Accenture (ACN)

Updated May 24th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$155	**5 Year CAGR Estimate:**	4.9%	**Quality Percentile:**	N/A
Fair Value Price:	$120	**5 Year Growth Estimate:**	8.2%	**Momentum Percentile:**	N/A
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-5.0%	**Total Return Percentile:**	N/A
Dividend Yield:	1.7%	**5 Year Price Target**	$177	**Valuation Percentile:**	

Overview & Current Events

Accenture is an information technology company that offers services such as management consulting, technology and outsourcing solutions. Its customers include communications and media companies, banks and other financial corporations, the healthcare industry and public services, as well as consumer goods, retail, travel, etc.

Accenture was founded in 1989, is headquartered in Dublin, Ireland, and is currently valued at $100 billion.

On March 22 Accenture reported its most recent quarterly results, the company earned $1.58 per share. This was a 19% EPS increase over the prior year's quarter, driven by revenue gains of 15%, to $9.6 billion. Accenture guides for revenue growth of 7%-9% in FY 2018 (which ends at the end of November), earnings per share for the year are expected at $6.65.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.65	$2.68	$2.66	$3.40	$3.84	$4.93	$4.52	$4.76	$5.34	$5.91	***$6.65***	***$9.85***
DPS	$0.42	$0.50	$1.13	$0.90	$1.35	$1.62	$1.86	$2.04	$2.20	$2.42	***$2.66***	***$4.10***

Accenture has recorded compelling growth rates in the past, although its EPS history has seen some ups and downs. Overall EPS grew by 9.3% annually between 2008 and 2017, guidance for 2018 sees an even bigger 12.5% growth rate.

Accenture's growth has been driven by organic revenue growth primarily. Except for a small set-back during the financial crisis, the company was able to grow its top line every year. Accenture's biggest customer groups are what it calls Product (consumer goods, travel industry, retail) and Financial Services. There is a lot of pressure on both of these industries to lower their costs, to optimize their operations, etc. This means that there is a lot of demand for Accenture to help its customers in fields such as digital, cloud and security services (which now make up more than 55% of Accenture's revenues).

As IT remains a growth market and with megatrends such as digital, cloud computing, security concerns, big data in place, the market for consulting and implementation / application in these fields will remain strong for the foreseeable future. Accenture has been able to record especially strong growth in markets outside of North America and Europe, where more potential for further optimization of processes exists. Accenture has also been able to grow its margins over the years, although margins did not improve further over the last year. In 2018 EPS will be positively impacted by tax law changes (although the impact is not overly large due to the fact that Accenture is domiciled in Ireland).

Accenture's strong free cash flows allow the company to continually raise its dividend (10% growth rate over the last five years) and to repurchase shares as well: Over the last ten years Accenture's share count has declined by 20%, which has boosted EPS growth further, a trend that will likely persists as Accenture keeps buying back its stock. The combination of future revenue increases and share repurchases should provide solid earnings growth, even if margins remain flat.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.2	11.9	15.0	15.1	15.2	14.8	17.5	19.0	20.2	20.4	***23.3***	***18.0***
Avg. Yld.	1.1%	1.6%	2.8%	1.8%	2.3%	2.2%	2.4%	2.3%	2.0%	2.0%	***1.7%***	***2.2%***

Accenture's valuation has expanded considerably over the last few years. Shares are now trading well above the median P/E ratio of 16 and also substantially above the average P/E ratio of 17 (since 2008). Accenture's valuation will likely not drop back to a 16 P/E ratio anytime soon, as the market will continue to reward Accenture for its solid growth (and rising shareholder returns), but still the current valuation means substantial downside due to possible multiple compression.

Accenture's dividend yield of 1.7% is relatively on par with that of the broad market, but a little lower than its yield has been historically (not surprising, as its valuation has expanded). Coupled with a 10% dividend growth rate (over the last five years) Accenture looks somewhat attractive as an income growth investment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	58.1%	55.3%	57.0%	53.5%	53.9%	55.6%	54.2%	53.8%	50.1%	48.5%	***48.0%***	***46.0%***
Debt/A	74.2%	72.4%	74.8%	72.6%	71.9%	67.5%	64.8%	63.7%	60.2%	57.3%	***55.0%***	***50.0%***
Payout	15.8%	18.7%	42.5%	26.5%	35.2%	32.9%	41.2%	42.9%	41.2%	40.9%	***40.0%***	***41.6%***
Std. Dev.	27.4%	22.7%	24.5%	27.0%	19.9%	16.6%	15.2%	15.3%	16.2%	12.5%	***15.0%***	***17.0%***

Accenture is a company with excellent fundamentals. Its gross profits to assets ratio is, even though the ratio declined slightly, outstanding. With a relatively small amount of assets (due to a business model that does not require large plants or other expensive assets) Accenture turns a relatively high profit, which is also reflected in its ROE of 40% and its ROA of 16%. The debt to assets ratio has declined a lot over the last decade, and its balance sheet is in fact even stronger than what one would guess from the liabilities to assets ratio of 57%. Since most of that debt is not bearing interest – long term debt is negligible, liabilities are primarily made up by items such as deferred revenues, accounts payable, etc. – Accenture does not have any net interest cost at all. Its $3 billion cash pile earns more interest than the company pays for its debt. Due to not requiring a lot of capital to grow whilst generating strong cash flows Accenture's balance sheet will likely remain very strong going forward, and rising interest rates will be a positive.

Accenture is not very vulnerable versus economic downturns, as demand for its services will remain strong even if profits at its customers are shrinking (one could argue that that is the time when its customers have an especially significant need for Accenture's services). During the last financial crisis Accenture's profitability was not hurt at all (EPS was flat during 2008-2010).

Final Thoughts & Recommendation

Accenture generates strong growth, has an impeccable balance sheet, and is shareholder friendly. Its relatively high valuation will limit total returns going forward, though, as shares are a lot more expensive than they used to be in the past. Investors should wait for a better entry point to buy into this high-quality business.

Total Return Breakdown by Year