

Accenture Plc (ACN)

\$195.67 (As of 02/26/20)

Price Target (6-12 Months): **\$208.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/31/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

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. Due to these positives, shares of Accenture have outperformed its industry in the past year. However, 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.

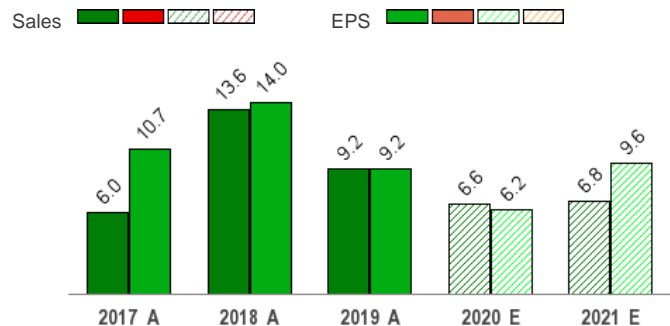
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$216.39 - \$160.13
20 Day Average Volume (sh)	1,835,829
Market Cap	\$124.4 B
YTD Price Change	-7.1%
Beta	1.03
Dividend / Div Yld	\$3.20 / 1.6%
Industry	Consulting Services
Zacks Industry Rank	Top 7% (19 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.5%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/19/2020
Earnings ESP	0.0%
P/E TTM	26.1
P/E F1	25.0
PEG F1	2.4
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	12,130 E	11,872 E	12,591 E	12,599 E	49,217 E
2020	11,359 A	11,106 E	11,822 E	11,807 E	46,081 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	\$2.24 E	\$1.91 E	\$2.29 E	\$2.11 E	\$8.57 E
2020	\$2.09 A	\$1.73 E	\$2.09 E	\$1.92 E	\$7.82 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 02/26/2020. The reports text is as of 02/27/2020.

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.

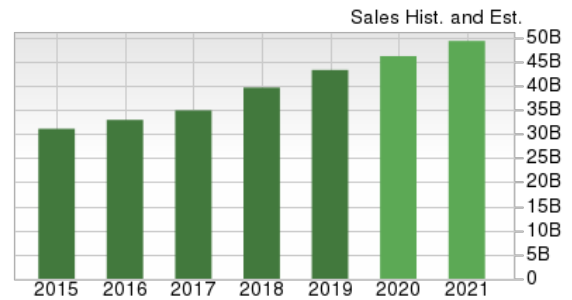
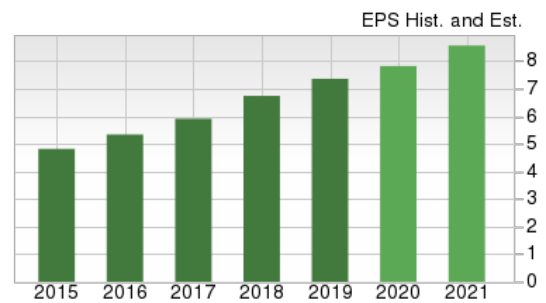
Financial Services (20%): Offers services to banking, capital markets and insurance industries. The segment enables clients to address growth, cost and profitability pressures, industry consolidation and regulatory changes.

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. This might have positively impacted the company's share price, which has improved 23.2% over the past year, outperforming the 18.5% growth of the industry it belongs to. 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 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 Nov 30, 2019, the company had cash and cash equivalents of approximately \$5.81 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.
- ▼ 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 Q1 Earnings Beat Estimates

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

Earnings of \$2.09 per share surpassed the consensus estimate by 4.5% and came ahead of the year-ago figure by 6.6%. The bottom line benefited from higher revenues and operating results, and higher non-operating income and lower share count, partially offset by higher effective tax rate. Net revenues of \$11.36 billion outpaced the consensus mark by 1.9% and increased 7% year over year on a reported basis and 9% in terms of local currency. Net revenues came in line with the higher end of the guided range of \$10.9-\$11.2 billion.

Quarter Ending **11/2019**

Report Date	Dec 19, 2019
Sales Surprise	1.94%
EPS Surprise	4.50%
Quarterly EPS	2.09
Annual EPS (TTM)	7.49

Revenues in Detail

On the basis of type of work, Consulting revenues of \$6.38 billion increased 7% year over year on a reported basis and 9% in terms of local currency. Outsourcing revenues of \$4.98 billion increased 7% year over year on a reported basis and 9% in terms of local currency.

Segment-wise, Communications, Media & Technology revenues of \$2.25 billion increased 5% year over year on a reported basis and 7% in terms of local currency. Financial Services revenues of \$2.19 billion increased 3% year over year on a reported basis and 6% in terms of local currency. Health & Public Service revenues of \$1.97 billion increased 12% year over year on a reported basis and 13% in terms of local currency. Products revenues of \$3.22 billion increased 10% year over year on a reported basis and 12% in local currency. Resources revenues of \$1.73 billion increased 5% year over year on a reported basis and 7% in terms of local currency. Geographically, revenues from North Americas of \$5.29 billion increased 9% year over year on a reported basis as well as in terms of local currency. Revenues from Europe of \$3.79 billion improved 2% year over year on a reported basis and increased 7% in terms of local currency. Revenues from Growth Markets of \$2.28 billion increased 12% year over year on a reported basis and 13% in terms of local currency.

Booking Trends

Accenture reported new bookings worth \$10.3 billion. Consulting bookings and Outsourcing bookings totaled \$6.0 billion and \$4.3 billion, respectively.

Operating Results

Gross margin (gross profit as a percentage of net revenues) for the first quarter of fiscal 2020 increased 100 basis points (bps) to 32.1%. Operating income was \$1.77 billion, up 8% year over year. Operating margin in the reported quarter expanded 20 bps to 15.6%.

Balance Sheet & Cash Flow

Accenture exited first-quarter fiscal 2020 with total cash and cash equivalents balance of \$5.81 billion compared with \$6.13 billion at the end of the prior quarter. Long-term debt was \$15.9 million compared with \$16.3 million at the end of the prior quarter. Cash provided by operating activities crossed \$786.91 million in the reported quarter. Free cash flow came in at \$692 million.

Dividend Payout

As mentioned earlier, Accenture has shifted its dividend payout policy from semi-annual to quarterly basis. On Nov 15, 2019, the company paid out a quarterly cash dividend of 80 cents per share for shareholders of record at the close of business on Oct 17, 2019. These cash dividend payouts totaled \$508 million. The company has declared a quarterly cash dividend of 80 cents per share for shareholders of record at the close of business on Jan 16, 2020. This dividend will be paid out on Feb 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 3.8 million shares for \$729 million in the fiscal first quarter. The company had approximately 635 million total shares outstanding as of Nov 30, 2019.

Guidance

For second-quarter fiscal 2020, Accenture expects revenues of \$10.85-\$11.15 billion, which indicates 5-8% growth in local currency. The assumption is inclusive of a negative foreign-exchange impact of 1%. Notably, the Zacks Consensus Estimate of \$11.21 billion exceeds the current guided range marginally. Accenture provided its guidance for fiscal 2020. Management raised the EPS range to \$7.66-\$7.84 compared with the prior guided range of \$7.62-\$7.84. The current Zacks Consensus Estimate of \$7.78 lies within the updated guidance. Revenues are expected to register 6-8% growth in terms of local currency compared with the prior guided growth rate of 5-8%. Operating margin for the fiscal year is expected between 14.7% and 14.9%, indicating an expansion of 10-30 bps from fiscal 2019. The company expects negative foreign exchange impact of 1% on its results in U.S. dollars. Operating cash flow is anticipated in the range of \$6.35-\$6.75 billion. Free cash flow is expected to be \$5.7-\$6.1 billion. Annual effective tax rate of 23.5-25.5% is expected.

Recent News

On **Feb 3, 2020**, Accenture announced that it has inked a deal to acquire Mudano, to further boost its analytics, data and artificial intelligence (AI) transformation capabilities.

On **Jan 7, 2020**, Accenture announced that it has inked a deal to acquire Symantec's Cyber Security Services business from Broadcom. Subject to customary closing conditions, the deal is expected to close in March 2020.

On **Dec 2, 2019**, Accenture announced that it has completed the acquisition of Apis Group, a privately held Australian government specialist consultancy. The financial terms of the deal have been kept under wraps.

Valuation

Accenture shares are up 23.2% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 18.5%, 14.3% and 13.8%, respectively in the same time frame.

The stock is currently trading at 23.9X price to forward 12 months' earnings, which compares to 22.22X for the Zacks sub-industry, 24.39X for the Zacks sector and 17.88X 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 20.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$208.00 price target reflects 25.4X 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	23.9	22.22	24.39	17.88
	5-Year High	27.19	24.12	25.26	19.34
	5-Year Low	17.18	18.67	18.78	15.18
	5-Year Median	20.55	20.97	20.59	17.47
P/S F12M	Current	2.61	1.66	3.91	3.29
	5-Year High	2.93	1.73	5.14	3.43
	5-Year Low	1.79	1.28	3.09	2.54
	5-Year Median	2.25	1.5	3.63	3
P/B TTM	Current	7.97	5.56	4.8	4.52
	5-Year High	11.05	7.8	6.71	4.9
	5-Year Low	6.8	4.78	4.13	2.85
	5-Year Median	9.33	6.42	5.25	3.62

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Top 7% (19 out of 254)



Top Peers

Microsoft Corporation (MSFT)	Outperform
Automatic Data Processing, Inc. (ADP)	Neutral
Aon plc (AON)	Neutral
Cognizant Technology Solutions Corporation (CTSH)	Neutral
DXC Technology Company. (DXC)	Neutral
International Business Machines Corporation (IBM)	Neutral
Marsh & McLennan Companies, Inc. (MMC)	Neutral
Oracle Corporation (ORCL)	Neutral

Industry Comparison Industry: Consulting Services				Industry Peers		
	ACN Neutral	X Industry	S&P 500	CTSH Neutral	IBM Neutral	ORCL Neutral
VGM Score	C	-	-	B	B	C
Market Cap	124.38 B	650.64 M	22.56 B	34.72 B	124.16 B	166.96 B
# of Analysts	11	2	13	12	8	13
Dividend Yield	1.64%	0.00%	1.88%	1.39%	4.64%	1.84%
Value Score	D	-	-	B	A	B
Cash/Price	0.04	0.05	0.04	0.09	0.08	0.16
EV/EBITDA	16.91	16.14	13.36	10.58	10.56	11.01
PEG Ratio	2.42	1.51	1.94	1.41	1.91	1.37
Price/Book (P/B)	7.97	2.75	3.09	3.15	6.84	10.32
Price/Cash Flow (P/CF)	21.95	15.80	12.57	12.56	7.41	11.80
P/E (F1)	25.02	19.48	17.93	15.54	10.46	13.39
Price/Sales (P/S)	2.83	1.59	2.51	2.07	1.61	4.22
Earnings Yield	4.00%	5.14%	5.55%	6.43%	9.56%	7.47%
Debt/Equity	0.17	0.30	0.70	0.13	3.40	3.13
Cash Flow (\$/share)	8.91	1.43	7.02	5.04	18.86	4.41
Growth Score	C	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	11.25%	13.78%	10.85%	11.62%	-3.50%	6.17%
Proj. EPS Growth (F1/F0)	6.31%	9.02%	6.86%	2.07%	4.30%	10.47%
Curr. Cash Flow Growth	8.06%	8.06%	6.53%	-2.96%	-1.93%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	9.75%	6.95%	8.38%	10.46%	-5.41%	-1.03%
Current Ratio	1.39	1.77	1.22	2.55	1.09	2.37
Debt/Capital	14.60%	23.28%	42.37%	11.59%	77.29%	75.79%
Net Margin	11.06%	5.34%	11.57%	10.98%	12.23%	27.62%
Return on Equity	33.35%	11.93%	16.80%	20.60%	65.38%	56.86%
Sales/Assets	1.48	0.93	0.54	1.05	0.53	0.37
Proj. Sales Growth (F1/F0)	6.63%	5.44%	4.03%	3.16%	1.89%	1.07%
Momentum Score	B	-	-	C	C	B
Daily Price Chg	-0.73%	-0.03%	-3.36%	-1.86%	-1.38%	2.14%
1 Week Price Chg	-0.23%	0.00%	-0.94%	2.44%	-0.57%	-1.42%
4 Week Price Chg	-5.91%	-2.40%	-5.65%	0.57%	1.50%	-2.16%
12 Week Price Chg	-1.96%	2.70%	-1.04%	1.41%	5.88%	-4.34%
52 Week Price Chg	21.81%	7.74%	8.00%	-11.26%	0.42%	-0.63%
20 Day Average Volume	1,835,829	129,981	2,073,853	3,872,955	6,038,206	8,451,141
(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%	0.00%	-0.06%	-1.35%	0.21%	0.00%
(F1) EPS Est 12 week change	0.55%	0.59%	-0.19%	-1.43%	1.34%	0.49%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.61%	0.52%	0.00%	0.00%

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	D
Growth Score	C
Momentum Score	A
VGM Score	C

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.

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