NOTES FROM DOWNSTREAM: WHAT ACCOUNTING CAN LEARN FROM EVERYONE WHO CONSOLIDATED FIRST

August 2026

Citizens®

THE PARTNERSHIP, REPRICED

PE-backed firms now grant equity to laterals on day one, bypassing the traditional time-based path to ownership and accelerating the next wave of M&A

THE NEW CURRENCY – OWNERSHIP BECOMES UNITS

THE OLD BARGAIN

Pay in Time

- Equity is generally **earned after a sustained period of performance**
- Partners typically fund a modest capital contribution through future distributions
- Ownership primarily provides participation in the firm's annual earnings
- **Limited ability to establish, transfer, or monetize** the underlying equity value

COMMON UNITS

True Ownership

- Provide a **direct ownership interest in the firm's enterprise value** and distributions
- Often issued as rollover equity to partners who retain an interest following a transaction
- Establish a **defined valuation and potential pathway to future liquidity**
- Enable selling partners to participate in the firm's continued growth and a subsequent exit

INCENTIVE UNITS

Profits Interests

- Generally structured with a grant-date hurdle based on the firm's transaction valuation
- Designed to provide **participation in value created above the established hurdle**
- May be granted without an upfront cash investment or extended tenure requirement
- **Align partner incentives with post-transaction performance** and long-term value creation

OUR VIEW:

This shift demonstrates that profits interests have become a widely adopted tool for attracting and retaining key professionals, aligning incentives and allowing partners to participate in post-transaction value creation without an upfront equity investment

~74% of management equity grants issued by PE-backed LLCs across all industries in 2024 were structured as profits interests, increasing from a minority share in 2019

Source(s): Citizens Capital Markets, Carta Ownership Trends in Private Equity 2024

LIQUID EQUITY BEATS FROZEN EQUITY

The talent war was never equity vs. no-equity. It's liquid, recapitalizing equity — a repeatable cadence of liquidity events — against a deferred-comp stream that never monetizes the equity at all

THE TALENT MATH

FROZEN EQUITY

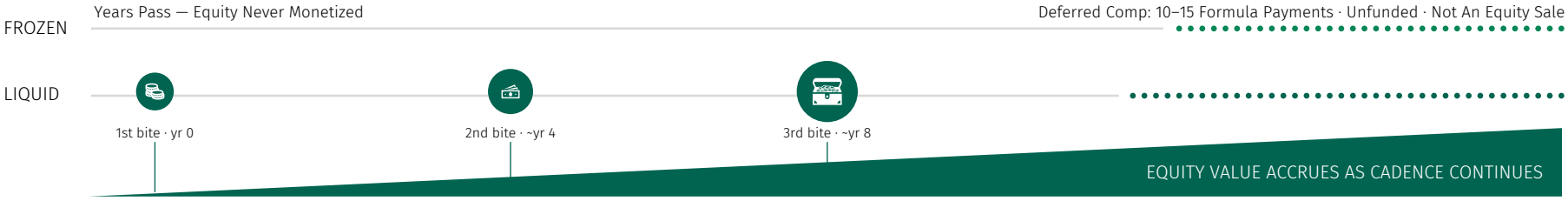
The Independent Partner

No equity is bought out. Your capital account returns your own money back — while the retirement benefit is deferred compensation: a formula-based stream of ~10–15 annual payments from the next generation's earnings, often unfunded. No multiple, no enterprise value, no capital event.

LIQUID, RECAPITALIZING EQUITY

The Consolidator

Rollover units that appreciate and re-lever. A second and third bite as the platform recapitalizes every few years — the equity is sold at a multiple, more than once. Semi-liquid, marked and repeatable.



THE MATH:

Next-gen talent runs this — a deferred-comp annuity doesn't beat equity that appreciates and pays out along the way

RIA aggregators and insurance brokers perfected the sponsor-to-sponsor treadmill — re-levering every few years so rollover holders took two and three bites. Accounting is running the same playbook

Source(s): Citizens Capital Markets

THE M&A WAVE THIS UNLOCKS

Equity-for-laterals attacks independence from two sides at once — and the structure that holds the capital runs on a clock

TWO FORCES, ONE DIRECTION

THE TALENT SIDE

- Senior hires increasingly expect liquid, equity-based compensation, making traditional partnership economics less competitive
- Firms remain dependent on the next generation of partners to fund succession and provide liquidity to retiring owners
- As traditional succession models weaken, an external sale may become the most viable liquidity solution

THE CAPITAL SIDE

- Sponsors typically underwrite a 3–7-year investment horizon, requiring sustained growth throughout the hold period
- Platforms must pursue add-on acquisitions, expand higher-value advisory services and generate consistent EBITDA growth
- Each platform must reach sufficient scale to attract the next buyer, with recapitalizations and sponsor-to-sponsor exits restarting the cycle

THE FLYWHEEL

CAPITAL sponsor equity + debt → **PLATFORM** scale + advisory mix → **TALENT MAGNET** liquid, granted equity → **INDEPENDENTS WEAKEN** succession math breaks → **MORE TARGETS** sell-side supply grows

OUR VIEW:

The near-term pressure lands on the independents, not the platforms: as liquid equity pulls talent and the roll-up keeps buying, staying independent stops being a default and becomes a deliberate decision

Each direct PE investment in accounting firms triggers ~5 tuck-in acquisitions — rising to 7.6 in 2025 and only accelerating

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Source(s): Citizens Capital Markets, International Federation of Accountants

STAYING INDEPENDENT IS NOW AN ACTIVE CHOICE

Doing nothing cedes the recruiting battle. The counter is to give partners what a deferred-comp payout can't — a real, liquid capital event — while keeping control. Four structures do it.

THE INDEPENDENT'S PLAYBOOK

ESOP

Employee Stock Ownership Plan

Sell equity to an employee trust at an independent valuation — staff pay nothing; the firm finances the purchase and repays it in pre-tax dollars. Section 1042 lets sellers defer capital gains and partial or minority ESOPs retire partner blocks over time

LAYER SARS OR WARRANTS SO RAINMAKERS AREN'T FLATTENED BY THE TRUST'S EGALITARIAN FORMULA

MINORITY RECAPITALIZATION

Non-Control Growth Capital

Sell a minority stake — to a PE minority, a family office, or a permanent-capital vehicle — to fund partner liquidity and technology while CPAs keep majority ownership and governance. Choose long-hold capital to avoid a forced-sale clock

RUN YOUR OWN RECAP CADENCE: PERIODIC PARTNER LIQUIDITY THAT ANSWERS THE TREADMILL WITHOUT CEDING CONTROL

BUILD YOUR OWN EQUITY PLAN

Profits Interests – Phantom Equity - SARs

Grant laterals and rising stars real, appreciating upside with no cash buy-in and no outside capital. It matches the consolidators' instrument without selling the firm — the most direct counter to their talent pitch

ENGINEER A LIQUIDITY MECHANISM — REDEMPTION WINDOWS OR A SINKING FUND — SO THE EQUITY IS SEMI-LIQUID, NEVER FROZEN

EMPLOYEE OWNERSHIP TRUST (EOT)

Perpetual Employee Ownership

A trust holds the firm for employees indefinitely — a simpler repurchase profile than an ESOP, with no ERISA plan. Sellers take a fair-value exit funded over time; culture, control and independence stay in-house

BEST WHEN DURABLE, MISSION-ALIGNED INDEPENDENCE MATTERS MORE THAN A MAXIMUM SINGLE PAYOUT

DISCOVERY LENS:

Pair a liquidity mechanism with retained control. Minority recap or your own profits-interest plan answers the talent war head-on; ESOP and EOT solve succession and broad ownership. Most combine two — and engineer periodic liquidity so partner equity is never frozen

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PROVEN PLAYBOOK FOR ACCOUNTING FIRM M&A AND FINANCING

Citizens has a demonstrated track record for driving winning outcomes in accounting services

Project Satellite CPA Firm Under Exclusivity	Project Marcus CPA Firm Under Exclusivity	Project Eagle CPA Firm Debt & Equity Placement Under Exclusivity	Project Cardinal CPA Firm In Market	MEADEN & MOORE Strategic growth investment FROM UNITY PARTNERS	pipaya Acquisition by Prosperity A portfolio company of UNITY PARTNERS	LEADING M&A PLATFORM
GENERAL ATLANTIC Strategic growth investment in FRAZIER & DEETER	CohnReznick Acquisition by Apax $790,000,000 SENIOR CREDIT FACILITIES Joint Lead Arranger and Joint Bookrunner	Grant Thornton A portfolio company of NMC New Mountain Capital LLC $2,760,000,000 SENIOR CREDIT FACILITIES Joint Lead Arranger and Joint Bookrunner	Pearl Meyer A portfolio company of MAINST CAPITAL CORPORATION Recapitalized by COALESCE CAPITAL	UNIVERSITY INSTRUCTORS A subsidiary of PUBLIC CONSULTING GROUP Acquired by NEW STATE CAPITAL PARTNERS	SUMMIT PARTNERS Strategic growth investment in UHY	Bally's INTERNATIONAL INTERACTIVE Acquisition by intralot $3.1B ENTERPRISE VALUE
Centerbridge Strategic growth investment in CRI GARR RIGGS & INGRAM	blue mantis Recapitalized by RECOGNIZE	LYDONIA TECHNOLOGIES Received an investment from Caltius Equity Partners	KOHLBERG & COMPANY Acquisition by RIVERON A portfolio company of HLG CAPITAL	Siegfried $375,000,000 SENIOR CREDIT FACILITIES Left Lead Arranger, Joint Bookrunner and Administrative Agent	pinehill Acquisition by CFGI A portfolio company of CARLYLE	ags Acquisition by BRIGHTSTAR CAPITAL PARTNERS $1.2B ENTERPRISE VALUE

GREENBRIAR Acquisition by AIT A portfolio company of TJC	PAVE AMERICA A portfolio company of SHORELINE EQUITY PARTNERS TRIVEST ACQUIRED BY AEA BCI
LayerZero POWER SYSTEMS, INC. Acquisition by Advent $1.0B ENTERPRISE VALUE	

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