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ACN – ACCENTURE’S Q3 FISCAL 2013 EARNINGS
CONFERENCE CALL

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Accenture's third quarter fiscal 2013 earnings call. At this time, all participants are in a listen-only mode.

(Operator Instructions)

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

KC McClure - Accenture - Managing Director, Investor Relations

Thank you, Joshua, and thanks everyone for joining us today on our third quarter fiscal 2013 earnings announcement. As Joshua just mentioned, I am KC McClure, Managing Director of Investor Relations. With me today are Pierre Nanterme, our Chairman and Chief Executive Officer, and Pamela Craig, our Chief Financial Officer. David Rowland is also joining us today. As you know, David is currently our Senior Vice President of Finance, and will succeed Pam as our Chief Financial Officer on July 1. 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. Pierre will begin with an overview of our results. Pam will take you through the financial details, including the income statement and balance sheet along with some key operational metrics for the third quarter. Pierre will then provide a brief update on our market positioning. David will then provide our business outlook for the fourth 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 are talking about revenues before reimbursement or net revenues. Some of the matters we will 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 reconciliations of those measures, where appropriate, to GAAP in our news release or on the Investor Relations section of our website at Accenture.com. As always, Accenture assumes no obligation to update the information presented on this conference call. Now let me turn the call over to Pierre.

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, KC, and thanks everyone for joining us today. Overall, our third quarter results were solid, although revenues came in below our expectations driven by consulting. We again delivered solid bookings, very good profitability, and we generated very strong free cash flow.

Here is some detail on the quarter:

- Revenues were \$7.2 billion, up 3% in local currency. While outsourcing growth was 7%, consulting growth was flat, resulting in total revenues slightly below our guided range.
- We delivered solid new bookings of \$8.3 billion, bringing us to nearly \$25 billion for the first three quarters of the year.
- Earnings per share were \$1.21, including a benefit of \$0.07 from a reduction in reorganization liabilities. Excluding this benefit, earnings per share were \$1.14, an increase of 11%.
- Excluding the reorganization benefit, we delivered record operating income and operating margin, with operating margin expansion of approximately 40 basis points.
- We generated \$1.4 billion in free cash flow, and continue to have a very strong balance sheet, ending the quarter with a cash balance of \$5.9 billion.
- And we returned approximately \$1.2 billion in cash to shareholders through share repurchases and the payment of our semi-annual cash dividend.
- We have updated our business outlook for the full fiscal year, and David will cover it later in the call.

Now let me hand over to Pam, who will review the numbers for Q3 in greater detail. Pam, over to you.

Pamela Craig - Accenture - CFO

Thank you, Pierre, and thanks to all of you for listening today. As Pierre mentioned, our results in the third quarter of fiscal 2013 were solid overall, although revenue growth of 3% was slightly below our March outlook range, and we now expect this trend of slower revenue growth to continue as we finish out our fiscal year. Bookings continue to reflect strength in demand for future transformational services, particularly in Outsourcing, and bookings were lighter overall than we expected in Consulting. Our commitment to managing our business with rigor and discipline was reflected in our strong operating profitability, earnings per share and cash flow this quarter.

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 \$8.3 billion, above our expectations overall, and they included a foreign exchange headwind of negative 3%, compared with new bookings in the third quarter last year. Consulting bookings were \$3.9 billion, with a book-to-bill level of 1.0, which was lower than the 1.1 we were targeting. Outsourcing bookings were \$4.4 billion, at a book-to-bill level of 1.3.

So let me give you some bookings details, starting with Consulting where we were about 10% below our expectations in each of the three categories. In Management Consulting, the macro environment continues to be challenging and volatile. Our clients held back on spending more than we expected, particularly in Europe and Brazil, and the environment is more competitive. Our bookings continue to reflect projects that are larger and longer in duration, and we booked fewer short-term projects. Although our pipeline is down slightly, we do see growth in demand for transformational projects in operations, CRM, and risk management.

Technology Consulting bookings reflected demand for infrastructure consulting projects that span data centers, networks and workplaces, as well as IT strategy projects. As mentioned on our last call, we are strengthening our leadership focus on the technology transformation agendas of our clients. Systems Integration bookings on the one hand reflected rising demand for industry-specific software solutions, where emerging technologies such as mobility, analytics and cloud are part of the mix. On the other hand, the bookings also reflected lower demand, and a more competitive environment for ERP systems work. The decrease in ERP work was



most pronounced in some European countries, as clients are slowing down their investments in add-on work to existing solutions, and generally starting fewer large programs right now.

Turning to Outsourcing, new bookings were well above our expectations. Technology Outsourcing bookings were strong, as our clients continue to seek solutions for driving operational efficiencies, and flexible cost-effective sourcing. Our Global Delivery Network continues to be well-positioned to meet the increased demand for such solutions. The bookings also reflected moderating demand for add-on system enhancements, consistent with the pattern just mentioned in Systems Integration. BPO bookings in Q3 were very strong, driven both by our cross-industry offerings, especially finance and accounting, and by our industry-specific solutions, particularly in Financial Services and Health. Demand for BPO services was strong for both the Americas and EMEA, and also increased in APAC, as we have now seen a sustained increase in our global market share. Notably, we had bookings of over \$100 million at 12 clients, with all five operating groups represented, and several of these were in EMEA.

Turning now to revenues. Net revenues for the third quarter were \$7.20 billion, an increase of 1% in U.S. dollars and 3% in local currency over the same period last year. Q3 revenues were below our guided range of \$7.25 billion to \$7.5 billion by about \$50 million. They reflected a foreign-exchange impact of negative 2.5% compared with the third quarter last year, which was consistent with the assumption we had provided in March. Consulting revenues were \$3.87 billion, down 2% in U.S. dollars, and flat in local currency. Outsourcing revenues were \$3.33 billion, an increase of 4% in U.S. dollars, and 7% in local currency.

Our revenue growth in Consulting was not at the level we expected this quarter. First, Consulting bookings were almost \$400 million lower than we expected in March, including a decline in smaller contracts that convert to revenue more quickly. This was the primary factor that negatively impacted our revenue growth this quarter. A second factor relates to the continuing trend of how our bookings are converting to revenue. Our outlook for Q3 assumed a continuation of the slower conversion we have discussed in recent previous quarters. However, we saw an unexpected uptick in the average duration of our new bookings. In addition, more than we expected, our clients are slowing the pace and level of spending per the arrangements they have with us. The lower Consulting revenue reflected the most pronounced differences versus expectations in Resources and Products, in Brazil and some European countries, and in Systems Integration and Management Consulting. Although our Outsourcing revenues and bookings were higher than we expected this quarter, we do see fewer short-term contracts and some clients slowing their spending on existing applications.

Now let me give you some details about revenue by operating group. Health & Public Service revenues increased 11% in local currency, reflecting significant growth in Health again this quarter, with strength in both Consulting and Outsourcing and across the three geographic regions. Our Health Administration and Connected Health offerings continue to be the primary drivers of growth. We also continue to see growth in Public Service in both Consulting and Outsourcing in the Americas and Asia-Pacific. And at the same time, we continue to reposition the Public Service business in EMEA.

Financial Services revenues increased 8% in local currency, with double-digit growth in Insurance and Capital Markets. Outsourcing revenues reflected very strong growth overall, as our industry business services offerings are putting us more and more at the core of our clients' businesses. Consulting revenues continued their pattern of slight growth, reflecting less demand for smaller projects. While Financial Services is well-positioned going forward, particularly in Outsourcing, we expect more moderate growth in Q4 compared to the unusually strong growth we had in Q4 of fiscal '12.

The Products operating group had local currency revenue growth of 4%. It was higher than that in the Americas and EMEA, partially offset by a decline in APAC. Outsourcing growth was strong across the globe, and the different dimensions of Products. Despite solid growth in Life Sciences, Consulting revenues decreased overall and were lower than we expected. A number of our larger ERP programs are now substantially complete right now, and we are stepping up to the growing demand for services that enable our clients to transform into more digital companies, including multi-channel customer solutions, product life cycle management, and operations.

Communications, Media & Technology revenues decreased 3% in local currency. Outsourcing revenues reflected a modest decrease, with the expected ramp-down from one contract in EMEA partially offset by very strong growth in the Americas across all industries. Consulting revenues declined slightly overall, but I am pleased to point out that the Communications industry in EMEA and High Tech in the Americas had strong double-digit growth. While the Communications industry remains dynamic, we believe our offerings around transformation are resonating with our clients. Overall in CMT, we expect year-over-year revenue performance to improve going forward.

Resources net revenues decreased 3% in local currency, due primarily to a decline in Natural Resources. Outsourcing revenues were flat overall, as growth in EMEA and Asia Pacific was offset by declines in the Americas. Consulting revenues declined, and continue to be impacted by the completion of several large ERP programs, and clients taking a more phased approach to Consulting projects. These trends had a higher than expected drag on Resources revenues during the third quarter. Overall, we expect Resources revenues to continue to decline in the near term.

Let me comment briefly on our geographies. In the Americas, we continue to be pleased with the strong growth in the United States. EMEA declined very slightly again this quarter as local currency growth is mixed, with positive growth in several countries offset by declines in a few others. Growth was impacted by the expected ramp-down of one contract in CMT, and without the impact of that contract, EMEA overall grew slightly. Asia Pacific was flat in Q3, as we expected growth there to



moderate. Growth in China and India was offset by expected declines in Japan, and also in Australia where we had experienced recent periods of very strong growth. We expect APAC revenues to decline slightly next quarter.

So to summarize on revenues, we had anticipated a better overall macro environment in the second half of our fiscal year, which has not come to pass. And we have experienced some changes in demand patterns as we have gone through the first three quarters. While we now do not see the pick-up, the result is that revenue growth has been relatively consistent. It is 4% year-to-date, and we are navigating well in this dynamic environment.

Moving down the income statement. Gross margin was 33.9%, compared with 33.1% for the same period last year, up approximately 80 basis points. This result did reflect improved Outsourcing contract profitability. Sales and marketing expense for the quarter was \$887 million, or 12.3% of net revenues, compared with 11.9% of net revenues for the third quarter last year, reflecting higher costs this year to build our pipeline and pursue acquisitions. General and administrative expense was \$459 million, or 6.4% of net revenues, flat compared with the third quarter last year.

Finally, like in Q2, we had another reorganization reserve release this quarter. This \$50 million benefit represented a further reduction in the reorganization liabilities established when we transitioned to a corporate structure in 2001. Similar to last quarter, this is a non-cash item. And at this point, the reorganization liabilities established 12 years ago are all but behind us.

GAAP operating income was \$1.14 billion in the third quarter. Excluding the reorganization item I just mentioned, operating income for the third quarter was \$1.09 billion, or 15.2% of net revenue, up approximately 40 basis points compared with Q3 last year. This record result reflects our commitment to driving operating profitability expansion in our business.

Our effective tax rate for the quarter was 23.8%, compared with 28.5% for the third quarter last year. Excluding the benefit of the reorganization item, the effective tax rate for the third quarter of fiscal 2013 was 24.8%. Net income was \$874 million for the third quarter, and it was \$763 million for the same quarter last year. Excluding the benefit of the reorg item, net income for the third quarter was \$824 million, an increase of 8%. Diluted earnings per share were \$1.21, compared with \$1.03 in the third quarter last year. Excluding the benefit of the reorganization item, EPS for the third quarter were \$1.14.

Let me walk down the components of the \$0.18 year-over-year increase in EPS. So first, without the reorganization item, the increase is made up of \$0.03 from higher revenue and operating results, \$0.02 from a lower share count, and \$0.06 from a lower effective tax rate. These add to an \$0.11 EPS increase. And we had an additional \$0.07 from the reduction in reorg liabilities, which add to a total year-over-year increase in EPS of \$0.18 in the quarter.

Turning to DSOs, our days services outstanding continue to be industry-leading. They were 30 days, down slightly from 31 days last quarter, and in line with Q3 last fiscal year. Free cash flow for the quarter was \$1.4 billion, resulting from cash generated by operating activities of \$1.5 billion, net of property and equipment additions of \$91 million.

Moving to our level of cash, our cash balance at May 31 was \$5.9 billion, compared with \$6.6 billion at August 31 last year, which reflects the cash returned to shareholders so far through share repurchases and dividends, the U.S. pension contribution we funded in Q1, and some acquisitions we have made. We have done very well in allocating a more significant level of capital for strategic and focused new acquisitions this fiscal year, which will contribute growth and revenue synergies to our business going forward.

Moving to some other key operational metrics... we ended the quarter with a global headcount of about 266,000 people, and we now have approximately 174,000 people in our Global Delivery Network. In Q3, our utilization was 88%, consistent with Q2. Attrition, which excludes involuntary terminations, was 12%, compared to 11% in Q2 and 13% in Q3 last fiscal year. Lastly, we expect that more than 50,000 people will join our company this fiscal year.

Let me wrap up by commenting on our ongoing objective to return cash to shareholders through share repurchases and dividends. In the third quarter, we repurchased or redeemed approximately 7.8 million shares for \$618 million, at an average price of \$79.55 per share. Year-to-date, we have purchased 19.8 million shares for approximately \$1.4 billion, at an average price of \$72.94 per share. At May 31, we had approximately \$3 billion of share repurchase authority remaining. On May 15, 2013, we made our second semi-annual dividend payment for fiscal '13 in the amount of \$0.81 per share, bringing total dividend payments for the fiscal year to \$1.1 billion.

So that is it from me. Thanks again for listening these past seven years. I would also like to thank all Accenture people, past, present and future, for driving our company to greatness. Back to Pierre now to give you an update on some exciting things going on in our business. And then over to David for business outlook, as he is ready to take over as Accenture's CFO.



Pierre Nanterme - Accenture - Chairman and CEO

Thank you, Pam. Our Q3 results demonstrate that we continue to operate in an environment that remains uncertain and volatile. Against that backdrop, we continue to focus on driving profitable growth by increasing operational efficiency to deliver margin expansion and enhancing our competitiveness to gain market share. At the same time, we are investing in our business to develop unique services that sharpen our differentiation and enable us to provide end-to-end services that deliver tangible business outcomes for clients. As the market continues to evolve rapidly, we clearly see the opportunity to position Accenture for future growth.

As I meet with CEOs around the world, it is striking to see how digital is now part of every conversation. Digital is fundamentally disrupting business models and requiring companies to rethink how they operate, from how they interact with customers and employees, to how they manage their supply chains and collaborate with business partners. I believe that Accenture is very well positioned to help clients transform their businesses to compete in this new digital world.

Marketing is one of the key functions that digital is having a huge impact on. Chief Marketing Officers are increasingly looking for integrated solutions that bring together strategy, technology and analysis at scale to get more value out of their investments. To better serve them, we continue to make strategic investments to enhance Accenture Interactive, our digital marketing services group.

These include the acquisition of Acquity Group, the second-largest independent digital marketing company in the U.S.; Fjord, a global design firm; and earlier this year, avVenta, a digital production company. Together, these acquisitions expand our capabilities and position us as a leader in this fast-growing segment of the market.

Accenture Interactive was key to a recent win at BMW, which selected us to manage the roll-out of its new web platform to 100 markets around the world. We will also manage its online marketing campaigns, including content customization and social media in local markets, helping BMW deliver the right experiences to the right consumers at the right times.

We continue to see strong demand for our digital capabilities in many other areas, including analytics and mobility. In analytics, we are helping a major airline improve and personalize its customer experience. We are integrating customer data from different touch points, including mobile devices, tablets, phones and PCs, to give the airline a single comprehensive view of customer preferences.

And we recently formed a global strategic alliance with GE to leverage our combined capabilities in cloud, analytics, big data and mobility, as well as Accenture's industry expertise, to deliver on the vision of the Industrial Internet. In the aviation industry, Taleris, our joint venture with GE, is already providing intelligent operations services to airlines to help them predict potential aircraft maintenance faults and recommend preventative action.

We are continuously innovating to differentiate our capabilities to increase our competitiveness. We continue to make good progress with our end-to-end business services, which combine management consulting, technology and businesses process outsourcing.

Through Accenture Finance and Risk Services, we are helping Santander Group to transform its corporate credit risk function. The new platform is expected to enable all 12 of Santander's country business units to improve operational efficiency, better manage risk, and support Basel III regulatory compliance.

And at the same time, we continue to support our clients with their large-scale transformation initiatives. We are working with a large international insurance organization to transform its global financial reporting functions, using an SAP-based solution. The new system allows the client to accelerate their financial close time and more efficiently generate financial statements across operations in 130 countries.

Turning to our geographic performance, despite the challenges Pam mentioned in Brazil, our priority emerging markets as a whole continued to grow at a faster rate than Accenture in the quarter. We delivered very strong double-digit growth in China, India, South Africa and the Middle East, reflecting the continued improvement in our market position in these important markets for the future. And once again, I would like to recognize the performance of our business in the United States, our largest single market, which posted double-digit growth again this quarter. We continue to see a very good return on the investments we have made in banking, insurance, health and life sciences.

In summary, in this fast-changing yet volatile environment, we are focused on executing our growth strategy, with the right intervention in our existing business and targeted investments in new areas for growth. We believe that our innovation agenda, our diverse portfolio of business, and our relentless focus on operational excellence will continue to drive top- and bottom-line results.

As you know, this is Pam's last earnings call, and we want to thank her again for many contributions over the years, and wish her the very best. David Rowland will become our CFO on Monday, and I am going to turn the call over to him now to provide our business outlook for the fourth quarter and the full fiscal year.



David Rowland - Accenture - SVP Finance

Thanks, Pierre. Before I comment on our guidance, on a personal note, I would like to thank Pam for her tremendous contribution to both Accenture and our finance function. She has certainly set a high bar for the CFO role, and I will work hard to continue in that tradition.

Now, turning to guidance. For the fourth quarter of fiscal '13, we expect revenues to be in the range of \$6.7 billion to \$7 billion. This assumes an FX impact of approximately negative 1% compared to the fourth quarter in fiscal '12. We expect slight moderation in our Outsourcing revenue growth, with Consulting revenues ranging from a modest decline to a slight increase. For the full fiscal year '13, based upon how rates have been trending over the last few weeks, we now assume the impact of FX to be negative 1.7% compared to fiscal '12, a change from the negative 1% we provided last quarter. We now expect our fiscal '13 revenue to be in the range of 3% to 4% growth in local currency.

On new bookings, we continue to expect to be in the range of \$31 billion to \$34 billion for the full fiscal year '13, and anticipate that they will be in the upper half of that range. We expect Quarter 4 will reflect continued strong Outsourcing bookings, and Consulting bookings similar to Q3. GAAP operating margin is now expected to be in the range of 15.2% to 15.3% for fiscal '13. Excluding the impact of the reorganization benefit year-to-date, we now expect the adjusted range to be 14.2% to 14.3%, a 30- to 40-basis-point expansion over fiscal '12. We now expect our annual effective tax rate to be in the range of 18.5% to 19.5%, or 25.5% to 26.5% on an adjusted basis.

We now expect GAAP earnings per share to be in the range of \$4.90 to \$4.94, or \$4.18 to \$4.22 on an adjusted basis. This adjusted EPS range reflects 9% to 10% growth for fiscal year '13, and includes a \$0.03 reduction due to the updated FX assumption of negative 1.7%. For the full fiscal year, we now expect operating cash flow to be in the range of \$3.1 billion to \$3.3 billion, property and equipment additions to continue to be approximately \$400 million, and free cash flow to now be in the range of \$2.7 billion to \$2.9 billion. Finally, we remain committed to return a substantial portion of the cash we generate to shareholders. In fiscal '13, we continue to expect to return at least \$3.3 billion through dividends and share repurchases, and to reduce the weighted average diluted shares outstanding by approximately 2%.

Looking ahead to fiscal '14, we are now in the middle of our business planning. And as part of that planning, we are analyzing how the different elements of our business are evolving. As we have in the past, we will provide you with our fiscal '14 outlook at the Q4 earnings call in September.

In closing, it is clear we are now in the midst of a changing demand pattern, particularly as it relates to our consulting business. Having said that, I am pleased with our positive growth in fiscal '13, which we believe is ahead of market growth and reflects our strong positioning with our clients in the broader market. As always, we remain committed to managing our business with a high degree of discipline, focusing on profitable revenue growth, expanding margins, driving EPS, delivering strong cash flow, and returning a significant portion of that cash to our shareholders. With that, we are ready to take your questions. KC?

KC McClure - Accenture - Managing Director, Investor Relations

Thanks, David. I would ask that you each keep to one question and a follow-up to allow as many participants as possible to ask a question. Joshua, would you provide instructions for those on the call, please?

QUESTION AND ANSWER

Operator

(Operator Instructions)

The first question comes from the line of Tien-Tsin Huang from JPMorgan. Please go ahead.

Tien-Tsin Huang - JPMorgan Securities - Analyst

Hi. Great. Thank you. Just -- I guess I will ask about the Consulting side, the small deal activity. I know, Pierre, you mentioned last quarter that there was some early signs that it might be getting a little bit better, which looks like it didn't materialize. Just trying to reconcile that to the shortfall in Consulting this quarter. Did demand deteriorate, or did it just not improve as much as you thought?



Pierre Nanterme - Accenture - Chairman and CEO

Yes, indeed, it definitely didn't improve the way we expected. And we see more softness in that part of the business, in Consulting smaller deals. So we expected some improvement, and that indeed didn't materialize the way we expected.

Tien-Tsin Huang - JPMorgan Securities - Analyst

Got it. So can we say that demand for the most part is still generally stable then? It just didn't improve in the quarter, just to clarify?

Pierre Nanterme - Accenture - Chairman and CEO

I would probably say, didn't improve. And in that particular segment of the business, it has been probably softening a bit.

Tien-Tsin Huang - JPMorgan Securities - Analyst

Okay. So a little bit of softening. Fair enough. Did -- and curious, my follow-up, any -- what are you hearing from your clients as it relates to immigration reform? I guess it just passed in the Senate just a few minutes ago. What are you hearing from clients with respect to that? Is it impacting demand at all? And just generally, what are the implications for Accenture?

David Rowland - Accenture - SVP Finance

Hi, Tien-Tsin, this is David. How are you doing?

Tien-Tsin Huang - JPMorgan Securities - Analyst

Hi, David.

David Rowland - Accenture - SVP Finance

I am going to give you the answer that you are probably expecting, but we really can't comment on pending legislation. What I can say, as you know, is that we have a global workforce. Most of the people who work for us in the United States are U.S. citizens. And where we use the visa program, we use it where we have to get specialized skills, not otherwise available, and then also leverage our Global Delivery Network. And so, really, that is our position on this. And we really just can't speculate or comment any further on what may or may not happen with legislation.

Tien-Tsin Huang - JPMorgan Securities - Analyst

Got it. Fair enough. I appreciate that. Thanks, again, to Pam.

Pamela Craig - Accenture - CFO

Thanks, Tien-Tsin.

Operator

Rod Bourgeois from Bernstein, please go ahead.



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

Okay, great. And Pam, best wishes to you as well. So your report emphasizes the weakness in Consulting demand, but I want to focus a bit here on the Outsourcing demand environment. The Outsourcing revenue growth was also light versus expectations. So I guess I am wondering, did Outsourcing add-on revenues struggle, or did you see new deal ramps struggle, or some combination of the two?

Pamela Craig - Accenture - CFO

Hi, Rod, it's Pam. We did see a combination. I mean, first of all, versus our expectations, Outsourcing revenues came in well. And we did, as I mentioned, see some of the sort of smaller add-on application work, to existing applications, that is slowing a bit. But at the same time, we had this real strength in BPO. So it is a real mix of things. And some of these bigger deals as we mentioned, with the duration, those are continuing to ramp up slower.

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

Okay. And so, given the ongoing strength in Outsourcing bookings, should Outsourcing revenue growth reaccelerate sometime soon? I know you are expecting some moderation in growth in Q4, but the bookings would imply that you at least have ingredients in place for that revenue growth to potentially accelerate. So can you give us some insight on how you are expecting the revenue growth progression in the Outsourcing segment after Q4?

David Rowland - Accenture - SVP Finance

Hi, Rod, this is David. And I am not going to comment in specific terms, as we are really in the middle of planning FY '14, and we will come back in September and give you more specific insight on your question. What I can tell you is that we feel very good about our Outsourcing pipeline. We feel very good about the bookings that we have generated, not only this quarter, but for the last two or three quarters. We have had a large number -- if you reflect on what Pam said about the number of deals we had over \$100 million this quarter, as well as what we have said the last two quarters. We have had a lot of large, very good contracts that we have closed so far, and we feel very good about the larger contracts that we have in our pipeline. And so, on the back of that, we are building a very good base of contracted revenue. And that ultimately gives us confidence going forward in the strength of our Outsourcing business. In terms of specifics, relative to growth beyond Quarter 4, we are just not in a position to comment on that specifically.

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

All right. Just a little bit of pushback on that. I understand you don't want to get into the next fiscal year. But with the Outsourcing bookings strength and the deceleration that is happening in Outsourcing, is there something happening where duration has ramped up in such a significant way, that it is making the bookings look stronger than the amount of revenue that can be supported by those bookings? Or are you actually maybe seeing some things that are getting booked, and then they actually fall out of the business, and so you are seeing some fall-out in work that you have previously booked? I mean, is there something happening along those lines?

David Rowland - Accenture - SVP Finance

Yes, just a couple of thoughts to your question. I mean, first of all, and I will just work backwards, we have not seen any change in cancellations. So cancellations are not evident in anything we have seen to date. There is not any abnormal pattern in that regard. So we really don't have a situation where we are contracting work, and then it is being cancelled.

The other thing I would say is that nothing has changed in our business, in terms of our criteria for reporting bookings. It is based on having a signed legally binding agreement with our clients that stipulates our services, and what the services and the fees will be, that we will earn over that contract. And so our contracted revenue is solid as it has been as well. Now we have had some -- over the last two or three quarters at different periods, our new bookings have had the characteristic of longer duration. And that is impacting the conversion of Outsourcing bookings to revenue, similar to what we had seen in Consulting. But yet, the contracted revenue that we have resulting from the bookings that we have had, we feel very good about.



Pamela Craig - Accenture - CFO

Hi, Rod, this is Pam. I will just add one comment. And that is, for smaller Outsourcing bookings, there is a certain amount of that, that ends up getting filled in, in a quarter. Right? They are not these bigger transformational kinds of deals, but more smaller, sometimes add-on kinds of things. And that's the bucket of things that we have seen be a little softer.

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

Makes sense. All right. Thank you.

Operator

Bryan Keane from Deutsche Bank, please go ahead.

Bryan Keane - Deutsche Bank - Analyst

Hi. Just wanted to ask also, a follow-up on the Outsourcing side. I guess, our surprise was it had been almost 10 quarters I think of double-digit growth in Outsourcing. And yet coming in at 7% constant currency, you seem to be happy with that, or at least better than expectations. So maybe our expectations are off, on what the long-term outlook should be in Outsourcing, and maybe the double-digit growth that we've had in the past was never going to be sustainable? So maybe you could just talk about that?

David Rowland - Accenture - SVP Finance

Well, part of it is, we have mentioned for several quarters now, that we had a large contract in Europe. And that contract throughout this year has impacted our revenue growth in total, but also in Outsourcing. And the peak level of impact, if you will, was in the third quarter. So that is reflected in the growth percentage that we are reporting. And, of course, it will continue to have an impact on the fourth quarter as well to a lesser extent. But then over time, that will drop out of our compare, and we will have more of an apples-to-apples comparison.

Pamela Craig - Accenture - CFO

Even when we planned the year, Bryan, we were expecting this moderation in Outsourcing. What didn't materialize as we expected was the pick-up in Consulting in the latter part, in the second half of the year.

Bryan Keane - Deutsche Bank - Analyst

Okay. And also there might have been a few acquisitions that rolled off on the Outsourcing side, just clarification on that? And then renewals, is renewals also in the bookings, so that could be inflating the bookings number, why it is not translating into revenue?

David Rowland - Accenture - SVP Finance

Renewals are reflected in our bookings. But again, there is not anything abnormal about the renewals that we have had in our portfolio, relative to Outsourcing new bookings we have reported in the past.

Bryan Keane - Deutsche Bank - Analyst

Okay. And then just finally for me, contracted revenue over the next four quarters, I know it was 8% in the first quarter. I don't think we got it in the second quarter, and then it would be great to have it this quarter as well. Thanks.



David Rowland - *Accenture - SVP Finance*

Yes. In fact, it was not -- that question was not asked last quarter, so your memory is very good. But the contracted revenues that we have -- and we give you this number, as over the next four quarters. But we have about 10% growth, or 10% more contracted revenues over the next four quarters.

Pamela Craig - *Accenture - CFO*

For what it's worth, it was 8% last quarter, for the remainder of the fiscal year.

Bryan Keane - *Deutsche Bank - Analyst*

Thanks so much.

Operator

Julio Quinteros from Goldman Sachs, please go ahead.

Julio Quinteros - *Goldman Sachs - Analyst*

Yes. Maybe just coming back to the other points that you made on the rate of competition changing. Can you just go back through that, in terms of where the competitive dynamics are changing? Is this a function that is translating into pricing pressure for you? How do you -- I guess, just maybe elaborate a little bit on the competitive dynamics? That would be helpful.

Pierre Nanterme - *Accenture - Chairman and CEO*

Yes, I will take that one. Thanks a lot, Julio. I mean, the competition, I would characterize it as pretty stable across the patch. As you know, we are competing against the same range of competitors. Now, it is true that in some parts of the world, and I am thinking about, again, Consulting Europe, Brazil, as has been mentioned before, Resources and more Natural Resources. When the market is softening a bit, then the level of competition is naturally increasing, and putting more pressure on pricing, and on competition there. I would characterize that piece as quite concentrated on a few areas of the business, the ones I just mentioned before, specifically those three. For the rest of the business, I believe that the competition is pretty stable. I would not notice anything specific in that quarter.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay. Great. And then just as a follow-up, what were the fiscal fourth quarter Consulting local-currency growth expectations in Outsourcing again?

Pamela Craig - *Accenture - CFO*

He's got it.

David Rowland - *Accenture - SVP Finance*

Yes, we just said that -- my comment was that it would moderate a little from the 7% that we just reported in the third quarter.

Julio Quinteros - *Goldman Sachs - Analyst*

For Outsourcing?



David Rowland - Accenture - SVP Finance

Yes, for Outsourcing.

Julio Quinteros - Goldman Sachs - Analyst

And what about Consulting?

David Rowland - Accenture - SVP Finance

Consulting will be kind of low single-digits negative to slightly low single-digit positive.

Julio Quinteros - Goldman Sachs - Analyst

So some hope for growth. Okay. All right. Thank you.

Operator

Jason Kupferberg from Jefferies, please go ahead.

Jason Kupferberg - Jefferies & Co. - Analyst

Thank you. Maybe just want to start with a question for David. As you prepare, three months from now, to give us your initial fiscal '14 guidance, are you rethinking any of the internal budgeting or forecasting processes, just given what seems to be like a little bit of, some loss of visibility reflected over the last few quarters, that was more exacerbated this quarter, I would say, relative to expectations. I mean, I am just sort of building on the comment you had made that the consulting bookings, I think you had said were about \$400 million light in the month of March. But I know you had spoken to us at the very end of March, and things actually sounded pretty good then. So I just wanted to get your take on the overall internal budgeting and forecasting processes and systems, and if you think any adjustments are needed there...

David Rowland - Accenture - SVP Finance

Yes. Jason, that is a very fair question to ask. And I will start off by telling you that we are not in the business of missing guidance. And we don't find that to be acceptable, so that would not be our expectation going forward. Having said that, we do have a very robust planning, forecasting function in Accenture. And I think that, as much as anything else, we have found ourselves in this period of change and evolution. In particular, in the Consulting business, we have had some areas of our business where the activity is much different than we would have expected. Some of which would have been tough to predict, like the depth of the economic challenges in Brazil, some of the growth challenges in Japan. And frankly, for anyone, I think it's tough to predict even today what is happening in Europe with the macro environment.

And so, we have a large complex business, and a large complex world. And even the best forecasting processes, when you are going through a period of change, you can have in our case a quarter, where the lens was not as clear as we would have hoped it would have been. And so, we are always trying to get better in everything we do, forecasting included. We have certainly learned a lot over the last two or three quarters. And we are putting those insights that we have learned, this quarter in particular, to good use in terms of being better predictors of our business going forward.

Jason Kupferberg - Jefferies & Co. - Analyst

And just as a follow-up, can you talk about -- you mentioned clients are holding back on spending. And you were pretty clear, that you are not seeing cancellations. So obviously, that is good news. Maybe if we could just parse this a little bit more. Is this clients holding back on decisions regarding new bookings, or is it more that they are slowing down the ramp of existing projects? Or is it really just kind of an even mix of both of those?



Pierre Nanterme - Accenture - Chairman and CEO

I would probably take a little bit of both. I mean, definitely the overall environment has not been progressing probably the way we all expected, including our clients, when you look at our Q3. The situation in Europe is not even slightly better. It is probably slightly worse, even if we do not have a Greece event, if you will. The environment is moving, from an economic standpoint, to recession. And so, the mood with our clients over there is still to be thoughtful, and to be very mindful about the way they invest. And when clients are thoughtful and mindful, they tend to wait a little bit more, and to think further on when and how much they are going to invest. It is particularly true when it is about smaller projects, as we mentioned.

But indeed, this is what I would characterize as this softness, particularly true in Europe -- and in south Europe, to be even more specific. And it is definitely true. And that, to be honest, that is something we anticipated at that level. In Brazil, the situation has changed recently. And clearly, we have good discussions with clients over there. But we see more discussion and clients postponing or delaying their decisions. So that is the kind of environment, again, I would characterize, especially in Brazil, southern Europe, and Natural Resources given the cyclical nature of that business, especially the mining business.

Jason Kupferberg - Jefferies & Co. - Analyst

Okay. Thanks for all the thoughts.

Operator

Keith Bachman from the Bank of Montreal. Please go ahead.

Keith Bachman - Bank of Montreal - Analyst

Hi. Thank you very much. I had two also. And the first one is, what are the conditions to enable the Consulting business to grow? At the start of the year, there was the expectation, particularly exiting the year, it would be mid to high single digits, and now you are kind of tracking at 0% growth. Is it purely economic, or are there other practice areas or competitive landscape as you think about FY '14? But more broadly, what are the conditions that would enable Consulting to grow?

Pierre Nanterme - Accenture - Chairman and CEO

I think, first -- and thank you, for the question, Keith -- I think Consulting, it is all about launching projects, programs, if you will. And so it is slightly different from the mindset on Outsourcing, which most of the time is more driven through cost optimization. Consulting is more about building for the future, if you will, for clients. And building for the future is requiring confidence. Confidence in the economic outlook, confidence in the business. And again, there are parts of the world where that confidence is not at the level we expected. And so, what we can guess, is if indeed the economic conditions in Europe would progress, if the situation in Brazil as well is moving to more a positive outcome, then confidence will be rebuilt with our clients and investors, and we might see more Consulting pick-up. But that is probably what that is. The level of confidence is not at the level we expected, and there are eroding economic conditions in some parts of the world.

Keith Bachman - Bank of Montreal - Analyst

Okay. So presumably within that context, you feel like you have the risk of the downside appropriately captured at this point, at least for the next quarter or so in Consulting?

David Rowland - Accenture - SVP Finance

Yes, we think we do. We feel like we have got a reasonable range reflected in our guidance. Again, it reflects the learnings from the third quarter.

Keith Bachman - Bank of Montreal - Analyst

Okay. Well, let me ask my follow-up then. You highlighted during the call the importance of acquisitions. And I certainly think that is a sound strategy, a great strategy. Is there a way that you could highlight, A, what was the level of acquisition-driven revenue this quarter? Did it contribute any amount of points of growth, I



point or so? And then B, how do you think about it going forward? Is there a way that you could provide some dimensions as we think longer-term of either percent of cash flow, or percent of revenue growth that you are targeting, as you think more broadly about acquisitions? And that's it from me. Thank you.

Pamela Craig - Accenture - CFO

So Keith, I will just quickly give you the answer on the quarter, which was it was less than 1%.

Keith Bachman - Bank of Montreal - Analyst

Okay, great.

Pamela Craig - Accenture - CFO

And then let me turn it over to Pierre, to give you the future look here.

Pierre Nanterme - Accenture - Chairman and CEO

Yes. In the current context -- it is not new, I mean, that is a strategy we discussed with all of you during the IA days and recently... we will use acquisitions as a way for us to invest in fast-growing areas and to execute our growth strategy. And this is exactly what we do. Indeed, we set as an objective to deploy something like 15% of our free cash flow in acquisitions, and this is what we are doing. I think we are doing that this year in a very efficient way around our clear strategic initiatives, clear priorities in terms of industry, clear priorities in terms of technologies.

I mentioned the digital marketing as a fast-growing area as well. We have been deploying our capital into acquisitions, and we will continue to do so to make sure that through acquisitions we are capturing new waves of growth. And we are pleased with, and I'm particularly pleased with what we have been doing been doing this year on that front. And this is what we see. You will remember the acquisition we made, I think a year ago, or 18 months ago, to build Accenture's mortgage services on the back of the acquisition of Zenta. And we are very pleased, for instance, with the return we are getting from that acquisition. But it's true across the board.

Pamela Craig - Accenture - CFO

And just another little data point for you, Keith. That we do expect it will be higher than the 15% of operating cash flow this year.

Keith Bachman - Bank of Montreal - Analyst

Okay. Fair enough. Thanks, Pam. Good luck.

Pamela Craig - Accenture - CFO

Thanks.

Operator

Sara Gubins from Bank of America, please go ahead.

Sara Gubins - BofA Merrill Lynch - Analyst

Hi, thank you. You haven't made any change to your headcount plans, in spite of the weaker trends. So I am wondering if there is any shift in the capabilities that you have been adding or you will be adding? Or if it suggests that headcount should ramp, the additions should ramp down into the next year?



David Rowland - Accenture - SVP Finance

Yes, I think on the headcount -- I mean, the first thing I would say, Sara, is that our headcount in the third quarter was very well-utilized. Our utilization rates were very high, as Pam indicated. And if you think about the upper end of our range in the fourth quarter, it is right at about what we just did in the third quarter. And so, underneath our headcount, you can see a little more increase in GDN, I think, in the quarter we just completed as opposed to our on-shore resources. But we are very, very good, and I think that is one of our -- one of the areas that operationally we have really proven over the quarters and years to be very strong, is managing our supply and demand. So we will continue to move our headcount, both the mix, by location, and total headcount as our revenue forecast evolves.

Pamela Craig - Accenture - CFO

We were up 5,000, and 4,000 in the GDN.

David Rowland - Accenture - SVP Finance

Yes, it was all GDN, almost all GDN.

Sara Gubins - BofA Merrill Lynch - Analyst

Okay. Thank you. And then as a follow-up, given the slower demand environment, I am wondering if you are seeing any pressure in pricing, either from a competitive dynamic or from your clients as you renegotiate?

Pamela Craig - Accenture - CFO

We are not seeing that overall. But on an isolated basis, in these concentrated areas where we have seen softening and thus more competition, it has been more price-competitive.

Sara Gubins - BofA Merrill Lynch - Analyst

Okay. Thanks a lot.

Pamela Craig - Accenture - CFO

You bet.

Operator

Edward Caso from Wells Fargo Securities, please go ahead.

Edward Caso - Wells Fargo Securities - Analyst

Hi. Great. You mentioned business process outsourcing, BPO, several times in a positive way. I was curious, maybe, if you could flesh it out a little bit more, particularly along the lines of say, strengthened generic kind of F&A work versus more industry-specific, and what Accenture is doing to win and sustain and expand work? Thank you.



Pierre Nanterme - Accenture - Chairman and CEO

Thank you, Ed, for the question. And indeed, very pleased you are asking the question. I am a big fan of our BPO business, and very pleased with our results. That is an area where we have been very specific about the strategy we want to execute, which is all around being extraordinarily focused. And you mentioned finance and accounting as one these areas – I could mention as well procurement administration – where we are taking some leading positions and we are shooting for scale, with good results. I mentioned one in my presentation today. We are, as well, investing in more analytics. I mentioned Accenture Credit Services, where we are providing mortgage processing capabilities, regulatory disclosure with Life Sciences. And indeed, again, in addition to the at-scale horizontal BPO we've developed, we are executing exactly the same strategy, in some priority industries, with vertical – insurance, banking, life sciences, I could mention as well health. And no surprise that you have seen that these four industries are posting good growth. And finally, BPO is a business where we always aim at differentiating ourselves, adding more capabilities and more insights in what we do. Especially around bringing analytics across the board to make our BPO more relevant and cutting-edge.

Edward Caso - Wells Fargo Securities - Analyst

My other question is sort of on the contract terms. You talked about pricing a little bit. But are you seeing tightening up on the contract terms, maybe where the risk profile of the contract may be getting a little higher now in the current environment?

Pamela Craig - Accenture - CFO

I don't think there is anything major to speak of there, but certainly on the margin here and there, we do have those challenges.

Edward Caso - Wells Fargo Securities - Analyst

Okay. Thank you.

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, Ed.

Operator

Steve Milunovich from UBS. Please go ahead.

Steven Milunovich - UBS - Analyst

Great. Thank you very much. You mentioned some slowing in ERP. Do you view that as just a macro issue in terms of less add-on business? Or perhaps also reflective of a more secular shift to cloud-based work?

Pamela Craig - Accenture - CFO

Yes, it is the former. I think there is just a little less of the add-on work going on right now. There is fewer of the big ERP things starting. I used to do this work myself, I mean, these things just go through those kinds of periods, and it will certainly pick up again. But we do see that trend right now.

Steven Milunovich - UBS - Analyst

Okay. And then you mentioned analytics and so forth. As you know, some people talk about these technologies as SMAC, or whatever acronym you want to use. Is there any aggregation that you can provide, in terms of how much of that kind of business you do, how fast it is growing?



Pierre Nanterme - *Accenture - Chairman and CEO*

We are very pleased with where we are. And indeed, it is an area of high growth for us. So what we would put in this SMAC for us, that would be digital marketing, analytics, mobility, cloud. Clearly, areas where we have something I would characterize as very strong growth.

Steven Milunovich - *UBS - Analyst*

Is that pretty much across the board, or is it in particular industries?

Pierre Nanterme - *Accenture - Chairman and CEO*

It is pretty much across the board. Now you have some industries that are more early adopters. And especially the consumer-based industries are more analytics, mobile, SMAC-driven, if you will. So communications, banking, insurance, consumer packaged goods, retail, this is where they are investing in the SMAC world.

Pamela Craig - *Accenture - CFO*

Imagine that, Pierre talking SMAC. (Laughter).

Steven Milunovich - *UBS - Analyst*

Thank you.

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

Joshua, we have time for one more question, and Pierre will wrap up the call.

Operator

Katy Huberty from Morgan Stanley, please go ahead.

Katy Huberty - *Morgan Stanley - Analyst*

Yes. Curious, understanding there are several areas of weakness in international markets, curious if you are seeing a positive inflection in customer mentality in the U.S.? We are beginning to hear that customers here are shifting from cost-cutting to more of a revenue growth focus.

Pierre Nanterme - *Accenture - Chairman and CEO*

I love the U.S. (Laughter). I love that market, and I love the U.S. for Accenture for many reasons. First, it is a very large market for Accenture as you know. Second, it is a market where we, again, posted double-digit growth this quarter, and probably for some very good reasons. I mean, first, the overall economic environment in the U.S. is better than in the rest of the world. That is a fact. Second, is U.S. companies are, more than any other companies in the world, early adopters of new technologies. So when you look at this famous SMAC, the early adopters – the creators of this SMAC are in the U.S. – and the early adopters of these new technologies are more in the U.S. So this is what is making the U.S. today a more vibrant practice for Accenture.

Katy Huberty - *Morgan Stanley - Analyst*

Okay. Then just as a follow-up, going back to the discussion of headcount. Given the weakness in a number of countries, why remain committed to the more than 50,000 adds this year, given the mantra of profitable growth and revenues coming in below plan as you exit the year?



David Rowland - Accenture - SVP Finance

Well, first of all, part of that 50,000 is bringing in skills in targeted areas, SMAC as an example, where we are bringing in skills in high-growth areas. The other thing about our business is that we always have – it's true of our business – you always have some churn of resources. And that is healthy for our business. And so, we are always going to have hiring even if our headcount is relatively stable. We are always going to bring in people, both for skill reasons and also just part of our ongoing pyramid refresh. Which by the way, is part of our profitability agenda as well, how we manage the headcount in the pyramids.

Katy Huberty - Morgan Stanley - Analyst

Okay. Got it. Thank you.

Pierre Nanterme - Accenture - Chairman and CEO

Okay. Thank you, Katy, and thanks all of you for joining us today. In closing, let me share with you a couple of thoughts. Needless to say, we are operating in a fast-changing environment, where disruptive technologies and new business models are accelerating the need for clients to transform their businesses. And this is driving demand for our services.

Yes, we have been challenged in a few concentrated areas, such as consulting in Europe, Brazil, and Resources. But we are running Accenture as a portfolio of business. And as I look at the year to date, there are many key areas where we are performing extremely well, with double-digit growth, including BPO, the United States, China, mobility, cloud, analytics, Insurance, Capital Markets, Health and Life Sciences. This has given me the confidence that we are executing the right strategy, building off a very strong platform including our Diamond client relationships, our brand, our industry expertise, and our global delivery capability, as well as our unique position in the technology ecosystem.

The Accenture leadership team, supported by our 266,000 people, remains fully committed to driving profitable growth, and delivering value to our clients and shareholders.

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

Operator

Ladies and gentlemen, this conference will be made available for replay after 7 PM Eastern today, until September 26 at midnight. You may access the AT&T executive playback service at any time by dialing 800-475-6701, and entering the access code 294684. International participants may dial 1-320-365-3844. Again, those numbers are 800-475-6701, access code 294684, and international participants may dial 320-365-3844. That does conclude our conference for today. Thank you for your participation and using AT&T executive teleconference service. You may now disconnect.

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