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Conference Call Transcript

ACN - Q3 2008 Accenture Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to Accenture's third-quarter fiscal year 2008 earnings conference call. (OPERATOR INSTRUCTIONS). As a reminder, we are recording today's call. I would now like to turn the conference over to our host, Mr. Richard Clark. Please go ahead, sir.

Richard Clark - Accenture - Managing Director, IR

Thank you everyone for joining us today on our third-quarter fiscal 2008 earnings announcement. As the operator just mentioned, I am Richard Clark, Managing Director of Investor Relations. With me this afternoon are Bill Green, our Chairman and Chief Executive Officer; Pamela Craig, our Chief Financial Officer; and Steve Rohleder, our Chief Operating Officer.

We hope you have had an opportunity to review the news release we issued a short time ago. Let me quickly outline the agenda for today's call. Bill will begin with an overview of our results. Pam will take you through the financial details including the income statement and balance sheet and Steve will add some operational perspective. Pam will then provide our business outlook for the remainder of fiscal year 2008 and Bill will close the presentation before we take questions. As a reminder, when we discuss revenues during today's call, we're talking about revenues before reimbursements or net revenues.

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Some of the matters we will discuss 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. Accenture assumes no obligation to update the information presented on this conference call.

During our call today, we will reference certain non-GAAP financial measures which we believe provide useful information for investors. You can find reconciliation of those measures to GAAP on the Investor Relations section of our website at Accenture.com.

Now, let me turn the call over to Bill.

Bill Green - Accenture - Chairman, CEO

Good afternoon, everyone. We are pleased you could join us today as we discuss our outstanding performance in the third quarter. As you have seen in our news release, we turned in our highest ever quarterly revenues and earnings per share. Our results clearly reflect the extraordinary range and depths of our services along with our tight focus on operating discipline. Here are some of the highlights from the quarter.

First, we grew revenues 20% in U.S. dollars and 12% in local currency with double-digit growth in both consulting and outsourcing. We delivered earnings per share of \$0.74, an increase of 36% over Q3 last year. And we have again raised our expectations for EPS for the full fiscal year.

We delivered outstanding new bookings of \$6.8 billion including record consulting bookings of \$4 billion and outsourcing bookings of \$2.8 billion. We grew operating income 27% and expanded operating margin by 70 basis points. Along with that, our balance sheet continues to remain strong. We generated tremendous free cash flow of more than \$1 billion in the quarter and we're continuing to return cash to shareholders. We have been steadily building a formidable leadership position, investing in our business and increasing market share. Our efforts are clearly paying off.

With that, I will turn it over to Pam, who will provide details on our financials for the quarter.

Pamela Craig - Accenture - CFO

Thanks for listening today. I am pleased to tell you more about our great results in the third quarter of fiscal 2008. Once again, we had very strong revenue growth. But of particular note this quarter was the strong profitability shown through our operating margin expansion. We also had record EPS driven largely by these strong operating results.

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

Net revenues for the third quarter were \$6.1 billion, an increase of 20% in U.S. dollars and 12% in local currency over the third quarter last year. This was slightly above the top end of the range we provided last quarter due to an additional 1 point lift in FX. The year-over-year growth in local currency of 12% is at the top end of our annual range of 9% to 12% in local currency.

Consulting revenues were \$3.7 billion, an increase of 20% in U.S. dollars and 12% in local currency. Outsourcing revenues were \$2.4 billion, also an increase of 20% in U.S. dollars and 12% in local currency. Moving down the income statement, gross margin was 31.5% compared with 31.7% for the same period last year. This quarter's gross margin was in line with our expectations. And year-to-date gross margin is consistent with last year.

SG&A costs for the quarter were \$1 billion or 17.3% of net revenues compared with \$921 million or 18.1% of net revenues for the third quarter last year. The change is primarily due to a decrease in G&A costs, offset by a slight increase in sales and marketing costs as a percentage of net revenues. This reflects our ongoing efforts to hold G&A growth below revenue growth.

Operating income for the quarter increased 27% to \$862 million, reflecting a 14.1% operating margin. This compares with \$682 million or 13.4% operating margin in the third quarter last year, an expansion of 70 basis points reflecting the continued improvement in G&A. Year-to-date operating margin of 12.8% is in line with the range we have provided for operating margin for the fiscal year.

Our effective tax rate for the third quarter was 30.8% and our year-to-date effective tax rate is 28.4%, consistent with our annual guided range of 28% to 30%. Income before minority interest for the quarter was \$608 million compared with \$473 million for the third quarter of last year, an increase of 28%.

Diluted earnings per share were \$0.74, an increase of 36% over diluted EPS of \$0.54 in the third quarter last year. The biggest reason for this increase was our strong growth in revenue and operating income. Favorable foreign exchange rates, a lower share count and a slightly lower tax rate also contributed to the increase compared with last year's third quarter. Now, let's turn to some key parts of our cash flow and balance sheet.

Free cash flow for the quarter was \$1.01 billion, resulting from cash from operating activities of \$1.08 billion and property and equipment additions of \$66 million. Our DSOs, or day services outstanding, continued to drive strong free cash flow. DSOs were 35 days, consistent with 35 days in the second quarter. We continue to manage DSO levels to be in the 30s, a level that is strong and industry leading. Our total cash balance at May 31 was \$3.33 billion compared with \$3.31 billion at August 31. We continue to return cash to shareholders through share repurchases during the quarter, which I will describe in more detail momentarily.

Total debt at May 31st was \$7 million compared with \$9 million at February 29th and \$26 million at August 31st. Our balance sheet metrics continue to be very strong. For the third quarter, our return on invested capital was 69%. Our return on equity was 72% and our return on assets was 19%. Let me turn now to share repurchases.

During the third quarter, we repurchased or regained 13.1 million shares for \$484 million and facilitated the redemption of 4.1 million more shares through the use of our redemption shelf. The average price of shares repurchased or redeemed with cash in the quarter was \$37.05 a share. At May 31st, we had \$3.1 billion of share repurchase authority remaining.

Last quarter, we announced the acceleration of the release of certain founder shares held by former senior executives. That program continues. We are about to enter the final year of our eight-year program to lift the last restrictions on founder shares in an orderly way. There now remain only 61 million founder shares held by former senior executives that are restricted until July '09. Two-thirds of these are SCA shares, which need to be redeemed through Accenture. We expect to primarily use our cash to redeem these shares as we have in the past. We will continue to facilitate an orderly non-disruptive transition of the remaining restricted shares.

Finally, let me comment on the size of our public float. Using what we believe to be the most conservative method of calculation, our public float at the end of the third quarter was approximately 71%. This calculation excludes all outstanding founder shares, even the unrestricted shares held by former senior executives. If we include those unrestricted shares, our public float is approximately 76%.

So now, let's turn to Steve, who will give you some operational detail.

Steve Rohleder - Accenture - COO

Hi everyone and thanks for joining us today. As you can see from the numbers, Q3 was another excellent quarter. We consistently delivered solid financial results as we benefit from our global presence, our durable client relationships and specialized service offerings. Let me take you through some of the highlights, starting with the operating groups.

All five operating groups achieved double-digit revenue growth in U.S. dollars and products, resources and public service also had double-digit growth in local currency. Products, which is our largest operating group, turned in a very strong quarter with revenue growth of 19% in local currency. Products has built a base of very strong client relationships leading to consulting and outsourcing growth across all geographic regions. There was also strong demand for ERP in consumer goods and services as well as in retail.

Our resources operating group recorded its first \$1 billion revenue quarter. A lot of the activity in resources is related to globalization and the demand for natural resources which are generating increased demand for ERP and supply chain services. Demanding utilities is very strong and the mining industry is emerging as a major growth opportunity for us.

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The public service operating group had a strong quarter, growing revenues 19% in U.S. dollars and 13% in local currency and expanding operating margins. The revenue increase was driven primarily by consulting growth in all regions, especially in EMEA, and also by the continued demand in the U.S. federal space for classified and defense work. I know there's a lot of interest in financial services, so I will provide a quick update.

Even in challenging times, we posted 8% local currency growth in financial services. Banking clients are coming to us for cost improvement initiatives and to improve customer interaction. In insurance, our asset-based strategy is paying off with sales related to claims processing and policy management. Demand continues to be solid throughout Europe and North America.

Now turning to the geographic regions, in the Americas, revenues grew 17% in U.S. dollars and 14% in local currency driven by solid growth in the U.S., Brazil and Canada. In EMEA, revenues increased 23% in U.S. dollars and 11% in local currency, driven by strong results in Italy, France and Spain. Revenues in Asia-Pacific grew 19% in U.S. dollars and 6% in local currency, reflecting business expansion in Japan, China and Singapore. Our growth in Asia-Pacific was partially offset by declining revenues in Australia.

Next, I will take you through some of the trends we are seeing with our growth platforms. In management consulting, we're seeing growing demand for work associated with market entry strategies and product lifecycle management. There is also continued demand for finance and performance management services, especially in risk management. Demand for supply chain is also strong with clients looking at every aspect of their operating models from low cost country sourcing to the configuration of their manufacturing operations. And in talent and organization performance, we're helping clients attract, develop and retain talent as well as manage their large diverse workforces over multiple geographies.

In a systems integration and technology part of consulting, we are seeing strong demand in technology consulting with the primary focus on security, data center consolidation and workplace collaboration technologies. In systems integration, we have invested in building a global capability of industry-leading SAP and Oracle skills and are well-positioned to satisfy the continuing demand for ERP implementations. Through the Accenture Technology Labs, we're developing a steady stream of innovative technology offerings, many using next-generation communication and collaboration software tools.

The build-out of our global delivery network continues to differentiate us in the marketplace. In Q3, we added centers in Argentina, Mexico and Morocco, bringing the total number of our centers to 52. We had a year-over-year headcount increase of 21%, ending the quarter with nearly 77,000 people in the global delivery network.

In outsourcing, we continue to benefit from the bundled outsourcing trend as clients see the advantage of outsourcing multiple processes, applications and/or infrastructure to a single provider. We are seeing demand for application outsourcing as well as BPO with interest in procurement, talent management and learning as well as our pharmaceutical and healthcare offerings.

Before I cover operational metrics, I would like to take a minute to update you on some of the acquisitions that we had during the quarter. We continue to invest in targeted tactical acquisitions expanding our capabilities in several key areas and geographies. For example, in Japan, we acquired a company which expanded our Oracle capabilities. We also acquired a California-based provider of services to global freight management and airline cargo companies, which strengthens our freight and logistics offerings. We announced the acquisition of a Brazilian company which will enhance the IT and automation solutions we provide to resource client.

Finally, let me turn to a few operational metrics. We are delighted that new bookings for the quarter were \$6.8 billion including consulting bookings of nearly \$4 billion, our highest quarterly consulting bookings ever, and solid outsourcing bookings of \$2.8 billion.

In terms of our people, we ended the quarter with just over 180,000 employees. Utilization was 85% and attrition was 16%, down 2 percentage points from Q3 last year. We continue to pay close attention to supply and demand, balancing utilization, attrition, recruiting and training.

So to wrap things up, this was another outstanding quarter. The investments we're making in specialized skills and capabilities, the flexibility of our operating model and our operational discipline are paying off as demonstrated by our excellent performance again this quarter. With that, let me turn it back to Pam for our business outlook.

Pamela Craig - Accenture - CFO

Starting with next quarter's revenues, we expect net revenues for the fourth quarter to be in the range of \$5.9 billion to \$6.1 billion. This range assumes a foreign exchange loss of 7% to 8%. Based on our strong performance here to date and with one quarter left in the fiscal year, we are in

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a position to narrow our outlook on some key metrics for the full fiscal year 2008. We now expect net revenue growth for the full fiscal year to be towards the upper end of our previously guided range of 9% to 12% in local currency.

As you know, we have targeted new bookings for the fiscal year in the range of \$24 billion to \$26 billion. Based on the bookings activities in the month of June and the visibility we have to additional expected bookings in the fourth quarter, we are narrowing the range for new bookings for the full fiscal year to \$25 billion to \$26 billion.

We continue to expect operating margin for the full year to be in the range of 12.8% to 13.1%. We are raising our outlook for earnings-per-share for the full fiscal year to a range of \$2.63 to \$2.65. We are also raising our outlook for cash flow. We now expect operating cash flow to be in the range of \$2.58 billion to \$2.78 billion, property and equipment additions to be \$380 million and free cash flow to be in the range of \$2.2 billion to \$2.4 billion, an increase of \$200 million over our previous outlook.

Finally, we continue to expect our annual effective tax rate to be in the range of 28% to 30%. Next quarter, we will provide our business outlook for fiscal year '09. We can currently see a continuation of our annual revenue growth objective of 9% to 12% in local currency. We will provide more detail when we announce our fourth-quarter results and provide FY '09 guidance in three months' time.

While there continues to be plenty of uncertainty and volatility in markets around the world, we remain focused on providing the services that meet our clients' evolving needs and on driving our business for continued growth and profitability. So here is Bill to close before we take your questions.

Bill Green - Accenture - Chairman, CEO

Let me just recap for a minute before we take some questions from you. I hope you can see why we are pleased with our performance in the third quarter. We continue to position Accenture for success by investing in innovation, making the tactical acquisitions and ensuring that we have the best skills, capabilities and people. There is a huge opportunity in helping clients navigate the constantly changing global economy. We are seizing that opportunity and this is what is contributing to our momentum and our success. Our results I think demonstrate that we're not only committed to helping our clients become high-performance businesses but that we are equally committed to Accenture's high performance.

With that, let me go to some of your questions.

Richard Clark - Accenture - Managing Director, IR

Now, we will go to your questions. Operator, would you provide instructions for those on the call?

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Rod Bourgeois, Bernstein.

Rod Bourgeois - Bernstein - Analyst

Hey guys. Very, very nice results and it sounds like the outlook is continuing to be strong, so nice to hear. Can you give us some specificity on how your growth is playing out in your consulting business versus your outsourcing business? Your consulting bookings growth remains strong. I think the prior expectation has been that the outsourcing business would see some decelerating revenue growth for maybe another quarter or two and then stronger outsourcing bookings would be able to lift that business. Is that still the outlook for the outsourcing business based on what you're seeing in the pipeline and how that is played out since the last time you guys spoke to us?

Steve Rohleder - Accenture - COO

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I will take that one. Because I think in the last quarter, I did comment, as you point out, in the outsourcing business. I think it varies by area of our business. We're seeing strong consulting growth still in the ERP area, a very steady growth in management consulting. And as I've said in my comments, in the outsourcing business, especially in this quarter, we saw a very strong application outsourcing growth which is really driving some of the outsourcing bookings that we saw there.

For the quarter, last quarter, we had said, look, we believe that because our bookings are lumpy that the realization of revenue may vary quarter on quarter. We worked that very hard this quarter to make sure that we obtain the level that we did. And we're going to continue to do that going forward. But overall, both of those areas are very healthy and the demand is very healthy as well.

Rod Bourgeois - Bernstein - Analyst

Then on the revenue outlook front, it sounds like you are signaling that 9% to 12% local currency growth can continue here, which if I remember correctly is exactly what you did last year at this time. I am anticipating that the questions that we will see on this is, are you far enough into your planning process for next year to be comfortable making that statement at this point in time? And can you give any more elaboration on what is behind that outlook?

Bill Green - Accenture - Chairman, CEO

We are sort of halfway through the planning process. Although, if you think about our business even as we do our state of the business discussions which we do every other week, we take a multi-quarter view of that. And just to the nature of the size and the scope and the nature of the deals, I would tell you the guys that run the five pieces of business around here are very optimistic and very bullish. The planning process for '09 is coming together nicely. And when we stand back, we feel better looking at '09 than we felt this time last year when we were looking at '08. So I think there's a lot of evidence that makes us feel that way and gives us some confidence about the future.

You know, we also just believe deeply that we need to drive this business regardless of what is happening in the economic situation. And we need to make that kind of growth happen in order to have credibility and in order to keep the machine going. So we feel pretty comfortable with that outlook. And I would tell you that like every company, we spend a lot of time reading the tea leaves and trying to chart where the future is going to go but we feel good about the business.

Rod Bourgeois - Bernstein - Analyst

Bill, you mentioned that you feel better about the next year's outlook than you did this year's at this time. That's a big statement given what is happened in the economy. Can you pinpoint where that added confidence is coming from? Is it share gains or is it that something in the market has improved to overcome what investors view as a big cyclical obstacle.

Bill Green - Accenture - Chairman, CEO

I guess change and challenge drive opportunities for our Company. Our job is to make sure we have offerings that are relevant, we have the people on the ground where we need them and to leverage the global footprint we have in the activity across all of the industries we serve. I think Steve will comment later on some of the things that are going on in the mining industry. We talked about resources hitting \$1 billion.

If you look at what is happening in consumer products, if you look in the global supply chain space and if you just look at the lift the consulting business is getting, that is all about change. That is all about people investing in their companies in order to tackle the headwinds of economy and the opportunities that are on the global stage. And that is the stuff that makes our business go. I think also our ability to serve these companies consistently on a global basis is very unique. And these are the world's 2000 or 3000 largest companies that are our clients, and we're just very grateful for them feeling good and trusting us with helping them change and be more competitive.

Pamela Craig - Accenture - CFO

Just to add a little bit more in terms of our processes. When we look at our opportunities looking out and we stage them according to how long we think they're going to take to close and probabilities and all that kind of stuff, but our visibility at this point this year is at least as good if not a little better than to where it was last year.

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Rod Bourgeois - Bernstein - Analyst

Pam, just running the math on your latest guidance for '08, it sounds like you're keeping your operating margin guidance intact, given the increase in your EPS guidance that is keeping that operating margin guidance intact that you had intact before?

Pamela Craig - Accenture - CFO

Yes, well, year to date, we are at 12.8, which is at the bottom end of that range and we are saying we're going to be in the range.

Operator

Adam Frisch, UBS.

Adam Frisch - UBS - Analyst

Awesome quarter, guys. Just to pick up on that last line of questioning, one more question about the guidance for next year on where the outlook for revenues. Pam, when you are going through it, is it a bottom-up or top-down approach that you use? And what kind of scenario analysis have you incorporated into the guidance of 9 to 12? Like if the things get really bad, does that 9 to 12 go away? Or is that kind of already in there already based on what you are seeing now?

Pamela Craig - Accenture - CFO

What we have is largely a bottoms-up process in terms of understanding where all these opportunities are in all the various and disparate parts of our business that are all over the world and they are all different things in consulting and outsourcing and of course all the different industries. So that part is the bottoms up. We have tested it pretty heavily to make sure that the revenue range of 9% to 12% looks good because obviously a lot flows from that.

Adam Frisch - UBS - Analyst

I know when I talk to investors, everyone says -- well a lot of people say, great quarter; they did well but the slowdown is inevitable. Discretionary spend, they're so exposed. But when you were here in January talking to investors with us, I think you had the most prolific comment of the year so far and said, there is more to life than New York and Boston capital market brokers. And it was interesting you said that and things have held up so far to date. And now, you're saying they're holding up again. So maybe you could give us some color on what percentage of your portfolio is experiencing real challenges right now with IT spending cutbacks and what percentage whether it be by vertical or geography are feeling less pressure and allowing you to continue to grow the business the way you are?

Bill Green - Accenture - Chairman, CEO

Well, let me just give you a couple of comments and I may have Steve draft in. If you look where I spent the last six weeks of my life, it has not been in the United States. It's been two weeks in Asia. It's been in Europe. It has been where there are things that are happening around the world. You look at China, we're growing 40%. I was in Korea; we're growing in the 30s. It's just move around the business, you look at our business in even a small place like Amsterdam, I can remember when it was 200 people and now it's close to 4000.

So if you look around the world, there's a lot of activity out there. I think it goes back to the fact that the leading companies need to compete on the global stage and they need to compete not against yesterday's competitors but tomorrow's competitors and the next generation of multinationals that come from emerging markets. But people continue to invest in the business. And I think you have to look at sure, there are people that are being thoughtful. Yes, there is people that are cutting back. But people are doing the things necessary to compete.

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Even if you look at the United States, which for those of us who live here, read the paper every day, things look a little gloomy. But our growth in the Americas, our growth in the U.S. business was great this quarter. And we signed terrific new relationships with clients we had never been at before.

So, the job is how do we, Accenture, get lined up with bringing the right products and services that are relevant at that point in time. I think the fact our financial services guys can grow 8% year-over-year in this climate says a lot about making sure you have the right offerings and the right people and you're creating your own demand in a market like this. And that is frankly how we drive the business.

Steve Rohleder - Accenture - COO

Adam, just to build on that. Bill mentioned earlier that we are driving the business. And just to give you some color around that because I think it is important for people to understand we don't just sit by the telephone and wait for the RFP to hit. We're out there generating demand with our current clients. In fact again this quarter, we had a substantive amount of our bookings attributed to our existing client base. And I think that is very telling in terms of the relationships we have and the offerings we have to bring to those clients to drive high performance.

If you look geographically at some of the trends we are seeing, in EMEA, four of our five operating groups all are experiencing strong consulting growth which is driven by systems integration and management consulting both. If you switch over to the Americas, the trend I think generally speaking is more towards outsourcing because of the economic cycle we are in. Asia-Pacific is kind of a balance of both. So the fact that we have this portfolio of businesses around the world in different countries in different industries, I think really helps us balance growth in different areas of our business in different parts of the world.

Adam Frisch - UBS - Analyst

Last question here. Steve, I'm happy to ask this question again this quarter. But any big chunks in the consulting bookings or were they like any big contributions from outsourcing deals or was this another good quarter of singles and doubles?

Steve Rohleder - Accenture - COO

Singles and doubles. Maybe one triple out there but --

Adam Frisch - UBS - Analyst

Okay, we will take it.

Steve Rohleder - Accenture - COO

Yes, exactly.

Adam Frisch - UBS - Analyst

Okay, if I could just maybe sneak in one more, sorry about this. But the revenue growth has been so strong all year. Next year is looking great. Margins are moving along steadily but at a more measured pace by the 30 to 50 bps or so each year. I know you're always looking to get more efficient. But are you more focused on growth now and maybe letting the costs go the way they go and maybe not actively managing them as fast because there is so much opportunity out there? So if there is a downturn, there is also some leverage you have on the cost line to maintain the margin growth?

Pamela Craig - Accenture - CFO

I will start, Adam. I think that the growth is very important, the revenue growth. Because with that, a lot of things are possible. If you look at the cost base, I think the primary focus is G&A because we have demonstrated very consistently our ability to hold the growth on that versus revenues. And so that will continue to be a focus for sure.

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Operator

Moshe Katri, Cowen & Co.

Moshe Katri - Cowen & Co. - Analyst

Great quarter, guys. Can we get an update on the pricing, Steve? And then you've touched a bit about the bit of proposal pipeline. Maybe you can give us a feel. Is it up year over year? And then are there any changes in project ramp or in sales cycles? Thanks.

Steve Rohleder - Accenture - COO

Yes. I will start with the last part of your question. The pipeline itself, as I've said before, is still very healthy. And we are satisfied that it will help us achieve what Pam has put out there in terms of the guidance so far. I think it is really important to just talk about pricing and split it into two areas. I think the pricing -- I would tell you that for this quarter, the pricing in North America I was really pleased with. I think we have been able to achieve some of our pricing power in specific areas of our business, namely in management consulting and technology consulting. I think we have room to improve in Europe and we have got a program underway to push that as well.

So we have had the same focus the entire year which is basically we want to push specialties skills and management consulting and technology consulting and specialty areas of systems integration. We want to drive pricing and differentiation based on those skills and we're continuing to do that. Frankly, I am pleased with the progress we have made, Moshe.

Moshe Katri - Cowen & Co. - Analyst

Can you comment also on the project ramp and sales cycles, any change there?

Steve Rohleder - Accenture - COO

Not really, certainly not in the sales cycle. We talked in earlier quarters about the size of outsourcing and outsourcing deals and the duration. I would tell you just overall, I think that clients are beginning to chop up pieces of projects and contract in smaller chunks. That said, we're able to adjust our sales process to make sure we are still hitting the overall number. So nothing noteworthy there would be my short version.

Moshe Katri - Cowen & Co. - Analyst

Great quarter.

Operator

Julio Quinteros, Goldman Sachs.

Vincent Lansing - Goldman Sachs - Analyst

This is [Vincent Lansing] for Julio. Just to follow up on the pipeline real quickly. Can you comment a little bit on the composition whether there has been a change in income sourcing versus outsourcing or whatnot?

Steve Rohleder - Accenture - COO

We have not seen a marked shift frankly between consulting and outsourcing. We still feel like we have got the pipeline there based on the win rate history that we have. We feel comfortable with our book-to-bill ratio. And frankly, we have not seen a shift between the two types of work.

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Vincent Lansing - Goldman Sachs - Analyst

And then just really quickly on the tax rate, it looks like the tax rate is going to finish around 28% or 30% which is a bit lower than your initial expectations of I think it was around 32% for the year. So just trying to triangulate a tax rate going forward just based on your current revenue mix and geographical exposures, etc. and whether the 28% or 30% is going to be a sustainable rate?

Pamela Craig - Accenture - CFO

I'm not going to comment on that in terms of next year. But the reason that it came down a bit this year were there were some discrete items in the prior quarters as well as geographic mix of income and final determinations that went into all that.

Vincent Lansing - Goldman Sachs - Analyst

Got it, great.

Operator

Bryan Keane, Credit Suisse.

Bryan Keane - Credit Suisse - Analyst

Pam, any reason why you guys still wouldn't be able to get some operating leverage going forward?

Pamela Craig - Accenture - CFO

You know I'm never going to give up on that. But I think that primarily, you will see it from G&A. If you look at the selling side as Steve mentioned last quarter, we put a little more emphasis into selling in the public service area and we're going to do that. We're going to make those investments where we think we need to. So there is plenty of opportunity there but at the same time we're going to make the right call for the business.

Bryan Keane - Credit Suisse - Analyst

And then Steve, I just noticed in the operating groups communications in the high tech, the margin there was down a little bit. Could you give us some color on that? And then on the flipside of that, in financial services, the margin continues to be really strong compared to last year. Could you explain that as well?

Steve Rohleder - Accenture - COO

I think the financial services guys have done a great job of managing their cost base and balancing the work between consulting and outsourcing, consulting being emphasized in Europe and EMEA and outsourcing growing steadily in the Americas. So I have got to give them all of the credit in the world for managing that business and balancing the portfolio to drive that level of performance.

On the CHT side, obviously the growth didn't come in where we wanted it. But our pipeline is still strong and we expect them to bounce back. I would just point out the operating margin within CHT was still healthy year to date at 12%. But quarter-on-quarter, I don't worry too much about any single entity like that as long as we're on the right trajectory for year end.

Bryan Keane - Credit Suisse - Analyst

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Then Steve, I often get the question about the software industry and if software shows weakness, how is that going to affect Accenture? Can you just go through some comments on that because that comes up quite often?

Steve Rohleder - Accenture - COO

Yes and we got it last quarter as well. I would tell you it doesn't. I mean at the end of the day what we are seeing is clients and I'm amazed by this but it is still happening. Clients on a very large global scale doing their initial contracting for new ERP systems out there. They've bought enterprise licenses for multi-country installations and they contract with us to implement it.

We have also seen an increasing trend in the second-generation ERP installations. Clients that have gone through the first wave of implementation may or may not be getting what they want. And one has to come in and optimize what they have got in place right now. So, both of those are kind of independent of whether Oracle or SAP or Microsoft or anybody else and what they are reporting from a revenue standpoint.

Bryan Keane - Credit Suisse - Analyst

Last question is for Bill. I guess we're in a rescission here. Yet, you keep beating expectations. So I have to got to ask the question, are you surprised how resilient Accenture has been?

Bill Green - Accenture - Chairman, CEO

Every day I get up and think about like who's sneaking up on me. Let me just start with that. But no, I'm not surprised because of the durability and the diversity we're been talking about. The global footprint really matters, the ability to serve.

If you look at our industries closely, there's about 44 separate industries that we have deep differentiated expertise in. And we have the ability to move people across these verticals quite easily. So you take the global footprint and you take that and you take the fact that we do consulting, we design and build things and we operate -- 40% of the business operates things on behalf of clients and you put all that together, you have a lot of durability in the business. I think that is a good thing for us.

That said, we know we can't just let it happen. We have to make it happen. We have to drive into the marketplace. We have to sharpen the swords. We have to make sure the offerings are relevant. We have to do what Steve described about creating our own demand. We've got to move resources from where they are to where the action is. And that is sort of the day job of the leadership of Accenture, making sure we match up demand in the marketplace with the supply we have internally. So I think a lot of our results frankly we have made happen.

Bryan Keane - Credit Suisse - Analyst

Well super job and congratulations.

Operator

George Price, Stifel Nicolaus.

George Price - Stifel Nicolaus - Analyst

Let me add my congratulations on great results. A couple of things, EMEA, second quarter, you neglected to cite the UK in the list of areas of strength. It is I believe roughly 15% of revenue and arguably an economic environment that might be more challenging than ours. Any thoughts on where the UK stands and what you are seeing there?

Steve Rohleder - Accenture - COO

I think both the UK and ASG would be countries that I would say we have programs underway right now to really try to energize the business. I am pleased with the progress we have made Q2 to Q3 in the UK but we still have work to go there. I will be very honest with you. I think the

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senior executives we have running that business are very focused on driving client demand, rightsizing our business and making sure that we are again driving the business and not letting it drive us.

George Price - Stifel Nicolaus - Analyst

Can you be a little bit more specific about those programs and how you're trying to drive business? How are you changing mix? How is the client mindset or spending patterns changing there?

Bill Green - Accenture - Chairman, CEO

I will speak to that. I was just over there with some clients and I was with one of them on Tuesday. I think if you stand back and look at the UK - our business in the UK is made of very large projects. So what we have more in the UK is we have the sort of wind down and ramp-up of projects and that has more influence on our demand than the economic conditions or anything else because the nature of the assignment have hundreds and in some cases thousands of people on them. So that is one thing. It is just the UK has a tricky supply and demand balancing equation.

I think the second thing is getting out there and sometimes you are so busy doing which we were last year, we didn't put enough power behind selling. And so what we have done is turned the turret to focus some of the executives a little less on delivery and a little more on origination and creation of opportunities. We're doing that. I and Steve and others are spending more time on the ground there. Karl-Heinz, of course Mark Foster, who runs the consulting business is there. That is an important piece of the franchise.

We have a great market position. We're very well-known. We attract the best people coming out of the schools. And to us, it's just a quarter or two thing to get it resparked and frankly one or two big assignments would do that. The opportunity is there. The consumer products business is good. The energy and mining companies that may not have operations there but are based there are big customers.

And then, the financial services business over there is sort of shaking a little bit like here but they are also focusing on opportunities around outsourcing primarily in the technology area. And those are some of the biggest sources of [band] that we're focused on. The thing that is important is we have great long-term client relationships in the UK and those serve us well over time year after year after year.

George Price - Stifel Nicolaus - Analyst

The color is very helpful. In terms of the demand question and the growth question, I think you've talked about fiscal '09 probably about as much as you're going to in terms of guidance. But I guess what are you looking at or looking for? What would you imagine could derail your current outlook, absent some unforeseen catastrophe I guess? What are you watching most? Are there different metrics or indicators? What are you watching?

Bill Green - Accenture - Chairman, CEO

We've been watching them all of '08. We're not doing anything different in '09 and we have been delighted with our results in '08. Every quarter, we continue to get the thing sorted out and get a good result and drive the thing forward. The thing we look at mostly is before we do earnings, we sit down with all of the business runners and we have a little come to Jesus meeting. And we look at what is it we're going to say to you guys and how credible is it going to be? And that is the thing that gets us energized.

In fact, we had a discussion this morning about taking a little off it. Because the people are very bullish about their business. And if our financial services guys can do what they are doing in this climate and our resources, people have offerings that nobody has in an area of industry that is on fire. We have got a lock that is breaking our way.

If we can continue to be globally efficient and yet really locally responsive in the places around the world where the action is, we believe we're going to continue the momentum that we have. We look at this at the client level of detail all the time. So this is not just law of large number stuff. This is client by client and to recognize that many of these clients have been clients for a decade. We are sort of their go to people and they have change agendas and they need our help and we're going to be there for them. So we feel good about it in that sense.

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George Price - Stifel Nicolaus - Analyst

Last question, U.S. strongest growth in constant currency, interesting. Certainly, you had easier comps. And I know you mentioned outsourcing as a key trend there. Can you maybe give a little bit more detail about what is driving it in terms of particular verticals and maybe types of outsourcing? Application outsourcing, is that particularly strong? Can we read into that that maybe -- would you consider yourselves taking some share possibly from some of the offshore players on the outsourcing side?

Steve Rohleder - Accenture - COO

I don't know about the share at that granular of level, George. But I would tell you that if you look at the verticals, you kind of go through each one. CHT in the U.S. specifically is doing nicely from a consulting standpoint. Public service is also growing from a consulting standpoint. Resources of both consulting and outsourcing primarily in the natural resources and utilities areas, primarily in application outsourcing. Products, as I mentioned in the comments, our health and life sciences and retail consumer goods guys all saying strong growth in the consulting side and then FS primarily outsourcing. So that kind of gives you some color group by group.

Bill Green - Accenture - Chairman, CEO

I would just add that as we look at the U.S., there's plenty of opportunity. There is a lot of opportunity or deals we don't want. But the ones we do want that have to do with leading companies with long-term relationships, we are just very focused on those because we have an opportunity to bring all three growth platforms to bear. And when we bring consulting and building and operating to bear, we have a distinctive capability and that is something that appeals at the sea level in these companies, particularly in the U.S.-based ones.

Operator

Tien-tsin Huang, JPMorgan.

David Collin - JPMorgan - Analyst

This is David [Collin] for Tien-tsin; he got stuck on a plane. Pamela, I was hoping you could talk a little bit about the moving parts underlying the gross margin?

Pamela Craig - Accenture - CFO

Sure. Taking over for Andrew Steiner, aren't you? The underlying margins were good. I would say they are flattish year to year. And in this environment, they are right where we wanted them to come in. As you know, we operate the business to operating margin and there we saw the expansion.

David Collin - JPMorgan - Analyst

Anything going on though in terms of the labor market being more or less competitive? Obviously attrition improved but just over time, how should we think about it? I know it is not the focus but how should we think about the gross margin?

Pamela Craig - Accenture - CFO

We are in a good point in the year in the sense that most of the salary increases go in towards the beginning of the year and we did have higher ones this year. We've been absorbing them fine. So that is the point we are in the year. So that isn't playing a lot into the results for the third quarter.

Steve Rohleder - Accenture - COO

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Just to add to what Pam said on the talent side, we're not seeing any problem at all attracting the numbers that we need. In fact, our acceptance rate has been right in line with what it has been over the last eight quarters. So we don't -- we are not seeing any problem at all getting the talent that we need.

David Collin - JPMorgan - Analyst

Then a question on currency. I realize that a lot of your costs are mapped up in terms of currency with the revenues. But anything we should think about in terms of translation or any hedging that you do even if it doesn't get hedge accounting treatment under FAS 133? Can you just talk (technical difficulties)?

Pamela Craig - Accenture - CFO

Yes. We obviously for years have hedged intercompany loans around this global company. But one thing we started doing actually just recently is that we are starting to have more business where the revenues are in one currency and the costs are in another throughout global delivery network. The biggest pairs we have there are the U.S. rupee, the U.S. Philippine peso and the pound rupee. So we have started a program to partially hedge those costs and that is going very well. We also look to recover that as much as we can in the contracts.

David Collin - JPMorgan - Analyst

Obviously you've gotten quite a bit of help from currency in terms of revenue. If the currency switched and moved against you, the hedging then is intended to help protect against that and you think you are all the way where you need to be?

Pamela Craig - Accenture - CFO

The hedging locks it in. So it does that. We have been through periods where the currency has gone the other way and that is why we give the revenue results in local currency, so you have a feel for how the business is growing. We are denominated in dollars and yet our business is largely not in dollars. So it is important to keep that perspective.

David Collin - JPMorgan - Analyst

Last question, Steve. Can you just talk a little bit about the opportunities in China in terms of both labor pool and then I think Bill mentioned the growth there has been very good. Can you just talk a little bit about the markets there?

Steve Rohleder - Accenture - COO

Yes. Two things I would comment on, David. One, I really like the progress and the growth we have experienced in our global delivery networked offices in China. I think we just crossed a major milestone in terms of people there.

Secondly, I think the work we are doing for a lot of the multinational companies are companies that want to move into China, is kind of the focus. I would tell you -- Bill had commented on the meeting we had last week with our executive leadership team and we had our Chairman come in from China and present a strategy. And I think it was really effective in terms of how we are teaming up with the government to drive the labor pool in China and had some very creative ideas. The demand in the market is there.

Frankly, I think we're maturing at the right pace. I do not think we're getting overly aggressive but we're growing at the pace of the market. So I am really pleased with the opportunities that we have got.

Bill Green - Accenture - Chairman, CEO

We have time for one more question.

Operator

Karl Keirstead, Kaufman Brothers.

Karl Keirstead - Kaufman Brothers - Analyst

I would like to go back actually to the very first question which was about the outsourcing revenue growth. That really seems to be the delta versus Street expectations where the fees on your guidance we were expecting a growth rate deceleration. In fact, it accelerated. That would normally be given the nature of the business something you could anticipate and predict reasonably accurately. So could you just once just run through why that came higher than you thought? Was it primarily the apps outsourcing? Was it a big project runoff that got pushed out? Maybe a little bit more color would help us.

Steve Rohleder - Accenture - COO

Two things, number one, we did have a good spike in application outsourcing growth. We are able frankly to position and mobilize people a little bit quicker when we see more application outsourcing. There is less transition work frankly. So we worked it very hard.

As I said before, in the last quarter, we felt like we wanted to at least signal the possibility that there could be a slowdown. That said, we went to work right after the quarter closed and made sure that we were transitioning those projects that we had sold as quickly as possible. I think you see that in the results for outsourcing revenue this quarter.

Bill Green - Accenture - Chairman, CEO

I would just add the other thing is we get a lot of -- there is a lot of expansion opportunities in the outsourcing space. So when we saw the thing looked like it was going to slow down a little, you turn up the burners underneath that to make sure you are leveraging the existing client base. We are able -- Campbell and that crew can turn that thing around pretty quickly because the relationships are deep. They're long term. We can add scope and add responsibility fairly quickly and that is what the team did. And we are delighted with the outcome and we feel good as we look ahead with it as well.

Karl Keirstead - Kaufman Brothers - Analyst

One follow-up if I may, it is tough to find any kinds of weakness in this quarter. But you did admit that in the communications high-tech vertical to growth was not quite where you wanted it. Could you add a little bit more color as to where you might have seen some of the challenges perhaps geographically?

Bill Green - Accenture - Chairman, CEO

I'd mentioned it. One is we had a couple of monster projects that are converting. I think one of them every week we convert tons and tons of subscribers so that is slowing down a little. I think in the telecom space is actually going very well and the electronics and high-tech space and media, we would like to see a little more lift and a little more momentum. If the semiconductor guys and the consumer electronics guys try to decide like what their demand picture is going to be and what the profile is going to be.

Then the other thing is there is a shift. There's a lot more activity in Asia than there was and some less activity in the developed countries. All that when you put it into the mix has an impact there. That said, I know that business pretty well. I feel very good about it and what we are doing and the things we have underway. When the work comes there, it comes in very large and important pieces. So we feel good about the business but we would have like to have seen a little more juice out of them this quarter.

Karl Keirstead - Kaufman Brothers - Analyst

Thanks that color helps. Congrats.

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Bill Green - Accenture - Chairman, CEO

Well, I appreciate everyone tuning in. Let me just say a couple of words in closing. First, we have got strong momentum in our business as we ended the final quarter of the year. I think you can see that. Demand for our services remains strong. We see great opportunities to serve clients, even in markets with adverse economic conditions and we are well equipped to capture those opportunities. More than ever, the skills and dedication of our people help differentiate Accenture from our competitors. And all of us remain focused on building an even stronger Accenture while delivering value to our clients and therefore our shareholders. So, thanks very much for joining us today. We appreciate your continued support.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and thank you for using AT&T Executive Teleconference Service. You may now disconnect.

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