Lead Left Interview – Jason Kelly (Part 2)

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This week we continue our conversation with Jason Kelly, New York bureau chief, Bloomberg. Jason has been with Bloomberg since 2002. He is the author of *Sweat Equity* (2016) and *The New Tycoons* (2012).

Second of two parts – View part one

The Lead Left: How about new trends in fitness?

Jason Kelly: Anecdotally, I hear a lot about boxing. Not hitting each other but a total workout. Underneath that, there's a move to "strength" over "skinny." Fashion seems to be favoring "toned" versus "willowy." Concepts that play to those results are getting attention.

There are also lifestyle spinoffs. There's lots of room in the food space. Investments in juice have had mixed success. The challenge of sitting in New York is you see all these concepts but it's distracting relative to what's happening in the rest of the country. Are $9 juice drinks sustainable? Probably not. But there is a better sense of good nutritional ingredients.

I've also been surprised by Peloton, the nexus of community and technology. But having an indoor bike in a basement? There is a richness of tech and the group experience. You and I, in our separate homes, but with the same instructors saying: "Come on Jason, pick it up. Randy is kicking your butt"

TLL: What about diet products? What's the private equity view there?

JK: Some concepts have been very successful. For example, GNC. The supplement and vitamin space is tough. Simple fresh food will continue to draw investors. Whole Foods is a complicated story, but generally there's a willingness to pay a premium to know where your food comes from and to demonstrate to the world. In fast casual and fast food, consumers want a clear line of custody for their food.

TLL: What's been your biggest surprise about writing the book?

JK: One was The Color Run. I went in with an attitude of someone who participates in endurance sports, and discovered the breadth of mass market. Color Run was an eye opener. I thought, 'Who would pay to show up on a Saturday morning for an untimed race, running through the parking lot and stadium at Citi Field with a bunch of people throwing paint at you?'

It reminded me of the broader appeal of fitness, its pleasure and joy. My experience with type-A Wall Street types, Iron Man, endurance athletes, kept me from seeing that. That's validated by the popularity of the half-marathon, the fastest growing race distance. The majority of runners are women. It's an achievable distance; there's less pain and suffering.

TLL: What is the outlook for private equity in general over the next couple years?

JK: I'm not worried about the growth prospects here. But there's so much money in the world that finding real, honest private equity alpha is extraordinarily difficult.

I interviewed Henry Kravis recently. Hearing him talk about the evolution of PE over the last 40 years was fascinating. There are so many new sources of capital competing for deals. Demands of more sophisticated investors makes the pressure to find yield incredibly intense. Lots of investors stretch for the sweet spot between venture capital and buyouts.

TPG's recent success, for example, comes largely from TPG Growth, or deals where it's a blend of growth and buyout. There continue to be opportunities for back-to-basics PE; carve-outs, etc. Carlyle's recent carve-out of the DuPont performance coatings business, now called Axalta, is classic private equity. That led to Carlyle's second-biggest profit of all time; they made $4.5 billion, an IRR of 80 percent. Pulling an unwanted division out of a corporation. Big companies will continue to rationalize their portfolios in these highly competitive environments, and in a world of economic uncertainty.

TLL: Six months from now, Jason, when you look back, what will be your biggest surprise?

JK: Wow! (Long pause). Topic one is the US election. I began my career wanting to be a political reporter and one thing I'll never forget was getting a Capitol Hill press pass as an intern in Washington for a Congressional newspaper. So I love this stuff. Never in my lifetime have I seen anything close to what we are seeing now, including in 2012, when private equity was on the ballot. It's a fascinating experience, a time without any historical analogue. The most surprising thing will be something we can't imagine. I know that's a cop-out answer.

TLL: But will this push us to unchartered territory, or will we be able to deal with it?

JK: Ultimately, from an economic perspective, I believe in market resilience. Even unchartered waters are eventually charted. Sometimes that's where the best opportunities are. Certainly the best stories.

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