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### Private-Equity Investors Targeting ‘Mid-Major’ Accounting Firms

Roughly two dozen of the 100 largest U.S. accounting firms have either sold an ownership stake to private-equity investors or been acquired by a firm that has done so since 2021. Investors generally aim to accelerate revenue growth by helping their targets buy up smaller accounting practices and ramp up offshoring. In some cases, investors pick up small accounting firms and combine them in a practice known as a rollup.

**Allan Koltin**, chief executive of **Koltin Consulting Group** and adviser on many of these deals, talked to CFO Journal about his outlook for accounting mergers and acquisitions. Edited excerpts follow.

#### **WSJ: What type of accounting firms will be acquired next by private equity?**

**Koltin:** In the next two to four years, firms with \$100 million to \$500 million in annual revenue will either have a significant jump, or they may be the tuck-ins to the largest firms out there. We call these firms the mid-majors. As there are fewer M&A opportunities now compared to 2021, they’re going to do the math and say, “Hey, we could go acquire one \$400 million firm overnight or we could go acquire 40 \$10 million firms with 40 different cultures.” I could see the mid-majors selling to a larger accounting firm at a whopper price three to five years from now, when their private-equity partner decides to exit.

#### **WSJ: What will come of the accounting rollups?**

**Koltin:** If you combined the revenues of the five largest roll-ups into one, they would be about \$1.5 billion and a top 12 accounting firm. No one knows the answer of where those are going to land. They’re not going to go into a larger accounting firm because they had that option, and they said they wanted to go with a rollup because they have more autonomy. They could keep their brand, culture and software for a longer period of time before having to integrate.

**WSJ:** There's only one publicly traded accounting services provider in the U.S., CBIZ. After two cycles of private-equity ownership, will many accounting firms go public?

**Koltin:** I would guess that within five years, we'll have five publicly traded CPA firms, and within eight years, we'll have 10. There's going to be an exponential increase in the number of public accounting firms.

**WSJ:** How much debt have accounting firms taken on as part of these deals?

**Koltin:** Most of them have had a leverage ratio [of debt to earnings before interest, taxes, depreciation and amortization] of three to four times. I don't believe any deals done to-date have had an excessive amount of debt. It's a product of the conservativeness of accounting firms.

—Mark Maurer