Jake 00:16
Thank you, Brent for coming on the show today, I appreciate you taking the time you are the founder and CEO of permanent equity, where you invest with no intention of selling and family held companies in North America. You've been sort of in this space of acquiring and operating small and medium sized businesses for at least 15 years now and seem to be sort of emerging as one of the leading voices in the space. All the people I follow on Twitter and listen to on podcast are always referring to Brent, be sure so great to finally have you on the podcast today. And looking forward to diving in. Yeah,

Brent Beshore 00:50
thanks. I appreciate you having me on.

Jake 00:52
So I think an interesting place to start, I learned that you studied poverty in college at Washington and Lee. And I'm curious, somewhat ironically, you know, what did studying the poor teach you about how to get rich?

Brent Beshore 01:08
Boy, that's a great question. No one's ever asked me that before. Let's see, I started in that program, honestly, because of a man who became a mentor to me, named Harland Beckley who's just an just incredible human, I got done with my major early and, you know, I grew up kind of middle ish class, upper middle class, kind of, depending on the year in Joplin, Missouri. And it was always an interesting topic for me is, is, you know, human capability, I would say, instead of being it was a study of poverty, but it was really what makes people tick, what gives them opportunity and how opportunity distributed, both within the United States as well as worldwide. So it was really an education, being able to study the different types of deprivation of human capability and kind of what opportunities were, were available to people and we say, you know, Appalachia, who studied inner city, Baltimore, studied inner city, LA, to poverty, the Deep South, all these areas are very different from one another. And I think that kind of in the line of work that that we're involved in, I mean, we have companies across the country that we're invested in, and, you know, constantly meeting people in very different

geographies. And I think that just the nuance of what people face. I mean, broadly, all human challenges are all relatively the same, but the nuance of them is certainly more important. I think, as a result, at least I understand more than nuances relative studying that, but it's really given me a heart. I mean, I always had a heart for people with less and, you know, now it's a primary activity for my wife and I, as to how can we help people have more opportunity, and it's really a passion passion for us these days.

Jake 03:07
Right. And so maybe we can talk about actually going even further back a little bit, some of your earliest experiences and sort of your development growing up. I understand that your grandparents were pretty, pretty significant, sort of in your life growing up. I'm curious if there's anything in particular that you would highlight that sort of you learned from them or principles that they sort of instilled in you very early on?

Brent Beshore 03:31
Yeah. Yeah, my I'm smiling. My grandmother kind of helped helped raise me in some ways. We used to call it camp Nana. And she was a product of two French immigrants. She was a farm girl like real deal farm girl, and very laissez faire. And so she would basically let us do whatever we wanted. She had. Let's see that 17 acres 18 acres in Carthage, Missouri. And we would blow stuff up and and drive tractors and fish and shoot thing. I mean, it was just it was it was like every little boy's dream come true. And anyway, so yeah, I mean, I learned a love of the outdoors, I learned a lot of responsibility probably earlier than my parents would have wanted me to. I remember at one point, my, my grandmother was like, Hey, if you if you tell your parents what we're doing here, like game's up, so you better better keep your mouth shut. And so we were in on it from an early age and we just had we had such a wonderful time.

Jake 04:36
Is there anything else about sort of your experience growing up in Missouri that sticks out as being sort of critical to your development as a person as a businessman, as an entrepreneur, obviously, just being, you know, born and raised in Missouri alone is a bit of a

differentiator and probably the world that you're operating in now and you know, the one that I'm operating in, you see a lot of people from sort of like major cities or northeast or whatever it might be California, and you've done sort of everything that you've done sticking to the roots. And, you know, not not forgetting where you come from. I'm curious sort of if there was any particular dynamics that you would sort of give credit to.

Brent Beshore 05:17
Yeah, I mean, I think it was growing up in Joplin like it, I was able to straddle two worlds my my dad was in, in politics, my grandfather was a business person. You know, my grandmother, like I said, was a farm girl. So I got to see a lot of different facets of life. And I think, you know, one of the things that requires is required for the job that I do is to be able to play up and play down depending on what the situation is, I mean, we'll go and eat it at Chili's in the middle of Ohio. And then we'll have a Michelin starred meal with the seller in New York. And some of our companies that were involved in have more of the finer tastes in life and some of the people just love a good steak and potatoes dinner. So I mean, it's kind of be able to play up little play down, get, you know, I think that instilled in me a curiosity about everyone and and I still hold that today. I really love the diversity of people I get to spend time with and the different interests that they have and who they are. spliced.

Jake 06:19
Yeah, I think that's a pretty invaluable skill to be able to, like, play up and play down, like you mentioned, and just people, you know, some of the people who I really admire, you hear people talk about them. And like, it doesn't matter if this person is like a hotshot CEO, or, you know, someone who like worked at their house for several years, or something like this. And they just all have sort of the same things to say about the person's character. And I think that just says, a ton about people. So it's like a great thing to sort of, I feel like it's something that, you know, it's pretty hard to develop maybe later in life, it's sort of requirements of, you know, the way you're raised and maybe who you are, and things like that. Fast forwarding a bit to, you know, your start in the business world. You were so you're at Washington, like I mentioned, and then started, you

know, wanted to get a MBA and a JD, sort of combining, you know, the business expertise and the law, and realized, like, you wanted to get your hands dirty, right. And so it's time to start a business. And I'm not sure exactly like the origin story for your first business. But I know it wasn't necessarily a business that you'd be excited to start today. So I'm curious, like, what did that sort of like reflecting back on that? Right, like, it wasn't the best business in the world by any stretch. But it was the first step on this journey, which has been, you know, incredibly fruitful for you. So I'm curious, like, if you reflect on that, you know, would you have done things differently? Are you sort of glad, the way things worked out? Because starting that business sort of led to the next thing, what's the next thing led to where you are today?

Brent Beshore 07:55
Yeah, I mean, my whole career and my whole life, many ways, it feels very emergent. Like I everything I've planned to do, hasn't worked out very well. And everything that's kind of happened. I'm at joke. Before that I'm feel like the Forrest Gump of private equity. Things just kind of happened to me. And so, you know, starting that business, it was event marketing business led into starting in an agency, which led him to starting a software development firm and a research firm and a film company that led into accidentally buying a military recruiting firm that we still own today. And that sparked then this interest and fascination with the acquisitions, like small business acquisitions world. So it has been, it has been very circuitous is definitely not a straight line. And I mean, look, I wouldn't I mean, I wouldn't change it for anything. I, I've made a lot of mistakes. And, but I think that, like wisdom, you can only learn through experience, you can read about a lot of stuff in books, and until you until you've collided with the world and put it to use it's really hard to really absorb it. And so, yeah, I mean, it's been a lot of experiences have led me to where we are today. And I'm not sure where we're even where we're going. I mean, people ask me, it's like, what's the plan? I'm like, I don't we don't have a plan. I mean, we're always planning but we never had a plan. If you'd asked me five years ago, we would be I wouldn't have said here. And if you'd asked me 10 years ago, I certainly wouldn't have said here. And when I was getting going, I was just trying to make it dropped out a lot. And BA is not something that was

probably a good probabilistic decision. But it it worked out God's providence.

Jake 09:36
Yeah, it's a it's a very interesting answer, I think because it's a lot of overlap with sort of the way I think about the world. There's a lot of people out there with, you know, five year plans, 10 year plans, etc, and just sort of executing away on these things. And on the one hand, like, you know, everyone teach their own and I think people who want to operate that way, a lot of times like it works out very well for them. So I'm not sort of prescribing something that's like right or wrong, necessarily, but I personally definitely tend towards sort of the side that you've described of not making those longer term plans, being aware that it's probably not going to work out like exactly the way you have it drawn up. And if it is, maybe there was even some better opportunity that came along along the way that you sort of ignored because you were so laser focused on sort of this 10 year mission that maybe five years in, you wouldn't even sort of choose anymore, because you're not the same person, you were sort of when you started. And I understand sort of this carries over to the way that, you know, not only that you live your life, but the way that you operate, these businesses that you acquire were, you know, there was some quote on the website about, you know, not making plans, but you know, or not not setting goals, rather, but sort of focusing on process is that generally sort of the way you think about business, not really making even a five year model or something like this, but rather focusing on processes taking things sort of, ironically, very short term time windows with a very long term view on on, you know, making the business successful.

Brent Beshore 11:13
Yeah, I mean, I think there's a concept that I think more formally, in math, it's called Bayesian updating, right, which is you're, you're constantly taking new information, and you're working it into your thinking, and you're not locking yourself down on a path, when you have information that maybe would change the direction of the speed that you're going. I think that's just been one of the things very intuitive from an early sort of early in business to me, and certainly is permutated through the organization, is just let's do what we can

and do the best for the people in the organization based on the information we have. And based on what's available to us. And let's not make problems more than they are let's not meet problems halfway. Let's wait for things to get to us. And it's funny, when I was younger, I used to always be like, Okay, there's some storm clouds on the horizon, I better, you know, redouble my efforts now to avoid the storm that's coming in. And a lot of the storms just never show up. And then the storms that kicked you out, you know, out of left field are the ones you really have to deal with. And so yeah, I mean, I would say is the way we think about things is just always be updating our information, keep, you know, we put a high premium on optionality. And but that doesn't mean that'd be careful with high. So that doesn't mean we don't commit, like we want to be high commitment. And once we commit, we want to be faithful to that commitment. But we also want to be as have as much optionality as we possibly can, within the context of those commitments, just to be able to tack wherever the wind takes us. We're never sure kind of what's coming down the pipe.

Jake 12:47
Yeah, so it sounds like sort of very strong, but very few commitments, and everything else, sort of optimizing for optionality as you go and being able to adjust, like you said, maybe sort of taking a step back for a second, for those who aren't so familiar with you, or with permanent equity from, you know, other podcasts or reading up on you online. Can you just briefly introduce sort of the history and status of permanent equity today, and then we'll dive into some of the details?

Brent Beshore 13:17
Yeah, yeah, permanent equity. We started in 2007. And the Genesis was started in 2007. We were always evolving. And it's kind of of like a molting periods that we've gone through as an organization, but initially started a business then bought a business and created an organization to choir and operate more businesses. And so it was my own capital to start I got an SBA loan and did well with that first acquisition and start rolling cash flows into more acquisitions. And we, as we joked around, we went pro in 2017, by taking on $50 million of outside capital to continue to buy and operate businesses. And then we took on $300 million in 2019. To continue to do the same work, and

we're operating out of that fund today. So we've got 15 companies literally operating from coast to coast. We've got about 20 people here at the quote unquote, home office here in Columbia, Missouri. And yeah, our model is a little bit different. So we're focused on adolescent family owned businesses. So these are too big to be small, too small to be big. These are, you know, typically founder owned and founder led when we're acquiring them, we're buying a majority stake in all the companies and then hopefully having meaningful percentage of the equity owned though by the leadership the company and try to keep things really simple. We typically use don't don't use debt in our transactions, we like to hold indefinitely. We have a 30 year initial lockup on our capital. So I think it's the longest dated private equity fund in history. And we have a very unusual fee model. So we take no fees of any kind from our investors or portfolio companies. And we only get paid when we return cash back. So it's a very entrepreneurial structure very different than traditional private equity in almost every way, we try to treat people really well, long term and win together. So think a lot about stakeholder groups and having them be Win Win across the board. So a lot of people think about in a transaction is just a buyer and a seller. It couldn't be further from the truth. I mean, certainly a buyer and a seller, but you've got a leadership team that may be different than the seller, you have this sort of more normal employee base. It's down sort of the pyramid, you've got communities that you're in, you've got suppliers, and you've got customers and maybe even regulators. And so in order to be sustainable, all those people have to win long term. And so we're trying to set the table correctly, so that we're operating well, long term with everyone winning and winning together.

Jake 15:57
Yeah, it's a very interesting model that you guys have and very novel, and like you said, you know, it seems like, at least as far as you and I have found, it's the longest sort of term for a fund that maybe has ever been created. So maybe a bit of a two part question here. But that structure, I believe, sort of came with accepting your first outside capital, which was like when you you know, quote, unquote, went pro, as you said, in 2017. And I think that was a result of meeting Patrick O'Shaughnessy, and sort of the subsequent meetings there. So I'm curious, on the one hand, what, you know, you'd been

doing this for, I guess, about a decade at that point already. What made you and convinced you that it was actually time to take outside capital for the first time? And then separately from that are somewhat related? What gave you the conviction to go for this funding model that had never been done before?

Brent Beshore 16:58
Yeah, well, maybe I'll answer the second question. First. I didn't feel like I had a choice. I didn't want to use a bunch of debt or transactions. And I want to hold long term. And when you look at a traditional private equity model, it's affectionately known as two and 20, and a 10 year fund life, which means you take 2% of the assets every year in fees. After you pay back the fees and all the money you've drawn down, you get 20% of the upside on the deal. And you have to buy and sell and return the capital within a 10 year period. So functionally, what that does for private equity firms, if you think about it, like you raise a fund in starting year one, you're probably going to deploy the capital over a three, maybe four year period. And then you know, it takes a while to sell these companies. And to play it safe. I mean, it means you probably are going to own a company no longer than at most five years, probably closer to two or three years. Ideally, I just don't, I've just never thought that that's a good way to run a company, you're also going to lever him up with a bunch of debt adds a lot of stress. I mean, these are, I joke that all businesses are loosely functioning disasters, and some happened to make money. The smaller the business, I mean, the more loosely functioning it is on average. And so you add, you know, a lot of operational stress and strain. And then you add on top of that, a level of financial difficulty that just comes with having a bunch of debt. And then having a quick turnaround and time horizon, there's no good way to make long term decisions with short term capital. So for me, I just didn't feel like we had a choice. I, in fact, the first conversation I had with Patrick, I'll never forget it. He was like, hey, I want to, you know, I think my family should invest with you. And I say, I'm sorry, but there's no opportunity for that. And that was the thing that he asked me the question he asked me that really changed my life was will tell me what would work. And I said, Well, it'd have to be something, I think unique, if not highly unusual, I've never seen in another investment fund out there be able to do what I

want to do. And so I'd rather just compound, you know, a small amount of my own capital rather than take outside capital and change who we are. And so he said, Well, just make me an offer. And I'll say, I'll tell you if we can do it or not. And, sure enough, I whiteboard it out presented to him and his father, and they said, Let's do it. Sounds great. And I said, Well, okay, now what they were like, well, we know a bunch of rich people. Let me help you. Great. That sounds awesome. So I mean, that's how, you know, a kid out of Columbia, Missouri can end up you know, building a private equity firm. It's so weird. It's a weird life.

Jake 19:34
So outside of the logistics of, you know, having this new fund structure and investing outside capital, not a lot, you know, there's a lot that didn't change about sort of your strategy. What did change?

Brent Beshore 19:48
Yeah, I mean, it gave us the capability of doing larger deals. I mean, look, when you start with relatively little capital, you know, generated out an SBA loan and a Um, you know, sort of retained earnings, you pay a lot in taxes, and, you know, we're all pass through entity. So we're paying taxes on an annual basis. And, you know, changes in working capital matter. And there's a lot of, you know, cash needs for buffering and the businesses, so there's just not a lot of cash. And it takes a long time to compound like really, really, really compound where there's a lot of cash flow. So I mean, for, for me, it was the ability to not have to sort of scrap and claw to put together the cash to make a deal happen was was such a relief, it was a it was a really beautiful thing, and then being able to pair my capital up with other people's capital to get in deals that we could do no other way. And so I mean, look like it would have been, if we had continued to compound with the way we were back in 2015 1617. Before raising the fund, it probably would have been 20 years before I could write up 30 or $40 million check. And so I looked at my life, and I'm like, okay, at the time, I was 35. And it's like are 34. And I was like, you know, do I want to be in my mid 50s, before I can do some things that I think are right in front of me now? Or would I rather take on outside capital? And is it possible that it's actually better for me to do so. And another motivation for my wife and I was

that we have an interest in helping people who have less and every dollar that we were to donate to get involved in something not for profits that we're really passionate about, because $1 less to invest in the companies. And so there's a real tension between our personal interests and the business interests. And I felt that conflict on a daily basis, it was harder, harder and harder to ignore it. And so, I mean, really raising outside capital was such a godsend it was, it's been wonderful, the the, the investors we have are, I think, the highest quality investors in the world. I mean, when you when you tell people play on never getting your capital back, it really does winnow down the type of people that you're gonna get involved in, and just some really just amazing families and endowments now that are our LPs, and just resoundingly just amazing people. So we've had a great experience, it's been a, it's been a heck of a ride, but it's been a wonderful ride.

Jake 22:19
So speaking of never getting your capital back, obviously, there is hopes from these investors that some capital does come back to them. At some point, you guys charge very interesting fee model, though, where they're not paying management fees every year. So you know, in exchange for their patients, they're not basically paying an annual fee. They're just paying, you know, carry basically, for you deploying the funds and doing everything that you do more than deploying, obviously operating and everything like that. So how does the actual flow of funds work? Where, you know, how do you make money to pay your team? How do the LPS make money? over what time horizon? You know, what were their expectations? And how have you sort of operated just in these first handful of years since raising that first outside capital?

Brent Beshore 23:08
Yeah, well, we pay people in rainbows, which we find is really helpful in, in cash flow. So we were able to, I'm just kidding. We know,

Jake 23:16
we was like, What is rainbows? It's some technology.

Brent Beshore 23:19

Yeah, no, no, no, just just yeah, in promises, you're gonna wanna keep that one. That's a big IOU. No, we. So the businesses that I own prior to raising the first fund, fund the team, so I, I read a check for 100% of the overhead of the firm every year. And we typically keep about three years of operating cash on hand at all times. So we're really well funded, debt free, we're able to withstand a lot. So we can, we can not make any distributions for quite a while, and still be fine. Now, the nice thing is about the businesses that we acquire, typically, they're pretty cash generative, and they're fairly asset light. So what that means is, there's a lot of discretionary cash flow that comes off these companies, and we have the ability to pick and choose do we reinvest it back into the company, that's always our preference, if we can find high probability, high return opportunities to reinvest it, we'd be idiots not to, that's the best thing ever, especially if you can do it pre tax. If there's not great opportunities to reinvest it, we'd be idiots to keep it in the company. So it makes the math pretty easy. And so when we return cash back to the investors, they get the first percentage, and then we get to catch up and then we split the cash flows. And so we don't publicly disclose exactly what those cash flow splits are. But, you know, we get paid about what traditional private equity gets paid in a very different form and a very different risk profile. If we perform like traditional private equity, and we get paid a lot less and if not, we work for free, if we do poorly, and so it's just it's a very entrepreneurial structure that we put together and we love it. Our investors love it. I mean, I just, you know, ethically, I just, I couldn't ever get to the point where I'd be okay with us making money and our investors not making more. And so it, you know, we treat them truly as partners. And that's who they are. And that's what they mean to us.

Jake 25:11
So a couple questions coming off of that first one, it's not so obvious, you said sort of, you know, in some cases, we'd be idiots not to reinvest this capital that the companies are generating on the other side, you know, we'd be idiots to not take it out, if there's no obvious place to reinvest it. I imagine there's a lot of situations situations where it's sort of a gray area. So I'm curious, how do you sort of determine, you know, does it depend on sort of how long the

company has existed? Like, what are some variables that you sort of think about and analyze on a year in year out basis to determine sort of what that split might be of reinvesting in the business versus, you know, making the distributions? And I guess, let's start there. I'll save the other question for after.

Brent Beshore 25:56
Yeah, well, so this maybe actually isn't as difficult as you might think it would be we've got a just sort of running list. And every one of the companies have projects, and we asked the leadership team to handicap like, hey, what do you think the odds of success are going to be? What does success look like kind of a high, medium, and low, will do kind of a blended average. And, I mean, that's our expected return, right. So if you've got an 85% chance of making between 50% and 100%, cash on cash IRR, that's a pretty good chance that you're going to you're going to do well, that's a project that we probably should invest in. So if we've got projects like that out there, like I said, we'd be idiots not to not to do that, you know, we've got a lot of other projects that will stress test and say, well, this new piece of equipment, it'd be really nice, we could eliminate, you know, three positions, and we're like, well, first of all, we want to eliminate those three positions depends on the situation, and then to, when you actually do the rate of return analysis on it, you know, it's like a, you know, maybe a high 90s, you know, close to 100% chance, but we're only going to make like 12%, or 11% rate rate of return on that. And it's like, Well, look, we've got higher opportunity costs elsewhere. So that makes it really easy to kind of set the bar, you know, there are going to be things that don't work out. And there's going to be situations where they outperform dramatically. I mean, you know, we we always say points for accuracy. That's what we're looking for in terms of these, you know, these predictions. And so over time, you can see how leadership teams will accurately or not predict the outcomes, and some leadership teams just sort of by disposition, will be overly optimistic. And so maybe when we get stuff back from them, we discounted a little bit. And other leadership teams are going to be just sort of naturally more skeptical and pessimistic. And so we'll get stuff back from them and say, maybe it maybe turns out a little bit better than that. So it's really just getting to know the people

and process. And, again, that's the nuance that comes through running these companies and building relationships over time.

Jake 27:57
Yeah, that makes sense. Not to dig sort of too deep into this topic, because it's, it's like a pretty specific rabbit hole to go down. But I'm curious, you know, how do you deal with less calculable, like, on the one hand, there's, you know, the leadership team may be more or less optimistic. And that may be a trend, and you may sort of learn, okay, well discount the projections of this team. And, you know, this team is actually so humble and, you know, conservative with their projections, we need to sort of expect more versus what they show us. But on a project to project basis or initiative initiative basis. I feel like predictability, in some sense, is maybe correlated with closeness to the business, like, is it something that's very adjacent to what they're already doing? Or is it something further afield that is just more difficult to predict? And so I guess, an example here, and maybe the answer here is just that this is, you know, nothing like a tech, a traditional, you know, high growth tech company. And so they operate sort of very differently. But the example I use is Amazon, sort of a company that I've studied quite a lot. And in the early days, they would run meetings on new initiatives, very similarly to how you've described. And when they went in with like, the AWS pitch for Amazon Web Services, I think they didn't, there was some story that I think they didn't include, like, the projections in the sort of six page document on the project. And then someone was like, you know, this is a mistake, like, there's no projections here. And they're like, honestly, this is just too different from what we're doing right now. Like, we just can't even, you know, anything we showed you basically would be a gas and they did do a model and it was a gas and probably super conservative versus how AWS ended up doing. But does this sort of structure of evaluating, you know, investments in the business, lend itself at all towards businesses, keeping it a little bit closer to the existing business? And you know if so, is that just a preference of the types of businesses you'd like to operate with? or is there also room for making these like riskier, much more difficult to calculate things where you sort of just be, you know, kind of pretending if you actually venture to guess sort of what this would look like in the future?

Brent Beshore 30:14
Yeah, it's a great question. I mean, I would say, you know, we, we love our companies to innovate and to create new opportunities. What we found is that it they're usually the best ones are adjacent. And I would, I would argue that, I mean, maybe this is in hindsight, but like, the way Amazon went about doing AWS, I mean, they built it for themselves to start, because they needed it. And then they, you know, they use the the model of them flipping it to the outside and really stress testing into the market. I mean, we've done similar things in our companies, too. It's like you build a capability that you feel like is necessary for for the company itself, and then you knew see if the market can bear it. Right. That feels that feels pretty good. I mean, in terms of, you know, the calculus on that specific project? I think they probably did. My guess is very quickly beyond that first meeting, they probably did quite a bit of cost benefit analysis and and put more financial legs around the around the idea, I can't imagine they would invest billions and billions and billions of dollars without some rough idea of at least contribution margin or something like that. I mean, you could tell pretty early on it the size that Amazon could come at it from and the discounts they could get with the bulk ordering and all those things that it would be a valuable thing for them to do now. Would it ever turn out the way they thought it would? You know, there would be more competition? All those things are things you can't predict. But yeah, I mean, I would say that we've done similar things in our business. I mean, we don't want to me, I guess the flip side is we don't encourage and you see kind of some of these crazy entrepreneurial stories, which is like, you know, that guy's operating a construction company, and then becomes like the, you know, the the worldwide leader in like, Koi ponds or something, and you're like, how did you get from, you know, building buildings to koi ponds, and there's some like, weird, esoteric route through that. You know, we're probably not going to be willing to let a company pivot that hard, would be my guess. I mean, you know, we just bought, one of the nation's Legion will actually buy the nation's leading designer manufacturer of amusement park rides. That's a pretty specific niche, you know, if they came to us, and we're like, hey, we want to create, you know, squirrel habitats? I'd probably be like, ah, you know, that's probably not the thing that we should focus on. But

I'm, you know, I'm curious how you got there. And I would say that happens. I mean, obviously, nothing that extreme has ever happened. But usually, it's something adjacent, it's something they know, it's cross pollinating from from an adjacent opportunity that we're most interested in.

Jake 32:57
I think that's a great answer. And I'm glad to hear your familiarity with the early Amazon stories as well. And maybe we can get into some more businesses or funds that have been sort of most instructional and inspiring for you. But before we go there, and maybe we won't have time, I don't know. But the amusement park construction sort of reminded me of some of the earlier businesses that I think were some of the maybe the first five companies that you invested in, I think probably well, before you took outside capital. And I think there was like, at least, you know, a couple sort of pool focused businesses where it was like a pool building company, maybe some kind of, like, manufacturer related to pools. I'm curious, like, what was interesting, you know, these are like, within your first, I don't know, you tell me a handful of investments. And you're sort of like building this, you know, domain expertise, you're very much a generalist, and you guys are special, you know, specialized in the business business, and you're not focusing intentionally on any particular domains, but sort of by accident, maybe or on purpose, you ended up narrowing in on like pools and like the surrounding business model. How did that come about? And, you know, how did those early investments that you went for sort of pan out?

Brent Beshore 34:12
Yeah, I mean, the short answer, I mean, the initial investments went very well, which allowed us to raise, you know, quite a bit of outside capital in a really weird way. I don't think you could do that. If the returns aren't there. How did I get into pools it was just relationships may had a relationship with investment bank, had developed over a long period of time hung around the hoop. We lost that deal, multiple times over multiple year period, and just always really liked the business. We'd like businesses that on the surface look like one thing and act very different than than the thing. So if you can call, you know, pool builders, like, oh, that's construction

company. And so you can paint with a broad brush and say, you know, oh, man, well, that's gotta come with, you know, a certain amount of work in progress and you've got all these issues around accounting. and labor and all these things. And then you dig in and you say, Oh, well, doesn't look like from the cash flow profile and the reinvestment needs, the business doesn't look anything like a traditional construction company. And I think that's what you know, we're trying to look for these, you know, sort of diamonds in the rough that may get passed over just because people are busy and distracted, and they've got preconceived notions of what's you know, what's interesting. And so I remember, first time, Emily and I, Emily, who leads our deal team and I talked about that a long time ago, it's probably 2000. Oh, gosh, 2014. Yeah, probably 2014. A long time. I'm getting old. Turns out. The I remember the first time we talked about it, we were like, you know, let's ask them about what percentage of their revenue comes direct to consumer? And they said, like, 97%, were like, no, no, what percentage comes direct to consumer, not through like a homebuilder or something like that. And they're like, no, like, 97% were like, really? And we were like, you know, can we grab capital expenditure numbers, and the capital expenditures were basically nothing. And they were like, Oh, we're very asset light, I mean, we're subbing out all the work and pushing down that reinvestment cost back into our supply base. And we were like, wow, so you're, like a designer and logistics firm for swimming pools? And they're like, Yeah, I guess that's an interesting way to look at it. But yeah, well, that business is going to function fundamentally differently than if you're, you know, going out, and you've got a whole team of excavators and, you know, all these different crafts that are in house, it's gonna, it's gonna function, you know, less profitably in High Times, it's going to function much more profitably, when there's dips in the market. And so it was very attractive to us, and we started pursuing it. And, of course, then it comes down to price and being able to agree on terms and price. And we liked the team a lot. And it's been a wonderful investment. We love them. We're grateful for them and excited about what they're doing. And we think that, you know, people have been dipping their bodies and water for pleasure for, you know, a couple millennia, we don't think that's going to probably go away anytime soon. And yeah, we think Phoenix, Arizona is hot and getting hotter, and Tucson. And we think that people are going to be moving more there than leaving. And so we think the population is gonna grow, it's gonna get hotter, and it's already hot. People like swimming pools, and we don't think that's going to be replaced by technology. So it's kind of I mean, we always have, like, first principles, very simple base case for the, you know, initial investment kind of across the board. And that whatever we do,

Jake 37:41
right, so I'm going to hit you with another double question. Now, the first one might be a quick No, so maybe we'll see how that goes. But I'm curious from your description of, you know, the pool business sort of being mislabeled almost where it's, it doesn't actually do what it sort of sounds like it does. And a two word title of like, what the businesses is that a theme across other investments where you find sort of a, you know, maybe not a theme across all of them, of course, but are there other instances where you find a business category that's very niche, and almost like, mislabeled to the point where what it actually does is hidden and how good of a business it is, is hidden from the vast majority of people who had come across it and just sort of scroll past it as not being a good business because of the mislabeling?

Brent Beshore 38:32
Oh, for sure. Yeah. And I would say the the reverse works as well, where we see a lot of businesses that people are really, really excited about because they misunderstand the business. So I think it works. It works in both directions. Obviously, we want to be way more involved in when people are misunderstanding and passing the by than we can if people are misunderstanding and very excited about them. But yeah, I mean, like, I just think that a great example of this is our matchmaking business, selective search. If you ever told me we don't a matchmaking firm, I'd be like, What in the world? Are you talking about? matchmaking? Like No way. I mean, I've seen the movie hitch. I know how this goes down, right? Millionaire Matchmaker. And I remember when Emily came into my office and told me about that deal, she was like, okay, sit down, shut up, don't say a word. I don't wanna hear anything come out of your mouth. I'm just gonna start talking. And I won't explain this to you. And I was like, oh, whatever, I'm sure it'll be fine. And she got about three sentences in and I was like,

There's no way we're buying that business. And she was like, sit down, shut up, I told you. And so the more she talked, like, the more I was like, Oh, really interesting. Like, their model was completely different than I was expecting. It was, you know, highly ethical. It was it was a tremendous net benefit to society. And I think that's one of the things we haven't talked about is, you know, one of our initial filters and screens is just as it's as good for humanity. Like, we're just not going to get involved in things that we don't think are good for humanity. And, you know, that was one that I was like, not depending on kind of what they're actually doing could be kind of weird. Like, I don't want to I don't encourage some behaviors. And turns out it's been wonderful and it to business, the best way to survive is executive search. So it's like an executive search firm. In fact, almost all the senior staff come out of the executive search world, but for love, and so it's taking a tried and true business model and then transitioning it to something that's more unexpected. And that's a great example, the business where you look at that. I mean, you know, we advertise in in flight magazines, and you read that, and you're like, oh, man, is that really a business like, and it's a great business. It's a pretty big business. And it's a wonderful business for the people that work there, and for the people we serve, and it's amazing. So anyway, it's a really cool business. And I never would have guessed that we'd be involved in it.

Jake 40:40
That's awesome. And it sounds like, you know, I mean, hitch did work out in the end. But this sounds like a more scalable business, for sure. I'm curious, you know, how, you know, you've talked, you mentioned your colleague a couple of times. And, you know, I'm sure you've, you've got a whole team of people that you've been working with some for for several years at this point. How do you guys keep an open mind when, you know, the sheer volume of deal flow that you guys are bringing in at like, the top of the funnel is so great, I'm not sure what it is, these days, exactly, but heard a pretty old podcast where you were evaluating at least a couple 1000 deals a year just to sort of boil it down to a few investments. And, you know, you have to 2000 deals a year, you know, let's say that's, on average, you're evaluating seven deals a day, it's hard to, like, get beyond first impressions, with these things. And, you know, if you're gonna rule a

bunch out, off the top, and the good news is, you know, you guys aren't getting punished for missing, you know, successes as much as you are getting rewarded for finding successes. It's very different from like, a VC model, where if you review 2000 deals, and one of them's Facebook, and you miss it, you know, you just blew up the whole thing. So, but nonetheless, you know, you wouldn't have found this matchmaking business if you didn't keep an open mind. And, you know, I'm just curious if there's sort of things that you do day in and day out, or practices such as, you know, multiple people have to look at every deal or something like this, where you're able to sort of see these very disguised opportunities?

Brent Beshore 42:20
That's a great question, I would say, we're always adjusting our process, part of it is, after you've seen so many opportunities, there's a certain taste you develop, and a certain type of flavor of company that you that you like, and so, you know, whether it's Emily or Holly on the deal team, or Tim, who's our chief investment officer, or sometimes I'm reviewing the initial pass is pretty easy. I mean, we're trying to we're trying to give it to a very rough cut of companies at that point. And if there's even a shot potential, even a very low shot at that point that the company might fit. I mean, it gets it gets passed to the next the next phase. So, you know, we're evaluating at that point, it's like, you know, we'll get in, you know, a single location restaurant that, you know, used to make $4 million a year and made 2.2 last year and hasn't been renovated in 15 years. Like, that's just not something we're interested in, in doing. Right. So that's just like, an easy no, or, for a while there, we were getting like every scooter company that had popped up. Who was that was selling all at the same time. So it was like, you know, are we interested in buying companies that manufacture distribute, repair, Scooter's? Like, no, that's probably that seems a little fatty to us, we're probably not going to not going to get involved with that. You know, we'll see stuff that comes priced really, really high. They'll say, you know, look like, it says, HVAC repair company in Boston that, you know, has 200 employees, and they're expecting a, you know, 13x Multiple, and it's got, you know, a tiny amount of growth attached to it. And it's like, we're just not, that's not that's not us, right, that maybe the market maybe does sell or maybe it doesn't matter, who

knows, but like, if that's the expectations, like it's not worth our time to pursue that right now. So I think those are, you know, just were rough cutting a lot of things. But but, you know, the next phase is much more of a deep dive. And that's when, you know, multiple team members will sit around and debate discuss, sometimes over email, sometimes over slack, sometimes in person, depending on the intensity of it. And, you know, usually it's kind of like, people will kind of render a decision, and then everyone will either say, Yeah, I agree or, wait a minute. What about this, this looks different. This part of the model is unusual. I like this aspect where you ask these questions. So it's it becomes much more iterative after that first pass. And, I mean, look, the things that hurt the most are things that we passed on that that we looked at, and we're like, oh, man, we just totally missed that. You know, and you Get you learn from that. I mean, that's I think the beauty of, I'm saying to somebody the other day, like, you know, I've got friends that played, you know, pro sports, and like their, their prime was like in their 20s, maybe early 30s. You know, for investors and people that are in this world, like, I think my prime, hopefully God willing will be like, in my 70s. You know, I hope that I'm still still in the game and enjoying it. And that's when, like, you know, if I look at my judgment today, and my judgment from even five years ago, it's like, I feel pretty good about the growth there. And it just comes from a lot of stupid decisions and saying yes, to the wrong things, and no to the wrong things and, and learning as a result of it. So I mean, that's the beauty of experience really does matter. In some areas.

Jake 45:45
Yeah, definitely a big difference between, you know, investing and football, you've got the prime ahead of you, I think, is very reasonable expectation, whereas not the same for some of these physically intense occupations. But another thing that I'm curious about is, you know, the way that you spend time or allocate time, obviously, you know, you're allocating money for a living. But allocating time is sort of, almost upstream of that, in a way. And, you know, I'm always curious about how people spend time generally. So if you want to speak from a personal perspective, it's totally welcome. But at least within the confines of permanent equity, whether it's yourself or your team, whatever sort of easier to think about or

more worthwhile to think about and talk about, I'm curious, like, at least splitting the evaluation process, and sort of doing the initial deal versus ongoing operations. You know, obviously, there's, there's more and less forgiving business that you can sort of do in terms of his ongoing operations and involvement. But every deal is going to be super important that upfront, you're doing the diligence and picking the right needle in a haystack. So I'm curious what that split sort of looks like. And, you know, whether that's maybe changed all over time?

Brent Beshore 47:04
Well, it's an astute observation. And and I think it's one that we came to the conclusion of, which is, it's really hard to be focused on the acquisition side when you've constantly got operational fires and opportunities. And it's really hard to be focused on the other side, when you've got a big deal that's going on. So what we figured out is we want to actually have two very different distinct teams that do each activity so that they can be specialists and focus on each one. So we now have kind of a way the firm is split, we have co presidents of the firm, Tim Hansen's are our CO President and Chief Investment Officer. So he runs the investing team investing side, kind of everything up into the closing runs through him. And there's a whole team underneath him and fantastic people. I mean, we run a high specialization operation. So we're more like a manufacturing operation than traditional investment firm in the sense that we're not partner driven, that partner takes an investment all the way through, you know, finding it through operating and ultimately exiting the business. We try to really specialize we think Adam Smith was potentially on to onto some things, you know, a while back, and so, yeah, that's how we've solved that problem is by specializing the teams and having them really focus on what they do best. And we find people who love operations and don't really care that much about the investing side. And we find people who love the investing side are not great operators, and sort of vice versa. So it's worked out well for us so far.

Jake 48:35
And you split a little bit across both of those and try to sort of keep keep tabs on both, or do you have a favorite child of the of the two?

Brent Beshore 48:43
Yeah, I mean, I came out of the operating side I don't even still, it's funny like, we have really good investors now. I mean, Tim, Tim Hansen's an incredible investor, but like, I don't even really consider myself a good investor. I mean, what we do is so much people in psychology and operations I mean, operations is what I came out of, but I love the deal so mean like yeah, I'm just split between worlds I you know, try to stay in touch across the board I'm, it's ultimately my job as the CEO to help encourage people, I'll make sure the right people are on the right seats and properly compensated and we've got the right incentives in place and all that. So you know, I'm able, thankfully, these days to work a lot on the business up business, and on permanent equity as an organization and less involved in I mean, I still get involved from time to time in the day to day weeds of whether the investing side of the operating side, but frankly, the people who do that job on a day to day basis are better at than me and more talented. So I appreciate it. Always trying to work myself out of a job.

Jake 49:46
Like that sounds like a great approach. I think you know, we've got we're coming up on time here. So I'm maybe have a question or two left in me and I appreciate all the time you're spending on sharing your perspective. It's been very interesting. I guess one sort of interesting situation that I'd be curious to get your thoughts on, obviously, everyone's situation is, is different. And this is all, you know, sort of hypotheticals, and everyone's got their own personal thing. There's no blanket advice. But as a thought exercise, if you were, you know, 1520 years ago, reasonably soon out of school or something like that, you sort of do good work for some good companies, save some money, and you managed to have like, you know, $100,000, let's say, and you know, your late 20s, something like this. You have all your same interests that you have today, you actually somehow magically have all your good judgment that you've developed over the years today, you are who you are, except for, you know, age and financial situation, basically. And, you know, your pre family, I would say, as well as the situation of someone younger. How would you knowing what, you know, today sort of get started? What do you think

you would do with that? $100,000? Or maybe you would continue sort of to be employed and to save up or to start a company and not worry about this whole investing thing? How would you approach that situation?

Brent Beshore 51:09
Yeah, I mean, it's so hard with, obviously, hypotheticals. I mean, I don't know what my job then is. And I don't know what my situation is, I'm assuming it's really me that you're talking about. So like, what would I actually personally do is I would like go and I would use the resources that I have to go get an SBA loan, and I would buy a small company, and I would operate it. And then depending on how that worked out, I might just stay in compound that business. And I think with what I know, now, I certainly could be a better operator than I was in my 20s. Hopefully, by a lot, I was a really terrible operator in some ways. And gassy, were kind of the future took me I mean, I think that the SBA program and USDA program, you know, people aren't listening is a really incredible opportunity for people. If you have the expertise, if you have the ability to do it. I mean, it's not without risk. I mean, you're signing up for a lot of debt, and you're signing up for a personal guarantee. And so things don't go well, like you're going bankrupt. It's not it's not like a light and fluffy situation. So and I've seen that happen a lot. So I mean, it but I wouldn't say it's like knowing what I know, now I would go and try to find something and buy it and operate it.

Jake 52:24
So again, given all sorts of the unnecessary caveats and disclosures, why would you in that situation, err towards buyer, or lean towards buying a business versus starting one from scratch with the capital that you have?

Brent Beshore 52:38
Yeah. I think that the product market fit portion of entrepreneurship is is the most difficult, at least I've seen. You know, I've been involved in a number of startups I've a lot of my good friends have. And it's just the difference between thinking you have a good idea and actually playing out the way that you can in the ballpark of how you thought it would play out to me is just there's a lot of a lot of

variants there. And so I love the ability to go out and be an entrepreneur, but but but by product market fit, which is in essence, what you're doing at that level of you know, $100,000 Plus, pairing it with, you know, maybe a couple of million dollars of of SBA money, you're, you're gonna be buying something that's fairly small and nascent, but at least it has product market fit, at least if you do your job, right, it should have product market fit. And so you know, that there's enduring demand for the business, you know that there's some infrastructure there, there's the ability to fulfill the demand that are some demand there that's coming from somewhere, or wouldn't be sustainably profitable. So really, at that point, your job is to then be creative. And how do you scale it? How do you build a great culture? How do you develop you know, better marketing? How do you improve efficiency on operations? Those are all like very different phase of of value creation than the initial, we've got an idea. Do people want to buy it for the price point that we want to sell it for? And so, for me, being able to bypass that and have certainty around product market share is a really attractive thing. But I think everyone's different. For me, if I you know, if it was like, get $100,000, I want to make the make a go of it. I feel much more comfortable buying something than investing in the startup.

Jake 54:27
Awesome, that makes a ton of sense. Voila, I know we're coming up on time here. And I want to be respectful of yours. But it has been an awesome conversation. I really appreciate you taking the time again to come on the show and to speak with me. I'm really excited to share this with the audience. Where can people go who they're interested in sort of learning more obviously, we've got a bunch of podcasts out there and blog posts on permanent equities website, Twitter, but anywhere in particular that you'd like to send people. This is a good time and yeah, looking forward to keeping in touch. Appreciate coming on.

Brent Beshore 54:57
Yeah, I appreciate you having me on. I would say it'd be my DMs are open on Twitter. I'm not on there as much as I probably would want to be these days. I've got a young family and some demands at work that keep me busy. But yeah, I would say DMS are open on Twitter, the

pervert equity websites a pretty rich resource, and we were constantly investing in new content to barely be able to help people. I mean, obviously, it helps us and get get the word out there. But we try to be really generous with how we, you know, how we describe what we do, and to be honest about how we do it. And so I'd encourage if anybody's interested in in acquiring something if anybody's interested in how to operate their business more efficiently. We've got a lot of different written smartcast on there just about what we do. So I'd encourage you to go and permitted equity.com or ping me on Twitter like me