

Accenture Plc (ACN)

\$215.72 (As of 07/02/20)

Price Target (6-12 Months): **\$229.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Accenture's shares have outperformed its industry in the past year, partly due to earnings and revenue beat in five of the last six quarters and updated fiscal 2020 guidance. The company has been steadily gaining traction in its outsourcing and consulting businesses. Further, it has been strategically enhancing its cloud and digital marketing suite through acquisitions and partnerships. The company's strong operating cash flow has helped it reward its shareholders in the form of dividends and share repurchases, and pursue opportunities in areas that show true potential. However, Accenture continues to face pricing pressure due to significant competition from strong companies like Genpact, Cognizant and Infosys. Global presence exposes it to foreign currency exchange rate fluctuations. Buyout-related integration risks is a concern.

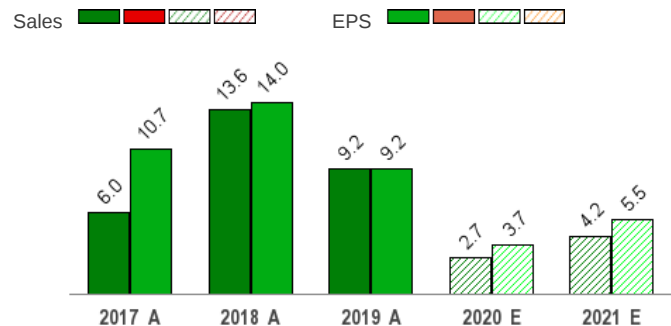
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$218.45 - \$137.15
20 Day Average Volume (sh)	2,605,630
Market Cap	\$137.4 B
YTD Price Change	2.5%
Beta	1.07
Dividend / Div Yld	\$3.20 / 1.5%
Industry	Consulting Services
Zacks Industry Rank	Bottom 9% (230 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	09/24/2020
Earnings ESP	0.0%
P/E TTM	28.2
P/E F1	28.3
PEG F1	2.7
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,364 E	11,433 E	11,745 E	11,665 E	46,235 E
2020	11,359 A	11,142 A	10,991 A	10,888 E	44,381 E
2019	10,606 A	10,454 A	11,100 A	11,056 A	43,215 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.08 E	\$1.86 E	\$2.12 E	\$1.98 E	\$8.05 E
2020	\$2.09 A	\$1.91 A	\$1.90 A	\$1.73 E	\$7.63 E
2019	\$1.96 A	\$1.73 A	\$1.93 A	\$1.74 A	\$7.36 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/02/2020. The reports text is as of 07/03/2020.

Overview

Years of investment in digital, cloud and security strategy has helped Accenture evolve as a trusted and viable consulting services provider. It is currently the world's top consultancy firm by revenues that increased 5% in 2019 with a contribution of 56% from consulting services.

The company has spent decades establishing itself as a trusted advisor, continuously adjusting its business mix to take advantage of changing market conditions. It has extensive relationships with World's leading companies. Currently, Accenture's clients comprise 92 of the Fortune Global 100 and more than three-quarters of the Fortune Global 500. Ability to anticipate large, transformative technology trends and capitalize on them through mergers and acquisitions are keys to the company's success.

Accenture reports under five segments, which are discussed below:

Communications, Media & Technology (20% of FY19 revenues): Offers services to communications, electronics, high technology, media and entertainment industries.

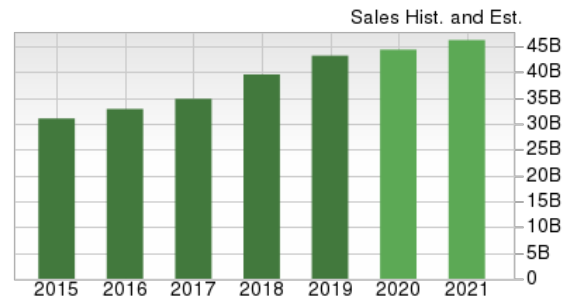
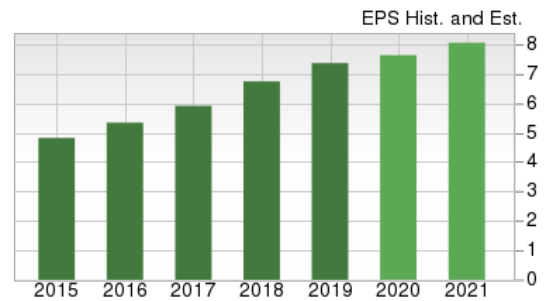
Financial Services (20%): Offers services to banking, capital markets and insurance industries. The segment enables clients to address growth, cost and profitability pressures, industry consolidation and regulatory changes.

Health & Public Service (16%): Offers services to the healthcare providers, government agencies, public service organizations, educational institutions and non-profit organizations.

Products (28%): Offers services to the companies which belong to Air, Freight & Travel Services, Automotive, Consumer Goods & Services, Industrial Equipment, Infrastructure & Transportation Services, Life Sciences and Retail industries.

Resources (16%): Offers services to the companies which belong to chemicals, forest products, energy, metals and mining, utilities and related industries. The segment helps clients manage complex change initiatives and integrate digital technologies.

On the basis of nature of work, the company derives its revenues by providing Outsourcing (44% of FY19 revenues) and Consulting services (56%). Geographically, 46% of total FY19 revenues were generated in North America, 34% in Europe and 20% from Growth Market.



Reasons To Buy:

- ▲ Accenture has been steadily gaining traction in its **outsourcing as well as consulting businesses** backed by high demand for services that can improve operating efficiencies and save costs. On the outsourcing front, the company continues to see strong demand to assist clients with the operation and maintenance of digital-related services and cloud enablement. In fiscal 2019, Accenture's net revenues from outsourcing business increased 5% in U.S. dollars and 8% in local currency. The same increased 12% in U.S. dollars and 9% in local currency in fiscal 2018. On the consulting front, the company experiences strong demand for digital, cloud- and security-related services. In fiscal 2019, Accenture's net revenues from consulting business increased 6% in U.S. dollars and 9% in local currency. The same increased 15% in U.S. dollars and 12% in local currency in fiscal 2018.
- ▲ **Acquisitions** have been one of the key growth strategies for Accenture. They have enabled the company to enter new markets, diversify and broaden its product portfolio, and maintain its leading position. In fiscal 2019, the company invested \$1.2 billion on 33 buyouts. Acquisitions are expected to continue contributing significantly to its revenue stream. The company is set to acquire Symantec's Cyber Security Services business from Broadcom in March 2020. The buyout will strengthen Accenture Security's position as one of the leading providers of comprehensive managed services for global businesses.
- ▲ Accenture's strategy of enhancing its **cloud capabilities** through acquisitions and partnerships is a step in the right direction. This is evident from the recent forecast by several independent research firms. According to Gartner, the worldwide public cloud revenues are likely to grow 17% in 2020 to \$266.4 billion, up from \$227.8 billion in 2019. Per International Data Corporation (IDC), global spending on public cloud services and infrastructure market will witness a compounded annual growth rate (CAGR) of 22.3% during the 2019-2023 period. Therefore, considering the growing need for cloud-based applications and software, we expect Accenture's investments in this space to propel long-term growth. Moreover, Accenture has been aggressively trying to strengthen its position as a leading provider of **Salesforce capabilities** and is currently a global leader in the Salesforce implementation service space. It presently employs more than 11,000 Salesforce professionals and has invested in several acquisitions in recent years as part of its investment in Salesforce capabilities. Given that Salesforce is one of the largest providers of cloud-based applications and software, it is imperative that Accenture enhances its capabilities in delivering the Salesforce's services.
- ▲ Accenture's cash and cash equivalent balance of \$5.44 billion at the end of the second-quarter fiscal 2020 was well above the debt level \$3.41 billion, underscoring that the company **has enough cash to meet its debt burden**. A strong cash position allows the company to pursue strategic acquisitions, invest in growth initiatives and return cash through regular quarterly dividend payment and share repurchases.
- ▲ Accenture's shares have gained 13% over the past year, outperforming the industry's 10.1% growth of the industry. The **outperformance** partly reflects better-than-expected earnings and revenue performance in five of the last six quarters. Further, the company has updated its fiscal 2020 guidance. Management now expects EPS in the range of \$7.57-\$7.70 compared with the prior guided range of \$7.48-\$7.70. Revenues are expected to register 3.5-4.5% growth in terms of local currency compared with the prior guided growth rate of 3-6%. Operating cash flow is now anticipated in the range of \$6.45-\$6.95 billion compared with \$6.15-\$6.65 billion guided earlier. Free cash flow is now expected between \$5.8 billion and \$6.3 billion compared with the prior guidance of \$5.5-\$6.0 billion.

Considering the growing need for cloud-based applications and software, Accenture's investments in this space are likely to propel long-term growth.

Reasons To Sell:

- ▼ Higher talent costs due to a **competitive talent market** coupled and Trump's stringent policies on immigration are hurting consulting services providers like Accenture. The industry is labor intensive and heavily dependent on foreign talent. Moreover, while advancement in automation and AI offer massive opportunity to the industry, these technologies enable clients to comprehend and integrate new methods to improve performance, thereby creating uncertainty for consulting services firms.
- ▼ Accenture's market share and revenues necessarily depend on client relationships and the number of contracts it secures. This, along with the limited scope for product differentiation, makes the renegotiation of large contracts extremely important. As a result, **competition** from strong companies like Genpact Limited, Cognizant Technology Solutions and Infosys is a constant pressure. Competition is particularly tough in the case of resurgent regions like Europe, since all the major players are fighting for business. This naturally also increases pricing pressures.
- ▼ Accenture continues to acquire a large number of companies. While this improves revenue opportunities, business mix and profitability, it also adds to **integration risks**. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, going forward.

Stiff competition and pricing pressure continue as Accenture's headwinds.

Last Earnings Report

Accenture Beats Q3 Earnings & Revenues Estimates

Accenture reported solid third-quarter fiscal 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate.

Earnings of \$1.90 per share surpassed the consensus estimate by 3.3% but came below the year-ago figure by 1.6%. The decline was due to lower revenues and operating results, higher non-operating expenses, which were partially offset by lower share count.

Net revenues of \$10.99 billion outpaced the consensus mark by 0.7% but decreased 1% year over year on a reported basis and 1.3% in terms of local currency. Net revenues came in toward the higher end of the guided range of \$10.75-\$11.15 billion.

Revenues in Detail

On the basis of the type of work, Consulting revenues of \$6 billion decreased 4% year over year on a reported basis and 2% in terms of local currency. Outsourcing revenues of \$5 billion increased 3% year over year on a reported basis and 5% in terms of local currency.

Segment-wise, Communications, Media & Technology revenues of \$2.20 billion decreased 2% year over year on a reported basis and were flat in terms of local currency. Financial Services revenues of \$2.14 billion decreased 3% year over year on a reported basis and were flat in terms of local currency. Health & Public Service revenues of \$2.02 billion increased 11% year over year on a reported basis and 12% in terms of local currency. Products revenues of \$3 billion decreased 3% year over year on a reported basis and 1% in local currency. Resources revenues of \$1.64 billion decreased 6% year over year on a reported basis and 3% in terms of local currency.

Geographically, revenues of \$5.24 billion from North Americas increased 2% year over year on a reported basis as well as in terms of local currency. Revenues from Europe of \$3.57 billion decreased 5% on a reported basis and 2% in terms of local currency. Revenues from Growth Markets of \$2.18 billion was flat year over year on a reported basis and increased 5% in terms of local currency.

Booking Trends

Accenture reported new bookings worth \$11 billion. Consulting bookings and Outsourcing bookings totaled 6.2 billion and \$4.8 billion, respectively.

Operating Results

Gross margin (gross profit as a percentage of net revenues) for the third quarter of fiscal 2020 increased 30 basis points (bps) to 32.1%. Operating income was \$1.71 billion, down 0.6% year over year. Operating margin in the reported quarter expanded 10 bps to 15.6%.

Balance Sheet & Cash Flow

Accenture exited third-quarter fiscal 2020 with total cash and cash equivalents balance of \$6.44 billion compared with \$5.44 billion at the end of the prior quarter. Long-term debt was \$60.3 million compared with \$13.2 million at the end of the prior quarter.

Cash provided by operating activities crossed \$2.74 billion in the reported quarter. Free cash flow came in at \$2.59 billion.

Dividend Payout

Accenture has shifted its dividend payout policy from semi-annual to quarterly basis. On May 15, 2020, the company paid out a quarterly cash dividend of 80 cents per share to shareholders of record at the close of business on Apr 16, 2020. These cash dividend payouts totaled \$509 million.

The company declared a quarterly cash dividend of 80 cents per share for shareholders of record at the close of business on Jul 16, 2020. This dividend will be paid out on Aug 14, 2020.

In fiscal 2019, the company paid out semi-annual cash dividends of \$1.46 per share.

Share Repurchases

In line with the policy of returning cash to its shareholders, Accenture repurchased 3.7 million shares for \$627 million in the fiscal third quarter. The company had approximately 637 million total shares outstanding as of May 31, 2020.

Guidance

Fourth-Quarter Fiscal 2020

For fourth-quarter fiscal 2020, Accenture expects revenues of \$10.6-\$11.0 billion. The assumption is inclusive of a negative foreign-exchange impact of 1%.

Fiscal 2020

Accenture updated its guidance for fiscal 2020. Management now expects EPS in the range of \$7.57-\$7.70 compared with the prior guided range of \$7.48-\$7.70. Revenues are expected to register 3.5-4.5% growth in terms of local currency compared with the prior guided growth rate of 3-6%.

Quarter Ending **05/2020**

Report Date	Jun 25, 2020
Sales Surprise	0.69%
EPS Surprise	3.26%
Quarterly EPS	1.90
Annual EPS (TTM)	7.64

Operating margin for the fiscal year is expected to be around 14.7%, indicating an expansion of 10 bps from fiscal 2019 compared with the previously expected operating margin of expansion of 10-20 bps.

The company continues to expect negative foreign exchange impact of 1.5% on its results in U.S. dollars compared with 1% negative impact expected earlier.

Operating cash flow is now anticipated in the range of \$6.45-\$6.95 billion compared with \$6.15-\$6.65 billion guided earlier. Free cash flow is now expected between \$5.8 billion and \$6.3 billion compared with the prior guidance of \$5.5-\$6.0 billion. Annual effective tax rate is now anticipated in the range of 23.5%-24.5%, compared with the prior guided range of 23.5%-25.5%.

Recent News

On **Jun 26, 2020**, Accenture announced that it has been honored with three 2020 Pega Partner Awards from Pegasystems Inc.

On **Jun 23, 2020**, Accenture subsidiary Accenture Federal Services ("AFS") announced yesterday that it will open an Advanced Technology Center at 520 Maryville Centre Drive in St. Louis County later this year.

On **Jun 15, 2020**, Accenture announced that it has entered into an agreement to acquire independent data consulting and engineering company Sentelis. Financial terms of the deal have been kept under wraps.

On **Jun 2, 2020**, Accenture announced that it has completed the acquisition of Gekko, a French Amazon Web Services (AWS) cloud services company.

On **May 21, 2020**, Accenture announced that it has been honored with the Technology Advisory House of the Year award by *Energy Risk* magazine. This reflects the fifth consecutive year Accenture has won the award.

On **May 19, 2020**, Accenture announced that it has inked a deal to acquire Turin-based boutique systems integrator PLM Systems.

On **May 18, 2020**, Accenture announced acquisition of Ahmedabad, India-based Byte Prophecy for an undisclosed amount. Founded in 2011, Byte Prophecy is an automated insights and big data analytics firm that serves some of the largest company's in India.

On **Apr 7, 2020**, Accenture announced that it has completed the acquisition of Revolutionary Security, a privately-held company specialized in enterprise cybersecurity for information technology (IT) and operational technology (OT) environments. The buyout boosted advanced cyber defense management as well as enhanced its portfolio and helped it serve clients with greater end-to-end solutions.

On **Apr 2, 2020**, Accenture announced that it has acquired Seattle, WA-based business-to-business (B2B) marketing services agency - Yesler, enabling the company to enhance its account-based marketing, sales enablement, customer advocacy and marketing automation offerings.

On **Mar 10, 2020**, Accenture announced that it has inked a deal to acquire ESR Labs — a Munich-based company that develops embedded software for leading German car brands and suppliers — for an undisclosed amount. The deal closure — subject to customary conditions — will see the addition of ESR Labs to Accenture Industry X.0.

On **Mar 6, 2020**, Accenture announced that it has completed the acquisition of Context Information Security — a U.K.-based cyber defense consultancy firm — from Babcock International Group. Financial terms of the deal have been kept under wraps.

Valuation

Accenture shares are up 2.4% in the year-to-date period and 13% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 1.3% while those in the Zacks Business Services sector are down 1.7% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 10.1% and 0.3%, respectively.

The S&P 500 index is down 3.2% in the year-to-date period and up 4.6% in the past year.

The stock is currently trading at 27.04X price to forward 12 months' earnings, which compares to 24.95X for the Zacks sub-industry, 29.37X for the Zacks sector and 22.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.26X and as low as 17.18X, with a 5-year median of 21.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$229.00 price target reflects 28.70X price to forward 12 months' earnings.

The table below shows summary valuation data for ACN

Valuation Multiples - ACN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	27.04	24.95	29.37	22.16
	5-Year High	27.26	24.95	29.37	22.16
	5-Year Low	17.18	18.67	18.68	15.25
	5-Year Median	21.04	21.06	20.83	17.52
P/S F 12M	Current	2.97	1.81	4.09	3.47
	5-Year High	2.99	1.81	4.09	3.47
	5-Year Low	1.83	1.28	3.06	2.53
	5-Year Median	2.34	1.51	3.58	3.02
P/B TTM	Current	8.61	5.37	4.6	4.27
	5-Year High	11.05	7.8	6.71	4.56
	5-Year Low	5.74	3.8	3.24	2.83
	5-Year Median	9.24	6.34	5.21	3.69

As of 07/02/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Automatic Data Processing, Inc. (ADP)	Neutral	4
Aon plc (AON)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	4
International Business Machines Corporation (IBM)	Neutral	3
MarshMcLennan Companies, Inc. (MMC)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Oracle Corporation (ORCL)	Neutral	3
DXC Technology Company. (DXC)	Underperform	5

Industry Comparison Industry: Consulting Services				Industry Peers		
	ACN	X Industry	S&P 500	CTSH	IBM	ORCL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	A	-	-	A	B	C
Market Cap	137.37 B	533.03 M	21.98 B	30.32 B	106.28 B	171.66 B
# of Analysts	11	3	14	10	6	12
Dividend Yield	1.48%	0.00%	1.91%	1.57%	5.45%	1.72%
Value Score	B	-	-	B	A	B
Cash/Price	0.04	0.07	0.07	0.14	0.12	0.26
EV/EBITDA	18.79	12.98	12.74	9.43	8.36	11.62
PEG Ratio	2.74	1.87	2.89	1.50	3.11	1.26
Price/Book (P/B)	8.33	2.57	2.98	2.86	5.28	13.50
Price/Cash Flow (P/CF)	24.20	13.14	11.75	11.14	6.06	11.96
P/E (F1)	28.27	22.40	21.41	16.45	10.60	13.85
Price/Sales (P/S)	3.08	1.24	2.30	1.79	1.39	4.39
Earnings Yield	3.54%	4.47%	4.42%	6.08%	9.43%	7.22%
Debt/Equity	0.17	0.68	0.76	0.30	2.62	5.44
Cash Flow (\$/share)	8.91	1.61	6.94	5.04	19.75	4.68
Growth Score	A	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	11.11%	11.46%	10.93%	10.74%	-3.16%	9.05%
Proj. EPS Growth (F1/F0)	3.67%	-10.43%	-9.56%	-14.59%	-11.89%	4.87%
Curr. Cash Flow Growth	8.06%	7.21%	5.51%	-2.96%	2.09%	-2.42%
Hist. Cash Flow Growth (3-5 yrs)	9.75%	9.73%	8.62%	10.46%	-3.76%	-0.39%
Current Ratio	1.37	2.08	1.30	2.90	0.96	3.03
Debt/Capital	14.36%	40.57%	44.46%	22.97%	72.36%	84.48%
Net Margin	11.11%	4.67%	10.62%	10.46%	11.78%	25.94%
Return on Equity	31.51%	12.91%	15.75%	20.90%	57.55%	72.76%
Sales/Assets	1.35	0.88	0.55	1.04	0.50	0.37
Proj. Sales Growth (F1/F0)	2.52%	-0.87%	-2.54%	-4.44%	-5.40%	0.22%
Momentum Score	C	-	-	B	C	F
Daily Price Chg	0.53%	0.53%	0.47%	-0.60%	0.98%	0.81%
1 Week Price Chg	5.42%	-1.05%	-3.90%	1.94%	-4.31%	-0.40%
4 Week Price Chg	6.21%	0.00%	-3.77%	0.86%	-7.13%	5.85%
12 Week Price Chg	21.25%	6.61%	8.02%	3.32%	-1.48%	5.19%
52 Week Price Chg	12.96%	-20.02%	-7.59%	-12.62%	-15.43%	-4.96%
20 Day Average Volume	2,605,630	166,812	2,649,865	3,240,859	5,787,952	16,750,226
(F1) EPS Est 1 week change	0.06%	0.00%	0.00%	0.00%	0.00%	-0.25%
(F1) EPS Est 4 week change	0.74%	0.00%	0.00%	0.00%	0.00%	-1.71%
(F1) EPS Est 12 week change	0.61%	-20.16%	-9.53%	-14.68%	-13.08%	-3.15%
(Q1) EPS Est Mthly Chg	-1.49%	0.00%	0.00%	0.00%	0.00%	-1.38%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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