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## Conference Call Transcript

ACN - Q3FY07 Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Richard Clark**

*Accenture - Managing Director, Investor Relations*

**Bill Green**

*Accenture - Chairman and CEO*

**Pam Craig**

*Accenture - CFO*

**Steve Rohleder**

*Accenture - COO*

## CONFERENCE CALL PARTICIPANTS

**Adam Frisch**

*UBS - Analyst*

**Rod Bourgeois**

*Bernstein - Analyst*

**Moshe Katri**

*Cowen and Company - Analyst*

**Julio Quinteros**

*Goldman Sachs - Analyst*

**Julie Santoriello**

*Morgan Stanley - Analyst*

**Pat Burton**

*Citigroup - Analyst*

**Andrew Steinerman**

*Bear Stearns - Analyst*

**George Price**

*Stifel Nicolaus - Analyst*

**Tien-Tsin Huang**

*JP Morgan - Analyst*

**Abhi Gami**

*Banc of America - Analyst*

**Elizabeth Buckley**

*Arete Research - Analyst*

## PRESENTATION

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**Operator**

Ladies and gentlemen, thank you for standing by and welcome to the Accenture Third-Quarter Fiscal Year 2007 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session.

[OPERATOR INSTRUCTIONS.]

As a reminder, this conference is being recorded. I'd now like to turn the conference over to your host, Managing Director of Investor Relations, Mr. Richard Clark. Please go ahead, sir.

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**Richard Clark - Accenture - Managing Director, Investor Relations**

Thank you, Abraham. Thank you and thanks, everyone, for joining us today on our Third-Quarter Fiscal Year 2007 Earnings Announcement. As the operator just mentioned, I'm Richard Clark, Managing Director of Investor Relations.

With me this afternoon are Bill Green, our Chairman and Chief Executive Officer; Pam Craig, our Chief Financial Officer; and Steve Rohleder, our Chief Operating Officer.

We hope you've had an opportunity to review the news release we issued a short time ago. Let me quickly outline the agenda for today's call. Bill will begin with an overview of our results. Pam will take you through the financial details, including the income statement and balance sheet. And Steve will add some operational perspective. Pam will then provide our business outlook for the fourth quarter and full fiscal year 2007. And Bill will close the presentation before we take questions.

As a reminder, when we discuss revenues during today's call, we're talking about revenues before reimbursements, or net revenues.

Some of the matters we'll discuss in this call are forward-looking and you should keep in mind that these forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to, general economic conditions and those factors set forth in today's press release and discussed under the Risk Factors section of our annual report on Form 10-K and other SEC filings. Accenture assumes no obligation to update the information presented on this conference call.

During our call today, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. You can find reconciliation of those measures to GAAP, as well as a new schedule that provides a summary of shares outstanding and market capitalization, on the Investor Relations section of our Web site at Accenture.com.

So, now, let me turn the call over to Bill.

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**Bill Green - Accenture - Chairman and CEO**

Thank you, Richard, and good afternoon, everyone. We are just delighted that you could join us today as we discuss our third-quarter financial results.

We delivered another excellent quarter with solid performance and strong new business momentum. Our results reflect successful execution in helping our clients become high-performance businesses and in driving value for our shareholders.

Here are some of the highlights from the quarter.

We grew revenues 15% in US dollars, with double-digit growth in both consulting and outsourcing.

Our earnings performance of \$0.54 was strong. We feel very good about the continued strength and momentum of our business and we've raised our outlook for EPS for the full fiscal year.

We delivered strong new bookings of \$6.2 billion, the highest bookings in 13 quarters. I am particularly pleased that this represents the third consecutive quarter of record consulting bookings. Demand for our services is strong and it's growing.

Operating margin of 13.4% is in line with our expectations for the quarter and positions us to achieve operating margin expansion for the full fiscal year.

Our balance sheet remains strong, and we generated tremendous free cash flow of \$896 million.

We grew our headcount by 19%, recruiting top talent, while attrition was stable and utilization continues to be well above 80%.

With that, let me turn it over to Pam for details on the financials.

**Pam Craig - Accenture - CFO**

Thanks, Bill, and hello, everyone. I'm pleased to tell you more about our outstanding third-quarter results. We showed strength across the board in revenues, earnings, bookings and cash flow. In short, our fundamentals remain strong and reflect the momentum in our business.

Let me take you through some detail behind the numbers in our income statement, balance sheet and cash flow.

Net revenues for the third quarter were \$5.1 billion, a year-over-year increase of 15% in US dollars and 9% in local currency and at the high end of our previous outlook of \$4.9 to \$5.1 billion.

Consulting revenues were \$3.1 billion, an increase of 16% in US dollars and 9% in local currency over the third quarter last year. Outsourcing revenues were \$2.0 billion, an increase of 15% in US dollars and 9% in local currency over the same period last year.

As we move down the income statement, I'm going to provide comparisons to the third quarter last year on both a GAAP basis and on an adjusted basis. The adjusted basis excludes a \$58 million benefit from a reduction in reorganization liabilities in the third quarter last year. Results on an adjusted basis were also included in today's news release.

Gross margin was 31.7%, compared with 33.0% in the third quarter last year.

SG&A costs were \$921 million, or 18.1% of net revenues. This compares with \$816 million, or 18.5% of net revenues, for the third quarter last year. This improvement was in line with what we expected as we continue our multi-year efforts to reduce SG&A cost as a percentage of net revenues.

GAAP operating income was \$682 million, reflecting operating margin of 13.4%. This compares with \$690 million, or 15.7% operating margin, on a GAAP basis and \$632 million, or 14.3% operating margin, on an adjusted basis in the third quarter last year.

It is important to put our margin results in perspective. As you know, our margin results can vary quarter to quarter based on a number of factors. This quarter, we had a tough compare due primarily to the recording of one-time payments in connection with the wind-down of a contract in our Products operating group in the retail industry last year. Absent that one-time item, when we take into account all that has happened in our business, including getting NHS behind us, we feel good about our margins. Our underlying margin results were very solid, in line with our expectations, and allowed us to continue to accrue annual bonus and invest in our business.

The effective tax rate for Q3 was 33.3%. This rate is slightly lower than our previous forecast due to a shift in income between countries. The year-to-date effective tax rate is 33.2% and includes the \$21 million benefit from a discrete item recorded in the second quarter this year. Before this item, the recurring effective tax rate for fiscal 2007 is 34.3%.

GAAP income before minority interest was \$473 million, compared with \$499 million on a GAAP basis and \$445 million on an adjusted basis in the third quarter last year.

GAAP diluted EPS were \$0.54 compared, with \$0.56 on a GAAP basis and \$0.50 on an adjusted basis for the third quarter last year.

Now, let's turn to our cash flow and some key parts of our balance sheet. Free cash flow for the quarter was \$896 million, resulting from operating cash flow of \$978 million less property and equipment additions of \$82 million. Our days services outstanding, or DSOs, were 36 days, reflecting our people's continued focus on strong cash flow.

Our total cash balance at May 31st was \$3.09 billion, compared with \$3.07 billion at August 31st. Cash combined with \$352 million of fixed-income securities classified as investments on our balance sheet was \$3.45 billion, compared with \$3.53 billion at August 31st.

Total debt was \$28 million, compared with \$52 million at August 31st.

And our balance sheet metrics continue to be strong. For the 12 months ended May 31st, our return on invested capital was 66%, our return on equity was 71%, and our return on assets was 18%.

Before I turn things over to Steve, I'll comment on share repurchases. In the third quarter, we repurchased or redeemed 24.1 million shares for approximately \$835 million. This included 16.9 million shares repurchased or redeemed at a discount and 7.2 million shares purchased at market.

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The average price of shares repurchased and redeemed in the quarter was \$34.71 per share. On a year-to-date basis through the end of Q3, we repurchased or redeemed 57.9 million shares for approximately \$1.9 billion, at an average price of \$32.96 per share. At May 31st, Accenture's total outstanding share repurchase authority was approximately \$2 billion.

In terms of our public float, using what we believe to be the most conservative method of calculation, which excludes all outstanding founder shares, our public float at the end of the quarter was approximately 65%.

All in all, we had a strong quarter and are extremely proud of our results. Now, Steve will give you some more detail on our operations.

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**Steve Rohleder - Accenture - COO**

Thank you, Pam. Hi, everyone, and thanks for joining us today. I'm extremely pleased with our strong top- and bottom-line results for the third quarter. The globalization trend I mentioned in Q2 continues, with clients growing their businesses through new market penetration, M&A activity and cross-border consolidation. This trend is driving expansion in all three of our dimensions of our business - our operating groups, geographies and growth platforms.

Let me take you through some highlights starting with the operating groups. Four of our five operating groups delivered record-high revenues in US dollars this quarter. Details of all five operating groups are in the news release, so I'll just highlight a few here.

Our double-digit expansion in Resources was driven by strong consulting growth across all geographic regions, especially in Energy and Utilities.

Top-line growth in Financial Services was primarily driven by strong demand in Capital Markets across all geographic regions. And we also saw growth in Banking and Insurance in EMEA. However, we continue to work to improve delivery inefficiencies, which affected operating income in the quarter.

Products delivered strong revenue growth, given the tough year-on-year comparison Pam described earlier, which also affected operating income. The revenue growth was driven by consulting services across all geographic regions, strong outsourcing growth in the Americas, and solid contributions from Consumer Goods & Services and Health & Life Sciences.

In terms of the geographic regions, in the Americas, revenues grew 7% in US dollars and 6% in local currency, driven by the United States and Brazil. EMEA revenues increased 19% in US dollars and 8% in local currency, driven by strong results in Spain, the Netherlands, Italy and Germany. Revenues in Asia Pacific grew 44% in US dollars and 37% in local currency. This marks our fifth consecutive quarter of double-digit growth in both US dollars and local currency in Asia Pacific.

Now, turning to our growth platforms, the globalization trend I referred to earlier is having the greatest effect in management consulting, with strong demand across all our service lines, especially supply chain, CRM and human performance.

In outsourcing, we continue to see strong demand for both application outsourcing and BPO. Our work in the horizontal BPO space is being driven by finance, HR and customer contact work. We also had very strong BPO growth in Asia Pacific, where our work is centered on finance and accounting, learning and procurement.

In systems integration and technology, we continue to see strong demand for both SI and technology consulting. In SI, global ERP work continues to be a strong driver of our growth. And the investment we're making in SOA is paying off as we're beginning to see an acceleration in this space in both Europe and the United States.

In technology consulting, we recently announced plans to invest \$250 million for offering and asset development, alliance development and recruiting and training. As one of the few technology-platform-independent service providers, we're really well positioned to address the increasing need for these services in the market.

We continue to invest in the expansion of our global delivery network, finishing the quarter with more than 63,000 people. This represents a 48% year-over-year increase in GDN headcount.

In addition to substantial growth in India, we had 20% year-over-year GDN headcount growth in both the Americas and EMEA and more than 50% growth in the Philippines. The geographic diversity of our network continues to be a major competitive advantage for us.

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Finally, let me touch on a few operational metrics. Bookings in Q3 were very strong at \$6.2 billion. Consulting bookings reached \$3.5 billion, another quarterly record. Outsourcing bookings were \$2.7 billion, consistent with our targeted book-to-bill ratio. I'm pleased with the nature of our outsourcing bookings this quarter as we continue to be selective about the opportunities we pursue.

In terms of pricing, we've seen some improvement and I believe there's additional upside opportunity in technology consulting, management consulting and specialty SI skills.

In SG&A, we achieved a 40-basis-point improvement year-over-year and we're on track to deliver solid improvement for the full fiscal year.

Turning to people management, we ended the quarter with more than 158,000 employees, an increase of 19% over last year and are on track to reach our target of 60,000 new hires for the full year. Utilization remains strong at 85%, and attrition was 18%.

In closing, our performance this quarter is an extension of the solid results we've delivered throughout the year. We're seeing strength in the market and I expect our business to continue on the positive growth trajectory we've established this year.

With that, let me turn it back to Pam for our business outlook.

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**Pam Craig - Accenture - CFO**

Thanks, Steve. For the fourth quarter, we expect revenues to be in the range of \$4.8 to \$5.0 billion. This range assumes a foreign exchange uplift of 3 to 4%.

Turning now to the full fiscal year 2007, we continue to target new bookings to be in the range of \$22 to \$24 billion. We continue to expect our consulting bookings to represent more than half of the total.

For revenue growth for the full fiscal year, we expect to be close to the top of the previously communicated range of 9 to 12% in local currency. We are raising our expected EPS for the full fiscal year to a range of \$1.94 to \$1.96. This reflects the continued strengths in our business.

We expect operating margin for the full fiscal year to be at the low end of the previously communicated range of 12.6 to 13.1%, which represents a minimum 20-basis-point expansion over last year's results on an adjusted basis. Demand and market conditions continue to fuel strong growth and we are continuing to invest in our people and in the business.

In terms of cash flow, we are raising our operating cash flow outlook to be \$2.2 to \$2.4 billion, with property and equipment additions remaining at \$335 million. We now expect free cash flow in the range of \$1.9 to \$2.1 billion.

And finally, we now expect our annual effective tax rate to be in the range of 33 to 35%.

Next quarter, we will provide business outlook for the upcoming fiscal year. We currently see a continuation of revenue growth of 9 to 12% in local currency for fiscal '08 and we will provide you with our formal outlook for the full fiscal year when we announce our fourth-quarter results scheduled for the end of September.

With that, here's Bill to close before we take your questions.

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**Bill Green - Accenture - Chairman and CEO**

Thank you, Pam. We're going to open it up for questions in a few minutes here, but I just wanted to take a moment and make a few points.

First, as I said, we are extremely pleased with our performance for the quarter and our consistently good results. We are delivering value for our clients and for our shareholders. We do this by operating our business in a smart way and by investing in critical assets we can leverage and in our people.

We have a unique worldwide operating model that is globally efficient, locally responsive and leverages our worldwide capabilities. We believe we will continue to expand our lead.

With that, let's take your questions.

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## QUESTION AND ANSWER

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### Operator

[OPERATOR INSTRUCTIONS.]

And we have a question from the line of Adam Frisch of UBS. Please go ahead.

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### Adam Frisch - UBS - Analyst

Thanks. Good afternoon, guys. Not a whole lot to find fault with here in the quarter, so another nice job and way to keep the momentum going.

The only thing I wanted to ask you about was -- I'm sure I'll come up with a couple more after this -- but, on margins, it seems like, given the strength in the business, especially in consulting, you have a lot of flexibility in terms of how you want to allocate some of your profits. And maybe some were expecting margins to be a little bit better. Right in line with what we were thinking. But, are you guys, given the release that you put out, I think it was last week, about the \$250 million investment in consulting, are you guys taking advantage of what's going on now in the marketplace to make sure you have the proper investments in place to keep the growth going into '08 and hopefully into '09 and after that?

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### Bill Green - Accenture - Chairman and CEO

Yeah, Adam, let me -- I think, Pam explained very well the margin situation. I think we've spent a lot of time on it and we have a very unique and specific understanding of it.

When we stand back and look at the decisions we've made for this business, I mean, we've got a million moving parts in here. But, at the end of the day, what we've done in technology consulting, what we continue to do in the global delivery network, what we're doing in terms of building out assets and capabilities based on the sort of next generation, the solutions clients are going to look for is really serving us very well. We've got great traction with those and we have a great plan and program to continue to bring new products and services to market.

I think what's important to me is we have the right balance about how we're making judgments about those. We pick very well and specifically in terms of where we spend the money. And then, at the bottom line, we continue to be on the trajectory towards the operating margin target that we had originally set for ourselves.

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### Adam Frisch - UBS - Analyst

Okay. Okay. Good stuff there. And again, not to really pick on it because if you want to look at EPS, you guys have raised your guidance every quarter. So, again, it's not a pick there. It's just more of a what's going on?

Consulting - obviously, the market environment is great. You guys put up another phenomenal quarter, consistent with our checks. But, obviously, people are going to ask, okay, well, is this then the peak? Is there going to be a fall off after this quarter? Are we going to have -- when's the next down tick?

So, I guess I would ask you, which might seem like a weird question, given that you've just put up 3.5 billion in consulting bookings, but any signs out there of a slow down?

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### Bill Green - Accenture - Chairman and CEO

Well, Adam, I respect you for asking the question because I think it's an important one and it's something that we look hard at all the time. Again, as I've mentioned over the past many quarters, much of our business is driven by the confidence of CEOs to invest in their business.

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And I just came back from China. I was in Germany and France last week and around the US this week. And, frankly, I see a lot of confidence in the marketplace in terms of what people are doing with their business. And all that stuff serves us very well.

Additionally, over the last year, we have put a lot more power behind our consulting business in terms of the assets, capabilities and attracting talent. So, we feel pretty solid about the direction the business is going across the board. And as we sort of read the tea leaves, the key things that influence decisions in my mind continue to be the confidence of business or the need to compete. And those things haven't gone away. I think they continue to get more extreme. And I think that it'll continue to serve us well in the consulting side of the business.

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**Adam Frisch - UBS - Analyst**

Okay. Great job, guys. Thanks.

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**Operator**

The next question is from the line of Rod Bourgeois of Bernstein. Please go ahead.

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**Rod Bourgeois - Bernstein - Analyst**

Yeah. Hey. It's Rod Bourgeois here. I wanted to kind of inquire. I appreciate you giving the initial comments about the fiscal '08 revenue growth outlook. Are you now expecting that your consulting business growth will begin to exceed the growth in the outsourcing business as you move into fiscal '08? When you look at the bookings pattern and actually what we're also seeing in the market, it would seem like you could now see the revenue mix shift back towards consulting? Is that a likelihood in the outlook?

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**Bill Green - Accenture - Chairman and CEO**

Well, I think as we -- we always believed we'd be at 50/50 a little sooner than we are. The reason we aren't is the consulting business has come roaring back. Frankly, we like the portfolio of inbound business better than we would have expected in all honesty. And I think it'll continue.

As you know, with outsourcing, it doesn't take but two or three big deals to have an impact on the mix in any one quarter and even across a year. So, I think that the nature of the outsourcing business has been in the mid-sized deals, which serves us well in terms of their durability. But I think there still will be some quarters where outsourcing dominates just because of the nature of some of the transactions that can be out there.

I think the thing that's most important to us is we feel great about the mix right now, how it's unfolding. And more importantly, we feel great about the ability to move relationships from consulting through the development phases and into the outsourcing place. So, on balance, I think our mix, as you see now, is going to be pretty consistent.

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**Rod Bourgeois - Bernstein - Analyst**

Let me be more specific, I guess, with where I'm trying to go. I mean, with the valuation of the stock here, it's really important that you guys are raising your cash flow guidance. I mean, that's just spectacular to see the \$300 million increase there.

But, as you look into '08, clearly, your mix shift towards consulting is helping your free cash flow this year. And so, when I ask about consulting potentially continuing to sort of actually having the ability to grow faster in fiscal '08 than outsourcing, it has implications for your free cash flow prospects. So, do you feel like consulting can exceed the growth of outsourcing as you move into next year and then, that continuing to be a tailwind in your free cash flow?

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**Bill Green - Accenture - Chairman and CEO**

Well, I don't -- I mean, we don't -- that's not a discussion that we have around here. We're delighted with the momentum of consulting. We're running hard to keep up with the demand.



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And, as all, it's one thing to sell and it's another thing to execute. And the thing that's important to us is making sure we have the capabilities to execute in a first-class way and bring it to the bottom line.

So, I think, right now, we will continue to see a lot of breeze in the consulting space because there's a lot of demand out there. And our opportunity is to make sure we have the right people to address the demand and make sure we choose wisely in terms of the profitability of the relationships that we pursue.

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**Rod Bourgeois - Bernstein - Analyst**

All right. And with all that falling to the bottom line here, can you guys get more aggressive with share buybacks or a higher dividend given the strong free cash flow that you have?

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**Pam Craig - Accenture - CFO**

Well -- hi, Rod. We're going to continue with our program of share buybacks through '09. As you know, we still have the founder program that we're working through. And on the dividend, yes, we'll be discussing that with our Board next month what we'll plan to do next year.

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**Rod Bourgeois - Bernstein - Analyst**

Okay, great. And then, Steve, just one quickie for you there. The growth in Asia is really impressive. I mean, is that a rate that can be sustained or is there some lumpiness to that growth rate here of late?

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**Steve Rohleder - Accenture - COO**

Well, it's anchored in Japan and Australia. So, if that's what you mean by lumpiness, I guess I'd answer it that way. But, I would also tell you that we're seeing demand in Southeast Asia and China on a smaller scale.

I do think we can sustain it. As Bill mentioned, our big challenge is just getting people to the jobs there. The demand is there. We've got to be selective to make sure that we can meet the demand and basically deliver value to our clients. But, the demand is definitely there. I won't predict whether we can sustain that rate or not.

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**Rod Bourgeois - Bernstein - Analyst**

Okay. Thank you, guys.

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**Operator**

The next question is from the line of Moshe Katri of Cowen and Company. Please go ahead.

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**Moshe Katri - Cowen and Company - Analyst**

Hey, thanks. Congratulations for a very strong quarter. Looking at your global delivery network, I think you provided a headcount. Can you break it down by India, the Philippines and then other? Maybe, also, you can talk about some of the metrics that we typically focus on, maybe talk about attrition rates in India? That was an area of focus. And then, I think you also have a specialized sales force that sales these kind of services into the offshore global delivery network. Have you changed the headcount in that group, as well? Maybe you can talk a bit about that.

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**Steve Rohleder - Accenture - COO**

Yeah, let me address the headcount. For India, I think we normally talk about India headcount. We crossed the 30,000 mark and we're well on the prediction to hit 35,000 for the fiscal year.

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In terms of the Philippines, I'd have to get the exact numbers, Moshe. But, I would tell you that by the end of the fiscal year, the Philippines will be our third-largest location within Accenture, just in terms of headcount, at about probably roughly about 11,000.

The sales force question is a good one. In fact, this week, I sat down with the guys and went through where we're at in terms of our basic AO offering. And they have increased the sales director slightly this year.

That said, I think based on the readout that I received, the productivity of these guys has increased substantively this year. And I'm very pleased with what we're doing in that area right now. I'm not sure it's one-for-one adding a sales director and growing exponentially. I think it's the effectiveness and the efficiency of the sales directors that we have and how they use our channel that is really going to drive the growth for us.

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**Moshe Katri - Cowen and Company - Analyst**

And then, can you comment a bit about the competitive landscape? Is it helpful that your closest large competitor is being a bit more kind of disciplined in terms of the type of services that they're focusing on? And then, maybe you can talk a bit about competitively the tier-one offshore vendors, as well?

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**Bill Green - Accenture - Chairman and CEO**

Yeah. Well, I mean, this is Bill. I guess I just -- if you -- you really have to peel this thing back globally and you have to peel it back by the industry. So, it's really hard to generalize.

I think the thing that's most important to us is we feel good about our competitive position. And that starts with having differentiated products and services that deliver value.

The second thing is we do see -- and Steve can comment on this more -- we do see better pricing power in the market than we've seen in quite some time. And we do see still a lot of sole-source opportunities in the market.

So, to us, those are the things that we start with. In the shootouts, the competitive shootouts, I think we hold our own and we win more than our share. But, we spend a lot of time making sure that we're, first and foremost, able to differentiate in terms of the products and services we bring and the value we produce. And that's where some of our investment has gone over the past year, so we can put those things in the hands of our teams to take them to market.

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**Steve Rohleder - Accenture - COO**

And just on your tier-one question, Moshe, quarter-on-quarter, there really hasn't been much difference in terms of the deals where we're competing against the tier-one Indian pure plays. We've seen maybe a slight up tick in the ERP area, where we're seeing them expand a little bit. But, by and large, it's the same competition in the basic AO space that we've seen.

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**Moshe Katri - Cowen and Company - Analyst**

Thanks. Nice quarter.

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**Operator**

The next question is from the line of Julio Quinteros of Goldman Sachs. Please go ahead.

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**Julio Quinteros - Goldman Sachs - Analyst**

Great. Thanks. I want to ask this quick question just to go back to the two comments, I think, Steve, you made about the, both the products and the financial services. I just want to make sure I understand the comments that you made related to the operating profit impact of both of those

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segments. And then, I guess, Pam, if you could just sort of relate that to the difference between the range of 20 to 70 basis points operating margin expansion that you had expected previously or if those were the two sources of the delta between the high end versus the low end of margin expansion for the year.

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**Steve Rohleder - Accenture - COO**

Yeah, Julio, let me start and I'll let Pam draft in behind. I wanted to -- just to your question on products and financial services. Both are different situations.

Products, as Pam talked about, had a tough compare with a one-time event in a retail client in EMEA. Frankly, their business is still very strong and in spite of that, they posted some great results, both top-line and bottom-line when you take out that one-time event.

Financial Services is a bit of a different story because for the last three or four quarters, I've been talking about our program to get the pipeline built up, to generate demand and, frankly, to drive work at the top line. We've experienced that top-line growth. Now, we have some work to do to just make sure that we've got the people, the tools and we're delivering what we've said we were going to deliver.

And, frankly, that's the delivery inefficiencies I mentioned. And, Pam, you may want to--.

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**Pam Craig - Accenture - CFO**

Well, just overall, Julio, we were really pleased with the operating margin of 13.4%. It tracked well against our plan. The underlying margins were up from last year if you take out the one-time item in Products that we talked about. And so, it allowed us to accrue annual bonus and continue to invest in the business. And I think when you see that we're growing EPS by over 20% this year and that we'll expand operating margin by at least 20 basis points, we're very comfortable with where we are.

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**Julio Quinteros - Goldman Sachs - Analyst**

Okay. And then, finally, for the fiscal year '07, did you give a projected share count that you expected for the full year?

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**Pam Craig - Accenture - CFO**

We did not give it, but we can get that for you.

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**Julio Quinteros - Goldman Sachs - Analyst**

Okay. Great. Thanks.

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**Operator**

The next question is from the line of Julie Santoriello of Morgan Stanley. Please go ahead.

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**Julie Santoriello - Morgan Stanley - Analyst**

Thank you. Good afternoon. My question is on pricing. Steve, I know you mentioned you're seeing some price increases. I'm wondering if you're surprised at all that you're not seeing even stronger pricing, just given the very strong demand environment and the high utilization? And if you can comment on the competition on the consulting side, as well, and if there is anything that you're seeing different on the competition front, especially offshore.

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**Steve Rohleder - Accenture - COO**

No. I mean, first, on the competition, as I was mentioning earlier, in the offshore area, there really isn't much difference other than a slight up-tick in the ERP area.

On the pricing front, I think the key for us to continue to make progress here is to deliver the differentiated skills that we have to our clients. And we've put a specific program in place. We've now had it in place for two quarters. And we've expanded that this quarter into some specialty systems integration areas around some of the ERP vendor skills.

And, frankly, it's just going to take time to have that work its way through the system and to have the new contracts with the higher pricing replace what we've got in place with some of our master services agreements right now. So, I'm happy with the progress we're making. We're going to continue to focus on it and push the pricing, given the utilization that we have.

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**Julie Santoriello - Morgan Stanley - Analyst**

Okay. Thanks. Also, on the government vertical, looked a little bit weak in terms of revenue growth, at least in local currency. Can you give us an update there? I know there's been some issues with federal government spending.

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**Steve Rohleder - Accenture - COO**

Yeah. The -- about -- if I step back and look at the government OG, a large percentage of the work is centered in the United States and a large percentage of that is in the federal space. And the slowdown in the budget process, the continuing resolution that a lot of people refer to frankly has slowed down some of the decision-making process.

That said, what we're seeing is our clients are beginning to break up into smaller pieces the work that they want to extend for us. So, I'm not concerned at all about the volume of work dropping off. It's strictly a timing issue.

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**Julie Santoriello - Morgan Stanley - Analyst**

Okay. And just, if I can get one more question. You mentioned you're beginning to see acceleration in SOA. Can you put some sort of numbers or sizing around that? Can you talk at all about the number of engagements that you have in SOA? And also, just from a big-picture standpoint, is the SOA work that you're doing and that you see coming, is it going to be incremental to revenue or is it really just cannibalizing other pieces of your systems integration revenue?

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**Bill Green - Accenture - Chairman and CEO**

This is Bill. I'll speak to that for a minute. I think if you look at it for the near term and the medium term, it's incremental. And here's why. There's lots going on that's sort of traditional stuff. But, all the big enterprises have at least their toe in the water, some of them up to their knees in the SOA space. And as people build that out and as the science catches up and the durability and scalability and some of those other things happen, people are going to continue to generate the next platform of solutions in that architecture.

I mean, frankly, I couldn't even count the number of SOA engagements that we have going on around the world right now. They are vast in number, but generally small in size. And I think over the next 18 months, we're going to see a lot more big industrial strength solution delivery projects that leverage that architecture as the tools and technologies catch up and as people get more experience in their own shops with doing it.

I would tell you that we've been infusing it into our workforce for just about two years now almost on a weekly basis. And so, we feel very well positioned for that. And we do believe very specifically and very sincerely that SOA is going to be a bona fide wave that drives demand for new solutions in this industry.

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**Julie Santoriello - Morgan Stanley - Analyst**

Okay. Thank you.

**Operator**

The next question is from Pat Burton of Citigroup. Please go ahead.

**Pat Burton - Citigroup - Analyst**

Hi. Congratulations on the quarter, as well. My question is for Pam, and that relates to the 3 to 4% revenue growth from the weak dollar. Do you see that flowing through into gross profitability, as well, or does that only just help the top line from an accounting perspective?

**Pam Craig - Accenture - CFO**

Well, it mostly helps the top line because most of the time, you have the corresponding cost going against it. But, it does contribute a bit to gross margin, as well.

**Pat Burton - Citigroup - Analyst**

Okay. And then, a follow up - on the new free cash flow range within the 1.9 to 2.1, not to be difficult, but with a quarter to go, what could be the puts and takes within that range where it could come in at the low end or the high end? Thanks.

**Pam Craig - Accenture - CFO**

Pat, I mean, it's more just to kind of just see how accruals and stuff play out and I think taxes and stuff like that.

**Pat Burton - Citigroup - Analyst**

Okay. Thank you.

**Operator**

The next question is from the line of Andrew Steiner of Bear Stearns. Please go ahead.

**Andrew Steiner - Bear Stearns - Analyst**

Hi. It's Andrew Steiner of Bear Stearns. When you look at the gross margin in the quarter, putting aside the UK cancellation fee from a year ago, Pam, could you comment like you did last quarter on how you viewed kind of the raw gross margin year-over-year.

**Pam Craig - Accenture - CFO**

Yes. Hi, Andrew. Well, first of all, again, the 13.4% - seasonally, our third quarter is typically very strong, as it was this year. And when we took out the one-time item, if you look at the underlying margins, we did see improvement this year quarter-over-quarter.

**Andrew Steiner - Bear Stearns - Analyst**

Uh-huh. And what drove that improvement year-over-year?

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**Pam Craig - Accenture - CFO**

I'm not going to share that, Andrew, but it definitely was going in the right direction.

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**Andrew Steinerman - Bear Stearns - Analyst**

Right. So, utilization was the same year-over-year. My only question is, were bill rate increases enough to offset wage increases?

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**Pam Craig - Accenture - CFO**

Yes. We've been tracking well with getting the price increases for the wage increases as we -- I mean, most of those go in in September, as you know. And so, we're pretty much through that at this point.

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**Andrew Steinerman - Bear Stearns - Analyst**

Super. Thanks for your help.

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**Operator**

The next question is from the line of George Price of Stifel Nicolaus. Please go ahead.

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**George Price - Stifel Nicolaus - Analyst**

Thanks very much. Can you hear me?

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**Pam Craig - Accenture - CFO**

Yes.

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**George Price - Stifel Nicolaus - Analyst**

Great. First question - I wonder if we can get a little more commentary around the delivery inefficiencies that you mentioned, I think specifically in EMEA. What are those related to and are any related to relatively recent wins like Unilever, particularly on the HR side? Can you give us a little more color on that?

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**Steve Rohleder - Accenture - COO**

Now, George, frankly, I don't want to discuss individual contracts on the call. But, the delivery inefficiencies were focused in Financial Services as an operating group. So -- and, frankly, I feel like we identified them early and we're taking care of them.

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**George Price - Stifel Nicolaus - Analyst**

Okay. Second question - you gave for fiscal '08 the preliminary revenue outlook. I realize that there's more to follow. But, you've said in the past that you see a good deal of upside potential to operating margin as you continue to focus on SG&A. Where do we stand in that process over time? Can we assume that that continues to be the case as we look into fiscal '08?

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**Pam Craig - Accenture - CFO**

Yeah. That'll all go into the planning mix, right. We'll be looking for continued leverage in SG&A. We'll look for continued pricing power, continued leverage of the global delivery network. So, those are all the kinds of things that'll go into the mix of profitable growth.

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**George Price - Stifel Nicolaus - Analyst**

Okay. Last question, Pam - if the dollar stays flat now through the rest of -- from now through fiscal '08, what would FX do for next year?

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**Pam Craig - Accenture - CFO**

We haven't projected that yet.

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**George Price - Stifel Nicolaus - Analyst**

Okay.

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**Pam Craig - Accenture - CFO**

And as you know, we see the revenues growing 9 to 12% in local currency. And that's the point we're at.

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**George Price - Stifel Nicolaus - Analyst**

Okay. All right. Great. Thank you.

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**Pam Craig - Accenture - CFO**

Thank you.

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**Operator**

The next question is from the line of Tien-Tsin Huang of JP Morgan. Please go ahead.

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**Tien-Tsin Huang - JP Morgan - Analyst**

Thanks. A question on the outsourcing portfolio - how would you describe, I guess, the risk profile of the contracts in aggregate today relative to history? I'm just trying to gauge the risk of problem contracts emerging. It feels lower to us, but just wanted to confirm.

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**Steve Rohleder - Accenture - COO**

Yeah, Tien-*tsin*. This is Steve. I think, last quarter, I talked about the relative size of the contracts coming down. And while that was happening, our average yield is still consistent. And that holds for this quarter, as well.

Frankly, as clients break up work into smaller pieces, that does have an impact on the risk. I think, overall, it lowers the risk of the portfolio. And I think that's where we're at right now.

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**Tien-Tsin Huang - JP Morgan - Analyst**

And I know you spoke a little bit about the pipeline, but can you just elaborate a little bit? Are there large chunky deals on the horizon in outsourcing?

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**Steve Rohleder - Accenture - COO**

Well, I mean, I think we've got a pipeline that can support the growth and support the book-to-bill ratio that we've targeted for the fiscal year. It's hard to say whether -- I don't know how you characterize chunky. We do have some large deals. We have a number of smaller deals, too. Most of our deals are between \$100 and \$300 million, though.

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**Tien-Tsin Huang - JP Morgan - Analyst**

Got you. And then, did I hear correctly that the GDN headcount growth is up 48% in the quarter?

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**Steve Rohleder - Accenture - COO**

I believe -- yes, yeah.

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**Tien-Tsin Huang - JP Morgan - Analyst**

So, 48%. Is revenue growth still tracking within range of the headcount growth?

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**Steve Rohleder - Accenture - COO**

Yes.

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**Tien-Tsin Huang - JP Morgan - Analyst**

Terrific. And then, just a small nit here from Pam, I guess - what drove the spike in the other expenses line that was below EBIT? I think it was \$16 million. And also, the gain on investment - what exactly was that? Thank you.

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**Pam Craig - Accenture - CFO**

We had a small investment that, way back when, we had a venture portfolio many years ago and we had just a teeny bit left from that and we sold and had a gain on it of about \$10 million.

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**Tien-Tsin Huang - JP Morgan - Analyst**

And then, the other income?

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**Pam Craig - Accenture - CFO**

The other income expense is mostly just interest and foreign exchange.

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**Tien-Tsin Huang - JP Morgan - Analyst**

Yeah, because it looked like it spiked up a little bit sequentially and year-on-year.



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**Pam Craig - Accenture - CFO**

Yep, by about \$6 million.

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**Tien-Tsin Huang - JP Morgan - Analyst**

Okay. So, nothing else unusual?

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**Pam Craig - Accenture - CFO**

No.

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**Tien-Tsin Huang - JP Morgan - Analyst**

Thank you.

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**Operator**

The next question is from the line of Abhi Gami of Banc of America. Please go ahead.

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**Abhi Gami - Banc of America - Analyst**

Hi. Thanks. I'd like to drill down a little bit deeper on the Asia Pacific growth. Is this growth coming primarily from local customers or from the local operations of your global clients?

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**Steve Rohleder - Accenture - COO**

More the former than the latter, Abhi Gami. I think the -- again, if you look at the concentration, it's primarily in Japan and Australia. And I would tell you that the operating groups that are experiencing most of the growth are Communications & High Tech, Government and Financial Services, but primarily from local companies in those countries.

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**Abhi Gami - Banc of America - Analyst**

Thanks, Bill [sic]. And Japan, I think you mentioned before that Japan's been a source of strength. Has something changed in the client environment or has something changed in the way Accenture is pursuing the Japanese market?

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**Steve Rohleder - Accenture - COO**

No. I think we have seen a shift over the last two to three quarters and more of an emphasis on business process outsourcing and outsourcing in general. That's where the strong demand is, both in the pipeline and what we've experienced in the last few quarters. So, I believe there has been a shift to more outsourcing in that region.

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**Abhi Gami - Banc of America - Analyst**

Interesting. And final question is, is Accenture investing ahead of that growth in the Asia Pacific region or are you investing along with the kind of demand you're seeing?

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**Bill Green - Accenture - Chairman and CEO**

Well, this is Bill. I mean, it's an area that I look after. And what we call it is positively discriminating towards the business over there. And so, while we don't -- we're very careful not to get too far out ahead of the growth. But, frankly, the growth has been there. The investments have been there. The people are coming through the pipeline that are just terrific next-generation leaders that are going to define the future of Accenture there.

So, we do positively discriminate towards Asia to make sure they have the talent and the offerings and the resources they need to take advantage of the market there.

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**Abhi Gami - Banc of America - Analyst**

All right. Thank you very much.

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**Richard Clark - Accenture - Managing Director, Investor Relations**

Operator, we have time for one more question.

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**Operator**

The last question is from the line of Elizabeth Buckley of Arete Research. Please go ahead.

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**Elizabeth Buckley - Arete Research - Analyst**

Yes. Good afternoon. A question on the outsourcing area - looking at the decline in bookings that we saw over the quarter, you mentioned greater selectivity as one of the explanations. In what parts of the market are you seeing competition intensify?

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**Steve Rohleder - Accenture - COO**

Well, I think the competition is there in all segments - in application outsourcing, all segments of the BPO business, the horizontal BPO business I mentioned, and to a certain extent, in the verticals, but more in the horizontal BPOs.

Where we're being selective, frankly, is in a few of the horizontal BPOs where we don't want to get demand ahead of what we can supply and what we can deliver, Elizabeth.

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**Elizabeth Buckley - Arete Research - Analyst**

Uh-huh. And just, could you give us a sense of what percentage of your outsourcing revenues are BPO today?

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**Steve Rohleder - Accenture - COO**

I don't believe we report separate segments that way.

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**Elizabeth Buckley - Arete Research - Analyst**

And you can't give us just a general feel for the relative strength of the BPO and the mix?

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**Steve Rohleder - Accenture - COO**

No, I'd rather not. Just, we look at outsourcing as a combination. And by the way, it's very difficult to break out some of the overlapping BPO segments, anyway. So, I'd rather not.

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**Elizabeth Buckley - Arete Research - Analyst**

And, I guess, I mean, looking at the decline, could we also read into this just a change in management focus given the better opportunities and demand that you're seeing on the consulting side?

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**Steve Rohleder - Accenture - COO**

I don't think it's a change. I do think it's a combination of being selective and it's also a combination of the timing of the opportunities and when they close. Quarter-on-quarter, it's difficult to predict a steady state of bookings because one big deal can move into another quarter and really skew the overall results.

So, I'd say overall, I'm still very happy with what we've got in the pipeline. Frankly, some of the things have slipped into other quarters. We've closed some in Q3. So, the quarter-on-quarter compare isn't as important to me as where our pipeline is and the profile of the opportunities that we're chasing.

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**Elizabeth Buckley - Arete Research - Analyst**

Okay. Thanks.

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**Steve Rohleder - Accenture - COO**

Thanks.

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**Bill Green - Accenture - Chairman and CEO**

Well, this is Bill. If I could just take a minute to wrap up. First, as you've heard from all of us, we're delighted with the momentum in our business and the way the year is progressing. We remain focused on profitable growth by addressing the many opportunities in the marketplace and meeting the strong demand for our services.

We believe we have a strong market differentiator in our ability to serve clients from idea through design, implementation and operation, to do it globally and across every industry.

We continue to have the right balance of driving shareholder value for today and investing in our business for tomorrow. And most importantly, we have great people at Accenture. And thanks to them, we are producing excellent results for our clients and for our shareholders.

Thank you for joining the call today and for your continued support of Accenture.

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**Operator**

Ladies and gentlemen, this conference will be available for replay after 9:45 p.m. today until July 12th, 2007 at midnight. You may access the AT&T Executive playback service at any time by dialing 1-800-475-6701 and entering the access code 876610. International participants may dial 1-320-365-3844. Again, those numbers are 1-800-475-6701 and 1-320-365-3844 with the replay access code of 876610.

That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.

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