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Conference Call Transcript

ACN - Q3 2009 Accenture Earnings Conference Call

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CORPORATE PARTICIPANTS**Richard Clark**

Accenture – Managing Director, Investor Relations

Bill Green

Accenture - Chairman & CEO

Pamela Craig

Accenture - Chief Financial Officer

Steve Rohleder

Accenture - Chief Operating Officer

CONFERENCE CALL PARTICIPANTS**Jason Kupferberg**

UBS - Analyst

George Price

Stifel Nicolaus - Analyst

Rod Bourgeois

Bernstein - Analyst

Julio Quinteros

Goldman Sachs - Analyst

Bryan Keane

Credit Suisse - Analyst

Ed Caso

Wachovia - Analyst

Tien-Tsin Huang

JPMorgan - Analyst

Karl Keirstead

Kaufman Brothers - Analyst

Tim Fox

Deutsche Bank - Analyst

Elizabeth Buckley

Arete Research - Analyst

PRESENTATION**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to Accenture's third-quarter fiscal 2009 earnings conference call. At this time, all lines are in a listen only mode. Later we will conduct a question-and-answer session. (Operator Instructions). And as a reminder, today's conference is being recorded. I would now like to turn the conference over to our host, managing Director of Investor Relations, Mr. Richard Clark. Please go ahead.

Richard Clark - Accenture – Managing Director, Investor Relations

Thanks, Gary. Thank you, operator, and thanks, everyone, for joining us today [for Accenture's] third-quarter fiscal 2009 earnings announcement. As the operator just mentioned, I'm Richard Clark, managing Director of Investor Relations. With me this afternoon are Bill Green, our chairman & chief executive officer; Pamela Craig, our chief financial officer; and Steve Rohleder, our chief operating officer. We hope you've had an opportunity to review the news release we issued a short time ago.



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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 how we are positioning our business for the future. Pam will then provide our business outlook for the fourth quarter and full fiscal year 2009, and Bill, Pam, and Steve 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 in this call are forward-looking, and you should keep in mind that these forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include but are not limited to general economic conditions and those factors set forth in today's 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. You can find reconciliation of those measures to GAAP 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.

Bill Green - Accenture - Chairman & CEO

Thank you, Richard, and thanks, everybody, for joining us today. I'm pleased with our performance in the third quarter, given the environment we're now operating in. While our revenues, declined they were within our expected range, and the disciplined management of our business enabled to us expand operating margin and deliver solid profitability and strong cash flow.

In addition, we continue to see demand for our services demonstrated by strong new bookings in both consulting and outsourcing. Here are a few highlights from the quarter.

Revenues were \$5.15 billion, within our guided range of \$5.1 billion to \$5.3 billion. We expanded operating margin to 14.2%, even with lower revenue production, which is a real accomplishment in this environment. We delivered earnings per share of \$0.68. We delivered new bookings of \$6.6 billion, with consulting and outsourcing bookings each exceeding \$3 billion. Finally, we generated free cash flow of \$971 million, raised our free cash flow outlook for the full fiscal year, and continue to have a very strong balance sheet with no debt.

While the environment remains very challenging, we believe that the actions we've been taking respond, as well as position ourselves for recovery, will continue to serve us very well. With that, let me now turn the call over to Pam who will provide some more detail on the numbers.

Pamela Craig - Accenture - CFO

Thank you, Bill, and thanks to all of you for listening today. Given the significant and continuing challenges in the macro-economic environment globally, we had overall very good results in the third quarter of fiscal 2009. As I mentioned last quarter, we remained focused on managing the business we have and driving growth where we can and are committed to delivering strong margins, cash flow and earnings with that business.

Let me take you through some detail behind the numbers in our income statement, balance sheet, and cash flow, and some key operational metrics. Unless I state otherwise, all figures are GAAP except the items, such as new bookings, that are not part of the financial statements or that are calculations.

New bookings for the quarter were \$6.6 billion. This included consulting bookings of \$3.2 billion and outsourcing bookings of \$3.4 billion. They reflect a negative 13% foreign-exchange impact when compared with new bookings in the third quarter last year. These bookings in Q3 show that there is continued overall demand for consulting and outsourcing services.

In management consulting, the demand we experienced was driven by our clients' focus on cost reduction and operational improvement projects, notably in supply chain optimization. In systems integration we continue to see a push toward our global delivery network as clients continue to make selective investments in ERP and CRM applications. In outsourcing as well, clients' needs to reduce costs and improve IT operations drove good bookings in applications outsourcing and infrastructure outsourcing. These bookings do reflect a moderately higher proportion of contract extensions for revenue beyond fiscal year 2010.

As we look ahead at the outsourcing revenue we have under contract, both Financial Services and to a lesser extent Resources have experienced a year-over-year decline as a result of lower new bookings and higher contract restructurings and cancellations. Even with these reductions, Accenture's future revenues under contract in outsourcing are up about 9% year-over-year in local currency.

Now, turning to revenue, net revenues for the third quarter were \$5.15 billion, a decrease of 16% in US dollars and a decrease of 4% in local currency from the same period last year. Q3 revenues were within our guided range of \$5.1 billion to \$5.3 billion and reflected a foreign exchange impact of negative 12% compared with the third quarter last year, which was consistent with our foreign-exchange assumption provided in March.

Consulting revenues were \$3 billion, a decrease of 20% in US dollars and 9% in local currency. Outsourcing revenues were \$2.2 billion, a decrease of 9% in US dollars and an increase of 3% in local currency. Our consulting revenues of \$3 billion reflect the fact that many clients are focused on initiatives designed to meet near- and medium-term cost savings and performance improvements, and we're focused on helping them drive programs to support these objectives. Our consulting revenues also reflect a local-currency contraction year-over-year, except in Public Service, where we continue to see double-digit growth. Building on what we said last quarter, the contraction is due primarily to three factors. First, some clients are exercising caution in launching new large consulting commitments and instead shifting to a more phased and flexible approach to contracting work. Second, some clients are slowing the pace of ongoing projects and deferring decisions to expand scope beyond current commitments. And finally, we see some impact from pricing pressure.

Turning to outsourcing revenues, we saw single-digit growth in all operating groups except Financial Services, where contract cancellations, due to client consolidations and strategy changes, have had a significant impact on revenue growth. Outsourcing growth has slowed moderately overall, due to the continuing shift to lower-cost resources at a reduced price level, and a lower volume of scope expansions on existing contracts.

So, overall, we did see some positive activity toward the end of the third quarter, but we remain cautious and have not lost sight of potential challenges that may lie ahead.

Moving down the income statement, gross margin was 32.5%, compared with 31.5% for the same period last year, reflecting a 100-basis-point improvement. While consulting contract margins were relatively flat, outsourcing contract margins continue to expand as a result of our focused commitment to industrialize our delivery.

SG&A costs for the third quarter were \$935 million, or 18.2% of revenues, compared with \$1.1 billion, or 17.3% of revenues, for the third quarter last year, an increase of 90 basis points. Sales and marketing costs increased 30 basis points compared to Q3 last year due to an increase in selling costs as a percentage of revenue. General and administrative costs in relation to revenues rose 60 basis points. Although we continue to monitor and manage G&A costs to a lower level in local currency than last year, they decreased at a rate less than revenue.

Operating income was \$732 million, reflecting a 14.2% operating margin. This compares with \$862 million, or 14.1% operating margin, in the third quarter last year, an expansion of 10 basis points. While we've seen our revenue contract by \$957 million and a majority of that is foreign-exchange driven, we have been able to deliver margin expansion in this challenging business environment.

Our third-quarter effective tax rate was 28.2%, compared with 30.8% for the same period last year. This quarter's tax rate benefited from final determinations that came through in the quarter and generated a favorable impact to earnings per share of approximately \$0.03 in the quarter.

Income before minority interest for the quarter was \$537 million, compared with \$608 million for the third quarter last year, a decrease of 12% in US dollars.

Diluted earnings per share for the quarter were \$0.68, compared with \$0.74 in the third quarter last year, a decrease of \$0.06. Here's how that breaks down:

- a \$0.03 increase from a lower share count;
- a \$0.02 increase from a lower effective income tax rate compared with the rate in the third quarter last year;

offset by:

- a \$0.02 decrease from lower revenue and operating income in local currency; and
- a further \$0.09 decrease from unfavorable foreign exchange rates compared with the third quarter last year.

So, let's turn now to some key parts of our cash flow and balance sheet.

Free cash flow for the quarter was \$971 million, resulting from cash from operating activities of \$1.01 billion, net of property and equipment additions of \$44 million. This compares with \$1.01 billion free cash flow in Q3 last year, which reflected cash from operating activities of \$1.08 billion and capital expenditures of \$66 million. I should note that year-to-date free cash flow is \$1.95 billion, versus \$1.54 billion year-to-date last year. This increase of 26% in US dollars, more in local currency, reflects the attention our people are paying to managing our cash and in particular, our DSOs.



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Turning to DSOs, our days services outstanding were 34 days, a slight up-tick from 33 days in the second quarter this year but down from 37 days at the end of last fiscal year. We continue to manage DSOs at a level that is exceptional and industry-leading, especially in this environment.

Our total cash balance at May 31 was \$4 billion, compared with \$3.6 billion at August 31. The \$4 billion also reflects \$177 million in negative foreign-exchange translation on the cash balances we hold around the world.

Turning to some key operational metrics, managing the supply and demand of our resources continues to be a top priority. In Q3 our utilization was 83%, consistent with Q2, and attrition, which excludes involuntary terminations, dropped from 9% to 8% sequentially and from 16% in the third quarter last fiscal year.

We ended the quarter with global headcount of 177,000 people, including 79,000 in the Global Delivery Network.

Finally, during the quarter we repurchased or redeemed about 10 million shares for \$283 million, from a combination of Founders and open-market purchases. The average price was \$28.45 a share. At May 31, we had 1.3 billion of share repurchase authority remaining.

Turning to Founder shares... At the time of our IPO, we had 808 million Founder shares outstanding, all of which were restricted. Since that time we have proactively managed the disposition of 651 million, or 81%, of these Founder shares in a non-disruptive manner. In Q4 we are unlocking the remaining 19 million Founder shares.

There are 157 million Founder shares still outstanding. Approximately 120 million, or 76%, of those are SCA shares, which are redeemable through Accenture. Consistent with our historical approach, we intend to continue to primarily use cash for the balance of the SCA shares when our Founders present them to us over the years to come.

So, in July we marked the eight-year anniversary of our IPO. I would like to take a moment to reflect on what we've accomplished as a public company. We've made significant progress in driving revenue growth, cost efficiency, profitability, and cash flow in a macro-economic environment that's been very dynamic. From September 1, 2001, when we began our first full year as a public company, through May 31, 2009, our high performance tells a strong story of managing our business for profitable growth. During this period we delivered compound annual growth of 10% in revenue; 12% in operating income, with 140 basis points of margin expansion; 26% in EPS; and 20% in free cash flow. Of the \$14.3 billion in free cash flow generated, we have returned \$13 billion, or 91%, to shareholders through share repurchases and dividends. All of this while adding more than 100,000 employees to Accenture since the IPO. So, we have driven strong results, gained market share, and positioned our business for continued leadership.

Let me turn it back to Bill to share with you how we are focused on continuing to do so in the future.

Bill Green - Accenture - Chairman & CEO

Thank you, Pam. That's just a great summary of our journey, and it is something that we're all very proud of here at Accenture.

Now, usually at this point in the call we walk you through some more detail of what Pam has just summarized and that is contained in our news release. I'm going to change that today, as I believe it is important for you to have some perspective on initiatives underway with an eye to the future.

In this call, we described a lot about how we're managing the business we have and expect to have near term. I am very pleased with how we have faced the challenges of the economic environment. Our utilization and operating margin are just two measures that show we are closely managing our business on behalf of our Company and our shareholders.

Also, in a few minutes Pam will give you our view on where we expect to land this fiscal year and also a bit about how we expect to start out next year.

But let's look forward. We are not only playing good defense, we are playing offense. The economic environment will improve... in certain countries... in specific industries... and with individual offerings... we will begin to see momentum. The work has not disappeared. The drive to compete and win and achieve high performance is as important today, or more important, than it's ever been.

Within Accenture, one of our principles is to operate our company with one foot in today and one foot in tomorrow. So, we've talked a lot on this call about the foot in today. I want to talk for a few minutes about the foot that's in tomorrow.



We're aggressively positioning ourselves in important ways for future growth. It's important for you to understand this, and while I won't be able to get into much detail on this call, we will provide with you more information next quarter and then again as we focus on our Investor & Analyst day in October. This is all about growth — growth in leadership, in market share, in revenues and profits — and we are laser-focused on it.

We've completed a refresh of our strategy for growth. We had over 100 top executives from across our entire organization involved. We did this with a bias that the economy has not just slowed, it is resetting itself. It will emerge differently in terms of client needs, business models and buyer values.

We have been underway with two major thrusts. The first thrust is refreshing and enhancing our core business. Our core is powerful in the envy of our competitors. It is strong and differentiated, but we're raising our game even further.

In consulting, we are refreshing and revitalizing our market offerings. Our core of supply chain, finance & performance management, talent management, customer service, and all others have been sharpened and focused. And our industry programs and deep industry skills and capabilities that are so unique and differentiated are being deepened and strengthened. Our value propositions have been aligned with today's business needs, not yesterday's.

In systems integration and technology we continue on our journey to reduce our cost to serve. We have built new offerings around the cloud and SaaS. We have invested in new emerging technologies areas like health IT, our industry-leading position in smart grid technology, webification, and digitization. We're also enhancing our alliance program to leverage the assets of our partners who operate in our ecosystem. We are leveraging their investments, taking advantage of our unique client relationships, scale, and independence.

In outsourcing, we continue to improve the economics of this business every quarter. We have achieved the leading industry position, and we have done it with improving profitability. We have carved out a distinctive position in infrastructure outsourcing and remote managed services. We are recognized by industry watchers as the leader across BPO. We have built relationships based on trust and results delivered. Our clients trust that we can perform the most critical business functions and do it with quality and efficiency. All that is part of raising our game and leveraging our core.

Our second thrust goes beyond the core. We are underway with important new growth initiatives that extend that position. Let me mention just a few. We are combining our Public Service and health service businesses. This area has huge growth potential for us and already has a lot of momentum. To show you how serious we are, I've asked Steve Rohleder to lead this for us. Driving growth has always been Steve's sweet spot, and we are serious about taking advantage of this market opportunity in a powerful way and establishing a definitive industry leadership position. We will use our talent and capital to support our goals for growth in this area. Stay tuned; more to come.

We are increasing our efforts and focus on geographic expansion. I have been in China and Latin America in the last month, where we continue to grow in a dramatic and profitable way, regardless of the economy. We have re-doubled our efforts across a set of strategic markets and are entering new countries to capture share and growth and provide our clients with consistent high quality service anywhere in the world they operate.

Finally, we have assembled our capabilities around several defining technology areas where growth and profits will be strong. I will mention just a few. Mobility: We have launched Accenture mobility operated services based on assets we have built and have implemented in Europe. Analytics: We have ramped up the business we call Accenture Information Management Services to the next level of insight and value delivery across all three of our growth platforms. Digital: We have launched Accenture Digital Media Services and have a unique leading market position in this hot, new area. The Cloud: Not only are we enhancing our core around this, but we are working with alliance partners to be the implementation partners for our clients as they move to next-generation computing. And there are several more areas which for competitive reasons I will not get into right now.

So, what's all this mean? It simply means we are driving today's business in a responsible way and solving for our shareholder's... and while doing that, we have taken the opportunity to get positioned for the rebound, not only in our core, but in a series of new high-demand areas. We're excited. Our clients are excited. The demand for high performance is alive and well.

We will provide more detail in the future, but it's important that you get a sense of where we see this business going and why we feel good about it. Now, let me hand it back to Pam.

Pamela Craig - Accenture - CFO

Okay, thanks, Bill. Let me wrap up by bringing you back to this year and tell you how we've updated our outlook, given three-quarters of actual results and an updated foreign exchange assumption based on exchange rates experienced through the month of June so far.



Starting with this quarter's revenues, we expect net revenues for the fourth quarter to be in the range of \$5 billion to \$5.2 billion. This range assumes a foreign exchange impact of negative 8%.

Turning to the full fiscal year, with only one quarter to go, we are now narrowing our net revenue growth to be flat to slightly positive in local currency. We assume a foreign exchange impact, also of negative 8%, for the full fiscal year.

We continue to expect new bookings for the fiscal year to land in the range of \$23 billion to \$25 billion.

We continue to expect operating margins for the full year to be in the range of 13.4% to 13.7%. We expect that it is more likely to be at the lower end of the range, which would represent a minimum expansion of 50 basis points over last fiscal year.

We now expect our annual effective tax rate to be in the ranging of 27% to 29% for fiscal 2009 based on activity to date.

We are currently updating our outlook for earnings per share for the full fiscal year to a range of \$2.67 to \$2.70, based on current course and speed and reflecting our latest assumptions on the tax rate and foreign exchange impact.

Finally, we now expect operating cash flow to be in the range of \$2.65 billion to \$2.85 billion, property and equipment additions to be \$250 million, and free cash flow to be in the range of \$2.4 billion to 2.6 billion. This reflects updated assumptions on property and equipment additions, tax cash payments and DSOs.

Looking ahead to fiscal 2010, as we sit here today we are working hard on our planning. As part of that planning we are closely examining our cost structure and analyzing how our consulting business will evolve. The next few quarters will be challenging, given where we were last year and our current revenue run rate. We will continue to assess and finalize our plans so that we can provide complete fiscal year 2010 guidance during the fourth quarter call, scheduled for October 1.

That's it. Bill?

Bill Green - Accenture - Chairman & CEO

Thank you, Pam. We trust you see that we're both driving our business for today as well as positioning it for tomorrow. So, let's go right to questions.

Richard Clark - Accenture - Managing Director, Investor Relations

Thanks, Bill. We have a number of people who will want to ask questions today. So please try to limit your questions to one or two. Operator?

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions) And our first question comes from UBS's Jason Kupferberg. Please go ahead.

Jason Kupferberg - UBS - Analyst

Thanks and good afternoon guys. A couple questions. First, one on the pace of converting bookings into revenue for both the consulting and the outsourcing business. So, if you can talk about changes that you're observing there, because the bookings, obviously, have held in pretty well over the last couple of quarters, despite the environment. But revenues seem to be trending kind of near the low end of your guidance range here in the back half of the fiscal year. So, can you talk about the dynamic of how bookings -- or last quarter you talked a lot about how getting pipeline into bookings and into revenue was somewhat of a challenge, now the bookings seem to kind of be there, but can you talk about getting bookings into revenue?



Steve Rohleder - Accenture - COO

Yes, Jason, this is Steve. I'll start, I guess. The real issue that — or situation — we're dealing with is a major shift from outsourcing -- or excuse me, from consulting to outsourcing. And so as we see the bookings come in, certainly in this quarter and last quarter in the outsourcing business, it's going to take a little while to convert those to revenue. And, I haven't seen any difference in terms of the velocity of opportunities coming through our pipeline this quarter. I do believe, though, that we're seeing a shift, primarily in both Resources and Products, from consulting to outsourcing, and that's impacting what you're asking about.

Pamela Craig - Accenture - CFO

Hello, Jason, this is Pam. I'll just add one statistic for you. When we compare bookings — this is for outsourcing — when we compare bookings in Q3 this year to last year, there's about a 7% difference of bookings that are -- for revenues that are for future years. Meaning for this year, beyond fiscal 2010.

Jason Kupferberg - UBS - Analyst

Okay.

Pamela Craig - Accenture - CFO

There's just a little bit -- there's just a little bit of a shift there.

Jason Kupferberg - UBS - Analyst

Yes, yes. And a follow-up question on margins. The gross margin, I think, was at the highest levels you guys have seen in probably close to three years and I know you talked about some improved outsourcing contract profitability there as a key driver. So, does this mean that as the outsourcing contract portfolio matures further then gross margins could potentially expand from these May-quarter levels? Or are there other factors at work that we need to consider as we think about the medium-term gross margin profile of the company?

Pamela Craig - Accenture - CFO

Well, I think that the thing to point out here is that the outsourcing guys have been on a journey to really industrialize their delivery. And as you know, all year long this has been coming through very strong. So, I certainly do expect it to continue, but there's always a mix in the portfolio in terms of early deals and later-cycle deals and so there will be some fluctuation at times, but I think in terms of a trend this industrialization is here to stay and we expect it to the continue to yield for us.

Operator

Thank you. And now we go to the line of George Price of Stifel Nicolaus. Please go ahead.

George Price - Stifel Nicolaus - Analyst

Hi. I guess two things. One, I was wondering if you'd elaborate at all on the next few quarters being challenging. What -- you know, where should we expect to see the particular challenges from a growth perspective, from a cash perspective, from a profitability perspective?

Pamela Craig - Accenture - CFO

Hi George. I think the main thing is just the revenue run rate, when you compare where we are right now and you look at the first two quarters of last year, the first one was 9% growth. This is just challenging, right, in terms of sequential run rate. So, it will take a little bit of time until we build that back up.



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George Price - Stifel Nicolaus - Analyst

Okay. And let me step back before I ask my second and last question, which is congratulations on some very good results, I should have said that up front, in a very challenging environment.

Pamela Craig - Accenture - CFO

Thank you.

George Price - Stifel Nicolaus - Analyst

My other question, really just kind of stepping back -- high level. If I kind of look at the fiscal '09 constant-currency growth as it stands and what you've reported this quarter and it seems like the trajectory is setting up similarly to the way CC growth trended in the last downturn, which I guess would really suggest that there's -- next fiscal year really will be, could actually be down on a constant-currency growth basis. Can you kind of maybe talk about why you think the business might perform differently in this downturn versus the last downturn, or why maybe not?

Bill Green - Accenture - Chairman & CEO

Well, this is Bill. Let me take a shot at it, and then I'll let Pam draft in. You know we -- I think if you stand back and look at it, our visibility is consistent with what we said last quarter, which means our visibility was the same but the predictability continues to be tough. So, that's really the thing that's swinging. I think we've done a lot of work looking at our diamond clients, looking at the initiatives that they have. We've done a lot of work looking at the leaders of our client companies in terms of the confidence of people in the marketplace, and the confidence has improved a lot and yet people are still thoughtful and cautious, and I think it's going to be an interesting question about when you cross the line into 2010 calendar, what really happens. So, the difference between our first two quarters and our last two quarters could be dramatically different. And I guess the other thing is there's still a lot of conversations and activity out there. So, I think that it's working its way through the system and as a result it's sort of hard to -- you can see the first couple quarters and say, you know, this thing is going to get off to a slower start. But it has the potential to ramp, because as I said, the work hasn't gone anywhere. The needs are there, the work is there. The people that have the global agendas around consistent operating platforms and performance-improvement things are all there, and people have been taking small bites and I think that somewhere along the line here we're going to get back into the bigger more transformational type assignments.

George Price - Stifel Nicolaus - Analyst

Great, thanks very much.

Operator

Thank you. And our next question comes from Rod Bourgeois from Bernstein. Please go ahead.

Rod Bourgeois - Bernstein - Analyst

Hey guys. So a question about the health of the consulting business. As your predictability improved versus three months ago and also importantly would you say that demand in your consulting business has stabilized on a seasonally adjusted basis? And what I mean by stabilization is not whether it's dropping at a less rapid rate, but whether it's able to now hold ground on an absolute basis as you kind of look at the next couple of quarters?

Bill Green - Accenture - Chairman & CEO

Well, I'd say that we're going to need one more quarter to be able to make the call on that. You know, consulting held up very well even through last quarter, right. And it took a dip this quarter and I think that we're probably going to need another quarter to read the tea leaves. If you look at what's in that family of stuff, we see a lot more stability in the systems integration portion of the business than we see in the sort of pure consulting portion of the business. And last quarter it was almost the reverse, so we're just looking at the dynamics of what's going on there and trying to decide are they trends or just quarterly anomalies. But at the end of the day we feel good, and I think Pam mentioned in some of her remarks that the SI piece of that business, which of course is a big piece, had shown some stability, but the higher end -- the higher-up-the-stack



work in the last quarter showed more weakness. And so, right now we have a portfolio approach to the thing and I think we're going to need another quarter to answer your question with conviction.

Rod Bourgeois - Bernstein - Analyst

Got it. And I think it's prudent in this environment that you're not giving sort of initial guidance for fiscal '10. That said, the upper end of your revenue guidance for the August quarter is implying about negative 13% year-over-year growth and in local currency terms at that about negative 5%, negative 5.5%. I guess the question I have is, if you exit fiscal '09 at a year-over-year revenue growth rate of negative 5% in local-currency terms, would you strongly expect fiscal 2010 to be on a trajectory that's better than negative 5% in local-currency terms, particularly given that your comparisons will ease over the course of the year?

Pamela Craig - Accenture - CFO

Rod, I'm not going to comment specifically on next year but I think that as we look at the trajectory we do see the first half being tough, and we'll be in a better position in September to give you more in terms of beyond that. But I think that -- so, that's really where we see it at this point.

Rod Bourgeois - Bernstein - Analyst

So, but just to clarify that, when you say the first half of 2010 will be tough, is that on just year-over-year basis or does that mean your sequential revenue growth is expected to be below normal in the first half of the year?

Pamela Craig - Accenture - CFO

I think that -- clearly on a year-over-year basis is what I meant when I said it will be tough, and I think that because we do see the calendar '09, right, is tough and our year is a little different, so we start out the first quarter and have one month of the second quarter in calendar '09. And so the real question I think is what's going to happen in 2010 calendar, and that's where we see -- will that be an inflection point.

Bill Green - Accenture - Chairman & CEO

Yes, and I mean I would just add, we did sell \$6.6 billion worth of stuff this last quarter, so there's a lot going on there. But there is -- there's no question that there's a point, if you look at the client base and the companies, that there's some small segment of the market that sort of '09 they're just putting behind them and things are going to start up again in 2010. And so, I think that it's going to be a very interesting thing as we cross over the calendar-year line that if we can stay with what we're doing now and then get a nice kick as people start to engage and actually start the planning and the work for some of the 2010 business in the fall, we think that's going to serve us well. And you know, this is all instinct at this point, but that's kind of what we're seeing out there in the client base.

Rod Bourgeois - Bernstein - Analyst

Okay, great. And just to sneak one more in, I'm wondering if Steve can comment on Europe demand versus US. It seems there's some evidence out there that demand in Europe is lagging that of the US in terms of the dynamics of the cycle, but is that the right way to think about it?

Steve Rohleder - Accenture - COO

Rod, I would say that in some places in Europe it is, specifically in Spain, probably Italy; to a lesser extent in France. That said, there's part of our Western European business that is still growing in double digits. If you look at what's going on in the Netherlands, in Denmark, in Norway, some of those countries — in Germany, we had double-digit growth. So, there's -- it's a really mixed bag. In the UK, we continue to work hard to get that business stood back up. I think we're making progress. I think we've seen some stabilization of the SI business and we're going to continue to pursue growth there. But, it's a mixed bag, quite frankly, so it's kind of -- I don't think it's right to step back and say that it's lagging in a whole.

Rod Bourgeois - Bernstein - Analyst

Got it. Thank you, guys.



Operator

And our next question comes from Julio Quinteros of Goldman Sachs. Please go ahead.

Julio Quinteros - Goldman Sachs - Analyst

Great, thanks. Pam, I guess just, if I start with you first on the cost side of the equation, given the improvements on the gross margins, it sounds like you've got some nice traction there on the outsourcing side. Looking ahead, and I know I might have talked about this with some of you guys before, but if you really think about the costs that have been taken out of the equation this year to sort of help drive the margin improvement, the pieces that might be permanent, if you will, that don't come back even if you guys start to grow at some point next year versus the parts that are actually, you know, things that you have to spend on to keep growing. In other words, hiring, recruiting, and whatnot. Is there any way to sort of gauge how much of the cost efforts -- cost reductions are sort of permanent and don't come back even as we head into next year, versus those that you have to start spending on again, like hiring and whatnot, any way to think about that?

Pamela Craig - Accenture - CFO

Yes, I mean, I guess, Julio, the way I think about it is that we're committed to managing our cost structure. And so when you look at the -- I mean, you saw this year with utilization, we've been managing supply and demand, and that's mostly in cost of services. We've obviously been keeping a tight eye on SG&A and so we're going to continue to do that in relation to the business we have and will have. I think a lot of the things that we've done in terms of, for example, travel costs, where we switched to just do a lot more with technology and Telepresence and that sort of thing -- that's served us well and will continue to serve us well. And yes, there's some variable costs that come with hiring more people. I mean I don't think this is something that you should worry about, I mean, we're going to manage the costs.

Julio Quinteros - Goldman Sachs - Analyst

Got it and maybe -- .

Bill Green - Accenture - Chairman & CEO

Can I just add, Julio. No, I mean, we like many companies, we look at this as a unique opportunity to sort of restructure and reposition how we do what we do and the cost that it takes to do it and to support it, right? And so I think that as we get costs out of here, which we have been on a mission to do, and have accelerated, obviously this year, you know, we're doing that with the long term in mind. And, so we'll be at the door making sure they don't come back in, because we're very much trying to drive to get a lower total cost of operation of our company as a whole. And it's very important and very focused and I think we've demonstrated that we can do it and we're on a mission to do it.

Julio Quinteros - Goldman Sachs - Analyst

Yes, and I think Bill, I mean that -- the question on the SG&A side there's no doubt, or at least on the operating margin side if you look at the improvement, but I think the question that we always seem to grapple with is the gross margin part of the equation seems to have been -- it's been on steady decline for the last couple years. So, if all of a sudden we're at a point where the outsourcing feels like it's got enough traction and it can actually continue to improve, coupled with the environment coming back next year a little bit, should we expect to see gross margin improve and hopefully that kind of falls, continues to fall through on the operating profit side as well.

One last thing, just as a point of clarification, on the commentary regarding the shares that come unlocked in the fourth quarter, can you just walk back through that? And I guess more specifically, what pieces would Accenture have to absorb versus what pieces would just go to the marketplace?

Pamela Craig - Accenture - CFO

Well, basically just in terms of what's left to become unrestricted, there's just -- there's 19 million shares that are about to become unrestricted, and so we're done with that. I mean the eight years is on July 19, and that's that. So, but as we sit here today, just because shares become unrestricted doesn't mean founders sell them right away or look to redeem them right away. So there are -- I think it was 157 million that are still outstanding that those folks are holding and so we will -- what I was just explaining is that we will continue to meet their redemption requests, given that three-quarters of them are SCA shares which are redeemable through Accenture. And we'll use our cash primarily to do that.



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Julio Quinteros - Goldman Sachs - Analyst

Okay, but you didn't -- I just wanted to clarify that you weren't making an announcement that you were opening a window or anything along those lines? It was just -- .

Pamela Craig - Accenture - CFO

No, just to kind of give you a -- bring you up to date, because it's kind of an anniversary that's coming up here.

Julio Quinteros - Goldman Sachs - Analyst

Okay, so 157 million outstanding and then you made some other reference to 76%, and that was the SCA shares?

Pamela Craig - Accenture - CFO

Correct.

Julio Quinteros - Goldman Sachs - Analyst

Okay, got it. Okay, great, thanks, guys, congratulations.

Pamela Craig - Accenture - CFO

Sure Julio. Thank you.

Operator

And now we go to the line of Bryan Keane of Credit Suisse. Please go ahead.

Bryan Keane - Credit Suisse - Analyst

Hi. Just wanted -- Pam, you said something about positive signs at the end of the quarter. Can you just give me an idea of what you were talking about for those?

Pamela Craig - Accenture - CFO

Yes, I mean I think in the systems integration business, for example, I think they saw some good activity -- win rates -- I mean there was just -- I mean when you look at the bookings, right, I mean we are booking and doing and delivering a good base of business. And I mean there are some factors out there that are impacting some things around the margin just in terms of scope expansions, and deferrals, and this kind of thing. But we did see some positive signs, again, particularly in the systems integration business at the end of the quarter.

Bryan Keane - Credit Suisse - Analyst

Okay. And then on the guidance, if you back it in for the fourth quarter on a constant-currency growth rate, should consulting decline get a little more decline in consulting and outsourcing to hold its own at that plus 3%? Or -- I'm just trying to figure out the two different pieces.

Pamela Craig - Accenture - CFO

Yes, I mean I think you can assume that outsourcing will continue at sort of single-digit, positive growth rate and consulting in the negative mid-[teens].



Brian Keane - Credit Suisse - Analyst

Okay. And then finally, Steve, can you just give us a little color on restructuring, cancellations, and pricing? I guess how that's changed over the last three months and maybe how you see that going forward?

Steve Rohleder - Accenture - COO

Yes, Brian, I'd split the comment into two pieces. First of all, on the pricing front. If you look at our systems integration and outsourcing business, the pricing has come under pressure there, primarily because clients are continuing to ask us to go back and reevaluate our existing arrangements with them and reduce our prices. We've also seen some pressure in the ERP area, but quite frankly, the highest volume is in the existing contracts area. What that has done is pushed us to shift our resources in order to accommodate the price reduction to more of a higher level of offshore mix. And while that doesn't impact our margin, our bottom line, it does impact our revenue line. So, when we talk about pricing pressure, that's the first point. The second one is kind of in the higher-end services. And around that area, as we talked about here on the call, we have seen a little bit of a weakening of that market. I think the opportunities have slowed. The volume of opportunities is down, and frankly, there's a lot of management consulting work that we usually wrap into the transformational SI work, which is down a little bit. So, all that said, what we've done is begun some early-stage investing in opportunities with our foundation and diamond clients and clients in the white-space area. And that's going to put pressure on pricing as well for us. So, kind of think about it in those two buckets.

Bryan Keane - Credit Suisse - Analyst

What about restructuring and cancellations? Have those picked up?

Steve Rohleder - Accenture - COO

I wouldn't say they've picked up. I think there has been a high volume of those last quarter and we felt that this quarter as well.

Bryan Keane - Credit Suisse - Analyst

Okay, alright, well -- .

Pamela Craig - Accenture - CFO

Primarily in Financial Services.

Bryan Keane - Credit Suisse - Analyst

Right, okay, well, congratulations on the solid quarter and the tough environment.

Operator

And our next question comes from Ed Caso of Wachovia. Please go ahead.

Ed Caso - Wachovia - Analyst

Good evening. Bill, maybe you should talk -- can you talk a little bit about your favorite topic, which is politics and protectionism, for a minute?

Steve Rohleder - Accenture - COO

How much time do you have?



Bill Green - Accenture - Chairman & CEO

Yes, exactly. You got all day? They hate it when I do that. Well, I guess, I mean there's -- I guess a bunch of things. I've spent a little time in Washington over the last couple of months, as business broadly reads the new guys' dispositions one way or another. I think the people are concerned about a lot of things. I think the protectionist thing, a lot of those fears have subsided in many ways. And in the US, I think there are some concerns in some other countries, and there's some stuff around the edges, but at the end of the day I think by and large everyone is focused on getting the economies of the world back going, and they realize that we all sort of live off each other, and nobody wants to start the downward spiral of what that will do. I think there's some legitimate concerns about people trying to figure out how to be more competitive, because certainly with some of the legislation that's down there, not only in Washington, but in other countries around the world, put pressure on business performance and business results, and as a result, people are going to look at what else they can do to improve their competitive position as they may have to carry more burden, be it taxes that historically were deferred or healthcare or whatever it is that's going on out there.

So, I guess I would say that business leaders are at the post. They recognize there's something important going on here, and there will be a lot of legislative wrangling at the end of the day. In the meantime, what I am pleased about is I think business was deer in the headlights for awhile. I think they've settled in. I think they sort of understand the hand they have to play right now and people are getting back focused on how to compete and win and grow in what has become a very difficult and complex environment. So, I don't have fears about it, nor do I have any for how they would affect our company.

Ed Caso - Wachovia - Analyst

My other question is, you mentioned cloud as a new offering. I was wondering, is there -- are you going down the path of taking your intellectual property, wrapping it into a remote offering, to sort of sell your skills, or are you more interested in remaining more of a systems integrator?

Bill Green - Accenture - Chairman & CEO

Well, I think we have to do both, because we do have underlying assets, soft and hard, that we need to leverage. And if you think about our assets, whether they be software, or whether they be just ideas, knowledge, and know-how and intellectual property, the cloud gives you an opportunity to capture those, encapsulate them and then leverage them at scale. So, that's important to us. We also see a huge piece of business that's around helping our clients move to the private cloud, in their own environment. If you think about size and nature of the complexity of our clients, I mean, they could be cloud-based providers just for themselves internally. So, there's going to be a lot focused on that. And then I think you might have seen, we announced joining Cisco around unified communications and the sort of next-generation data center stuff. And our focus is the journey from today to the cloud. It seems like falling off a truck, but it's not, right. It's complex, it's expensive and it's multi-year, and all of the people that want to provide those services are — and cloud-based services — are going to need implementation arms and legs in order to get people from where they are to where they're going to be. So, right now the offerings around road maps and plans and business cases and how do you do that, and then it's also about how do we exploit the assets that we have frankly scattered around the globe in Accenture, and get them resident in a cloud-type environment that we can take advantage of, be they software or just intellectual property that some of our partners would want to convert into software and provide through their service environments.

Ed Caso - Wachovia - Analyst

Thank you.

Operator

Thank you. And now we go to the line of Tien-Tsin Huang of JPMorgan. Please go ahead.

Tien-Tsin Huang - JPMorgan - Analyst

Thanks, a couple quick margin questions. Pam, did you give detail on what's driving the operating margin guidance to be at the low end? Is it just revenues or is there mix pricing or something unusual?



Pamela Craig - Accenture - CFO

There's nothing unusual, Tien-Tsin. It's more just how we see the year coming out and where we are to date.

Tien-Tsin Huang - JPMorgan - Analyst

Right, so just probably a lot of it is just revenue. And then just, I guess, looking ahead, is there a way or rule of thumb that we can use to understand the margin implications from any mix shift toward outsourcing, if we want to assume that that trend continues through fiscal '10?

Pamela Craig - Accenture - CFO

Yes, I mean, I think there is a definitely at least a medium-term phenomenon here in terms of that slight mix-shift change. I mean I think it's also interesting to point out, though, that the margin expansion has been largely due to outsourcing this year. So, it all goes into the mix. I probably don't have anything real formulaic to give you.

Bill Green - Accenture - Chairman & CEO

I keep asking her the same thing, though. So, I'm sure she will start working on it.

Tien-Tsin Huang - JPMorgan - Analyst

Alright, great, thanks.

Operator

Thank you. And now we go to the line of Karl Keirstead of Kaufman Brothers. Please go ahead.

Karl Keirstead - Kaufman Brothers - Analyst

Yes, hi, good afternoon, thanks for taking my call. Pam, I know you're not going to provide any fiscal '10 color until the next quarter, but you did make reference to the fact that as you're looking into fiscal '10 you're examining your cost structure, and you made reference to the consulting piece of business, if I'm not mistaken. Can I infer from that, that the pricing pressure continues and you're looking at perhaps new actions or more forceful actions to lower your cost structure? Maybe you could add some color as to what you meant by that. Thank you.

Pamela Craig - Accenture - CFO

Well, I think we're just going to continue to look at it and obviously something we do every year at this time of year is make sure that we have our cost structure sized for the business that we expect to have, and given that the decline has been in consulting, that was why I emphasized that. That said, we've been managing supply and demand all along in that business. We will continue to do so, and then the part that doesn't go in cost of services, that's primarily an SG&A cost, we'll be looking at that as well.

Karl Keirstead - Kaufman Brothers - Analyst

Okay, and then just a quick follow-up on the headcount. If I'm right, you cut about 4,000 heads in this May quarter. That's a little bit less than the 6,000 in the previous February quarter, so it looks like your headcount culling is slowing a little bit. Can we infer from that, that sort of the worst is behind you in terms of having to cut heads?

Steve Rohleder - Accenture - COO

Well, Carl this is Steve. I mean, I wouldn't infer anything based on looking forward. I think the important part of this is that we've got ongoing actions, country by country, area of business by area of business, that we're taking on a monthly basis. So, it's hard to say if the worst is behind us or the worst is in front of us. I wouldn't say that. I would tell you that we are closely in touch with what we see the demand drivers to be and we're aligning that with the supply of people that we have to meet that client demand.



Karl Keirstead - Kaufman Brothers - Analyst

Okay, thanks for the color.

Operator

And now to the line of Tim Fox with Deutsche Bank. Please go ahead.

Tim Fox - Deutsche Bank - Analyst

Thanks, good afternoon.

Pamela Craig - Accenture - CFO

Hello, Tim.

Tim Fox - Deutsche Bank - Analyst

Steve addressed the pricing issue as it related to existing customers looking for some restructuring. I was wondering if you could comment on pricing vis-a-vis the competitive environment and as a follow-up to that, just wondering if the mix of sole-sourced business has shifted at all over the past few quarters, and do you expect that to remain similar to fiscal '09 next year?

Steve Rohleder - Accenture - COO

Tim, first of all, the mix of sole-source business hasn't changed. It's still about 50/50. Our bookings from diamond clients and foundations clients is still in line, around 75%. In fact, about 60% -- over 60% of our pipeline is attributed to foundation and diamond clients as well. So, we haven't seen a shift there. From a competitive standpoint, there's clearly competitors out there that are picking opportunities to purchase, to be very aggressive from a pricing standpoint. What we continue to do is evaluate those opportunities, decide if they're strategic for us and then compete on that basis. We also continue to look at how we're differentiating the services that we bring and the value proposition that we're putting on the table for those clients. And I think that has allowed us to compete head to head with anybody who is getting aggressive from a price standpoint.

Tim Fox - Deutsche Bank - Analyst

Okay.

Pamela Craig - Accenture - CFO

We do see a -- .

Tim Fox - Deutsche Bank - Analyst

Sorry, go ahead, Pam.

Pamela Craig - Accenture - CFO

We do see some pricing pressure in the SI& AO space, and we've done I think an extremely good job of shifting to lower-cost locations to meet the demand and also to maintain margins. So, that's really the -- that's one area where we've seen that.

Tim Fox - Deutsche Bank - Analyst

Right, and my second question is around the pace of restructurings. Just wondering if that has -- did that actually accelerate a bit in the fiscal third quarter, and do you anticipate that to continue going forward, and is that maybe part of the color around the challenge around the top line, given the fact that you will be able to maintain margins by moving more offshore, but we could see some more restructuring continue throughout the next few quarters as customers are feeling pain?



Pamela Craig - Accenture - CFO

Yes, I mean, I don't really see -- I don't, at this time, see an upturn in trend in that in more restructurings. I think we had in Financial Services last quarter, second and third quarters of our fiscal year, some terminations and restructurings that related to that industry and the turmoil in that industry and the fact that some clients went away completely. So -- and as we look now, I don't see that trending up. That could, of course, change, but at this point as we sit here today I don't see that.

Tim Fox - Deutsche Bank - Analyst

Thanks. Nice execution.

Richard Clark - Accenture - Director of Investor Relations

Operator, we have time for one more question.

Operator

Okay, and that comes from the line of Elizabeth Buckley of Arete Research. Please go ahead.

Elizabeth Buckley - Arete Research - Analyst

Yes, good evening, just a question, Bill, about the important investments that you've outlined. Can you give us a sense of the order of magnitude of these investments that you've made starting, I suppose, in Q3, and also for the full year '09, how much are you investing relative to last year and also looking into next year, when do you see this higher investment rate ending? Thank you.

Bill Green - Accenture - Chairman & CEO

Well, you know, for this year, for '09, it is essentially been taking the investments we normally make, and channeling them to the things that were hot, if you will, right? We spend \$1 billion a year training people and doing R&D. We spend hundreds of millions of dollars on assets and things like that. I think if you stand back and look at it, it's how do we channel our training expenditures, how do we channel our management development and offering development stuff, and that's what we've done for this year. We're in the middle of building our 2010 plan for next year, and we're going to look at what we need to do here. But I think important to me is, we see a tremendous opportunity to repurpose a lot of investments that we've been making over the last three or four years and use that money in a different way, targeted to more important things in terms of growth and revenues for the future. So, right now we're in the-repurpose-the-investment mode, and make sure we get focused on the things that will have the highest yield for our clients and our company, and then we'll see if there's incremental investments. But consistent with that, our strategy for acquisitions is the same as it's been, and yet we'll probably target them more towards these areas than we have in the past. So, we have a lot we can do just with the operating investments we make and how we use our capital, just in the current framework of the economic model of the firm and that's where we're starting, and if we need more from that, we'll do it on a business case.

Elizabeth Buckley - Arete Research - Analyst

Excellent, thank you.

Bill Green - Accenture - Chairman & CEO

Let me just say a couple things in closing then. Our focus on operating discipline and delivery excellence enabled to us turn in a solid quarter in a challenging environment, and I appreciate those of you on the call who recognize that, because I would tell you we work really hard for it. I do want to thank the men and women of Accenture around the world that made this happen, because it's their focus and their hard work which deliver these results. We remain intently focused on our clients and their needs, and we remain committed to doing what it takes to generate value for them and for our shareholders, both for today and for the long term.



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Today we've given you a taste for some of the exciting new initiatives we have underway to accelerate our growth in this business, both in existing areas as well as in some new ones that offer great potential. Again, we'll provide some more details about these on our Q4 earnings call and on our annual Investor & Analyst conference in October.

In closing, I'm just proud of what we've delivered to date in fiscal '09. I'm excited about the opportunities that lie ahead for Accenture. So, I want to thank each of you for joining us on the call today. We appreciate your continued support and we look forward to talking with you again on our next call. Thank you.

Operator

Thank you. And this conference will be available for replay after 7:00 p.m. eastern time today, through midnight September 30, 2009. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code 103-988. International participants may dial 320-365-3844. Again those numbers are 1-800-475-6701, and 320-365-3844, access code 103-988.

And that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference service. You may now disconnect.

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