CFO BREW

Private equity is reshaping the accounting profession

Private equity is pouring money into the field—and scooping up firms of all sizes.

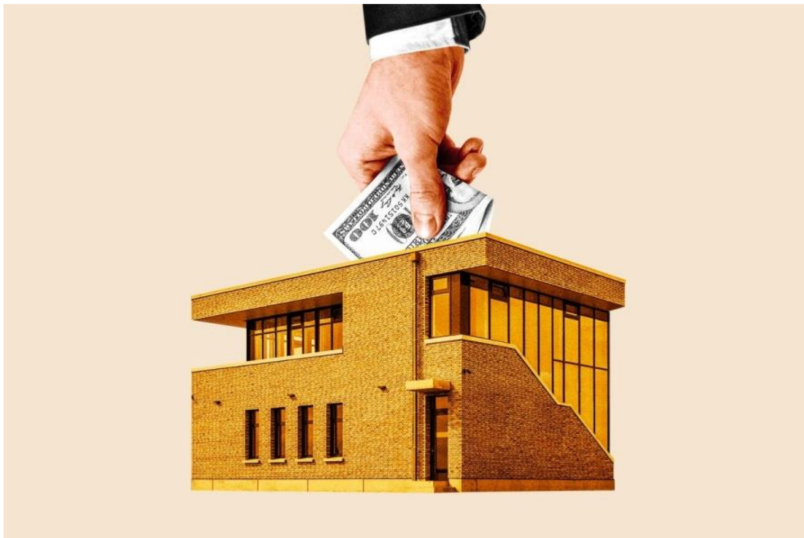

Illustration: Anna Kim, Photos: Getty Images

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This is the first in our series examining the impact that private equity is having on accounting firms. The next story in the series will explore how successful PE investments in accounting have been, what CPA firms are doing with their PE capital, and what changes PE firms are making to accounting firms to raise revenue.

When a Grant Thornton or a Baker Tilly—the nation's seventh- and tenth-largest accounting firms, respectively—sells a majority share to a private equity (PE) fund, it makes headlines.

But those big deals are only the most visible aspect of a phenomenon that's rapidly changing the landscape of the public accounting profession. In the past three years, PE firms have claimed stakes in firms both large and small, and the trend shows no sign of slowing.

"The word has gotten out there that accounting firms are great investments," prominent accounting consultant Allan Koltin told CFO Brew. Since August 2021, when EisnerAmper, the 18th largest firm in the US, struck a deal with TowerBrook Capital Partners, 12 accounting firms have accepted PE investments, Koltin Consulting Group research shows. (PwC also sold its global mobility tax and immigration services business to a PE firm). Now, PE investors have as much or more control over firms than partners do. It's a shift that's poised to change the way public accounting firms operate.

What's more, the change is happening throughout the profession, to firms of varying sizes. "You have midsized PE firms partnering with midsized accounting firms, and now you even have small PE firms partnering with small CPA firms," according to Koltin, who's worked on numerous PE deals, including the ones involving Baker Tilly and Citrin Cooperman.

For instance, Smith + Howard got a PE deal in 2022, when it was the 127th largest firm in the country and worth $38 million, and Schellman & Company received PE investment in 2021, when it was the nation's 68th largest firm and worth $77 million. Last year, Prosperity Partners (formerly NDH)—which Koltin, who advised on the deal, said was worth about $10 million—combined with PE fund Unity Partners.

Is the Main Street CPA firm a thing of the past?: PE funds are using other strategies to scoop up smaller CPA firms as well. Sabrina Howell, a professor of finance at NYU's Stern School of Business who's researched PE, calls it "the tip of the spear driving consolidation in this traditionally fragmented industry." Large PE firms will buy into a big CPA firm and then aggressively acquire smaller firms. Three of the five fastest-growing firms in the US in 2023, Accounting Today reported, are all "pursuing aggressive M&A strategies fueled by private equity money." EisnerAmper, for instance, made around 14 acquisitions, including 13 accounting firms and one business consulting firm, in the three years following its PE deal. Citrin Cooperman acquired at least 13 businesses after its PE investment, including 11 accounting firms and two business consulting firms.

Then, there are what Koltin terms the "rollups": PE-funded companies that buy stakes in a number of small firms worth around $5 million to $50 million. They provide an option for smaller firms that need capital but want to retain some autonomy. The companies allow the firms to keep their names, culture, and software, and a degree of independence, Koltin said.

Some of the rollups have gotten very big, very fast. The 11 "partner firms" of Ascend, backed by PE firm Alpine Investors, will bring in a collective $400 million in revenue by the end of the year, Koltin said. By comparison, the 27th largest US firm, PKF O'Connor Davies, is worth $378 million. And Ascend has "only been around [for] two years," Koltin points out. Crete Professional Alliance's six partner firms will bring in around $165 million by the end of the year, Koltin said, enough revenue to make it a Top 50 firm.

Even firms that don't want to go the way of PE are transforming quickly in the current environment. Some, like Andersen, are mulling IPOs. BDO has established an employee stock ownership plan. In 2022, BKD and DHG merged to create Forvis, and, this summer, CBIZ announced plans to acquire Marcum, moves Koltin calls "megamergers."

And non-PE institutions are wanting to get in on the accounting gold rush. Sovereign wealth funds and large family offices have expressed an interest in doing so, Koltin told us. He's even been contacted by a Canadian teachers' pension fund ("I thought I was in the wrong Zoom call!" he said.)

No end in sight: Koltin predicted that once one PE firm "cracks the code" and lands a deal with a Big Four firm, others will quickly follow.

More deals may be on the horizon. This June, the Financial Times predicted that 10 of the 30 largest US firms would soon be PE-owned. Three large firms—PKF O'Connor Davies; Carr, Riggs, & Ingram; and Armanino—were in talks with bankers, the publication said. Aprio, another firm the Financial Times said would likely soon strike a deal, accepted investment from Charlesbank Capital Advisors in July.