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As M&A activity reshapes the tax & accounting profession, private equity takes a hand

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As the wave of megadeals involving some of the largest US accounting firms continues apace, a breakthrough private equity deal is particularly noteworthy

In early August, private equity firm TowerBrook Capital Partners announced it had made a strategic investment in EisnerAmper, a Top 20 accounting firm based in New York.

EisnerAmper said this "**significant capital infusion**" will drive the firm's "long-term growth initiatives, which include accelerating the evolution of service offerings, investing considerably in talent and technology, and strategically expanding via organic growth and targeted mergers and acquisitions."

The deal is transformational and there are likely more to come, said Allan D. Koltin, CEO of Koltin Consulting Group and an advisor to accounting firms involved in many of the profession's largest mergers and acquisitions. "Private equity has been trying to get into the accounting profession for 15 years," Koltin said. "This journey started back in 2006 and, up until a few weeks ago, in the world of the Top 20 CPA firms it's been unsuccessful."

Market changes have created an unprecedented demand for capital among accounting firms — for technology, talent, and strategic acquisitions — that opened the door for this type of deal, Koltin explained.

Merger mania and the growth imperative

"Firms are merging fast and furiously to expand geographically and to expand their products and services," Koltin added. "As a result, there are more larger firms in our profession today than ever before. When you get to a point in your growth somewhere between $100 million and $200 million — it's like [getting] a target on your back. You have to keep growing. This business is unforgiving. If you don't continue to grow you can't continue to recruit and retain great talent. They go somewhere else."

Allan D. Koltin

To achieve steady growth, Koltin said, firms often employ a three-part strategy: pursuing organic growth, acquisitions, and top lateral hires from other firms. "There are many buyers seeking acquisition targets — it's become a feeding frenzy," he said. "There are more of these deals happening, and there are more firms between $20 million and $200 million evaluating upstream merger opportunities than ever before."

In the past year, the industry has seen numerous large deals, including:

- BDO USA, a Top 10 tax & accounting firm, acquired Morrison, Brown, Argiz & Farra, a Top 50 firm in Miami. It was BDO's eighth acquisition in the past year, according to *Accounting Today*, which reported that the firm's revenues reached $1.8 billion in 2020.
- CliftonLarsonAllen, the eighth largest firm in the country, acquired Blum, Shapiro & Co., the largest firm in New England, as well as Southern California-based White Nelson Diehl Evans.

- Chicago-based Baker Tilly, the 12th largest U.S. firm in 2020, acquired Top 40 Squar Milner, one of California's largest firms.
- CBIZ acquired the non-attest assets of Berntson Porter & Co., based in Bellevue, Wash.
- Top 50 firm Whitley Penn, acquired Johnson, Miller & Co.
- Wipfli, a Top 20 firm headquartered in Milwaukee, is merging with St. Louis-based Mueller Prost.
- Top 25 firm Withum, based in Princeton, N.J., acquired San Francisco-based OUM & Co.

More to come?

This appetite for acquisition creates an incentive for more firms to pursue private equity investment, as does the push to automate through technology adoption and to compete for top talent. "The EisnerAmper announcement is the first," Koltin observed. "I think we'll see another Top 20 firm going the way of private equity in the next 60 days, and I wouldn't be surprised to see a third sometime in the first half of 2022."

Private equity investors, he explained, are attracted to accounting firms because they believe they are low risk and recession-proof, deliver positive cash flow, and are poised for growth as the industry transitions to a more advisory-oriented service model. "They believe the accounting profession is going through a major transformation. Some firms are positioned to provide the next wave of products and services and industry specialization that the middle market is demanding. This will increase the price war on acquiring targeted accounting firms."

In this environment, a good acquisition target is an accounting firm that is growing, sustainably profitable, and has a young, talented team. "And it helps if you're in a fast-growing market, like Seattle, Austin, Nashville, Palm Beach, or Washington, D.C. — markets that are recognized as fast growing with a lot of upside potential."

Transformation

As accounting firms further develop the products and services they offer, firms are increasingly acquiring non-CPA firms that specialize in technology, cybersecurity, client accounting services, outsourced services, and wealth management. For example, EisnerAmper recent acquired ZenTek Data, a consulting firm that offers cloud technology and enterprise security services.

Meanwhile, firms are competing to recruit specialists with expertise in specific disciplines and industries to bolster their advisory services, Koltin said. "There's not enough great talent in our profession today to meet the demands of all the firms," he said. "It's a bidding war, and firms also need this capital to buy the talent."