Accenture (ACN)

Updated December 27th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$136	**5 Year CAGR Estimate:**	9.1%	**Volatility Percentile:**	11.3%
Fair Value Price:	$128	**5 Year Growth Estimate:**	8.2%	**Momentum Percentile:**	53.4%
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Growth Percentile:**	79.4%
Dividend Yield:	2.1%	**5 Year Price Target**	$190	**Valuation Percentile:**	24.6%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	30.7%

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, and other industries. Accenture was founded in 1989, is headquartered in Dublin, Ireland, and is currently valued at $89 billion.

Accenture reported its first quarter (fiscal 2019) earnings results on December 20. The company generated revenues of $10.6 billion, which was 7.4% more than Accenture's revenues during the previous year's first quarter. Accenture's sales rose by an even better 9.5% in constant currencies. A stronger dollar had a negative impact on the company's reported results. Accenture recorded new bookings of $10.2 billion (with a roughly 60/40 split between consulting bookings and outsourcing bookings). The company was able to earn $1.96 per share during the first quarter, which was 9% more than Accenture's earnings-per-share during Q1 of 2018.

Accenture raised its guidance for 2018, both regarding its revenue forecast and its earnings-per-share expectations. The company now sees revenue growth of 6%-8% (in constant currencies, the strong dollar could negatively impact the reported sales figure), versus previous guidance of 5%-8% growth year over year. Accenture also forecasts that its earnings-per-share will fall in a range of $7.01 to $7.25 during fiscal 2019, versus a previous earnings guidance range of $6.98 to $7.25 on a per-share basis. We have adjusted our estimate for 2019 to reflect the updated guidance.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.68	$2.66	$3.40	$3.84	$4.93	$4.52	$4.76	$5.34	$5.91	$6.74	***$7.13***	***$10.57***
DPS	$0.50	$1.13	$0.90	$1.35	$1.62	$1.86	$2.04	$2.20	$2.42	$2.66	***$2.92***	***$4.55***
Shares	713	695	691	677	666	657	650	643	636	635	***625***	***605***

Accenture has recorded compelling growth rates in the past, although its earnings-per-share history has seen some ups and downs. Overall Accenture was able to grow its earnings-per-share by 9.7% annually between 2009 and 2018, with above-average growth during the last two fiscal years (2017 and 2018).

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 and to optimize their operations. This means that there is a lot of demand for Accenture to help its customers in fields such as digital, cloud and security services. These services (Accenture calls them *The New*) are a major growth factor, as this segment now makes up more than 60% of Accenture's revenues.

As IT remains a growth market that is impacted by megatrends such as digital, cloud computing, security, and big data, the market for consulting in these fields should 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. During Q1 of 2019, for example, Accenture has grown its revenues by 17% outside of the US and Europe. Accenture's strong free cash flows allow the company to continually raise its dividend at a meaningful rate, and to repurchase shares at the same time. During the first quarter of 2019 alone, Accenture spent

$800 million on buybacks. Accenture's share count has declined consistently over the last decade. The combination of future revenue increases and share repurchases should provide solid earnings growth, even if margins remain flat.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.9	15.0	15.1	15.2	14.8	17.5	19.0	20.2	20.4	24.5	***19.1***	***18.0***
Avg. Yld.	1.6%	2.8%	1.8%	2.3%	2.2%	2.4%	2.3%	2.0%	2.0%	1.6%	***2.1%***	***2.2%***

After hitting a peak in fiscal 2018, Accenture's valuation has declined substantially over the last couple of months, as the company's share price declined from more than $170 to the $130s. Accenture is now trading at a price to earnings multiple of less than 20, but still slightly above our fair value estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	18.7%	42.5%	26.5%	35.2%	32.9%	41.2%	42.9%	41.2%	40.9%	39.5%	***41.0%***	***43.0%***

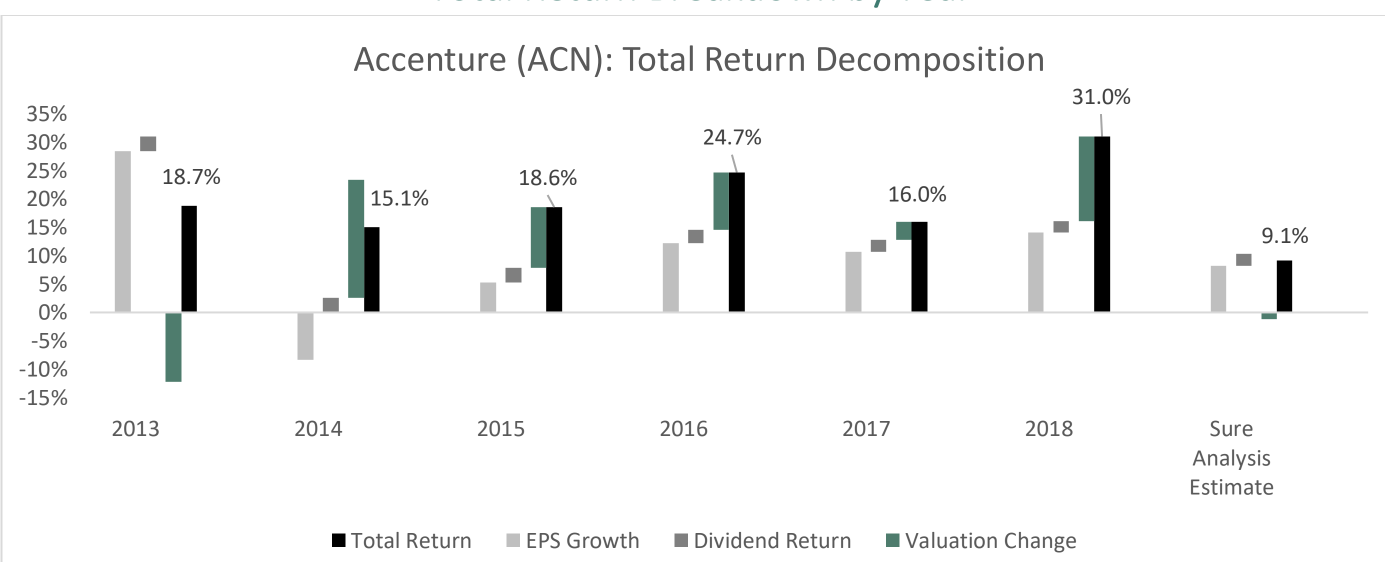
Accenture has excellent fundamentals: The company has a very high ROE of 40%, an ROA of 16%, and a very strong balance sheet. Since most of Accenture's liabilities are not bearing interest (as the majority consists of deferred revenues, accounts payable, etc.), Accenture does not have any net interest cost at all. Its $3 billion cash pile earns more interest than the company pays for its debt. The dividend payout ratio has risen over the last decade, but is still relatively low, at roughly 40%. This makes Accenture's dividend look very safe.

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 even argue that that is the time when its customers have an especially significant need for Accenture's services. During the last financial crisis earnings-per-share were flat (2008-2010).

Final Thoughts & Recommendation

Accenture is active in an attractive industry. It has excellent fundamentals and a very strong balance sheet. The company returns a sizeable amount of cash to its owners via dividends and share repurchases, and growth rates should remain meaningful going forward. We rate Accenture a hold at the current price, and a potential buy if shares head below $130.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Accenture (ACN)

Updated December 27th, 2018 by Jonathan Weber

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	23171	23094	27353	29778	30394	31875	32914	34798	36765	41603
Gross Profit	6841	7251	8387	8988	9384	9684	9809	10277	11030	12443
Gross Margin	29.5%	31.4%	30.7%	30.2%	30.9%	30.4%	29.8%	29.5%	30.0%	29.9%
SG&A Exp.	3948	4326	4915	5114	5318	5402	5373	5467	6398	6602
D&A Exp.	499	475	513	594	593	621	646	729	802	927
Operating Profit	2893	2924	3472	3873	4067	4282	4436	4810	4633	5841
Op. Margin	12.5%	12.7%	12.7%	13.0%	13.4%	13.4%	13.5%	13.8%	12.6%	14.0%
Net Profit	1590	1781	2278	2554	3282	2941	3054	4112	3445	4060
Net Margin	6.9%	7.7%	8.3%	8.6%	10.8%	9.2%	9.3%	11.8%	9.4%	9.8%
Free Cash Flow	2917	2853	3038	3885	2934	3164	3781	4171	4457	5408
Income Tax	740	854	959	1079	785	1122	1137	1254	981	1593

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12256	12835	15732	16665	16867	17930	18203	20609	22690	24449
Cash & Equivalents	4542	4838	5701	6641	5632	4921	4361	4906	4127	5061
Acc. Receivable	3362	2535	3236	3081	3333	3860	3841	4072	4569	4996
Goodwill & Int.	825	841	1132	1215	2145	2794	3395	4120	5713	6070
Total Liabilities	8870	9561	11381	12041	11439	11645	11555	12420	12980	13724
Accounts Payable	717	885	949	904	962	1064	1151	1281	1525	1349
Long-Term Debt	1	2	4	0	26	27	27	27	25	25
Total Equity	2835	2836	3879	4146	4960	5732	6134	7555	8949	10365
D/E Ratio	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	12.9%	14.2%	15.9%	15.8%	19.6%	16.9%	16.9%	21.2%	15.9%	17.2%
Return on Equity	59.2%	62.8%	67.8%	63.6%	72.1%	55.0%	51.5%	60.1%	41.7%	42.0%
ROIC	48.3%	53.4%	59.7%	56.9%	65.1%	50.0%	47.0%	55.2%	38.4%	39.6%
Shares Out.	713	695	691	677	666	657	650	643	636	635
Revenue/Share	29.46	30.13	36.80	40.94	42.61	46.04	48.49	52.11	55.67	63.49
FCF/Share	3.71	3.72	4.09	5.34	4.11	4.57	5.57	6.25	6.75	8.25

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.