

Investment matchmaking: a new industry that is beating the crunch

It is boom time for Gerson Lehrman, now backed by private equity giant Silver Lake, says Roger Baird

BUSINESS is great for Gerson Lehrman Group (GLG), the investment matchmaking service, to the delight of the managing director of its British division, Paul Ciralo.

New York-based GLG was set up in 1998; it is part of a new generation of firms that matches investors – such as hedge funds and investment banks – with industry experts. The aim is to help investors with additional research before a takeover bid or simply to help clients to spot trends.

Business for firms such as privately-held GLG and its top rivals – such as Standard & Poor's Vista Research or Bear Stearns' Primary Insight – has mushroomed since 2000, when US regulators brought disclosure rules into force that made executives at public companies wary of speaking privately with big investors.

Ciralo said when he first came to the firm's London office it had four people – it now counts 35. The business employs 630 staff worldwide and last year generated sales of \$220m (£110m), up 31 per cent on 2006. The overall market research industry is worth an estimated \$20bn a year.

The firm has 850 clients on its books – mostly banks, law firms and hedge funds – that it can put in touch with any one of the 175,000 experts it holds on its global database.

Ciralo, an American in his early forties, said: "We have everyone from former heads of multinational IT firms to farmers, for clients who want to know more about the food or agricultural sectors."

GLG can provide experts as diverse as Chris Burke, a former chief technical officer at Vodafone to Elizabeth Demers, an INSEAD professor on financial accounting.

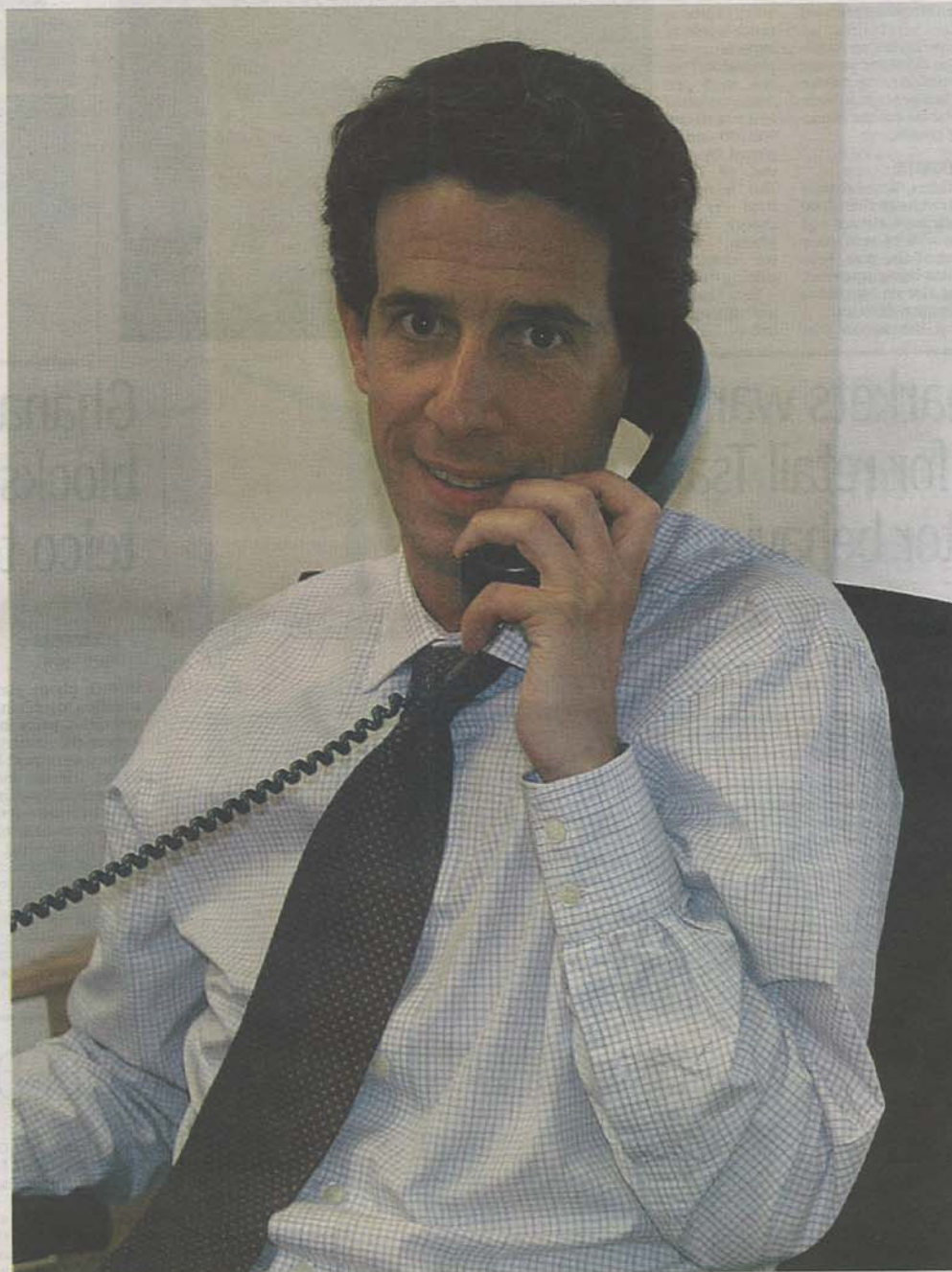
GLG's experts charge clients anything from \$50 to \$2,000 an hour, while the company makes money by charging clients a minimum of \$70,000 every six months to access its online database.

The matchmaking firm has 26,000 experts in Europe, where around 130 of its clients are based. The business opened its 15th European office in Zurich in May.

Ciralo added: "We have grown the network fairly well in the US, but we think there is more room to grow across Europe. A lot of our clients also have their growth plans here."

He added: "We expect to see our European business grow by around 30 per cent over the next two years despite the credit crunch. This is because in this period firms and doing a lot more research, before they make costly expansion plans."

However, last year the rising prominence of matchmaking firms like GLG



Off the hook: Paul Ciralo, managing director of Gerson Lehrman Group's British division

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attracted the attention of a number of US regulators.

The New York attorney general's office issued subpoenas last year to GLG and Visa, to determine whether employees at US electrical retailers Best Buy, Circuit City and the credit card processor First Data had given out unauthorised information to those firms – and that this might have ended up reaching the ears of traders.

The subpoenas were issued by the then-outgoing attorney general, Eliot Spitzer. But a spokesman for Andrew M. Cuomo, the new attorney general said: "We do not comment on nor confirm any investigative matter."

It is unclear whether Cuomo will have the same appetite in pursuing Wall Street firms as Spitzer did.

The Securities and Exchange

Commission (SEC) is also examining the relationship between these third-party research companies and hedge funds and is trying to detail how information is obtained, used and shared. An SEC spokesman said the agency did not comment on ongoing investigations.

GLG will also not comment on these probes, which both seem to have lost momentum since they hit the headlines last January.

These concerns did not prevent American private equity firm Silver Lake buying around 25 per cent of GLG for \$200m last December. The deal, which also gave Silver Lake two seats on the board, valued GLG at \$875m at the time.

Silver Lake managing director Michael Bingle called Gerson Lehrman "an industry pioneer and clear leader in the rapidly

growing global market" for expertise.

He added: "The company's Web-based software, services, and scale provide a unique value proposition to both its clients and its deep base of experts, and we believe the company is very well-positioned for continued growth."

For the moment at least, neither the credit crunch or the spectre of US regulators seems to be able to halt the rise of investment matchmakers. Unless their competitors in the mainstream research market get their act together, they seem set to grow and grow.

CV | PAUL CIRALO

Before joining GLG, Paul Ciralo was a Partner at Arete Research, an independent research firm. Before that, Ciralo spent 5 years at Robertson Stephens, where he was the Managing Director responsible

for London operations. Ciralo has over 17 years of experience in the financial services industry. He holds a BSc from New York University and an MBA from the Stern School of Business at NYU.

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