

Annex Newsflash

Annex Newsflash 2006-02

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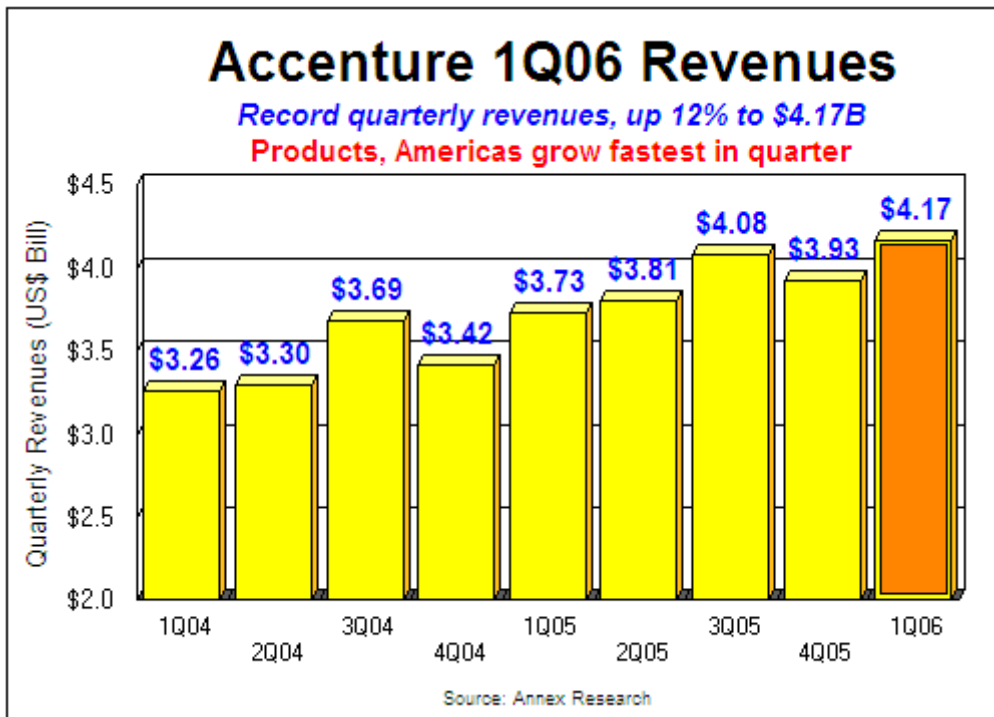
Updated 1/05/06, 11:30PM MST (adds [Chart](#))

Analysis of Accenture's First Quarter Business Results

Accenture Excels Again

Stock Smashes Records in After-Hours Trading

HONOLULU, Hawaii, Jan 5 - "It doesn't get much better than this," we said about Accenture's last report card (see "[A Whopper Quarter](#)," Oct 2006). And then it just did. Accenture outdid itself again after the markets closed today (Jan 5). Maybe the company should rename itself Excellenture? ☺



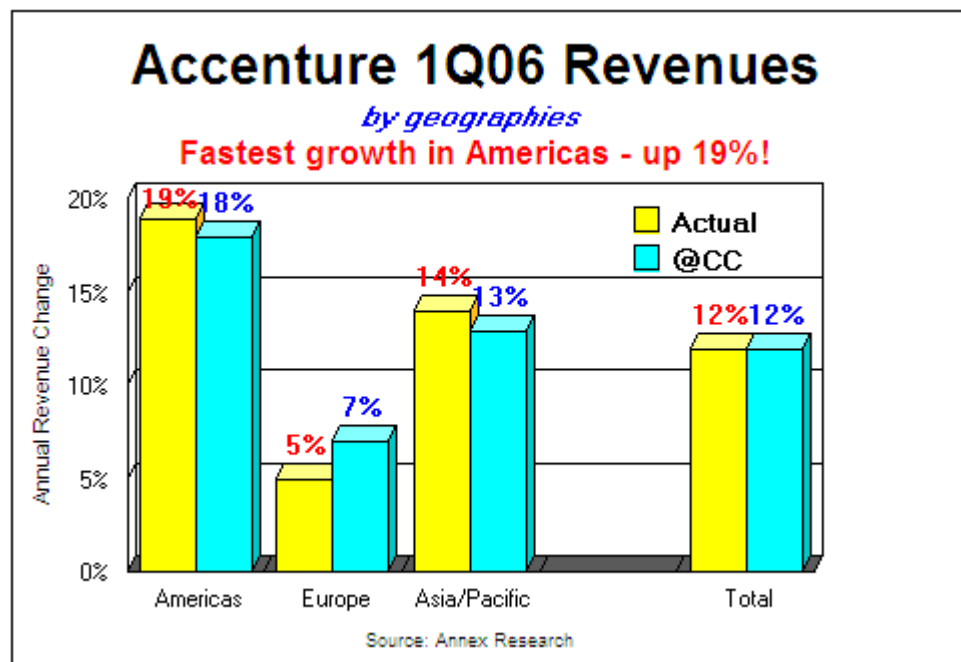
Once again, the IT services company was firing on all cylinders. All vertical markets and geographies grew in the first quarter of its fiscal year 2006, several of them in double digits. Once again, Accenture exceeded Wall Street's and its own revenue and earnings estimates (\$0.36 per share on a 12% revenue jump to \$4.17 billion, a new quarterly record). Once again, it generated tons of cash (\$290 million free cash flow). But what set the latest quarter apart from the "as good as it gets" (we thought)- fourth quarter were two things: first, the best new contract bookings in seven quarters (\$5.5 billion); second, the first ever dividend.



No wonder the stock moved up nearly three points in after-hours trading,

following the release of the first quarter results, to a new three-year and all-time high (the company went public in July 2001). Accenture closed at \$29.68 in regular trading today, up 0.75%. It had set another 52-week high of \$29.82 in intraday trading.

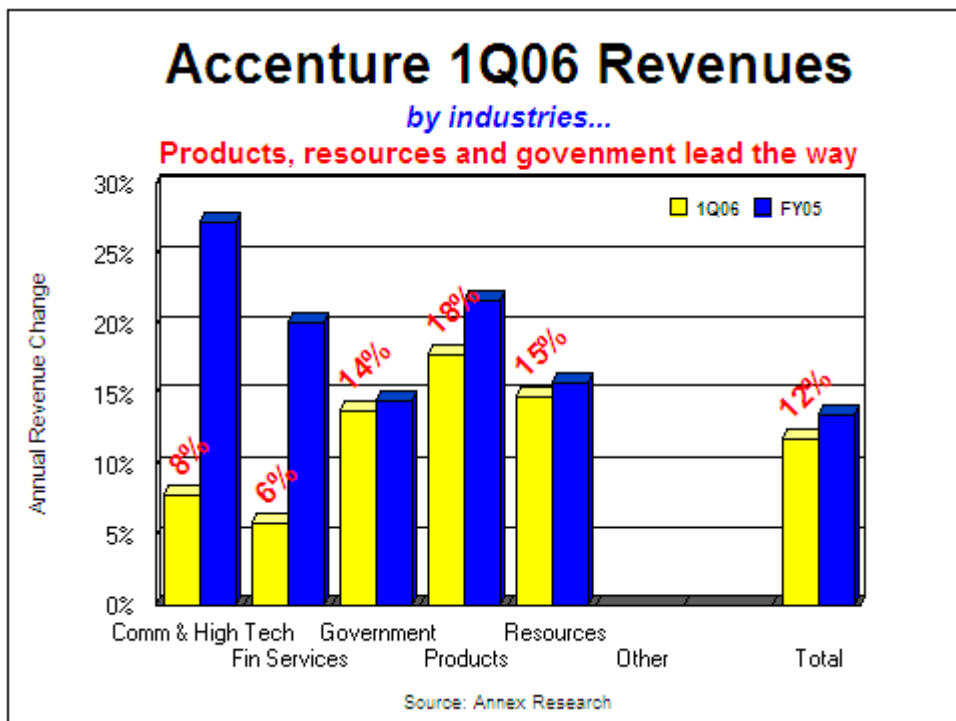
"We grew revenues while keeping our costs in line," said Bill Green, Accenture's CEO. But the company did more than just "keeping costs in line." Expenses actually declined as percent of revenue, pushing the operating margin up nearly a point to 12.3% of revenue, as compared to 11.4% of revenue the year before. That was a 20% jump on a 12% rise in revenues.



Geographies. The Americas region showed the fastest growth for a second quarter in a row. Its revenues were \$1.86 billion, up 19% from \$1.55 billion in the first quarter of fiscal 2005 (18% in local currency). Accenture's acquisition of Capgemini's North American healthcare unit aided the growth in this domain (see "[Capgemini Jettisons Healthcare](#)," Apr 2005).

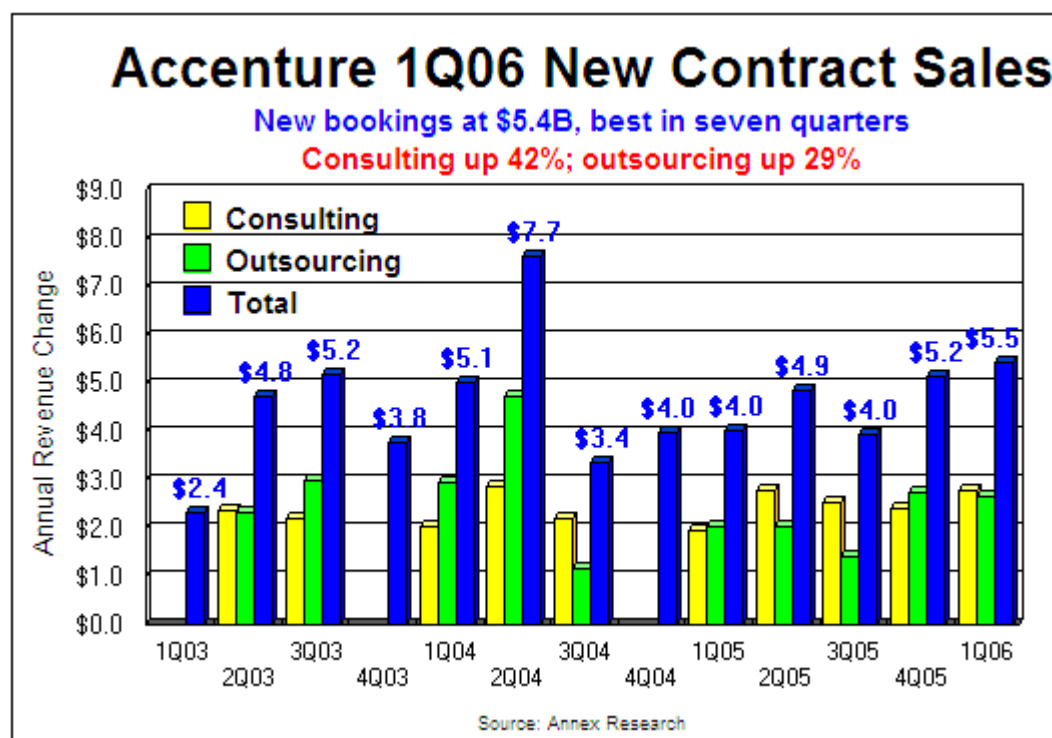
Europe, Accenture's biggest geography at \$2 billion, grew in single digits (up 5% as reported; 7% in local currency). The Asia/Pacific area, on the other hand, also surged in double digits (up 14% as reported, and up 13% in local currency).

As noted earlier, the company's overall revenue growth was 12%, both as reported and in constant currency.



Industries. Among Accenture's vertical segments, "products" (meaning healthcare, automotive and retail) recorded the fastest growth in the first quarter, up 18% from the year before. It was the first time ever that Products' revenues exceeded \$1 billion in a quarter.

Government and resources industry groups also grew in double digits. But the increases in communications and high tech and the financial sectors slowed to single digits (up 8% and 6% respectively). These two vertical segments, that account for nearly half the company's revenues, had been the highfliers in the fiscal year 2005. Both grew in double digits in the fourth quarter and for the full fiscal year.



New Contracts. Accenture's new contract bookings totaled \$5.5 billion, up 35% from the year before. It was the second-best showing in the company's history. Only the second quarter of 2004 had higher new contract sales.

And it was a balanced growth. Within the \$5.5 billion total, consulting accounted for \$2.78 billion, up 42% from the year earlier, while outsourcing was \$2.76 billion, up 29% from the corresponding period in fiscal year 2005.

Given the above sales results, "we feel confident that we are on the right trajectory to achieve our revenue goal for the year," said Green, the CEO, in a statement. "The global demand for consulting and outsourcing is strong," he added in a conference call that followed the earnings release.

He also said that competitive pricing pressures are easing, helping improve the gross profit margins of the new deals. "We are feeling more optimistic about pricing than we have for a very, very long time," he said.

Outlook

Despite its outstanding results in the last two quarters, Accenture executives continue to offer relatively conservative guidance for the rest of the year. For the full fiscal year 2006, for example, they expect the revenue growth of 9% to 12% in local currency (which could be less "as reported" if the dollar continues to rise).

As for the earnings per share, the company expects the full fiscal year EPS to be 19% to 23% higher than the comparable FY05 figure (\$1.28 per share). This new range (\$1.52 to \$1.57 per share) would put the FY06 earnings at the mid- to high-end of the Wall Street estimates (averaging \$1.52 per share). Previously, Accenture guidance was \$1.45 to \$1.50 per share. This increase guidance means the stock may continue to rise for a while as analysts adjust their forecasts upward.

Two years ago, Accenture's second fiscal quarter marked the start of its nascent ascent (see "[Burning the Track Again](#)," Mar 2004). That's when the company set its all-time sales record with new bookings of \$7.7 billion. Will the second quarter of FY06 be an encore?

Certainly the opportunity is there. It is more important from the shareholder standpoint, however, for the company to continue its profitable growth. With operating margins in the 13% range, Accenture is already in the record territory compared to its major rivals. And that's the kind of performance that will continue to earn it the name Excellenture.

Happy bargain hunting!

Bob Djurdjevic




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