Exchanges at Goldman Sachs Investing with Permira's Tara Alhadeff

Tara Alhadeff, Partner, Permira

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Allison Nathan: Investors are facing one of the most challenging backdrops in recent years amidst slowing economic growth, rising inflation, and geopolitical conflicts. I'm Allison Nathan and this is Exchanges at Goldman Sachs, Great Investors.

In this special series, Alison Mass, chairman of our investment banking division, and Katie Koch, chief investment officer of public equities in our Asset Management Division, speak with the world's most respected investors about their investing strategies, career trajectories, and their outlook for markets and economies.

I recently sat down with Alison Mass who shared highlights from her conversation with Tara Alhadeff, a partner at Permira, a global investment firm based in London. Tara Alhadeff focuses on investments in the consumer sector.

And has worked on transactions across a variety of brands, retailers, and digital companies.

Alison, what are some of the points that stood out to you the most during your conversation?

Alison Mass: Well, I have to say, I was fascinated by a couple of things that Tara said. The first was that she had started in the industry during the global financial crisis. So, she, joined private equity in 2008. And I just loved her glass is half full attitude about that because people can say, "Gee, I started in the industry at a very, very difficult time." And you know, what she said is if you start in a golden period, you know, you can mistake luck and a rising tide for skill. And what she says is as she looks back on it, you know, she was living the downside cases, not just doing the downside cases. And she saw people living day to day through, literally, not having growth in their firms. But having declines, in some cases, no business. And she said it was just so much better living in the reality of it than in an academic case. And she said she just learned a ton for when the markets did come back. So, it was just a glass is half full perspective. And I really learned a ton about that.

The second thing, candidly, that I thought was really interesting about the interview with her was we talked about her brand strategy. And the private equity industry, historically, is one that brands are seen as sort of, they come and they go and historically, it wasn't something that was a private equity focus. And so, I asked her, you know, how do you evaluate a brand when the qualitative and non-financial part of it are so important to the analysis? And she said, "Look, we look at how strong the brand is with consumers, obviously. But number two, how emotionally connected they are to it." And she said, "You know, nobody really thinks about emotion when they think of private equity investing. But candidly, that leads to pricing power. So, when someone's emotionally connected to their product or a brand, you have more ability to change pricing." So, that was interesting when she talked a little bit about how they evaluate from a brand strategy point of view.

Allison Nathan: I'm sure our listeners can't wait to hear more. Here's Alison Mass in conversation with Tara Alhadeff now.

Alison Mass: Welcome back to another special edition of Exchanges at Goldman Sachs Great Investors. I'm Alison

Mass, chairman of the investment banking division at Goldman Sachs and your host for today's episode. Today, I'm delighted to be speaking with Tara Alhadeff, a partner at Permira, a global investment firm founded in Europe. Tara is responsible for Permira's brand investing strategy in the consumer space and has worked with some of the world's most iconic brands, including Doc Martens, Valentino, and Golden Goose. We'll be discussing her approach to investing and brands, the relationship between Permira and its portfolio companies, and her thoughts on the opportunities and headwinds facing private equity investors today.

So Tara, welcome to the program.

Tara Alhadeff: Thank you. Thanks, Alison.

Alison Mass: So let's start with your early career. After graduating from the University of Cambridge, you worked at Morgan Stanley for three years before going to Harvard University for your MBA. What did you learn from those experiences that helped you in your private equity career?

Tara Alhadeff: Sure. Gosh, well, it's going back some time, so I'll probably pick one of those experiences to answer your question. To the Morgan Stanley years, as you say, I was there for three years, two in London and one in New York. So one thing that was always really important to me was to work in a really global, international organization and context and environment. So I was really lucky to be able to move on from New York to London with Morgan Stanley back in the day.

A lot of the things I took from that time, the things people would commonly say about working with smart people and working in places with really high standards, which I'm sure obviously you can relate to as well. A few more specific things that have really stayed with me, so the work of those years is something that stayed with me forever, and there's good and bad to that. There's a lot of focus at the moment in big institutions and banks about making sure that people get the right balance in their lives. But the good of that, I'd say the work ethic, the standards, and the quality, the rigor. I always think the fact that was my first job was very formative and how everything in terms of work hours seemed easy after that.

Some of that I had to unlearn. So I think there was a degree of perfectionism in those years that could stand you in good stead when you were earlier in your career, but as you grow you need to unlearn or at least balance out a little bit more and get more comfortable with not always being perfect. The other thing that really I learned from those years was I wanted a job that allowed me to be technical and analytical but, at the same time, really engaging with people. So the most fun I remember having in those years was with our client meetings or, like, the big team members where you were really brainstorming or getting other people's points of view. And so I think I really learned that I wanted to continue in a career that allowed me to be both analytical but really exposed to people as well and not only sat behind the desk.

Alison Mass: Yeah, I think our junior professionals would still say the same thing today. I was with one of our summer associates talking about her experience, and she said the absolute best day was her day that she met with three or four clients on an IPO she was working on. So I think nothing has changed. And I love your “glass is half full attitude about the work ethic and taking the positive out of those experiences because I know they can be challenging.

Speaking of challenging, you joined Permira in 2008 when the firm and the private equity industry more broadly, in fact the whole of Wall Street, were under tremendous pressure. But Permira adapted and thrived coming out of that difficult patch. So what was it like to start your career during that time?

Tara Alhadeff: Yeah, it's a really big and important question. Now, with the benefit of hindsight, I think it was a great time to join the industry. There was a period where I thought it was an awful time to have joined the industry and I thought I was suffering career-wise for not having been exposed to the golden days. But there was a period even before that when I actually joined when I was totally oblivious to what the context was that I was joining. So if I'm honest, I was really green when I joined. It was 2008, and I was not really deeply aware of the magnitude of what was happening in the financial markets and the magnitude of what was happening in my own firm that I had joined.

So probably most listeners don't know, but Permira had been a very strongly performing private equity firm up until that time. And then, in the years following the global financial crisis, like many private equity firms but quite severely hit in terms of valuations and performance of our portfolio. And at one point, the firm was very severely underwater. And as you alluded to, the firm's come out of that really strongly and thriving, but I didn't think I understood the magnitude of the challenge that was facing the firm and some of my colleagues at that time, which is a blessing because I stuck around and learned a lot from it.

So in hindsight, it was the best time to join because you learn the rough stuff. I sat in teams and met colleagues dealing with underperforming assets and over-levered assets where they had to renegotiate the debt terms or put more equity in or really roll up their sleeves and figure out new ways to create value in portfolio companies and that's really the nuts and bolts of what we should be doing as private equity investors.

And I often think I was actually really lucky that those were my formative years where I was learning and watching and listening and not necessarily in the seat of responsibility. So not feeling the heat as much as some of the senior people may have been but actually just being able to learn as opposed to your learning years being the golden days where everything goes up and to the right and you can mistake, kind of, luck and a rising tide for, actually skill.

And so I actually feel very grateful that I started then, but there were definitely some years that I felt like my career was going more slowly because it was tough to invest in those years and we were deploying less money and I was frustrated by that. But looking backward now, what is it, 14 years? I'm glad I joined the more trough time in the markets.

Alison Mass: I want to just ask a clarifying question on that, which is how did sitting through all those meetings in 2008 and 2009, talking to company managements, observing what happened to their businesses impact how you look at investments now?

Tara Alhadeff: Yeah. So I think literally living in downside cases, makes it easier to imagine, model, plan for downside cases. So there's something about the human brain that, like, a lived experience is more easy to understand obviously than, like, an academic experience that you read about or someone else is telling you about. So to be specific, the idea that revenues can go from growing to declining, if you've never seen that happen, it just seems like a bookish exercise. But if you've actually been sitting in a board meeting, boardroom for months on end of a company that was growing last year and is suddenly declining and has to shift, all the implications of that, the people implications of that, the hiring implications of that, the investment implications of that, and the complexity of unwinding decisions when your environment changes.

So the nuance of what it's like and how the ramifications of going from being in a positive scenario to a negative one, how complicated it can be to unwind decisions or make strategic choices and trade-offs in that moment, I think until you've lived it, it's just a theory in an Excel spreadsheet and your modeling.

So I think really where I think those years helped me and others who have been through that is when you're talking about downside cases and what can go wrong. You've just got the scars and you've got the lived experience.

Alison Mass: So I want to talk about brand strategy, because today you're responsible for brand strategy in the consumer space at Permira. And how do you, as an investor, put structure and frameworks around a brand, which is something that people tend to view as qualitative and non-financial? And there were many years where people in your industry did not want to invest in brands.

Tara Alhadeff: Yeah, so firstly, let me put the answer in context. So brand investing is one of the two legs of our consumer sector strategy of Permira. The other leg is that we like to invest in consumer digital companies. So brand investing is what we're talking about now, and you're right. It's a very nebulous term that's difficult to know exactly what we mean and get your arms around. And the reason we chose this term “brand investing” and the structure we put behind it is the first question we ask ourselves is, “How strong is the brand of this company with its consumers?”

Now, that means awareness of course. Like, how many people know the brand, unaided or aided? But it means much more than that after the awareness question. It means how emotionally connected do people feel with this brand? How much a part of their lives is it? How much do they recommend it? How much do they love it? How much do they feel it represents them? And how much do people feel emotionally -- and it's weird to talk about emotions when you're a financial investor -- but how much do people feel that this brand is a part of their lives and means something to them?

And the reason we care about that is that all of that basically comes down to pricing power and stickiness. So when people feel emotionally connected to a brand, and it can be a footwear brand, it can be a food brand -- it can be a baby care brand or a cosmetics brand -- when people feel really emotionally connected with it, they tend to have lower price elasticity, which obviously is helpful from an investment thesis point of view. And they tend to be much more sticky in their behaviors and repeat much more and be much more loyal customers.

So that's what we mean by brand investing. Like, we're trying to find the brands that have got that powerful connection with consumers that really sets them apart from their competitors.

Alison Mass: That makes sense to me. Now, during the financial crisis, Permira invested in both Hugo Boss and Valentino. So, what attracted Permira to the potential of those two brands at that time?

Tara Alhadeff: What attracted the firm and us to them is very relevant today. So, Valentino and Hugo Boss both absolutely ticked that awareness. Everyone in the world knew those two brands. 90% of the world knew those two brands and could tell you what they stood for. Men's suits, in the case of Hugo Boss, and high fashion, couture gowns back then for Valentino. This is 15 years ago, remember.

So, they both had this kind of, like, icon status. Immediately recognizable. Real brands. So the simple thing that attracted us to both of them is that they had decades of heritage, been around forever, really stood the test of time, but we felt that they were both brands that were bigger than businesses that were attached to them and that they had been not managed to their full potential and that bringing new strategies and new management to them would really help them become more profitable than they were when we invested.

And in the end, the global financial crisis happened, and it took longer for that to come through than we had originally expected, but it absolutely did come through.

Alison Mass: You helped turn Valentino back to a formidable fashion house, which Permira later sold to Qatari Investment Group in 2012. So, what lessons did you learn from that process?

Tara Alhadeff: So that deal informed a lot, and we've learned a lot about brand investing from that deal. So, a few things to pick out. Firstly, how robust a truly iconic brand can be over time. So, global financial crisis or mismanagement, if you've got a truly robust, excellent brand, it can actually survive quite a lot of challenge. That was one thing we learned.

Second thing we learned is how long it can take to reposition or improve performance at a brand. We use this phrase, which actually one of my partners used to use, the valley of death. You often have to go through the valley of death to emerge out the other side, and that can take years. And that's when private equity is a great ownership model because you've got years. I know some people say private equity's not long term, but I think we can really take many years, up to a decade, view. And that allows you to reposition a business, and you need that kind of time.

The other thing this deal really taught us is how crucial management are. It goes without saying, but the people who really turn that around are the management team, led by the CEO, Stefano Sassi. And theory and strategy is great, but you need the people who are going to do it. And that group of people really deserve a lot of credit.

And then the last thing I'd say that we learned from Valentino especially is investing in luxury brands, you've got the intersection of design and creativity on the one side, which you absolutely need to have a fabulous luxury brand. You need design and creativity. But you absolutely also need commerciality, pragmatism, and financial acumen, and financial decision making. And getting those two things to hum in one company is quite hard, but that's the core of what a great luxury business is. And I think we understand that now. Lots of people understand that, but we really learned that during the Valentino investment.

Alison Mass: Another brand that is bigger than the business is Doc Martens. Can you talk a little bit about that and what you think about it as a business?

Tara Alhadeff: Yeah, sure, happy to. We invested in Doc Martens eights years ago now in January 2014. And the original thesis was exactly what you said. We had a brand that was enormous. Globally known. People of all ages and all walks of life knew what Doc Martens was, so the brand awareness was huge.

The business attached to that brand was very small. It was 200 million pounds of revenue despite, as I said, being sold literally in Argentina, Vietnam, all over the world. And what we saw was that other brands, footwear brands, that had the same brand awareness as Doc Martens had billions of revenue attached to them. So we weren't sure if Docs could be literally billions, which now it's well on its way to being, but what we were sure was that this was a brand that was much bigger than the business and that, with a different level of strategy and execution and management, it could just be a much bigger business without, in any way, shape, or form, diluting, damaging, weakening the brand. And that's absolutely key to how the company has been run since we invested.

Alison Mass: And under Permira's ownership, the company expanded its global presence, opened new stores, built out the ecommerce offerings. And Permira is still an investor even after the Doc Martens' IPO in 2021, which implies that you still see potential for growth. So, the question I have is how do you decide when to completely exit an investment versus holding onto it, or part of it, for future growth?

Tara Alhadeff: Yeah, so, look, there are many things that go into that decision, clearly. What's our view of the future growth potential of any asset? What are the market conditions and what are our options? I mean, you can't always dictate what your options are. And certainly, when you do an IPO, if you own the majority of the company and you're IPO-ing, it's extremely unlikely that it will be a full exit, just for obvious reasons. You don't want to be IPO-ing 100% of the company.

We take into consideration management and what management's desires are as well. And we also ask ourselves, are we are the right owner? Sometimes there's very good reasons to think that another owner, usually a strategic one, a corporation, will be able to extract or drive value in a way that we can't necessarily through synergies, for example. And typically, if we're selling to a strategic buyer, that'll be a full exit. So, there's a lot of things that go into that decision.

In the case of Dr. Martens, that we own 36% of the company today and are really happy shareholders of that company. As you alluded to and as Kenny in the management, Kenny Wilson's the CEO, so Kenny and the management team do a great job of explaining to the market, I'm not saying anything that's not public, but there's just so much runway for growth in that company. That was a case of being very happy to hold on. We sold half our stake in the IPO and kept half, and we were very happy with that.

Alison Mass: That's awesome. So many of the businesses are brands that you described as heritage brands, which you say need to be examined through a different lens. So, what do you mean by that?

Tara Alhadeff: So, heritage brands is a term we use -- does what it says on the tin -- but to describe brands that have tons of heritage, decades and decades of existence, typically multi generations of consumers would recognize them. There's no magic to how many years you need to have existed for us to call you a heritage brand, but typically multiple generations of people recognize the brand. That's what we mean.

And why that matters is that it means those brands have been through multiple fashion cycles, economic cycles. We get very excited when we find heritage brands because they have high brand awareness. They've been around forever. They've stood the test of time. They're probably here to stay.

And then we get excited when we think they have not been managed to their full potential. So obviously there's heritage brands that have been managed to their full potential, and there's not much for us to do. There are also heritage brands that have been over managed and overextended and milked, and that's also not that interesting for us. But where we get very excited is heritage brands that we just think have a lot more potential than what they're achieving today.

Alison Mass: So, another one of your more recent investments and a next-gen luxury brand is Golden Goose, which you invested in right before the pandemic, early in

2020. And I actually remember talking to Tom Lister about that because it was a very interesting time in the market to complete that acquisition. So, what attracted you to that brand?

Tara Alhadeff: Yeah, so many things. So just to tell the story of what you're alluding to, we signed the deal in February 2020. Cast your mind back. COVID hadn't come to Europe, or so we thought. And people were saying that it was just China or maybe just Asia. So anyway, we signed the deal in February in 2020. And then in March, COVID is discovered in Italy, which is where Golden Goose is headquartered, and all the production is in Italy. And all of Italy went into lockdown before the rest of Europe or the US. And so, literally less than a month after we signed this big investment in Golden Goose, the world goes into lockdown and our shoes at Golden Goose are all produced in Italy which is in complete lockdown. So, there was some very stressful weeks and months where we were worried about this investment.

But literally within weeks, that turned around and consumers started buying online and wholesale customers were selling on their websites and the business just flew and did really well. But, yeah, it was an interesting time, as you said, to have done that investment, but I'm really glad we did.

What attracted us to that brand? Look, so many things. First of all, it's a sneaker. For people who don't know, it's luxury sneakers, okay? The sneaker phenomenon, right? Casualization, people wanting to be comfy but looking good at the same time, that was just a theme and a trend that we think is here to stay. Of course, people will still wear stilettos. I'm not saying stilettos are dead, but more people have more sneakers in their wardrobe. So, we liked being in sneakers.

We liked the fact that it was luxury, so Golden Goose had really pioneered this idea of luxury sneakers. Today, all the luxury brands have big sneaker businesses and all of them sell luxury -- Gucci and Alexander McQueen and so on. But Golden Goose was really one of the first brands to be doing luxury sneakers. So it was a pioneer, and it owned its category. And we always like that.

And the second thing we loved, the management team, we'd known the company, especially my colleagues in Milan had known the company for many years, had known Silvio, the CEO, Silvio Campara. We were really excited to back the management team. There's just an unbelievable energy in that company.

And you remember earlier I said luxury is about creative on the one hand and commercial and them coming together? So Golden Goose totally has the creative and the commercial coming together and humming, and it's quite rare to get both things in one company.

And then we just got really excited about the quality of the business model. So, it's a high-margin, really high-margin product. We think it's got very low fashion risk because they're changing the designs all the time and bringing lots of newness in but not in a risky, you know, making a bet on trends kind of way. Like, ultimately, it's sneakers with relatively classic designs but with lots of embellishment and material and color and fabric and so on. So, it doesn't have a lot of fashion risk in it basically is what we say.

The company doesn't mark down any product. It's all at full price. A large chunk of it is sold directly to the consumer, not through other third parties. So, a lot of control basically, in the business model. And probably last thing I'd say is that the size of the opportunity, so it was already working in countries all over the world from Latin America to Asia, across Europe, the product was selling really well, and the business model was working. So just the size of the market we're selling into. And it sells to both men and women. It sells to 15-year-olds and much older people as well. So just the size of the prize and the opportunity is really exciting. And we think that it's still only scratching the surface.

So, it's two years in now, and we're really thrilled with that one.

Alison Mass: That's awesome. You alluded to this earlier, but in the world of brands there are so many disruptive ones that are scaling quickly through influencers and social media. So how do you distinguish between the brands that, as you mentioned earlier, are here today, gone tomorrow, from those with staying power?

Tara Alhadeff: We do a ton of analysis about this, and we're really focused on this, as you can imagine. I'm not sure I'm going to list all the detailed analyses that we do because, without wishing to sound arrogant, that's what we think our IP is and that's what we spent, like, 15 years building up, how to tell the difference between a fad and something structural, here to stay.

But basically, what I'd say is we have a framework of what we think the characteristics and analysis that will prove brands that are really here to stay and that are growing off something structural as opposed to something faddish. And we've really refined that over the years and road tested it on tons of brands that we look at every single year. And we feel really good about having developed that framework.

But if we're not sure, we won't invest. We're investors, and it's our job to take risks and assess risk. But the type of risk we won't take is a gut feeling about a trend. So you won't find us saying, “I just believe that this type of ingredient trend in beauty is here to stay, and I just believe it. Everybody believes it. Everyone in the industry thinks this is something backable.” Like, we won't invest like that.

If we're not absolutely sure that a brand meets the framework that we've got in house around staying power, then we won't invest because we're not trying to obviously but we're very focused on making sure we're not making gut or instinct decisions.

Alison Mass: So, let's pivot macroeconomic landscape. How do you except rising inflation, slowing economic growth, and growing recession concerns to affect discretionary consumer spending?

Tara Alhadeff: I wish I knew. Crystal ball. Look, it's a really complicated question, and we had a dedicated team spending a few months on literally that question. Discretionary consumer spending, what's going to happen? What are the scenarios for the next, say, two years?

And there was a surprising lack of clarity out there. We talked to all the economists, I think including Goldman Sachs economists, and we gathered a ton of input. We did a ton of data crunching and looked at history. And of course, there isn't an analogy in history for this moment in time, as is much discussed.

I don't want to be glib about my answer. Like, I think it's a really nuanced question. It's also a freak event that we're facing this on the back of COVID. So, what you have is consumers with all-time savings rates, government subsidies that have really supported businesses and consumers over the last few years, and then COVID. So, people didn't spend on their holidays and their restaurants and their going out and didn't go to weddings and all this, like, a lot of big ticket stuff. People didn't spend the last few years.

Ironically, right now, we have inflation, we have serious pressures on discretionary spending, but we also have pockets of explosive growth in spending and people are catching up on things they didn't do for the last few years. So, it's really difficult to analyze.

But the kind of simple conclusions that we've made, in answer to your question, are big ticket items versus small ticket items. So, we think big ticket items -- a new car, a new TV -- in the discretionary spending tend to get hit first. And small ticket items consumers tend to protect. And in fact, small ticket items sometimes see a growth because you're cutting the big spending. Let's say you cut $1,000 by not buying something very large, and that allows you to buy quite a lot more of the small things but still be net saving. So, you get this effect when the small ticket items tend to do better and tend to be more resilient than the big ticket items.

Then of course you have to layer on consumers. There's high income, low income, different demographics, people living in all different kinds of circumstances. And the newspaper headlines I think focus and, frankly, rightly so, on people who are really struggling and living week to week, paycheck to paycheck and really struggling under current inflationary circumstances. So low-income consumers I think, unfortunately, are going to be hit hard, and that will affect their discretionary spending.

High-income consumers have got very robust balance sheets today. And their wealth is at all-time highs. And their confidence levels are reasonably high. And so it also depends who you're serving as a brand or a business, high income or low income. So, we think businesses serving higher income consumers will be more robust in the months and probably years to come.

And then a more fun element of the answer is that discretionary spending is by definition discretionary. It's optional. You don't need it to live or to survive. But what I always say is that the human desire to feel good is not discretionary. So, people want to feel good no matter what.

And so of course if you're literally living paycheck to paycheck, you don't have an option about your discretionary spending. But most people aren't living literally paycheck to paycheck. And so, people find ways to feel good, and there's a lot of discretionary spending that's about feeling good.

And a lot of people will know this, but there's something famous called the lipstick effect that I think one of the L'Oréal founding family members identified in some past recession, which is that a $15 lipstick actually does really well during a recession because it's an easy affordable treat that makes you feel good. And you probably cut some much bigger items, and you can still afford your $15 -- or you can even trade up and buy a more luxurious lipstick. You know, you buy a Chanel lipstick, you get a real feel-good factor.

So really, I think it's very nuanced, the answer to your question. And we're not trying, as investors, to predict with accuracy what the next 18 months or two years will look like for discretionary spending. What we're doing is staying very focused on backing long-term winners that have enough white space to grow through challenging macro and have got robust business models and pricing power and staying power, really, so that, even if the next X months or years are tough, or even tougher than expected, we'll emerge holding winning business models.

Alison Mass: Fascinating. So, one of the big uncertainties we're all facing as investors is what the declines in the public markets are going to mean for the private markets. And how is the drop in public market valuations affecting the opportunities in the private markets from your perspective as an investor? And also, as you consider exits from your current portfolio companies?

Tara Alhadeff: When you look back at history, that's typical. So private market valuations have a lag, and so we're not surprised by that. But we definitely have this dynamic where sellers tend to think their company's worth X, and buyers think it's worth Y, which is less than X. And that's going to take, I don't know, probably at least a year to really work through.

The average over the next five years' valuation's level multiples is probably going to be lower than the average over the last five years, just given the difference in the interest rate environment. So that's why I think investment activity for firms like ours will likely to be lower in the next 12 months than last year, just because we're not going to wait for this disconnect to work its way through. It's important to stay disciplined obviously.

So, we're being thoughtful and cautious about valuations. That doesn't mean we're trying to buy cheap or cull the bottom or anything like that because. ultimately, in our firm, our strategy is very focused on buying quality. And we're willing to pay up for quality over the long term view. We're not literally marking everything to market every minute and needing to follow public market valuations mechanically. But it certainly feels like a moment of disconnect.

Alison Mass: We actually talked about it internally with Rich Friedman, who has run our merchant banking business for decades. We were talking about the last time that interest rates were where they are, where senior secured debt can cost you 11.5%, and that was literally in the late '80s. And the difference is multiples were half of what they are now. So, it was just simple math, literally. It's a very interesting analysis when you go back and look at interest rate environments that were equal to where we are today and what multiples were, and I think it's very instructive. And I agree with you in terms of what we're going to see over the next 12 months, and there just has to be a balance, given the math.

Tara Alhadeff: You know, one of the important psychological elements of this is that we can be looking at multiples that are substantially down on last year or last three years, and so we've got people in the team or people in the market thinking that's really good value because we're looking at this company that's, I don't know, at 12 times EBITDA instead of 17 that it would have been last year.

But then you've got, thankfully, just like the conversation you're saying, a lot of people in the firm and in the industry who can say 12 is still really high for that company if you actually take a 40-year view. So, it's a difficult moment to value businesses.

Alison Mass: Certainly is. So, looking ahead, how is technological disruption affecting your investment criteria for brands?

Tara Alhadeff: I think technological disruption is basically good news for how we think about investing in brands, and has been for five, ten years probably by now. What I mean by that is technological disruption is giving great brands new channels to sell through. And, most importantly, it enables a brand or a business to reach basically the whole world in a matter of either months or years or minutes, if you do it through a TikTok video. You can achieve things that would have taken decades before in much, much shorter time frames. So, the ability of a brand to grow fast is basically greater today than it was ten years ago because of technological disruption.

That doesn't mean all brands will grow faster. Of course not. I think on average brands will probably grow the same kind of going forward as they have historically. But the winners and the ones who really understand how to take advantage of technological disruption I think can just leapfrog. And businesses going from zero to 200 million of sales or 200 to a billion in a couple years, and that was just unheard of before.

So, in terms of capturing upside and growing businesses, I think it's good news for us and what we're trying to do.

Alison Mass: So, I have to ask you this last question, given that you're a senior woman investor in private equity. So, your industry still has a very large diversity challenge. And what advice would you give to women and other diverse voices who are looking to build their careers in the private equity industry?

Tara Alhadeff: It's sad to me that we have to still talk about this. Like, I definitely am, I know a lot of women say this, but I'm in that group of people who thought, when I was starting my career, I definitely thought that at this point we wouldn't be talking about it. But you are totally right. The private equity industry definitely has a diversity problem. And I think there's a ton of good intentions out there now, but actually doing something about it and changing it and getting the next generation of women into senior leadership positions so that they can be mentors and role models for the next generation, creating the virtuous cycle is going to take years still and is really challenging.

And I also think it's important to be honest. This is not much said, but I do think there is still, unfortunately, people out there who, silently mostly, think things like, “This isn't a great industry for women,” and maybe the same for banking, I don't know. And that's a quite quiet voice because it's clearly not very politically correct to speak like that today. But I think that undertone is still there.

And so, my advice is find a place, a firm, and people, a team and firm, where you can really be your authentic self. Almost any company will say the right things. And almost any team will say the right things about diversity today. And by the way, almost any company will have lots of good initiatives and actions and good answers to what they're doing about it. All of that's great, but I think you will know through interview processes or internships or at least in your first years of working a job, whether you can really be your authentic self with that group of people. And I think nothing trumps that.

And if you're wasting half your brain trying to be something, then you're not going to be your best self and you're not going to be happy. And you're not going to do the best job you can do. On an individual level as opposed to an organizational level, that would be my advice.

Alison Mass: It's great advice, and I 100% agree with it. So, I want to close with a lightning round, like, short-answer questions, just so the audience listening gets to know a little bit more about you. What was your very first investment?

Tara Alhadeff: My first investment was at a company called Findus Italy [PH], which was a frozen food fish finger, fish sticks, I think they're called in the US, right? Bird's Eye. So, we owned the Bird's Eye fish sticks/fish fingers brand, and we acquired this big Italian equivalent to merge it. It was an 800 million euro deal in 2011 or '10 or something. That was my first deal.

Alison Mass: Really embarrassing to say fish sticks were a very important part of my childhood.

Tara Alhadeff: That is not embarrassing. That is a heritage brand. You've literally just figured out what a heritage brand is.

Alison Mass: What is the biggest lesson you've learned from an investment, either one that went particularly well or sometimes we learn the best lessons from a deal that didn't go so well?

Tara Alhadeff: So, I'll share two, like, in opposite directions. So, the group was called Igloo, and it sold frozen food. And the investment went well, just to be honest with that. But the lesson I was going to say is growing a mature business in a flat category is an unbelievably difficult thing to do. It's like pushing water up a hill.

And as I said, the investment was a good one for us because of how cash generative that business was, but it really stuck with me. The lived experience of no matter how great your thesis is or how great your strategy or how great your management team and all the million great investing things investing in the business and the brand you can do, it's a very simple thing. Like, going against, pushing water uphill is, like, a very difficult thing to do. And I think it's an important investing lesson because we often sit in meeting rooms and with Excel spreadsheets and create investment theses and that are really smart and we're going to do something different, and we've got a management team who say they're going to do this different. Just reality check sometimes. If it's a mature business in a flat or stable or declining category, I probably wouldn't bet against that. Or it's very hard work, let's say.

And then lessons from stuff that's gone really well. So, Doc Marten's, you already talked about that for a minute. So that's been a fantastic investment for us over eight, nine years now. And it's still going strong. Don't be afraid to imagine really outlandish upside scenarios. That's a reverse to the first lesson which is about when to be cautious. But it's possible. Update your thinking. And when something's going well, it doesn't mean it will continue going well. But ask yourself what's changed. Have I learned more? Like, maybe the upside's even greater than I think.

And the reason I say that is we could have sold that company, I don't know, for 700 or 800 million euros at some point, and we would have made three time our money, which is a very respectable, great return. And if we'd just looked at our original investment case, we definitely would have sold early. But we had to update our thinking and say, actually, this thing could be way bigger than what we originally thought, and so we should hold on and stay invested for much, much longer. So, yeah, dream a little bit and dare to be brave sometimes.

Alison Mass: What's the best piece of investment advice you can give to listeners that you wish someone had told you early on in your career?

Tara Alhadeff: Don't be linear. I think human beings, despite their best intentions, have a natural instinct to be linear, upwards or downwards. So, when things are going well, when a company's growing, they model, like, more and more growth. And when things are difficult or declining or margins are declining, they just, like, model that out forever.

I'm being overly simplistic, but I think people tend to attribute too high probabilities to things continuing as they are, and nobody can see around corners. And obviously I'm not saying you can magic up a crystal ball, but I just think, intellectually, as an investor, imagining the disconnects and really making sure you're pricing in the unexpected, even if it's a low probability, is on the intellectual side of investing the thing I feel no one ever really explained to me and you just had to learn by doing. And I think, yeah, that's something I try to tell people much earlier in their career now.

And then the other one I'd say, sorry, if I can. I know it's meant to be a lightning round. I'm not doing lightning. Sorry. One more thing I want to say on investment advice. Nobody has the right answer. Gather the inputs, listen to the advice, but do not fall into the trap of thinking that someone more senior or more experienced or more loud or more confident than you knows better. They might so listen to them. But then go away and think about it and make your own mind up.

When you're young and early in your career, it's very easy to just think people who are more experienced definitely have the right answer, And it's just not true because then you get to be at the top and you realize, yikes, I don't have all the answers. So, I wish I had known that earlier.

Alison Mass: No, I love that advice. That's awesome. All right, my last question, what are you reading now?

Tara Alhadeff: Mostly I'm reading David Walliam's books to my eight-year-old son. Only British people I think will know what David Walliams is. But he and I are reading those together for the most part. And then actually literally before this Zoom I opened up an Amazon package of what I'm going to read next, which is a book by Adam Grant. Adam Grant, *Think Again*, a social psychologist. So, I'm excited about that because it says, “The power of knowing what you don't know,” which is what I really would like to read about.

Alison Mass: Well, Tara, it was such a pleasure to speak with you and have you on the program, so thank you for joining.

Tara Alhadeff: Thank you for having me, Alison. It was fun.

Alison Mass: Thank you all so much for listening to this special episode of Exchanges at Goldman Sachs Great Investors. If you enjoyed this show, we hope you'll follow us on Apple Podcasts, Spotify, or Google Podcasts or wherever you listen to your podcasts. And leave us a rating and a comment. This podcast was recorded on Monday, July 18th, 2022.

Allison Nathan: That wraps up our limited run series of Exchanges at Goldman Sachs, Great Investors. We hope you enjoyed listening to our conversations with some of the world's most respected investors. Tune in next week for another episode of Exchanges at Goldman Sachs. And if you'd like to learn more, visit GS.com and sign up for Briefings, our weekly newsletter from Goldman Sachs about trends shaping markets, industries, and the global economy.