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ACN - Q4 2013 Accenture Earnings Conference Call

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OVERVIEW:

Co. reported FY13 net revenues of \$28.6b, EPS of \$4.93, and adjusted EPS of \$4.21. 4Q13 net revenues were \$7.1b, net income was \$727m, and diluted EPS was \$1.01. Expects FY14 local currency net revenue growth of 2-6% over FY13, and diluted EPS of \$4.42-4.54. Co. also expects 1Q14 revenues of \$7.0-7.3b.



CORPORATE PARTICIPANTS

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Pierre Nanterme *Accenture PLC - Chairman and CEO*

David Rowland *Accenture PLC - CFO*

CONFERENCE CALL PARTICIPANTS

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Tien-Tsin Huang *JPMorgan Chase & Co. - Analyst*

David Grossman *Stifel Nicolaus - Analyst*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Accenture's fourth 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'd now like to turn the conference over to KC McClure, Managing Director of Investor Relations. Please go ahead.

KC McClure - *Accenture PLC - Managing Director IR*

Thank you, Paul, and thanks everyone for joining us today on our fourth quarter and full year fiscal 2013 earnings announcement. As Paul just mentioned I'm KC McClure, Managing Director of Investor Relations. With me today are Pierre Nanterme, our Chairman and Chief Executive Officer, and David Rowland, 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. David will take you through the financial details including the income statement and balance sheet along with some key operational metrics for both the fourth quarter and the full year. Pierre will then provide a brief update on our market positioning. David will then provide our business outlook for the first quarter and full fiscal year 2014 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 in 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 10K 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 PLC - Chairman and CEO

Thank you, KC, and thanks everyone for joining us today. We are pleased with our results for the fourth quarter and full fiscal year which demonstrates our ability to continue to drive profitable growth in a volatile and fast changing market environment. For the full year, we once again increased market share, drove double digit EPS growth and strong free cash flow and delivered value for our shareholders. David will provide more detail on both the quarter and the year in a moment, but here are a few highlights for the full year.

We delivered new bookings of \$33.3 billion, an all-time high and near the top of our guidance range. We generated revenues of \$28.6 billion, a 4% increase in local currency. Fourth quarter revenues of \$7.1 billion were above our guidance range and we were pleased with our double digit growth in Health and Public Service and improved performance in both Resources and Communication, Media and Technology. We delivered earnings per share of \$4.93. After adjusting to exclude tax and reorganization benefits in the second and third quarters, earnings per share for the year were \$4.21, a 10% increase. We grew operating income and delivered operating margin of 15.2% for the year.

After adjusting to exclude the reorganization benefits, we delivered operating margin of 14.2%, a 30 basis point expansion for the year, which was in line with our expectations. We generated free cash flow of \$2.9 billion, slightly above our guided range and we continued to have a very strong balance sheet ending the year with a cash balance of \$5.6 billion. We continued to return cash to shareholders with \$3.7 billion in share repurchases and dividend payments during the year, and we just announced a semiannual cash dividend of \$0.93 per share which is a 15% increase over our prior dividend. In fiscal year '13, we again benefited from the diversity of our business, from an industry capability and geographic standpoint and made significant investments to position us well for the future. Now, let me hand it over to David. David, over to you.

David Rowland - Accenture PLC - CFO

Thank you, Pierre and thanks to all of you for joining us today. As I review the results on this afternoon's call, you'll see that we delivered good results in quarter four, starting with continued strong profitability and cash flow but also delivering solid improvement in our net revenues with local currency growth of 4.5%. We saw improvement in revenue growth in quarter four with four of our five operating groups, the Americas and EMEA posting stronger local currency growth than quarter three. Overall, we continued to increase market share in a challenging environment while driving our business to deliver on our profitability targets and returning a substantial portion of our strong cash flow to our shareholders.

Let's get to the numbers starting with new bookings. New bookings for the quarter were \$8.4 billion resulting in an all-time high of \$33.3 billion in new bookings for the full year which was also solidly in the upper half of our business outlook range provided in June. Consulting bookings were \$3.8 billion and a book-to-bill of 1.0 consistent with what we signaled last quarter. Outsourcing bookings were very strong at \$4.6 billion and a book-to-bill of 1.4.

Taking a closer look at our new bookings there's several additional points worth noting. All three components of our consulting bookings, management consulting, technology consulting and systems integration were all at the low end of our book-to-bill range and very similar to our Q3 bookings level, and at the same time, we did see consulting bookings convert to revenues slightly faster than we expected. Outsourcing bookings showed continued strength and represented our fourth highest quarter on record. Technology outsourcing bookings reflect continued strong demand for solutions that drive operational efficiencies and enable greater business performance, and yielded a book-to-bill of 1.2 for the quarter.



BPO bookings were particularly strong, the second highest quarter ever and reflected strong market demand for finance and accounting, procurement, and industry specific offerings in financial services. Lastly, we had bookings over \$100 million at 11 clients giving us a record 44 clients with bookings at this level for the full year which reflects our strong position in the marketplace and helping our clients tackle their largest most complex projects.

Now turning to revenues. Net revenues for the quarter were \$7.1 billion, an increase of 3.7% in US dollars and 4.5% in local currency, reflecting a foreign exchange impact of approximately negative 1% which was consistent with the assumption we provided in June. Quarter four revenues were roughly \$90 million above the upper end of our guided range, primarily driven by stronger than expected consulting revenues. Consulting revenues for the quarter were \$3.8 billion up 2% in US dollars and 3% in local currency. Outsourcing revenues were \$3.3 billion, an increase of 6% in US dollars and 7% in local currency.

So looking at how our operating groups contributed to our revenue results for the fourth quarter. H&PS continued to lead the way with double digit local currency growth of 13% driven by very significant growth in North America. We saw balanced growth across Health and Public Service in both consulting and outsourcing. After nine quarters of double digit growth, we expect H&PS growth to moderate in the near term. Products delivered 6% local currency growth in the quarter, slightly higher than their year-to-date performance reflecting broad based growth across most industries, across consulting and outsourcing, and in both the Americas and EMEA.

Financial Services grew 3% in local currency for the quarter and as expected, lower than the growth rate in each of the first three quarters. Growth continues to be driven by strong outsourcing activity reflecting our clients' focus on large transformational projects. Consulting revenues declined modestly including lower levels of growth and insurance in the Americas as several projects are ramping down. Growth this quarter was also impacted by a tough year-over-year compare. We expect the growth rate in Financial Services to be similar in quarter one. CMT delivered 2% local currency growth in quarter four reflecting the improvement we expected and we're particularly pleased with the performance in the Americas, especially in electronics and high-tech. Resources also showed improvement with flat local currency revenue growth in the quarter reflecting some overall stability the business. We continue to work hard to reposition the business, especially in North America.

So moving down the income statement, gross margin for the quarter was 33.2% compared to 32.9% for the same period last year, up approximately 30 basis points. Sales and marketing expense for the quarter was 12.6% of net revenues compared with 12.3% of net revenues for the fourth quarter last year. General and administrative expense was 6.7% of net revenues compared with 6.9% of net revenues for the fourth quarter last year. Operating income was \$984 million in the fourth quarter reflecting a 13.9% operating margin, up 10 basis points compared with quarter four last year. Our effective tax rate for the quarter was 24.6% compared with 32.8% for the fourth quarter last year. This lower rate in the quarter was primarily due to a lower level of reserve additions and higher benefits related to final determinations of prior year tax liabilities. Net income was \$727 million for the fourth quarter and it was \$636 million for the same quarter last year, an increase of 14%. Diluted earnings per share were \$1.01 compared with \$0.88 in the fourth quarter last year, an increase of \$0.13.

Turning to DSOs, our day services outstanding continue to be industry leading. They were 31 days, up from last quarter and the 27 days in quarter four last fiscal year. Free cash flow for the quarter was \$1.2 billion resulting from cash generated by operating activities of \$1.3 billion, net of property and equipment additions of \$102 million. Moving to our level of cash, our cash balance at August 31 was \$5.6 billion compared with \$6.6 billion at August 31 last year, which reflects the significant level of cash returned to shareholders, a number of strategic acquisitions this year, and our decision to fund the US pension plan in quarter one.

Moving to some other key operational metrics. We hired approximately 60,000 people in FY13 ending the year with a global headcount of about 275,000 people and we now have over 182,000 people in our global delivery network. In quarter four, our utilization was 88%, consistent with quarter three. Attrition which excludes involuntary terminations was 12%, in line with quarter three of this year and quarter four of FY12. As it relates to our ongoing objective to return cash to shareholders, in the fourth quarter we repurchased or redeemed 14.5 million shares for \$1.1 billion at an average share price of \$75.57 per share. For the full year, we repurchased or redeemed 34.4 million shares for [\$2.5 billion] (corrected by company after the call) at an average price of \$74.05 per share. Earlier today, we announced that our Board of Directors declared a semiannual cash dividend of \$0.93 per share. This dividend will be paid on November 15th and represents a \$0.12 per share or 15% increase over the previous semiannual dividend we declared in March. So, before I turn things back over to Pierre, let me just briefly summarize where we landed for the full year across the key elements of our business outlook.



Again, new bookings were \$33.3 billion, in the upper half of our guided range for the year. Net revenues grew 4% in local currency for the full year, at the top end of our most recent guided range and just below the low end of the range provided at the beginning of the year. Even though the second half of the year didn't materialize as we originally expected, we did grow faster than the market and take share, which is an important objective for our business. As a reminder we had two unusual items that impacted certain full year metrics in fiscal 13 for which we provided outlook ranges on both a GAAP and an adjusted basis, so excluding the impact, adjusted operating margin was 14.2%, within our most recent guided range and a 30 basis point expansion over last year. And very importantly incorporates a significant increase in our investments including acquisitions as we continue to position the business for future growth. Adjusted EPS was \$4.21, toward the upper end of our most recent guided range and 10% growth over fiscal '12. Free cash flow was just over \$2.9 billion, slightly above the upper end of our previously guided range.

Finally, we returned \$3.7 billion of cash to shareholders, approximately \$400 million above our initial objective through \$2.5 billion in share repurchases, and \$1.1 billion in dividend payments we made during the fiscal year. In addition we reduced our weighted average diluted shares outstanding by about 2%. So, all-in all, in a market that grew less than we expected, our results continued to reflect rigor and discipline in the way we manage and drive our business. Once again we've proven our ability to adapt our business as the environment evolves and to deliver results which overall were very much aligned to the outlook that we set at the start of the fiscal year. Back to you, Pierre.

Pierre Nanterme - Accenture PLC - Chairman and CEO

Thank you, David. In a fast changing market environment, we continue to execute our growth strategy in a highly focused and disciplined way. We are providing differentiated services across a full spectrum of our capabilities that are resonating with the needs of our clients. We continue to invest in our industry and technology capabilities to further differentiate Accenture in the marketplace, particularly in areas that will help us capture new ways of growth such as digital marketing, mobility, analytics, and cloud.

In fiscal year '13, we made significant investments including \$800 million in acquisitions, to enhance our ability to help clients compete in the new digital world. We are helping a leading European retailer enhance its customer experience by combining our capabilities in retail and Accenture Interactive, including our recent Fjord acquisition as well as mobility and analytics. We are delivering seamless integration across all channels, including the clients' 750 store locations. In Belgium, we are working with Belgacom, the country's largest telecommunications Company and BNP Paribas Fortis to create the country's first mobile wallet. When fully deployed, the new solution which is based on the Accenture mobility platform, will enable secure shopping and payments via smartphone.

We also continue to invest in new and innovative end-to-end business services that leverage our industry skills and combine our capabilities across management consulting, technology and business process outsourcing, to deliver tangible outcomes for our clients. In banking we are strengthening our capabilities in Accenture credit services through two recent acquisitions. In Q4, we acquired Mortgage Cadence in the US, adding an advanced loan origination software platform. And just last week, we acquired a majority stake in Vivere Brasil, a leading mortgage processing technology company in the rapidly developing Brazilian mortgage market. In capital markets we created Accenture Post-Trade Processing, a new business service to provide clearing and settlement of equities and bonds for investment banks. This service, which is priced by the transaction, should help clients cut their securities processing cost by about 30%. We are already working with our first client, Societe Generale, and have several others in the pipeline. And in the hospitality industry, we launched Accenture Hospitality Services to capture the growth opportunities we see in providing finance, accounting and related services to hospitality companies. We are working with our first client, Marriott, and their franchise hotel owners to deliver significant cost savings.

At the same time that we invest in innovative business services, we remain extremely focused on supporting our clients in their large scale transformation programs, as demonstrated by our 11 bookings over \$100 million in Q4 which you heard David mention. Our clients continue to focus on driving more productivity and effectiveness in their operations and this is generating demand for our core services. We are in the early stages of helping a global agribusiness company with 30,000 employees, transform its business through an ERP implementation across 140 countries. We will help enhance clients' efficiency and decision making supporting its global expansion plans.

And we are working with Vodafone on a major IT transformation based on an integrated global ERP solution from SAP as well as cutting edge technology for mobility and analytics. More than 85,000 employees across 20 operating companies are now live on the platform. Vodafone has benefited from more transparent information and standardized processes that will improve reporting, drive better decision-making and enhance



risk management. And just this morning, we announced an IT collaboration with Telenor, a leading global telecommunications provider to manage the development and maintenance of IT systems with the mobile value chain. From a geographic standpoint needless to say we are living in an interesting world. A year ago, the big questions were around Europe and the sovereign debt issue. It now seems that Europe is stabilizing and even showing some early signs of improvement. And today, the question is around the emerging markets where we are seeing more volatility. In that context, the geographic diversity of our business continues to serve us well as we have a significant footprint in most of the major markets in the world.

Looking at the United States, our largest market, I couldn't be more pleased with our performance. We again delivered double digit revenue growth in the US for both the quarter and the full year and we increased our market share. In our priority emerging markets for the full year, we continued to grow at a faster rate than Accenture overall. That said, it was a challenging year for our business in Brazil and we expect to see stronger growth in fiscal year '14. At the same time, we were very pleased to see continued strong double digit revenue growth for the year in China, India, the Middle East, and Mexico.

In closing, at the time where volatility and uncertainty are still the name of the game, we continue to focus on driving our own competitiveness, applying rigor and discipline across-the-board, to increase our efficiency and expand our margins and this is giving us the capacity to invest in the business to continue to capture new waves of growth. Before I hand back to David I want to thank our people at Accenture for their significant contribution to our fiscal year results. Our people are extraordinarily committed to the success of our clients and bring their unique knowledge and capabilities to their work every day. And with that, I will turn the call over to David to provide our fiscal year '14 business outlook. David? Over to you.

David Rowland - Accenture PLC - CFO

Thanks, Pierre. Before I provide our business outlook, let me share some thoughts on how we see the overall environment and the implications on our view of fiscal '14. For the past four to five quarters, it's clear that our addressable market has been in a cycle of lower growth and this has certainly impacted our growth. As we look forward we think it's likely that our overall market conditions won't change much in the near term. In other words, it will be more of the same. Regardless of how the market evolves we are driving our business throughout the cycle to grow faster than the market.

Turning now to our business outlook, for the first quarter of fiscal '14, we expect revenues to be in the range of \$7 billion to \$7.3 billion. This assumes a foreign exchange impact of approximately negative 2% compared to the first quarter in fiscal '13. For the full fiscal year '14, based upon how the rates have been trending over the last few weeks, we currently assume the impact of foreign exchange on our results in US dollars to be negative 1% compared to fiscal '13. For the full fiscal year '14, we expect Accenture's net revenue to be in the range of 2% to 6% growth in local currency over fiscal '13. For the full fiscal year '14 we're targeting new bookings to be in the range of \$32 billion to \$35 billion and in consulting we expect quarter one bookings to be similar to the last two quarters.

For operating margin we expect fiscal year '14 to be in the range of 14.3% to 14.5% a 10 to 30 basis point expansion over adjusted fiscal '13 results. We expect our annual effective tax rate to be in the range of 26.5% to 27.5%. For earnings per share, we expect full year diluted EPS for fiscal '14 to be in the range of \$4.42 to \$4.54 or a 5% to 8% increase over adjusted fiscal '13 results. Now turning to cash flow, for the full fiscal '14, we expect operating cash flow to be in the range of \$3.6 billion to \$3.9 billion, property and equipment additions to be approximately \$400 million and free cash flow to be in the range of \$3.2 billion to \$3.5 billion. Finally, we expect to return at least \$3.7 billion through dividends and share repurchases and also expect to reduce the weighted average diluted shares outstanding by approximately 2% as we remain committed to returning the substantial portion of our cash to our shareholders. With that, let's open it up so that we can take your questions. KC?

KC McClure - Accenture PLC - Managing Director IR

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. Paul, would you provide instructions for those on the call?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Rod Bourgeois of Bernstein.

Rod Bourgeois - Sanford C. Bernstein & Company, Inc. - Analyst

Okay, guys so your revenue growth took a step in the right direction in the August quarter but bookings were down year-over-year in consulting and outsourcing and your fiscal '14 bookings guidance calls for flattish bookings versus fiscal '13. So overall, are you seeing overall stable to improved demand trends as implied by the August quarter revenue growth results? And if you are seeing overall stable to improved demand, is this not showing up in recent and projected bookings due to a drop in duration or some other factor in your outlook?

David Rowland - Accenture PLC - CFO

Rod, I'll start with a few comments and then I'm sure Pierre will have a few things to add. In terms of the demand environment, one key measure we look at is our opportunity pipeline and we saw, have seen good expansion in our opportunity pipeline across most aspects of our business over the last 90 days during the fourth quarter, and that is indicative of the level of client discussions that are taking place and the way our services and offerings are resonating in the marketplace. So we do feel good about our pipeline and we think it's well positioned for what it needs to be to support the revenue range next year. As it relates to the bookings, the bookings, we triangulate with our revenue growth based on what we believe we need from a book-to-bill standpoint, our conversion assumptions, et cetera, and we believe that the book-to-bill range that we guided to will support the revenue. On the consulting side, while we feel good about our pipeline overall at this point in time it is a little bit more early stage and for that reason, we see quarter one consulting bookings being pretty consistent with what we've seen the last two quarters but yet we feel very good about the pipeline overall. It just has that early stage characteristic at this point in time.

Pierre Nanterme - Accenture PLC - Chairman and CEO

Yes, just to add, I like the way you've been framing that, Rod which is indeed I think the demand is I would characterize it as stable with some pockets of improvement here and there, and by and large, we are pleased with our pipeline and the way it's shaping, and but the overall demand I would characterize as stable plus if you will.

Rod Bourgeois - Sanford C. Bernstein & Company, Inc. - Analyst

Okay, and then just as a follow-up, can you specify at least roughly how does your fiscal '14 revenue growth guidance break down between the consulting and the outsourcing business? And also is your revenue growth in fiscal '14 more likely to be stronger in the first half of the year or the second half of the year, are you assuming it's reasonably level loaded across the year?

David Rowland - Accenture PLC - CFO

Yes, Rod, in terms of the break out, we believe outsourcing will be in the mid to high single digit positive. On the consulting side anchoring to the 2% to 6% range we see that on the low end as being flattish to low single digit positive. And in terms of the revenue phasing we do see our revenue building as we go through the year, coming off the range that we guided to for quarter one and then building from there. There are a couple of our operating groups in particular that for different circumstances are going to have lower growth in quarter one, Financial Services being one and Health and Public Service being the other. I believe I called both of those out in the script. But yet those are two operating groups that we feel very good about the positioning of the business, the pipeline, their contracted revenues, and we're very optimistic that their growth will be much stronger as they progress through the year.



Rod Bourgeois - *Sanford C. Bernstein & Company, Inc. - Analyst*

Excellent. Thanks guys.

Operator

Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Great, thanks. Just to build on those last comments there, David, just trying to understand Q1. I heard the FS and the Health and Public sector. You exited the year 4.5%, low end is down 2. Is it really just those two segments that might push you negative there, could we maybe argue that some of the revenue converted a little bit faster and pulled forward some revenue into Q4? Just trying to better understand is down 2 and low end is conservative versus some specific issues, if that makes sense.

David Rowland - *Accenture PLC - CFO*

Yes, I think Tien-Tsin, again, again I think you hit the nail on the head again. It's the situation we find ourselves in quarter one is that we do have this cycle, this short-term cycle that H&PS and FS are going through, whereas prior to quarter four, they were contributing at a very high rate relative to our overall growth. We also have resources in CMT which improved in the fourth quarter, and we feel good about how those businesses are moving along to return to positive growth. We think both of those operating groups will be positive for the year but yet as we look at quarter one they are still very much working their way back up to where they want the business to be and where we want the business to be. So really quarter one is just a reflection of H&PS and FS going through this period of lower growth and then giving some allowance for the fact that CMT and resources are continuing to build, but we've got a little ways to go.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Got it. Okay, got that in Q1 and then jumping into Q2 is always a little bit tricky but it sounds like the second half implied guidance should be relatively strong. I guess there's no question there. My follow-up I guess I'll ask acquisition wise, did you give roughly how much some of these acquisitions could contribute to fiscal '14 top line? And then just generally speaking there's a lot more chatter Pierre about acquisitions that Accenture might be pursuing. I know Booz and Company has come up a bunch, can you comment on that in general or just your appetite for the larger acquisitions? Thanks.

David Grossman - *Stifel Nicolaus - Analyst*

Yes, Tien-Tsin, I'll just comment briefly. In terms of the contribution to the top line it's still roughly in that 1% range and I'll pass it over to Pierre and he will certainly want to add some thoughts on acquisitions in general.

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

Yes, thanks, Tien-Tsin for the question that indeed we are executing our strategy against what we always shared with you from an acquisition standpoint. Our strategy in term of acquisition and the finance trajectory was to deploy around 15% of our [operating cash flow] (corrected by company after the call) flow around acquisition and we have always been clear that it might be a little bit more or a little bit less depending on the opportunities in the marketplace and how attractive they might be for us to invest for the future. It happened that this year, indeed, we found pretty attractive opportunities in the marketplace and we deployed in the range of \$800 million, so this is consistent with our strategy and indeed moving forward we will continue to execute this targeted strategic acquisitions deploying around 15% of our [operating cash flow] (corrected by



company after the call). We have the cash to deploy a little bit more and of course we are going to look at the good opportunity for us and for our shareholders to invest wisely.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Understood, thank you. Congratulations this quarter.

David Rowland - *Accenture PLC - CFO*

Thank you.

Operator

David Grossman of Stifel Nicolaus.

David Grossman - *Stifel Nicolaus - Analyst*

Thank you. Last couple quarters you talked about bookings conversion rates and the absence of some of the smaller quick turn types of projects negatively impacting revenue growth and now it seems like you've seen a little bit of improvement and that's changed a little bit this quarter, but that said your assumptions around consulting growth remain relatively cautious it seems for fiscal '14. Can you help us better understand what you're seeing in the market and what is the typical lag between better economic growth and improvement in these metrics?

David Rowland - *Accenture PLC - CFO*

Yes, I'll make a few comments on that and Pierre may want to make some comments as well, but in terms of this whole conversion point, interestingly we did see slightly better conversion in the fourth quarter than we expected and that contributed to the revenue growth, the uptick in consulting revenue growth in the quarter. It's interesting to point out that that was not because of an uptick in the smaller deals. The smaller deals were relatively stable from a volume standpoint, and for the market that is there, we feel like we're winning our fair share, but we really aren't seeing uptick, at least in the fourth quarter in the smaller deals, so it was really a situation where the deals in the \$10 million to \$50 million range, the characteristics of those deals were such that they just converted faster in the quarter and that is everything from the timing of when the contracts were signed in the quarter to how quickly we were able to staff the jobs and get into revenue generation mode to also just the characteristics of the work we sold. So we continue to watch this conversion very carefully and we think we've accounted for that appropriately in our FY14 guidance.

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

Nothing to add, perfect.

David Grossman - *Stifel Nicolaus - Analyst*

Okay, thanks for that. And then secondly, just looking at the changes going on at Microsoft and Nokia, I know you're recognizing you're close to both those companies. Does the sale of the handset business to Microsoft at all change the relationship with Nokia and are there any specific headwinds or tail winds that we should think about over the next several months as that deal takes shape?



Pierre Nanterme - Accenture PLC - Chairman and CEO

No. The simple answer is going to be no. We do not expect any impact on our business.

David Grossman - Stifel Nicolaus - Analyst

Great, thank you.

David Rowland - Accenture PLC - CFO

Thank you.

Operator

Julio Quinteros of Goldman Sachs.

Julio Quinteros - Goldman Sachs - Analyst

Great, hi guys. Maybe just a bit about the competitive environment and last quarter you guys had called out some areas where competition had increased, maybe just kind of go back through that and just give us some sense on what your competitive landscape or pricing or any other factors are, is something to think about?

Pierre Nanterme - Accenture PLC - Chairman and CEO

Yes, again and maybe you're going to hear a lot of that word in our answers, it's stable. I don't think we've seen any change. We are in a very competitive market. We are competing against all of the classic incumbents, the companies from India, and you know that very well. I don't think there have been any change. From a pricing standpoint I would probably say that pricing is stable on balance, so again no material change in that front. So we are in a very competitive market and for us again the name of the game is to concentrate on us on Accenture and to make the Company more competitive, so as David mentioned before, to win in the marketplace, having winning more than our fair share and gaining market share and this is what happened in fiscal year '13. It is competitive and we are fighting to win.

Julio Quinteros - Goldman Sachs - Analyst

Got it, understood and then just on the follow-up, just some thoughts around headcount. Headcount growth for this quarter including acquisitions looks like it's a little bit light and then any thoughts for fiscal '14 gross headcount adds?

David Rowland - Accenture PLC - CFO

Yes, I would, we hired about 60,000 people this past year. We had our normal higher level of new hires hitting the books so to speak in the fourth quarter. We will hire let me say at least 50,000 people in fiscal '14. Supply management is a top priority for us always. I think we are very effective in terms of managing the supply/demand equation and we will adjust the hiring as we need to as we progress through the year to meet demand and continue to operate at very high utilization levels.

Julio Quinteros - Goldman Sachs - Analyst

Got it, thank you.



David Rowland - *Accenture PLC - CFO*

Thank you.

Operator

Katy Huberty of Morgan Stanley.

Katy Huberty - *Morgan Stanley - Analyst*

Yes, thanks, the revenue guidance range this year is a point wider than fiscal '13 which implies some uncertainty and if you back out the one point of acquisitions, the range sends a very different message at the low end with sort of flattish growth versus at the high end more mid single digit growth. So can you talk about what some of the biggest swing factors are that would land you at the low end of the range versus the factors that could get you to the upper end?

David Rowland - *Accenture PLC - CFO*

Yes, in terms of the range being wider, it really doesn't have anything to do with confidence as much as it does, as much as it reflects the process that we go through every year to look at the size of our range as our business grows and as our business gets just more complex, and so we have this discussion annually. There have actually been a few years in the past where we considered expanding to four percentage points but this year, finally, as our business has gotten to the size that we are and as we are complex across so many different industries, geographies, et cetera, that range we think serves the business and really our shareholders the best in terms of giving good transparency to where we think we can land. In terms of how we think about either end of the range, I think I would describe that in the context of our five operating groups. What we see broadly as you look at the year is we see H&PS and Financial Services as I said earlier starting the year with lower growth but then building through the year to having very strong growth as they progress through the year. We see products continuing to produce at very good levels on a stable basis and we see resources in CMT continuing to build to be positive growth overall for our fiscal '14. Now where we land in that range of 2% to 6% is going to depend on the degree to which each of those things happens but that is our model in terms of how we would rack and stack the operating groups and how we view their growth trajectory for the year.

Katy Huberty - *Morgan Stanley - Analyst*

Okay, thank you and just as a quick follow-up, you mentioned that Europe seems to have maybe turned a corner. Curious whether some of those ERP deals that didn't convert to revenue as fast as expected last quarter in Southern Europe, whether that environment improved or whether it was more Northern Europe.

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

Yes, I'm going to pick up of course Europe I guess. Overall my assessment on the situation is Europe is stable with hopefully early sign of improvement, but you know the overall economic condition for Europe has been moving from a slight recession to a slight growth, but more or less being more or less the same plus. And indeed what we've seen in Q4 but we will need to wait for Q1 to see whether it's going to be sustainable is an improvement in our growth in Europe, and especially in countries, important countries such as Germany, Italy, the Netherlands and France. And indeed I mentioned our recent win that went on this morning with Telenor, another European company, I mentioned Vodafone, again a very well known European company, so I would not declare victory in Europe given the complexity of that continent until the challenges which are not being dealt with in terms of sovereign debt, growth, competitiveness, but definitely Europe sounds more stable with early signs of improvement.



Katy Huberty - Morgan Stanley - Analyst

And was ERP specifically part of that improvement or not necessarily?

Pierre Nanterme - Accenture PLC - Chairman and CEO

I would say not necessarily. I mean some ERP sales have come up and are lumpy. It happened that we had a few this quarter. Overall as we stated before, continued strong demand for outsourcing and BPO, because many of the European companies are still focusing on improving their competitiveness and addressing their productivity and cost efficiency, and lower growth if you will in consulting, so pretty similar to the patterns we already highlighted prior in the year.

Katy Huberty - Morgan Stanley - Analyst

Thank you.

David Rowland - Accenture PLC - CFO

Thank you.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - Deutsche Bank - Analyst

Just wanted to follow-up on that. How is overall ERP demand and there's always a lot of questions about how cloud is impacting services so just curious to your thoughts on if it's impacting your ERP business at all?

Pierre Nanterme - Accenture PLC - Chairman and CEO

I would not make a direct correlation between the cloud and the ERP. When you look at the ERP, the fact of the matter is we've been through a cycle of very strong activity around ERP these last years and been a kind of wave. The reality is and probably given the overall economic conditions and some softness in the investment from our clients, this recent cycle being of lower growth around ERP. Now that being said it's not true across the globe, it's not true across all the industries and it's not true all the geographies. That's why I would not mention any secular trend around the end of the era of ERP because there's going to be a new era of the cloud. Again we've seen strong ERP activities in some of our verticals because there will always be a need for a very strong backbone to run the operation, from a financing point and from an HR standpoint, from a Procurement standpoint, and from a supply chain standpoint but it's going to move from one country to another and from one industry to another, and I think this is what it is. I would say that it's more cyclical than secular.

Bryan Keane - Deutsche Bank - Analyst

Okay. And then just one question for David. When I look at consulting, it did 3% constant currency this quarter and demand environment I think you guys are staying stable to positive and we're hearing signs of enterprise spending generally getting better but consulting guidance for the full year, I think you said constant currency flat to low single digits which is almost a decline from the fourth quarter. I heard your comments on the first quarter but I guess I'm surprised that there's no pick up in consulting kind of throughout the fiscal year so I just want to make sure I understand why that is.



David Rowland - Accenture PLC - CFO

Well again I think we are influenced by what we have seen really for the last four or five quarters now in the consulting space and we were pleased with what we saw in quarter four but yet one quarter doesn't make a trend, so in many ways, it's been more of the same. We see some green chutes, we see some areas of potential strength, we see a pipeline but yet the market environment is such that it has not yet translated itself into a sustained upward trajectory of growth. And so when we see that we'll call it as we see it but at this point we need to string together a couple, three quarters of seeing that before we could declare that as a trend and then factor that into our guidance.

Bryan Keane - Deutsche Bank - Analyst

Okay, thanks for the color.

Operator

Moshe Katri of Cowen & Co.

Moshe Katri - Cowen and Company - Analyst

Thanks, you spoke a little bit about Brazil but you didn't say much about Japan. I believe if I remember Japan's high-tech vertical was weak last quarter. Can you kind of elaborate on that?

Pierre Nanterme - Accenture PLC - Chairman and CEO

Yes, so let me comment on The PEMs. So just starting but saying that I'm pleased with the overall performance--

David Rowland - Accenture PLC - CFO

He asked about Japan.

Pierre Nanterme - Accenture PLC - Chairman and CEO

Oh, sorry, sorry. Okay, Japan. When you look at Japan indeed we mentioned last quarter that we were challenged with the EHT activity in Japan, and again it's more or less the same, we're working hard in Japan and I'm pleased to report that we have some recent bookings that are giving us more optimism that Japan might turn the corner and get back to the kind of growth we might expect from that country. Now, Japan is not totally out of the woods. We are still challenged especially in the vertical you are mentioning, but it's interesting to see that this is exactly in that vertical and we are starting to see some opportunities and some of our recent bookings, so not yet there, but clearly a sign of improvement.

Moshe Katri - Cowen and Company - Analyst

Okay. As a follow-up, on the outsourcing, as you said your book-to-bill looks very reasonable, very strong actually. Any comment on conversion rates, conversion bookings there or conversion rates in general, is there a change, or it's kind of the same? Thanks.

David Rowland - Accenture PLC - CFO

Yes, we really haven't seen any notable change in the conversion rates on the outsourcing side.

Moshe Katri - *Cowen and Company - Analyst*

All right, thanks.

David Rowland - *Accenture PLC - CFO*

Thank you.

Operator

Joseph Foresi of Janney Montgomery.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering if you could talk about the moderation you're calling out in Financial Services and Healthcare. How much is that cyclicity versus large projects and how should we think about that? I know you talked about the ramp throughout the year but how should we think about that in a more macro way?

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

Yes, let me pick that one at the macro level if you will. I think for HPS and Financial Services I don't think there is again something structural. I think here we have some very I would say classic and cyclical situation. The two verticals have been doing very well, of course on back of some strong and large program which is very typical at Accenture. It happened that some of the large programs are naturally coming to an end and they need to be replenished and that's happening on a regular basis in our business. It happened that for both HPS and Financial Services we have this impact in Q1 and so we mentioned this moderation of the growth, but in both of those three verticals, Health, Public Sector and Financial Services we are pleased with the level of pipeline as we can see it and we are confident that they are going to build again moving forward in the next part of the year.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay, and my second question I think this is a number of consecutive quarters where we've seen BPO have record bookings. Is it fair to say that you're seeing a shift away from those ERP projects to either new technology and outsourcing work? And if so if that's a permanent shift can we expect that bookings conversion rate to trend lower over a longer period of time?

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

I will comment overall on the BPO and let David comment on the rest. BPO is doing very well and we are doing very well in BPO, so I'm pleased to have the opportunity to acknowledge our people and our leader driving the BPO business. First, there is a natural demand on BPO for the cost management, productivity and efficiency and of course business process outsourcing is a good response, but what's different with the BPO at Accenture? We invested a lot in BPO, first and invested to create innovative services with a lot of analytics inside, what we are calling BPO generation four or five, but forget about the generation. Just to mention that we are investing in bringing more capabilities and more innovation out of our BPO, so there is a strong demand, we have differentiated solution and services and indeed we invested as well through our acquisitions as I mentioned before because we believe it's a very good solution for clients. So very pleased with where we are with BPO and we believe there is a sustainable pattern here.



David Rowland - Accenture PLC - CFO

Yes and we really haven't seen any structural change in the book-to-bill ratios or the conversion rates. We do have, I guess to Pierre's point, we do increasingly integrate a lot of classic consulting type services with these BPO offerings and that's a key point of distinction for us, but yet we really haven't seen any structural change overall in the book-to-bills, conversion rates, et cetera.

Joseph Foresi - Janney Montgomery Scott - Analyst

Thank you.

Operator

David Koenig of Robert W. Baird.

David Koenig - Robert W. Baird & Co. - Analyst

Hi guys. Just looking at free cash flow historically we go back and it had been about 20% to 50% above EPS for many years in a row and last year it was maybe 10% above EPS, and then this year it looks like you're guiding to in line to maybe up to 10% above earnings. So I'm just wondering, is there maybe a little change maybe even how you issue share based comp or maybe why has free cash flow that range kind of narrowed?

David Rowland - Accenture PLC - CFO

I don't -- there really hasn't been any change and if anything through the years, our DSOs at least until recently they've been pretty steady at the current levels, but through the years if you think about where we were originally as a public Company and where we are now our DSOs have actually gotten progressively better. So frankly, I'll have to give some thought to your question and look at that, but I can't, I certainly couldn't put my finger on any structural change as you're implying, but I can give that some thought.

David Koenig - Robert W. Baird & Co. - Analyst

Okay no that's great. And just I guess as a follow-up, if we look back very long term you guys have outside of recessions generally grown somewhere around 10% or so top line and I know now last year and this year it's feeling a little more like low to mid single digit growth. Is part of that just the moving into I guess more penetration of IT that maybe we're just in a lower growth period now for a sustained period or do you think you can get back to more of that normalized 10% growth over some period of time?

David Rowland - Accenture PLC - CFO

Well I think that the, as I had mentioned in some of my comments, where we find ourselves right now is that we have been in certainly in a four to five quarter period of just lower growth in our addressable market. And not to get into this too deeply but when we talk about our addressable market, and it's the same approach we take for looking at market share is we take this very fragmented market space that we're in and we've chosen carefully thoughtfully 40 some odd companies that we think represent really the market that we're in. And we track the actual growth of that market defined in that way and then we look at our performance against that and if you look at that market, the addressable market as we describe it, that market has grown 2% to 2.5% probably on average if you go over the last four to five quarters. And what we're in right now is no different than cycles that we've been in many other cycles where when you hit a period of low growth in our addressable market, even though we take share, the math is such that even taking share our growth is going to be lower. And I think what you and we think about is how much the market will grow when we come out of this cycle, and then of course when it returns to stronger growth, we'll continue to do what we do which is take share in a stronger market.



Pierre Nanterme - *Accenture PLC - Chairman and CEO*

Yes, and to build on that and we're just looking at the numbers, if you look in the prior '08, the global economic growth being in the range of 5%-ish. If you look at these last couple of years, the global economic growth is within the range of 2%-ish and at the end of the day, the addressable market is somewhat correlated to the global economic growth. That's the kind of natural correlation at some point in time. So the reality is that today we're in a world growing at 2%, and as mentioned by David, the addressable market the way we define it has been growing in that range, so we are executing against our commitment which is anyway to grow more than the market and then deliver value to our clients and shareholders, but the world has changed.

David Koenig - *Robert W. Baird & Co. - Analyst*

Great well that's great color, thank you.

David Rowland - *Accenture PLC - CFO*

Thank you.

Operator

Ashwin Shirvaikar of Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you. So I want to go back to the M&A question so if you spent let's call it \$800 million roughly to gain say about \$300 million of revenue contribution which is about 1%, that's a pretty good sized revenue multiple. So from a strategic viewpoint, what is it that these acquisitions bring you that you like so much? If you can explain on that and then I have a follow-up.

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

Yes, absolutely. What we like so much is the differentiation, the positioning and the future growth they are going to bring to Accenture, and first if you want to buy good companies you need to pay for it, this is as simple as this. You do not have so many good companies in the marketplace so you need to prepare to pay for the quality. And second, we are concentrating our acquisitions in companies with differentiated assets, and not only with people and companies where you will find differentiated assets and solutions and so proprietary IP. You have a multiple which is higher than the pure people-based kind of company, so we are always very thoughtful that we are paying the right price but we are looking to pay the right price for the right quality as well, and the companies we acquired are very good in the context of BPO, in the context of digital marketing, you know the names, and we are very pleased with the return so far. And we believe that indeed they are bringing differentiated solution and assets that are going to position very well Accenture for the future.

Ashwin Shirvaikar - *Citigroup - Analyst*

Understood, and then sort of a similar question on the ERP side one question I get a lot from investors is how big is the ERP dependency for Accenture, specifically with regards to such things as license growth at partners like SAP and Oracle versus how much of the ERP work is long tail work like maintenance, if you could help us on that would be great, thanks.



Pierre Nanterme - Accenture PLC - Chairman and CEO

We're managing a highly diverse portfolio of business so of course, ERPs are important and they are important for all of the industries. It's the backbone of a lot of things our clients are doing in IT to build system and then in driving maintenance and so forth, but again, we are a very highly diversified Company. We are doing ERP and we are doing a lot of other things in our portfolio of business. I'm thinking about what I'm mentioning in digital marketing, in mobility around mobile wallet, a look at analytics which is a growing part of our business as well, cloud related activities, and I can mention many other activities so yes ERP are important and yes we are not dependent only on ERP giving our diversified portfolio of business.

Ashwin Shirvaikar - Citigroup - Analyst

Okay, understood. Thank you guys.

David Rowland - Accenture PLC - CFO

Thank you, Ashwin.

KC McClure - Accenture PLC - Managing Director IR

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

Operator

David Togut with Evercore Partners.

David Togut - Evercore Partners - Analyst

Thank you very much. Pierre, you alluded to higher volatility from the emerging markets, Brazil of course was a theme in last quarter's call. Can you elaborate on which other markets you're seeing higher volatility and how that's affecting demand patterns in consulting and outsourcing?

Pierre Nanterme - Accenture PLC - Chairman and CEO

I mean, frankly the one with the highest volatility and probably caught us by surprise to be honest will be Brazil. We had a very strong growth over many years, Brazil was as you all know a place where many of our clients been investing for quite a long time, and what happened in Brazil? Probably caught our clients and ourselves a little bit by surprise with what happened, now Brazil is going to come back, because when you look at the fundamentals of Brazil they are still very strong, they have the population, they have the middle class, they have as well natural resources so the fundamentals are there. They just need probably to get to some level of consolidation, put our act together from a political and economical standpoint and then the growth will come back in Brazil. For the rest, frankly, I'm very pleased with one country which is very important for Accenture but going to be extremely important for the future is China. I mean, China going to be the second largest economy in the world. We all know how strong China is and frankly double digit growth in China this last quarters, not to mention the last couple of years, and I'm extremely pleased with what's happening, so for the rest we might see a little bit more maybe volatility if you will in countries such as South Africa, I think it might happen in countries such as Russia as well for all sorts of reasons we might all understand. But what's important for us is to have some critical countries where we are putting some significant level of investment, leadership and attention, and for us clearly China is extremely important for the future of Accenture.



David Togut - *Evercore Partners - Analyst*

And any thoughts on consulting versus outsourcing in the largest emerging markets in terms of growth and demand trends?

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

Yes, I mean good question because clearly in the mature markets today, you have a bias towards cost productivity still efficiency for all sorts of reasons we know, low economic growth so to be more competitive you need to be extremely mindful regarding your cost and so you have this consequence around outsourcing and BPO being more in demand at consulting in that cycle. If you move to the emerging market they are still in an environment where you need to build capabilities and it's not a surprise we see some ERP work or build work or consulting work, for instance in countries such as China, where you will see probably more consulting than outsourcing in countries that are China. So it's probably fair, indeed David to call that in emerging markets it's going to be more skewed towards consulting than in outsourcing and in mature markets it's going to be the other way around. Again that's why I couldn't be more pleased if you will with the diversified portfolio of business because at the end of the day, we have the opportunity to balance our portfolio from a consulting to outsourcing, going from mature to emerging markets, from multiple industry standpoint and I think this is a recipe to make Accenture resilient in the cycle.

David Togut - *Evercore Partners - Analyst*

Much appreciated. Thank you very much.

David Rowland - *Accenture PLC - CFO*

Thank you.

Pierre Nanterme - *Accenture PLC - Chairman and CEO*

All right, thank you for joining us today. Really appreciated all of the questions. As we enter fiscal year '14, I'm confident in our ability to drive profitable growth and deliver our business outlook for the year. Accenture remains uniquely positioned in the marketplace. We are the partner of choice in executing the transformation agendas of our clients. We are delivering very well against our strategy and we are making the right investments to capture new opportunities for growth, and we remain focused on continuing to gain market share and delivering value for our clients and our shareholders. We look forward to talking with you again next quarter and also to seeing many of you in person at our investor and analyst conference in New York where you will hear directly from many of our leaders about our strategy for differentiation and how we are competing to win. 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 available for replay after 7.00 p.m. Eastern Time today through midnight Eastern Time on December 26th. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering access code 302059. International participants dial 320-365-3844. Those numbers again are 1-800-475-6701 and 320-365-3844, access code 302059. This 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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