HL INFLUENCERS: DIGITAL TRANSFORMATION

TRANSCRIPT

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Introduction	Welcome back to season three of *The Influencers*, where we bring you some of the most interesting and thoughtful voices shaping the digitally driven transformation at the intersection of law, business and technology.
Leo von Gerlach	Hello everybody, and welcome to another edition of *The Influencers*, our podcast conversation on digital transformation and law. I'm Leo von Gerlach and with me today is Catherine Cutts, a digital operating partner at KKR, one of the leading global investment firms with a focus on private equity and alternative capital, and with an emphasis on long term investments and value creation. Catherine has an academic background in the field of Computational Biology – wow, that sounds cool. and a PhD in Artificial Intelligence from University of Cambridge! That's also cool. I should also mention that she served at the Chief Data Scientist at 10 Downing Street in the early 2020s and in all fairness, I think this is also pretty cool stuff. So now Catherine is with KKR and there she brings to the full fruition her knowledge in digital technology and artificial intelligence for the best of their clients and their investments, and that's what we want to speak about so Catherine, welcome to the show.
Catherine Cutts	Thank you so much, Leo. Great to be here and thanks for the kind introduction.
Leo von Gerlach	So, Catherine, you have a very kind of deep and broad background in digital technologies with AI, computational biologies. Then you have been in consulting, you have been in government. So, you have looked at this beast of digital transformation from very many angles. Perhaps you just take us a little bit through your journey and what brought you eventually at private equity investments, alternative capital investments?
Catherine Cutts	Certainly, really happy to. So as you mentioned, I started out as an academic. So my first degree was in maths, and then I switched into computational biology and was lucky enough actually just to fall into doing a PhD in AI. Back then, it wasn't even really cool AI. It was known as the field of computational neuroscience, and this was back when

	computer processing power had advanced to such a degree that academic institutions like Cambridge could have competing power to allow you to run some relatively small neural networks, a real fraction of what is run today with these large language models at probably a fraction of the processing power of people's phones. But nevertheless I persisted and it's been a real thrill to see this area that's been a bit of a passion project of mine going from something so obscure that I really had to justify to my parents that a PhD was a good use of three years of time versus doing a nice grand scheme in the city or what have you, through to being one the hot topics of transformation today. So that's kind of where I started out and I absolutely loved academia and it was very clear as my PhD was coming to the end that the business world was getting into or waking up to the potential of these tools, I guess, and techniques for driving transformational change or for doing data-driven decision making, so it was a really good time to hop into consulting where lots of the big strategy houses were building out analytics teams, data science teams. And then I had a wonderful few years travelling the world, working with some big companies on data transformation, some of it being quite advanced and quite exciting, and some of it being, which is a surprise to me coming from academia, a little bit more kind of about getting the basics in place and getting good data systems and good reporting and so on. That was wonderful and then, private equity, I think, started waking to the idea that data-driven transformation and AI and machine learning transformation would be a good thing for their portfolio companies. So I think it started with absolutely huge firms and then as they were getting successes on the board, private equity and the slightly smaller companies that that we tend to invest in also woke up to it and you've seen over the past few years VCs and so on, and I think it's kind of really spread across all sizes of company. Now the role there is fantastic. It's being able to work with our investments to drive digital transformation in whatever way is best for them. I did a brief sojourn into 10 Downing Street during COVID to help out a little bit there. That was a fascinating time for data analytics because it was the first time, at least in my lifetime, let's say, that the British government and governments across the world really needed fast flows of data to make decisions. Obviously, you know that there are sort of situations elsewhere where that things happen, but for a government to be deciding huge policy from a week to week basis meant that the flows of data and the analysis that you needed to do and the analytical techniques that you needed to apply were an absolute step change from what had been used before, so it was real honor to be asked to be there during that time and to build out some of those systems and some of those

	techniques, and then and hopefully deal a little bit of good at a tough time for the UK. And then I went back to private equity. It was a great and interesting time in both places, but my heart I think is truly with growing businesses and helping them drive digital transformations.
Leo von Gerlach	Well, I love this. If we had more time, we could really go down a lot of those things you just mentioned just Cambridge and being the cradle for artificial intelligence with Alan Turing, with a Turing machine in 1935, and all that came out of that, and again fighting pandemics with data science and how that all brings us on really a new level of just countering problems in society on a broad scale with data analytics, all these are fascinating topics. Somehow, unfortunately we need to get to the core topic of this conversation, which is a little bit more here and today and that is artificial intelligence and investment and perhaps just very easily and light footedly, there are probably two aspects of how those two things, artificial intelligence and investment, come together. One is at your side at KKR, how you set up your processes. Potentially, evaluations, risk analysis and alike. But then of course also how you evaluate your targets and what you expect there to be in terms of artificial intelligence as a driver or copilot for business success.
Catherine Cutts	Absolutely. And to start with the first one, so I can probably be super succinct on that. KKR's processes are very, very information heavy. It's very data heavy. We are regulated industry, so of course we want to be at the forefront of technology and using it to be as efficient and as smart as possible. On the other hand, we need to be incredibly careful with these things because the decisions that we take around investments are incredibly high stakes because a huge number of people entrusted us with their money to spend it wisely, and then you have the regulatory aspect as well. So, we're using it for low risk, high benefit use cases. I think very obvious ones are during due diligences you have huge data rooms, and I think it would not be wise to have AI read through those on your behalf. On the other hand, when you remember something that you read in one document three days ago and rather than you spending three hours trying to find it, sending AI to go and extract it and so on. So we're seeing value there, but I think proceeding prudently on that front. Because of the landscape in which we operate, in terms of how it's impacting our investment decisions, and how we view companies, I think this is an area that we're putting ever more emphasis on.

	I think there's a few elements to look at here. There's certainly how is the industry that this company or this target is in, how is AI going to affect that industry over not just our investment time horizon, but potentially kind of like the next one after? And that's always a fascinating area to dig into. Some industries clearly have got more moats than others, and that's a really important factor. And then also looking at how AI can help drive further growth for the company, how AI can drive efficiency, and really what the opportunities would be for any targets to harness growth of AI and sort of playing that through into our thinking on the investment decision making.
Leo von Gerlach	Great and let's stay for a while with the AI applications at your target companies, at your investments. They would be in the need simply to satisfy investors expectation to grow quickly, to scale up. Do you see a tension there or do you see a synergy there in terms of how AI is a key component of a given business plan interacts with that need of scaling fast and growing rapidly?
Catherine Cutts	It’s an interesting question. I rarely see tensions in this because I think in general, the willingness and openness for businesses to explore AI and for employees of businesses to explore AI is pretty high. Where I do see dilemmas coming up, let's say, let's put it like this -- is that I think companies often find themselves faced with choices around, “Do we do relatively small, relatively safe, relatively low risk proof of concepts in areas that we know have got really high potential?” So as an example, you know you are a company who does a lot of marketing and creates a lot of content. It's a fantastic way to make your copywriters even more productive by having them draft one piece of copy and then having AI make 100 slightly tailored, slightly personalized versions for different audiences. That I think is a very small and low risk thing to do and the benefits that company is certainly going to be measurable, but it's not necessarily going to be game changing if you are a widget selling company and really what you need to be doing is designing a more exciting widget, so to speak. So that's one way that companies can go in. The other direction companies can go in is that there's a subset of industries at the moment where it's been identified that AI will be really powerful in terms of evolving the products or could really change the dynamics of the industry to give certain companies a huge advantage. And I think it takes a lot more courage to say, “Actually, we're going to spend our time and we're going to use our AI effort budget, so to speak on the things that fewer people are doing, fewer people are trying and we know that it's going to take maybe a year or 18 months of effort before we can see if it's working. But we know that if we get this right, this could be fundamentally transformative for our business or even for our wider industry.” So for me, at least, that's what I see most often at the moment is the kind of the dilemma of do we proof of concept things

	that we know are going to work, that we can get some relatively quick results from or do we go for the slightly moon-shot based approach? And obviously those kind of techniques that you can do, you know there's ways of doing this right, which limit the risk and increase your chances of getting a great outcome. I think that's where most companies are.
Leo von Gerlach	So that makes a lot of total sense to me. So I, in my own words, I see it as you just expect AI just from everybody, just to make their processes more efficient and effective. But then I think the hard question comes when this is just an investment area for the target company itself, and then they are just tasked to develop in a certain AI solution, or even a certain AI model. And perhaps, let's stay a little bit with this latter, more difficult challenge that's, of course, always the situation when you invest into something like deep tech, where the return on investment horizon is longer and perhaps a little bit more risky. Would you see still any difference between investments in new AI solutions as opposed to investments into other frontier technologies, where the investment horizon may simply be a little bit longer, and you scratch your head … “Wow, is this working out?”
Catherine Cutts	It's a really interesting question. I think on some levels, they're relatively similar in that AI companies and frontier technologies as you rightly suggest, they require a huge amount of investment up front to, in effect, do research and remove any sort of products or technology risk. And they are unprofitable for the duration of that right before, nailing the product market fit, nailing the technology and then you get the traditional hockey stick. And all of a sudden they're world beating and absolutely massive. So I think from that perspective, they're very similar where I think there might be a difference with AI and Gen AI in particular, is that if you look at taking aside for a second companies that are building foundational, large language models and thinking maybe about companies where AI is at the core, but they're going to be using foundational models from other providers. What I think is interesting there is that over the last 10 years, there really has been a democratization. I'm saying in inverted commas, of AI, in that when I was newly minted data scientists in consulting, if you wanted to build a model, you'd almost be coding it from the equations that underly it and it was a hugely time consuming process. Now, you don't even need to be a data scientist to spin up a model that was ten times more complicated than what I was building back in the day. And so this is an area where I think actually AI is tending towards democratization and actually lowering barriers to entry or barriers to

	deployment in a way that other frontier technology as it develops, it becomes more niche and more experience is needed to use it, and sort of more specialist. Clearly, you need to be very specialist to build a foundational model but if you're using it in a business application, actually that's getting ever easier, which is pretty exciting.
Leo von Gerlach	That kind of corresponds to this notion that the perhaps less gifted or medium gifted benefit more from the power of AI or generative AI, or at least the relative gain is simply higher and that may be translated into some advantage into a broader array of your investment targets. Leading, I think, perhaps to the question of your role and the role of KKR, in how to nurture them and how to give them good advice all along and kind of steward that not so easy process.
Catherine Cutts	It's not a one size fits all approach by any stretch. So I'll try and paint an overall picture, but really, I think it comes down to what is most helpful for the specific company at that specific point in time. But I think one area that we lean into very heavily is leveraging the KKR network for the benefit of our portfolio companies. So making sure that our companies have got access to the very, very best specialists in AI to advise them as and when needed. I'm always on call for the relatively standard stuff. I'm not, by any stretch, in deep research anymore. So making sure that those access points and making and getting executives what they need and the advice they need is really top of mind. I'll digress really quickly and return to your question. And one thing that is very interesting with AI and AI driven transformation is that for the C suites of KKR companies and most companies in the world, the execs won't have run an AI based transformation before in their career, in a way with digital transformation or some technology transformation, or I don't know, go to market effectiveness transformation. And you know, there are very seasoned execs will have done these multiple times before. This is new territory for everyone, which is kind of exciting and also why we lean heavily on making sure people have access to advice. The other thing that we do is we have a perspective, I would say, on which of the table stakes are relatively easy to get going, use cases where there's kind of only upside, there's no technology risk, there's sort of no business risk. And we've got a bunch of playbooks and a bunch of trusted partners who can help our company roll those out at speed. And then there's a smaller number of companies who are considering AI and what it means more deeply for how they're going to evolve their products or how they're going to evolve their services and with those, it is a sort of much more detailed discussion. I think it just always comes down to getting the right people around the table.

Leo von Gerlach	And with all that kind of wealth of experience, is there a distillation, in a sense, that would be my one piece of advice that I would like to give a startup company to just really make a difference, to move the needle?
Catherine Cutts	Yeah, absolutely. I think, and I don't work so much with startups, but I definitely have a lot of thoughts on, if I were doing a startup or advising startup founders, I think startups have got a really great advantage in many senses, in the AI world, in the green field. In terms of the technology choices that they make, in terms of how they model their data, in terms of the processes that they're going to build. And so startups today, I think the big bit of advice would be to think “AI first” every time you're setting up a process, every time you're starting new activity, think through, what can I do today that is going to make this process easier to AI, if I in future and maybe, as an example of this, bigger companies is the type that we invest in our private equity business, they often have, you know, multiple rounds of M&A. So relatively complicated technology stacks, lots and lots of different business lines, so very, very different data models and therefore it is kind of takes a little bit more work to do AI transformation in those businesses because they have a relatively complex data and technology system. If you're a startup in your green field, you've got an amazing opportunity to consolidate and build things in a way that's going to make it even easier to use AI going forward. So that would be my piece of advice. Take advantage of the green field.
Leo von Gerlach	That's terrific. Thank you, on behalf of all those who may just make really good use of it. And now just moving to a completely different topic about the geopolitical situation. What we see, in terms of you may describe as a fight for supremacy, in a certain dis-alignment, we are seeing among regions. Where do you see Europe to stand, if there is something like Europe at all, because you are sitting, obviously, in Great Britain and that may just then also be very different in terms of technology advancements and opportunities. But how do you see the geopolitical landscape in terms of investments into digital solutions and the position of Europe, if there is such one?
Catherine Cutts	Yeah, it's a great question. I think very clearly, regions and countries are sort of vying to put their stake in the ground and really put themselves on the map as it comes to AI and large language models. I think it's still TBD how this is going to play out. For instance, 18 months ago, we were all talking about individual countries, or blocks of countries building their own foundational large language models to reflect local cultural sensitivities or customs, or to somehow make sure that the LLM was giving answers in a way that was representative of the value system in which somebody was querying them.

	That seems to be fading away now. And then there's clearly the question around regulation and safety, which is popping up. I think for me, it's too early to say. I think there will be very, very strong interests at play – let me maybe leave it at that. Going forward with respect to AI and geopolitics, going forward in terms of Europe, I think Europe is a strong position in terms of the talent that we have and the ability to act as one with a very diverse set of countries, to sort of find commonality and sort of build frameworks that are widely applicable. I think where the challenge comes in is two fold. One is our regulatory landscape is tougher and more pro consumer than other regions, and different people are going to have different opinions on that, but I happen to think it's a strength if we play it well. And then I think the other thing is really simply, just like the linguistic diversity of Europe is huge, and there are national languages which are spoken by 3 million people or something within Europe, and doing AI in that context is a little bit more complicated. What we need to figure out, I think, is how we want to play in AI. I think being the best in AI is a little bit too broad and too nebulous a concept to really be a vision; however, to be for example the builders of the most reliable and most trusted AI, that I think is a very interesting, potentially very interesting, place for Europe to play in. I also think so it's a little bit speculative, but we're going to see a large amount of fragmentation of models and rather than it being, this is the best large language model, that's going to be much more, this is the best model for this task, in this circumstance. I think that creates a huge amount of opportunity for all countries, but especially for Europe, because we do have a slightly unique consumer -centric focus on regulation.
Leo von Gerlach	Catherine, those have been just totally terrific insights. Thank you so much. Thank you so much for being with us. It's greatly appreciated, and it's greatly appreciated that you all joined, and I hope to see many of you again for the next edition of *The Influencers*, which is coming up soon. But for now, take care. Goodbye.