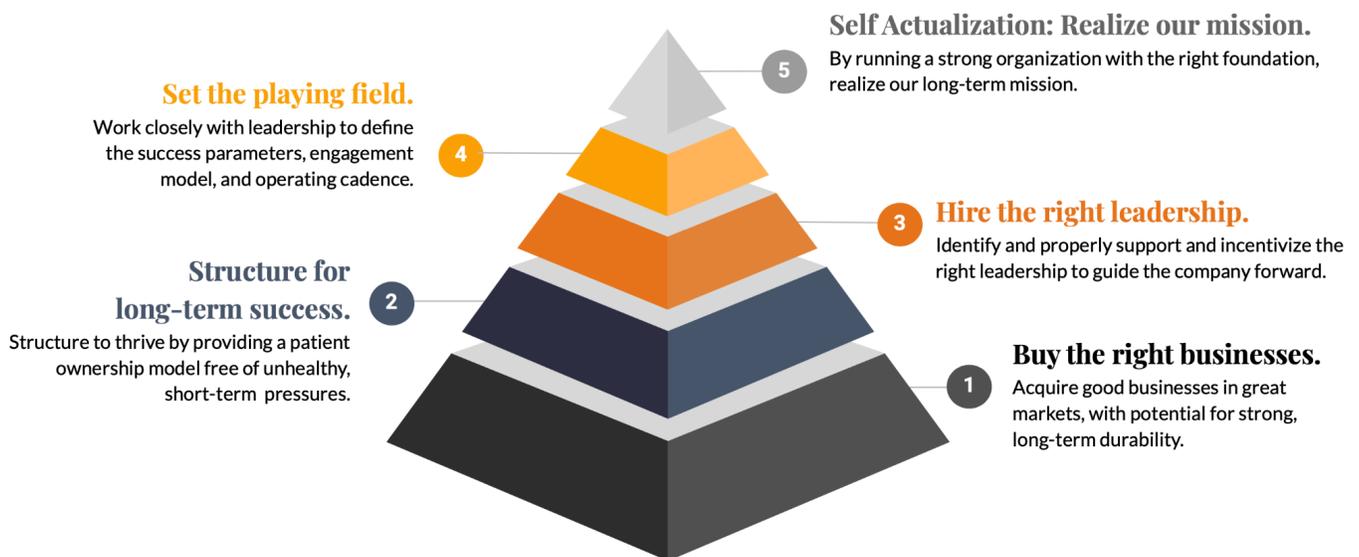
Fortunately, a fitting resolution emerged: the original founder, eager to return to his passion, proposed reacquiring the business, keeping it small and true to his lifestyle. This unexpected turn offered a graceful exit strategy that served all parties' best interests – most importantly, the business and its customers.

On one hand, this was disappointing for our team. Our mission is to be long-term owners. On the other hand, it allowed us to align with our fundamental duty at Decada – to be good stewards. And Tatton Baird's legacy was simply not ours to carry out.

This experience highlighted a more personal lesson for Adam and me. As we've built Decada, our roles have evolved from entrepreneurial operators, which demands quick action and jumping in to solve any problem, to more thoughtful capital allocators. This new role requires a more strategic and measured approach. It's a significant change for us and it echoes what we've seen across our entire team who have also had to rise to new heights as leaders, embracing expanded roles and challenges. Just as they have stepped up and grown, so must we – reflecting a collective evolution within Decada Group.

The lessons from 2023 have profoundly reshaped how we view Decada Group's role to our operating companies. Mirroring Maslow's hierarchy of needs, our fundamental responsibilities center on making key upstream decisions and enable the success of our team downstream.

Our primary responsibility is to identify and acquire the right companies. From there, it's to structure them for long-term success, and then appoint suitable leadership. With that in place, our duty is to establish effective operational frameworks. These cascading duties are a shift from a focus on the day-to-day to more strategic, long-term thinking. Mastering upstream decision-making form the foundation of our own unique version of self-actualization – realizing Decada Group's overarching mission.



# Business Alchemy: Turning Good Into Great

In a world of both good and bad businesses, we strive to transform the good into great, and the great into masterpieces. **This alchemy is the essence of Decada Group.**

The difference between good and great is stark. Great businesses do more than operate; they leave a mark. They cultivate loyal customers, attract exceptional talent, and create enduring legacies. They are more profitable and resilient, and they are exemplary employers.

**We've found greatness isn't something easily acquired. It has to be built.** This means our strategy is about finding the right fit: we seek businesses with potential to be strong, community assets and where we can leverage our strengths to unlock latent potential, ushering the business into its second chapter of success and impact.

This journey often begins with navigating the 'J-Curve', a critical phase in mergers and acquisitions where the business transitions to its new ownership. Characterized by an initial dip in earnings—forming a 'J' shape—before a gradual rise, the J-Curve period is fraught with challenges and change. It's not a phase of offense...it's one of defense, working hard to learn the business quickly and ensure the business does not slump backward under your new ownership.

This phase is a new owner's vessel for transformation. It's a test of resilience, and more than weathering a storm, it's about implementing change in the right way that steers the business towards its bright second chapter. The J-Curve can be long and arduous, often characterized by intense effort without immediate financial returns. During this 1-2 year period, most financial metrics may not just stagnate...they may decline, making it challenging to perceive progress.

We've found a profound correlation between the perception of progress and overall satisfaction, particularly during this transition phase. This concept, known as the 'progress principle,' suggests that our sense of motivation intensifies when we see concrete advancements towards our goals. But in the J-Curve, financial indicators do not often show progress. And in an industry dominated by investors and financiers, there weren't many other metrics to be found.

So we created our own, introducing the Decada Maturity Scale – a framework that quantifies the non-financial indicators that make the difference between good and great companies. It's a comprehensive measurement of our operating companies' maturity across various dimensions, from leadership to operational execution, to team and culture, and more, which allows us to track progress as we transition out of the J-Curve and advance toward enduring maturity and sustainability.

Our score is a feedback mechanism and a compass, showing us where we're strong, and where there are gaps to go work on. **Our goal is to guide our companies to maturity, characterized by seasoned CEOs, robust leadership teams, strong balance sheets, excellent operations, and comprehensive redundancy.**

For over a year, we've ranked each of our companies on the Maturity Scale quarterly, creating scores that reflect each business's current state and the progress we've made since acquisition. We entered 2023 with a portfolio average of 2.0. Our team spent 2023 in partnership with our operators working to establish maturity,

implementing systems and technology, leadership development programs, improved accounting methods, and more. We ended the year with a portfolio average of 2.8, a 40.1% increase in organizational maturity.

Our hands-on approach to building lasting maturity is more than a transactional process. It's the craft we cherish — the art of elevating good businesses to great, and great businesses to masterpieces. This transformative journey is what drives us. It's our playbook, our alchemy, and the product of our operating capabilities we've honed. And it's ultimately what translates to long-term financial success.

## Focus And the Polarity of Growth vs Profitability

The last lesson I'd like to share from 2023 is one of the power of setting a clear focus and direction for a company. Since our founding, Adam and I have set an internal theme for each calendar year. It's a drumbeat for our leadership – a memorable mantra that helps us focus on the right things each year.

In 2022, our theme was 'Revenue Rush: Accelerate or Bust'. We had made new acquisitions, had strong growth plans, and were keen to help our operators work to exit the Death Zone. We grew over 265% year-on-year in 2022. It was a fun year of rocketing through newfound heights.

As we came into 2023, and after a year of so much growth, we needed to re-balance. Adam and I retired the Revenue Rush theme for a new one: 'The Hard Pivot: Shifting Gears to Financial Sustainability.'

The message was clear: it was time to slow our growth and build a foundation of long-term financial sustainability. We achieved our growth goals, and it was time to examine the inefficiencies the growth had created. It was a time to pay down debt, and create a culture around financial discipline that could carry us forward for years to come.

This decision slowed revenue down – from 265% in 2022, to 33.7% in 2023. **But in its place, earnings skyrocketed: 2023 earnings grew 297.1% year-on-year.**

This kind of shift is not easy. Growth and profitability are usually at odds with one another. Growth requires an often-chaotic push to expand, break new ground, and a feverish commitment to try new things, whether they've been proven to work or not. Profitability demands the opposite: stability, and a diabolic commitment to staying as lean as possible, and paring back expansionist activities.

We had to change our culture, and we had to change habits – a difficult dance, but an area where Decada adds value to our operating companies. We can remind of what's most important and why, respectfully challenging old habits and thinking when it's needed. We found it was important to repeatedly, exhaustively reaffirm our new focus.

Brad Feld, an entrepreneur and investor I've long admired, popularized the 'Rule of 40' – an idea that posits that the sum of a company's growth rate and profit margin typically, in a good company, should exceed 40. Grow a company's revenue 40%+ year-on-year and you're likely to break things along the way that reduces profitability to 0% of revenue. Grow at a more stable 10% and you have a shot at higher margins.

The Rule of 40 is an imperfect heuristic and applies mainly to software companies, but it properly highlights the tension between growth and profitability. It's near impossible to pursue both equally.

Leaders must both set the vision and articulate the north star. But the job does not stop there – it must be repeated often, until it’s woven into the very identity of the company. For us, this meant re-aligning incentive structures and redesigning dashboards. We changed which metrics were displayed on monitors and what we talked about in meetings. We changed what we celebrated. Even when that meant slowing down growth.

It was counterintuitive at first, but it’s what leads to changing habits and retiring old behavior that no longer aligns with what you want in the future. In times of change, the best leaders repeat themselves until they’re blue in the face. And then repeat themselves more.

## 2023 in Review: Updates from the Portfolio

Each company has its unique narrative of triumph and challenge and we walked away from 2023 with more than just lessons learned and wisdom forged. Below are some highlights straight from our operating companies.

### Tailor Cooperative

2023 was a landmark year for our luxury custom clothier as we embraced our sartorial roots. Caitlin Andrew, a new leader from within our team stepped forward, embodying our passion for timeless style. Our flagship location buzzed with energy, crafting thousands of suits for significant life events, from weddings to career milestones.

Our clientele, eclectic and sophisticated, is the heart of our story. Notable collaborations this year included partnerships with BMW, Crumbl, and Queer Eye's Tan France, whose patronage took our creations from our Salt Lake City shop to the Emmys and Times Square billboards.



Beyond fashion, it's the relationship with our clients that defines us. Their loyalty, reflected in our high Net Promoter Scores and 5-star reviews, speaks to the trust our team has built over the years. Financially, 2023 was a year of triumph. We celebrated a 262% surge in earnings year-on-year, a testament to our team’s blend of sartorial excellence and business acumen. Tailor Cooperative is more than a brand; it's a testament to the old school art of tailoring, where every suit tells a story and every client becomes part of our journey.

## Workshop SLC

Our thriving community art school embraced another incredible year of growth in 2023. With the induction of our dedicated operator Lucia Murdock into the cap table, the art academy flourished, connecting artists and enthusiasts nurturing a passion for the arts.

Workshop SLC more than doubled its student base last year, offering a diverse array of art classes that welcomed students across many mediums...from acrylics to oils, ceramics to sketching, photography and summer camps. We deepened collaborations with the University of Utah and Salt Lake Community College, launched a new studio membership program, and rolled out a ceramics program – now representing half of our revenue in 2023.



Our commitment to the arts and to Salt Lake City reached new heights with the securing of a significant state grant, allowing us to extend our reach to underserved communities. This initiative is a testament to our belief in the power of art as a vehicle for connection and purpose.

Financially, Workshop SLC's achievements were nothing short of remarkable: year-on-year revenue growth of 108% and 110% increase in earnings. These numbers only begin to capture our love for Workshop SLC – it stands as more than an art school to us. Workshop SLC is a cornerstone of Salt Lake City and a hub for artistic expression.

## Built By Design

2023 was transformative for Built By Design, under the leadership of our CEO Jeremy Higginson. We embraced a strategic shift, moving up-market into the realm of larger, more sustainable custom homes. This year also marked our ascent as one of Utah's leading builders in the micro-housing space, specifically in constructing Accessory Dwelling Units (ADUs), a key solution to the state's housing crisis.



Our initiatives in micro-housing and ADU construction caught significant media attention, elevating our profile within the community. A comprehensive branding overhaul, including a new website and a flagship video, effectively communicated our expanded focus and enhanced our public image.

Internally, 2023 was a year of significant growth and development. We upgraded our team's capabilities, transitioning to more sophisticated accrual accounting methods and implementing several critical operational improvements. Our team intensified our commitment to sustainable building practices, focusing on building performance, sustainable material sourcing, and minimizing environmental impact.

The team's resilience and adaptability were pivotal to Built By Design's evolution beyond a mere construction firm; it has become an organization of operational execution and positive transformation in our cities. Our team is not just building structures – we're sculpting a more sustainable, liveable future, one job site at a time.

## Northern Electric

2023 was a landmark year for Northern Electric, our steadfast electrical contractor that has been illuminating the Wasatch Front for nearly three decades. We continue to experience strong growth, thanks to a growing team led by Emory Griffith and Kevin Paulsen, its expanding project base, and as a result of securing larger and more ambitious projects.

The team recently celebrated winning one of the largest projects in its 28 year history, and our group of electricians have stepped up to tackle projects from a candy factory, to a restaurant build-out, to renovating a hotel, to hundreds of residential homes receiving safe, quality power as a result of our work. Financially, the business grew earnings 32.2% and is up 55% in revenue growth.

Northern Electric goes beyond the traditional role of an electrical contractor; our team plays a crucial role in community development. Every project contributes meaningfully to the growth and well-being of the greater Salt Lake area. We take pride in being an integral part of the region's development, delivering safe and reliable power to a wide range of projects, from large-scale ventures to the fundamental necessities of daily living.

## Looking Ahead to 2024 and Beyond

2023 was a reminder of our mission at Decada Group: to craft businesses that are not only successful but also soulful, enduring, impactful, and integral to our communities.

As we step into this year, we bring with us the wisdom forged in our first three years as a holding company. These experiences were not just lessons but the very embodiment of our journey at Decada Group, where each challenge is an opportunity for growth and each success a step towards a larger vision.



Our internal theme for 2024 is Effortless Excellence – a commitment to the art of mastery...to make the intricate appear simple and the complex gracefully effortless. This pursuit is more than a goal; it's a reflection of our dedication to the craft that defines our work.

The pursuit of mastery is fulfilling precisely because it's endless. The progression our team is making is palpable and it feels like a flywheel in motion: we acquire good businesses where we believe we can be great, long-term owners. We invest in them for the long-haul to make them even better. They grow in profitability and community impact. And we reallocate those profits to buy more businesses. It's our constant pursuit in building a collection of masterpiece small businesses.

For us, this means 2024 is a continuation of work that looks mundane from afar, but is undeniably meaningful up close. Continued capacity building and developing our leaders. Continued efforts to strengthen our balance sheet so we can remain durable and opportunistic. We'll make more properly fitted suits. Host even more art classes. Build more beautiful structures. And wire more homes with safe and quality power.

**There are so many great small businesses — Decada Group is dedicated to supporting a world rich in diverse, independent businesses, fostering more 'Davids' in an increasingly 'Goliath'-dominated landscape.**

As we envision a future where we own and steward multiple strong, community asset businesses, free from the constraints of short-term interests and external capital, our commitment to long-term, sustainable growth has never been stronger. The discipline and lessons learned in 2023 are the bedrock upon which we will build a remarkable future ahead.

To our incredible leaders and team members, your dedication and resilience are the lifeblood of Decada Group. Your contributions go beyond metrics; they are the heartbeats of our communities. As we move forward, let's continue the shared purpose that unites us. Together, we are more than a collective of individuals – we are a team driving towards a common mission.

To you, our readers, may our story inspire you in your own story. Whether you are an entrepreneur, a leader, or a supporter of the small business ethos, we invite you to join us in this journey of making a difference. Let's champion the spirit of entrepreneurship and celebrate the power of small businesses together.

Here's to a future where thoughtful decisions, intentional growth, and a commitment to the craft define success. A future where we not only build businesses but also forge legacies.