



# Accounting and Private Equity Transaction Primer

TowerBrook Capital Partners' 2021 investment in EisnerAmper catalyzed private equity's pursuit of accounting firms. The two industries have coexisted for decades, but this partnership established a new chapter in private equity's playbook, creating novel entity structures in the process. Subsequent private equity investments in accounting firms have spurred both sides to take a discerning look at their balance sheets, partners, and long-term goals.

The Big Four have grown tremendously over the last several years, deploying enormous amounts of capital across 85+ M&A transactions and building significant war chests to continue their inorganic growth plans. This deliberate shift toward inorganic growth has left smaller accounting and advisory firms at a disadvantage as they struggle to compete for deals, especially when in pursuit of advisory businesses. Considering the strong double-digit growth seen in most advisory businesses, the slower, single-digit growth of tax and audit practices can be less appealing for investment. However, the value of a tax and audit practice is found in its ability to support other business units and stabilize their growth.

The accounting industry remains highly fragmented below the Big Four, with thousands of small- to mid-size firms scattered throughout the country, siloed by geographic or vertical expertise. Investors view this as an immense economic opportunity to build a platform to consolidate market share, professionalize smaller firms by introducing comprehensive KPI tracking, and invest in both organic and inorganic growth. Additionally, accounting firms are relatively recession-resistant, low-risk, and have strong positive cash flows primarily predicated on annuity work. They are exceptionally operationally flexible, especially when coupled with a variable compensation structure for senior employees. All of these qualities make accounting firms compelling candidates for leveraged buyouts.

The accounting industry has existed in its current state for decades – what explains private equity's recent interest in the space?

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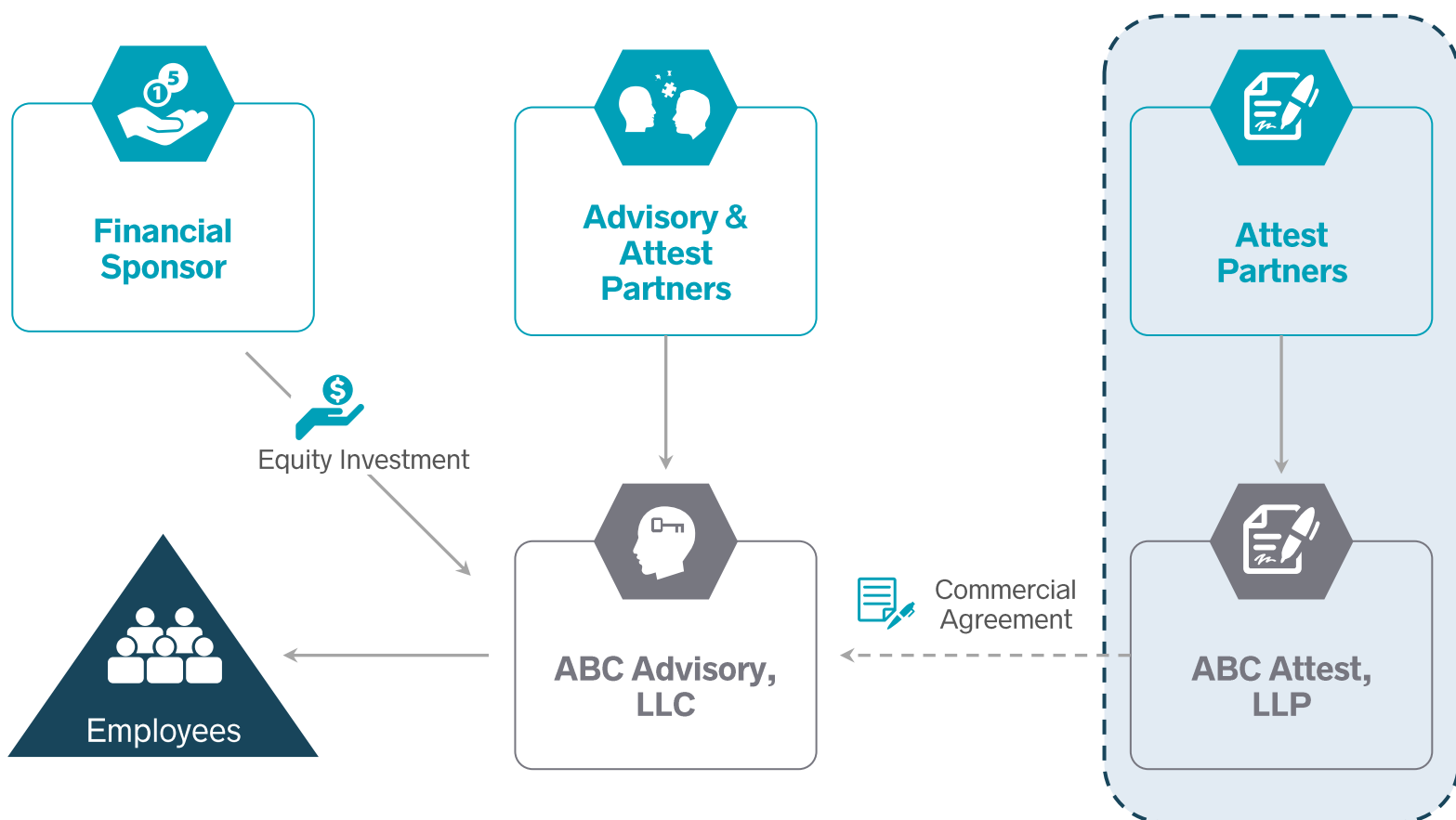
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# Transaction Structuring

The answer lies within the American Institute of Certified Public Accountants' (AICPA) regulations. Their guidelines state that attestation firms must be owned entirely by CPAs. This heavily restricts not only private equity's ability to conduct full buyouts, but also an accounting firm's ability to raise minority investment to facilitate growth. While many recognize the importance of this regulatory hurdle, it can also be viewed as a major growth inhibitor. As such, most large accounting firms in the US lean far more conservative when it comes to growth when compared to other professional services businesses.

With the TowerBrook / EisnerAmper transaction, a new structure blessed by the AICPA opened the doors for investment from non-CPA owned entities. In this structure, traditional CPA firms are split into two entities: one performs any non-attestation work and houses employees, and the other provides attestation work. The investor takes an equity position in the non-attest business, with existing partners in the accounting firm retaining a stake. Those same partners fully own the attest business to ensure compliance with the AICPA. The two entities then enter into a commercial agreement with each other where the attestation firm pays a management fee to the non-attest firm for the right to utilize their shared talent pool.



As accounting firms assess a private equity partnership or minority investment, one key opportunity stands out. Traditionally, achieving liquidity for accounting partners meant years for the firm to buy out their partnership stake and for that buyout to be conducted at a below-market multiple. Now, with the option of private equity investment, liquidity comes more quickly and at a premium. Paired with a sponsor's ability to spur additional growth, many firms see significant upside for both senior partners nearing retirement and junior partners hungry to pursue new business. Many accounting firms assess these benefits as outweighing the limited additional regulatory burden surrounding the maintenance and upkeep of the new dual-entity operating model.

# Partnership Considerations

## Investors

## Accounting Firms



Accounting firms will be best served by private equity investors with highly relevant services experience, as opposed to a generalist firm. Private equity partners with deep operating experience within professional services and strong vertical theses understand what it takes to execute successful transactions, including using appropriately modest leverage and executing a clear vision to drive growth during the investment. Finally, many accounting firms have not examined M&A as a growth vector but could benefit from a private equity sponsor's capital availability and transaction expertise.

From an investor's perspective, accounting firms are unique candidates for a buyout; they require a deft hand regarding talent recruitment, management, and compensation. Private equity firms with sufficient knowledge of these areas are well positioned to capitalize on market-leading growth.

At ClearSight, we have extensive experience advising professional services firms on their growth journeys. Please contact us to discuss the current M&A market for accounting firms and how we might be of assistance.

# Private Equity M&A Activity

Date	Target	Buyer	Summary
Mar-23	DLA	Orangewood Partners	<ul style="list-style-type: none"> <li>Target HQ: Fairfield, NJ</li> <li>DLA aims to utilize Orangewood's investment to accelerate organic growth across service lines and develop an inorganic M&amp;A strategy</li> </ul>
Feb-23	MarksNelson	Trinity Hunt Partners	<ul style="list-style-type: none"> <li>Target HQ: Overland Park, KS</li> <li>Trinity Hunt's investment will be utilized to support organic growth initiatives, execute acquisitions, and invest in both talent and technology</li> </ul>
Nov-22	Smith + Howard	Broad Sky Partners	<ul style="list-style-type: none"> <li>Target HQ: Atlanta, GA</li> <li>Broad Sky intends to expand Smith + Howard's advisory services, increase its geographic footprint, and accelerate its technology solutions through acquisitions and other investments</li> </ul>
Aug-22	Kaiser Consulting	Pine Tree Equity	<ul style="list-style-type: none"> <li>Target HQ: Powell, OH</li> <li>Pine Tree aims to continue to support Kaiser's success in providing industry-leading service to clients and a strong and developmental workplace environment for employees</li> </ul>
Jun-22	Cherry Bekaert	Parthenon Capital	<ul style="list-style-type: none"> <li>Target HQ: Raleigh, NC</li> <li>Parthenon's investment will help enhance the firm's offerings in its core practices, accelerate growth plans, and fund continued development of digitally-driven offerings</li> </ul>
Oct-21	Citrin Cooperman	New Mountain Capital	<ul style="list-style-type: none"> <li>Target HQ: New York, NY</li> <li>New Mountain's investment has allowed Citrin Cooperman to accelerate inorganic growth plans, completing 10+ acquisitions since October 2021</li> </ul>
Sep-21	Schellman & Co.	Lightyear Capital	<ul style="list-style-type: none"> <li>Target HQ: Tampa, FL</li> <li>Lightyear aims to help the company by supporting both organic and M&amp;A growth opportunities while continuing to invest in expanding the cybersecurity and IT audit practice</li> </ul>
Jul-21	EisnerAmper	TowerBrook Capital	<ul style="list-style-type: none"> <li>Target HQ: New York, NY</li> <li>TowerBrook aims to help the company accelerate its evolution of service offerings by investing in talent and technology and strategically expanding via organic growth and M&amp;A</li> </ul>



# About ClearSight

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has made an investment in

  
**Health & Wellness PARTNERS**

  
Buyside Advisor

  
**INTERLOCK EQUITY**

has made an investment in

**IGS** | INVESTOR GROUP SERVICES

  
Sellside Advisor

**T&Co**  
Treacy & Company

has been acquired by

  
**Cherry Bekaert**

a portfolio company of

  
**PARTHENON CAPITAL**

  
Financial Advisor


  
RLH


has sold a majority stake in

**CROSSCOUNTRY CONSULTING**

to

**INVESTCORP**


  
Financial Advisor

  
**ADVI**

has received a strategic investment from

**SHERIDAN CAPITAL PARTNERS**


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has been acquired by

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Sellside Advisor


  
**HURON**


has divested its

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**OliverWyman**

  
Sellside Advisor

  
**CMA STRATEGY CONSULTING**


has been acquired by


  
**EY Parthenon**

  
Sellside Advisor

**CORECOMPETE**

has been acquired by

  
**accenture**

  
Sellside Advisor

**Deloitte.**

has sold its

**Life Sciences Pricing and Contracting Solutions (PaCS) Business**

to

**Model N**

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