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Conference Call Transcript

ACN - Accenture Q3 Fiscal 2010 Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Accenture's third-quarter fiscal 2010 earnings conference. At this time, all lines are in a listen-only mode. (Operator Instructions). I'd also like to remind you that today's conference is being recorded. I'll now turn the conference over to Richard Clark, Managing Director of Investor Relations. Please go ahead, sir.

Richard Clark – Accenture - Managing Director, Investor Relations

Thank you, Operator, thank you everyone for joining us today on our third quarter fiscal 2010 earnings announcement. As the Operator just mentioned, I'm Richard Clark, Managing of Investor Relations. With me this afternoon are Bill Green, our Chairman and Chief Executive Officer, and Pamela Craig, our Chief Financial 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, along with some key operational metrics. Bill will then provide some insights on what we're seeing in the market and how we are positioning ourselves and the business for future growth. Pam will provide our business outlook for the fourth quarter and full fiscal year 2010. And then we will take your 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 on this call are forward-looking, and you should keep in mind 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 news release and discussed under the Risk Factors section of our Annual Report on Form 10-K and other SEC filings.

During our call today, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of those measures to GAAP in our news release or on the Investor Relations section of our website at Accenture.com. As always, Accenture assumes no obligation to update the information presented on this conference call.

Now, let me turn the call over to Bill.

William Green – Accenture - Chairman & CEO

Thank you, Richard, and thanks everyone for joining us today. We're very pleased with our performance in Q3, which showed positive growth, strong overall results, and building momentum in our business. Equally exciting, we see increasing demand for many of our new services and offerings across both Management Consulting and Technology.

Here are some of the highlights from the quarter. Revenues were \$5.6 billion, squarely within our expected range of \$5.5 billion to \$5.7 billion. We grew operating income 10%, and increased operating margin to 14.4%. We delivered earnings per share of \$0.73, an increase of \$0.05 over Q3 last year. New bookings were strong, at \$6.4 billion, with consulting and outsourcing each exceeding \$3 billion. We generated more than \$900 million in free cash flow, and we continue to have an exceptionally strong balance sheet. Everywhere you look at it, a very good performance.

While there are still pockets of uncertainty in the global economy, we continue to see signs of positive momentum as clients are again looking to their future and focused on improved growth and business performance. We are right there, working closely with them, and are helping them shape and launch their initiatives, which create exciting opportunities for Accenture. We continue to make targeted investments in new offerings and services and are aggressively recruiting high-quality talent to ensure we have the breadth and depth of capabilities to serve our clients today as well as tomorrow. I believe that as a Company, we have never in our history been better positioned for growth and expansion than we are today.

With that, I'll turn the call over to Pam, who will provide some more detail on the numbers.



Pamela Craig – Accenture - Chief Financial Officer

Thank you, Bill, and thanks for listening today. I am pleased to tell you more about our strong third-quarter results. We did our planning for fiscal year 2010 a year ago in a challenging and unpredictable environment, and as we wind down the year, we are delivering. We are driving the business, and getting the results. Our pipeline has strengthened considerably since the start of the year. We are aggressively recruiting talent, and bookings are coming through well. We have the revenues we projected, some margin expansion, exceptional cash flow, and a rock-solid balance sheet. In this environment, this is an excellent result.

Now let's get to the numbers. Unless I state otherwise, all figures are US GAAP except the items that are not part of the financial statements or that are calculations.

New bookings for the quarter were \$6.43 billion and reflect a positive 5% foreign exchange impact compared with new bookings in the third quarter last year. Notably, Financial Services new bookings are at an all-time high year-to-date, up 35% in local currency. Consulting bookings were \$3.18 billion, and outsourcing bookings were \$3.25 billion.

Looking at how consulting bookings have trended over the last couple of years, I believe we have reached a new level with the volume and consistency of consulting bookings. Even with contract sizes trending smaller, we are consistently booking \$3 billion or more a quarter. As you know, this is where we have a clear competitive advantage, and benefit not only from working in the C-suite but also from the downstream work that originates from consulting.

In Management Consulting, demand is broad-based and strong, as I said after Q2. We continue to see demand for services related to business improvement, particularly strategic sourcing, customer relationship management, risk management and post-merger integration. We also see a pick-up in demand for offerings around revenue growth and talent and organization performance.

In Technology Consulting, we see robust demand, with record bookings for the second quarter in a row. Clients demand continues to be for what makes their technology more efficient and effective, through infrastructure consolidation, virtualization, security, and IT governance projects.

In Systems Integration, we see a broad pipeline of opportunities. Bookings continue to reflect demand for custom work as well as for ERP rollouts, country expansions, and new modules. We see custom development on multiple next-generation platforms, both on-premise and cloud-based. The bookings sparked solid SI revenue growth in some of our larger countries during the quarter. We are aggressively leveraging our Global Delivery Network to broaden our footprint at existing clients and at the new clients we are adding to our portfolio. And to all clients, we are delivering more value for money.

Turning to outsourcing... Our outsourcing bookings reflect a steady recovery. In Q3, we closed five contracts in excess of \$100 million each. We saw solid demand for technology outsourcing offerings, and Technology Consulting is helping to drive the design/build/run of next-generation infrastructure and the consolidation and renewal of application platforms in order to drive value for our clients. In addition, we are seeing demand build in our BPO business, particularly in Products and Communications & High Tech.

So in summary, we had a bookings quarter that was strong across the consulting and outsourcing dimensions of our business.

Now, turning to revenue. Net revenues for the third quarter were \$5.57 billion, an increase of over 8% in US dollars and almost 4% in local currency over the same period last year. These revenues, which reflect a rounded foreign exchange impact of positive 5% compared with Q3 last year, were solidly in our guided range of \$5.5 billion to \$5.7 billion. Consulting revenues were \$3.22 billion, an increase of 9% in US dollars and 4% in local currency. Outsourcing revenues were \$2.35 billion, an increase of 7% in US dollars and 3% in local currency. As we expected, year-over-year revenue growth turned positive in local currency in Q3, led by Products, Financial Services and Resources.

Financial Services net revenue growth was 7% in local currency, with notable 17% growth in consulting. We saw growth across all three geographic regions, particularly in Banking and Capital Markets. As clients grapple with the dynamic environment, we are providing services related to post-merger integration, core banking replatforming, risk and regulatory compliance, and business model transformation.

Products net revenue growth was a strong 9% in local currency. Consulting growth was lead by Consumer Goods & Services, as we respond to client demand for cost management and post-merger integration around the world and notably in the emerging markets. Outsourcing revenues increased significantly across all geographic regions and in most of our industry groups.

Resources net revenue growth was 5% in local currency, with strong consulting growth in the Americas coming from all industry groups and driven by demand for global operating models, CRM and ERP. We also saw an uptick in post-merger integration and smart-grid-related projects. Outsourcing revenues also increased, as we saw strong growth in our Energy industry group.



Communications & High Tech revenues reflected a decline of 3% in local currency. Our consulting revenue declines moderated significantly since the first half of the year, and at this point reflect a return to significant growth in the Americas but continued lagging performance in EMEA. A modest decline in Outsourcing revenues reflects the impact of last year's cancellations. The activity building in Communications & High Tech is largely focused on next-generation networks, strategic sourcing, content delivery, and innovations in marketing and customer service.

Health & Public Service revenues were flat in local currency. We are seeing growth in our Outsourcing business, led by increased volumes at existing clients in our US federal and our Health practices. We experienced declines in consulting revenue in the public sector, as continued uncertainty and challenges in the public sector remain, particularly in the US and the UK. We are seeing strong growth in emerging markets such as Brazil and Mexico.

Moving down the income statement, gross margin was 34.7% compared with 32.5% for the same period last year, reflecting a 220-basis-point improvement.

Sales and marketing expense was \$714 million or 12.8% of net revenues, compared with \$525 million, or 10.2% of net revenues, for the third quarter last year, an increase of 260 basis points.

The 220-basis-point improvement in gross margin was offset by a corresponding increase in sales and marketing expense due to the implementation of our sales effectiveness model put in place at the start of this fiscal year. The additional 40-basis-point increase in sales and marketing expense was due to our efforts to grow our sales pipeline.

General and administrative expense was \$410 million, or 7.4% of net revenues, compared with \$411 million or 8.0% of net revenues, for the third quarter last year, so while G&A dollars were flat year-over-year, they were down as a percentage of revenue. We continue to hold the line and work our G&A costs down as a percentage of net revenues.

Operating income was \$804 million, reflecting a 14.4% operating margin. This compares with \$732 million, or 14.2% operating margin, in the third quarter last year, an increase of 20 basis points. Our Financial Services and Resources operating groups posted growth in operating income and operating margin compared with the third quarter last year. This was due primarily to revenue growth, notably consulting revenue growth, which also brought higher utilization. Health & Public Service operating margin declined in the third quarter compared to the same quarter last year, due to lower contract profitability and increased selling costs.

Net-net, adding up all the parts of Accenture, we achieved an expansion of 20 basis points in operating margin. As you know, we manage our business to operating margin and are pleased with this result.

Our effective tax rate for the quarter was 29.8%, compared with 28.2% for the third quarter last year.

Net income was \$564 million for the third quarter, compared with \$537 million for the same quarter last year, an increase of 5%.

Diluted earnings per share for the quarter were \$0.73, compared with \$0.68 in the third quarter last year, an increase of \$0.05. Here is how that breaks down:

- a \$0.03 increase from higher revenue and operating income in local currency;
- a \$0.02 increase from a lower share count; and
- a \$0.03 increase from favorable foreign exchange rates compared with the third quarter of fiscal 2009;

offset by:

- a \$0.01 decrease from lower non-operating income; and
- a \$0.02 decrease from a higher effective tax rate compared with the third quarter last year.

This strong earnings performance reflects our rhythm of continued disciplined management of our business and positions us well.

Now, let's turn to some key parts of our cash flow and balance sheet. Free cash flow for the quarter was \$903 million, resulting from cash generated by operating activities of \$961 million, net of property and equipment additions of \$58 million. This very strong cash flow reflects the continued focus on managing our industry-leading DSOs.

Turning to DSOs, our days services outstanding were 28 days, down from 30 days in the second quarter and consistent with 28 days at the end of last fiscal year.



Our total cash balance at May 31 was \$4.3 billion, even after \$1.3 billion of share repurchases and \$824 million of dividends paid year-to-date through the third quarter.

Turning to some key operational metrics. We ended the quarter with global headcount of more than 190,000 people. In Q3, our utilization was 88%, still higher than our targeted level. We are therefore very focused on where we need talent, and we are on our way to hirer more than 50,000 people around the world this year. Attrition, which excludes involuntary terminations, was 17%, compared with 15% in Q2 this year and 8% in Q3 last year. This is higher than we would like, but not uncommon for when we come out of a downturn.

Before I turn things back to Bill, I'll comment on our ongoing objective to return cash to shareholders through dividends and share repurchases. May was the first time we paid dividends to our shareholders on a semi-annual basis. As I mentioned last quarter, the dividend payment of 37½ cents per share was exactly half of our previous annual dividend of 75 cents per share. Also in the third quarter, we repurchased or redeemed approximately 11 million shares for \$447 million, at an average price of \$41.97 per share, including approximately 5 million shares repurchased in the open market. At May 31, we had \$3.6 billion of share repurchase authority remaining.

In summary, our strong Q3 results reflect the upturn we are seeing in our business. It continues to be, and will continue to be, a challenging environment, and we need to keep executing. Thanks to the focus and determination of all of our people around the world, we delivered great results this quarter and are on our way to achieving our full year business outlook.

Finally, I would also like to mention that we were pleased to see that we were added to the S&P Total Market Index and to the preliminary list for inclusion in the Russell 1000. Now, let me turn the call back to Bill.

William Green – Accenture - Chairman & CEO

Thank you, Pam. Before Pam takes you through the outlook for Q4 and the full year, I just wanted to take a moment and talk about where we are and how we're positioned for the future. Some of this we shared with you at our investor meeting in April.

While economic recovery remains underway, it is uneven, as you know. In spite of this, our results in Q3 show a clear return to growth for Accenture, and quite simply we are excited about the future growth opportunities we see. The imperative for improved business performance for our clients is increasing, and our positioning to serve them is excellent. We managed our business very well through the economic challenges. We have also sharpened our ability to differentiate our offerings, to compete, to win, and to grow.

Fiscal 2010 is about delivering results and getting back to the momentum in growth. We are executing as planned. In April, we set out our strategy to the investment community. In short, we see growth coming from three dimensions. The first dimension is our core business. This includes the vast majority of consulting technology and outsourcing services we've traditionally provided to our clients. We have refreshed and renewed our core. It is alive and vibrant, incredibly differentiated, and powerful. Our core business is and will continue to be our primary growth engine.

The second dimension are new initiatives and businesses. This is a set of services that we are building both within and on top of our core. Things like analytics, digital marketing, mobility, smart grid and sustainability, as well as new technology areas such as cloud computing and cyber security. We believe many of these have the potential to become new \$1 billion services for Accenture.

And finally, the third dimension is geographic expansion. This is about taking all of the elements of our business and providing those services in more places around the world. We're dialing up our focus on our six strategic growth markets, as well as entering and expanding in new markets. We have the unique ability to provide consistent service to the world's biggest companies, anywhere in the world they operate.

Our core is executing well, but we still have incredible head room, even in our most penetrated markets. We're seeing real traction in our new business areas, with a growing pipeline of opportunities, and our geographic expansion strategy is well under way. In fact, over the past few months I visited Accenture offices and clients around the world, including in China, Mexico, Africa, and the Middle East, and I'm excited about the growth opportunities for Accenture in these important markets of the future.

Of course, what makes the difference for Accenture are two things: Our talent -- having the best people in our industry; and our superior execution -- being better at what we deliver than our competitors. We continue to have an unyielding focus on recruiting and retaining the best people with the deepest and most relevant skills and breadth of experience, and we continue to instill discipline and a culture of performance excellence in everything we do -- for our clients, and in how we run our own business. In fact, we've recently created a new role of Chief Performance Officer to further our commitment to this important area. These are among the many reasons we are better positioned than ever for the future.



Now I'll turn it back to Pam, who will provide our business outlook for the fourth quarter and the full year.

Pamela Craig – Accenture - Chief Financial Officer

Thank you, Bill. This business outlook for fiscal year 2010 includes fourth-quarter revenues and our final view on the year. For the fourth quarter, we expect revenues to be in the range of \$5.15 billion to \$5.35 billion, which reflects local currency growth of 5 to 9%. This revenue range assumes a foreign exchange drag of 5% for the quarter that is based on the rates over the last three weeks.

Turning to the full fiscal year, we are now assuming a foreign exchange impact of positive 2% for the full fiscal year, which has trended down from the positive 3% assumption we provided last quarter and from the positive 4% assumption we had when we began the fiscal year. Based on our year-to-date results and the outlook just provided for Q4, we continue to expect our fiscal year 2010 revenue to be at the low end of our previously guided range of a 3% decline to a 1% increase in local currency. We continue to expect new bookings for the full fiscal year to land in our previously guided range of \$23 billion to \$26 billion. Given where we are in the year and over \$18 billion of bookings year-to-date, we expect to end up toward the middle of that range. This is even with the additional 2% foreign exchange drag we have experienced since we first provided our bookings outlook in October.

We now expect operating margin to be 13.5% for the full fiscal year, given year-to-date performance and our projection for Q4. This is 10 basis points higher than what we last communicated.

We are updating our annual effective tax rate to now be in the range of 29% to 30%. We now expect earnings per share to be in the lower half of our previously guided range of \$2.61 to \$2.69. This includes our latest assumptions on foreign exchange and the annual effective tax rate.

Finally, we now expect operating cash flow to be in the range of \$2.5 billion to \$2.7 billion, with property and equipment additions to now be \$240 million, and free cash flow to now be in the range of \$2.3 billion to \$2.5 billion, an increase of \$200 million from our previously provided range.

This completes our business outlook for fiscal 2010. At our Investor & Analyst day on April 8, I provided a preliminary view into our fiscal year 2011 targets for revenue growth in local currency, the growth rate of our earnings per share in US dollars, and cash to be returned to shareholders.

We continue to expect local-currency revenue growth to be in the range of 7% to 10% for fiscal year 2011. This level of business expansion and all of the key underlying planning assumptions about our business remain the same, except of course for foreign exchange dancing around. As I also mentioned on April 8, I will provide our full business outlook, including any impact of our currency assumptions, when we do our Q4 earnings call at the end of September.

In closing, as I consider how our business is positioned for fiscal year 2011 and beyond, we recognize that global economic and geopolitical challenges will continue. Right now, the economic and currency uncertainty in Europe has become center stage. We have become very agile responding to the markets around the world. We will continue to leverage the best of Accenture: our very experienced leadership team, our scale, our market position, and our client relationships.

Through our unique ability to combine consulting and outsourcing services, we will focus on value for money for our clients, and in so doing, we do what we always do: drive growth in revenues, growth in operating margin, and growth in cash flow.

Richard, let's take some questions.

Richard Clark – Accenture - Managing Director, Investor Relations

Thanks, Pam. Operator, would you provide instructions for those on the call?



QUESTION AND ANSWER

Operator

Certainly. (Operator Instructions). Our first question comes from Rod Bourgeois with Sanford Bernstein.

Rod Bourgeois – Sanford Bernstein - Analyst

Okay guys, great. Thanks for the update here. I guess I wanted to inquire a little bit about the outlook for the next year. I'm wondering if you feel better or worse about your 7 to 10% revenue growth guidance for fiscal 2011 compared to how you felt at the Analyst day and specifically, where we're seeing a lot of questions is in the area of Europe. Do macro issues in Europe cause you to worry a little more about that fiscal 2011 guidance or does having a good quarter under the belt make you still feel pretty comfortable with that range?

William Green – Accenture - Chairman & CEO

Rod, this is Bill. Good to talk to you. We feel good about the 7 to 10, as good or better as we felt back in April. The level of business activity -- I think in the US, we see, we're getting through the recovery and into sort of an expansion. Europe of course is uncertain, but we haven't seen it impact our business at all, and in Europe we have great market penetration and great clients and we see the leading companies continuing to invest for their future. So I'm sure Europe will bounce around a little bit, a little less certain in the United States than North America broadly, but on balance we feel very good about the business and as good or better as we felt in April.

Rod Bourgeois – Sanford Bernstein - Analyst

Okay, great. And I guess on the margin front, I'm hoping the fact that you're now committed to some modest margin expansion for fiscal 2010; I'm hoping that's a reflection that Accenture is in an ongoing way committed to trying to pursue margin expansion every year rather than the idea of holding back on margins.

Pamela Craig – Accenture - Chief Financial Officer

I think that's a fair statement, Rod.

Rod Bourgeois – Sanford Bernstein - Analyst

Great. Specifically also on the margin front, I was interested that you increased your sales and marketing expenses 40 basis points to drive a better pipeline. I'm wondering if that's a function of having pulled back on your sales and marketing expenses last year given the downturn, or -- so is it a function of an easy comparison versus last year on your expense basis, or is it a function of seeing a better pipeline, but also a pipeline where you have to fight pretty hard with the competition?

William Green – Accenture - Chairman & CEO

Well, I think there's no question that there's still plenty of fighting with the competition. That will never go away. But frankly the few basis-point increase is just in the normal course of things. Our people generate the business and then many of our people get into delivery mode, and the business is very busy right now, and so that will fluctuate around a little bit, but it's certainly not engineered in any way, and we're pretty relaxed about sort of the yield we're getting from the sales and marketing effort that we're putting in.

Rod Bourgeois – Sanford Bernstein - Analyst

So it's not a reflection of tougher competition or a reflection of a recent big jump in the pipeline?

Pamela Craig – Accenture - Chief Financial Officer

No, not particularly.



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Rod Bourgeois – *Sanford Bernstein - Analyst*

Okay, great. Thanks guys. I'll turn it over.

Pamela Craig – *Accenture - Chief Financial Officer*

Thanks, Rod.

Operator

We have Darrin Peller with Barclays.

Pamela Craig – *Accenture - Chief Financial Officer*

Hi, Darrin.

Darrin Peller – *Barclays Capital - Analyst*

Hi, how you doing? Thanks. Just a quick follow-up on Europe. Would you mind giving a little more disclosure on the revenue generated from governments in Europe versus corporates and just any sentiment that they've given you, and then I'll just take a quick follow on.

Pamela Craig – *Accenture - Chief Financial Officer*

Yes, the government, or what we call Public Services, is the smallest part of Accenture in Europe, and I think that we do see isolated impact from the UK, which is our largest market there.

Darrin Peller – *Barclays Capital - Analyst*

Okay, so there is an isolated impact being seen there at this time?

William Green – *Accenture - Chairman & CEO*

Yes, in the UK, it's very public knowledge that they're scrutinizing all of the public expenditures very closely. I think you got to go to the Prime Minister in order to get a blessing. So as they continue to deal with their challenges, you have to have a good business case and a solid payback and a near-term one that recognizes that you're going to deliver value for money. That said, there's still a lot of services that are provided and supported in the UK that need to go on, and so the business volume there will continue, but a lot of the opportunities for the new things I think we could safely say will probably be put on hold in the UK, and maybe one or two other countries as time goes on.

Darrin Peller – *Barclays Capital - Analyst*

Thanks, and then quickly on consulting, book-to-bill came down to about one times. Would you say trends are basically faster or revenue conversion there, are higher-quality contracts beginning to convert, and do you see more coming through in the second half?

William Green – *Accenture - Chairman & CEO*

Well, the level of activity is intense, I think would be the choice of words that I would use. I think we do see smaller pieces. There's no question; so the velocity is much higher, and many times, you agree it on a Friday and you start it on a Monday, so there is a lot of spin in there, and we're pretty comfortable with the 1.0, we looked at that very hard. But the thing we're excited about is sort of the level of consulting activity, particularly the new things in companies that really haven't been investing in their business over the past 12, 18, 24 months are starting to put a toe in the water or up to their knees at least in terms of new initiatives that they want to get under way so they can hit their calendar 2011 with some momentum and some new projects.



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Darrin Peller – *Barclays Capital - Analyst*

That's great. All right thanks, guys.

Pamela Craig – *Accenture - Chief Financial Officer*

Thank you.

Operator

Next is Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang – *JPMorgan - Analyst*

Hi, Pam. Thanks so much. Just kind of a question first, what's driving the difference in revenue outlook in the fourth quarter of the 5 to 9% versus the fiscal 2011 outlook of 7 to 10? What was driving the lower end of the range difference there?

Pamela Craig – *Accenture - Chief Financial Officer*

Well, the 7 to 10 is of course over the whole year versus the quarter, and I mean I think that this just reflects how our business is ramping; it was almost 4[%] this quarter and it's trending up a little next.

Tien-Tsin Huang – *JPMorgan - Analyst*

Okay, so nothing unusual?

Pamela Craig – *Accenture - Chief Financial Officer*

No, no.

Tien-Tsin Huang – *JPMorgan - Analyst*

And then just in the quarter itself, the bookings allocation between Consulting and Outsourcing, how did that compare versus plan? Just any kind of color there would be helpful.

Pamela Craig – *Accenture - Chief Financial Officer*

It was right about what we expected and really pretty consistent with the way it's been over the recent past.

Tien-Tsin Huang – *JPMorgan - Analyst*

Okay, last one, just on the gross margin. I know you said that some of the improvement was due to the sales effectiveness model, Pam, but it was still the biggest year-on-year increase we've seen in quite a while, so I'm curious if there's anything else that's driving some of that gross margin expansion beyond the sales effectiveness?

Pamela Craig – *Accenture - Chief Financial Officer*

No, there's not at this time. As you know, I will never give up on that, and we'll be continuing to push that in fiscal '11, but for right now, we saw some very good progress with that last year, and we'll be pushing again on it next year.



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Tien-Tsin Huang – *JPMorgan - Analyst*

Good stuff. Thanks a lot.

Pamela Craig – *Accenture - Chief Financial Officer*

Thank you.

Operator

Next we have Joseph Foresi with Janney Montgomery.

Pamela Craig – *Accenture - Chief Financial Officer*

Hi, Joseph.

Joseph Foresi – *Janney Montgomery Scott - Analyst*

Hi, how you doing? I guess my first question is, I guess a little bit surprising to see utilization up around the 88% range. I was wondering, is that holding you back from addressing revenue opportunities at this point, and how do you manage that potentially coming down in an effort as you still try to kind of raise your margins here?

William Green – *Accenture - Chairman & CEO*

Well as we have said, 88 we view is hot, and we continue to hire aggressively and shovel coal in the engine, if you will, to keep the train moving down the tracks. We would like to see that come down a little. Our supply and demand balance is in very good shape right now, but we want to continue to get great talent, which will give us more people to create new opportunities as well as learn some new skills for the things we see in the future. But we continue to focus on that; we've been holding at that 88% level, and if we took a few points off it, that would be great, but that's how the result came out. So I think it just speaks to the fact that the business has picked up and we're recruiting good quality talent in a smart way, as best we can, but the business has rebounded and we're keeping a lot of people busy.

Joseph Foresi – *Janney Montgomery Scott - Analyst*

Has there been any change in the size, length or the pricing on any of the deals over the last couple months?

William Green – *Accenture - Chairman & CEO*

Really, no. I mean if you stand back in the law of large numbers, pricing continues to be challenging around the place. In Europe right now it's particularly challenging. We have our places where the pricing is getting better, but on balance, it's still very competitive out there, as people focus on the highest quality work. And other than that, I think it's been pretty consistent for the last couple quarters in terms of the activity and the momentum that we see. The good news is, I think, we're getting some better choices in terms of the nature of the work. The mix of work is starting to change a little, particularly the new next-generation kind of technology stuff has really taken hold, and that's been in the last quarter, and that's a place where we think we have very distinctive experience and capabilities, and we hope to be able to get better pricing leverage in some of those specialty areas as we move into the next quarter or so.

Joseph Foresi – *Janney Montgomery Scott - Analyst*

And just maybe my final question here. I wonder if you had to describe sort of the inning of recovery here in North America versus that in Europe, I wonder if you could maybe place that. Are we at full recovery in the US, maybe actually pushing new opportunities, and what inning would you consider Europe to be in at this point?



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Pamela Craig – *Accenture - Chief Financial Officer*

They are in different innings.

Joseph Foresi – *Janney Montgomery Scott - Analyst*

I know that. Just trying to get the best answer I can out of you guys.

William Green – *Accenture - Chairman & CEO*

I know that a lot of you are Yankees fans.

Joseph Foresi – *Janney Montgomery Scott - Analyst*

Oh, I'm a Red Sox fan.

William Green – *Accenture - Chairman & CEO*

Thank you for that. I guess I'd look at it this way. If you look at the US, the recovery is solidly under way, but it has -- it is not widespread yet. But in a lot of industries, we're starting to move from recovery to expansion, and expansion takes a little off the speed, but it broadens the nature of things people are working on. In Europe, I think it's very safe to say that we haven't seen the recovery kick in yet, and so I think there's still plenty of runway to go in Europe, and I think Europe has been in a little bit of a pause, just based on the debt situation and the Euro situation as people are trying to figure out like what are the economics of things and what are the decisions they are going to make. But if you'll look at statistically, you'll see whether you look at the Conference Board, the business round table or whatever, you'll see in North America an increase in hiring over last period, an increase -- a modest one -- in capital spending, and people's expectations for increases in sales, and you can't correlate the same economic look at Europe at this point in time.

Joseph Foresi – *Janney Montgomery Scott - Analyst*

But just to be clear, it's a pause in Europe, not a reversion backwards?

William Green – *Accenture - Chairman & CEO*

No, no, I don't see any reversion backwards. And in fact, you really have to separate the global companies from the local companies. Many of the global companies need to compete all over the world, and those companies are continuing to invest and move out because they are seeing business recovery in terms of their sales in the US or the Asian markets. What they don't see is the European companies that primarily sell on a pan-European basis, have not seen consumer spending kick in, and so I think they are just pausing, waiting to see how that's all going to unfold.

Joseph Foresi – *Janney Montgomery Scott - Analyst*

Okay, thank you.

Operator

We'll go next to Julio Quinteros with Goldman Sachs.

Pamela Craig – *Accenture - Chief Financial Officer*

Hello.



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Julio Quinteros – *Goldman Sachs - Analyst*

Hi, guys, how are you? So it sounded like Europe is more like the Celtics and the US is more like the Lakers right now?

William Green – *Accenture - Chairman & CEO*

Or a little bit like the Knicks.

Julio Quinteros – *Goldman Sachs - Analyst*

Got it. Just real quickly on the headcount plan. I think you had said 50,000 plus, and just based on some quick calculation it looks like you guys are running, at least in terms of net headcount, around 10,000 this quarter. Is that a rate we can expect for the next one or two quarters from here, or how do we think about the ramp-up of headcounts to balance that against the utilization levels today?

Pamela Craig – *Accenture - Chief Financial Officer*

Well I think at least for the next quarter -- we're probably something around 40,000 hires year-to-date and do another 10 next quarter -- so I think that's at least fair for the next quarter.

Julio Quinteros – *Goldman Sachs - Analyst*

That gets you to the 50,000, got it. And then the 7 to 10 for fiscal 2011 in terms of revenue growth; is there any way to sort of break that up a little bit, if there's any more visibility in terms of what the assumption implied in that is for Europe potentially? I guess, in other words, is Europe expected to grow, is it flat, down, how are you thinking about that?

Pamela Craig – *Accenture - Chief Financial Officer*

Europe is expected to grow, and we probably aren't going to provide that exact background, bit of detail. But just to sort of complement what Bill just said, Europe is ramping slower than the Americas right now, and we expect that to continue.

Julio Quinteros – *Goldman Sachs - Analyst*

I think even this quarter would mark a pretty big turn, right; you were down 9 constant currency and now back to flat in terms of European trajectory for constant currency growth?

Pamela Craig – *Accenture - Chief Financial Officer*

Right.

Julio Quinteros – *Goldman Sachs - Analyst*

And then just lastly, anything to the consulting numbers? Relative to our numbers, at least, the consulting revenues and the consulting bookings were a little bit lighter than what we were looking for, still pretty good in terms of the sequential improvement.

Pamela Craig – *Accenture - Chief Financial Officer*

As I mentioned we had record bookings in Technology Consulting; Management Consulting very good. Maybe the SI bookings were a tad light, but again, we had very good growth in a couple big countries in SI in revenue, so that's really the color on that.

Operator

Okay, thank you. Next we have Adam Frisch with Morgan Stanley.



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Adam Frisch – *Morgan Stanley - Analyst*

Thanks, good afternoon.

William Green – *Accenture - Chairman & CEO*

Hey, Adam.

Adam Frisch – *Morgan Stanley - Analyst*

Most of my questions have been asked and answered already. I just wanted to tie in maybe a couple of the questions that were asked though. If there was any blemish in the quarter I would say it was maybe consulting bookings were a little bit lower than we were expecting, but you guys are speaking very bullishly -- obviously fourth-quarter growth is accelerating -- so I just wanted to know if there was anything in this quarter's consulting bookings that were maybe kind of one-timish, like a push out, some delays or anything like that, but just wanted to know what the impetus was for you about being so bullish about the next couple quarters are?

William Green – *Accenture - Chairman & CEO*

Well we were pleased with the bookings that we reported, but in every quarter there's some push outs and things that didn't come through, things that drifted into the fourth quarter that we're sure we're going to get then, but I wouldn't say it was out of the ordinary. That happens all the time, so we were pretty comfortable with the bookings we have. We do like the trajectory and the momentum, and the other thing that is important to me as you know is sort of the nature of the work, and the nature of the bookings that we got in terms of new things, transformation with a small T -- not a big one -- but things that are defining engagements that will have downstream impact for the firm hopefully for years to come, and so those are the things that we feel good about the quality of the bookings.

Adam Frisch – *Morgan Stanley - Analyst*

Okay, so things that we talked about also at the Analyst day when the kind of markets that we enter are changing, going from more of a conservative cost-cutting mentality to more of a growth mentality. Are you still seeing positive trends and things like shorter sales cycle, less C-level sign off required, less focus, obviously pricing is always up there but it's not necessarily the first thing that people look at. Are you starting to see the underlying factors ease up a little bit, or is that trajectory continuing?

William Green – *Accenture - Chairman & CEO*

Yes, I'd say on balance, yes. It's interesting, I don't know if it's C-level sign off but it's C-level involvement. As executives, they're sort of starting to turn to look to the future. They're getting involved very directly in a lot of these new initiatives, so they are very close to it and in fact they are the sponsor of half of them. And the thing that also -- in going through our analysis -- things around how do you compete on the global stage has continued to be more important, and how do you focus on customer service in sort of a next-generation way has been another thing, and we hadn't seen a whole lot of that four quarters ago, but that is what has turned, so there's a better mix of the cost performance and the revenue and growth enhancement in the portfolio of new bookings than there were say two or three quarters ago.

Adam Frisch – *Morgan Stanley - Analyst*

Okay, great. Thanks guys.

Pamela Craig – *Accenture - Chief Financial Officer*

Thank you, Adam.

Operator

Next we have Edward Caso with Wells Fargo.



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Pamela Craig – *Accenture - Chief Financial Officer*

Hi, Ed.

Edward Caso – *Wells Fargo - Analyst*

Thank you for taking my question. I wanted to look at the outsourcing, about 42% of revenue. Curious about how much of that comes up for renewal in the next four or five quarters and what you're seeing as far as changing attitudes on the part of your clients. In other words, are they looking for more offshore, and is that creating a greater competitive wedge from some of the established and offshore players?

William Green – *Accenture - Chairman & CEO*

Well I guess I'd say this. I'm not satisfied with our consulting bookings, I mean our outsourcing bookings, I'll just start with that. I want them to be higher. I expect them to be higher. The good news is outsourcing has come back. The downturn was so severe that people just stopped doing anything, and so now when we look at the pipeline and we look at the activity levels and we look at the bookings, we see people back focused on this. But there's no question that people are looking for real value for money. And so it's incredibly competitive out there.

I think what's important though, Ed, is you don't let the things go to renewal time. Many of the things you do is you take an initiative in how to put a better proposition on the table to extend the relationship you have, and we very much leverage our offshore capability. We now have 100,000 people in the Global Delivery Network, 50,000 people in India as of May 31, and we leverage that in order to put a proposition on the table that improves the economics for our client and works for Accenture economically as well. And so that's the approach we pretty much have taken to the anniversaries of some of the contracts.

Edward Caso – *Wells Fargo - Analyst*

Could you give us a sense for how many points of revenue growth that takes out now as you cycle through these larger contracts, and how much of a headwind is it to your growth rate?

Pamela Craig – *Accenture - Chief Financial Officer*

What do you mean by a headwind?

Edward Caso – *Wells Fargo - Analyst*

Well as you move from say maybe all on-site personnel to a greater percentage of people offshore, you're obviously billing less per hour, so the \$1 billion contract has become an \$800 million contract -- and just a sense for sort of the mix shift you're facing?

Pamela Craig – *Accenture - Chief Financial Officer*

Yes, I mean, I think in outsourcing I think you're referring to technology outsourcing primarily, right?

Edward Caso – *Wells Fargo - Analyst*

Technology and BPO.

Pamela Craig – *Accenture - Chief Financial Officer*

Okay, well one of the things that we talked about on April 8 was that in Business Process Outsourcing, I would say there's really not any headwind there because really we're pretty much all the parts that can be in lower-cost locations are, and in Application Outsourcing we're also well down that road. It's really in system integration where we have more of that to go.



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Edward Caso – *Wells Fargo - Analyst*

Thank you.

Pamela Craig – *Accenture - Chief Financial Officer*

Thanks, Ed.

Operator

We'll go to Bryan Keane with Credit Suisse.

Bryan Keane – *Credit Suisse - Analyst*

Hi guys and congratulations.

William Green – *Accenture - Chairman & CEO*

Hey Bryan, how you doing?

Pamela Craig – *Accenture - Chief Financial Officer*

Hi Bryan.

Bryan Keane – *Credit Suisse - Analyst*

I'm doing well.

William Green – *Accenture - Chairman & CEO*

FX, right, Bryan?

Bryan Keane – *Credit Suisse - Analyst*

Yes, I'm going to ask about FX, but I'm saving that until last. You guys reiterated your 7% to 10% outlook in constant currency for fiscal year 2011, but I'm just curious, has your assumptions in Europe changed for fiscal year 2011 due to some of the uncertainty, or is Europe plan the same as when you gave the guidance in April?

Pamela Craig – *Accenture - Chief Financial Officer*

Well, Bryan, as I mentioned in April -- and I remember you were right out of the chute with the FX question there then too -- we will confirm all of this in the Fall, and I think the most important thing is because you know we run our businesses in local currency, we plan them in local currency, we manage them in local currency, and all of the key underlying business assumptions we have remain the same. And yes, foreign currency in Europe has been jumping around. We plan for some room in our earnings per share, but really don't see any point right now in providing the FX assumptions for fiscal 2011 because it may change again come September.

Bryan Keane – *Credit Suisse - Analyst*

I was just asking about constant currency in Europe. Has that plan changed?



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Pamela Craig – *Accenture - Chief Financial Officer*

No, it has not.

William Green – *Accenture - Chairman & CEO*

We haven't changed that, and one of the comments Pam made is about agility, and we learned a lot in the last sort of six quarters about how to be agile and how to have the offerings that clients are looking for. So when we look at Europe right now, we recognize there could be some changes in terms of demand patterns and things over there, but our job is to just make sure we respond to those as directly as we can, and so we feel very good about Europe broadly. We know there's going to be some bumps over there just by everything you read, but at the end of the day, it's just do you have the right offerings for the right companies and are you getting in front of those, and that we feel pretty comfortable with, so when we look at our business plan for Europe for next year, we intend to execute it as we had when we first conceived it.

Pamela Craig – *Accenture - Chief Financial Officer*

Yes, so there has not been a change since April 8.

Bryan Keane – *Credit Suisse - Analyst*

Okay, and then just two last clarifications on Europe. One is just, can you let us know your exposure to kind of that PIGS region, and has that region been a little bit weaker? And then just to be clear, over the last month or so, have you seen Europe start to be different, kind of a different trajectory in growth, or it's kind of sluggish and it continues to be sluggish so there's no real different change?

Pamela Craig – *Accenture - Chief Financial Officer*

We have not even anything over the last month. In fact if anything it's been more of a sort of gradual pick up, and in terms of those countries in that acronym, we do have large businesses in Italy and in Spain. Those have always been extremely well-managed businesses for us and continue today.

William Green – *Accenture - Chairman & CEO*

I would just add, we see Ireland bouncing back ahead of the game in some ways, in terms of a lot of Ireland has taken the medicine. And the other thing we look closely at is sort of the big global clients are our clients in these countries, and so a lot of them -- even though they happen to be in Spain -- they're big global banks and they react more to the global market than they react to the market in Spain, and that serves them exceptionally well and it serves us well also.

Bryan Keane – *Credit Suisse - Analyst*

And I'll just leave it with the FX question. I'm calculating about today's rates maybe five to six points of headwind for fiscal year '11. Have you done any math, and does that seem about right, Pam?

Pamela Craig – *Accenture - Chief Financial Officer*

Our math would say it's a little less.

Bryan Keane – *Credit Suisse - Analyst*

Okay, great. Thank you very much.

Operator

We'll go to Karl Keirstead with Kaufman Brothers.



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Karl Keirstead – *Kaufman Brothers - Analyst*

Yes, hi. I've got a question to follow-up on Adam's about consulting and revenue. I'll ask it a slightly different way. Maybe it was coincidence, but in constant currency your bookings growth in fiscal 2009 was about equal to what your constant-currency revenue growth will be this year, and yet if you hit the mid-point of your bookings guidance for this year, it will be about flat bookings and yet that needs to drive the 7 to 10% revenue growth next year. So I guess my question is, is the revenue guidance dependent upon a real uptick in bookings, or has something changed in the business such that the bookings this year will convert a little faster next? Thank you.

Pamela Craig – *Accenture - Chief Financial Officer*

Hello, Karl.

Karl Keirstead – *Kaufman Brothers - Analyst*

Hi.

Pamela Craig – *Accenture - Chief Financial Officer*

Yes, regarding the bookings, things are converting faster. Things are smaller and have shorter duration, which means then you can't really make that comparison that you made. And we do have visibility as we look forward into fiscal '11 that's very similar to what we had at this point last year.

Karl Keirstead – *Kaufman Brothers - Analyst*

Okay, that's good color, thank you.

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

Operator, we have time for one more question.

Operator

Thank you; that will come from Moshe Katri with the Cowen Group.

Moshe Katri – *Cowen & Co - Analyst*

Thanks for taking my call. Just briefly on pricing, some of the Tier 1 offshore companies are talking about the scenario where they are actually planning to go back to their customers and trying to re-price some of the existing engagements, i.e., getting better pricing; maybe you can touch base on that. Thanks.

William Green – *Accenture - Chairman & CEO*

Well, I haven't seen one of those. I think it's a good theory. It's a good story. I do think -- frankly, you look at the pricing on the new work, given the resources you have, given the competitiveness, given whether it's sole-sourced or not and whether you want to open the door to people coming in. I think there's just a lot of people who have taken mental possession of the pricing that's been in the market, and I think fundamentally the pricing has changed, and that's why we look really hard at our cost to serve, and we drive our cost to serve down all the time, because that's where we create lift. We think we have opportunities to get better yield out of the stuff we do offshore, particularly the things we move from onshore to offshore, than we do today and we're going to focus on that in our 2011. But I haven't seen a lot of initiatives of anybody repricing stuff out there, and frankly we're looking ahead at the work but we're not looking back at the work that we might have had.



Moshe Katri – *Cowen & Co - Analyst*

Great. Thanks.

William Green – *Accenture - Chairman & CEO*

Well, let me just wrap up and say a couple of things in closing here. First, I'm delighted with our performance in the third quarter. It's been a rough ride around the place in terms of the environment, it's been a tough environment for our clients. But what was most important to me is that we execute in 2010 and maybe more important than that, we get Accenture back on its trajectory of increasing growth, and we've done that. We couldn't do that without the more than 190,000 men and women of Accenture whose focus and commitment to their work and their clients is what enables us to deliver real value, not only to our clients but our shareholders as well. So I want to thank you very much for joining the call today. We appreciate your continued support, and we look forward to talking to you again in our Q4 2010 earnings call in the Fall. All the best.

Operator

Thank you. Ladies and Gentlemen, this conference will be available for replay after 7 p.m. tonight through midnight, Thursday, September 30. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering the access code 158013. International callers dial 320-365-3844 using the same access code, 158013. That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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