

Consultant Says Private Equity Announcement Likely Coming Soon

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Within the next few months, there's a "high, high probability" that private equity will come to own more than 50% of one or two top 30 CPA firms, predicts consultant **Allan Koltin**.

Koltin, who has worked on some of the profession's largest mergers and acquisitions, says private equity will disrupt the M&A market "in a way we've never seen before."

The big question being asked in board rooms is this: "Are we willing to give an outsider a better deal than an insider? And you've got some staunch opponents to that. I won't say the four-letter words they use sometimes, but they'll say 'Blank No, that's not happening!'"

Koltin's comments came Feb. 19 during a virtual roundtable discussion, "Maximizing 2021," which also included consultants **Gale Crosley** and **Angie Grissom** and was hosted by **The Rainmaker Companies**.

The entry of private equity into the accounting profession will change the structure of deals in the future, Koltin says.

For the last four decades, firm partners upon retirement would get two or three times what they earned paid out over 10 years as ordinary income, with no interest. In the last six months or so, however, firms have formed strategic alliances with capital partners to pay cash in M&A deals. The concern, he says, is "Oh my gosh, if we don't have check-writing privileges to put cash on the table, we're going to get eliminated from this deal."

He predicts future arrangements in which 30%, 50% or even 70% of enterprise value is paid out at closing or in the first three years, "and it's not ordinary income anymore, it's capital gains."

Koltin says private equity has been watching and waiting to get into the accounting space for more than a decade. In Europe, a few of the top 20 firms already have private equity ownership. "The idea works, it just wasn't born in America."

Private equity groups believe accounting firms are recession-proof, undervalued and have low liability risk. He says now is the calm before the storm. "I think it's going to be insanity."