# THE 2012 BIG FOUR FIRMS PERFORMANCE ANALYSIS

**An Analysis Of The 2012 Financial Performance Of The World's Largest Accounting Firms**

**By Big4.com**

**January 2013**

## EXECUTIVE SUMMARY

### Deloitte, Ernst & Young, KPMG and PwC: 2012 Revenues Increase to Historic Levels

2012 was a banner year for the Big Four accounting firms: Deloitte & Touche, Ernst & Young (E&Y), KPMG and PricewaterhouseCoopers (PwC) following strong growth in 2011, and erasing the impacts of subdued performance of 2009 and 2010. 2009 combined revenue for the four firms of $94 billion fell 7% from 2008's record of $101 billion, but stabilized in 2010 as revenue increased 1.4% to $95 billion. 2011 revenue rose a further 9% to historic high levels of $103 billion, setting a new record.

Another new record was set in 2012, with strong growth momentum in all service lines and geographies continuing from 2011, helped by emerging countries, improvements in global economic profiles and increased business deal activity. Combined 2012 revenue for the four firms rose to a record historic high level of $110 billion, up 6% from 2011. With all global economies, except those in Europe, showing continued growth in 2012, the Big Four firms had outstanding performance in 2012, with revenues rising in all geographies, service lines and industries.

KPMG revenues grew the slowest at 1.4%, Ernst & Young at 6.7%, PwC increased 7.8% and Deloitte posted the highest rate at 8.6%. PwC grew slower than Deloitte yet reported 2012 revenues of $31.5 billion, just $200 million more than Deloitte, thus maintaining its leadership position as the largest accounting firm on the planet.

KPMG's modest growth is well out of line with peers. Our analysis shows three factors: Europe is 50% of global revenues and was negatively impacted by US dollar appreciation versus the Euro, Advisory service line had modest growth and Audit presumably lost some relative market share.

In terms of geography, Americas have 40% and falling share of global combined revenues. From 2011 to 2012 however, Americas had a strong performance growth of 9.2%. Europe has 43% of combined firm revenues and increased 3.3% from 2011 to 2012, growing the slowest due to regional uncertainty. Asian revenues have more than doubled from $7 billion in 2004 to $18.5 billion in 2012, 17% of the total, and grew a strong 8.0% from 2011 to 2012.

By service line, Audit accounts for 45% of total revenues and grew 2.9% from 2011 to 2012. Tax services are 23% of total revenues and also rose 5.6% from 2011 to 2012. Advisory services have been the fastest growing service line for several years increasing share from 22% of total revenues in 2004 to 33% in 2012. Advisory revenues grew a strong 12.2% from 2011 to 2012.

The Big Four firms cumulatively employ more than 690,000 staff globally, with a total of 37,000 partners overseeing a steep pyramid of about 530,000 professionals. Net employment increased by 39,000 from 2011 to 2012.

The outlook for 2013 and beyond is quite optimistic, revenue is expected to grow at a good pace, with help from strong emerging markets, Advisory services, Dodd-Frank and other regulations, conversions to IFRS and favorable economic conditions. 2013 will also prove whether PwC can continue to be the leader and whether KPMG can attempt to narrow its gap with E&Y.

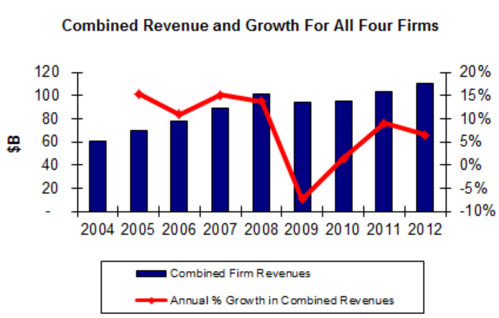
A detailed analysis can be downloaded at http://www.Big4.com/analysis.

## REVENUE PERFORMANCE

### Blockbuster All-Round Growth From 2011 To 2012 Leads To Record Revenues

Both 2009 and 2010 were tough years overall for the Big Four accounting firms: Deloitte & Touche, Ernst & Young (E&Y), KPMG and PricewaterhouseCoopers (PwC), as the extended global economic crisis impacted their financial performance with difficult external conditions, slow economic growth, cost-conscious clients and sluggish merger and acquisition activity. While 2001 to 2008 were an extraordinary period of continuous revenue growth at a double-digit percentage rate, combined revenue for the four firms in fiscal 2009 fell by 7% from fiscal 2008 in US dollar terms.

2010 turned out to be a much better year for all the Big Four accounting firms as financial performance was positively buoyed by an improving global economic scenario, high growth in emerging markets and improving client confidence. For fiscal 2010, the combined revenue for the four firms increased 1.4% from $94 billion in fiscal 2009 in US dollar terms to $95 billion. 2010 marked a year of moderate recovery and somewhat of a watershed turning point. The firms generally welcomed these small positive percentage changes in growth as early evidence of a sustained recovery.




2011 results were extremely strong, with growth seen in all service lines and geographies from 2010, lifted by emerging markets, improvements in equity markets, and a general return to global economic growth and executive optimism. The combined revenue for the four firms for fiscal 2011 increased a solid 9% from $95 billion in fiscal 2011 in US dollar terms to historic high levels of $103 billion.

This revenue was the highest ever for the Big Four firms, and even exceeded the previous high of $101 billion seen at the height of the global boom in 2008. This performance is far beyond what would be normally anticipated and exceeded even our expectations for a 4% to 7% growth. Revenue grew even in local currency terms at a 7% rate from 2010 to 2011, with the depreciating US dollar in this period adding a 2% foreign exchange boost. The Advisory service line revenue grew at 15.9%, Audit grew at 5.6%; and Tax grew at 7.2% and returned to solid growth after two years of contractions. Growth in the Americas was 9.9%, Europe increased 4.3%, while Asia zoomed up by 17.4% from 2010 to 2011.

**2012 continued the strong trend seen in 2011 with growth in all service lines and all geographies. The appreciating US dollar posed some currency headwinds.**

2012 results continued the strong trend seen in 2011, though not at the same pace, with all service lines and geographies growing from 2011, driven by strong emerging markets, robust equity markets, and global economic growth and heightened deal activity. The combined revenue for the four firms for fiscal 2012 increased a solid 6.4% from $103 billion in fiscal 2011 in US dollar terms to historic high levels of $110.3 billion, yet another record.

This performance was at the robust levels that we had anticipated of 4% to 7% annual growth. Revenue grew in local currency terms at a 7.2% rate from 2011 to 2012, with the appreciating US dollar in this period, particularly against European currencies, creating a 0.8% headwind for a growth of 6.4% in US dollar terms. The Advisory service line revenue grew at 12.2% continuing its growth from last year. Even Audit grew at 2.9%, and Tax grew at 5.6% and returned to solid growth. Growth in the Americas was 9.2%, Europe increased

3.3%, while Asia zoomed up by 8.0% from 2011 to 2012.

(For our prior analysis of 2009, 2010 and 2011 Big Four Performance Analysis, please see http://www.big4.com/analysis)

**After increasing 1% in 2010 and then by 9% in 2011, combined revenue increased a solid 6% in 2012, to yet another historic record of $110 billion.**

In 2009, an appreciating US dollar created much steeper drops in US dollar terms (ranging from negative 5% to negative 11%) than in local currency terms (negative 3% to positive 1%). In 2010, the situation reversed, as the US dollar depreciated somewhat against foreign currencies, thus smaller improvements in local currency terms (negative 3.5% to positive 0.3%) translated into better upswings in US dollar terms (negative 0.9% to positive 2.6%). In 2011, further weakening of the US dollar aided growth in US dollar terms (7.6% to 10.1%) by a good 2%, as local currency growth came in lower (5.3% to 8.2%).

In 2012, the US dollar appreciated strongly against foreign currencies, reversing the trend seen in 2011, thus improvements in local currency terms (4.4% to 8.3%) translated into less buoyant growth in US dollar terms (1.4% to 8.6%).

Even in 2010, these large accounting firms posted some big numbers with combined revenues at an eye-popping $95 billion, dropping from an all-time record level of over $101 billion in 2008. 2011 turned out to be a blockbuster year with revenues of $103 billion, setting all-time records and easily surpassing the previous peak set in 2008. 2012 was another banner year, with a new record of $110 billion.

**These large accounting firms had a blockbuster year in 2012, their combined revenues reaching an all-time high of $110 billion**

Revenue increases in US dollar percentage terms varied across firms, ranging from 6.7% for Ernst & Young, 8.6% for Deloitte, 7.8% for PricewaterhouseCoopers and 1.4% for KPMG. KPMG was the surprising laggard in annual growth, while the giant PricewaterhouseCoopers reported solid growth, enabling it to stay ahead of Deloitte.

In local currency terms, revenue increases were 7.6% for Ernst & Young, a weak 4.4% for KPMG, an ultra-strong 8.3% for Deloitte, and a very creditable 8.0% for PwC. This variation in growth led to two critical impacts. First, PwC maintained its revenue leadership position among the Big Four, leaving Deloitte to enjoy only one year as the leader of the pack (in 2010). PwC's strong local currency growth enabled it to stay ahead of Deloitte by a slim $200 million. Second, KPMG's slower relative growth increased its gap with Ernst & Young to $1.4 billion from only $170 million in 2011, the difference being $0.5 billion in 2010 and $1.3 billion in 2009.

| In Billions of US$ | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Deloitte | 23.1 | 27.4 | 26.1 | 26.6 | 28.8 | 31.3 |
| E&Y | 21.1 | 23.0 | 21.4 | 21.2 | 22.9 | 24.4 |
| KPMG | 19.8 | 22.7 | 20.1 | 20.7 | 22.7 | 23.0 |
| PwC | 25.1 | 28.2 | 26.2 | 26.6 | 29.2 | 31.5 |
| **Combined Firms** | **89.1** | **101.3** | **93.8** | **95.1** | **103.6** | **110.3** |

The growth differential across firms was driven by the intrinsic nature of the firm itself and varying compositions of service lines and geographies and a small effect due to fiscal years which spanned different calendar months. Deloitte's fiscal 2012 ended on May 31, 2012, E&Y and PwC's fiscal 2012 ended on June 30, 2012 and KPMG was the last to close out the fiscal year 2012 on September 30, 2012. In 2011, this small difference in fiscal year-ends resulted in relatively higher impact for KPMG, which enjoyed three to five additional months of better economic conditions. KPMG was the only firm to post positive growth from 2009 to 2010 for all its three regions. In 2012, this timing gap seemed to detract from positive growth.

Fluctuations in the US dollar also contributed to the higher level of percentage drops. In 2012, the US dollar continued its appreciation against a basket of foreign currencies. This had a unfavorable effect, as depreciating local currencies, where the firms earned revenue, were converted into fewer US dollars, in which the firms reported their annual results. In general, increases expressed in US dollar terms were the same or lower than increases expressed in local currency terms.

## The Big Story Of 2012: PwC maintained its lead over Deloitte to first place as the largest accounting firm on the planet. The margin – a slim $200 million.

## KPMG was the surprising laggard in the group, with modest contributions from its Audit and Advisory service lines

The big story of 2010 was that Deloitte with its 1.8% growth was able to beat PricewaterhouseCoopers with its 1.5% growth to gain the first place and become the largest accounting firm on the planet. In 2009, PwC was narrowly ahead of Deloitte, but Deloitte's 2010 revenues of $26.578 billion was ahead of PwC's 2010 revenues of $26.569 billion by an ultra-slim but very significant $9 million. In 2011, the situation of the previous year reversed. PwC posted 10.0% growth in US dollar terms and 8.2% in local currency terms. Both were ahead of Deloitte, which recorded 8.4% in US dollar terms and 7.7% in local currency terms. The result – PwC's 2011 revenues zoomed to $29.223 million, a good $423 million more than Deloitte's 2011 revenues of $28.800 million.

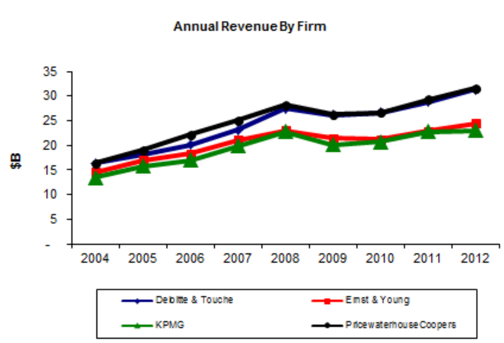
In 2012, the situation of the previous year continued. PwC posted 7.8% growth in US dollar terms and 8.0% in local currency terms. Both were behind Deloitte, which recorded 8.6% in US dollar terms and 8.3% in local currency terms. Yet, the result – PwC's 2012 revenues zoomed to $31.5 billion, a slim but significant $200 million more than Deloitte's 2012 revenues of $31.3 billion.

Interestingly PwC had lower growth in US dollar and local currency terms than Deloitte, but its larger size in 2011 offset this lower growth differential, and while reducing the gap to $200 million, still enabled the firm to hold first place. Nevertheless, Deloitte has proven in the last few years that it is a strong contender for the leadership position.

Ernst & Young took the third spot at $24.4 billion, and KPMG maintained its position as the smallest of the Big Four firms at $23.0 billion, a good $1.4 billion behind, as the gap increased against E&Y. Interestingly KPMG posted relatively lower growth against E&Y in every service line and each geography.

## Combined firm revenues grew 14% CAGR from 2004 to 2008 and 8% CAGR from 2004 to 2012

The Big Four firms have had an astonishing run up in total revenues over the last nine years. In 2004, combined firm revenues were only $60 billion, but by 2008, this had moved up at a compounded annual growth rate of 14% to exceed $100 billion; and then subsided to 2009. Some of this gain was from the collapse of Andersen, as Andersen's $10 billion or so of revenues in 2002 was generally redistributed over the remaining four firms. Beyond this, the global financial boom in the middle of the decade, combined with assertive penetration into emerging economies provided the engine for revenue increases. 2012 has seen the result of this penetration into clients and emerging economies, with record high results for all firms being realized.

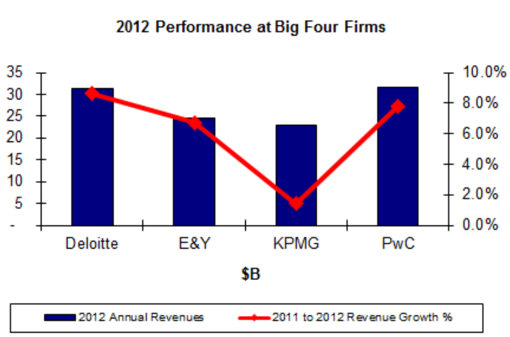


This positive trend rapidly reversed in 2009, the first time in six years, as economies all over the world came to an abrupt halt in mid-2008, with many countries going into recessions, and ultimately affecting the seemingly unstoppable growth in Big Four firm revenues. Even with this drop in 2009, the six year compounded annual growth rate from 2004 to 2011 was 8%, a remarkable achievement, given that these multi-billion dollar enterprises had to grow their size by nearly 60% from a high starting point by either finding new revenue opportunities or penetrating current clients. With the additional growth boost in 2012, the eight-year CAGR has returned back to 8% from 2004 to 2012.

One aspect to take note - despite being auditors for the world's public companies, who are themselves required to report extensive details on their financials, the Big Four firms provide only very high level financial information with minimum commentary, with consequent impact on the depth of possible analysis in our study.

## 2012 FIRM PERFORMANCE

Deloitte was the first firm to report this year on September 19, 2012, followed by Ernst & Young on October 2, 2012, PwC reported on October 4, 2012 and KPMG was the last to report on December 13, 2012.




With Deloitte reporting excellent performance and some additional results from UK firms, it became evident that the year was shaping up to produce a terrific outcome, continuing the strong growth seen in 2011 and a large improvement from the drastic declines of earlier years. Revenues rose across all geographies and service lines with very strong double-digit growth in emerging markets for all firms. Firms' results were in line with our expectations for solid 4% to 7% growth. However, KPMG's slowest increase was out of line with our prediction.

KPMG's overall growth of 4.4% in local currency terms was a good 4% below its three key peers and its growth of only 1.4% in US dollar terms was a good 7% below its key peers. Our analysis indicates KPMG's performance was impacted by three factors: a strong appreciation of the US dollar versus the Euro in KPMG's largest geography, modest growth in its Advisory business (excluding Management Consulting) and its loss of relative market position against its three key peers in the global Audit market. While the first factor is structural and out of KPMG's control, the poor showings on the other two factors points to potential issues with its business model and execution.

**In general, the firms' results were in line with our expectations of 4% to 7% growth. KPMG had the slowest growth rate, while Deloitte grew the fastest**

There was some drama this year owing to the somewhat close race between Deloitte and PwC. After Deloitte reported on September 19, 2012, PwC's revenue threshold became quite clear, and as it reported on October 4, 2012, it became evident that PwC's revenues had exceeded Deloitte to maintain the crown as the largest accounting firm.

This year, we highlight the firms who have achieved the highest growth rate in revenues from 2011 to 2012 in local currency terms as the growth stars in 2012.

### 2012 GROWTH STARS

**Audit**
Deloitte Audit – 6.0%

**Tax**
PwC Tax – 7.9%

**Advisory**
PwC Advisory – 16.9%

**Americas**
PwC Americas – 13.3%

**Europe**
E&Y Europe – 6.5%

**Asia Pacific**
Deloitte Asia – 16.3%

A brief overview of 2012 results for each firm follows.

### PricewaterhouseCoopers PwC

PricewaterhouseCoopers's FY 2012 global revenues for the year ending June 30, 2012 was US$31.510 billion, a 7.8% increase from the US$29.223 billion in FY 2011 in US dollar terms. However, on local currency terms FY 2012 revenues were actually higher than FY 2011 by 8.0%. This highly commendable performance helped the firm regain its top ranking as the largest accounting firm on the planet. PwC maintained this top honor by beating Deloitte, who reported FY 2012 revenues of $31.3 billion, thus falling short of PwC by a slim $200 million, after being ahead in 2010 by an extraordinarily slim margin of just $9 million.

**PwC revenues rose 7.8% in 2012, enough to maintain its leadership as the largest accounting firm on the planet**

PwC firms had strong revenue increases of 13% in both North America and South America, which followed a similarly strong performance in 2011 and consolidated the firm's market position in the region. Revenue growth in developing markets of the Middle East and Africa was also strong - up 15%. Overall, Asian growth was 6%. PwC firms had revenue growth of 4% in Western Europe and 8% in Central and Eastern Europe, both higher growth rates than in 2011. Revenues from developing markets accounted for 20% of PwC's aggregate global revenues, and expected to reach 40% by 2017.

In the US, revenues were up by 15%; in the UK by 6%; in China by 14%; in India by 16%, in Russia by 13% and in Brazil by 14%.

In terms of service lines, 2012 Assurance revenues was up 3.4% in local currency terms to $14.864 billion, but in terms of US dollars, revenues increased slower at 3.3% from $14.393 billion in 2011. PwC noted excellent performance in its signature Assurance practice, the largest in the world, despite the maturity of the business and the globally competitive market for audit services and downward pressure on pricing.

Tax services increased 7.9% in local currency terms to $7.944 billion, and 7.8% in US dollar terms from $7.372 billion in 2011. PwC noted that this growth was driven by increasing demand from clients for advice to deal with the risks and challenges of tax compliance, tax revenue examinations and tax accounting. Further, PwC Tax advised clients of tax consequences and risks as companies actively transform their business operations to deal with globalization and changing supply chains.

Advisory services for PwC was the top service line as revenues increased by 16.9% in local currency terms to $8.702 billion, and

16.7% in US dollar terms from $7.458 billion in 2011. PwC indicated outstanding performance from the consulting businesses, due to higher sales in consulting services as clients recognized PwC's ability to deliver transformational change across the spectrum of consulting from strategy to execution.

**PwC noted strong growth in the Americas and increasing revenue share from developing countries**

In terms of geographies, Asia and Australasia 2012 combined revenues rose to $5.4 billion from $5.1 billion in 2011. This was a growth for Asia in local currency of 7.9% and 8.8% in US dollar terms; and correspondingly for Australasia a decrease of 5.0% in local currency, and a small increase of 0.2% in US dollar terms. PwC firms revenues in Australia and the Pacific were down by 5% due to an exceptional item in FY2011 which significantly boosted revenue growth last year. Without this exceptional item, revenues from Australia and the Pacific continued to grow steadily, up 3%.

Americas turned in an excellent performance, with 2012 revenues at $12.224 billion, up 13.4% in local currency terms and 12.8% in US dollar terms from $10.836 billion in 2011.

Europe, Middle East and Africa combined revenues in 2012 of $13.877 billion, rose a solid 5.4% in local currency terms and 4.4% in US dollar terms from $13.283 billion in 2011. Western Europe revenues increased 4.4% in local currency terms and 4.0% in US dollar terms from $11.518 billion in 2011 to $11.984 billion in 2012. Central and Eastern European revenue increased 8.3% in local currency terms and 4.8% in US dollar terms from $0.778 billion in 2011 to $0.816 billion in 2012.

In 2012 the firm recruited a record 20,500 graduates, making PwC one of the largest graduate recruiters around the world; and with plans to recruit and train an even larger number of graduates in the year ahead. PwC expanded its workforce by 7% in FY 2012, taking the total number of people to over 180,000 for the first time.

## Deloitte

Deloitte Touche Tohmatsu, the global firm, reported fiscal 2012 revenues for the year ending May 31, 2012 of US$31.3 billion, a 8.3% growth in local currency terms, but an increase of 8.6% in US dollar terms from 2011 of $28.8 billion. Deloitte revenues grew the strongest since 2008.

Deloitte member firms experienced growth across all three major geographic regions, led by exceptional results generated in Asia Pacific, the Americas, and a number of developing markets, as well as across all business lines and industry sectors. In FY2012, Deloitte saw growth across all business lines and industries, with financial advisory and consulting experiencing 15 % and 13.5 % revenue growth, respectively. Deloitte successfully completed 30 strategic acquisitions in 2012 in key markets and growth areas, including Digital, Analytics, Financial Advisory, and Consulting.

**Deloitte noted growth in all three regions, all functions and all industry sectors. Asia Pacific and developing countries, and Americas were exceptional**

By service line, Consulting (and Financial Advisory) was the fastest grower at 15% from $10.9 billion in 2011 to $12.5 billion in 2012. Financial Advisory grew at 15% due to several significant cross-border, cross-functional client engagements, and through acquisitions. Consulting revenue grew by 13.5% by helping clients with their most complex challenges, including responding to changes in the market, industry, and regulatory landscape, as well as supporting expansion into new and emerging markets. Demand for services in Business Intelligence, Enterprise Applications, Finance Transformation, M&A, and HR Transformation were dominant growth drivers.

Audit and Enterprise Risk Services (ERS) revenue increased 6.0% against 2011 from $12.3 billion to $13.0 billion. Audit grew most rapidly in the priority markets, especially in the Asia Pacific region. ERS drove growth—double-digit growth in every region and industry—due to heightened regulatory pressure, positive analyst ratings, and increased awareness of the importance of optimized risk management practices.

Tax and Legal revenues rose 4.0% against 2011 from $5.6 billion to $5.8 billion. Growth was driven by the continued implementation of enhanced service delivery models in both Compliance & Reporting and Advisory services, as well as by the introduction of new service offerings, especially in priority markets, to help clients manage the complex, fast-changing economic and tax environment. An uptick in cross-border consultative services and strong growth in the Asia Pacific region also propelled growth.

The fastest growing industry was Energy & Resources, with revenue growth of 24%. Life Sciences & Health Care grew by 13%, Consumer Business and Transportation by 11%, and Financial Services by 10%. Financial Services generated more than 25% of the total industry revenue.

In terms of geography, Americas increased 8.0% from $14.3 billion in 2011 to $15.4 billion in 2012. Deloitte LATCO member firm grew by 16.3 %. Deloitte United States grew by 9.1 %.

Europe, Middle East and Africa revenues increased 6.4% from $10.3 billion in 2011 to $11.0 billion in 2012. Member firms in Africa, Norway, Greece, and Luxembourg all experienced double-digit growth in local currency. Deloitte UK grew by 11 % in local currency.

Asia Pacific grew 16.3% from $4.2 billion in 2011 to $4.9 billion in 2012, making it the fastest-growing region for the eighth consecutive year. Deloitte India grew by 19 % in local currency. Half of the member firms in the region, including Deloitte China, experienced double-digit growth.

**The Asia Pacific region grew a solid 16.3% and was the fastest-growing region for the eighth consecutive year**

And while this was a remarkable performance, it was unable to help maintain Deloitte's lead over PwC to continue to be the largest Big Four firm in the world. Its 2012 revenues of $31.3 billion were behind PwC's 2012 revenues of $31.5 billion by a slim $200 million, after being ahead in 2010 by a miniscule but significant margin of $9 million or 0.03%.

**A remarkable performance in 2010 had helped Deloitte to beat PwC and become the largest Big Four firm in the world.**

We had indicated in our 2009 analysis that if Deloitte's growth rate were to exceed PwC's growth rate only by a minimum of 0.3%, Deloitte's 2010 revenues in US dollar terms would make it the largest among the Big Four firms. And as it happened, PwC revenues grew by 1.5% and Deloitte revenues grew by 1.8% from 2009 to 2010, and that put Deloitte ahead by a very small but critical delta, which Deloitte celebrated by indicating that "Deloitte ascends to become the largest private professional services organization worldwide" while not naming PwC in its press release.

In 2009, Deloitte revenues shrank less than PwC, thus narrowing, but not completely closing the gap against PwC. By showing remarkable performance in 2009, arguably one of the toughest environments in recent memory, Deloitte demonstrated that it was a strong contender for the leadership position.

Deloitte continued to focus on hiring, developing, and retaining top talent as a key driver of the expansion of business activity.

In FY2012, Deloitte hired 51,400 professionals; its total workforce now exceeds 193,000 professionals worldwide and the organization is well on its way to achieving its growth goal of 250,000 professionals by FY2015.

**Ernst & Young**

Ernst & Young's combined worldwide 2012 revenues for the year ending 30 June 2012 were US$24.420 billion, increasing 7.6% in local currency terms from the comparable period in FY 2011 of US$22.880 billion in global revenues. In US dollar terms, the revenue jumped 6.7% from 2011 to 2012.

Ernst & Young noted that its business model and strategy continue to weather the economic turmoil and withstand the test of time as all service lines showed strong growth in emerging markets. Assurance revenues were up 4.1%, Tax 7.0%, Transactions 9.4% and Advisory 16.2%, a good performance given the current business climate. Growth in all of service lines was almost entirely organic, with acquisitions accounting for less than one half of one percentage point.

Jim Turley, Global Chairman and CEO of Ernst & Young noted, "FY12 remained a dynamic and volatile period in the world economy. The ongoing sovereign-debt crisis in Europe, the impending 'fiscal cliff' in the US, and signs that the emerging-market economies are slowing all point toward a challenging business climate in the months ahead. We will also continue to face regulatory uncertainty in many jurisdictions around the globe. That said, we are pleased that our business showed good results, the best since 2008, in the midst of what has been several years of uncertainty."

**After revenues increased 7.6% from 2010 to 2011, Ernst & Young followed up with another great year with 6.7% revenue growth from 2011 to 2012**

Jim Turley, Global Chairman and CEO, Ernst & Young will retire in June 2013 to be replaced by Mark Weinberger. Jim Turley, who has led Ernst & Young since 2001, has led E&Y to grow from $10 billion in annual global revenues to $24.4 billion, has doubled its headcount and has established itself as the most globally integrated organization in the profession in mindset, actions and structure.

The firm's strongest performing sectors, all with double digit growth, were: Automotive, Life Sciences, Mining & Metals and Oil & Gas. Brazil saw organic revenue growth of 17.5%, while India, Africa, China and the CIS increased revenues 19.8%, 10.2%, 11.8% and 15.6%, respectively.

Assurance Services had FY 2012 revenues of $10.923 billion, which was up 4.1% in local currency terms, and 3.4% in US dollar terms from FY 2011 revenues of $10.561 billion.

Global Tax Services with FY 2012 revenues of $6.370 billion was up 7.0% in local currency terms and also up 6.0% in US dollar terms from FY 2011 of $6.011 billion.

Advisory Services with FY 2012 revenues of $4.956 billion was up an astounding 16.2% in local currency terms, and 15.1% increase from $4.304 billion in FY 2011 in US dollar terms. Transaction Advisory Services with FY 2012 revenues of $2.171 billion, had a 9.4% increase in local currency terms and revenues grew 8.3% in US dollar terms from $2.004 billion in 2011.

**Ernst & Young has a solid 2012 performance despite tough external pressures. All service lines and geographies grew. Advisory growth was exceptional**

In terms of geographies, Americas had FY 2012 revenues of $9.820 billion, which increased 10.1% in local currency terms, and 9.3% in US dollar terms from FY 2011 revenues of $8.981 billion. EMEIA with FY 2012 revenues of $10.459 billion was up

6.5% in local currency terms and also up 3.8% in US dollar terms from FY 2011 of $10.075 billion. Asia-Pacific with FY 2012 revenues of $2.813 billion was up 8.1% in local currency terms, but increased 11.1% in US dollar terms from $2.532 billion in FY 2011. Japan had FY 2012 revenues of $1.328 billion, which was down 2.3% in local currency terms but up 2.8% in US dollar terms from FY 2011 of $1.292 billion.
The firm noted that emerging markets saw combined revenue growth of 15.5%. E&Y's headcount at an all-time high of 167,000, with 15,000+ new hires in 2012.

**Ernst & Young made a key change to their reporting of revenues in 2009, showing combined, not consolidated revenues**

Ernst & Young made a key change to their reporting of revenues in 2009, electing to show combined, not consolidated revenues by eliminating intra-firm billings. E&Y restated its 2008 revenues down from $24.5 billion as originally reported to $23.0 billion reported as restated in 2009. The reason provided for this change was, "In line with our globalization efforts to harmonize policies across member firms, revenues for 2009 and 2008 related to member firm billings to other member firms have been eliminated from the financial information presented here. This financial information represents combined not consolidated revenues, and includes expenses billed to clients."

## KPMG

KPMG reported 2012 combined revenues for the fiscal year ending 30 September 2012 of US$23.030 billion versus US$22.710 billion for the prior 2011 fiscal year. This was a 4.4% increase in local currency terms and a 1.4% increase in US dollars terms. KPMG noted the strong appreciation of the US dollar which impacted its reported results.

KPMG noted that at a time of ongoing global economic challenges, the growth reflected the firm's continued strategic focus on investments in emerging markets and key service areas, as well as aggressive recruitment of top talent.

KPMG in China consolidated its leading position in M&A consulting by advising on three of the four largest Chinese business outbound merger and acquisitions during the course of the year.

KPMG's Management Consulting practice, part of the Advisory business, achieved growth of 15% from 2011 to 2012 and has grown to a business with revenues of $2.2 billion in just seven years.

KPMG's firms now serve more than 82% of the Global Fortune 500 list of companies.

Further, to better explain KPMG's modest results, Michael J. Andrew, Chairman of KPMG International, commented:

"2012 was a year of two distinct halves; with growth strongest at 6.4% in the first six months of the year (October 2011 to March 2012) and relatively weaker growth of 2.1% in the six months to September (April 2012 to September 2012). Growing our business against such a challenging economic backdrop is testament to the quality of our people and the strength of their relationships with clients."

KPMG recorded increased revenues across all functions with particularly strong growth generated in Financial Services, Industrial Markets and Infrastructure, Government and Healthcare. Advisory revenues grew by 8.3%, to $7.86 billion; Tax revenues grew by 6.3%, to $4.86 billion; and Audit revenues grew by 0.9%, to $10.31 billion.

At a regional level, the Americas delivered strong growth for the year, with revenues rising by 7%. The Europe, Middle East and Africa region reported increased revenues of 5.3% across the region, despite the ongoing economic uncertainty caused by the Eurozone crisis. The Asia Pacific region reported revenue growth of 1.1%, reflecting subdued growth in North Asia.

KPMG noted exceptional annual growth of 20% or more at KPMG firms in Argentina, Brazil, Chile, India and Turkey. Revenue growth was also strong in Africa and Indonesia, rising by more than 10% in each area over the last fiscal year. KPMG also decided to convert the Chinese member firm from a joint venture to a special general partnership as a bold step.

**KPMG's revenue grew at 1.4% in US Dollar terms and 4.4% in local currency terms from 2011 to 2012, the slowest among Big Four firms and increasing the gap with Ernst and Young**

By service line, Audit FY 2012 revenues were $10.31 billion versus $10.48 billion in FY 2011, up 0.9% in local currency but down 1.6% in US dollar terms. KPMG noted that on the Audit side, the market has never been more competitive.

Tax services revenues in 2012 were $4.86 billion versus $4.69 billion in 2011, a strong 6.3% increase in local currency terms and 3.6% increase in US dollar terms.

Advisory services revenues of $7.86 billion in 2012 were up versus $7.54 billion in 2011, by 8.3% in local currency terms and 4.2% in US dollars terms.

**KPMG's fiscal year end is September, this was a distinct advantage in 2011, but not much of a help in 2012. Growth in Advisory was the highest**

By geography, Americas Region had 2012 revenue of US$7.45 billion versus US$7.05 billion in 2011, up 7.0% in local currency terms and up 5.7% in US dollar terms. Bright spots included Brazil, Chile and Argentina with 20+% revenue growth,

In Europe, Middle East and Africa, combined KPMG member firm 2012 revenues were $11.51 billion versus $11.66 billion in 2011, up 4.0% in local currency terms but down 1.3% in US dollars terms.

In Asia Pacific, combined 2012 revenues of $4.07 billion increased 1.1% in local currency terms and 1.8% in US dollar terms against $4.00 billion in FY 2011. KPMG noted tough conditions in North Asia.

## DETAILED ANALYSIS OF KPMG RESULTS

KPMG's modest performance, far below peers and our expectations calls for further analysis of their results.

**KPMG's modest performance, far below peers and our expectations calls for further analysis of their results**

KPMG's relatively poor performance was impacted by three key factors:

1. KPMG's Europe service line 2012 growth of 4.0% on local currency basis was generally at par with peers. From 2011 to 2012 on a local currency basis, Deloitte grew 6.4%, E&Y grew 6.5% and PwC grew 5.4%. However, KPMG Europe is 50% of KPMG Global revenues, thus a much larger percentage share compared to its peers. Also, the US Dollar strongly appreciated against the Euro in KPMG's Fiscal 2012 (October 2011 to September 2012) versus KPMG's Fiscal 2011 (October 2010 to September 2011), which led to a 5.3% differential between Europe's local currency growth (at positive 4%) and US dollar growth (negative 1.3%), and also contributed largely to the 3% differential between KPMG Global's local currency growth (at positive 4.4%) and US Dollar growth (at positive 1.4%).

2. KPMG's Advisory service line 2012 growth of 8.3% on local currency basis, even though creditable, was clearly far below peers and below KPMG's own performance in 2011. From 2011 to

2012 on a local currency basis, Deloitte grew 14.0%, E&Y grew 14.0% and PwC grew 16.9%. Further, KPMG noted that its Management Consulting service line grew 15% from 2011 to 2012 to $2.2 billion in 2012. Calculating further, it appears that the Advisory service line excluding the Management Consulting service line grew only modestly from 2011 to 2012.

3. KPMG's Audit service line 2012 growth of just 0.9% on local currency basis was clearly far below peers. From 2011 to 2012 on a local currency basis, Deloitte grew 6.0%, E&Y grew 4.1% and PwC grew 3.4%. KPMG noted a fiercely competitive audit market, and seemed to have been severely impacted and perhaps lost relative market share to all its three rivals in 2012.

**KPMG's relatively poor performance was impacted by three key factors:**

**Europe's growth was comparable to peers but its larger share of overall KPMG revenues and the appreciation of the US dollar versus the Euro contributed to KPMG Global's slower growth in US Dollar terms.**

**KPMG' Advisory service line excluding Management Consulting had modest growth from 2011 to 2012**

**KPMG Audit's growth at rates far below its key peers, appears to indicate that KPMG presumably lost relative audit market share to other Big Four firms**

KPMG China has now 9,000 partners and staff and will convert from a joint venture to a special general partnership. KPMG also announced that its member firms expect to hire 60,000 campus graduates over the next three years.

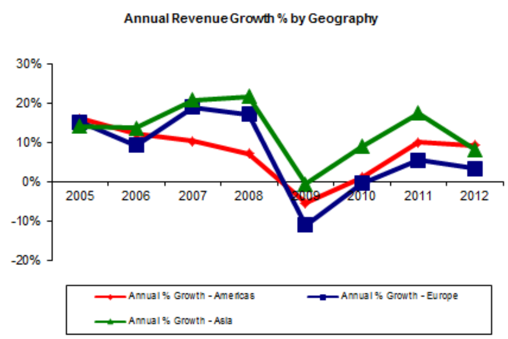
**KPMG reported moderate growth in Asia and Europe. Tax revenues increased at solid rates**

KPMG increased its global workforce by over 5%, to more than 152,000 partners and staff, the highest number of individuals ever employed across the network. More than 450 new partners were appointed over the year, bringing the number of partners across the network to more than 8,600, another record. KPMG recruited more than 18,000 graduates last year and plans to recruit a further 60,000 graduates over the next three years, marking the highest planned recruitment levels in KPMG's history.

## REVENUE BY GEOGRAPHY

The distribution of revenues by geography shows some very interesting insights. Contrary perhaps to common belief, Europe (including generally Europe, Middle East and Africa), rather than the Americas region (including Canada, the US and South America), has the highest percentage of total revenues for the Big Four firms, averaging 43% of total worldwide revenues. Americas average about 40% and the Asia Pacific countries (including India, South Asia, China, North Asia and Australia) have the remaining 17% of the revenue share.

**Europe has the highest proportion of total revenues for the Big Four firms at 43%, Americas at 40% and Asia's share has climbed rapidly to 17%**



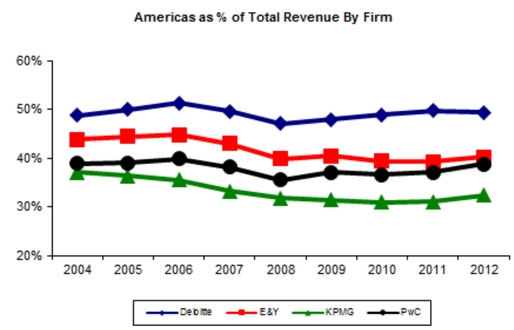

### The Americas

The Americas represent about 40% of global revenues of the Big Four firms combined revenues, but its share has been falling over the years. From 2005 to 2012, there has been a noticeable drop of about 3% in the Americas region's share of the total revenue for all the firms. In 2005, 42% of combined firm revenues were reported from the Americas region, whereas in 2012, it had dropped to only 43% of total firm revenues. From 2011 to 2012 however, there was strong performance for the Americas region from all the firms, with the region growing overall at 9.2% in US Dollar terms – PwC grew the fastest at 12.8%, followed by E&Y at 9.3%, Deloitte at 8.0% and KPMG at 5.7%.

There also appears to be large variation across firms in the proportion of total global revenue from the Americas. For example, Deloitte at the high end, sources 50% of its revenues from the Americas driven by its Deloitte Consulting unit, and KPMG at the low end has only 32% of its revenues from the Americas. Ernst & Young has 40% and PwC has 39% of their total revenues from the Americas, in line with the total firm average.

While Latin America, and particularly South America and Mexico have provided good growth opportunities for growth in recent years, the predominance of the mature markets of USA and Canada with their slower growth has generally limited the expansion of Big Four firms in the Americas region. For example, KPMG noted that 2012 revenues in Brazil grew 20+%, Deloitte reported that Latin American countries grew 16%. E&Y Brazil grew at 17.5%. South and Central America for PwC grew 13% while North America and Caribbean revenues grew 13%.

The 3% revenue share loss of the Americas has generally gone to Asia Pacific, where emerging markets such as China, India, Korea and Vietnam have grown at disproportionately higher rates.




**From 2005 to 2012, there has been a noticeable drop of about 3% in the Americas region's share of the total revenue for all the firms**

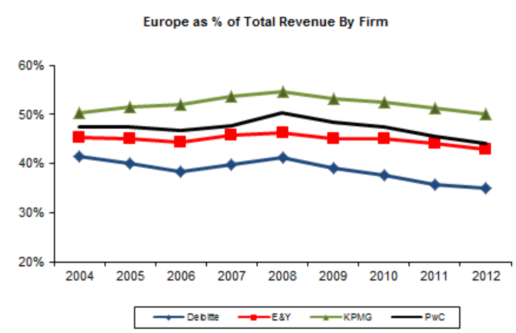
### Europe

Europe, surprisingly, is the largest region by revenue for all Big Four firms. The Big Four firms typically combine Europe, comprising the developed countries of Western Europe, the up and coming markets of Eastern Europe with Middle Eastern and African nations for a giant EMEA region. Europe represents about 43% of global revenues, and as we see across the years, this total percentage has remained remarkably flat from 2004 to 2011, though a drop from 48% in 2008 to 43% in 2012 is becoming very noticeable. In 2004, 46% of combined firm revenues were reported from the Europe region, and in 2012, there has been a slight drop to 43% of total firm revenues came from Europe.

Overall, the region's revenues increased 3.3% from 2011 to 2012, with Deloitte up 6.4%, PwC Up 4.5%, E&Y up 3.8% and KPMG down 1.3%. Europe was roiled by volatility and uncertainty regarding Greece, Italy, Portugal and Spain in 2012 and thus recorded the slowest growth among all three region. Europe's loss of share is also due to rapid growth in Asian revenues.

**Europe represents about 43% of global revenues, staying flat 2004 to 2011, though a dip from 2008 to 2012 is becoming very noticeable. Europe grew slowest among regions – up 3.3% in 2012**

As in Americas, each firm has a different percentage of European revenues as a share of the total revenues. KPMG at the high end sources 50% of its revenues from Europe (KPMG Europe LLP being a key contributor) while Deloitte at the low end has only 35% of its revenues from Europe, this situation being a total opposite of the Americas. Ernst & Young and PwC each have 43% of their total revenues from Europe, in line with the total firm average.




This diverse European region comprises both of mature markets such as the United Kingdom, France, Italy and Germany, as well as fast growing Eastern European nations - Poland, Russia, Czech Republic, Hungary and Romania; Middle Eastern nations of UAE, Kuwait, Israel and Qatar; and African countries – South Africa, Egypt, Kenya and Nigeria being prominent.

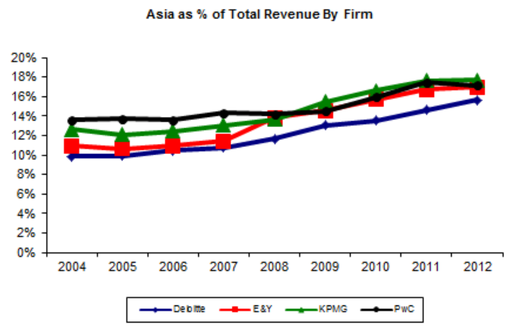
The Big Four firms have had spectacular growth in Eastern Europe as these high growth economies have matured into capitalistic markets, requiring sophisticated audit, tax and transaction services. More recently, Middle East and Africa have been much stronger sub-regions, albeit from a smaller base. For example from 2011 to 2012, PwC reported that Central Europe grew 8% from 2011 to 2012. KPMG Africa was up 10%+, E&Y Africa was up 10.2%.

## Asia Pacific

Asia Pacific, while being the smallest region, has posted the highest growth rates of all regions. This diverse region comprises a few mature markets such as Japan and Australia, but mainly covers fast growth emerging markets such as China, India, Vietnam, Korea and Singapore. The Asia Pacific region has been in an economic boom for most of this decade, and their demand for Big Four firm professional services have multiplied. All the firms have grown at exceedingly high rates each year since 2004, with the result that combined revenues have more than doubled from $7 billion in 2004 to $18.5 billion in 2012.

Overall, the region's revenues increased 8.0% from 2011 to 2012, with Ernst & Young up 8.3%, KPMG up 1.8%, Deloitte rising 16.3% and PwC up 6.0% rise in revenue from 2011 to 2012. Asia's differentially higher growth has led to a gain of share from America and Europe.

**Asia represents about 17% of global revenues for all the firms, and across the years, this percentage has increased steadily from 2004 to 2012**




Asia represents about 17% of global revenues for all the firms, and as we see across the years, this total percentage has increased steadily from 2004 to 2012. In 2004, less than 12% of combined firm revenues were reported from Asia, and in 2012, it had sharply increased to 16.5% of total firm revenues. This share gain came at the expense of the Americas region, and now more recently, Europe, which correspondingly lost its share of the pie. All firms reported strong growth from this region – Deloitte's Asia Pacific revenues grew 16.3%, making it the fastest-growing region for the eighth consecutive year.

**Asian revenues zoomed 8.0% from 2011 to 2012 to reach record revenues of $18.5 billion**

Deloitte India grew 19%, and Deloitte China had double digit growth. Ernst & Young India grew 19.8% and E&Y China grew 11.8%. Surprisingly Asia Pacific was a weak region for KPMG. For PwC, revenues rose 6% in Asia.

## BRIC

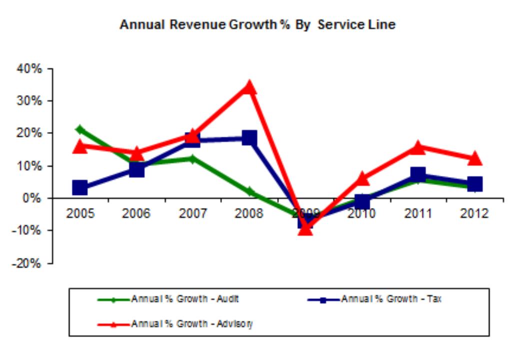
The BRIC countries – Brazil, Russia, India and China – have been unquestionably the shining stars in the growth story in recent years. Though the firms do not report individual country revenues, there is typically some commentary on the annual report on the spectacular increases in these countries.

**The BRIC countries – Brazil, Russia, India and China – have been the shining stars in the growth story in recent years**

For example from 2011 to 2012, PwC Brazil grew 14%, Russia was up 13%, India grew 16%, and PwC China grew 14%. For Deloitte, Brazil and other Latin countries grew 16.3%, India grew 19% and China experienced double digit growth. E&Y Brazil grew 17.5%, Russia grew 15.6%, India was up 19.8%, and China grew 11.8%. For KPMG, Brazil and India both had 20%+ growth.

## REVENUE BY SERVICE LINE

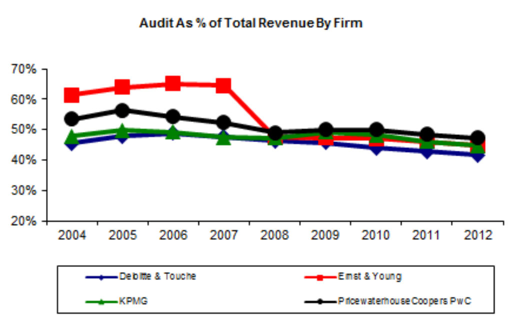
The Big Four firms offer a wide variety of professional and financial services, with newer Advisory services adding to their more traditional and deep-rooted Audit (Assurance) and Tax Services. Firms vary in their structure and definition of these broad service lines, typically though about half the revenues are sourced from Audit, and the balance is shared between Tax and Advisory Services.




### Audit

The audit service line, the largest in all firms, accounts for almost 45% of total revenues but this proportion has been steadily dropping across the years. In 2004, Audit revenues were 52% of total revenues, but by 2012, this had dropped a full 7% to 45% of revenues. The drop in Audit and also in Tax revenue was offset by an increase in the Advisory business. Typically Audit is a steady business, as publicly traded clients renew auditor services each year with some increase in annual fees. Most companies prefer to maintain their auditors for a long time, providing stability to the auditors' top line. The Audit service line did experience sharp growth in total revenues in 2005 to 2007, but this has slowed down sharply in the 2008-2010 years. Audit rebounded from 2010 to 2012, but this was overshadowed by even faster growth in Advisory.

**The audit service line, the largest in all firms, accounts for almost 45% of total revenues, but this proportion is steadily dropping across the years. Audit revenues rebounded in 2012**



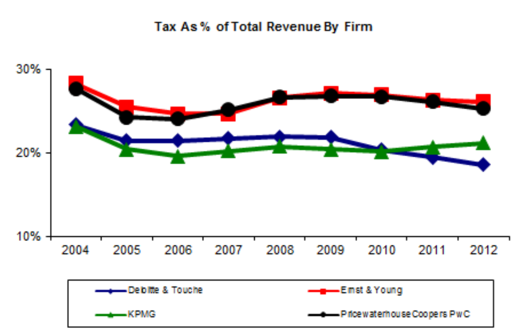

From 2008 to 2009, revenue for the Audit service line for the combined firms shrank by 6% in US dollar terms, and from 2009 to 2010, Audit revenues dropped a further 0.2%. But from 2010 to 2011, combined Audit revenues grew a strong 5.7% from $44.9 billion in 2010 to $47.5 billion in 2011. Audit revenues performance was somewhat better than the Tax service line which fell 7% from 2008 to 2009 and 1.2% for 2009 to 2010, demonstrating Audit's somewhat anti-recessionary nature. Audit fees came under pressure in 2009, but firms maintained their focus on client service and market share gains to mitigate any losses in revenue. And Audit revenues generally held flat from 2009 into 2010, though Deloitte and E&Y experienced declines which were somewhat offset by increases in KPMG and PwC. From 2010 to 2011, the Audit service line grew at all four firms, with PwC growing fastest at 6.5% and Deloitte growing slowest at 5.1%.

From 2011 to 2012, combined Audit revenues grew 2.9% from $47.7 billion in 2011 to $49.1 billion in 2012. The Audit service line grew at PwC at 3.3%, Deloitte Audit growing fastest at 6.0%, E&Y up by 3.4%. But KPMG Audit shrank in US dollar terms by 1.6%, dragging the overall service line downwards.

## Tax

The tax service line, forms about a quarter of the Big Four firm revenue and generally holding this percentage level across the years. Tax revenue are reasonably steady, as they derive revenue from add-on services provided to audit clients, in addition to tax services provided for transactions, complicated tax restructurings and other projects.

**The tax service line, forms about a quarter of the Big Four firm revenue and generally holding this percentage level across the years. Tax grew 4.4% from 2011 to 2012**



Tax had a very strong growth in 2006 to 2008, in line with large scale global merger and acquisition transactions activity, but posted a sharp decline in 2009 of 7%. Tax revenues further declined by 1.2% from 2009 to 2010, with Deloitte falling by more than 5% and E&Y also declining, offset somewhat by revenue increases in this service line at KPMG and PwC. 2011 was a different story altogether – combined Tax revenues of $22.3 billion in 2010 jumped a strong 7.1% to $23.9 billion in 2011. KPMG Tax grew a remarkable 13%, while Deloitte Tax grew the slowest at 5.2%.

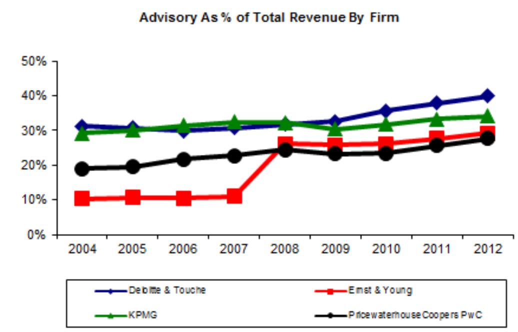
Combined Tax revenues of $23.9 billion in 2011 jumped another solid 5.6% to $25.0 billion in 2012. In general, the service line performed solidly for all firms in 2012, continuing on the good pace set in 2011. The growth rates for all firms was generally between 3.6% to 8.0%.

## Advisory

The Advisory service line, forms the last quarter of the Big Four firm revenue and includes the broader non-Audit and non-Tax services such as Transaction Advisory, Risk Management, and Business Consulting services; and demarcations generally vary across the firms. Owing to this catch-all nature of this category, there are many drivers of top line results, merger and acquisition activity and general business growth being principal factors.

**Advisory services have increased their share of revenues. In 2004, they had 22% of total revenues and this had sharply increased to 33% in 2012**

Advisory services have been one of the fastest growers in the Big Four firms as the firms extend their services beyond assurance and taxation through penetration into current clients or through referrals from other firms who may be conflicted out at their clients. Advisory services have generally increased their share of revenues. In 2004, they had 22% of total revenues and this had sharply increased to 33% in 2012, at the expense of declines in Audit and Tax.




Despite this sharp growth, Advisory services had the sharpest decline of 9% from 2008 to 2009, as clients slowed down transaction and restructuring activities all over the world. But Advisory had the sharpest bounce back among service lines, with revenues up 6% from 2009 to 2010, as equity markets roared back, M&A increased and client demand for consulting grew proportionately.

From 2010 to 2011, combined Advisory revenues grew a remarkable 15.9% from $27.8 billion in 2010 to $32.2 billion in 2011. The service line grew at PwC at 20.2%, Deloitte growing at 14.7%, E&Y up by 14.2%. KPMG Advisory at 14.8% growth.

From 2011 to 2012, combined Advisory revenues grew 12.2% from $32.2 billion in 2011 to $36.1 billion in 2012. The service line grew at PwC at 16.7%, Deloitte growing at 14.1%, E&Y up by 12.9%. KPMG Advisory was the surprising laggard at 4.2% growth.

**Advisory zoomed 12.2% from 2011 to 2012. All firms except KPMG recorded tremendous growth**

In 2012, the growth story became even stronger. Combined Advisory revenues of $32.2 billion in 2011 jumped 12.2% to $36.1 billion in 2012, the first time ever to cross the $35 billion threshold. Advisory is surely the star service line for all the firms.

## FIRM EMPLOYMENT ANALYSIS

The Big Four firms cumulatively employ close to 690,000 staff all over the world, including partners, audit, tax and advisory professionals and administrative staff. This staggering number has been consistently on the rise from 2004, when cumulative employment was around 435,000 staff. In 2009, employment  peaked at around 617,000. However, in 2011, as firms slowed hiring and outbound attrition reduced, total employment fell by nearly 7,000 to 610,000. In 2011, the situation reversed with hiring in line with revenue growth, boosting total employment by 37,000 net new hires to 647,000. 2012 continues the growth trend with total employment up 45,000 to a new record of 692,000.


From 2004 to 2012, the number of people working at just these four firms has increased by around 250,000+, an increase of 60% over just eight years. And while revenues did increase 6.4% from 2011 to 2012, net employment increased 7.1% over this period.

**The Big Four firms cumulatively employ close to 690,000 staff all over the world**

Typical annual attrition rate at Big Four firms was running about 15% prior to 2008. For example in 2008, the Big Four firms cumulatively would have made about 140,000 new hires to account for the loss of professionals and the additional revenue growth. This works out to about 550 hires for each business day of the year.

Even in 2009, assuming attrition rates had dropped to 10%, new hires in 2009 would be about 85,000 equating to about 350 hires each day. And in 2010, assuming that attrition rates held steady at 10%, new hires would be 55,000 or 200 per business day in one of the toughest job markets in recent history. In 2011, assuming that attrition rates again held steady at 10%, new hires would be 98,000 or 390 per business day in a difficult job market. In 2012, assuming that attrition rates again held steady at 10%, new hires would be 100,000+ or 500 per business day in a difficult job market. Truly, Big Four firms are huge seekers of talent with correspondingly very busy recruiters even in a period of deep recession.

**In 2012, we estimate there were only about 37,000 partners in all the Big Four firms, overseeing a steep pyramid of about 530,000 professionals**

Elevation to partner at a Big Four firm is a tough and long process as every professional who has ever worked at a firm knows. Partners form an elite class within these large partnerships, and only one in about 20 people belongs to this exclusive club. In 2010, we estimate there were only about 34,000 partners in all the Big Four firms, overseeing a steep pyramid of about 460,000 professionals, thus the typical partner being responsible for about 14 professionals in 2010. In 2011, we estimated a small increase of about 1,000 new partners to a total of about 35,000 partners in all the Big Four firms, overseeing a steep pyramid of about 493,000 professionals, thus the typical partner being responsible for about 14.2 professionals in 2011. In 2012,with 37,000 partners and 530,000 professionals, this ratio has climbed again to 14.3.


In 2004, the professional to partner ratio was only 11, thus partners are taking on more responsibilities in terms of professional management and development over the years.

Another metric that is closely watched is revenue per partner, in 2004, each partner was holding up $2.1 million in revenue, and this had crept up to $2.9 million by 2011 and further to $3.0+ million in 2012, matching the prior peak of $3.0 million in 2008. In other words, each partner was expected to bring in and manage client revenues of nearly $3 million in recent years to justify his or her position in the highest levels of the firms. Clearly, making partner is only the beginning of a series of demanding client development and professional responsibilities down the road.

## ERNST & YOUNG RESTATES REVENUE

Ernst & Young changed their revenue reporting methodology in 2009, by reporting "…combined not consolidated revenues, and including expenses billed to clients in line with globalization efforts to harmonize policies across member firms". Under the prior consolidation method in 2008, Ernst & Young's global revenues were $24.5 billion which were revised down to $23.0 billion under the new combined method of reporting. Ernst & Young restated only 2008 under this methodology but did not restate prior years, thus our analysis is affected by this reporting constraint.

**Under the prior consolidation method in 2008, Ernst & Young's global revenues were $24.5 billion which were revised down to $23.0 billion under the new combined method of reporting**

## CONCLUSION

The 2007 to 2009 recession has been the world's worst financial crisis for over 70 years, and despite such turbulence, the Big Four firms turned in quite a creditable performance, with revenues falling by single digits in local currency terms from 2008 to 2009. Since March 2009, global financial markets had a marked improvement in equity values, and general business conditions are in much better shape in December 2012.

**2011 marked a return to moderate growth and positive global macroeconomic momentum, very favorable for all Big Four firms**

Leading economic indicators in developed nations were on the uptrend in 2011 and both OECD and emerging market countries posted multiple quarters of positive GDP growth. 2012 saw the continuation of positive trends, as stability returned to the United States, Latin America countries continued their fast growth, Asian economies remained strong while only Europe was subject to a series of sovereign debt crises and high levels of unemployment. A reduced threat of US double-dip recession and deflation, an optimistic outlook among global executives, rebounding M&A activity, continued globalization strongly favored Big Four firm revenue growth, as the firms participated in an increasing level of financial activities pursued by their clients, whether it be tax restructuring or compliance, transfer pricing, mergers and acquisitions, IPOs, strategic growth, risk management, IFRS conversions or audit compliance.

Despite these favorable trends, in 2012, the firms painted a backdrop of a tough economic climate, difficult global challenges, intense audit competition, economic rebalancing, increasing regulation, market uncertainty, a war for talent, the European sovereign debt crisis, the impending US fiscal cliff, and slowing growth in developing countries as perhaps a way of providing context to solid firm performance managing through rough external conditions.

## The second half of fiscal 2011 started to produce better growth. And this positive trend continued strong through all of FY 2012

Having likely captured the worst of 2009's impact in fiscal year 2009, fiscal year 2010, which ranges from mid-2009 to mid-2010, did produce small but highly welcome positive revenue growth. For 2012, we foresaw much better revenue growth for all the four firms, likely in the 4% to 7% range for a variety of key factors:

- Companies have improved their bottom lines, and are moving rapidly from a mentality of cost control to a more optimistic attitude of aggressively seeking top line growth. This translates into more need for consulting and tax services from the Big Four firms

- Global equity markets have been positive in 2011, and 2012 points to further gains. Credit markets are very fluid and private equity firm activity is sharply up.

- Both Merger and Acquisition activity and Initial Public Offerings are on the rise in 2012 versus 2009, and expected to further increase in 2012.

- 2011 revenue has been moving up based on prior years momentum, and likely to continue into 2012.

- The dollar has improving against the Euro and the Yen in 2011.

## For 2013, we expect 2012's momentum to continue for all the four firms, likely in the 5% to 8% range.

We expected KPMG to have the strongest fiscal 2012, but actual results were shockingly below our expectations. KPMG Europe, its largest region, was impacted by the sharp appreciation of the US dollar against the Euro in its FY 2012 year versus its FY2011 year. Also, the months from June 2012 to September 2012 were truly difficult times for all firms; and while this was reflected in KPMG's second half results, they are likely to manifest in the 2013 performance for the other three firms. KPMG Audit and KPMG Advisory also turned in performance far below its peers.

Overall though, actual 2012 performance turned out to be above our expectations, Audit and Tax continued their strong growth, while Advisory continued its streak of remarkable revenue increases. Americas grew much faster than anticipated, and Asian revenue marched along their historical trend. Even, Europe, which was fraught with difficult regional issues, turned in moderate growth. And of course, KPMG surprisingly did post the lowest growth in US dollar terms among all the Big Four firms.

The Big Four firms dominate their space and are unlikely to face any emerging competitors for a long time, and while regulation and audit litigation do pose operating and financial risks, it is unlikely that any of these single items will be of sufficient magnitude to generally upset the status quo.

## For 2013 and beyond, we foresee several years of solid revenue growth

## OUTLOOK

2011 and 2012 have been solid turning points, building upon the foundation set in 2010, as the world's worst economic crisis fades into the rear view mirror.

For 2013 and beyond, we will see good revenue growth for all firms, driven by favorable economic circumstances. In particular, for fiscal year 2013, we see a 5% to 8% overall growth for all the firms, with particularly good performance in Advisory, Asia and even North America.

The Big Four firms have participated extensively in the explosive growth in the emerging markets, and while it will be harder to grow at high levels from an already huge revenue baseline, now exceeding $20 billion for each firm, the firms have demonstrated tremendous global breadth and depth to benefit from any growth or even changes in their client base. Particularly, we see some solid factors to drive growth in the near to medium term, for 2013 and beyond:

- Advisory will strongly benefit from continuing momentum and the Big Four firms' increasing scope and penetration in this sector.
- Tax will directly benefit from globalization, compliance, M&A and complex supply chains
- Audit will be challenged by intra-firm competitiveness and client pressures on rates and pricing.
- There is already higher penetration into emerging markets which have better growth profiles. More importantly, Asia has become a more significant and highest-growth region for all firms - both factors will help drive higher revenue growth.
- Advisory has become a larger component of revenues and continues its strong year-on-year revenue growth. Both factors will be propel total growth.
- 2012 has shown that Big Four firms are rapidly making selective acquisitions to enhance their consulting expertise. These value-adding services will provide additional boosts to overall revenue
- Growth in developing markets such as Brazil, Chile, East and South Africa, Middle East will be strong and deep as increasing financial sophistication will create demand for Big Four audit, tax and advisory services
- Global macro factors such as low interest rates, improving equity markets, weaker Japanese Yen and Euro will provide impetus to cross-border M&A
- Adoption of IFRS standards all over the world will accelerate in 2012 and beyond, necessitating external assistance from Big Four auditors to effect implementation and compliance
- Big Four firms are ideally situated to gain business in helping clients deal with increasing regulations all over the world, particularly in the financial sector, but also in environmental reporting, energy and enhanced investor analytics.
- Continued absence of credible and scaled competition will perpetuate the domination of Big Four firms in the Audit and Tax markets, notwithstanding any efforts in European zone to diminish Big4's near monopolies

2013 will also be an interesting year to watch for any changes in Big Four rankings: whether PwC will be able to maintain its lead over Deloitte, and whether KPMG will post better revenue results. We will also watch whether KPMG can return to peer-level growth in 2013 and can reverse the modest performance seen in 2012.

**2013 will also be an interesting year to watch for any changes in Big Four rankings: whether PwC will be able to maintain its lead over Deloitte, and whether KPMG can further shrink its gap with E&Y**

**Notes**

All figures are in United States dollars

Disclaimer

Source of figures for this analysis are publicly available financial statements and / or press releases issued by Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers PwC LLP on their website or on the internet.

Big4.com believes in these numbers and analysis, but does not guarantee their accuracy.

Some numbers and ratios have been estimated due to non-availability of information. Numbers may not add due to rounding.

Attribution

Full attribution for cover page photograph is due to Mark Chandler Photography (all rights reserved by Mark Chandler Photography) at Yahoo Flickr Creative Commons.



**Use Of This Analysis**

**You may reproduce or distribute parts or whole of this analysis, but prominent and full attribution should be given at all times to:**

**"The 2012 Big Four Firms Performance Analysis by www.Big4.com"**

**You can also provide a link to this internet address URL: http://www.big4.com/analysis**

**The full study can be downloaded in Adobe pdf format from this URL**

Contact

For further information, please contact Big4.com:

Phone: (866) 690-5050
Email: Marketing@Big4.com

**The Big Four Job Board**
**The Big Four Blog**

**Big4 on Youtube**
**Big4 on Twitter**
**Big4 on Facebook**
**Big4 on LinkedIn**
**Big4 on Xing**

# THE 2012 BIG FOUR FIRMS PERFORMANCE ANALYSIS