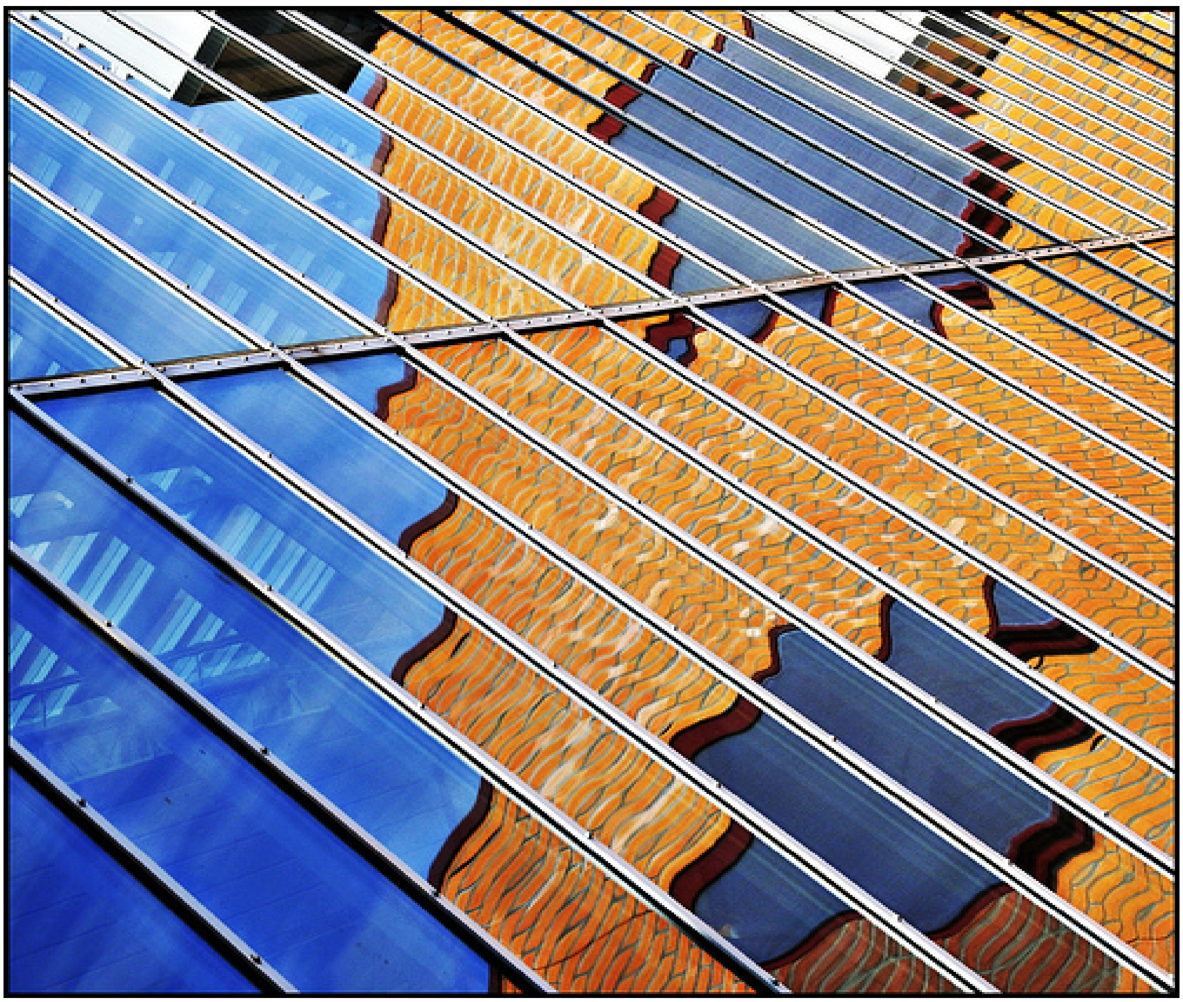
THE 2009 BIG FOUR FIRMS PERFORMANCE ANALYSIS



An Analysis Of The 2009 Financial Performance Of The World's Largest Accounting Firms
By Big4.com
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The 2009 Big Four Firms Performance Analysis
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THE 2009 BIG FOUR FIRMS PERFORMANCE ANALYSIS

EXECUTIVE SUMMARY

2009 was a difficult year overall for the Big Four accounting firms: Deloitte, Ernst & Young (E&Y), KPMG and PricewaterhouseCoopers (PwC), as their financial performance was affected by tough external conditions, slow global economic growth, cost-conscious clients and sluggish merger and acquisition activity.

After an extraordinary period of continuous revenue growth from the early 2000s to 2008, combined revenue for the four firms in fiscal 2009 did fall by 7% from fiscal 2008 in US dollar terms. Revenue decreases in US dollar percentage terms ranged from negative 5% for Deloitte to negative 7% each for Ernst & Young and PricewaterhouseCoopers to negative 11% for KPMG.

The large fall in US dollar terms was also driven by the appreciating US dollar during the period. Despite this, the combined revenues of the Big Four firms was an astonishing $94 billion, with PwC retaining its leadership position as the largest accounting firm on the planet by narrowly beating Deloitte.

The Americas region represents about 40% of global revenues for the Big Four firms, but its share has been falling over the years, due to the preponderance of mature markets. Contrary perhaps to common belief, Europe, Middle East and Africa has the highest percentage of total revenues for the Big Four firms at 45%. Asia Pacific, while being the smallest region at 15% of revenues, has posted the highest growth rates, owing to the strong upswing in many emerging Asian economies.

The Audit service line accounts for almost 50% of total revenues and has been generally holding at this level across the years. Tax services experienced strong growth in 2006 to 2008, in sync with global merger and acquisition transactions activity. Advisory services has been the fastest growing service line as the firms extend their services into risk management and business consulting.

The Big Four firms cumulatively employ more than 600,000 professionals globally, with a total of 34,000 partners overseeing a steep pyramid of about 470,000 professionals.

Despite the world's worst financial crisis for over 70 years, the Big Four firms turned in quite a creditable performance, with revenues falling only by a small percentage in local currency terms. For 2010 and beyond, we will likely see a return back to revenue growth, though it is debatable whether a string of double-digit growth over multiple years will be seen for the next few years. 2010 will also be an interesting year to watch for any changes in Big Four rankings, with a close race between Deloitte and PricewaterhouseCoopers for the leadership position.

REVENUE PERFORMANCE

2009 Reverses Multi-year Revenue Growth Trend

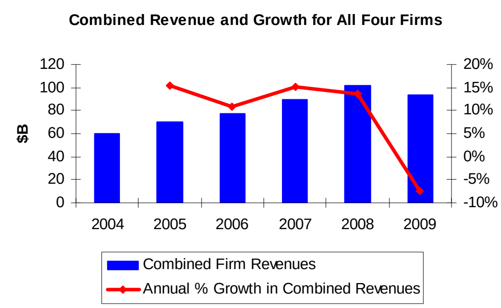
2009 was a difficult year overall for the Big Four accounting firms: Deloitte, Ernst & Young (E&Y), KPMG and PricewaterhouseCoopers (PwC), as their financial performance was affected by tough external conditions, slow global economic growth, cost-conscious clients and sluggish merger and acquisition activity. After an extraordinary period of continuous revenue growth from the early 2000s to 2008, mostly at a double-digit percentage rate, combined revenue for the four firms in fiscal 2009 did fall by 7% from fiscal 2008 in US dollar terms.

Quite apart from operating considerations, the large fall in US dollar terms was also driven by the appreciating US dollar during the period. The decrease in local currency terms was at a much lower level, ranging from negative 3% to positive 1%.

These large accounting firms posted some big numbers in 2009, their combined revenues was an eye-popping $94 billion

Despite the decrease in revenues, these large accounting firms posted some big numbers in 2009, their combined revenues was an eye-popping $94 billion, dropping from an all-time record level of over a $100 billion in 2008. Revenue decreases in US dollar percentage terms also differed across firms, ranging from negative 5% for Deloitte to negative 7% each for Ernst & Young and PricewaterhouseCoopers to negative 11% for KPMG. In local currency terms, revenue decreases were more modest, from positive 1.0% for Deloitte, 0.2% for PricewaterhouseCoopers to negative 0.2% for Ernst & Young and negative 2.6% for KPMG.

The difference 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 2009 ended on May 31, 2009, E&Y and PwC's fiscal 2009 ended on June 30, 2009 and KPMG was the last to close out the fiscal year on September 30, 2009. In 2009, this small difference in fiscal year-ends would have had a relatively higher impact, for example, KPMG's fiscal year 2009 coincided exactly with meltdown in financial markets as Lehman Brother collapsed in September 2008. Other Big Four firms had three to five fewer months of this negative impact.



Fluctuations in the US dollar also contributed to the higher level of percentage drops. The US dollar appreciated strongly from mid-2008 to mid-2009 against a basket of foreign currencies, after staying weak in the prior twelve months. This had an unfavorable effect, as depreciating local currencies, where the firms earned revenue, were converted into US dollars, in which the firms reported their annual results. In general, decreases expressed in US dollar terms were about 7% lower than decreases expressed in local currency terms.

PricewaterhouseCoopers retained its first place as the largest accounting firm on the planet with revenues of $26.2 billion, narrowly beating Deloitte

PricewaterhouseCoopers retained its first place as the largest accounting firm on the planet with revenues of $26.2 billion, narrowly beating Deloitte, a very close second with revenues of $26.1 billion. Ernst & Young took the third spot at $21.4 billion, and KPMG maintained its position as the smallest of the Big Four firms at $20.1 billion of revenues. Deloitte proved to the most resilient firm to the tough economy, with its revenue falling only 4.9% in US dollar terms, while close rival PricewaterhouseCoopers' revenues decreased 7.1%. This enabled Deloitte to close the gap against PwC in 2008 to be at almost at par in 2009. In 2010, it will be interesting to see who will gain the leadership spot, as a relatively stronger performance by Deloitte could well edge it past PwC.

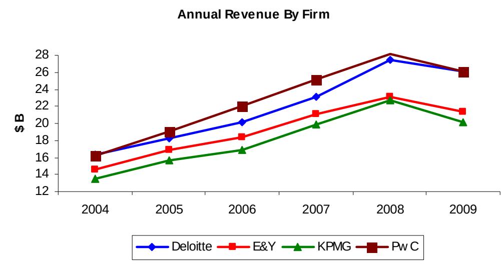
In 2004, combined firm revenues were only $60 billion, but by 2008, this had moved up at a compounded annual growth rate of 14% to exceed $100 billion

The Big Four firms have had an astonishing run up in total revenues over the last six 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. 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.

In Billions of USD	2007	2008	2009
Deloitte	23.1	27.4	26.1
E&Y	21.1	23.0	21.4
KPMG	19.8	22.7	20.1
PwC	25.1	28.2	26.2
Combined Firms	**89.1**	**101.3**	**93.8**

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 2009 was 9%, 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.

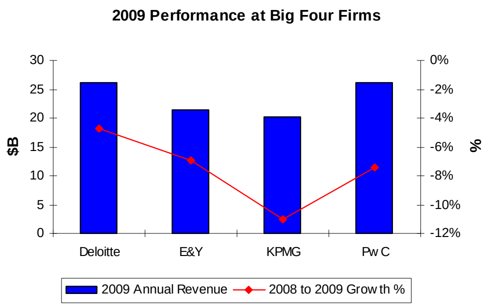
Despite being auditors for the world's public companies who are required to report extensive details on their financials, the Big Four firms provide only very high level financial information with minimum commentary, with consequent impact on the depth of possible analysis in our study.



2009 FIRM PERFORMANCE

We blogged on each firm's 2009 financial performance as they sequentially reported on The Big Four Blog, and we encourage our readers to read those analyses to obtain a flavor of the timing and our immediate response.

Ernst & Young was the first to report its 2009 financials, and with Deloitte following (on a much delayed schedule) it became clear that the year was turning out to be quite challenging on the revenue line. PwC followed suit, showing flat revenue growth on a local currency basis. KPMG was the last to report in December 2009, and its revenues fell the most among all the four firms. Additional data points from the UK member firms, where the Big Four firms have to provide more detailed information, proved that the pressure on the top line was also leading to lower bottom lines and decreased profits per partner.



In 2009, while revenues fell drastically in developed markets, all firms generally noted that emerging markets were more resilient against slowdowns, and revenues rose in many developing countries. The appreciating US dollar caused the percentage drop in US dollars to exceed the more modest drops in local currency. In general the firms' results met our expectations, though KPMG's sharp fall was quite surprising. In addition, Ernst & Young changed their method of reporting in 2009, choosing to report combined, rather than consolidated revenues, which led to a lower level of reported revenues.

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A brief overview of 2009 results for each firm follows.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers's FY 2009 global revenues for the year ending June 30, 2009 was US$26.2 billion, a 7.1% decline from the US$28.2 billion in FY 2008 in US dollar terms. However, on local currency terms FY 2009 revenues were actually higher than FY 2008 by a modest 0.2%. This performance enabled PwC to remain the largest accounting firm on the planet.

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In terms of service lines, Assurance grew 2.0% in local currency terms to $13.1 billion, but in terms of US dollars, revenues actually fell by 4.8% from $13.8 billion in 2008. PwC attributed this to market-leading strength of the business and its continued focus on improved customer service and very competitive pricing. Tax services fell by 0.3% in local currency terms to $6.9 billion, but fell 7.5% in US dollar terms from $7.5 billion in 2008. Tax was impacted by the worldwide decline in corporate deals and restructuring work. Advisory services fell by 2.9% in local currency terms to $6.1 billion, but fell 11.4% in US dollar terms from $6.9 billion in 2008. This service line was the hardest hit by the global slowdown, as M&A and IPOs dried up and private equity firms slowed, while bankruptcy and restructuring work provided some offset.

Revenues in the smaller regions of Middle East & Africa and South & Central America also rose strongly in local currency terms, showing strong growth in emerging markets

In terms of geographies, Asia revenues rose about 4% to $3.7 billion in local currency terms but falling about 5% in US dollar terms from $4.0 billion in 2008. Revenues in the smaller regions of Middle East & Africa (up 9.1%) and South & Central America (up 13.3%) also rose strongly in local currency terms, showing strong growth in emerging markets. In the developed world, revenues in both Europe and North America declined, and since these account for 85% of total PwC revenues, they essentially drove the results for the firm. Revenue growth was high in a number of PwC member firms around the world, with particularly good results in Japan, Russia, Spain, Sweden and Canada.

Deloitte.

Deloitte Touche Tohmatsu, the global firm, reported fiscal 2009 revenues for the year ending May 31, 2009 of US$26.1 billion, an increase in local currency terms of 1%, but a drop of 4.9% in US dollar terms from 2008.

By service line, Consulting (Advisory) was the fastest grower at 7.3% in local currency terms; and in US dollar terms, revenue increased 2% from $6.3 billion in 2008 to $6.5 billion in 2009. Audit was relatively flat against 2008 in local currency terms; in US dollar terms, Audit shrank by 6.4% from $12.7 billion to $11.9 billion. Tax was also relatively flat against 2008 in local currency terms; in US dollar terms, Tax revenues decreased by 5.5% from $6.0 billion to $5.7 billion. Financial Advisory Services revenue fell 6.1% in local currency terms, but in US dollar terms, fell by 13.8% from $2.4 billion in 2008 to $2.0 billion in 2009.

By service line, Consulting (Advisory) was the fastest grower at 7.3% in local currency terms; and in US dollar terms, revenue increased 2% from $6.3 billion in 2008 to $6.5 billion in 2009

In terms of geography, Americas dropped 1.3% in local currency terms and 3.7% in US dollar terms from $12.9 billion in 2008 to $12.5 billion in 2009. Europe, Middle East and Africa rose 2% in local currency terms but dropped 9.0% in US dollar terms from $11.3 billion in 2008 to $10.2 billion in 2009. Asia Pacific grew 4.7% in US dollar terms from $3.2 billion in 2008 to $3.4 billion in 2009. The Asia Pacific region had local currency growth of 7.6% and was the fastest-growing region for the fifth consecutive year. India's revenues grew 29.9%, Australia grew 11.5% and Japan grew 11.3% in local currency terms.

Africa, the Middle East, and Latin America and the Caribbean posted high growth rates of 21.3%, 15.6% and 13.7% respectively, in local currency.

The Asia Pacific region had local currency growth of 7.6% and was the fastest-growing region for the fifth consecutive year

Despite this remarkable performance, Deloitte was unable to beat PwC to be the largest Big Four firm in the world. Its 2009 revenues of $26.1 billion were behind PwC's 2009 revenues of $26.2 billion by only $100 million or 0.4%. We had indicated in our earlier analysis that a 4.5% decrease in Deloitte's revenues in US dollar terms would make it the largest among the Big Four firms. However, Deloitte's overall revenues actually dropped by 4.9% from 2008 to 2009, 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 has shown that it is a strong contender for the leadership position.

ERNST & YOUNG
Quality In Everything We Do

Ernst & Young's combined worldwide 2009 revenues for the year ending 30 June 2009 were US$21.4 billion, decreasing a modest 0.2% in local currency terms from the comparable period in FY 2008 of US$23.0 billion in global revenues. In US dollar terms, the revenue actually declined 6.8% from 2008 to 2009.

Assurance Services with FY 2009 revenues of $10.1 billion offset price pressure with market-share gains, and revenues declined only 0.7% in local currency terms, but 6.3% in US dollar terms. Global Tax Services with FY 2009 revenues of $5.8 billion was up 1.8% in local currency terms due to increased tax enforcement, but dropped 5.2% in US dollar terms. Advisory Services with FY 2009 revenues of $3.6 billion was up 1.5% in local currency terms due to sustained demand for risk management and performance improvement, but dropped 6.0% from $3.8 billion in 2008 in US dollar terms.

Transaction Advisory Services with FY 2009 revenues of $1.9 billion, had a 6.9% decrease in local currency terms due to fall in M&A volumes, but revenues decreased a large 14.8% in US dollar terms from $2.2 billion in 2008.

Assurance Services with FY 2009 revenues of $10.1 billion offset price pressure with market-share gains, and revenues declined only 0.7% in local currency terms, but 6.3% in US dollar terms

Across E&Y's five geographic areas, Japan grew at 7.5% in local currency terms, due to the acquisition of 1,000 professionals from accountancy firm Misuzu; and revenues increased 20% in US dollar terms. The Europe, Middle East, India and Africa (EMEIA) area grew 1.8% in local currency terms, but declined 9.7% in US dollar terms. Oceania decreased 0.4% in local currency terms, but declined a dramatic 15.9% in US dollar terms. The Far East decreased 2.7% in local currency terms and 5.9% in US dollar terms. The Americas area decreased 3.2% in local currency terms, but 5.5% in US dollar terms.

There were some bright spots however, with many of the emerging markets achieving strong revenue growth, including the Middle East at 18.6%, India at 13.1% and Brazil at 8.0%.

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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 reported 2009 combined revenues for the fiscal year ending 30 September 2009 of US$20.1 billion versus US$22.7 billion for the prior 2008 fiscal year. This was an 11.4% decline in US dollars terms and a 2.6% decline in local currency terms, which was the highest drop among all Big Four firms.

By service line, Audit 2009 revenues were $10.0 billion versus $10.7 billion in 2008, down 6.9% in US dollar terms but a 0.5% increase in local currency terms. In the global financial services industry, Audit services' revenues actually grew 7%.

Tax services revenues in 2009 were $4.1 billion versus $4.7 billion in 2008, a 13.4% decrease in US dollar terms and a 4.3% decrease in local currency terms. But certain practices within Tax did very well: Transfer Pricing grew 5.3%, Indirect Tax grew 8% and International Executive Services grew 7.8%, all in local currency terms.

Advisory services revenues of $6.1 billion in 2009 decreased versus $7.3 billion in 2008, by a large 16.6% in US dollars terms and 6.6% decline in local currency terms. However, Advisory in China and the Middle East posted double-digit growth.

KPMG's 2009 combined revenues for the fiscal year ending 30 September 2009 were US$20.1 billion versus US$22.7 billion for the prior 2008 fiscal year. This was a 11.4% decline in US dollars terms and a 2.6% decline in local currency terms, the largest among Big Four firms

By geography, Americas Region had 2009 revenue of US$6.3 billion versus US$7.2 billion in 2008, decreasing 12% in US dollar terms and 8.6% in local currency terms. Bright spots included Brazil with 5% revenue growth, Mexico with 8.2% growth, Venezuela grew 22.9% and Chile's revenues rose 22.7%, all in local currency terms.

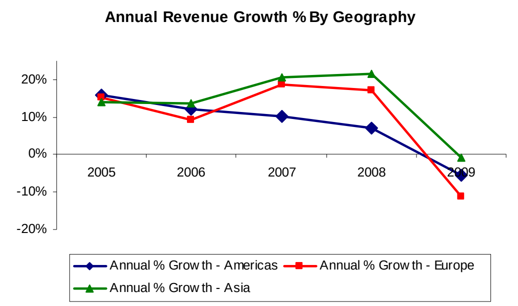
In Europe, Middle East and Africa, combined KPMG member firm 2009 revenues were $10.7 billion versus $12.4 billion in 2008, dropping 13.5% in U.S. dollars terms and 0.6% in local currency terms. Middle East and South Asia was the fastest growing sub-region in Europe; and KPMG in Africa had a 9.3% growth in local currency terms.

In Asia Pacific, combined 2009 revenues of $3.1 billion decreased 1.1% in US dollars terms but grew a substantial 3.9% in local currency terms. Some countries posted spectacular results: Korea had 19.4% growth, Vietnam and Cambodia each had 17.5% growth, and Japan had 7.2% growth, all in local currency terms. KPMG said that Asia Pacific member firms are beginning to see an increasing number of M&A transactions especially in China and Korea.

Revenues in the BRIC countries as a group grew 4.3%. Middle East and South Asia was the fastest growing practice with a 25% growth rate. KPMG's BRIC headcount increased by 11.5% this year, with BRIC headcount nearly quadrupling in the past ten years.

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 45% 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 15% of the revenue share.

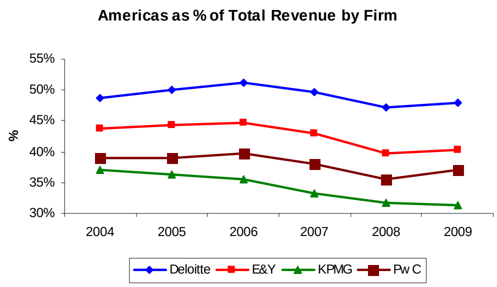


Contrary perhaps to common belief, Europe, rather than the Americas region, has the highest percentage of total revenues for the Big Four firms averaging 45%

The Americas

The Americas represent about 40% of global revenues, but its share has been falling over the years. From 2004 to 2009, 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, 43% of combined firm revenues were reported from the Americas region, whereas in 2009, it had dropped to only 40% of total firm revenues.

There also appears to be large variation across firms in the amount of revenue from this geographic region as a percentage of their global revenues. For example, Deloitte at the high end, sources 48% of its revenues from the Americas and KPMG at the low end has only 31% of its revenues from the Americas. Ernst & Young and PwC each have about 40% of their total revenues from the Americas, in line with the total firm average.



While Latin America, and particularly Brazil and Mexico have provided good growth opportunities for growth in recent years, the predominance of the mature markets of USA and Canada with slower growth has generally limited the expansion of Big Four firms in the Americas region. The 3% revenue share loss has generally gone to Asia Pacific, where emerging markets such as China, India, Korea and Vietnam have grown at disproportionately higher rates.

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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 45% of global revenues, and as we see across the years, this total percentage has remained remarkably flat from 2004 to 2009. In 2004, 46% of combined firm revenues were reported from the Europe region, and in 2009, the same percentage 46% of total firm revenues came from Europe.

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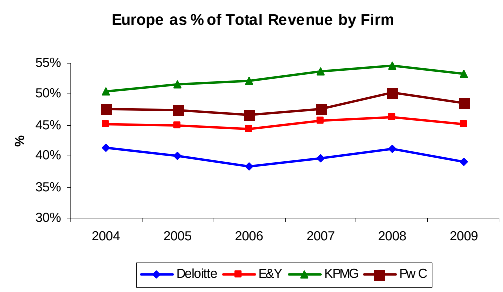
As in Americas, each firm has a different percentage of European revenues as a share of the total revenues. KPMG at the high end sources 53% of its revenues from Europe (KPMG Europe being a key contributor) while Deloitte at the low end has only 40% of its revenues from Europe, this situation being a total polar opposite of the Americas. Ernst & Young and PwC each have 45% of their total revenues from Europe, in line with the total firm average.



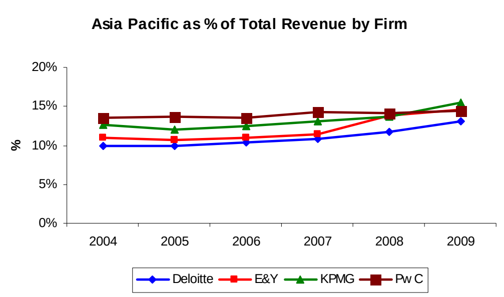
This diverse European region comprises both of mature markets such as the United Kingdom, France, Italy and Germany, as well as fast growing Eastern European nations - Poland, Russia, Czech Republic, Hungary and Romania. The Big Four firms have had spectacular growth in Eastern Europe as these high growth economies have matured into capitalistic markets, requiring sophisticated audit, tax and transaction services.

The Big Four firms have had tremendous growth in Russia in particular as part of their BRIC initiatives. Europe also comprises the rapidly rising countries of the Middle East – including Dubai, Abu Dhabi, Kuwait, Saudi Arabia and Israel; as also the larger economies of the African continent – South Africa, Egypt and Nigeria for example. In the Middle East and Africa, the Big Four firms have capitalized on their historical small presence and posted very high annual growth numbers for the last few years, albeit from a smaller base.

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 doubled from $7 billion in 2004 to $14 billion in 2009.

Asia represents about 15% of global revenues for all the firms, and as we see across the years, this total percentage has increased steadily from 2004 to 2009



Asia represents about 15% of global revenues for all the firms, and as we see across the years, this total percentage has increased steadily from 2004 to 2009. In 2004, 12% of combined firm revenues were reported from Asia, and in 2009, it had sharply increased to 15% of total firm revenues. This share gain came at the expense of the Americas region, which correspondingly lost its share of the pie.

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.

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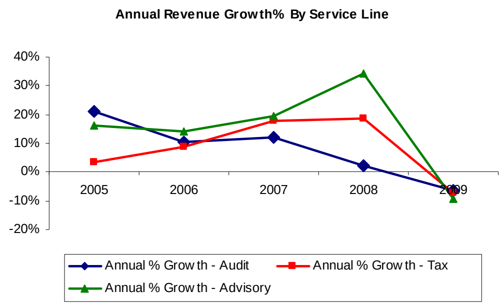
For example, Ernst & Young reported in 2009 that revenues in India had increased 13% and in Brazil by 8%; and KPMG said that their headcount in the BRIC countries had nearly quadrupled in the past ten years.

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 50% of total revenues and generally holding this percentage level across the years. Typically Audit services 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 experienced sharp growth in total revenues in 2005 to 2007, but this has slowed down sharply in the 2008-2009 years.

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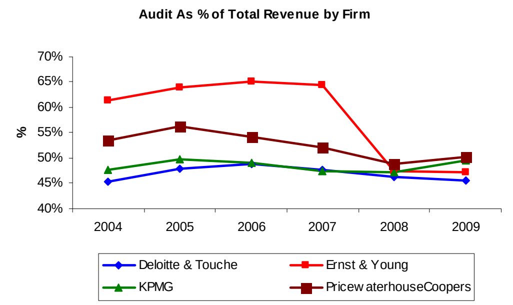
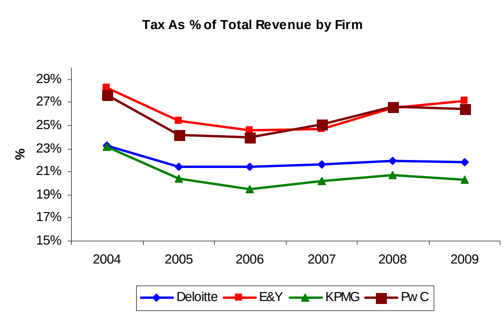
From 2008 to 2009, revenue for the Audit service line for the combined firms shrank by 6% in US dollar terms, which was better than the negative 7% in Tax service line and negative 9% in Advisory, which demonstrated the somewhat anti-recessionary nature of this service line. Audit fees came under pressure in 2009, but firms maintained their focus on client service and market share gains to mitigate any losses in revenue.



Tax

The tax service line, forms about a quarter of the Big Four firm revenue and generally holding this percentage level across the years

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.

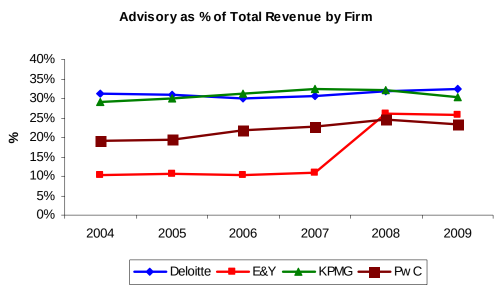


Tax had a very strong growth in 2006 to 2008, in line with large scale global merger and acquisition transactions activity, but had a sharp decline in 2009.

Advisory

Advisory services have generally increased their share of revenues. In 2004, they had 22% of total revenues and this had sharply increased to 28% in 2009

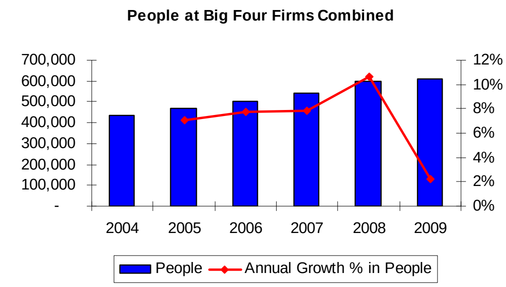
The Advisory service line, forms the last quarter of the Big Four firm revenue and includes the broader non-Audit and non-Tax services such as Transaction Advisory, Risk Management, and Business Consulting services; and demarcations generally vary across the firms. Owing to this catch-all nature of this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



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 28% in 2009. 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.

FIRM EMPLOYMENT ANALYSIS

The Big Four firms cumulatively employ more than 600,000 professionals all over the world, including partners, audit, tax and advisory professionals and administrative staff. This staggering number has been consistently on the rise since 2004, when cumulative employment was around 435,000 professionals.



Thus in six years, the number of people working at just these four firms has been around 175,000. Despite the reduction in revenues, net employment grew by more than 10,000 professionals from 2008 to 2009, with notably Deloitte and PwC adding to their workforce. The growth rate in employment of people dropped sharply to 2% in 2009.

The Big Four firms cumulatively employ more than 600,000 professionals all over the world

Typical annual attrition rate at Big Four firms was running about 15% prior to 2008, so 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 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 70,000 equating to about 275 hires each day. Truly, Big Four firms are huge seekers of talent with correspondingly very busy recruiters even in a period of deep recession.

In 2009, we estimate there were only about 34,000 partners in all the Big Four firms, overseeing a steep pyramid of about 470,000 professionals

Elevation to partner at a Big Four firm is a tough and long process as every professional who has ever worked at one knows. Partners form an elite class within these large partnerships, and only one in about 20 people belongs to this exclusive club. In 2009, we estimate there were only about 34,000 partners in all the Big Four firms, overseeing a steep pyramid of about 470,000 professionals, thus the typical partner being responsible for about 14 professionals in 2009.

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 $2.8 million by 2009, after peaking at $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

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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 have seen a marked improvement in equity values, and general business conditions are decidedly in much better shape in December 2009 than earlier in the year.

Leading economic indicators in developed nations are on the uptrend and emerging market countries have posted multiple quarters of positive GDP growth. Clearly as we stand at the beginning of 2010, there is an optimistic outlook among leading executives, and all economies are decidedly on a growth pattern in the coming year. All these are positive indicators favor Big Four firm revenue growth, as the firms participate in an increasing level of financial activities pursued by their clients, whether it be tax restructuring or compliance, transfer pricing, mergers and acquisitions, strategic growth, risk management, IFRS conversions or audit compliance.

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

Having likely captured the worst of 2009's impact in fiscal year 2009, we believe that fiscal year 2010, staring mid-2009 to mid-2010, will lead to positive revenue growth due to several key factors:

- ✓ An inherent improvement in underlying client fundamentals, with greater emphasis on implementing strategies their own top line growth
- ✓ Improved equity markets which are potentially poised to do better in 2010
- ✓ A low revenue base for easy comparison
- ✓ A depreciating US dollar, which has started sliding against major currencies in mid-2009
- ✓ More efficient Big Four firms, which have undergone internal restructurings and much better positioned to take advantage of growth prospects
- ✓ Higher penetration into emerging markets with better growth profiles

Having likely captured the worst of 2009's impact in fiscal year 2009, we believe that fiscal year 2010, staring mid-2009 to mid-2010 will lead to positive revenue growth

We think KPMG in particular will have the strongest fiscal 2010, since its fiscal 2009 ended in September 2009, and captured much of the crisis; and further its 2010 revenues will be compared to a much lower base.

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 2010 and beyond, we will likely see a return back to revenue growth, though it is debatable whether a string of double-digit growth over multiple years will be seen for the next few years

For 2010 and beyond, we will likely see a return back to revenue growth, though it is debatable whether a string of double-digit growth over multiple years will be seen for the next few years. The Big Four firms have participated extensively in the explosive growth in the emerging markets, and further it will be harder to grow at high levels from an already huge revenue baseline, now exceeding $20 billion for each firm.

2010 will also be an interesting year to watch for any changes in Big Four rankings, with a close race between Deloitte and PricewaterhouseCoopers for the leadership position.

About

Big4.com is an exclusive global social network for alumni and professionals of Accenture, Andersen, BearingPoint, Capgemini, Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.

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 LLP on their website or on the internet
Big4.com believes in these numbers, but does not guarantee their accuracy
Some numbers and ratios have been estimated due to non-availability of adequate information
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Totals may be affected by rounding

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