

Accounting for mergers

Baby boomer retirements and a desire to broaden territory and expertise are driving accounting firm mergers

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In the past two years, mergers and acquisitions have been the chief trends in the nation's accounting industry. According to the 2012 PCPS Succession Survey, nearly half of all accounting firms were already in merger talks or expected to be within two years.

The survey also showed that nearly 80 percent of the CPA firm owners participating in the poll expected succession to become a major issue in the next 10 years. Fewer than half of multiple partner firms had a written and signed succession plan. That number dropped lower for smaller firms: 33 percent for firms with eight to 15 professionals; 25 percent for firms with three to seven professionals; and 14 percent for firms with one or two professionals.

Last year, the largest accounting firm merger in Pennsylvania was Philadelphia's Parente Beard LLC and Chicago's Baker Tilly Virchow Krause, LLP in September 2014. Headquartered in Chicago, Baker Tilly is an independent member of Baker Tilly International, a worldwide network of independent accounting and business advisory firms in 137 countries, with 27,000 professionals. The combined worldwide revenue of independent member firms is \$3.4 billion.

Pittsburgh's Corbis Walker and West Virginia-based Arnett Foster Toothman signed a merger agreement in October.

While those two mergers were driven by a desire to grow in expertise and geographic territory, most other accounting firm mergers in the state and across the country were due to baby boomer retirements. The large number of accounting firms dealing with partner retirements and a lack of succession plans has created a need to find ways to

continue the practice and fund partner retirements. Many accounting firms are looking to mergers as an exit strategy.

B2B CFO, an accounting consulting firm in Huntingdon and operating in 46 states, serves as an outsourced chief financial officer for small to mid-sized businesses. The company also provides exit strategy planning for its clients. B2B CFO's founder, Jerry Mills, wrote "The Exit Strategy Handbook," which addresses what he calls the "Baby Boomer Tsunami."

"There are a large number of baby boomers that own or control privately owned companies, be they accounting firms or other businesses, and in the next five to 10 years, there's going to be a glut of those businesses coming on to the market as the owners retire," said Steven Koval, CPA, partner at B2B CFO.

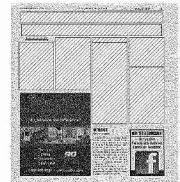
"These privately-held businesses want to maximize the wealth that they built up, and the way for them to do that is by coming up with some type of exit strategy, whether they sell the company to their employees or a third party.

B2B CFO cleans up the company's back office and gets the books ready for the due diligence process that a typical buyer will come in and look at.

"Providing CFOs is our bread and butter, but succession planning and developing exit strategies for small business owners has become a big part of our practice, and thanks to all the baby boomers retiring, we're seeing a lot of growth in that area," said Koval.

Carbis Walker in Pennsylvania and Arnett Foster Toothman in West Virginia and Ohio came together to form Arnett Carbis Toothman on Jan. 1.

"I met with the managing partner at Arnett Foster and Toothman a while back, and we talked about how we knew each other's companies so well since



we've worked together for over 20 years through an alliance we belong to, and our two firms were structured similarly, so we began to think about how we might benefit from pooling our talent," said James Hunt, formerly managing partner at Carbis Walker, who now chairs the merged firm's executive committee.

"Merging gave us an opportunity to pick up additional expertise on each side, for example, Arnett Foster Toothman had worked for banks whereas Carbis Walker hadn't.

"The merger also gave both companies an opportunity to expand geographically, so we are now stronger together than we were alone."

Arnett Carbis Toothman has three Pennsylvania offices -- Pittsburgh, New Castle and Meadville -- five offices in West Virginia — Charleston, Bridgeport, Buckhannon, Morgantown and Lewisburg—and an office in Columbus, Ohio. ■