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Annex Bulletin 2008-23

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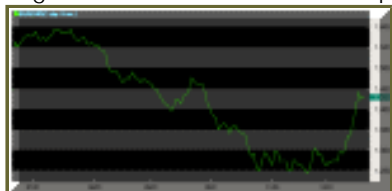
*Analysis of Accenture's First Quarter FY09 Business Results*

# Bright Beacon in Sea of Gloom & Doom

*Company Exceeds Wall Street Expectations with Strong Quarter, But Lowers FY09 Estimates*

SCOTTSDALE, Dec 18 – Accenture was the first major IT company to report business results that include the disastrous calendar fourth quarter, the worst recession in the U.S. economy since the Great Depression. And what Accenture's numbers showed should calm investors' fears and embolden the company's shareholders. Net (EPS) surged by 24% to \$0.74 per share on a 6% revenue growth (up 9% in local currency) to \$6 billion. Operating income was up 12%, boosting the operating margin by 0.7% to 13.5%.

No signs of recession in those numbers, are there? Yet the company lowered the outlook for the current (second fiscal) quarter and for the full year 2009 (that ends Aug 31), citing negative foreign exchange impact as major factor. Accenture's revised business outlook for the full fiscal year assumes a currency translations impact of negative 8% to 10%. The company previously assumed a negative 2% to 4%.



That's a curious rationale, especially in light of yesterday's Fed decision to drop the interest rate practically down to zero. That is sure to further weaken the dollar, which has already declined in the last six weeks from about \$1.25 per €1, to \$1.43 per €1 (see the chart - left). And a weaker dollar means a BOOST to foreign currency translations of major global players, such as Accenture, not a negative impact.

In fact, in an interview with Dow Jones Newswires earlier today, this writer said that, "Global players, like IBM (IBM), which derive most of their revenues and profits from overseas, would benefit from low rates since they would receive an additional boost in foreign currency translations because of the weaker dollar."

So it is not intuitively obvious to us why Accenture would be



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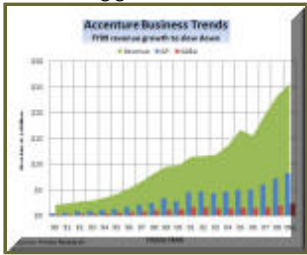
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an exception. As you can see from the pie chart, the company derived last fiscal year about 60% of its business from overseas markets. So if the current trends continue and the dollar weakens further in 2009, we don't see much of a chance for significant negative currency impact.

The company's own downward revision of revenues in *local* currency (9%-12% to 6%-10%) suggests that lower business volumes, and not the foreign currency translations, are the major factor for a lower outlook. Accenture also lowered its estimate of FY09 bookings from \$26-\$29 billion, to \$24-\$27 billion.



As a result of all these downward revisions, the company now expects diluted EPS for the full fiscal year to be in the range of \$2.78 to \$2.85, down from \$2.85 to \$2.93. It has also lowered its cash flow projections for the current year.

A these downward revisions taken in the aggregate may be the reason the Accenture stock barely nudged upward in after-hours trading despite the strong first quarter results. It was up only 0.33% to \$30.51 (see chart - right).



On the plus side, Accenture now expects operating margin for the full fiscal year to be in the range of 13.4% to 13.7%, up from 13.0% to 13.3% previously estimated.

Accenture's CEO Bill Green acknowledged to Reuters a "very somber, very quiet" mood among some of the company's clients. But he said the current business climate can provide opportunities for Accenture, such as growing its outsourcing business.

"There's not a board of directors out there who isn't asking the management, have you considered sourcing alternatives," he said.

Revenue increased across all of Accenture's operating groups except for financial services, its third largest, where it was flat. Green said he expects its financial services business to show strength in coming quarters, as companies work through the current trouble.

"I think it's going to hold up and then its going to break free," he told Reuters.

New bookings for the quarter were \$5.80 billion, with consulting bookings of \$3.56 billion and outsourcing bookings of \$2.24 billion.

## Business Segment Analysis

**Revenues by Industry.** Four of the five industry segments reported solid growth in the quarter, led by the Resources and Government sectors (up 16% and 11% respectively). Only the Financial Services did not grow in U.S. dollars (it was flat). But even that unit managed a 2% growth in local currencies.

- Communications & High Tech: Revenues of \$1.36 billion, up 4% in U.S. dollars and 6% in local currency.
- Financial Services: Revenues of \$1.24 billion, flat in U.S. dollars and an

*(Analysis of IBM's first quarter business results)*

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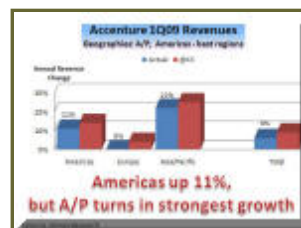
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increase of 2% in local currency.

- Products: Revenues of \$1.57 billion, up 6% in U.S. dollars and 9% in local currency.
- Government: Revenues of \$761 million, an increase of 7% in U.S. dollars and 11% in local currency. .
- Resources: Revenues of \$1,08 billion, up 16% in U.S. dollars and 20% in local currency. .

*Revenues by Geographies.* Although the Asia/Pacific region reported the highest growth, it was actually the double digit growth in the Americas, which includes the beleaguered U.S. market, that was the most impressive.

- Americas: Revenues of \$2.58 billion, up 11% in U.S. dollars and 12% in local currency.
- Europe: Revenues of \$2.87 billion, flat in U.S. dollars and an increase of 4% in local currency.
- Asia/Pacific: Revenues of \$570 million, a surge of 22% in U.S. dollars and 25% in local currency.



*Revenues by Horizontal Activities.* Both major business segments reported solid growth, with outsourcing slightly outpacing the consulting:

- Consulting revenues for the quarter were \$3.66 billion, an increase of 6% in U.S. dollars and 9% in local currency.
- Outsourcing revenues were \$2.36 billion, an increase of 7% in U.S. dollars and 9% in local currency.

## Summary & Outlook

New bookings are perhaps the best tangible factor in gauging a service company's future growth. And they have softened somewhat in the first quarter, down 2% to \$5.8 billion. This reflects a negative 4% foreign-currency impact when compared to new bookings in the first quarter last year.



Within that total, new consulting bookings were \$3.56 billion, up 6% over the year before. It was the eighth consecutive quarter of consulting bookings exceeding \$3 billion.

Outsourcing new bookings were \$2.24 billion, down 12% from the first quarter of last year.

So it would seem to us that the softening in demand, as reflected in lower new bookings, is the real reason behind downward revisions in Accenture's future outlook. Still, taken as a whole, the company's results stand out as a bright beacon in the sea of gloom and doom that has swept over Wall Street, especially in the last three months.

*Happy bargain hunting!*

*Bob Djurdjevic*

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