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BDO to create ESOP with $1.3B credit deal

By Daniel Hood August 14, 2023, 4:42 p.m. EDT

The partners of Top 10 Firm BDO USA voted at a meeting in Florida on Friday to approve a deal to access $1.3 billion in credit to finance the creation of an employee stock ownership plan.

Apollo Global Management will provide the credit, but will not get any kind of ownership stake; effectively, it's acting like BDO's bank in providing the money, BDO CEO Wayne Berson told Accounting Today.

"This is not a private equity deal — it is private credit," he explained. "It's realigning our debt and our obligations to optimize our business and invest in the firm. Much of the Apollo funds will fund the creation of the ESOP."

"People are saying this is an infusion of cash to pay off debt," he continued, "but nothing could be further from the truth. It enables us to realign debt and keep control of the firm in our hands, while giving us the financial flexibility to continue to invest in our business."

The $1.3 billion will cover BDO's pension obligations to its current retired partners — which total roughly $400 million, according to Berson — as well as some other legal settlements and the firm's current line of credit.

The bulk of the money, though, will go to creating the ESOP, which will involve the current partner group selling off a large chunk of their ownership stake to give the firm's 10,000-plus employees their own stake.

Every year after that, the firm's employees will get an allocation into their accounts based on their salary.

"Management sets a percentage of payroll compensation, and that's done right across the board for everyone," said Berson. "Each year you get your allocation. If you stay for 20 years, you walk away with millions. It's a windfall for our employees."

Wayne Berson

He recalled a story that a BDO partner told at last week's meeting about his father, a butcher at a company that had an ESOP, who never earned more than $40,000 a year but got a check for $2 million when he retired.

"The people who contribute to our success will have the opportunity to benefit from it," Berson added.

ESOPs also offer a significant tax advantage: The allocation of stock into each employee's account is deductible, a tax deduction that BDO will use to help pay back Apollo.

A sign of things to come

Allan Koltin, CEO of Koltin Consulting Group, who has advised BDO on various strategic, M&A, and capital-related issues over the past decade, commented, "This is truly a ground-breaking event for BDO and the profession. At a time where firms are either increasing capital requirements of the partnership, or selling parts of their firm to private equity or wealth management firms, BDO chose a completely different path."

"The ESOP was a two-for-one," Koltin added. "It helped create the capital but also gave their people a potential 'piece of the rock.'

That ability to reward talent was a key factor for BDO in creating the program — spurred by the firm's own look into why the profession is having so much trouble pulling in young accountants, and what it would take to change that.

"We knew we weren't getting enough people, and our people team started studying the generational differences," Berson said. "The more we studied it, the more it pointed to something like this."

"To be a best-in-class advisory firm, we need to be able to invest and to bring on the best people," continued Berson, who has focused on creating an attractive culture – one that foregrounds flexibility and diversity — since the beginning of his tenure as CEO over a decade ago. "People want to work where they have meaning and purpose — and the ESOP creates a shared sense of purpose and responsibility."

Berson expects to see more firms pursuing ESOPs in the near future, as a strong alternative to taking on PE investment.

"We get all the benefits of private equity, without giving up control of the firm," he said. "I bet you're going to see more of this kind of deal before the end of the year, or at least dialogue around it. It doesn't make sense why someone wouldn't do it."

"Our industry is at an inflection point — you've seen how private equity has influenced the profession in recent years," he continued. "We explored private equity, but knew it wouldn't be the right model for us. It may work for other firms, but not for BDO. But we recognized we needed to transform our business to meet our investment and growth goals, and the needs of our people."

"This is an important, transformative moment for our industry and for BDO. Our profession needed a wakeup call, and I believe this is it," he concluded.

Partner approval

The ESOP plan was approved at a shareholders' meeting in Orlando, Florida, last Friday, with early news reports — often inaccurate — leaking out over the weekend.

"Ninety-nine-plus percent of partners approved it," Berson said. "It has been characterized by the media as an emergency partner meeting, but it was not by any stretch of the imagination. This was our first shareholder meeting since we became a corporation, and we kept it to a short time frame precisely because of what happened -- a leak. We didn't want to put pressure on our partners to keep the information quiet."

While a business needs to be structured as a corporation to create an ESOP, BDO's announcement in early July that it would no longer be a partnership was unrelated.

"That wasn't why we made that change — that was for other tax reasons," Berson said. "These are two separate deals — the first one was more to realign with our tax strategies."

"[Accounting firms] don't have to be partnerships — and the more we looked into it, the more it seemed like it would be better for us," he explained. "We do a lot of choice-of-entity consulting, and we thought, 'Why don't we just look at it for BDO?' And we concluded we'd be better off as a corporation."