Complete Transcript: HALO Talks with Rob Fioretti
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Pete Moore: This is Pete Moore on HALO Talks NYC, I have the pleasure of having an old friend of mine, Rob Fioretti, coming in from Paladin retail equity partners. We're going to talk about growth equity. We're going to talk about post pandemic, and we're going to talk about what it's like to partner up with a institutional investor. So Rob, welcome to the show. So you've had a an interesting career from you know, moving around to a couple of different consumer focus groups. So maybe talk through kind of your personal trajectory and, and some of the the deals that you felt you know, wow. We kind of helped this company get from a to B.

Rob Fioretti: Yup. So happy to do that and I'll make it quick, not to bore anybody, but I've been in and around the private equity space in general for more than 25 years. Now that make me, makes me sound old. But for the last decade, plus I've been focused on the consumer sector specifically. I did start out my career more in a more operationally focused world, working with private equity firms, portfolio companies, establishing post-acquisition strategies. So I do have a lot of experience on the operating side. But for the last really 20 years, I've been focused on the investing side, most of that in the consumer sector specifically.

Pete Moore: Cool. So when you take a look at these consumer companies and you know, they used to be, I'd say more competitive barriers around businesses. So how do you think about, you know, the, the technology changes and, you know, maybe new competitors popping up on the consumer side, as you think about investment thesis going forward?

Rob Fioretti: Yeah, look, it it makes it very interesting from our perspective because you know, the barriers to starting you know, somebody putting up a website and all of a sudden having a company are very low these days. And so when we're evaluating opportunities, we're certainly aware of that. We make sure that the companies were partnering with are, you know, more established. They're not gonna go away tomorrow that they've established a brand with a moat around it or something proprietary, whether it's IP based or otherwise that provides them with you know, a defensible position. And it's not gonna be overtaken by the next guy to come along.

Pete Moore: So when someone partners up with your firm now what are some of the key areas that you guys dig into, or maybe like right before the acquisition closes, you say, look, here's a a hundred day plan and here's, you know, what we can throw either our brains behind our relationships behind maybe some muscle, you know, whatever, whatever it is. How do you guys think about like, Hey, look, how do we make a first hit impression here?

Rob Fioretti: So we send most, if not all of our time partnering with founders or founder groups who have established very impressive companies they built them into, you know, sizeable entities, but are looking for partners to bring in not only for capital. But frankly for much more than that, somebody who can help them professionalize the organization, institutionalize it, help them take it to the next level. Every company in our portfolio today was actually a founder owned business where we went in, partnered with that group or that individual brought capital to the table, but also brought relationships, resources, our own expertise to help them continue to grow the companies we tend to do. We tend to like to partner with founders for a couple of, they tend to like to partner with us because of a lot of the operational expertise that we have and operational experience we have, we've been on their side of the table. And as a result, when things happen and things always happen we are constructive, we don't panic. We can help them deal with the situation whether it's an opportunity or something that we need to you know, a problem that needs to be addressed.

Pete Moore: So when you take, you know, some private equity firms will say, look, you know, we're a consumer fund. We wait for companies that want to sell, and it's an auction process. And maybe we have some kind of unique angle or, Hey, we're just wanting to put money to work and we're willing to pay the highest price. So, you know, we'll play that game. You know, what do you think is a differentiator and how much more work is it to find the right deals when you're trying to go direct to an entrepreneur and also to follow on to that, you know, an entrepreneur typically hasn't done a transaction. The size that you're talking about is probably the largest transaction he or she have done financially. So do you view that as an opportunity to educate, do you view that as maybe there's more sellers remorse before you get involved? So maybe give us the, the how things kind of evolve.

Rob Fioretti: Yep. No great, great question. And a lot of the time, you're exactly right. I know you deal with a lot of founders and entrepreneurs yourself, so you're facing these same types of challenges. But we see it as an education process. You know, in general, we know the companies we invest in oftentimes for a long time before we actually make that investment, we've, you know, followed, you know, we follow the sectors. We invest in for years before we actually make an investment and we spend lots of time and it's one of the things that's been, that's made investing during this pandemic challenging for us, we spend lots of time with the entrepreneurs or founders, making sure they're comfortable, making sure they understand the process. We actually prefer when advisors like you guys are, are involved or involved because it ensures that they're well, that they're well-advised and that they're well-educated and they feel like they they have the proper context in order to make a proper decision.

Rob Fioretti: So but we spend an awful lot of time making sure they understand, you know, all aspects of the transaction. The last thing we want, because in general, we're always going into these deals with the intent of partnering with these founders that they're going to continue to be involved with. The last thing we want or need is for them to be surprised or disappointed by something. Along the way, the, our transactions generally involve a fairly significant rollover by that founder, by that entrepreneurial rollover of their of their equity into our deal. And so interests tend to be very well aligned going forward. But one of, and you mentioned this, one of the keys to that is ensuring that our vision for where the company is headed are aligned as well. So we spend a lot of time talking about, you know, where have you brought this company so far? Where do you see it headed? What are the opportunities, whether it's organic, whether they're M and a, how can we help in reaching those that were achieving those opportunities? You know, how are we going to get there?

Pete Moore: Gotcha. That's great. Summary. When you think about some of the benefits of an entrepreneur partnering with your firmer or any private equity firm, you know, we talk about one, you're diversifying your risks. So you've got some money off the table, which, you know, at some age is a prudent thing to do. The second is you don't have to sign any more personal guarantees on the SBA loans or whatever other financings you're taking out. You don't have a personal guarantee on leases. So maybe talk for a minute and maybe I stole some of the center there, but, you know, talk about like all the benefits of, of working with your capital versus working with my own capital.

Rob Fioretti: Yeah, no, there's no question that it's a diversification, your wealth of your risk. You know, you don't have to personally sign up to things that you would otherwise be signing up for. You know, we, you know, one of the things we know how to do a lot of things, one of the things we know well is how to pronounce things as effectively as we can. So, whereas you might've been denouncing things exclusively with equity capital we might be able to come in and do it somewhat differently. You know, the carwash business we're invested in is a perfect example where, you know, they had been growing it and using their own capital previously. We've brought in reeds and other real estate firms to help us do this in a very capital efficient, capital efficient way. And frankly, it's been eyeopening to the founders we partnered with who have been wondering why they haven't figured this out prior to our involvement that happens that happens a lot.

Rob Fioretti: The other thing I would say about, you know, partnering, you know, what we find is that many of these founders and entrepreneurs, they, you know, they might have teams around them, but they don't always do a great job surrounding themselves with people that they can talk to, that they can bounce ideas off of. And it's, it's a lot, it can be very lonely for them in a lot of ways. And they spend a lot of times, you know, talking to themselves and evaluating decisions by themselves and what we tend to find. And we find this even during the initial conversations in our, in our diligence, because we tend to run very conversational type diligence processes. We find that the, that these entrepreneurs a enjoy those conversations, enjoy those sessions and B find them really interesting and insightful because there are perspectives that are discussed or opinions that are expressed that they just hadn't thought about before, because people are coming up from it from a different angle. And it's, you know, we bring our own experiences, our own expertise to bear, but we're also making introductions to individuals, firms and other resources that make sense based on where we see the opportunities for the company.

Pete Moore: Just so our audience understands how many deals do you evaluate a year and how many actual investments do you make?

Rob Fioretti: So this year could be a particularly active year. I don't know about you guys, but deal flow out there right now is ridiculous. We, you know, we see, I mean, hundred probably close to a thousand deals a year, come in, come in over the transom. We can't possibly pay attention to most of them, frankly, we wind up doing two or three new platforms. We also will do Adam's add on positions to a number of our portfolio companies and we can do anywhere from, you know, it depends too. There's five of those per year. And so we do see lots and lots of opportunities. Most of what we see, you know, gets, you know, pretty thrown out pretty quickly. But we'll spend time on probably, you know, we'll spend a good amount of time on 10 to maybe maybe 15 a year. And then, you know, we'll do two two-ish plus or minus invest platform investments every year.

Pete Moore: Got it. I just wanted to make sure we had a audio footnote that when a private equity firm says, no, you're not alone, that they can only do a certain amount of deals a year. And, you know, assume that if we send a book out to 50 groups, you know, if we get two that's, that's good, you know, like we're kind of in the average, right? So I think people need to understand that the business of raising capital is usually respectful declines and, and a couple of hits. So for you use this to reiterate

Rob Fioretti: The ones and a lot of the deals that will say no to you, bring up an interesting point. It's not necessarily because they're bad deals. And as a matter of fact, it might be because they're almost too good. We tend to spend our time on companies and situations where we think we can be helpful, where we think, you know, by virtue of our experience for virtue of our relationships, our expertise, we can bring something to the table, do something with the company that the next guy can't, because there's lots of guys with money. And you know, for us to just purely overpay you know, based on, you know, based on not much, doesn't make sense for us, we're going to Excel, or we're getting involved in situations where we can do more than the next guy with that particular company. And with that particular management team.

Pete Moore: Got it. So let me ask you a question. Cause someone asked me this the other day, who said, how are these venture capital groups value in these companies that exorbitant valuations? And then you've got Pete? Well, you're telling me, there's like this traditional group that still uses multiples of EBITDA and, you know, looks at financial models with moderate, but they're all kind of playing on the same chess board or checkers board, if you will. So I've got in the fitness industry, I've got groups that are, might have like a couple million dollars in revenue, and somehow they're valued at a hundred million and I've got a $20 million EBITDA business that I might get five times four. So like, talk about how you feel as an investor, kind of playing in this game where you've got rational operators, you got irrational money, you've got valuations that you've been, you've grown up. You probably wake up and be like, that's six times ebit.company. That's seven times, like that's not a nine or 10 or 20 or five times revenue. So how do you think about it? Do you feel like maybe, Oh, these people come around, they got better ideas or better ways to value these companies on behind or like, Hey, principles of finance are going to apply here. Right.

Rob Fioretti: Got it. It's a great question. And by the way, it's one, I find myself asking often when I see some of the stuff going on. So I definitely don't have all the answers, but the way we approach it is that look valuation is based on the prospects for that particular company in the future. It's not necessarily based on what it's doing today. Yes. We talk about multiple little because that is a convenient way for us to compare opportunities and compare values across businesses and across industries. But the, the value of a firm today is based on its prospects in the future. And so, you know, a company that might not have, you know, a lot of earnings today, but has a very defensible business model, a unique proposition operating in a very large market. If you could envision where that company could be in three to five years, although it might have no earnings today, it might be, have the potential to be worth a billion dollars in five years.

Rob Fioretti: And so that would imply that the value today might be some crazy multiple of revenue because there are no earnings to apply it multiple to in contrast you having, you know, what might be a more mature company that does have earnings today. It has a pretty good competitive position, but it might be in a, in a business where, you know, the opportunity just isn't quite as great. And so the value today based on where that opportunity is in the future might be less than a company that's got no crop that's today, but has a much bigger opportunity. That's I think where people lose sight of how to, you know, why is Tesla value? Well, I don't know that it is in the last couple of days, but it was valued more than the other

Pete Moore: Car, like seven. Yeah. It was like seven times 20, 25 estimated forever.

Rob Fioretti: I think it's, I think it's taken a little bit of a hit in these last few days, but you get the point.

Pete Moore: Yeah. I mean, one, one of the things that that I kind of scratch my head about on these VC deals is even like when a company brings in capital it's where like 250 million, but it has like 50 million or revenue somewhere in the back of my mind. It's like this company is priced to win. It's not priced to place its prices. If there is no competition or like that this one is the ultimate winner, but there's a, there's a roulette game, you know? Or you know what I would call that like a regression analysis. What am I thinking about? I'm thinking about Monte Carlo, there's a monthly car, like this company, you know, Peloton, they might be awesome oxygen and on a bike that meets our mission. But at the end of the day, yeah, I'll watch cable TV, and I got an order track commercial. Then I got a Bowflex. Then I got a Peloton. Then I got an Apple TV. I mean, it's not, they're not the only group out there. So do you think maybe some of the VC hysteria has priced everything to win versus the place?

Rob Fioretti: Look a lot of that is, and that's when you get in markets that are arguably inflated. And I think where in one of those today everything is priced. Like it will be the only winner because, you know, I think VCs are, you know, the way their business model works and we're a little bit different than that. But VCs, you know, their portfolio works if they have big winners and losers that's right. And so they can price things so that, you know, they made hit the one or two big winners in his face and they're okay if they miss with the other 10.

Pete Moore: Yeah. So switching topics here for a minute, obviously we've been through you know, Armageddon for the last year, especially you guys own a pure bar franchisees. So you've been in it with us, with the shutdowns, you know, one of the, we had an, an entrepreneur come to us and they said, Hey, I'm talking to this private equity group. You know, what questions should I ask? And so, well, the first thing you gotta do is like, how did they work with their portfolio companies during, you know, th th this last 11 months, and then fact checked out with the guys that were the women that are CEOs of those companies. Because I feel like there's been so much marketing. I went on a soap box the other day about this, but gummy share a little of the highlights. You know, there's all these groups out there that say I'm flexible capital. I'm going to be here for the long run. And then you are for the first 90 days, and then you're not getting your interest payment, and you're not that flexible financial provider partner anymore. So how have you guys treated your deals, like looking at the long game, and then also thinking about the brand equity that you as a firm and that you and your partners have individual credibility and, and how that calibrates into how you operate. Yeah,

Rob Fioretti: It's a great question. And I think that your advice is exactly the right advice, which is for entrepreneurs, which is go in and ask them how they work with their portfolio companies, but probably more important go talk to the people that they've worked with. And to that end, you know, we spend a lot of time upfront with these founders, with these entrepreneurs, with these management teams, developing a relationship so that, you know, our fourth first board meeting, we're not just sitting down for the first time getting to know each other and deciding, okay, now what it isn't like that we already know what we're doing at that first board meeting or whatever it is. Because we've spent that time a getting to know each other, talking about, you know, who does what and what we're going to bring to the table. How are we going to be involved?

Rob Fioretti: What decisions do we want to be a part of, but what decisions are we, you know, are the management teams having that understanding upfront and spending that time. And that has been more difficult during this past year, for sure. He just, I mean, in my opinion, it just zooms just don't cut it in that regard, but spending that time is critical and then, you know what yours, and it takes a long time to develop, to develop this sort of reputation. But when you know, founders that you're just meeting, you're just developing a relationship when they make that call, that you have suggested that they make Pete and talk to the people we've worked with in the past. They're going to hear that they're going to hear that, you know, there were no surprises that should things happen along the way, and that we didn't, that nobody foresaw. But we sit down and we figure out how to deal with that. And having that reputation for a long time is, is invaluable. And something that I think that's overlooked, frankly.

Pete Moore: Yeah. Agreed. So last question here, given a you're, you're a portfolio company in a halo sector, you've got probably 20 to 30% vacant box is whether those are studio boxes, personal training centers, health clubs that may have gone through bankruptcy. How do you look at it from a standpoint of a private equity when you're pulling capital? And you're saying, yeah, you know what? I could go and pick up 20 boxes right now, or 20 locations. My cap X cost is going to be diminimous versus what it is my permitting's already there, but at the same time you say, Hey, look, I'm not out of the woods yet. Like I see the light at the end of the tunnel. It's not a train with COVID, but like, I'm, I'm not going to be calm. I'm not going to supercharge a business that, that might fall into a territory of, of outgrowing itself. So how do you think about that? That's kind of the closing comments here.

Rob Fioretti: It’s a great question. And it's some topic we spend a lot of time thinking about frankly, every day. These days we are, we do have a, you know, a fitness, a studio fitness franchisee in the New York area in our portfolio. It's been a very, very challenging year. We're coming up on our one year anniversary of being closed, which is not a one-year anniversary. Anybody wants to celebrate, but here we are we are bullish on the sector returning to health within, you know, if you could, if you can snap your fingers and be, you know, and be sitting here a year from now we think people are out exercising and studios. We think the home fitness business has you know, certainly a greater presence in the world. But we think people are going back to studios, particularly in urban areas where there's, you know, that's where you go.

Rob Fioretti: People want the community, they want this socialization, they want the motivation. I mean, you know, we're all sitting here exercising in our gyms or our basements, or are the corners of our apartments. And it's easy to get distracted, even for the most motivated of us. Now we give it our bullish outlook. We are being opportunistic about picking up picking up and taking advantage of opportunities. We're seeing out there in a fairly in a fairly aggressive way, we are ensuring to your point of we're not out of the woods yet, cause we sure aren't, we are ensuring that we are doing that maintaining the flexibility we need in those real estate arrangements, you know, with our operations going forward, ensuring we have the liquidity to make it through because we see the light at the end of the tunnel, as you said. But when we're going to get to that light is frankly still anybody's guests, in my opinion. And so we know we can beat, you know, a year or even two or certainly two years from now, we can snap our fingers and we have a good idea where we're going to be. It's just a matter of making sure we have the flexibility to get there.

Pete Moore: Awesome. In closing here, you got any quotes that you live by or quotes that are people say, I'm sure Rob told this to me at some point

Rob Fioretti: I think quote. So it was long time ago earlier in my career, I did a buyout of a company called ready ice. It was the largest package dice manufacturer in the country. And that the CEO was a guy named bill brick. He was a terrific guy and you know, we're going through our diligence and we're just, you know, running them through the ringer, you know, like we do. And at some point, and this is when a lot of stuff still took place in person and we're sitting around a big conference table you know, just grilling up any, smashed his hands on the table. He says, guys, we freeze water, not over-complicate what we are talking about. And it's amazing how often that quote I kind of repeat that back to myself when we get all caught up in, you know, our, in our analysis Point is not that complicated. And you got to cut it back to the fundamentals. We freeze

Pete Moore: Freeze water. All right, well let's hope 2021 is going to unthaw the ice. And we all get back to investing again in some semblance enormously. So I'll see you in person after the vaccines are are widespread. And thanks for coming on the show. It's great to to talk with, as we continue to build our halo talks, email notification database, want to offer you a free $10, instant gift card from our friends at promotion vault. Also to show you how easy it is to offer your members and prospects and clients, the ability to get desired actions out of them and reward them in real time, go to halo talks.com, put your email address into the pop-up box. See how it works. Get a free $10 gift card from us and keep listening and making everybody great.