
Building a watchlist

Forager's valuation process is key to our investment strategy, and sometimes that means spending time researching companies that we don't end up investing in. Harvey Migotti, Portfolio Manager of the Forager International Shares Fund, and Chloe Stokes, Analyst, discuss a couple of Special Purpose Acquisition Companies (SPAC's) that they decided not to purchase. Well not yet anyway. Find out why these companies haven't quite made the cut, and what's happening with price appreciation levels in the SPAC space.

<https://youtu.be/qQFdAwbnsFI>

Transcript:

Harvey

Hi I'm Harvey Migotti from the Forager International Fund here with Chloe Stokes, we're here to talk about SPACs. We've talked a lot about SPACs in our newsletters, blogs and various videos. For those that aren't familiar they're special purpose acquisition companies where they allow a private business to list onto the public markets in a much more efficient manner in a faster way than the traditional IPO method.

So we've had a lot of success over the past year in SPACs we've had some real big winners, things that have gone up two, three, fourfold over the past 12 months and some great businesses that are near and dear to our heart that we still hold. But we look at a lot of them and we're here to talk about some of the ones that we've looked at that are good businesses, we still like them they're on our watch list but we couldn't just get everything to sync. I'm here with Chloe to discuss one or two of those so Chloe tell us a bit more about the latest one that we looked at which is Betterware.

Chloe

So we were looking at Betterware Mexico which is a Tupperware distributor based in Mexico and it kind of gets painted with the MLM brush which is fair because they do sell their products through a network of distributors.

Harvey

Just for our viewers out there, MLM is multi-level marketing you'll be familiar with, that you sell a bunch of Tupperware to your friends and then they have to go out and sell it to others and everyone earns money as it gets kicked upstream. It's almost a Ponzi scheme to some extent isn't it?

Chloe

Almost, but we think there are some places where it can work if it's done well and Mexico is one of them because they have really tight family units there and they kind of sell to and from each

other. They like helping each other out.

Harvey

It's a different culture isn't it from what we have in the west.

Chloe

Then it's also the geography because everything's so spread out it's really hard for companies to deliver to a lot of the counties in Mexico. So this avoids that issue as well and it also means that Betterware has very low distribution costs because they give the products to the distributors who then distribute them to the associates and they hand deliver those products to the end customer.

Harvey

So instead of Parcelforce coming to deliver your package to Potts Point or wherever you may be in Sydney or Australia you've actually got distribution points and it's your neighbours or friends that will come and deliver to you. The company is attractive because they quite frankly avoid a lot of the overheads that larger companies that have to deliver it have and quite frankly no one wants to pay ten dollars in delivery fees for buying a plate. So it kind of makes sense from that perspective doesn't it?

Chloe

Exactly and it's been really high growth. COVID has helped it and it generates positive cash flow as I was mentioning before so it was a really interesting business we spent a little bit of time on it and we got to speak to the company, but we ended up passing on it because we just couldn't quite make the price stack up when we were considering the risks that were involved as well.

Harvey

It was an obviously an amazing opportunity when it was listed at ten dollars but at 35, it still looks cheap on its valuation on a multiple level but you wonder how much they've you know pushed the pedal to the floor and how far they've moved along their expansion curve and how much growth is left and that's where we kind of felt we just didn't get enough comfort there. It's one on our watch list though.

Chloe

Definitely keeping it on the watch list.

Harvey

Great and what about Skin Chloe, that's near and dear to you.

Chloe

So the Beauty Health company it's one that Harvey pointed out to me a couple of weeks ago

and what they do is they manufacture these really innovative facial machines called HydraFacial. I'd never heard of them before but as soon as I did I researched them and they're absolutely everywhere in Sydney and everyone raved about them. I rushed out to get a HydraFacial the next morning for some research and again it's another really incredible business they're in beauty salons everywhere all around the world and like I said everyone raves about the product. It was another one that while the growth is really strong and the business looks amazing we just couldn't get the price to quite stack up at the current price however if we had gotten in before when it was trading at net asset value it looked quite attractive.

Harvey

So one thing we found with SPACs especially over the last few months up until February you get this phenomenon where as soon as an announcement came out it would go up 30, 20, 50 all kinds of crazy price appreciation levels. What's happened since is that a lot of them are traded back to net asset value which is you know ten dollars for a lot of these SPACs and as soon as the deal is actually closed and the ticker changes from the SPAC to the actual company they start to move. We started looking at Beauty Health right before that and within a week you know it had gone from 13 to 18. It was almost incredible so you just have to be very quick if you do your work and we like to do our work here at Forager and sometimes it means you miss out on an opportunity. But it also means that hopefully we have less missteps than you would if you didn't do that.

What's the moral of the story here? The market's very fast and the dynamics change all the time before the deal gets announced the company the SPAC reprices and all of a sudden now we have an environment where the deal announces they stay where they are, no one wants to touch them until the deal is closed. Then you see institutional buyers step in, research coverage get picked up and all of a sudden a lot of buzz starts being created around the opportunities and we're fully aware of that. We've got some really exciting ones that we have bought as well which we'll talk about in our quarterly letter so keep your eyes out for that and we'll be sending that out over the next few weeks. So look forward to staying in touch.