Twitter Thread by Matt Bennett

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I'm a firm believer that more & more entrepreneurial 'builders' will evolve their operating company into a HoldCo

Scaling initial capital light successes (like a service co) & redeploying cash flow into concentrated bets leveraging existing know-how, infrastructure, & expertise

Why?

- lower barriers than ever to building asset light/capital light co's
- existing co infrastructure makes acquiring/building another co easy
- more non-dilutive funding options available
- talented operators/investors can use brand, capital, & know-how to scale meaningfully

But first… what is a HoldCo?

It's fancy term for "holding company" which is an entity that owns/controls the assets of other different companies

Most HoldCo portfolio companies operate autonomously... with their own team, balance sheets, systems, processes etc.

Major capital allocation decisions are performed at the "TopCo" (ie, primary owners of the HoldCo)

Most HoldCo's are C-Corps due to structural/tax advantages, but sometimes you see them operate as LLCs

Distributions to shareholders are less common, w/ free cash flow used instead for new acquisitions, spinning up new products/services, or using for existing portfolio co needs

How do HoldCo's get their start?

A common route is starting w/ a capital light co & using excess cash flow to invest in new companies or spin up new products/co's under same entity

Its a natural evolution of owning a great company where excess cash is put to best use outside co

What are the benefits of the model?

- FCF can be effectively deployed to highest value-creation activities

- Stronger dealflow/network/resources due to spending a lot of time in a given service/product/space

- Capital deployed in co's/industries you already understand deeply

I’m always blown away by PE firms flipping companies so quickly… they spend all that time to know the team, company, & industry...

... yet they flip in 2-5 yrs to then start all over again by selling and moving onto the next investment

What are HoldCo examples?

- Tiny Capital
- Chenmark
- Berkshire Hathaway
- SureSwift Capital
- Social Capital
- Constellation Software

HoldCo’s can be all shapes and sizes, but what separates the good from the great:

- expert capital allocation

- ruthless focus (industry, business models, trends)

- have an edge in driving value creation

- typically wear two hats... dynamic operator + good deal nose investor

Most HoldCo’s execute on a playbook of building expertise & distribution before product…

1. Start, acquire, &/or scale an asset light/capital light service co
2. Discover pains/needs/wants in that industry or type of model
3. Deeply understand where the industry is going

4. Productize and brand your know-how through existing co
5. Acquire & build new products/services to add scale and diversification
6. Rinse/repeat through effective capital allocation

For those interested in being a co-founder within a HoldCo focused on digital assets in the pet space… shoot me a note!

DM or contact info here: https://t.co/KIwrnugHsD

I love 'arming the rebels' & its a unique opp for someone who wants to:

- loves building great (effective) product
- looking for a capital allocator/biz builder to supplement technical chops
- stay entrepreneurial but sophisticated investing
- build a LT portfolio+own economics