

Capital Finance – Interview

Alastair Coutts – Gerson Lehrman Group

« Funds are looking for more detailed information throughout the investment process »

Alastair Coutts explains how primary research responds to investment funds' need for information

CF: How would you define primary research?

AC: Gerson Lehrman Group (GLG) pioneered primary research by developing network experts in the US ten years ago. We put our clients in touch with our network of over 200,000 experts, made up of current and former executives, industry specialists, lawyers, accountants, university professors etc. The goal is to provide qualified, detailed and cross purpose information on a subject or on a given sector (financial services, health, property, retail, TMT etc.). We have 850 clients, of which 200 funds across the world. This "marketplace" allows us to generate 20,000 consultations per month. Confidentiality and non-solicitation agreements provide strict guidelines for the contractual relationship with the experts. If clients ask, experts can, if required, intervene on an exclusive basis. Normally, we propose a six-month subscription which allows access to telephone meetings with our experts, studies /reports and personal meetings. All of this in record time as our experts are available within 48 hours. All of our experts are obliged to sign a contract in advance with GLG. The subscription to the service starts at \$70,000, a flat fee which by nature is independent of the value of the deal, covers the majority of the services and should be compared with transaction fees normally billed by advisors.

CF : What service are the funds seeking?

AC: For our clients who are very active in private equity, our involvement is complementary to that of strategy consultants who conduct market due diligence, or to that of the network of operating partners /senior advisors, who support the management team over the long-term. In short, "sector-based" funds are generally looking for technical information and for technical experts in a particular area, whereas "generalist" teams often require a more educational approach. In the current environment, funds are also asking our experts about non-deal related issues, for example questions regarding the management of their portfolio (where we generally generate approximately 20% of our activity). In this way they can gather information on expansion plans (by learning about the target and competitive landscape, for example), about a new product launch (from end users etc.) or a regulatory change impacting one of their investments.

CF: What do they need during the acquisition process?

AC: Our private equity clients require fast access to qualified experts throughout the deal process. From the moment when an information memorandum arrives, investors can quickly engage experts who are familiar with the target, business model, positioning, or even the competition, to help them decide whether to proceed. This type of work accounts for about approximately 30% of our activity. An equivalent proportion is generated on late stage due diligence (for example, once the strategy consulting firm has delivered its report, more specific questions may arise). And finally, outside of the formal process, investors can use our experts for deal sourcing by gathering information on a target (approximately 20% of our activity).

CF: Do the GPs find what they are looking for, whatever their size?

Of course, because all funds need to make contacts beyond their traditional networks and providers. An investor in France will look for real sources of expertise before launching a deal in Asia, for example. That is our challenge: to continue to integrate "high-end" experts into our network. Internally we have 170 people dedicated full time to extending the network. The result? On average 200 experts join our network every day. Last September we built a partnership with Credit Suisse which makes 300 sell-side analysts available for our clients and our investors. The research market continues to grow very quickly and is now worth \$20bn worldwide. Our 2008 revenues should reach around \$290m, representing annual growth of around 25%.