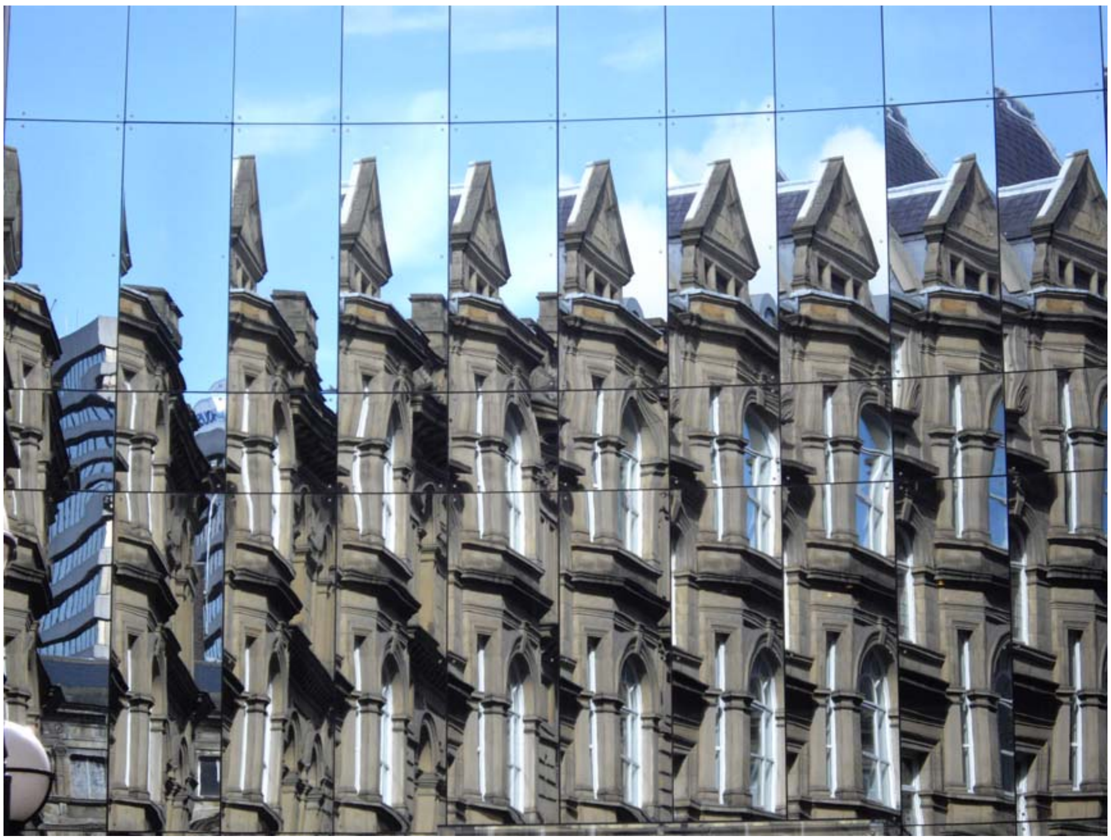
THE 2010 BIG FOUR FIRMS PERFORMANCE ANALYSIS



An Analysis Of The 2010 Financial Performance Of The World's Largest Accounting Firms

By Big4.com

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EXECUTIVE SUMMARY

After an extraordinary period of continuous revenue growth from the early 2000s to 2008, combined revenue for the four firms in fiscal 2009 fell 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.

In 2010, the situation improved remarkably, with $95 billion combined revenue for the four firms in fiscal 2010 increasing 1.4% from $94 billion in fiscal 2009 in US dollar terms. Revenue increases in US dollar percentage terms ranged from negative 0.9% for Ernst & Young, 1.5% for PwC, 1.8% for Deloitte and 2.6% for the fastest-grower, KPMG. KPMG also had positive growth in all its three regions and narrowed its revenue gap with E&Y. E&Y was the only firm whose full year revenues shrank, though the firm indicated that the second half of the fiscal year was much stronger, especially in Advisory and TAS.

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 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. Ernst & Young took the third spot at $21.3 billion, and KPMG maintained its position as the smallest of the Big Four firms at $20.6 billion, but narrowed the gap against E&Y.

The Americas region accounts for 39% of global revenues for the Big Four firms, but its share has been falling over the years, due to the preponderance of mature markets. The region grew only 1% from 2009 to 2010. Contrary perhaps to common belief, Europe, Middle East and Africa has the highest percentage of total revenues for the Big Four firms at 45%, this region shrank 0.4% from 2009 to 2010. 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, posting a strong 9% growth from 2009 to 2010.

The Audit service line accounts for almost 47% of total revenues and this proportion has been falling across the years; and revenues further fell from 2009 to 2010. Tax services experienced strong growth in 2006 to 2008, in sync with global merger and acquisition transactions activity. Tax revenues fell 7% from 2008 to 2009 and then further 1% from 2009 to 2010. Advisory services has been the fastest growing service line as the firms extended their services into risk management and business consulting. Advisory has grown from 22% of total revenues in 2004 to 29% in 2010. Advisory revenues grew a strong 6% from 2009 to 2010.

The Big Four firms cumulatively employ more than 600,000 staff globally, with a total of 34,000 partners overseeing a steep pyramid of about 460,000 professionals. Employment fell somewhat from 2009 to 2010.

With the subsiding of the world's worst financial crisis for over 70 years, the Big Four firms turned a creditable performance in 2010, with revenues rising by moderate but welcome positive percentages, indicative of a solid momentum of improving fundamentals.

The outlook for 2011 and beyond is quite optimistic, revenue is expected to grow at a steady pace, with help from strong emerging markets and Advisory services. 2011 will also prove whether Deloitte can maintain its lead over PwC; and whether the gap between E&Y and KPMG will narrow further.

The full study can be downloaded as Adobe pdf at http://www.big4.com/bigfourperformanceanalysis.html

REVENUE PERFORMANCE

2010 Marks Return To Moderate Growth As Global Economies Recover

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.

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

2010 was a much better year for all the Big Four accounting firms following a rough 2009, as their financial performance was buoyed by overall global economic improvement, high-growth emerging economies and improving client confidence. The combined revenue for the four firms in fiscal 2010 increased 1.4% from $94 billion in fiscal 2009 in US dollar terms to $95 billion. 2010 turned out be a year of moderate recovery, but even these small positive percentage changes in growth were generally welcomed by the firms as early evidence of a sustained recovery.

After declining 7% in 2009, combined revenue increased 1.4% in 2010, aided by a global recovery

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%).

Despite the decrease in revenues, these large accounting firms posted some big numbers in 2010, their combined revenues was an eye-popping $95 billion, dropping from an all-time record level of over a $100 billion in 2008.

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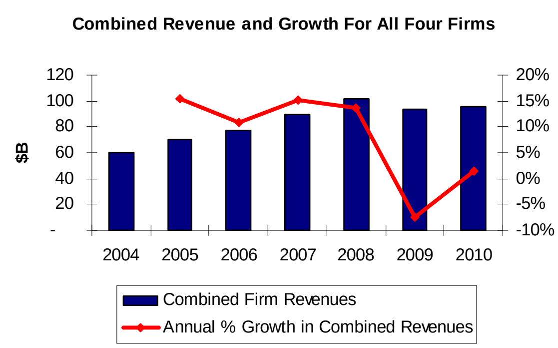
Revenue increases in US dollar percentage terms also varied across firms, ranging from negative 0.9% for Ernst & Young to 1.5% for PricewaterhouseCoopers to 1.8% for Deloitte to the highest for KPMG at 2.6%. In local currency terms, revenue increases were more modest, from negative 3.5% for Ernst & Young, 0% for Deloitte, 0.1% for KPMG and 0.3% for PwC. In effect, Ernst & Young shrank and KPMG grew the fastest, thus the gap between these two firms narrowed from $1.3 billion in 2009 to $0.7 billion in 2010.



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 2010 ended on May 31, 2010, E&Y and PwC's fiscal 2010 ended on June 30, 2010 and KPMG was the last to close out the fiscal year 2010 on September 30, 2010. In 2010, 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.

Fluctuations in the US dollar also contributed to the higher level of percentage drops. This year, the US dollar depreciated against a basket of foreign currencies, after staying strong in the prior twelve months. This had a favorable effect, as appreciating local currencies, where the firms earned revenue, were converted into more US dollars, in which the firms reported their annual results. In general, increases expressed in US dollar terms were about 2% higher than increases expressed in local currency terms.

The Big Story Of 2010: Deloitte beat PwC to first place to become the largest accounting firm on the planet. The margin – only $9 million

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. Ernst & Young took the third spot at $21.3 billion, and KPMG maintained its position as the smallest of the Big Four firms at $20.6 billion, but narrowed the gap against E&Y. Paradoxically, PwC had the highest growth in local currency terms of 0.3% versus 0% for Deloitte, however the foreign sources of where this growth was realized in terms of changes against the US dollar turned out to be unfavorable for PwC.

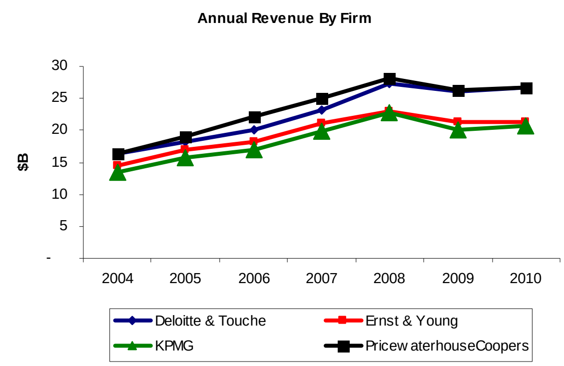
Combined firm revenues grew 14% CAGR from 2004 to 2008 and 8% CAGR from 2004 to 2010

In Billions of US$	2007	2008	2009	2010
Deloitte	23.1	27.4	26.1	26.6
E&Y	21.1	23.0	21.4	21.2
KPMG	19.8	22.7	20.1	20.7
PwC	25.1	28.2	26.2	26.6
Combined Firms	**89.1**	**101.3**	**93.8**	**95.1**

The Big Four firms have had an astonishing run up in total revenues over the last seven 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 2010. 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.

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 2010 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.

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.



2010 FIRM PERFORMANCE

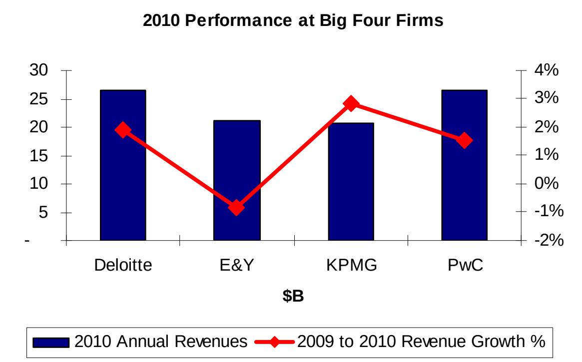
We reported on each firm's 2010 financial performance as they sequentially reported on The Big Four News, and we encourage our readers to read those analyses to obtain a flavor of the timing and our immediate response.

Deloitte was the first firm to report this year on September 14, 2010, followed by PwC on October 4, 2010. Ernst & Young quickly followed on October 6, 2010 and KPMG was the last to report on December 16, 2010. With Deloitte reporting modest growth and some additional results from UK firms, it became evident that the year was shaping up to produce moderate growth - yet a large improvement from the drastic declines seen in 2009. While revenues rose moderately or declined somewhat in developed markets, all firms generally noted that emerging markets were strong. In general the firms' results met our expectations, and KPMG's increase was the highest among all firms - in line with our prediction after it had fallen the most in 2009.

There was additional drama this year owing to the close race between Deloitte and PwC. After PwC reported on October 4, 2010, it became clear that Deloitte's revenues had exceeded PwC's and it would take the crown as the largest accounting firm.

Sure enough, on October 5, 2010, Deloitte proclaimed that "it is proud to announce that its member firms have risen to become the largest private professional services organization in the world for the first time in the organization's history. With this milestone, Deloitte surpasses all competitors in the private professional services category to become the market leader based on revenue and headcount. As of the fiscal year ended 31 May 2010, Deloitte had aggregate member firm revenues of US$26.578 billion (US$26.6B) and employed approximately 170,000 people worldwide, including nearly 35 percent in priority markets."

Without mentioning PwC by name, Deloitte indicated that it had reached this pinnacle, and as we see later, quite deservedly so.



In general, the firms' results met our expectations. KPMG had the highest growth rate. E&Y was the only firm to shrink revenues

A brief overview of 2010 results for each firm follows.

PricewaterhouseCoopers PwC

PricewaterhouseCoopers's FY 2010 global revenues for the year ending June 30, 2010 was US$26.569 billion, a 1.5% increase from the US$26.171 billion in FY 2009 in US dollar terms. However, on local currency terms FY 2010 revenues were actually higher than FY 2009 by only 0.3%. This performance, though commendable, did not help the firm maintain its top ranking as the largest accounting firm on the planet. That honor went to Deloitte, who reported FY 2010 revenues of $26.578 billion, thus beating PwC by an extraordinarily slim margin of just $9 million.

PwC revenues rose 1.5% in 2010, but not enough to remain the largest accounting firm on the planet

In terms of service lines, 2010 Assurance revenues declined 1.3% in local currency terms to $13.3 billion, but in terms of US dollars, revenues fell by 0.1% from $13.3 billion in 2009. PwC said that Assurance services demand rose slightly, but was more than offset by pricing pressure in a fiercely competitive marketplace. Tax services fell by 2.9% in local currency terms to $7.1 billion, but fell 1.7% in US dollar terms from $7.2 billion in 2009. PwC said Tax revenues showed improvement as the year progressed but was down slightly due to the slowdown in corporate deals and restructuring work.

Advisory services for PwC was the top service line as revenues increased by 7.9% in local currency terms to $6.2 billion, and was also up 9.5% in US dollar terms from $5.7 billion in 2008. PwC indicated that Advisory results reflected late year improvements in both the consulting and deals sectors, as well the FY 2009 acquisition of the BearingPoint advisory businesses in the US and Japan and other strategic acquisitions; and that consulting revenues grew by 15%.

Additionally, PwC said after a slow start, overall performance improved consistently over the course of the fiscal year. Demand for services was up slightly, especially in the emerging markets, though it was offset by a relentless pressure on rates.

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In terms of geographies, Asia and Australasia 2010 revenues rose to $4.2 billion from $3.8 billion in 2009. This was a growth for Asia in local currency of 8.2% and 11.7% in US dollar terms; and correspondingly for Australasia a drop of 3.3% in local currency, but an increase of 10% in US dollar terms. In the developed world, revenues in both Europe and North America declined in US dollar terms, and since these account for 85% of total PwC revenues, they essentially drove the results for the firm.

For example, Western Europe revenues fell 0.6% in local currency terms and 0.8% in US dollar terms from $11.1 billion in 2009 to $11.1 billion in 2010. And for North America and the Caribbean, revenues fell 1.7% in local currency terms and 0.9% in US dollar terms from $9.0 billion in 2009 to $9.0 billion in 2010.

Surprisingly, Central and Eastern European revenue declined 5.1% in local currency terms and 6.6% in US dollar terms from $0.8 billion in 2009 to $0.7 billion in 2010. PwC noted that Asia revenues grew by 8.2% and Middle East and Africa revenues rose 8.5%. Revenues rose 11.1% in Korea, 8.5% in Mexico, and 6.2% in China. PwC said that revenues also increased in Spain, the UK, Germany and Canada.

Deloitte

Deloitte.

Deloitte Touche Tohmatsu, the global firm, reported fiscal 2010 revenues for the year ending May 31, 2010 of US$26.578 billion, a 0% growth in local currency terms, but an increase of 1.8% in US dollar terms from 2009 of $26.1 billion.

Deloitte said business volume increased from the prior year, while rates remained constrained by the challenging economic conditions

By service line, Consulting (Advisory) was the fastest grower at 13.6% in local currency terms; and in US dollar terms, revenue increased 14.9%

from $6.5 billion in 2009 to $7.5 billion in 2010; aided by key acquisitions in UK and US. Audit revenue fell 3.8% against 2009 in local currency terms; in US dollar terms, Audit shrank only by 1.4% from $11.9 billion to $11.7 billion. Tax fell 6.3% against 2009 in local currency terms; in US dollar terms, Tax shrank by 5.3% from $5.7 billion to $5.4 billion. Financial Advisory Services revenue fell 3.4% in local currency terms, but in US dollar terms, fell by 1.6% from $2.0 billion in 2009 to $2.0 billion in 2010.

Deloitte said business volume increased from the prior year, while rates remained constrained by the challenging economic conditions. Also the firm noted that business lines performed strongly within the context of the economic environment. A 15% increase in consulting revenues, led by a 19% growth in the strategy and operations service line and a 33% growth in technology integration, offset small declines in other businesses affected by modest reductions in rate per hour. Deloitte US' integration of BearingPoint's North American public sector practice helped consulting's overall performance.

In terms of geography, Americas increased 3.0% in local currency terms and 3.9% in US dollar terms from $12.5 billion in 2009 to $13.0 billion in 2010. Europe, Middle East and Africa revenues dropped 4.2% in local currency terms and 2.9% in US dollar terms from $10.2 billion in 2009 to $10.0 billion in 2010. Asia Pacific grew 1.6% in local currency terms and 8.5% in US dollar terms from $3.4 billion in 2009 to $3.6 billion in 2010.

Asia Pacific revenues grew 9%, making it the fastest-growing region for the sixth consecutive year. Korea and India grew more than 20%, Deloitte China grew 8%. Brazil grew in excess of 20%. Deloitte United States grew 3% and the Middle East grew 15%. In terms of sub regions, Deloitte Latin America grew 6%, North America grew 2.7%, Europe fell 4.8%, Africa grew 0.2%, all in local currency terms.

The Asia Pacific region grew 8.5% in US dollar terms and was the fastest-growing region for the sixth consecutive year

And this remarkable performance helped Deloitte to beat PwC and become the largest Big Four firm in the world. Its 2010 revenues of $26.578 billion were ahead of PwC's 2010 revenues of $26.569 billion by a miniscule but significant margin of $9 million or 0.03%. 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 revenues in US dollar terms would make it the largest among the Big Four firms.

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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.

Ernst & Young

ERNST & YOUNG
Quality In Everything We Do

Ernst & Young's combined worldwide 2010 revenues for the year ending 30 June 2010 were US$21.255 billion, decreasing 3.5% in local currency terms from the comparable period in FY 2009 of US$21.440 billion in global revenues. In US dollar terms, the revenue actually declined 0.9% from 2009 to 2010. Ernst & Young made some interesting clarifications for revenue performance within the year noting that 2010 fiscal year had decreases in revenue in the first half, offset by a rebound in the third and fourth quarters. Revenues in the second half of the financial year increased by 5.3% in US dollars, with Transaction Advisory Services and Advisory up 9.4% and 13.3% respectively, due to improved business confidence and an increase in corporate activity. Assurance and Tax were up modestly in the same period, due to continued pricing pressure but more than offset by an increase in audit market share and an increase in work from existing clients.

The firm noted that momentum for growth is continuing into the 2011 financial year. Corporate activity and demand for our services is picking up in many markets, with the emerging economies leading the world out of the downturn

Ernst & Young was the only firm whose revenues decreased from 2009 to 2010

Assurance Services had FY 2010 revenues of $10.061 billion, which declined 3.9% in local currency terms, but 0.8% in US dollar terms from FY 2009 revenues of $10.141 billion. Global Tax Services with FY 2010 revenues of $5.671 billion was down 4.1% in local currency terms and dropped 2.6% in US dollar terms from FY 2009 of $5.822 billion. Advisory Services with FY 2010 revenues of $3.662 billion was down 1.2% in local currency terms, but increased 2.0% from $3.589 billion in FY 2009 in US dollar terms.

Transaction Advisory Services with FY 2010 revenues of $1.861 billion, had a 3.2% decrease in local currency terms but revenues decreased 1.4% in US dollar terms from $1.888 billion in 2009.

Ernst & Young's revenues rebounded in the second half of 2010, increasing 5.3% in US dollar terms

In terms of geographies, Americas had FY 2010 revenues of $8.373 billion, which declined 4.6% in local currency terms, but 3.2% in US dollar terms from FY 2009 revenues of $8.647 billion. EMEIA with FY 2010 revenues of $9.551 billion was down 2.9% in local currency terms and dropped 0.9% in US dollar terms from FY 2009 of $9.636 billion. Asia-Pacific with FY 2010 revenues of $2.138 billion was up 1.5% in local currency terms, but increased 9.0% from $1.961 billion in FY 2009 in US dollar terms. Japan had F 2010 revenues of $1.193 billion, which was down 6.7% in local currency terms and 0.3% in US dollar terms from FY 2009 of $1.196 billion.

Across Ernst & Young's four geographic Areas, its newly formed Asia-Pacific Area recorded a 9.0% growth in revenues; the Americas, EMEIA and Japan Areas showed a 3.2%, 0.9% and 0.3% decline respectively. All Areas showed improvement in performance in the second half of 2010.

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 2010 combined revenues for the fiscal year ending 30 September 2009 of US$20.63 billion versus US$20.11 billion for the prior 2009 fiscal year. This was a 0.1% increase in local currency terms and a 2.6% increase in US dollars terms. KPMG noted that FY10 revenues overall reflect positive and improving business performance across the KPMG network of firms and functional businesses worldwide. KPMG's year end is a full 3 to 5 months behind other firms, so its FY 2010 results reflected more months of economic recovery to offset its FY 2009 results which included more months of economic distress, contributing in part to its better reported results.

KPMG's revenue decreased the most in 2008 to 2009. And it reported the highest growth from 2009 to 2010

By service line, Audit FY 2010 revenues were $9.91 billion versus $9.95 billion in FY 2009, down 2.9% in local currency and down 0.4% in US dollar terms. Tax services revenues in 2010 were $4.15 billion versus $4.09 billion in 2009, a 0.7% decrease in local currency terms but 1.4% increase in US dollar terms. But certain practices within Tax did very well: Transfer Pricing grew 1.5%, Indirect Tax grew 0.7% and International Executive Services grew 1.1%, all in local currency terms.

Advisory services revenues of $6.57 billion in 2010 increased versus $6.07 billion in 2009, by a large 5.5% in local currency terms and 8.3% in US dollars terms. Advisory grew in all three regions with good growth in Americas of 10.8%, Asia Pacific of 9.9% and 2.6% in Europe, Middle East and Africa. Performance and Technology was the main driver of Advisory growth and was particularly strong, up 12.7%, recording substantial growth in Canada, UK, France, USA, China, CIS, India and Brazil.

KPMG's fiscal year end is September 2010, and was aided by some additional months of global growth

By geography, Americas Region had 2010 revenue of US$6.37 billion versus US$6.31 billion in 2009, down 1.4% in local currency terms and up 1.0% in US dollar terms. Bright spots included Brazil with 10.3% revenue growth, Venezuela grew 28.5%, Ecuador at 27.3% and Argentina at 17.9% growth, all in local currency terms. In Europe, Middle East and Africa, combined KPMG member firm 2010 revenues were $10.83 billion versus $10.73 billion in 2009, up 0.1% in local currency terms and 0.9% higher in US dollars terms. KPMG said the latter half of the year saw improved performance. India was the fastest growing among the largest KPMG member firms in the EMA region. Other strong performers included Africa with 8.5% local growth, Norway at 7.4%, and France with 3.5% growth. In Asia Pacific, combined 2010 revenues of $3.43 billion increased 2.2% in local currency terms but grew a substantial 11.7% in US dollar terms against $3.07 billion in FY 2009. KPMG noted that Taiwan had 18.2% growth, Korea had 11.9% growth, and Vietnam 11.7%, all in local currency terms.

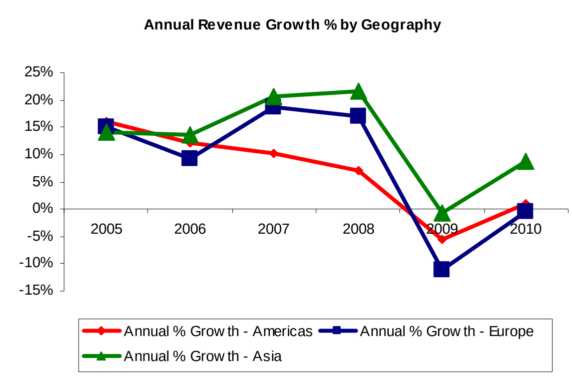
With this performance, KPMG was unique among the firms for FY 2010, reporting positive percentage growth in all three Areas – Americas, Europe and Asia regions.

KPMG was the only firm to report positive percentage growth in all three – Americas, Europe and Asia regions

Revenues in the BRIC countries as a group grew 7.5% from 2009 to 2010. KPMG noted that India revenues grew in excess of 20% reflecting continued investment and growth in the Indian economy.

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.

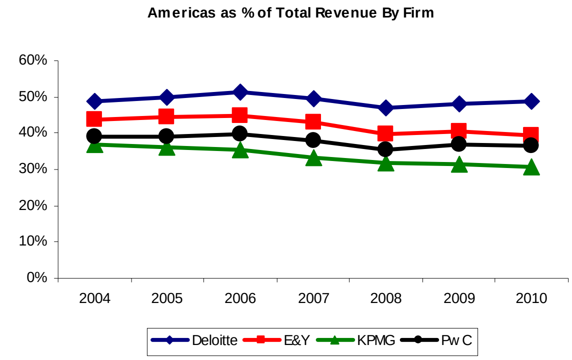


Europe has the highest proportion of total revenues for the Big Four firms at 45%, Asia's share has climbed rapidly to 15%

The Americas

The Americas represent about 39% of global revenues of the Big Four firms combined revenues, but its share has been falling over the years. From 2005 to 2010, 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 2010, it had dropped to only 39% of total firm revenues. From 2009 to 2010, there was mixed performance for the Americas region – Deloitte and KPMG reported growth, revenues for E&Y and PwC declined. Overall the region's revenues grew 1% from 2009 to 2010.

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 49% of its revenues from the Americas and KPMG at the low end has only 31% of its revenues from the Americas. Ernst & Young has 39% and PwC has 37% 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 2010 revenues in Brazil grew 10.3%, Venezuela grew 28.5%, Ecuador grew 27.3% and Argentina experienced growth rates of 17.9%. Deloitte reported that Brazil revenues grew in excess of 20%, while the US grew at 3%. South and Central America for PwC grew 11% and Mexico revenues rose 8.5%, while North America and Caribbean revenues declined 1%.

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.

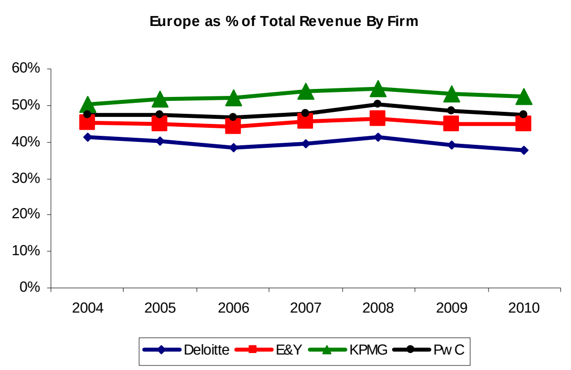
From 2005 to 2010, there has been a noticeable drop of about 3% in the Americas region's share of the total revenue for all the firms

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 45% of global revenues, and as we see across the years, this total percentage has remained remarkably flat from 2004 to 2010, though a drop from 48% in 2008 to 45% in 2010 is noticeable. In 2004, 46% of combined firm revenues were reported from the Europe region, and in 2010, almost the same percentage 45% of total firm revenues came from Europe. Overall, the region's revenues declined marginally from 2009 to 2010.

Europe represents about 45% of global revenues, staying flat 2004 to 2010, though a small dip from 2008 to 2010 is noticeable

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 LLP being a key contributor) while Deloitte at the low end has only 38% of its revenues from Europe, this situation being a total opposite of the Americas. Ernst & Young and PwC each have 45% of their total revenues from Europe, in line with the total firm average.



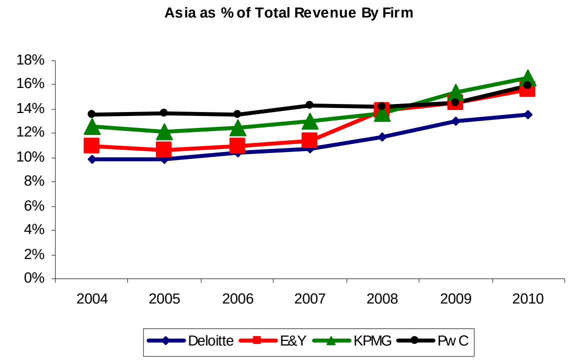
This diverse European region comprises both of mature markets such as the United Kingdom, France, Italy and Germany, as well as fast growing Eastern European nations - Poland, Russia, Czech Republic, Hungary and Romania; Middle Eastern nations of UAE, Kuwait, Israel and Qatar; and African countries – 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 2009 to 2010, Deloitte reported that Middle East revenues grew 15%, KPMG indicated that Africa revenues grew 8.5%. Similarly, PwC reported that Middle East and Africa revenues grew 8.5% from 2009 to 2010.

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 $15 billion in 2010.

Asia represents about 15% of global revenues for all the firms, and across the years, this percentage has increased steadily from 2004 to 2010



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 2010. In 2004, less than 12% of combined firm revenues were reported from Asia, and in 2010, it had sharply increased to more than 15% of total firm revenues. This share gain came at the expense of the Americas region, which correspondingly lost its share of the pie. All firms reported strong growth from this region – Deloitte's Asia Pacific revenues grew 9%, making it the fastest-growing region for the sixth consecutive year.

Deloitte Korea and India had 20+% growth, while Deloitte China grew 8%. Ernst & Young's newly formed Asia-Pacific Area revenues grew 9.0%, while Japan fell 0.3%. E&Y India and China recorded high single-digit to double-digit growth. Asia Pacific was KPMG's strongest performing region, with Taiwan growing 18.2%, Korea up 11.9%, and Vietnam increasing 11.7% in local currency terms. For PwC, revenues rose 11.1% in Korea and 6.2% in China.

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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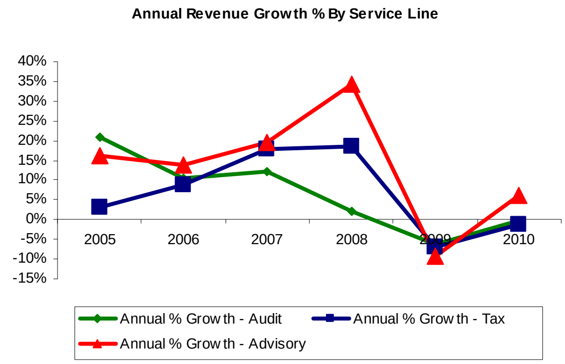
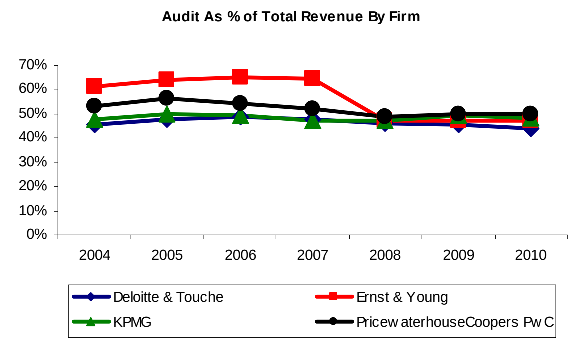
For example, Deloitte India grew in excess of 20% and Deloitte China revenues increased 8%. E&Y India and China recorded high single-digit to double-digit growth. KPMG BRIC grew 7.5% as a bloc. KPMG India was the fastest growing among the largest KPMG member firms in EMA. PwC China revenues increased 6.2%. KPMG noted that 2010 revenues in Brazil grew 10.3% and Deloitte reported that Brazil revenues grew in excess of 20%,

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 47% of total revenues but this proportion has been steadily dropping across the years. In 2004, Audit revenues were 52% of total revenues, but by 2010, this had dropped a full 5% to 47% 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.

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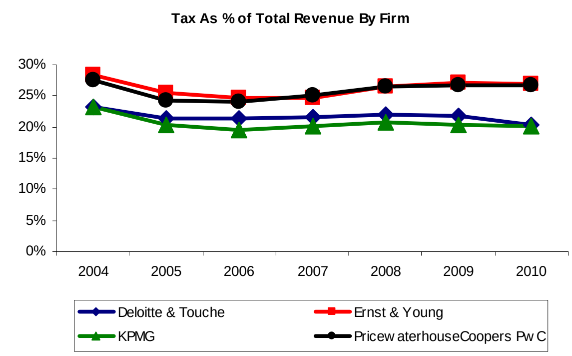
From 2008 to 2009, revenue for the Audit service line for the combined firms shrank by 6% in US dollar terms, and from 2009 to 2010, Audit revenues dropped a further 0.1%. Audit revenues performance was somewhat better than the Tax service line which fell 7% and 1.1% for the same period, demonstrating 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.

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.

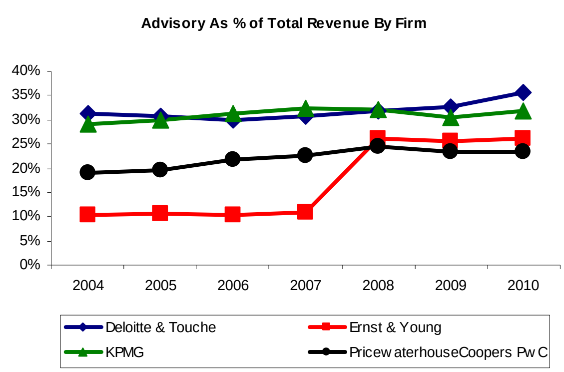


Tax had a very strong growth in 2006 to 2008, in line with large scale global merger and acquisition transactions activity, but posted a sharp decline in 2009 of 7%. Tax revenues further declined by 1.1% from 2009 to 2010, with Deloitte falling by more than 5% and E&Y also declining, offset somewhat by revenue increases in this service line at KPMG and PwC.

Advisory

Advisory services have increased their share of revenues. In 2004, they had 22% of total revenues and this had sharply increased to 29% in 2010

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.

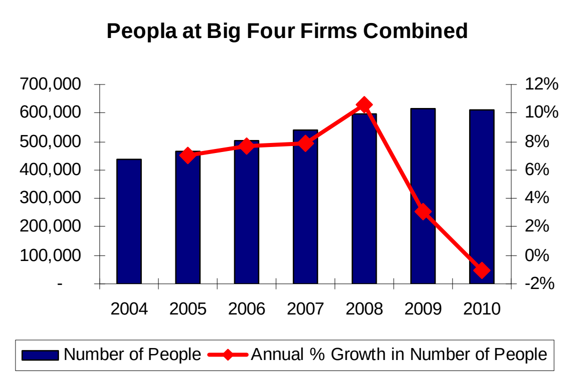


Advisory services have been one of the fastest growers in the Big Four firms as the firms extend their services beyond assurance and taxation through penetration into current clients or through referrals from other firms who may be conflicted out at their clients. Advisory services have generally increased their share of revenues. In 2004, they had 22% of total revenues and this had sharply increased to 29% in 2010, 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. Deloitte's Advisory revenues grew a remarkable 12%, KPMG was up 8% and E&Y and PwC also grew but at more modest rates.

FIRM EMPLOYMENT ANALYSIS

The Big Four firms cumulatively employ more than 600,000 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 2010, as firms slowed hiring and outbound attrition reduced, total employment fell by nearly 7,000 to 610,000.



From 2004 to 2010, the number of people working at just these four firms has increased by around 175,000. And while revenues did increase somewhat from 2009 to 2010, net employment did fall over this period.

The Big Four firms cumulatively employ more than 610,000 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. Truly, Big Four firms are huge seekers of talent with correspondingly very busy recruiters even in a period of deep recession.

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

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 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 2010, 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

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.

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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 2010.

2010 marked a return to moderate growth, and positive global macroeconomic momentum at this time is favorable for Big Four firms

More so, leading economic indicators in developed nations are on the uptrend at this time and both OECD and emerging market countries have posted multiple quarters of positive GDP growth in 2010. As we stand at the beginning of 2011, with the threat of US double-dip recession and deflation receding, there appears to be a cautiously optimistic outlook among global executives, and economists are forecasting moderate to solid GDP growth for all countries in 2011. All these 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, IPOs, strategic growth, risk management, IFRS conversions or audit compliance.

The second half of fiscal 2010 is already producing better growth. All firms have already indicated strong improvements through the latter half of FY2010

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 2011, we foresee 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
- Advisory and Tax will directly benefit from improving global confidence and business growth. Audit will be helped with some easing of client pressures on rates and pricing.
- Global equity markets have been generally stable to positive in 2010, and 2011 points to further gains. More so, credit markets have loosened up and private equity firm activity is on the increase.
- Both Merger and Acquisition activity and Initial Public Offerings are on the rise in 2010 versus 2009, and expected to further increase in 2011.
- 2010 revenue base for Big Four firms is similar to 2009 levels, but external conditions are much better in 2011 than in 2010.
- The dollar has started sliding against major currencies in mid-2010.
- Big Four firms, which have undergone internal restructurings, are much better positioned to take advantage of growth prospects. All Big Four firms have indicated high levels of employee hiring in the next few years.
- The second half of fiscal 2010 is already turning out better growth. E&Y pointed to 5.3% growth in the second half compared to a 0.9% decline for the full fiscal year 2010. This situation is likely the same in other Big Four firms.
- 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.

For 2011, we foresee much better revenue growth for all the four firms, likely in the 4% to 7% range

We expected KPMG to have the strongest fiscal 2010, since its fiscal 2009 ended in September 2009, and captured much of the crisis; and further that its 2010 revenues will be compared to a much lower base. This turned out to be right, and we now forecast that it will continue to post good growth numbers owing to two factors: its smaller overall size and its larger proportion of higher-growth Advisory services.

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 2011 and beyond, we will likely see a return back to solid 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 2011 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.

2011 will also be an interesting year to watch for any changes in Big Four rankings: whether PwC will be able to rebound ahead of Deloitte, and whether the gap between E&Y and KPMG narrows further.

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Notes

All figures are in United States dollars

Disclaimer

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