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ACN – ACCENTURE’S Q3 FISCAL 2016 EARNINGS
CONFERENCE CALL

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Accenture's Q3 FY '16 Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Accenture's third-quarter FY16 earnings conference call.

(Operator Instructions)

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

KC McClure - Accenture - Managing Director, Head of IR

Thank you, Roxanne, and thanks, everyone, for joining us today on our third-quarter FY16 earnings announcement. As Roxanne 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 you the financial details, including the income statement and balance sheet, along with some key operational metrics for the third quarter. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the fourth 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 revenues 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, the 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.



Accenture's Q3 FY '16 Earnings Conference Call

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 at Accenture.com. As always, Accenture assumes no obligation to update the information presented on this conference call. Now let me turn the call over to Pierre.

Pierre Nanterme - Accenture - Chairman & CEO

Thank you, KC, and thanks, everyone, for joining us today.

We are very pleased with our third-quarter financial results and the strong momentum we have built in our business. I am particularly pleased that we again delivered double-digit revenue growth in local currency, gaining significant market share. Our results clearly demonstrate that we are executing our strategy very well, further differentiating Accenture in the marketplace. Here are a few highlights from the quarter:

- We delivered strong new bookings of \$9.1 billion, bringing us to \$26.4 billion for the year to date.
- We generated very strong revenue growth of 10% in local currency.
- Operating margin was 15.5%, an expansion of 10 basis points from adjusted operating margin in the third quarter last year.
- We delivered earnings per share of \$1.41, up 8% from adjusted EPS in the third quarter last year.
- We generated strong free cash flow of \$1.5 billion.
- And we returned \$1.2 billion in cash to shareholders through share repurchases and dividends.

So, we have delivered excellent third-quarter results. And as we enter the fourth quarter, I feel very good about our business and I am confident in our ability to deliver our business outlook for the year.

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. As you heard in Pierre's comments, our third-quarter results were strong across almost every dimension of our business. Once again, our results demonstrate the power of our highly differentiated growth strategy, which is built on five businesses, delivered in an industry-relevant context and focused on being the market leader in helping our clients rotate to the "new."

Looking at our results at a high level, there are a few major themes which I think are important to note.

- First, 10% local-currency growth marks the seventh consecutive quarter of double-digit growth. These results were a strong indication of the durability of our growth model, which is underpinned by our focus on achieving market-leading scale across our key industries and geographic markets. This is best illustrated by our broad-based growth in the third quarter, which reflected double-digit growth in eight industries and eight geographic markets. And strong double-digit growth in the "new," especially in Digital-Related Services, continued to be a key driver of our results.
- Second, operating margin of 15.5%, 10 basis points higher than last year's adjusted results, was consistent with our objective to deliver modest margin expansion while investing significantly in our people and our business. Our profitability agenda is enabled by our drive to achieve fit-for-purpose economics across each of our five



businesses. We're pleased with our progress year-to-date which has yielded 10 basis points of operating margin expansion and 10% growth in EPS on an adjusted basis, while at the same time creating the capacity to make important investments for long-term market leadership.

- Third, as expected, we generated strong free cash flow in the quarter of \$1.5 billion and returned roughly \$1.2 billion to shareholders through repurchases and dividends. We're well-positioned to deliver free cash flow in excess of net income for the full year. And importantly, we continue to invest to acquire scale and capabilities in key growth areas, investing roughly \$835 million across 11 acquisitions through the third quarter. So we're very pleased with our results in quarter three, which combined with our first-half results, position us very well to achieve all of our key financial objectives for the year.

With that said, let's get into the details, starting with new bookings. New bookings were \$9.1 billion for the quarter. Consulting bookings were \$4.9 billion, with a book-to-bill of 1.1. Outsourcing bookings were \$4.2 billion, also with a book-to-bill of 1.1. We're very pleased with our overall new bookings, particularly in Consulting, which represented the second-highest new bookings quarter following the record set in quarter two.

Looking at bookings by business, our new bookings results were highlighted by strong demand in Operations which had an estimated book-to-bill of 1.4. Strategy and Consulting Services combined had an estimated book-to-bill above 1.0, well within our target book-to-bill range. And Application Services had a book-to-bill of 1.0.

Across the board, Digital-Related Services continued to be a significant driver. Additionally, we had 10 clients with new bookings in excess of \$100 million. And year-to-date, we've delivered \$26.4 billion in new bookings, reflecting 9% growth in local currency.

Turning to revenues. Net revenues for the quarter were \$8.4 billion, a 9% increase in USD and 10% in local currency, reflecting a foreign-exchange headwind of slightly less than 2%. Our Consulting revenues for the quarter were \$4.6 billion, up 12% in USD and 14% in local currency. And our Outsourcing revenues were \$3.8 billion, up 4% in USD and 6% in local currency.

The trends in revenue growth across our business dimensions were very similar to last quarter. Strategy and Consulting Services combined posted another quarter of strong double-digit growth. Operations again had double-digit growth. And Application Services grew high single-digits. And across those four businesses, Digital-Related Services were a significant contributor to growth, with estimated growth in the range of 30%.

Taking a closer look at our operating groups. Products led all operating groups with 16% growth, reflecting strong overall momentum in the business. Growth continued to be broad-based, with double-digit growth across all industries and geographies.

H&PS grew 12% in the quarter, driven by very strong growth in North America and the Growth Markets, as well as in the Health business. We were also pleased with strong growth in Public Service, especially in North America and the Growth Markets.

Financial Services also grew 12%, led by very strong growth overall in Banking & Capital Markets, with solid growth across all other dimensions.

Communications, Media & Technology delivered strong growth of 8%, which was consistent with our expectations. From an industry perspective, Electronics & High Tech, as well as Media & Entertainment, continued their strong double-digit growth. Communications revenue was flat, driven by modest declines in Europe and North America, offset by double-digit growth in the Growth Markets.

Lastly, Resources grew 1% in the quarter. The two divergent trends within Resources continued, with Utilities again delivering strong double-digit growth across all three geographic regions, while Energy and Chemicals & Natural Resources remain challenged due to cyclical headwinds.



Accenture's Q3 FY '16 Earnings Conference Call

Moving down the income statement... Gross margin for the quarter was 31.9%, compared to 32.5% in the same period last year. Sales and Marketing expense for the quarter was 11.1% compared with 11.3% for the third quarter last year. General and Administrative expense was 5.3%, compared to 5.8% for the same quarter last year.

As a reminder, in quarter three of last year we recorded a non-cash settlement charge as a result of an offer to former employees to receive a voluntary lump-sum cash payment from our U.S. pension plan. The following comparisons exclude the impact and reflect adjusted results.

Operating income was \$1.3 billion in the third quarter, reflecting a 15.5% operating margin, up 10 basis points compared with quarter three last year. Our effective tax rate for the quarter was 26.5%, compared with an effective tax rate of 25.7% in the third quarter last year.

Net income was \$950 million for the third quarter, compared with net income of \$889 million for the same quarter last year. Our diluted earnings per share were \$1.41, compared with EPS of \$1.30 in the third quarter last year, reflecting 8% year-over-year growth.

Turning to DSOs, our days services outstanding were 41 days, compared to 39 days last quarter and 37 days in the third quarter of last year. Free cash flow for the quarter was \$1.5 billion, resulting from cash generated by operating activities of \$1.6 billion, net of property and equipment additions of \$94 million.

Moving to our level of cash, our cash balance at May 31 was \$3.5 billion compared with \$4.4 billion at August 31.

Turning to some other key operational metrics... We ended the quarter with global headcount of over 375,000 people. Our utilization was 91%, compared to 90% last quarter. And attrition, which excludes involuntary terminations, was 15%, up 2% from quarter two and consistent with the same period last year.

With regards to our ongoing objective to return cash to shareholders, in the third quarter we repurchased or redeemed 4.3 million shares for \$478 million, at an average price of \$112.44 per share. As of May 31, we had approximately \$5.9 billion of share repurchase authority remaining.

Finally, as Pierre mentioned, on May 13, 2016, we made our second semi-annual dividend payment for FY16 in the amount of \$1.10 per share, bringing total dividend payments for the fiscal year to approximately \$1.4 billion.

So with three quarters on the books, we're very pleased with our results and we're now focused on quarter four and closing out a strong year. Let me turn it back over to Pierre.

Pierre Nanterme - Accenture - Chairman & CEO

Thank you, David. Our very strong results in the third quarter demonstrate that we are executing the right growth strategy and that we are providing highly relevant services to our clients. We are benefiting from the investments we've made to rotate our business to the "new" – digital, cloud and security-related services – which together now account for approximately 40% of our total revenues.

Let me share a few examples of how we are leading in the "new." We continue to see strong demand for our digital capabilities, and were very pleased that Accenture Interactive was recognized by Advertising Age magazine as the largest and fastest-growing provider of digital marketing services. Through Accenture Interactive, we are bringing our unique combination of design and customer experience capabilities to 70 companies in the Fortune Global 100.

In cloud, we are focused on building strong platforms for key industries such as our Life Sciences Cloud for R&D. This truly innovative solution to collect, share and analyze clinical data is now being used by seven top pharma companies – including Pfizer, Merck, GSK and Lilly – to accelerate drug development and improve patient outcomes.



Accenture's Q3 FY '16 Earnings Conference Call

In security, we're expanding our capabilities with the acquisition of Maglan, a cybersecurity company based in Israel with strong expertise in cyber defense. And we just opened a new Accenture Lab in Israel that is dedicated to cyber R&D in threat intelligence, incident response and Internet of Things security. This is all about helping clients become more resilient in today's digital world.

We continue to see strong demand from clients to help them with their most complex, mission-critical issues. In Accenture Strategy, we have developed a unique approach to help clients make sustainable improvements in their enterprise-wide performance. We are now a leader in this space, with a totally new zero-based methodology, which we have delivered with excellent results at many consumer goods companies, including Unilever and Mondelez. We are now taking this approach to clients in healthcare, retail and financial services.

We continue to invest across our business to drive growth and further differentiate Accenture in the marketplace. During the quarter, we announced two acquisitions. We are taking a majority stake in IMJ, one of Japan's leading digital agencies. And we acquired OPS Rules, an analytics consulting company, to expand our capabilities in machine learning, supply chain and operations analytics.

We continue to collaborate with leading players in the tech ecosystem to further strengthen our capabilities in cutting-edge technologies. We worked with IPsoft, a market leader in artificial intelligence, to launch a new practice focused on its virtual agent platform, which is called "Amelia." Our new practice will help clients leverage artificial intelligence to realize efficiency gains and generate new growth opportunities.

And we continue to invest to drive even more innovation and productivity in our Global Delivery Network. We launched a new intelligent automation platform called Accenture myWizard to deliver smarter and more efficient application services. We are already using myWizard with more than 200 clients to drive productivity improvements.

Turning to the geographic dimension of our business... I continue to be very pleased with the strong and balanced growth we are driving across all three of our geographic regions, and especially in our largest markets.

In North America, we delivered 11% revenue growth in local currency, driven by double-digit growth once again in the United States, bringing us to eight quarters in a row of double-digit growth in the US.

In Europe, we delivered 12% revenue growth in local currency. I am particularly pleased that almost all of our largest markets generated double-digit growth, including the United Kingdom, Switzerland, Italy, Spain, Germany, and France.

And in Growth Markets, we grew revenues 6% in local currency, led primarily by double-digit growth in Japan, as well as strong double-digit growth in China, India, and Mexico.

Before I turn it back to David, I want to reflect on a couple of Accenture's core strengths that are critically important to our future growth. The first is our portfolio of intellectual property. Over the years, we have made a significant investment and now have more than 5,000 patents and patent-pending applications in areas such as artificial intelligence, cyber security, drones, virtual agents, Internet of Things and other platforms. Our intellectual property is an important asset which drives differentiation and value in the marketplace.

Second is our brand. I am proud that Accenture was just ranked number 38 on BrandZ's Top 100 Most Valuable Global Brands, our highest ever on this list. Our brand strengthens our unique positioning in the marketplace and drives significant competitive advantage. It reflects the trust our clients place in us and enables us to attract top talent.

So with the first three quarters of the year behind us, I'm very pleased with our performance. We have very good momentum in our business and I feel confident that we are well-positioned to deliver a strong FY16.

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



David Rowland - Accenture - CFO

Thank you, Pierre. Let me now summarize our business outlook. For the fourth quarter of FY16, we expect revenues to be in the range of \$8.25 billion to \$8.5 billion. This assumes the impact of FX will be negative 1% compared to the fourth 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 now assume the impact of FX on our results in U.S. dollars will be negative 4.5% compared to FY15. For the full FY16, we now expect our net revenue to be in the range of 9.5% to 10.5% growth in local currency over FY15. For operating margin, we now expect FY16 to be 14.6%, a 10 basis-point expansion over adjusted FY15 results.

As a reminder, we closed our Navitaire transaction last quarter, which lowered the full-year FY16 tax rate by approximately 1.5% and increased diluted earnings per share by \$0.74. Our guidance for FY16 excludes the impact of this transaction.

We continue to expect our adjusted annual effective tax rate to be in the range of 24% to 25%. For earnings per share we now expect full-year diluted EPS for FY16 to be in the range of \$5.29 to \$5.33, or 10% to 11% growth over adjusted FY15 results.

Turning to cash flow, for the full FY16 we continue to 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 continue to be in the range of \$3.6 billion to \$3.9 billion.

Finally, we continue to expect to return at least \$4 billion through dividends and share repurchases and also continue to expect to reduce the weighted average diluted shares outstanding in the range of 1.5%, as we remain committed to returning a substantial portion of cash to our shareholders.

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

QUESTION AND ANSWER

Operator

(Operator Instructions)

Bryan Keane, Deutsche Bank.

Bryan Keane - Deutsche Bank - Analyst

Hi, good morning. Operating margin guidance to start the year, I think was 10 to 30 basis points, which has been your historical practice. This year it sounds like you will only do 10 basis points expansion. Just want to make sure I understand why the low end this year. And does that change anything going forward about your historical typical practice of 10 to 30 basis points of expansion.

David Rowland - Accenture - CFO

Bryan, if you look at the 10 to 30, as you well know and the others know, that has been our target range for many years now. If you look at our results over the last five years, we've covered the full scope of that range, including having been at 10 basis points expansion at least once, if not twice, in that period and I think one year being at 30 basis points. We've



covered the expanse of that range. And so coming in at 10 basis points this year isn't inconsistent with our historical performance.

Having said that, if you look at where we are year-to-date, we're at 10 basis points of expansion through the first three quarters. At this point, based on what we see, it just feels very clear to us that we are trending in that direction.

I think the important point to note, and this is different about this year versus other years where we've been at 10 basis points of expansion, is that we embarked on a journey, especially a few years ago, to really raise our game in the investments that we're making in our business. Including, but not limited to, the significant capital investments that we've made in acquisitions, which also flow through our P&L.

And so when you look at the 10 basis points, it really is a direct intention of what we're trying to accomplish by positioning our business for the long term, by investing at a scale that is truly differentiated in our sector and positions us for long-term leadership. And so we're actually very pleased with the 10 basis points of expansion in that it, on one hand, supports, we believe, double-digit growth in EPS. But on the other hand underneath it, it represents significant investments that we're making in our business and our people.

The last comment that I'll make is that if you were to look at our underlying margin expansion, excluding the investments, the underlying margin expansion is quite healthy and would compare very favorably to what we've done in any previous year. So we feel great about the economic leverage in our model and we feel great about the focus that we've had on investing.

Bryan Keane - Deutsche Bank - Analyst

Okay, great. And then just a quick follow-up. At the Analyst Day I think you mentioned the potential to hire around 100,000 gross heads. It doesn't look like you are on track for that. I was looking for an update on gross hires for the fiscal year. Thanks so much and congrats on the quarter.

David Rowland - Accenture - CFO

Thank you, Bryan. I think last year we commented that our hiring was going to be over 100,000. This year it will be less than 100,000. And I might add that we are quite pleased with that result.

We view that as a positive outcome in the way we are able to, let's say, moderate our headcount growth in recent quarters, while at the same time supporting continued strong top-line growth. That's an equation that we like.

Bryan Keane - Deutsche Bank - Analyst

Thanks so much.

David Rowland - Accenture - CFO

Thank you.

Operator

David Grossman, Stifel Financial.



David Rowland - Accenture - CFO

Good morning, David.

David Grossman - Stifel Nicolaus - Analyst

Hi, good morning, thank you. I was wondering if we could look at the overall business. Recently we've talked about the ebb and flow of the business and the shifting priorities, which has favored Consulting growth versus Outsourcing. Can you help us understand whether that trend continues at the same rate or whether that's beginning to equalize?

Pierre Nanterme - Accenture - Chairman & CEO

As you look at our business and indeed these last few years, all the industries in all the markets are under significant transformation. They want to transform their business and the different industries, what we call, rotate to the "new" in all the digital space. They want as well to improve their operational efficiency and they want to implement new capabilities.

So at the end of the day, if you look at the nature of the transformation of our industries, they are more related to Consulting-type of services. This is the nature of the demand because of the unique nature of the transformation in the industries.

If you look back a few years ago, where Outsourcing was growing a bit stronger, it was absolutely linked to the fact that you had less need for true industry transformation and innovative play. And the industries were more looking for straightforward efficiency gains. And to some extent, to a great extent, the natural answer we provided at Accenture to straightforward efficiency gains were around Outsourcing, labor arbitrage, more productivity, tackling the cost in operations and in IT.

So I feel this natural shift from a bit less of Outsourcing to a bit more of Consulting is reflecting the true nature of the transformation in the industries. And by the way, we feel extremely good about our positioning in this rotation, if you will, based on our industry knowledge image, based on the investments we've made in rotating to the "new," and based on the fact that we still have significant capability at great scale to tackle the cost efficiency programs for our clients.

David Grossman - Stifel Nicolaus - Analyst

So no real material change in the pace, Pierre, of how that's migrating through the market?

David Rowland - Accenture - CFO

We see that trend continuing.

Pierre Nanterme - Accenture - Chairman & CEO

Definitely, we see that trend continuing. You have cycles. We have in front of us a cycle of transformation for all the reasons we all know on the call. And I guess the cycle will continue as long as the industries will be in this transformational phase.



David Grossman - Stifel Nicolaus - Analyst

Very good, thanks. Just one quick follow-up. I wonder if you could quickly contrast your comment about IP and how you view IP at Accenture versus perhaps how a product company views IP.

Pierre Nanterme - Accenture - Chairman & CEO

Very pleased. For us, IP is very important. That's why I wanted on this call to put the attention on our IP portfolio. It's not something we've been talking about a lot, we have so many things to discuss with all of you.

But we've been very active from an IP standpoint and especially as, again, we are in a phase of reinvention and in a phase of innovation. Reinvention, innovation, equals intellectual property building. And for us we are building intellectual property in many things -- and you're right -- it's more than products or sometimes we feel that IP equals software or application product. And IP could be behind processes, operating models.

There are a lot of things you can -- methodologies, approaches, part of solutions and this is all what we do. And I was quite impressed recently when I've been reviewing the IP portfolio, with our 5,000 patents or patent-pending applications. I felt that it would be good for me to share that with all of you as, again, an element where Accenture is quite on top of its game in order to drive innovation and to protect, more important, our innovation inside Accenture for the benefit of our clients and for the benefit of our investors.

David Grossman - Stifel Nicolaus - Analyst

Very good, thank you.

David Rowland - Accenture - CFO

Thank you.

Operator

Joseph Foresi, Cantor Fitzgerald.

Joseph Foresi - Cantor Fitzgerald - Analyst

Hi, my first question here is what are the challenges in growing digital at this point? Do you think the growth rate can keep up there? And are you finding enough talent? And maybe even some color on the margins in that business would be great.

Pierre Nanterme - Accenture - Chairman & CEO

Good question. So far, so good. It's every day, we're working on it at Accenture. And as you see, we've been extraordinarily active these last few years, certainly three, four years. Every day we are taking actions.

These actions are very broad, if you will. In order to lead in the 'new,' you need skills and capabilities and we've been very active from a talent standpoint. All the credit to our operating group leads, but as well to Ellyn Shook, I would like to recognize during the call here our Chief HR Officer, leading all our talent agenda, and we are very active.



I would like as well to recognize Roxanne Taylor from a brand standpoint, because brand is absolutely key in attracting talent. That's why I wanted as well in this call to put some emphasis on the brand, because it's very important in our strategy to attract talent.

Of course, we've been very active from an acquisition standpoint. You've seen us raising our game these last four years and this is our objective, to continue with that pace moving forward as long as we could find relevant companies, relevant acquisitions, that will bring their capabilities.

But we need to continue as well to invest from an organic standpoint. We developed our own platforms. I'm thinking about the Accenture Cloud Platform. I'm thinking about the Accenture Connected platform in analytics, in marketing and so forth.

So we are very active across the patch of digital. Of course, as you well see, for us digital is covering interactive, mobility, analytics, cloud, security. We are even now considering the next play. I'm thinking about artificial intelligence.

So far I feel good. You're right to ask the question. It's a kind of everyday commitment from Accenture to invest in the "new" and to lead in the "new." And I'm pleased with the momentum we are creating and I see that continuing.

Joseph Foresi - Cantor Fitzgerald - Analyst

Okay. And as my follow-up, to go back to the margin question, with acquisition activity being strong over the last couple of years and you needing to invest in digital, which is obviously growing very well and driving the business, should we expect a moderation in that 10 to 30 basis points typical margin expansion target? Or is that still the case going forward? Because it seems like you're in a heavy investment mode and I was wondering how to think about that going forward. Thanks.

David Rowland - Accenture - CFO

First of all, certainly, I'm not going to provide guidance on this call. I'll come back to that question, if I can just ask for your patience, I'll come back to that question in more detail at the Investor Analyst Day in October.

What I will say is that our focus on investing at scale doesn't end this year. This is a cycle that we're in. But I'll also tell you that, as I mentioned the last two Investor Analyst Days, and I referenced again in this script, we are very focused on this journey of managing our business in a fit-for-purpose way. Which is really our platform for creating underlying profitability improvement in our business to both support our ambition for higher investments, but also support our ambition for margin expansion as a way to support our goals to grow EPS.

I would say as a general rule, the economic leverage that we have in our model hasn't changed. And in fact, I might say in some ways we have new and exciting opportunities as we think about this move to a fit-for-purpose focus and how we manage and drive our business. But I'll get more specific on all of that in October.

Joseph Foresi - Cantor Fitzgerald - Analyst

Thank you.

David Rowland - Accenture - CFO

Thank you.



Operator

Jason Kupferberg, Jefferies.

Jason Kupferberg - Jefferies LLC - Analyst

Good morning, guys.

David Rowland - Accenture - CFO

Good morning.

Jason Kupferberg - Jefferies LLC - Analyst

Hey, David. Just wanted to get a quick clarification on one of the answers you gave to -- I think it may have been Bryan's question about headcount growth this year, new hires. It sounded like you were alluding to nonlinear dynamics perhaps, between headcount growth and revenue growth, if I heard you correctly. And I wanted to clarify that, because it looks like billable headcount year-to-date has actually grown faster than revenue. But I just wanted to clarify what you were referencing there.

David Rowland - Accenture - CFO

What I was referencing was, first of all, just the fact that we will hire fewer people this year than we did last year, is one point. The second thing I was referencing is that if you look at our sequential growth in headcount in recent quarters, it's certainly moderated over, let's say, the prior seven, eight quarters and probably beyond. The third thing I was referencing, although I didn't say it specifically, is that it is true if you look at our headcount growth in the third quarter year over year, it was at a rate above our revenue. But that rate above our revenue was less than what you've seen in recent quarters.

And so without getting overly specific, there are three things that factor into that. One would be our focus on automation, as an example, in the mix. Although as we've said, that is early days, but yet a big focus for us going forward. Things like chargeability are in the mix. Things like attrition levels are in the mix, when you consider the hiring number.

And of course the revenue yield that we're getting per billable head is also in the mix. And that can be influenced by things like the mix of work that we're doing across the five businesses, mix of work by geography and it can also include pricing. So all of those things are in the mix. And in some way, all of those are contributing to what has been a more moderate growth sequentially in our headcount and that's really all I was pointing out.

Jason Kupferberg - Jefferies LLC - Analyst

Okay, that's super helpful. Maybe just to pick up on that point around utilization, I think you've been running at 90%-plus for seven straight quarters after never having been at those levels prior to last fiscal year. So do you feel like this is a new normal and that we're unlikely to see this slip below 90%? And would it also be fair to say that you're maxed out at this 90%, 91% range? Or could there be further head room, depending on how the revenue mix evolves over time?



David Rowland - Accenture - CFO

I guess I won't declare that it's maxed out. There are things that could work in our favor going forward that could influence that metric further. If you look at our historical norm, we are at the higher level of that range for sure. And we are running hot, and I think that reflects the activity in the market.

We could come down a click or two in different quarters. And a lot of times that happens with periods in the year where we tend to bring on, let's say, more heads. So for example, in the fourth quarter we have a lot of our new joiners, campus hires, that will start with us in the fourth quarter and early in the fall.

So the simple answer is that no doubt we are running at a very high level of utilization, reflecting the dynamics that we see in the market. But we're in a zone right now that we feel very comfortable managing. But it could also be a click lower and we wouldn't be worried about that.

Jason Kupferberg - Jefferies LLC - Analyst

Okay, I appreciate the comments. Thanks.

David Rowland - Accenture - CFO

Thank you.

Operator

Lisa Ellis, Bernstein.

David Rowland - Accenture - CFO

Good morning, Lisa.

Lisa Ellis - Bernstein - Analyst

Hi. Good morning, David. I have a question. In the market it looks like you're seeing that demand for the new, digital, security services, cloud services, is if anything accelerating. And yet, as I guess a number of folks now have called out, a lot of your forward indicators have decelerated a bit. Headcount growth, the pace of M&A, even though it's still elevated, has slowed down since last year. Can you comment on that disconnect or how you're thinking about that? Because if anything, it seems like the demand is accelerating, not decelerating, out there.

Pierre Nanterme - Accenture - Chairman & CEO

I can speak on that. Good morning, Lisa. On the point you're mentioning around deceleration of some of our capabilities, when you're talking about acquisitions, it might very well be that we're going to make less transactions than last year, a few. But on the other hand, we will certainly deploy a bit more capital than last year because we expect to close the year with a bit more than \$1 billion being deployed.

So I guess it's -- so we are not slowing down at all our acquisitions agenda, at least in terms of volume of capital deployed. By the volume of capital deployed, that means the capabilities we are bringing back in Accenture. I do not see,



Accenture's Q3 FY '16 Earnings Conference Call

on digital, anything in Accenture which would reflect a slowing down of our appetite to grow, of our appetite to invest, and of our appetite to accelerate in the "new." From a headcount standpoint, I will let David comment again.

David Rowland - Accenture - CFO

Lisa, one thing I would point out is that -- really, to get underneath your question, you would have to get into the more granular details of our business which are not practical for us to get in externally. Let me just make the point that as the business is rotating overall, we are also rotating a lot of talent within our headcount.

And so, what is not apparent by simply looking at the overall numbers is the talent rotation that is taking place. And I can assure you that our pace of investing and acquiring headcount specifically focused on driving this new agenda, and the digital-related services agenda as part of that, has not slowed down at all. In fact, I would say the demand for talent in the "new" and digital-related talent, as one example, but also including cloud and security in our business has never been higher.

As Pierre referenced earlier, for Ellyn Shook, that is job number one for her, is managing the talent supply side to fuel the "new." And I think our pace of activity is not slowing. If anything, our appetite for that talent is increasing. But it's underneath the overall number that we communicate. We feel like our indicators are positive indicators right now.

Pierre Nanterme - Accenture - Chairman & CEO

To build on this, because this is a very important question you're raising, coming back to talent, I know that we have a lot of questions regarding the total headcount. And we're working that very carefully with David to see that we've been able to grow more our revenues with a little bit less hiring of people, which on balance, we will all recognize, is a good direction.

If you look from a managing director standpoint, so all about the leadership of Accenture, I just would like to reconfirm that this year in FY16 we promoted much more managing directors than ever these last four years. I think from a recruiting of leaders, managing directors, we've never been so active in the market in recruiting new leaders.

It's important to segregate the leadership -- we are hiring and promoting at scale, because the leaders are driving the business -- from the total headcount, which we all expect will continue to grow less, a bit less than our revenues moving forward, due to the factors of automation and productivity in our operations.

Lisa Ellis - Bernstein - Analyst

Terrific, thank you. That's great color, thanks a lot.

David Rowland - Accenture - CFO

Thank you, Lisa.

Operator

Dave Koning, Baird.



Dave Koning - Robert W. Baird & Company, Inc. - Analyst

Hey, guys, thanks for taking my question. First of all, the digital business, you talked about, it's about 40% of revs, growing about 30%. That would imply that the other 60% is maybe flattish to down.

Maybe you can talk a little bit about that. And then is this the formula that digital keeps growing in that range and the rest of the business is more flattish? Is that the formula going forward?

Pierre Nanterme - Accenture - Chairman & CEO

The formula going forward is very simple. We want to grow. That's our goal in life is to grow, and to grow more than the market. In order to grow more than the market, we believe, at Accenture, and this is at the heart of our strategy, that it's going to be by leading in the digital-related services.

To be clear, we want to make Accenture the leading professional services company in digital-related services. This is what we're working on these last few years, and we will continue moving forward. We have evidence that this rotation to the "new" is happening at big scale. The most significant part of our growth will come from digital-related services because this is our strategy, first, and second, this is where the demand is.

Now, that being said, we want to continue making our core, if you will, extremely competitive in the marketplace. I just mentioned in the call that we invested in our new intelligent delivery platform called Accenture myWizard which is bringing a lot of success in Accenture. So of course we're growing much less in the core than in the "new," which is exactly reflecting our strategy.

Now, the core is still positive, growing less, but it's still positive. And I believe that in the core Accenture is growing more than the competition at the end of the day. Which has always been our value proposition, is to grow more than the market in the "new," and much more. And to grow more than the market in the remaining core which is what we do, of course, at a much lower level and lower pace, but still positive. Right, David?

David Rowland - Accenture - CFO

It is, David, let me also clarify some subtleties in the way we talk about Digital-Related Services and the "new," just to remind you and the others as well. We initially started talking about Digital-Related Services, which was defined specifically to include Accenture Interactive, Mobility, and Analytics. And Digital-Related Services is what I referenced was growing in the range of 30%.

Following introducing Digital-Related Services several quarters ago, we rolled forward, evolved that, to talk about the "new," which includes Digital-Related Services, cloud-related services and security. With the "new," we commented that it is now about 40% of our revenues. We did not comment on the growth rate for the "new." But I will say that Digital-Related Services, of the three components of the "new," is the fastest growing.

So that helps you as well. We talk about the "new" and Digital-Related Services and it's important to just reinforce the understanding of the definitions.

Dave Koning - Robert W. Baird & Company, Inc. - Analyst

Got you. Okay, that's helpful. And then the one other question I had, the Growth Markets grew 6% and then North America and Europe were more like 11% to 12%. I would have thought a few quarters ago, that maybe China and Brazil, the gap would have been -- the slower growth would have happened. But it actually seems like now that gap, the Growth Markets are growing quite a bit slower than the others. Maybe you could comment on that a little bit.



Pierre Nanterme - Accenture - Chairman & CEO

Happy to comment. Fact of the matter is Growth Markets are growing lower than the other two, maybe just because the other two are growing exceptionally well. Especially Europe at 12%, which of course is a remarkable achievement.

When you look at the Growth Markets, needless to say that it's a mixed bag of very different situations when we're talking about our Growth Markets. First, we are extremely pleased that we continue with our double-digit growth with Japan. By the way, I don't know and maybe we provide the information, how many quarters now we've been growing double-digits in Japan, but it's starting to be spectacular, and of course it is a very large market for Accenture. Not only for the -- what we're calling the Growth Markets, but for Accenture as a whole.

I'm extraordinarily pleased with the turnaround we've been driving in Japan, with the momentum we are making in Japan and with the acquisition we have made of IMJ in order to accelerate the rotation to the "new" in Japan. I am very pleased with the new momentum we are creating in China this year, together with India and Mexico.

As you know, in the Growth Markets, there are two factors impacting the Growth Markets. First is these markets are more vulnerable to the commodity markets, in terms of energy and natural resources. There are significant countries very dependent on natural resources and energy. And of course they are affected by the commodity prices going down, and accordingly we are affected by this factor.

Secondly, the situation in Brazil. We all know what's happening in Brazil. So our growth has been slowing down in a market which is very important for Accenture.

That being said, I love being public on this, because I would like to recognize the incredible leadership of Roger Ingold and now Leonardo Framil leading our practice in Brazil, where we're doing more than resisting. When I say more than resisting, it means on a year-to-date standpoint we are growing in Brazil, which is probably, according to any standards, a remarkable achievement. Now, of course we're growing less in Brazil than we used to grow in the past.

So on balance, this 6% is reflecting very different dynamics. This is something I like a lot in Accenture, is our diverse portfolio of businesses where, indeed, when you look at the Growth Markets, when Brazil is a bit under pressure, all commodity markets, we benefit from growth elsewhere. And on balance 6% is pretty good from my perspective.

David Rowland - Accenture - CFO

If you isolated Chemicals & Natural Resources and Energy and then looked at the underlying growth in Growth Markets, it would be very similar to what we see in the other areas. It has that unique dynamic as well as the other points Pierre mentioned.

Dave Koning - Robert W. Baird & Company, Inc. - Analyst

Got you, great. Well, thank you.

David Rowland - Accenture - CFO

Thank you.

Operator

Jim Schneider, Goldman Sachs.



David Rowland - Accenture - CFO

Good morning, Jim.

Jim Schneider - Goldman Sachs - Analyst

Good morning, thanks for taking my question. I was wondering if you could talk a little about financial services. It's an area where you've talked about previously being driven by transformation and that pace continues to be pretty strong.

Can you give us any sense about whether you're seeing any tone change from your financial services customers, either in banking or elsewhere in terms of the overall IT spending outlook that would suggest that we are seeing any slowdown in that pace of change, change-driven services in particular?

Pierre Nanterme - Accenture - Chairman & CEO

Yes. I'm probably going to take this one, David, from my prior role. It seems that all my life I will comment on Europe and Financial Services. But very happy to. First, let's start with the beginning. We're pleased with where we are with Financial Services overall. If you look at the results we posted these last few quarters, we have good momentum in Financial Services.

Second, it's an industry which is ongoing some significant rotation to the "new" for obvious reasons. It's a B2C industry and we have a lot of activities in terms of rotating to the "new" and creating digital capabilities in Financial Services. This is as well an industry where we see a lot of potential in what we're calling automation, if you will, to create more automated processes, bringing virtual agents to provide financial advisory services. So that's the path which is creating some momentum.

However, on the other side of the coin, if you will, it's an industry which is still under pressure, especially in Europe, for all sorts of reasons. Negative interest rates have never been good, especially in that industry for their commercial business. The regulatory constraints are high, as you know, with all -- especially in Europe -- with all the Basel legislation and all the constraints which have been put on the banks. And so the profitability of the banks has been affected these last few years.

So at the same time they need to rotate to the "new," but at the same time they need to work on their costs. So there is a bit of this story with our Financial Services clients, investing in the "new" but being extremely cautious about their cost play. That's why after this good momentum we have in Financial Services, we might see some moderation of our growth with our verticals in Europe a bit. Nothing we are over-worried about because we believe the potential is still there, but it's an industry which is under cost pressure.

Jim Schneider - Goldman Sachs - Analyst

That's helpful, thank you. And then maybe one for David. DSOs edged back up to 41 and I guess have been on a little bit of an upward trajectory over the last four, six quarters. Can you give us a sense about whether that says anything about the overall cash flow trends for the business and whether that, in fact, is a longer term trend?



David Rowland - Accenture - CFO

I would say, to be completely transparent, it was a little higher than I would have wanted in the quarter, but yet we still generated very strong cash flow. We are very focused on managing our DSO and I'm hopeful that we will see it click down at the end of the fourth quarter.

As I've said before, first of all, even at the levels that we're at, as you know, you hear us say all the time, we're still very much industry-leading. I do think that we are in the zone of what I think could be a reset, new normal and, let's say, in that 40-day plus or minus zone. And so we'll continue to focus on it as one of our key operational priorities. And I'm hopeful we can continue to manage it in that zone.

Jim Schneider - Goldman Sachs - Analyst

Thank you.

David Rowland - Accenture - CFO

All right, thank you.

KC McClure - Accenture - Managing Director, Head of IR

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

Operator

Tien-Tsin Huang, JPMorgan.

David Rowland - Accenture - CFO

Good morning, Tien-Tsin.

Tien-tsin Huang - JPMorgan - Analyst

Good morning. Forgive the noise, I'm at the airport.

David Rowland - Accenture - CFO

No problem.

Tien-tsin Huang - JPMorgan - Analyst

Just a couple quick ones. What exactly is driving the revenue raise in the guidance here? What areas specifically are running better than expected?



David Rowland - Accenture - CFO

Really, the revenue raise is just a reflection of posting roughly 11% growth year-to-date. And if you look at the guidance range of the 6% to 9%, we just simply did the math. If you do the mathematical extension of that, you get to the 9.5% to 10.5% range.

I think in terms of what's driving it of late, Products is very, very hot right now. And the thing that is impressive about Products, which also happens to be our largest operating group, is that their growth is broad-based across every industry in that operating group, as well as each of the three geographic areas. And so I would say that what is driving us to a strong close to the year, if you will, and hence raising the revenue half a point on the upper end, you would start with Products and the strong story there.

Health & Public Service is another strong story. Very good growth in the third quarter and very strong momentum as we look to the fourth quarter. I would say our business in North America is another source of momentum. If I had to name, let's say, three big drivers, I would pick those two operating groups and North America.

And then of course underneath that, as Pierre covered very well, is the ongoing continued momentum in digital and the "new," which certainly will continue into the fourth quarter. So those are some of the big themes in terms of driving what we hope will be a good strong close to the year.

Tien-tsin Huang - JPMorgan - Analyst

Okay. That's helpful to hear, thanks. I also wanted to follow up, I think it was David Grossman's question on IP and software and how the deconsolidation of Duck Creek, that action there, how does that fit in the strategy of owning IP and platforms? Any comments? Thanks.

Pierre Nanterme - Accenture - Chairman & CEO

Yes, elaborating a bit on what I said before. So we're working on our IP from, again, from a process standpoint, a methodology standpoint, from part of solutions standpoint, and of course, in the context of working with our partners. And it might very well be that we are creating IP on top of some market solutions, which is where we are making the bridge with your question around software or not software.

We are, in our business, we are working with software companies. The job of Accenture for many years has been to bring an industry expertise, an industry wrapper on top of these solutions. And on this wrapper we are bringing, we're working on protecting our own IP when appropriate and when possible.

This is where at Accenture we make the bridge with the software providers. The software providers are all our friends and we're working with the best possible companies. They are coming to Accenture, that's why we are a good partner, to bring industry expertise. And this is on the industry expertise and wrapper, we could build IP.

David Rowland - Accenture - CFO

You want to comment on Duck Creek? He also asked about Duck Creek and how that fits in with our strategy.



Pierre Nanterme - Accenture - Chairman & CEO

Oh, yes. And Duck Creek is clearly a good illustration of what we are doing. Duck Creek is a fantastic company, an excellent solution. We certainly believe this is the best in the marketplace in policy administration -- in insurance policy administration -- in some markets, including the United States.

We wanted to invest more in Duck Creek to establish an even stronger leadership in the different markets of Duck Creek. And we believe the right way of doing it was to partner with someone who would bring some strength in terms of investing together with us, in that case, Apax Partners. And we're very pleased that Accenture, together with Apax, will be able to invest behind Duck Creek and move Duck Creek solutions to the next level and establish a stronger leadership.

This is all about the new Accenture. At Accenture we will look always at all the ways to invest, to bring the right solution, to be smart, to be thoughtful and mindful about our capital allocation. And at the end of the day, to lead in the markets and to lead in the "new."

David Rowland - Accenture - CFO

Okay.

Pierre Nanterme - Accenture - Chairman & CEO

Okay, thanks again for joining us on today's call. Let me close with a few thoughts on Accenture's long-term performance, which I believe unites all of us – investors, analysts, Accenture leaders and all of our people.

Next month, on July 19, we will celebrate the 15-year anniversary of Accenture's IPO. We have performed extremely well over the years by continually reinventing our business.

Since our IPO, we have delivered compound annual growth of 8% in revenues and 14% in adjusted EPS, creating significant value for our shareholders, for our clients and for our people. I want to thank all of you for the support you've been bringing to Accenture over so many years.

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

Operator

Ladies and gentlemen, this conference will be made available for replay after 10:30 AM today running through September 29, 2016 at midnight. You may access the AT&T Executive Playback Service at any time by dialing 800-475-6701 and entering the access code 394564. International participants may dial 1-320-365-3844. And again, the access code is 394564.

That concludes our conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.



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