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ACN – ACCENTURE’S Q4 FISCAL 2015 EARNINGS
CONFERENCE CALL

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Accenture's Q4 FY '15 Earnings Conference Call

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David Rowland *Accenture - CFO*

CONFERENCE CALL PARTICIPANTS

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Ashwin Shirvaikar *Citigroup - Analyst*

Darrin Peller *Barclays Capital - Analyst*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Accenture's fourth-quarter FY15 earnings conference call.

(Operator Instructions)

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

KC McClure - Accenture - Managing Director and Head of IR

Thank you, Greg, and thanks, everyone, for joining us today on our fourth-quarter and full-year FY15 earnings announcement. As Greg just mentioned, I'm KC McClure, Managing Director, Head 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 fiscal year. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the first quarter and full FY16. We will then 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 revenue before reimbursements, or net revenues. Some of the matters we'll discuss on this call, including our business outlook, are forward-looking, and as such, are subject to known and unknown risks and uncertainties, including but not limited to those factors set forth in today's news release and discussed in our annual report on Form 10-K, and quarterly reports on Form 10-Q and other SEC filings. These risks and uncertainties could cause actual results to differ materially from those expressed in this call.



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During our call today, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures where appropriate, to GAAP, in our news release, or in the investor relations section of our website, Accenture.com. As always, Accenture assumes no obligation to update the information presented on this conference call.

Now, let me turn the call over to Pierre.

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, KC, and thanks everyone for joining us today. We are extremely pleased with our very strong financial results for both the fourth quarter and the full fiscal year. Our excellent fourth-quarter performance continues the momentum we have been building in our business all year.

For the full year, we delivered strong new bookings, generated record revenues, grew EPS faster than revenues, and generated strong free cash flow, all while continuing to invest in our business and delivering significant value for clients and shareholders. Here are a few highlights for the year:

- We delivered very strong new bookings of \$34.4 billion.
- We grew revenues 11% in local currency, to a record \$31 billion. Our growth was broad-based across the business, including double-digit growth in four of our five operating groups, and all three geographic regions.
- We delivered earnings per share of \$4.82 on an adjusted basis, a 7% increase.
- We expanded operating margin 20 basis points to 14.5% on an adjusted basis.
- We generated free cash flow of \$3.7 billion.
- We returned \$3.8 billion in cash to shareholders through share repurchases and dividends.
- And we just announced a semi-annual cash dividend of \$1.10 per share, an 8% increase over our prior dividend.

So, I feel very good about what we delivered in FY15. Our outstanding performance clearly demonstrates that we continue to provide highly relevant and differentiated services to our clients.

Now, let me hand over to David. David, over to you.

David Rowland - Accenture - CFO

Thank you, Pierre, and thanks to all of you for joining us on today's call. Let me start by saying that we were very pleased with our overall results in quarter four, which culminated an extremely strong year for Accenture. Once again, our results reflect our unique position in the marketplace, the relevance of our growth strategy, and our ability to drive our business to produce value for our clients, our people, and our shareholders.

As you listen to our prepared remarks, you'll hear continued consistency in the key business drivers, and three overriding themes: durability of revenue growth, sustainable margin expansion, and strong cash flow, with disciplined capital allocation. Before getting into the details, I'd like to emphasize a few highlights in each of these areas.

Revenue momentum continued, with very strong local currency growth of 12%, even against our toughest quarterly compare of the year. A key characteristic was our balanced growth across our operating groups, our geographic regions, and our five businesses, which speaks to the durability of our growth strategy. Our rate of growth continued to outpace the market, as we gained share in most dimensions of our business.

Driving profitable growth with sustainable margin expansion continues to be our focus. And in the fourth quarter, our operating margin came in as expected, and consistent with last year. For the full year, we delivered 20 basis points of margin expansion on an adjusted basis, while investing significantly to position our business for long-term market leadership.



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And finally, we delivered another quarter of strong cash flow, \$1.4 billion in free cash flow, to be specific. In terms of capital allocation, it's noteworthy that we closed 11 acquisitions in the quarter, giving us 18 acquisitions for the full year, with invested capital of \$800 million, providing us with scale and capabilities in key growth areas.

So we finished the year much like we started, with strong broad-based growth, underpinned by very good profitability and cash flows.

With those summary comments, let me now turn to some of the details, starting with new bookings. New bookings were \$8.8 billion for the quarter. Consulting bookings were \$4.1 billion, reflecting a book-to-bill of 1.0. Outsourcing bookings were 4.7 billion, with a book-to-bill of 1.3. We're very pleased with the volume of bookings for the quarter, especially considering the FX headwind which we estimate to be 13% in the quarter.

The overall demand for our services remains robust, with the strongest quarterly bookings growth coming from Operations, Products, Europe, and the Growth Markets. Across the board, digital-related services continued to be an important driver of our new bookings. We also had 10 clients with bookings in excess of \$100 million, bringing the total for the year to 43, which again signifies the unique relationship that we have with many of the largest companies in the world.

Turning to revenues, net revenues for the quarter were \$7.9 billion, a 1% increase in USD, and 12% in local currency, reflecting the negative 10% foreign-exchange impact, consistent with the assumption we provided in June. Consulting revenues for the quarter were \$4.2 billion, up 4% in USD and 14% in local currency. Outsourcing revenues were \$3.7 billion, down 1% in USD, and an increase of 9% in local currency.

The overriding theme in quarter four continued to be broad-based and balanced growth across our operating groups and geographic regions. We're pleased with revenue performance across all of our business dimensions, with the dominant drivers continuing to be strong double-digit growth in digital-related services and Operations. But we were also very pleased with our growth in Applications Services and the combined growth for Strategy and Consulting.

Taking a closer look at our operating groups, Communications, Media & Technology led all operating groups with 16% growth, the fifth consecutive quarter of double-digit growth. Broad-based growth continued, with double-digit growth across all three industries, and in all three geographic areas.

Financial Services delivered their strongest growth of the year at 14%, fueled by double-digit growth in all three industries, and in both Europe and the Growth Markets.

H&PS continued their trend of double-digit growth, posting 13% in the quarter. The strength of our H&PS business continues to be very strong growth in both Health and Public Service in North America.

Products grew by 10%, led by Consumer Goods & Services, Life Sciences, and Automotive, with very strong growth in Europe and the Growth Markets.

And finally, Resources continued to deliver very consistent growth of 6% in the quarter, with positive growth in all three geographic regions and in all industries, except Energy.

Moving down the income statement, gross margin for the quarter was 31.7%, consistent with the same period last year. Sales and marketing expense for the quarter was 11.7% of net revenues, down 10 basis points. General and administrative expense was 6.2% of net revenues, up 10 basis points. Operating income was \$1.1 billion in the fourth quarter, reflecting a 13.9% operating margin, consistent with quarter four last year.

Our effective tax rate for the quarter was 27.1%, compared with an effective tax rate of 30.1% in the fourth quarter last year. Net income was \$788 million for the fourth quarter compared with net income of \$760 million for the same quarter last year. Diluted earnings per share were \$1.15, compared with EPS of \$1.08 in the fourth quarter last year. This reflects a 6% year-over-year increase.

Turning to DSOs, our days services outstanding continued to be industry-leading. They were 37 days, consistent with last quarter. Our free cash flow for the quarter was \$1.4 billion, resulting from cash generated by operating activities of \$1.5 billion, net of property and equipment additions of \$148 million.

Moving to our level of cash, our cash balance at August 31st was \$4.4 billion, compared with \$4.9 billion at August 31 last year, down roughly \$500 million, as we returned \$3.8 billion to shareholders through repurchases and dividends in FY15.

Turning to some other key operational metrics... we continued to attract significant talent, hiring more than 100,000 people in FY15, ending the year with a global headcount of over 358,000 people. We now have approximately 257,000 people in our Global Delivery Network. In quarter four, our utilization was 90%, consistent with last quarter. Attrition, which excludes involuntary terminations, was 14%, compared to 15% in quarter three, and in the same period last year.



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With regards to our ongoing objective to return cash to shareholders, in the fourth quarter, we repurchased or redeemed 6.6 million shares for \$664 million, at an average price of \$100.03 per share. For the full year, we repurchased or redeemed 27.4 million shares for approximately \$2.5 billion, at an average price of \$89.52 per share. This week, our Board of Directors approved \$5 billion of additional share repurchase authority, bringing the total to \$7.6 billion.

And as Pierre mentioned, our Board of Directors declared a semi-annual cash dividend of \$1.10 per share. This dividend will be paid on November 13, and represents an \$0.08 per share or 8% increase over the previous semi-annual dividend we declared in March.

So, before I turn it back over to Pierre, let me just briefly summarize where we landed for the full year across the key elements of our original business outlook provided last September.

I'm pleased to say that we successfully managed our business, and delivered on every metric in our original outlook. New bookings for the full year landed at \$34.4 billion, which was just above the upper end of our original guided range, when adjusted for the actual FX impact. Net revenues grew 11% for the year in local currency, above the top end of the guided range that we provided at the beginning of the year. Operating margin on an adjusted basis was 14.5%, reflecting 20 basis points of expansion, the midpoint of our guided range. Diluted earnings per share on an adjusted basis were \$4.82, which was above the upper end of our original guided range, when adjusted for the actual FX impact.

Free cash flow was \$3.7 billion, in the middle of our original guided range, even with a much higher FX headwind. And finally, we returned \$3.8 billion of cash to shareholders, right at our initial objective, through \$1.4 billion in dividends, and \$2.5 billion in share repurchases. In addition, we reduced our weighted average diluted shares outstanding by 2%.

So again, we had an extremely strong year, by any measure. We're very pleased with the progress we've made in executing our growth strategy, and especially as it relates to the accelerated rotation of our business to digital-related services. Overall, our results demonstrate the durability of our growth, profitability and cash flows, and our ability to manage our business to deliver value for all of our stakeholders. With that, let me turn it back to Pierre.

Pierre Nanterme - Accenture - Chairman and CEO

Thank you, David. Our excellent results for the year reflect the successful execution of our strategy across the different dimensions of our business.

We are making focused investments in high-growth areas, including [\$2.5 billion] [corrected] in acquisitions over the last three years. These investments are all about building new capabilities to further differentiate Accenture in the marketplace.

At the same time, we have aligned other organization around five businesses: Accenture Strategy, Accenture Consulting, Accenture Digital, Accenture Technology, and Accenture Operations—all highly competitive in their own right, and synergistic in delivering end-to-end outcomes for our clients.

In particular, the new innovative services we have created in Accenture Digital and Accenture Operations have contributed significantly to our growth. In Accenture Digital, we are working with our clients to help them create competitive advantage, and tap into new sources of value.

In Accenture Analytics, we are using our new Accenture Insights Platform to help Thames Water in the UK embrace the Internet of Things to transform decision-making. Our new cloud based solution monitors and analyzes data in real time from more than 20,000 sensors. And with data visualization tools, managers can proactively respond to risks on the network.

And we are helping one of the largest banks in the Eurozone implement a major digital transformation. We are combining our design capabilities from Fjord—which we acquired two years ago—with our analytics capabilities to create a new and seamless multi-channel customer experience, while also driving significant operating efficiencies.

In Accenture Operations, we have strong momentum across our infrastructure, business process, security and cloud services. In procurement, we continue to lead the market, building on the capabilities we acquired with Procurian. Let me share two examples:

We're helping Glencore Queensland, a division of the global mining company, to enhance its competitiveness. With our category management expertise and cloud-based sourcing, we expect to achieve total cost savings of more than \$300 million. And we are helping TNT, the express delivery company, to reduce costs and focus on its core business. Leveraging our procurement and finance and accounting capabilities, we expect to drive annual cost savings of more than \$100 million.



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And when you look across our entire business, only Accenture has the full range of capabilities to integrate and deliver end-to-end services in an industry context to drive transformation and mission-critical outcomes for our clients. A great example is the work we're doing with Mondelez, the global food and beverage company, to drive growth, increase profitability, and reduce costs. We started this program with Accenture Strategy and our zero-based budgeting approach, and are now leveraging our business process capabilities in Accenture Operations. We expect to deliver total savings of more than \$1 billion over three years.

And we continue to invest to further differentiate our capabilities, taking a first-mover position and investing ahead of the curve in fast-growing areas such as cloud and security. Last week, we announced the acquisition of Cloud Sherpas, a global leader in cloud advisory and technology services, specializing in Salesforce, ServiceNow, and Google. The addition of 1,100 professionals from Cloud Sherpas will further strengthen our position as the leading enterprise cloud services provider.

And last month, we acquired FusionX, a leader in the emerging field of cyber security. FusionX's elite team of cyber security experts works at the C-suite level to help clients test security and see their vulnerabilities through actual replica attacks. This acquisition brings to Accenture the critical ability to help our clients assess and respond to sophisticated cyber attacks.

Turning to the geographic dimension of our business, I'm delighted that in FY15, we delivered double-digit revenue growth in local currency in each of our three geographic regions. And we achieved this result despite a global economic environment that remains sluggish, and a geopolitical environment that is quite concerning.

In North America, we delivered 13% revenue growth for the year in the United States, where we have now delivered double-digit growth in four of the last five years. We have gained significant market share in the U.S., and are now positioned as the market leader.

In Europe, we grew revenues 10% in local currency for the year, driven primarily by Germany, the United Kingdom, Spain, the Netherlands, Italy and France.

And in Growth Markets, we delivered revenue growth of 11% in local currency for the year, driven primarily by strong double-digit growth in both Japan and Brazil, with high single-digit growth in Australia.

So in closing, we created very strong momentum in our business in FY15 by leveraging the investments we've made and by accelerating our rotation to new high-growth areas. And I'm especially pleased with our performance in digital-related services, which grew approximately 35% for the year to more than \$7 billion.

With the relevant and differentiated capabilities we have built, along with the continued disciplined management of our business, I am confident in our ability to continue to deliver sustainable, profitable growth.

With that, I will turn the call over to David to provide our business outlook for FY16.

David Rowland - Accenture - CFO

Thank you, Pierre. Let me now turn to our business outlook. Starting with the first quarter of FY16, we expect revenues to be in the range of \$7.7 billion to \$7.95 billion. This assumes the impact of FX will be a negative 8.5% compared to the first quarter of FY15, and reflects an estimated 6% to 9% growth in local currency.

For the full FY16, based upon how the rates have been trending over the last few weeks, we currently assume the impact of FX on our results in USD will be negative 4% compared to FY15. For the full FY16, we expect our net revenues to be in the range of 5% to 8% growth in local currency over FY15. For operating margin, we expect FY16 to be 14.6% to 14.8%, a 10 to 30 basis-point expansion over adjusted FY15 results. We expect our annual effective tax rate to be in the range of 25% to 26%. For earnings per share, we expect full-year diluted earnings per share for FY16 to be in the range of \$5.09 to \$5.24, or 6% to 9% growth over adjusted FY15 results.

Turning to cash flow, for the full FY16 we expect operating cash flow to be in the range of \$4.1 billion to \$4.4 billion, property and equipment additions to be approximately \$500 million, and free cash flow to be in the range of \$3.6 billion to \$3.9 billion. We expect to return at least \$4 billion through dividends and share repurchases, and also expect to reduce the weighted average diluted shares outstanding by just under 2%, as we remain committed to returning a substantial portion of our cash to shareholders.

Finally, you may have noticed that I did not provide new bookings guidance for FY16. Each year, we evaluate our guidance approach to ensure that we're providing appropriate visibility to our expected results. Starting this year, we'll no longer provide new bookings guidance, as we believe that it is not the best indicator of future revenue performance, and it has created confusion in recent years. We'll continue to report actual new bookings results each quarter.

With that, let's open it up so that we can take your questions. KC?



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KC McClure - Accenture - Managing Director and Head of 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. Greg, would you provide instructions for those in the call, please?

QUESTION AND ANSWER

Operator

(Operator Instructions)

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

Tien-Tsin Huang - JPMorgan - Analyst

Good revenue growth yet again. Just wanted to ask, I guess, just in hindsight here -- you guys did 11% revenue growth in FY15. I think your initial expectation was 4% to 7%. What drove the upside versus initial expectations? Just trying to gauge what was strong versus conservatism, and how that may reflect in this year's guidance?

David Rowland - Accenture - CFO

I think, just reflecting on 2015—and Pierre, I'm sure, will have some reflections as well—the first thing I would start off with is the fact that while we were confident that we were well positioned for a very attractive market in the digital space, frankly, it's hard, and I'm sure you can appreciate this, Tien-Tsin, it would have been hard to bank on and predict 35% growth in our digital-related services business. So, that clearly was part of the driver.

I think, secondly, while we also felt very confident in our Operations business, which is truly distinctive in the marketplace, no doubt about that, the growth rate was higher. We knew it would be strong, but it came in even stronger than we expected.

When I reflect on the operating groups, and you may remember, and I won't recount what I said or recap what I said when we started the year, but I had laid out a view of how we thought the operating groups would emerge. Clearly, when you look at CMT's growth for the year, as proud as we are of that growth, frankly, it would have been tough to predict that level of growth, double-digit growth in all industries and in all three geographic markets. That is a trifecta of stars aligning.

On the other end of the spectrum, not to go through every operating group, we were comfortable with our return to growth in Resources, but yet there was still some risk, as we highlighted. And at the end of the day, congratulations to our Resources team again that they reconnected with growth and sustained very solid growth. And then I think, across the patch, when we talk about Consulting in our traditional type-of-work way, which in our new way of looking at the business includes Strategy, Consulting, and part of Application Services related to application development within App Services, that part of our business was very strong in 2015, and exceeded our expectations.

Pierre Nanterme - Accenture - Chairman and CEO

Not much to add. I think, clearly, we -- to summarize, we overachieved in three areas mainly, CMT, digital business and Operations, in Accenture Operations, significantly more than we expected.

Tien-Tsin Huang - JPMorgan - Analyst

That's helpful to hear. I guess as my follow-up, I'll ask just on this year's guidance, just how much is coming from acquisitions? I know you've got Navitaire coming up as well, and can you give us any sort of range on what digital growth might look like in 2016? Thank you.



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David Rowland - Accenture - CFO

Just working backwards, Tien-Tsin, I'll give you a view on digital growth, as well as our dimensional growth. I'm going to give that view at IA Day, because we're still working through our view on that.

To your other question, I'll start with 2015. Our inorganic contribution, I signaled last quarter, was in the range of 1% to 1.5%. Our actual inorganic came in roughly at the mid-point of that range. The point being that when you look at our 11% growth for the year, the organic growth was obviously substantial.

As we look forward to 2016, we are very proud of the success that we've had in the market with our acquisition activity, in the last two quarters in particular. We also have four acquisitions, Pierre mentioned Cloud Sherpas, which have been announced but not yet closed. But if you take what we've closed and the four that have been announced, not yet closed, then we would estimate that our inorganic would be, let's say, approaching the range, in the range of about 2%. Of course, that can change, depending on the timing of when these four deals, Cloud Sherpas in particular, ultimately gets closed. But we would be in that range, so it would be a click up.

Tien-Tsin Huang - JPMorgan - Analyst

That's great. See you at IA Day. Thanks.

David Rowland - Accenture - CFO

Thank you, Tien-Tsin.

Operator

Your next question comes from the line of Ashwin Shirvaikar from Citi. Please go ahead.

Ashwin Shirvaikar - Citigroup - Analyst

So, I guess my first question is: Clearly, we appreciate the acquisitions that you've made over the last few years. We actually wrote about it recently. But is there a flip side to it? Can you talk about the growth rate that you're seeing on your traditional businesses? What sort of impact are you seeing from ERP slowdown, from the flip side of cloud, things like that? Because clearly, you have a portion of your revenues growing really fast in digital, you're handling that transition very well, but the flip side is bringing down your overall growth rate, right?

David Rowland - Accenture - CFO

Ashwin, let me just mention two things, and then Pierre will want to round this out, just in terms of the factual context. Again, I want to point out that the year we just closed, our organic growth would have been about 9.5%, roughly. And so, the organic part of our business, that machine was hitting on all cylinders in 2015, and was a real testament to the power of our growth strategy. And this evolution of Accenture to focusing on our five businesses that we've talked about, leveraging the very distinctive channel that we have through our operating groups and our largest geographic markets. So, just that factual point, our organic growth machine is hitting on all cylinders.

You mentioned ERP. I'll go ahead and put this out there, that the ERP business -- we've always said that ERP goes through cycles, but yet at the end of the day, it's an attractive business. Our ERP business did stabilize in 2015. It actually grew slightly. Now, as a percentage of our total revenue, it's actually gotten -- it's come down a click in terms of what it represents of Accenture's business, because the non-ERP is growing significantly. But nonetheless, the ERP story is not a bad story.

I'll just pass it over to Pierre.



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Pierre Nanterme - Accenture - Chairman and CEO

Just to reconfirm the elements of our acquisition strategy, we are doing acquisitions for three reasons. The first one is to accelerate access to capabilities in the new, and what we're calling the new at Accenture is now the combination of digital services, cloud services, security services, or new technologies, if you will, such as cognitive computing, automation, or artificial intelligence.

Second is to have access to very deep industry expertise, especially in Consulting. That is the rationale for acquisitions like Axia, Javelin, Structure, Hytracc—deep industry expertise in upstream energy, and in retail. That's the reason -- that's number two.

And the number three would be to scale faster, to take the leadership position in the marketplace, and by leadership, we mean the number one. I'm thinking about Procurian, I'm thinking about Cloud Sherpas, I would put in that category—scale to lead, putting more distance between Accenture and the competition. Three reasons why we are doing the acquisitions.

And then we grow organic on top of these acquisition. Probably one of the best cases coming in my mind would be Procurian. We made the acquisition of Procurian. We became the number one in procurement services. And since we made this acquisition, we've been scaling faster, and now we are the market leader, and the organic growth of our procurement services is even higher than the business case we set.

Ashwin Shirvaikar - Citigroup - Analyst

Okay. Absolutely. No, I understand that, actually fairly consistent with what we've written recently.

The second question is just, want to ask about free cash flow growth in terms of the guidance. Looking at -- the lower end is negative, the upper end is 5% at the upper end, which is a tad slower than your EPS growth. And can you go through the puts and takes with regards to free cash flow growth going forward, how you think about it? Clearly, it's at an impressive absolute level, but I just want to understand how you're thinking of the translation from revenues to profits to cash.

David Rowland - Accenture - CFO

Yes. First of all, I would encourage you and others to look at the absolute amount, because the absolute amount, as you referenced -- I'll use my word, but your thought, I hope, is that it's outstanding. Our operating cash flow, our free cash flow exceeds net income, which I think is a standard for any company, which is indicative of outstanding cash flow. And we're in the range, across our range, we're in the range of, let's say, a rounded 1.1 ratio of free cash flow to net income. The absolute number is very, very strong.

As we talked about before, there are many puts and takes in our cash flow in any particular year. Changes in DSOs is an example. We have allowed for the possibility, not that this is our -- what we're trying to drive our teams to, but we've allowed for the possibility of a slight uptick in DSOs. You also notice that we have allowed for further cap ex spending, which is part of the increase.

And then beyond that, there are differences in timing. For example, tax cash payments can be very different in one year -- from one year to the next. So, there are many swings. But what I would encourage you to focus on is the absolute cash flow, which exceeds net income and is a great indicator of a strong cash-generating company.

Ashwin Shirvaikar - Citigroup - Analyst

Okay. Thank you.

Operator

Your next question comes from the line of Darrin Peller from Barclays. Please go ahead.



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Darrin Peller - Barclays Capital - Analyst

We heard some commentary around Brazil, and some of the emerging markets growing well. When we think of your guidance, and obviously there's a deceleration, partly due to just tougher comps, but I imagine some conservatism as well. On top of that, how much is your expectation for Brazil or China or maybe even Russia, or some of the other emerging markets that we've seen some slower trends in having an impact on your model? I'm not quite sure we ever heard contribution to your revenue from China or Brazil, to be honest.

Pierre Nanterme - Accenture - Chairman and CEO

If you look at it, indeed, we had a good year in some of these markets. Overall, our Growth Markets, double-digit growth, if you look at all the Growth Markets. Again, you've seen in these Growth Markets some "mature" market names; I'm thinking about Japan and Australia.

Now, indeed, we had very good performance in Brazil last year, on the back of some very good programs in Accenture Operations and our BPO business, as well in launching innovative services, especially around mortgage as-a-service, on the back of a small acquisition we made a few years ago called Vivere. And our digital rotation, as well, which is happening in Brazil as it's happening in other places.

That being said, we're looking at the market, as you do. We understand that the global economic conditions in Brazil are deteriorating at some pace, and it has been factored in our plan.

Darrin Peller - Barclays Capital - Analyst

Okay. Have you ever given any disclosure on how much of a contribution Brazil or China might be to your business?

David Rowland - Accenture - CFO

We have given that disclosure. I guess we show the revenue number for Brazil.

Pierre Nanterme - Accenture - Chairman and CEO

Brazil is above \$1 billion.

Darrin Peller - Barclays Capital - Analyst

Okay, that's helpful.

Pierre Nanterme - Accenture - Chairman and CEO

Is about \$1 billion for Accenture. So, again, it's significant.

Darrin Peller - Barclays Capital - Analyst

And China?

Pierre Nanterme - Accenture - Chairman and CEO

It's not something that will be overly significant. And in China, we are around half a billion.



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Darrin Peller - Barclays Capital - Analyst

Okay. That's helpful, guys. Last follow-up question: On the digital side, growth of 35%, obviously very impressive.

David Rowland - Accenture - CFO

China, we're about in the range of \$300 million, in that range, so about 1% of Accenture.

Darrin Peller - Barclays Capital - Analyst

Okay.

Pierre Nanterme - Accenture - Chairman and CEO

The CEO is always optimistic.

Darrin Peller - Barclays Capital - Analyst

Okay, very helpful. Just one quick follow-up on the digital side again: The 35% growth rate, again, very impressive. It seems like there's enough demand out there for even off a larger base, that kind of trend to continue. I know you said to Tien-Tsin before that, we'll wait for IA day. I think it seems like -- could it be fair to assume that you can have at least something similar or very, very strong double-digit growth once again this year?

David Rowland - Accenture - CFO

I think that we think in terms of continued strong double-digit growth. 35% is a big number. And for planning purposes, we consider the scale of the business, but 35% is a big number, and I don't know that we would assume that for planning purposes, not that we wouldn't strive for it.

Darrin Peller - Barclays Capital - Analyst

Understood.

Pierre Nanterme - Accenture - Chairman and CEO

We will plan for double-digit.

David Rowland - Accenture - CFO

Certainly for double-digit.

Darrin Peller - Barclays Capital - Analyst

Nice job, guys, thanks.

Operator

Your next question comes from the line of Keith Bachman from Bank of Montreal. Please go ahead.



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Keith Bachman - Bank of Montreal - Analyst

I wanted to ask about pricing. Recently, Cognizant called out, who is normally a fairly deliberate and conservative company, that pricing pressure has increased in a part of their business. And while I understand that there isn't perfect overlap in competitive areas between yourselves and an Indian-based player like Cognizant, I did want to hear what you're seeing in the pricing environment across the breadth of the business, particularly in the application maintenance and application development world, though, specifically?

David Rowland - Accenture - CFO

I would say that you may remember it was in the -- our second quarter call I mentioned that we were pleased with the progress that we had made in pricing, relative to where we were in the previous year. And I would say that, relative to those comments, our pricing has remained very stable. And so, we've -- I would characterize the environment -- it's tough to paint with a broad brush because it really is different depending on which part of our business that you look at. But certainly, overall, the environment continues to be competitive.

If I had to give an overall characterization, I would say stable at the levels that we indicated in the second quarter. If you peel it back, I would -- you asked specifically about Application Services. It continues to be a very competitive market, but our pricing is stable. We see other parts of our business where we see some pricing power. And when I say that, I think about Accenture Strategy and Accenture Consulting.

Keith Bachman - Bank of Montreal - Analyst

Fair enough. Then my follow-up question, if I could, is: Your Global Delivery Network continues to tick up, which I think is part of the reason why you're able to move your margins. Almost 72% of employment base is in the Global Delivery Network now. Is there a natural resistance point, though, at some level? If we look out over the next couple of years, can that continue to move up, where you move, say, over 80% of employment base is in the GDN? If you could just talk about any natural resistance points, particularly as you think about digital forming a greater percent of revenue, which I would think would be more local headcount, but would like to hear your characterization. Thanks very much.

David Rowland - Accenture - CFO

We don't think in terms of a natural resistance point. We think that we've got a lot of flexibility for how our Global Delivery Network can continue to evolve, but we certainly don't think in terms of any natural resistance point. We drive it as the market evolves, and as I said, we've got flexibility still in front of us.

Pierre Nanterme - Accenture - Chairman and CEO

And when you look from a skill standpoint, I mean, you're right to mention that part of the work we're doing in digital-related services could be onshore. However, we are probably the largest -- one of the largest enterprise apps developers in the world. All these developments are being made by our Global Delivery Network, and it's definitely part of digital-related services. I'm thinking about a significant part of our business in analytics, as well, being done with our resources, especially in India and other places.

When I think about strong innovations, in terms of automation, robotics, cognitive computing and artificial intelligence, they are coming a lot from the Philippines, and from India as well. So, I guess it would be a bit simplistic to see our GDN as a kind of low-cost, low-value kind of capability. It is a right cost, very high-value workforce.

Keith Bachman - Bank of Montreal - Analyst

Okay, great. Thank you, guys.

Operator

Your next question comes from the line of Edward Caso from Wells Fargo. Please go ahead.



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Edward Caso - Wells Fargo Securities, LLC - Analyst

Congrats on the quarter. I was curious how much of a drag that the acquisitions have become to your margin, and is it -- this rapid growth in the GDN that was just mentioned, is that providing adequate offset?

David Rowland - Accenture - CFO

Well, first of all, Ed, I would say that if you look at the performance of our portfolio overall, we're quite pleased with the performance of our portfolio of acquisitions from revenue through profitability and cash flow, and that's something we track very carefully. We review, certainly ourselves, but with our Board as well each quarter, and we believe we have some pretty high hurdles -- financial hurdles for the transactions that we do.

Having said that, as you know, it certainly wouldn't be unusual for an acquisition to be dilutive in the first year or two possibly, but we do -- one of our hurdles is the pace at which a deal becomes on par, and then accretive. But certainly in the first couple years, they can be dilutive.

I'll also point out that whereas many other companies in our sector tend to adjust for certain types of acquisition-related costs, the amortization of intangibles, things like performance retention payments at the time of closure, third-party fees, et cetera, we've chosen not to do that, and we report our margin all-in. To date, our margin expansion commitment has been based on a philosophy that we absorb those as part of our investments, and we drive the business forward. And of course, that's just one part of our investment. We have investments that go well beyond that. The impressive thing about our profit model to date is that when you look at that 20 basis points of expansion, underneath that we are driving significant efficiency across our business to absorb the investments, acquisition and otherwise, and that's an important story to understand, so I'm glad you asked that question.

Edward Caso - Wells Fargo Securities, LLC - Analyst

My other question is on clarification on pricing. When you talk about stable pricing, what does that mean? We hear that clients are more focused on reducing total cost of ownership. So, you and your competitors may be able to sustain margin, but you're giving back some volume. Help us understand better what you mean by pricing. Thanks.

David Rowland - Accenture - CFO

So, to remind you and the other listeners, when we talk about price, and we've always said very clearly that we're talking about the profit or margin percentage on the work that we sell. And it's in that context, when I say pricing is stable, it's in that context that I make that statement. So, when you look at Application Services, as an example, when you look at our margin on work that we are contracting, that is stable.

I mentioned other areas where we have sources of some pricing power; I mentioned Strategy and Consulting. I also say that in the context of the margin, but I'll also add that if you were to look at, in that part of our business, people might talk about things like average daily rates. We're also pleased with average daily rate progression in that part of our business, as well.

Edward Caso - Wells Fargo Securities, LLC - Analyst

Thank you.

Operator

Your next question comes from the line of Lisa Ellis from Bernstein. Please go ahead.

Lisa Ellis - Sanford C. Bernstein & Co. - Analyst

First, I guess I'll ask directly the question I think many are wondering, which is: What is it you are seeing in the numbers that's causing the implied kind of sharp quarter-on-quarter deceleration in the guide for Q1?



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David Rowland - Accenture - CFO

Yes, so, if you look at our guide for quarter one, the range is 6% to 9% in local currency growth. I mean, when I look at quarter one or the full year, maybe, Lisa, I'll just -- let me just expand my comments a little bit.

When you look at our guidance, you first of all have to understand, what is our assumption on market growth. And we assume that the market will continue to grow, plus or minus, in the 4% range. And so, when you look at our guidance for the year, certainly if you look at our guidance for quarter one, the same would apply. Across that range, but certainly at the upper end of that range, it reflects taking significant market share -- continuing to take significant market share, which is our strategic objective.

The other thing that you have to consider goes back to some of the discussion that Pierre had, I believe, with Darrin on the Growth Markets and the risk profile, but also I think when we look at the macro environment in general, relative to where we were 90 days ago, I would say relative to where we were at this time last year, the volatility and risk in the macro environment has clicked up a notch or two. And so, that's factored in.

The other thing that we think about when we look at our guidance is that it's as important, if not more important, to look at the absolute dollars as it is the percentage, whether it be the first quarter or the full year. And if you just look at the full year, before you adjust for the FX headwind, just taking that out, look at the underlying growth, at the upper end of our range we would be adding about \$2.5 billion of revenue, excluding the impact of FX in FY16, which is a pretty healthy number. And so, we work hard to drive to the upper end of the range, although the range reflects what we think are the range of possibilities.

And as it relates to the full year, we're early in the year. As we did last year, we'll adjust as we go. That was more of an answer than your question, but it gave me an opportunity to share some of those thoughts.

Lisa Ellis - Sanford C. Bernstein & Co. - Analyst

Terrific. Thank you. And then a little broader question: Taking a step back, and just reviewing FY15, how has the competitive set that you guys are competing against in deals changed?

Pierre Nanterme - Accenture - Chairman and CEO

We've not seen much change in the competitive environment. I think the competition is quite well established in the different businesses we are operating in, from the Consulting and Strategy, with the usual players, then you have the Technology with the other players. And then, of course, Operations, a different part of our business. So, I guess the environment is pretty stable, with some winners and losers, and we are investing and driving our business to be part of the winners. But not much to say around the competitive environment. It's still the usual suspects.

Lisa Ellis - Sanford C. Bernstein & Co. - Analyst

Terrific. Thank you.

Operator

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

Sara Gubins - BofA Merrill Lynch - Analyst

Do you think that your visibility is changing at all, given that a greater portion of growth is coming from digital?

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David Rowland - Accenture - CFO

I would say that to the extent that digital has a strong Consulting concentration, and if you look at the -- let's say, the average duration of a Consulting contract versus an Outsourcing contract, it would be true to say that the duration is shorter for Consulting than it is for Outsourcing. So, in that sense, it does give you a different backlog profile going forward. We're very pleased with how our Strategy and Consulting and the development of new technology that we report within Application Services, that has been a great story for us, but it does change the dynamic, as you're alluding to.

Sara Gubins - BofA Merrill Lynch - Analyst

Great. And then, separately, could you talk about your hiring plans for next year, and the hiring environment overall? Thanks.

David Rowland - Accenture - CFO

We are still in the midst of finalizing those, and I will comment on that, as appropriate, at IA Day. It's a little premature for me to give you a number at this point.

Sara Gubins - BofA Merrill Lynch - Analyst

Okay, thank you.

Operator

Your next question comes from the line of Bryan Keane from Deutsche Bank. Please go ahead.

Bryan Keane - Deutsche Bank - Analyst

Just speaking of headcount growth, I think it was up 17% year over year. That's the highest I can remember in a long time. Can you just talk about how that translates into revenue? I would have guessed it would have pushed a little bit higher guidance growth rate for the constant-currency revenue growth for FY16.

David Rowland - Accenture - CFO

First of all, we were really pleased with our recruiting in the fourth quarter. We continue to be, and even more so, a real, I would say, magnet for talent in the marketplace. So, we had very successful recruiting efforts. As you know, the fourth quarter is typically when we bring on our campus hires, and so that's reflected in the number.

And so, we manage the supply and demand very carefully. And one point is where we start the year, and then, of course, we have to manage our headcount as we progress through the year, and we will see how attrition plays out as we evolve through the first half of the year. We'll see how the revenue trajectory progresses, and then, as always, we adjust headcount appropriately.

Bryan Keane - Deutsche Bank - Analyst

Shouldn't the relationship be closer to revenue growth for the following year?

David Rowland - Accenture - CFO

Well, it depends. It just depends on so many different assumptions. It depends on how we see pricing evolving. It depends on how we see our revenue yield per head evolving. It depends on what we might expect with attrition. It depends on, perhaps we hired a disproportionate number of people in quarter four, and we expect to hire less than normal in quarter one. And so, there's so many factors that go into that. I wouldn't over-read the headcount. What I'd focus on is the guidance we gave and the context that I gave for the guidance.



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Bryan Keane - Deutsche Bank - Analyst

Okay. Just last quick follow-up: What's the mix between Consulting and Outsourcing on the growth rate that we should expect between the 5% to 8% guidance? I saw Consulting has obviously been a little bit stronger than Outsourcing, just want to see if that probably continues for next year.

David Rowland - Accenture - CFO

We actually see very balanced growth, as we have looked at our business plans. We actually see very balanced growth, and we would see, let's say, both Consulting and Outsourcing, in the context of a 5% to 8% range, we would see both of those being in the same zone. So, in the mid- to high-single digits is the potential range for both of them.

Bryan Keane - Deutsche Bank - Analyst

Okay. Super. Thanks for the color.

KC McClure - Accenture - Managing Director and Head of IR

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

Operator

Okay. Your final question today comes from the line of Brian Essex from Morgan Stanley. Please go ahead.

Brian Essex - Morgan Stanley - Analyst

I was wondering if you could talk a little bit about -- I just noticed that the acceleration in the European or EMEA constant-currency growth rate was really nice this quarter. So, you've had about a year and a half now of accelerating growth in Europe. And I was just wondering if you could touch on the environment in Europe, and what are some of the key drivers to that acceleration, so that we can get an idea of how that might be sustainable going forward?

Pierre Nanterme - Accenture - Chairman and CEO

Sure. Thank you. By the way, Jo Deblaere, who is leading our European business, is in the room, and he couldn't be more pleased with your comment on Europe. And, yes, I mean, we're pleased with where we are, because you've seen the growth, and of course, when you understand the overall economic environment in Europe, it's much different from the one, for instance, you have in the U.S. So, it's more about us than about the market, of course.

And I would call probably the same trend. It's fascinating to see that the digital rotation we've seen in Europe is as strong, even slightly stronger than the one we see in the U.S. It appears that our target clients, mainly the premium brands in the G2000 we are serving in Europe, are really accelerating their investments in terms of digital rotation.

Second, we had some very significant transactions leveraging Accenture Operations with our business process services; I'm thinking about the finance and accounting, the HR, the procurement as well, and it's been a significant source of growth. And overall, the Consulting is back, probably driven as well with digital-related services. So, for Europe, again, the clients we are serving are reinvesting, with always an eye on rationalization, driving good growth for Accenture Operations, and the other eye on growth and digital, which is driving more business for Accenture Digital, Accenture Strategy and Accenture Consulting, and of course, the leadership of Jo Deblaere.



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Brian Essex - Morgan Stanley - Analyst

Maybe just for a follow-up, I know the deal hasn't closed yet, but I think Cloud Sherpas was a great pickup. We know them as a leading cloud broker and a substantial Salesforce.com partner. Maybe if you could, to the extent that you can, talk about the rationale behind that deal and where some of the leverage across your platform might come from, and any overlap with their current brokerage business?

Pierre Nanterme - Accenture - Chairman and CEO

Sure. Two main reasons: First, and you've seen that in the terminology which has been used by Paul Daugherty, our chief technology officer, we're taking a Cloud First approach. We are strongly believers that indeed now, and even more moving forward, this Cloud First agenda will be quite prevalent for our clients. And we want to preempt, to be ahead of the curve, or to embrace, whatever you're going to call it, this new Cloud First environment, and so to be a prominent provider in the as-a-service, software and solution as-a-service environment.

So, second, when we have defined this position for Accenture, the name of the game for us was how to scale more rapidly to take a leadership position, especially around the Salesforce.com solution. And Cloud Sherpas was a very relevant opportunity for us to scale rapidly the good capabilities we have. As we speak, we are the leader in providing services for Salesforce.com. We are already the leader, and we believe that through this acquisition, they have excellent people, a significant number of these people being certified, which is even more important, we are scaling faster, and are taking the leadership in this market, which we believe is going to be very promising in the coming years.

Brian Essex - Morgan Stanley - Analyst

Is there a geographical component to that as well, or is it primarily just merging the two capabilities together?

Pierre Nanterme - Accenture - Chairman and CEO

Indeed. It's global, with a very significant and good footprint in the U.S., but it's global and nicely covering two or three of our most significant markets around the world. So, we should take this leading position not only in one, but certainly in a few other markets around the world. A very nice fit for us.

All right. I think it's time to wrap up, KC? Excellent. So, thanks to all of you again for joining us on today's call.

And in closing, I just want to take this opportunity to first thank our clients for the trust they place in Accenture as their business partner. At the same time, I also want to extend my deep and sincere thanks to the men and women of Accenture around the world. Every minute of every day, our people demonstrate an incredible level of commitment to delivering value for our clients and for our company. And finally, of course, I want to thank you, our investors, for your continued support and confidence in Accenture.

We look forward to talking with you again next quarter, and also to seeing many of you in person at our Investor & Analyst Conference in New York on October 7th. In the meantime, if you have any questions, please feel free to call KC, and all the best.

Operator

Ladies and gentlemen, this conference will be available for replay after 10:30 Eastern time today through December 17. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701, and entering the access code 366268. International participants dial 320-365-3844. Those numbers, once again, are 1-800-475-6701, or 320-365-3844, with the access code 366268.

That does conclude your conference for today. Thank you for your participation, and for using AT&T Executive Teleconference. You may now disconnect.



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