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## ANALYST QUICK NOTES

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**Accenture plc (NYSE: ACN: BUY)**

**Target Price: \$138**

**Jim Kelleher, CFA**

**6/21/2017**

### **Thesis: Taking market share from traditional IT outsourcing players**

- Strength in legacy IT services, as well as applications deployment, digital transformation, and strategy & consulting.
- Positioned for digital transformation, and better aligned with jobs-first emphasis of current Trump administration.

### **3Q17 outlook**

- Accenture due to report 3Q17 results on 6/22/17 at 8am.
- Argus: Revenue of \$8.80 billion, non-GAAP EPS of \$1.48.
- Street: Revenue of \$8.82 billion, non-GAAP EPS of \$1.51.
  - Guidance: revenue \$8.65-\$8.90 billion.
  - At guidance midpoint, revenue growth 4%-5% (6.5% in local currency).
  - At Street consensus, EPS growth 2%-3%.

### **Outsourcing companies and the U.S. job market**

- Accenture competes in the consulting and outsourcing space, a market that has been directly impacted by the Trump administration's focus on U.S. jobs.
- IT outsourcers such as Cognizant, Infosys and Wipro have as much as 75% of their workforce based in India. Their long-term goal has been to take over back-office operations from U.S. companies.
- While all the IT outsourcers have pledged to increase U.S. hiring, Accenture has an advantage in that it is less focused on IT outsourcing.
- Accenture's focus is on consulting, digital transformation, and cloud enablement, all of which already require a large domestic presence and U.S. workforce.

### **Accenture strategy**

- Cloud, big data, mobile enterprise, and “everything as a service” disrupt traditional on-premises IT models.
- Accenture has pivoted away from over-reliance on “old” transformation, such as facilitating SAP, CRM, and ERP and providing traditional IT outsourcing (ITO) and business process outsourcing (BPO) services (55% of revenue).
- New “Services” category (45% of revenue) include digital transformation, cloud, and security.
  - Addresses evolving client needs while enabling interactive marketing, mobility, analytics, and other capabilities.
- Large-scale transformation requires investment in people & processes; new programs in cloud, robotics, machine learning and analytics.
- Five operating groups (CMT, H & PS, FS, Products, Resources) provide deep vertical expertise in over 40 distinct industries.
- Helping global companies address a range of complex regulatory requirements.

### **Accenture outlook**

- For all of FY17, the company expects local-currency revenue growth of 6%-8%, raised from earlier guidance of 5%-8% (2% currency headwind).
- Guiding for 10-30 bps improvement in operating margin for fiscal 2017, which would result in 14.9% operating margin for year.
- Accenture forecast non-GAAP EPS of \$5.70-\$5.87 per diluted share for FY17. At the guidance midpoint, FY16 non-GAAP EPS of \$5.79 would be up 8% year/year.

### **Accenture valuation**

- Trading at 20.4-times 2-yr forward P/E; vs. 17.7-times trailing 5-yr.
  - But 2-yr forward relative P/E of 1.14 is below 5-yr trailing relative P/E of 1.18.
  - Our model renders blended value of \$148, in a rising trend.
  - We believe Accenture warrants a premium relative P/E valuation in the 1.35-times range, given solid growth in revenue in local currency and in new orders, strong cash-growth trends, market-share gains, and increasing profitability.
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