

Sustainability Indicators for Family Business

KALESNIKOFF

Conscious caretakers of cherished resources

CORE BUSINESS:

Independent sawmill operator and mass timber manufacturer

INDUSTRY SECTOR:

Mass timber, lumber and forestry products

FAMILY ENTERPRISE HISTORY:

4th generation

HEADQUARTERS:

Castlegar, British Columbia

EMPLOYEES: 250



Supported by

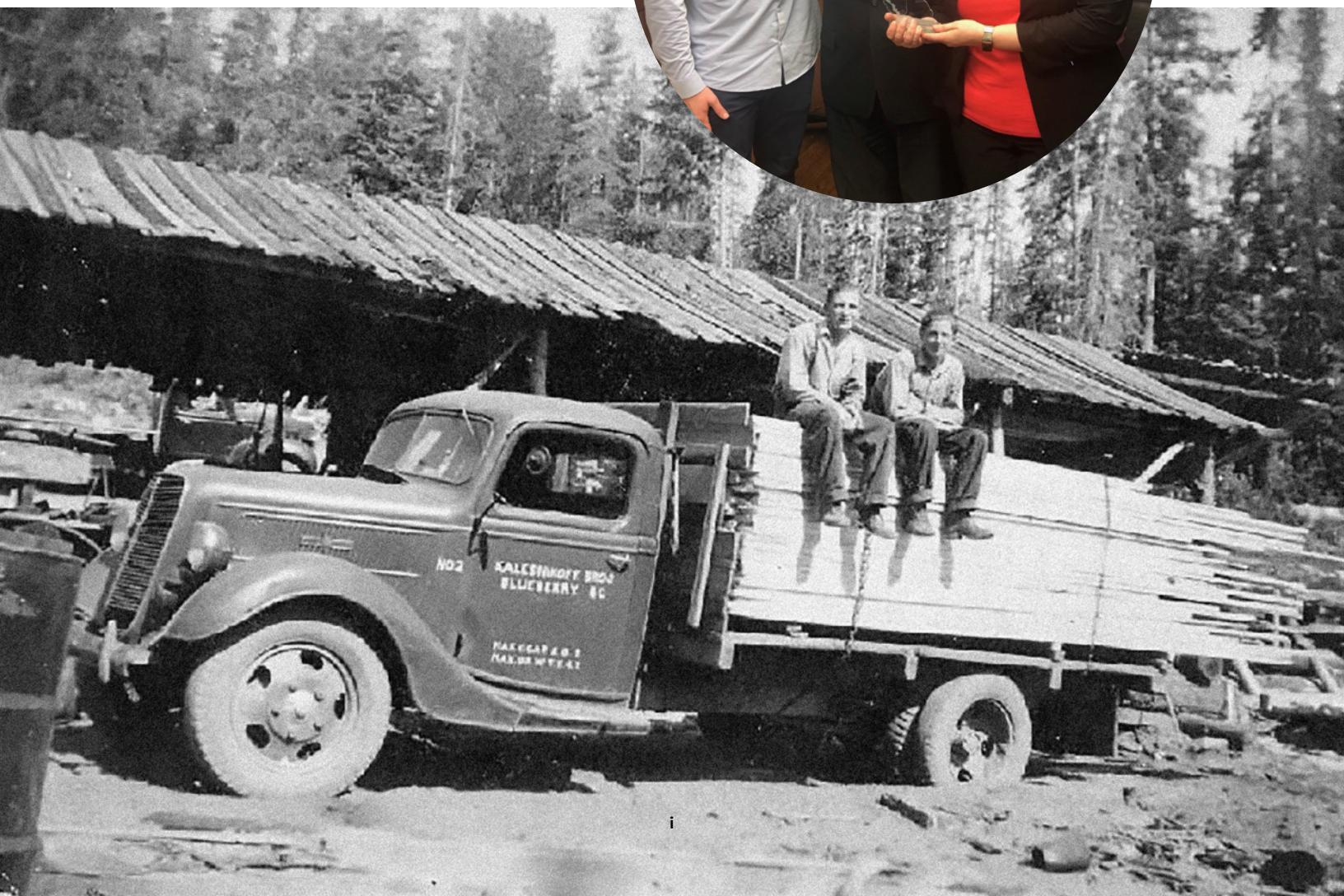


CONTENTS

- Introduction 2
- History 2
- Growth and purpose 3
- Sustainability in more ways than one 5
- Towards carbon neutrality 5
- Growth and the family impact 6



Right: Christopher, Ken and Krystle Kalesnikoff



INTRODUCTION

It could be argued that Kalesnikoff is the ultimate family business. At its core is CEO Ken Kalesnikoff, his daughter Krystle Seed and son Christopher Kalesnikoff. Each compliment one another. Ken, long-time entrepreneur, is irrepressible in his drive to lead a first-class multigenerational enterprise. Krystle is CFO and a prudent financier. Her brother Chris is COO and the strategist. The visionary threesome lives by the family credo: *Take care of the land and the land will take care of you.* This simple maxim defines their family purpose, which has driven the trio to expand from their sawmill to build Kalesnikoff into North America's most advanced, vertically-integrated, multi-species mass timber manufacturer. Yet, as an enterprise that has boldly invested in multi-million-dollar upgrades, and whose history stretches back eight decades to the wilds of British Columbia's Kootenays, Kalesnikoff has worked hard to preserve the family feel of their dynamic 250-employee enterprise. As a mass timber and sawmill business that values people, communities and prudent forest management above all, Kalesnikoff is always looking for ways to add value and secure the business for the future.

“Take care of the land and the land will take care of you.”

—Ken Kalesnikoff

HISTORY

The Kalesnikoff company history is an 80-year legacy, though its story stretches back to 1922 when Koozma Kalesnikoff and his brothers Sam and Peter settled in Canada. By the 1930s, Koozma envisioned a more rewarding future for his family and applied for timber rights in China Creek, 16 km south of Castlegar, British Columbia. They began to build what would become Kalesnikoff Lumber Co. Ltd. For eight months, using axes, horses and cross-cut saws, the brothers cleared their first logging road, and by 1940 built a sawmill. Operating within Koozma's maxim, they modernized their operations whenever they could and dedicated themselves to preserving the natural landscape.

The brothers eventually established their operation in Thrums, where the Kalesnikoff sawmill stands today. They saw their business as a legacy for future generations. At just 14 years old, Peter's son, Pete Jr., joined the business and became a driving force to grow the company. He became head sawyer at 18 and company bookkeeper at 20 before going on to lead the business. The emphasis on family management continued at Kalesnikoff when Pete's son, Ken, joined the team. Pete Jr. died in 2006, but Ken, expertly mentored by his father, took the helm. The Kalesnikoff tradition that employees should earn their way into management through hard work and experience lives on in the fourth generation of the family now making its mark on the company legacy.

WHY THE KALESNIKOFF FAMILY SUCCEEDS

Alignment: Strategic planning sessions are as crucial as achieving family alignment.

Purpose: If family goals do not align, a project is unlikely to move forward.

Sustainability: Decisions are made through the lens of long-term sustainability.

Longevity: The family's business view is 100 years out.

Patience: Kalesnikoff has “no interest in taking short cuts” to financial success.

Compassion: “People will carry you up a mountain if you treat them well.”

GROWTH AND PURPOSE

Recognizing the need to move forward, Kalesnikoff initiated a program of major technological reinvestments. In 2012, the company poured \$20 million into a mill upgrade. It was a necessary investment as Kalesnikoff had been using old technology. “In this industry, if you’re standing still, you’re falling behind,” Ken reasons. Indeed, the company’s legacy equipment was extracting 85% of value per processed log. “The new equipment got us to 100% and we’re already looking at what our next move is because this equipment is ten years old and there’s already better equipment out there.”

In 2015, Kalesnikoff upgraded a planer line at a cost of \$8 million. The outlay came at a time when timber markets were flagging, yet Kalesnikoff was committed to reinvesting in its business to drive efficiencies, increase worker safety and, crucially, enhance its longevity.

The 75 million FBM¹ sawmill is one of the cleanest, speciality mills in BC. Equipped with five premium steam injection dry kilns, Kalesnikoff has mastery over the tight drying specifications needed in mass timber production, while its high-tech planer mills can create proprietary grades that offer impressive production advantages.

To keep growing, Kalesnikoff had to align its long-term family vision and square that with the realities of fiercely competitive markets. Like an effective line of hockey forwards, the Kalesnikoff trio went on the offensive. COO Christopher spent weeks in Europe visiting equipment manufacturers and researching ways to consolidate Kalesnikoff’s position as a niche product manufacturer capable of squeezing higher margins out of smarter technology.

As a result, Kalesnikoff built North America’s most advanced, vertically-integrated, multi-species mass timber facility: a 10,200 square metre plant that uses AI-enhanced scanning technology to produce cross-laminated timber panels, glue-laminated (glulam)² timber panels and glulam beams. Whether for single-family homes or corporate headquarters, Kalesnikoff is meeting demand from architects to engineers seeking superior custom timber products to create sustainable, safe and stunning energy-efficient architecture.

For primary timber breakdowns (sawmilling, drying and planing) North America has attractive equipment options but, as Ken explains, Europe has a 25-year head start when it comes to mass timber production. “Kalesnikoff is like a boutique grocery store competing against a Costco,” he says. “The only way we’re going to compete is if we bring different products, better service, strong client relationships and environment-friendly ethics.”

Aging technology functions well enough but it carries risks – safety, financial and otherwise. It is why Kalesnikoff naturally embraces *Kaizen*. For example, Kalesnikoff’s mass timber production lines are highly automated. Wood travels through the facility on a conveyor system and is processed automatically along the way. Glue is applied as boards are stacked and pressed at multiple points. “All of the technology we’ve installed has given us a huge competitive advantage,” says Ken, who describes his



“The only way we’re going to compete is if we bring different products, better service, strong client relationships and environment-friendly ethics.”

—Ken Kalesnikoff

¹ Foot board measure or board foot is a unit of measurement for the volume of lumber. It equals the volume of a one-foot (305 mm) length of a board, one foot wide and one inch (25.4 mm) thick.

² Glulam is a type of structural engineered wood product constituted by layers of dimensional lumber bonded together with durable adhesives. The material providing the laminations is called lamstock.

management style as inclusive. Explaining why he felt strongly about moving the company forward, he constantly sought input from Christopher and Krystle. “As a family, we decided that we needed to upgrade or ultimately we would we be at risk.”

When Kalesnikoff expanded, Christopher ran the project. As for Krystle, there was intense pressure on her to ensure the business case was airtight to secure bank financing. Altogether, about five years of research went into Kalesnikoff’s \$36 million decision to expand into mass timber. “Krystle took on a key role to create a business plan in something we had no experience with,” Ken relates. “Today, she would have no issues, but back then it was a tall order.” In other words, it was baptism by fire. “That is kind of a theme in our family because that is how I learned.”

Indeed, Ken has acquired enviable knowledge over his 63 years. One piece of wisdom is his deepened understanding of his own appetite for risk and how to tap it with the prudence and vision of key family members. “If you are too conservative and you don’t want to take any risks, or you don’t want to borrow money to grow your business, it comes back to the analogy that if you’re standing still, you’re falling behind.”



WHY MASS TIMBER MATTERS

- **Sustainable.** Renewable mass timber can reduce a building’s carbon footprint.
- **Measurable.** Mass timber production is 75% more efficient than traditional builds and reduces costs and labour.
- **Designable.** Mass timber is flexible and precise to 1/16th of an inch, offering aesthetic and biophilic advantages.
- **Stable.** Mass timber reduces building foundation size and inertial seismic forces.

“If you’re standing still, you’re falling behind.”
—Ken Kalesnikoff

SUSTAINABILITY IN MORE WAYS THAN ONE

Moving forward meant investing in greener tech. Kalesnikoff's sawmill is among the cleanest, well-run speciality mills in BC. The sawmill and world-class mass timber facility – which allow the company to add value and offer renewable building materials – are key pieces in the company's approach to sustainability. In its commitment to ensure renewable resources flourish, Kalesnikoff has practised conscientious forest stewardship since 1939 and has struck a balanced approach to environmental, social and economic values.

Kalesnikoff consults Indigenous peoples and local communities when planning timber harvesting projects. The company is deeply environment-conscious and focused on "doing the right thing," a fixation Ken attributes to the family credo and considers more important than making a buck. The family's vision of the future is simple: make it sustainable. Why? "So we have timber for our children and our grandchildren, and continue the business in perpetuity." Will that happen? "I can't control the next-generation," he says. "All I can do is set the stage for what we have today."

The family's vision of the future is simple: make it sustainable.



TAKING CARE OF THE LAND

Reforestation milestones in 2021

- **445,135** seedlings planted
- **360** hectares of forest planted

TOWARDS CARBON NEUTRALITY

Having led a carbon footprint-friendly project, next gen Chris is already thinking forward. Kalesnikoff has moved to cogeneration (cogen) to heat its mass timber facility in Castlegar. Also known as combined heat and power or recycled energy, cogen is the simultaneous production of two or more forms of energy from a single fuel source. The technology's deployment has resulted in higher energy costs, but Kalesnikoff justifies its decision as another instance of "doing the right thing." Although the company has no immediate plans to report on its efforts in this area, Ken agrees that more enterprises could benefit from documenting their sustainability efforts.

GOOD GOVERNANCE

Kalesnikoff has come far in 80 years. So much so that robust governance mechanisms have rapidly topped its priorities list. A family council, a shareholders' agreement, an advisory board – all are presently the subject of intense discussions with a family enterprise advisor to help set policies. "You can fly by the seat of your pants only to a certain point," Ken reasons. At 250 employees, Kalesnikoff is a far cry from its smaller self of yore. "It's not as easy to manage the way it was when we had 100 employees." The CEO concedes his immediate family is "not perfect" and has its challenges, but they are taking a lucid and enthusiastic approach to better governance. "Although Chris and Krystle align on many things, they still have different ideas and we have to figure out how their visions come together so we're a successful company going forward." Prudently, Kalesnikoff is tackling succession planning head on. "We're setting up the next generation for success. I am not closing my eyes and saying: 'Well I am 63 now, so you guys figure it out.'"

GROWTH AND THE FAMILY IMPACT

Kalesnikoff added about 100 workers in 2020, in conjunction with opening the mass timber facility, swelling its ranks to 250 and putting the company squarely in the medium-sized business category. Has the Kalesnikoff "family-ness" worn off? "The thing I tell my children is 'we cannot lose our family feel,'" Ken insists. Beyond that, as senior leader, his goal is to leave his successors with a business that upholds its reputation for fairness, respect to employees, the environment and as a good corporate citizen. "We tend to be humble. I do not want to be put up on a pedestal, but I also want people – when the Kalesnikoff name comes up – to have a positive reaction to it." That takes vision, purpose and persistence. "You must work hard to have people come along and understand the culture that you've built." For Kalesnikoff, so far so good.

"The thing I tell my children is 'we cannot lose our family feel'"
–Ken Kalesnikoff

