

Impact of Private Equity

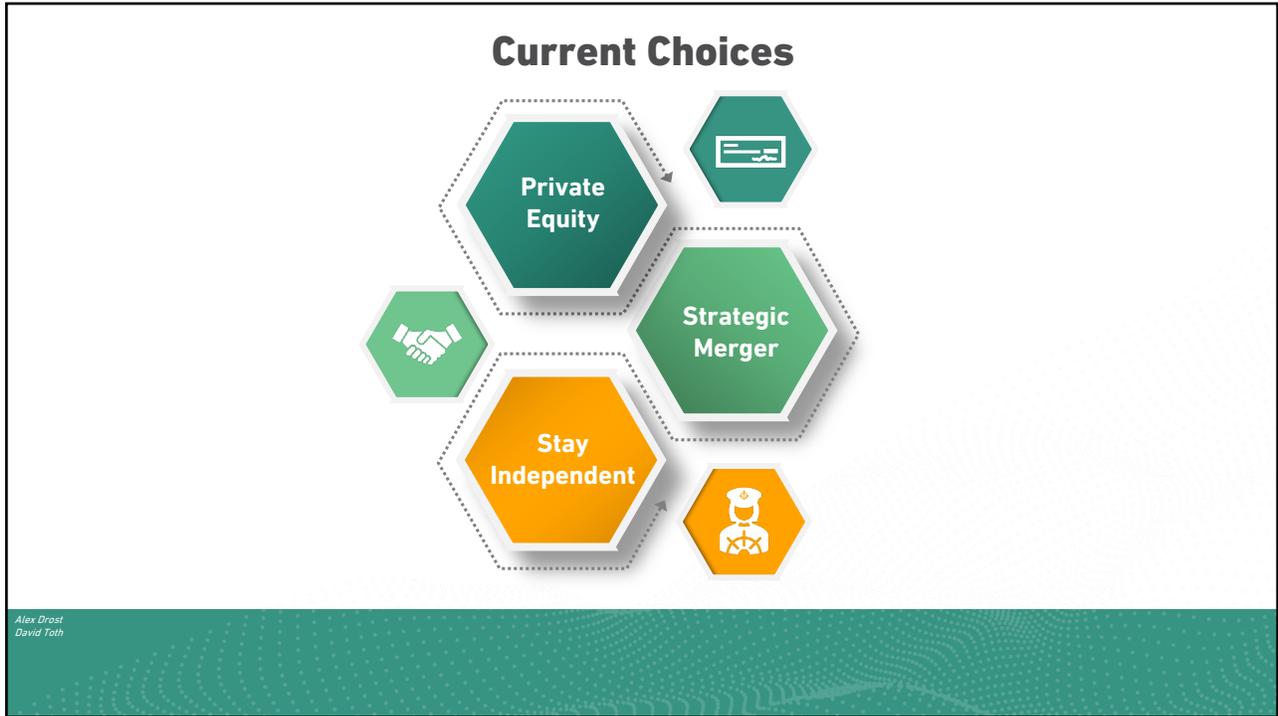
How PE's investment is reshaping the accounting and advisory industry

Presented by: David Toth & Alex Drost

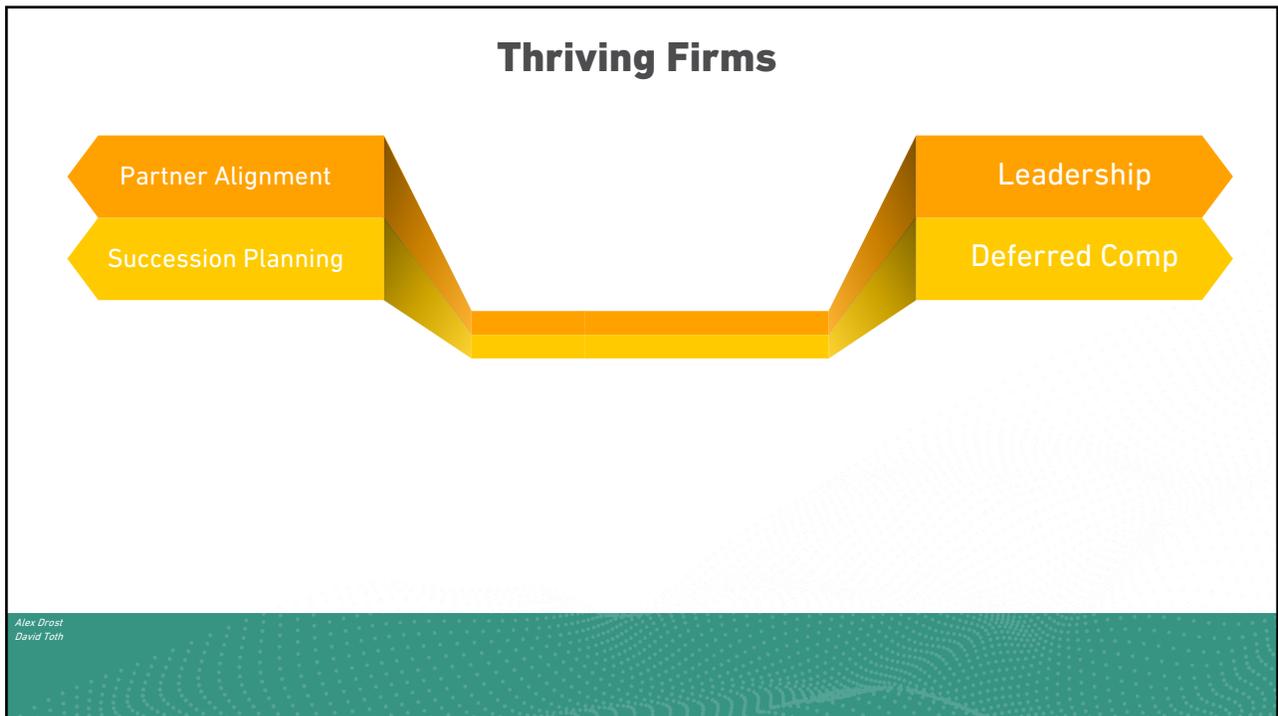
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Firms Must Up Their Game in The Competition for Growth

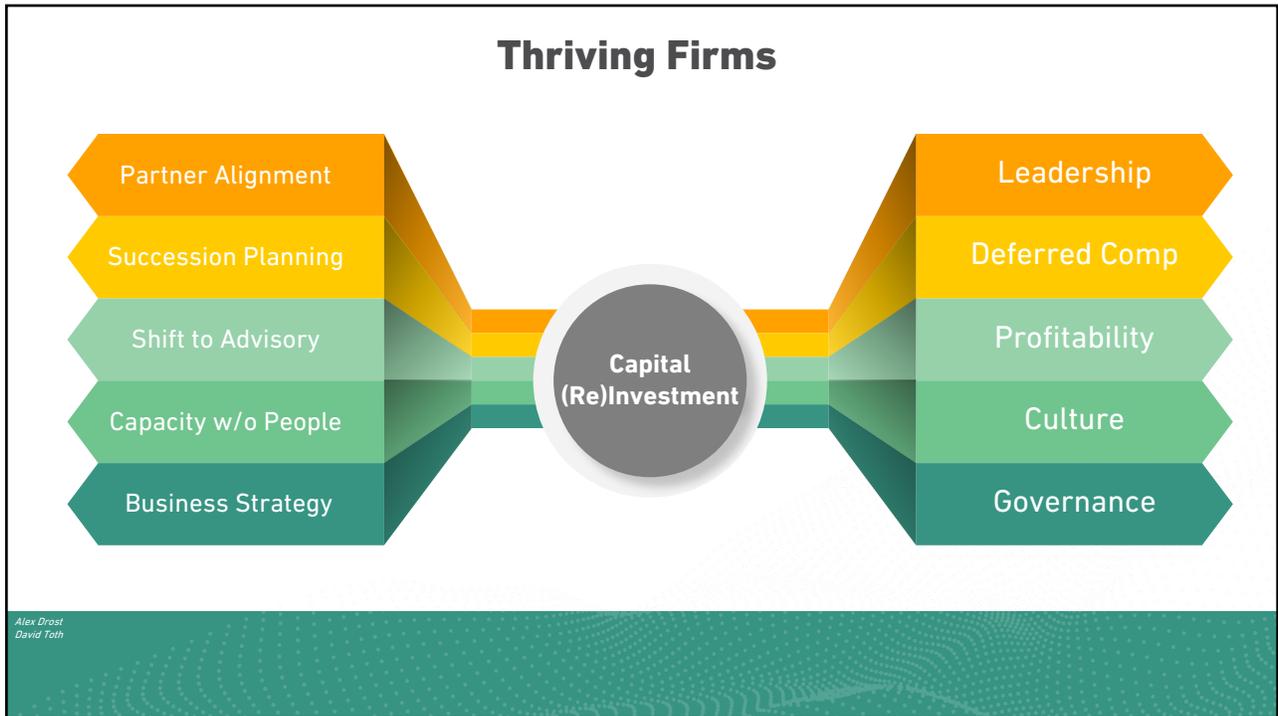
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Market Update

What's currently happening in the Industry?

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Industry Consolidation

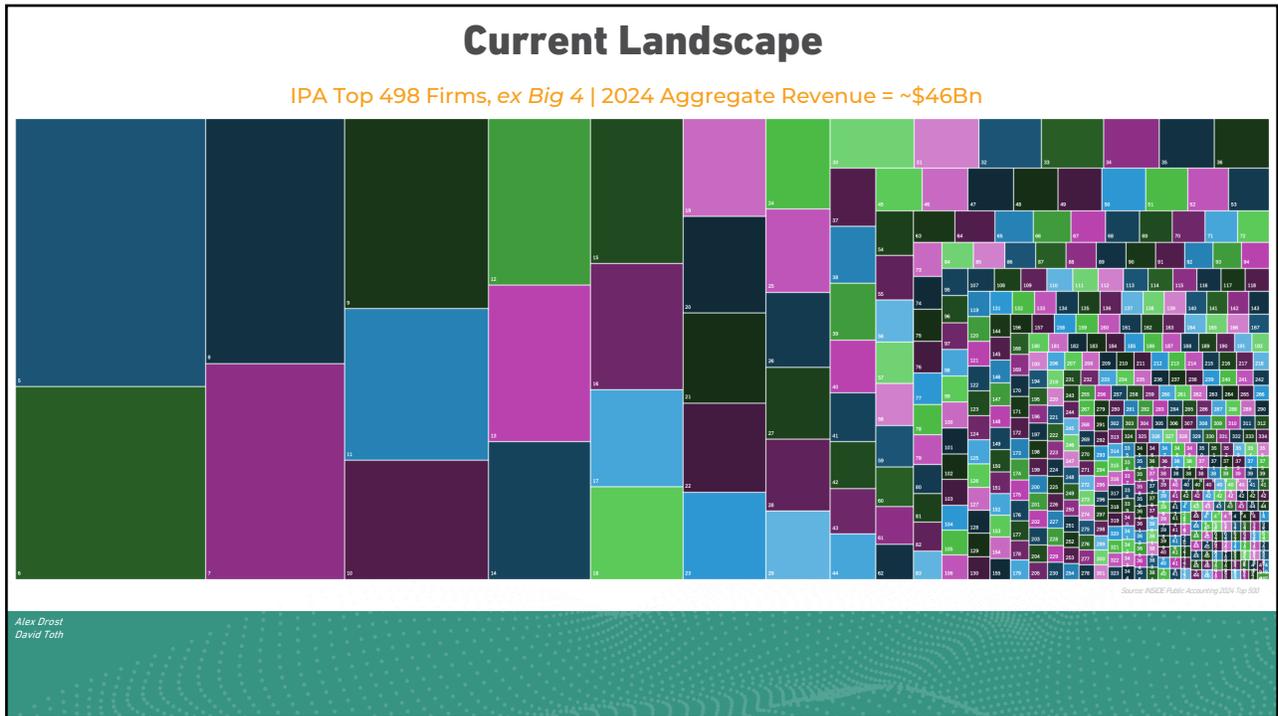
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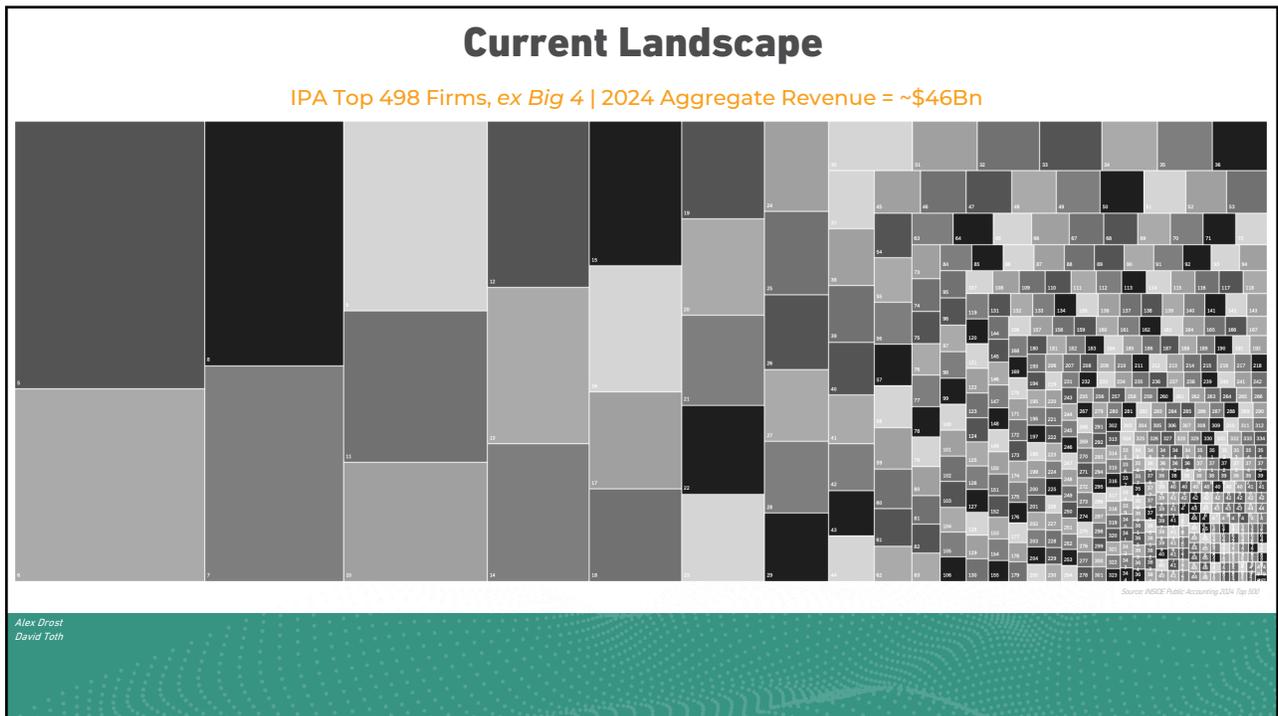
Industry Consolidation

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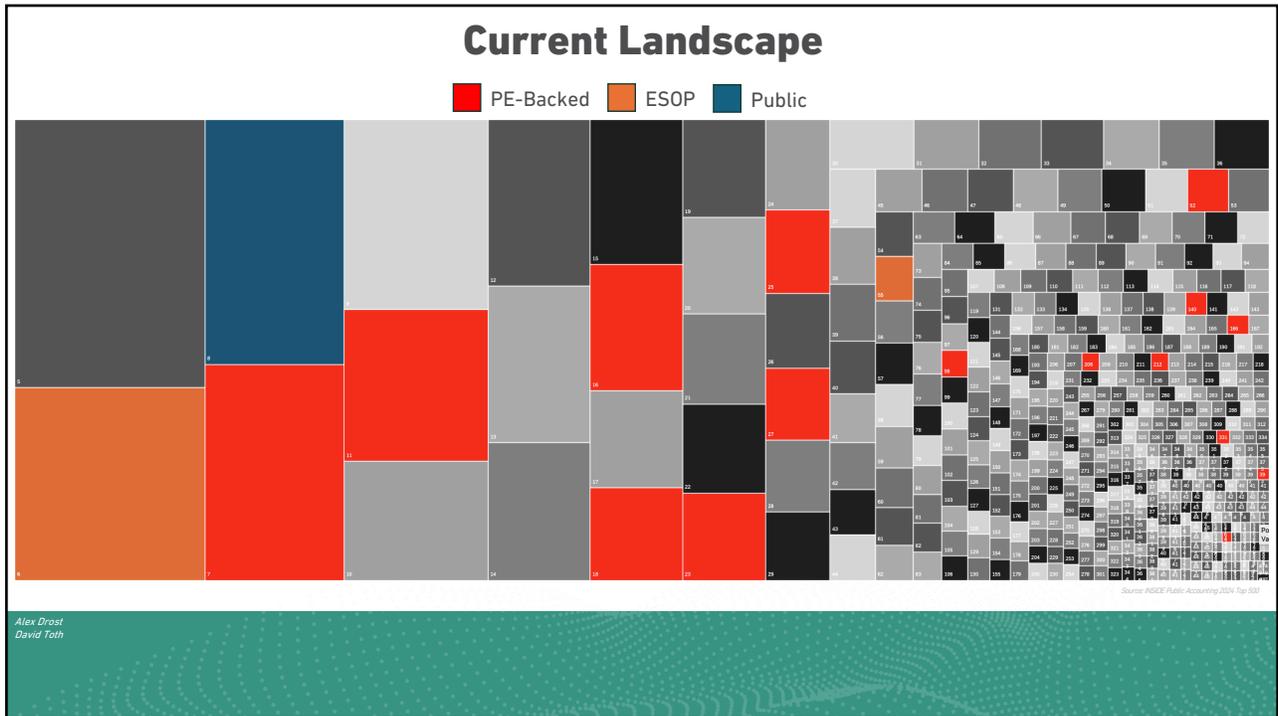
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Private Equity

What are PE's objectives?

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Private Equity Investments

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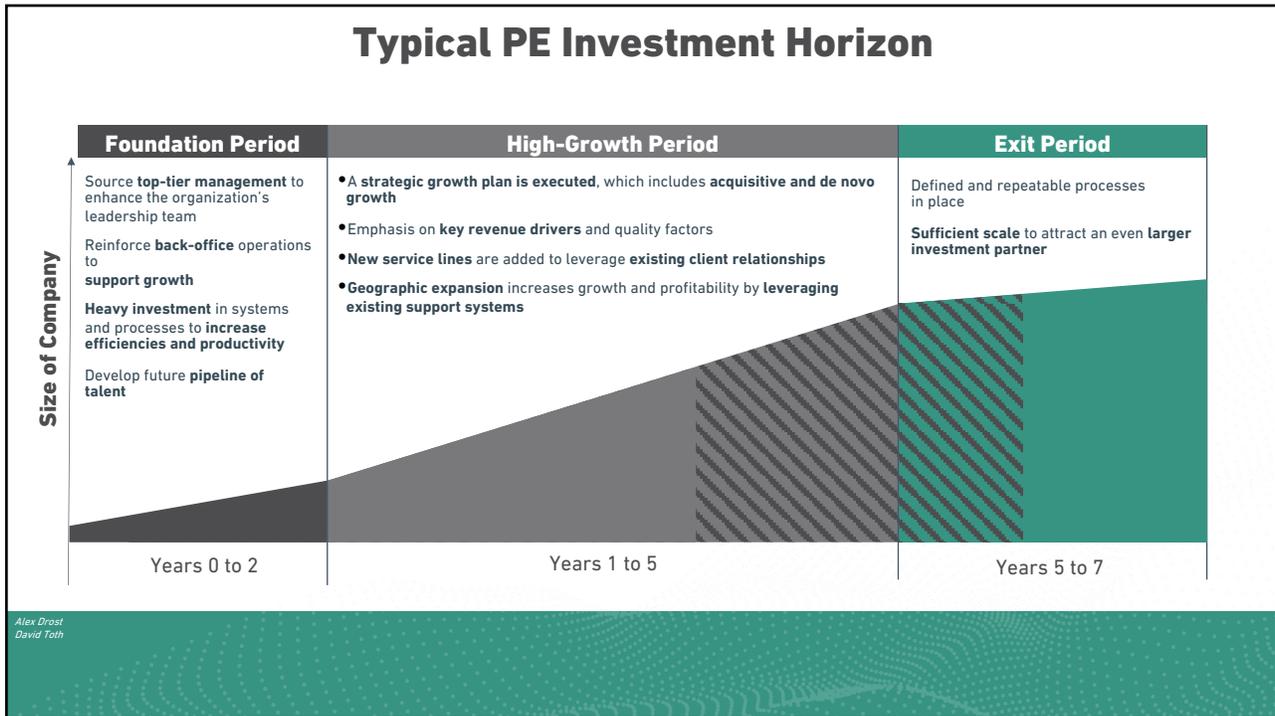
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Private Equity Investors

- Pool of Committed Capital**
Limited Partners (LPs) contribute capital, and the PE fund (GP) makes investments to earn returns for their LPs.
- Thousands of Different PE Funds**
With more than \$4 trillion in assets under management (AUM) there are a wide array of private equity funds.
- More than \$1 Trillion in Dry Powder**
PE funds are sitting on more than \$1 trillion and are hungry to deploy this capital into portfolio investments.
- Focused on Investment ROI**
Often measured by the Internal Rate of Return (IRR) or Cash on Cash over the life of the investment.
- Typical Fee Structure = 2/20**
PE firms earn fees through a "2 and 20" model, charging 2% of AUM annually to cover overhead plus 20% of the upside "Carried Interest".
- Success Begets Success**
PE Firms are in a constant cycle of fundraising and deploying capital via investments. Successful investments support future fundraising efforts.

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Private Equity Investment Types

Platform Investor	Bolt-On Acquisition	Minority Investment
<p>Financial buyers who desire to enter the market seek larger, established firms from which to build. These firms will likely have more infrastructure and service-line diversification to support growth.</p>	<p>Financial buyers with established platforms are rapidly growing through acquisitions. Smaller firms in existing markets and larger firms in new markets are of significant interest.</p>	<p>Financial investors (PE, Family Office, Mezzanine) with a desire to deploy non-controlling capital. Critical qualification criteria will be an established firm with strong executive leadership.</p>
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> » May be inclined to pay a premium to secure a platform investment in a highly competitive bidding process » Continued equity ownership is critical to align interest; offers upside potential » Buyer can draw on a large pool of talent to assist in building a management team, when necessary 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> » May want to establish a presence in a new geography » More cash upfront, potentially less future economic benefit » A greater understanding of operations and market dynamics likely reduces the time to complete diligence » Growth initiatives are extensions of existing activities 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> » Capital investment to fund growth and partial shareholder liquidity event » Existing shareholders retain a controlling interest in the business » Investment structure is likely more dynamic, potentially allowing for future redemption by shareholders
<p style="text-align: center;">Challenges</p> <ul style="list-style-type: none"> » Tend to be tough negotiators, and are likely to be slower to close » Process has potential for distraction due to extensive due diligence process » Use of debt in acquisition capital structure may require extra time for the lender to get comfortable » Learn as they go, drawing on past experience/success 	<p style="text-align: center;">Challenges</p> <ul style="list-style-type: none"> » Synergies must be present to increase total economic consideration » Have clear understanding of the business, extra critical in due diligence » Culture, strategies and processes are already defined, less influence on the company's future growth initiative » Less inclined to pay "platform" premium 	<p style="text-align: center;">Challenges</p> <ul style="list-style-type: none"> » Equity valuation will inherently be lower than a control investment » Despite minority position, investors will still have select governance rights » Some support is likely, but investor is likely to be much more "hands-off" compared to traditional PE » Reduced capital investment limits growth initiatives

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Investment Thesis

Why PE is Investing in Accounting & Advisory

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Accounting Industry Dynamics



Accelerating Industry Disruption

Continued technology advancements, offshoring, and the "way business is done" have disrupted traditional industry norms.



Evolving Market Demands

The business environment continues to develop and become increasingly complex, thus shifting and increasing demand.



Partnership Model Complications

Traditional partnership structures can make it challenging to remain competitive in a dynamic business environment.

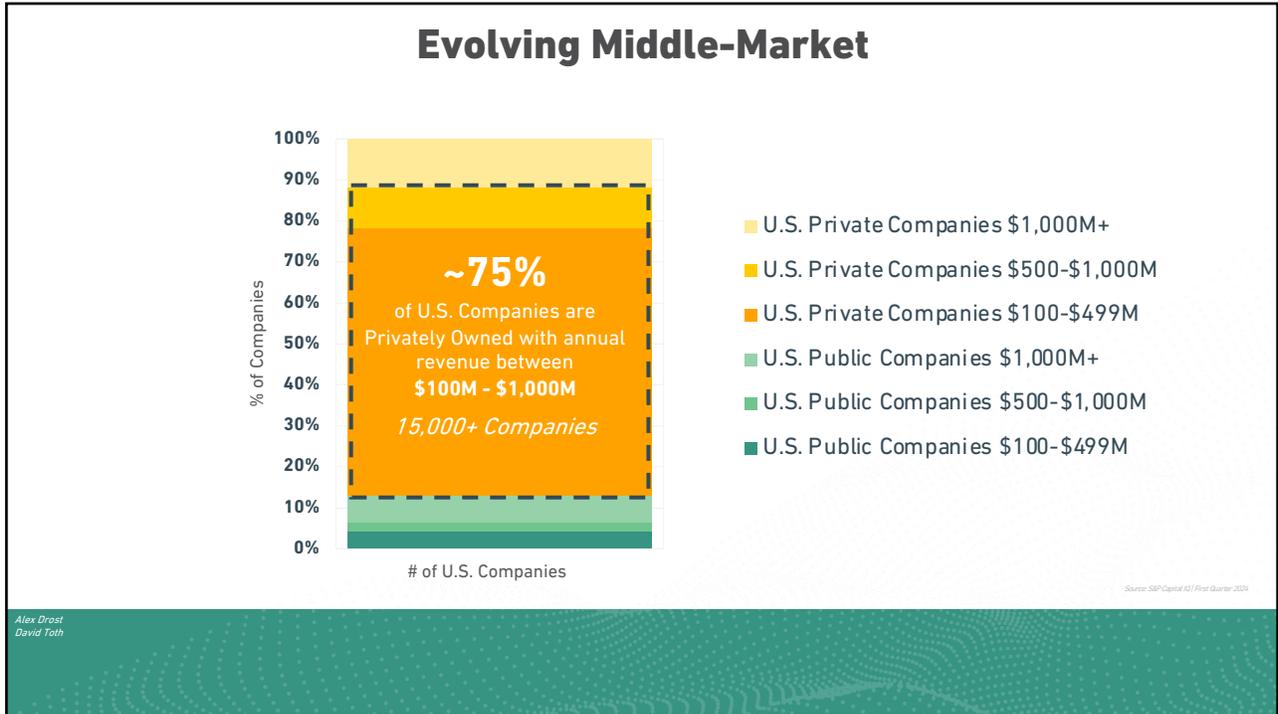


Lack of Clear Succession Plan

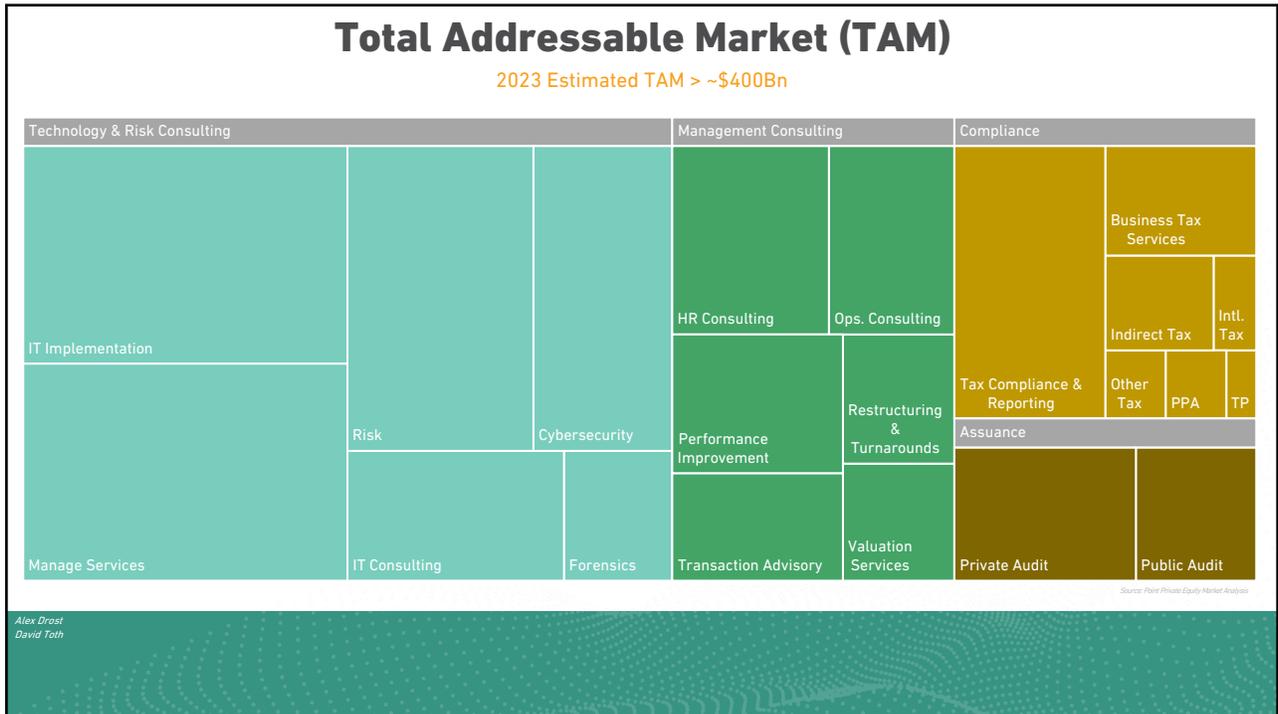
Younger generation tends to be more risk-averse and not as excited about the "path to partnership" often leaving a gap in succession planning.

*Alex Drost
David Toth*

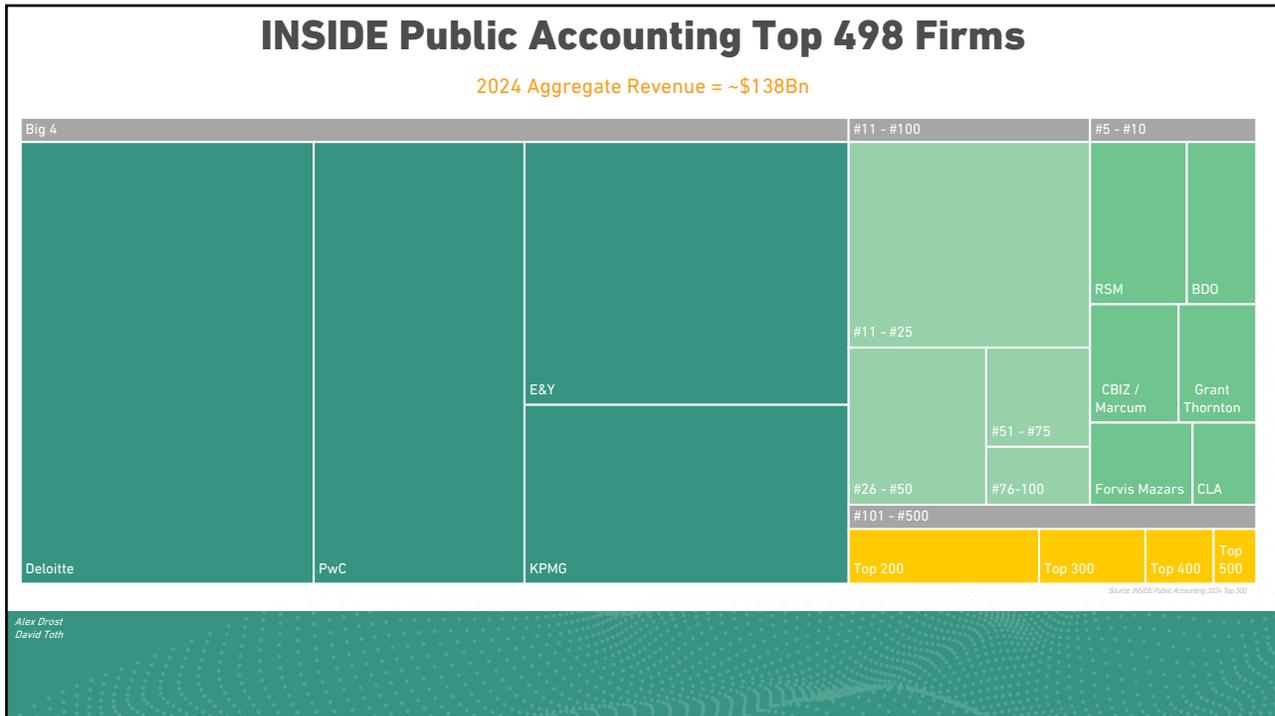
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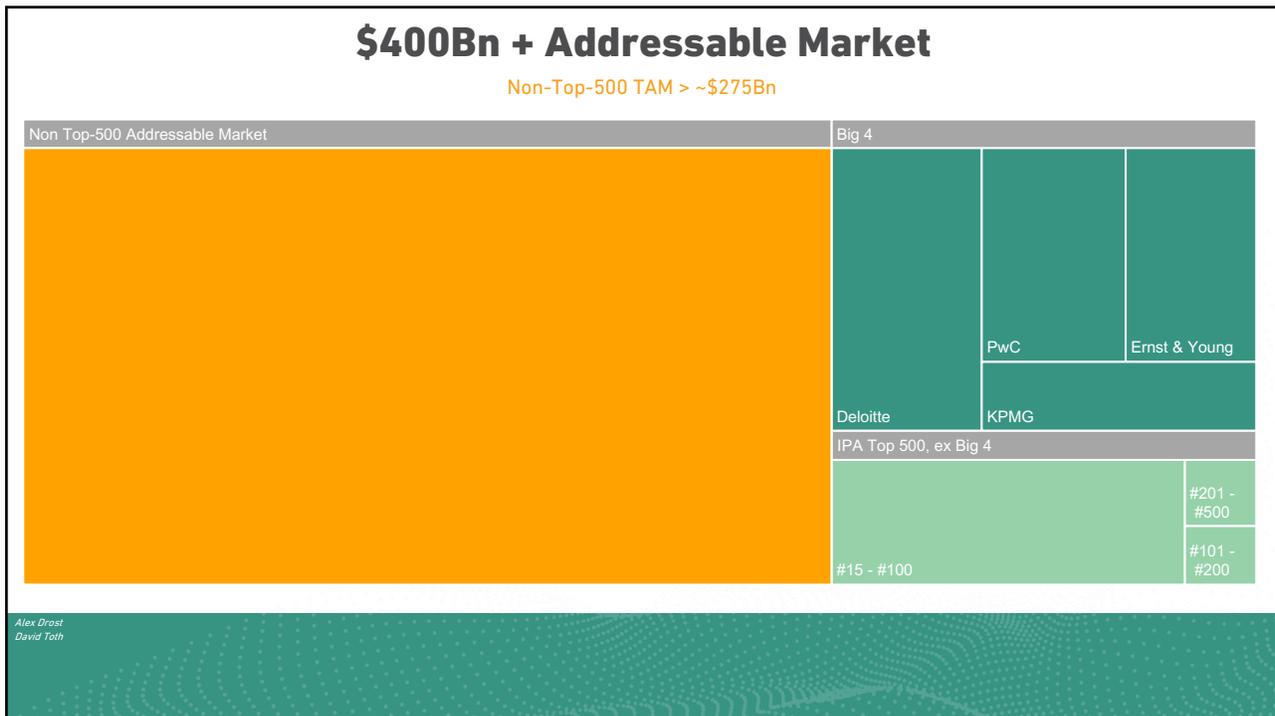
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Value Drivers

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Service & Client Mix
What services do you offer? Who do you serve? What are the client relationship dynamics?
- 

Industry & Geography Mix
Which industry do you serve? What is your geographic footprint? Where are your clients located?
- 

Profitability Margins
What are your profitability margins, by service/industry? How about your realization rate?
- 

Culture & Leadership
How is your turnover/tenure? What is the strength of your leadership team? What about your bench strength?
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Strategic Vision
Does leadership have a clear vision for the future of the firm? What are the current strategic goals of the firm?

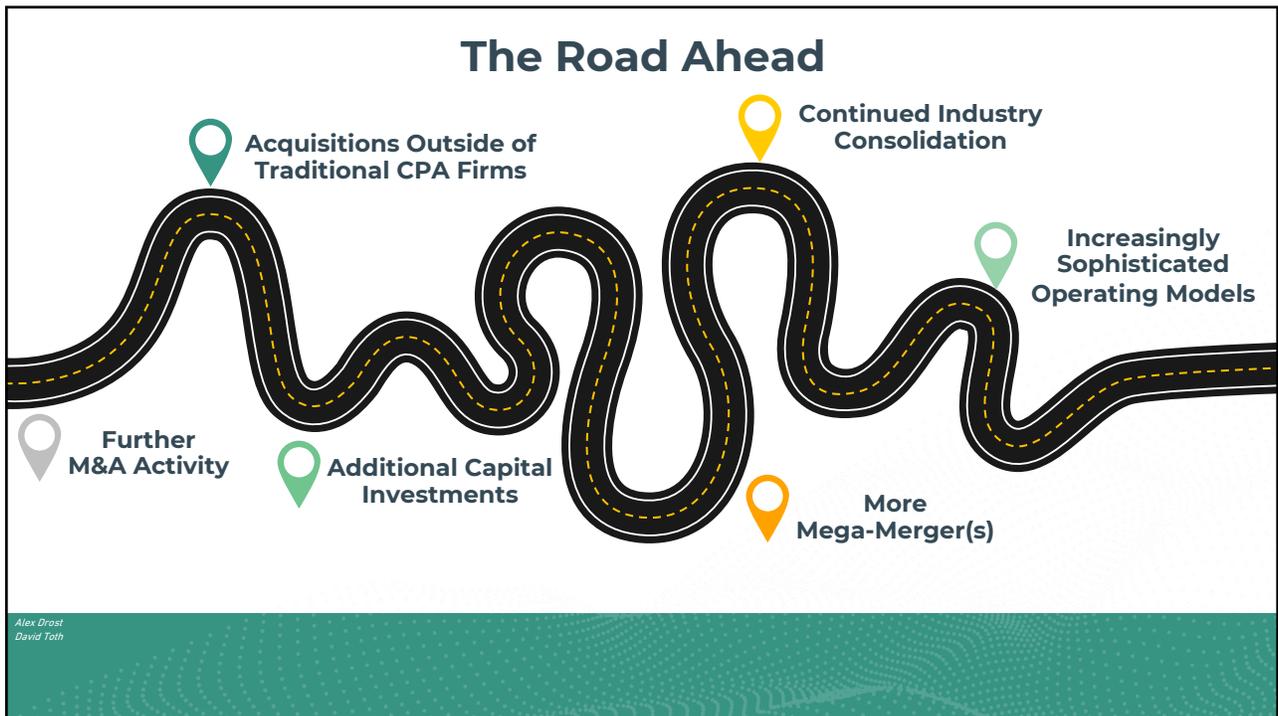
A graphic of a staircase with five steps, each represented by a 3D bar. The bars increase in height from left to right and are colored in a gradient from teal to yellow.

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