MANAGING YOUR PRACTICE: A DIMENSIONAL PODCAST SERIES

Five Actions Advisors Can Take Today to Position Their Firms for a Successful Merger, Acquisition, or Sale

Catherine Williams: Hi, everyone, and thanks for joining us. Today, we're going to talk about developing and deploying an M&A strategy for your business. Whether you're looking at acquiring or selling, understanding the industry landscape and how it's evolving rapidly is key. Joining me for our discussion is someone who really focuses in on the M&A space and has great perspective across the industry in general: Scott Slater of Fidelity. Hi, Scott. It's great to have you with us today.

Scott Slater: Well, great to be here, Catherine.

Catherine Williams: I want to give the audience just a little bit of background on you and your role with Fidelity to sort of level set our conversation today. For those of you that are not familiar with Scott and his work, he is Vice President of Practice Management and Consulting at Fidelity, works really closely with advisors around the United States helping them identify and address strategic challenges critical to growth, driving value, all the things we're going to talk about today, and certainly how mergers and acquisitions could fit into that strategy. Scott's a frequent speaker on practice management issues at industry conferences. And, he leads Fidelity's M&A Leaders Forum, as well as hosts a Fidelity podcast series titled, "Future Ready Through M&A." So, with that, great to have Scott on board. I'm going to add that he's particularly close to our hearts, and that he also earned his MBA from the University of Chicago's Booth School of Management. So, we really appreciate that nice connection there. So, Scott, let's get under way. I'd love to start with sort of the why. Why think about M&A for your business if you're an advisor listening to this today?

Scott Slater: Well, Katherine, again, it's great to be here, and I think that's a great question to start on. What I find is a lot of times when I when I talk to firms about M&A, they come to me because they received a phone call from someone who is interested in buying their practice or they have an opportunity to buy a book of business or a firm. And they were more interested in the how. How do I get it done? What's the process? Who do I need to talk to? And what are the mechanics? And I very quickly, for years, my bigger question is, well, what are you trying to create? What's the outcome that you're looking for as an enterprise, and why are you doing it personally? And what do you want for your employees and your colleagues as well as particularly for your clients? Because ultimately this is really a strategic business decision, and I would say is a means to an end. And this is, frankly, why Fidelity invested in this several years ago and asked me to help lead this initiative, is that it is such a strategic issue for our industry when we're at a highly fragmented environment, particularly in the RIA space, and we're seeing a lot of activity going. But getting more specific to your question, I would say that too often advisors and firms tend to, as I said, approach this issue reactively and opportunistically, which frankly, that's not any different than any other industry. And I think it's helpful to step back and understand why you're doing it. So, let's look at it from two perspectives. First, from a buyer's perspective, why are buyers so interested in this now? It's not just the capitals there.

Scott Slater: That's the means to making this happen. They're really looking for scale on the one hand. And in an industry that's a personal services industry. And what do we mean by scale? Well, ultimately, it's going to be about functional specialization, being able to deliver how people specialize in certain areas of, say, estate planning or certain types of investment management, or certain types of planning. I would say, secondly, from service capabilities, frankly, they may just find that certain clients need certain things. We have talked for years at Fidelity about the advice value stack, which is modeled after Maslow's hierarchy, meaning that the investment management and managing the money is at the bottom. And then you go up to achieving goals, which is really financial planning at the next level. But then you start, as you move up the hierarchy of needs, you really start to get into more behavioral finance type issues, more specialized issues. So a lot of times M&A allows the firm to be able to achieve that by enhancing service capabilities. Another major reason why buyers are doing this is, frankly, to acquire talent They're looking for good advisors and good leadership. And that is a competitive dynamic right now. And M&A is often a means to make that happen. And then finally, I would say just frankly, brand and market share are becoming increasingly important. It doesn't mean you have to be a national player, but you need to have more of a presence and a collective ability to deliver that.

Scott Slater: From a seller's perspective, there are several key reasons, some of which are probably kind of obvious to many of our listeners. One would be it's just in a time of what seems to be peak valuation. It's a great opportunity for a seller to de-risk what's probably one of their most valuable assets, which is their business. Take some chips off the table. Some or all of it, create a liquidity event. And there is a lot of buyer demand right now, and that's why the sellers are thinking about it. But there are also reasons that many sellers, and I think we've just seen this happen regardless of the pandemic we've experienced and everything else this year, is that sellers also realize that they want to get back to the part that they do best. They don't really want to be running the business or handling the operations, or they also know that they need a stronger operating and technology platform. It's getting more complicated with all the fintech to bring that together. So they're wrestling with those challenges and the integration and they feel like they're getting away from what they started doing and would like to get back to that and get to a better platform. And then I'd say the last reason for sellers, it's just succession. They need a plan to where's the firm going to go. And frankly, this is often the best option. And maybe not doing it internally is the reason. So there are a lot of reasons that are driving it to give you a sense of that.

Catherine Williams: And Scott, on that succession piece, if you could sort of wave a magic wand and every firm that that you engage with that needs to solve for succession, talk a little bit about an ideal timeline. And I realize that's a kind of a tricky question. But this idea of when should you start thinking about your succession plan? Do you have a sense of sort of an ideal runway, so to speak, whether you're looking to do something internally or externally? We get that question a lot. And unfortunately, we're often asked when someone really only has a year or two in their mind left in the business, which is essentially a little bit of a fire sale. So how do you answer that question in terms of all things being equal? When should someone really be thinking about that succession plan?

Scott Slater: You know, you raise a good point, Catherine. Human nature is pretty consistent, I would say, for many of our listeners that are deeply involved in planning. How many times I'd ask you have you had clients come in, say they want to retire within the next two years? And in part of the process, you can do something for them, but you say, you know, if only you'd come in three years ago. There’re so many more things we could do from a tax and a planning standpoint that we just don't have the time for now. We would have made different decisions. Well, I would say take that same approach as you consider your own business. What I have found for the 14 plus years that I've worked with RIAs, let's just say there are three partners together. And they may have worked together at a wirehouse and then started their business. And they've been 15 years out there. And now they're at the point where they've got three different ideas of what they want to do, but they've never talked about it. And I'm the one that comes in and asks the question, well, where are you going to be in three to five years? And one person wants out altogether. The other person is perfectly happy at the pace they're going, but doesn't want to accelerate it.

Scott Slater: And another has a vision for wanting to really build it. But they've never shared that together. So more specific to when do you start on succession, I would say the sooner the better. I think it's even doing things like listening to this podcast and getting educated, and going to conferences, such as the events that you hosted, and the things that we do at Fidelity. Those are great ways and many others. Those are great ways to at least get engaged with what's going on. And what does this all mean so that you're getting ahead of it. The other thing I would say is a lot of times it's interesting if you look at the benchmarking data that's been out there for years, 90 percent of firms that have traditionally said I'd like to consider internal succession, well, that's the one that takes the most time and still has quite a bit of risk to it. So if you're really serious about that, you've got to decide, do I have someone that could lead this firm? Do they want to lead this firm? Are they willing to take the risk to buy it? Do I have a plan to kind of transition the equity, which that's not, like you said, that doesn't happen in two years.

Catherine Williams: Can you talk for just a little bit more on that, and then I definitely want to pivot to out to sort of if you are thinking you might be more on the acquisition side, what that can look like. But this idea of even an advisor potentially listening today that is thinking, I really do want to do an internal succession. That could still require, if you will, or create opportunity for an external partner of some kind to help with that, whether it's on the financing side or to help position the organization so that up and coming talent, maybe they need a little bit more time to evolve. Do you see that in place? Sort of almost a hybrid, if you will. It's not this idea that if I'm going to do the internal succession, I must do it alone, so to speak. But it's a completely internal endeavor versus there are some partners out there that could help me again, either on the financing, the planning, or scale side. Is that something that you see out there and can speak a little bit about?

Scott Slater: So you're speaking more about the M&A ecosystem to use the business buzz word of the decade here?

Catherine Williams: Yeah. Exactly. And so even if you're an advisor who's sitting here thinking today, you know, I really do ultimately want an internal succession. You talked a moment ago about acquiring talent, which could sort of feed that pipeline, so to speak, of an internal succession. That could be one path. But just this idea that you still may need an external partner or want an external partner to help bring some of that to fruition.

Scott Slater: Well, first of all, for most of us, we haven't done these transactions. You've been building a business and it's not something you've had experience with. So working with people that see these deals, see the pitfalls of something that's likely for many people listening to this, the most important transaction they've done in their career, really, in terms of their impact for themselves and their business. I think it really behooves them to talk to people and engage people who are experienced with this. I think one statistic I find interesting, I think this is probably still pretty accurate, but the vast majority of sellers, and I'm talking maybe smaller enterprises here, they really only consider a couple of buyers, and they don't really explore it and they aren't really necessarily looking at are we a good fit together or is it just because I know somebody and I've been approached. And this really opens up the door to a better focus on who is a better fit. And I think the term I would use here is around alignment of interests between parties. What is the buyer looking for? What are those most important things? And if you're considering selling, maybe you don't want to get out yet. You want a partner that you want to be around for five or 10 more years. But what kind of partner do you want and how does that work? Or is it just simply I want to be out in the next two to three years, and I want to transition the business as fast as possible, so I don't want to take on a managerial role. I think it's getting aligned around what do you want? And I think a third party can do a lot. A banker, transition consultant can do a lot to really help you plan that more effectively.

Catherine Williams: Well, and certainly we saw at the M&A workshop we did last year in Charlotte, we'll be doing a virtual one in February, upcoming in 2021, but also through our advisor benchmark study and the M&A module in particular, we do see that there's a strong appetite, but also hear from advisors that maybe they even embark on a strategy that puts them in a position of acquiring. But in the end, they realize, wow, I'm actually probably a seller. How might I go about that? How do I, as you said, how do I make sure that it's great for my clients? It's also great for my existing team. But that realization, and you can really only get there by getting yourself out there, talking to others, really understanding the landscape and kind of having sort of honest conversations with yourself about what that what your appetite really is for a M&A strategy.

Scott Slater: Well, you know, what I would say to that, too, is we started out by at the beginning of this conversation, talking about how so often people react to opportunities: A, they don't understand what the process is going to look like here.

Catherine Williams: Right.

Scott Slater: And, B, they just don't really know what they want to do. In fact, just this the summer we created a tool for to help advisors who haven't figured this out that we call "Control Your Destiny." And it's really trying to take a look at three tracks of: Am I a buyer? You must match this. Am I a buyer, or am I a seller, or am I neither? Am I what we would call a sustainer, and within that they're really 8 possible paths. And frankly, those are really the all the strategy options that are available to you. But it's weighing what does it take to be successful as a buyer? And if I'm a buyer, am I a serial acquirer, which means I'm going to need a lot of capital and people dedicated to this and a post deal integration strategy. And this is where I'm spending my time, or am I more of an opportunistic buyer? Where I'm prepared, I know how I'm going to get the deal done, but I'm just going to do a few that are more selective because I'm filling in some gaps, or I'm trying to create some market share, things like that going forward. On a seller's standpoint, a lot of times where I end up these conversations with advisors, they're happy doing what they're doing. So you know what Scott, I'm going to sell three, five years down the road. And what I want to help firms understand, it's like, well, would you be better off selling today not to leave the business, but maybe you need a better platform. Maybe you're going to maximize the valuation that you get out of your firm.

Scott Slater: And what are the tradeoffs if you don't sell for three to five years? The market's not waiting for you. The market is changing all around us. And we've seen that. Look at the consolidation in the independent broker dealer space. It's much more concentrated now after a series of acquisitions. Or do I need a partner? And that's frankly, I'm not leaving at all. But I need a better platform like I talked about earlier. Or do I want to do internal succession? So really, it's sell now, sell later, sell internally, or sell to a partner in some form so I can have a better operating platform. Each of those dynamics asks you what matters to you most. And I guess the way I'd summarize it is, I think it's important for everyone to understand what are your top three biggest priorities? Is it really about getting the most value for your firm financially? And that may be fine. Is it really that I want to find a better technology platform? I need other skill sets. I need more talent. What is it that you're looking for? And really be clear and be willing to give up on the things that maybe I don't run the firm anymore, but I have a clear role for this region. I mean, it's getting clarity around what matters to you most. And I think that's what this tool "Control Your Destiny," which you can find in the Fidelity website on our M&A resources, is that is a great way to get started.

Catherine Williams: What's one area that advisors in doing that assessment, if you will, they kind of get hung up on? Is it the idea of giving up control? Is it where they're spending their time in the business? Any particular areas that as you work with advisors around the country, that tends to be the place where they kind of get a little stuck in that analysis?

Scott Slater: I think the easy answer is for a lot of advisors haven't really thought it all through yet. They want it all. They want to be able to get the liquidity. They still want to be able to make the decisions when they either have a majority or a minority investor in the business who's got a seat at the table, and they haven't really figured out what is it that they want out of. And they don't realize that doing a transaction does imply that there will be change. Now, understanding what those changes are, and that's why I say getting aligned around what does each party want, I think helps you kind of address that challenge. But I think that's the key thing. And I think what's built this industry, independence and autonomy, and I think it's coming to terms with what does that really mean? Which has been a theme of mine for the last couple of years. What does it really mean to give up direct controlling decision making and what decisions do I make? Maybe I'm even part of the new management team and maybe this is going to accelerate what I'm able to do at a better level for my clients off a better platform. But I've got to redefine what my role is and what I want to do. And I think that's very personal for each individual and for each business. But I think it's also not engaging on it is by itself a decision. I think it's important to engage on these topics.

Catherine Williams: Going to ask you to put yourself in the shoes of what we often refer to as a serial acquirer, a strategic acquirer, and they, as you and I both know, they certainly run that national gauntlet, but there is also some regional acquirers as well. For those folks, what are they looking for when they pick up the phone, they get an advisor engaged in a potential conversation. In your opinion, what are they most looking for, at least initially looking for when they talk to those firms?

Scott Slater: Well, you know, I just updated a report that we've had for a number of years, I think is helpful on this, that we call "Maximizing the Value of Your Firm," and it talks through eight value drivers. Most of these acquirers are looking for, first of all, a profitable business. And we did an analysis on kind of valuation and deal structure last year and the firms that are growing organically are much more attractive to buyers than firms that aren't. And likewise, they're looking for firms that have a diversity of a client base in terms of the mix. So it's not concentrated that 40 percent of the revenue is tied to 10 clients. That's much riskier. They are looking for talent too, they're looking for and often it's advisor talent, next generation talent. And even if the principals are planning to leave or they're looking at what's behind that because they're not just buying the way 10 years ago, they might have a book of business. Particularly in the RIA space, they are buying talent that's going to be able to bring these relationships and continue to lead these relationships. So they want to find people who have a vision for where they would like to be and maybe what their what's the problem that the seller is trying to solve for what aren't they able to do? And the clearer the seller can be about that. And talking to the buyer, what are you looking for? What am I solving for? Buyer and seller have a better chance to start to move in that direction. They're not just looking for assets. They're not just looking for revenue by any means. They are looking for individuals and firms that fit and they're trying to build a well-integrated enterprise. That's what I see with the serial acquirers out there.

Catherine Williams: But I think you touched on something that's really important. I'm reminded of a webcast we did recently, and I had an opportunity to talk to Jim Hurd of True Wealth, who sold a large Atlanta RIA to Creative Planning. They were a highly desirable firm, for many acquirers. But ultimately, one thing that was important to Jim and his team is this idea of what can Creative Planning add to the client experience, the services we deliver, what can help differentiate? And part of that is so that you can also have something that you can sort of speak in a tangible way about with clients. Right. When you're explaining to them why you've done this deal, how their lives or if you will, are going to be better, but also internally helping their teams get on board with this idea of selling the organization. As you talked about, there's tons of change that comes with that. And he talked about that being very important.

Scott Slater: Without question, I think one of the things that in a competitive market where it's arguably a seller's market right now, buyers have to set themselves apart. How is my life going to be different and better if I join your organization? And by the way, that's another good reason if you're trying to be a buyer, why you should use a third party to help you, because they see all that. They know where you can fit within the competitive set and they can challenge you when you really aren't setting yourself apart. But, Catherine, I would I'd like to put it on the other side, too, because I hear this from buyers all the time, sellers, because they have been a little bit of the catbird seat right now, aren't generally doing a very good job of articulating what do they bring to the table to a buyer. And for those listening, I really think that's an important element to get clear on. That I think sometimes very, very well capitalized smart sellers don't get a feel for what am I getting with this firm? What are you going to bring to it? Why do you want to be part of this organization? And frankly, if you want to enhance your perceived value and very tangibly, I think this is an important step that you're paying attention to that and that ties back to that theme I said before about alignment of interests. What is it that you bring to the table? How are you going to help the larger enterprise grow more aggressively? Really will set you apart.

Catherine Williams: It's such an excellent point and one worth reinforcing, you talked a few minutes ago about essentially kind of those deal breakers, which is not seven or 10 or 12 things. Right. It's really those top few things that you most care about that you're sort of that hill you're willing to die on, if you will, relative to doing any kind of a transaction. And so it's spot on. And I would agree with you. It's an area that when I ask advisors on both sides, but certainly on that selling side, they sometimes, either they haven't fully thought about it or to the alignment comment there is a multi-partner environment, and they're out of alignment.

Scott Slater: Well, one of the things, Catherine, that everybody in this industry talks about, and they're right, that cultural alignment and fit is really important, but I would challenge people to put that down on paper. So a lot of times, if you've done strategic planning, you've articulated what are our core values, what are the non-negotiable behaviors that are expected in this firm, whether they're spoken or unspoken, get them on paper. The likewise, I would say what are the three to five or six characteristics or behaviors or qualities that are critical to you that you do not want to lose, that you want to retain? And that's the way to start looking for the kind of partner that you will fit with. And that works on both sides. Buyer and seller.

Catherine Williams: Absolutely, in our 2020 advisors study, we saw among our fastest growing firms in the study, which are firms that on average grew about 22 to 23 percent, we see very consistently characteristics around solid mission vision and values in place. They've gotten their house in order, so to speak. They can speak with clarity about not only their value prop, but how the business is run, their org structure. Everyone in the organization has great real clarity. So I often say to advisors, whether you think you'll actually execute on M&A or not, those are all things that are characteristics of faster growing firms in our study that you should shore up, that they will absolutely serve you in your conversations and in some ways may help illuminate those deal breakers. Right. When you're getting your house in order. Things around technology, the client experience, that cultural fit is really key. We know in our study that the top two reasons why deals either do not happen, or even worse, fall apart on the other side, is that lack of cultural alignment and lack of investment philosophy alignment, which of course introduces a lot of risk conversations and different things like that.

Catherine Williams: So really appreciate you reinforcing that because we definitely see that in our study. Well, let's pivot a little bit and look at the environment that we've been operating in over the last, we'll even say, 12 months and heading into a new year. I think you and I both saw a brief period of time in early 2020 when folks were understandably and rightly so, focused on retaining clients, shoring up their people, making sure their businesses were still operating. But absolutely the activity has resumed. And there's lots of interesting things happening around just the M&A landscape in general. So lots of things there to unpack, if you will. Being mindful of as we're sitting here in late 2020, this will likely be a podcast we will share in early 2021. What are some of your as you sort of reflect, and think about these last 12 months, what sticks out for you and then, absolutely, we'd love to get your perspective on kind of going forward what that might look like.

Scott Slater: Well, Catherine as a bit of background. Five years ago, I began leading what we call the Fidelity M&A Leaders Forum, and really two things came out of that. The first was tracking of activity, because we want to create more transparency of where that's happening. And the second was around education between buyer and seller. And that we've talked about a number of those elements already about how to close that gap so that both sides are more confident in how they engage. But on that first one, on tracking, we've been tracking now for five years on a monthly basis, all of the RIA M&A activity that's publicly disclosed, majority investments, for, as I said, five years. We also track that larger a lot of the broker dealer, independent broker dealer activity too. This year, it's amazing. It's kind of a little bit of a tale of two cities. So we had a record year at the end of last year with in the RIA space $150 million in, and I think it was 114 transactions, something like that. I don't have that right in front of me, excuse me $150 billion in assets under management transacted last year. So in the beginning of January, February, that activity continued at that same run rate. And then we hit the pandemic. And March, April and May, remember the numbers I just told, $150 billion. March, April and May saw a combined 10 transactions totaling $4.1 billion. That's the lowest three-month period in the five years we've done it. But then June, that immediately turned around. Some of those deals might have been delayed, start happening. But from June through the end of November, the last six months, we have seen an unprecedented level of activity.

Scott Slater: In fact, November is the largest single month of a transaction activity in the time of doing this, with 115 deals with $45.3 billion in the month of November alone. In the last six months have almost eclipsed all of the record 2019 year, where we see we've seen 112 transactions and $170 billion, $169.7 billion in assets transacted year to date. We still have the rest of December as we record this to complete. So what's that tell you? There's a lot of activity. About two thirds of that approximately is driven by serial acquirers. As a matter of fact, over the last two years, I think the firms that have done, 13 firms have completed four or more deals. That's like 61 percent of the deals in the last two years. And you mentioned Creative Planning. There’s CI Financial, there are a lot of new players that are coming into the space now. So what's that all mean? I think there's going to be continued accelerating activity as we go forward and I think faster as a result of the pandemic, getting people's attention around the value of their firm and not just the valuations, but also what do they need? What do they need from a business and operating standpoint like you've been talking about, and that they really realize for the future I'm better off doing that. So that's why you're seeing, we're also seeing, record numbers of billion dollar plus firms selling. It's really happening much more quickly.

Catherine Williams: Any trends or anything that you're seeing when it comes to valuation in this landscape or some of the deal structure pieces? It's a loaded question we get every time we do a M&A webcast. Many people want to know what valuations are out there. So I'm not necessarily going to ask for that number, so to speak. But as you look at these deals and how they're being constructed, if you will, which can get a little bit to the motivation, right, why are folks doing the deals? But anything sticks out to you that might even be either cautionary or more of, hey, pay attention to this if you're going to get into the space and be aware of it?

Scott Slater: Well, I think this is true of any industry, so I'll preface it by that, that every entrepreneur thinks their business is more valuable than maybe it is on the open market. We did a survey of strategic acquirers a year ago where we looked at all the deals of the over the prior two years that were represented, about half the deals in our transaction report. And I would say roughly two thirds of those multiples were between four and eight times. Okay, again, we're talking a wide range of sizes and all that, but four to eight times. But where do those buyers say that sellers are looking for? Seven to nine times. So there's a gap there. And I think an unrealistic gap. And what happens is it's easy to read about a particular multiple that's in the mid to high teens for one transaction. That is a strategic specialty transaction, a specialized transaction. And they want that multiple and yet they are a $200 million firm. And I think it's just trying to get a realistic understanding. The other thing, buyers will tell you this all the time too, a lot of unsophisticated first-time sellers, pay attention to multiples and valuation. And I get why, because that's what their firm's worth, but they don't pay attention to deal structure, but they're both related. So in other words, how much are you getting up front? In what form? What's required for the earn out period? How long is that earn out period? So deal structure, which is where buyers manage their risk, is just as important as what the valuation is. And it's important to look at both sides as an integrated package of what that looks like. And one last thing I'd point out, you mentioned trends that I think is an interesting one.

Scott Slater: There's been a growing level of, with all the capital flowing into the independent wealth management space, to an awful lot of minority investment transactions. So that allows some well-run firms that may not be ready to sell out the firm. They still want to lead it, but they know they need capital to execute on maybe their own inorganic strategy, but have a partner to help them do that and be a better run firm. There's a lot more of that, both from a financial standpoint and private equity, as well as a strategic and operating standpoint. And that's a trend that we've been seeing accelerate on a very significant basis over the last number of years. So it all means that, again, coming back to the very beginning of this, it's really important to understand with clarity what do I really want? Because it's like walking into, I use this analogy sometimes, Home Depot on a Saturday with a vague idea that I like all the stuff in here and then start buying tools and things that are on the end aisle display because I might use that cordless drill, but I don't have a plan for what I want to build. So don't just start talking transactions, start thinking about what do I want, and then I can think about the different business models and how I might achieve that. And frankly, there are some brilliant people out there across this industry who are building some very creative and very different models and solutions. So I think everyone can find right now what they're looking for.

Catherine Williams: Well, you remind me I had the opportunity to participate in an industry leading M&A conference and many of the strategic acquirers that we're referencing here today were a part of that. And I think a couple of things that really that stood out to me in their comments. Number one, they can pretty much spot if someone has sort of scrubbed the business or adjusted it for a short period of time to sort of drive up that operating profit, for example, or something like that, that they to your comment earlier, they really do want to see sustained ongoing organic growth. They definitely want to see the business has been operating in a certain manner, if you will, and they can pretty much sniff that out pretty quickly. And then the question of, okay, so if there is sort of this range of valuations that we hear about, as you said often, that's the highest ones that hit the news. Some of those hit essentially premium level. And what does it take if I really do believe that my firm is worth at the highest premium? What is that? And they were very candid. Like obviously from a buyer standpoint, they're going to have a certain perspective around that, but that it is hard to really think about your business being so much more valuable than many others out there. But, ah, and maybe this is a question for you in terms of if you really want to get a premium for your business, are there a couple of things to really look at that could at least help drive the conversation? Whether it'll actually happen or not might be a different conversation. But how do you think about that? Because certainly this idea of maximizing the value of this business that you have built from scratch is really important for advisors. So when you think about that premium piece, anything in particular come to mind?

Scott Slater: Well, I mentioned earlier we've had a paper that I think is a very valuable one to frame it called "Maximizing the Value of your Firm," and it really talks about this. But what would you really ask? What are buyers most interested in? And it is an artful mix of a number of things. First of all, it does depend on what kind of market are you in and do they want that market? And are you dealing with a strategic or an operating buyer? An operating buyer may very well want to be in Memphis because they're not there, as an example. They might be in Chicago or the mid-Atlantic and they're trying to get to that market for some reason. So that might be one thing. Number two is they are looking for the mix of your client base. If your clients, let's just say the rule of thumb I tend to use is if more than 30 percent of your clients are over age 70, essentially you have, to be a little extreme, but a wasting asset, I mean, because people are drawing down on those assets. Are you bringing in younger clients? And third, are you growing organically or are you at least showing a desire to grow organically but are struggling with it? And this is a firm that may be able to solve it for it.

Scott Slater: Third and fourth is probably really looking at the talent you have. Do you have advisors that are kind of mid-career motivated, want to become, have the energy and drive to build it to the next level, but they're already pretty established, knowledgeable? Do you have talent that could be on the professional services side of the organization, the leadership side excuse me, the C-level? They're looking for that kind of talent, too. And then maybe you have a specialization. I would say that's further down the list, but maybe you have a particular specialization that a particular firm needs. But that's more of a niche opportunity. But I really think it's, are you profitable now? Have you been consistently? Are you able to grow organically? And is it dependent on more than just the principal of the firm or others driving that growth? You have a business development process. What's the mix of your client base look like? Is there something unique about your offer? Do you have talent?

Catherine Williams: And that client piece, I'm so glad you mentioned that, I mean, we know from our study that over 50 percent when it comes to that, the demographics of the clients advisors are working with that. They are in that 60 plus range. They are aging clients and advisors in our study this year, which we had nearly a thousand advisors globally, they reported about 33 percent of their clients are decumulating. And likewise, when we look at these faster growing firms and including some of the M&A activity, they're capturing the accumulators, they're offsetting that. They're going after those younger clients. They're figuring out a business model that makes those profitable so that one day when they are that ideal target client, sort of the traditional client, and may be shifting toward decumulating, it's still a profitable business for them. So I appreciate you mentioning that. That's a real headwind for a lot of the advisors we work with.

Scott Slater: You know, one other thing I'd add, and maybe you've talked about this on some of your other episodes, but how you do your marketing is increasingly something that they're starting to really investigate and look to. In other words, in you know, I'm in the baby boomer crowd. We're very much into the relationship and the network and all that stuff. And that's worked very effectively. But that model is not what's going to get the next generation. So how digital are you in terms of your ability to attract and retain clients and build and to get new clients, build connections with centers of influence? Because the investors of tomorrow, the ones who are now valuable today, are doing it in a very different way. And they look at advice, they value it in a different way. And I think it's important to figure that one out.

Catherine Williams: Absolutely, and we have done a couple of podcasts already that we really get into that growth piece and then we'll be doing some more in the new year for sure as well. So, yeah, great point there. Well, let's pivot a little bit and let's do a little forward looking, if you will. When you think about the next 12 to 18 months, what does that environment look like? It's still a seller's environment. Are there new entrants into the space that maybe we're not seeing just yet? What comes to mind when I ask you that question?

Scott Slater: Well, you know, I think our human nature, again, is that the way the pattern is will always be the same. So I'm going to enter that with a little bit of humility and trepidation. But I would say all the fundamental forces suggest that we're going to see a continued acceleration in that activity. And more and more sellers or potential sellers are realizing both from their valuation and for what they need to run the business in terms of better platform and the available capital that's there. And that's all going to drive in an increasing level of activity. I frankly think the pandemic forced people. A trigger event like that forces people to consider their options more carefully, and I think more firms are engaged in that.

Catherine Williams: Absolutely. So, Scott, if you're an advisor listening today and you're ready to go or at least you want to start developing a plan around this, talk about some key next steps, whether you're a buyer or seller in the space. Maybe that's it. Maybe there's two answers there.

Scott Slater: Sure. Well, as I said at the outset, I think the vast majority of us tend to operate either reactively to an opportunity that presents itself or there's just inertia where we don't do it at all until that trigger event happens. So here are five things your listeners could consider. First, I encourage people just like you're listening to this podcast, become a student of M&A to put yourself in a better position. I mentioned Control Your Destiny, which you can find it out on the Fidelity institutional site to define what is your clearly preferred option and then determine whether you have the necessary resources to execute on that option. Second, Catherine mentioned the transaction reports. We do have a monthly transaction report available at the Fidelity site. Look at that to see who is selling, who is buying, what are the trends, and how do you see it? Third, listen to podcasts just like this one, or the one I hosted for Fidelity called "Future Ready through M&A" that you can find on iTunes or the Fidelity site, and listen to how different experienced acquirers and ecosystem players approach the different challenges. Fourth, look at your own business and assess how you're doing today. Regardless of what your M&A plan is, you'll end up in a better place if you pay attention to the things that Catherine brought up that drive high valuations. Growth, strong talent which is being developed, client engagement and retention, investing in your technology and your service platform, and moving your service model up that value stack we talked about towards those stickier behavioral finance type of concerns. So running your business. And then finally, I think this is a good way to force you to do this a little more, get a professional valuation by an enterprise that understands independent wealth management. That's a great place to start to assess where you are now and what your options really are. I think if you do some of those things, you'll be a long way ahead of the vast majority of the other interested parties out there and put you in a better position for what you want.

Catherine Williams: I couldn't agree more, and that is the perfect sort of punch list, if you will, to end our time today, great actions there that advisors can take in their business to move forward. Scott, thank you so much for joining us today. I look forward to connecting with you later in 2021, and we'll see how the landscape continues to evolve and some of the activity that we see going on. And absolutely for those listening today, I would check out the resources that Scott has mentioned. Fidelity is an industry thought leader around the space. So great tools and resources to access there. You can certainly find Scott on LinkedIn as well. I want to thank everyone for listening to our podcast today, and we'll catch you on the next one.

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