

Accenture Plc

F2Q preview: in-line print should be good enough

Reiterate Rating: BUY | PO: 419.00 USD | Price: 380.83 USD

Anticipate solidly in-line F2Q revs and EPS

Accenture (ACN) reports F2Q on 3/21. We expect revs/EPS to be solidly in-line. ACN no longer guides on bookings but consensus seems potentially high. Our base case is that ACN will modestly lower the top end of F24 (Aug) revs growth guidance, which likely would have required some rebound in discretionary spend that does not appear to be materializing just yet. However, visibility on continued top-line re-acceleration in F2H and achievability of growth near/at midpoint of F24 revs guidance should enable shares to remain relatively sturdy through the print. Reiterate Buy given ongoing share gains.

Sector sentiment + GenAI can continue supporting shares

Investors have generally demonstrated patience waiting for better discretionary spending, evidenced by neutral/positive stock reactions to somewhat underwhelming '24 guides from EPAM + CTSI (others that saw much sharper est cuts saw significant punishment). We also believe continued GenAI bookings momentum at ACN (\$300M in F23, \$450M in F1Q24; still very small in context of total) can support shares. Material GenAI revs contribution likely takes time, but see ACN as a long-term GenAI beneficiary.

Top end of revs guide could downtick

Last quarter ACN reiterated F24 const-curr revs growth guide of 2-5% despite a softer than expected F2Q outlook. BofA/Street are at 2.7%/3.2%. While easier comps and ramp of prior bookings should drive F2H acceleration, lack of discretionary spending recovery likely takes top end of guide off the table. That said, we still think there will be line of sight to roughly the midpoint of the guide, and its possible ACN will pick up incremental tailwind from recent M&A (ie, M&A contribution could move from >2% to 3%).

F2Q consensus bookings could be a little high

ACN no longer guides on bookings. The Street is forecasting total F2Q bookings of \$21.7B (\$10.6B Consulting and \$11.1B Managed Services). While F2Q bookings typically enjoy positive seasonality, consensus is calling for 18% q/q growth against a tougher than usual comp amid a somewhat tepid demand backdrop. WE raise our PO to \$419 from \$379, based on a 50/50 blend of 32x C25E GAAP EPS (vs. 31x C24 prior, reflecting a modest 10% premium to its 3-yr historical average) and our DCF. This premium is justified by ACN's resilience, execution, and early signs of GenAI traction.

Estimates (Aug) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.71	11.67	12.22	13.39	14.64
GAAP EPS	10.71	10.77	11.65	13.39	14.64
EPS Change (YoY)	21.7%	9.0%	4.7%	9.6%	9.3%
Consensus EPS (Bloomberg)			12.24	13.44	15.00
DPS	3.88	4.48	5.16	5.68	6.24
Valuation (Aug)					
P/E	35.6x	32.6x	31.2x	28.4x	26.0x
GAAP P/E	35.6x	35.4x	32.7x	28.4x	26.0x
Dividend Yield	1.0%	1.2%	1.4%	1.5%	1.6%
EV / EBITDA*	20.9x	21.6x	20.1x	17.8x	16.4x
Free Cash Flow Yield*	3.7%	3.8%	3.8%	4.1%	4.3%

* For full definitions of *IQmethod™* measures, see page 5.

07 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	379.00	419.00

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Stock Data

Price	380.83 USD
Price Objective	419.00 USD
Date Established	7-Mar-2024
Investment Opinion	B-1-7
52-Week Range	242.80 USD - 386.98 USD
Mrkt Val (mn) / Shares Out (mn)	238,599 USD / 626.5
Free Float	99.9%
Average Daily Value (mn)	723.10 USD
BofA Ticker / Exchange	ACN / NYS
Bloomberg / Reuters	ACN US / ACN.N
ROE (2024E)	29.8%
Net Dbt to Eqty (Aug-2023A)	-33.6%
ESGMeter™	High

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Timestamp: 07 March 2024 12:01AM EST

iQprofileSM Accenture Plc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	25.0%	22.1%	22.4%	22.8%	21.1%
Return on Equity	33.1%	31.2%	29.8%	28.9%	26.0%
Operating Margin	15.2%	13.7%	14.9%	15.8%	16.0%
Free Cash Flow	8,823	8,996	9,035	9,743	10,191

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.3x	1.2x	1.2x	1.2x
Asset Replacement Ratio	0.3x	0.2x	0.2x	0.3x	0.3x
Tax Rate	24.0%	23.4%	24.3%	24.5%	24.5%
Net Debt-to-Equity Ratio	-34.4%	-33.6%	-30.1%	-29.2%	-28.2%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	61,594	64,112	65,720	70,815	76,124
% Change	21.9%	4.1%	2.5%	7.8%	7.5%
Gross Profit	19,702	20,732	21,339	22,710	24,487
% Change	20.4%	5.2%	2.9%	6.4%	7.8%
EBITDA	11,455	11,091	11,877	13,460	14,602
% Change	20.4%	-3.2%	7.1%	13.3%	8.5%
Net Interest & Other Income	(161)	329	156	99	59
Net Income (Adjusted)	6,885	7,450	7,736	8,381	9,084
% Change	21.1%	8.2%	3.8%	8.3%	8.4%

Free Cash Flow Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	6,989	7,004	7,512	8,519	9,222
Depreciation & Amortization	2,088	2,281	2,112	2,276	2,446
Change in Working Capital	(807)	(1,185)	(1,912)	(1,811)	(2,220)
Deferred Taxation Charge	(213)	(269)	(24)	0	0
Other Adjustments, Net	1,484	1,694	1,861	1,397	1,503
Capital Expenditure	(718)	(528)	(514)	(637)	(761)
Free Cash Flow	8,823	8,996	9,035	9,743	10,191
% Change	5.1%	2.0%	0.4%	7.8%	4.6%
Share / Issue Repurchase	(2,767)	(2,829)	(3,386)	(1,591)	(1,770)
Cost of Dividends Paid	(2,457)	(2,827)	(3,254)	(3,552)	(3,874)
Change in Debt	(16)	0	0	0	0

Balance Sheet Data (Aug)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	7,890	9,045	8,265	9,714	11,109
Trade Receivables	11,777	12,227	13,144	14,753	17,301
Other Current Assets	1,944	2,110	2,294	2,613	2,961
Property, Plant & Equipment	1,659	1,530	2,450	3,649	4,801
Other Non-Current Assets	23,993	26,333	25,296	26,280	27,292
Total Assets	47,263	51,245	51,449	57,009	63,463
Short-Term Debt	9	105	105	105	105
Other Current Liabilities	17,514	17,904	16,442	15,983	15,700
Long-Term Debt	46	43	42	42	42
Other Non-Current Liabilities	6,947	6,735	7,886	8,144	8,754
Total Liabilities	24,516	24,787	24,475	24,274	24,602
Total Equity	22,747	26,459	26,974	32,735	38,861
Total Equity & Liabilities	47,263	51,245	51,449	57,009	63,463

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Payments, Processors & IT Services

Company Description

Accenture is a global IT services firm with FY23 (ending August) revenues of \$64.1B. In FY23, the company derived around 47% of its revenues from North America, 33% from Europe and the remaining from rest of the world, overall serving clients, in a wide range of verticals, in more than 200 countries. As of FY23, the company had a global headcount of 732,819.

Investment Rationale

ACN delivered solid F1Q24 results driven by strong demand for digital enterprise transformation and Accenture's underlying business momentum. However, relatively light bookings growth and modestly soft F24 revs guidance may pose a mild headwind to shares in the near-term. We remain bullish on Accenture's competitive positioning in Digital, execution track record, and market share gains. Expect continued positive momentum in F24 and beyond.

Stock Data

Average Daily Volume 1,898,757

Quarterly Earnings Estimates

	2023	2024
Q1	3.08A	3.27A
Q2	2.69A	2.61E
Q3	3.19A	3.32E
Q4	2.71A	3.03E



Price objective basis & risk

Accenture Plc (ACN)

We use a 50/50 blend of 32x C25E GAAP EPS and our DCF to calculate our 12-month price objective of \$419. Our target multiple reflects a modest premium to the 3-year historical multiple, based on ACN's improved growth trajectory as we proceed through F24. The multiple continues to represent a premium to comps due to ACN's competitive positioning and enviable financial metrics.

We use a 9.5% weighted-average cost of capital (WACC) and 3% terminal growth rate for our DCF.

Upside risks to our price objective are 1) acceleration in top-line growth, 2) sharp and sustained rebound in consulting bookings, 3) margin expansion in excess of typical annual 20-30bps target.

Downside risks to our price objective are 1) ability to hire at scale to meet demand, 2) employee attrition, 3) competition from multiple types of vendors, 4) cyclical nature of discretionary IT services spending among Accenture's clients.

Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

UNDERPERFORM

	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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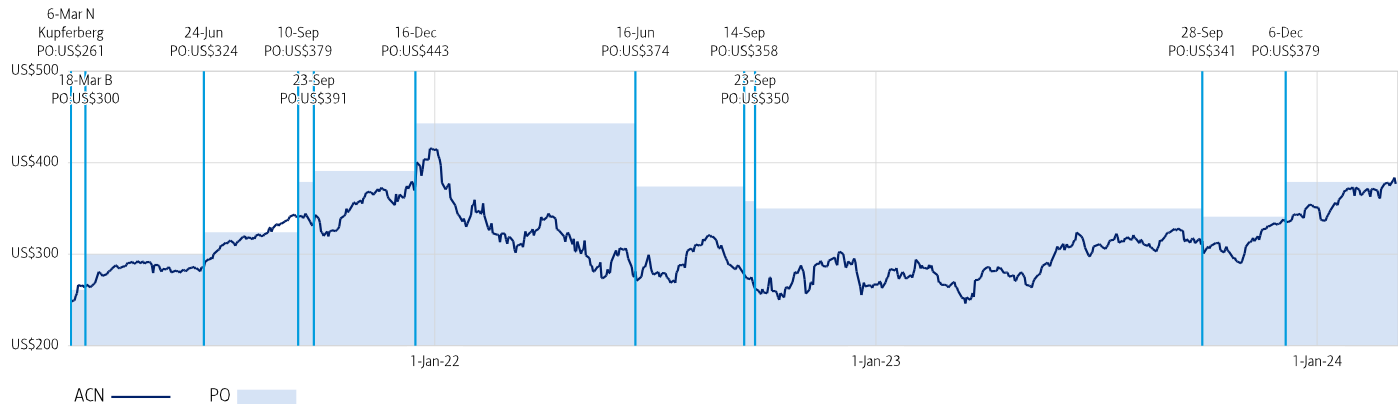
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Accenture (ACN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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