

Impact of Private Equity

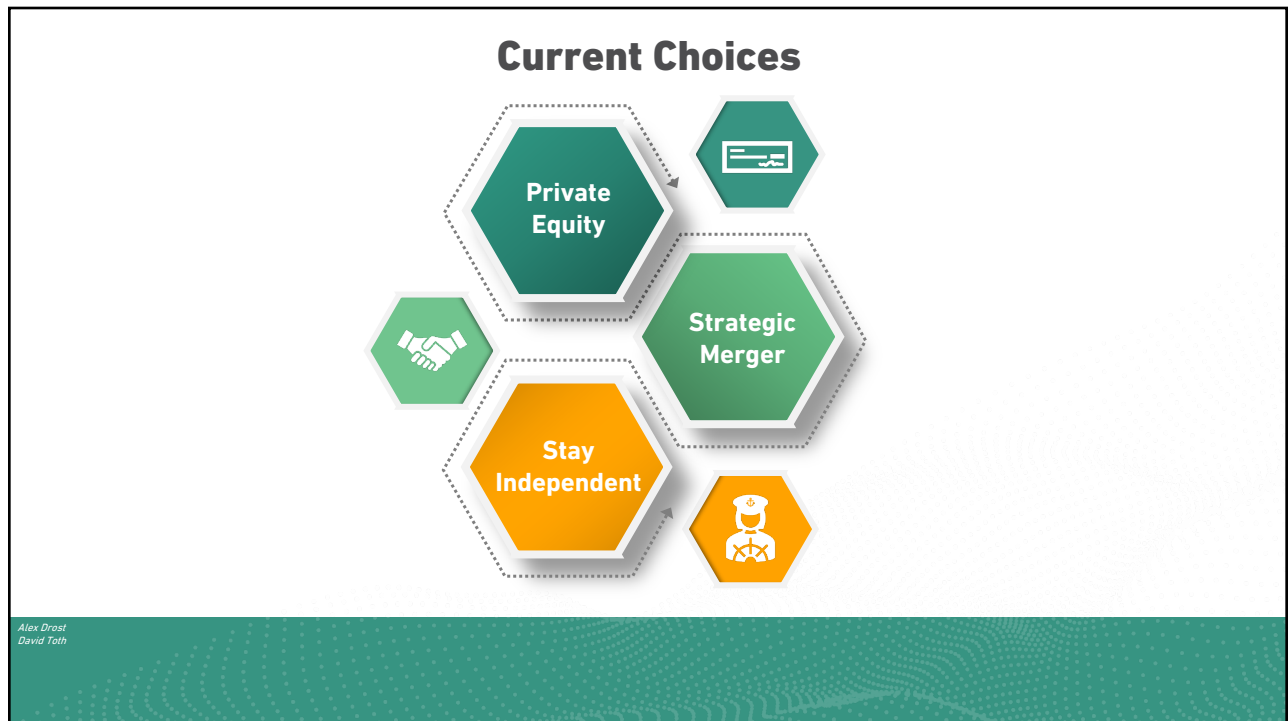
How PE's investment is reshaping the accounting and advisory industry

Presented by: David Toth & Alex Drost

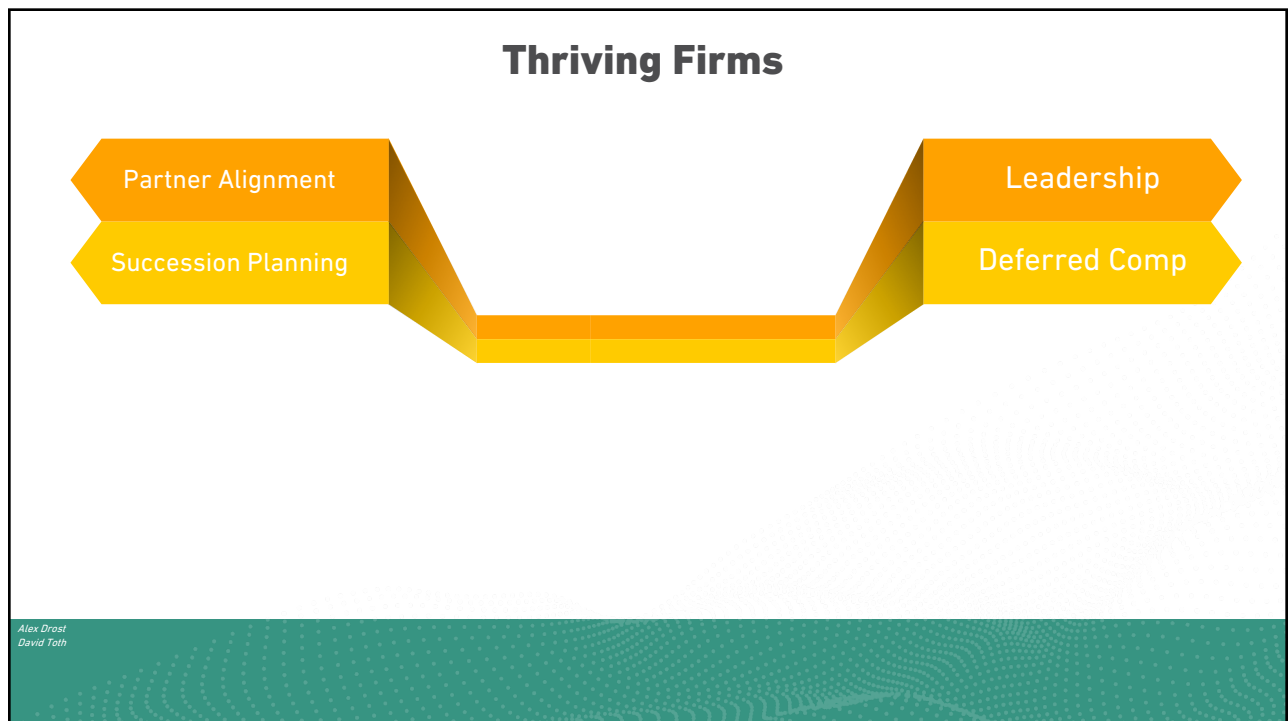
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Firms Must Up Their Game in The Competition for Growth

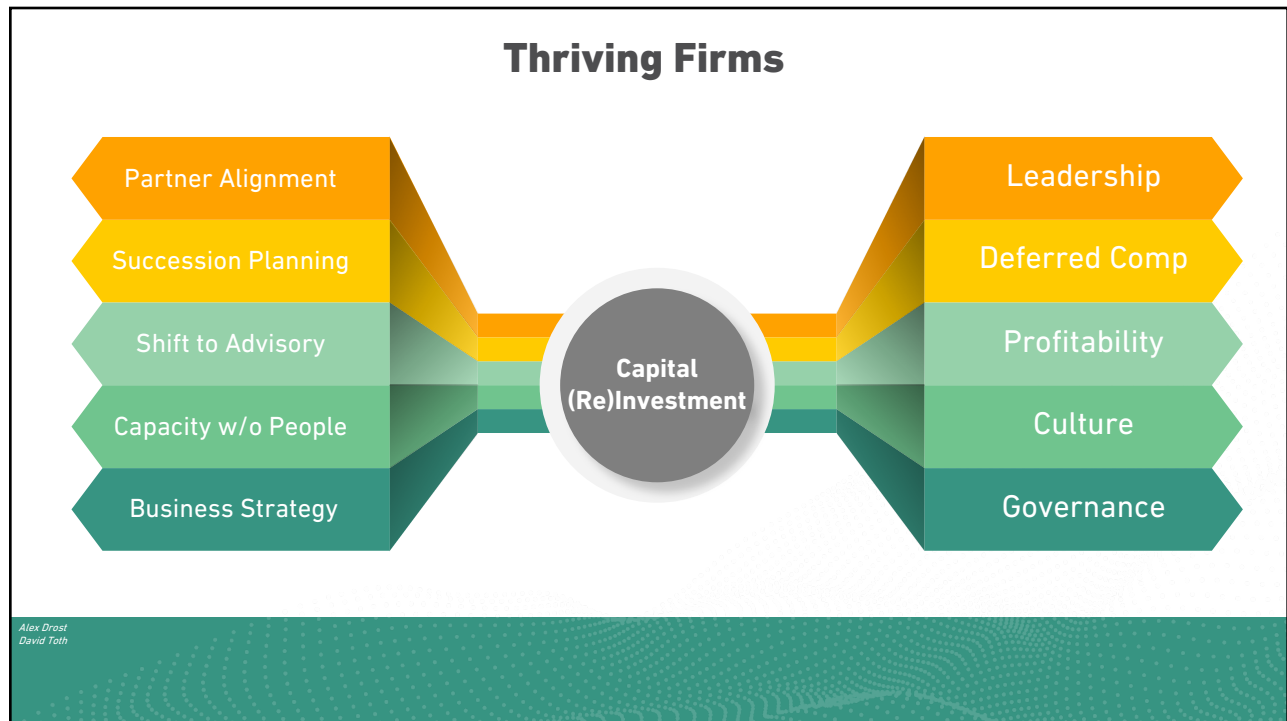
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Market Update

What's currently happening in the Industry?

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Industry Consolidation

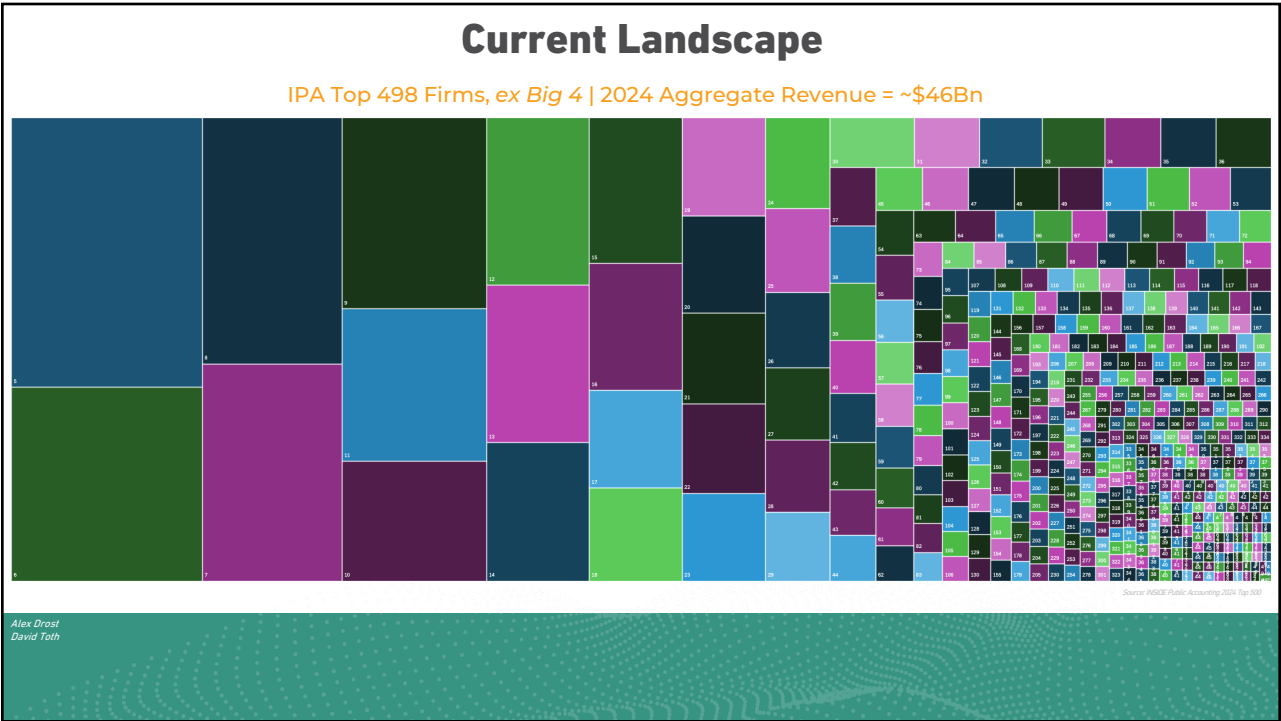


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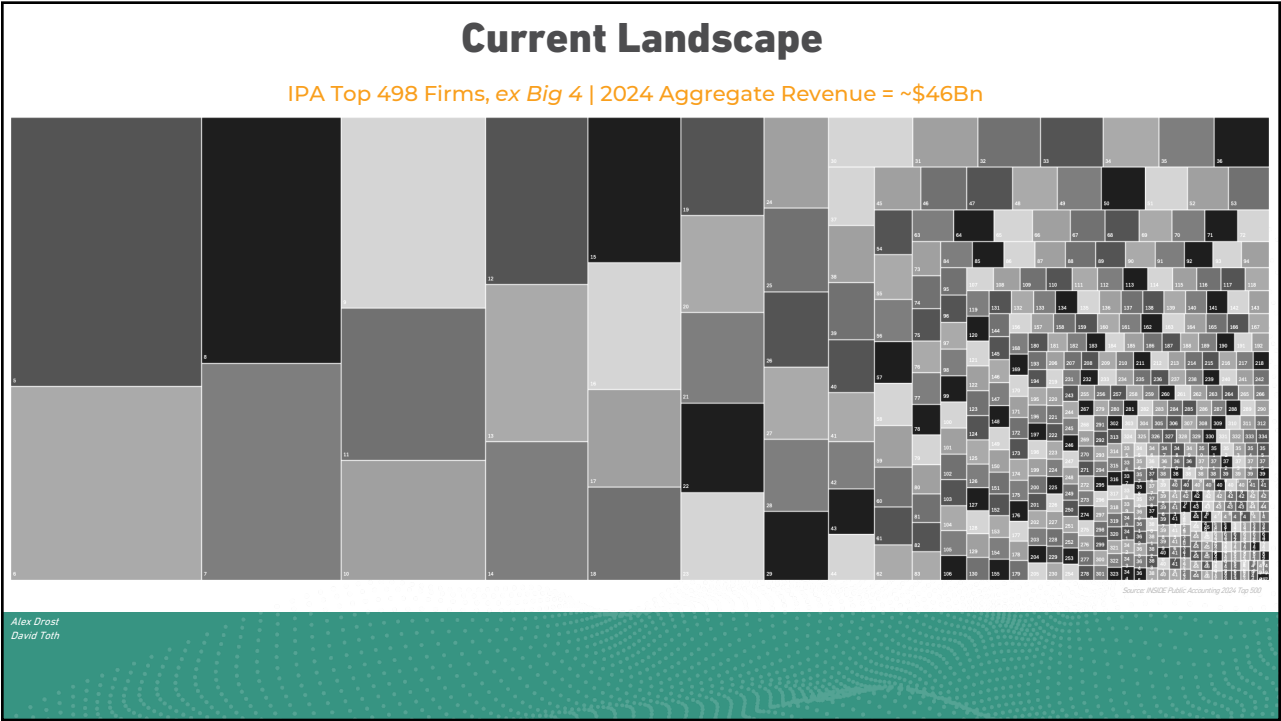
Industry Consolidation



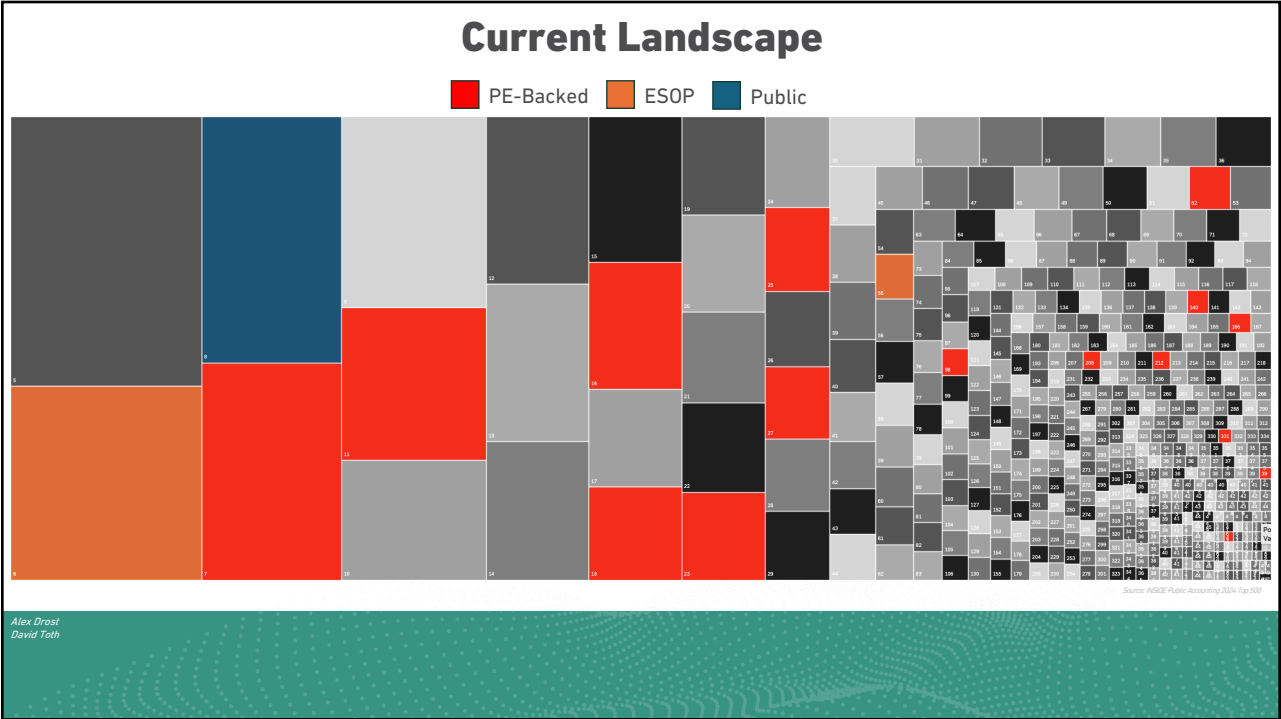
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Private Equity

What are PE's objectives?

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Private Equity Investments

 Grant Thornton	 MarksNelson	 SMITH+HOWARD	 Cherry Bekaert	 Aprio	 SIKICH	 EISNERAMPER
 STOUT	 Doeren Mayhew	 CITRINCOOPERMAN	 bakertilly	 OPSAHL DAWSON	 RIVERON	 THE DOTY GROUP P.S.
 8020 CONSULTING	 schellman	 NDH	 StoneTurn	 CVC CAPITAL PARTNERS CFG	 WILLIAMS MARSTON	 As reported by FT 6/11/24 CRI PKF O'CONNOR DAVIES

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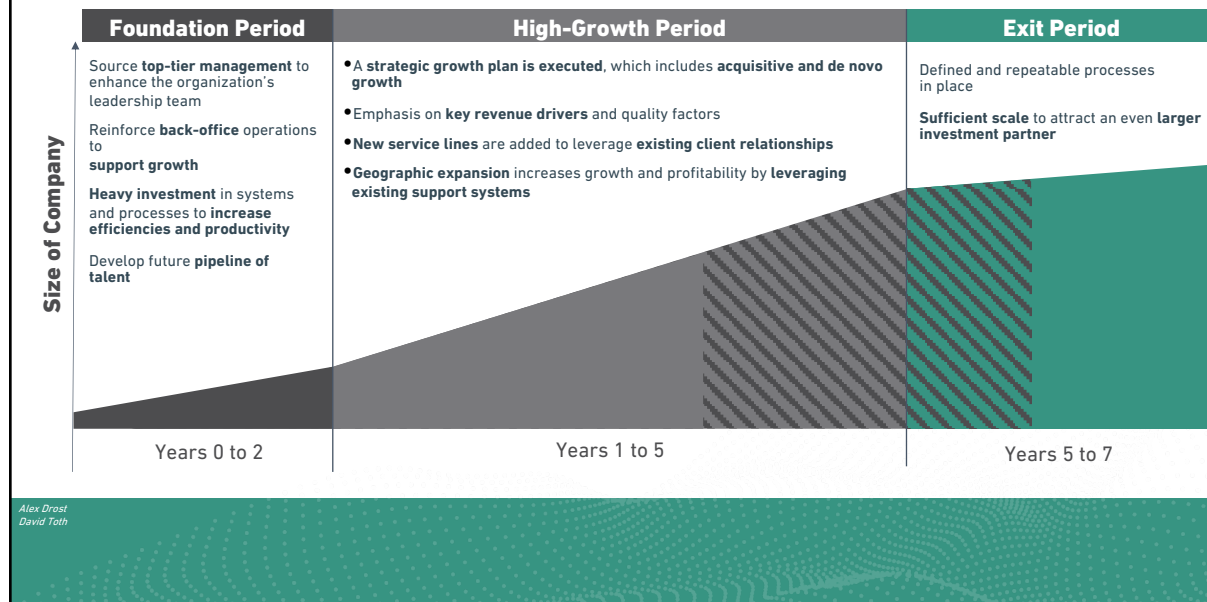
Private Equity Investors

- 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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Typical PE Investment Horizon



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Private Equity Investment Types

Platform Investor	Bolt-On Acquisition	Minority Investment
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.	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.	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.
Opportunities	Opportunities	Opportunities
<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 	<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 	<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
Challenges	Challenges	Challenges
<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 	<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 	<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.

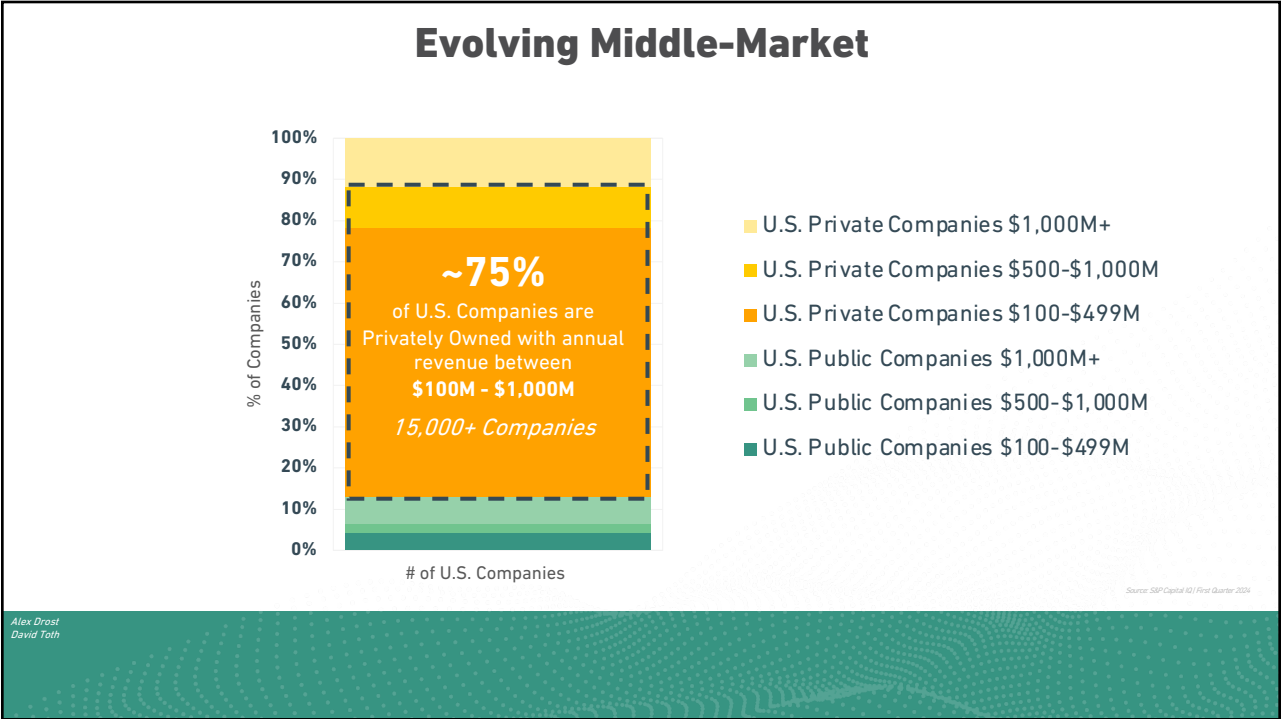


Lack of Clear Succession Plan

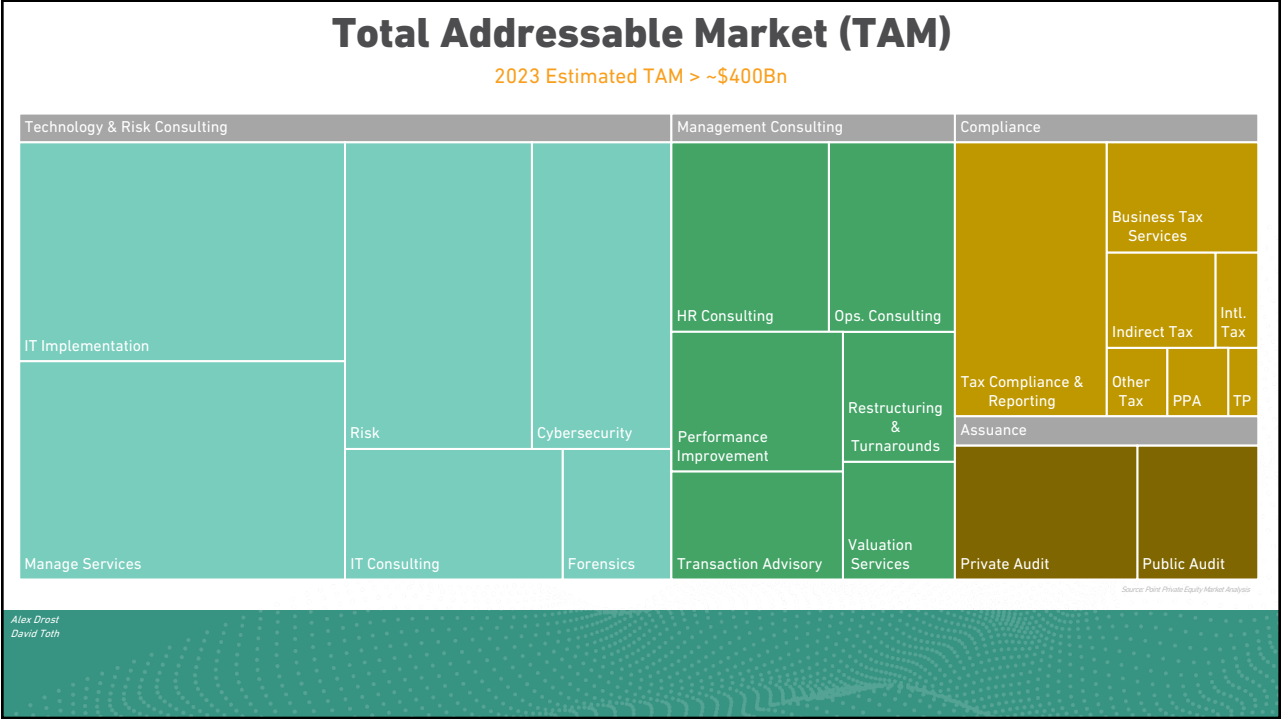
Younger generation tends to be more risk-averse and not as excited about the "path to partnership" often leaving a gap in succession planning.

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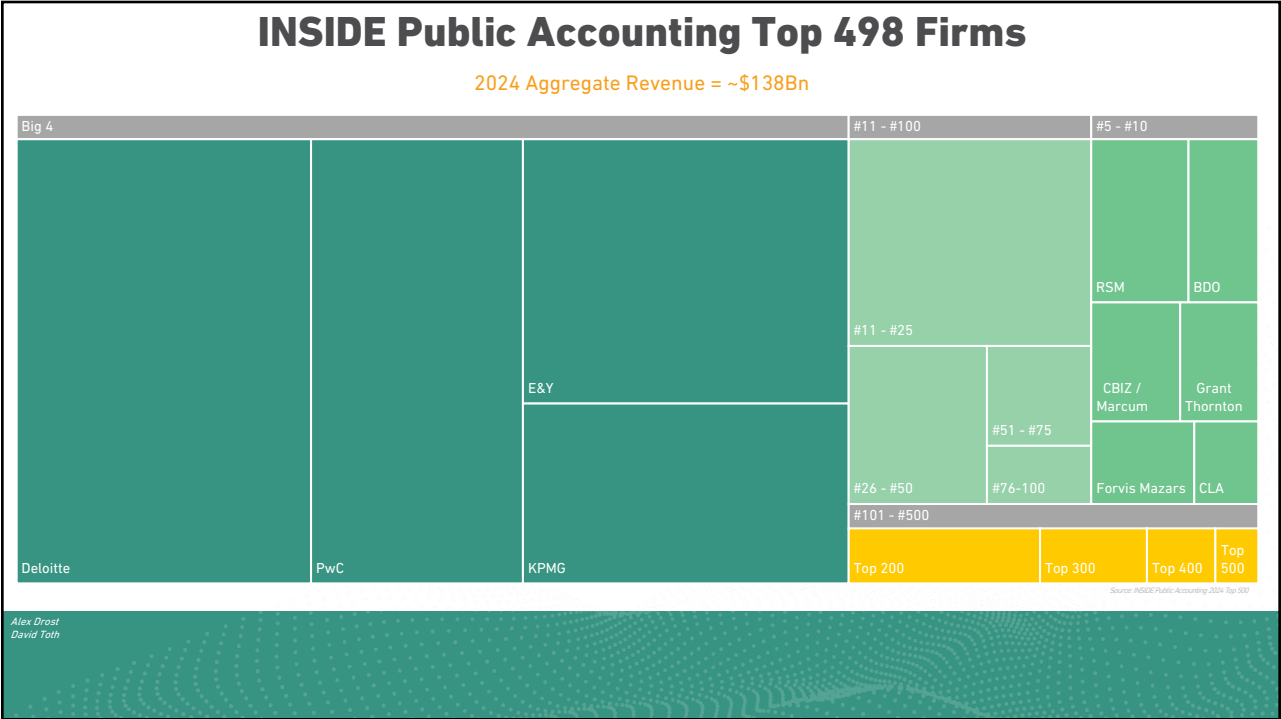
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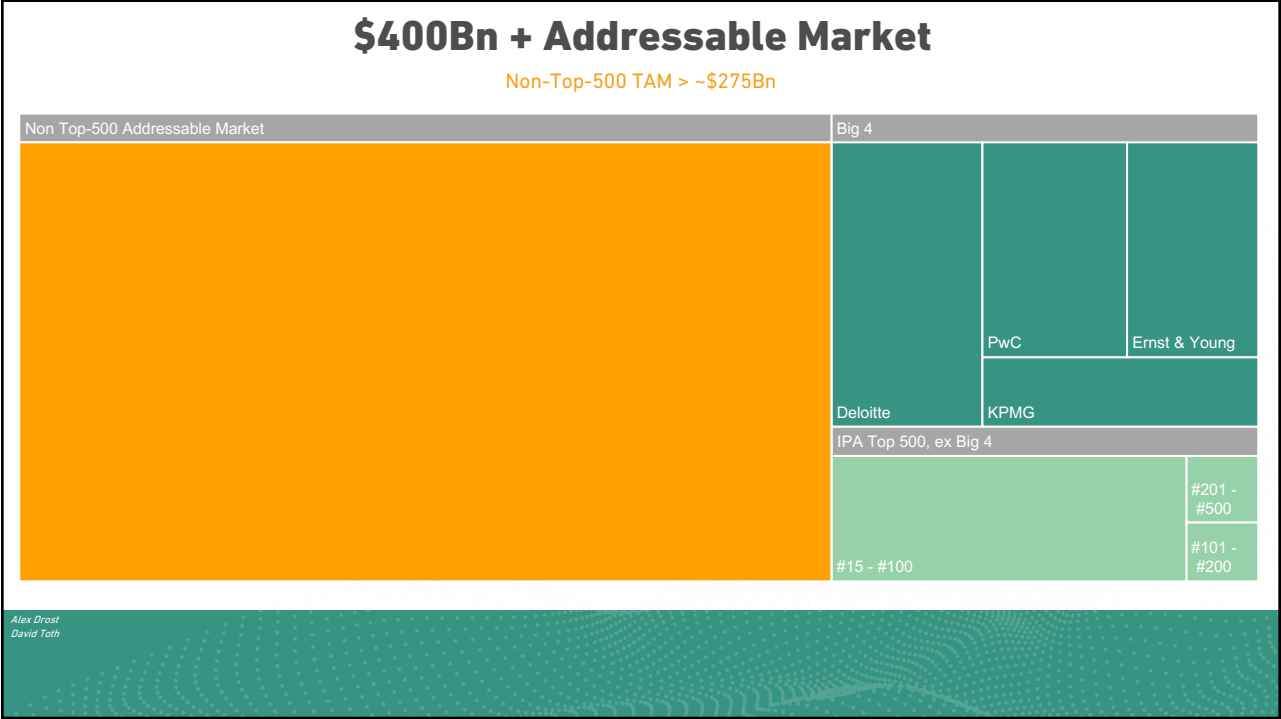
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Value Creation Playbook

Creating Enterprise Value

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Value Drivers



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?



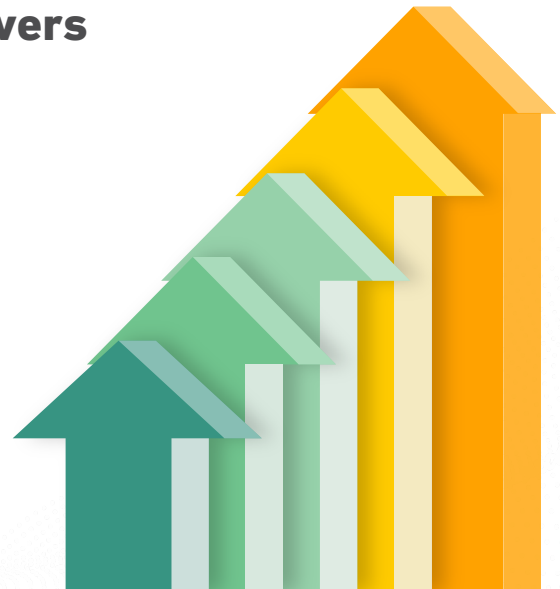
Culture & Leadership

How is your turnover/tenure? What is the strength of your leadership team? What about your bench strength?



Strategic Vision

Does leadership have a clear vision for the future of the firm? What are the current strategic goals of the firm?

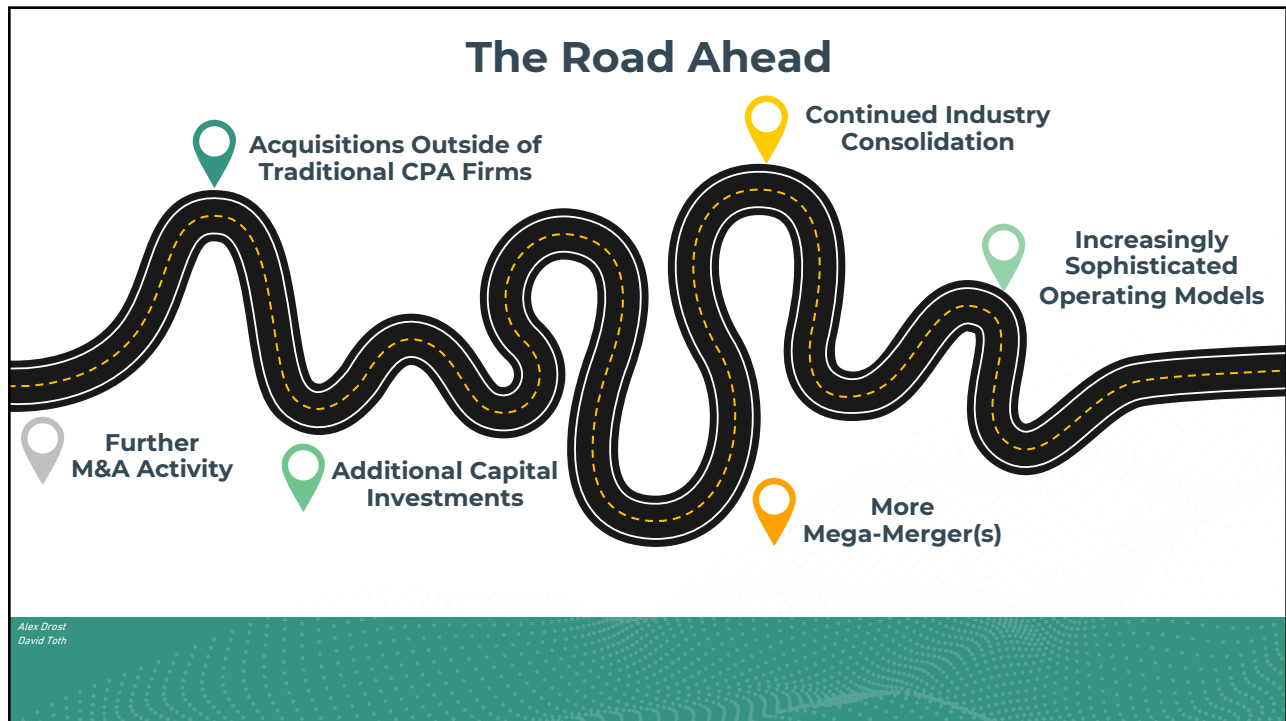


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