Accenture (ACN)

Updated July 3rd, 2020 by Jonathan Weber

Key Metrics

Current Price:	$216	**5 Year CAGR Estimate:**	0.2%	**Market Cap:**	$137B
Fair Value Price:	$138	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	07/15/20
% Fair Value:	157%	**5 Year Valuation Multiple Estimate:**	-8.6%	**Dividend Payment Date:**	08/14/20
Dividend Yield:	1.5%	**5 Year Price Target**	$197	**Years Of Dividend Growth:**	9
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	10.3%

Overview & Current Events

Accenture is an information technology company that offers services such as 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 and is headquartered in Dublin, Ireland.

Accenture reported its third quarter (fiscal 2020) earnings results on June 25. The company generated revenues of $11.0 billion, which was 1% less than Accenture's revenues during the previous year's quarter. Accenture's sales rose by a relatively small amount of 1% in constant currencies, as a stronger dollar had a negative impact on the company's reported results. The company's revenues were still ahead of what the analyst community had expected. Accenture recorded new bookings of $11.0 billion, which was an increase of 6% year-over-year in local currencies. The order intake points to a top line that should be relatively stable in the near term.

The company was able to earn $1.90 per share during the third quarter, which was slightly more than the analyst consensus estimate. The company forecasts revenue growth of 3.5% to 4.5% in fiscal 2020, which consists of only one more quarter. Accenture also forecasts that its earnings-per-share will fall in a range of $7.57 to $7.70 during fiscal 2020, which represents a low-single-digit growth rate versus 2019's earnings-per-share of $7.36.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.66	$3.40	$3.84	$4.93	$4.52	$4.76	$5.34	$5.91	$6.74	$7.36	***$7.64***	***$10.97***
DPS	$1.13	$0.90	$1.35	$1.62	$1.86	$2.04	$2.20	$2.42	$2.66	$2.90	***$3.20***	***$4.70***
Shares[1]	695	691	677	666	657	650	643	636	635	635	***625***	***605***

Accenture has recorded compelling growth rates in the past, although its earnings-per-share history has seen some ups and downs over the years. Overall, Accenture was able to grow its earnings-per-share by 11.9% since 2010.

Accenture's growth has been primarily driven by organic revenue expansion. Except for a small setback 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 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 industry 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. Thanks to strong cash flows and low capital expenditures, Accenture has ample means to finance share repurchases and dividend payments. 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.

[1] In Millions

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.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.0	15.1	15.2	14.8	17.5	19.0	20.2	20.4	24.5	26.8	***28.3***	***18.0***
Avg. Yld.	2.8%	1.8%	2.3%	2.2%	2.4%	2.3%	2.0%	2.0%	1.6%	1.5%	***1.5%***	***2.4%***

Accenture's share price has risen meaningfully over the last couple of months. Shares are now trading at one of the highest valuations they have traded at during the last couple of years. We believe that shares are quite overvalued, which will pressure total returns over the coming years due to the impact of multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42.5%	26.5%	35.2%	32.9%	41.2%	42.9%	41.2%	40.9%	39.5%	39.5%	***41.9%***	***42.9%***

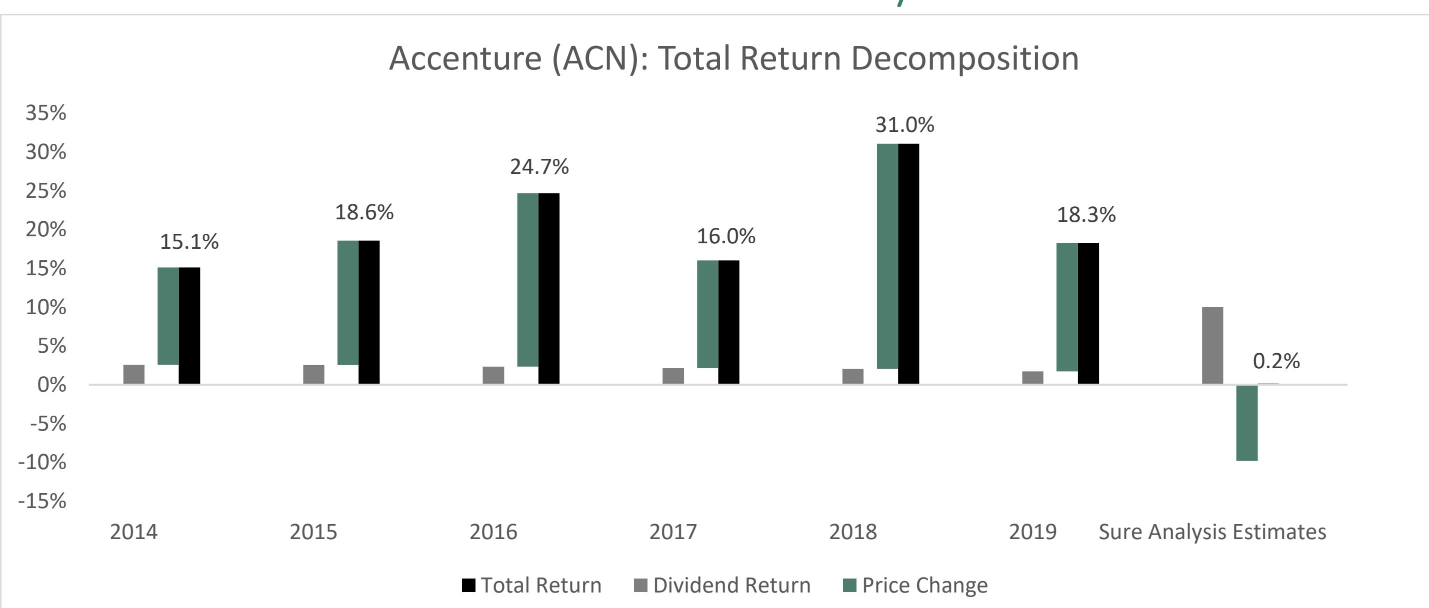
Accenture has raised its dividend at a fast pace over the last couple of years, but thanks to the fact that the company's earnings have grown considerably as well, its dividend payout ratio still is not overly high, as the company pays out roughly 40% of its net profits in the form of dividends. We believe that Accenture's dividend is very safe.

Accenture's competitive advantage mainly consists of its excellent fundamentals: Accenture has high returns on equity and assets, and it owns a very strong balance sheet. Accenture is not particularly vulnerable to economic downturns, as demand for its services will remain strong even if profits at its customers are shrinking. One could even argue that such a time is when its customers have an especially significant need for Accenture's services. During the last financial crisis, between 2008 and 2010, earnings were flat, and the company forecasts earnings growth during the current pandemic.

Final Thoughts & Recommendation

Accenture's strong position in a high-growth industry and its strong track record of growing its profits provide a lot of potential for future earnings-per-share growth, while Accenture will also continue to increase its dividend regularly, we believe. Shares look substantially overvalued, though, which will be a headwind for its total returns from the current level. The quite high earnings multiple is why we rate Accenture a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	23094	27353	29778	30394	31875	32914	34798	36765	41603	43215
Gross Profit	7251	8387	8988	9384	9684	9809	10277	11030	12443	13315
Gross Margin	31.4%	30.7%	30.2%	30.9%	30.4%	29.8%	29.5%	30.0%	29.9%	30.8%
SG&A Exp.	4326	4915	5114	5318	5402	5373	5467	6398	6602	7010
D&A Exp.	475	513	594	593	621	646	729	802	927	893
Operating Profit	2924	3472	3873	4067	4282	4436	4810	4633	5841	6305
Op. Margin	12.7%	12.7%	13.0%	13.4%	13.4%	13.5%	13.8%	12.6%	14.0%	14.6%
Net Profit	1781	2278	2554	3282	2941	3054	4112	3445	4060	4779
Net Margin	7.7%	8.3%	8.6%	10.8%	9.2%	9.3%	11.8%	9.4%	9.8%	11.1%
Free Cash Flow	2853	3038	3885	2934	3164	3781	4171	4457	5408	6028
Income Tax	854	959	1079	785	1122	1137	1254	981	1593	1406

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	12835	15732	16665	16867	17930	18203	20609	22690	24449	29790
Cash & Equivalents	4838	5701	6641	5632	4921	4361	4906	4127	5061	6127
Acc. Receivable	2535	3236	3081	3333	3860	3841	4072	4569	4996	8095
Goodwill & Int.	841	1132	1215	2145	2794	3395	4120	5713	6070	6206
Total Liabilities	9561	11381	12041	11439	11645	11555	12420	12980	13724	14962
Accounts Payable	885	949	904	962	1064	1151	1281	1525	1349	1647
Long-Term Debt	2	4	0	26	27	27	27	25	25	23
Total Equity	2836	3879	4146	4960	5732	6134	7555	8949	10365	14409
D/E Ratio	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	14.2%	15.9%	15.8%	19.6%	16.9%	16.9%	21.2%	15.9%	17.2%	17.6%
Return on Equity	62.8%	67.8%	63.6%	72.1%	55.0%	51.5%	60.1%	41.7%	42.0%	38.6%
ROIC	53.4%	59.7%	56.9%	65.1%	50.0%	47.0%	55.2%	38.4%	39.6%	37.3%
Shares Out.	695	691	677	666	657	650	643	636	635	635
Revenue/Share	30.13	36.80	40.94	42.61	46.04	48.49	52.11	55.67	63.49	66.46
FCF/Share	3.72	4.09	5.34	4.11	4.57	5.57	6.25	6.75	8.25	9.27

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