

LMP Helps Fuel PE's Ongoing CPA Shopping Spree

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First of all, LMP **invested in Cohen & Co.** for all the same reasons fueling the accounting firms three-year and counting shopping spree.

"It's an industry that's very large. It's got a massive, addressable market. It's an industry that's highly fragmented," Barg says of the 45,000 accounting firms, most of which remain founder-owned. "It's a recurring revenue model. It's mission-critical and it's an industry going through some changes."

In particular, many accounting firms use antiquated technology and offshore tasks that can be done more cheaply and efficiently with tech upgrades.

It's also an industry hit harder than most by labor shortages. Owners are nearing retirement and getting certified as a CPA is more complicated and expensive than it has been. Further, accounting firms' value can be increased by growing larger through acquisitions.

Those are all familiar areas that PE's capital and operational playbook can improve to add value to the acquisition.

"They're attractive areas to address," Barg says. "So it was a matter of finding the right platform in the space."

Accounting firms are also ripe to add new revenue streams such as advisory offerings that can be cross-sold with their traditional CPA services.

In addition, for PE firms playing in the middle market there's the added benefit of ready-made exits in the form of big shops' growing appetite to build large-scale accounting platforms.

In the last three years, private equity firms have bought stakes in five of the top 26 accounting firms.

"Everybody wants to get in on accounting," says **Allan Koltin**, chief executive at advisory firm **Koltin Consulting Group**. "Private equity's involvement the last three years has been beyond imagination."

Chicago-based Koltin has advised accounting firms on more than 70 deals since 2022, including nine sales to **New Mountain Capital's Citrin Cooperman** platform.

TowerBrook Capital Partners' 2021 investment in **EisnerAmper** is largely credited with starting PE's announcing land grab when it closed with no regulatory objections. Until then, concern of regulatory hassle kept PE looking past accounting.

LMP is currently raising its sixth flagship fund after closing **LMP V** in 2019 on \$1.3 billion to invest in financial services, fintech and business services. A June SEC filing shows **LMP VI** amassing \$959 million toward a \$1.5 billion target disclosed to LPs in late 2022.

Barg says Cohen's focus on servicing asset management businesses like managed accounts and private equity will help when it comes time to exit, possibly to a bigger accounting platform looking to be all things to all businesses.

"We believe that specialization that they have is attractive to acquisition targets," Barg says.

Cohen also fits with the Radnor, Pa. firm's thesis of targeting founder-owned, middle-market companies that have previously not taken institutional capital.

In October, for instance, it announced **an investment** in six-year-old wealth management firm **Americana Partners**. It was Houston-based Americana's first institutional capital.

"When you have an institutional seller on the other side of a transaction, they're principally interested in one thing, right? Valuation," Barg says.

Founder-owners who have never taken institutional investments, on the other hand, are often interested in a true partnership with a PE firm.

"There's a lot of opportunities to find value," Barg says. "There's operational and infrastructure value that can be unlocked."

Though Cohen is LMP's first pure CPA play, the PE firm's specialization has led to several "accounting adjacent" acquisitions and businesses with similar business-to-business revenue streams.

"B2B businesses tend to be very stable businesses with higher retention rates and higher elements of recurring revenue, both important factors," Barg says.