

Can PE buy transformation?

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For all the investments private equity is making into accounting, many of the firms receiving the infusion say the money is just a larger piece of the puzzle all forward-thinking firms are trying to solve — of much-needed transformation.

The money is a pivotal step toward becoming that future-focused firm, and the process of obtaining it kicked off a discussion about structuring private equity deals at *Accounting Today's* PE Summit last week in Chicago, featuring panelists Jeremy Dubow, CEO of Chicago-based Prosperity Partners, and Richard Kopelman, CEO of Atlanta-headquartered Aprio Advisory Group.

Aprio, which completed an investment round from Boston-based Charlesbank Capital Partners this past July, surveyed its options before joining the swell of PE-backed firms.

"We looked at everything," said Kopelman, including merging up and a debt recapitalization, before the firm's investigation of the market and internal finances led to PE as the best option.

Meanwhile, Prosperity Partners' due diligence included cold calls, according to Dubow, who heads the firm formerly known as NDH before it received funding from Dallas-based Unity Partners LLC in May 2023.

"We were looking at the future trying to decide which direction we should go," he explained. "We were a strong, profitable firm with success in our ranks, but realized we were at a crossroads in terms of people, the labor-constrained environment, and where we wanted to be."



Jeremy Dubow, CEO of Chicago-based Prosperity Partners, and Richard Kopelman, CEO of Atlanta-headquartered Aprio Advisory *Alan Klehr*

Talent was an ubiquitous topic throughout the two-day summit, as many firms described courting or accepting PE investments due to today's sparser pipeline, and PE firms spoke about the value of accounting firms with their business being low-risk, with a positive cash flow, recurring revenue and led by trusted accountants.

For Prosperity, a firm of about 120 people, picking up the phone was the best way to discover what PE could unlock.

"As a small firm, we started with a bunch of cold calls and emails," Dubow recounted. "The process initially started through cold calls. We didn't know the tidal wave of change on the horizon. We would take a few phone calls, understand how this is working and how to value your accounting firm."

For Aprio, value had to be calculated very specifically, as Kopelman explains: "We wanted to do away with the mindset to sell assets and monetize it. We see firms that robbed younger partners of the ability to serve younger partners in the right way."

That meant moving away from the deferred comp model, he continued. "We wanted to move to a model of creating value for the business, for owners, for growing entrepreneurs."

Dubow and his team had the same concerns for their people.

"Private equity allows us to issue equity to all employees, from top to bottom, where everyone shares in the upside of the firm," he said. "Everyone participates and is growing in the same direction. Everyone is going to celebrate at the same time."

The firm of the future

While ownership — or potential ownership — in the business can incentivize younger people to join a firm, there are other elements to a next-generation practice, and PE may help in attaining them.

"We have to create the firm of the future today, in key areas," said Koltin Consulting Group CEO Allan Koltin, also co-chair of the PE Summit, during his keynote address. "It's going to cost real money to do it. Nothing in business is forever. Not all private equity deals will be successful. Some are, and some don't meet the goals of both parties."

He also stressed that PE is not a cure-all, and not for everyone.

Dubow would agree. "Don't just jump into private equity and say this is the only thing I'm considering," he advised. "We spent time looking into alternatives."

Once his firm decided on PE and specifically Unity Partners, Dubow found it accelerated change within the firm.

"As a small firm that changes with a 10% improvement every year, how do we increase that to 100%?" he said, explaining that PE "allowed us to think about people differently and be transformative with technology. We have a different business as a result. It allows us to be a firm of the future. We take that type of risk, and it allows us to move to the next level."



LMC Advisors CEO Lee Cohen; Cherry Bekaert CEO and managing partner Collin Hill; WSRP Advisory CEO and managing partner Dan Rinehart; Schellman CEO Avani Desai; and Accounting Today editor-in-chief Dan Hood *Alan Klehr*

Avani Desai, CEO at Schellman, explained during another PE Summit panel that the firm's partnership with Lightyear Capital in 2021 was equally transformative.

"It helped me put together a true executive leadership team," she said. "We now have a CRO, chief growth officer, someone leading digital transformation."

According to Desai, an employee during a recent firm town hall expressed: "We have changed more in the last three years than the 18 years prior."

Desai and her fellow practitioner panelists all agreed that PE had eased the administrative burdens and tactical headaches that often fall on partners, and allowed for more long-term strategizing.

This was new for New York City-based Regional Leader LMC Advisors, which joined PE-backed platform Ascend in June 2023, according to CEO Lee Cohen.

"Before Ascend we had no strategic planning, no strategy for top-line growth... no plan of action," he said. "Through budgeting, and a three-year strategic plan, we really looked at our practice."

The transition from independence to private equity-backed was not without surprises, according to PE Summit speakers.

This included a larger stress on the financials. "It was a whole new level of reporting, which was the hardest thing for me at the beginning — how much data they wanted," shared Desai.

"The amount of reporting was a shock to us," she continued, "but we learned. You can't live your life in a spreadsheet, I tell my 28-year-old boss. But getting data from there, I've come to the realization that it really helps to be able to see that."

Her co-panelist, Utah-based WSRP Advisory CEO and managing partner Dan Rinehart, agreed that the influx of numbers was helpful, especially for firms considering entering the PE space.

"As a bunch of accountants, we're supposed to be the experts on accounting, financial reporting," he said. "We didn't know we had to really dive into the details of realization, utilization. We understood it, were tracking it, from a strategic planning perspective, but we had to dive into the details.... The extra reporting had actually been really good, to help us make decisions more in real time."

Rinehart was also pleasantly surprised by the freedom afforded under the firm's PE structure.

"For us, we haven't noticed any control change; we look at the private equity partner as a partner," he said. "Not someone that's a boss to us, but a partner. I'm trying to think of one decision where I felt like I couldn't make it. Sometimes I call the private equity partner [and ask], 'What do you think of this?' They say, 'You're in charge, you run the firm.' I was scared about taking on private equity — is someone going to be walking the halls of the office, reading all the workpapers, seeing when I take lunch? That's not going to happen."

"It's a partner, they're not breathing down our backs," Cohen agreed about LMC's operations under Ascend. "The executive leadership team is making those decisions. The Ascend board is there to be a thought partner."



Koltin Consulting Group CEO Allan Koltin *Alan Klehr*

Of the many detailed considerations to be made in a CPA-PE firm partnership, the appeal of the accounting profession was a central theme throughout the PE Summit.

Stuart Ferguson shared his perspective, as managing partner of strategic advisory firm Pointe Advisory, during another summit panel.

"One thing I'm fascinated by is that private equity investment in the space has brought swagger to the CPA industry," he said. "Ten years ago, if a CPA firm was in the news it was usually for a bad reason, not a good reason. Now, the majority is related to the attractiveness and growth potential, the opportunity of the great businesses built by CPA firms. There's a swagger, a reason to be proud of the business you built. Private equity, as it's prone to do, is a disruptor and accelerates disruption. Firms are forced to think differently about talent [and more]."

"It's a proud chapter in public accounting," co-panelist Koltin chimed in. "You sacrificed your life, donated your brain and body to the cause, and never thought the business could be worth this on day one. The bar got raised, and internal valuations — maybe we need to change our valuation."