Complete Transcript: HALO Talks with Sharon Zackfia
Posted Sept 16, 2021

Pete Moore:

This is your host, Pete Moore. And I am pleased and humbled to announce the launch of my one and only book titled time to win again, 50 takeaways from playing and watching team sports to guarantee your business success. Those of you who know me personally, and then when of was listens to halo talks or any length of time, know that I am an avid sports fan and a big believer in the value of team sports. What I've seen over the past 25 years, helping businesses grow raising capital, being an entrepreneur myself in coaching and mentoring executives in the sector. It's the lessons learned on the field perfectly apply to business entrepreneurs, executives, managers, you name it. Every company that's a strong company has got a good team. So quick read. There's also illustrations in there from our good friend market cruelty free cartoons. If you go to integrity, sq.com, enter your email address, and we will send you information on the book and the entrepreneur wars survival kit as well. Be great. Take names go halo.

Pete Moore:

This is Pete Moore on halo talks out of the pleasure of having Sharon equity research. William Blair out of Chicago. We were able to be on a speaker series with Rick Caro, uh, earlier this year and wanted to further educate our halo talks audience on what the real public markets look at, uh, when it comes to companies and have Sharon give us some of her views on what the future will look like. So Sharon, welcome to our halo talks.

Pete Moore:

Great.

Pete Moore:

So from a standpoint of just educating people on, you know, what you do every day when you wake up in the morning uh business-related uh, and tell us, you know, how you think about what the future looks like and how to price companies, um, you know, if you could just give us a little primer. Yeah,

Sharon Zackfia:

Well, that's a big question. So I mean, as, as with, I think everybody's a profession, no two days are the same, right. But in a nutshell, we're trying to analyze business models, um, ascertain some sort of fundamental value for that business model. And then, you know, if it's publicly traded that, uh, equates to a buy or sell on a stock, um, and you know, one of the interesting dynamics, I think that is often, um, overlooked in the equity markets from those that are outside of our ecosystem is just why some companies get, you know, an X valuation, whereas others get a Y and you know, growth is really important in terms of the way that investors look at valuations. And that's why you'll see some companies get, you know, valued on a multiple sales and you'll have other companies that are trading at an EBITDA multiple or an EPS multiple, right. Because with the multiple of sales, you're looking at eventual EBITDA, hopefully, right. That's, what's counted in there. Um, when you're looking at EBITDA, typically I'm a more mature company, but the growth of the growth dynamic tends to be, you know, where the higher evaluations come in and the more disruptive companies.

Pete Moore:

Yeah. So you take a look at some of these companies that have gone public in, you know, whether it's a spec transaction or it's, um, uh, electric vehicle, autonomous truck that as a, as a driver on the 4 0 5 scares the out of me that there might be somebody who in a, in an 18 Wheeler that doesn't have a driver in it. Um, it's controlled by computers. And those are valued at, you know, 25 times, you know, 20, 25 revenue, you know, who, who starts with the financial model, um, do they send it to you? And then you guys kind of sensitize it properly or, or, um, you know, you, are you so deep in a market that, you know, you kind of come up with your own projections, you know, based off of the company's business model.

Sharon Zackfia:

Yeah. Well, I, well, personally speaking, I'm always coming up with my own projections, right? I mean, I don't know how it would earn, earn my bread every day if I didn't come up with my own projections, because ultimately, you know, for the companies that are already public, most of those companies give guidance. And so they'll say we're expecting a billion dollars in revenue or $2 in EPS. And that moment, when that is said, the assumption is that that in a purely efficient market is embedded in the valuation. So what you're really looking for then is where's the surprise, um, you know, better or worse than what the management is, is guiding to. So I think any analysts worth their salt is doing their own modeling and trying to figure out really where their risks lie and where the opportunities are

Pete Moore:

As companies go public. And then, you know, they're obviously answering to, uh, people like you to say, Hey, this is what we did. And, you know, here's, here's why this didn't happen. Or, you know, we had an upside surprise, which some companies, I think, live by trying to provide upside surprises or, you know, sandbag their guidance, you know, do you feel as if companies are appropriately managing quarterly earnings and also long-term growth, but when you're a public company, do you kind of have to maybe make some more trade-offs that you don't have to do as a private business?

Sharon Zackfia:

I certainly think has a public company there's more of a balance between investing for the future and harvesting profitability, right. So, you know, the, the go growth at any cost is, is usually best done private, and then start to see some improvement on the profitability metrics, you know, once a company goes public. Um, but I, I don't know beyond that, that there's, um, there's anything I would, I would really add.

Pete Moore:

Okay. Yeah. So, so some companies, you know, like in, in the healthcare industry, we always hear of, uh, you know, monthly close outs, that's kind of, you know, what will most health club operators talk about? Um, on, on private companies held by private equity firms. They're usually talking about annual growth. Um, you know, and, and then the public markets it's either, you know, they've got a, uh, a ticker, uh, that's going off in the lobby showing you what the stock price is, which I don't know if that's good or bad from an employee morale, I guess, you know, pretend that the, you know, the led screen doesn't work when the stocks going down, I guess, and keep it up.

Sharon Zackfia:

I do think ultimately, I mean, as, as a management team, you need to keep your eye on the long-term, right. I mean, we, and if financial markets are going to look at the quarters, because we always say every quarter, you know, four quarters make up a year, four years make up, you know, four years. Um, but, uh, but you, you, if you're sacrificing your long-term goals to reach a quarter, I mean, that's not a win for anybody, right? So ultimately management should be playing the long game, um, whether they're private or public. Um, but I think in the public markets, like if you had, let's just say pizza fitness clubs had a great new initiative that was going to take your margins down, you know, 10 percentage points, probably best to do that over a multi-year period, as opposed to just announcing to the public markets, say, guess what, you know, our margins are going down 10 percentage points next year. I mean, that would be, that would be something in the private markets, maybe just rip off the Band-Aid and you do it, but unless there's a strategic kind of competitive necessity for you to do it publicly, it behooves you to spread that out and try to create more predictability for your investor base.

Pete Moore:

Um, so, so in a nutshell, we're basically managing the long-term growth and the profitability of the company, but, but really having our, our equity stakeholders, that, that we've decided that we're going to be a publicly traded company, that we basically have to manage their expertise, expectations, and what they think about what we're doing and yourself versus the, you know, the, the luxury of having a private company, but not the liquidity of, um, of being able to do acquisitions with, with currency or raise money much easier, uh, than, than in a private deal. So just wanted to kind of cover those, those trade-offs, um, you know, as, as change, changing gears, if you take a look at, um, the home equipment business, and, you know, it's been around for 35, 40 years at this point, um, you know, whether it's a total gym commercial that, you know, changes slightly every five to 10 years, or it's just the same people that they had on there with Christie Brinkley and, um, Chuck Norris.

Pete Moore:

And then you see all these new competitors come along, um, in a lot of industries that I've been a part of, you know, you've got, you know, somebody saying, Hey, I'm going to be the next Uber. I'm going to be the next Peloton. You know, typically you're not actually. Um, so how do you kind of calibrate market, uh, euphoria with, you know, your history of saying, you know, look, the first to the market actually gets a lot of the spoils, um, and it's going to be really hard to either replicate or displace, or how do you kind of look at it with a, you know, with a white piece of paper all the time.

Sharon Zackfia:

It's interesting. Cause I, I don't know that I think the first of the market always gets the spoils. I mean, I get mocked for having a Yahoo email and I know AOL emails, right. So then I'm telling you how old I am.

Pete Moore:

Um,

Sharon Zackfia:

And I remember when Netscape went public, so that really makes me a dinosaur. Um, but I, I think first mover advantage is important, but it's only important so long as you can maintain your flywheel and maintain your innovation gap relative to competition. I think any, any industry that's worth being in, once you open up the kimono and you let everyone see how good your business is, there's going to be more competition. Right. And so it's just always that element of, can you stay ahead of a more competitive backdrop? And I don't think that matters if you're looking at SAS or fitness clubs or restaurants, it's, it's kind of all of the same animal. Um, I think there are certain, um, aggregators that get a flywheel effect a little bit more easily, and that's a little bit more sustainable, but most of what we talk about involves actually, you know, in some way, touching the consumer, whether with a product or an experience and you know, that that's just inherently more difficult because there are so many more opportunities to disappoint the consumer.

Sharon Zackfia:

And I think that's something that, you know, if I went on Expedia today and I got a hotel room at Marriott and the hotel room, wasn't great. I don't really blame Expedia. I blame Marriott. Right. And so the aggregators in many ways, don't, don't face any of the pain that the actual consumer brands do. And I think it's especially tough, you know, in fitness because there's, there's so much opportunity to both impress your consumer, but also, you know, to, I think, add elements of friction that the consumer then, you know, finds the next thing that they're interested in.

Pete Moore:

Yeah. As the, um, uh, I remember when Netflix went public as well. So I'll date myself there. Um, you know, when you look at the speed of technology innovations and, and new versions of applications coming out, or, you know, a new technology that we never heard of, like now people are talking about, you know, fitness holograms, uh, because of something that, you know, Zuckerberg, you know, set a couple of days ago and it's like, okay, like, we're just trying to actually get cycling instructors physically back into a club. And now we're talking about, you know, hologram and people from, you know, somewhere around the country. Um, does the speed of innovation sometimes make you say like, oh, this it's like, these companies must be exhausted trying to like out innovate each other or do you think, Hey, all this innovation, you know, at some point the winners are going to be established or are we just in a cycle of constant, you know, upgrades and improvements. And I don't know, I'm sorry. I'm a little bit exhausted. Sometimes when I think about the technology cycles,

Sharon Zackfia:

I feel like there's a difference between consumer led innovation and just innovation for innovation's sake. Like, I don't know anybody who's ever sat around saying they wanted a hologram of, of somebody in their house, you know, doing fitness. So, you know, but I do hear, you know, consumers say like, look, I like to have more variety in my fitness regimen and maybe connected fitness along with a studio or a gym provided me that. So I think, you know, solving real problems is something that sometimes, um, tech doesn't do well. I mean, the tech sometimes just creates these consumer need states that nobody actually ever had. And then, um, you know, we get kind of off on a tangent, but I do think kind of going back to connected fitness, I do think it, you know, going back to consumers, really liking, um, variability, uh, or variety in their, um, in pretty much all aspects of their life. I mean, that's going to be the big question with the new, um, the new era of fitness at home is does it create enough variety and variability that the life cycle of that product is longer than, you know, historical products in that arena?

Pete Moore:

Yeah, no, that's a, that's a great point. Um, switch switching to a subject in the end, it's been kind of top of mind here over the last several weeks is we'll be talking to a lot of groups on the health club side and an operators, and they tend to not know enough about their competition. You know, they don't know what the current promotion is. They don't know how many square feet the other club has. They don't know what the amenities are. They don't know who the top salespeople are, top group exercise instructors. So we're trying to harp on, you know, like you got to research your three to five mile radius better, and you got to really be the expert and you got to know everyone that's doing anything in that halo sector at large. Could you talk for a minute, just as an analogy, you know, when you look at a company and you put out an initiating coverage report, you know, how much work goes into a coverage report on a company, how much do you feel like you need to know? You know, everything you could possibly know. And as an example, like in a health club industry, you know, how much, how important is it for you all also to understand what's going on in the healthcare industry and what's going on with the Medicare and, you know, you can kind of build up this research that gets pretty broad, but then you really become an expert. So maybe give us a little bit of how you as a, a top research analyst thinks about research versus what other people should think about it.

Sharon Zackfia:

Yeah, I think, I mean, I don't like to be wrong, so because I don't like to be wrong and the market's going to tell me if I'm right or wrong. Every day, I try to really overarch, you know, on the research side and just, I can, so at least, you know, if I am wrong, I felt like I have a foundational aspect to why I had, uh, the opinion and, and the recommendation I had. Um, and I think, you know, what goes into all of that is you, you talk to management, so it's this kind of step one, right? You'd never should initiate on a company without talking to a management team, but then you're trying to peel back the onion. So you talk to competitors in that arena of the area. You, I mean, a lot of managements are well-known within their industry, as you get more opinions on them.

Pete Moore:

Um, you know, how, um, how long-term is their thinking. And in terms of the way they strategically look at the business, um, how defensible is the moat around their business? I mean, if I, if you opened up Pete cycling and then I talked to, um, you know, someone next door and they're like, well, I'm going to do everything pizza cycling does tomorrow. And I'm going to do it $5 less per class. I'm going to be worried about taking you public P you know, so, I mean, I think all of that goes into the equation, but ultimately the best companies tend to be masters of their own destiny, right? The companies that grow markets that are real leaders that are addressing, um, real consumer need stays that for some reason were not addressed well previously, I think those are really interesting companies, as well as those that just keep a narrow lens on who their customer is. I feel like there are so many companies that want to be everything to everybody, and inevitably they leave some people behind because they're just too broad, like an inch deep and a mile wide. Whereas the brands that really know who they're going after, um, tend to, to get that top of funnel, you know, much wider.

Pete Moore:

Yeah, no, that's great. Uh, assessment. I liked the fact that you just don't want to be wrong and that in probably in our sector, that's probably the leading indicator on how people feel like, Hey, was I right or wrong about this month or, um, about what was going to happen? So, you know, post COVID, do you feel companies are, are better set up now for success? You know, maybe they've kind of reanalyzed their expense structure. Um, any, any thoughts on, you know, what the future might look like on working from home? Or it seems like there's a big urge for people to get back into the office, which I agree with.

Sharon Zackfia:

Yeah. You know, it's interesting. I feel like every day you hear another CEO come out and say everyone back, you know, by labor day. And so I think there is some sectors, like the financial sector that I'm in that are at the laggards, but I feel like we're in the not too distant future are going to largely be more or less back at the office as a nation, hopefully knock on wood that has some sort of, you know, new outbreak. Um, you know, I do think that, um, you know, as, as I think about the fitness space specifically, there are, there's kind of, um, two different sides here. Right? I feel like the consumer wants to get back to quote unquote, normal as fast as possible. I mean, if you look at the restaurant industry, restaurant sales eclipse 2019 in both April and may, and they'll probably do so again in June, right across, you know, 83% of the restaurants that are left, it's not too dissimilar in the fitness space where, you know, 15 to 20% of fitness facilities went away. I think the question will be on the labor side, especially for studio based businesses. Right. I mean, labor's is really, really tough. Um, and it's, um, it's probably the toughest labor market that, that I've seen in 20 years of doing this.

Pete Moore:

And then from a, um, from an inflationary standpoint, I feel, you know, when, when, anytime I look at a, an invoice or even like go to door dash, I think they might be patting it, but, you know, there's all these different charges.

Sharon Zackfia:

You're a new restaurant charges here until you start to, you have to actually look at your restaurant bill, they're adding credit card charges now. And

Pete Moore:

Yeah. So there, so there's like either embedded inflation or there's embedded fees in order to, you know, mask inflation. So, you know, w where would be places to invest it, you know, in, in what you cover that, you know, maybe good places, if there's more inflation or maybe groups that could take more fees and just kind of mask it as inflation. Yeah.

Sharon Zackfia:

Well, I think, um, look, I mean, strong brands usually have pricing power, right? So, um, if you're a strong brand in any sector, you're probably going to be able to take price to at least help upset inflation. I do think companies that were in, um, the fortuitous position of not having to furlough employees in 2020, and I know that was easier said than done. Um, they face less hiring pressure, you know, here 21 as demand surges back. So they're not as crunched, you know, when it comes to that labor pressure. But I mean, there's no easy answer, but I think any operator will tell you that sales will solve a lot of problems. Right. So, um, if, if, if in the fitness space, if it's a laggard of what we're seeing in some other earlier opening industries, then, um, inflation will be a small worry because the revenue will come back pretty quick.

Pete Moore:

Gotcha. So, in, in closing here, do you have any good, uh, quotes that you, uh, that you live by, or, uh, any anyone, uh, that comes to mind or things that you say?

Sharon Zackfia:

No, but I, I really, really miss, um, getting my morning coffee every day on the way to work. I can't wait to start off my day with a big old cup of not homemade coffee

Pete Moore:

Your day with a cup of coffee, and don't be wrong. That's going to be the quote. So we're going to be put on there. Awesome. Well, great to see you again, we're going to get this out over the summer. Um, look forward to seeing you at future trade shows and, uh, if we can be helpful with any, uh, research on the ground, um, you know, happy to help frame your, uh, your collection of information at any time. So I hope this was useful for you guys. Yeah. Awesome. Appreciate it. Have a great day.