

## Baker Tilly US gets PE investment

By Michael Cohn February 5, 2024

Baker Tilly US LLP is receiving an infusion of funding from a pair of private equity firms, Hellman & Friedman and Valeas Capital Partners, making it the biggest accounting firm to date to accept PE funding.

The Chicago-based Top 10 Firm is splitting its attest and nonattest sides, as other auditing firms have done in recent years after receiving private equity funding, such as EisnerAmper, Citrin Cooperman, Cherry Bekaert, Smith + Howard and Schellman & Co., all of which have established alternative practice arrangements. In Baker Tilly's case, Baker Tilly Advisory Group LP will provide the firm's business advisory, tax and other services, with Jeff Ferro continuing in his role as CEO.

Baker Tilly US LLP, as a licensed CPA firm, will provide the firm's attest services, with Jere Shawver, managing partner of risk and assurance, becoming CEO. Baker Tilly US LLP will operate as a separate legal entity pursuant to regulatory and independence requirements. After the restructuring, both firms will remain partnerships, and all partners will hold equity alongside H&F and Valeas in Baker Tilly Advisory Group LP.

Financial terms of the deals were not disclosed, including the amount of the investment. Both PE firms will collectively hold a little over a 55% majority stake in Baker Tilly Advisory, with Hellman & Friedman holding a larger share, but neither firm will have a majority stake.



Baker Tilly

Ferro has been part of Baker Tilly US ever since Baker Tilly Virchow Kraus merged in ParenteBeard in 2014. At that time the combined firm had \$475 million in annual revenue, and it has since grown to about \$1.8 billion in revenue today, he noted.

"Part of our strategic plan was to continue to grow our national footprint," Ferro told *Accounting Today*. "We've done extremely well in the last five to six years. But for the execution of our strategic plan, we really need capital to accomplish what we want to accomplish. Even though we're a Top 10 Firm, we're the 10th largest firm. There's a big difference between the first four and the next three, and we want to be in that second tier. I don't think that we're going to displace any of those three, but we'd like to join that group and be considered in the same breath as somebody like BDO, Grant [Thornton] or RSM."

He sees private equity funding as a way to entice younger team members and partners as well as other firms to join Baker Tilly.

"The dynamics of being able to do mergers and acquisition has changed," said Ferro. "Private equity has changed that, with more deals now being done with a cash component. Where before you just swapped balance sheets and traded the deferred compensation plans, and it was pretty simple, now there's a cash component as well as an equity component. And an equity component is much much more appealing to our younger team members or younger partners than the deferred compensation plans that we had in the past."

Ferro plans to use the extra funding to expand the Chicago-based firm's presence in New York, Boston, Chicago, the Bay Area, Los Angeles and Houston, and potentially to expand in the Southeast, especially in Atlanta and Florida. He also wants to invest more in technology initiatives, recruiting, development, learning and training, as well as offering additional advisory services. The investment is only going to the U.S. firm, and not the rest of the Baker Tilly International network, where member firms remain independent.

### **A long track record**

Hellman & Friedman has been investing in the professional services and consulting sector for several decades. "This is a natural extension of a 30-year track record of investing in professional services businesses and human capital businesses, which started with advertising agencies and consulting firms like AlixPartners," said H&F partner Blake Kleinman. "In a lot of those situations, we were the first outside capital or primary capital, so it was a familiar theme to us. We were looking for other subsectors to apply it to and that led us to the accounting industry."

He views the accounting sector as an attractive investment. "It's an industry that's had an outstanding track record of organic growth through economic cycles for basically as far back as we could look, for 30 years," said Kleinman. "Within that industry context, we found Baker Tilly, and we were attracted to the outstanding leadership team, a really strong brand, national coverage across the country and the fact that it had really a full suite of audit, tax and then advisory services to meet the needs of clients. But then it also had the scale as a top 10 player to invest in the business with technology, people and processes, and the ability to add to all that by doing smart M&A."

He believes the transaction could be a catalyst for accelerating growth.

"Having every partner in the firm actually own equity is a really powerful tool to create great alignment," said Kleinman. "We were super-happy that we got 100% support of the partners to pursue this path and then create a firm with a new capital base and supportive shareholders to invest in the business and pursue the strategic M&A."

H&F will be working alongside Valeas in helping Baker Tilly grow.

"We have a long relationship with the folks at Valeas," said Kleinman. "The most important part in any investment partnership is that everyone's aligned on the strategic direction, so there were three parties that really spent a lot of time making sure we had alignment about the vision of what we want to be and the

strategy and having the personal relationships. We've known them for a long time, so that helped as well. They also have a good track record in similar industries that are consolidating like the wealth management industry and building out the M&A muscle and the execution engine around that."

Koltin Consulting Group CEO Allan Koltin provided counsel to Baker Tilly and Hellman & Friedman throughout the process. "This investment is a huge step for Baker Tilly, and it will certainly put the firm in a strong position to lead the consolidation of the public accounting industry," he said in a statement.

Baker Tilly also engaged William Blair & Co. as its financial advisor and Foley & Lardner as its legal counsel on the transaction. Simpson Thacher & Bartlett and Vedder Price served as legal advisors to H&F and Ropes & Gray LLP advised Valeas.

### **More M&A ahead**

Baker Tilly hopes to be able to do more mergers with the extra capital from the PE firms.

"If you look at our track record, we've actually done very well in the M&A space," said Ferro. "What private equity brings is the ability to provide cash at closing. Our capital at this point is based on the partners' equity in the organization. For us to be able to add to that capital and be able to provide some component of cash to be able to do transactions is very, very helpful in the marketplace. The second piece is the attractiveness of the equity component as opposed to the deferred-compensation plan. It's just night and day."

He noted that back in 1994, he signed up for a deferred compensation plan and he only became fully vested in 2023.

"That's a long time," said Ferro. "Most people aren't interested in that today. It's gotten a lot more sophisticated, and the whole fact that private equity is on the scene is just a positive ... . To be able to take the cash and the equity component and to be able to use those as vehicles to be able to do a deal is much more attractive, not only to the traditional accounting, auditing and tax practices, but it's almost imperative to the advisory side. The deals that we haven't done, we never even got to the table because those advisory firms weren't even interested in talking to us with that deferred-comp plan. It was a nonstarter for us in a lot of ways. It adds just so many more tools for us to be able to do the M&A that we can do. ... The story is just so much better by taking a large cap private equity firm that's gotten great results and great experience and put some real believable value into what today's equity can be tomorrow for not only our existing partners but for merged-in organizations, so I think it's a win win."

He isn't expecting dramatic changes in the daily work of Baker Tilly's partners and staff.

"We had 100% support from the partners, so we have total buy-in," said Ferro. "We don't expect the day-to-day operations to change with any significance. The vast majority of our people will still be providing client services to the same clients with the same partners using a lot of the same tools. The change that we'll see is just the expansion and how fast we execute the strategy. The strategy is not new to any of the 6,800 people that work for us. They all have heard what the strategy is, how it works and what we want to accomplish. We're really not changing the messaging. We're just kind of putting high test [gas] into the tank. We're going to be able to execute a lot faster, and I think we're actually going to be able to execute in a better way, so we should get opportunities to double down on technology investments and be able to get to the endgame quicker."

"We should get better M&A results out of this," he continued. "I think that we're going to end up with a better group of candidates for M&A than we would have if we were on our own. I don't really see the day-to-day operations changing. I think the opportunities for our staff will continue to increase. As we continue to expand the firm and execute the strategy, there will be more opportunities for more people to expand their careers, expand their knowledge base, and actually have better tools to do a better job for our clients."



# Baker Tilly Secures Private Equity Investment in Largest CPA Transaction to Date

Posted by INSIDE Public Accounting | February 5, 2024

Chicago-based Baker Tilly (FY23 net revenue of \$1.6 billion) today announced that it will receive a strategic investment from global private equity firms Hellman & Friedman (H&F) and Valeas Capital Partners (Valeas).

The investment, expected to close in early June 2024, recognizes Baker Tilly's outstanding track record of value creation and marks the largest private equity investment in the U.S. CPA profession to date, the firm announced.

In the past five years, Baker Tilly, ranked by IPA as the 10<sup>th</sup> largest firm in the country, has doubled its workforce by expanding its footprint nationally and internationally. The significant investment (no terms were disclosed) from H&F and Valeas allows the firm to access additional capital and capabilities to accelerate growth through investments in talent, technology and further strategic acquisitions directed at providing best-in-class client services.

As part of this transaction, the firm will be restructured as two entities: **Baker Tilly Advisory Group** will provide the firm's business advisory, tax and other services with **Jeff Ferro** continuing in his role as CEO. **Baker Tilly US**, a licensed CPA firm, will provide the firm's attest services with **Jere Shawver**, MP of risk and assurance, stepping into the new role of CEO.

Baker Tilly US will operate as a separate legal entity pursuant to regulatory and independence requirements. Following the restructuring, both firms will remain partnerships, with all partners holding equity alongside H&F and Valeas in Baker Tilly Advisory Group.

"We are extremely proud to join forces with H&F and Valeas, blue-chip and growth-oriented private equity investors, who support our vision, recognize the value we've already created and see our vast future potential," said Ferro. "With this transaction, the firm will be in an even stronger position to grow and invest in our business to create new opportunities for our talented team members and valued clients."

**Blake Kleinman**, partner at H&F, said, “Our investment in Baker Tilly builds on H&F’s long history of successful partnerships in the professional services sector. Baker Tilly has built a remarkable firm with an empowering culture, tremendously talented workforce, and impressive track record of growth through outstanding client service and smart acquisitions.”

**Ed Woiteshek**, co-founder and MP of Valeas, added, “As a top global brand in accounting, tax and advisory with a strong track record of value creation and growth, Baker Tilly is uniquely positioned to lead the transformation of the industry. We look forward to working with Baker Tilly’s leaders to further the firm’s impressive growth trajectory in the years ahead.”

**Allan Koltin**, CEO of Koltin Consulting Group, who provided counsel to Baker Tilly and Hellman & Friedman throughout the process commented, “This investment is a huge step for Baker Tilly, and it will certainly put the firm in a strong position to lead the consolidation of the public accounting industry.”

Baker Tilly engaged **William Blair & Company** as its financial advisor and **Foley & Lardner** as its legal counsel on this transaction. **Simpson Thacher & Bartlett** and **Vedder Price** served as legal advisors to H&F and **Ropes & Gray** advised Valeas.

## Baker Tilly Gets Big Private Equity Boost From H&F and Valeas

The transaction, which is expected to close in June, is said to be the largest private equity investment in the CPA sector thus far.

Jason Bramwell | Feb. 5, 2024



Baker Tilly said on Monday it has received a “significant investment” from private equity firms Hellman & Friedman and Valeas Capital Partners in what the top 10 accounting firm says is the largest private equity investment in the CPA sector thus far.

Financial terms of the deal, which is expected to close in early June, weren’t disclosed. The *Financial Times* reported that H&F and Valeas would take an equity stake of about \$1 billion for just over 50% of the Chicago-based accounting and advisory firm, with more than \$900 million coming from H&F, according to a person familiar with the deal. There will also be an undisclosed amount of debt financing provided by a group of private lenders, including Blackstone Credit, HPS Investment Partners, and Blue Owl Capital, FT reported.

Baker Tilly’s firms in the U.S. had revenue of \$1.58 billion during its most recent fiscal year, according to INSIDE Public Accounting.

The significant investment from H&F and Valeas provides the firm with access to additional capital and capabilities to “accelerate growth through investments in talent, technology and further strategic acquisitions directed at providing best-in-class client services,” Baker Tilly said in a news release.

FT reported that the money will predominantly be used to buy out retirement obligations to former partners and return capital to its 600 current partners, as well as to recapitalize the balance sheet and build a war chest for mergers and acquisitions.

“This investment is a huge step for Baker Tilly, and it will certainly put the firm in a strong position to lead the consolidation of the public accounting industry,” Allan Koltin, CEO of Koltin Consulting Group, who provided counsel to Baker Tilly and H&F throughout the process, said in a statement to *CPA Practice Advisor*.



As part of this transaction, the firm said it will be restructured as two entities: Baker Tilly Advisory Group will provide the firm’s business advisory, tax, and other services with Jeff Ferro (pictured, left) continuing in his role as CEO. Baker Tilly US will provide the firm’s attest services, with Jere Shawver, managing partner of risk and assurance, stepping into the new role of CEO. Baker Tilly US will operate as a separate legal entity pursuant to regulatory and independence requirements. Following the restructuring, both firms will remain partnerships, with all partners holding equity alongside H&F and Valeas in Baker Tilly Advisory Group

“We are extremely proud to join forces with H&F and Valeas—blue-chip and growth-oriented private equity investors—who support our vision, recognize the value we’ve already created, and see our vast future potential,” Ferro said in a statement. “With this transaction, the firm will be in an even stronger position to grow and invest in our business to create new opportunities for our talented team members and valued clients.”

Blake Kleinman, partner at H&F, said the investment in Baker Tilly builds on H&F’s long history of successful partnerships in the professional services sector.

“Baker Tilly has built a remarkable firm with an empowering culture, tremendously talented workforce, and impressive track record of growth through outstanding client service and smart acquisitions,” he said. “We are excited to invest alongside Baker Tilly’s partners and senior leadership to bolster its capabilities, expand its footprint, and, together, help build the country’s preeminent mid-market advisory CPA firm.”

Ed Woiteshek, co-founder and managing partner at Valeas, added, “As a top global brand in accounting, tax and advisory with a strong track record of value creation and growth, Baker Tilly is uniquely positioned to lead the transformation of the industry. We look forward to working with Baker Tilly’s leaders to further the firm’s impressive growth trajectory in the years ahead.”

Baker Tilly engaged William Blair & Company as its financial advisor and Foley & Lardner as its legal counsel on this transaction. Simpson Thacher & Bartlett and Vedder Price served as legal advisors to H&F and Ropes & Gray advised Valeas, according to the news release.

## Baker Tilly Just Did a Massive Private Equity Deal



Announced yesterday in an excessively flowery press release, Baker Tilly announced a “strategic investment” from private equity firms Hellman & Friedman and Valeas Capital Partners. The investment is expected to close in early 2024.

According to the press release, Baker Tilly has doubled its workforce in the past five years and the deal will help them continue to grow in all the ways a large accounting firm can.

The significant investment from H&F and Valeas provides the firm with access to additional capital and capabilities to accelerate growth through investments in talent, technology and further strategic acquisitions directed at providing best-in-class client services.

As part of this transaction, the firm will be restructured as two entities: Baker Tilly Advisory Group, LP will provide the firm’s business advisory, tax and other services with Jeff Ferro continuing in his role as CEO. Baker Tilly US, LLP, a licensed CPA firm, will provide the firm’s attest services, with Jere Shawver, Managing Partner – Risk and Assurance, stepping into the new role of CEO. Baker Tilly US, LLP will operate as a separate legal entity pursuant to regulatory and independence requirements.

Following the restructuring, both firms will remain partnerships, with all partners holding equity alongside H&F and Valeas in Baker Tilly Advisory Group, LP.

The rest of the press release is just a bunch of quotes from the people at the heart of this deal, we can skip those.



The transaction numbers were not shared publicly though *Financial Times* found a drippy sieve to get details from.

A person familiar with its deal said that **the two private equity firms would take an equity stake of about \$1bn for just over 50 per cent of the firm**, with more than \$900mn coming from H&F. There will also be an undisclosed amount of debt financing provided by a group of private lenders including Blackstone Credit, HPS Investment Partners and Blue Owl Capital.

The money will predominantly be used to buy out retirement obligations to former partners and return capital to its 600 current partners, as well as to recapitalise the balance sheet and build a war chest for mergers and acquisitions.

Allan D. Koltin, CEO of Koltin Consulting Group, who provided counsel to Baker Tilly and Hellman & Friedman throughout the process said, "This investment is a huge step for Baker Tilly, and it will certainly put the firm in a strong position to lead the consolidation of the public accounting industry."

Not to brag about being clairvoyant or anything but we sorta saw this coming last year. Get ready for a **very** flashy merger ahead.