Private Equity Investment Comes to Colorado Accounting Firms

BY NATALIE ROONEY

Some of the nation's largest accounting firms are now several years into their investment deals with private equity (PE) firms, with two Colorado firms recently announcing their own deals. What are the benefits for the firms and their people?

The investment of PE into accounting firms continues to accelerate, and investor interest has expanded from just PE to sovereign wealth funds, family office, and private capital. Welcome to the new normal, says Allan Koltin, CPA, CGMA, CEO of Koltin Consulting Group.

"These deals don't come with flashing neon lights because they're happening so frequently now," Koltin observes. "The first deals were groundbreaking, but it's becoming more commonplace."

Koltin predicts that 2024 will be a catch-up year after higher interest rates caused some dealmakers to hit the pause button last year. "My guess is that deals that didn't happen in 2023 will happen in 2024," he says. He also predicts that no less than five more top-25 accounting firms will be involved in a PE deal before the year is over.

Two firms with a significant Colorado presence recently announced their own PE deals.

In March, top-10 firm Grant Thornton LLP announced that it would be receiving a "growth investment" from New Mountain Capital LLC later this year.

"As we approach our 100-year anniversary this summer, Grant Thornton is operating with significant momentum and generating record revenues," says Lori Davis, market managing partner for Grant Thornton's Denver office.

"Our investment with New Mountain Capital will empower us to do more of what we're already doing and make us the industry's platform of choice. We'll be able to accelerate our existing strategy and drive additional growth. This is especially true when it comes to providing clients with personalized, high-quality services that span industries and service areas, from audit and assurance to tax and advisory."

Davis says that New Mountain Capital is the right partner at the right time. "It has a best-in-class track record in terms of growth within its investment portfolio, and it shares our goal of solidifying Grant Thornton's standing as one of the nation's preeminent accounting and consulting firms. Not only is New Mountain Capital experienced in our space, but it shares our standards and vision — particularly when it comes to quality and client service."

In February, Baker Tilly received a strategic investment from PE firms Hellman & Friedman and Valeas Capital Partners.

A Baker Tilly spokesperson says the firm pursued the investment to bolster capabilities in three key areas. "First, it provides us with additional capital, allowing us to accelerate our competitive edge, invest in our business and talent, and enhance client service. Second, it enables us to attract and retain top talent, offering more opportunities for our team members and securing our position for the future. Third, it facilitates our growth trajectory, both organically and through strategic acquisitions, by enhancing our mergers and acquisitions (M&A) capabilities and positioning us as an appealing buyer for potential targets."

The spokesperson adds, "This partnership aligns with our commitment to becoming the preeminent mid-market CPA firm and provides the resources and expertise necessary for sustained growth and success."

While the early PE/accounting firm deals were between some of the largest firms, Koltin says smaller firms are exceeding their own goals thanks to PE money: Parthenon Capital's investment in top 25 firm Cherry Bekaert LLP; Broad Sky Partners' investment in Smith + Howard; Lightyear Capital LLC in Schellman & Company, LLC; and Unity Partners LP in NDH LLC.

"Of course, this doesn't mean that every single one will be a home run, but so far, deals of all different sizes are successes," Koltin emphasizes, adding that there are plenty of firms that remain fiercely opposed to PE money and are succeeding by figuring out how to create their own capital, which is sorely needed for that trifecta of technology, transformation, and talent.

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head start because they were already offshoring or had built consulting or wealth-management practices. "So, they don't need as much capital as other firms or they don't believe in M&A and their growth is purely organic," Koltin says.

"Not doing it, doing it, or doing it differently is all good. PE isn't a magic bullet. There's no one right way, and not doing it doesn't mean you won't be successful."

RETHINKING THE TRADITIONAL MODEL

One of Koltin's biggest criticisms of the traditional firm model is that the first five to seven years of a young accountant's career can be spent doing work that isn't particularly challenging.

"As artificial intelligence (AI) and bots come in and lift that work away, we can push the young professionals into an advisory role at a much younger age," he says. "That's exciting. AI will never replace the client relationship or advisory role. It's lifting you out of the weeds and getting you into the game sooner."

Attracting and retaining young talent is critical, and Koltin says it's time to address the elephant in the room: increasing the pay scale. And for that, partners must either find a way to become more profitable or reduce the amount of compensation they're taking out of the firm.

"We didn't anticipate that financial services, investment banking, technology, data analytics, and private equity were all going to recruit from the same accounting talent pool," Koltin says.

Making things great for young professionals is one of the biggest pros of PE investment.

"These kids all talk to each other, so the accounting majors know that their friends are making more. No one wants to talk about it, but we're going to have to increase the pay scale. And if you increase the pay scale for a new hire, then you'll have to increase it for the second years, third years, and on up. There's such a talent drought. If you can't pay your talent at market rate, they could become a flight risk," he continues.

Making things great for young professionals is one of the biggest pros of PE investment. "Today's new, young partners don't want to wait until age 65 to get their first dollar of goodwill," Koltin says. "They can get a check today, and again in three to five years if they hit some modest EBITDA and/or growth goals, and then again in five to seven years when the PE firm sells its interest. It will keep these young people around."

THE ROAD AHEAD

The Baker Tilly team is excited about what the PE money means for the future. "This investment underscores the value we've already generated and our potential for substantial future growth, marking one of the largest private equity investments in the U.S. CPA sector to date," the firm's spokesperson says, adding, "Having experienced and collaborative capital partners who share our vision is invaluable as we focus on value creation and accelerating growth."

Baker Tilly remains focused on creating value and driving growth, fueled by an ambitious approach to potential M&A activities. "This strategy not only presents opportunities for wealth creation and equity participation for our partners, but also promises growth and value for our clients," the spokesperson adds. "We are dedicated to maintaining a strong and supportive culture, providing a platform for success for our team and clients alike."

Grant Thornton's Davis says that New Mountain Capital's investment means the firm can add scale, resources, and agility, which help Grant Thornton to redefine the competitive dynamic among the top firms. "The investment in our firm immediately strengthens our position amid a highly active landscape and allows us to deploy capital for targeted M&A and integrations," she adds. "It also helps us offer dynamic professional-development pathways and a singular culture to attract and retain top talent who'll better serve our clients and continue our focus on quality."

As well, Davis says the investment offers the opportunity to better invest in technology, infrastructure, and enhanced capabilities for high-quality audit, tax, and advisory offerings.

A GRAND SLAM

But are these PE deals really all they're cracked up to be?

So far yes, Koltin says, based on performance. "If you asked EisnerAmper/TowerBrook Capital, or Citrin Cooperman/New Mountain Capital, my gut says they'd all say it was a grand slam home run for the PE group and for the partners and associates of both firms."

Even the earliest PE deals are still relatively young within the accounting profession, but Koltin says the firms involved have already more than doubled their revenue, profitability, and the value of their rollover equity. "And it's not just partners who are sharing in the equity," he points out. "This is a rallying call and an opportunity for the younger people in their 30s and 40s to get a piece of the rock at a much earlier age."

Baker Tilly says the increased access to capital will allow the firm to position itself as an appealing buyer for potential acquisitions, expanding its reach and capabilities. "This capital infusion enables us to continue investing in our ongoing large-scale tech transformation projects and future initiatives aimed at enhancing client offerings and streamlining internal processes. In essence, the investment sets the stage for significant growth and innovation within our organization, allowing us to better serve our clients and remain at the forefront of our profession."

Davis says the PE investment will position Grant Thornton for both organic and inorganic growth opportunities. "And it will help us ensure that our current and future teammates have the skills to continue solving our clients' increasingly complex challenges," she adds. "Likewise, we'll be able to adopt and scale technology and infrastructure — and launch new offerings. This will create an even more engaging experience for a range of stakeholders. All the while, we will be focused on quality and service, which are hallmarks of Grant Thornton's client-centric model."

At the end of the day, Koltin says professional and financial growth are the levers that matter to today's young professionals. "If you don't grow, you die a slow death at a professional services firm," he says. "You have to continuously create growth to advance people through the system."

It's a great time to be in public accounting, Koltin says. "It's a time of celebration, but we need to raise the starting pay. We need to attract the stars with a competitive wage and more challenging work. You need capital for that, which is why you'll see these deals continue."