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Annex Bulletin 2007-33

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A CONFIDENTIAL client edition

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Analysis of Accenture's Fourth Quarter Fiscal 2007 Results

Strong Finish to Great Year

Revenues, Profits Both Up in Double Digits, Yet Stock Performance Lagging Behind Stellar Business Results

But Stock Surging "the Morning After"

SCOTTSDALE, Sep 27 - Accenture did it again. Its fourth quarter revenue and profit results blew the Wall Street forecasts right out of the water. The full fiscal year EPS was up 24%, adjusted for one-time tax gain last year, while full year revenues jumped 18% to \$19.7 billion. (Accenture's fiscal year ends Aug 31). Fourth quarter revenues rose 29% to \$5.11 billion (up 23% in constant currency), a new record for the period.

Free cash flow was \$2.27 billion, well above the company's previous outlook of \$1.9 billion to \$2.1 billion. Accenture also increased its cash dividend by 20% to \$0.42 per share, and repurchased \$2.3 billion of its stock during the fiscal year.

"We are delighted with our outstanding fourth-quarter and full-year results," said the company's CEO, Bill Green, in a statement. And who wouldn't be? The company has again gained market share in the last 12 months, and is threatening to leapfrog over EDS and Fujitsu, No. 2 and 3 vendors in the global IT services industry.



"Demand for our services, particularly in consulting, remains robust," Green added. "We are driving our business with confidence and conviction and we're focused on achieving profitable growth in every aspect of our operations."



"Our fundamentals are very sound, and we continue to see positive momentum and strong demand in our business," Pam Craig (left photo), the company's CFO, seconded her CEO's optimism in her remarks during the teleconference with analysts.

Wall Street's Jaded View

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[The Greening of Big Blue](#)

In short, Accenture excelled both on Main Street and on Wall Street in the last 12 months, capping a great year with a strong fourth quarter. And it has been exceeding expectations now for almost three years. What more could you ask of any company, right?

Indeed, every time you listen to its quarterly calls, the company collects a ton of compliments and congratulatory comments from otherwise reserved financial analysts



(also see "[Burning the Track](#)," June 2007, for another example of it). And then they go back to the office and...?



Well, what happens on Wall Street

offices stays on Wall Street, but the aftermath of these backroom discussions has been pretty vivid. Accenture's stock has been lagging behind the market and its major competitors in the last six months, especially in the last three (see above charts).

Why? We sure can't figure that one out. It makes no sense. Accenture has been a standout in terms of business fundamentals. We know the markets can be nonsensical for a long time. But eventually, they tend to right themselves, like a sailboat when the wind changes direction.

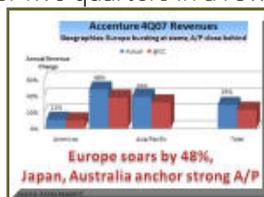
It may be of small consolation to Accenture's leaders and shareholders that their shares did move up about \$0.50 or 1.3% to \$38.50 in after-hours trading. The stock was also up 0.6% in regular trading today. Could this be a start of a trend reversal?

Business Segment Analysis: A "Cash Machine"

"All five operating groups recorded their highest-ever annual revenues with double-digit growth in U.S. dollars," said Steve Rohleder, Accenture's COO (left). "Four operating groups also turned in strong double-digit growth in local currency." In other words, the company's growth engine is firing on all cylinders.



Geographies. The Asia/Pacific region had been the lead story for five quarters in a row. But not this time. This time, revenues in Europe exploded by 48% to \$2.4 billion, widening their lead over the Americas region which also grew in double digits (up 11%).



Sure, European growth was boosted by the weak U.S. dollar, but even without it, the area outstripped the growth of any other Accenture geographic segment (up 38% - see the chart). Strong European results were anchored by excellent performances by its U.K., France and Spain operations, according to Rohleder.

In the Americas, strong results were evident in most countries in the region, led by the United States and Brazil. This geography now accounts for \$2.2 billion of Accenture's revenues.

And Asia/Pacific continues to grow explosively, recording its sixth consecutive quarter of double digit growth. Nor is it some new-fangled markets that are boosting Accenture's business. Most of the growth is coming from mature, developed economies, such as Australia's (especially in consulting) and Japan's (especially in outsourcing). But Singapore is also coming on strong, Rohleder noted.

Industries. Whenever you have the "weakest" line of business growing at 19%, you know you must have had a great quarter. In Accenture's case, the two "weakest" industry segments were High Tech & Communications and Financial Services, each of

(IBM to spend \$1 billion on "going green")

[Are We in "Buyback Bubble?" - Analysis of corporate stock buyback trends](#)

[IBM: Lowering Center of Gravity \(Highlights of Partnerworld 2007, with Detailed Reports for Clients\)](#)

[Growth Accelerating - Analysis of Capgemini's 1Q07 business results \[Annex clients click here\]](#)

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[No Surprises in Good Opening Quarter - Analysis of IBM 1Q business results \[Annex clients click her\]](#)

[IBM Stock Still Grossly Undervalued \(A preview of IBM first quarter business results\)](#)

[Accenture Beats Forecasts, Again \(Analysis of Accenture's 2QFY07 results\)](#)

[HPS, Capgemini Tie for "Gold" - Results of Octathlon 2007 \[Annex clients click here\]](#)

[The Value of pi \(p\) - Analysis of IBM System p and System i market and product strategies](#)

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[HP: Toward New Highs?](#)

which was up by an impressive 19% over the same quarter a year ago.



And what were the company's best industries in the fourth quarter? Well, the remaining three. Government and "Products" (which includes retail) grew up 50% and 46% respectively, while Resources surged by 22%.

As it anticipating the questions that did come from analysts later on, Rohleder said that the "the sub-prime market issue has had no impact on our business to date." But both he and Green, the CEO, said they were keeping an eye on this global trend that has rocked the financial markets in the last month or so.

Horizontal Platforms. There has been a strong demand for Consulting throughout the year and across all five lines of business, Rohleder said. Consulting now accounts for \$11.9 billion or 60% of the company's \$19.7 billion revenue. And it's also growing faster than outsourcing.

Answering an analyst question during the earnings call, Craig, the CFO, said she expected the "roughly 60/40 (consulting/outsourcing) mix that you have seen the past couple of years" to continued in the foreseeable future.

In outsourcing, Accenture saw strong demand for its learning and procurement BPO offerings, as well as continued demand for finance and accounting.



"Application outsourcing continues to be the largest segment of our outsourcing business and we are seeing demand for infrastructure outsourcing bundled with BPO and AO services," said Rohleder.

In systems integration and technology, strong demand in SI is being driven by ERP work, especially with SAP. The technology consulting business continues to grow in double-digits, and demand is especially high in data center optimization and workplace collaboration.

New Bookings. Accenture's fourth quarter bookings of \$4.9 billion were about even with those a year ago, but they added to the FY07 total of \$22 billion, a new annual record. About 63% of that total came from consulting, with the remainder being outsourcing engagements. For the full year, consulting represented 58% of the total, while outsourcing accounted for 42% (see the chart).



The company executives talked during the teleconference about a change in the nature of IT services outsourcing business that has occurred in the last several years. Overall, there are more shorter duration deals now, which is making the business more predictable.

"It used to be few years ago when we built a plan, you had to roll the dice on a couple of very large outsourcing things signing," Green said. "If we get any of the big giant outsourcing wins, they fall on top of what we have put in the plan. So you don't have to try to drive the company around one or two of these things. We have the company working as a machine. If we get lucky on a couple of very large ones, they just sort of add to the sweetness of it... But you can't run the company praying the two of those are going to happen. You've got to run it with what you can see."

Which means doing it prudently, in our books anyway, "like a machine." And the results show it. Accenture has become a "cash machine," throwing about \$2.3 billion to its shareholders per year.

(Excerpts from analysis of HP's 1Q07 business results)
[\[Annex clients click here\]](#)

[Capgemini Caps Great Year, Saves Best for Last](#) (Analysis of Capgemini's fourth quarter business results)

[EDS: On Sunny Side of Street](#) (Analysis of EDS' fourth quarter business results)

[CSC: Where Less Seems More](#) (Analysis of CSC's third quarter fiscal 2007 business results)

[Fujitsu: Sales Up, Profit Down](#) (Analysis of Fujitsu's third quarter fiscal 2007 business results)

[IBM Shatters Records](#) (Analysis of IBM's fourth quarter business results)

[IBM Stock Passes Century Mark](#) (Analysis of Big Blue's Stock Performance)

[Happy Days Are Here Again](#) (Analysis of Top 20 IT leaders' latest stock market and business performances)

["Excellenture" Excels Again](#) (Analysis of Accenture's first quarter fiscal 2007 business results) [\[Annex clients click here\]](#)

[Hedging the Bets](#) (Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot) [\[Annex clients click here\]](#)

[Globalization Accelerates](#) (Analysis of United Nation's annual survey of global investments)

[IBM: A \\$125-Stock?](#) (An update to "From Small Acorns Mighty Oaks Grow")

[Capgemini: Longest Sustained Stock Price Rise](#) (An update to "By Leaps and Bounds")

Globalization of Resources Continues

Accenture is continuing to invest in the expansion of its global delivery network, ending the year with more than 71,000 people, a 48% increase over FY06. The greatest expansion is continuing to take place in Asia/Pacific, where headcount grew by 65% in the last year. It was also up over 30% in both the Americas and EMEA. India and the Philippines are the biggest magnets for global delivery applications.

Accenture also added 60,000 new hires during FY07 and ended the year with approximately 170,000 employees, an increase of 21% over FY06. The attrition rate was stable at 18% for both the fourth quarter and the full year, the company said.

Summary & Outlook: Main Street vs. Wall Street

"We have a powerful momentum going and enter the (fiscal) year (2008) with a great deal of confidence to maintain our leadership position," said Green. "Our annual results reflect strong expansion across all three dimensions of our business. We also drove profitability through effective cost management and overall operational discipline. Finally, we gained market share globally and grew well above our proxy peer group."

Green added that Accenture is keeping an eye on global trends, such as the credit crunch, that may pull in the opposite direction. But he said if you stand back and look at the global markets, what you see is "a great global economy" and "a good U.S. economy."

"I think (f) you stand back and look at it, people are confusing Wall Street and Main Street," Green said. "Frankly on Main Street, with these companies, even if you want to let the sub-prime issue get to you, if you compete on the global stage you can't. Just as if that was happening in China, it is a nit in the whole scheme of things."

So overall, "we entered the year with a great deal of confidence in our ability to keep building on our leadership position in the industry," he summed it up.

It remains to be seen if the so far skeptical markets accept Accenture's optimism. At least in this company's case, they won't have to take its executives' words alone. All they need to do is look at the results.

[Click here](#) for detailed Accenture results & forecast table (Annex clients only)

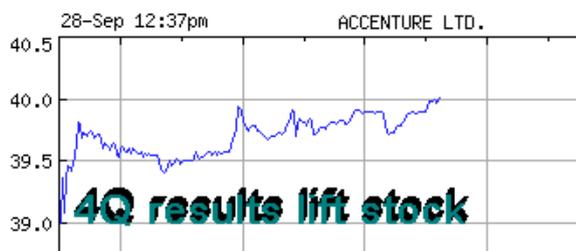
Happy bargain hunting!

Bob Djurdjevic

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Market Update: Stock Moves Up Sharply the Morning After

SCOTTSDALE, Sep 28 - It was almost as if the market read our above report overnight before it was actually published. The Accenture stock moved up sharply "the morning after," rising five points to \$40 in early



[HP: New King of the Hill](#)
(Analysis of HP's fourth quarter business results)

[IBM: From Little Acorns Mighty Oaks Grow](#) (Analysis of IBM's "State of the Union")

[Capgemini: By Leaps and Bounds](#) (Analysis of Capgemini's preliminary third quarter business results)

[Fujitsu: Good Performance Gets Better, More Global](#) (Analysis of Fujitsu's first half FY2007 business results)

[IBM: A Slam Dunk Quarter](#) (Analysis of IBM third quarter business results)

[Accenture's Emphatic Year-end Accents](#) (Analysis of Accenture's fourth quarter results) [[Annex clients click here](#)]

[IBM: Services in a Box](#) (Analysis of IBM Global Services' Ground-shifting Announcements)

[Strong Comeback by IT Stocks in Third Quarter](#) (Analysis of top 20 IT companies' market and business trends)

[Stock Buybacks: A Fading Fad](#) (Dell, erstwhile "King of Fluff," suspends its stock buybacks)

[Capgemini: Growth Continues](#) (Revenues, net profit up in double digits, margins also improve)

[HP Firing on All Cylinders](#) (Stock sets new multi-year record following excellent third fiscal quarter results) [[Annex clients click here](#)]

[Power of Manpower](#) (While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force)

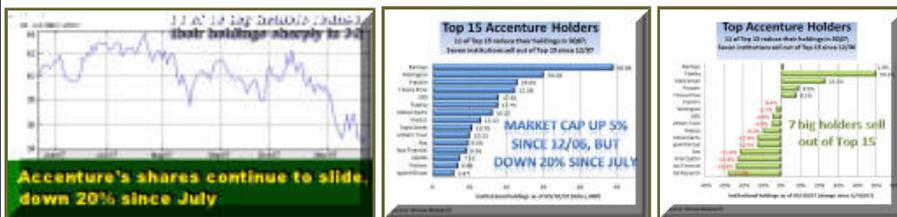
morning trading.

"We know the markets can be nonsensical for a long time," we wrote last night. "But eventually, they tend to right themselves, like a sailboat when the wind changes direction..." we wrote last night. "Could this be a start of a trend reversal?"

Guess investors are finally waking up to the value Accenture brings to the table for its customers and shareholders alike. Interestingly, this spurt happened at a time this morning when the whole market was slightly down. Accenture's surge is also helping pull up the shares of its competitors, including that of the laggard EDS, whose stock has been in the doldrums in the last two months since the change in its leadership was announced.

Institutional Owners Flee in Third Quarter

SCOTTSDALE, Nov 25 - Nearly two months after Accenture reported its fourth quarter and full year 2007 business results, and the investors basically shrugged off the strong finish, it is becoming clearer WHY that is happening. Looks like the major institutional shareholders are starting to abandon ship. Eleven of top 15 reduced their holdings in the third quarter. Seven of them disappeared altogether from the Top 15 since a year ago.



Meanwhile, the percentage of institutional shareholdings as of Sep 30, the latest date for owner data, has gone up to 82% (from about 50% a year ago). And so has their impact on the price of the stock, especially considering some of the big price swings in the third quarter (see above charts).



Guess the bottom line of all this is that the large institutional investors obviously think the stock has peaked, notwithstanding the rosy management predictions for FY 2008. Among the major competitors, only EDS has done worse by comparison. Even the declining IBM and HP shares have outperformed Accenture's slide (see above chart).

[Ebb Tide Lowers Most Boats \(Analysis of EDS' and CSC's latest quarterly results\)](#)

[IBM Stock Grossly Undervalued? \(Analysis of stock market valuations of IBM and its major competitors\) \[adds latest Fujitsu, Capgemini results\]](#)

[IBM vs. HP: A Tale of Two Blues \(Both companies are doing well in business, but only HP is favored by Wall Street; Big Blue trying to change that now with its new "India Opus"\) \[Annex clients click here\]](#)

[Go East, Young Man! \(A speech delivered in St. Petersburg, Russia, May 25, 2006; click here for slides\)](#)

[IBM 5-Yr Forecast: Steady As She Goes \(Emphasis on quality continued\) \[Annex clients click here\]](#)

[Octathlon 2006: Accenture Again Wins "Gold!" \(HP gets "Silver," IBM "bronze"\) \[Annex clients click here\]](#)



As a result, although Accenture's market cap is up 5% since Dec 2006, it is down about 20% since July. Producing solid business results was evidently not good enough. Having the leaders that would excite and inspire Wall Street seems to be the missing ingredient.



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Bob Djurdjevic, Editor
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e-mail: annex@djurdjevic.com

8183 E Mountain Spring Rd, Scottsdale, Arizona 85255
Tel/Fax: +1-602-532-7789

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