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Private equity isn't a silver bullet

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While the influx of private equity into the accounting profession has brought much-needed capital and a welcome alternative to firms, it's definitely not for everyone, say experts.

In fact, the overwhelming majority of accounting firms won't ever make a PE deal, Allan Koltin of the Koltin Consulting Group told attendees of Accounting Today's inaugural PE Summit, held this week in Chicago.

"Private equity is not a silver bullet," he said in his keynote address. "If you don't do PE, that doesn't mean you won't be successful. But you do need to figure out what you're going to do" to solve the issues of access to capital and resources that PE deals help with.

Allan Koltin at the 2024 PE Summit

It's important that firms can be successful without private equity — because many of them won't be able to access it.

"Half the firms that want to go with PE can't," said Koltin, who is a co-chair of the PE Summit. "If you're in the bottom half of earnings in accounting, you won't be a good fit. I get calls from PE firms that want to pull out from a deal because they've looked at the firm's numbers and don't want to make an offer. 'We don't want to insult them.'"

Koltin and a number of other experts at the conference described the "quality of earnings" review that PE firms do as strenuous examination that often happens later in the process than accountants might expect that kind of due diligence to occur — and that can kill a deal.

"It seems like a lot of deals have happened, but believe me, the same number or more have died," Koltin explained.

What's more, while most of the earliest deals in the profession seem to have turned out well, that's no guarantee that will be the case going forward.

"If you hear nothing from me, this is what you need to know: Not every PE deal will be successful," Koltin warned. "There will be some home runs, and some good ones, and some that just don't work."

"There are going to be winners and losers," agreed Phil Whitman, a co-chair of the event and CEO of Whitman Transition Advisors, in a panel session on the first day of the conference. "I bet there will be more winners than losers, but there are going to be losers, so you have to do due diligence, on both sides of the deal."

So far, the PE deals are so good

Experts at the PE Summit were quick to point out that none of this should suggest that private equity has not been a net positive for the profession.

"Private equity brought to the landscape a new awareness of the issues that accounting firms are facing, and a sense of urgency started kicking into place," said Bob Lewis, the third co-chair of the event and president of The Visionary Group.

Added Whitman, "Private equity is the white knight that came riding in to save day. They've got a better answer related to talent acquisition; they've got a better answer to firms' succession challenges. We haven't been able to solve those on our own."

"PE firms raised the bar on our profession," according to Koltin. "They're making it more competitive. They're making tougher decisions faster. They're taking the partnership model and making it work better."

The initial wave of accounting firms to make PE deals, almost by definition, have been those that were a great fit for that type of investment.

"Every single one of the deals that has been done seems to be working," said Koltin. "If you open up the playbook of EisnerAmper and Citrin Cooperman — it's been magical. They've hit it out of the park."

That success comes down to matching up the right players on either side of the deal.
"It starts with a great accounting firm — strong leadership, strong organic growth, lots of next-gen talent," explained Koltin. "And what would I look for in a PE firm? A PE firm that understands the people business. … I want a resource enabler — 'You were successful before you met us. … We don't want to get in your way.'"