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**Future of the Firm podcast transcript**

***The financial advisory market – trends and opportunities***

**Host**

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**Guests**

- **David Blowers**, Co-President of the financial advisory practice, Kroll
- **Fiona Czerniawska**, CEO, Source

**Emma Carroll..... 00:00:01**

Welcome to the Future of the Firm podcast. I'm Emma Carroll, head of content here at Source, and in this episode we're going to talk about the financial advisory market, including trends and opportunities. And I'm really thrilled to introduce our speakers who are David Blowers, co-president of the financial advisory practice at Kroll and a member of the executive leadership team there. And also Fiona Cheniawska, who's CEO here at Source and a podcast regular. David, a big welcome to the podcast. Could you introduce yourself, please?

**David Blowers..... 00:00:34**

Yes. Thanks. Great to be here, Emma, and great to be with you, Fiona. My name is David Blowers and I am the co president of the financial advisory team here at Kroll. That is 2000 global employees working on all things valuation and corporate finance.

**Emma Carroll..... 00:00:53**

Okay, great. And do you want to tell us a little bit more about Kroll, the wider organization? David?

**David Blowers..... 00:00:59**

Yeah. Kroll is a global consulting firm with 6,500 employees around the world. About just over half the business is focused on risk advisory solutions, from cyber to governance to restructuring and more. And the financial advisory practice is we're the largest independent valuation provider in the world and also offer various corporate finance solutions for the transaction community.

**Emma Carroll..... 00:01:29**

Fantastic. We know exactly where we're coming from now. So I think we can safely say that deal volumes and values for the first half of 2024 were a bit disappointing. Can you give us your view of the year so far and maybe talk a little bit about the drivers behind that performance?

**David Blowers..... 00:01:46**

Yes, of course, it was and almost still is a bit disappointing with some green shoots potentially appearing. But I think about deal activity as driven by two primary factors. It's always market fundamentals and investor sentiment. And the fundamental piece, obviously has been challenging really for the last 18 months. If you think about valuation levels and frankly, expectations, interest rates and global volatility, those things have all impacted deal making. It's just been harder to get people to shake hands. Right.

**David Blowers..... 00:02:24**

When those things are not in the right balance, everything slows down and deals take longer. And you all know that time is a killer in the deal community. But on the other half, investor sentiment, which is softer and frankly, harder to quantify, I think this half has probably played an even bigger impact in the past year for what I. What I'll call a reactionary reason. Deal activity was so, so good in 2021 and 2022. You know, we were all patting ourselves on the back at how good we are at business and talking about winning market share, which was probably a bit of a facade, but the reality is that was pent up demand, post pandemic. And now the relative correction has felt like such a big change that people just, the sentiment's like oh man, gosh, things are so bad we can't get a deal done. The reality is we pro just come back to where we should have been on balance over the course of three, four, five years.

**David Blowers..... 00:03:29**

We'll get back on that normal track here in 20, 25 and beyond.

**Emma Carroll..... 00:03:33**

Okay, thank you David. And let's home in a little bit. I wonder if we could talk about corporate deals first. And I wondered, is there anything you're seeing at the moment that's different in terms of the deals that corporates are doing?

**David Blowers..... 00:03:46**

You know, I'm not sure I've seen things that are too different. Typically corporates are going to be potentially more involved in a, in a higher interest rate environment where PE is on the sidelines and they're like today's our day. You know, we don't maybe don't need to raise as much debt, we've got cash on our balance sheet, et cetera. But it was, it was a slow deal making trailing year for kind of everybody. And I think the reality is this is probably an easy response but the reality is it's all been about the quality of the asset in a, in a tough market where companies are likely to underperform, you know, misforecast and potentially cause a retrade like deals just don't get done. So corporates, if they're laser focused in on a really good asset, doesn't matter the size could be just a bolt on or something big. The good ones got done and they were competitive even in this, this hard time.

**David Blowers..... 00:04:46**

And I think, I think that's persisted and it will even persist for the remainder of 2024 and then things will start to move out and things that are a little bit rougher around the edges but you can get better financing, a little bit cheaper rates or take a bigger swing at a more realistic valuation. That's when markets are more normalized. So I'm not sure if that directly answered your question, but I think corporates were ready to jump in and play but they' there wasn't enough out there at the price that they wanted to pay.

**Emma Carroll..... 00:05:20**

Okay, thank you. And you name checked private equity there as well and I thought I'd focus on that one now. Anything other than quality of the asset that they've been looking for, any other factors you would put out there that they are homing in on?

**David Blowers..... 00:05:33**

It's always price and sort of value and frankly you've seen a lot of interesting things happening in private equity. Their job is to do deals and come into deals and come out of deals and make money along the way. And I think the big trends that you've seen that's actually impacted our business a lot is different ways to quote, unquote, exit or create ongoing investment horizons. The proliferation of the continuation fund as a vehicle to sell and create new investors into a business has been just big, robust and you know, as an advisor and we provide support and opinions on that type of valuation, goodbye us. That still creates activity, but it's different. It's not a full exit. It might not be, as you know, it might not be as much work and different.

**David Blowers..... 00:06:36**

All the advisors that come in around a full, full transaction exit. But it's a, it's a, it's something that the private equity community is taking advantage of in order to elongate their opportunity to make money on these assets. But now in 2024, you've seen a interest rate decline in central banks around the world, which has created a sort of a tried and true opportunity for these investors to recapitalize their structures and pay dividends, which I think that's a normal course thing you'll see during a hold to put new debt just in the same way that you might refinance your home, they refinance their companies instead of selling them and then wait for the right market conditions to exit. So there was a lot of optionality that the private equity community was looking for, but the prices never felt right. So I think now in the year ahead and beyond, hopefully you'll start to see more traditional exits at valuations that everybody's happy with, which will lead to new, good, frothy market environment for everyone to take advantage of.

**Emma Carroll..... 00:07:52**

Okay, thank you. And a lot of our listeners will be working within the professional services sector and there's been quite a few headlines about different deals in that area. I wondered if you could pull out any trends in professional services and also maybe share some of the pitfalls that you think there are around investing in professional services.

**David Blowers..... 00:08:11**

Professional services? Yeah. Oh, gosh, good one. And something that Fiona and I have talked about quite a bit. So I, I mean, I. First off, yes, there's, there's lots of PE money actually going after accounting firms, consulting firms. It's low capex recurring revenue.

**David Blowers..... 00:08:30**

It's all about relationships, good margins. It's got the fundamentals that, that private equity are looking for. But the pitfall is, is simple. It's, it's, it's People. Right. You're ultimately investing in people and talent and people and talent are fickle. You really have to strike this right balance of investing in the individuals and in growth while also trying to drive margin and performance, which doesn't take a finance major to know that those can, can be at odds. So getting that balance right relative to other market competitors in a world where you're incentivized to drive growth, where your interest costs are maybe more expensive than you'd like them to be, that has been the challenge for all investors in their space and frankly the business managers that are, that are running those professional services businesses as well.

**Emma Carroll..... 00:09:25**

Fiona, love to bring you in at this point. People, businesses, they're difficult to invest in.

**Fiona Czerniawska..... 00:09:29**

Totally difficult to invest in because as David said, that people, people walk and we, and I think everybody knows that. I think what's really interesting here is that historically private equity firms haven't always wanted to get involved in consulting firms, especially those that don't have much in the way of annuity businesses, because it's not only the people that walk, but the money walks or rather doesn't arrive in the first place. It's very difficult to predict. So it's interesting now to see all of this happen. I think what's also interesting is there's an assumption that you've mentioned there, David, that I think lots of firm, lots of PE firms are making, which is this will continue to be, it is at the moment a low capital environment, but it may not always be as low capital as it is now. So if we look at accounting firms, for example, it's likely they're going to have to invest a lot in technology. So maybe the PE firms aren't just going to discover that people move, but also perhaps there's a bit more capital requirement than might have been the case a few years ago.

**David Blowers..... 00:10:23**

Can be interesting to watch and maybe a good segue. I'm assuming we might want to talk about technology in this session as well.

**Fiona Czerniawska..... 00:10:28**

I think it's a great idea to talk about technology. You can't get away from technology anywhere, but especially here.

**David Blowers..... 00:10:33**

Go.

**Emma Carroll..... 00:10:34**

And David, tell us about it. How do you think technology and investment in technology is going to affect deal values and deal volumes over the next year or so?

**David Blowers..... 00:10:43**

Yeah. So that's a little bit more of the macro technology and deal question and it's always at the forefront and there's always a technology du jour that is driving specific focus and investment. I think you're seeing it in artificial intelligence, large language models. And I'm watching it right in front of our eyes as our competitors, our business, other adjacent service providers are all trying to find the right AI technology to fix or support or bolster enhance their business. And I think there's going to be frankly, maybe even a little bit of frothy bubbly type deal activity around that space as people make bets that they hope will either drive top line or enhance the bottom line by creating efficiencies in their organization. And people are frankly chasing both and hoping for both. The winners are going to be the ones that actually can embed that deeply into their ways of working.

**David Blowers..... 00:11:50**

I'm watching it, I'm seeing it happen. People bet on AI, spend time, spend money, spend resources, hire talent that are all really, really good. But if you're not changing the way that you deliver and making it a real part of your workflow, it's a scary bet to make. And I think you'll actually see a pretty big proliferation of the groups that get it right and the ones that end up running away because they don't know what they're doing with the technology.

**Emma Carroll..... 00:12:21**

Fiona, any thoughts on that?

**Fiona Czerniawska..... 00:12:22**

So I think everything you said I agree with. I think it's also directly applicable to professional services industry. In other words, they're going to be part of that. Buying into the bubble, the frothiness, seeing the opportunity there. We all of our research at the moment says that clients are a little bit cautious about how they're going to apply AI to themselves, but they're absolutely convinced that professional service firms will can completely, radically, totally, utterly transform themselves in the next five minutes using AI. So there's real pressure on firms to be investing in this space because they don't, they won't have the capability, they won't have the technology internally. So it's going to be very interesting to see how that plays out.

**Fiona Czerniawska..... 00:12:57**

And I guess logic would say you probably need to be a bit measured about jumping to some of those big multiples that we might see in the very short term.

**David Blowers..... 00:13:06**

Yeah, and one thing I'll add on to Fiona is, you know, AI is what everyone's talking about, but it's also kind of a proxy for overall efficiency gain and automation. And there's more technology that's not just AI that is going to impact professional services and business around the world. And I actually think focusing on the right fit for you and your needs is that's going to be the difference maker. Right. Maybe it's not artificial intelligence, but just building the right technology platform to deliver a service in a more managed services way, as opposed to the time and energy and cost it took to deliver it with people historically. And we're looking at that every day. Right.

**David Blowers..... 00:13:54**

Where do we want to put people first and make sure that we're advisor led, expert led, and not necessarily technology led, but supported by tech. And on the flip side, where we want to be technology first led by automation, good platform, recurring business, et cetera, that's underpinned by really, really smart people. So that balance of technology sort of in, I don't know what the word is here, like that, that balance of technology investment into your organization is going to be a real differentiator for professional services managers around the world.

**Fiona Czerniawska..... 00:14:34**

And I think it's going to be absolutely crucial that people know what choices they're making around it. Because we for a long time talked about kind of the bifurcation of the professional services industry based on kind of commoditized work in one direction and much more cerebral, innovative work in the other. And it feels like what you've just said, that model applies to this process of bifurcation. So we're going to have half of the industry or maybe a larger part of it going in the direction of being technology led, because that's an enormous market of activity and annuity income. And then there's another part, which I think you're right, is about people, is about people led. And maybe these two things, it's going to be quite interesting to see how they coexist in a single firm because it's very different ways of very different products and services and how that all fits together. Probably clients want a mix of both, though.

**Fiona Czerniawska..... 00:15:19**

So we've created a world potentially that's a bit like Frankenstein's monster, that we need to stitch them together, but possibly nobody knows quite how. Except you didn't, I hope.

**Emma Carroll..... 00:15:30**

Can we do a bit of imagining there? How do we think we could stitch those two things together? How are organizations going to be set up? Is it different divisions, multidisciplinary working? What do we think is going on there?

**David Blowers..... 00:15:43**

No, I mean, it's a great point, Emma, and it's certainly the million dollar question. The people don't necessarily want to be, you know, quote unquote, replaced by technology, but boy, do they want it to help them. If it can help them sell more, if it can help them do more with less, so they can get more in their pockets, it's a good thing. But that has been the tug of war that we are, and I'm sure other competitors and other businesses are experiencing every day. So I personally believe if you silo those things too much, it's never going to work. You need to create a concentric circle where people want and understand and know how to leverage the technology. And frankly, the technology is, has to be developed by people who know what the heck they're talking about.

**David Blowers..... 00:16:42**

So in my view of the world, whether you're leading with one or the other, they have to be together or you're just like we were talking about with AI, or you're going to make a bet on something that you don't understand and it's not going to really change the way that you offer your service to the marketplace.

**Emma Carroll..... 00:17:01**

And Fiona, on the AI part as well, it's something that clients are expecting, aren't they? I mean our latest data, I think 93% of clients expected firms to, well, kind of transform themselves around AI within the next two years.

**Fiona Czerniawska..... 00:17:17**

Really short time scale, very short time scales. And then 30% say it's essential that if firms are pitching for work, they come with some AI equipped capabilities and service delivery elements. So clients are really creating a very high bar, very, very fast indeed. And it's going to be quite a challenge for everybody to work out how to scale that as in scale go over it rather than get it bigger.

**Emma Carroll..... 00:17:39**

And David, do you mind if I just briefly leap back to the deals market to finish off one thing before we carry on? We talk mainly looking back and a bit about now, but is there anything else you'd like to pull out about where we're heading? What are the last three months of the year going to look like? What's 2025 going to look like?

**David Blowers..... 00:17:55**

Yeah, so I think the last three months of this year will be good. I'm not going to call it great. That would probably be a touch to amb, but I consider myself a realist. And the reality is service providers, law firms, accounting firms and frankly PE and people that need to do deals to do their jobs are going to get stuff done in the fourth quarter. No one wants the full year to be too, too slow. So I think every year you see a faster fourth quarter and I think we will see that this year and we're feeling it as we speak today. That said, it's probably not going to be exactly where we want it to be, but everyone's ready for 2025 that is back on track.

**David Blowers..... 00:18:43**

You know, we saw rate cuts in the US and in sort of global reduction of the cost of capital around the world is a good thing to set up for a more ambitious deal community in 2025. We're betting on it, we're setting up for it. And I think that what I'm hearing from clients and pot clients is all sort of in that same range.

**Fiona Czerniawska..... 00:19:11**

And similarly, all of our data suggests a kind of uptick in the M and A space. We had the kind of very, very mild, pallid version of it at the kind of back end of last year, which didn't encourage us to change any of our forecasts. But it looks more substantial, more colorful this year.

**Emma Carroll..... 00:19:27**

Okay, thank you both. And David, I'm wondering, we've talked a bit about the current lacklustre market. We've talked about your optimism moving forward. Have you had to do anything specific at Kroll to kind of adapt structures, people, ways of working services to deal with that environment? Anything you'd pull out in the way you've had to change to deal with.

**David Blowers..... 00:19:48**

The trailing slower environment? Is that what you're saying, Emma?

**Emma Carroll..... 00:19:52**

Yes. Either to deal with the lacklustre market or adapting with your optimism in mind.

**David Blowers..... 00:20:00**

Got it. Great question. And never waste a good crisis is a tried and true trope, if you will. So I do think that people have taken the opportunity to pull back on hiring, make sure you right size for the amount of work and utilization that you can realistically drive through your business with the levels of demands out there. And then a crisis also offers an opportunity to invest and change and evolve. And tying this to the technology conversation we're having it made for a good year to change and I think if you're not doing that, you're going to fall behind because our competitors definitely are. So if maybe you have a service that is moving more towards a managed service type

commoditized, do it now, take that investment dollars and put it in while things are a little bit slower and be ready to capture the upside when it comes back.

**David Blowers..... 00:21:07**

On the flip side, if it's a people business that is getting more and more competitive, now is the time to look for talent and people are looking for new platforms and places that they might be able to hang their shingle and say the next five years are when you should bet on me. So we have without sharing too much secret sauce, probably done three things slowed down our hiring but now we're looking for more revenue generation talent and made very discreet, focused investments in whether it's just technology or just growth opportunities and maybe bolt on acquisition type opportunities to make our businesses more prepared to succeed in 2025 and beyond than maybe what it did in 2023.

**Emma Carroll..... 00:21:54**

And looking backwards okay, thank you, David. And you often talk about how businesses like yours have to be really client led and really forward looking and client focused. Could you pull out something really practical that you've done recently to make sure that's at the center of your business model?

**David Blowers..... 00:22:11**

I mean, it's the most important thing, right? We don't have anything if we don't have our clients. And in so few words, it's probably capturing client feedback externally and then breaking down walls internally. That sounds like. All right, wow, what a. What a original thought. But the reality is that's really hard.

**David Blowers..... 00:22:33**

Everybody knows that to be a good service provider, you have to listen to what your client wants. But if your team is not able to move past what they can deliver personally versus what your platform can offer to that client holistically, then we're in trouble. So you asked for something sort of tactical that we've done, and this is continuous and will always be part of the equation. We're actively pushing interaction across our global experts, educating and training them, developing key case studies, sharing client feedback with others so they understand what people are looking for. And frankly, incentivizing. Selling together is hard to do. But if you can do this and create that type of

environment, that will actually differentiate you from other professional services firms that have, you know, big silos, geographic pillars, you name it, These are things that every firm around the world has dealt with. And if you can, if you can crack that nut and do it well, which we're trying, then I think we're better off, the client is better off, and everybody's happy.

**Emma Carroll..... 00:23:42**

Okay. And Fiona, would you share anything there in terms of the big mistakes or the big pitfalls that firms fall into in terms of keeping their clients right at the heart of their business model?

**Fiona Czerniawska..... 00:23:53**

Well, I guess it's the flip side of what David's just described. So we did some research recently that we asked that question, and the point that clients raised first was that consultants don't listen enough. So signs to me, David, as you got it, absolutely spot on there in terms of all that feedback stuff. So not listening enough, not therefore talking about issues that really resonate with clients, as in coming with things that they are trying to sell, rather than listening to what the clients have in the first place. So I think those are all the kinds of things that consultants get wrong. Oh, and clients are really fed up of lots of big PowerPoint decks.

**Emma Carroll..... 00:24:29**

David's laughing now. Planning your future presentations, David?

**David Blowers..... 00:24:34**

Yeah, well, less work, less slides.

**Fiona Czerniawska..... 00:24:36**

Yeah, exactly. Future, very short presentations. That's what we need to go for the private equity firms would love this, wouldn't it? They would, they just want everything on one page. So starting industry could aspire to being a bit more like private equity in that respect.

**David Blowers..... 00:24:49**

Yeah. Do you have a one pager you could share? I don't know how many times I've heard that.

**Emma Carroll..... 00:24:53**

Yeah, brilliant. And as we come towards the end I wonder if we can really look forward and David, where do you see Kroll playing? Look three, three to five years ahead, where do you think you'll be? What do you think will be different?

**David Blowers..... 00:25:07**

Bigger and better. But, but jokes aside, I the way that, the way that we like to present it is the world is only going to get riskier and more complex. So we think the world's going to need more of Kroll and more from Kroll. Right. So that means that we have to have more comprehensive risk and financial services to offer. We probably have to be more tech enabled to support in a more efficient and effective way. We better have the best and more talented experts that can help us get there.

**David Blowers..... 00:25:48**

So any, you know, corporate cfo, ciso, decision maker at an investment fund, et cetera, think thinks about Kroll to help solve their most complex needs. So I'd like to be bigger and I'd like to be better. I know that sounds simple but it's a good goal to have.

**Emma Carroll..... 00:26:10**

So as we approach the end, we always really like to end on a really practical takeaway question that our leaders can listeners can go away and think about and implement in their businesses straight away. So I'm wondering what do you think the one big mistake a financial advisory firm could make in this market at the moment and what's your advice to them? And Fiona, perhaps I can come to you first.

**Fiona Czerniawska..... 00:26:36**

So I normally have some kind of glib mother motherhood and apple pie thing. You just do this and it will all be fine. But actually I've been thinking over the last few days from one or two conversations recently, it's all about the quality of forecasting firms. We all

think the professional service firms, firms have quite short term deadlines, therefore they plan very quickly. But it does make it extremely difficult for them to plan longer term which is when you think about talent and investment, that's quite a hard thing to do. So I think a mistake here would be to assume that the future is going to be like the past and maybe to put a bit more thought into let's just try and keep a finger on the pulse of what the future looks like because they're going to have to make some very big choices in the next few years.

**David Blowers..... 00:27:15**

I agree with that, Fiona, and I think implicit in that statement is you cannot miss the fact that you still need to invest and have the right people. If you alienate your people because you're making the wrong forecasting bet or making the wrong technology bet, they're going to find a new platform. So I find it completely critical to strike that right balance. Put your people and your talent first, listen and allow them to help drive that evolution that needs to happen. And then you're all going to be in a better and happier and hopefully leading market position in the future.

**Emma Carroll..... 00:28:01**

David, Fiona, thank you so much.

**Fiona Czerniawska..... 00:28:05**

Thank you.

**David Blowers..... 00:28:05**

Thank you Emma.