Interview

Creating Value in Financial Services

Jeremy Isaacs

EDITORS' NOTE *Prior to the establishment of JRJ Group, Jeremy Isaacs held the position of Chief Executive Officer-Europe, Middle East and Asia Pacific at Lehman Brothers from 2000 to 2008. He joined Lehman Brothers in 1996 as Co-Chief Operating Officer of European Equities. In 1997, he was appointed head of European Equities, subsequently becoming Chief Operating Officer-Europe and then Chief Executive Officer-Europe in 1999. Before Lehman, Isaacs was an Executive Director at Goldman Sachs, which he joined in 1989. He serves as Trustee of The J. Isaacs Charitable Trust; Non-Executive Director, Imperial College Healthcare NHS Trust; Trustee of the Noah's Ark Children's Hospice; and honorary fellow of the London Business School. In the context of JRJ Group's investment activities, he has assumed the position of Non-Executive Chairman of Marex Group Limited.*

COMPANY BRIEF *Founded by Jeremy Isaacs and Roger Nagioff, JRJ Group (www.jrjgroup.com) is a private equity investment firm, focused on the financial services sector. JRJ provides capital, operational expertise, and strategic guidance to its portfolio companies, fostering sustainable growth and creating real value for the benefit of its investors and partners.*

An Interview with Jeremy Isaacs, Founding Partner, JRJ Group

What made you feel the timing was right to create JRJ Group and how did you intend to differentiate it in the market?

When we set up JRJ, we had a strong view about the value proposition offered by focusing private equity investment in the financial services sector – over both the medium and longer term. Over the longer term, as a large, diverse sector that has historically proven itself capable of evolving to adjust to shifting operating conditions, we expect financial services to provide us with a continuing range of attractive opportunities. Right now, however, we are in the midst of a particularly compelling buying environment. As the forces of dislocation attempt to resolve themselves and reach a new equilibrium, we are seeing a plethora of investment opportunities that under normal circumstances, would not be available.

Big banks and insurance companies have been consolidators for the past two decades and, for a number of well-documented reasons, they need to deconsolidate and get clarity around their business models. As a result, a wide range of businesses and assets must be sold over the next few years.

In addition to the favorable market context, when starting JRJ, we were aware that we were bringing something relatively unique to the table – operational expertise. Although a large global sector, financial services has been underrepresented in private equity. Partly, this is due to the greater complexity of applying "financial alchemy" – historically, a crucial element of the PE toolkit – to some areas of financial services activity. However, I believe a more important obstacle for many PE firms has been a lack of sector-specific operational capability. Financial services businesses are different from industrial companies. Creating value requires a lot of active operational involvement. A successful PE investor needs to be able to surmount the knowledge-based barriers to entry, in order to achieve the right entry price, as well as understand how to elicit the necessary improvements to processes and market positioning in the context of predominantly people-based assets.

Also critical is choosing where to play. The category "financial services" covers a wide diversity of business and activity. JRJ has chosen to position itself in segments of the industry where we perceive comparative regulatory advantage and strong secular growth dynamics.

JRJ's timing is exactly right. In private equity, you have good buying times and good selling times, and we are currently in the middle of a great buying time. Five to seven years from now, we'll be at a point where it will be more of a selling time and we can get some high returns from the realizations.

Our belief is that we are creating an arbitrage by buying midsize companies – somewhere in the range of $100 million to €1 billion equity – and applying a quantity and caliber of experience and expertise otherwise inaccessible to them. Whether through internal improvements or by providing introductions to clients or access to governments, regulators, banks, and potential employees, the application of our sector knowledge and networks to our portfolio companies creates a genuinely realizable arbitrage for our investors.

The input intensity of our value creation model means that our fund needs to be reasonably concentrated – probably making no more than 10 to 15 investments. Within that constraint, however, we believe the range of sector opportunities will afford our investors sufficient diversification.

Will financial services remain the focus or do you see opportunities in other fields?

In essence, I believe my dollar is worth more in financial services than other people's. I don't believe that would necessarily be the case in other sectors.

We understand financial services and know the people that operate in that segment. We understand what the value propositions are. We know how to design strategic plans to secure competitive advantage and, importantly, we understand very well the dynamics that govern businesses and determine execution success or failure.

In terms of the companies that have value, which characteristics do you look at first?

The key factor is whether a particular value proposition is situated within a context of generally supportive, long-term secular growth dynamics.

For example, we have recently been investing in commodity derivatives brokerage. Although commodity prices may go up and down, our investments have been predicated on our belief that powerful secular forces – with trade and risk management trends at their core – are at work. The derivatization of the commodities world is still in its early stages, and is evolving in response to real-world demand and supply patterns, as well as the growing involvement of non-traditional players, such as hedge funds and money managers. This is a dynamic that will play out over the next 10 to 15 years.

Is it hard to look that far ahead and predict where regulation is going to be?

It is a challenge that we invest a lot of time in researching. In the end, it requires good governance and applying proper common sense to how businesses are operating and the ability to see core risks – structural or otherwise – and how they may play out.

Did you always have an entrepreneurial desire to run your own business?

I don't view myself as an entrepreneur but rather someone who is applying a focus, a set of disciplines, and an expertise to a segment of the market where we really feel we can make a difference. ●