# Private equity drives consolidation while public markets remain wary of professional services firms



The professional services sector has increasingly captured the attention of private equity firms, driven by the sector’s stability and potential for robust returns. With attributes such as recurring revenues, strong cash flows, and substantial opportunities for mergers and acquisitions, businesses in domains like accountancy and pensions consultancy are becoming prime targets. However, the allure of these firms has not translated seamlessly into public market appeal.

The reluctance of public investors towards professional services often stems from their heavy reliance on human capital rather than intellectual property. This characteristic makes them less attractive compared to higher-tech industries, which typically enjoy the twin benefits of hype and defensive moats. Additionally, concerns about staff retention and profit-sharing practices raise further red flags in the eyes of investors, leading to persistently low valuation multiples regardless of healthy margins and cash flows.

The complexity of the sector has contributed to a proliferation of partnerships and private equity-backed firms, which keeps many larger and more established names out of reach for public market floatations. Nonetheless, there are newcomers making significant strides. MHA, the UK and Ireland branch of Baker Tilly, made headlines recently by breaking from the conventional partnership model to list on Aim. The firm raised £98 million through a combination of institutional and retail offers, and is now valued at £271 million. This initiative signifies a strategic pivot towards scaling up through mergers and investments in technology, particularly artificial intelligence.

MHA's recent acquisition of Baker Tilly's operations in Cyprus and Greece for up to €24 million illustrates this ambitious growth strategy. The acquisition is aimed not only at bolstering MHA’s European presence but also at capitalising on the increasing interest private equity holds in the accountancy sector. Private equity's involvement has been transformative, with valuation multiples for firms in this space reaching as high as 15 times EBITDA, as noted by Gresham House, a significant backer of MHA.

Investors are drawn to MHA's impressive metrics, including a 40% EBITDA margin and a target for medium-term turnover of £500 million compared to £154 million projected for 2024. The firm's recurring revenues, driven by audits and tax compliance, further bolster its position, as clients typically resist switching providers. Recent high-profile failures within the sector—including KPMG's audit of the collapsed construction firm Carillion—have led to perceptions of increased risk, thereby validating fee increases.

Despite these promising indicators, MHA’s stock performance post-listing has been tepid, potentially due to ongoing regulatory scrutiny from the Financial Reporting Council regarding its audit of ISG, another collapsed construction giant. As investors retrogress following past disappointments in the professional services market, any sign of regulatory trouble may heighten skepticism and caution.

The legal sector, notorious for volatility, has showcased both turmoil and potential growth. Instances such as RBG Holdings' governance dispute and subsequent winding down, Ince Group’s administration, and DWF’s selling to private investors below original listings highlight a tumultuous environment. Conversely, firms like Knights Group and Keystone Law have faced their own hurdles, with declining share prices despite recent recoveries.

However, not all firms in the sector are struggling. Elixirr International, a challenger consultancy, has seen its shares soar by 300% over the past five years, outperforming larger rivals like Accenture and Capgemini. Since its listing in 2020, Elixirr has consistently achieved double-digit revenue and profit growth, setting its sights on transitioning to the main market to attract a larger pool of investors. Similarly, XPS Pensions, having recently joined the UK mid-cap index, has doubled its share price and demonstrated steady revenue growth, affirming that well-managed, people-intensive firms can indeed succeed in public markets.

The evolving dynamics of the professional services sector—a mix of private equity interest, fluctuating investor sentiment, and varied performance across firms—illustrate the complexity and potential inherent in this field. With private equity's appetite for growth through consolidation and enhanced operational effectiveness, alongside the nascent successes of certain public firms, the landscape is ripe for transformation. For those within the sector, the focus now lies not only on attracting investments but on delivering consistent, tangible results that inspire confidence and drive long-term shareholder value.

### Reference Map

1. Article Overview and Trends in Professional Services
2. MHA Expansion through Acquisitions
3. Private Equity Trends in Professional Services
4. U.S. Professional Services and Private Equity Expansion
5. Grant Thornton and Private Equity Investments
6. Increase in Professional Services Acquisitions
7. Private Equity’s Attraction to Professional Services

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.investorschronicle.co.uk/content/27d353cc-8707-45c8-b668-3162df57b2f7> - Please view link - unable to able to access data
2. <https://www.ft.com/content/3ed79bac-3199-4c4a-96d9-b7f927e94d66> - MHA, the UK and Ireland arm of Baker Tilly, has agreed to acquire Baker Tilly's operations in Cyprus and Greece for up to €24 million. The deal involves €6.5 million in cash and €17.5 million in shares, with 10% allocated to employees of the acquired unit. This acquisition is part of MHA's strategy to expand through cross-border mergers following its recent flotation on London's AIM market. The move reflects the growing interest of private equity in the accountancy sector, as firms like MHA aim to strengthen their European presence. The acquisition is expected to close in early June 2025, with MHA's shares trading 1.2% higher, valuing the firm at £280 million. ([ft.com](https://www.ft.com/content/3ed79bac-3199-4c4a-96d9-b7f927e94d66?utm_source=openai))
3. <https://www.ft.com/content/cb6e7746-06f1-496e-81f7-1053773960f3> - Private equity firms are increasingly targeting professional service partnerships, such as consultancies, talent agencies, and accounting firms. Recently, top US accounting firms like Grant Thornton and Baker Tilly have sold majority stakes to private equity companies, with more deals expected. With high public market valuations and expensive debt, private equity sees greater potential in these partnerships. TPG and other firms, such as Hellman & Friedman, THL, and Madison Dearborn, are actively pursuing deals in this sector. Accounting firms, in particular, are attractive due to their steady income and potential for expansion into new services like consulting. The trend is driven by private equity's ability to consolidate and grow businesses, eventually preparing them for public listings. Successful examples include TPG's sale of a controlling stake in Creative Artists Agency and investments in other professional partnerships. For the accounting firms, private equity backing accelerates growth, with notable revenue increases reported by firms that have taken private equity money. This shift also addresses partners' interests in growing the equity value of their businesses, rather than just their individual earnings. ([ft.com](https://www.ft.com/content/cb6e7746-06f1-496e-81f7-1053773960f3?utm_source=openai))
4. <https://www.ft.com/content/c30585d8-40d1-4b1a-b62b-32511214fa30> - Private equity groups have expanded further into US professional services by acquiring two major accounting firms. Bahrain-based Investcorp and Canadian pension fund PSP Investments purchased PKF O'Connor Davies, the 25th largest US accountancy by revenue. Concurrently, Alabama-based Carr, Riggs & Ingram, the 23rd largest firm, sold a majority stake to an investment group led by Centerbridge Partners. This trend has placed a third of the top 30 US accounting firms under private equity ownership. Recent notable deals include Baker Tilly's sale to Hellman & Friedman and Grant Thornton's US division to New Mountain Capital. The influx of private equity capital allows these firms to expand services, enhance technology, and pursue acquisitions. Financial terms for the recent deals were not disclosed. Both PKF O'Connor Davies and Carr, Riggs & Ingram expect these investments to bolster technology and geographic expansion strategies, respectively. Overall, the competitive job market and aging Founders' desire to create equity value have driven many firms to seek private equity partnerships. ([ft.com](https://www.ft.com/content/c30585d8-40d1-4b1a-b62b-32511214fa30?utm_source=openai))
5. <https://www.ft.com/content/c6e8c528-47b7-40ae-b06a-f1158af26b36> - Grant Thornton US, the seventh largest accounting firm in the US, has agreed to sell a majority stake to New Mountain Capital. The deal marks the largest private equity investment among top 25 US accounting firms and aims to enhance growth and competitiveness. Proceeds will be used to return capital to current partners, address retirement obligations, invest in technology, and potentially increase acquisitions. This move follows similar private equity investments in the sector, such as Baker Tilly's recent $1 billion deal with Hellman & Friedman. Seth Siegel, Grant Thornton's CEO, anticipates that the deal will provide greater resources and agility for the firm. ([ft.com](https://www.ft.com/content/c6e8c528-47b7-40ae-b06a-f1158af26b36?utm_source=openai))
6. <https://pe-insights.com/private-equity-acquisitions-of-professional-services-firms-up-179-in-2021/> - Private-equity funds have increasingly begun to buy up professional services firms, as they face mounting pressure to deploy their capital quickly in the face of economic uncertainty. The number of private-equity backed acquisitions of UK professional services firms more than doubled over the previous year, from 19 in 2020 to 53 in 2021, according to figures from law firm Mayer Brown. This 179% increase comes as private equity funds seek to cash in on the reliable incomes generated by professional services companies. Consultancy firms that have reliable streams of recurring revenue are very appealing targets for private equity houses. Private equity funds are finding that those recurring revenues don’t just exist in traditional areas of professional services like accountancy, tax and legal, but also in newer subsectors like PR or digital consultancy. The trend has seen private equity funds turn their focus towards a sector that they had been reluctant to get involved with a decade ago. The figures show that of the 53 private-equity backed acquisitions of UK professional services firms last year, 28% were acquisitions of PR, marketing, and communications firms. Some deals in this area are aimed at building up multi-disciplinary professional services firms. There are clear synergies between different areas of professional services, such as restructuring, consultancy and PR. Private equity funds are betting on this to deliver profitable growth and faster margin improvement through economies of scale. ([pe-insights.com](https://pe-insights.com/private-equity-acquisitions-of-professional-services-firms-up-179-in-2021/?utm_source=openai))
7. <https://www.cooperparry.com/news/the-pe-love-affair-with-professional-services/> - Professional services firms — ranging from accountancy and law to financial planning and HR services, architects, surveyors, IFAs and consultancies — have always been a firm favourite for private equity investors, and it’s easy to see why. At our recent roundtable event Professional Services Roundtable: The Key Themes for Professional Services Firms my Corporate Finance colleague Sachin Parmar and Faye Wyles whose focus is on delivering audits for such firms, identified a number of key themes which are still relevant including: Recurring revenue – These businesses frequently come with predictable cash flows, making them a reliable investment. Services like annual audits or IFA offerings deliver “sticky” revenues, meaning clients return year after year, providing a steady income stream. Consolidation through buy-and-build strategies – The sector is also highly fragmented, creating significant opportunities. With so many smaller players, private equity investors can step in to unite firms, drive efficiency, and create larger, more competitive entities. Client retention – Professional services firms are appealing as they tend to build long-standing relationships, offering opportunities to cross-sell services. This not only deepens client loyalty but also adds stable, long-term value to the business. Demand for specialist expertise – Another growth driver as niche markets expand rapidly, firms offering specialist professional services are perfectly positioned to capitalise on this demand, opening new avenues for growth and innovation. Operational upgrades – Many traditional partnership models haven’t focused on prioritising technology or improving operational efficiency, presenting further opportunities. This leaves room for private equity to step in, streamline processes, invest in technology and add considerable value. Attractive exits – Finally, firms that demonstrate growth, scalability, seamless integrations of acquisitions and strong recurring revenues are often able to secure premium valuations when it’s time to sell. Altogether, this mix of stability and growth potential makes professional services firms a natural fit for private equity’s value-creation strategies. ([cooperparry.com](https://www.cooperparry.com/news/the-pe-love-affair-with-professional-services/?utm_source=openai))