We made it, despite viruses and murder hornets and political insanity. Rarely would I call mere survival a notable accomplishment, but hey, it was 2020. Personally, it has been a year of swings between intense anxiety, confusion, and hurry followed by peace, reflection, and deepening relationships. I feel blessed for both the solace of rest and the sharpening of difficulty, sanding down my rough edges, of which I have plenty.

Income was down, but positive, or we had what the cool kids call “cash inflows.” Our often befuddling lack of debt proved handy. Some of our businesses prospered as consumers decided to turn attention to their homes and backyards. Other businesses struggled as people stopped flying. Love endures, buildings still use glass, and the military continues to need civilian mariners. March and April looked dicey, but every company made it through the storm and is well positioned for future success. If 2020 was the year of lemons, we pulled out our juicers and became professional mixologists. More to come on that.

While we are hopeful to be closing on our 10th investment shortly, we completed zero new transactions in 2020, passing on a tremendous number of distressed and sad situations. My heart goes out to the people who watched their life’s work destroyed. There’s a fine line between being a white knight and a loan shark, and we decided not to test it. Overall, deal flow was down, which met our expectations. In a crisis, few think to themselves, “Well, I got nothing to do. I guess now is as good a time as any to engage in an extremely laborious and distracting sale process.” The only exception was the Safe Harbor program we rolled out in April. It produced over 100 conversations in the first week alone, but ultimately proved fruitless when the government launched a better offer shortly thereafter.

Permanent Equity II, our second fund, topped off to exactly our $300M target as we welcomed a handful of new institutions, entrepreneurs, and families into the fold. Their confidence in us is humbling and encouraging, especially considering the 27+ years we’ll be in partnership.

I want to give a special shout out to Permanent Equity and portfolio company leadership. Anyone can sail when the waters are calm, but it takes a real captain to navigate a squall like 2020. In the teeth of things, it was at least a daily conversation about everything from cash planning and customer outreach to employee health issues and regulatory compliance. Our backup plans had backup plans, most of which thankfully remain unused. While decision-making is never perfect, I’m extremely proud of how the team banded together, over-communicated, and worked their tails off to make sure the businesses not only survived, but were set up to thrive.

**NECESSARY INGREDIENTS**

Investment firms are built on three key ingredients -- opportunity, capital, and talent. Without good opportunities, nothing else matters. Even with high quality capital and the world’s most talented team, if you’re playing a highly competitive zero-sum game without a significant edge, your returns will likely revert to a declining mean, or worse.

At Permanent Equity we selected partnering with family-owned companies at the lower-end of the lower-middle private market for a reason. Compared with public markets, our best guess is that the universe of investable assets is 50X larger with less than 1/10th of the competition. And while proper “selection” is crucial, the real opportunity is in what you can do post-close. High growth, especially when compounded for long periods of time, makes almost any purchase price diminishingly important. But when paired with pricing discipline, particularly so. And, perhaps most
importantly, we love what we do. Helping secure a family’s future, from those of sellers and leadership teams to line workers, customers, and vendors, is challenging but gratifying in every way imaginable.

The second foundational piece is the amount, source, and terms of capital. There’s a quip out there that says “money’s easy” or “money’s a commodity.” I can assure you it’s neither. Yes, there’s a lot of money sloshing around in the system looking for a marginally better return. Yes, technically, money is fungible. A dollar is a dollar. Yet, for anyone who’s raised money, or done a deal, or had partners, they’ll know money comes attached to people and even the best among us are complicated, messy, and unpredictable.

We are blessed beyond measure to have raised our second $300M fund from a group of investors who are thoughtful, kind, helpful, and patient, and many of whom are investors in our first fund. They have entrusted us with their hard-earned resources for the next 27 or so years, and have graciously offered to help us and our portfolio companies with their deep expertise and relationships. This allows Permanent Equity to be creatively focused on our customers -- sellers and leadership teams -- and deliver to them a bespoke product that maximizes their goals pre- and post-close.

But as it is with almost all businesses, the key to our success and the underlying success of our investments will always be people. It’s easy to abstract this away with terms like “human capital” or “human resources,” turning those made in God’s image into lines on a spreadsheet, cost centers, or mechanisms to be “optimized.” Stripping away the unique humanity of each person is the quickest way to demotivate, confuse, and frustrate. We were designed to work and work was designed to be life-giving, enjoyable, and fruitful. And yet, we live in a fallen world. At its best, work is the ability to take resources entrusted to us to steward and co-create a more perfect world, re-imagining their combinations into more-and-more useful outcomes. It’s a profound responsibility that fulfills a universally shared and deeply felt need.

Business terms are nothing more than proxies for the scope, scale, and quality of these humans-at-work interactions. Revenue is a measure of collaboration. The more revenue flowing through an organization, the more resources are being stewarded and the more lives the organization is touching. Capital expenditures are someone else’s revenue, the purchasing of others’ collaborations. Offices and travel and Zoom are mere tools and opportunities for quality collaboration. Labor is the directed and coordinated collaboration towards a common goal. Leadership is, ideally, that direction and coordination. Inventory is a bank of past collaborations waiting to be useful.

Without people none of it matters.

People are the centerpiece -- the purpose and the participants. And our business, like almost all businesses, will thrive, plateau, or fail based on the people who join us, those who leave us, and the nature of their collaborations during our time together.

We rolled out our talent network, the Orbit, in 2018 and our opportunities scouting program, the Scout Network, in 2019. Both were invitations to come collaborate with us and both have far exceeded my expectations in terms of both participation and results. It’s encouraging to see people from all walks of life and every vocation and educational background imaginable raising
their hands interested in serving small and medium-sized businesses. If you’re not already, sign up for either or both.

As Permanent Equity grows, so do our opportunities to plug in. Over the next 10 years, we intend to partner with 15-20 new organizations, adding to the 9 companies currently in the family. And, as those companies expand, the need for more specialized talent grows exponentially. If you include the deal to be closed shortly, we’ll have north of 700 employees and at least 50 open positions. From sales, to operations, to finance, and from CEO slots to entry-level construction positions, if you have a heart to serve, we want to connect with you and help you find the right spot to contribute. In fact, here are some of the roles we are seeking to fill through the Orbit today:

- **Director of Marketing**: Presidential Pools
- **Digital Marketing Specialist**: Selective Search
- **Senior Accountant**: TEPCO

You can find more details about these positions and get in touch here.

**PULLING BACK THE CURTAIN: A CASE STUDY ON PACIFIC AIR INDUSTRIES AND AIR-CERT**

One of the most frequent requests I get is from people asking about portfolio company specifics. They want to know about how we structured the deals, the price we paid, and post-close issues and opportunities. And while we try to be forthright, it’s difficult to get into too many details without causing potential harm. We always try to be thoughtful about how all stakeholders would interpret, or potentially misinterpret, our sharing. Some ask because they want to use the information to gain an edge, but most just want some vicarious experience or reassurance that operating in this space is as hard as they’ve felt.

This year has been extraordinary and we know there are many out there, us included, that have struggled at various points in time. Being transparent about those struggles, how they manifest in decisions, and the resulting consequences can serve far more people than just our merry band of misfits. So we decided to collaborate with one of our portfolio CEOs, the one who probably has had the toughest sledding this year, and talk about what life was like in 2020.

We purchased the Pac-Air and Air-Cert companies in late 2019 when their owner and CEO decided to retire at the age of 95 (not a typo). We were fortunate to have already established a relationship with Jason Harp, an experienced operator with extensive experience in distribution and who was ready for a new challenge. And what a challenge he got. For background on the organization, here’s a mini-documentary we produced this year: [watch video here].

As their names suggest, Pac-Air and Air-Cert both serve the aerospace industry, one through providing spare expendable parts (those that can’t be repaired) and the other repairing rotatable parts. Said differently, they’re keeping very large commercial aircraft in the air.

The year started off quite well with the sister businesses handily beating their combined budget in January and February. On March 10th, we posted a tweet on our shared Slack channel: The CEO of United Airlines was reporting that net bookings were down 70% year over year. The same week, another large airline, and one of our largest customers, announced that they were not going to pay suppliers on any new transactions. The commercial air travel market had crashed.
Entering the pandemic, these two businesses had their share of challenges and strengths. On one hand, we had a senior workforce, some with significant health issues, entirely manual processes for filling orders, and two separate obsolete ERPs. On the other, we had a significant quantity of high-demand inventory, contracts for government work, a highly experienced workforce, a working process that was certified & audited, and a lean, essential business. Additionally, we had a strong cash situation. In our usual fashion, we did not use any debt to acquire these businesses, and we established meaningful asset-backed lines of credit to support future growth.

In March, we focused on keeping our team safe and our company in a strong cash position. In 2 weeks, we went through a digital transformation to ensure half our teammates could work from home. We had to continue to tweak the solution through April, but we did not bring the team back into the office. Through March, we pivoted our growth strategy from building new relationships through conferences and customer visits to communicating our willingness to buy inventory by contacting everyone we already knew. We also revisited our approach to collections and enhanced our process just in case our industry went through a cash crunch.

March was a time for tough conversations, and we had our share. When faced with the reality that our heavily vetted growth strategy was untenable, we scrapped it and developed a new one. In a time when it would be easy to suggest layoffs, we discussed the importance of retaining our employees and refocusing everyone on highest-and-best use. We also shelved our hiring plans and notified two recently offered hires that they would not be starting. As our customers announced their inability to pay, we agreed to keep selling inventory off-the-shelf to support our partners and keep their planes in the air. However, we stopped brokering parts altogether. We focused our future on executing deals as a source of liquidity in a market starving for it.

As we contemplated the many worlds that could play out beyond March & early April, we built a simple 3-sheet financial model to assess how our cash balance might change based on collections, inventory purchases, and sales performance. We asked, “In the Low/Base/High Sales scenario, how much can we afford to put into inventory?” and discovered two helpful findings. First, that our appetite for buying was larger than the new inventory being offered for sale. Second, we realized that the key issue in our recovery would be collections. In our model, our “High Sales” scenario was actually worse for us in terms of cash than the other two. Based on this finding, as sales recovered, we made it a priority to stay on top of our newly built collections process. We did not make the model more complex than the accounting calculations, which are complex enough. Therefore, we didn’t put much more stake in the output than a directional guide. We were not trying to see how close we could get to the line. We just wanted to make sure we did not drive off the road.

Because of the realities we were willing to face early, we were very well positioned for the subsequent six weeks. Suddenly, massive public companies were in desperate need of cash. We quickly closed on purchases of small lots of inventory that were otherwise lost and started conversations on lots that were 4x larger than we had ever closed before.

If we were starting to feel good about the strategy we developed in March, the events of April and May disabused us of any sense of control. As a surge of liquidity entered the industry through the PPP and airline relief packages, our flow of large deals dried up. With the pandemic dragging on, our customers started completely retiring planes, the parts for which were significant drivers of our
sales. Quarantines and then curfews wore on the team and frustration mounted. Before the end of Q4, four of our longest-tenured teammates decided to retire.

Sales eroded every day and inventory purchases stalled, so we focused on making the small improvements that we could control.

In the parts business, we restructured inventory data to make our parts more discoverable on procurement platforms and provided real-time pricing for our best customers. The warehouse team, augmented by an opportunistic conversion of an awesome temp to a full-time position, focused their efforts on data and parts hygiene, scrapping parts that had been made obsolete through plane retirements and building more racking to make room for our new inventory purchases. In the repair operation, we built a dashboard that gave transparency into our backlog, repair-status, turn times and load balancing, all critical to improving our customer service. We smoothly transitioned from our long-time sales leader to his strong right-hand person who stepped into the role on a temporary basis. Under his leadership, we redoubled our efforts to build deep relationships with customers and better respond to their needs. We were determined to emerge as a stronger organization.

By June and July, the ground beneath us started to firm and we turned our focus to securing the best people we could while the industry was still in the midst of layoffs. We started the process on three important hires that were only available because of the pandemic. We had the opportunity to hire a business development teammate from a competitor, a special projects teammate from a major OEM, and a new sales leader from an industry partner. Each of these were extremely long-term bets in a time period where the industry was intensely focused on the short term. But we were in the position to make them and we had the appetite and incentives to pull the trigger.

From August through November, we had to consistently reset expectations. At Pac-Air, we thought the finalization of fleet strategies would drive a cascade of plane retirements and then the divestment of surplus inventory, which we wanted to buy. This happened, but it didn’t play out the way we expected. Banks became our number one competitor to procurement as they started lending more cash against those inventory assets than we would pay to buy them outright. With the deals we could close, furloughs and layoffs caused the industry’s warehouses to be understaffed so delivery was delayed, often by months. Winning priority in the warehouse became a differentiating advantage. On the sales front, we were sending 50% more quotes to earn ~25% fewer orders as end users of parts started shopping their purchases far and wide. At Air-Cert, we thought our long-term partnerships in more boring markets (freight and government) would provide some semblance of stability in tough times. But as the market declined, our competitors started markedly undercutting us to secure work that would keep their teams employed. Our partners couldn’t turn down the cost savings, and we started to lose work. Competition was fierce and it was coming from all sides.

The third and fourth quarters were a constant series of pivots to respond to the shifting landscape. In purchasing, we sought out special situations where the inventory needed to move: cash-strained competitors, bankruptcies, consignment agreements where lending was more complex, and unique parts where there is structurally limited competition. By the end of the year, we invested in ~3.5x more inventory in 2020 versus the prior year. We continued our sales momentum through our second leadership transition and made incremental improvements to our customer communications using data, technology, and new-found customer insights. Our efforts made us
more efficient and effective. By Q4, we improved our sales conversion rates 50% vs. Q2, and our productivity 10%.

In the repair shop, we took the opportunity to revisit our commercialization efforts, expanding both our breadth of technical capabilities and the way we marketed them. By the end of the year we were able to represent capabilities on 3x more part numbers than in 2019. We believe we are on the other side of the downturn at both businesses, but we know we are a much stronger company than when we entered this pandemic.

In full transparency, we also lost a lot of time and energy on projects that never bore fruit. That’s a reality at every small business every year, but particularly so in 2020 when people had to work harder than ever for the privilege, in many cases, of being down only 20%. We built international banking relationships to de-risk potentially large purchases and sales in foreign markets, but never closed those deals. We hired a commissions-only sales rep to help us build new relationships and stem the flow of lost sales, but he could not open a single door in a time like this. We explored two new sales platforms only to find out that their integration requirements would not work with our existing systems. We set ourselves up on a different platform only to find out that a nuance in the customer buying process prevented them from finding us there. We bought masks for the team, only to find out just how much head sizes vary. While we like to think of these efforts as experiments that will lead to better decisions and capabilities down the road, they still cost us real time and resources to implement, both of which were scarce this year.

A year like 2020 in the aerospace industry gives a renewed confidence in our long-term investment approach. Spreadsheet jockeys can go on and on about the compounding benefits of a long hold, or the reduced transaction costs (and they should). What is frequently missed are the operational benefits of a long-term focus when times get tight. Because we avoided debt on entry, we didn’t have payments hanging over our heads, giving us flexibility and removing a source of distraction. Our long-term focus allowed us to retain and develop our experienced teammates and even make five strategic hires rather than conduct layoffs. These actions build upon the great legacies that Pac-Air and Air-Cert have established over the last 7 decades. We expect the compounding effects of our investments to be a meaningful component of our long-term returns, and we can only capture that value with the enduring commitment from our Partners.

If you have found this case study worthwhile, we’d love to hear about your experiences in 2020. Feel free to DM me on Twitter, or email us through the website.

INTRODUCING DEAL TEAM

My friend and sometimes business partner Patrick O’Shaughnessy and I hosted the inaugural Capital Camp in 2019, welcoming 250 GPs and LPs from 13 countries, five continents, and dozens of asset classes to the financial epicenter -- at least for those few days -- of Columbia, MO.

The idea was born out of our desire to help facilitate meaningful relationships, and there’s no better way to get to know someone than by striking up conversations surrounded by good food and drink, fun activities, and fireworks, obviously. 2020’s event was a virus washout, but we’re thrilled about resuming the festivities in 2021 -- August 31st to September 2nd, 2021 to be more precise.
Around November of 2019, Patrick and I started discussing what Capital Camp could look like digitally. We both participate in numerous investor-specific groups and messaging platforms -- from Whatsapp, Slack, and Telegram to Twitter DMs, Discord, and group texts. The upside of these are the quality of the participation and conversation. But they’re disjointed, often anonymous, difficult to hop-in-and-out of various threads, completely unsearchable, and clump up around a single type of participant. Perhaps most importantly, none of the current solutions have user profiles built with investing in mind. In every chat that we participate in, we wish we could click to see who someone was, and potentially engage them in a private conversation.

When I want to find that nugget from two weeks ago, I have not only no idea where to look, but also no easy way to figure it out. Plus, I often can’t tie an idea back to a person for follow up. And you have to get invited into them. Limited access is positive in that the quality of the interactions tend to be higher, but frustrating because it selects for entrenched networks and removes serendipity. As someone who had virtually no finance network prior to 5 years ago, I know what it feels to be looking in from the outside.

What we wanted was a new interest-specific communications platform focused on professional investors that would create searchable threads, opportunities for meaningful discussion, a lack of anonymity, and detailed profiles across asset classes and specialities. Over time, the communications platform could transform into far more, but that’s where we’d start.

After a year of work and a chunky self-funded investment, we’re rolling out DealTeam, the social network and communications platform for professional investors. If you’re a professional investor, an LP or a GP, I encourage you to join the waitlist. The web version and iPhone application have been in months-long beta testing and should be released shortly, with Android coming shortly thereafter.

Finally, having built version one, we are now ready to hire someone to be the DealTeam CEO. This person will be responsible for all aspects of the growth of the platform, including team, product, and fundraising. For an operator with an interest in technology, investing, and communications this is a phenomenal opportunity, and we are willing to bet on the right person earlier in their career. If you’re interested, email ceo@dealteam.com and let’s start a conversation.

**REVISED PITCH AND SHAMELESS ASK**

In January 2020, we changed the name of our firm (RIP adventur.es). It was something we had contemplated for several years, and, after enough confusion on pronunciation, purpose, and website URL, we pulled the trigger. Permanent Equity is fundamentally what we offer, and it’s been a painless and valuable change, reducing friction in introductions and opportunities.

Along with the branding change, we consistently evaluate how we can best serve the market. We realized that one of our biggest weaknesses was our requirement that to do a deal, company leadership had to remain in place post-close. While we still like for this to be the case, this limited our ability to invest in otherwise attractive situations. So we have worked hard over the past several years to make it possible for us to recruit top-notch executive talent and enable us to consider opportunities where the seller, for whatever reason, wants out. Of course we still need a diversity of
relationships and expertise to remain on staff post-close, but the criteria that we need a fully formed leadership team to do a deal now comes with a big asterisk.

So with that said, here’s the new pitch: If you know the owner of a small- to medium-sized company, let them know that when the time comes to transition their business, we’d love to be their first call. Whether it’s now, or later, here are the basics of what we’re looking for:

- Willing seller(s)
- $2.5M+ in net income
- Product/service that will be wanted/needed in 20 years
- Leadership team focused on the future*
- Headquartered in North America

*But as discussed above we can be flexible about what that looks like

If you suspect an organization would be a good fit, please send them our way. We pledge to be highly responsive and completely confidential. Call us (573-445-0678), Email us (Emily Holdman - E@permanentequity.com). Ping us on social media. Or, stop on by our offices in downtown Columbia, MO to chat.

We also put out a weekly newsletter with operators in mind that highlights the best content our team comes across. It covers everything -- operations, HR, money, and demand. If you’re looking for help in the trenches of businesses, we think you’ll enjoy it.

I’m going to close this letter the same way as I have in the past because it’s true even though 2020 was 2020: All-in-all, it was a challenging, frustrating, exciting, fun-as-hell, and ultimately fruitful year. We can’t wait to see what 2021 has in store for our small but growing family of people and companies.

Cheers,
Brent