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# EDITED TRANSCRIPT

ACN – ACCENTURE'S Q2 FISCAL 2013 EARNINGS  
CONFERENCE CALL

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## CORPORATE PARTICIPANTS

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**Pierre Nanterme** *Accenture – Chairman & CEO*

**Pamela Craig** *Accenture – Chief Financial Officer*

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**Tien-Tsin Huang** *JPMorgan Securities - Analyst*

**Rod Bourgeois** *Sanford C. Bernstein & Co. - Analyst*

**Darrin Peller** *Barclays Capital - Analyst*

**Bryan Keane** *Deutsche Bank - Analyst*

**Julio Quinteros** *Goldman Sachs - Analyst*

**Katy Huberty** *Morgan Stanley - Analyst*

**Ashwin Shirvaikar** *Citigroup - Analyst*

**David Togut** *Evercore Partners - Analyst*

## PRESENTATION

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### Operator

Ladies and gentlemen, thank you for standing by and welcome to Accenture's second-quarter fiscal 2013 earnings call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Ms. KC McClure, Managing Director of Investor Relations. Please go ahead.

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### **KC McClure** - *Accenture - Managing Director, Investor Relations*

Thank you, Katy and thanks everyone for joining us today on our second-quarter fiscal 2013 earnings announcement. As Katy just mentioned, I'm KC McClure, Managing Director of Investor Relations. With me today are Pierre Nanterme, our Chief Executive Officer, and Pamela Craig, our Chief Financial Officer. We hope you've had an opportunity to review the news release we issued a short time ago.

Let me quickly outline the agenda for today's call. Pierre will begin with an overview of our results. Pam will then take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the second quarter. Pierre will then provide a brief update on our market positioning. Pam will then provide our business outlook for the third quarter and full fiscal year 2013, and then we will take your questions before Pierre provides a wrap-up at the end of the call. As a reminder, when we discuss revenues during today's call, we're talking about revenues before reimbursements, or net revenues.

Some of the matters we'll discuss on this call are forward-looking, including the business outlook. 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, and that such statements are not a guarantee of our future performance. 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 quarterly reports on Form 10-Q, and other SEC filings.

During our call today we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliation of those measures where appropriate to GAAP in our news release or on the Investor Relations section of our website at [www.Accenture.com](http://www.Accenture.com). As always, Accenture assumes no obligation to update the information presented on this conference call. Now let me turn the call over to Pierre.



**Pierre Nanterme - Accenture - Chairman & CEO**

Thank you, KC. And thanks everyone for joining us today. We are pleased with our results for the second quarter, which were in line with our expectations. We continue to drive profitable growth and are investing in differentiated services that are clearly resonating with the needs of our clients.

Here are a few highlights:

- We delivered very strong new bookings of \$9.1 billion, including record Consulting bookings of \$4.4 billion.
- Revenues were \$7.1 billion, up 4% in local currency, including strong local-currency revenue growth in Outsourcing of 10%. And we were particularly pleased with our double-digit revenue growth in both Financial Services and Health & Public Service.
- We delivered earnings per share of \$1.65 on a GAAP basis, including the benefit of two items that Pam will talk about when she takes you through the numbers. Absent the benefit of these items, earnings per share were \$1.
- We increased operating income and expanded operating margin on both a GAAP and adjusted basis.
- We continue to have a very strong balance sheet, ending the quarter with a cash balance of \$5.6 billion.
- And we continue to return cash to shareholders through share repurchases and dividends.
- Today, we announced a semi-annual cash dividend of \$0.81 per share, which will bring total dividend payments for the year to \$1.62 per share, a 20% increase over last year.

So, with the first half of the year behind us, I feel good about where we are... and we remain well-positioned to meet our outlook for the fiscal year.

Now let me hand over to Pam who will review the numbers in greater detail. Pam, over to you.

**Pamela Craig - Accenture – Chief Financial Officer**

Thank you, Pierre, and thanks to all of you for listening today. Let me tell you more about Accenture's fiscal '13 second-quarter financial results. Revenue growth was driven by year-over-year strength in three of our operating groups, in Outsourcing, and geographically in the Americas. Profitability in the underlying business was excellent and we delivered additional margin expansion this quarter. New bookings of over \$9 billion reflect strong demand for future business. So delivery was very solid and we're well positioned for the future.

Now let's go through the numbers. Unless I state otherwise, all figures are U.S. GAAP except the items that are not part of the financial statements or that are calculations. New bookings for the quarter were \$9.1 billion, our second-highest level after the record in Q4 last year. Our bookings reflected a flat foreign exchange impact compared with new bookings in the second quarter last year. Consulting bookings were \$4.4 billion, and Outsourcing bookings were \$4.7 billion.

Let me give you some bookings details, starting with those record Consulting bookings. In Management Consulting, bookings were strong in the United States as well as in Asia-Pacific, and also in parts of Europe. We continue to see client demand for transformational projects in operations, customer relationship management, and talent and organization, as well as a pick-up in demand for risk management.

Our bookings in Technology Consulting moderated this quarter and they primarily reflected projects to drive cost reduction in the data center, network, and desktop infrastructures of our clients. We see lots of opportunity ahead and have strengthened our leadership focus on the technology transformation agendas at our clients.

Systems Integration bookings reflected strong continued demand to modernize and upgrade installed ERP systems, as well as an increase in demand for industry-specific systems across the major platforms. Emerging technologies are often part of the mix as we are doing more and more to help our clients integrate Software as a Service, cloud platforms, mobile applications and digital solutions.



Turning to Outsourcing, our Technology Outsourcing bookings were very strong in Q2 as our clients continue to seek solutions for driving operational efficiencies and flexible cost-effective sourcing. Our Global Delivery Network continues to be very well-positioned to meet the increased demand for such solutions. These bookings reflect strong demand across all five of our operating groups and geographically in the Americas and Asia-Pacific.

BPO bookings in Q2 reflected continued demand for our cross-industry offerings, especially finance and accounting, and for our industry-specific solutions in Communications and Banking. Additionally, we had bookings of over \$100 million at 14 clients, with all five operating groups represented.

So, reflecting on bookings overall, we feel good about the strength in demand for our services, particularly given our very strong bookings in two of the last three quarters. Our improved position in contracted revenue makes our visibility better – this bodes well for revenue growth over the longer term. At the same time, the conversion of Consulting bookings to revenue at a slower rate, a trend that began about a year ago, is continuing and is therefore continuing to impact our revenue growth short term.

Turning now to revenues... net revenues for the second quarter were \$7.06 billion, an increase of 4% in US dollars and in local currency over the same period last year. Our previously guided range of \$6.9 billion to \$7.15 billion assumed a foreign-exchange impact of negative 1%. There was \$55 million more in U.S. dollar revenues resulting from a more favorable actual foreign exchange of negative 0.2%. Our revenues of \$7.06 billion were thus slightly below the midpoint of the recalculated range.

Consulting revenues were \$3.75 billion, as compared to \$3.78 billion last year, flattish as expected; negative 0.5% in local currency growth actually, and rounding to a 1% decline in both U.S. dollars and local currency. We had single-digit local currency growth in the Americas and were down modestly in EMEA and Asia-Pacific. As I just mentioned, the lower conversion of bookings continued this quarter and influenced our Consulting revenue growth. That said, we did see good sequential growth on a net revenue per-net-workday basis in Consulting in Q2.

Outsourcing revenues were \$3.31 billion, an increase of 9% in U.S. dollars and 10% in local currency, with strong double-digit growth in the Americas and Asia-Pacific and modest growth in EMEA. EMEA growth was impacted significantly by the ramp down of one contract in CMT.

Now let me give you some highlights of revenue growth in our operating groups. Health & Public Service revenues increased 13% in local currency, reflecting very strong growth in Health again this quarter, with strength in both Consulting and Outsourcing and across the three geographic regions. We also had good demand in Public Service this quarter in both Consulting and Outsourcing, driven by strong growth in the Americas and Asia-Pacific. We continue to reposition the Public Service business in EMEA.

Financial Services revenues increased 10% in local currency. Outsourcing revenues reflected very significant growth, driven primarily in the Americas across all industry groups, particularly in Insurance and in Banking. Outsourcing growth in EMEA was also strong in Banking and Insurance. Consulting revenues grew slightly, driven by strong growth in Asia-Pacific across all industries and very significant Insurance growth in the Americas. This was partially offset by a Consulting decline in EMEA as we continue to see less demand for smaller projects there.

The Products operating group had local-currency revenue growth of 6%, driven by strong growth in Outsourcing in both Technology and BPO, in all industry groups, and across all three geographic regions. Consulting revenues were flat with puts and takes, and strong revenue growth in our pharma Life Sciences industry. Overall in Products, the Americas grew double digits, EMEA returned to positive growth this quarter, and Asia-Pacific declined slightly year over year.

Resources net revenues decreased 3% in local currency. Outsourcing revenues reflected slight growth overall, with strong growth in EMEA and Asia-Pacific, partially offset by a decline in the Americas. Consulting revenues decreased in all three geographic regions, and most industries, where we have recently completed a few large ERP programs. Consulting growth was significant in Chemicals, with ERP ramping up. We are sharpening our strategy to expand our Resources portfolio and our services, particularly in the Americas, and we thus expect that Resources growth in both Consulting and Outsourcing will be challenged near term.

Communications, Media & Technology revenues decreased 4% in local currency. Outsourcing revenues reflected slight growth driven by strength in the Americas. EMEA declined, primarily due to the expected significant ramp down from one contract. Consulting revenues declined in all three geographic regions, particularly in Asia-Pacific and EMEA, where certain clients are reducing or deferring investments due to ongoing economic challenges impacting their businesses. Significant Consulting growth in High Tech in the Americas continued, as clients increased their focus on building capabilities and enhancing their competitiveness. We continue to anticipate that CMT will return to growth by the end of the fiscal year.

Now let me comment briefly on our geographies. In the Americas, we were very pleased with the performance, particularly the U.S., which posted double-digit growth. EMEA declined very slightly this quarter, less than 1%. Although a handful of countries declined, we are otherwise holding our own in this part of the world, with growth in most of the countries. Asia-Pacific grew less this quarter, and we expect this trend to continue. Q2 included a decline in Japan, which was primarily in CMT, where certain clients in the High Tech industry in particular have significant challenges in their businesses right now.



In summary, our revenue results reflected strength across many parts of our businesses, as well as some areas where we are sharpening our strategy in order to reignite growth.

Moving down the income statement... Gross margin was 31.6%, compared with 31.1% for the same period last year, a 50-basis-point increase. This result reflected improved contract profitability, primarily in Outsourcing. Sales and marketing expense for the quarter was \$834 million, or 11.8% of net revenues, compared with 11.4% of net revenues for the second quarter last year, reflecting higher costs to replenish our pipeline. General and administrative expense was \$456 million, or 6.5% of net revenues, compared with 6.7% of net revenues for the second quarter last year, a 20-basis-point decrease as we keep driving efficiencies in our cost base as we grow our business.

In addition, we had an unusual positive item this quarter, a \$224 million benefit from a reduction in reorganization liabilities that we had established in connection with Accenture's transition to a corporate structure in 2001. This is a non-cash item and at this point the reorganization liabilities established 12 years ago are almost behind us.

So GAAP operating income was \$1.16 billion in the second quarter. Excluding the reorganization item I just mentioned, operating income for the second quarter was \$940 million, or 13.3% of net revenue, up 20 basis points compared with Q2 last year.

Our effective tax rate for the quarter was negative 0.5%, compared with positive 20.5% for the second quarter last year. We had a second unusual non-cash item, also with a large positive impact, a \$243 million benefit from final determinations related to prior-year U.S. federal tax liabilities. Excluding the benefits of this final determination item, as well as the reorganization item, the effective tax rate for the second quarter of fiscal 2013 was 24.8%.

Net income was \$1.19 billion for the second quarter, and it was \$714 million for the same quarter last year. Excluding the two unusual items just mentioned, net income for the second quarter was \$720 million, an increase of 1%. Diluted earnings per share were \$1.65, compared with \$0.97 in the second quarter last year. Excluding the two unusual items, EPS for the second quarter were \$1.

Let me walk down the components of the \$0.68 year-over-year increase in EPS. So firstly, without the unusual items, the increase is made up of \$0.06 from higher revenue and operating results, \$0.01 from higher non-operating income, \$0.02 from a lower share count, partially offset by \$0.06 from a higher effective tax rate. These net to a \$0.03 EPS increase before the two unusual positive items, which were \$0.34 from final determinations of prior-year tax liabilities, and \$0.31 from a reduction in reorganization liabilities. Together, these two unusual items generated an additional \$0.65 for a total year-over-year increase in earnings per share of \$0.68 in the quarter.

Turning to DSOs, our days services outstanding continue to be industry-leading in a difficult environment. They were 31 days, down slightly from 32 days last quarter, and up from 29 days in Q2 last fiscal year.

Free cash flow for the quarter was \$544 million, resulting from cash generated by operating activities of \$634 million, net of property and equipment additions of \$90 million. Lower free cash flow this year was driven primarily by a lower sequential decrease in DSOs from Q1 to Q2, compared with the same period last year.

Moving to our level of cash, our cash balance at February 28<sup>th</sup> was \$5.6 billion, compared with \$6.6 billion at August 31<sup>st</sup> last year. The current level reflects the cash returned to shareholders so far through repurchases and dividends, the U.S. pension contribution we funded last quarter, and some acquisitions we've made this year.

Moving to some other key operational metrics. We ended the quarter with a global headcount of about 261,000 people, and we now have approximately 170,000 people in our Global Delivery Network. In Q2, our utilization was 88%, consistent with Q1. Attrition, which excludes involuntary terminations, was 11%, consistent with Q1 and down from 12% in Q2 last fiscal year. Lastly, we continue to expect that at least 50,000 people will join our company this year.

Let me wrap up by commenting on our ongoing objective to return cash to shareholders through share repurchases and dividends. In the second quarter, we repurchased or redeemed approximately 8.8 million shares for \$609 million, at an average price of \$69.43 per share. Year to date, we've purchased 12.1 million shares for approximately \$830 million, at an average price of \$68.69 per share. At February 28<sup>th</sup> we had approximately \$3.6 billion of share repurchase authority remaining.

Finally, earlier today we announced that our Board of Directors declared our second semi-annual cash dividend in the amount of \$0.81 per share. This dividend will be paid on May 15, 2013. This is in line with the semi-annual dividend of \$0.81 per share we paid in November, and represents a \$0.135 or 20% increase over the dividend we paid in May last year. Now, let me turn the call back to Pierre to give you an update on some exciting things going on in our business, and then I'll finish up with our business outlook.



**Pierre Nanterme - Accenture - Chairman & CEO**

Thank you, Pam. Our highly diverse portfolio of business – combined with our industry expertise and broad technology capabilities – is positioning us very well to seize the opportunities in the marketplace. Our clients continue to focus on large-scale transformation, and we are seeing strong demand for our services. This is evident in our excellent new bookings for the quarter, as we are helping our clients drive tangible and measurable value, particularly in this fast-changing technology environment.

Our latest Technology Vision report identifies the trends that are having a big impact across different industries and explores how companies can use technology to improve business results. One of these trends is the convergence of social media, mobile computing, analytics, and the cloud, which is transforming the way businesses operate, and this is driving demand for our services.

In mobility, we recently helped a leading global pharmaceutical company move sales and service from traditional on-premise delivery channels to the cloud and onto mobile devices for its global sales team of more than 25,000 people.

In analytics and mobility, we are helping a global industrial equipment company design and implement a telematics capability that will allow its customers to monitor their equipment in real time; equipment users can now immediately identify parts that need maintenance, which will reduce downtime and increase revenue growth for our client.

And in cloud, we are creating efficiencies and cost savings for a large government agency by developing a private internal cloud – for systems that process nearly \$100 billion in transactions annually.

Accenture's industry expertise continued to be a key differentiator, and we are driving growth with our unique end-to-end services, which combine our management consulting, technology and business process outsourcing capabilities. In addition to providing market-leading services across more than 40 industries, we continue to prioritize our investments around specific industries where we see an opportunity for greater return.

Three of these industries, where our focused approach is clearly paying off, are Insurance, Banking and Health, which contributed significantly to the strong performance of our Financial Services and Health & Public Service operating groups this quarter.

In Insurance, one of our key wins in the quarter, valued at more than \$200 million, is to help a leading U.S. property and casualty insurer with a major transformation of its operating model. We are helping the client accelerate growth by re-engineering sales across all product lines and channels, through one of the largest salesforce.com implementations.

In Banking, we are using process automation to help a leading bank in Italy transform its accounts payable and procurement operations. We are using Accenture Finance & Risk Management Services to help migrate the client's legacy applications to SAP, streamlining invoice and payable processes, and then running them on a managed service basis. The goal is to deliver a sustained reduction in operational costs of as much as 25%.

In Health, a great example is Accenture Clinical Services and the work we are doing for Trinity Health, a leading operator of hospitals in the United States. We are helping Trinity leverage analytics to better coordinate and standardize patient care and improve patient outcomes. In addition to cost savings and safety improvements, Trinity is already realizing many important patient gains, including a reduction in patient mortality from sepsis of almost 20%.

We continue to focus on our growth markets, which as you know include our priority emerging markets as well as mature, under-penetrated markets. I continue to be extremely pleased with the strong performance of our business in the United States. With double-digit growth, we are gaining market share and we are benefiting from our recent investments in mortgage processing, insurance, and life sciences.

And of course, we remain focused on operational efficiency to drive profitable growth. We're applying rigor and discipline across the board to increase our competitiveness and expand our margins through pricing, cost, and productivity improvements. This gives us the capacity to reinvest in the business to extend our differentiation in the marketplace.

The overall macroeconomic environment remains challenging, and there is still a considerable amount of uncertainty, especially in Europe, Japan, and to some extent, Brazil. We continue to watch this very carefully and to assess any potential impact on our own business. So, we remain agile and flexible in the way we're deploying our investments around the world.

That said, we continue to execute well against our growth strategy and we continue to focus on gaining market share.



With that, I will turn the call back to Pam, who will provide our business outlook for the third quarter and the full fiscal year. Over to you, Pam.

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**Pamela Craig - Accenture - Chief Financial Officer**

Thank you, Pierre. Now, let me give you our update on how we expect to land fiscal year '13. As I mentioned in the last two quarters, we knew that revenue growth would be lower in the first half of fiscal '13, particularly in Consulting, and overall we are where we thought we'd be after the first half. With our strong bookings positioning us well for the future, we expect that growth will now start to gradually pick up, and as always we remain focused on driving overall profitable growth in our broad-based global portfolio.

Let's start with our outlook for the next quarter's revenue and then go through the elements of our annual outlook. For the third quarter of fiscal year '13, we expect revenues to be in the range of \$7.25 billion to \$7.5 billion. This assumes a foreign-exchange impact of negative 2.5% compared to the third quarter in fiscal '12.

Turning to the full fiscal year '13, based upon how the rates have been trending over the last few weeks, we assume the impact of foreign exchange on our results in U.S. dollars to continue to be negative 1% for fiscal '13 compared to fiscal '12.

First, net revenues. Based on how bookings have been converting to revenue this year, we now expect net revenue growth in local currency to land in the lower half of our previous range of 5% to 8%.

Our new bookings we continue to target to be in the range of \$31 billion to \$34 billion for the full fiscal year '13, and anticipate that they will trend toward the upper half of the range.

We now expect GAAP operating margin to be in a range of 14.9% to 15% for fiscal '13. Excluding the impact of the reorganization benefit in Q2, we continue to expect the adjusted range to be 14.1% to 14.2%, a 20- to 30-basis-point expansion over fiscal '12.

Tax rate. We now expect our annual effective tax rate to be in the range of 19% to 20%. Excluding the impact from the reorganization and final determination items in Q2, we continue to expect the adjusted range to be 26% to 27% for fiscal '13.

EPS. We now expect GAAP earnings per share to be in the range of \$4.89 to \$4.97. Excluding the impact from the Q2 reorganization and final determination items, we continue to expect the adjusted range to be \$4.24 to \$4.32, or 10% to 12% growth this fiscal year.

Cash flow. For the full fiscal year, we continue to expect operating cash flow to be in the range of \$3.2 billion to \$3.5 billion, with property and equipment additions to be approximately \$400 million. We continue to expect free cash flow to be in the range of \$2.8 billion to \$3.1 billion.

Finally, we remain committed to return a substantial portion of the cash we generate to shareholders. In fiscal '13, we continue to target a return of at least \$3.3 billion through dividends and share repurchases, and to reduce the weighted average diluted shares outstanding by about 2%.

In conclusion, despite the fact that there continue to be mixed signals all over the global economy, we are staying focused on driving the revenue growth we need for the rest of this year. Before Pierre and I take your questions, there is one other thing I would like to update you on. I have made the decision to turn over the CFO reins to my successor in a few months, effective July 1, and to retire from Accenture at the end of the fiscal year to pursue some new things. It's been a great 34-year run for me, including almost 7 years as CFO. It's a good time for me to do this. This company continues to be well-positioned for long-term financial success. My successor, who Pierre will tell you about it in a minute, is fully prepared and ready. The finance team that supports us is first-class in every way, and for me, it just feels like it's time. It's that simple.

And I'm grateful to have had the opportunity to work, first with Bill and then with Pierre, to share our outlook and how we are doing with all of you every quarter for the past 26. It's truly been a privilege to be CFO of this great company, and as I look back on my career, I know that it is the people of Accenture and the work we do for clients every day that makes this company so special. Of course, I will continue to work closely with Pierre and with my successor, whom I know well and trust fully, to ensure a smooth transition. Pierre?



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**Pierre Nanterme - Accenture - Chairman & CEO**

Thanks, Pam. Just let me take this opportunity to thank you for your dedication, for the tremendous contribution you have made to Accenture's growth and success. You've always been committed to doing the right thing for our people, for our company, for our clients, and for our shareholders, and it has been a real pleasure for me to work with you, especially since becoming CEO. As Chief Financial Officer, you have built a world-class Finance organization, and your focus on rigorous financial discipline has contributed to our strong performance over the years. Of course, a key part of this has been grooming your own successor, and I'm very pleased to announce that David Rowland, who has been a long-standing leader in our Finance organization, will become our new CFO on July 1<sup>st</sup>.

David has decades of experience at Accenture and a deep understanding of our business. I have known David for many years, and I know that he is absolutely committed to ensuring that we continue to create value for our clients and our shareholders. I am confident that David will be an outstanding CFO, and in true Accenture style we will have a smooth transition.

With that, let's move to the Q&A. And Pam and I are ready to take your questions on the quarter and our outlook for the year.

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**Pamela Craig - Accenture - Chief Financial Officer**

Thanks Pierre. I'd ask that you each keep to one question and a follow-up to allow as many participants as possible to ask a question. Katy, would you provide instructions for those on the call.

## QUESTION AND ANSWER

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**Operator**

(Operator Instructions)

Tien-Tsin Huang, JPMorgan.

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**Tien-Tsin Huang - JPMorgan Securities - Analyst**

Pam, congrats on the retirement. Thanks for everything. I definitely always enjoyed working with you.

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**Pamela Craig - Accenture - Chief Financial Officer**

Thanks, Tien-Tsin.

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**Tien-Tsin Huang - JPMorgan Securities - Analyst**

And congrats to David as well on the new role. Let me start by asking, obviously, the bookings were very, very solid. I think you said the bookings were going to track to the higher end, against the revenue at the lower end. So is it safe to say that the primary driver of moving revenue guidance to the low end, is it really just a slower Consulting revenue conversion? Is there something else that we should consider there?

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**Pamela Craig - Accenture - Chief Financial Officer**

There really isn't. It is that simple, Tien-Tsin, in the sense that the Consulting is just ramping more gradually. There's fewer of the smaller deals in there that convert faster. That trend has continued even beyond where we thought it would. So we do need more bookings actually, and we are indeed trending toward the upper end of the range.





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**Tien-Tsin Huang** - *JPMorgan Securities - Analyst*

Okay. Great. That's encouraging. So as my follow-up, just a couple small ones. Can you help us with the book-to-bill trend and as we sort of exit this fiscal year going into next, just directionally, is there something different we should consider, especially in Consulting? And then also, in the second half for Consulting revenue, can we expect a return to positive growth in the third quarter and something higher in the fourth quarter given what you see today?

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**Pamela Craig** - *Accenture - Chief Financial Officer*

So first, on the book-to-bills, just based on this complexion of the Consulting revenue, we do believe we need to be higher in that range of 1 to 1.1 that we've talked about with you for years. So right now we are looking, and it is, this quarter, 1.1. Of course, if the smaller, shorter-term stuff comes back into the mix in a greater proportion at some point, then it might move around in there, but you're right, at this point that's what we see. In terms of the Consulting revenue growth rate, we really do think that we will see out positive Consulting growth in Q3, and that it will be at least low positive single digits, and that trend would continue in Q4.

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**Tien-Tsin Huang** - *JPMorgan Securities - Analyst*

All right. Great. That's helpful. Thanks a lot. Congrats again.

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**Operator**

Rod Bourgeois, Bernstein.

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**Rod Bourgeois** - *Sanford C. Bernstein & Co. - Analyst*

Hey, and Pam, I definitely wish you the best. Very impressive career at Accenture, and you've definitely put together a world-class finance organization. I'm sure everybody there will miss you and I think the Street will as well. So thanks again.

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**Pamela Craig** - *Accenture - Chief Financial Officer*

Thank you, Rod.

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**Rod Bourgeois** - *Sanford C. Bernstein & Co. - Analyst*

Sure. And so, question here on the Consulting outlook. It sounds like the small deals are still soft and I'm wondering whether that is purely a function of softness in the market, or if there are competitive dynamics that are playing an increased role in being able to win some of the smaller, less-transformational type Consulting deals that are out there.

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**Pamela Craig** - *Accenture - Chief Financial Officer*

It does, Rod, to us it is a market phenomenon. We see it primarily in Europe where we traditionally had, particularly in some operating groups like Financial Services, a lot of that kind of smaller Consulting work, and so it's not that it's going down at this point. It's actually staying pretty stable, but just as a proportion of the bookings it is smaller and we do see it primarily as a market phenomenon more, that clients just don't sort of gravitate to that stuff as much as other things.

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**Pierre Nanterme** - *Accenture - Chairman & CEO*

Just to add color on this, indeed the volume is remaining for Accenture stable and so it's just the proportion that we see changing. But we're starting to be encouraged by the healthy pipeline for these types of opportunities. We're starting to see some things happening. Again, volume's stable, proportion a little bit lower, but it's not shrinking at all and the pipeline is showing some good signs.



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**Pamela Craig - Accenture - Chief Financial Officer**

Particularly in Management Consulting.

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**Pierre Nanterme - Accenture - Chairman & CEO**

Correct.

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**Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst**

All right. Great. We had a lull in Management Consulting so it's good to see that looking up. So hey, on the bookings side, given the strong bookings in the February quarter, I should ask if duration rose meaningfully on a year-over-year or quarter-to-quarter basis, and if you could answer the duration question for both the Consulting segment and the Outsourcing segment. And then I've got a quick question about the May quarter bookings outlook.

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**Pamela Craig - Accenture - Chief Financial Officer**

Yes, the duration has stayed pretty stable, Rod, in the sense we were sort of looking at all those metrics, aging, velocity, et cetera, and it's all pretty stable.

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**Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst**

Okay. Great. So you had very strong August quarter 2012 bookings. You had some softness in November because you were seemingly replenishing the pipeline, and then it looks like that pipeline replenishment paid off in February with the stronger bookings. How do we think about the May quarter? Is the May quarter another quarter of pipeline replenishment, or are you still seeing deals ripe to be signed, with another strong May quarter on the horizon here?

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**Pamela Craig - Accenture - Chief Financial Officer**

Well, we do have the pipeline replenishment and that's been going well during this month, and so if I just wanted to give you some sense, I think the bookings will be higher than they were in Q1 and not as great as they were in Q2.

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**Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst**

All right. Great. Thank you.

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**Operator**

Darrin Peller, Barclays.

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**Darrin Peller - Barclays Capital - Analyst**

Pam, also let me extend my congratulations and wish you the best. Thanks for everything.

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**Pamela Craig - Accenture - Chief Financial Officer**

Thank you.



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**Darrin Peller - Barclays Capital - Analyst**

Just want to jump in on the geographic mix. We saw some weakness in Europe. Looked like Asia was a little bit slower as well. Is there anything we should read into that, any sort of transition on the segment there or the geographic segment? Is it just really more of the same? Is it timing or anything we should focus on, any weakness developing in that region we should be worried about?

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**Pamela Craig - Accenture - Chief Financial Officer**

Yes, Asia-Pacific as you know is a big place and there's a lot of different things, and I'm going to let Pierre give a little color. Let me give you some number stuff and then do that. So we have countries that we're clearly trying to develop like China, that has a high growth rate, places like India, et cetera, where the growth is good. Then we have the more mature markets, like Japan, where we did see some isolated declines, which were in CMT this quarter. But we have a decent size business there, so it had an impact.

And then there's places like Australia, which had just phenomenal growth recently and we do see that coming a little off. So sort of the mix yield nets to something, this low positive 2%. But I think in terms of the positioning for the future, it's shaping up nicely. Let me let Pierre give you some color.

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**Pierre Nanterme - Accenture - Chairman & CEO**

Yes. Just to add on this, I mean, first, we continue to be extremely pleased with what we see in the U.S., and that's very important for Accenture. As you know, the United States is our single largest market, so that's very good for us. In Europe, I mean, Europe you all know the complexity of the macroeconomic environment, and I think we are holding our own quite well, and we had several of our large markets even growing in Q2 in Europe. When you look at APAC it's a collection of different markets, and indeed Pam said it very well, we had some very specific situations I would say in Japan, and we have this Australian compare as well. Overall, just to add color on this, we had record bookings this quarter in Asia-Pacific and we maintained a healthy pipeline. Directionally, I think our geographies are moving in the right direction, of course with a different pace, reflecting some different specific situations here and there.

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**Darrin Peller - Barclays Capital - Analyst**

All right. That's helpful. So it sounds like it's sort of similar also on timing in terms of the bookings being strong but should catch up also on revenue a little later on.

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**Pamela Craig - Accenture - Chief Financial Officer**

That's right, Darrin.

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**Darrin Peller - Barclays Capital - Analyst**

All right. Just one quick follow-up. On the Outsourcing side, I guess there's been a few quarters of deceleration in growth in Outsourcing. It also seems like there's a bit of a shift in terms of Consulting obviously being longer term as we talked about earlier, and with Tien-Tsin's question about the book-to-bill. Are some of the contracts that you used to think would be in Outsourcing sort of shifting gears? Are you positioning them into the Consulting side, or are clients actually moving more elements into more discretionary or more development type work that would now be considered something, have more elements of Consulting than they used to that previously would have been in the Outsourcing area?

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**Pamela Craig - Accenture - Chief Financial Officer**

No, I mean, if anything, Outsourcing continues to be strong and we've had 10 quarters or so of double-digit growth. We do see that moderating a little bit. The pipeline is very strong and healthy and certainly Outsourcing as a business and an area of demand continues to evolve very nicely. What's happening in IT services as it evolves to more managed services... and the potential in BPO is very strong. We've made some acquisitions there, et cetera. We feel really good about the Outsourcing business.

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**Darrin Peller - Barclays Capital - Analyst**

All right, good. That's all I needed to know. Thanks, guys.

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**Operator**

Bryan Keane, Deutsche Bank.

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**Bryan Keane - Deutsche Bank - Analyst**

Hi. Just wanted to clarify the guidance for revenue at the lower end of the range, and I guess let me ask it a different way. Is there anything that's actually changed over the last three months or is it such that nothing's actually changed and the market continues to be soft and you expected a pick-up?

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**Pamela Craig - Accenture - Chief Financial Officer**

Sorry, just ask that one more time, Bryan. I just want to make sure I understand your nuance here.

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**Bryan Keane - Deutsche Bank - Analyst**

I'm curious what changed if you look at it from the last three months since you last guided, and maybe nothing changed. The environment remains pretty much the same in Consulting and you didn't see the pick-up in the revenue or don't expect a pick-up in the revenue any more because the market isn't better. I'm just trying to figure out the slight nuance, the lower revenue growth from Consulting, what's really causing that or what's different from what you expected originally.

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**Pamela Craig - Accenture - Chief Financial Officer**

I think in terms of what we expected six months ago, we did expect that we would turn to growth in the second half in Consulting faster than we are. So it's just a little more gradual. And I would say it's similar to how we felt three months ago.

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**Pierre Nanterme - Accenture - Chairman & CEO**

I would just confirm, I do not see any change, so let me be clear with that, in any pattern. It's just, indeed, we continue to see the conversion of Consulting bookings to revenue at this lower rate, something, as Pam mentioned, that began about a year ago, and to some extent we had an expectation that would anniversary in this Q2 quarter, but this trend of conversion at a slower rate is continuing and, therefore, it's impacting our revenue growth short term. So what we see is just a more gradual trajectory but we do not see any structural change on anything.

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**Bryan Keane - Deutsche Bank - Analyst**

Okay, that's helpful. And then Pierre, are we seeing an inflection point yet or a bigger appetite for the market to move more to cloud services?

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**Pierre Nanterme - Accenture - Chairman & CEO**

This trend continues, I would say, nicely. Again, I do not see anything I would qualify as dramatic. I'm very pleased with our performance in terms of cloud, but I would add mobility as well, everything going digital. All of this is moving at a good pace. It's driving significant growth in those areas for Accenture.

Now, I do not see a kind of dramatic point of inflection, if you will. I think this market is picking up. It's still early days. I think there is more to come in those different businesses in the coming decade, and it's just moving nicely.



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**Bryan Keane - Deutsche Bank - Analyst**

Okay. And then lastly Pam, can I still call you in retirement and ask you about the FX movements and the impact on the numbers?

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**Pamela Craig - Accenture - Chief Financial Officer**

Absolutely, Bryan.

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**Bryan Keane - Deutsche Bank - Analyst**

I'm just kidding. Congratulations.

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**Pamela Craig - Accenture - Chief Financial Officer**

Thank you very much, and also I just want to point out one thing. We did point towards the lower half of the revenue guidance of 5% to 8% and that really is because at this point in time as we look forward it just is more clear that it's going to be in the lower half.

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**Bryan Keane - Deutsche Bank - Analyst**

Okay. Helpful. Thanks, guys.

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**Operator**

Julio Quinteros, Goldman Sachs.

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**Julio Quinteros - Goldman Sachs - Analyst**

Hey, Pam, since we have one last chance, can we get your initial view on fiscal '14 right now?

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**Pamela Craig - Accenture - Chief Financial Officer**

(laughter) We knew there would be one of you and if we had taken bets on who it would have been, probably you would have popped to the top of the list, Julio.

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**Julio Quinteros - Goldman Sachs - Analyst**

Congratulations and sorry to see you leave, but we're looking forward to working with David as well.

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**Pamela Craig - Accenture - Chief Financial Officer**

Absolutely.

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**Julio Quinteros - Goldman Sachs - Analyst**

I think most of the questions have been asked around triangulating between bookings and the lower-end number. From the way we think about the model more bottom up, we think about the headcount growth, I think you did say the 50,000 was still in line, which I guess would suggest in the back half of the year you would have to have a pretty big ramp in headcount. Any particular drivers there in terms of where you would expect to see that headcount growth continue to come from?



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**Pamela Craig - Accenture - Chief Financial Officer**

It's primarily the Global Delivery Network. As you know from the growth that we're seeing there, this has really become sort of an incredibly diverse group of people around the world that not only do IT -- but we have doctors, we have nurses, we have people doing very sophisticated analytics. So this is really our focus in delivery, is really building up that network, and then having the right size of workforces locally to combine in with that. So the strategy's the same but you're going to see more growth in the GDN.

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**Julio Quinteros - Goldman Sachs - Analyst**

Okay. And then on the SI component of the GDN, I know about a year ago or so when you guys laid out some plans for SI growth on the GDN side, how far along are we there? Is that going to continue its pace as well?

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**Pamela Craig - Accenture - Chief Financial Officer**

It's going along as planned.

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**Julio Quinteros - Goldman Sachs - Analyst**

Okay. I guess just more thematically. One of the sort of questions that we typically get around the growth of SaaS, the growth of cloud, and theoretically this coupled with more offshore growth in global delivery, should be having I guess a negative effect on the overall size of bookings and bookings awards. But in fact when you look at the bookings results that you guys are putting together the numbers are coming in much, much higher. But we're not getting it converted as fast.

I'm just trying to draw some cross-links between more global delivery and maybe more sort of SaaS and cloud-based work. Is that stuff just -- is it smaller overall but there could be more duration? Just trying to find sort of a link between -- there's concern that this new work is just not going to add as much revenue, but the bookings don't seem to tell that story.

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**Pierre Nanterme - Accenture - Chairman & CEO**

You're absolutely correct. I would just like to refer that we were very pleased to announce one of our major wins this quarter with this leading U.S. property and casualty insurer, more than \$200 million, which is going to be one of the largest salesforce.com implementations. So I think that's what that is, we are transforming sales operations. We're not only implementing Software as a Service. And so indeed, even if the strict SI implementation of the Software as a Service might have an impact on the effort, overall, as reflected with that illustration, the overall effort to do a sales force transformation or sales transformation even based on salesforce.com is still representing a significant transformational investment, including SI. So I think that's a good illustration to your question.

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**Pamela Craig - Accenture - Chief Financial Officer**

That's just a great example, right. As Paul Daugherty pointed out in October, this kind of new work implementing the new technologies... we do see those kinds of projects as at least as large over time, but they are installed a little differently. They don't necessarily have these big, giant development ramp ups, and then ramp down. It's a little more gradual. So I think it sort of plays into this whole trend as well.

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**Julio Quinteros - Goldman Sachs - Analyst**

Okay, great. Thanks, guys. Congratulations, Pam.

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**Operator**

Katy Huberty, Morgan Stanley.



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**Katy Huberty - Morgan Stanley - Analyst**

The \$9 billion in bookings was about \$1 billion above what most analysts modeled. Can you talk about whether that was also above your internal expectations? And given the size of upside, talk about some of the areas of strength, whether it be project type or geographies.

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**Pierre Nanterme - Accenture - Chairman & CEO**

We always have high expectations, so we are extremely pleased with \$9 billion, but we're never complacent. I'm extremely pleased, but I'm not complacent. We need to drive the business for profitable growth and this is what we are doing and it's all starting with bookings. The bookings are our revenues for the future, we're building contracted revenues, what we used in the past to call backlog.

But when you look at the areas of strength, as we mentioned, definitely I would say that it was the quarter of Financial Services, I don't want to always mention my prior operating group, but it was indeed quite a high point this quarter for Financial Services, Banking, Insurance, I mentioned one of our largest sales. But what is interesting is what Pam mentioned: 14 sales over \$100 million across all five operating groups. So indeed, we can mention Financial Services, they're going to be pleased this quarter, but I think across the board – I'm pleased to refer to Health, they continued to do extremely well, we were very strong in Products from a bookings standpoint. So those would be maybe the three operating groups I would describe, and then the good bookings in Consulting. But those 14 sales over \$100 million across the five are probably for me a great source of satisfaction.

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**Katy Huberty - Morgan Stanley - Analyst**

Good. And then as a follow-up, you mentioned several times throughout the call the slower conversion of Consulting revenue and that's been a topic for a couple of quarters. Can you talk a little bit more about why this is occurring? Clearly, the customers have decided to harness an opportunity. They've signed a deal. They're moving forward. But they're clearly moving through the stages of these transactions or projects slower than expected. Can you talk about why that's happening?

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**Pamela Craig - Accenture - Chief Financial Officer**

Well, Katy, let's just break it down a little bit. First of all, in the bookings every quarter, in the Consulting bookings every quarter there's a mix of things, and so the first thing that's impacting it is in the mix of how the overall set of bookings converts to revenue, when you have less of the smaller stuff that converts fast, then that just works the average.— And the higher volume of the bigger and longer stuff is pulling that average up.

And then I think in terms of that work, we do see, and the things are being arranged, not as these sort of giant Consulting projects, but more in phases, and more chunks, and so that too, I think, just influences how the stuff then bleeds into revenue. So they're the same size but it's just that buying patterns are overall continuing to evolve and we see that in our portfolio of bookings.

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**Katy Huberty - Morgan Stanley - Analyst**

Okay. So there's a mix shift in duration and then with the separate phases of contracts, I guess it's a little more difficult to forecast.

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**Pamela Craig - Accenture - Chief Financial Officer**

Yes.

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**Katy Huberty - Morgan Stanley - Analyst**

Is that right? Okay. Thank you very much.

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**Pierre Nanterme - Accenture - Chairman & CEO**

But on the other hand it's giving us more visibility.



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**Pamela Craig - Accenture - Chief Financial Officer**

Yes.

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**Pierre Nanterme - Accenture - Chairman & CEO**

That's an interesting situation where indeed this longer duration, which as well is linked to the nature of the programs, which are more transformational by nature. You need to put transformation with time. There is no transformation you can drive in the short term. That requires some time.

So we've seen the duration which I think is more linked structurally to the nature of the business, which from that direction it's good, and it's definitely given us more visibility in our business and more backlog moving forward. So we need to get through this transition if you will in terms of pace of short-term growth, and as Pam mentioned, in the back end of the year we expect to see Consulting growth in the single digits.

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**Katy Huberty - Morgan Stanley - Analyst**

Thanks and congrats on the retirement, Pam.

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**Operator**

Ashwin Shrivaiakar, Citi.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Pam, let me add my congratulations as well and all the best for the future.

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**Pamela Craig - Accenture - Chief Financial Officer**

Thank you.

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**Ashwin Shirvaikar - Citigroup - Analyst**

And David, welcome. So at the risk of flogging a dead horse here, I just want to go back one more time to the small versus large contracts and the dichotomy there. Could you provide us some idea of maybe how important are small versus large in terms of magnitude in terms of the contracts, is it 15% of the total, 20% of the total? Is it any particular focus on specific verticals? And I think competitively as well, the question was asked before is it that in the large contracts you maybe see more of IBM but in the smaller ones you might see the Indian guys, any information there?

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**Pamela Craig - Accenture - Chief Financial Officer**

Well, I'll comment, I mean, it is in Europe and historically some of our businesses did have higher proportions of these in their mix of bookings, and particularly in Europe and I mentioned Financial Services, they had a high proportion of those. So there is some of that. And again, when you think about the transformation that's happening in Europe in banking and that sort of thing, this all just makes sense, that those buying patterns would change. So I can at least give you that much. I mean, we don't give out the numbers, but just as a proportion of the total bookings, they're stable but a lower proportion because bookings are up.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Okay. Got it. And with regards to EMEA, which countries in EMEA, is it the normal suspects, I guess Benelux has been weak for a while, and maybe France weakening here, are those the countries that you sort of mentioned as weak?





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**Pierre Nanterme - Accenture - Chairman & CEO**

As you're mentioning France, I'm almost taking that as a personal attack (laughter). I have to respond on this. I'm extremely pleased, delighted to communicate that France is back with some growth in Q2. But more seriously indeed, when you consider the situation -- the overall macroeconomic situation in Europe and we all know the challenges in terms of economic recession, plus all the Cyprus and other things happening almost every day, it's very encouraging for us to see that countries such as Germany, I'm going to mention the big ones, big practices, Germany, the Netherlands, Italy, France, Spain --

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**Pamela Craig - Accenture - Chief Financial Officer**

Spain did not, but all the other --

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**Pierre Nanterme - Accenture - Chairman & CEO**

Germany, Italy and France.

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**Pamela Craig - Accenture - Chief Financial Officer**

Switzerland, Ireland, South Africa.

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**Pierre Nanterme - Accenture - Chairman & CEO**

Switzerland, Ireland, South Africa, a little bit more than Europe but --

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**Pamela Craig - Accenture - Chief Financial Officer**

It's in EMEA.

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**Pierre Nanterme - Accenture - Chairman & CEO**

EMEA, anyway, are indeed growing and if you put that in the context of the overall macroeconomic environment in Europe, I think that's a good signal.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Got it. Okay. Thank you guys.

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**Operator**

David Togut, Evercore Partners.

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**David Togut - Evercore Partners - Analyst**

Thank you and congratulations, Pam.



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**Pamela Craig - Accenture - Chief Financial Officer**

Thank you, David. It's been a long time. We knew you back when.

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**David Togut - Evercore Partners - Analyst**

Thank you. It's good to be back. Just shifting gears, if you could give us some insight into pricing across your range of services and maybe drill down into Consulting and Outsourcing, and then contrast that to the wage increases you're paying in your major practices.

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**Pierre Nanterme - Accenture - Chairman & CEO**

Overall, pricing's stable. I might say, maybe I would say stable plus.

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**Pamela Craig - Accenture - Chief Financial Officer**

Right.

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**Pierre Nanterme - Accenture - Chairman & CEO**

You will characterize the plus, but I think it's slightly more than stable. But overall it's stable. We used to say with pockets of pricing power, if you will, but I'm feeling comfortable with our pricing situation. I don't know whether we can give more details, Pam.

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**Pamela Craig - Accenture - Chief Financial Officer**

That's exactly right. When you look at the contract margins that are up, particularly in Outsourcing, that was reflected in our gross margin, I mean, part of that's pricing that we're able to get that. Now, we don't -- we're characterizing it as stable overall because as you can imagine across this giant business of all these things, there's some puts and takes. But I think stable plus is a good way to characterize it.

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**David Togut - Evercore Partners - Analyst**

You mentioned contract margins were up in Outsourcing but you didn't specifically address Consulting. Can you provide some insights into that business?

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**Pamela Craig - Accenture - Chief Financial Officer**

They were up as well, but just not as much. So it's a little more marginal, it just wasn't -- but they were certainly not down.

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**David Togut - Evercore Partners - Analyst**

Got it. And then just finally, on wage trends across the business?

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**Pamela Craig - Accenture - Chief Financial Officer**

As you know, we put in our salary increases primarily September 1, and we do adjust those during the year if we need to, but we're just starting the planning actually for what we'll be doing next year.



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**Pierre Nanterme - Accenture - Chairman & CEO**

But if you'll reflect on what we did last year, I think we did a good job in setting the wages at the right place, in absorbing reasonably rapidly in Q1 in the first half of the year, as reflected as well in the margin. So it's what we continue, Pam and I, to call rigor and discipline, I'm called Mr. R&D in Accenture, I would expect that would be Mr. research and development, but it's more rigor and discipline. But I think we know how to manage our costs. And it's very important in such a competitive environment, we need to be competitive, so we will never give up in our competitiveness and we will continue to invest in our differentiation.

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**David Togut - Evercore Partners - Analyst**

Understood. Thank you very much.

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**Pierre Nanterme - Accenture - Chairman & CEO**

Thanks a lot, David and thanks all of you for joining us on the call today. As you heard, this call today was somewhat special for Accenture, but to be honest, special for me as well, with Pam's announcement.

Now, coming back to the business and in closing, I'm pleased overall with where we are. And as we said at a time when economic volatility and uncertainty are still prevalent, we continue to manage our business with a permanent focus on driving profitable growth. We are leveraging our global footprint and our unique end-to-end transformational capabilities to provide highly relevant business solutions to our clients.

We are investing in our future and we remain totally committed to delivering value for our clients and shareholders. And finally, with 261,000 highly qualified and highly dedicated men and women around the world, frankly, I feel confident in the ability of Accenture to win in the marketplace.

We look forward to talking with you again next quarter, and in the meantime, if you have any questions, please feel free to call KC. All the best.

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**Operator**

Ladies and gentlemen, this conference will be available for replay after 10:30 a.m. today through June 28 at midnight. You may access the AT&T executive replay system at any time by dialing 1-800-475-6701, and entering the access code 282767. International participants dial 320-365-3844. Those numbers again are 1-800-475-6701, and 320-365-3844, access code 282767.

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

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