



Season One: Episode Five
Consumer Brands: Why Do We Buy?
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Andrea Auerbach: Tell me more about this brownie, because I could have gotten a choice of one of eight hundred different brownie types. I want to know more about who is making my brownie, where the ingredients come from... Are we helping anyone by sourcing these ingredients?

Luke Charest: I'm Luke Charest and this is Andrea Auerbach. She's not a baker -- she's my colleague at Cambridge Associates, where she's the Global Head of Private Investments. She leads a team of over 100 people worldwide who source, diligence, and invest in private equity funds. These funds come in all types -- some focus on healthcare businesses while others invest in large-scale manufacturing. Andrea and I are talking about funds that focus on consumer brands, so an understanding of the array of choices that your typical baked goods fan faces is part of her toolkit.

Andrea: Are we harming anyone by sourcing these ingredients? If I buy this brownie, are you giving another brownie maybe to a community that is a food desert? How is my dollar going to be used?

Luke: There's a huge investment opportunity for both private equity and venture capital investors, especially now that Millennials and Gen-Zers have the most collective buying power. They've changed how brands and customers interact in a "direct-to-consumer revolution". As a millennial myself, I can say we are happy to keep talking about what motivates us, and Andrea says...

Andrea: Maybe it's just natural. We need to rebel against our parents kind of thing. I want to give my money to an upstart. I want to give my money to someone who got into

this this exact business for a reason, a compelling reason, and is doing good things with what I'm giving to this company as well.

Luke: Ubiquitous internet access, smart phones, and social media have made it easy for younger consumers to learn about brands that align with their values and share their favorites. All this info is available to investors, too.

Andrea: In this current era, there's so much more you can tap into on the social media front to converge with the traditional data to tell you if this thing's about to take off. So I actually think it's a pretty exciting time to be an investor today.

Luke: It's an exciting time -- but it can be a risky one, too. Because in order to be a successful investor in consumer brands, you have to be able to know what reviews are authentic, and what products have a real following. How do you decipher between a fad and a lasting brand?

[THEME MUSIC]

[Scene Change]

Luke: This is *Unseen Upside* from Cambridge Associates -- it's investments beyond the returns. This season we're meeting the people who take risks on the technology that will change the way we live -- and hear why they're doing it.

Wayne Wu: So building a consumer brand, we talk about this with entrepreneurs all the time. It's not a linear path, you know. If it were that easy, then everybody would do it.

Luke: This is Wayne Wu, a General Partner at VMG Partners; they describe themselves as "entrepreneur-first private equity investors, forging deep partnerships that transform visionary ideas into iconic brands for everyone." VMG stands for Velocity Made Good, a nautical term referring to how sailing in a straight line isn't the best way to win a race. You have to find the right wind.

Wayne: ...and I think it really reflects how we partner with entrepreneurs and companies to be able to efficiently get from point A to B, which is, you know, to build iconic brands and great business models together.

Luke: And building a consumer brand is a lot different than say, healthcare or other businesses that private equity firms invest in today. I asked Wayne's colleague Robin Tsai -- a fellow General Partner -- how VMG helps founders.

Robin Tsai: What we've always preached to our team is this idea of having an ecosystem approach to investing, and it's also an ecosystem approach to helping our businesses as well. I think this is more a product of the fact that we are hyper focused. I think the promise that we make and I think this is something that we're known for, we're not a light touch fund. That's really not our M.O.

Luke: One of the ways they've been able to build their ecosystem approach is that they can be a valued partner to founders regardless of stage or scale via their two funds: their flagship Growth Fund and a newer fund called Catalyst.

Robin: And at this point, within the Growth Fund, our area of focus really is in food and beverage, beauty and personal care, the wellness space, the pet space, alcohol and spirits. From a stage-of-investment perspective, we are agnostic. And the reason why is because we've got such a fine-tuned filter already on those specific verticals. So we're happy to actually play up and down the lifecycle of those businesses. About two years ago or so, we actually also created another fund called the VMG Catalyst, and that is much more of a venture fund. It's primarily on commerce enablement, so much more the technology that drives a lot of the consumerism, as well as just the businesses that we're actually working with directly on the Growth Fund.

Luke: From your vantage point, what are some of the biggest changes you're seeing in terms of what's called consumer preferences and what are they seeking in brands and how has that been changing over, say, the last two, three, five years?

Wayne: I mean, it really comes down to how they're discovering brands, you know, how they're interacting with brands. It starts with the level of transparency that didn't exist during our parents' generation. It was very much push based marketing of the big conventional brands. Consumers want more than just a great product. They're not discovering a brand through a TV commercial. They're discovering it through, you know, an influencer on their social media feed. It's really this intersection of consumerism and technology.

Luke: Like my colleague Andrea said, Wayne agrees that consumers want to know where their product is coming from and who is making it and why. VMG wants to know those things, too, when choosing a brand to work with. And each brand needs something different. I asked Wayne if there is a recent example of a brand that came to mind. He mentioned Lily's Sweets, which started as a low-sugar chocolate.

Wayne: For founder, Cynthia Tice, she started the business herself with two of her kids and a bookkeeper—all remote—started in her basement in Pennsylvania. You know she just sent an email to me and just said, "Hey, you know, I'm Cynthia Tice, I'm the founder of this brand." Of course, we were aware of the brand. "And so, I basically decided that I want you to be my partner for the brand." And she'd done her research and decided it was going to be us.

Luke: For Lily's, VMG helped Cynthia bring on employees to handle their explosive growth.

Wayne: We helped build a team and company in Boulder, Colorado. We brought on Jane Miller, who was on the board with us at Justin's, which is a nut butter based business founded by Justin Gold and Hormel acquired that business a few years ago as well. So, through that core, helped build an entire team around them in in 30 days.

Luke: And with a bigger team to handle the increasing workload, VMG could start helping with distribution and securing retail relationships. In this case, they helped Lily's expand beyond Whole Foods and other natural-channel type-business, and into key accounts like Target and Walmart. And they helped Lily's repackage and think beyond chocolate bars.

Lily's now produces gummy bears, sour worms, chocolate covered nuts, caramels... and as much as I'd like to keep talking about sweets, Lily's is a great example of how in today's world, a small brand that gains traction with customers can quickly compete against the biggest incumbents. In this case, Lily's fast-growing, better-for-you sweets caught the eye of The Hershey Company, which bought Lily's in the summer of 2021 for 425 million dollars.

Let's talk big brands vs. small brands. Like is it easier for smaller brands per se to compete against big brands than maybe it was 10 years ago?

Robin: That that's been a huge change, and honestly, that's been a boon to our business. This idea that you've got more tools available to you at cheaper and sometimes a costless in order for you to actually get out there and compete with the big boys. I think that in and of itself has really changed the dynamic of the competition. I think the other thing, though, is the smaller brands that are wise to it. They recognize that some of their superpower is the fact that they can just move faster and take bigger chances.

Luke: One of the challenges I would imagine you guys face investing in where you invest is knowing the difference between call it a fad or kind of a flash in the pan versus a truly iconic brand.

Wayne: I think a lot of investors make a mistake by having their portfolio be an extrapolation of their own personal taste profile, and it's something that we talk about a lot at VMG where, you know, we certainly want to try their products. But, you know, we recognize that we're often an N of one, an N of two, an N of maybe 40 of us at most. And we're a bi-coastal fund you know, in areas that may have certain tastes and preferences and that may not reflect the entire consumer opportunity in the U.S., North America and beyond.

Luke: And VMG prides itself on their keen ability to find brands at an inflection point of growth.

Wayne: For us, it's something where we feel like it's tangibly proven itself in some way, shape, or form, where there's real consumer demand, retention, and repeat. And from that, we're able to benchmark that through our years of experience and data to look and go, hey, what are some of the proprietary telltale signs for us that we're really on to something here where it can become an iconic brand? Because a lot of times, you know, when we're investing, it's not yet an iconic brand. They're choosing VMG to partner with them to help build an iconic brand and great business model.

Luke: Before I let Wayne and Robin go, since we're talking so much about generational differences in this episode, I wanted to ask them both if anybody in their families had an influence on their career choices.

Wayne: I grew up with immigrant parents. You know, my parents have known each other since they were kids. I am the great grandson of an illiterate opium rice peasant farmer in China. And my dad was the first in either side of his family to graduate from college. And so the reason why I'm even in the United States was my dad was the first to go to college. He went to college in the UK and he started his career there and saw a newspaper ad for a job in Houston, Texas. And next thing you know, my mom and dad were moving to Houston, Texas, and that's where I was born. And growing up watching my father, who didn't take anything for granted—I'm very proud of my father in that he's actually going to retire at the end of this year. He's been with the same company for over forty-two years. So what I learned from my father is loyalty because he stuck with the same company for 42 years—hard work and perseverance and tenacity.

Robin: You know, my parents came to the US, didn't really know anybody. My dad, who unsuccessfully tried to actually start a franchise Baskin Robbins, which in retrospect would have been awesome for me as a kid. But it was unsuccessful, so didn't actually get that. And so, you know, I think the lessons learned there were much less to do with content. It was much more to do with how you want to carry yourself and sort of the mental perspective that you want to have about opportunity. My dad's not overly verbose, but something that he did say that continues to stick with me is just whatever you do. It doesn't matter what you do. If you are the best at it, there's always going to be a market for it.

Luke: And the work that Robin and Wayne do now, and that their founders and their teams do, aims to be the best -- at making a difference and doing good.

Wayne: We want to be the most supportive in the ecosystem. And I wake up each morning with the lens of thinking, like, who can we go help today? Who can we go help from an entrepreneur standpoint? How can we help support retailers? I'm just lucky enough to be able to have the opportunity to meet these folks and try to help them in any small way we can. Maybe some more, some less to help drive that consumerism forward where consumers are improving what they put in and on their bodies.

Luke: Also helping consumers transform how they choose brands and cut through the noise, is Jenny Gyllander. She's the founder and CEO of ThingTesting. We caught up in person in New York.

Jenny Gyllander: So I'm half Swedish, half Finnish. I grew up in Helsinki. Always thought I was going to work in the world of fashion and brands, but sort of stumbled into the whole world of startups through a startup event that was blowing up on our university campus.

Luke: Years later, Jenny found her niche in reviewing the expanding market of direct-to-consumer brands.

Jenny: So in January 2020, it was still me and my Instagram account and a lot of really excited and passionate consumers on Instagram. Today we're a team of nine. Half of the team is based in Europe. Our engineers are still back in my home country and the rest of the team is based in New York.

Luke: ThingTesting is now a fast-growing company that creates unbiased and unpaid reviews on new direct-to-consumer brands. Jenny likes to describe it as a millennial version of *Consumer Reports*.

So I guess my biggest question as we kind of dive in here is there are so many brands out there today. How do you choose what to engage with, what qualities or indicators or how do you decide what brands or products you're going to bring through the testing process and platform?

Jenny: Yeah, so something that I think the direct consumer sort of space is doing very differently towards the more maybe Amazon space, if you will, which is more, I guess, functional in its decision making process for consumers is the sort of, you know, values, esthetics, the sort of a full experience around a brand that it comes with when it's often direct to consumer and a story that it can tell in those channels. So I often look for something, you know, new or different when it comes to that. Be that an interesting sort of new type of packaging, a new type of innovation, new type of narrative and story and brand that they're telling a new value or something they want to sort of bring to the table with this product. So a lot of it is very innovation based.

Luke: When Jenny was doing all the reviews by herself on Instagram, she noted something interesting about her audience.

Jenny: And so I felt sort of an exhaustion from a consumer point of view of like, do we really need all of these things? And so it was funny. The most popular post in those early Instagram days was a total blank review where I said, I'm not reviewing anything today. So I think that says something about how much people want that fresh take on, like questioning what do we actually need and how strong, at least in our audience, looking for brands that are thinking critically, not only about themselves, but the sort of consumerism in general.

Luke: For years social media has been inundated with paid reviews without any gatekeeping. Jenny is trying to establish curated discovery and *trusted* reviews.

Jenny: So, of all the two thousand brands in our directory, you can't pay your way in there. And that is really, really important to me, because ultimately, when we look at this space, it feels like whenever someone talks about a brand, it feels like there is some level of bias in it and there's some agenda that someone has and we really don't.

Luke: Are there any brands that recently come to mind to you that you feel like knocked this out of the park in the sense of, boy, this was a new refreshing take on something? And what did they do that you felt like really spoke to kind of authenticity we're kind of talking about it, whether it be value-based or what have you like what is one that really

comes to mind that you're like, wow, they get the modern consumer. And that is a refreshing product that truly is different.

Jenny: Many just recently, I think nonalcoholic beverages are doing incredibly well right now in the younger generations, and there's Ghia which is a nonalcoholic aperitif. Oh, another one that comes to mind is nogs, it's vegan chicken nugget company that has just done an incredible job in that tone of voice and branding. Every time I see an ad from them, it's almost like a piece of entertainment that I just enjoy seeing. Been fantastic. And in general, I think the whole meat free vegan sort of space has a lot of upswing, receding of lab grown stuff come out right now.

Luke: And ThingTesting thinks of their reviews for products like these as a feedback loop, not a place where people can only complain about or praise a brand.

Jenny: And so we've framed a lot of our reviews around giving feedback to the brands, which is a lot about what we've seen so far coming through the reviews is I wish you would, um, you know, ship to this country. I wish you would make this in another color. And so it's a very sort of exciting take and actually useful to take to the brands. And what we're hoping and believe are already seeing on the platform is that the brands who are open to that feedback, who are open to being transparent brands and know that everyone will have an opinion... And the most transparent brands will enjoy being part of that conversation with consumers.

[Scene Change]

Andrea: I think there's a new requirement for authenticity and 'give me more than just a brownie for my dollar.' Right? I want to feel like I'm participating in a bigger story than just I was hungry and I bought a brownie.

Luke: This is my colleague in California, Andrea Auerbach again. As she said at the beginning, this type of investing can be tough -- unless you have the right partners.

Andrea: When we look at the types of returns or the fan of outcomes of different types of sector investments, consumer actually has quite a volatile pattern compared to, say, a widget, industrial widget, manufacturing kinds of businesses. Right. And why is that? Because sometimes a consumer facing business captures the entire zeitgeist of where we are right now buying this stuff. And it just takes off. And suddenly, from an investment perspective, you are part of a trend that you saw early and then everybody else saw it after you saw it.

It is really feeling like you saw that opportunity and identified it ahead of everyone, and that's kind of exciting. But you have to as an investor, you have to be willing to accept that volatility because it is riskier than investing in certain other sectors. I think it makes it exciting.

Luke: And if you are a parent out there, you might have a front row seat to what the future may look like...

And are there any Gen-zers living under your roof, and have you noticed that this is something that they're thinking about already?

Andrea: I do happen to have a few Gen-Zers and as GenZ are being raised by Gen Xers is quite a combination. I'm quite worried for our nation's future. Given what at least the two I know are getting up to these days.... But what I've observed with GenZ at the moment is that they do tend to pick up something intensely, focus on it for some shorter period of time, like a gadflies life, and then they kind of move on to the next thing. But they definitely do develop opinions. They definitely are getting more and more origin stories around certain products, certain histories, and they're embedding that into their mindsets....So it's going to be interesting to see what happens with that generation.

Luke: And like every generation, building brand loyalty with new consumers -- each with a new set of values -- is where the investment opportunity lies. Maybe we're not so different from our parents after all.

[CREDITS]

Luke: If you want to learn more about investing in consumer brands, please visit our website: www.cambridgeassociates.com/unseenupside or check out the show notes. Stay tuned for more upcoming episodes of Unseen Upside. If you like what you are hearing, leave us a review and tell your friends and colleagues.

I'm Luke Charest. At Cambridge Associates, our podcast team is led by myself and Hillary Ribaud.

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Before you go, one of my colleagues has an important message about the contents of this podcast.

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