

Accenture Plc (ACN)

\$190.09 (As of 05/19/20)

Price Target (6-12 Months): **\$201.00**

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

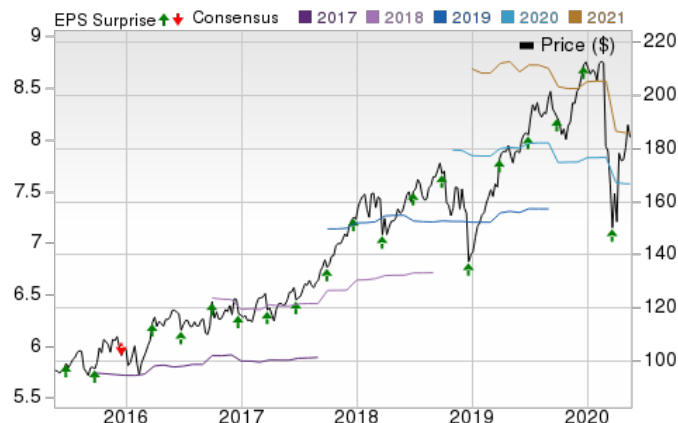
Growth: A

Momentum: B

Summary

Accenture has been steadily gaining traction in its outsourcing and consulting businesses. The company 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. Accenture is currently a global leader in the Salesforce implementation service space. On the flip side, Accenture continues to face pricing pressure due to significant competition from strong companies like Genpact, Cognizant and Infosys. Global presence exposes Accenture to foreign currency exchange rate fluctuations. Buyout-related integration risks is a concern. Partly due to these negatives, shares of Accenture have declined over the past year.

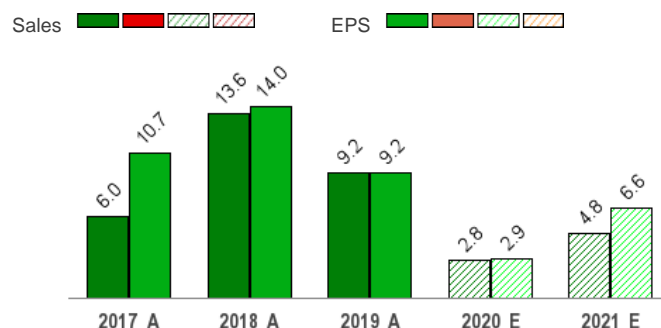
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$216.39 - \$137.15
20 Day Average Volume (sh)	2,252,516
Market Cap	\$120.8 B
YTD Price Change	-9.7%
Beta	1.05
Dividend / Div Yld	\$3.20 / 1.7%
Industry	Consulting Services
Zacks Industry Rank	Bottom 41% (149 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.4%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	06/25/2020
Earnings ESP	0.0%
P/E TTM	24.8
P/E F1	25.1
PEG F1	2.4
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,729 E	11,567 E	11,980 E	12,052 E	46,563 E
2020	11,359 A	11,142 A	10,944 E	11,022 E	44,439 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	\$2.16 E	\$1.85 E	\$2.13 E	\$1.97 E	\$8.07 E
2020	\$2.09 A	\$1.91 A	\$1.84 E	\$1.76 E	\$7.57 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 05/19/2020. The reports text is as of 05/20/2020.

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.

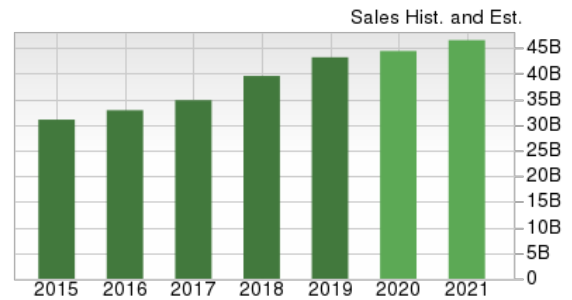
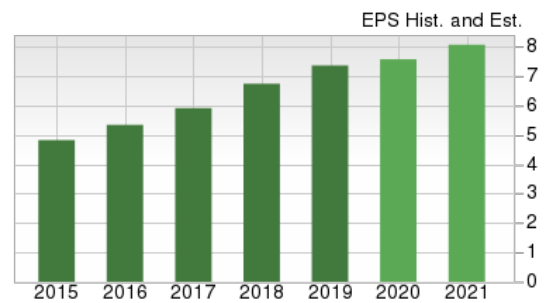
Financial Services (20%): Offers services to banking, capital markets and insurance industries. The segment enables clients to address growth, cost and profitability pressures, industry consolidation and regulatory changes.

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:

- ▲ The latest forecast for **worldwide IT spending** by Gartner gave some optimism about Accenture's near-term performance. The research firm expects worldwide IT spending to grow 3.7% in 2020. As enterprises continue their digital transformation efforts, the use of cloud services are expected to significantly increase going forward. This encourages us about the company's near-term prospects.
- ▲ 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 has a **strong balance sheet**. As of Feb 29, 2020, the company had cash and cash equivalents of approximately \$5.44 billion. 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.

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. This may weigh on the company's share price, which has declined 8.5% year to date.
- ▼ 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 Q2 Earnings & Revenues Estimates

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

Earnings of \$1.91 per share surpassed the consensus estimate as well as the year-ago figure by 10.4%. The bottom line benefited from higher revenues and operating results, and higher non-operating income.

Net revenues of \$11.14 billion outpaced the consensus mark by 0.4% and increased 6.7% year over year on a reported basis and 8% in terms of local currency. Net revenues came in line with the higher end of the guided range of \$10.85-\$11.15 billion.

Revenues in Detail

On the basis of type of work, Consulting revenues of \$6.17 billion increased 7% year over year on a reported basis and 8% in terms of local currency. Outsourcing revenues of \$4.97 billion increased 6% year over year on a reported basis and 8% in terms of local currency.

Segment-wise, Communications, Media & Technology revenues of \$2.24 billion increased 4% year over year on a reported basis and 5% in terms of local currency. Financial Services revenues of \$2.09 billion increased 2% year over year on a reported basis and 3% in terms of local currency. Health & Public Service revenues of \$1.95 billion increased 14% year over year on a reported basis and 15% in terms of local currency. Products revenues of \$3.16 billion increased 9% year over year on a reported basis and 10% in local currency. Resources revenues of \$1.70 billion increased 4% year over year on a reported basis and 5% in terms of local currency.

Geographically, revenues of \$5.26 billion from North Americas increased 11% year over year on a reported basis as well as in terms of local currency. Revenues from Europe of \$3.63 billion was flat year over year on a reported basis and increased 2% in terms of local currency. Revenues from Growth Markets of \$2.26 billion increased 9% year over year on a reported basis and 11% in terms of local currency.

Booking Trends

Accenture reported new bookings worth \$14.2 billion. Consulting bookings and Outsourcing bookings totaled \$7.2 billion and \$7 billion, respectively.

Operating Results

Gross margin (gross profit as a percentage of net revenues) for the second quarter of fiscal 2020 increased 120 basis points (bps) to 30.2%. Operating income was \$1.49 billion, up 7% year over year. Operating margin in the reported quarter expanded 10 bps to 13.4%.

Balance Sheet & Cash Flow

Accenture exited second-quarter fiscal 2020 with total cash and cash equivalents balance of \$5.44 billion compared with \$5.81 billion at the end of the prior quarter. Long-term debt was \$13.8 million compared with \$15.9 million at the end of the prior quarter.

Cash provided by operating activities crossed \$1.53 billion in the reported quarter. Free cash flow came in at \$1.37 billion.

Dividend Payout

Accenture has shifted its dividend payout policy from semi-annual to quarterly basis. On Feb 14, 2020, the company paid out a quarterly cash dividend of 80 cents per share for shareholders of record at the close of business on Jan 16, 2020. These cash dividend payouts totaled \$511 million.

The company has declared a quarterly cash dividend of 80 cents per share for shareholders of record at the close of business on Apr 16, 2020. This dividend will be paid out on May 15, 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 4.7 million shares for \$970 million in the fiscal second quarter. The company had approximately 637 million total shares outstanding as of Feb 29, 2020.

Guidance

Third-Quarter Fiscal 2020

For third-quarter fiscal 2020, Accenture expects revenues of \$10.75-\$11.15 billion. The assumption is inclusive of a negative foreign-exchange impact of 1.5%.

Fiscal 2020

Accenture lowered its guidance for fiscal 2020. Management now expects EPS in the range of \$7.48-\$7.70 compared with the prior guided range of \$7.66-\$7.84. Revenues are expected to register 3-6% growth in terms of local currency compared with the prior guided growth rate of 6-8%.

Operating margin for the fiscal year is expected between 14.7% and 14.8%, indicating an expansion of 10-20 bps from fiscal 2019 compared with

Quarter Ending 02/2020

Report Date	Mar 19, 2020
Sales Surprise	0.38%
EPS Surprise	10.40%
Quarterly EPS	1.91
Annual EPS (TTM)	7.67

the prior expansion of 10-30 bps.

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

Operating cash flow is now anticipated in the range of \$6.15-\$6.65 billion compared with \$6.35-\$6.75 billion guided earlier. Free cash flow is now expected between \$5.5 billion and \$6 billion compared with prior guidance of \$5.7-\$6.1 billion. Annual effective tax rate of 23.5-25.5% is expected.

Recent News

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 down 8.5% in the year-to-date period and up 6.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 9.2% and 8.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 5.5% and down 3%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period and up 3.8% in the past year.

The stock is currently trading at 23.98X price to forward 12 months' earnings, which compares to 22.68X for the Zacks sub-industry, 28.14X for the Zacks sector and 21.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.19X and as low as 17.18X, with a 5-year median of 20.84X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$201.00 price target reflects 25.35X 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	23.98	22.68	28.14	21.51
	5-Year High	27.19	24.11	28.14	21.51
	5-Year Low	17.18	18.67	18.68	15.23
	5-Year Median	20.84	20.97	20.69	17.49
P/S F 12M	Current	2.63	1.64	3.84	3.34
	5-Year High	2.93	1.73	3.94	3.44
	5-Year Low	1.83	1.28	3.05	2.53
	5-Year Median	2.3	1.5	3.57	3.01
P/B TTM	Current	7.59	4.84	3.96	4.03
	5-Year High	11.05	7.8	6.69	4.56
	5-Year Low	5.74	3.8	3.19	2.83
	5-Year Median	9.28	6.38	5.18	3.65

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (149 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Automatic Data Processing, Inc. (ADP)	Neutral	3
Aon plc (AON)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	3
DXC Technology Company. (DXC)	Neutral	4
International Business Machines Corporation (IBM)	Neutral	4
MarshMcLennan Companies, Inc. (MMC)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	2
Oracle Corporation (ORCL)	Neutral	3

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	-	-	3	4	3
VGM Score	A	-	-	A	B	B
Market Cap	120.83 B	479.04 M	19.91 B	27.83 B	106.80 B	165.06 B
# of Analysts	10	3	14	10	6	12
Dividend Yield	1.68%	0.00%	2.14%	1.71%	5.42%	1.83%
Value Score	B	-	-	B	B	B
Cash/Price	0.05	0.08	0.07	0.16	0.12	0.15
EV/EBITDA	16.47	12.45	12.09	8.63	8.39	10.92
PEG Ratio	2.43	1.63	2.68	1.32	3.13	1.23
Price/Book (P/B)	7.59	2.49	2.75	2.62	5.31	11.09
Price/Cash Flow (P/CF)	21.33	11.31	10.68	10.22	6.09	11.87
P/E (F1)	25.11	20.95	19.96	14.97	10.66	13.55
Price/Sales (P/S)	2.71	1.08	2.01	1.65	1.40	4.15
Earnings Yield	3.98%	4.76%	4.83%	6.68%	9.39%	7.37%
Debt/Equity	0.17	0.68	0.76	0.30	2.62	3.31
Cash Flow (\$/share)	8.91	1.61	7.01	5.04	19.75	4.41
Growth Score	A	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	11.33%	11.57%	10.87%	10.74%	-3.16%	7.82%
Proj. EPS Growth (F1/F0)	2.88%	-9.10%	-10.48%	-13.78%	-11.89%	9.73%
Curr. Cash Flow Growth	8.06%	7.21%	5.51%	-2.96%	2.09%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	9.75%	9.73%	8.55%	10.46%	-3.76%	-1.03%
Current Ratio	1.38	2.08	1.28	2.90	0.96	2.12
Debt/Capital	14.34%	40.57%	44.46%	22.97%	72.36%	76.82%
Net Margin	11.13%	4.67%	10.59%	10.46%	11.78%	27.06%
Return on Equity	32.87%	12.91%	16.27%	20.90%	57.55%	64.68%
Sales/Assets	1.43	0.88	0.55	1.04	0.50	0.39
Proj. Sales Growth (F1/F0)	2.83%	-0.04%	-2.49%	-4.80%	-5.40%	-0.01%
Momentum Score	B	-	-	C	B	A
Daily Price Chg	-1.38%	-1.00%	-1.38%	-3.12%	-1.04%	-1.52%
1 Week Price Chg	-2.48%	-6.32%	-4.56%	-12.21%	-4.89%	-1.21%
4 Week Price Chg	14.35%	2.09%	6.08%	0.96%	3.02%	2.01%
12 Week Price Chg	-3.56%	-19.47%	-13.96%	-20.16%	-15.12%	2.71%
52 Week Price Chg	5.86%	-19.82%	-7.85%	-15.61%	-11.84%	-3.38%
20 Day Average Volume	2,252,516	194,217	2,586,392	4,102,089	4,918,740	10,659,946
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-4.52%	-4.62%	-7.95%	-3.81%	-0.42%
(F1) EPS Est 12 week change	-3.23%	-20.85%	-16.58%	-15.53%	-15.53%	-0.01%
(Q1) EPS Est Mthly Chg	0.00%	-18.18%	-10.10%	-16.63%	-14.66%	-1.36%

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	B
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.