

Firms follow the big four into advisory

Top 100 Accounting Firms

The nation's largest firms



Exclusive

Edmund Tadros

Accounting firms that have emulated big four firms Deloitte, EY, KPMG and PwC by moving into non-accounting services have been the big winners in a year when the Top 100 firms posted more than \$11 billion in revenue.

The Australian Financial Review Top 100 Accounting Firms for 2018 reveals a jump in the percentage of Top 100 firms that reported advisory is the fastest growing part of the business. More than 80 per cent of firms in the list nominated business, tax and advisory services as among their fastest growing divisions.

Acquisitions and mergers also continue to drive expansion at many firms even as growth in core compliance work has slowed.

The firms in the Top 100 list posted total revenue of \$11.25 billion in the past financial year, up almost 10 per cent on the previous year. This compares to growth of 1.5 per cent in the wider accounting industry, according to research house IBISWorld.

The majority, 92 of the Top 100, saw year-on-year revenue growth increase in the 2018 financial year with boutique firm Rubik3 posting the fastest rate of growth, 130 per cent, to \$11 million in billings.

The level of growth varied markedly by segment. Overall, 37 firms posted revenue increases of more than 10 per cent, 55 firms posted growth of up to 10 per cent and eight firms saw their revenue shrink during the 2018 financial year.

The big four firms accounted for almost 70 per cent, or \$7.8 billion, of all revenue generated by the Top 100 and grew by an average of 11.5 per cent, thanks to their surging consulting divisions. Statutory audit has become just one part, and a relatively small part at that, of these professional services juggernauts.

The next 10 largest firms, those earning between \$100 million and \$375 million in revenue, had the lowest average growth rate of any segment, a modest 4 per cent over the year.

"These mid-tier firms are experiencing a crunch, struggling to compete with top-tier firms and rising stars, for example Altus Financial and Kelly + Partners," said Dale Crosby, an industry consultant who advises accounting firms about technology.

BDO posted the highest growth of any firm in this segment, with revenue up 8.7 per cent to \$268 million, as it pushed further into audit and advisory and ahead of its much-delayed vote to nationalise.

PKF was close behind with revenue up 8.5 per cent to \$117 million on the back of increased advisory work. CEO and chairman Norm Draper said PKF would generate at least the same level of revenue next year despite losing one of its two Perth offices in July to rival Hall Chadwick.

Mergers and acquisitions were the driving force behind many of the 37 firms on the list growing faster than 10 per cent a year, Mr Crosby said.

"The target growth rate [for firms] is between 5 per cent and 10 per cent, through fee increase where possible. Most firms are keen for fees, but also hard-nosed about the type of clients they are taking on," he said.

David Smith, who consults to the accounting industry, agreed that M&A



Jadeja Partners' Magnus Yoshikawa, left, says the market for accountants wanting to sell their firms is healthy, and Smithlink director David Smith says M&A activity is helping drive growth.



'Holistic advice' drives growth

Accountants and wealth advisers CAAA were the second-fastest growing firm in the Top 100 list with revenue up 48 per cent to \$9.6 million.

The CEO of CAAA, Fleming Stojanovski, said the high growth was partly the result of the firm moving to provide clients with a broader range of accounting and tax advice.

"We have reconfigured our business as a financial concierge service. We're going from the standard tax and compliance work to getting clients to take a more holistic view of their affairs."

in accounting merger and acquisitions. "Divestments have been fantastic for accountants looking to exit with buyers in all sections of the Top 100," he said.

"Everyone is seeking good practices and banks are still lending to the profession. Premium prices are being paid in capitals with a similar outcome for good practices in regional and rural areas."

Almost every firm in the Top 100, produced by the *Financial Review* in partnership with Chartered Accountants ANZ, said the adoption of cloud computing was a positive development for clients and their firm.

One boutique regional accounting firm in the Top 100, Doyle Partners, uses cloud accounting software to open a "live portal" into client data and offer real-time advice to clients. The firm, which has four partners and 23 staff, posted a revenue increase of 14 per cent to more than \$5 million over the past financial year.

But many firms confessed that they still struggled to make use of practice management software to improve their operations and provide enhanced services to clients, Mr Smith said.

"Firms outside the top 10, perhaps outside the top four actually, are struggling to capitalise on opportunities from new technologies such as data analytics, artificial intelligence and machine learning," he said.

Most firms did not have the capacity to fund their own research and development and were "highly dependant on the industry's technology suppliers for solutions".

"The firms outside the big four are quite dependant on the five major suppliers of practice technology - MYOB, Xero, APS, Sage Handisoft and CCH iFirm," Mr Smith said.

"Some of these suppliers are struggling to redevelop their legacy software for the cloud computing paradigm. Some do not have their suite built out effectively to have a compelling solution. Many firms are frustrated with this lack of progress."

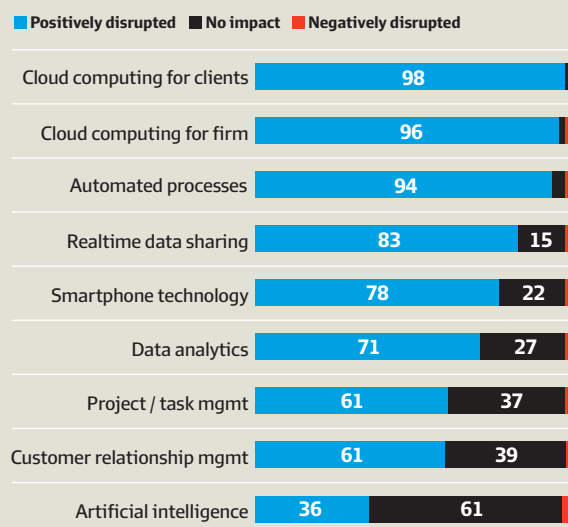
The firms earning revenue between \$20 million and \$100 million grew at a healthy 9 per cent while earning a collective \$993 million.

Synergy Group Australia recorded the second fastest growth, with revenue up 42 per cent to \$39 million. The listed Kelly + Partners posted revenue up 41 per cent to \$35 million.

Meanwhile, the 64 firms earning between \$4 million and \$20 million earned almost \$600 million and grew at about 10 per cent over the 2018 financial year.

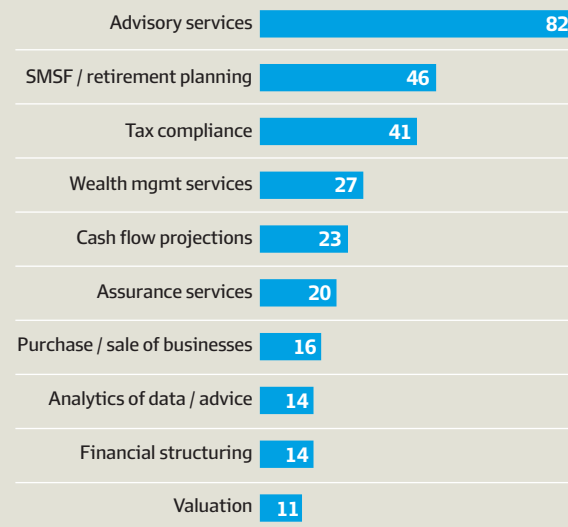
Firms evolve

Impact of technology developments over past 5 years



* % of respondents that saw growth in this division, firms could select multiple divisions

Fastest growing divisions within the firms*



SOURCE: FINANCIAL REVIEW TOP 100 ACCOUNTING FIRMS 2018

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David Smith, Smithlink director

Insolvency market slows

Insolvency firm KordaMentha was one of eight firms that posted a revenue decline in this year's Top 100.

The firm saw revenue contract by 4 per cent to \$115 million over the 2018 financial year.

The drop in revenue at the firm has come amid a broader slowdown in the insolvency market, which saw PwC purchase insolvency firm PPB Advisory for a knock-down price in June.

"Restructuring, turnaround and insolvency is a cyclical business, hence why overall a small decline.

The overall market is probably down 30 to 40 per cent," KordaMentha co-founder Mark Korda said.

This means there are now just two other significant independent insolvency firms in the Australian market, McGrathNicol, which posted revenue up 7.7 per cent to about \$70 million, and Ferrier Hodgson, which declined to take part in the Top 100 list.

The insolvency market shake-up might not be over yet. Last week, McGrathNicol poached two high-earning partners from Ferrier Hodgson.

activity was helping drive growth and growth from core compliance services was elusive.

"There are lots of tuck-in style acquisitions going on, so overall organic growth is much lower," Mr Smith said. "Generally, in all sectors, it remains difficult to achieve high growth from core compliance services although 2018 has been a stronger year for most firms."

An example of acquisition-driven growth is Moore Stephens. The firm was the star performer in the \$20 million to \$100 million segment, growing revenue by 47 per cent to \$74 million after two smaller firms with combined billings of \$20 million joined the network. The rebuilding effort, driven by CEO Peter Antonius, means the firm once again has a national presence after a series of office departures meant annual billings had fallen from \$136 million in 2011-12.

Hall Chadwick, Kelly + Partners and Walker Wayland have also made M&A moves this year.

The market for accountants wanting to sell their firms is also healthy with good practices able to obtain a premium, said Magnus Yoshikawa, the director of Jadeja Partners and a specialist

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