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# Those In Acquisition Mode Growing More Selective, Paying Less And Looking Outside Profession

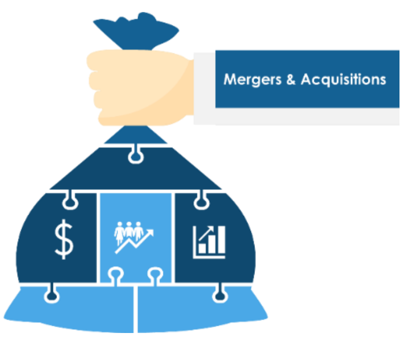
Some of the larger M&A deals over the last couple of years were facilitated by attorney **Russell Shapiro**, a partner in the Corporate and Securities Practice Group at Chicago-based **Levenfeld Pearlstein LLC**.

Shapiro helped structure the following mergers: Chicago-based Baker Tilly and Plano, Texas-based Montgomery Coscia Greilich, which is expected to finalize June 1; Chicago-based BDO USA LLP and Smith & Gesteland LLP of Middleton, Wis., effective July 1, 2018; Milwaukee-based Wipfli and South Portland, Maine-based Macpage in August of 2018.

**Russell Shapiro**

One of the foremost accounting firm M&A attorneys in the country, Shapiro agreed to catch up with INSIDE Public Accounting on what's changed – and what hasn't – in the last few years.

*Any new trends in accounting M&A? You were quoted recently as saying that the deals are getting smaller. Are the mega-mergers over?* I'm not sure that's the case anymore. I think there's a number of good-sized deals in the offing. I'm also seeing more discussions among bigger firms in last six months to a year – usually the top 20 firms talking to the smaller ones within the top 100. A lot of small deals are going on as well. Discussions are happening up and down the spectrum.




*Are you seeing fewer accounting firm-to-accounting firm mergers?* That trend is absolutely happening. About a quarter of my time is spent on these kinds of deals. A lot of accounting firms are trying to acquire additional capabilities, like cybersecurity or forensic accounting, and ancillary services, such as wealth management. Because tax and audit services are becoming more commoditized, firms are looking for other sources of revenue and the opportunity to cross-sell those services to their clients.

*What about how the deals are structured? Any changes here?* There's a tightening of the terms. It has become more of a buyer's market, there's no question that that's true. Prices have come down a little and buyers tend to not want to negotiate as much on deal terms. The income guarantees are also getting stricter. One explanation may be that firms need to make such large technology investments that they're not paying as much to buy other firms, especially firms with issues, such as a lot of senior partners. I do see good pricing in hot cities, like Dallas and Nashville. So sometimes the more desirable the firm, the more flexibility the buyer has, but in general you see it's more of a buyer's market than a seller's market.

*Is the cost of tech investment a bigger driver in M&A discussions now than in the past?* It's definitely a driver in some of these deals. Firms that want to keep up know they need to get the technology, to make the investments, and some of them want to merge because they don't feel they can develop it on their own. Technology is a big deal.

*What if a firm can't make the needed investment?* Then you ride it out and sell the firm for a lower price later. If it's a small firm with a couple of partners, you can do that. A larger firm can't do that because employees and clients want to know what's going to happen. There's always a merger partner. If you're doing run-of-the-mill stuff and you want to merge, you could, just don't expect to get much. It may be based on a residual, say 15% of the client revenues for the next five years.

*What's stayed the same in accounting firm M&A since we last spoke?* Bigger firms are still interested in acquiring. They want talent, revenue and geographical expansion. A lot of them have achieved it, so they're not as hot to trot as they were five years ago. The landscape hasn't changed all that much. It's a bit more of a buyer's market, but still, deals are happening all the time.

*What about your work on M&A outside the accounting profession? Are the reasons, challenges, issues similar?* I've been an M&A lawyer for 30 years. It's only been in the last 10 years that I started to do accounting firm deals, and now it's about 50% of what I do. The rest is regular corporate M&A. The issues are not necessarily similar. Most of those are cash-oriented.

It's a buyout and it may not be as friendly. In accounting firm deals, everyone has to live with each other afterward. Partners continue on as partners in a bigger firm and they get their retirement payments secured.

*What about mergers that don't work?* Culture is a big part of why one firm gets chosen over another. It's not price. One offer may be $100,000 and the other is $103,000. Partners want to feel that they fit in, that they all share the same goals and values. It's very individualized. I've never seen a situation where a merger didn't work at all. It may be great for some partners and not so great for others, but maybe they had different expectations. That's why it's so important that firms lay everything on the line and be very transparent with each other before the deal. ■**IPA**



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