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BUSINESS

PricewaterhouseCoopers to Buy Booz & Co.

Booz Was Once Part of Booz Allen Hamilton, But the Two Aren't Currently Connected

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Accounting and professional-services giant PricewaterhouseCoopers agreed Wednesday to buy management-consulting firm Booz & Co., in a deal that spotlights the importance of consulting to PwC's growth.

While terms weren't disclosed, the transaction appears to be among the biggest deals involving an accounting firm in at least the past decade. Booz had revenue of about \$1 billion in 2012, according to a person familiar with the situation.

Booz & Co. was formed after Booz Allen Hamilton separated its corporate-consulting arm from its government-advisory business in 2008, with the government-advisory business retaining the original name. The two firms are no longer related.

The deal, subject to approval by Booz partners and antitrust regulators, is expected to beef up PwC's advisory business, already its fastest-growing area. It also is expected to help the firm tap into Booz's experience developing strategies for clients. PwC previously has focused on executing strategies for its clients, rather than developing them.

While Big 4 accounting firm PwC is much larger than Booz overall, with \$32.1 billion in global revenue for the fiscal year ended June 30, Booz's business in strategy development is "larger" and "better-established," a person familiar with the deal said.

PwC and other major accounting firms have been relying on consulting for more of their revenue and growth in recent years. PwC's advisory revenue rose 7.6% in the most recent year, compared with 1.4% in its core auditing business.

"PwC has made it really clear they're bulking up their management-consulting business," said Tom Rodenhauser, managing director at Kennedy Consulting Research & Advisory, which tracks the consulting profession. The move gives PwC "a real leg up in credibility in terms of business consulting."

Mr. Rodenhauser said it is typical to use 100% of annual revenue as a starting point to value consulting firms, which would suggest a \$1 billion value for the PwC-Booz deal, but he thinks other factors may have lowered that in this case.

The deal, which unites two of the storied names in professional services, faces some potentially tricky issues, however. The Sarbanes-Oxley Act bars audit firms from many types of consulting for their U.S. audit clients, so conflicts of interest are almost sure to arise in cases where Booz's existing consulting clients have their yearly audit done by PwC. One or the other may have to give.

Booz has worked with Quest Diagnostics Inc. "for many years," according to Booz's website. Quest also has used PwC as its auditor since 1996. Quest couldn't be reached for comment.

PwC believes such conflicts are "manageable," a person familiar with the deal said, but "it's going to take some time to get through that." Decisions about whether Booz or PwC would have to drop a client will be made "on a case-by-case basis," the person said.

Mr. Rodenhauer said it is more likely Booz will have to give up clients than PwC. "It's going to have to be a big chunk that Booz brings over to unseat the audit relationship."

In addition, accounting firms' continuing focus on consulting has some worried that firms like PwC could take their eye off the ball when it comes to auditing.

A spokeswoman for the Public Company Accounting Oversight Board, the government's audit-industry regulator, said it is watching the PwC-Booz transaction, "partly because of the independence issues it raises," but she noted that the deal is not subject to PCAOB approval.

"There's the risk that over time, the cultures of these firms change—from being an auditing firm that serves the public interest and does some consulting, to being a consulting firm that does some auditing and serves the interest of senior management," said Joseph Carcello, an accounting professor at the University of Tennessee. Regulators "better be monitoring these things pretty closely," he said.

Booz, which is privately held, began exploring a possible sale and other strategic alternatives at the start of the year, one former Booz partner said.

The firm talked with Accenture PLC and A.T. Kearney Inc. in addition to PwC. Both Accenture and Kearney declined to comment.

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