THE DAILY CHECK-IN WITH GOLDMAN SACHS
GUEST: Stephanie Hui, Global Co-Head, Growth Equity, Asset Management Division
HOST: Liz Bowyer, Global Head of Content
Recorded: May 14, 2021 (Hong Kong time)

Liz Bowyer: Hi, Stephanie.

Stephanie Hui: Hi, Liz.

Liz Bowyer: You help run Goldman Sachs's private investing business with a focus on growth equity companies in Asia. Chinese consumers have become a major engine of the global economy in recent years. Describe what you're seeing in that market.

Stephanie Hui: So the consumer market in China is growing, and it continues to be very robust. I just want to share some of the numbers. Currently, per capita consumption is about 32,000 renminbi or roughly 5,000 US dollars. That is doubling in the next ten years. And it has, by the way, doubled in the past ten years.

And in terms of the private consumption market, total size of that is expected to get to $13 trillion by 2030. That is approximately the size of the American market today. And by the way, the China market today, just to give you a sense of numbers, is 5.6 trillion. So that speed of improvement is continuing.

The other observation I just want to share is that people are spending a lot more money on discretionary products. They used to spend about a decade ago only on the basics. But now we're talking about beauty products, meals out, flatscreen TVs, holidays if travel is allowed again, and education, health care. Those are the items that people are focused on.

Liz Bowyer: And within those broad areas, how are you seeing consumption patterns start to change?

Stephanie Hui: The consumption pattern is definitely changing, Liz. In fact, people are focusing on the following areas. They're focusing on their house, their family, health care for sure. But in that they're focusing on what they're consuming. So organic food is in. Diet, by the way, is also very much a focus. Education, I mentioned that. And so the spending goes into the following. So in comes athleisure sportswear, out goes formalwear. We see people spend money on health, but we also see people spend money on pets. In fact, we actually have one of the largest pet clinic chains in China, we see that traffic has gone up very quickly. People are very proactive on their health management. They want to increase their health span, not just their lifespan. And so our portfolio companies like WeDoc and Keep, which are apps monitoring your health and helping you get access to doctors, we're seeing that traffic go up very quickly.

In addition, there is a desire for premium products. People no longer just want stuff. They're willing to pay out for better products that last longer and accustomed to what they're looking for in terms of taste.

Liz Bowyer: And how about the consumption habits of Gen Z? There's a lot of focus on that generation. What are you seeing with Gen Z in China?

Stephanie Hui: So Gen Z, my understanding is definition of people born from 1995 to 2010. By the way, I have three of those in my house. Very different from the millennials and different from us. And I would say the first thing is individuality. They want to express themselves in the purchases. They don't want to take the cookie cutter products. They also look a lot, particularly in the Chinese context for cultural heritage, products that are customized for the Chinese or, you know, the Asia population. And so I increasingly see this whole emphasis on individuality, inclusivity, sustainability of our environment, that's what they really care about. And they also research their ideas very carefully before they make purchases.

The other interesting observation is Gen Z really cares about how their products are being treated after they are done with it. So increasingly we're looking at investing in recycling platforms. One of our portfolio companies does exactly that. And the interesting thing is when Gen Z makes a purchasing decision, they don't only look at the purchase price, but they also look at the resale price and they look at the delta in between. And you essentially see what the depreciation is and calculate the average cost on a per-year basis.

So just to put that in the context of a cell phone. So they will buy it for, say, you know, a thousand US dollars. They will sell it for, say, $500 after two years. And they will say, "I will use it for the next two years, you know, for $500 total cost and therefore 250 a year." And they will make sure when they resell that they will get the best value from that. That again is a very different purchasing behavior than our generation where we looked at it from use to zero value when we dispose of it.

Liz Bowyer: And what about China's one-child policy? It's not in effect anymore, but it still had a profound impact on consumption patterns over the years. Talk a little bit about that.

Stephanie Hui: So for the current population of consumers in China, most of them will have what we call six to one. So two sets of grandparents, parents, and then to one child. The policy has lifted in terms of the one child, but by and large the current consumers still have that organizational chart, if you will, at home. And so that means that there's a lot of safety net. There's a lot of being cared for. So they're willing to spend money.

And that goes back to the whole premiumization and individuality. So they will spend money on products that the older generation like ourselves may not be willing to do because we're kind of saving for the old age and the later stage of our lives. They're actually feeling a lot more safe to do that spending.

Liz Bowyer: And so Stephanie, from your perspective as an investor, how do some of these broad trends when it comes to Chinese consumers impact the overall investing landscape?

Stephanie Hui: So as an investor, we need to stay fresh. We need to in fact focus on what our younger investment team members are telling us. I always want to listen to them and see how they feel about what we're looking at. By the way, consumers could be flippant. So the biggest risk for making investments into consumer brands, it could come and go.

So oftentimes when we make investments we look for the enablers. We'll look for the platforms that facilitate sales online. We'll look for technology that helps the purchases being done online. So I'll give you a bit of flavor there.

We have invested in a company called Perfect Color. And what it does is color cosmetics. In the past, when you go purchase that, you need to sit at the counter and someone will work with you, probably for 10-15 minutes, to apply the color cosmetics.

But Perfect offers a product that allows you real time to take a picture of yourself at the counter or even on your cell phone, and you can very vividly see how the color changes on your face. And you can make the purchases either online or even if you're at the store the process will be much faster given it's all digital. So we're looking for those type of enablers.

We have invested in a company called [UNINTEL]. And what it does is it's warehouse management software for ecommerce merchandisers. So those are the enablers that we're looking for which will ride the tide of the consumption growth but probably a little bit less risky in terms of the faddish nature of brands.

Liz Bowyer: So a lot of opportunity but also some significant challenges for investors in China. Elaborate on some of those.

Stephanie Hui: So the biggest challenge we have for investing in this part of the world is a very keen competition. The competition does not only apply to our portfolio companies but also applies to the capital going in. In fact, I would say it's a bit of a tale of two cities. The good companies are being chased and valuation is climbing very rapidly versus the ones that are more lackluster, frankly, will be at lower valuation but you are taking substantial risk there. So for us, it's being deep into the domain, already know the players before we even meet them, able to see the future clearly, and taking calculated risk at the right valuation. I think that will be the biggest challenge for us.

Liz Bowyer: And how about US-China trade tensions? How big a concern is that for investors right now?

Stephanie Hui: I would say for investing into the consumer market in China is less of an issue because we have what we call the global-to-local and the local-to-local market. So we're really investing into local companies that are appealing to the local population. And China is a big enough market that if your product is doing well in China it could be a very big market and a huge company.

Liz Bowyer: Thanks, Stephanie.

Stephanie Hui: Thanks, Liz. It's great talking to you.