Summary & Transcript

Peter Boockvar

1. Strategic Actions and Decisions

- **Monitor capital expenditure inflation: Track upcoming tech earnings calls—specifically looking at CapEx rate-of-change and price inflation in construction or components—to gauge whether hyperscaler AI trade infrastructure margins are breaking.**
- **Prepare for Chinese semiconductor market entry: Watch the trading debut of major Chinese chip producers (such as the fourth-largest DRAM producer) to hedge against incoming global supply pressure and profit erosion in Western hardware.**
- **Shift portfolio allocation to beaten-down consumer staples: Reallocate capital out of over-concentrated Mag 7 tech stocks and into high-yielding, resilient value plays like Kraft Heinz (KHC).**
- **Reinvest targeted capital into core brand buckets: Execute Kraft Heinz's strategy of allocating roughly 55% of its $600 million brand budget directly into growth brands (e.g., Heinz, Philadelphia) while legacy cash cows are milked for steady cash flow.**
- **Exploit insider alignment and contrarian setup: Leverage CEO insider buying ($5 million purchase) and low Wall Street coverage expectations to capture upside as sentiment shifts from "bad" to "less bad".**

Executive Summary

The prevailing mega-cap tech and AI infrastructure trades face rising capital expenditures and aggressive incoming foreign competition. As hyper-growth hardware stocks plateau, a rotation toward value-oriented, defensive sectors is underway. Kraft Heinz (KHC) presents a key contrarian opportunity. Under new leadership, the company has canceled a value-destroying business split, redirected $600 million into core brand reinvestment, and aligned strategic direction with major shareholders. Trading at ~12x earnings with a 6.2% dividend yield and recent $5 million CEO insider buying, KHC offers strong downside protection and multi-turn expansion potential as market dynamics shift.

Key Takeaways and Practical Lessons

1. Identify Capital Expenditure Inflation Early: Rising spending numbers in AI infrastructure can mask flat volume growth driven purely by high component and construction costs

.

- **Analyze earnings disclosures specifically for CapEx unit growth versus price inflation rather than taking higher top-line spending numbers at face value.**

2. Prioritize Strategic Brand Tiering: Trying to grow every product line equally dilutes resources; segment products into high-growth reinvestments, baseline maintainers, and cash-cow harvesters

.

- **Conduct a portfolio audit to classify assets into distinct operational buckets (e.g., win/grow vs. harvest) to optimize capital allocation.**

3. Leverage "Bad-to-Less-Bad" Revaluations: Deeply discounted value stocks do not require stellar operations to generate strong returns; they merely need to exceed depressed expectations

.

- **Target contrarian opportunities with low analyst buy ratings where fundamental execution is stabilizing and backed by supportive valuation floors.**

4. Watch Management Alignment and Insider Activity: Key strategic pivots are significantly strengthened when top executives put personal capital into the equity

.

- **Monitor Form 4 insider buying filings to validate whether new turn-around strategies have real skin-in-the-game commitment from executive management.**

5. Adapt Consumer Goods to Macro Shifts: Staple consumer businesses must evolve alongside consumer habits, input cost pressure, and health trends rather than relying solely on brand inertia

.

- **Pivot product lines to align with emerging dietary trends (e.g., GLP-1 impact) and balance price increases with volume-driving productivity enhancements.**

TRANSCRIPT

01:36:38:23 - 01:36:59:02

Peter Boockvar, my good friend. How are you, George? How are you? Good to see. Excellent, excellent. Peter requires a little introduction. Peter's everywhere. So, thanks so much for for taking the time, to be with the folks. We're trying to help them. It's a confusing world. It's confusing for all of us to be doing for so long.

01:36:59:04 - 01:37:17:01

And you've always got a pretty good insight and good call on things. So maybe just start out with a couple general remarks, just not the captain Obvious stuff. But really, what's got your attention?

Maybe what your brand perception is, and then we'll move it into how you think. You know what your pick is. How do you think folks can make money?

01:37:17:01 - 01:37:39:09
So Peter, have our the floor is yours. Well, George, when I do get my pick, I want you to let me know at the end of the day, whether I win the award for the most boring, business and stock out there, which I think I got a good, a good candidate for that. And, Peter, I'm telling you, in the type of market I'm fearful we may be entering boring might be a good thing.

01:37:39:09 - 01:38:11:17
So go for it. That that's my hope. So to to to to state the obvious, the U.S. economy, the US stock market is all in on. I nothing else matters. Oil going from 65 to 120. Didn't matter for the markets outside of energy stocks, which I happen to be bullish on. It's all about obviously the I trade what I'm focused on over the next two weeks, particularly with Google tonight, is the rate of change in CapEx.

01:38:11:19 - 01:38:40:01
And if there is an increase in CapEx, why is it because construction costs are now going up? Neda initially penciled out to spend $27 billion in their facility in Louisiana. Now they said it's going to cost 50. I read this morning OpenAI was allocating about 20 billion for a particular facility. Now it's going to cost them 30 because the cost of everything has gone up.

01:38:40:03 - 01:39:01:02
So if we're seeing an increase in CapEx, in the next couple of weeks, just because of higher construction and component costs, well, you know, that's not really giving me new information, but it does in a sense, because there's not an increase in the number for the volume of stuff like chips and servers and so on, and that it's just a price adjustment.

01:39:01:08 - 01:39:27:09
That to me would be noteworthy. I also want to hear what they have to say for the obviously the future quarters, because again, everything comes down to that. So it's not a question of when the I'm sorry if the AI tech trade breaks, it's a question of when. To me, the mag seven Hyperscaler trade has already broken. That started to break last year when the dollars rang with Oracle.

01:39:27:11 - 01:39:49:04
So that trade to me is over in terms of of the mag seven market dominance. We are one and we are in the midst of one of those long term trends. We've we know, George, where more stocks, certain stocks dominate for 10 to 15 years and then they lag for the following 10 to 15 years. The recipients of that spend is at the end of the semi trade.

01:39:49:06 - 01:40:11:04
I'm not sure. I do think that it's more likely than not. I think everyone should be watching how the Christmas IPO goes. I think it's, next week. It's already been priced, it's already been funded. But it will start trading in Shanghai next week. It's the fourth largest Dram producer in the world that soon will be followed by Yankee memory.

01:40:11:06 - 01:40:35:17

And just a warning to all US tech investors. China is coming for your profits, and we clearly have seen that writ large over the last couple weeks with the model news on the software side, the hardware side, they're coming for next. So within with with that context, it's time for me to talk about my most boring stock, because I think, as George said, boring is going to be good.

01:40:35:19 - 01:40:50:20

And that company is Kraft Heinz k h c is the stock symbol. All right. Hey, guys. Guys, guys, if you all would take a nap now, I'll fill you in in the show notes what he's talking about. So you know, go go go get a cup of coffee to try and stay awake. Go ahead, Peter, I'm teasing you.

01:40:50:20 - 01:41:14:09

Go ahead and if you have a cheeseburger with that coffee, make sure you put Heinz ketchup on that burger. If you're going to get a bagel, make sure it's with Philadelphia cream cheese. There you go. So Kraft Heinz does about 25, 24.5 billion of revenue. And the market cap is about 30 billion. So rewind the clock to 2015.

01:41:14:09 - 01:41:53:07

And with the help of Warren Buffett, the 3G combined Heinz and Kraft to perform to to to create this. This is huge food company and 3G for those that don't know is a Brazilian based company that is very much on slashing costs, milking a business for cash, and cutting like everything from staplers, to everything. So pre merger, both companies had about a 20% plus EBITDA margin post-merger with a slash and burn policy.

01:41:53:11 - 01:42:20:11

By 2016, 3G had gotten the EBITDA margin up to 30% because they said, you know, we had these iconic brands Heinz ketchup, as I said, Philadelphia cream cheese, mac and cheese, Lunchables, Oscar Meyer, we don't need to invest in these brands because these brands are just going to sell themselves. So for ten straight years, this company lost market share.

01:42:20:13 - 01:42:45:14

The stock went from $95 to a low of $21 in March of last, of this year. So they then within trying thing was last year at some point the previous CEO because they have a new one, the previous CEO said, okay, we're going to split the business in two, focus more on the candidate business on one side, like ketchup, cream cheese and so forth.

01:42:45:16 - 01:43:07:05

And then sort of the grocery business like Oscar Meyer Lunchables, Kraft Singles on the other, and Warren Buffett and Greg Abel said, no, no, no, no, we don't like that. Now, they didn't sell any stock. They own 27% of the company. But they were not for it. Fast forward, that guy gets fired. Steve Cahalan is hired.

01:43:07:05 - 01:43:30:09

Steve Colon was the CEO of Kellogg's. He oversaw, interestingly, the split of that company. So he has experience of a company combined and a company split up. His his split up was much cleaner in terms of Peter, Peter, Peter, stand standby for one second. Yep. Jared, the screen is going crazy. I don't know what's going on here. Producer Jared here.

01:43:30:15 - 01:43:46:02
George, I think that's just on your end. It looks smooth to me. Okay, fine. All right, go ahead. Keep computer. Sorry. Okay, so he is. He is, that's what was cleaner. You have cereal on one side, and then they had a snacks business on the other. And Steve said, you know what? We're not ready to do that.

01:43:46:02 - 01:44:05:17
I don't think we should split this up. He flew to Omaha, he met with Greg, and he met with Warren, and they were all on board. So the cancel that decision to split the business after learning that they have lost market share for ten years, they then said, okay, we're going to start investing in these brands. They started to do some test cases.

01:44:05:19 - 01:44:28:24
They started to invest in fresh packaging, marketing and advertising promotion. And they realized when they did that, that actually improved the sales of that particular product. I did that also with Capri Sun. So they decided to make a board decision to start investing in brands, but they had to sit, decipher which brands should we allocate those dollars to.

01:44:29:01 - 01:45:02:18
So they created three buckets. When now where they're going to spend about 55% of that $600 million that they're allocating to the spend, which is Philadelphia cream cheese, Heinz ketchup, Capri Sun mac and cheese, then Wynn, which is sort of that middle category that was Kraft Singles. That is Jell-O. That is Lunchables. And then what they're going to milk for cash and not really invest in is Maxwell House coffee, Oscar Meyer sort of brands that really aren't showing any growth.

01:45:02:20 - 01:45:24:13
And this is really the first time since this bit these businesses have been put together that Kalen is really going to push the old way of doing things, of marketing and branding and creating better product and trying to actually sell these stock, sell these brands and sell these products, less so relying on them to sell themselves.

01:45:24:15 - 01:45:49:24
So you have a stock that's trading at about 12 times earnings, its EBITDA, enterprise value to EBITDA ratio of about 12. I think there is $3 of cash, potential in this business in terms of earnings. These stocks used to trade at high teens multiples. You put a 15 multiple on three. You get $45. The stock's 26 today.

01:45:50:01 - 01:46:16:03
It has a 6.2% dividend yield with a dividend payout ratio at a not low but reasonable 65%. They still generate a huge amount of cash flow, even though that cash flow has been reduced over the last couple of years. So and George, I think I think it's safe to say that we we're both contrarians now for contrarian sake, but we like to look at the opposite side of what the consensus is.

01:46:16:05 - 01:46:41:23

There are 22 Wall Street analysts that follow this stock, and one has it as a buy. The balance most have it has holds a few. Has it ever has it has a sell. So it's not like this is a consensus thing. And when you think about the end of the day, if you can buy a stock in a company that's making high bandwidth memory, why do you care about owning a company that makes ketchup?

01:46:42:00 - 01:47:10:14
But if that script flips, and if selling high, then with memory is a is reestablishes itself as a tough business? Actually more Dram is the tough business is more newer. Which will happen then maybe catch up in cream cheese comes back in vogue now just a breakdown of the 26.5 billion of revenue. Actually, 24.5, about 75% is domestic.

01:47:10:16 - 01:47:49:14
Fifth, 15% is developed markets and 10% is emerging. And interestingly enough, the same with Hines, but also with a lot of consumer staple companies in the US that have just gotten hammered. There is decent sized growth in emerging markets. There's actually decent sized growth in developed. It's really the US domestic market that has lagged. So in a world where, consumers are budget conscious, that has been a negative factor on crash business, with the very high level of inflation post-Covid, companies really pushed price to the the sacrifice of volume.

01:47:49:16 - 01:48:16:11
Now they're reining that in. They realize they need to drive both volume, with modest price and also productivity enhancements, to just to give some, some, some contra of use. They're also seeing a rise in costs, particularly with resin and plastic and packaging. They plan on offsetting that through productivity enhancements and some modest price, but they realize they got to drive volume, profitably.

01:48:16:17 - 01:48:41:19
And I think that Colleen is investing in it, improving the product, allocating amongst the better brands, and is willing to sell those that don't sell. And now the stock has recently lifted, stock was 21, as I mentioned in March. We bought some a lot about 2223. Now it's about 26. But I still think, as I said earlier, there's $3 of earnings potential here.

01:48:41:21 - 01:48:58:09
You get a mid-teens multiple. You get a really nice dividend yield. And if things hit the fan, you know investors could flock to names like this week Peter I think you're on to something and push your buttons now. You know, when you started off on this I was like, oh God, didn't go for a walk. I got to go get some air.

01:48:58:11 - 01:49:14:16
I'm telling you, this is a great idea. You know what I really like? I don't recall if you mentioned it earlier in your presentation. I see the CEO insider buying he bought, like this is the first time in a few years you bought a multi million dollars worth of stock. Yeah. They bought like 5 million bucks for the CEO.

01:49:14:18 - 01:49:29:17

And Berkshire is not that selling. Yeah. That was just it was either late June or early July but $5 million worth of stock. Yeah. And the other thing people should keep in mind, you know, this is now I want to put your hat on as a portfolio manager. Peter, maybe you can explain this to the folks.

01:49:29:19 - 01:49:51:18
It's not just that, you know, things will get better at Kraft Heinz for all the reasons you mentioned. But from a portfolio standpoint, from a market standpoint, it's like a seesaw when everyone's wants sex, drugs and rock and roll, and you can't possibly own enough hyperscalers and meme stocks and all the other stuff, owning Kraft Heinz, like watching Pinterest.

01:49:51:18 - 01:50:16:22
Nobody cares like a seesaw once, like, goes up, it's like goes down. So it's such a large part of the rotation. I think it's going to be the money coming out of the high octane merchandise and just looking for a new home. And that, in combination with fundamentals that are improving, is a big driver in the stock. So maybe speak to the market rotation, the portfolio management side of this whole thing, which goes beyond just what are the earnings doing.

01:50:16:24 - 01:50:44:22
So I'm going to I'm going to I'm going to talk about in two ways. The first way is buying a really bombed out group or bombed out stock, which I put Kraft Heinz and the whole consumer staples sector in that category is people. Investors have to understand that things don't need to go from bad to good. They just need to go from bad to less bad to get a nice move in the stock.

01:50:44:24 - 01:51:15:13
And it's and if it was bad goes to neutral. That's a further increase in the stock. And if neutral actually becomes good, that's when you have a real home run on buying something beaten up. Because I think it was maybe Barak. Bernard Baruch in the 20s or 30 says my goal is to buy things today, which at some point people will like right now, trying to find the timing of when people will like that is always the difficult thing, and we always try to look for catalysts.

01:51:15:15 - 01:51:58:02
I look for catalysts in terms of a new CEO you mentioned, we talked about, instead of buying, a shift in company policy and strategy, you know, those are the type of catalysts that one should look for from a portfolio management standpoint. You know, as I said earlier, it's not if this AI trade hits a wall, it's when and investors I think really beginning last year with the deep seek news in January of 2025, which we've obviously seen a rerun of it the last couple of weeks, that was the first sort of pivot to investors saying, okay, maybe the Max seven is not the end all, be all, and that there's a whole

01:51:58:02 - 01:52:23:13
world of investment opportunities, international stocks did great last year and all the parts in the market started to participate. Even financial stocks got off the mat. So I think it's important that investors should really why didn't the lens of opportunity understand that? You don't have to have AI in your business model to to do well, and that AI is a technology like anything else that every business is going to integrate and benefit from.

01:52:23:15 - 01:52:44:07
And maybe we're at the point that those benefits do accrue to to the users of AI and not the builders of the infrastructure. And I think Kraft Heinz fits the bill. Couldn't have said it better. Peter, that's masterful. I'm going to tease you now a little bit. So you got me thinking, I started scrambling for the numbers.

01:52:44:07 - 01:52:57:03
Tell me, what would I look up a little? A little stuff, like a sound intelligent. Ask you some questions about Kraft Heinz. I found this other stock. Peter.

01:52:57:05 - 01:53:28:11
Godzilla the maker, the Hormel. Hormel, if you want the normal. Have you looked at Hormel? So, Hormel in their last quarter, stock spiked after numbers. And I haven't seen it since because I don't own it. But all these stocks are getting off the mat. Yeah. So you have you have you have depressed valuations. And if there's a self-help story and the downside underwritten by a yield or buyback or whatever, look the world is full of uncertainty.

01:53:28:11 - 01:53:46:02
That's talking to 1 or 3 things that got to go up, down or sideways. If we kind of can say that it's not going to go down very much, and therefore the risk reward is favorable, you know, 2 or 3 times upside versus one downside, you get a I mean, my experience for sure years, years you've been doing this for a long time as you make money.

01:53:46:04 - 01:54:06:20
Well you got a 6% dividend yield. I know it was in the low 20s. It got up to seven. Hey hey hey hey hey, 6040 portfolio. So spy, if you have to be in stocks on RSP and 40. So your bonds and long Kraft Heinz were good. All right. So Peter, last thing before we go. Any of the else you want to tell the folks.

01:54:06:22 - 01:54:29:13
So we're long a bunch of consumer staple stocks. Kraft Heinz is not the only one. Both on the food side and and the product side. So I think the, the entire landscape of that space is, is ripe for, appreciation opportunity with really nice dividend yields. That's awesome. Well, you really surprised me on this one. This is great.

01:54:29:15 - 01:54:48:06
And you woke me up to actually want to pay more attention to this whole sector group because, you know, it's kind of like boring and boring. But no, boring is good. Boring is it? I started looking at Molson, Molson Coors the other day. That's another one that's got a huge yield. I know the sales are going down, so blah, blah blah, but it was another one.

01:54:48:06 - 01:54:58:14
I was like, whoa, wait a second, look at the valuation. Look at the buybacks with the cash. I'm like, if things just stop getting as you say, if they go from bad to less.

01:54:58:16 - 01:55:27:24

Stocks going to work. Exactly. And I just want actually mention 1%. Wait, one more thing. Viewer viewers maybe, you know asking out loud on this is the so the whole the GLP ones the shift to health and wellness better eating and so forth. All these companies in the, in the in the consumer food space, they understand this. They are they are they are pivoting to where the consumer is going in terms of eating habits.

01:55:28:05 - 01:55:50:23
They're not just sitting back and letting the change crush them. They are going trying to go where the puck is in where these new eating habits are going. So I just want viewers to understand that these CEOs, these company executives are not sitting still here. It's fantastic. Where can the folks find you? You're all over the place, but what's your website?

01:55:51:00 - 01:56:15:11
Where can people find you? So, I mean, wealth management side one point bfg.com and I do publish daily on markets macro economic micro and that is on Substack. That's called the book report b o c k report is a play on my last name. And, they can try it out. Peter, this is awesome. Thank you so much for being generous for your time.

01:56:15:13 - 01:56:23:15
Hope to do it again and we'll see you on the next podcast. Thanks so much Prince George. Have a good weekend having me. Thank you. Bye.