TresVista

Catalyzing Your Impact

Navigating Expert Networks

Expert Networks: An On-The-Rise Solution for Asset Managers

Expert networks have been around for over two and a half decades, but over the last 10 years, they have started gaining a lot of traction from hedge fund managers and private equity firms. The regulatory issues in the 2010s and the scandals involving insider training kept long-only asset managers from joining the party. However, after these incidents, expert networks have improved their regulatory compliance significantly, which helped in the broad uptake of these services. According to 'Substantive Research,' expert networks have made it to the list of top-20 highest-paid research providers and continue gaining market share.

Increasing penetration and improvements in internet infrastructure have significantly reduced the barriers to entry. The high-margin nature of the business has attracted a lot of new entrants into the industry, simultaneously pushing down pricing. About 150 expert networks are operating globally, and the rising interest has led to much innovation, M&A activity, and capital flowing into the industry. AI has also penetrated the market here, with new entrants now utilizing the power of AI to find the perfect expert for their clients.

Most fund managers use multiple expert networks simultaneously. Generally, the strategy is to have a more extensive network like a GLG due to its system of experts across different industries and geographies. This is augmented with a smaller network, consisting of a library of transcripts sharing interviews, like Tegus, which helps reduce the overall cost per call. On the other hand, some fund managers have chosen to utilize a couple of smaller and cheaper networks with a geographic/industry focus, where they can send the experts they have found to interview.

GLG has proven to be an industry pioneer in the expert networks landscape. It started in 1998 as a publishing house to produce industry guidebooks for institutional investors. It later pivoted to its current form ever since it realized that clients were more interested in talking to its experts to get their own answers. GLG is the biggest network out there, with a majority market share, operating at a gross margin of over 70%. It charges clients on a cost-plus basis, where calls can cost $1,000+ per hour. The company AlphaSights, Guidepoint, and Third Bridge are the next few mainstream expert networks in the market.

Tegus and Stream by AlphaSense are widely popular amongst hedge fund managers due to their extensive library of transcripts. Tegus disrupted the marketplace by allowing the expert interviews on the platform to be shared rather than be proprietary, substantially bringing down the average costs. On the other hand, Stream has interviews conducted by the clients themselves.

Guidepoint transcribes and shares expert interviews, which are conducted by their in-house analysts, making the quality of the calls more consistent, with the additional feature of sharing user-generated content. Dialectica, VisasQ, and AlphaSights are the networks most popular among PE firms. VisasQ and Mimir are big in Japan, while Capvision is China's largest and most prominent expert network. Lynk, Arches, and Liahnson cover different parts of Southeast Asia. Infomineo has a presence in North Africa and the Middle-East region.

Reading several interview transcripts on Tegus, it can be noted that many analysts/fund managers are not good at taking interviews. This is logical as most people in the hedge fund industry do not have good people skills; they would rather spend time crunching numbers and researching. While many people are guilty of this in their initial years as an analyst, there are some ways one can increase their chances to get the best out of the experts.

First, it is essential to talk to the right people. Analysts/fund managers should not depend entirely on the network's employees to find the right expert, as they are not likely to know much about investment

research. Look to support the expert-finding process by discussing the background, title, and other details of the kind of people you are looking to talk to. Talk to the network about the type of questions you want answers to. This will help the company find a good match of potential experts. Some new networks use AI technology to find suitable matches in a short period, which is particularly useful for events or news-based diligence discussions.

Once you have zeroed in on the experts you want to talk to, the next step is to prepare a list of appropriate questions for those experts, specifically related to their areas of expertise. For example, a product guy will have extensive knowledge about the pros and cons of a product as compared to competitors but would not be the best person to reach out to for information on distribution or costs.

When you narrow your options and get on the call, spend the first few minutes building a rapport to make both parties comfortable. Then, you would want to confirm the fit. Ask a few questions to understand if the expert on the call has credibility and knowledge about the area you wish to investigate.

Have open-ended questions that will allow the advisor to display their expertise, potentially leading to topics or information you didn't know about. You would want to ask probing questions that utilize the expert's deep knowledge base and encourage them to think. Where analysts majorly miss the opportunity is when they try to only get answers to the few questions they have thought about. With this frame of mind, they miss out on useful information and remain unaware of it. Instead, one should look to get the expert's knowledge and understand the internal workings of an industry or company, particularly their work area of expertise.

One may close the call quickly if it turns out that the expert is not a good fit. Starting with more high-level questions before delving deeper into areas of interest can help in assessing their fit for the objective at hand. Then, ask 'Why' follow-up questions to get to the details. Understand what the advisor's input, opinions, or guesses are. If you are not getting an answer from the expert, try reframing the question. Toward the end of the call, ask for the advisor's input on anything important they think you should know. You can also ask if they can introduce you to someone else whom they recommend you talk to. End the call with a summary of your inferences and key takeaways to ensure you did not misinterpret anything.

Overall, expert networks have become an integral part of the asset management industry. It is widely used by individuals from different lines of work, from private market investors and public market investors to alternative asset managers and traditional asset managers.

At TresVista, we help our clients summarize call transcripts for the quarterly earnings calls and other call transcripts (one-on-one diligence calls) so they can focus on the more important points and key takeaways while reducing their time drastically to consume this content. This is especially helpful when they need to go back to previous transcripts and read multiple calls.

Public Company Earnings Summary

Analysis and Summarization of Earnings Call

Request Overview

- To understand the breakfast arrangements of hotel chains and their plans to analyze the market opportunity for one of the client's target companies

Final Deliverable and Value Add

- Identified major hotel chains in the U.S. and went through their earnings calls and summarized them to identify their breakfast arrangements and created a conclusion based on it

- Identified future plans for new openings by the hotel chain while going through the earnings call

- Additionally, the team created segments in the hotel types for each hotel chain by premium and economy to aid with the analysis

Output Snapshot:

Consumer Trends

- **Likewise, we anticipate additional tailwinds from business travelers in sectors such as healthcare, technology and professional services, especially in the context of the XYZ acquisition and our growing presence in more RevPAR accretive segments and locations** *(Q3-22)*

- **Question -** Hey, good morning, guys. Thanks for taking my questions. Two, if I may. So just on XYZ, wondering if you might maybe give a mix of the room nights, leisure versus business, and also where Radisson RevPAR was in the quarter as a percent of 2019. And then just a second question along with that, going back to kind of the SG&A, you mentioned some one-time costs. Wondering if you might maybe give some additional information there as far as, like the – you mentioned one-time costs on XYZ and the bad debt reversal, if maybe some quantification could be provided with that? And that's it for me. Thanks.

- **Answer -** Yeah. Sure, ABC. So, the XYZ brands' system was 55% leisure, 45% business. Historically, Choice has been 60% leisure, 40% business, so it's a nice mix on the additional business travelers that we'd be picking up (Q3-22)

- **Faced with high airline ticket prices and flight cancellations, a majority of travelers who responded to our recent survey indicated they would rather switch to driving versus cancelling their vacation plans. This trend is particularly beneficial for our portfolio of over 4,000 hotels located within a mile of an interstate exit. In addition to leisure travel, we are also** observing business travel trends that are favorable for our brands, especially in the context of the pending XYZ acquisition *(Q3-22)*
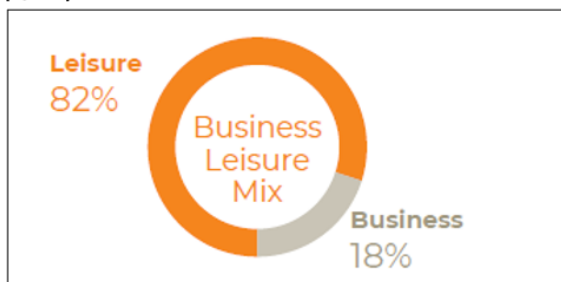
(Feb-2022 Investor Presentation)

Public Company Earnings Summary

Call Transcript Summarization

Request Overview

- To create a summarized document containing financial metrics, Q&A, earnings call highlights, and management commentary of a company

Final Deliverable and Value Add

- The earnings call and presentations were extracted from public sources

- The team went through the earnings call of the company and identified the key points necessary to create a summarized output

- The summarized output file contained earning details, guidance values and commentary for the next quarter, management commentary, and any other relevant highlights mentioned in the transcript

Output Snapshot:

Earnings for Qtr.:

	Q2'23	Q2'22	YoY	FS
Revenue	497.8	350.9	51.7%	485.1
Gross Profit	214.2	140.5	0.6	183.7
Margin	*53.1%*	*49.4%*	*369 bps*	
Adj. EBITDA	*107.4*	*79.4*	*43.6%*	*103.7*
Margin	*26.7%*	*27.9%*	*(129 bps)*	
Adj. EPS	$0.30	$0.40	(30.9%)	$0.27

Q3 2022

COMPANY NAME (TICKER)
October 19, 2022

- XVY, formerly ABC, released Q3 results before market hours on October xx, 2022
- Q3 Adjusted EPS was $X.YY, 7.5% ahead of the $Y.XX consensus estimate. Q3 2021 Adjusted EPS was $X.XX
- Q3 Revenue was $XX.Y billion, slightly ahead of estimates of $xx.y billion and a 10.7% increase from the prior-year quarter
  - Year-over-year growth was driven by higher premium revenue due to membership growth in WXYZ, the acquisitions of XXYYZZ and AABBCC, premium rate increases, and growth in WWXXYY and YYWWXX membership. The increase was further attributable to the growth in pharmacy product revenue within AARRBB related to growth in membership and higher utilization of prescription drugs
- The Company increased full-year Adjusted EPS guidance of at least $XX.YY to at least $XY.YX, based on stronger than expected results year-to-date
- Medical enrollment increased by X.Y million members year-over-year and Y.A million members in Q3 to XW.Y million members
  - The growth in enrollment was driven by organic growth in Medicaid due to suspension of eligibility recertification, and organic growth in commercial fee-based membership
- Highlights from the Company's earnings release and call include:
  - The benefit expense ratio was 68.2% in Q3 2022, an increase of 80 basis points versus the prior year quarter, and in-line with expectations
    - The increase was primarily driven by accounting realignment of quality improvement expenses which had a favorable impact on the benefit expense ratio and an offsetting unfavorable impact on the SG&A expense ratio with no impact on operating earnings
  Select quotes from XYZ ABC, CEO:
- Shares responded favorably, up 1.9% on the day of the release

Guidance commentary:
- Q3'23
  - Pro forma growth in sales to be impacted by timing of orders and shipments last year while management continue to work down elevated backlog of Q3'22
  - Margin expansion to fully benefit from lower commodity and transportation costs
- FY'23 pro forma sales growth is calculated off the prior year reported sales plus XYZ sales for H1'22 less the impact of the 1234-product line exits
- Expect total leverage ratio to continue to decline in H2'23 based on strong FCF expectations
  - Leverage Ratio (towards year-end)   1.4x

Highlights:
- Beat current quarter revenue, gross profit, EBITDA and EPS
- Guided Q3'23 revenue and adj. EBITDA are below the consensus estimates
- Guided FY'23 revenue and adj. EBITDA are above the consensus estimates
- Supply chain is back to pre-pandemic levels
- Lower core sales because of lower Resi demand
- Recorded XYZ order rate growth
- Growth in EBITDA due to the clearance of high-cost inventory (predominant headwind over recent quarters), lower freight costs
- Recorded 450bps y/y growth in Gross Margin because of a 58% increase in sales associated with integration of XYZ

Company Call Summary

Due Diligence and Call Transcript Summarization

Request Overview

- To conduct due diligence for potential investment by the client
- To go through call recordings and draw actionable insights from the calls
- The calls were usually focused on the technical and qualitative aspects of the solution

Final Deliverable and Value Add

- The team figured out the possible questions that the client would want to be answered
- The questions were noted down in a Word/Excel file
- The transcript was read thoroughly, and a data dump was created under the appropriate questions
- Everything was combined to form a crisp and summarized document for the client

Output Snapshot:

CALL N – Due Diligence for Company A

About Expert	Highlights

Chief {Department} Officer
 	
{Company Name}
 	
Customer
(May 2022)
	Overview
	■ The expert oversees all "{Department} protocols, encompassing {multiple functionality}. The expert is a current customer of XXXX but evaluated other companies in the industry and can speak about the competitive landscape and value proposition of the company
	■ **Key Takeaway:** The expert is satisfied with XXXX's product. They previously used YYYY and tested ZZZZ and XXXX before selecting XXXX. According to him, the newer players in this field have only minor distinctions, but they are generally more advanced compared to legacy players like YYYY and PPPP
	
	Q&A Highlights
	XXXX and YYYY vs Legacy Players
	■ "The {Product} market is not new, but XXXX and YYYY are kind of new"
	■ "With ZZZZ or PPPP needs to involve a lot of what we call the {Product functionality}. The new platforms like XXXX and YYYY offer a {Functionality} kind of {Product Market} system"
	■ "The other difference is that XXXX and YYYY are better {features} like LLLL, KKKK or even others"
	Why was XXXX chosen over other players? What were the evaluation criteria?
	■ The expert used to use ZZZZ's solution. Then they did a full evaluation of XXXX and YYYY before selecting XXXX. "We tested them in various scenarios. I think it was first YYYY and then we moved to XXXX"
	■ The expert had 4 main evaluation criteria:
	  1. {Criteria 1}
	  2. {Criteria 2}
	  3. {Criteria 3}
	  4. {Criteria 4}
	Pricing and stickiness
	■ "I don't know how much it costs per {metrics}, because usually you buy basis {metrics}. But I would say it falls in the {currency figures}" "If I remember correctly, I bought up to {Amount}. YYYY was also priced according to {metrics}, but it was more expensive"
	■ "The product is sufficiently sticky, but it depends on the number of {metrics}". On average, the expert estimates that it would take about {time} to change {Product Market} systems
	■ "I will be honest, after only about {time}, I think that XXXX is a very big part of our {system}… They are definitely very important"

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