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PE is just the start of the changes coming for firms

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The entry of private equity into public accounting over the past four years has certainly brought a great deal of change to the profession – but it's likely only the tip of the iceberg compared to what's to come, experts suggest.

"I wake up every morning and I pinch myself, either because something new has happened that I didn't see coming, or it's something that's never happened in our profession before," Allan Koltin, the CEO of Koltin Consulting Group and a pioneer of connecting PE firms and accounting firms, told attendees at the AICPA Executive Roundtable, a gathering of technology executives held in New York City this week.

"You have a lot of crazy stuff going on," he added. "Transformation is in the air."

To start, PE/accounting firm partnerships have been taking on different forms, according to Koltin:

- **The mother ship.** This was the first model, where a PE firm would buy in to a Top 25 Firm and provide them with capital to go out and tuck in smaller Top 500 firms.
- **Roll-ups.** These work by acquiring a number of midsized firms, but not necessarily merging them all into a single firm. Instead, each firm pursues its own strategy. Interestingly, something similar had been tried before the turn of the century, Koltin noted: "In the 1990s, this didn't work, but it's working very well now."
- **The mid-majors.** This involves middle-weight PE firms coming in and acquiring accounting firms in the Top 30-Top 100 range.
- Within those categories there are a wide range of internal differences — majority stakes, minority stakes, PE firms focusing on different forms of support for their accounting firm partners, and so on — but the entry of private equity has also spurred accountants to look at entirely different options to solve their capital needs, Koltin said.

For instance, BDO USA and Grassi have both implemented employee stock ownership plans, opening the door for many firms to consider them (and a smaller firm, Kirsch CPA Group, did the same just this week), and other firms are considering deals with wealth management firms, as when BerganKDV sold itself to Creative Planning.

Allan Koltin at the 2024 AICPA Executive Roundtable

Other buyers may also emerge, such as sovereign wealth firms, family offices, and pension funds, either as original acquirers or when PE funds reach the end of their first investment periods and look to sell their stakes.

What's more, Koltin said that in the next three to four years, he wouldn't be surprised to see some of the largest accounting firms launching initial public offerings to take themselves public, and still others putting together truly global firms, with a single ownership and management structure across a number of countries, rather than the current networks of firms run by the Big Four and a few others.

All of this would represent a massive amount of change for the profession, but that wouldn't surprise Koltin: "I have seen more change in the last four years than in the first 40 years of my career," he said, "and we're just getting started."

Where is it all headed?

While private equity has actually been trying to get involved in the profession for some time — Koltin detailed attempts as early as 2008 that were only stymied by the onset of the Great Recession — it is still relatively early to judge PE's full impact on accounting.

"If this were a baseball game, we're in the second or third inning," said Matthew Marinaro, a principal at PE firm Red Iron Group, during the same session at the Executive Roundtable. "There's a lot of room for consolidation."

There's also room for many more PE firms to get involved. Marinaro likened it to a "kids' soccer game, where all the kids run to the ball."

"PE is kind of like that," he explained. "One firm will figure it out, and then all the others will rush in for fear of being left out."

Koltin agreed that there is much more to come on the PE front, but he also warned against firms suffering from fear of missing out.

"Where is all of this going?" he asked. "When PE comes into an industry, they don't dabble — they take it over. That doesn't mean you'll fail if you don't take on PE — some of the most successful companies are those that remain independent. But the successful ones have figured out their strategies for bringing in capital."

And not every PE deal will live up to the hype.

"They won't all be home runs," Koltin said. "There will be great, there will be good, and there will be busts. If you take a great accounting firm and combine it with a great PE firm that is aligned on their strategy — then a great firm, a great PE firm, and great strategy will produce a great result. But there will be some weak accounting firms that are trying to fix an internal problem, and those might not do so well."

Only for the 5%

While private equity will undoubtedly have a big impact on the profession, AICPA president and CEO Barry Melancon noted that for most firms, that impact won't be direct.

"In five years, 95% of our 44,000 firms will still be in the traditional model, because the PE model won't go down that far," he told attendees of the roundtable.

That's not to say he's opposed exploring other options.

"I'm a big supporter of different models in the profession," he said. "I've always believed that, because then we can see which ones work and which ones don't, and how we can improve them."

But he does have some concerns about whether private equity may not understand the profession's values, its public service mission, and its true value proposition.

"If you look at PE in the medical industry, I don't think anyone would say that the service is better there," he said. "That's a concern for the profession."

"I think many PE firms underestimated the recurring value of tax, as opposed to accounting," he added. "If PE is going to be really successful, it's going to have to understand the value of what this profession does and gets paid for. … Many PE firms are moving away from or not interested in the public company audit space."

Private equity firms will also need to understand the importance and the value of the trusted advisor position that accountants occupy.

"If you compare CPA firms that are advisory firms with consulting firms that are not affiliated, CPA firms are more profitable than the stand-alone consulting firms," he explained. "And the reason for that is the reputation that the profession brings with it – and private equity is going to have to figure that out, and understand the extra value that it brings long-term."