Complete Transcript: HALO Talks with Kaumil Gajrawala
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Pete Moore:

This is Pete Moore on HALO Talks NYC on location Manhattan Beach, California, bringing in, in new friend of Integrity Square, Kaumil Gajrawala, head of equity research focused on consumer staples and the author of the new wellness initiative at credit Suisse. Thanks for coming on a doing today, living the dream man home here. Love it, love it. We're doing well. We are super excited that you have brought your research skills and scope to the wellness category, which we've now referred to as the halo sector. So we'll just do a quick plug health, active lifestyle outdoors. So what was the you know, give us your, your personal background and then talk about the team that you built.

Kaumil Gajrawala:

Yeah, I've been in the, I guess I'd been in the investments business. I was one of those kind of kids that grew up always wanting to be an investor, that sort of thing. I was in the investments business though started, you know, from an intern and came out into the world, covering internet stocks, just right during the internet bubble sought a lot of new businesses, many of which expected to be incredibly, incredibly successful. And several of which were, and a lot that didn't really work out, including myself. And I thought I'd be really, really rich working on wall street in the bubble, but I rolled in right at the end

Pete Moore:

And I did something similar to that.

Kaumil Gajrawala:

And so so, you know, we had to regroup a little bit. The offer came to say, Hey, you can cover beverages. I didn't really want to do it. I thought I was a cool tech guy and eventually got into consumer, got into beverages and found it to be a lot of fun at different sort of dynamic. You're looking at very profitable businesses that have been around for a long time, incredibly, incredibly competitive versus inventing new business models. The different sort of analysis did that for a number of years, moved through the ranks, added a global overlay. So we're looking at beverages globally. Then we started adding household products. I then went on to being an investor for about five years at a private investment fund. We invested in, you know, what we like to think of as very high quality assets at better than fair prices.

Kaumil Gajrawala:

So we would look for businesses that we thought were going to be great and we'd want to own for an incredibly long time, long periods of time that are going through a difficult moment. And we'd try to step in. And more recently kind of came to credit Swiss as a as an equity analyst. I'll explain what, what that is in a moment. But as we're doing that, our primary sort of goal in beverages and household personal care as I returned is effectively to help asset managers make money. So anyone who saves their saves their income with mutual funds, ETFs anywhere where your savings might be, you obviously don't expect it to sit there. You expect it to grow. And those folks, when they're buying companies that I may cover like a Coca-Cola or a PepsiCo will want to speak to an expert, someone who spends all of their time, just in that space.

Kaumil Gajrawala:

And I'm the guy that they will among several that they will talk to to say, cause they're obviously buying hundreds of millions or billions of dollars worth. And if they're going to make that decision, they want to speak to someone who's followed the beverage space for whatever it's been 20 years, that sort of thing. As it relates to expanding into halo which has been a bit more recent, but as I kind of looked at the history of what we were observing in the consumer product space, there was a couple of things happening first, all the major companies, pretty much all of the capitals they were deploying was some version of health and wellness, whether it was discovering diet Coke and Miller light, or buying vitamin water, or obviously a series of deals more recently across across the spectrum. So you kind of know that that's where the industry was going.

Kaumil Gajrawala:

You knew this was a big thing. And, you know, we had been watching sort of the play by play for, for two decades. Then more recently we're looking and we're seeing that the consumer has been moving in this direction for a long time, but COVID really accelerated it, I think in a big, meaningful and permanent way at the same time, we're thinking, well, our job is to help other people make money. Our job is to help asset managers find things to invest in it. And there's lots of places to invest in the halo space. We might as well be the, the, the, the centerpiece for these folks, someone for them to go to that looks at the entire space. What usually happens on wall street because we don't really evolve that quickly. We usually end up having is something like a Peloton comes out and it goes to the media analyst because that person covers Spotify and Netflix or something comes out like a Celsius and it's covered by a beverage person, but there isn't really anybody who just looks at wellness across all of its spectrums, looks at how halo cross all of its spectrums and says, if you want to bother to make money in this space, here's someone you can speak to that will help understand it spends their time on.

Kaumil Gajrawala:

It obviously works with folks like yourself to try to understand it as best we can across sort of the spectrum. And so we came up with this idea and narrowed down all of our work to doesn't sound narrowed down, but narrow down our work to about a 101 page just to keep it as concise as we could.

Pete Moore:

No, it was a great report. And for those listening, we'll put it in the show notes on how to download that report, you know, as you think about these real wellness companies and halo companies that you cover in the public markets, they're obviously trading at significant multiples which, you know, should correspond to their, you know, future potential growth. However, you know, in the halo sector, especially with Amazon and the, the internet, you know, the compare competitive barriers to entry are obviously much lower than they were when you and I started also internet companies back in the day, you know, you used to have your data center, you, you didn't have the option of, Hey, let's just go to

Amazon web services and, you know, bam, we got a company and go to Spotify, you know, Shopify. So how do you kinda, you know, square square, the, the, the peg, if you will to say, Hey, look, these companies are going to be really big companies and they warrant these kinds of high valuations because I see where they're going to be on the other side. And then another side might be three to five years from now.

Kaumil Gajrawala:

Yeah. It's I think you maybe start with the fact that the category is going there with, or without each of these individual companies. I feel very comfortable that the category growth is there. So you're already starting with your you're starting with the wind at your back. We think halo as an industry will be a $7 trillion industry. I think the number that gets kicked around the most frequently is 4.6 billion from the global wellness Institute did incredibly good work around it. However, that was a 2018 finger looking forward to when they, you know, when they update it for maybe more recent, more for how things have changed more recently. But, you know, we did our own work. We think that 4.6 in 2021 probably is around 5.8 going to about 6.9. Not not every piece of it will be a winning piece, right?

Kaumil Gajrawala:

There'll be parts that grow a lot more slowly parts that disappear parts that re-emerge. But at the end of the day, you're talking about something that it's growing very, very significantly on a global basis. So can they get those valuations? Well, if you're can park, if you can stay and participate and you have the offering, absolutely. The theater areas that are important are the things that are just important to identify as what is the problem that you're actually solving. And is that in any way differentiated? A lot of folks will have I B companies, I don't know how many I'm meeting, but whatever hundreds, maybe in the thousands, whatever it's I hear everyone's pitch about differentiation is that real? Is that true? Barriers to entry are lower than they used to be in a lot of others that a lot of other businesses, as you mentioned, I think that's a very important point.

Kaumil Gajrawala:

That doesn't mean they can't be created with brands. You might, the various infrastructure are lower than they've ever been. And the willingness for consumers to try different things lower than they've ever been. But that doesn't mean that brands don't still exist, but if you've somehow developed a real brand, what's a real with a real appeal that's authentic that can be your barrier to entry. And I think that's important because it's hard to sell that off into investors, strength of the brand. If you can pitch that, if you can make that real, then all of a sudden, just because someone else can replicate something close to what you do doesn't mean that they're going to be the winner. And when you look in the consumer space, it's the end of the day, this is a consumer space cause actual people are buying it to live better, healthier lifestyles. There's usually a small number of brands that dominate most of the verticals that one would look at like a Pepsi or a Pampers and Huggies. And whenever you want to, whenever you want to use. Got it. So, you know, as you

Pete Moore:

Look at some of the larger companies in the space, Peloton has made a couple of acquisitions. There are some buildups of whether it's in the beauty brands, whether it's in the food and beverage, they seem to be dipping into the MNA mode earlier than, than they would have historically. So I, I feel as if some of these public companies use these earlier stage businesses to acquire as almost like a, an easier way for their own R and D because they can't create authenticity inside of their own companies. So when you see deals getting done and you probably are privy to more of the actual dollars that are spent how do you think about that as a, you know, as an investment advisor looking and saying like, well, those guys overpaid for this company, however, you know, I'm okay with it or I'm not okay with it. And, you know, kind of manage through that. You don't want to, you know, take advantage of an opportunity to call out a management team. But at the same time you've got to, you know, you're on it, you're in this middle position.

Kaumil Gajrawala:

Yeah. Luckily I get to, I'm not beholden to anybody. So I get to kind of say one of the things your companies go through different life stages. And there's a big difference when you're a large company, that's profitable with a significant amount of revenue. It becomes very hard to, it becomes very hard to innovate some of these or incubate some of these smaller things. You don't know which ones are going to work. And it is so much energy, so much effort to keep the train that you're already riding going. Yup. And that's growing right. Peloton is growing like a weed and there's a lot of effort to continue on that path. But if, even if you look many of the best innovations across a series of industries, very rarely come from the biggest companies, it is usually what happens to the biggest companies can offer resources can be great strategics to take something extremely valuable and scale it up.

Kaumil Gajrawala:

So big company only by a small company, if they believe whatever small company offers can scale. I think that's kind of like a critical point is, is whatever small company, the small company doing scalable, then it becomes interesting to Peloton. Then it becomes interesting to Nestle or denote or whichever, whatever you're looking at. And what you're seeing is because there is a lot of M and a, a lot of what you're seeing in the halo space. What's interesting is that they do believe it to be scalable. They do believe these are things that can impact a P and L for a business that at the moment has, you know, 2 million members. They think that these things that they can do not maybe individually, but collectively the series of deals I've done can have an impact on driving that figure forward.

Pete Moore:

So, w you know, when you look at companies, I've spent most of my time in the call, it the lower middle market or the middle market, you know, taking a company from $20 million of revenue to $50 million of revenue over a short period of time, you know, achievable you know, some of the companies that you cover, you know, going from a billion dollars of revenue to $2 billion of revenue, you know, completely different story from a, from a size standpoint. So how do you think about, you know, revenue growth as, as the end all be all, if you will, of what some investors are looking for, and then profits later after they get that scale or more disciplined approaches.

Kaumil Gajrawala:

So I think what's important is if it's, if it's going to be revenue without, without profitability, there needs to be a logical, a logical path to profitability to understand exactly what it looks like. So, for example, if you were spending very large percentage of your business on marketing, and you're, you have a very significant amount of revenue growth in, in many instances, obviously, depending on the businesses, but in many instances, I can look at that and say, well, over time, if revenue is going to grow at this rate, you're not going to have to grow marketing at that same pace. Marketing will be able to grow at half that rate or whatever it sort of is. And we've got some benchmarks of what we've seen for other companies where we think it might level itself off. It might be infrastructure where right now the infrastructure or whatever, you're building, the widgets that you're selling, it's just very inefficient to do at 20 million or 50 million.

Kaumil Gajrawala:

But if you're going to get yourself to 150 or 200, at that point, you can scale this stuff. You can do it in much more efficient way. And if it's an easy to understand logic path for getting there, then the market will buy it and believe it. That doesn't mean we very frequently see businesses where it's not very clear what the path to profitability is. It's not that obvious you kind of get this obscure reason why it might be there. And I do think investors can sniff out when a company is just driving revenue to transact, as opposed to trying to make money at some point. And those evaluations will look very different.

Pete Moore:

Yeah. So one of the things that we deal with as M and a advisors is P is, is entrepreneurs typically take valuations of public companies and then apply it to their own company in regardless of size, scale, brand power, so on and so forth. So, you know, when I was growing up, it used to be, you know, in 1994 to 97, when I was at chase the DOJ, it will be okay, let's take the public comps. Let's multiply it by a 30% discount for private company valuations. And now let's do an additional discount, you know, based on the size of the company and other, you know, scars that this company has on it. So, you know, what, what's your view on the trickle-down effect, the valuations, and when somebody comes to you and says, you know, I'm the next Peloton or on the next Uber of halo or wellness, or, you know, you kind of say like, Hey, look, man, I've seen this movie before I've been through the internet. You know, this isn't my first research report, you know, how do you kind of think about that?

Kaumil Gajrawala:

Yeah. Yeah. Well, here's the thing. I mean, I've I've met with people who have pitched me ideas that I thought were completely ridiculous for businesses that are now worth billions of dollars. So I don't have, you know, I think, I think you have to be careful because I think to be a really good entrepreneur to have something particularly special, you probably have to be a little crazy. And some finance nerd like myself might not be able to have the creativity to sort of see it through. There's a million things that need to go with that though. There has to be the kind of the underlying thing that you're in bending or building or growing or making better, whatever that is. There's a million different things that one can do in this space, which is why we came into this space because there's so much that can be done.

Kaumil Gajrawala:

But then I need to know that. Do you have the folks that'll do the things that you don't want to do? Like the operations legal, there's a lot of really boring things that are absolutely critical that I help move the thing along that helps me feel better about how mature this, this business is. Is it really just cool idea? There's no real shortage of cool ideas. There's a much bigger shortage of people who can execute and produce them. And it's the execution piece of it is far less fun. If one proves that they can do both and then you start look, then there's multiple stages before you get to where I am, right. I'm in the public market. So I'm, you're kind of, I'm the last one you'll see after a series of rounds of series of things, obviously, but sort of when you get to that zone and we go over the history of the company the question then is going to be all right, well now you're public forever.

Kaumil Gajrawala:

Now you have to grow for a really long time. And the numbers that we're going to be looking for in terms of that growth are going to have to be substantial. So it was cute when you were talking about the 10 before, but now it's not about gaining a small amount of revenue on some massive Tam. Now we know we need to know, you gotta have to add 50 million, a hundred million, 200 million a year. Can you do that with what you're up to? Do you have the infrastructure to do that? Is it even possible? Who are you competing with? Typically by the time you get to me, several people are doing what you're doing. And so you have to know, is it really differentiated? So I think it's tricky looking at public company comes as a bit of a survivorship bias to it as well. How many other pelotons don't, we don't even know the name of, we've never heard about that. Didn't become Peloton. I don't know if they're the only ones that had the idea

Pete Moore:

I looked at when I looked at, at, at Peloton very early. And I didn't do the deal. It was because a week before I met with the founder, there was a bike out of San Diego called the espresso bike, which was like a gamified Peloton. And it went bankrupt. So I was always tarnished by that to say, well, you know, good idea, bad execution, probably not the right time yet from a broadband standpoint and I was wrong. So I hear you on that. Let me ask you a question about, you know, running your business based on quarterly earnings and annual reports versus the private groups that we work with. You know, you don't have to Mark to market every day and if you're in a private equity deal or you're an entrepreneur, and you've got a five-year plan and you know, you could have some hiccups.

Pete Moore:

I feel like the public markets are not as forgiving and are extremely demanding. So how do you kind of calibrate between it, look, these guys missed the earnings, but like you've just said over the last 20 minutes, there's tailwinds in this business is a good management team. Yeah. I can't evaluate this business every 90 days and think that something has materially changed. So I had it. How do you think about, you know, maybe rewarding those who might be moving slower or saying, Hey, look, the public, this is what you want to go public, man. Like, this is what comes with it.

Kaumil Gajrawala:

Yeah. This is how it, so there's a couple of things. I mean, the first thing that I think everyone needs to accept, not just in the public world, but also in the private world is that all investors have like investors have an investment style and you really want to plug in with the investment style. That is the right partner for you. Now, if you're in the public world, now you're meeting lots of styles. There are some amount of people who invest in things for six to nine months or three to nine months, and will predominantly move to stocks in that period of time is the narrative. And whether you beat or you missed earnings, it's usually what may move the news. If you look at what moves stocks, if and FTE, we did a study on this from period zero to 120 months forward. So a 10 year period, if you look at what moves the share price, the shorter, the time period, the more its narrative beats and misses the longer, the time period, the more it's EBITDA and actual revenue growth.

Kaumil Gajrawala:

And so there's different ways to look at it because there's different types of investors. CNBC will always talk about beads versus miss expectations. You almost feel that it doesn't matter if you earned a million bucks or 10 bucks, it almost matters if you beat by $1 or missed by $1. The reality is what you really want to do is make a million dollars, right? You really want to do is put up as much profit as you can. And

I think what we're, what the way we look at it is we looked at every quarter as an indication on whether or not we are right on where this company is going to be over some longer period of time. And if they miss an expectation when the share price is down, and we still believe that the outlook is positive, that for us is what we'd call a buying opportunity.

Kaumil Gajrawala:

And exactly the opposite, right? If they show us if they beat numbers nicely, but it's because they cut marketing spend and the outlook looks not just the outlook for the year, but maybe three years forward. It's looking like they're pushing up against the ceiling. And now they're trying to cut costs. Instead of driving revenue, then we'll have a very different opinion in the sheriffs might be up. So I often like to say it's a lot of news in the short run, this quarterly stuff. It's not really that relevant in the long run Buffett says in the short run, the market is a voting machine in the long run. It's a weighing machine. And our ultimate goal is to weigh as much as he possibly can. And I think companies that can keep that discipline about them, which is not all of them, including very large companies that freak out about this quarterly stuff.

Kaumil Gajrawala:

But if they can keep their discipline about them for the long run, then you'll start to find that those are the businesses that do best. In the best example, I'll give you that is the number one, performing stock of all stocks in the stock market. Since in the millennium, since the turn of, since, since we've got to the two thousands has been monster energy and those got you, what'd you'd think it's someone who invented the iPhone or social media or something now is the energy drinks company. But those guys never really worried too much, a lot of volatility around the quarters, massive beats, massive misses, all these sorts of things. They just drove those revenues carefully in a very disciplined sort of way, over a long period of time. And it's worked out beautifully.

Pete Moore:

Well, I'm sure if they take their product five or six times a day, like the average consumer, they probably pretty amped up about whatever they're doing and could affect the stock price. You never know,

Kaumil Gajrawala:

Certainly working harder than everyone else.

Pete Moore:

So, so as some of these stocks start to hit you know, let's take it, you know, during, during the pandemic you had these, you know, COVID stocks you know, Peloton, obviously one zooms and other how do you, as an equity analyst say, Hey, look, I love this stock. It's great. You want to buy it? There's definitely going to be momentum trading. But at some point I got to put a neutral, I got to put a sell on it because it's just not rational from a valuation standpoint at the same time, there's probably a lot of money to be made because the euphoria isn't over. So how do you maintain your authenticity without, you know, triggering some client to say, okay, you know, Camille told me that this, yeah, it made it a little more run here, but you know, you know, count your eggs and move on to some value.

Kaumil Gajrawala:

Yeah. Well I guess man, every day there's buyers and sellers. And so almost whatever I say, I'm triggering somebody.

Pete Moore:

Yeah. Yeah. I mean, you have a place in the world. So people listened to every time influencer, bro, you're an influencer. You didn't even know it.

Kaumil Gajrawala:

I'd like to believe. So I think there might be six people following me or something on Instagram. I should have one of which is my mom. But, but I think the, I think the way that we like to think about it, at least the way that I think you make money in the space, when you see something that is so obvious Peloton benefited from the crisis. And now every company has benefited from the process, whether it's Peloton, zoom, or Netflix or whatever, all of these names are selling off is very, very obvious that that is something that was going on. Let's think about that to the next level though, which is we'll spell it on a different business than was 18 months ago. And the answer to that is yes. Well, how is it a different business? Well, not only did they get a lot of bikes into the homes of their members, not only do they massively expand their offering to those members, creating more of an ecosystem, kind of moving themselves along the path of something like an Apple.

Kaumil Gajrawala:

But what they also did is very fundamentally changed the way the consumer was thinking about pricing. It's meant to be this very expensive bike for the 1% that appeared of time. And you might remember what I think they call add gate when you know, they had these ads that just made it seem like there was just this unattainable sort of product. All of a sudden when people started to compare how much a Peloton costs versus what it might be at their studios, they couldn't go to any more their gyms. And they started to look at that all of a sudden, the kind of 40 bucks a month for the bike or 50 for the bike plus 40 for the entire household. And you start splitting it. All of a sudden the price equation looks very different for Peloton than it did pre pandemic. So a couple of things have fundamentally changed.

Kaumil Gajrawala:

You're in more people's homes, you're offering more product and they think it's cheaper. It probably means your outlook has changed even though year over year, the market can say, well, whoever benefited from the pandemic is going to struggle. Now that's a bit of a miss. I don't think that's thinking about it. So that sort of next stage onwards. And I think the same thing we should think about from the fitness sort of world as the fitness sleeve of halo is it does feel like everybody's going to work out more and how they're going to do it is going to be a mix. It'll be, gyms will come back and studios will come back and at home with Peloton will all be fun, but the idea of working out has become more accessible. It's become more fun. It's cell changed in terms of its pricing. All of these things have permanently changed and that's including the desire for people to work out. You know, Peloton was kind of discovered as a way to address the reasons why people don't and make it a little easier. And I think several other companies now have taken that have taken that mantle as well to figure out how they can contribute in the same regard. Yeah.

Pete Moore:

Well, I think that's a great place to conclude here because we're, we're big believers in advisers that bricks and mortar side. So I'm happy to hear your, your sentiment there. So any, any you, you had a great Warren buffet quote there before you got any other quotes that you live by or anything else to leave our our halo community now that you're officially our anointed brand ambassador, my friend, Kaumil Gajrawala:

My favorite quote, I guess, which I have hanging on my wall, which you can see is, and this is true professionally personally. And as it relates to how you're thinking about your body, which is regardless of any opinion you hear from anybody no one or nothing owes you anything. And so you got to earn it. And the, the piece that I have hanging kind of in my thing is from a group called ranger up a bunch of veterans who have a website that sell cool and you can get signs and t-shirts and things

Pete Moore:

Like that. And I think that's a good one because whether you're trying to live a healthier lifestyle or progress professionally, or just be a better father and husband gonna have to earn it. Yup. Awesome. All right, man, we'll look forward to seeing you in person love the the, the hat attire you, and I'll go to the Kentucky Derby together, maybe one day friends, get to see, I look forward to meeting up in person and greatly appreciate your efforts here. Anytime, man, I'll talk to you soon.

Speaker 3:

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