**Private Equity in Accounting**

**By**[**Daniel Hood**](https://www.accountingtoday.com/author/daniel-hood) **May 9, 2022 9:10 AM24 Min Read**

**Transcription**:

Dan Hood: ([00:03](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=3.279))

Welcome to On the Air with Accounting Today. I'm editor in chief Dan Hood. You know, one of the more interesting developments in the past couple years has been the entry of private equity into the accounting space, with PE firms taking stakes and creating ventures with major accounting firms like EisnerAmper, Citrin Cooperman, Schellman & Co., Warren Averett, and many more. Here to talk about all that, and what it means, is Phil Whitman, the president and CEO of Whitman Transition Advisors. Phil, thanks for joining us.

Phil Whitman: ([00:24](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=24.71))

It's my pleasure to be here with you, Dan. Thank you.

Dan Hood: ([00:28](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=28.26))

All right. Well, I'm glad to have you here, particularly because this is a topic that's relatively new and I think a lot of people are interested in it, but don't necessarily know a lot about it. I don't, I know I don't. So, I've got a lot of questions I'm going to start with, why do you think private equity is getting into accounting? What attracts them to the field?

Phil Whitman: ([00:44](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=44.62))

Yeah, sure. Thank you, Dan. So, public accounting has typically been very recession proof. You know, there's a recurring revenue model that annuity business in tax and audit, and that's very attractive to these private equity folks with the advent of, uh, adding business advisory services and the ability to cross-sell other services, private equity typically makes investments in many different types of businesses. So, they have the ability look, the trusted advisor. If he has an opportunity to sell something to a non-attest client, there's a 80% chance that those clients are going to buy from the CPA firms. So, to the extent that PE has other business service models, whether it be in technology cybersecurity or anything else, uh, there's a tremendous opportunity for them to really have a, uh, an exponential increase in revenue or wallet share per client. There's lots of dry powder out there, you know, with the stock market, being at an all time, you know, bull market.

Phil Whitman: ([01:59](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=119.85))

Uh, I know now we're starting to see, uh, uh, the decline that everyone's been chatting about. People have been a, uh, somewhat fearful of continuing to invest in the market. So, all these family offices, uh, have lots of, uh, money that they have in private equity is looking for recurring revenue businesses. But I think one of the true factors is public accounting. There's a low cost of entry. And what I mean by this is so unlike most other businesses in a typical CPA firm M and A transaction, firms have always been valued based upon gross revenue, you know, and for the past eight or so, uh, or actually since 2008, uh, we have hardly seen multiples greater than one times gross revenue. So typical CPA firm to CPA firm deal, not really looking at what in the private equity arena they call EBIDA. So, in a typical transaction for private equity, they would look at EBIDA and they would pay a multiple of EBIDA.

Phil Whitman: ([03:23](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=203.69))

So, um, when you come to what I would call a normalized EBIDA for a CPA firm, you typically would say, okay, Mr. CPA firm partner, that's making half a million dollars a year. The reality is we probably could, if the recruiting arena weren't so challenging, find a young senior manager or director to do your work for $250,000 a year. And the reason you make 500,000 is the other 250,000 is a distribution of profits because you're an owner in the business. So, you know, if we did that and we went across a partner group and sort of said, okay, this is profit, and this is compensation. We would create an artificial EBIDA. And typically, if you looked at that multiple of one times gross revenue, you would probably have a multiple of EBIDA. And it all depends upon the size of the firm and the level of compensation of probably somewhere between five, uh, to seven times EBIDA.

Phil Whitman: ([04:43](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=283.47))

We recently introduced a friend of ours to a private equity group that deals with insurance businesses. And this gentleman had a bottom line of half, a million dollars. He actually ended up doing a deal with private equity because they paid him 10 times EBIDA they wrote him a check for 5 million. He never thought his business was worth that much money. And we've been hearing about multiples in some industries into the teens, double digits now in public accounting, as I said, that multiple is significantly lower. And I think private equity sees that as a tremendous opportunity to get involved in a business. As I've said, that's recession proof has the ability to cross sell and generate revenue from other services. And I, I, I just think it's an amazing opportunity for both PE and the CPA firms,

Dan Hood: ([06:00](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=360.49))

Right? Well, that certainly, yeah, it makes sense right there, uh, it's a recurring revenue, uh, steady cash flow and then potential upside with cross selling. And then, uh, also relatively inexpensive compared to some of the other things they might be looking at, uh, it, but I would like to, and it, that makes a lot of sense on their point of view. You mentioned a little bit obviously about why it might be attractive to accountants, but I'd like to maybe talk a little bit, dive a little bit more into that, you know, what are, what are firms hoping to get out of these deals other than obviously something better than a multiple of one?

Phil Whitman: ([06:25](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=385.3))

Yeah. So, you know what we find, and, and Dan, you know, in the past, you and I did a podcast, uh, that we called the fearful mindset and in public accounting, there is a fearful mindset. There are several very entrepreneurial firms or early adopters, but we also have the copycat syndrome. And, you know, years ago, it was very hard to get folks to the M and a table. There was fear that someone would see them out in a restaurant having breakfast, lunch or dinner and rumors would spread. And, oh, God forbid, someone should think I'm planning on merging up into another firm so that there were those fears. And while I do believe there are many firms that are looking at private equity and exploring, you know, because now that they've seen handful of other firms do it, they want to know what this is all about.

Phil Whitman: ([07:23](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=443.54))

So, here's my analysis of what firms are hoping to get out of these deals. Number one, they get to take some chips off the table while still having an ability to earn a great living. Okay. So, in several of the deals that you discussed, it's fairly common knowledge that many of the equity partners in the firms receive their retirement benefit, or let's say seven figure checks. Okay. They, in one case, one of the firms, you know, the cost of getting that seven-figure check, and maybe it's some sort of present value calculation. You can rationalize the equity partner group experienced a decrease in compensation. Okay. So, if a partner maybe was making, you know, a million dollars a year, maybe he's making $750,000 a year, and these are not exact numbers, but, uh, you know, every deal is different. It's my understanding in one of the transactions, the leadership team in the firm took the hit and none of the partners experienced a decrease in compensation.

Phil Whitman: ([08:44](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=524.89))

So, number one, if I were to give you a check today, Dan, a seven-figure check, and you could continue doing what you were doing, and whether you make a little bit less or there's no change, would you not raise your hand and say, I'll go for that deal. So, taking some chips off the table, so number two, having a capitalization partner. So, imagine this, you now have a very large checkbook behind you. You have an ability to compete in the M and A arena and more and more firms are coming to the table with cash front. And it's a very different game today. And we speak with firms daily and very frequently, we are now hearing well, I know what that backend deal is like, but I've been hearing about a lot of cash front opportunities. Can you share them with me? So now leadership team has the ability to come to the table with a quote suitcase full of cash.

Phil Whitman: ([09:59](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=599.1))

And cash is a motivator with that additional capitalization. You can pay your staff greater salaries. You can hire the best and brightest. And there is an unbelievable war for talent. I mean, this is probably the biggest challenge our profess is facing. It is worse than it has ever been. I think with that suitcase full of cash firms will also be able to further invest in bleeding edge technology that will help them be more efficient. And they will have not only the ability to come to the table and put cash front for CPA firms, but they'll be able to buy other advisory service businesses. And we typically say, you can build it, which is very slow, or you can buy it, which is you're instantaneously in business. So, I think there are a lot of compelling reasons that firms are partnering with private equity. You know, you get that capitalization, you have a nice check and, and the reality is the traditional backend M and a deal you are relying upon the future generations. You know, it's almost a Ponzi scheme, a house of cards that, you know, the, the money hasn't been set aside and anything can happen.

Dan Hood: ([11:42](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=702.37))

Sure. Yeah. So, it's interesting. I mean, I think a lot of people looked at it and said, oh, maybe it's just, it's purely a retirement issue. But as you mentioned, it's, that's certainly that it's getting some chips off the table it's, uh, helping with the retirement issues, succession issues. Uh, but it's also for, like I said, for some firms it's providing, you know, a war chest for whether it's talent or, uh, M and a, and more and more M a seems to involve non-accounting firms and they have different expectations about cash up front and all that sort of stuff. Uh, it's interesting. Cause you talked about, uh, there was a time where people were almost embarrassed to be seen, as you said, talking about a, a potential merger and nowadays mergers are everywhere. They're, they're all over the place and have been for, for quite some time. Do you see a similar thing happening with, with private equity or reaches a point where it's just, it's super common and no one even thinks twice about it because it happens a lot or, or maybe a different way to put it is how big do you think this is going to get? Uh, you mentioned there's a lot of dry powder out there. Do we, uh, do we expect to see a lot of firms getting into these kinds of deals?

Phil Whitman: ([12:36](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=756.24))

So that's a great question, Dan and we are already seeing it. I'd like to call this the private equity invasion. So, with rock and roll, it was the British invasion. You know, the Beatles and the rolling stones. This is going to be huge. We at Whitman transition advisors are in discussions with seven private equity firms and we've set up meetings for three of them. So far with hundred plus million-dollar firms. One of these private equity clients is looking to write a, a minimum check for 100 million to 300 million. Wow. So, you think, okay, that, that really the reality is if she said, well, you, in that case, you need to be at least a hundred million firm. That's good for maybe 40 firms. So why am I even listening to this? But wait a minute, let's back up. This is not just for large firms.

Phil Whitman: ([13:41](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=821.49))

We have private equity groups that are not going to look for a three-to-five-year liquidity event. They will be long holders and are willing to make minority interest investments in firms as small as 10 million. We have recently. Now I, I, I think it's germane to this conversation to share that, you know, we have several different types of alternate practice structures. You know, obviously we have CBIS a publicly traded company, and obviously there have been several others that were in and then, you know, obviously are no longer publicly, uh, traded. There was the, you know, H R block RSM, um, a glad, you know, they bought themselves back. But in any event, we are now seeing potential specs in the public accounting arena. We have firms that are looking to buy clean New York stock exchange or NASDAQ public shells. And we have one publicly traded company that is a, uh, Berkshire Hathaway style, you know, Warren buffet, investor type organization that is now looking to enter the public accounting arena. Obviously, we have wealth management as buyers of tax practices. I mean, we are, uh, really at, at, at a, a point where I think there are so many factors that are converging, that are making people say public accounting is a game that I really want to be in.

Dan Hood: ([15:35](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=935.1))

Very cool. All right. I want to dive a lot more into this. You talk a little bit about, uh, uh, the sizes of firms that can get into it. I want to dive a little bit more into that and how some of these deals are structured, but we're going to take a quick break. All right. And we're back with Phil Whitman of Whitman transition advisors, and we're talking about the, the PE invasion. What's, we're going to call it the PE invasion to, as you, you mentioned the, the British invasion of the sixties, we'll call it the PE invasion, uh, into, into public accounting. You talked about the, the, uh, the potential large-scale interest from all kinds of pots of money, uh, interested in entering the public accounting arena. Let's talk a little bit more about the, again about the, the accountants themselves. Uh, you said, you know, it's not just for large firms, it can be for small firms as well, but are there particular types of firms that these deals make sense for that, you know, a type of firms regardless of size, whether it makes sense, you talked about some of them looking to make big investments in technology or to, to looking to be a war chest for M and a, is that the kind of firm that should really be pursuing these deals?

Phil Whitman: ([16:32](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=992.52))

So, so I think there are many different factors. Um, most of the private equity firms that we've engaged with are looking for firms with less a test. So, audit comps and reviews, because again, you know, non-CPA firm ownership of CPA firms, uh, there are several states that don't allow it. And there are many states that as long as it's a majority of CPAs, but what we're talking about here is obviously taking a firm and turning it into an alternate structure practice. So ultimately, they'll do a deal with a firm that, you know, has the, a test function. I mean, obviously look at Citrin Cooperman and Eisner APER, uh, but most of them are saying less audit, less, uh, a test work is better. So high consulting, a lot of tax work, I think firms with, uh, succession issues. This makes a lot of sense for, and, you know, we're working with one firm right now, very successful firm.

Phil Whitman: ([17:37](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1057.02))

They have young partners, they have an, you know, so they have the yesterday's generation, and they have tomorrow's generation. And I think most private equity firms are not going to want to look in a firm that, you know, in three to five years, all of senior leadership is going to be gone. I think they, they want a nice blend where, you know, you've got younger partners as well as older partners. Um, they don't just want a, uh, a succession play, but they do obviously, uh, want to engage with firms that where senior leadership maybe doesn't have the confidence in, uh, the younger guys. And, you know, if you could triple ensure and go from a, a, I don't mean this in a derogatory fashion, but almost like a junk bond to a AAA rated bond, you know, uh, private equity, uh, or some of these alternate, uh, opportunities will enable that.

Phil Whitman: ([18:31](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1111.64))

You know, obviously there are firms that have, uh, cash flow issues. CPA firms typically are not very well capitalized. You know, the owners of the business typically, uh, at the end of their calendar or fiscal year, pretty much suck out, uh, every dollar, you know, and, uh, you know, it's, it's, it's, it's a, uh, pro like most professional service, uh, businesses, you know, there's no inventory. Uh, you might say the inventory is you wake up every day and you have 8, 10, 12, 14, 16 glorious hours to work. But we do see firms that because they don't leave a lot of money in the business, it's painful to make the investments, uh, look, what's been happening in the talent arena. You know, have firms been able to keep up with fee increases to the extent that they've had to increase compensation. I heard a story, uh, just, uh, yesterday where our one firm hired a tax manager, uh, at 140,000, he had been making like a hundred, 10,000 at his smaller firm.

Phil Whitman: ([19:38](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1178.13))

And after the busy season, his old firm called him back and they offered to pay him 210,000 and bring him back as a partner. Whoa, how can you, how can you go? So here was a guy, he was making 110,000 and less than a year later, he's going to make 210,000 and be a partner, be a partner and be a partner. So, okay. Your cost of delivery. Now, in that particular case, obviously they have partners that are retiring, but succession, uh, is certainly an issue and can the smaller firms deal with, okay, I really want to keep that guy, I'm paying him 140. Can I pay him two 10? No. They offered the guy 175, but where did he go? He went back to his old firm. So, you know, firms a, a, again, having that war chest. And I think also this is really good for a firm, whether you have a younger managing partner or an older managing partner firms that want to double triple or quadruple in size people that are passionate about this business. And I think it makes a lot of sense, you know, in, in one particular case, you know, we are working with a very large firm that senior leadership is due to retire in a couple years. Well, this firm potentially could take a minority investment by private equity and private equity steps in, and now, okay, now we don't have to pay out senior leadership that might own 50, 60% or more of the firm. Yep.

Dan Hood: ([21:06](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1266.18))

It's interesting. You know, one of the things that's interesting to me is that as firms look at this, that probably some of the things they need to bear in mind are the same things they need to bear mind if they're thinking about them, putting themselves on the M and a market, which is if you have deep flaws in, in your firm structure or your succession structure or something like that, that's going to make you your, if you're looking to M and a, or to PE to solve those problems, those are exactly the things that may make M and A, or, or M & A candidates or PE firms look at you go, I'm not as interested in you. Um, you know, if you don't have the new services, if you don't have the technology in place, is that, is that, does that seem reasonable to you? The notion that, uh, the things that might make you unattractive as an M & A candidate would, would also make you unattractive for PE?

Phil Whitman: ([21:44](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1304.83))

Yes. And I think ultimately all those factors will play in the valuation of the firm. I mean, there will be many firms that PE will walk away from because clearly there are much better, um, partners for them to, uh, get married to.

Dan Hood: ([22:03](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1323.6))

Excellent. All right. Um, you mentioned, uh, the alternative practice structure that I think most of us know mostly from, from, uh, CB as in, uh, Y right, where they split up the non-attest and a test. We're seeing some of that with, uh, the firms that are making deals with PE. We've seen it with the, uh, Citrix recruitment and Shelman and co and some of these where they, they have come up with new structures for how the firm is, is arranged. Are, are, is there a common deal? Actually, maybe it's two points. It's common firm structure that emerges from these deals. Uh, and is there a common deal structure for them?

Phil Whitman: ([22:32](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1352.09))

So, you know, we have firsthand experience. Um, we were fortunate to close a, uh, transaction with Eisner APER. We are working with Citrin Cooperman on another, uh, transaction. So, we do have firsthand knowledge of what a transaction looks like from the perspective of not the foundational firm rolling in, you know, but a firm that's rolling in. And what we have seen are very, very comparable models. You know, they might call, you know, obviously one of the, one of the magnets I think is, and you may have heard of the proverbial second bite at the apple, and I haven't talked about this at all, but so when private equity, let's say, for example, Eisner APER, you know, they were roughly, uh, half a billion in revenue when they did this transaction, they've been doing a phenomenal job of, with their private equity partner, TowerBrook of merging in firms in multiple geographies.

Phil Whitman: ([23:45](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1425.66))

My understanding is, um, we're about to hear of another transaction relatively soon, uh, sizable transaction. But what I would say is that the second bite at the apple is when private equity determines it's time for a liquidity event. And that might be when Eisner APER or Citrin Cooperman get to a billion in revenue, or it might be a timing factor. It might be where are we three to five years from now, and we've invested, and now it's time to, you know, monetize that investment. So, the second bite at the apple is okay, so, and the big question everyone has is who is private equity going to sell to when they have that liquidity event? And it's our belief that it will either be another private equity firm that's doing the same thing, and big will become bigger, or rather gigantic. It may be another CPA firm, or it may be another party that's totally uninvolved in the business of public accounting.

Phil Whitman: ([24:57](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1497.59))

It might be a California pension board. It might be a T a craft. It might be someone that just wants this recurring revenue model. That's going to provide them with a nice conservative return on the investment, but for the partners and the staff of the firm, that means they're going to get another check and how are they going to get another check? Well, regardless of what you call it, I believe when each of these deals were structured, one of the magic points was the partners in the firm, the equity partners had an opportunity to get stock. Maybe it was Phantom stock in the private equity company that a data deal may have been valued at $1. And the bet is that when they do this transaction, it's now worth two, three, or in some cases, even $4. So quadrupling, you know, and, and each partner obviously got a certain amount of them, and there are options that they could get more of them, and they value them every quarter.

Phil Whitman: ([26:12](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1572.83))

And so, this is, you know, sort of, um, you know, using stock as a currency, although not, not, not publicly traded stock. So that second bite of the apple, uh, and in some cases for really, uh, the, the younger partner group or up and comers in the firm that will be future partners. Some of them will be getting first bites at the apple, but we believe that there will be, um, the current younger partner group that might even have a third bite at the apple. So we, we, we have, uh, a real wealth building proposition or not. We private equity does and, uh, I think it's, uh, like the Beatles. Uh, it's, it's, it's a sensation and we're going to continue seeing more. So, I don't know if I answered your question, but I think from a deal structure we've been seeing very, very comparable, you know, little differences. I do believe we're going to see additional tweaks to the model, and there will be some deals out there that will ultimately, because of those tweaks be, uh, more attractive than, um, than some of the earlier ones.

Dan Hood: ([27:28](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1648.75))

Right. Well, it's, it's fascinating. Uh, you know, you say that second and third bite of the app was, sounds particularly exciting for, for potentially the partners who might be involved in that I could see whether I'd be super excited about it. I won't be seeing any money from that. So I'm looking actually, what I find a little more interesting is that notion of, you know, uh, who owns firms after that, you open it up to this potential, you mentioned, uh, uh, large pension funds, that kind of thing, you know, where, where accounting firms become a place, a safe place for people to park money, where they know it'll get, you know, a nice, say, a nice conservative investment, regular cash flow. That's a fascinating idea. And, and really one that takes you two or three steps beyond, I think, what anybody is thinking about at the moment when they think about PE, they think of it as very what we're seeing today, but the further down the road, it could lead to some very, very interesting, uh, uh, developments and a new role almost for, for accounting firms in the economy as, as an investment.

Dan Hood: ([28:18](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1698.05))

Uh, that's a, that's a fascinating idea.

Phil Whitman: ([28:20](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1700.04))

Absolutely. And, and, and Dan, if I could just interject one more thing, because I don't believe I've addressed this, you know, going back to that fearful mindset, you know, typically it's the same as in a backend deal where a smaller firm merging into a larger firm, there's a concept of, oh, now I'm going to have to report to someone. So, the, the, the, the answer is yes. So, um, Charlie Weinstein, CEO of Eisner advisory group, uh, a friend, a client, a colleague I've, I've known him for 20 plus years for the first time. probably in 30 or 40 years, he has a boss, you know, um, he's reporting to someone, I'm sure he's having a tremendous amount of fun. It's very exciting for him. Um, but I think firms need to think about it, not as truly a boss, you're going to have a partner.

Phil Whitman: ([29:24](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1764.1))

You're going to have someone that is going to be sitting at the table with you. That has relationships that may, uh, have some tweaks. But I would say with the exception of, of, of maybe the new mountain, uh, which is Citrin partner and, uh, TowerBrook, which is Eisner Amper’s partner, what we have seen, uh, and we've been engaged by several private equity firms to provide them knowledge of the public accounting arena. So, you truly are getting a capitalization partner and not someone that knows a whole hell of a lot about the business of public accounting. So, I, I, I truly believe that, you know, for a long while the management and the running of the firm, that's going to be business as usual, again, just with some other folks, you know, maybe with belts and suspenders sitting at the table. So,

Dan Hood: ([30:28](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1828.33))

Yeah, I know it's interesting. You should say they don't know anything about, about accounting. They're not, it's not like you're selling to another accounting firm where actual managers and bosses will come in and be telling you how to do your day to day. Um, it's, uh, like I said, more of a long term, uh, uh, partner issue, it’s a fascinating area and it's, it really is only just beginning. It's only just a few years old now we'll be looking forward to seeing what, what happens of it. And Phil will have to have you back on a regular basis to clue us in, on, on the latest developments, uh, any final thoughts, uh, uh, before anything from one final point, if anyone affirm was looking at this that you think they should bear in mind, uh, before we go.

Phil Whitman: ([31:00](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1860.67))

Yeah, absolutely. And thanks for that, Dan. So, I think one of the things I'd like to share is if this is something that you're thinking about, there is now increased competition because we have so many more private equity groups, you know, trying to woo firms. Um, you will absolutely get a better valuation for your firm. If you are the foundational firm for a private equity, that group that's entering the arena, communication and education is key. You must, must, must get buy in from your partner group. It's my understanding that Joel and Charlie did an amazing job and had, uh, a vote a hundred percent of their partners in favor and not one partner, uh, against doing the private equity transaction. And the last thing albeit a little bit self-serving, although we have several, uh, very friendly advisors competitors out there, you do need an advisor. The playing field has changed. Valuations have changed. And for some it'll be much lower for others. It will be significantly higher, but this is an opportunity to not put your head in the sand than be that ostrich, but it doesn't cost for you to explore. Um, it's our belief that for the right firms, this will be a phenomenal opportunity or like the Beatles and the rolling stones. It will be a phenom here.

Dan Hood: ([32:44](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1964.96))

Excellent. Right. And as you say, it's why it's worth, if you think, if you think an M and a deal is complicated, uh, this kind of thing is, is, is, uh, going to be much more complicated and well worth. As you say, getting a guide, getting a Sherpa, someone with, uh, some knowledge and experience to guide you through it. Um, so yeah, that's excellent. All right. Uh, Phil Whitman of, of Whitman transition advisors, thank you so much for, for coming on and clearing some of this up for us.

Phil Whitman: ([33:06](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1986.7))

Well, thank you so much for having me,

Dan Hood: ([33:08](https://www.temi.com/editor/t/7B3-qKLRM-2r8uveux5z46HwAfr1KxsnWmzeCnP7qcKdGWQin0S2eSp5SdAd6HS8NU6Nqo4OygC9f2e5hnJs7HH3YpM?loadFrom=PastedDeeplink&ts=1988.35))

Dan, and thank you all for listening. This episode of on the air was produced by Accounting Today with audio production, by Kellie Malone. Rate us and review us on your favorite podcast platform and see the rest of our content on accountingtoday.com. Thanks again to our guest. And thank you for listening.

[Daniel Hood](https://www.accountingtoday.com/author/daniel-hood)

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