Accenture (ACN)

Updated October 23rd, 2022 by Jonathan Weber

Key Metrics

Current Price:	$270	**5 Year CAGR Estimate:**	5.4%	**Market Cap:**	$170B
Fair Value Price:	$225	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	10/12/22
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	11/15/22
Dividend Yield:	1.7%	**5 Year Price Target**	$323	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

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 fourth quarter (fiscal 2022) earnings results in late September. The company generated revenues of $15.4 billion, which was 15% more than Accenture's revenues during the previous year's quarter. Accenture's sales were up by 22% in constant currencies, which was slightly worse than during the previous quarter. The company's revenues were in line with the analyst community expectation. Accenture recorded new bookings of $18.4 billion, which suggests that revenue growth will continue as the book-to-bill ratio was easily above 1.0.

The company was able to earn $2.60 per share during the fourth quarter, which marginally beat what the analyst community had estimated. The company forecasts organic revenue growth of around 10% for fiscal 2023, which is significantly less than the revenue growth Accenture generated in fiscal 2022. Accenture forecasts that its earnings-per-share will fall in a range of $11.09 to $11.41 during fiscal 2023, which represents growth of 4% to 7% relative to the earnings-per-share the company has generated in fiscal 2022, $10.71.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.93	$4.52	$4.76	$5.34	$5.91	$6.74	$7.36	$7.46	$9.16	$10.71	***$11.25***	***$16.15***
DPS	$1.62	$1.86	$2.04	$2.20	$2.42	$2.66	$2.90	$3.20	$3.52	$3.88	***$4.48***	***$6.58***
Shares[1]	666	657	650	643	636	635	637	636	633	630	***628***	***615***

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 ~10% a year 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 meaningfully over the last decade. The combination of future revenue growth and share repurchases should make earnings-per-share grow meaningfully.

[1] In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.8	17.5	19.0	20.2	20.4	24.5	26.8	32.2	36.5	26.9	***24.0***	***20.0***
Avg. Yld.	2.2%	2.4%	2.3%	2.0%	2.0%	1.6%	1.5%	1.3%	1.1%	1.3%	***1.7%***	***2.0%***

Accenture's share price has declined since our last update. Shares are nevertheless trading at a pricey valuation, relative to how shares were valued over the last decade. We believe that shares are still overvalued today, which will pressure total returns over the coming years, due to the impact of multiple contraction on Accenture's share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32.9%	41.2%	42.9%	41.2%	40.9%	39.5%	39.5%	42.9%	38.4%	36.2%	***39.8%***	***40.8%***

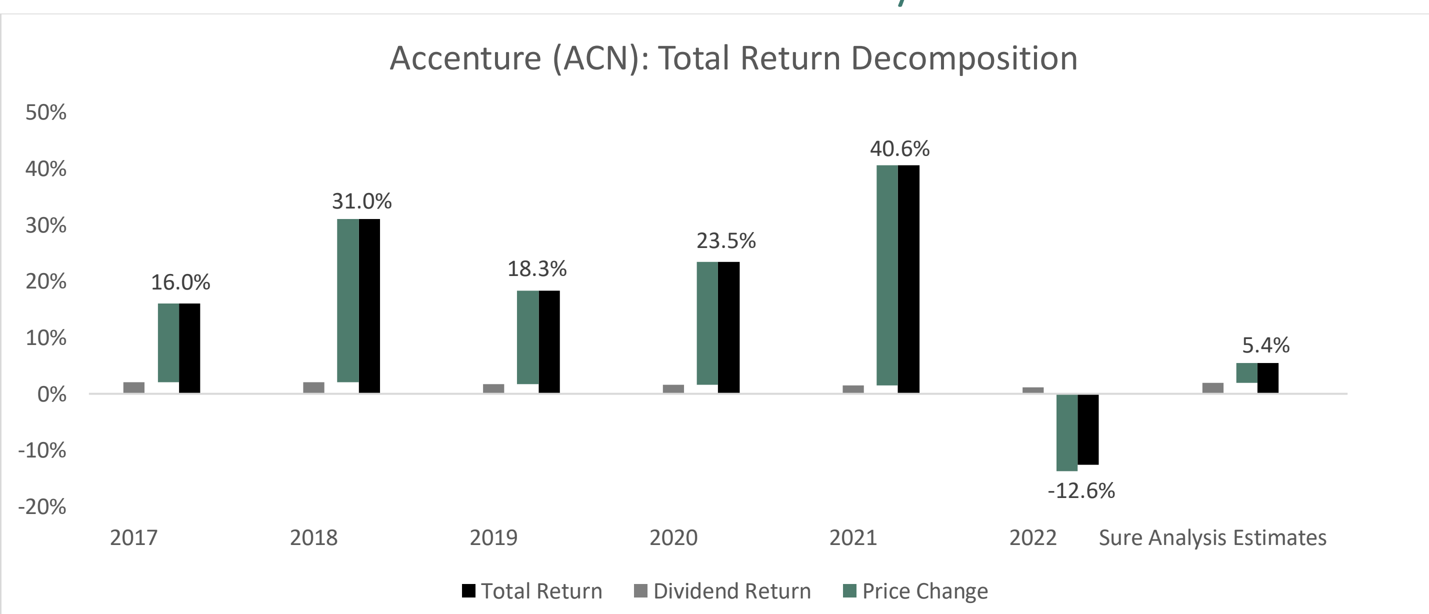
Accenture has raised its dividend at a fast pace over the last couple of years, but thanks to the fact that the company's earnings have grown considerably as well, its dividend payout ratio still is not overly high, as the company pays out roughly 40% of its net profits in the form of dividends. We believe 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 has 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 indicate a lot of potential for future earnings-per-share growth, while we think that Accenture will also continue to increase its dividend regularly. Shares look overvalued, however, which will be a headwind for its total returns from the current price. The high earnings multiple is why we rate Accenture a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	30,394	31,875	32,914	34,798	36,177	40,993	43,215	44,327	50,533	61,594
Gross Profit	9,384	9,684	9,809	10,277	11,071	12,493	13,315	13,976	16,364	19,702
Gross Margin	30.9%	30.4%	29.8%	29.5%	30.6%	30.5%	30.8%	31.5%	32.4%	32.0%
SG&A Exp.	5,318	5,402	5,373	5,467	5,880	6,595	7,010	7,463	8,743	10,334
D&A Exp.	593	621	646	729	802	927	893	1,773	809	872
Operating Profit	4,067	4,282	4,436	4,810	5,191	5,899	6,305	6,514	7,622	9,367
Op. Margin	13.4%	13.4%	13.5%	13.8%	14.4%	14.4%	14.6%	14.7%	15.1%	15.2%
Net Profit	3,282	2,941	3,054	4,112	3,445	4,060	4,779	5,108	5,907	6,877
Net Margin	10.8%	9.2%	9.3%	11.8%	9.5%	9.9%	11.1%	11.5%	11.7%	11.2%
Free Cash Flow	2,934	3,164	3,781	4,171	4,457	5,408	6,028	7,616	8,395	8,823
Income Tax	785	1,122	1,137	1,254	981	1,593	1,406	1,589	1,771	2,207

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16,867	17,930	18,203	20,609	22,690	24,449	29,790	37,079	43,176	47,263
Cash & Equivalents	5,632	4,921	4,361	4,906	4,127	5,061	6,127	8,415	8,168	7,890
Acc. Receivable	3,333	3,860	3,841	4,072	4,569	7,496	8,095	7,847	9,728	11,777
Goodwill & Int.	2,145	2,794	3,395	4,120	5,713	6,070	7,046	8,739	11,126	13,133
Total Liabilities	11,439	11,645	11,555	12,420	12,980	13,724	14,962	19,579	23,079	24,516
Accounts Payable	962	1,064	1,151	1,281	1,525	1,349	1,647	1,350	2,274	2,559
Long-Term Debt	26	27	27	27	25	25	23	62	66	55
Total Equity	4,960	5,732	6,134	7,555	8,949	10,365	14,409	17,001	19,529	22,106
LTD/E Ratio	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	19.6%	16.9%	16.9%	21.2%	15.9%	17.2%	17.6%	15.3%	14.7%	15.2%
Return on Equity	72.1%	55.0%	51.5%	60.1%	41.7%	42.0%	38.6%	32.5%	32.3%	33.0%
ROIC	65.1%	50.0%	47.0%	55.2%	38.4%	39.6%	37.3%	31.5%	31.3%	32.0%
Shares Out.	666	657	650	643	636	635	637	636	633	630
Revenue/Share	42.61	46.04	48.49	52.11	54.78	62.56	66.46	68.43	78.24	95.82
FCF/Share	4.11	4.57	5.57	6.25	6.75	8.25	9.27	11.76	13.00	13.73

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