The COVID-19 pandemic has not stopped mergers and acquisitions (M&A) among accounting firms; if anything, they may be accelerating.

Blockbuster deals this summer included:

- Chicago-based BDO USA, one of the country's 10 largest accounting firms, acquired Piercy Bowler Taylor & Kern to expand its footprint in Nevada and Utah;
- Baker Tilly and Squar Milner joined forces to become a Top 10 firm with a combined annual revenue of almost $1 billion; and
- Connecticut-based Blum, Shapiro & Co. expanded regionally by adding The Brighton Co., which is based in Massachusetts and specializes in outsourcing financial services.

Allan D. Koltin, CEO of Koltin Consulting Group and an advisor to all the firms in these deals, says he expects M&A activity to intensify due to pressures and opportunities created by the pandemic-driven economic downturn. "You're going to see more and more mergers, I believe, in the next year — we're already starting to see it — than we've seen probably any time in this century," Koltin says, adding that the market is going to see much larger mergers than have historically happened. Historically, most of the firms merging up were in the $3 million to $15 million in annual revenue range, and were rarely more than $30 million.

"I think now what you're going to see is firms between $30 million up to $300 million," Koltin explains. "Very, very large firms — more Top 100 firms than ever merging up."

If that happens, it will open up more acquisition opportunities for midsize accounting firms.

"There's a trickle-down effect," Koltin continues. "Those (firms) that are midsize and choosing to stay independent are going to find that there's probably less competition for the smaller firms, because the bigger firms have sort of vacated the smaller firms' space."

Another interesting aspect to the current M&A environment is that larger accounting firms, especially those in the Top 100, are also looking at deals *outside* the accounting profession, such as in client accounting services, outsourcing financial services, wealth management, and even cybersecurity, he says.

An evolving industry

Of course, consolidation is not new to the accounting profession. The annual revenue of the 100th largest accounting firm grew from $6.5 million in 2000 to $45 million this year as large firms grew even larger through acquisitions, Koltin observes. "What happened in this 20-year period? Local firms became regional, regional firms became national, and national firms became global."

This represented about two decades of CPA firm mergers and consolidations that some would call a *frenzy*, he adds. "I would just call it a normal evolution of the accounting profession — not that different than what banks, insurance companies, and law firms have historically done."

Mergers and acquisition activity accelerated from 2000 to 2010 in the tax & accounting industry, Koltin explains, as accounting firms sought growth by expanding their geographical territories, acquiring and developing service line specialties, or increasing their dominance in specific industry segments. During the 2010s, an additional pressure caused M&A activity to intensify: Emerging technology began transforming the delivery of tax & accounting services, but many firms didn't make the needed investments in tax technology in order to keep up with their evolving industry, opting instead to be acquired.

Allan D. Koltin, CEO of Koltin Consulting Group

"In the last 10 years, technology has compressed compliance services and made it even more of a commodity than it was before, and firms are looking at the investment required" to automate these bread-and-butter services and add more substantive consultative offerings, Koltin says. "And they're saying, 'I pride myself on being the most trusted business advisor to my clients. To do that I need the technology, I need industry specialization, I need to provide depth and resources that maybe, as a smaller firm, I don't have today.'"

Now of course, the ongoing economic downturn is propelling these same strategic deliberations. "Some firms have come out of this and said, 'I want safety — and there's safety in numbers.'"

When the U.S. economy shut down in March, firms suspended M&A deals to focus on internal operations, Koltin says. These firms shifted their teams to working from home, supported struggling clients, and transformed their businesses that were built on face-to-face relationships but now had to exist as virtual enterprises. Within a couple months, however, "the innovative firms found a way, through technology, to continue advancing M&A," Koltin adds. "Virtual communications became the way of the world."

A new calculation

Historically, many firms have sought to be acquired after concluding that was a better option than remaining independent simply because they lacked the full set of skills — leadership, rainmaking, relationship management, technical delivery — required to take the firm forward successfully. "The M&A that you're going to see in 2020 and 2021, there'll still be some of that," Koltin says, adding that the firms seeking mergers now do not necessarily have a *succession* issue, they have a *strategic* issue.

Accounting firms must transform to survive, and the economic downturn has made that more crucial even while making it more difficult to do. "It's because of the changing demographics, which impact hiring and retention," he says. "It's because of different client expectations, client wants and needs.

"Clients aren't looking anymore for an audit or tax return. They're looking for advice on how to grow their business and solve their business problems."

Today's M&A environment is reminiscent of 2010-2011 — the period following the Great Recession, he adds. "The merger frenzy is back up and running. What (some) firms are saying coming out of this pandemic or recession is, 'I don't want to continue to be on the hook for these kinds of investments.' Whether it's the need to transform the firm, whether it's technology, whether it's training, whether it's remote workforce — they're saying, 'That's beyond us.'"

Indeed, this phenomenon will alter the valuation of firms being acquired, Koltin says. Those that have moved beyond compliance services and can deliver consultative guidance, a sought-after specialty service line, or vertical market expertise will command a premium payoff.

"Today, when firms call me and say they want to explore (being acquired) I look at their practice. If I see it's basically 95% compliance work, I've got to deliver bad news," Koltin says. "Unless they have a unique industry specialization or just happen to be in a market the acquirer desperately wants to be in, the valuation may not be as high as they would have experienced a couple years ago."