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# EDITED TRANSCRIPT

ACN - Q1 2014 Accenture Earnings Conference Call

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## OVERVIEW:

ACN reported 1Q14 net revenues of \$7.4b, net income of \$812m, and diluted EPS of \$1.15. Expects FY14 net revenue growth to be 2-6% in local currency over FY13 and diluted EPS to be \$4.44-4.56. Expects 2Q14 net revenues to be \$6.95-7.25b.



## CORPORATE PARTICIPANTS

**KC McClure** *Accenture - Managing Director IR*

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

**David Rowland** *Accenture - CFO*

## CONFERENCE CALL PARTICIPANTS

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

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

**David Grossman** *Stifel Nicolaus - Analyst*

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

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

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

**Sara Gubins** *BofA Merrill Lynch - Analyst*

**Jamie Friedman** *SIG - Analyst*

**Jason Kupferberg** *Jefferies & Company - Analyst*

## PRESENTATION

### Operator

Thank you for standing by and welcome to the Accenture's first quarter fiscal 2014 earnings call.

(Operator Instructions)

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

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### **KC McClure** - *Accenture - Managing Director IR*

Thank you, Tom, and thanks, everyone for joining us today on our first-quarter fiscal 2014 earnings announcement. As Tom 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 the first quarter. Pierre will then provide a brief update on our market positioning, David will then provide our business outlook for the second 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 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 these measures, where appropriate, to GAAP in our news release or in the Investor Relations section of our website at [Accenture.com](http://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.

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

Thank you, KC, and thanks everyone for joining us today. We are pleased with our results for the first quarter, which were in line with our expectations.

We again delivered profitable growth, and returned substantial cash to our shareholders. I'm particularly pleased with our new bookings, which demonstrate that we continue to provide differentiated and highly-relevant services to our clients, and which position us well for the rest of the fiscal year.

Here are a few highlights for the quarter: We delivered very strong new bookings of \$8.7 billion, including consulting bookings of more than \$4 billion. We generated revenues of \$7.4 billion, a 3% increase in local currency, and at the top of our guided range.

We delivered earnings per share of \$1.15, an 8% increase. We expanded operating margin 30 basis points to 14.8%. We generated free cash flow of \$122 million, and we continued to have a very strong balance sheet, ending the quarter with a cash balance of \$4.5 billion.

And we continued to return substantial cash to shareholders, through a significant increase in our share repurchases this quarter versus Q1 last year, and the payment of a semiannual dividend of \$0.93 per share, which is a 15% increase over our prior dividend. So, we are off to a good start in fiscal year 2014, with our business developing in a way that makes us confident in our ability to deliver our business outlook for the year.

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

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**David Rowland** - *Accenture - CFO*

Thank you, Pierre. Happy holidays to all of you, and thanks for joining us today.

As I review the results on this morning's call, you'll see that we delivered very good results in quarter one as compared to the business outlook that we provided for both the quarter and the full fiscal year. Our results continued to reflect good profitability and cash flow, and our revenues landed at the top end of our guided range for the quarter, with signs of positive momentum in several areas of our business. So, overall, I was pleased with our quarter one results, which came in as expected, and represent a solid start to the new fiscal year.

Now let's get to the numbers, starting with new bookings. New bookings for the quarter were \$8.7 billion, the third highest quarter on record, as we saw strong demand for our services across many dimensions of our business.

Consulting bookings were stronger than expected at \$4.3 billion, with a book-to-bill of 1.1. Outsourcing bookings were very good as well, at \$4.4 billion, following a very strong quarter four, with a book-to-bill of 1.3.

Taking a closer look at our new bookings, there's several additional points worth noting. Consulting bookings were the second highest quarter on record, and exceeded \$4 billion for the first time since quarter two fiscal 2013, reflecting good demand across the three components of our consulting business. In particular, systems integration bookings were the strongest in three quarters, reflecting double-digit sequential growth, and a book-to-bill at the upper end of our target range.

Outsourcing bookings reflected good demand in technology outsourcing, with strong sequential growth, and a book-to-bill of 1.3. BPO bookings were solid this quarter, following very strong bookings in quarter four, and the overall demand environment remains robust.

Bookings in Financial Services and H&PS both reflected double-digit sequential growth, providing a solid foundation for the remainder of the year. And lastly, we continued to see strong demand for helping our clients tackle their largest, most complex projects, resulting in 13 clients with bookings over \$100 million.

Turning now to revenues, net revenues for the quarter were \$7.4 billion, an increase of 2% in US dollars and 3% in local currency, reflecting negative 1% FX impact, as compared to the approximately negative 2% impact provided in our business outlook last quarter. Adjusting for FX, we were at the top end of our guided range for the quarter.

Consulting revenues for the quarter were \$3.9 billion, down 1% in US dollars, and flat in local currency. Outsourcing revenues were \$3.4 billion, up 5% in US dollars, and down 6% (sic -- see press release "up 6%") in local currency.

Taking a closer look at our operating groups, the results were also very consistent with our expectations, so let me share some of the highlights. Products in H&PS led the way, with both operating groups posting 6% growth.

Products, our largest operating group, continued their track record of driving a very consistent level of growth, and once again, the results were characterized by broad-based growth across the dimensions of the business, meaning they delivered positive growth in both consulting and outsourcing in all three geographic areas, and in the majority of industry segments.

As expected, H&PS did see some moderation following nine straight quarters of double-digit growth. Our health business grew double digits, driven by the Americas, public service growth was also positive for the quarter, with very strong growth in the Americas, offset by a decline in EMEA. For H&PS overall, we expect some further moderation in the growth in the second quarter, before building in the second half of the year.

Financial Services grew 3% in local currency, very consistent with what I signaled last quarter. The transformational agenda continues to be a central theme with our clients, which fueled strong outsourcing growth in the quarter across most industries and geographic areas, offset by a modest decline in consulting. Also, it's important to note that we saw overall positive momentum in both EMEA and Asia-Pacific, with low single digit growth in EMEA, and very significant double-digit growth in Asia-Pacific.

Resources showed improvement with 1% local currency growth, as the business continues to stabilize and position itself for positive growth this year. We continue to focus on repositioning the business in North America and EMEA. That said, we're seeing pockets of strength emerging in certain areas of our resources business, most notably in both our global energy business and Asia-Pacific.

CMT posted negative 2% growth in the quarter, but we continue to feel good about the actions underway to position the business for sustained, positive growth this year. Our efforts to diversify our CMT business are taking hold, and we see strong demand for transformation-led, value-driven projects, where we are uniquely positioned. We continue to be pleased with our progress in the Americas, including very significant growth in electronics and high tech.

Moving down the income statement, gross margin for the quarter was 33.3%, compared with 32.8% for the same period last year, up approximately 50 basis points. Sales and marketing expense for the quarter was 12.6% of net revenues, compared with 12% of net revenues for the first quarter last year, up approximately 60 basis points. General and administrative expense was 6.1% of net revenues, compared with 6.2% of net revenues for the first quarter last year.

Operating income was \$1.1 billion in the first quarter, reflecting a 14.8% operating margin, compared with 14.5% for the same period last year. This 30 basis point increase reflects a benefit of approximately 20 basis points, from a reduction in reorganization liabilities. Our effective tax rate for the quarter was 25.1%, compared with 26.8% for the first quarter last year.



Net income was \$812 million for the first quarter, and it was \$766 million for the same quarter last year, an increase of 6%. Diluted earnings per share were \$1.15, compared with \$1.06 in the first quarter last year, an increase of \$0.09.

Turning to DSOs, our days services outstanding continue to be industry-leading. They were 34 days, up from 31 days last quarter.

Free cash flow for the quarter was \$122 million, resulting from cash generated by operating activities of \$181 million, net of property and equipment additions of \$59 million. Moving to our level of cash, our cash balance at November 30 was \$4.5 billion, compared with \$5.6 billion at August 31 last year, and reflects our share repurchases this quarter, in addition to the higher dividends we paid in November.

Moving to some other operational metrics. We ended the quarter with a global headcount of about 281,000 people, and we now have approximately 186,000 people in our global delivery network. In quarter one, our utilization was 87%, compared with 88% in quarter four last year.

Attrition, which excludes involuntary terminations, was 11%, down from quarter four, and in line with quarter one last year. Lastly, we now expect that at least 60,000 people will join our Company in fiscal 2014.

As it relates to our ongoing objective to return cash to shareholders, in the first quarter, we repurchased or redeemed approximately 9.7 million shares for \$722 million, at an average price of \$74.27 per share. At November 30th, we had approximately \$6.3 billion of share repurchase authority remaining.

Also in November, we paid a semiannual cash dividend of \$0.93 per share, for a total of \$630 million. This represented a \$0.12 or 15% increase over the dividend we paid in May.

So, in summary, in a market that offered many opportunities but also many challenges, our results came in as expected, and gave us a good foundation to build on, as we progress throughout the year. With that, let me turn it back to Pierre.

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

Thank you, David. At our investor and analyst conference in October, I shared with many of you how we are investing across the board to further differentiate Accenture, and capture new waves of growth. Today, I'm going to provide a brief update on some of the steps we are taking to drive further innovation, and to continue to build differentiated capabilities and solutions for our clients.

Earlier this month, we launched two new growth platforms, Accenture Digital and Accenture Strategy. We continue to invest in strategic acquisitions to enhance our capabilities in key growth areas, and we remain focused on positioning Accenture as the partner of choice for large-scale transformation.

Let me bring this to life with a bit more detail, starting with Accenture Digital. Over the last few years, we have made significant investments in building our digital capabilities, through Accenture Interactive, Accenture Analytics and Accenture Mobility. With Accenture Digital, we are bringing all of this together, to create what we believe is the world's largest end-to-end digital capability.

Accenture Digital includes 23,000 professionals working across the entire digital landscape, including developing, implementing and running digital solutions. It leverages the breadth and scale of Accenture's cloud, systems integration, and enterprise application capabilities, as well as our global delivery network. Combined with our industry expertise and global footprint, we are very well-positioned to help clients transform their businesses to compete in the digital world.

For Unilever, we built a digital social platform into our [wicks], to connect marketers, brand managers and partners in 190 countries. We helped BT Sport with millions of broadband customers, by delivering an end-to-end video solution that spans live streaming video on demand mobile apps, and cloud services. And for a leading European automaker, we are leveraging our mobility capabilities and our eConnected Vehicle business service to bring customers new innovations inside their cars, from real-time traffic information, to voice-controlled entertainment.

We also launched Accenture Strategy, a unique capability, focused on strategy at the intersection of business, technology, and operations. This new growth platform is all about helping C-suite executives shape and execute their transformation agendas, focusing on issues relative to growth and innovation, industry convergence, geographic expansion, and enterprise transformation.

In short, we help them define and implement industry specific strategies that are enabled by technology. This is our sweet spot, and we truly believe Accenture's strategy will be a highly differentiated capability in the marketplace.

For example, we are helping a global consumer products company increase its competitiveness and re-establish its leadership position across key product categories. Leveraging our strategy, technology, and industry-specific operations expertise, we are helping the Company deliver more than \$1 billion in bottom line impact.

At the same time, we continue to invest in strategic acquisitions to further differentiate our capabilities in key growth areas. Earlier this month, we finalized the acquisition of Procurian, making Accenture the clear leader in procurement BPO. The combination of Procurian's strategic sourcing expertise and our industry expertise will significantly enhance Accenture's end-to-end sourcing and procurement capabilities.

We also continued to invest in differentiated industry-based business services. In manufacturing, we are expanding our product life cycle management services through the acquisition of PRION Group and PCO Innovation, which will enhance our ability to help automotive and industrial equipment companies deliver products more quickly and efficiently.

And finally, we remained the partner of choice for our clients' large scale transformation programs. We continue to see strong demand for this type of work, as demonstrated by our 13 bookings over \$100 million in Q1, which David mentioned.

We have a long-standing relationship with Dow Chemical, and are now helping Dow with one of their most strategic transformation initiatives, positioning the Company for cost savings and value creation of about \$2.5 billion over five years. And we helped Ducati, the Italian motorcycle company, transform the way it interacts with dealers and customers. Their new global dealer communication system is accessible through mobile devices across 88 countries, helping Ducati analyze sales and services activity to respond in real time to customer demands.

Now, let me turn to the geographic dimension of our business. In the Americas, we grew revenue 4% in local currency, with high single digit growth in the United States, which is our largest market. However, we are facing challenges in both Brazil and Canada.

In EMEA, revenues were up 1% in local currency, driven by growth in Switzerland, France, the Netherlands, Germany and Belgium. And in Asia-Pacific, we grew revenues 5% in local currency, driven primarily by growth in Australia, ASEAN, and Japan. That is the strongest growth we have had in Asia-Pacific since the first quarter last year.

In a global economic environment that I would characterized as more or less sluggish, we are managing our business with discipline, to increase our competitiveness, while continuing to invest to drive further differentiation. I feel confident that we are well positioned to drive more growth in the second half of the year, where we will benefit from the return on our investments, in launching new growth platforms, building new business services, and acquiring new capabilities. With that, I will turn it back to David, who will provide our business outlook for Q2 and the full fiscal year.

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**David Rowland** - Accenture - CFO

Thank you, Pierre. Before I get into the business outlook, I was told that I may have misspoken on a key metric, so let me just clarify that right now. Our outsourcing revenues were \$3.4 billion. They were up 5% in US dollars and up 6% in local currency.

So let me now just turn to the business outlook, and let me start by providing some brief context for how we see the remainder of the year, before I get into the numbers. From a revenue standpoint, as we have said, the first half of the year is shaping up very consistent with the expectations we had when we provided our initial business outlook.

At the same time, we're seeing signs of momentum in certain areas of our business, and that is reflected in our strong quarter one bookings, as well as a very healthy pipeline as we move into the second quarter. Given that, as Pierre said, we're even more encouraged about our ability to drive higher growth rates in the second half of the year.

So let's now turn to our business outlook. For the second quarter of fiscal 2014, we expect revenues to be in the range of \$6.95 billion to \$7.25 billion. This assumes a foreign exchange impact of approximately negative 1.5%, compared to the second quarter of fiscal 2013.

For the full fiscal year 2014, based upon how the rates have been trending over the last few weeks, we now assume the impact of foreign exchange on our results in US dollars to be negative 0.5%, compared to fiscal 2013. For full fiscal 2014, we continue to expect net revenue to be in the range of 2% to 6% growth in local currency, over fiscal 2013. For the full fiscal year 2014, we continue to expect new bookings to be in the range of \$32 billion to \$35 billion.

For operating margin, we continue to expect fiscal 2014 to be in the range of 14.3% to 14.5%, a 10 to 30 basis point expansion over adjusted fiscal 2013 results. We continue to expect our annual effective tax rate to be in the range of 26.5% to 27.5%. For earnings per share, we now expect full-year diluted EPS for fiscal 2014 to be in the range of \$4.44 to \$4.56, or 5% to 8% growth over adjusted fiscal 2013 results.

Now, turning to cash flow. For the full fiscal 2014, we continue to 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 continue to 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 a substantial portion of cash to our shareholders. With that, let's open it up, so we can take your questions. KC?

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**KC McClure** - Accenture - 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. Tom, would you provide instructions for those on the call?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question today comes from the line of Bryan Keane, representing Deutsche Bank. Please go ahead.

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**Bryan Keane** - Deutsche Bank - Analyst

Congratulations on the solid results. Just want to ask about consulting. What can we expect for second-quarter 2014?

I guess it came in about flat in revenue in the first quarter, was about as expected. Should it be another flat or should we see a little bit of improvement as we move into 2Q?

And then I assume the back half of the year gets a little stronger in consulting, just looking for some color. Thanks.



**David Rowland** - Accenture - CFO

Yes, if you just -- in terms of tying to the overall range that we gave, we think consulting could be flat to low single digit positive. We are encouraged by the bookings that we saw in the first quarter.

We're also encouraged by the pipeline that we see going forward in our business. But in the second quarter, flat to low single digit positive, and we see the potential for building momentum in consulting, as we go through the year.

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**Bryan Keane** - Deutsche Bank - Analyst

That's helpful. And then just a follow-up. I guess I saw you increase headcount, just your thoughts around that.

And then secondly, on SI bookings year-over-year, is there a growth rate we can think about? I know sequentially they were up double digits.

I'm just curious how they're trending year-over-year. Thanks so much.

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**David Rowland** - Accenture - CFO

Yes, the headcount frankly just reflects, we're 90 days further into the year. We're that much further with our supply/demand management, our recruiting planning. We certainly have the visibility of the bookings that we just had in quarter one.

So it really just reflects, we're further up the curve, if you will, within the year in terms of our supply/demand management. So that's why we increased the number to at least 60,000, to give you the best possible view of how we see it at this point in time.

The SI bookings, I did anchor to the sequential growth, really because -- was trying to give you an indication of current momentum. I actually don't have the number in front of me, but I believe the year-over-year growth in SI was healthy as well.

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**Bryan Keane** - Deutsche Bank - Analyst

Okay. Great. Thanks.

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**Operator**

Next we'll go to the line of Tien-Tsin Huang. Please go ahead. Representing JPMorgan.

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

Good results here. Just similar questions to what Bryan just asked. On the consulting front, it's the first time we've seen book-to-bill up in the first quarter sequentially in quite a while, looks like since 2009, if I'm right.

My question here is the timing of bookings conversion, has it changed at all in terms of what you've observed in the last several quarters, because sounds like second quarter should be at least flat, based on your prior answer. Just trying to gauge what that could -- how that could fill out the rest of the year, based on the book-to-bill.





**David Rowland** - Accenture - CFO

Yes, I don't know so much Tien-Tsin about the timing point. As much as it is, I think last quarter, I mentioned that we felt good about our consulting pipeline, but it was a little bit less mature. And what we had in the first quarter was, we were just very successful moving deals at pace through the pipeline, and getting work contracted.

It was broad-based improvement, when you look across the three components of consulting that we've talked about. We were particularly pleased with the consulting activity, bookings activity in North America.

But within North America, we saw good activity across most of our industry segments. And so it was fairly broad-based in that sense, both in terms of the type of consulting work that we do, as well as in North America, where we saw the strength across many of our industry segments.

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

All right. Good. Then just in systems integration, you said the bookings were strong. Can you be a little more specific?

What type of integration work is being demanded? I know this is a hot topic, obviously.

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**David Rowland** - Accenture - CFO

I don't know that I could characterize a common theme, if you looked at the bookings. It's the mix, as you would expect. I think it crosses the platform of services that we provide.

Certainly, we also have in there situations where we have application maintenance type contracts, where we are also doing development work, new development work within those longer term contracts. That would be in the mix as well. And certainly, digital would be a component of that as well, as we continue to be very encouraged by the activity that we see in the digital space, and how our capabilities are lining up against those opportunities with our clients.

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

That's great. Thanks so much.

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**Operator**

Next we'll go to the line of David Grossman with Stifel. Please go ahead.

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**David Grossman** - Stifel Nicolaus - Analyst

I was wondering if I could just kind of follow on to Tien-Tsin's question. Obviously there's been a lot of speculation about how tightly your growth is correlated with some traditional lines of business, like ERP license growth. I'm wondering how much work really remains in the installed base, independent of license growth, and how does the migration of the vendors as well as these other cloud-based applications impact your model?

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

Yes, I mean, I will take this one, and provide the context of this question, especially around ERP. Let's start with the question around ERP.



First, ERP remains an important part of our business, and it's still an important part of the bookings David alluded to. We are still selling, implementing ERP, and by ERP, I mean mainly finance and accounting application solution, human resources application solution, and supply chain application solution. I think this is the definition given to the core ERP business.

As you know, there's been very significant ERP program tools for years ago, where all the giants been investing in creating the backbone solution to organize their operation, especially on a global basis. This last couple of years have been a cycle of lower growth in ERP, but it's still a good business for Accenture.

That being said, the vast majority of what we do at Accenture is not falling in that category of application packages, if you will, around finance and accounting, HR, and supply chain. We have a much more diverse portfolio of business. David is mentioning digital, where we are enjoying double-digit growth in that category of our business.

I'm thinking of course about the BPO, I'm thinking about all the -- which is not system integration, of course, of digital, I'm thinking about all the custom solutions we're still developing with some clients. And as you know, there are industries out there which are not so much ERP-heavy but more custom-made heavy.

I'm thinking about financial services. If you take banking and insurance, the core banking system and the core insurance system are still more custom made or packaged, but not ERP, per se, in the definition of the ERP. If you take communication, media and technology, all what we're calling the OSS, the BSS, the system, the billing system, the customer systems are not ERP-related in the strict sense of the definition, and we're doing a lot of this, as well.

So ERP, important at Accenture but not at all the vast majority of what we do. So we are not that dependent on ERP, as you might imagine.

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**David Grossman** - *Stifel Nicolaus - Analyst*

Very good. That's helpful. If I could just ask a little bit about the flow of the year.

I mean, obviously we've gotten off to a very good start in bookings, but the guidance, as I think you mentioned in your prepared remarks, still remains back-end loaded, if you will, on the revenue side. Can you help us better understand what are the dynamics that give you that confidence that revenue growth does accelerate in the back half of the year?

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**David Rowland** - *Accenture - CFO*

Yes, there's several things that we look at. First of all, as you said, the strong bookings in the first quarter give us a great foundation to build on as we move forward.

The second thing is that we do feel very good about our pipeline, and how it has shaped up during the quarter, even with the very high bookings we had. And we see the opportunity for another good bookings quarter in the second quarter.

Beyond that, there's really three things that I think I would point to, that give us confidence in building growth. The first is that, you've heard us talk quite a bit over the last several quarters about our success in selling large-scale transformation programs. We've been very transparent with those numbers each quarter.

For example, this quarter, I said we had 13 deals over \$100 million. We can now see specific instances, specific contracts, where those contracts are building, to generate meaningful sources of incremental revenue, as we turn the page to the second half of the year. So one element of our confidence ties to the uptick in those large transformation programs, starting to impact revenue.



The second thing is the investments that you've heard us talk about in creating these new business services, these end-to-end solutions, from consulting to BPOs such as Accenture Post Trade Services, where we announced the pilot deal, I think it would have been in the fourth quarter of last year. I think I specifically commented at a point that the interesting thing about that opportunity, one of the interesting things, was that the revenue ramp occurred after we had been in the program for several months. And so that's another example where some of these new business services, we believe, will start to drive incremental revenue as we turn the page to the second half of the year.

And then of course the third thing would be the investments that we have made in acquisitions, as an engine for organic growth. Procurian is the one that is the most noteworthy, that we closed earlier this month. And so, if you look at how -- take Procurian as an example and as we fold that into our Accenture BPO business and we look at the revenue accretion that we'll get from that, that is our third source of confidence, as we look at the back half of the year.

And so we look at those things in combination, and that, again, gives us reason to be optimistic in terms of our revenue trajectory, as we move past the second quarter into the back half. Hopefully that's helpful.

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**David Grossman** - *Stifel Nicolaus - Analyst*

It is. Thank you very much.

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**Operator**

And our next question comes from the line of Rod Bourgeois with Bernstein. Please go ahead, sir.

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

So you posted 3% revenue growth in constant currency in the quarter, and your Q2 guidance implies revenue growth in constant currency may not show acceleration. And clearly your fiscal year guidance implies that acceleration is in the cards.

Is your February quarter guidance embedding an extra layer of conservatism, due to uncertainty about clients' upcoming budget decisions in the new calendar year? Or are you seeing certain parts of the business that will show added struggle in the February quarter?

You had a little bit of that in the November quarter, where a couple of the verticals took a step back, because of timing. Do you have any of that going on in the February quarter, or is this just a -- you're being careful with guidance, as the new calendar year turns the corner?

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**David Rowland** - *Accenture - CFO*

Rod, thanks for the question. The upper end of our range is 4%. If you were to take it out a decimal, maybe 4.X% growth.

And so the upper end of the range does show momentum over the 3% that we just delivered this quarter, and of course, our range is established to reflect the possibilities of what could happen in the quarter, but we work very hard to try to drive the business as high in the range as we possibly can. There are a number of things about the second quarter that are just structural aspects of the second quarter. You have holidays in there around the world, including the new year holiday.

You do have the page turn to the calendar year, which you alluded to, and we don't have any particular concerns about client budgets, based on what we see now. We don't have any evidence that client budgets would be under pressure, per se. But we have seen years where even if the client budgets are expanding in a year, you can have some slower ramp-up, in certain instances, we've seen that in the month of January.



And so the second quarter is always a more tricky quarter to predict revenue momentum, and so I think the guidance reflects some of that as well. But again, the guidance that we provided is consistent with how we really saw the year building up, in the first half of the year. And it's pretty much as we expected, and very much in line, when we communicated our original guidance 90 days ago.

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

All right. Just a follow-up to that is, can you quantify how much sequential revenue growth you'll get in Q2 from new acquisitions, particularly the ones that you've done since your last earnings report?

How much sequential and year-over-year revenue growth do you expect in the February quarter? And it would be helpful to see if your guidance implies revenue growth acceleration at the upper end, even after accounting for the newly-added acquisitions.

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**David Rowland** - *Accenture - CFO*

Yes, Rod, what I would tell you is that 90 days ago on the earnings call, as well as IA Day, we said that our inorganic contribution would be around 1%, plus or minus. Since then, we've closed Procurian, and so I would tell you that the inorganic would be maybe a tad higher for the year, in the plus or minus 1.5% range. And that reflects Procurian and some of the deals, other deals that we've closed.

That will vary quarter to quarter, and I really -- I'm cautious about getting too much in the weeds on the inorganic each and every quarter, because, again, you have to remember, in our case, the inorganic is really just an engine for organic growth. We fold these businesses in very quickly, and they, in many ways, become indistinguishable from our organic business, in a very short period of time. Let me just stick with, for the full year, it's going to be in that 1.5% range, and that will vary by quarter.

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

And just to clarify on that, is that 1.5% range for the year for inorganic growth, is that pretty secure, or could that number get to 2% before the year ends?

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**David Rowland** - *Accenture - CFO*

Well, certainly it depends on -- to the extent we do other deals as we progress through the year that are outside of what we assume in that 1.5, but that 1.5 plus or minus, right, is the ballpark that we think it's in. I'll remind you, as well, not to get too much in the weeds on this, but I will remind you of something that I shared at IA Day. The way we think about inorganic is we look at deals that we have done on a rolling four quarter basis.

So that is the way we will describe inorganic. That's the way we do the calculation. And again, we do that logically, because when we get to the one year anniversary on these deals, they are very much embedded in our organic business.

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

Makes sense. Thank you.

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**Operator**

Our next question comes from the line of Katy Huberty with Morgan Stanley. Please go ahead.

**Katy Huberty** - Morgan Stanley - Analyst

You talked about Brazil and Canada weighing on America's growth, but I think you said US grew high single digits, and that number was double digits all of next year. So can you just talk about what you think is driving that modest deceleration in the US market?

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

As you said, it's Pierre, it's a modest deceleration for that quarter. Personally, I continue to be extremely pleased with our activity in the US. The US is very important.

So we were double-digit. I guess last time we announced something around 10, even when we said double digits, kind of 10, so high single digit is in the grand scheme of things, close enough, to where we are expecting to be.

For us, what is very important is we grew more than the market, and I guess that this is what is happening in the US, as well. We continue to gain market share, and this quarter it's high single digit, but I have absolutely no concerns that we continue to develop very well, very well in the US.

It's interesting to see that US performed very well, both consulting and in outsourcing. So it was a very balanced growth across the different dimensions of our business.

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**Katy Huberty** - Morgan Stanley - Analyst

And then just as a follow-up, as you know some of your technology partners are talking about weakness in China due to Spycgate, or whatever you want to call it. Have you seen an impact on your business in China as it relates to that weakness at some of your partners?

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

If you look at -- I mean, China, what happened last year, indeed you have the change in the government. It was in the first half of 2013, if I remember well. And it's very typical, when you're in China, that it's not only the government is changing, but all the leaders in the state owned enterprises, the [famous SOEs] are all changing as well.

And inevitably, it's creating a kind of pause in China around the major investments, I think, if you will, until the new teams and the new leaders will establish themselves, review the program, and relaunch a project.

So again, very pleased with what we delivered this last year in China, indeed a couple of -- a form of pause, due to this leadership change in China. But again, on the long term, we continue to be extremely positive with the prospect in China.

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**Katy Huberty** - Morgan Stanley - Analyst

Thank you. Congrats on the quarter.

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**Operator**

We'll go to the line of Darrin Peller with Barclays. Please go ahead.

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

Just want to touch on Europe in a little more detail, if you don't mind. It obviously showed at least a very mild acceleration versus last quarter, but maybe more specifics as to what is actually going on from a regional standpoint within Europe as well as more on an industry vertical, and how sustainable is the acceleration. Obviously that's been a driver for a lot of investors recently.

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

I guess it's for me, David, here, the specialist of Europe. I guess we might start to see the light at the end of the tunnel in Europe.

So let me explain. First, the macro in Europe are not fundamentally better. So I would characterize it's stable, which is probably an improvement, compared to all the uncertainties Europe faced this last, probably couple of years.

Second, you can indeed see some signs, to paraphrase, David of positive improvement. I'm thinking about the UK. You can see the UK economy coming back.

I'm thinking about France slowly getting out of the recession. I'm thinking about even Spain starting to rebuild competitiveness and better position. We know that all of this is going to be incredibly slow for all sort of reasons, so there's not going to be any dramatic improvement, but we have some signs of stabilization, plus.

And I'm pleased to see that it started to reflect in the progress we are making with some of our large markets in Europe, and I mentioned Germany, I mentioned France. I mentioned the Netherlands, and I mentioned Belgium, to mention a few, which are doing very well, despite economic environments. Still complex but I would characterize as slight incremental progress, but progress.

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

That's helpful. When we look at the second half of the year acceleration. Is Europe part of that? In other words, do we expect Europe to pick up steam further into the year as well?

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

Yes.

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

All right. That's great. And then just a quick question.

A couple years ago at your Investor Day, you gave a good overview of how large this digital was in different areas, whether it's mobility or analytics, in terms of revenue size. You mentioned \$1 billion here, \$2 billion there. You gave us a good idea as to what percentage your revenue was.

Is there a way to update that either now or maybe in another near-term way? Maybe just give us some color now if you can.

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

I mean, as you know, we're launching Accenture Digital. We're going to think on how we would provide more information in due course when we will have finally cleaning all the data, all the information in Accenture. We want to be extremely accurate and to define a very strict protocol in the way we communicate the information, so you have a base to measure, and a base to evaluate the progress.



But indeed, you remember very well that many across the \$1 billion, when we announced. So without saying too, much it's a multi-billion dollar business we're talking about.

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**David Rowland** - Accenture - CFO

And growing very well.

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

Multi-billions.

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**Darrin Peller** - Barclays Capital - Analyst

(multiple speakers) If I could just sneak one quick one in now, just on industry verticals. There were some weak pockets in resources, obviously, and communications had a contract, also. Seems like that's been resolved. Are we on the other side of that now?

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

I'm going to jump on this one.

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**David Rowland** - Accenture - CFO

He's in a talking mood.

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

Talking mood. Talking about business, I can't explain my instinct. Looking at industry, I will comment in more specifics.

We are covering it with just looking 19 industry segment in Accenture. This is the way we are measuring our different industries, such as banking, capital market, insurance, all of our industry segments.

17 out of 19 posted positive growth. It's just to give you a flavor first of the depth and breadth of the portfolio of business we're doing, the diversity of what we do across the board. 17 out of 19 in Q1, positive growth.

With a few, I'm thinking about life science, health, energy, EHG, electronic and high tech, capital market, high single digit, if not double-digit for some. Now, fact of the matter is, and you spotted this one, 2 of the 19 are yet to turn the corner, communications and natural resources. But David will explain.

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**David Rowland** - Accenture - CFO

In the case of communications, we have talked, Darrin, several times about the ongoing transformation of the communications sector. We have talked about the challenges of some of the incumbent telcos as their business evolves, and then we've also talked about the headwind we had with the large CMT client in Europe.

That headwind will essentially go away in the second half of this year. There is some residual headwind that we continue to have, in the first and second quarter of this year. Frankly, as it turns out, not too different than many of the quarters last year.

But once we get past the second quarter, I can say definitively, that year-over-year compare dynamic goes away for CMT. So that is still in the mix of CMT's results this quarter, and will be in the mix next quarter.

In the case of resources, we've also talked -- that was a business that for many, many quarters, for an extended period, enjoyed very strong growth. And it was driven by a very strong consulting business, in particular. And we had several of those contracts that wound down, as we turned the page from fiscal 2012 to 2013, and that was right about the same time that natural resources as a sector came under significant pressure, including in several markets around the world, Brazil being one.

But with resources we've done a very, very nice job, repositioning the business, moving into new business services areas, new assets, offerings, focusing on the new world around digital, et cetera. And we feel very good about the momentum that's building there.

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

That's great. Very helpful. Thank you.

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**Operator**

Our next question comes from the line of Sara Gubins with Bank of America. Please go ahead.

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**Sara Gubins** - *BofA Merrill Lynch - Analyst*

It looks like you grew your non-GDN staff. It's been over a year since you've done that. I'm wondering what drove it, if it should continue, and if you think that we're now at more of a steady state of GDN versus non-GDN, in terms of employee ratios?

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**David Rowland** - *Accenture - CFO*

Well, we did see some expansion in our headcount in some of our larger, more established geographies. I think the United States, in particular, we saw growth in headcount. And that simply reflects what we're doing on the supply side to have the skills that we need to match the type of work that we're doing, as we go forward.

In terms of the balance between GDN and non-GDN, I think that continues to -- that will continue to evolve and be fluid, and ultimately, the market will dictate what that mix is. But you are correct in pointing out that we did have growth in our non-GDN headcount.

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

And I think it's reflecting as well the nature of the services, or the businesses we are investing in, and I'm thinking about the digital. If you look at this digital business, at least as a starter, it is more on-shore driven than offshore driven.

I think over time, it's probably going to follow the same path, as we've seen historically from on-shore to offshore. But the skills required to be competitive in analytics, in mobility, in digital marketing are still more on-shore which might as well reflect this take-up, if you will.

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**Sara Gubins** - *BofA Merrill Lynch - Analyst*

That makes sense. Second question, to hit the bookings guidance for the year, it looks like the rest of the year, bookings would have to be down quite significantly to maybe up very slightly. But given the first quarter's strength and your commentary around the second quarter, I'm wondering if you're really expecting weakness in the second half, or is this more just a function of being conservative, since it's early in the year?





**David Rowland** - Accenture - CFO

Well, Sara, as you know, bookings can be lumpy from quarter to quarter. I'll just remind you of that. But I'll also say that bookings is like every other metric.

We're working as hard as we can to be as far up in the range as we can, and we don't -- we just finished one quarter, right? And so as much as we see some reason to be encouraged after one quarter, I guess I don't remember a fiscal year where we've changed annual guidance after a quarter, and all the possibilities and scenarios that we evaluated when we started the year are still in play.

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**Sara Gubins** - BofA Merrill Lynch - Analyst

Thank you.

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**Operator**

Next question comes from the line of Jamie Friedman, representing SIG. Please go ahead.

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**Jamie Friedman** - SIG - Analyst

Pierre, did your bookings growth on a regional level support your expectation that Europe will accelerate in the second half?

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

Yes, absolutely. The nature and the construct of the booking by region, supporting the fact that Europe should accelerate in the second part of the year.

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**Jamie Friedman** - SIG - Analyst

Okay. And then with regard to digital, I just wanted to go back to a previous question about sizing that market. Without getting too specific, though, I was just wondering about how you're defining digital.

Is that the Brian Whipple Group, which is Accenture Interactive? It seems much larger than that, seeing that you're saying there's 25,000 people there. So what do you mean when you're saying digital these days?

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

It is, what we're putting in it you would find Accenture Interactive, which is the organization dedicated to end-to-end digital marketing capabilities. We are adding Accenture Mobility, which is all about developing, implementing and potentially running mobile solutions. And three, it's Accenture Analytics, which is all about mining and doing all the analytics information, including the most advanced analytic and productive analytics.

So it's all the three, from design to implementation including the run. That's why we have 23,000 people, because of course, part of our people in the current GDN, global delivery network, are providing the services, as well, for the execution.

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**Jamie Friedman** - *SIG - Analyst*

Thank you. And then last question, you know, at the IA day on October 8, you had previewed movement in some of the operating groups. I was just looking for some update from this vantage point, about, too.

You had said, I think, accurately that HPS would decelerate. And then resources, you had a cautious view for the full year. So looking forward at the dynamic growth of both of those, should we continue that sequence to play out for the rest of the year?

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**David Rowland** - *Accenture - CFO*

Yes, we had -- we see some potential for further moderation in H&PS in the second quarter, which I said in the prepared comments. But to be clear, we feel very good about our H&PS business, and we think we're very well positioned, as we then progress through the rest of the year.

On resources, we do think that resources will be positive this year, and as I commented earlier, we see good momentum in certain parts of the resources business, to give us reason to believe that. So we are pleased with the progress. There's still work to do in resources, but we do think it will be positive for the year.

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**Jamie Friedman** - *SIG - Analyst*

Thank you, David, for the update.

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**KC McClure** - *Accenture - Managing Director IR*

Tom, we have one more question, time for one more question before Pierre will wrap up the call.

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**Operator**

Our final question today will come from the line of Jason Kupferberg, representing Jefferies. Please go ahead.

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**Jason Kupferberg** - *Jefferies & Company - Analyst*

Just wanted to circle back on the back half a little bit, just to make sure that we're in full command of the numbers here. So I guess if you come in at the midpoint of your Q2 revenue range, it looks like that would put you through the first half of the year at roughly 2.5%-ish in terms of constant currency growth, and so what I'm really trying to get at here is, is it prudent for us collectively to be thinking about the lower half of your full-year range as being more likely than the upper half?

Obviously, you aspire to do better than the midpoint, but just based on where you'll be through the midpoint of the year, and given that conversion of consulting bookings to revenue over time has been a little bit unpredictable. Can you just comment on whether or not the lower half hooks more likely at this juncture in time.

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**David Rowland** - *Accenture - CFO*

Jason, it was a noble attempt but I'm not going to color within the range after just one quarter of results. We set the range to represent the range of possibilities that we see and if we didn't think that there was the possibility of being in the upper half of the range, we would have narrowed the range. So, as we progress through the year, we'll get more specific, and the second quarter will be important in terms of how that plays out.



**Jason Kupferberg** - *Jefferies & Company - Analyst*

And just lastly, a bigger picture question around Europe. We've been picking up more data points, seem to be suggesting more willingness among European clients on the continent to use more low-cost delivery, if you will, and obviously that offshore market is quite underpenetrated. Are you seeing that?

Do you see that as being purely additive? Does some of it kind of stick to your traditional onshore work in Europe? I would love your thoughts on how that might play out.

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

We believe, first, indeed there is for all sorts of competitiveness reason, appetite for our clients in Europe to leverage more outsourcing, fueled by offshore. That's a fact. This trend started more, as you know, in the UK, in the Nordic countries, and now it's going south in more Continental Europe and touching France and Netherlands and other markets.

The answer is yes, the strength is there. It's playing, we believe, in our favor, that point on business first, our outsourcing business in Europe is developing very well. If you look this last couple of years, outsourcing has been our strong growth point in Europe.

And from a cost standpoint, we believe that with our network of delivery centers, and with our GDN, we have indeed the right cost response, cost effective response to this market. As we invested earlier in the GDN, if I may say, compared to more local players.

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**Jason Kupferberg** - *Jefferies & Company - Analyst*

Okay. All right. Well, thank you for all the color.

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

All right. It's probably time now to wrap up and thanks again for joining us on today's call.

With the first quarter behind us and looking at how the business is shaping up for the rest of the year, I feel confident that we have made the right choices, that we are making the right investments, and that we are moving at the right pace to capture new waves of growth and position Accenture for the future. Of course, I want to take this opportunity to wish all of you, our investors, analysts and of course our Accenture people who are listening to the call, a very happy holiday season, and all the best for the new year.

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

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**Operator**

Ladies and gentlemen, this conference will be available for replay after 10:30 AM this morning Eastern time and running through March 27, 2014 at midnight. You may access the AT&T Executive Playback Service at any time by dialing 1-800-475-6701, and entering the access code of 311250. International participants may dial 320-365-3844.

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That does conclude our conference for today. We thank you for your participation and using the AT&T Executive Teleconference Service. You may now disconnect.

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