

# A Local Example of a 100 Bagger Alchemy

## An Interview with Rocky Mountain Soap's Cam Baty

Before we tell you why we wanted to interview the owners of Rocky Mountain Soap Company, we should first clarify a couple terms. 100 Bagger is industry speak for an investment that can turn \$1 invested into \$100. That means \$10,000 invested turns into \$1,000,000. There is a great book written about these types of investments called 100 Baggers by Christopher Mayer. Some top characteristics of these types of businesses: they are owner-operator lead with disruptive business models or products, a track record of high growth, and an ability to continue to re-invest in the business over very long periods of time.

Zero to one means going from nothing to something. In the world of start-up investing and innovation, it is the most difficult part of an entrepreneur's journey; the first product, the first sale, the first customer. Peter Thiel, the billionaire entrepreneur, and venture capitalist wrote a book called Zero to One: Notes on Startups, or How to Build the Future. In it, among many useful insights, he talks about the importance of entrepreneurs knowing some key things that get missed by many, many startup companies:

- 1) Risk boldness over triviality.
- 2) Businesses need plans.
- 3) Sales matter just as much as great products.
- 4) Entrepreneurs need to know a secret about the world (or their industry) that is largely missed by most people.

As investment managers who believe that diversification is foundational to long term wealth management, we believe that diversification is enhanced not just by investment type, but also by investment approach. Along with owning all kinds of assets, one of our strategies is to hire investment managers who actively seek and invest in 100 Bagger type businesses. For this article, we thought we would tell the story of a local business that has all of the right characteristics to expect admission into this elite league of business success.

As long-time acquaintances of Cam and Karina, I have watched the Rocky Mountain Soap Company continuously grow, innovate, and inspire. I have been using their products for a long time and I am an extremely happy customer. I figured they must know what Peter Thiel teaches. And I suspected they might be one of the rare 100 Bagger businesses or are on track to be one day. I thought it would be instructional, from an investment understanding standpoint, to share a bit about how one of the most successful businesses in the Bow Valley operates, and hopefully discover a bit about their secret sauce.

We sat down with Cam on a beautiful fall day in Canmore at the offices of Rocky Mountain Soap Company. One of the first things that jumps out when you shake Cam's hand, is his large forearm tattoo: **Memento Mori**. For those of you unfamiliar with Stoic Philosophy, Memento Mori is a Latin Phrase that translates roughly as "Remember you will die". It is a reminder to live. It is a reminder to act boldly and to live now. As we spoke to Cam, it became apparent that this philosophy has become a part of him and the organization that he leads with his wife Karina.

When we asked Cam about the core values of their organization, without hesitation, he listed off their top five:

- 1) Be kind
- 2) Posititude (Positive Attitude)
- 3) Customer Service is an extreme Sport
- 4) Cultivate Team Spirit

## 5) Give it a go

I think likely the most remarkable thing about this list is how quickly and easily Cam could provide it. With all the complexities of running a fast-growing company, with 200 employees and stores across Canada, being able to orient your team to what is most important, without hesitation, is an incredible advantage. And as mentioned above, one of the core characteristics of a great, enduring, wealth building business is the owner-operators behind that growth trajectory. This is one of the secrets of stock investing that doesn't get much airtime. The popular news media knows that they get a lot more attention and clicks by scaring people about inflation, than they do telling the stories of quality people showing up for work to do high quality work with high quality people for decades at a time. Rocky Mountain Soap started in Canmore back in 1999, with a little over \$80,000 in revenue. Now, boasting sales far exceeding that, RMS has grown to be a huge employer, and a national leader in the natural products industry.

In a world of endless access to a firehose like stream of financial news, it is easy to get lulled into believing that the latest inflation reading, or interest rate move are important to investment success. If you are a trader, these might matter. If you are looking for 100 Baggers, there are much more important indicators of success. The three most important characteristics are the vision to see them, the courage to buy them and the patience to hold them. Like many things in life, patience is an extreme competitive advantage. Beneath these general principles, as discussed in the book 100 Baggers, are summarized as SQGLP.

- S – Small in size so lots of room to grow
- Q – Quality Business and Management (One of our investment managers calls these non-beer league management teams)
- G – Growth (Sales, earnings and probably most importantly, in leadership capabilities)
- L – (Longevity in Quality & Growth)
- P – (As an investor, the price you are paying favors the returns you are looking for)

Often when people think about the big companies and corporations, they assume they are low-risk investments purely from an economies of scale standpoint. Even though these massive corporations are run by highly successful and driven CEO's, it's rare they are aligned for long-term growth in the same way as an owner-operator business. Interestingly only 47 members of the S & P 500 own more than 5% of the company they manage. Jeff Bezos of Amazon is one of those.

Owner-operators, with great entrepreneurial instincts, a long-term plan, vision, and patience, possess two massive competitive advantages. Patience and focus. As very few investors know and have internalized, turning patience into profits is a decades long race. And to cultivate that type of patience, you have to focus on the right feedback. For wealth compounding investments, this means being intimately familiar with how the business is doing as it relates to sales growth, earnings and returns on invested cashflow. It means knowing that research and development, and employee development, done well, don't really belong on the expense line. And one of the hardest feedback skills to master, is not persistently measuring your popularity, i.e., your day-to-day share price, when you should be focusing on real measures of progress.

The latest research is continuing to clearly show how damaging it is for teenagers, and adults alike, to be focused on their online popularity. Yet many investors do the same thing by habitually checking the popularity of their investments. One of the reasons private investments and companies can work so well to build wealth, is they have the same underlying advantage of not having junk food in your house. The temptation of the quick dopamine hit from eating

some junk food isn't available if you don't have it in your house. If the company you invest in isn't listed publicly, there is no daily share price to check to tempt you into measuring your long-term progress with an inappropriate measurement tool.

Owner-operator businesses like Rocky Mountain Soap have competitive advantages that are hard to beat. The owner's incentives are almost perfectly aligned with the success of the products, the brand, and the company. They scale their business like they do their products, in a natural, organic way, taking risks but never betting the success of the company on one idea or initiative. They grow their capabilities, and the capabilities of their team. Like many new business owners, Cam and Katrina started with very little, and made a series of educated, intuitive, value driven decisions that led RMS to grow across Canada. They have goals not just for product improvements and top line growth, but for giving and profit sharing. They are focused on the long-term value of their company, not the price of the stock next quarter. They have a vision and a mission for making the world a better place. This attracts great employees when other businesses are struggling to fill positions. They care about the cash the business can generate, not the accounting earnings for the next quarterly earnings update. They are answerable first to themselves as the primary shareholders. They are willing to take actions that are often non-conventional and may require short term pain for long term gain. And like all successful owner-operators of businesses, they haven't just committed money to their businesses, they have dedicated a big part of their lives to its growth and mastery. Their incentives transcend money because their company is an expression of their personal values. And when you have a guiding philosophy like *Memento Mori* tattooed right onto your arm, I am betting that is an entrepreneur who is hard to compete with.

Check out their incredible natural products at twelve locations in Canmore, Banff, Calgary, Edmonton, Red Deer, Lethbridge, Winnipeg & Toronto and across the country with close to another eighty retail partners.

*Written by Michael Pickard and Emily Yungblut*



Sourcing: Rocky Mountain Soap Co.

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