

ANNEX BULLETIN

Annex Bulletin 2006-27

June 29, 2006

A **CONFIDENTIAL** Client Edition

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INDUSTRY TRENDS

Updated 6/29/06, 10:30PM PDT, adds **CSC...**

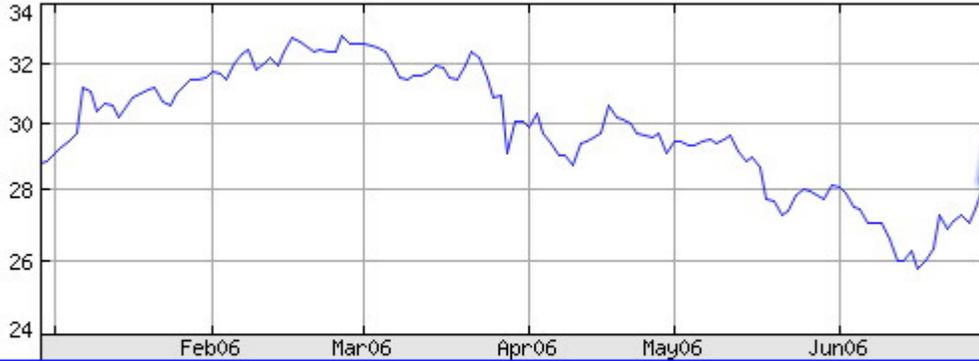
Analysis of Accenture's Third Quarter Results

From Great to Better

Accenture Continues to Set Revenue, Profit Records

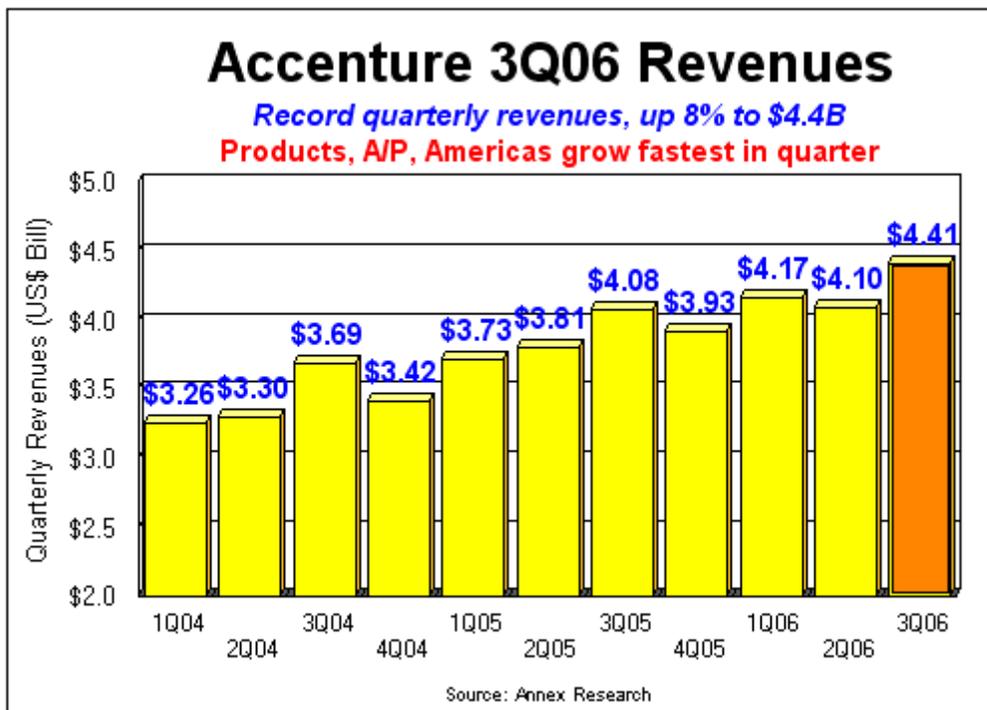
SCOTTSDALE, June 29 - Accenture did it again. Just as we thought things were so great that they could not get much better, they did. The company's third quarter results, released this afternoon after the markets closed, once again exceeded expectations and set new revenue and profit records. No wonder the Accenture shares rose over four points to \$29.25 in after hours trading on the heels of a 2.3% increase during the regular stock market session.

ACCENTURE LTD
as of 29-Jun-2006



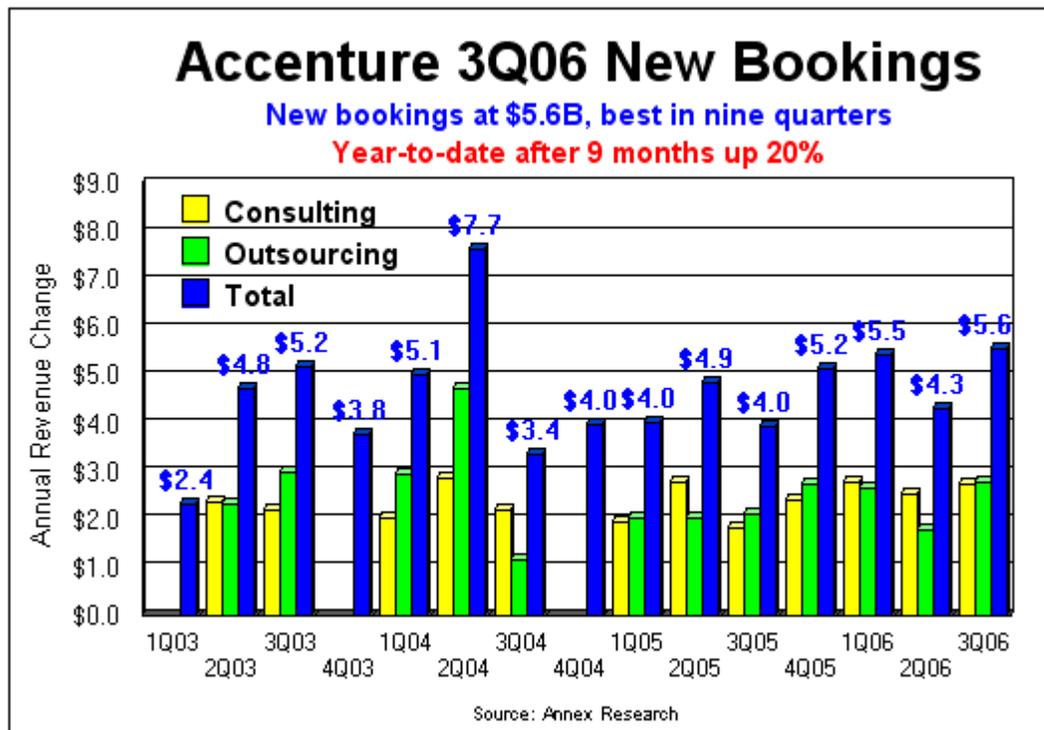
Accenture shares surge over 4 points on great third quarter results

Frankly, that's a pretty tepid reaction to a better than stellar quarter. But these days, IT companies must take what they can get from the stingy investors. IT has not been exactly high on Wall Street's radars, as Accenture's declining trend line between early March and mid-June attests (see above). And that's for arguably the "best of breed" company in terms of fundamentals.



Meanwhile, Accenture was shattering its own records across the board. The third fiscal quarter's revenues of \$4.4 were the highest in the company's history. They were up 8% (up 11% in constant currency) from the third quarter a year ago which was then the highest ever. All five operating units

and all three geographies also set new records. Consulting and outsourcing revenues were also the highest in any quarter on record.



Furthermore, the company's EPS (earnings per share) was up 32% since a year ago on an apples-to-apples basis, while its \$746 million quarterly free cash flow was also a record. And its new bookings of \$5.6 billion were the best in the last nine quarters, and second best ever (only 2Q04 was better - see above).

No wonder Bill Green, the CEO, said in a post-release teleconference with analysts that he felt "very good about our business."

"We had a great quarter and are well positioned for future growth," he added.

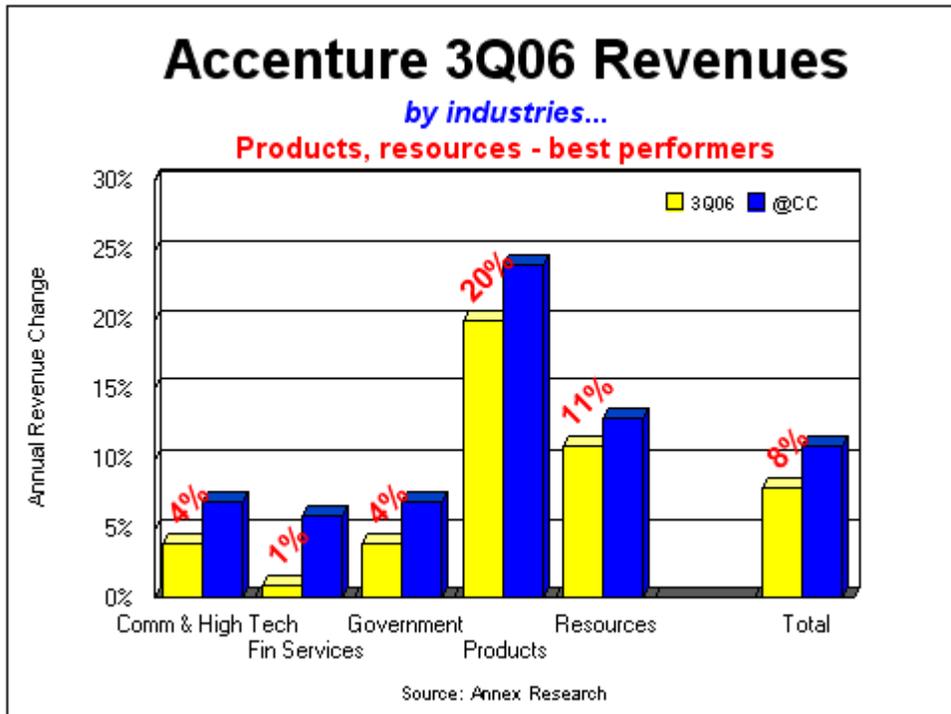
In a subsequent answer to an analyst question Green also said "we are continuing to put distance between us and our competitors."

Mike McGrath, the CFO, echoed his CEO's optimism. "In my view, these results are unmatched in our industry."

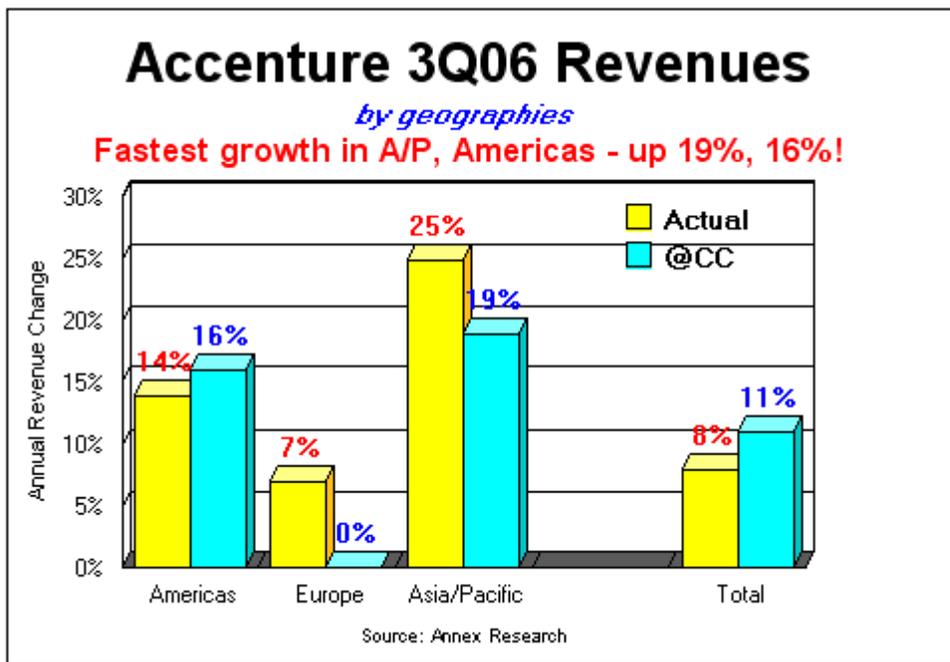
Indeed. Which is why we thought the initial market reaction was rather "tepid."

Business Segment Analysis

Both of Accenture's horizontal segments reported double digit growth in constant currency. Consulting revenues were up 10% to \$2.66 billion (up 6% as reported), while outsourcing business grew by 14% to \$1.75 billion (up 11% as reported).



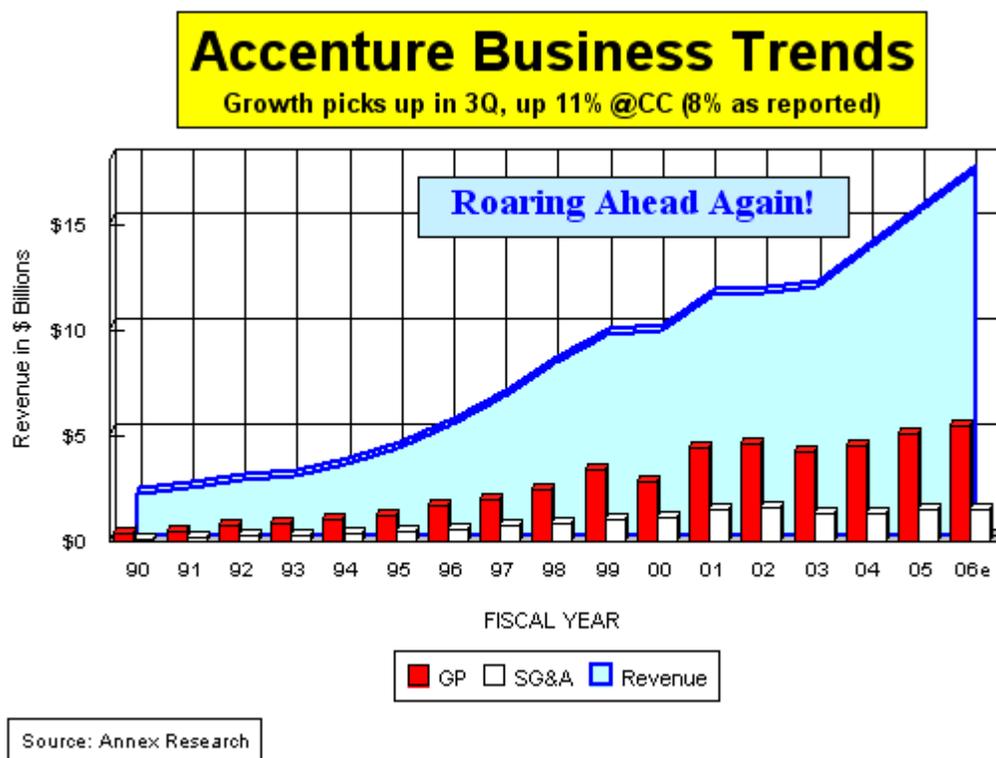
Among Accenture's industry operating units, "products" (which includes automotive, retail and consumer segments) had the strongest growth. It was up 24% in constant currency (up 20% as reported) over the same period a year ago. Resources also had double digit growth, while the other three operating units grew in low single digits. As previous noted, all five set new quarterly revenue records.



Among Accenture's geographic areas, Asia/Pacific recorded the fastest revenue growth, rising 25% in constant currency and 19% as reported. The Americas region also had double digit growth in both categories - up 14% and 15% respectively, while Europe grew 7% in constant currency and was flat as reported.

Outlook

For the full fiscal year 2006, which ends Aug 31, Accenture said it expected the revenues in the upper end of its previous guidance (9% to 12% growth). Since we have been forecasting 11.3% increase to \$17.3 billion even before today's results, we are not making any changes for the year end.



The company also said that its new bookings will be in the upper end of its earlier guidance of between \$19 billion and \$21 billion. As of the first nine months of its current fiscal year, Accenture has also closed \$15.4 billion of new business, up 20% in U.S. dollars, and up 24% in constant currency.

Accenture increased today its expectations for operating cash flow to \$2.1 billion to \$2.2 billion for the year, with free cash flow in the \$1.75 billion to \$1.85 billion range.

Perhaps as a result of such strong cash flow performance, the company officials said they are presently evaluating whether to return some of the company's earnings to shareholders by way of stock buybacks or dividends. So far, Accenture has only been purchasing modest amounts of its shares, mostly to fund its stock option plans. In the third quarter, for example, the company bought back \$290 million of its shares, only a fraction of its \$2.2 billion stock buyback remaining authorization.

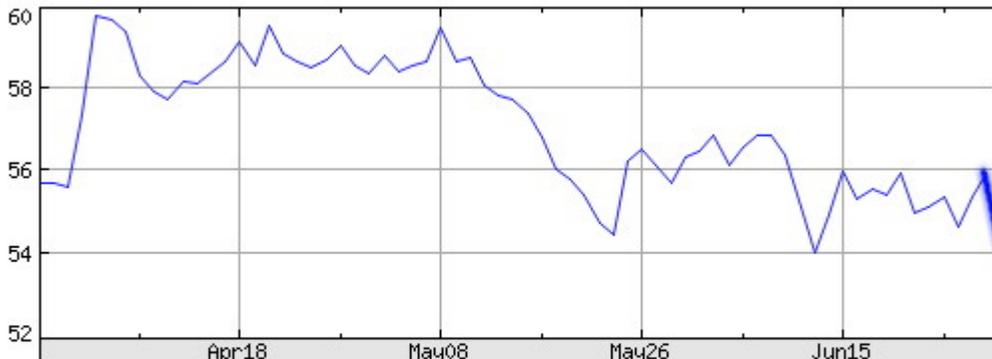
If Accenture does decide to increase its buybacks, as so many of its competitors have done, the move might be the signal Wall Street is waiting for before giving the stock a real boost that the company so richly deserves based on its fundamentals. But...

Computer Sciences Corp. (CSC), for example, announced this afternoon that it will buy up to \$2 billion or 19% of its outstanding shares as part of

what the company called "exploring of strategic alternatives." Which is a euphemism for offering itself for sale. But trying to do that and boost a stock price at the same time seem like two contradictory goals, to us anyway.

COMPUTER SCIENCE CORP
as of 29-Jun-2006

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CSC shares slip over three points on \$2B stock buyback news

The stock market was also unimpressed. CSC shares slipped 3.3% in after-hours trading to \$54, possibly also because the company said it had received an "informal request" from SEC about its stock option plans.

Either way, Accenture should exercise caution in assuming that a stock buyback program would automatically raise its stock price. Just check the IBM stock chart, for example, as an example of the frailty of such arguments.

For detailed table, click on [Accenture FY 2006 forecast](#)

Happy bargain hunting

Bob Djurdjevic

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