

COMPANY PROFILE

Ernst & Young Global Ltd

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COMPANY OVERVIEW

Ernst & Young Global Limited (EYG or "the company") is a private company limited by guarantee which is the principal governance entity of the global Ernst & Young network. EYG's member firms provide assurance, tax, transaction, and advisory services. The company primarily operates in the Americas; Europe, Middle East, India and Africa; Asia-Pacific; Japan. It is headquartered in London, the UK.

The company recorded revenues of \$28,655 million during the financial year ended June 2015 (FY2015), an increase of 4.7% over FY2014.

KEY FACTS

Head Office	Ernst & Young Global Ltd 6 More London Place London Greater London London Greater London GBR
Phone	44 20 79512000
Fax	44 20 79511345
Web Address	www.ey.com
Revenue / turnover (USD Mn)	29,626.0
Financial Year End	June
Employees	230,800
Ticker	

SWOT ANALYSIS

Ernst & Young Global Limited (EYG or "the company") is a private company limited by guarantee which is the principal governance entity of the global Ernst & Young network. EYG's member firms provide assurance, tax, transaction and advisory services. EYG operates an integrated global organization and is positioned to drive growth from the ongoing globalization trend. However, any changes in the existing regulations may impact the dominance of the Big 4 auditing firms including EYG. Further non-compliance could result in administrative, civil, or criminal liabilities.

<p>Strength</p> <p>Unified Global Organization Wide and Diverse Services Portfolio Steady Growth in Advisory Services Revenues</p>	<p>Weakness</p> <p>Legal Proceedings Could Dent Brand Image</p>
<p>Opportunity</p> <p>Opportunities from Rapidly Growing Emerging Markets Positive Outlook for Non-IT End Markets Drives Demand for Consulting Services Robust Outlook for Global Management and Marketing Consultancy Poised to Benefit from the Increased Adoption of IFRS</p>	<p>Threat</p> <p>Non-Compliance with Regulatory Pressures Intense Competition could Impact Market Share</p>

Strength

Unified Global Organization

EYG has a strong global footprint and has in place an integrated global organization which strengthens its ability to deliver seamless and consistent service across the world. In the current market scenario, the company's global integration is particularly important in the delivery of multinational audits, which can span several jurisdictions. According to EYG, globalization is a fundamental and irreversible long-term trend that is altering the business environment. As a globally integrated professional services organization, the company is well positioned to cater to its clients amid the changing conditions brought about by globalization, whether it is significant new audit wins or major advisory projects. The company is also well poised to help those clients based in the emerging markets looking to expand into developed markets, and conversely is also poised to work with developed market clients looking to understand the challenges of operating in emerging markets. Increasingly, EYG is being selected to advise clients from emerging markets who want to invest in other emerging markets. With its global footprint, the company is well poised to drive growth from the ongoing globalization trend.

Wide and Diverse Services Portfolio

The company is one of the Big Four global audit companies. It offers a full spectrum of services related to Assurance, Advisory, Tax, and Transaction Advisory Services (TAS). In addition, the company generated approximately 38.1% of the total revenues from Assurance, its core business line, in FY2016. Revenues from Advisory services accounted for 26.5% and the revenues from Tax and TAS accounted for 26.2% and 9.2%, respectively. The company also offers specialty services, including family business services, pensions, and climate change and sustainability services. Other specialty services offered by EYG include China overseas investment network; global business network. The company's revenue stream is diversified in terms of business lines and geographies. Owing to its diverse and complementary offering, the company is well positioned to cater to a large audience and is also positioned to increase revenue per client by cross selling its services. Further, the diverse end markets also reduce vulnerability to specific sector related risks.

Steady Growth in Advisory Services Revenues

The company's Advisory segment has been growing consistently. The company's Advisory practice works with some of the world's largest and most complex multinational corporations, as well as with government organizations from many countries. The Advisory service line is EYG's fastest-growing service line. The Advisory services division recorded revenues of \$7,846 million in FY2016, an increase of 13.1% over FY2015. Moreover, the division grew at a compound annual growth rate (CAGR) of 14.8% during 2013-16 periods. Furthermore, the company anticipates strong growth in this practice in the coming years and is making investments in this practice at the global, strategic level and on a more tactical, geographical level. Importantly, the company maintained focused service footprint in advisory which is a key differentiator. EYG remains committed to focused strategy and will continue to invest in two primary service areas, risk and performance improvement. The company is the market leader in risk services. These services include performance management, people advisory services and risk and compliance. As the tax and assurance markets continue to tread the path to maturity, growth in advisory market will help drive the overall growth. Further, the Advisory segment is an open market with relatively less regulatory pressures and therefore is an attractive segment to grow in.

Weakness

Legal Proceedings Could Dent Brand Image

The company has been involved in several litigations. EYG was sued by several organizations in the past, which the company settled by paying penalties. For instance, in 2015, the company agreed to pay a \$10 million to New York State to settle a lawsuit for overlooking accounting errors by Lehman Brothers. The scheme allowed Lehman to hide billions of dollars in bad deals. Similarly, in 2015, EYG settled a lawsuit brought against it by the KPMG administrators of Worldspreads, a spread-betting company, for which EYG served as an auditor. The company allegedly neglected auditing of the accounts at Worldspreads.

EYG is also involved in several other litigations which are currently pending. For instance, in 2014, global private equity firm Bain Capital Partners sued EYG alleging the company cost it approximately \$59 million by advising it to invest in Lilliput Kidswear, a children's clothing company in India. Bain Capital Partners alleged that it invested Lilliput Kidswear for a 31% stake based on false financial statements audited and

certified by EYG. Earlier in 2014, Ernst & Young LLP was accused by the US failing to comply with an Internal Revenue Service request for documents in an investigation of the tax liability of the billionaire chairman of industrial-bearing maker Schaeffler.

The company may face similar litigations in the future which could increase its legal expenses. Any negative outcome of pending litigations could force the company to pay huge amounts in the form of penalties and fines, which could dent its bottom line. In addition, frequent legal proceedings could impact its reputation.

Opportunity

Opportunities from Rapidly Growing Emerging Markets

The emerging markets are expected to record strong growth in the near future. Despite the global economic slowdown and recession in advanced economies, the emerging economies continued to maintain growth. According to industry estimates, the emerging markets and developing economies are forecasted to increase their contribution to global commerce and consumption. This can be perceived by the growth prospects for emerging markets. According to the International Monetary Fund (IMF), the emerging and developing economies' real gross domestic product (GDP) is expected to grow at 4.5% in 2017 and 4.8% in 2018. Comparatively, the advanced economies are expected to grow at 1.9% in 2017 and 2% in 2018. There has been a stronger growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output. The growth in one of the emerging markets, China recorded a stronger growth due to continued policy stimulus. Russia also noted slightly better growth than expected due to firmer oil prices. Positive outlook for emerging markets provides growth opportunities for various businesses. Moreover, in recent years, most of the companies in emerging markets continued to pursue global practices in their operations. EYG being one of the major players in the management consulting market is in a position to capitalize on growth opportunities in providing services for companies in emerging markets as well as companies established in advanced economies pursuing growth prospects in these high growth markets.

Positive Outlook for Non-IT End Markets Drives Demand for Consulting Services

Some of the company's non-IT end markets returned to growth trajectories in the recent past and are expected to continue growing in the coming periods. Healthcare, oil and gas, and pharmaceutical markets are forecast to show steady growth. The US healthcare sector is expected to grow at a robust pace in medium to long term. According to MarketLine, the global healthcare providers market increased by 4.2% in 2016 to reach a value of \$7,539 billion. In 2020, the global healthcare providers sector is forecast to have a value of \$9,154.8 billion, growing at a CAGR of 5% for the 2015-20 periods. Also, the global oil and gas market is forecasted to accelerate with an anticipated CAGR of 15.1% during 2016-2021 and reach a value of \$2,826.2 billion by the end of 2021.

EYG offers consulting services across multiple industries, including healthcare, mining and metals, oil and gas, consumer products and retail, life sciences, technology, telecommunications, and power and utilities, among others. Positive growth in healthcare, oil and gas, and other Non-IT end markets enhances the demand for the company's consulting services.

Robust Outlook for Global Management and Marketing Consultancy

The outlook for global management and marketing consultancy services is robust. According to MarketLine, the global management & marketing consultancy market had total revenues of \$335.7 billion in 2016. Furthermore, the market is expected to grow from \$335.7 billion in 2016 to \$388.7 billion by 2020, representing a CAGR of 4% during the forecast period. EYG is one of the leading management and marketing consultancy company globally. It is a global organization of member firms and provides a range of services, including accounting and auditing, tax advisory, tax reporting and operations, technology and security risk, human capital, business risk, and transaction advisory services. The positive outlook for the global management and marketing consultancy market coupled with EYG's strong presence in this market will enhance its top line growth in the coming years.

Poised to Benefit from the Increased Adoption of IFRS

Increased adoption of IFRS is a trend that provides EYG with significant opportunities. It is estimated that IFRS is required or permitted for use in more than 100 countries, including two-thirds of the G20 members. Further, more countries are expected to continue to adopt IFRS accounting standards to gain public trust and build confidence among investors globally. For instance, the Indian government has announced plans to implement IFRS accounting standards for unlisted companies with a net worth of over INR5 billion. The next phase is expected to be implemented in April 2017, for the unlisted companies having a net worth of INR2.5 billion. As the globalization continues at a strong pace, adoption of IFRS will continue to grow.

EYG's audit and assurance division provides services in financial accounting issues related to matters of IFRS conversions. The company's presence in this domain will benefit from the increasing demand for IFRS adoption.

Threat

Non-Compliance with Regulatory Pressures

The company is exposed to regulatory pressure across countries, in which it has operations. The regulatory scrutiny is more severe for EYG, since it is among the largest auditing firms in the world. For instance, in 2014, the US Administrative Law Judge (ALJ) ruled that the Chinese affiliates of the Big Four should be suspended for six months for refusing in the past to turn over audit documents for certain US-listed Chinese companies under investigation by the Securities and Exchange Commission (SEC). Earlier in 2013, the UK Competition Commission (UKCC) accused the 'Big 4' audit firms (Deloitte, PwC, Ernst & Young, and KPMG) of a serious breach in alignment with shareholder interests. The UKCC delivered the provisional findings of its investigation into the Big 4's control of the FTSE 350 audit market. It was found that the high cost of switching auditor, difficulty comparing alternative auditors, experience and reputational barriers for mid-tier firms were stifling competition and damaging the market. The UKCC concluded that Big 4 firms hold most of the big company audits and that those organizations rarely change auditors, which hurts the competition for public company audit work and results in higher prices, lower quality, and less innovation and differentiation than would not be the case in a more open market.

The UKCC is set to crack the dominance of these Big 4 accountancy firms with proposals for new market reform, which could have an adverse impact on EYG's business. In addition to the UK, similar measures are being considered in the US as well. Although the course of action is uncertain, the suggestions indicate rotational auditing as one of the measures.

Any changes in the existing regulations may impact the dominance of the Big 4 auditing firms including EYG. Further non-compliance could result in administrative, civil, or criminal liabilities.

Intense Competition could Impact Market Share

EYG operates in a highly competitive industry. The company primarily competes with large peers such as Deloitte, PricewaterhouseCoopers and KPMG for clients. It also competes with management consulting firms in the strategy implementation and system integration services. Other competitors of the company include Bain, BDO International, Mercer International, Accenture and Cap Gemini. Further, many countries, including the UK and the US, are planning to introduce regulations to decrease the dominance of Big 4 and also to foster competition. Such regulations, if enacted, may further increase the competition in the auditing and accounting area. Intense competition may adversely impact the company's revenue and market share.

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