

# ANNEX BULLETIN

Annex Bulletin 2006-37

September 28, 2006

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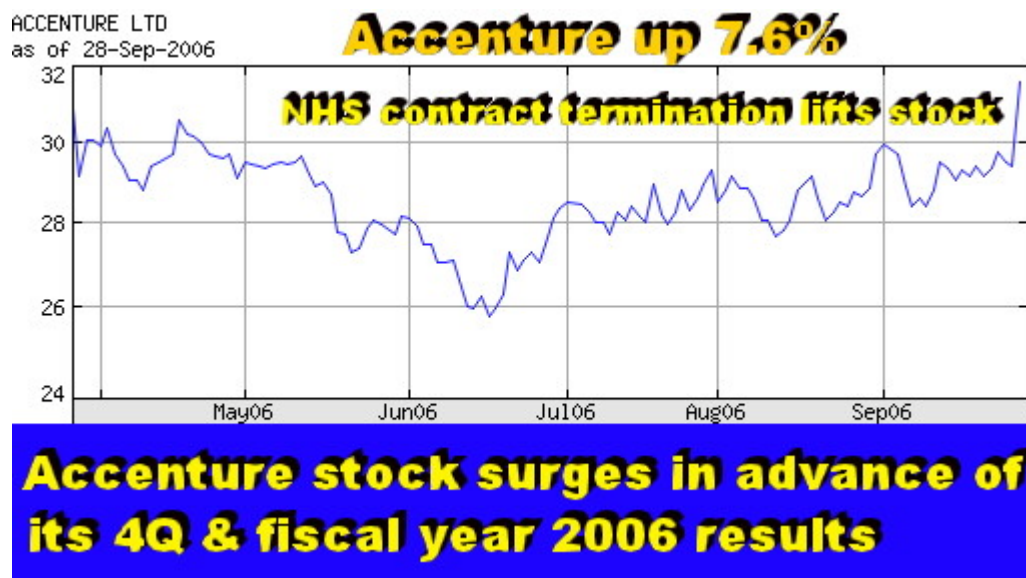
Updated 9/29/06, 7:30AM PDT, adds [Market Update...](#)

***Analysis of Accenture's Fourth Quarter Fiscal 2006 Results***

# Emphatic Year-end Accents

***Strong Earnings Accompany Fifth Consecutive Year of  
Record Revenues***

SCOTTSDALE, Sep 28 - Accenture ended its fiscal year 2006 by putting emphatic accents on its turnaround that started over years ago (see "[Accenture: Burning the Track,](#)" Mar 2004 and the chart). The company earned \$346 million in the quarter that ended Aug 31, or 56 cents a share, up from \$229 million, or 38 cents a share in the same period in 2005. On an organic basis, Accenture earned 39 cents a share, up 22% from 32 cents in the fourth quarter last year, and a little higher than the Wall Street consensus.



Earlier in the day, the Accenture stock received a boost from the news that the company had successfully negotiated its way out of the U.K.'s National Health Service (NHS) money-losing megadeal. Accenture shares closed up nearly eight points in advance of the earnings release. The company said it lost \$339 million in revenue from the financial impact of that agreement. Yet it still managed to grow the fourth quarter revenue by 1% to \$4 billion, also a little higher than the Wall Street expectations. It was the fifth consecutive year of record revenues.

"We're pretty pumped. We feel great about our results," said Bill Green, Accenture's CEO, on a conference call with analysts. "We feel terrific about getting the NHS [contracts] behind us."

For the full year, revenues were up 7% to \$16.6 billion, while earnings totaled \$973 million. But perhaps the most impressive part of Accenture's three-year turnaround story was the cash flow. During the latest fiscal year, free cash flow was \$2.4 billion, way above the company's previous outlook and last year's \$1.6 billion. And it is about four times the amount of free cash flow generated by some of its larger competitors (EDS, for example). Which makes Accenture a veritable cash-generating machine.

## **Reusable Assets & IBM "Products" Announcement**

Asked how the termination of the NHS deal would affect the reusable assets that Accenture has been developing, especially in the health care sector, Green said, "any assets we own and used on NHS are ours and we keep. We can deploy anything we used or built there anywhere."

As for IBM's latest move toward ["services in a box,"](#) or "service products," as Big Blue calls them, Green said that Accenture is "very focused on

reusable assets and has been for years."

"We have huge asset inventories that we leverage in both the vertical and horizontal dimensions of the business and continue to create more," he said. "Many of the 'assets' we leverage we do not own but are our partners'. It is a sound and solid approach in key areas."

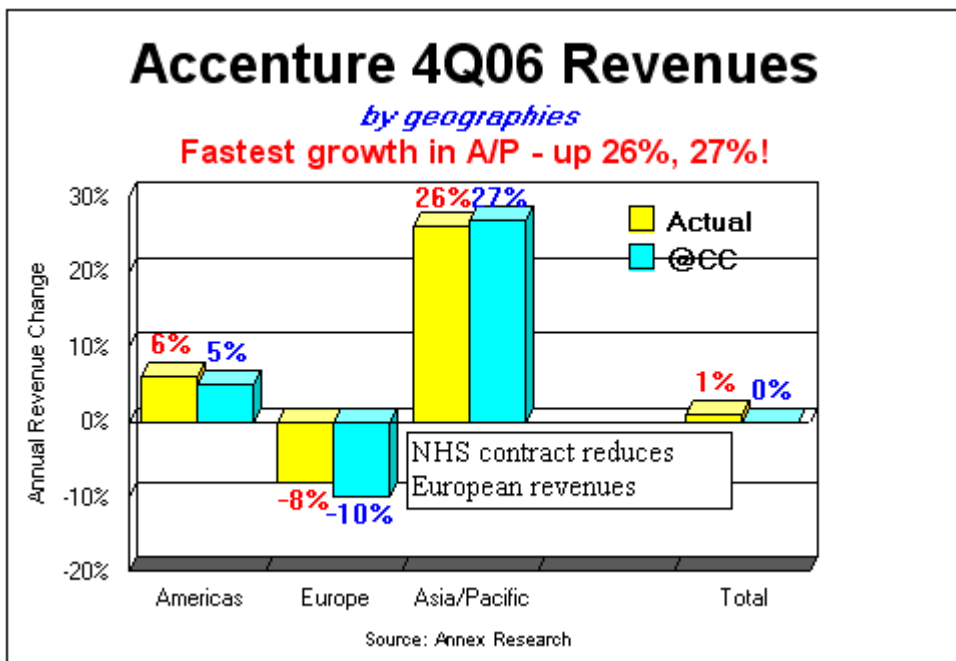
Green did not appear to be too worried about IBM's latest move in this direction, which he called "merchandising of assets in various forms."

"It's nothing more except the marketing juice," he said. "It will not change anything we do. People are buying solutions and business results. Somehow you have to make the trip from service products to business results."

"When you say 'products' people tend to go toward 'shrink wrap.' (And that's deadly," he added.

## Business Segment Analysis

Asia/Pacific, financial services and resources were the Accenture "heroes" of the fourth quarter, each increasing in double digits.

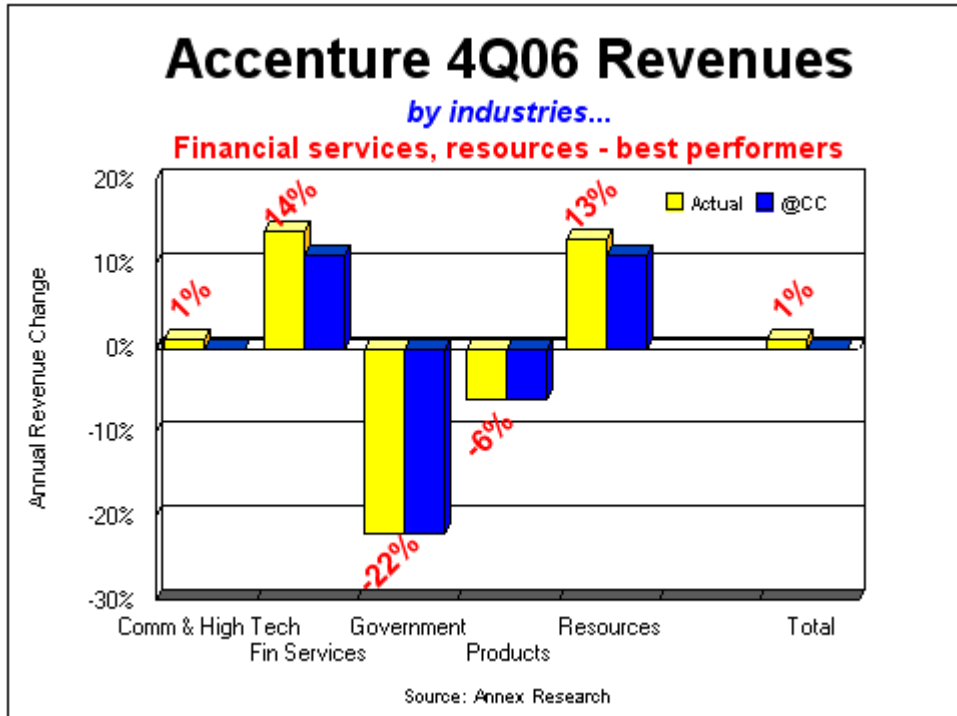


The Americas region has a respectable 6% jump, but European revenues declined due to the cancellation of the NHS contract.

For the full year, Asia/Pacific was

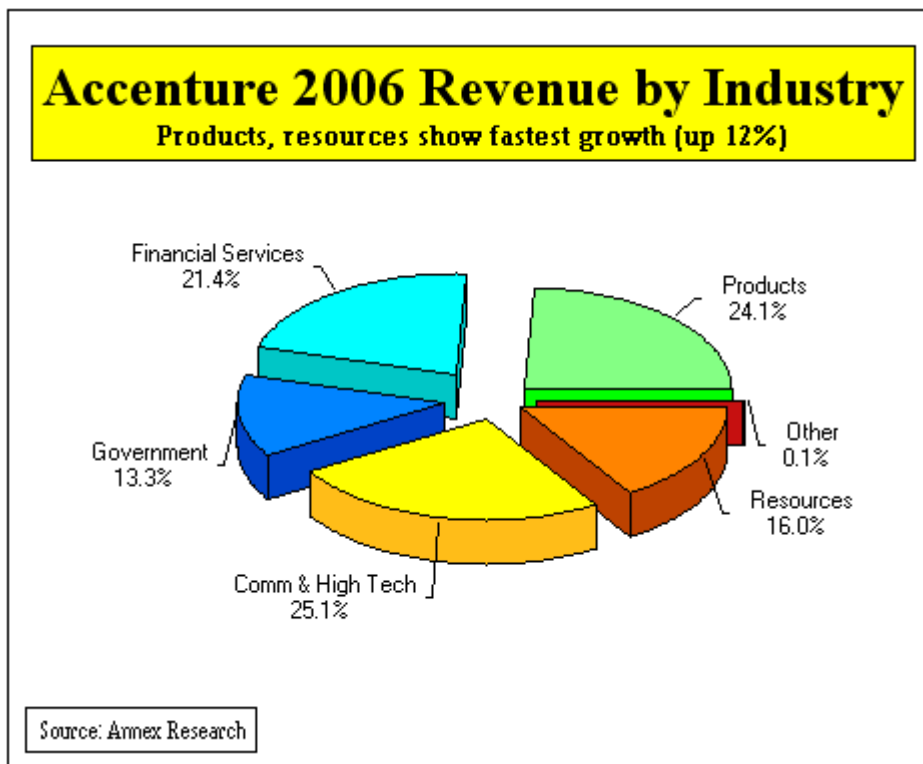
**Accenture 2006 Revenues**

again the best, surging by 17% (20% in constant currency). It was closely followed by the much larger Americas region which had a 15% revenue surge. Europe declined slightly (down 1%, up 3% in constant currency) for the same reason as in the fourth quarter (NHS).



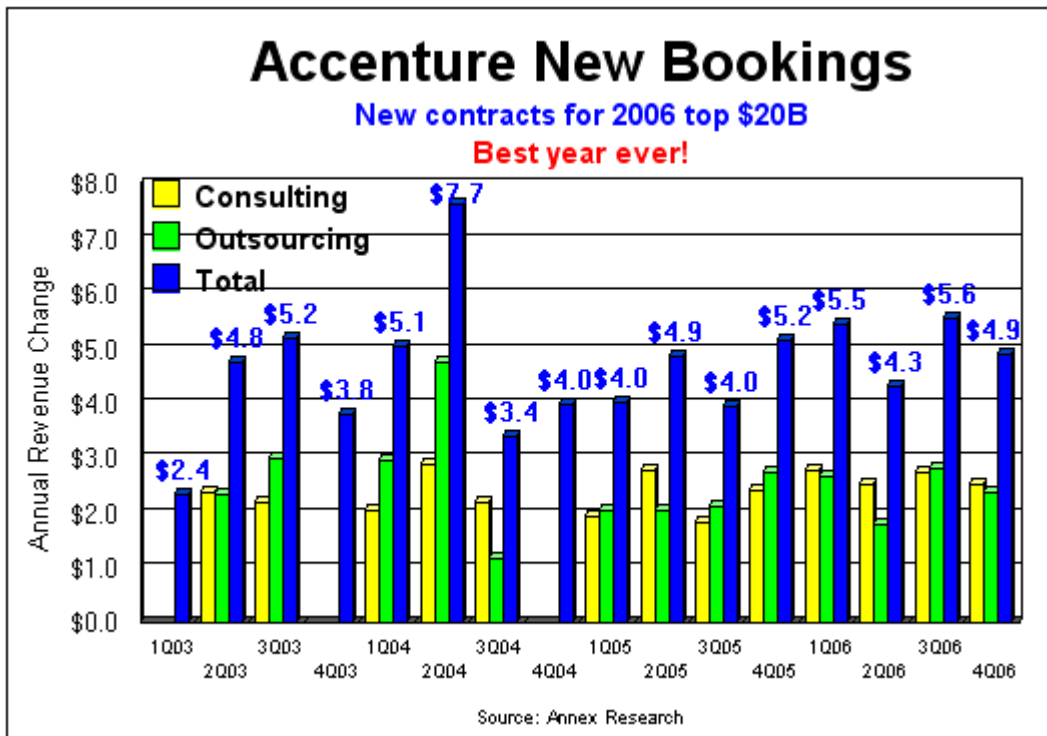
Similarly, the government business dropped 22% in the period (due to NHS), while communications and high-tech sector increased slightly in line with the company's overall growth rate.

For the full year, products and resources were the best performing sectors, each increasing by 12%. Accenture's remaining three vertical units also increased, albeit in low single digits.



## Record New Bookings

Accenture's new bookings performance stands right up there with its outstanding cash flow results. In the current fiscal year, the company closed more than \$20 billion of new business, setting a new annual record, ahead of its guidance.

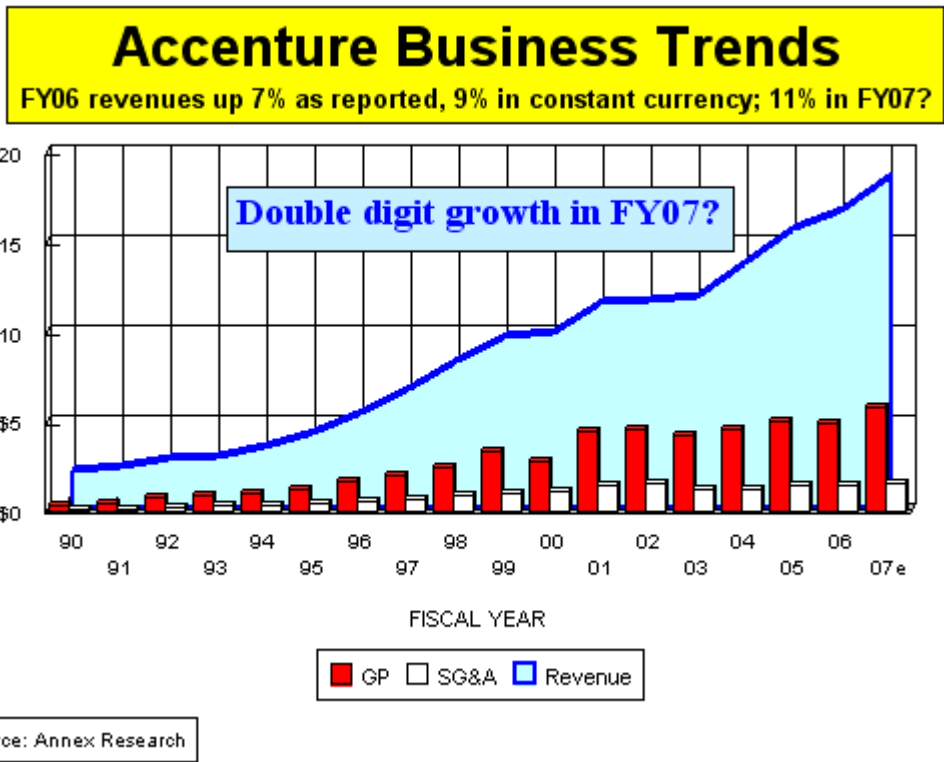


As has been the case in most of its last eight quarters, the fourth quarter results were pretty well balanced between consulting and outsourcing. Consulting contributed \$2.5 billion, while outsourcing accounted for \$2.4 billion of the \$4.9 billion in new business.

## Outlook

Looking ahead to its first fiscal quarter, Accenture said revenue would range from \$4.45 billion to \$4.65 billion, bracketing the analysts' consensus of \$4.55 billion. The company did not immediately offer any EPS estimate for the first quarter, but Wall Street expects 42 cents.

For the full fiscal year 2007, we expect Accenture to generate \$18.5 billion in revenues, up 11% over the just-reported results, and \$1.07 in net profit, about 10% higher than the fiscal 2006 total.



Of course, much of this will depend on whether or not the company is able to sustain its excellent new bookings performance of the last several years. If it continues to set new sales records in the next four quarters, Accenture has a good chance of exceeding this forecast (see detailed tables below).

For detailed forecast tables, click on [P&L 2007](#) and [INTL 2007](#).

*Happy bargain hunting*

*Bob Djurdjevic*

### Market Update

SCOTTSDALE, Sep 29 - Accenture stock continued to rally the morning after the earnings release, bolstered by upgrades by several Wall Street firms. As of about 10:30 EDT, the shares were about 10% higher than the morning before (Sep 28 - see the chart)




**Stock adds more than two points after stellar 4Q results**

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