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Conference Call Transcript

ACN - Q2 2011 Accenture Earnings Conference Call

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PRESENTATION**Operator**

Ladies and gentlemen, welcome to Accenture's second-quarter fiscal 2011 earnings conference call. (Operator Instructions). As a reminder, we are recording today's conference.

With that, I would like to turn the conference over to Managing Director of Investor Relations, KC McClure.

KC McClure - Accenture - Managing Director of Investor Relations

Thank you, Doug, and thanks, everyone, for joining us today on our second-quarter fiscal 2011 earnings announcement. As Doug just mentioned, I am KC McClure, Managing Director of Investor Relations.

With me today are Pierre Nanterme, our 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.



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Let me quickly outline the agenda for today's call. Pierre 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 for the second quarter. Pierre will then provide a brief update on our market positioning and progress against our growth strategy. Pam will then provide our business outlook for the third quarter and full fiscal year 2011. And then we will take your questions before Pierre provides a wrap-up at the end of the call.

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 will discuss on 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 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 reconciliation of those measures, where appropriate, 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 Pierre.

Pierre Nanterme - Accenture - Chief Executive Officer

Thank you, KC, and thanks, everyone, for joining us. It's a pleasure for me to be with you today on my first earnings call as chief executive officer.

I'm pleased to report that we had a very strong second quarter, continuing the good momentum of the past few quarters. Let me share with you highlights:

- We generated outstanding new bookings of \$7 billion, our highest in 10 quarters, including our second-highest consulting bookings ever.
- Revenues were \$6 billion, exceeding the upper end of our guided range. We had very strong growth in both US dollars and local currency across our operating groups and geographic regions.
- We delivered very strong earnings per share of \$0.75, an increase of \$0.15, or 25%, over Q2 last year.
- Operating income was \$772 million, an increase of 19% over last year, and operating margin was 12.7%.
- And we continue to have a very strong balance sheet, with a cash balance of \$4.7 billion.

In addition, we just announced a semiannual cash dividend of \$0.45 per share, bringing the total dividend payments for the year to \$0.90 per share.

Our very strong results in the second quarter, on top of our strong results in Q1, position us very well for the remainder of the fiscal year and give us confidence to raise our revenue and EPS outlook for the full fiscal year.

Now I will turn the call over to Pam, who will provide some more detail on the numbers.

Pamela Craig - Accenture - Chief Financial Officer

Thank you, Pierre, and thanks to all of you for listening today. I am pleased to tell you more about Accenture's fiscal year 2011 second-quarter financial results.

We delivered strong bookings, revenue growth and EPS in Q2 and saw growing momentum in the business while gaining market share. Year-over-year local currency revenue grew double digits in both consulting and outsourcing, and our strong performance established in the first half of the year positions us well to deliver double-digit top-line growth and outstanding bottom-line growth for the full fiscal year.



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 \$6.98 billion and reflect a negative 1% foreign-exchange impact compared to new bookings in the second quarter last year. Consulting bookings were \$3.8 billion, and outsourcing bookings were \$3.18 billion. This level of bookings was the highest in 10 quarters.

On bookings, in management consulting, clients are engaging us to help them identify and create critical value in their businesses, driven by their needs to take out costs, to drive more top-line growth or to change to meet new compliance requirements. We continue to see healthy demand for our offerings in finance & performance management, supply chain optimization, customer service effectiveness, and sales & marketing transformation.

Technology consulting bookings grew again this quarter. Our strength in this part of our business reflects our unique position in the technology ecosystem. Clients value our independence and skills in design and integration. There is significant activity in application modernization across our client base. We are helping our clients to rationalize the operations of their infrastructures through virtualization. And large companies are also engaging us to help them with their cloud computing initiatives.

Systems integration bookings were strong again this quarter and the highest in 10 quarters. The primary driver is ERP, as clients are streamlining their operations and reducing their costs due to globalization, M&A and regulation. This work reflects implementations on SAP, Oracle and Microsoft platforms, as well as package enhancements and add-on industry-specific software, including analytics, that need to be integrated. Additionally, we see demand for Web-based applications and portals, including delivery on mobile platforms in order for clients to interact with their customers or to promote e-commerce.

Turning to outsourcing, bookings were solid, with good demand across our breadth of offerings. In technology outsourcing, cost optimization remains paramount, and we continue to benefit from the vendor consolidation that has occurred over the last couple of years. We are being asked to expand in many clients where we already have an established footprint for more volume, more scope, expansions to new geographies, as well as new work.

Finally, BPO bookings were up significantly and reflected continued demand for our horizontal offerings, especially finance & accounting, and for our industry-specific solutions, particularly health and insurance.

Now turning to revenue, net revenues for the second quarter were \$6.05 billion, an increase of 17% in US dollars and 18% in local currency from the same period last year. These revenues reflect a foreign-exchange impact of negative 1% compared with Q2 last year. These revenues were above our guided range of \$5.6 billion to \$5.8 billion, a range that had assumed a foreign-exchange impact of negative 2%. So adjusting for actual exchange rates, our revenues came in about \$200 million higher than the top end of the range we provided in December.

Consulting revenues were \$3.51 billion, an increase of 20% in both US dollars and local currency. Outsourcing revenues were \$2.54 billion, an increase of 13% in US dollars and 15% in local currency.

There was strong double-digit revenue growth across the dimensions of our business. Before I get into the operating groups, let me note the record-high revenues in the Americas, driven primarily by the United States, with Brazil and Canada also posting exceptionally strong year-on-year growth.

Now turning to our operating groups, Resources revenues grew 25% in local currency in this quarter and reflected exceptional growth in consulting. Consulting growth was driven by demand for ERP programs, global operating model design and rollout, supply chain optimization, and smart-grid projects. Similar to last quarter, outsourcing revenues are primarily for cost takeout in IT and financial business processes.

In Financial Services, revenues grew 20% in local currency and were well-balanced across all industry groups and reflected renewed strength in outsourcing. Our services to help clients achieve compliance with risk and regulatory changes drove momentum this quarter. Demand for our services also continued in the areas of business transformation, post-merger integration, and investment in core systems for banking, insurance and trading.

Communications & High Tech revenues increased 16% in local currency and reflected strong growth in both consulting and outsourcing around the world. Consulting demand continues to be driven by cost takeout, customer acquisition and retention, Web development, as well as



deploying new technologies to support growing wireless services demand. Outsourcing revenues in C&HT experienced very strong growth as well in Q2, as clients continued to be focused on cost-takeout and improving operational efficiency.

The Products operating group had local-currency revenue growth of 15% that was driven by very strong growth in consulting and was well-balanced across the Products industries. Management consulting and ERP continue to be major themes. More clients are beginning bigger ERP transformation programs, particularly in North America. Our Products operating group is also doing some of our most-pioneering and innovative work.

Health & Public Service revenues increased 14%. Starting with Health, we experienced very strong growth, reflecting demand for cost-reduction services and for our offerings in back-office transformations, health administration and electronic medical records. In US federal, we are seeing increased volumes on existing transaction-based outsourcing contracts, as well as increased demand for ERP services. Our progress to reposition our business in the public sector continues, particularly in EMEA. The second-quarter revenue growth in Health & Public Service was positively impacted significantly by the compare to Q2 last year, when we had inefficient delivery on a contract.

In summary, we continue to see revenue results that are evidence of healthy and balanced demand globally for our offerings across the industries we serve.

Moving down the income statement, gross margin was 31.7%, down from 32.7% in Q2 last year, a 100-basis-point decrease. Our contract profitability was lower than the same period last year, particularly in consulting, as we continue our efforts to absorb higher annual compensation increases and subcontractor costs with improved pricing and a more-efficient resource mix. Gross margin also includes the impact of higher recruiting and training costs from the addition of a larger number of new employees to meet demand.

Sales and marketing costs were \$710 million, or 11.7% of net revenues, compared with \$623 million, or 12% of net revenues, for the second quarter last year. General and administrative costs were \$435 million, or 7.2% of net revenues, compared with \$413 million, or 8% of net revenues, for the second quarter last year. We continue to focus on driving efficiencies in our cost base as we grow our business.

Operating income for the quarter increased 19%, to \$772 million, resulting in a 12.7% operating margin. This compares with a 12.6% operating margin in Q2 last year. The operating margin in Products was negatively impacted by lower contract profitability compared to the prior year, as we have not yet fully recovered higher cost increases through pricing for our services in Products. Products' operating results were also impacted by expected lower margins on certain contracts.

Our effective tax rate for the quarter was 26.9%, compared to 27.8% in the second quarter last year. The lower rate this year was due to a number of factors that impacted geographic distribution of income.

Net income was \$566 million for the second quarter, compared with \$462 million for the same quarter last year, an increase of 22%.

Diluted earnings per share were \$0.75, an increase of \$0.15, or 25%, compared with \$0.60 in the second quarter last year. This difference reflects an \$0.11 increase from higher revenue and operating results in local currency; a \$0.03 increase from a lower share count; a \$0.01 increase from a lower effective income tax rate; a \$0.01 increase from higher non-operating income; offset by a \$0.01 decrease from unfavorable foreign-exchange rates.

Now let's turn to some key parts of our cash flow and balance sheet. Free cash flow for the quarter was \$523 million, rounded, resulting from cash generated by operating activities of \$601 million, net of property and equipment additions of \$79 million.

Turning to DSOs, our days services outstanding were 32 days, down from 33 days in the first quarter and up from 30 days in the same quarter last year. Our people continue to deliver very strong cash flow.

Our total cash balance at February 28 was \$4.7 billion, versus \$4.8 billion at the end of August.

Turning to some key operational metrics, we ended the quarter with global headcount of more than 215,000 people, and we now have more than 122,000 people in our global delivery network.

In Q2, our utilization was 86%. Attrition, which excludes involuntary terminations, was 14%, down from 15% in Q1. Lastly, we are on track to hire more than 64,000 people around the world this year.



Before I turn things back to Pierre, I will comment on our ongoing objective to return cash to shareholders through share repurchases and dividends. In the second quarter, we repurchased or redeemed approximately 3.6 million shares, for \$177 million, at an average price of \$48.90 per share. Year to date, we have purchased 18.3 million shares, for \$797 million. At February 28, we had \$2.4 billion of share repurchase authority remaining.

Earlier today, our Board announced the second part of our semi-annual cash dividend in the amount of \$0.45 per share. This dividend will be paid on May 13, 2011. This is in line with the semi-annual dividend of \$0.45 we paid in November and represents a \$0.075, or 20%, increase over the dividend we paid in May of last year.

We continue to expect to return at least \$2.6 billion to shareholders through a combination of share repurchases and dividends in fiscal '11.

In summary, I am very pleased with our strong results in the first half of fiscal '11. We continue to be well positioned in the markets we serve as we go into the second half of our fiscal year.

Now let me turn the call back to Pierre to give you his thoughts on how we are executing on our growth strategy.

Pierre Nanterme - Accenture - Chief Executive Officer

Thank you, Pam. Since becoming CEO on January 1, I have been meeting with our clients and our clients' service teams all over the world and across many different industries. And I'm hearing a very consistent story from our clients about the trends that are affecting their businesses and, as a result, driving demand for our services. Some of the key trends include:

- Globalization, which is driving more consolidation and fueling demand for our M&A services, as well as demand for global operating model transformation.
- Operational excellence to achieve greater productivity is driving demand for our core capability in ERP, process reengineering and technology rationalization.
- Increasing regulation is driving growing demand for risk and regulatory compliance activities, the development of new capabilities, and an accelerated focus on sustainability-related solution; and
- Innovation — whether helping our clients bring new products to market, navigate new technology ways or enhance the customer experience — innovation is driving demand for next-generation solutions.

These trends continue to present tremendous opportunities for Accenture across our business, including in our core business, in the many new initiatives we have been focusing on and investing in, and for our geographic expansion agenda.

I am very pleased with our discipline and execution. We continue to drive the business with consistency and deep focus, and we are capturing profitable growth opportunities everywhere.

Our client teams are incredibly engaged and committed to the success of our clients. Our people are executing exceptionally well across our business and geographies. We continue to bring the best of Accenture to our clients every day. Going forward, I feel good about our business and our opportunity to sustain strong performance.

The world is changing at pace, and this is accelerating the change and performance-improvement agenda for the industry leaders, who know they have to act now to seize opportunity. And we are operating at the heart of our clients' businesses, from tactical performance improvement to their business transformation agenda. Clients are increasingly turning to us for their most mission-critical programs. It is very clear to me that Accenture is the go-to partner for the world's leading companies.

We are executing our growth strategy in a way that differentiates Accenture from the competition. We are bringing unique industry expertise. We are investing in differentiated offering and assets. We are riding the new technology waves. We are driving growth in both emerging and mature geographic markets. And we are recognized as the leading system integrator for ERP implementation.

We have never been better positioned for the future. Now let me turn the call back to Pam, who will provide our business outlook.



Pamela Craig - Accenture - Chief Financial Officer

Thank you, Pierre. As a reminder, each quarter we provide an outlook for the next quarter's revenue and an update on our annual outlook for the full fiscal year.

As we've stated throughout this call, we are pleased with the strong results we delivered this quarter and for the first half of fiscal '11. In this ever-changing environment, we continue to be vigilant, on the lookout for what may impact our business. Although events around the world may create more uncertainty going forward, we remain focused on helping our clients achieve higher performance and on delivering value for money while managing our business tightly.

That said, I would now like to share with you some thoughts on how we see the remainder of this fiscal year shaping up.

For the third quarter, we expect revenues to be in the range of \$6.3 billion to \$6.5 billion, which assumes a foreign-exchange uplift of approximately 4% for the quarter. This range reflects the rates we have experienced over the past couple of 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 up from the flat assumption we provided last quarter.

Based on our year-to-date results of 16% revenue growth in local currency, the Q3 outlook I just provided and how we see the year as a whole, we expect growth to continue in most areas of our business, although moderating, particularly in outsourcing, from the very strong growth we experienced in the second quarter.

We now expect our fiscal year 2011 revenue to be in the range of 11% to 14% growth in local currency. Results were stronger in Q1 and Q2 than we expected them to be, and we do see the latter part of the year more clearly at this point.

We continue to expect new bookings for the fiscal year to land in the range of \$25 billion to \$28 billion. This is a broad range that continues to reflect our outlook for future business, even though we have updated both our outlook for revenue growth and our foreign-exchange assumption. The range also reflects, first, some scenario planning for how new bookings for Japan will land; and second, some potential slight moderation in consulting bookings, given that parts of our consulting business have been running very hot.

Taking all of this into account, we currently expect that it's likely that our bookings this fiscal year will hit at least \$26 billion.

We continue to expect operating margin to be in the range of 13.6% to 13.7%, a 10- to 20-basis-point expansion over last fiscal year. You should expect some fluctuations quarter to quarter, as we have seen in the past.

We continue to expect our annual effective tax rate to be in the range of 28% to 29%.

We are updating our outlook for earnings per share to reflect the increased revenue outlook and new foreign-exchange assumption. We now, therefore, expect EPS for the full fiscal year to be in a range of \$3.22 to \$3.30, an increase of \$0.14.

Finally, we now expect operating cash flow to be in the range of \$2.8 billion to \$3 billion, property and equipment additions to now be \$420 million, and free cash flow to continue to be in the range of \$2.4 billion to \$2.6 billion.

As we move into the second half of our fiscal year, we are positioned well to continue to drive top-line and market-share growth for our broad and durable base of services. We remain fully focused on profitability and the generation of strong cash flow. And we continue to be committed to return a substantial portion of our cash to shareholders over time.

I will just take a moment now to thank all of the people at Accenture, and particularly our people in Japan at this challenging time for them, for their outstanding performance on behalf of their clients and Accenture.

I look forward to seeing many of you in person at our upcoming Investor & Analyst Conference on April 14.

Let's open it up now, KC, so that Pierre and I can take your questions.



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KC McClure - Accenture - Managing Director of Investor Relations

Thanks, Pam. I would ask that you each keep your questions limited to one question and one follow-up to allow as many participants as possible to ask questions. Doug, would you provide instructions for those on the call?

QUESTION AND ANSWER

Operator

(Operator Instructions). Our first question is from Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang - JPMorgan - Analyst

Congrats on the strong revenue growth here. Pam, I wanted to ask, the revenue upside in the quarter, I guess the timing of how that developed in terms of the upside. I'm curious, did you see a pickup in the month-to-month run rate as we crossed the calendar year? Because obviously you set the guidance in December, and the \$200 million of upside was quite large. So I wanted to ask about the timing of how that developed.

Pamela Craig - Accenture - Chief Financial Officer

Yes, well, of course in December we didn't have any results yet for the quarter. So it may have picked up a little bit in February, but it wasn't, I don't think, real big across the quarter.

Tien-Tsin Huang - JPMorgan - Analyst

All right, so relatively smooth. And then just my follow-up, then, the share repurchases; it was a little, I guess, light this quarter. It was the lightest I've actually seen in a while. So I know Q1 was pretty strong in terms of share repurchases, but anything to read into the lighter activity on the repurchases?

Pamela Craig - Accenture - Chief Financial Officer

You know, not really. I mean, our share repurchases were very high in the first quarter. As you know, the markets went way up in the second quarter. Our stock hit an all-time high a few times. And we were intentionally a little less active. On a year-to-date basis, I think we're about where we want to be at this time, maybe 40%, and we are still on track to repurchase in the third and fourth quarters and to return at least \$2.6 billion, even at current price levels.

Tien-Tsin Huang - JPMorgan - Analyst

Got it. Well, it looks like it was a good buy now. Appreciate it. Thanks, Pam. Thanks, Pierre.

Operator

Our next question is from Darrin Peller with Barclays Capital.

Darrin Peller - Barclays Capital - Analyst

Thanks for taking the question. Just quickly, on the gross margins, just the pressure from contractor use, can you just describe a little more on how you long you see that playing out?



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Pamela Craig - Accenture - Chief Financial Officer

Yes. I mean, for hot skills we always have contractor needs, and those are higher now. And what we try to do over time is, if we can, replace them with our people. And it's just, again, because things are running so hot, that's why we have this phenomenon right now, but we are focused on it, because it is part of what we will do in the latter half of the year to improve the gross margin.

Darrin Peller - Barclays Capital - Analyst

Okay. Just one follow-up. On the local-currency outlook, obviously we were happy to see that. How much does that incorporate Japan and other geographic risks that we have been seeing obviously develop?

Pamela Craig - Accenture - Chief Financial Officer

Well, Japan, if you look at our business, we're about 13% in Asia-Pacific, and Japan's, I don't know, roughly a third of that. And so it's not a giant part of our business. And actually, a lot of our work in Japan — Pierre and I were just talking with our leader there last night — and some projects stopped but have restarted. And there have been a handful of cancellations just because certain of our clients were very impacted by the earthquake, and there may be some delays. So we have tried to factor in what we know at this point. Our Middle East business is, we just have very little business there, so it's a negligible impact.

Darrin Peller - Barclays Capital - Analyst

Okay. That's great. Thanks, guys.

Operator

Our next question is from Adam Frisch with Morgan Stanley.

Adam Frisch - Morgan Stanley - Analyst

So, Pierre, after the quarter you just put up, I think it is time to consider retiring as CEO, maybe, and going out on top here. But seriously, if we look back over the last 10 years, and the prior two CEOs, Joe Forehand had the growth of the outsourcing business under his reign, among other things, and with Bill, we obviously had the growth of the GDN; two initiatives that really built on the core business of the company, but also changed it dramatically. So I guess given that the quarter was pretty -- was obviously pretty good and the stock's reacting strong in the aftermarket, I thought I would focus on a big-picture question first. And, Pierre, what's the big initiative that you want your tenure to be marked by?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, thanks, Adam, for the question. And indeed, I do not plan to retire very soon. But I'm of course extremely pleased with our results in Q2, and it's definitely a strong start for me.

You mentioned the GDN. You mentioned the core. You mentioned the outsourcing. Probably I would mention the geographic expansion. You know what our plan to move from west to east and north to south, and this is definitely an agenda where I'm putting a lot of attention. And to be honest, I'm extremely pleased with the progress we are making so far with that agenda, which is very important for Accenture. So if I had to mention one, this is probably the one I would mention.

Adam Frisch - Morgan Stanley - Analyst

Okay. And then the second question I had is my follow-up. We tracked and wrote about a spike in your job postings during the quarter. What areas are you hiring most aggressively, whether it be skill set or geography? And Pam, you said you're running hot in a bunch of places. So, what areas are there? And you mentioned a bunch of things, but if you could just focus in on the hiring area, that would be helpful. Thank you.



Pierre Nanterme - Accenture - Chief Executive Officer

Maybe I can jump on this one as well, because we are probably hiring in the different dimensions of our business, to be honest. So that is probably the good news and why I'm so pleased with our results, because we see growth from the multiple dimensions in our different businesses, operating groups, as well as our geographic units, if you will.

Now, we continue to be aggressive in hiring in our GDN, given the demand in system integration and our will to continue moving our work offshore to make sure we are remaining extremely competitive in the marketplace, as we continue as well to hire people in our more onshore business to make sure that we can put in front of our clients highly differentiated skills and caliber and talent, if you will, probably with more focus on management consulting, deep experts in technology consulting, as well as probably the best technology architects. So this is where we are making our hiring. But of course, we are still extraordinarily robust in the GDN and the offshore from a number perspectives, if you will.

Adam Frisch - Morgan Stanley - Analyst

Okay, great. Thank you very much. Appreciate it.

Operator

Our next question is from Rod Bourgeois with Bernstein.

Rod Bourgeois - Sanford Bernstein - Analyst

Hey, is it safe to declare that we have now moved into a demand phase where more transformational services are now in vogue? And if you believe that is the case, which would be a great thing since Accenture is very differentiated in that part of the market, what is your sense for how long that transformational demand phase will last?

Pierre Nanterme - Accenture - Chief Executive Officer

My answer would be -- first, good afternoon, Rod, and thanks for participating and your question. Yes, I would say we see more transformational work. Now, let me define what we mean with transformation, because sometimes we mean transformation equal very large jobs. What we mean by transformation is probably what I would qualify as mission-critical things our clients are doing to change the trajectory of their business and to be more competitive in the marketplace. And it might not be a question of size; it's more a question of the quality of the work. And indeed, if you accept that definition, if you will, yes, I personally see more of those with our clients. That would be my point number one.

Point number two is it's kind of durable. Is there a pattern there? Frankly, I've been meeting with many clients, from Asia to Europe, and Europe to North America. And as I mentioned previously, I was just amazed, to be honest, with the consistency of the trends they have been reflecting to me. All this globalization, regulation, innovation, operational excellence, and you can add a couple of other things around digitalization and the new technology wave -- if you put all of this together, yes, I believe those trends are probably durable and should drive the demand, because there is a need for our clients to move now, and I mentioned to act now, as they first see the opportunity to grow in the marketplace, they need to seize those opportunities in order to drive that business. And at the same time, they continue to rationalize their operation and to be more effective. And I think those are big trends, to be honest. Now, we are going to watch that carefully over time to see how it's going to evolve. But I think those are underlying big trends.

Pamela Craig - Accenture - Chief Financial Officer

I would just add just one thing. We did have eight deals over \$100 million this quarter. And again, we see a continuation of the pattern, that there is more transformational work, but being arranged in more manageable chunks. So that trend also continues.

Rod Bourgeois - Sanford Bernstein - Analyst

Great. Well, I think investors will give you credit for the nice growth that is coming through. But in light of the growth, Pierre, are there a certain set of risks that you need to manage more closely, maybe more closely monitoring for problem contracts and execution on deals? And also related to the question about what risks you're going to be monitoring in the upcoming quarters, is the stronger growth making you more or



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less comfortable with your ability to expand margins? Will you see some leverage in the business or will that all be offset with the need to pay higher bonuses and wages? So how do you think about the risk and the margin equation here?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, thanks, Rod. At the end of the day, growth is a good problem to have and to deal with. But, indeed, there are things you need to get right when growth is back. And the first is the need to get the right talent and the right people on board. This is what we've been doing this last probably six months, even more. And we need to make sure that we continue not only hiring people, but hiring talented people. And so we are investing a lot in hiring, in training, in retaining. I'm very pleased to see that our retention is better and our attrition is a little bit lower, which is good for us. But it's probably certainly an element of attention for us in the business we are.

The second point is we will never trade execution risk against growth. So our job is to monitor the business extraordinarily tightly and to make sure, indeed, we are capturing the best part of the growth and we are pulling the risk a little bit outside. But from that risk perspective, it's probably more around the people and our ability to continue hiring, training and deploying the people. Now, over time, we mentioned our guidance regarding the margin. I think we are comfortable we will deliver against our guidance.

Pamela Craig - Accenture - Chief Financial Officer

I think the phenomenon of how fast it turned for us, which was more than we expected, and this year's salary increases were significantly more than last year's, right? And then we did have bonuses coming out of last year. So the compare there was tougher from the standpoint of managing that turn. Now, in the second half of the year, that does -- the heavy lifting on that is behind us. And so we feel good about that, Rod, as we continue through the year here.

Rod Bourgeois - Sanford Bernstein - Analyst

Great. Thank you, guys.

Operator

Our next question is from Tim Fox at Deutsche Bank.

Tim Fox - Deutsche Bank - Analyst

Thanks for taking my question. The first question I had was sort of a high-level question relative to your comments earlier about taking market share. Could you talk a little bit about where you are seeing most of that market share gain, whether it be in the consulting or outsourcing business, or any particular trends that we should look for? And how is it that your ability to gain market share is improving here as the market improves overall?

Pamela Craig - Accenture - Chief Financial Officer

Yes, we do see really good market share growth in both consulting and outsourcing, in both management consulting as well as what we do in technology. And so, really, it's across that just in terms of the numbers. But let me let Pierre give you some color.

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, with market share -- thanks, for the question, and indeed, it is a very important element. Market share is a sign of whether we are driving a healthy business and we are doing better than the competition. And at the end of the day, indeed, we are very pleased with where we are, because we are gaining market share in most of the business we are operating in as we speak, which I think for me is a very important signal around our differentiation. Are we different from our competitors? Are we bringing something unique which is really resonating with our clients? Are we relevant in the business? And the answer seems to be, yes. So we are monitoring that very carefully. I am pleased with the fact that we are getting market share in management consulting. That's as well in outsourcing and system integration, which is an extremely competitive market, as you know. And again, I think this is an illustration that in this highly competitive market, we are not moving ourselves to the commodity



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world, but we're still bringing some differentiation in what we do. And that differentiation is recognized with our clients, and we are gaining market share, which is extremely important for us.

Tim Fox - Deutsche Bank - Analyst

Great. And the follow-up would be, relative to the competition and pricing, you mentioned very strong growth in bookings for BPO in particular. Could you just comment on how the pricing environment is shaping up in the recovery here? And we've heard some significant pressure on some of the larger BPO competitive bids out there. So any color you could provide on the pricing environment would be helpful.

Pamela Craig - Accenture - Chief Financial Officer

I think you're exactly right, Tim. It is still competitive out there. There are some places where we do have some pricing power, but I would still characterize it as competitive and stable. But, Pierre?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, it is definitely stabilizing. I think we have evidence of this. Now, if we are looking in just the recent past or as we speak, we're starting to see sign of pricing improvement. So we need a little bit more time to figure out whether it is going to be a kind of durable pattern. But I would say stabilizing, yes, early sign of improvement in the marketplace in some of -- in pockets of the market we are doing.

Tim Fox - Deutsche Bank - Analyst

Congratulations on the strong results.

Operator

Our next question is from George Price, BB&T Capital Markets. Mr. Price, your line is open. Is your mute button on? Very well. We'll go ahead on to the next questioner, then. Please requeue.

Our next question is from Julio Quinteros, Goldman Sachs.

Julio Quinteros - Goldman Sachs - Analyst

Good afternoon. So just a couple of quick things, I guess, as it relates to margins and thinking about this more longer term. I think where you guys currently stand, your utilization is running really hot. I'm not sure that that is a big benefit to margins going forward. But it feels like attrition is improving. Wages, seem like at least we're over that big hump in terms of the spike-up in wages, and potentially pricing could benefit the model. So as we're thinking about margins longer term, Pam, any sense on what other puts and takes to think about for the margin profile as we move into fiscal '12 and beyond?

Pamela Craig - Accenture - Chief Financial Officer

The ones you mentioned are certainly on our minds. And I think, just picking up some of the other pieces of operating margin, we continue to look to hold the line as much as we can on G&A costs as we grow. We continue to look for ways to be more efficient in our selling, and we have continuing programs, being led by our COO, on that. And I think in contract margins, right, we're going to be forever focused on cost to serve, and how do we always look for productivity and efficiency in terms of how we do that, as well as pricing power, where we're really getting the differentiation. And as Pierre is certainly establishing leadership for us, that's clearly going to be more and more our focus. So I think those are the places where we continue to have opportunity. And as you know, we also need to invest in the business. And those investments primarily go through the P&L. So that's why I've been focused on modest margin expansion so that we can, indeed, continue to make those investments, and yet at the same time post up modest margin expansion over time.



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Julio Quinteros - Goldman Sachs - Analyst

Maybe just one follow-up on two quick points. How are you guys thinking about the offshore contribution or global delivery? That is now 56% or 57% of your headcount. When does that begin to sort of show up, I guess, in terms of margins? Or is it kind of helping, but it could be more if you weren't investing? Just trying to think sort of that part specifically.

And then longer term, what is the thinking around leveraging more platforms, more IP, maybe thinking about that in the way of I guess nominally in your context for margin expansion as well?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, so I will pick up on that one, and thanks for the question. Indeed, we want to continue investing in differentiation. That is something which is very important for us. Differentiation and competitiveness are the kind of two key pillars, if you will, in everything we do.

In order to differentiate, indeed, we need first to have the best qualified people. And I mean onshore, as I mentioned before, with extremely deep and unique skills as necessary to put in front of the client. But we need to continue expanding the global delivery network and our offshore. And it's a kind of permanent dynamic we're trying to strike, right, growing on both sides. So I think we will definitely continue to grow our offshore people.

Now, in order to drive more differentiation, indeed, we need to bring in our solutions and offerings something different. And you mentioned asset IP. I think that is something I referred to as well. I'm probably a big fan of this. This is something I've been driving significantly when I was leading our Financial Services operating group. I think with a really targeted view of what we could do, we can make that happen. And I can refer to the recent acquisition we have been making in Germany of a software solution called CAS. I don't know whether you've seen that one. But I think it's an extremely good illustration of what we want to do when we are talking about targeted tuck-in acquisition in asset in order to drive differentiation. I think this acquisition is telling all.

I could elaborate on this, if you will. But it is about -- this acquisition, it's all about customer relationship management with deep focus on trade promotion in consumer products. When we mean focus, this is what we mean -- taking a high-growth industry, consumer goods, understanding where we can make the difference -- trade promotion -- because it is going to create value and outcome for our clients. How we can do that? We are targeting that company, which fits exactly the purpose, bringing assets and IP to competition, count match and count copy. We're putting that in the context of our system integration solution bundled with management consulting. And then you're getting to the market with something which is unique. I think this kind of -- this is a kind of recipe for success, if I'm taking kind of French language, if you will.

Julio Quinteros - Goldman Sachs - Analyst

Yes, that makes sense. And I guess just in terms of numbers, could you put any numbers around how big that would be as a part of your business today? Or if not, maybe we can -- I guess we can wait till April to get some sense on that. But that actually would be very helpful, to get some sense on what percentage of your business is actually leverageable that way today.

Pamela Craig - Accenture - Chief Financial Officer

Yes, it is a small but growing part.

Julio Quinteros - Goldman Sachs - Analyst

Got it. Great. Thanks, guys. Good luck.

Operator

Our next question is from the line of Joseph Foresi, with Janney Montgomery Scott.



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Joseph Foresi - Janney Montgomery Scott - Analyst

Nice results today. I have a question. Just I think in your preliminary comments, you talked about outsourcing maybe moderating in the guidance toward the back half of the year. How should we think about it? Was there some lumpiness in some contracts this quarter? Did it come in faster than you were expecting? Maybe you could just help us understand the momentum of the general business.

Pamela Craig - Accenture - Chief Financial Officer

Yes, I think it's more just the moderation of the year-over-year growth rate more than anything else, and just intended to say that we expected that, but nothing really lumpy. I think it is more in the compare.

Joseph Foresi - Janney Montgomery Scott - Analyst

Okay. And then maybe you could just talk broadly about sort of -- obviously, this was a very good quarter. As you head toward the back half of the year, I know we talked a little bit about Japan, and maybe you could give a little more color on the US government. But maybe you could talk about just what you have for -- any concerns that you have in the business right now as you look at the second half of your fiscal year.

Pierre Nanterme - Accenture - Chief Executive Officer

I will let Pam comment on the US, because she is definitely a specialist on this. But more broadly, you have seen our guidance. We're updating the guidance, which is the most right thing, that we believe in the growth. We believe in the momentum in the marketplace. We believe that our clients are investing, and we have opportunities in front of us.

We're as well looking at the global environment. We're not blind. We understand what is going on in the world. We are all traveling, including myself, the world to understand what is going on and to have information firsthand, if you will. We are taking all that input. We're talking with our clients a lot. We're talking with our clients' teams. We're understanding the world dynamic. And then we have put our best estimate for what might be our second part of the year. And we feel good about the guidance we are giving to you today.

Pamela Craig - Accenture - Chief Financial Officer

Yes, just on [US] federal, that is roughly 5% or 6% of our business. And I guess continuing resolutions have become a way of life for us here in the US. If it shuts down for a few days or something, it would not have an impact on us. But I think in the unlikely event that there was an extended shutdown, then it would. But we're not expecting that, and we factored in to be able to handle a few days.

Joseph Foresi - Janney Montgomery Scott - Analyst

Okay. Thanks.

Operator

Our next question is from Ed Caso with Wells Fargo.

Ed Caso - Wells Fargo - Analyst

I was curious if you could give us an update about the United Kingdom. Obviously, they did some changes in their approach last summer and brought all the larger providers in and sat them down. How is business now? Is it starting to pick up again? And maybe some areas of focus that you could talk about.

Pamela Craig - Accenture - Chief Financial Officer

And, Ed, you mean in the Public Service business, right, when you ask that question?



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Ed Caso - Wells Fargo - Analyst

Yes, right, UK government.

Pamela Craig - Accenture - Chief Financial Officer

We do see our business actually returning nicely in the UK, good double-digit growth in the quarter. It was driven primarily by the commercial operating groups. And we are repositioning, indeed, there in terms of our Public Service business. So we do have some good opportunities there and are working it.

Ed Caso - Wells Fargo - Analyst

And I was curious. It looks like you're on track to distribute roughly the amount of cash that you generate in the year, but you have almost \$5 billion on the balance sheet. Has there ever been thought of maybe a special dividend?

Pamela Craig - Accenture - Chief Financial Officer

Well, we work with our Board every year on the dividend. And again, I think we're more in the vein of developing the balance of share repurchases and dividends over time versus doing special stuff. And we will be working again with them coming up here as we look at our dividend planning for next year.

KC McClure - Accenture - Managing Director of IR

Doug, we have time for one more question, and then Pierre is going to wrap up the call.

Operator

Very well, then. We'll go back to George Price, with BB&T Capital Markets.

George Price - BB&T Capital Markets - Analyst

Apologies for the earlier technical difficulties. But let me --

Pamela Craig - Accenture - Chief Financial Officer

No problem, George. Welcome back.

George Price - BB&T Capital Markets - Analyst

Thanks, Pam. It's nice to be back. Wanted to, first of all, congratulate you on great results. It was really fantastic.

I did drop for a period, so a couple of things may have been asked. I apologize for that. But I wondered if you would, just on the segment operating margin side, did you go into a little bit more detail about kind of what was going on with the Product margin, down 9%, down from double-digit levels for quite a period of time? I think you mentioned a little bit in your commentary about some contract issues, but I wondered if maybe you could give some more color to that, if you hadn't already.

Pamela Craig - Accenture - Chief Financial Officer

Yes. I mean, part of the Products portfolio, and just part of it, right, I would say was more challenged just in terms of absorbing the salary increases and sort of getting the right resource mix and pricing than the others. And so that did impact them this quarter. We also intentionally had planned for some lower profitability in Products on certain contracts this year. And we do expect them to return to higher profitability over time. It has always been an extremely high-performing part of Accenture.



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George Price - BB&T Capital Markets - Analyst

Okay. What about -- you know, it was, I guess on the other hand, I would say it was nice to see Health & Public Service, the operating margin continuing to move up, hitting 9% now. Do you think that business is on track to get back to double-digit operating margin in the second half?

Pamela Craig - Accenture - Chief Financial Officer

No. The Health & Public Service, I mean, it was -- we're still doing the repositioning there. And we did say it would take this year, and do expect that it will. So we had a good margin result this quarter, but I do expect it to continue to be single digits this year. Wait one second; Pierre is going to add something.

Pierre Nanterme - Accenture - Chief Executive Officer

This is where we are from a profitability perspective. But I would like to highlight the work which is being done with our leadership in HPS with Stephen Rohleder, because the "H" part is doing extremely, extremely well. As you remember, we presented in the last investor conference that we had a kind of plan around growing Health. And we are executing against that plan, and we are very pleased with the results so far.

Regarding "PS" in that, we are repositioning that business, especially in EMEA. We are making good progress. So indeed, on HPS, we have more work to be done, but we have a plan. We are executing. We have the right leadership in place. And I'm sure we're going to drive the right outcome.

Pamela Craig - Accenture - Chief Financial Officer

Yes, it is going quite well.

George Price - BB&T Capital Markets - Analyst

Okay. And if I could just, maybe one more. Any potential -- I mean, obviously, with all the cash flow that you have, any potential for stepped-up M&A to use the cash that way at all? I guess another way to ask it is, do you feel that you have what you need right now to continue to grow as well as you are growing organically, or do you think that acquisitions over the next year or two might play more of a role in your use of cash? Thank you.

Pierre Nanterme - Accenture - Chief Executive Officer

Yes — we are making some strategic acquisitions... and we are also growing our business organically. And I think we have demonstrated that organic growth is in our DNA. I think we are doing organic growth better than anyone else, for the simple reason that there are opportunities to grow organically in different parts of the world and different parts of our business. And we will never trade organic growth against inorganic. Organic growth is good, is driving good business, is driving good cash and is positioning us very well. And so we can return some cash to people like you.

Now, indeed, we are looking at acquisitions in a way that's going to differentiate. We're not going to spend our precious cash just for the sake of making an acquisition, but we are going to look at what is going to make us different. I mentioned this CAS acquisition. We're probably going to make others, but exactly with the same spirit, to make us different from the competition and bring something unique to our clients in a way that will complement our organic growth. Cash is precious, and we're going to take a lot of care of it.

Pamela Craig - Accenture - Chief Financial Officer

What we're trying to do is sharpen the strategy where we can, through these focused tactical tuck-ins, right? I think we can do that a little better. But it's not going to change the rigor or the evaluation, but just more -- I think we would like to see a little bit more focus in some certain areas. So we are doing that. But in the end, these things are hard to do, and we only want to do the right ones.



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George Price - BB&T Capital Markets - Analyst

Great. Congratulations again, and thanks very much for taking my questions.

Pierre Nanterme - Accenture - Chief Executive Officer

Thank you for joining us on the call today, and thank you very much for your questions.

As you've heard, we continue to see solid momentum in our business and are well positioned as we enter the second half of our fiscal year.

Frankly, much of the credit for our strong results goes to the incredibly talented team of more than 215,000 Accenture men and women around the world. And I want to specifically acknowledge the dedication and commitment of our people in Japan, who, despite the most difficult circumstances, have continued to serve our clients during a very challenging period. I'm also very proud that in true Accenture fashion, Accenture people around the world have mobilized to support our colleagues in Japan.

In closing, I feel very good about our business. I strongly believe that in this fast-changing environment, we have the right positioning, we have the right strategy, we are executing at scale and at speed, and with the right leaders in place to drive our agenda forward.

We look forward to talking with many of you in person at our Investor & Analyst Conference next month in New York. If you have any questions, please feel free to call KC to make arrangements for follow-up. All the best.

Operator

And ladies and gentlemen, today's conference call is being made available for replay starting today at 7PM in the Eastern Time Zone right until June 23, 2011. You can access our service by dialing 1-800-475-6701 within the US, or outside of the US at 320-365-3844. Enter at the voice prompt today's conference access code, which is 192444.

That does, then, conclude our conference for today. Thank you for your participation. You may now disconnect.

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