The Playbook on Buying and Running Companies Forever

86 MIN · YOUTUBE · HTTPS://YOUTU.BE/ULSXHMRHPFU?SI=AVH38QQ_ULAR2ZG3
https://youtu.be/uLSXhmRHpFU?si=avH38QQ_uLar2ZG3

SUMMARY

Luca, co-founder of Bending Spoons, reflects on the journey of building a successful tech company from humble beginnings, emphasizing the importance of perseverance, talent density, and a unique acquisition strategy. He shares insights on the challenges faced during the startup's early years, the transformative acquisitions made, and the vision for creating a prominent European tech institution.

- *Bending Spoons operates as a hybrid of private equity and tech company, focusing on acquiring and transforming digital businesses.*
- *The company aims to create a culture that attracts and nurtures exceptional talent, positioning itself as a leading employer in Europe.*
- *Luca's personal journey includes overcoming the stress of early failures, which shaped the company's strategic approach to acquisitions.*
- *The company emphasizes a hands-on approach to integrating acquired businesses, often involving radical transformations to enhance value.*
- *Bending Spoons has successfully navigated the competitive landscape by leveraging its unique model, which combines operational excellence with a focus on talent.*
- *The firm has raised significant capital through debt and reinvested earnings, maintaining a cautious approach to equity dilution.*
- *Luca believes that AI will enhance operational efficiency and quality, positioning Bending Spoons favorably in the evolving tech landscape.*
- *The company fosters a strong internal culture through traditions like "State of the Spoon" and annual retreats, which help build camaraderie and align values among employees.*

I remember like the stress levels with working our ass off for 3 years on the startup which failed. Having this little money to try to make the dream come true. I had a real breakdown. 10 years go by and you look back and you go, "Oh, wow, I remember we were making half a million a year, now we're making a billion." There is no shortcut and I've seen nobody try cuz they just understand it's just too painful.

>> [music] [music] >> Luca, this is going to be very fun. We first met a couple years ago and I've followed the Bending Spoons story ever since with great interest. For those that don't know about it since we're in Milan today, uh it's not, you know, in New York City, not everyone yet knows about Bending Spoons, soon they will. Can you just tell us what it is uh and then we'll go from there? Right. Um we are a pretty unusual beast.

Um yeah, unique almost I think as far as I can tell. Um I think a good representation would be 25% private equity, 75% tech company. Meaning we acquire companies as a key engine of growth. 100% acquisitions, no minorities like uh And then unlike a private equity which would typically look to to sell them 3 5 7 years down the line, we buy off our balance sheet to own and operate forever. And unlike a private equity which typically would uh make relatively shallow interventions, maybe change the management team, rethink the entire company uh try to come up with a vision for the most successful version of that company and and then work as hard as we can to close the gap between the status quo and that vision.

And it could be rewrite the software, re-architect the cloud infrastructure, launch lots of features, redesign the UI, optimize monetization and marketing, rebuild big chunks, sometimes the entirety of the organization. So, it's very extensive, deep, time-consuming work, sometimes radical work. And if we do it right, that creates a lot of value we can reinvest in making our call it our our platform more powerful, also build better proprietary technologies, better access to talent, more knowledge, and go after, you know, new bigger acquisitions. Can you say a little bit about the vision you have for the business, not in terms of how big it will be or the number of acquisitions or anything, but 5 years hence, I know you care very deeply about the culture of the people here and kind of what the the home office looks like and feels like.

What did you have a huge ambition for what you're building? Maybe describe that ambition and that vision a little bit. >> We felt inspired at the prospect of building like the the company being our product. Building an institution, you know, Berkshire Hathaway, that sort of company that people look at and think was a a defining um company of its generation. And so to do that scale is important. It I think it's unlikely that you can be in that conversation unless the company is large and dominant, but also there needs to be some um level of excellence along certain dimensions where the company is really really stands out uh vis-a-vis the others. And for us, it's always been besides being absolutely exceptional at the functional things like being incredible at running these businesses, one part that we we really want to be awesome at is spotting some of the best inexperienced talent in the world and being the ideal place for that talent to just skyrocket toward the maximum realization of of of their potential as quickly as possible. So, we we want to be the ultimate testing and training ground for incredibly talented and motivated people. And so, the company 5 or 10 years out, I think we'll still be a conglomerate of very interesting digital technology businesses, hopefully much more and generally the company would be bigger. And I hope we can be much much stronger at everything we do and have even higher levels of talent density and hopefully inspire others to to try to raise the bar in how they run their businesses. And by the way, we started in Europe. We like the idea that Europe should have It's It's fascinating that if you think about most of the very large super successful companies globally, you you think about almost entirely US or Chinese companies.

Historically US, now China's more. Europe has very little to offer in that regard, but it's 700 million person continent, very good education. Um I'm not saying we we, you know, we we should have 10 trillion dollar companies, but we don't have a single one pretty much, I think last time I checked. And so, uh you know, we hope we can be part of that movement showing that you can actually build such a company from I mean, we're an international company with operations in the US, too, but we're like the deeper roots, the original roots can be here, too. We are not a periphery of the empire.

>> It was actually Daniel Ek at Spotify who introduced us originally and obviously he's built one of the great, you know, European origin businesses. Why do you think there are not more of them? Like you you obviously you're seeking to change this, but but there's not that many. What do you think the the deep reasons are? I think the main reason is uh a matter of uh default. Why does California have so much has had so much success over the decades? One of the reason is you have seen incredible companies being created and grown in California, you just assume that's where you go and do it.

Especially as a founder, you don't know much. Like you are ultimately at least I was and think that's true of many founders, you are a passionate, determined, maybe talented idiot essentially. And so, you don't have you don't know the world enough to to actually determine what what the ideal location will be. If you even think about it cuz it typically how many times have you heard of founders doing a kind of a locational study, where should I start my company? It tends to be kind of momentum like I happen to study here, I know people are there, I should probably just do it.

And so, a lot of talented Europeans, many of the most talented Europeans who have an entrepreneurial streak, I think they just default to building in the US, which is I mean, it's been fantastic for for the US, of course, and uh but but there is a gap I think and if we had more virtuous examples of people who have built incredible businesses again with a seed in Europe, I think more people will will not would not default uh to that and think, "Oh, I actually actually build such a business from France or Portugal or Italy." Was that a key part of the original vision that you wanted it to be a beacon for European talent and to show the world that a company like this could exist here. And if so, why? Why did you care so much?

Why not just go to California? I mean, it's difficult when you talk about uh what, you know, the sense of purpose, what inspires you, I think it's we can try to rationalize it, but there's something comes from the gut. We just felt that there was a vision there that was worth pursuing and that turned on our our drive, our our passion and ultimately we figured we love to build a business cuz it's we love learning, we love challenge, and I think the business arena is is arguably the most competitive field in which you can test yourself of any field, even more than sports, academia.

So, we liked it to start with. Whether we fail in Italy, Denmark, Canada, the US, nobody cares, but if we build something remarkable from a country that doesn't see as many successes, that means something extra. It can be an inspiration like I just said, it can help local businesses aim a little bit higher, raise their their, you know, their their their standards. It can create competencies locally that can have a positive effect. And so, we just chose to do it that way. We don't regret it.

But yeah, there there were very good arguments for us to maybe start in California for sure. Like that was a very reasonable point to make. You said this this idea of test yourself. If you think back on Bending Spoons history, what was the first example of you really testing your own limits? At the very beginning, we actually had another startup called Ever tale and that was a failure. We learned a lot and actually the strategy for Bending Spoons we came up with it through the failure of Ever tale. At the time with Ever tale, we raised about a million euros all in all and VC money and ultimately the company was about to go bankrupt. We had about 40,000 euros left. Um the that money belonged to the VC because of liquidation preferences, but it was too little for the size of that fund and they told us, "Look, it's just too much hassle and legal cost for us to go through this administrative process of the liquidation. You guys worked were honest, worked as hard as any anyone could demand of you. You You keep the money, we'll sell our shares to you for a nominal 1 euro and, you know, go you'll probably get something after taxes from it and just go and get a nice vacation." But we're you know, we're seeking the brain and so rather than going on vacation, we took whatever we could and that was the seed capital for Bending Spoons. This is 2013. And uh and so, it wasn't a lot of money for 2,000 euro. We We lived all all of us lived in the same apartment. Very low burn rate, very low, as low as it gets still. 40,000 euros, you don't do much.

Particularly as our vision was to acquire a company. So, that's cap capex intensive particularly at the beginning. Well, you can't use that cuz you are nobody and you don't have track record or a cash flow. And so, we figured we need a source of cash to uh kind of kickstart our acquisitive strategy. We figured certainly the easiest way is to just write software, build products for for comp for third parties. Uh we are decent at programming and design. Um We should be able to do that. It seems like an easy business to start, maybe not to scale to gigantic uh level.

>> yeah. And and so, especially what a co-founder of mine and and I spent a good 3 4 months like 12 16 hours a day just emailing anyone, you know, anyone on the planet and and cold calling people, just trying, you know, we offer discounts, we're like, "Just hire us to do something." And I swear to God we couldn't get anybody. I mean, not a single soul hired us to do anything. Only contract we got was was for about 10,000 euros uh from a essentially a friend of one of my co-founders who I think took pity on us and said, "Yeah, we need an app for our small chain of burger places, you know, we'll give you 10,000 euros to build it." [snorts] Um so, that was an utter failure. I remember the stress levels with after working our ass off for 3 years on the startup which failed, having this little money to try to make the dream come true and uh and failing miserably at this sales effort, I had a real breakdown. I remember I don't cry much. I cry maybe once a decade.

I cried. I had a moment where I cried at that point. I remember I left the office. I just had to to cry cuz I was like, goodness, it's been like 3 and a half almost 4 years where we've been working like 100 hours a week and we have nothing to show for it. So that was a massive challenge to to my resilience and I owe it to one of my co-founders who I think is naturally more optimistic and has better perseverance than I do.

And he kind of comforted me and we said, okay, at least, you know, we're in this together and just keep going. Yeah, so we did and of course I'm happy with it, but that was a pretty low point. >> Didn't you have to get a job at McKinsey at some point to fund a everybody else? That was the the previous startup. Okay. Yeah, that's a cool story. At least I think it's cool. We basically we graduate two friends of mine, Francisco Mateo, who are happen to be co-founders at Bending Spoons too, and we have this idea of building this Evertale company. The idea was to to create a a self-rising diary of a user's life with AI. This is 2010, so AI was Nobody was talking about AI in 2010. And interestingly, we were very early on AI, too early in fact because the product just didn't work well because the the GM app machine learning, at least not in a way that you could scale for users. We had no money whatsoever because all of us essentially come from pretty kind of low-class families, whatever you want to call it. Like we didn't have a lot of money.

And and as much as we you know, we we didn't have an idea for a business that would require billion dollars in capex like a lot of startups today. It we certainly needed some money at least to eat and and and pay for rent. And so we decided, okay, the three of us were going to look for a job. Whoever gets the most lucrative offer offer goes to work and pays for rent for the other two. Once we raise seed capital VC money somehow, then this person would resign and join full-time and you know, and then we go and conquer the world.

So we all look for a job and I I get an offer from McKinsey. By our standards at the time, very lucrative and so I said, okay, this is perfect. I'll be the one uh paying for rent and food. I was terrified that once I told So I I'm capable >> [snorts] >> of not being transparent, let alone lying. So I had to tell the partner at McKinsey that I would be working on the startup on the side. I thought it was unwise in many ways cuz I was absolutely certain they would withdraw the offer, but I'm like, I just can't. Like I it feels dishonest. And actually was enthusiastic and he encouraged me and said, absolutely, we'd love to have you and you know, if if and when the startup takes off, you know, I wish you the best and and thank you. So um, I was very grateful. I still have a very fond memory of McKinsey for that reason like a lot a lot of gratitude and uh and I worked there for about a year, then we managed to raise initially half a million euros, then another half a million later from a VC and I completed my project and I resigned.

Willingness to do anything to get going. I've never heard that before one person funds the other two to be building and then you join them on the weekends. There was no contract, nothing. 100% just trust which I don't know. I just think it's it's really a good way to live life. Sometimes you get some some some sour moments because of it, but it makes 99% of it so much more enjoyable if you don't have to be too transactional. And so between Evertale and Bending Spoons, what was the where did the insight come from to be sort of an M&A driven acquirer of businesses rather than building them?

Evertale was your startup by the book meaning this idea that probably won't work, but if it works, could be huge and very innovative. Like nobody had attempted as far as we could tell anything like that before. And so we worked super hard on that project for about 3 years. And and naturally as you are a startupper or when you do something, I think you tend to network with people in a similar situation for a bunch of reasons. And so over time we got to observe probably a couple dozen teams go through similar journeys as we did. And through that observation, we saw that of course most failed which you would expect and maybe three or four had levels of success. And we saw almost no correlation between the teams we we considered more more talented and more hard working and those who came out on top.

And so we concluded probably, I mean, it's not a huge sample, but probably to go from zero to one, luck plays a huge role. There are so many factors and variables that you you know, even if you're a genius and you work your ass off, you're still likely not to you know, the stars will probably not align for you anyway. Whereas at the same time, we also found that our skills at all the functional things like software engineering, well, AI at the time for what it's worth, product design, product management, marketing, although they were still pretty uh crude 3 years later, you know, nice and day relative to when we started. We had we were we were on a clear path to I'd like to think excellence. And so we thought being really good at the functional knowledge and skills necessary to run a digital business really well is probably a matter of if you're assuming you're reasonably talented, a matter of perseverance, effort, discipline. We we know we can bet on that.

We don't want to bet our entrepreneurial lives on getting lucky. Um, so why don't we try to be excellent at the functional things and then buy businesses from people who either, you know, maybe got lucky or they actually they're very good, but they also the passions changed changed between going from zero to one to one to two to to 10. Like it's a different job and so maybe they're very talented people who have gotten far. They're just a little bit fed up with it. They they're it's not not interested in running the next phase of it. Uh we should be able to find situations where it's a great deal for both parties because of these factors. That turned out to be true. And now in in hindsight, all 12 years later, there is a lot more to it. There are structural advantages in integrating different businesses under the same roof, but at the time we didn't have that insight which today is probably more important than what I just described. Um, but what we had identified was enough to drive some level of success for the first maybe five or six years.

>> I'm going to come back to the beginning and the early acquisitions, but since you mentioned it now, describe what you've learned those advantages are that exist, you know, in having I'll call it a home office that sits on top of a lot of different business units. I'll give you an obvious one and two not so obvious ones. The the obvious one is of course you get to say you you can negotiate with a vendor of cloud infrastructure, advertising partner, better better So that adds probably a couple percentage points in your EBITDA margins, so it's good. It's useful. It's not transformative, but it's it's or you can make an R&D investment in a uh general purpose technology that many businesses can then leverage and or although that investment would be prohibitively expensive, irrational to make for any one of those businesses individually, it's actually very appealing if you can deploy it across.

The two more important ones are at least equally important, but I think more important ones are one, we can move R&D and also marketing resources fluidly across businesses. So in my experience, the R&D opportunity when you run a business is quite fleeting. It changes quite rapidly over time. So you maybe you're new in a certain field or that field evolves and there is an opening to expand the feature set, upgrade your technology. In time, that's going to be table stakes.

There's a window when to do that actually yields substantial returns. But hiring people, coaching people, training people, organizing people is very slow. Unless you So you got really have two choices. Either you do you make it happen in a few months, but you're going to do massive damage to your team, your culture, talent that's going to be low. If you're going to do it right, it's going to take years. At the same time, as you go after an R&D opportunity, basically you build the features.

Every business has a kind of a saturation point where there's nothing more, at least nothing more very substantial to build. But then you are stuck with a larger team and of course it's costly, emotionally taxing for all involved to shrink that team. It's difficult. And so because of all these factors, in my estimation, most companies are years behind in terms of the optimal staffing. They're actually years behind what they should be could they control the people factor perfectly instantaneously. Some management teams are better than others, but it's it's really just an inherent inefficiency of a single product model.

But because we can pull at least part of our R&D resources and we really work on hiring people who are super flexible, adaptable. We There's a whole bunch of things you need to do for this to be feasible in practice. We can move them very quickly and attack these opportunities and withdraw as the opportunities are not there any longer. This makes us super efficient both on the offensive and on the defense. Another major advantage of our model is that take Evernote. It's a very nice business, nice product, beloved product.

Most people would consider the prospect of working at Evernote just average appealing. Like it's a nice product, nice company, but it's also not my I'm not as excited as I'm as as I would be thinking about OpenAI or you know, like the the next big thing. So on average, a business like Evernote, no matter how charismatic, intelligent its leaders are, will attract somewhat average talent. There will be a Gaussian function and some people better than others, but Bending Spoons has a model that's very appealing to people. First of all, it's growing fast, so it feels like you we're going places.

You have variety. So you know that you can test your skills and and fine-tune and expand your skill set across a variety of challenges and businesses and technologies. It's more and in a way from the talent attraction perspective, much better than an Evernote stand-alone. And so all else being equal, we can attract stronger talent. Layer on top of that, the ability to make massive investments in all the processes, the knowledge, and the tools required to attract and and predict talent.

We have a a massive investment in AI applied to predict future performance based on CVs, cover letters, test results. It's a very expensive investment to make. It's difficult to justify for a company that maybe only hires 20 people a year, smaller. And we can build on top of that inherent advantage by doing even better on Like we basically we have access to better talent, plus we'll be better at selecting within that talent pool than most companies would. So, that gives us a major talent edge um that's just not attainable for for companies that for I'm sure again OpenAI probably has access to many of the best talents, but like 99% of companies cannot say that.

And we're better off. This year alone, this 2025, with almost at the end of the year, we'll we'll be receiving about 800,000 unique job applications. We'll be hiring 250 people. >> Wow. That's one in 3,000, 4,000. It's super selective. And it's not because I'm smart or anything. It's just inherent advantages of of the Bendings Rule model. And of course at the employer brand built over a decade of investment and Yeah. people work here saying it's amazing, talent density is great. So, you can't shortcut it. It takes forever, but you couldn't as a standalone company even if you had the patience. I heard somewhere that for a long time on Slack your label was recruiter. Which [laughter] is kind of which is pretty cool. I think it still is. It still is. I think it's recruiting. Is it still there?

Recruiting. >> [laughter] >> Um you mentioned the idea of building an employer brand for a decade plus. Talk about those two things, how they go hand in hand, and and what you've done that's been most successful at building the employer brand. By far talent density. We think about the jobs we offer as our most important product. So, you need to know who your customer is, what you're offering, how you're differentiated. And that's the core right of really focusing on that sharply.

I find a lot of companies are almost afraid of someone not liking them, some team member uh getting offended by some practices. And they are I think they they are unappealing in general because they're too vanilla, too boring. Mm, they're nothing in a way. They're everything and nothing. And certainly they're not appealing for the you know, the most brilliant and driven people who want a very clear exciting opportunity. So, we have focused pretty much from the beginning of getting better over time at it on being the ideal place for incredibly talented and hungry, determined uh professionals. Um And and we try to we we make a promise to them to surround them with incredibly high talent density. And you know, I just mentioned how selective we are at the entry point. We continue to be selective throughout. That certainly brings to, you know, forces us to have difficult conversations and there are moments of stress, but overall it's a clear net positive. And yes, it's a more intense, challenging workplace, but for people who want to be the most, you know, the best version of themselves professionally as quickly as possible, it's almost a unique opportunity. Um So, that's our customer. That's the person we want to surround ourselves with. Why is testing yourself so addictive? Like what what is it about it as a function that you and the team so enjoy?

It's difficult to tell. I suspect though it's a common trait of a lot of people who have achieved greatness in their vertical. I'm thinking for some reason tennis comes to mind. When I look at Novak Djokovic, Rafa Nadal, I don't know them personally. They both strike me as people who were absolutely turned on by the idea of testing their limits and pushing against those limits. And And I don't think they wanted to win for the sake of saying, "Oh, I won 23 grand grand slam tournaments." They love the idea that it was supposed to be impossible. And you know what? I'm going to I'm going to prove prove it's not. It's one of the ways some humans are wired. But the truth is a lot of human I a good enough number of humans is wired that way. And those humans are are those who tend to have breakthroughs, excel in their fields, whether it's academia, sports, or business. And so, if you want to if you feel that way yourself, if you want to win and excel in an area like we want to do with our with our approach, that's the kind of person I think you want to surround yourself with.

>> Have you learned anything surprising about yourself or about how the world works in all these years of testing yourself? One thing I I've learned um that's cost me a lot of uh sanity and and caused me some sleepless nights is that consensus is overrated and even dangerous, at least when you're trying to achieve something. Are we clear? I I don't believe I don't like the model of the you know, the bright brilliant or anything like that.

I think you can be you can not be a consensus seeker while being a perfectly respectful, nice human being. I would prefer I think, you know, that that's a model I would espouse. Um but in general, if you're striving to stand out in your field, if you're very concerned about aligning everybody around that particular we vision approach, not causing anybody to dislike you, criticize you, I think you're absolutely doomed to fail. Unfortunately, I'm naturally wired to enjoy consensus. I quite struggle with the with friction and criticism by nature.

And I think at least personally and certainly my capacity to the company that's that's slowed me down, caused me some pain that in hindsight was un- unwarranted and you know, didn't bring any good to anybody. So, I was feel felt pain and others benefited as a consequence. And and instead, when you have a clear idea you believe that's the right approach, and of course you have listened to input with intellectual honesty, openness, so it's not a matter of pride, just a matter of intellectual conviction, then I think uh being able to just uh accept disagreement, pissing some people off, and just going very, you know, straight toward that goal is a superpower. I At least it took not perfect at that for sure, but I'm much better today than I was when I started.

But at least the first seven or eight year years I think I was absolutely terrible at it. Thankfully, others on the team were better. And so, as usual in a team, you complement each other. I think a lot of management teams are too worried about having a percentage, for example, of their of their team disagreeing with them, criticizing them. Instead, I think they they should really try to if they believe they have they've got a solution, the path ahead, I think they should be willing to they should be uncompromising in that regard. So, if we rewind time now to the early days where you've got this core insight that zero to one is really hard and maybe somewhat random, you have this skill set that probably is really viable in one to end. And you're going to go acquire businesses and apply the talent and skill set to make the products way better, bigger, faster, everything. What is the first couple years of that process like? Like how are you looking for companies? How do you have enough money? You I'm sure you must have started small. What were some of the first acquisitions? Like talk us through the early lessons and early activity in the M&A markets? Oh, yeah. I mean, in the beginning again we had those 40,000 euros.

>> [laughter] >> So, we were trying to to get, you know, do some consulting like I said, which never worked. I mean, basically brought no revenue, pretty much. We The first acquisition I think we closed it within the year, so pretty quickly. And we paid 10,000 for it. And it was I don't remember what it was called, but it was a an iOS app to personalize your keyboard. Okay. Ultimately made 20,000 off it, like a very good return in a short period of time, but at a tiny scale.

And then, you know, that 20 went into couple other acquisitions and maybe turned into 40. But again, similar nature, so small product uh amateurishly built uh certainly no, you know, uh institu- institutional investors. No investors of any sort. Definitely no professional management teams. Typically one person selling the >> an app. Yeah, exactly. In parallel, we also launched a handful of products from scratch. >> [snorts] >> Again, to try to complement, learn things, complement because if you don't acquire almost anything cuz you've got no money, you're also not learning. So, we were trying to learn, hopefully make some revenue. We had a couple of mild successes, like enough that it extended our runway. So, many small things like that. And we kept adding and compounding.

But slowly but steadily, 10 10 10k turns into 20k and 40 and 80 and we're being compounded at pretty fast rates. I mean, if you look at our per share revenue or EBITDA growth over the past four years, where we are a decent scale, I guess like it's about 1.3 billion this year, it's still about 75% per year. We're still compounding pretty fast. 10 years go by and you look back and you know, "Oh, wow, I remember we were making half a million a year. Now we're making a billion."

>> So, in those early days, what were the key lessons that you were learning? Like what did you start to realize were the right attributes of an app, a piece of software, a company that you might acquire? What were the What were the things that you were after? It's always been the same things on a high level, and that would be number

one, so far we've always focused on digital technology. We haven't bought supermarket chains, nor do we plan to.

Cuz you got to be I feel you want to stay reasonably within your circle of competence. Ideally, here and there you want to take a step kind of half outside of it. You need to kind of keep pushing the boundaries cuz that will keep your TAM expanding as you expand within the TAM. But but I don't think it it would be wise, especially as long as the model is works well, it's efficient to take massive leaps outside of the circle of competence just because. So, digital technology, scale. Scale is relative, but we because our approach is so hands-on, so time-consuming, I mentioned we can sometimes we radically rethink a business or at least several components of it. We will do maybe five acquisitions a year. Could be one, could be 10 max. I mean, if it's really a stretch.

>> [snorts] >> And each, some more than others, will will really go super deep and rethink the details. And the time investment and the effort does not scale linearly with revenue. So, for us to do an acquisition that will bring in half a billion in revenue is not five times as time-consuming as one that will bring 100 million. No, maybe it's on average a little bit more time consuming because it tends to be more complicated, but nowhere near linearly. And so we want to do fewer acquisitions, but bigger.

So, first criterion is scale. And again, at the time 10K looked like a big bet. Although we feel like today we're actually hoping to invest easily a billion plus, but conceptually [clears throat] the same thing. The second thing is we need to be able to predict the future performance of that business, otherwise there's no way we can make a confident investment. We've gotten very sophisticated in time you know, statistical and lots of assumptions and probability distributions, but at the essence of it we need to buy stuff where we know where it's going. At least you know, with sufficient confidence. And the last one is we need to believe we can make meaningful substantial improvements to that business. Not that it's a necessity, but it's difficult for us to imagine being able to make an offer that's super exciting for the seller and then being okay, this is perfect buy. You know, like uh probably they wouldn't sell it to us for that price.

These are the criterion the criteria and they have remained but the level of sophistication our understanding of these criteria over time is I mean it's it's incomparable. Maybe we could talk about Evernote as a great case study because it's a I used to use it all the time. It was my like place of record for keeping my notes and book highlights and all these things and people have heard of the brand and it was a big acquisition for you. I'm curious what you think of it as like the milestone acquisitions in the history of Bending Spoons, but I'd love to dive [clears throat] into that one uh especially just to hear an example of like the whole story soup to nuts of how you found it, what you saw, what you did, how you thought about price, what your team did, what's happened since.

I mentioned earlier at the beginning it was all what you call we would call asset deals, individual apps and whatnot and the um and then we had a period of maybe three four years where we saw that that very basic small scale model work was going to saturate at some point in the not so distant future. We should do this at a bigger scale with structure companies with management teams and large teams of professionals and institutional investors. I think we lacked confidence to take the leap immediately and so we started losing a bit of focus and and looking at alternative um strategies while taking tentative baby steps into that next level of the same thing really, but just Yeah.

I guess it's a bit like I played locally now I want to do an international tennis tournament to go back to the tennis metaphor. You know, will I be able to compete? And probably yes, if you're doing super well locally. Yeah, of course you will not be the best at that yet, but but I I I think it's you can empathize with there being a little bit of hesitation and insecurity, right? And I think Evernote was the first such company like up clearly, you know, within that definition. My guess is that we paid like 50% more than the next best offer. So, it was really a win-win, which is the way I believe you should try to any any good strategy needs to be somewhat win-win, otherwise it will not go far. We were invited to that process.

At the time it wasn't something we took for granted because we were not so well known. So, many times we missed out on process the sales processes that happened and took a look look at it. I think we were very fast in making a what turned out to be the winning bid. And we just saw a very good brand, although certainly slightly tarnished, but still a quarter of a billion people had used Evernote. Strong brand uh an important use case, a lot of customers with thousands or tens of thousands of notes using Evernote to run their their lives really and the product had not probably kept up with the times as well as you you as a customer would have love to love to see.

>> [snorts] >> Uh and of course you can only realize that fully once you're uh on the inside and really open the hood and but you can you get a sense of that as a user and so we we bid, we won it and then yeah, we began began our usual transformation process on a different scale, but essentially had a team of some of our best experts, functional experts, you know, growth, product, design and engineering and going with met everybody who spent a lot of time with everybody on the team and worked on projects and really got acquainted with the nitty-gritty details of of the business broadly speaking and then started you know, developed a roadmap for how to to make Evernote more successful and got to work and the >> [clears throat] >> it's it's a completely different business today. I think in two and a half years we have released by now probably about 250 significant product improvements. It's difficult to be 100% quantitative about product improvements cuz you know, there's no perfect definition, but my in my estimation we have been improving and innovating probably three to five times three to five times faster than before. We've been able to do to do this with a smaller team really working on keeping all the positions that were critical, getting rid of projects and initiatives that we thought were tangential and really not adding a lot of value, working on talent density, the culture of impact orientation rationality, really trying to make sure that what we do moves the needle and it's a lot it's a million things that you you bring in as a business with with our platform, but uh we rebuilt almost entirely the the code base, the cloud infrastructure. There's almost nothing, at least nothing of the core components. It's now far higher performance. Notes sync up in less than 10% of the time in some cases 1% of the time. Hm. I remember that being a problem when I was using it.

That's why I stopped. It is super fast. Um you you would not tell the difference at all compared to the products you you probably consider the best in the broader productivity. Like maybe you think Notion is top notch in the broader productivity. I think you would try Evernote today you would consider they do different things, but the quality of the experience you consider probably on par. Yeah. Uh so [snorts] we had to close a big gap there.

Um retention is at an all time high despite prices being higher cuz now Evernote is substantially more varies by country and but it's probably average say 60% more expensive. So, it's substantially more expensive than before, but surely retention is better cuz yeah, we did lose say 10% of customers were already not so sure and once the price goes up, okay, I'm out of here. But all the more engaged um loyal customers they're still still on board and uh customer satisfaction by any quantitative metric is better than it's ever been before. So, we but it was a very time consuming effort, not something I think completely beyond what to say a private equity could do without having its own R&D team Yeah, and and having to maybe be ready to sell within a few years. And again, we can't do it 100 companies each year, but we can do three or five or six. How do you know when there's pricing power? Like if prices are 60% higher, you've made you've made it a better product, so maybe that's why the price can go higher, but how do you think about price charged to end users across your universe of of applications that you own? It really depends on on each case.

I'll give you another case that's quite different from Evernote and that would be Meetup. Meetup historically you could only use it as an organizer. You could only use it if you paid for it. We introduced a free tier, so you could organize quite we actually do quite a lot for free. Which which kind of qualifies as a price decrease in a way. Like we uh we gave away more for free. And we actually increased the price for the more advanced use cases for the truly kind of dedicated based on my observation there's room for being more sophisticated about pricing.

Yeah. Which is different from increasing prices. Being better at segmentation, what's paid, what's given away for free, personalization, communications, experiences that ultimately all blend into monetization and the maximization of user LTV. Are direct experiences that there's a wide range of levels of sophistication in the market. I I'd like to think Bending Spoons being at the very top of that sophistication spectrum. Whether that translates into higher prices or lower prices or same prices, I don't know, but it certainly translates into a very different overall approach to monetization. Just as a quick aside, why is it called Bending Spoons?

Uh so when we started we we knew that we want to we didn't we weren't going to be a one product company. Mhm. We still wanted the name to connect to something for us. A lot of companies are named after somehow have after the the problem they're trying to solve their product all of them, but or the problem they're trying to or the product they're trying to deliver. And so we we figured, okay, why don't we look for a name that small connects to some principles or values that we find inspiring. Mhm. One of my co-founders Matteo is a big fan of the Matrix the movie. Yeah. I think he watched the movie the night before, I'm not sure, but anyway, he told us, why don't we call why don't we call it Bending Spoons?

Um you know, I watched the movie and there's this little bald guy who uh >> [snorts] >> bends a spoon with his mind and I I think it's cool. And and we initially initially we didn't like it. I still have a uh spreadsheet with the different names and Bending Spoons I think we give it like four out of five stars. There were a couple others that got more stars. The one I remembered in hindsight I thank God we didn't pick it Appeal because we we were doing only apps initially. Now we do all sorts of technology and software, but and so you know, app appeal Mhm. I think it's awful for some reason, you know, the Luca from 2013 thought it was brilliant. So, it got five stars out of five, but we picked Bending Spoons and the reason why we liked it was it connected to two principles or values that we we they're still very dear to us. One is call it the power of the mind. The idea of bending spoons somehow at least to me inspires this vision of a powerful mind that can do things that appear impossible. And we're we're big believers that the you know, the human brain has incredible potential if you work on it and at it and try to really give it the tools.

And the second reason why we loved it was uh that [snorts] even if you have that brain, it again, it just intuitively feels like to to get to the point where you can bend spoons. Um you have probably worked really hard at your craft. And we like the idea of almost anything in life that has value, you got to work at it. I think it's true with a family, romantic relationships, your your craft as a professional, your abilities as an athlete. I think almost anything that's that will really give you satisfaction requires work. And so it And plus it was kind of a unique name. We hadn't heard of any company called the bending spoons and so we figured it's probably memorable. Let's go for it.

>> I love it. I love that and I love that and I love that movie. So now knowing the reference, it's great. Um going back to the Evernote acquisition, you mentioned you paid 50% more than maybe the next highest bidder. How do you know the right price to pay? Like how do you think about pricing assets as you buy bigger and bigger ones? We can talk about Vimeo, we can talk about AOL. You know, the these bites at the apple are going to get bigger and bigger. Price matters of course. You have the ability to do a lot after buying it, so maybe that allows you to pay a higher price, but still I'm sure you want to pay a a good fair responsible price. How do you think about it? One is how do you determine your function returns as a function of price paid.

The second one is how do we uh stay disciplined? So we will really not pay more than we believe is right based on our expected returns, you know, opportunity cost. What else we could be doing with that capital and at what returns? So the first one is a matter of sophistication and the second one is a matter of psychology really I think, you know, discipline, patience. And the third one is how well do we negotiate? So how efficient are we at positioning the ultimate price on that curve? Cuz the the fastest but stupidest approach would be to immediately offer the very most you can pay, you know, and the opposite of offering a ridiculous low price is probably equally stupid. So you want to find the right balance.

Interestingly actually are much closer to the former. We believe it's better to have a reputation for someone who offers a very fair price immediately, but who's not going to be very willing to negotiate much. The first one, like how do you determine that uh return as a function of price curve? You got to be very sophisticated at knowing what you're doing, uh having first party data for benchmarking, asking the right questions, having good models. The output of the model is only as good as the assumptions you put in it assuming at least the the model is mathematically sound. And we certainly have very sophisticated cohort models and whatnot, but the main competitive advantage is in being able to run these businesses a lot better. I mean it's it's We don't win because we're good at predictions. We win because we can run them better, so we can offer a good price. But it certainly helps. It's really marginally important to to making good predictions. And so you want to 12 years of experience running many businesses, running businesses from the trenches in the details unlike private equity, I think teaches you a lot more. So you understand why things went a certain way with certain business. You're wiser when you set the assumptions for your next acquisition in a way that I think if you stay on the financial layer or kind of or I talk to management every week, you think you understand, I don't think you really do.

There is a cost to pay. It takes time. But then on the on the bright side you you you can you're basically smarter at then predicting the future when you find yourself in a similar situation again. So we Assumptions setting is critical for us. We have, you know, many assumptions each has a probability distribution and we debate assumptions extensively without ever looking at what the model will spit out as a consequence. That's forbidden. Cuz we think that if you see the P&L basically the the business plan as you do it, there are all sorts of biases on doesn't look good enough and you're like, "Oh, maybe this is conservative. Let me push it."

We it we do not look at the output only at the input. We debate, analyze, dig for more data. Once we're happy that that's the best we can do at this stage, we run a Monte Carlo simulation and then we look at the distribution of IRR, NPV and that's the truth. Nobody can say, "Well, but you know, now that I see it, I think maybe we were a bit pessimistic with the assumptions." No, too late. I mean this is now the truth.

This is what will guide our negotiation. So that's phase one. And then you make an offer. As I said, we try to make an offer that's sometimes the maximum we're willing to pay or close to it because we think although we could probably get a better deal in the moment if we started lower, then we don't want to establish a reputation for people you can push around and and get more out of. We're more like the Warren Buffett model of I'll give you a what I think is actually a very good offer.

>> [snorts] >> Uh and you know, I'm okay if I hear no, but don't think you can get 25% more out of me just just asking. And then you got to be disciplined when they ask for more than you're willing to pay. You absolutely need to not have fallen in love with that particular business and say, "Okay, you know what? It's not to It's not to be. We'll move on to the next." >> What's your walkaway rate? Like for for every AOL, Vimeo, Evernote that you buy, how many did you want to buy that you ultimately didn't? Oh, well, it's We need to define this because we we look at actually thousands of businesses each year.

Uh we don't make an offer to thousands of businesses. I'd say we probably make an offer to maybe yeah, maybe twice as many as we buy. And you know what? We have never lost a bid before. There has never been a business we made an offer for and someone else got it. Those we didn't buy were ultimately the seller just chose not to sell to anybody. Um so that tells me our offers are typically super competitive. Tells we're probably not very good at negotiating.

Cuz I think a some level of failure rate would indicate a more optimal strategy. I guess you you you you you fail, you learn, you get better. >> Can we talk about the history of the financing of the business because like you said you've done very little direct equity capital raising before. You've done some debt. Has most of this just been build up of free cash flow from earlier businesses until you have enough to buy the next thing and then just rinse and repeat?

Yeah, in short the the more sophisticated version is completely true what you just said for the first 5 years. Then we started using debt. Pretty basic debt from commercial banks. Not very high leverage ratios. 3.5 times

EBITDA on a good day. Um generally lower trailing EBITDA in the last 12 months. Um that helped accelerate. Uh before we couldn't use that because you you need to be have an established track record because before they take you seriously.

I would do the same if I were them. Since then it's been essentially, you know, debt and reinvested earnings and that. So we have raised a bunch of equity, but mostly to fuel secondary transactions cuz if you're in business for a long time, you start to getting to a good scale, people are are saying, "Okay, I've invested in this company." And I'm talking really just team members cuz from the beginning we enabled people we pay just cash.

No variable pay of any kind. And people can choose though to receive some of their cash pay in equity at a discount. It's very unusual by the way. And so in time people have accumulated positions and that equity is worth nothing if there's never any liquidity. So we started organizing secondary transaction every 18 months, 1 year, 2 years. We've had maybe five, four or five, four probably since 2019. And so mostly equity has been raised to finance those transactions, but occasionally the first capital increase of any significance was in 2022 I think.

Uh so yes, we have dilution from capital increases very modest. Off the top of my head I'd say maybe 10%. Uh we could also not have done any of those at all. We still did them because we figured in a couple of cases it helped us get over the hump to close a deal we couldn't without that a little extra. With that [clears throat] we were maxed out. But also we figured if we bring in a little bit more in terms of high quality international investors, that'll be helpful for credibility, firepower if we need to go after a huge acquisition quickly, just optionality. But we're generally very cautious in when it comes to dilution. I think if you really believe in what you're doing, you should be should be painful to to to increase your capital base. I don't know if it was Evernote or some other one. We talked about Evernote, so maybe pick a different one. I'm curious for another acquisition, whether it's WeTransfer or Camood or or anything else. What's the What's the AI photo sharing one? Remini, which I was just looking at out out before we started this morning. Are there other acquisitions that have taught you personally the most about your own process, about doing this well, that stand out in memory? There was one time where let's say we bought a product at the peak of let's call it a viral moment. This is really not applicable to the type of businesses we buy today, but at the time it was a thing.

It's many years ago now. Um and uh and then as soon as we bought it, they basically that viral wave was reaching and had reached the peak and and that completely changed. We thought we'd been conservative, but it completely changed our assumptions and led to drastically inferior returns versus what we expected. And that taught us to be absolutely paranoid when it comes to the sources of user acquisition. So basically either we buy a businesses where almost all the value lies in existing customers or users like people, okay, these have been acquired. It's just about now or if a lot of the value uh is predicated on substantial additional user acquisition or customer acquisition, then we need to really clearly understand the drivers of that expected acquisition and make sure that they these drivers are things we can predict. For example, we can make pretty accurate predictions of of word of mouth rate under normal circumstances, but not under sudden viral moments. We don't feel very confident making predictions of future rates of user acquisition through paid advertising for example. So that was a big lesson learned.

Another one that we learned, we actually went after Grinder, the LGBTQ+ dating app in 2019. So the app was owned by Chinese firm and CFIUS was forcing it to sell. It was a big bite for us at the time. We're much smaller. It would have quadrupled the company. We didn't have an equally substantial track record as we do today. So, we we we we went above and beyond to raise the capital.

Almost won the deal. Ultimately, we lost it because someone else offered a bit more and we would have offered more still, but we just had capped out on available sources of funds. So, that was a failure. We we worked like it took up took us about 9 months of I was my main thing and the main thing for several colleagues. At the time we were also very very small. We had an M&A team of one person. So, it it really paused our growth.

Had we bought it, it would have been an incredible acceleration afterward, but it [snorts] taught us to be very careful to put all our eggs in one basket. And so, in hindsight, I think we could have still tried to get it, but maybe not obsess so much over it considering how unlikely it was to make it happen and try to place another few bets so that that year, if you look at our growth, those couple of years, it's way slower than almost any other year and that's the the key reason. Like we put all we had into making that one thing happen. It didn't happen. We hadn't done anything else.

Well, I'd done some things, but nothing that would really move the needle. So, I'd say we've gotten almost obsessive about seeing the world in terms of statistics and with that model of the world, act accordingly. >> Can you talk about AOL a little bit? Obviously, that's a name that literally everyone will have heard of and I'm fascinated to hear the story of you acquiring the business. So, people know AOL as the way to connect to the internet back in the day in the '90s, even the '80s, I think actually. I think they started very you know, pioneers.

At some point AOL was what Google was in the 20 in the in the 2000s, you know, like it was the the hot new thing. So, they had this I guess based I mean, outside it it seems like a failed merger, you know, at the Time Warner and whatnot. And then they had different homes. It's actually a very good business. It lost all the customers that it had to lose over the decades. And today it's a it's an email inbox and a web portal with the aggregator of news and and other content. It's a very good business with tens of millions of active users, very loyal users. Again, there's a lot of selection bias.

Uh people who want a Gmail have had decades to to go through. Like you know, people who really love that particular experience, they have lots of stuff there. Although the team has done a pretty good job, I think, at managing this business, there there's a you know, a next level to be unlocked in terms of polishing the product, optimizing the offering, uh optimizing monetization. It's just a very good business that I think superficially people think, "Oh, it's probably legacy old. It's probably worth nothing." But actually, it's it's wonderful business.

And in fact, again, I won't name names, but a lot of other companies in the broader messaging or email the uh industry or segment and that if you just read the news, you would think are doing super well and they're much larger, but actually if you had access to uh the user count, P&L, including in time looking at trends, they are just not nearly as good. Like it doesn't even begin to compare. AOL is actually I believe the top five the fifth most used email inbox in the Western world.

>> Crazy. >> Which is, you know, it's something. I mean, it's a pretty competitive category. Is it Gmail? No. If Google ever wants to divest it, I will be happy to take a look. But um it's a very it's a very good business that will be even better, I I hope, that's the intent, as we pour our hearts and souls into improving every facet of it. One of my mentors, um who's done a lot of investing and building of of software businesses over a long period of time, said that one of the ways that he made the most money or was the most successful would be that he would enter in product situations where there were 12 things going on and there should only be three. That there was always just like too much stuff, too many features, too many products in the company. Have you found that to be true at all that there's especially with companies that are a bit older, that there's been this creep of stuff that gets added that's not necessary. Is that like a common element of your playbook to take 12 down to three? I don't know if it's necessarily common because not all companies do that, but we have seen it. I guess why I tried I thought it was a contrarian view, but now that I know your friend thinks the same, maybe not as contrarian as I thought it was. But yes, I think people in general overestimate the value of R&D.

Let me qualify. They think that generally pouring money into building stuff pays pays off. Uh-huh. It's really not true at all. What we find is that there's a very small number of things that pay pay off handsomely and most things are waste of money. And while there's an element of you don't know before you do it, so for sure a lot of it you do. Um for example, if you start from what your customers need, really focus on that, rather than maybe what your engineers think think is cool or fancy visions that have very little to do with the core problems we're solving, you're probably actually already taking big strides in the in a direction of greater efficiency. So, and by the way, it's not just about keeping costs more under control, but it's also doing the the thing that matters better.

Evernote today has a lower cost base than before, but I promise you if you if you take 10 users at random, power customers, power users, nine will tell you that it's actually higher performance, more resilient, a better feature set. And part of it is we've really focused on what these customers needed, you know, painfully needed. Um that helps you do more with less essentially. >> How do you think about um taking capital from a fund that's a 10-year VC fund or something or private equity fund versus a Berkshire Hathaway that's, you know, got capital that lasts forever. When you're when you're thinking about the right partners? All else equal, we do prefer a permanent capital and it's not so much because you even permanent capital could ask you to to liquidate. It's just that they don't have to. And I think the fact that they don't have to reduces the probability that you'll find yourself in a situation where it's it's just an unnatural complicated moment to do it, but you still have to do it.

Uh incentives can become a little bit perverse. Uh we haven't experienced that before, but I know stories of others having done that. If if, you know, there's an evergreen source of capital, I think you're less likely to find yourself in that unpleasant situation. However, I will add I side more with investors on this than entrepreneurs, although in a way I'm more of an entrepreneur, yeah. Uh certainly. Um I think a lot of entrepreneurs take take money from investors and have a level of entitlement that they should never be asked to provide a return. It's like, "Oh, but why do you ask me to sell now? It's only been 4 years, 5 years."

I think that's either naive or intellectually dishonest. Regardless of the particular bylaws that investors subjected to where maybe they could stay forever, ultimately an investor is trying to achieve some form of IRR with some time frame. So, you should remain very respectful of the fact that when you take anybody's money, if you ask me, but certainly institutional money, you can't find it shocking or disappointing or then about it in the entrepreneur circles that they're asking putting some level pressure with you to to sell.

>> You're in such an interesting seat because you're you're both investor and operator and so you have the shared perspective that you you're often buying things as an investor, but then running them as an operator. If you think across all the investors, pure investors that have come and studied Bending Spoons, some of them had have made equity investments, secondary investments, etc. What distinguishes the best investors that what what do they do that's most different from those that are, let's say, average? I'd say most good investors are they recognize patterns. So, I've seen a certain business model work and they use that to select their investments. If done right, this is a very successful way of investing.

And then there are the bad investors and the amazing investors. None of which is a pattern recognizer. So, they actually assess each business in an ad hoc manner on its own deep fundamental merit, but that's much more difficult. And that what that's what divides the truly outlier investors from the bad ones. Those in the middle, maybe even leaning toward good, are pattern recognizers. But then the truly incredible ones, you sit with them and they're not saying, "Oh, you are, you know, the Uber of bicycles."

>> You're the Berkshire for this. They they understand the almost the laws of physics to make a metaphor that makes so that the apple falls. >> Yeah. And that gives them certainly a lot of confidence, but also the ability to see what others don't because ultimately a lot of the time, a good investment is not a determining that something is good. Like a lot of companies, most of us could tell they're good. But if everybody or even quite a lot of people think they're good, probably the price embeds that goodness and it's not a great deal. It is what it is. It's like a lot of companies today in AI. Again, I'm not going to name names, but some probably deserve the valuation. Some will history will prove were even cheap. But but most, even the good ones, are probably too expensive simply because everybody wants to invest. In a way, it's the same thing.

The truly outstanding investors will be able to find something that's really good, but few people think is good. And the only way to do that is not to apply pattern because by definition, if it were if it fit a pattern, then everybody it's either bad by the pattern or good by the pattern, everybody is on board. It has to not fit the pattern and you have to find ways of determining it's good. That's very difficult intellectually. It needs creativity, imagination, lots of logic, rationality.

It cognitively is next level. In that specific effort for Bending Spoons specifically, where have the best investors really dug in to get that that physics understanding of your business that's different than how other things work? Like where do the best dig in? I think some of the best are are really good at understanding people, at discerning who's really smart and not promotional from those who are not so smart, but very good promoters. And so, when you see a business as a strong track record and someone explains to you in a way that makes sense, it's not just a good story but it makes logical sense, that's huge indication that probably there's something there.

First of all, you now know why things have worked out and you can determine whether they're likely to continue working out. And secondly, if you're investing in someone who's made good decisions for the right reasons, not just out of luck, they're just more likely to navigate the future variables that will be thrown at them better than most. I know investors who invested, for example, in Amazon early days, who told me one particularly, who told me that the main reason why why he did and he made a big bet on it and it was a huge success.

It was not because he believed he did believe, you know, in the e-commerce model and all that, but he believed that nobody, very few people he'd ever met had the clarity of thought, the rationality of Jeff Bezos. And so a model he believed could, you know, had legs coupled with a person he thought was a brilliant leader, a very bright problem solver, that alone set that opportunity apart from a lot of other stuff. Yes, it would be difficult to have wide margins for a long time, but he was confident that the company would be much better than at least it would it was priced at at the time. So so I think understanding people and their cognitive abilities is quite difficult. It requires in and of itself great cognitive abilities. I find that if someone is eight out of 10 smart, they can only discern the sevens from the sixes from the fives, but the eight and the halves, the nines, the 10s for them look like the same, like a big batch of oh, they're so smart.

And so for to be able to distinguish the 10s from the nines and the eights, you need to be probably close to a 10 yourself. And of of course experience and other elements too, which make it very difficult. They're not just brilliant from a point of view of logic logic and analysis, but also rationality. Trying to really ignore this person is really pleasant or charismatic. Yes, park it. What's really beneath that? It's difficult. I mean, we we as humans have been evolution has made us animals of of of gut, of emotion, but emotion investing, they're not good friends, I think, or at least good investing. Another thing that you have to deal with in a unique way is this cocktail of incentives and motivation for different parts of the business. You have business units where a team is running an Evernote, for example, that's different than a spooner that's in the home office that's being moved around and doing lots of different things. What have you learned about setting incentives for people to get the outcomes that you want in a in a fairly complex structure? I don't know if this will disappoint you, but we don't.

Everybody is paid a fixed salary, no variable pay, no stock grants, nothing. They can choose to invest part of their cash pay at a discount, not a crazy but a pretty generous discount at the top core level, and that's it. The way we maximize alignment of of effort is by hiring people we believe are are high integrity, that have great professional pride, and then just treating them with the utmost respect. And I think most people will try to do what's right and do what's right for the business along the the lines of the mandate to give you gave them. So if you say ultimately you're optimizing for Meningitis Spoons, not Evernote, nine out of 10 people, if you're hired well and the culture is right, will take it to heart and do that. In fact, I believe sometimes setting financial incentives, of course if people do well, they they're likely to get more responsibility, higher salaries, not that it's certainly there's that, but it's not as immediately tied to a it results next quarter or something very measurable. It's through observation in time, if you're great at your job, you you probably get more, do more. But I I think that sometimes when you set typical incentive plans with KPIs and whatnot, first of all, it's very costly.

Takes a lot of time. So for that to be ROI positive, it's not enough that it adds value, it needs to add more value than the cost that's implied. It's absolutely guaranteed to create at least some perverse incentives, cuz nobody can set perfect incentives. The world is too complicated, it changes too fast, for sure. So even if you're a genius, uh whatever you set as incentives will be imperfect. So there is an additional inefficiency that whatever extra efficiency needs to overcome before it's you're even into uh black territory as opposed to red territory. I think also those kind of incentives tend to hinder relationships.

They tend to make things more transactional. It's more difficult to have a proper problem-solving session where all we're thinking about is how do we win together? I think most people will have it in the back of their minds like, okay, how do I get the better bonus? Like it's difficult to be entirely resistant to that feeling. And so I'm sure it could be done better, but we chose the simple way, which is we just try to hire well, treat people respectfully, and just get rid of all that stuff and assume you'll do the best you can. I'm sure you're always dissatisfied with the state of things and want things to get better all the time. What about Meningitis Spoons today are you most dissatisfied with?

Yeah, I'm that kind of person, by the way. I'm perennially unhappy, which I think sounds awful, cuz in a way I feel guilt I I feel very fortunate. It's just I feel very fortunate and I'm and I'm perennially unhappy, which is a a huge superpower and a curse at the same time. You could imagine. I mean, I'm I'm not alone I mean, many people in this world are like that. What is not good or at least not as good as it could be? Well, one of the things that is critical for our growth is hiring and coaching.

I am I'm absolutely positive we offer literally, you know, one-of-a-kind level jobs, some of the best on the planet. I'm absolutely certain. Incredible talent density, you learn faster than anyone anywhere else. You get an opportunity to take on responsibility that's crazy. Most of our general managers who run businesses on average 50 to 100 million in revenue. So if they were a scale-up, they would be considered a large scale-up. Many of these people are like 27, 28. Most of them are I think very few are above 30.

So unique opportunities, excellent financial opportunities too, whether it's very good salaries and investment opportunity in a company that's growing fast. We feel very privileged of getting a ton of great applications, like I said, a huge number. I think we should be getting more better and should be better at identifying the raw talent. I know we're rejecting a lot of great applicants who are actually better than some of the people we hire because we're just not good enough at spotting that talent in someone who has a such a short track record, maybe a student, new graduate. That's an area of massive frustration in a way. I'm at the same time very proud of what the team has done there and frustrated we we can't yet do better. And I know that's one of the the keys to growing fast and and achieving what we set out to achieve. Um so that's certainly a a major area. I'm always frustrated with I think our our society is there's too much regulation. We're really working on the wrong stuff as at the institutional level.

People try to create economic growth and prosperity through more rules. Just telling you, yeah, if you if we tell them exactly where to go with lots of rules, surely we'll be prosperous. They don't understand that it's quite the opposite. You get you got to get out of the way and create as free and open a playground as you can. We keep adding rules. Elon Musk once said something that I thought was brilliant and I fully subscribe to it.

He said, we should have a rule that every new law is automatically removed, say 3 years later, unless someone can make a really good case that's created a lot of value. So we wouldn't have 10,000-page long civil codes or whatever. Like to to be we're basically trying to prevent rare corner cases, unpleasant, sometimes tragic corner cases, while making 99.99% of the normal cases less efficient, more more painful, some utterly impossible.

Uh but because they're not as newsworthy, because they're typically widespread and and normal, those inefficiencies are not as interesting to talk about. In aggregate, they are just a massive tragedy, a much bigger tragedy than the one individual tragedy of one corner case. Ultimately, when it comes to regulation, the corner case wins and we regulate it that way, but we make life much worse for everybody else 99% of the time. The so this frustrates me because I think we're just shooting ourselves in the foot as a society, essentially.

What's your balance of time of like what I'll call maintenance hours of internal stuff, you know, keeping the trains running, versus space that you create to tinker with the business, try new things, stretch that comfort zone that you were talking about earlier? I guess the bigger the question behind the question is like, what does your week look like? Like how do how do you spend your time? Well, it varies by by period a lot. So for example, if we are when we close a a large transaction, I'm all open there with with a task force, in the in the trenches, meeting the new team and for for weeks or even months sometimes, that would take up 50% of my time. If we're working on a big fundraise, we just raised the largest uh that round of any private company in Italy in history. And like we said, we we we raised $700 million at an $11 billion valuation.

Um in equity, these two initiatives certainly took a substantial part of my time. And when we're not in fundraising mode, that goes down to a trickle. Maybe I have [snorts] some calls with investors, but much less. Uh so it varies, but I would say probably a fair split would be 50% of my time talent. I check each candidate before we extend an offer. I extend the offer. I talk to many of the new hires. Uh I help with talent density. I help trying to push for being demanding. So that's probably 50% of my time.

50% of my time is on average probably financing and external relations, I would say. 50% of my time is these transformations of companies we newly acquire. And and 50% of my time would be other, call it, long-tail platform work, which is probably where I would put that thinking creatively about how to improve the strategy and that work all the time. So I probably work as two FTEs, like I think most people in my position would. But it's probably these four categories are comparable in in investment. What did you learn during this biggest ever debt raise? Most of the people that I talked to for this are raising equity capital. I I haven't had a lot of conversations with people that have raised lots of debt capital for something like an acquisition. So I'm I'm curious about the whole process and how you would compare and contrast equity versus debt capital markets from a raising perspective. Yeah, the mindset is quite different cuz an equity investor tolerates the risk of losing money vastly better because they have an upside that's essentially uncapped within reason.

A lender is almost entirely intolerant to the possibility of losing cuz their upside is that 3% spread, 5% spread. You you know, depending on depending on the exact financial instrument, it's still a limited and generally fixed upside they have. So they it's all about not losing it. So a lot of the questions are more oriented toward understanding the potential worst-case scenario and the risks. Equity investors are more oriented toward the

TAM. How big could this be? How quickly could we get there? The surprising part is a lot of banks, a lot of lenders are actually quite visionary. I hear people say, "Well, they're probably more boring cuz they're Actually, no. A lot of them are brilliant and and visionary. So they're quite curious about the model and where it could uh how far it could go and and understand very quickly why it works. Uh So I I thoroughly enjoyed my conversations with lenders at least as much as those with the with equity investors. Uh perhaps because they have these They have to be so paranoid about the downside, this breeds in them a thoroughness, a thoughtfulness that's not always the case with equity investors for whom maybe that intuition of all this team, this thing could go far is more important like catching the big wins is more important that And so they can be wrong more often. So they're maybe a little bit more They're a bit quicker in their judgment a bit a bit more. But but I think lenders are quite an interesting type of of investor to to talk to. And generally it works that you talk to a couple of anchor lenders, some of the biggest banks, uh typically those with a strong investment banking arm, too.

They help you figure out that kind of shape the round. They They commit some of the money immediately, so you know you've got some of it covered and you know where you're going. And then you start bringing under the tent more players with other important roles and then lesser roles and at some point it's {quote} {unquote} just providing capital. And typically, some of these capital is basically it's with that lender it will be a perm it will stay with you until maturity, 5 or 7 years down the line.

Some some of this capital you may want to syndicate, so you the lender tells you, "Okay, I'll give you a billion dollars, but we agree that in the short term we'll be going out to sell away essentially this billion dollar to many providers each with 1, 10, 50 bill million each. And they'll hold it for for 5 years or 7 years, but I'm just giving you a bridge to that moment. You need the money now, you're doing M&A for example, and we don't have time to talk to 20 parties. Plus, it would certainly leak that you're buying that target. So I help you get there, but then we agree contractually that we'll be uh transferring that credit from me to these other these other lenders. So that that phase is also interesting and uh it's quite optimized cuz the debt markets are huge. It's gigantic and vastly more efficient probably than the actually much smaller, say VC capital markets.

And so the the process of how you take that credit from the point of view of a lender and and syndicate it out is super standardized by now. You create a deck, you record a presentation, it's distributed to Yeah, yeah, yeah. You show up for 1 hour maybe three times with batches of lenders. Like it's super super standardized. Very efficient. I'm so curious what you think about um what I would call almost like a religious debate right now in the world of software, which is how AI will affect the sorts of businesses that you've bought historically. Will it enhance them? Will it hurt them because it's easier to create replicas or copies or new versions? Um we talked about Remini earlier, which is a an app that you bought before ChatGPT or that I'm sure has benefited tremendously from from the advent of AI.

How does this new tidal wave of technology impact your old businesses? How you think about new businesses? Just your take on it in general. >> Yeah, it's a complex discussion and I think you're asking maybe a time frame of 5 years cuz AI changes the the very fabric of our society 50 years out or something like a long time frame. Uh in ways that are both exciting and scary. But in the medium term, I think for Benevolent specifically, I think it's mostly a good thing cuz we don't care too much about the risk to each individual piece of our business.

Basically, most of our business units are 20% of our revenue or less. So even a a dramatic decrease in one of them is still in the grand scheme of things kind of minor. Percentage wise. >> been growing at 75% a year, you know, like I'd rather none of them decline, but some do, some will. Maybe one or two will decline fast. It's undesirable, but not existential. So for our model, it's highly diversified. A lot of what we do is being better functionally better at running this company, meaning having a higher quality output at a lower cost across the functions, engineering, design, product, growth.

AI is a an accelerator of both quality and efficiency if used properly, but it doesn't do it by itself. Maybe it will in 10 years, but today we we We've seen it clearly as we have invested internally in excellence through AI in our operations. A lot of it is custom integrations, proprietary technology, a lot of cultural work on getting people to use it the right way. So like with every innovation in the past, we'll see a small percentage of companies being at the forefront of leveraging that. Most companies being being laggards. And I'm pretty confident Benevolent will be at the very cutting edge of using it. And we're already making strides there.

That if anything will the gap in in ability uh between us and most companies uh will even will widen for for years. But again, I think it's likely to mostly benefit uh an aggregator and consolidator like Benevolent assuming we stay disciplined with pricing uh while being very disruptive for for certain uh verticals. And some will be disrupted much earlier. So I think we as a society and investment community will be able to start seeing things and and update our model of reality and and predictions based on that. Can it be disruptive for many SaaS businesses? Absolutely. I think the time where we open up ChatGPT and we tell it, "Okay, build me Jira." Yeah.

>> Or is far away. Yeah. Is far away. Like it's not months away, it's not even a couple of years away. AI today can do a lot for you beyond, say, research, copywriting, and maybe some basic content production. But it'll do more and more and fast. Like I said before, we we were working with AI in 2010, so we're very early. I'm a big believer in AI, very big. However, even if it could build Jira today, it's not that easy to explain to it what you want when it's so complex.

So I wouldn't underestimate the inability of the of the user to get out of it what they need. These products been honed to customer needs for a long time. Uh you're already using them. There is, you know, an investment in them in terms of data. So not only does the tool need to get to a point where it can replicate that and with the same guarantee of performance, very difficult. Like getting to something that works the same 95% of the time, still like we're super far from it. But that's an infinitely easier challenge than something that works essentially 100% of the time, infinitely easier.

But also you need to be able to guide it to build it the way you want. And as long as software is ultimately a relatively small share of wallet, like if you think about it, it's not an expense people will optimize first. It's not like a car that literally you plan your finances finances around. Before that truly eats into the overall size of the market, I think we're talking a lot of stars need to align. I think it's probably many years out. You mentioned earlier that ultimately your main product is your company and the people that work here are the key people to attract. The jobs are products themselves. What are some of your favorite ways of making sure once you get these amazing people, we talked a lot about data science and recruiting and the pipeline and the crazy number of applicants and so on.

Once they're here, making sure that they get the most out of it and you get the most out of them, which is a you know, mutually beneficial. What are the sorts of traditions and things that you do that you think have most contributed to being the kind of place you want to work? >> Ultimately, the most important thing is to be very clear on what kind of company you want to be, your principles, your values, and then hire people who uh embrace those. And and then you yourself as a person who's maybe more visible than others, try as hard as you can to be the best paragon of those values as you can be cuz that that's most more important than any, you know, manifesto or initiative or big proclamation. There are certainly things you can do that help uh on the margins help foster those values a little bit further. A few things we do that are I think are unusual and we we love are One is it called State of the Spoon. It's twice a year we have somewhat the equivalent of an Apple keynote, but it's just internal. And most of our teams take turns on stage presenting their most proud achievement oh and also failures and lessons learned of the past 6 months, what they're planning for the future.

And it's always um there's an element of comedy and self-deprecation, uh which makes it I think quite entertaining. You laugh a lot. I always It's like 3 or 4 hours and at the end of it I have like my my jaw is painful cuz I laughed too much. It's just fun. Uh we organize all sorts of kind of almost cabaret things and uh it's a great tradition and it just helps us you know, be proud of the things you do well, remember not to take ourselves too seriously, we're not saving lives. Uh you you meet and learn about colleagues you maybe hadn't necessarily been close to before.

Another one we do is a yearly retreat where we bring everybody to a remote exciting typically exotic destination for 7 8 9 days on the company's time and dime. It's just a vacation with your colleagues. The last one in which order but we went to Seychelles, Mauritius, the Dominican Republic in the past we went to Japan, Australia. We think it helps establish a level of trust bonds with colleagues and ultimately a company is people. So if you're if you bond with colleagues you're bonding with the abstract concept of the of the company to an extent.

It's not the same thing. It's not enough but it's part of it. We believe that it pays dividends in terms of again uh willingness to sacrifice to be honest about problems to do your best. >> Why do you think there are not more Bending Spoons? I mean it's kind of like asking why are there not more Berkshire's like there's only one Buffett. Um but why why do you think there haven't been more people that have taken advantage of this ecosystem this huge TAM of companies that are more mature now that are you can acquire that have installed user bases in low growth lower growth. There's always a first.

Private equity wasn't a thing until it was a thing until today you have trillions of dollars in private equity. So someone try you could have done private equity before KKR did private equity. Nothing prevented you from doing private equity in the 1930s. But I to my knowledge nobody was doing private equity. So at some point someone come up comes up with an idea. It makes sense. It's efficient. It works. Others flock to compete.

Sometimes that ruins the opportunity.

Regardless you have a market. This may be the case. We'll see. I think we have a far superior competitive advantage advantages than a private equity because essentially a private equity every single every acquisition is is almost a we start a fresh in a way. In our case we do well because of the platform and the structure and so you would you would take many years for someone to build the employer brand, the talent pool, the culture, the technologies to get to really compete.

So I'm actually not at all this which is also one of the reasons why you see me being pretty transparent about some of the principles cuz I I think I thought about it and I figured if if I started over knowing all I do which I knew someone else typically wouldn't at all also because what I say here it's the tip of the iceberg but then from there to actual day-to-day make it work but but even if I if if I started over with all I know and even if someone said oh I trust you do super well here's a billion dollars to get to where we are now say 12 years after the foundation of Bending Spoons it would take me maybe not 12 years but easily seven or eight. Like it's a huge slog. You hire two people you spend a year coaching them and then you hire four and they coach them and you help you.

And you build the technology slowly you know it takes time to write software and polish it. So presumably more will try. I would say that's to be expected and it's being painful. Again private equity is very difficult but if you're bright you understand business finding someone who will give you you know not a hundred billion dollars. That's the best of the best over a decade but enough that's that you can have a business and it's worth trying is not that difficult. There are so many private equity firms. Ultimately you just need to do well enough that you don't look bad like you're around average and many will die but some even statistically will do well enough. So it's easy the barriers to entry are low.

And so you have a proliferation out of proliferation of wannabes. Some will prove to be great. Some will be great out of luck and so again you have more competition. But trying to build a Bending Spoons is if you understand what you're doing which is a prerequisite prerequisite to even have a chance it's dauntingly painful. I mean again many years from the ground up cultivating the little garden. There is no shortcut to it. So I think it's just not a model that when people see it a lot of people have known about it for years as I've talked to investors and I've seen nobody try cuz they just understand it's just too painful.

>> I have loved doing this with you. It's so fun to hear you be so transparent about what you've done to build this thing. It's such a unique business and a unique place. It's fun to do it here with you here in Milan. When I do these interviews I ask everyone the same traditional closing question. What is the kindest thing that anyone's ever done for you? So when I was a little kid I I was almost pathologically shy to the point that I was uh let's say diagnosed with autism. I think the diagnosis was not necessarily strictly scientific but that's to say I was so introverted and shy. I spent years in uh elementary school talking to nobody pretty much. So I go to middle school in Italy where middle school between the age of 10 and 13 I think. And it's the first year school year goes by and I have talked to essentially nobody in my class. Literally.

And we're late in the year I think it's probably May and we're we're on a school trip in the hills just taking a stroll with our teacher and probably seeing some ruins or some Roman thing. It's a pretty common thing to do in Italy. Plenty of ruins. Um and all of a sudden two classmates of mine come over they just hug me and and they just start talking and they were the two outgoing popular guys in the class. They just talked to me and they on the bus they just dragged me with them in the in in the back and we start singing and I'm terrified and happy at the same time cuz I did want to socialize. I just I didn't know how. And they keep investing in this relationship for a long time. And again we're 10 or 11 so little kids until months later I felt confident in myself and I had turned into a reasonably social person. Like I could not the most social not the most outgoing but you wouldn't tell that I had been almost pathologically shy to the point that my mom brought me to a doctor you know like and I owe it to those two two guys. And what I learned during the third third and last year of of of middle school was that so one of them got mad at me for something stupid like a girl I don't know kissed me not him [snorts] like again stupid thing 12 years old and it lasted five minutes. But in those five minutes he was furious and he told me you remember two years ago when Alberto and I did this and that and helped you and involved you and got you out of your shell. Well we didn't do it because we thought you were cool but because this teacher told us that you needed help.

And he did it to hurt me to say that. But actually I'd never felt more grateful in my life cuz it's very difficult if you think about it for someone 10 years old to actually implement that request from a teacher to go with the with the uncool guy go go through the slog of months where the guy barely talks inviting him after classes to go to his place to play video games or play football and and they literally changed my life. It's probably the single thing that ever happened to me that I'm most grateful for. Incredible closing story. I absolutely love it. Thank you so much for your time. Thank you Patrick. My pleasure.