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ACN - Q4 2016 Accenture PLC Earnings Call

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OVERVIEW:

ACN reported FY16 revenue of \$32.9b and 4Q16 net revenue of \$8.5b. Expects FY17 diluted EPS to be \$5.75-5.98. Expects 1Q17 revenue to be \$8.40-8.65b.



CORPORATE PARTICIPANTS

KC McClure *Accenture - Managing Director and Head of IR*

Pierre Nanterme *Accenture - Chairman and CEO*

David Rowland *Accenture - CFO*

CONFERENCE CALL PARTICIPANTS

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Sara Gubins *BofA Merrill Lynch - Analyst*

Tien-tsin Huang *JPMorgan - Analyst*

Bryan Keane *Deutsche Bank - Analyst*

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Lisa Ellis *Sanford C. Bernstein & Company - Analyst*

Rod Bourgeois *DeepDive Equity Research - Analyst*

Darrin Peller *Barclays Capital - Analyst*

PRESENTATION

Operator

Welcome to Accenture's fourth-quarter FY16 earnings call.

(Operator Instructions)

As a reminder, today's call will be recorded. I would now like to turn the conference over to our host and facilitator, as well as our Managing Director, Head of Investor Relations, Ms. KC McClure. Please go ahead.

KC McClure - *Accenture - Managing Director and Head of IR*

Thank you, operator, and thanks everyone for joining us today on our fourth-quarter and full-year FY16 earnings announcement. As the operator just mentioned, I'm KC McClure, Managing Director and Head of Investor Relations. On today's call you will hear from 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 first quarter and full FY17. David will then take your questions and provide 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 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.



During our call today, we 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 and CEO

Thank you, KC, and thanks everyone for joining us today, to learn more about our very strong results for both the fourth quarter and the full fiscal year. Given some travel limitations, I'm not able to be with you in Boston this week. David and I decided to prerecord our remarks, and then he will be available to take your questions at the end of the call.

Let me start by saying how very pleased I am with our excellent financial results, for both the quarter and the year. I'm particularly pleased with our durable and balanced performance. We have now delivered double-digit revenue growth for two years in a row, and we are gaining significant market share.

Here are a few highlights for the year. We delivered very strong new bookings of \$35.4 billion. We generated record revenues of \$32.9 billion, with 10.5% growth in local currency. We delivered earnings per share of \$5.34 on an adjusted basis, an 11% increase.

Operating margin was 14.6%, an expansion of 10 basis points on an adjusted basis. We generated very strong free cash flow of \$4.1 billion. We returned \$4 billion in cash to shareholders through share repurchases and dividends. And we just announced a semiannual cash dividend of \$1.21 per share, a 10% increase over our prior dividend.

So we delivered an excellent fiscal year. I feel very good about our performance and the momentum we have in our business, which clearly reflects the value of the services we provide to our clients each and every day. Now, let me hand over to David.

David Rowland - Accenture - CFO

Thank you, Pierre, and thanks to all of you for joining us on today's call. We were extremely pleased with our results in the fourth quarter, which once again reinforce our distinctive position in the marketplace, especially as it relates to being a leader in partnering with our clients to rotate their business to The New, including digital, cloud and security.

By any measure, our fourth quarter capped off what has been another truly outstanding year for Accenture, which is even more impressive when you consider that our FY16 results followed an equally strong year in FY15. At a high level, our quarter four results continued to reflect strong performance across all three of our financial imperatives. Durable revenue growth faster than the market, sustainable margin expansion while investing at scale in our business and our people, and strong cash flow with disciplined capital allocation.

To be more specific, quarter four represented our 10th consecutive quarter of strong growth, with continued significant gains in market share. Our net revenue growth of just over 9% in local currency was broad based, and balanced across most dimensions of our business. Our operating margin of 14.1% came in as expected, and up 20 basis points from quarter four of last year.

We were especially pleased with the underlying drivers of profitability, which enabled us to invest significantly in our business and our people during the quarter. And we delivered strong free cash flow in the quarter of \$1.9 billion, which supported our ongoing objective of investing in our business, while returning significant cash to our shareholders. So, we finished the year in a manner which was very consistent with the previous three quarters, with strong broad-based growth underpinned by very good profitability and cash flows.

With those high level comments, let me turn to some of the details, starting with new bookings. New bookings were \$9 billion for the quarter. Consulting bookings were \$4.8 billion, with a book-to-bill of 1.0, and outsourcing bookings were \$4.2 billion, with a book-to-bill of 1.1. We were

pleased with our new bookings in the quarter, which came in as we expected, and reflected continued strong demand for digital-related services. For the full fiscal year, we delivered \$35.4 billion in new bookings, reflecting 7% growth in local currency.

Turning now to revenues. Net revenues for the quarter were \$8.5 billion, an 8% increase in US dollars, and 9% in local currency, reflecting a foreign exchange headwind of roughly 1.5%. Revenues were approximately \$40 million above the upper end of our previously-guided range, when adjusted for the actual foreign exchange impact. Consulting revenues for the quarter were \$4.6 billion, up 11% in USD and 13% in local currency. Outsourcing revenues were \$3.9 billion, up 4% in USD and 6% in local currency.

The trends in revenue growth across our five businesses were very similar to last quarter. Strategy and consulting services combined, as well as operations, posted another quarter of double-digit growth. While application services delivered very solid growth in the mid single digit range. And across those four businesses, we saw strong double-digit growth in The New, led by digital related services.

Taking a closer look at our operating groups, products led all operating groups with 18% growth, reflecting continued double-digit growth across all industries and geographies. Our significant growth in products reflects the rapid adoption of The New across all of the industries within products, and our investments over the past few years are serving us very well in meeting the new demands of our clients.

H&PS posted another strong quarter, with 11% growth, driven by continued double-digit growth in health, and overall the North America and the growth markets. Financial services grew 9% in the quarter, driven by strong growth in both insurance and banking and capital markets, as well as positive growth across all three geographies, led by double-digit growth in Europe.

Communications, media and technology growth landed consistent with our expectations at 5%, and reflected continued strong overall growth in North America and the growth markets. In Europe, we did see contraction driven primarily by communications. Finally, resources growth was flat in the quarter, as we continue to navigate cyclical headwinds in both energy and chemicals and natural resources. We continue to be very pleased with double-digit growth in utilities, which is benefiting from clients' investments to digitize their businesses.

Moving down the income statement. Gross margin for the quarter was 31.3%, compared to 31.7% in the same period last year. Sales and marketing expense for the quarter was 11.1%, compared with 11.7% for the fourth quarter last year. General and administrative expense was 6.1% compared to 6.2% for the same quarter last year.

Operating income was \$1.2 billion in the fourth quarter, reflecting a 14.1% operating margin, up 20 basis points compared with quarter four last year. In the fourth quarter, as part of launching a joint venture with Apax Partners, we closed our Duck Creek transaction. This transaction, along with an immaterial adjustment to finalize our gain on the divestiture of Navitaire, lowered our quarter four tax rate by 1.8%, and increased net income by \$249 million, and diluted earnings per share by \$0.37.

The following comparisons exclude this impact, and reflect adjusted results: Our adjusted effective tax rate for the quarter was 24.3%, compared with an effective tax rate of 27.1% for the fourth quarter last year. Net income on an adjusted basis was \$881 million for the fourth quarter, compared with net income of \$788 million for the same quarter last year.

Adjusted diluted earnings per share were \$1.31, compared with EPS of \$1.15 in the fourth quarter last year. This reflects a 14% year-over-year increase. Days services outstanding were 39 days compared to 41 days last quarter, and 37 days in the fourth quarter last year.

Free cash flow for the quarter was \$1.9 billion, resulting from cash generated by operating activities of \$2.1 billion, net of property and equipment additions of \$160 million. Our cash balance at August 31 was \$4.9 billion, compared with \$4.4 billion at August 31 last year.

Turning to some other key operational metrics, we ended the year with a global headcount of about 384,000 people. Utilization was 92%, compared to 91% last quarter. Attrition, which excludes involuntary terminations, was 16%, up 1% from quarter three, and up 2% from the same period last year.

With regards to our ongoing objectives to return cash to shareholders, in the fourth quarter, we repurchased or redeemed 5.6 million shares for \$640 million, at an average price of \$114.52 per share. At August 31, we had approximately \$5.4 billion of share repurchase authority remaining. As Pierre mentioned, our Board of Directors declared a semi-annual cash dividend of \$1.21 per share. This dividend will be paid on of November 15, and represents an \$0.11 per share or 10% increase over the previous semi-annual dividend we declared in March.

So, before I turn it back over to Pierre, I want to reflect on where we landed for the full year across the key elements of our original business outlook, provided last September. I'm extremely pleased that we continued our track record of successfully executing our strategy and managing our business to deliver on the business outlook we provided at the beginning of our fiscal year. Net revenues grew approximately 10.5% in local currency for the full year, well above the top end of the guided range that we provided at the beginning of the year.

Growth was strong and balanced across our operating groups, geographies and businesses. We were very pleased with double-digit growth in products, H&PS and financial services, as well as overall in both North America and Europe. From a business perspective, we posted double-digit growth in strategy and consulting services combined, as well as operations, with very good mid-single digit growth in application services.

And of course, across the board, we saw double-digit growth in The New, estimated to represent approximately 40% of our revenues for the year, led by digital-related services with estimated growth of approximately 30%. Operating margin was 14.6%, a 10 basis point expansion over FY15 adjusted operating margin, and within the range we provided at the beginning of the year. Importantly, we were very pleased with the scale of our investments in our business and our people, as we created additional investment capacity, resulting from improvements in our underlying profitability.

Adjusted diluted earnings per share was \$5.34, reflecting 11% growth over adjusted FY15, and was above the upper end of our original guided range, primarily driven by our strong top line growth. Free cash flow was \$4.1 billion, above our original guided range, and reflecting a free cash flow to adjusted net income ratio of 1.1. And finally, we delivered on all of our capital allocation objectives, by investing over \$930 million, primarily attributed to 15 acquisitions, and returning \$4 billion of cash to shareholders.

So again, following a very strong year in FY15, our leadership team and employees around the world have done it again, with another truly outstanding year. These results demonstrate the durability of our growth, profitability and cash flows, and our ability to manage our business to deliver value to all of our shareholders. Now, let me turn it back to Pierre.

Pierre Nanterme - *Accenture - Chairman and CEO*

Thank you, David. Our outstanding performance in FY16 demonstrates that our growth strategy continues to resonate with our clients, and that we are clearly executing very well. We are benefiting from the actions we have taken over the last few years to align Accenture along five distinct businesses, to transform the services we offer, and to increase our investments in new and high growth areas. This is all that's driving differentiation for Accenture, and making us the most relevant professional services company to lead in the new digital world.

Our five businesses, Accenture Strategy, Accenture Consulting, Accenture Digital, Accenture Technology and Accenture Operations are each highly competitive in their own right, as well as synergistic in delivering value for our clients. Today, the breadth of capabilities we provide end-to-end is truly unique in the marketplace. From being relevant in the boardroom to delivering cutting-edge technologies, digital solutions, and innovative platforms, to operating services on behalf of clients, to drive tangible outcomes.

At the same time, we have transformed the services we offer. We are taking our business rapidly to what we call The New, digital, cloud and security-related services, which together accounted for about \$13.5 billion or 40% of total revenues in FY16. That is a substantial increase from approximately 30% of revenues just a year ago.

Let me share a few examples of how we are helping clients embrace The New. In digital, we are working with Melia Hotels, the European hospitality company, to implement a digital transformation strategy to increase sales across all channels, through data-driven customer segmentation. In just one year, direct sales were up over 27%, and more than 1 million people have joined Melia's rewards program.

In cloud, we are helping Rio Tinto, the global mining company, transition its enterprise systems to the public cloud, including the world's largest SAP production system migration to Microsoft Azure, delivering increased agility with an as-a-Service model. And in security, our cyber experts are working with a large US-based utility to define, develop and run a next generation security operations center. We are developing a comprehensive strategy to assess risk, manage identity, and enable alerts for cyber threats in real-time.

We continue to make significant investments across our business, particularly in acquisitions. In FY16, we invested more than \$930 million of capital in acquisitions, and that is on top of about \$800 million last year. And when we look at these last two years, I'm delighted that about 70% of our investment in acquisitions have been in The New.

In the fourth quarter alone, we announced five acquisitions in The New, including three digital services companies, MOBGEN in the Netherlands, Tecnologica in Spain, and dgroup in Germany. And two security companies, Maglan in Israel, and Redcore in Australia.

We continue to see strong demand from our clients for large scale, mission-critical transformation products. The broad range of services we provide across our five businesses, together with our deep industry expertise, continues to differentiate Accenture, and we remain the partner of choice for the world's leading companies.

For Stryker, the medical technology company, we are helping transform its business operations to enable more growth and agility. We are leveraging the Accenture SAP Business Solutions Group to build a solution on S/4 HANA, spanning finance, sales, logistics, supply chain, and procurement.

Turning to the geographic dimension of our business. I'm delighted that we delivered another year of both strong and balanced growth around the world, with double-digit revenue growth in local currency for the second year in a row, in both North America and Europe, as well as in many of our largest countries.

In North America we delivered 11% growth in local currency, driven by the United States, where we have now delivered double-digit growth for five of the last six years. In Europe, we grew revenue 11% in local currency, with double-digit growth in the UK, Italy, Switzerland, Spain, and Germany, as well as high single digit growth in France. And in growth markets, we grew revenue 8% in local currency, driven primarily by double-digit growth in Japan, as well as strong double-digit growth in China, India, South Africa, and Mexico.

Before I turn it back to David, I want to share a few thoughts on our ongoing imperative to drive innovation across our business, and to create cutting-edge solutions for clients. In today's fast-changing environment, where companies need to continually reinvent themselves, we are increasingly taking an innovation-led approach to drive more value for our clients and help them invent the future.

Our approach to innovation spans everything we do from Accenture Research, where we identify market and technology trends to Accenture Ventures, where we invest in growth-based companies, to the Accenture Labs, where we incubate and prototype new concepts through applied R&D, to Accenture Studios, where we build innovative solutions for clients with speed and agility. Our unique approach with the Accenture innovation architecture enables us to combine our capabilities across the Company to invent, develop, and deliver disruptive innovations for clients, and to scale them faster.

So as we enter FY17, we have momentum in our business, and you can count on us to continue to invest and build our capabilities for the future, in order to deliver strong, durable, and profitable growth. With that, I will turn the call over to David, who will provide our business outlook for FY17 and then take your questions. I look forward to speaking with you again next quarter. David, over to you.

David Rowland - Accenture - CFO

Thanks, Pierre. Let me now turn to our business outlook.

For the first quarter of FY17, we expect revenues to be in the range of \$8.4 billion to \$8.65 billion. This assumes the impact of FX will be about flat, compared to the first quarter of FY16, and reflects an estimated 5% to 8% growth in local currency. For the full FY17, based upon how the rates

have been trending over the last few weeks, we currently assume the impact of FX on our results in US dollars will be about flat, compared to FY16. For the full FY17, we expect our net revenues to be in the range of 5% to 8% growth in local currency over FY16.

For operating margin, we expect FY17 to be 14.7% to 14.9%, a 10 to 30 basis point expansion over FY16 results. We expect our annual effective tax rate to be in the range of 22% to 24%. This range includes an estimated benefit of less than 2% from our early adoption of a new accounting standard on employee share-based payments. For earnings per share, we expect full-year diluted EPS for FY17 to be in the range of \$5.75 to \$5.98, or 8% to 12% growth over adjusted FY16 results.

Now, turning to cash flow. For the full FY17, we expect operating cash flow to be in the range of \$4.6 billion to \$4.9 billion, property and equipment additions to be approximately \$600 million, and free cash flow to be in the range of \$4 billion to \$4.3 billion. We expect to generate free cash flow in excess of net income.

We expect to return at least \$4.2 billion through dividends and share repurchases, and also expect to reduce the weighted average diluted shares outstanding by slightly more than 1%, 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. KC?

KC McClure - Accenture - Managing Director and Head of IR

Thanks, David. As Pierre mentioned, David will be taking your questions.

(Caller Instructions)

Operator, would you provide instructions for those on the call, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question will come from the line of Keith Bachman of BMO. Please go ahead.

Keith Bachman - BMO Capital Markets - Analyst

Very strong results indeed, particularly in the climate that we're in. The operating margin performance for the quarter, or for the year, is what I wanted to ask about. For FY16, you guided to 10 to 30 basis points. You came in at the lower end of the range.

What were the circumstances you think that contributed to that? As you look to the guide, which is similar of 10 to 30 basis points of operating margin expansion, what are the forces that you think would cause some influence in that income? Are you thinking more about the low end of the range again? And just any color on that. Thanks very much.

David Rowland - Accenture - CFO

Great. Thank you for the question. As you've heard Pierre and me say several times over the last really couple of years, we are at a period that really calls for us making a significant level of investment in our business to differentiate ourselves in the marketplace, and to also position ourselves for long-term market leadership, beyond just the year that we're in.



And when you look at the 10 to 30 basis point range, that's a range that we feel very comfortable that we can deliver within. And I would say that the swing factor generally, and it was the case this year, was the extent to which we invested in the business. As you know, just doing the simple math, the difference in 10 basis points is about \$35 million.

And so when you look at this year, we were very pleased with the overall level of investments that we made in the business, and it was that marginally higher level of investments that we made. To be clear, our investments were significantly higher, I'm talking about on the margin even a little higher, than they otherwise would have been, which resulted in 10 basis points versus 20 basis points. So it's simply a reflection of the fact that we're managing a large investment pool in the business.

And on the margin, an additional \$35 million one way or the other is the difference between, let's say, being at the low end or the upper end. But we are quite pleased with the 10 basis points of expansion. We created significantly more expansion in our underlying profitability, in order to fund really a material level of investments overall. So we are quite pleased with that dynamic in our results, if you will.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. Great. And then my follow-up, if I could, it relates to that. Perhaps I missed it, but I don't know if you said how much you're contemplating that M&A would contribute to this year's guidance?

David Rowland - *Accenture - CFO*

Good question. I don't think I said it in the prepared remarks, but the answer is about 2%.

Keith Bachman - *BMO Capital Markets - Analyst*

Okay. Many thanks. Best of luck.

David Rowland - *Accenture - CFO*

Thank you very much.

Operator

Our next question will come from the line of Sara Gubins of Bank of America-Merrill Lynch. Please go ahead.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Last year, you started out at 5% to 8% constant currency revenue growth, and ended up above 10%. As you look to FY17, I'm trying to get a sense of what could drive your revenue trend to be at the lower end of the outlook, and perhaps what could drive it above? And if you could talk about your expectations for digital revenue growth in FY17 in The New, that would be great. Thanks.

David Rowland - *Accenture - CFO*

Thank you. Let me just take a minute and just frame how we see the environment, and then how that relates to our guidance.

I think, first of all, and I don't think it's a surprise to anyone on this call, in balance, we see the overall macro environment being more volatile, let's say, at this time, than where it was a year ago entering FY16. So we see a higher level of volatility overall in the macro environment, for the reasons that this group understands very well.

Having said that, in that context, our guidance assumes that the market growth -- and when I reference market growth, I'm talking about the basket of publicly-traded companies, we expect, for purposes of managing our business and the outlook, that the market growth is going to be very similar in 2017 to what we saw in 2016. And in 2016, to be clear, we saw organic growth in the basket of publicly-traded companies of about 2.5%.

Just to pause on that point for a minute, that means that in 2016 we had an extraordinary result of growing roughly three times the basket for the full fiscal year, which is really tremendous, and a reflection of the power of our strategy and our capabilities, and the relevance of the work that we're doing with our clients. The overall basket, including the inorganic, grew at about 4.5%.

So the market environment that we see is organic of 2.5%, overall growth let's say, of 4.5% in that range. Offsetting that, so a higher risk profile in the macro, the market growth as I called out, is the fact that we're starting this year with a high level of confidence. We continue to see strong momentum in our business, and that's a reflection of the things that we have done very uniquely in positioning our business for the market of today, and the market that we see in the future.

When you look at what we've done organizing around five distinct businesses, that can operate and do operate as leaders in their own right individually, but also can come together to do transformational work for our clients in a highly differentiated way, when you look at the extent we have invested in rotating our business to The New, meeting those new and emerging needs of our clients, all of that grounded in our innovation and grounded in our significant industry differentiation, through our operating groups and the skills we have there. All of that continues to come together in a powerful way, and we're very comfortable with the momentum that we have going into the year.

All that translates into 5% to 8% growth. As always, the range represents what we think is the full range of possibilities. We always work hard every day to be at the upper end of the range.

Across the entire range, it would be higher than market growth and we would gain share. And if we were to land toward the upper end of the range, that would continue to be about double the rate of the market growth, which would be quite a strong result. So hopefully that gives you the context in terms of how we see the market and our guidance.

Sara Gubins - BofA Merrill Lynch - Analyst

Great. And then within that digital and The New, how are you expecting those to grow, given difficult comparisons but strong momentum?

David Rowland - Accenture - CFO

We see both of those continuing to grow at strong double-digit growth. They will grow significantly higher than the average of Accenture overall. As we said last year, I believe, I think I said either on this call or at IA day, is that while we are very confident in our positioning in The New and the three components, from a planning standpoint, or from a guidance standpoint, it's not prudent for us to assume that it's going to grow 30%-plus again one month into the year. So we have let's say a more practical view, but yet still a view of strong double-digit growth at this point. And as the market opportunity -- to the extent it becomes a higher level of growth, similar to what we saw this year, then we'll ramp up our capability and meet that need, just as we did in 2016.

Sara Gubins - BofA Merrill Lynch - Analyst

Thank you.



David Rowland - Accenture - CFO

Thank you.

Operator

Our next question will come from the line of Tien-tsin Huang of JPMorgan. Please go ahead.

Tien-tsin Huang - JPMorgan - Analyst

Just a follow-up to Sara's question. Why might this year be different, in terms of what you might deliver, relative to your guidance? It sounds like a lot of confidence, as you said, macro is more volatile, but maybe the starting point is similar. Can you comment maybe on visibility, or anything that might differentiate this year versus last year, based on what you see?

David Rowland - Accenture - CFO

As we start the year -- let me answer that through the lens of our five operating groups, and that might be helpful, in terms of what might be different. If you look at our five operating groups against the 5% to 8% range, at the top end of the spectrum if you will you have products, which is the operating group that is positioned for the strongest level of growth. And we think it's likely that products would deliver a level of growth that is above the range of 5% to 8%, and really continue to lead the way for the growth in Accenture.

Now, will it be as high as it was in 2016? I don't think anyone would expect us to assume a repeat of 18%, but yet it will continue to be very strong.

On the other end of the spectrum, we have Resources. And Resources is really doing a brilliant job navigating what continues to be a very difficult environment. We do expect to see continued pressure, if you will, in energy and chemicals and natural resources. I would say no different than what we saw last year.

We also continue to expect utilities to be a very strong performer for us, but on balance, when you net that together, we think it's likely that Resources is going to be below that 5% to 8% range. Still flat to positive growth but below that range.

And then in the middle, we have financial services, H&PS and CMT. And while we continue to expect strong growth for those three operating groups in that band of 5% to 8%, for different reasons, the growth will be let's say lower than the strong growth that several of those operating groups delivered in 2016. Still very healthy growth, mind you, and growth that represents taking share in the case of all three of those. But at this point in our guidance, we're not assuming that those three operating groups would deliver above the 8%.

So when you say what's different? With products it's more of the same, maybe not quite as strong as it was last year. Resources continues to have the headwinds, with the two verticals in particular. And then the other three operating groups, we see right in that zone.

By the way, I think I might have said 18% for products. I meant to say 15%. I misspoke on that. So they were 15% for the year.

Tien-tsin Huang - JPMorgan - Analyst

Got it. That's helpful. So maybe just as a follow-up, just to follow through with that, just thinking about the consulting versus outsourcing for FY17, or maybe just broadly speaking, strategy versus application services, operations. Any help you can give us there, David, on what that might look like?



David Rowland - Accenture - CFO

Yes, I would say that when you look at -- through the consulting outsourcing lens first, so the type of work lens, we see the consulting being in high-single digit growth, the high single digit level, so continued again, very strong growth above the market, taking share. We see outsourcing as a type of work in the mid to high single digit, and those two combined support the 5% to 8% range.

I think probably more interesting is to talk about it through the dimensions of our businesses. We see strategy and consulting combined in the mid to high single digit range, and again, that would represent very strong growth in that segment of the market. We see application services in the mid single digit range. We see operations in the high single digit, to low double-digit range. And again, in The New, as I mentioned, we see [strong double-digit growth] (corrected by company after the call) across all three components, but let's say, led by digital related services.

Tien-tsin Huang - JPMorgan - Analyst

Good stuff. Really appreciate it. Was good to hear Pierre's voice.

Operator

Our next question will come from the line of Bryan Keane of Deutsche Bank. Please go ahead.

Bryan Keane - Deutsche Bank - Analyst

Just wanted to ask, last quarter, you warned of European financial service weakness on the horizon, but it was actually a strength in the quarter. I think it grew double digits. Just curious on your outlook there in Europe financial services, and maybe just in general, a lot of headline risk in financial services these days. How do you see the environment going forward for you?

David Rowland - Accenture - CFO

First of all, let me say, we were quite pleased with our growth in financial services in Europe. We have a very strong practice. We have strong leadership, a great team broadly, and I think it just speaks, again, to the differentiation that we have, in this case in financial services Europe, and the extent to which they are really bringing the full power of our strategy to serve our clients, which have a variety of needs.

I think, if I remember correctly, Pierre focused on a few demand drivers in financial services, that continue to be present in the fourth quarter, and we believe, will continue to be present going forward. The first demand driver, first of all, the backdrop is, I think as we know, financial services is a very technology intensive sector, especially if you're thinking about banking and capital markets specifically.

Within that, I would say the three demand drivers continue to be significant investment in digitizing the customer channel, so what we refer to, the sector refers to, as distribution and marketing. There's significant investments to digitize the channel, as a way to drive growth in the bank.

Alongside that, for reasons that we understand, there's significant focus on cost rationalization, and increasing to a much higher level the cost efficiency of the bank, both to deal with -- let's say the structural pressures of a lower interest rate environment, regulatory pressures, et cetera, but also to create capacity to invest for the growth through digitizing really the enterprise, but especially the channel.

And then a third driver would be risk and regulatory broadly, where we have market leading capability, and that serves us very well. So when you look at the fourth quarter, all three of those things were at play globally, but certainly in Europe. And we think we're well-positioned, and we think that banks in spite of these disruptive forces, continue to have the need to invest in transforming for profitability, and investing for growth, and we are well-positioned to help them with that.



When you look at the backdrop of Brexit, specifically in Europe, we have not seen any material impact to date. We didn't see that in the fourth quarter, and we don't see anything in the first quarter. Having said that, we, along with everyone else continue to be very focused on it.

The Brexit story, if you will, will play out in the months, if not years to come. And so we watch that very closely. We're not blind to the fact that could represent some risk, and we are working hard to anticipate those, should they occur, and then respond accordingly.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Helpful. And then just quick follow-ups. The lower tax rate, is that sustainable going forward, or is that just a one-year impact? And then just any thoughts on gross headcount for the year? Thanks so much and congrats.

David Rowland - *Accenture - CFO*

Thank you very much. The tax rate, the accounting change for the tax rate for share-based compensation gives us a benefit, because effectively we get a higher tax deduction when the share price at the time that a share is delivered is higher than the price at the time that the share was granted. And so in this environment, where we've had such strong appreciation in our share price, that created the tax benefit, which as I called out, was just under 2%.

So to answer your question, will that continue over time? It will continue over time to the extent our share price continues to appreciate, such that our share price at the delivery date is higher than what it was at the time we granted. So you can take a point of view on where you think our share price will head, and then that would inform you as to whether or not that will benefit us going forward.

On the headcount was the second part of your question, as you look forward to next year, there is an interesting evolution, if you will, in how we talk about headcount, even externally. And really, as you think about our focus on these five distinct businesses, each of which has a unique talent strategy and supply/demand model, it's a little bit -- it's more nuanced, if you will, in terms of how we communicate headcount-related data.

And so what I would say in general is that we have a history of hiring to meet the demand that we see in the marketplace. We do it very effectively. Our utilization for many, many quarters has been managed, really at industry-leading levels.

And so as we look forward, our headcount is going to evolve in a way that meets the demand that we see in the market. And what we take comfort in is that we think talent management and our ability to access talent in the market is as good as anyone in our industry, and we feel very confident that we will secure the talent in the quantities we need, to support the growth that we provided for in our guidance.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Thanks, David.

Operator

Our next question will come from the line of David Togut of Evercore ISI. Please go ahead.

David Togut - *Evercore ISI - Analyst*

Could you address your strategy to reinvent your core, and rotate the core toward digital, security and cloud over time? And in connection with that, are there any milestones we can track, just to measure your progress in this strategic transformation?

David Rowland - Accenture - CFO

Yes, so that's a very good question, and I'm glad you asked it. When you use the word core, just to level set everyone, you're referring to that portion of our business that is not in the roughly 40% we identify as in The New. So you're talking about the 60%.

And I think the important point to make there, and Pierre has made this point several times previously as well, is that our investment agenda, and our innovation agenda, covers the full scope of our business, including the 40% that we identify with The New and the 60% that we identify outside of The New. So again, we have a very vibrant business, outside of that which we identify as being digital, cloud, or security.

So the point is that we do invest to maintain vibrancy in our core business and our goal, just as it is in The New, is to grow our core faster than the market, and take share. If you look at the year that we just completed, we estimate that our core grew -- had positive growth, albeit in the single digit, low single digit range, as by design, the vast majority of our growth comes from new, which is the essence of our strategy. But nonetheless, our core business continued to grow, and we estimate that it grew faster than the market and we took share. And we invest for that growth, and we focus on it as a key part of our business.

An example of that would be something that, again, I think Pierre's referenced, Bhaskar Ghosh, who leads technology, has talked about this in different forums. But an example of that would be the investment that we've made in our myWizard platform, which fundamentally reinvents, if you will, innovates around the way we do core application services work, through the use of an automated tool that includes an intelligent agent or agents, in the case of this tool, and really just helps us deliver application services work in a way that is more efficient and more effective.

When you look at, for example, some of the investments that we've made in our strategy and consulting business, while our strategy and consulting business is focused on The New, consistent with our strategy, there are parts of our strategy and consulting business that are not in that bucket that we call The New.

When you look at the investments that we make in that part of our business, for example, the acquisition that we just announced of Kurt Salmon, which gives us an industry-leading strategy capability in the retail sector, and really strengthens our position there. Certainly a part of that investment benefits us in The New, but there's a part of that investment that is the core strategy capability in retail, that is part of the 60% that we benefit from, as well. So we invest in both parts of the business, and in both cases, our intent is to be a leader, to grow faster than the market and take share.

David Togut - Evercore ISI - Analyst

Thanks very much, David. My thoughts are with Pierre.

Operator

Our next question will come from the line of Lisa Ellis of Bernstein. Please go ahead.

Lisa Ellis - Sanford C. Bernstein & Company - Analyst

First one, can you give a little bit of color around how -- where you're seeing the maturity of some of the digital service lines at this point? Now that as you highlighted, they're \$9.5 billion in revenue, meaning, is there any way to broadly characterize the digital work into build or design type of work, versus where you've moved into full implementation or even ongoing run activities?

David Rowland - Accenture - CFO

Good question. And I have to say thanks for not asking me the margin question first. You'll ask it second, I'm sure.

Lisa, what I would say is that when you look at the maturity curve for The New, and I think this applies to digital, it applies to each of the three components within digital that we talk about, analytics, mobility and Accenture Interactive, it applies to cloud adoption, and it applies to security. I would say across the board, universally, we are on the low end of the curve, if you will, or to say it differently, we are in the early innings of the adoption curve. These are ways that we think have a lot of runway in front of them.

Paul Daugherty would give you a more eloquent view, as our Chief Technology Officer -- our Chief Technology Strategist. But I feel comfortable that he would say that certainly this is a decade-long, if not beyond a decade-long adoption curve for these new technologies, and really the profound impact that they will each have on the way global businesses and governments operate. And so I would say we're early stage in the adoption, and this wave has a long runway in front of it.

Lisa Ellis - *Sanford C. Bernstein & Company - Analyst*

Okay. And then as a follow-up, just maybe coming at the momentum question from a little bit of a different angle. Why is it that you think that -- at least the splits you were giving Tien-tsin suggest that you at this point believe your growth may decelerate into this year, even though, as you highlighted, it's still meaningfully higher than the overall market growth. Given the momentum, though, you're describing, and the fact that these are in early stage of adoption, and The New is an increasingly large component of your base, why would you think the business would decelerate this year?

David Rowland - *Accenture - CFO*

Well, it's -- again, I think you have to look at -- you have to look at the fact that -- I want to make sure that in the way I answer that question, that I start with the fact that we feel very good about the momentum in our business, and we feel very good if we were -- within the range that we guided to, and that would represent, we think, market leading performance. Now having said that, why would it be different? And I don't want this to sound negative, because in fact, we're very positive.

But when you think about the quarter, and when you think about the operating groups and the industries that have had really extraordinary double-digit growth, in many cases, not only for the last year but for the last two years, right? As confident as we are in many of our industries, as we sit here in the first months of the year, to assume that all of those industries and all of those geographic markets are going to continue at this same level of extraordinary double-digit growth for a third year in a row would just -- probably wouldn't be prudent.

Does that mean that we don't have confidence in our industries? No. Does that mean that our business runners aren't working hard every day to hit the repeat button, and do again what they've done the last two years? Absolutely not. But Pierre and I have a responsibility to be balanced and prudent in the way we set our expectations externally, and that's what's reflected in our guidance.

And again, that's not to say that our guidance is conservative in any way, because we don't. We think it's very good guidance in the context of the market growth, and it's entirely consistent with our strategy to be a leader, and grow faster than the market. But if some of these industries have strong, but let's say lower growth, than they've had the last two years, then that would put us in the 5% to 8% range, and that is the possibility in several of our industries.

Lisa Ellis - *Sanford C. Bernstein & Company - Analyst*

Terrific. Thank you.

Operator

Our next question will come from the line of Rod Bourgeois of DeepDive Equity Research. Please go ahead.



Rod Bourgeois - *DeepDive Equity Research - Analyst*

Just wanted to clarify a couple of things that seem to be assumptions in your guidance. If I understood your comments about the verticals correctly, it sounds like all of the verticals, except energy, could be somewhat weaker in its growth in FY17 versus FY16. And energy has been challenged, so it probably stays somewhat challenged. But the other verticals, it sounds like will decelerate.

And then you also mentioned that you're assuming the market rate of growth will hold up in FY17 at the same rate as in FY16. And so I just wanted to, one, clarify is that the assumption about the verticals, that they'll generally be somewhat slower this year than last? And then on the market, I just want to understand the assumption that it will -- the growth rate will hold up at its current level. What's driving that assumption?

David Rowland - *Accenture - CFO*

I'll start at the end and then work back. What's driving that assumption is that we don't see anything as we sit here today that would fundamentally change the dynamics that we see in the market, let's say, as we look out over the next four quarters. We see more of the same.

And what we see is an organic market that would continue to grow in that 2.5% range, which means that we are making our own market through our differentiation, the uniqueness of our strategy, leveraging the power of our investments, to drive a level of organic growth that is meaningfully higher than that to take share. But we don't see anything that would meaningfully change that underlying organic growth of about 2.5%.

So in other words, we're not speculating on -- you pick your black swan of the day. We're not speculating on some black swan event, that would materially change the market. If that were to happen, all companies will be revisiting the impact of something like that, should it occur.

In terms of the -- again, I almost hate to use the word deceleration, because in almost all cases our growth ambitions for the vast majority of our verticals continue to be quite strong, and well above the market, albeit at lower levels than, in many cases the very, very strong double-digit growth we've had the last year, if not two years. And so deceleration, what I would say for many of our verticals, we've assumed lower but still strong growth, is the way I would characterize it.

Energy and chemicals and natural resources, we don't see a catalyst for change. We think those industries are going to continue to be tougher, let's say, continue to be tough as we go through the fiscal year. As I mentioned, we have seen some pressure in communications, in Europe in particular. And although we are very pleased with our growth in financial services and banking and capital markets specifically, I would say that is an industry that we are watching through Richard Lumb's leadership, we are watching very, very carefully and very closely.

Rod Bourgeois - *DeepDive Equity Research - Analyst*

Very helpful. And two very quick ones. You mentioned acquisition contribution should be around 2% this year. Could that be 3%? And then can you just comment on your DSO outlook?

David Rowland - *Accenture - CFO*

Yes, so the 2% would align very closely to an assumption that we spend about \$1 billion, which is what we've assumed in our capital allocation strategy, if you will. Could it be higher? As Pierre and I have said, we have the willingness and the courage, if you will, and the capacity, the fire power, to spend more than \$1 billion, should we have the right opportunities.

And if the right opportunities presented themselves, then we have no reservations, no concerns, and complete flexibility to go above \$1 billion, if the circumstances were right. And so, in theory could it go higher? It could go higher, and we'll just have to see how the year plays out. A lot of it has to do with the timing of when those would occur.

Rod Bourgeois - *DeepDive Equity Research - Analyst*

Great. And then --

David Rowland - *Accenture - CFO*

Did I miss anything?

Rod Bourgeois - *DeepDive Equity Research - Analyst*

The DSO outlook.

David Rowland - *Accenture - CFO*

On DSOs, we are managing to have our DSOs in the 40-day range. We had been signaling that DSOs, really for many years, that our DSOs would tick up but still be industry-leading. And right now we're assuming DSOs in the 40 day range for next year.

Rod Bourgeois - *DeepDive Equity Research - Analyst*

Thanks.

KC McClure - *Accenture - Managing Director and Head of IR*

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

Operator

Our last question will come from the line of Mr. Darrin Peller of Barclays. Please go ahead, sir.

Darrin Peller - *Barclays Capital - Analyst*

Thanks for squeezing me in. Just a quick follow-up, first on the hiring efforts. Can you give us a little more color on the distribution in terms of GDN versus on-site? Just given where you were investing in digital, I would imagine it's more distributed towards the on-site. How much has that changed over the past year? I just have one more quick follow-up.

David Rowland - *Accenture - CFO*

Just in terms of color, I would say that we are investing in talent acquisition, in literally in every major market that we have around the world. When you look at our five businesses, you can connect the dots, and see where we have more -- higher growth, let's say, in strategy and consulting, as an example but not just limited to strategy and consulting, and digital, I might add. Certainly a lot of that talent acquisition investment is in each of the markets that we operate in around the world.

I would also point out though that digital -- that GDN also supports, and is very integral, very integral to a big part of The New. We are investing in differentiated skills, and obviously in cloud and in security, in digital, in the GDN as well. But again, we will -- we're very comfortable with our ability to acquire talent, and to ramp that up, as we need to, as the market growth evolves throughout the year.



Darrin Peller - *Barclays Capital - Analyst*

Okay. And just for my quick follow-up, it really did sound like, from the gist of all the questions on the call that, and all your answers, that you really are not seeing any sentiment shift around the financial services vertical just yet post-Brexit, or anything else from a macro standpoint, hitting it just yet.

I know you're growing over a larger base, so it's understandable, it would be a little more you prudent on outlook. But is that a fair statement, that while we've heard a lot of your competitors calling out more conservatism or shift in strategy by their clients, you haven't seen it because of your focus on digital? Maybe any other color? Thanks,

David Rowland - *Accenture - CFO*

Just quickly, as we're running out of time, I would say that I can't comment on our competitors. What I can say is that the resiliency -- let me back up. A key tenet of our strategy, our growth strategy, is to create durability and resiliency in our business, and that is reflected in our focus across five businesses. It's focused in our investments to lead in The New. And it's focused in -- it's rooted in the focused but diverse portfolio that we have across industries, and across geographies.

And whereas maybe some of our competitors -- you can apply this to who you want -- are more dependent on one or two or three verticals in one or two markets, that's not the case with Accenture. And that is, in fact, the differentiator, and probably colors our comments and our results versus some of our competitors, all of whom we respect, but yet we think we're differentiated, for the reasons that I mentioned.

Again, in addition to chemicals and energy and natural resources, we've got our eye on communications and Europe in particular, and while we haven't seen any impact at this point in banking and capital markets, we're not blind to the dynamics of Brexit and how it could evolve. And Richard Lumb, who is our Group Chief Executive for Financial Services is very focused on staying on top of that, and we'll see how it plays out. I would say so far, so good.

Darrin Peller - *Barclays Capital - Analyst*

Thanks, David.

David Rowland - *Accenture - CFO*

Thank you very much. Okay, so let me just close out the call, and thank everyone again for joining us on the call. Hope you found it helpful and insightful.

As we enter FY17, we're very pleased with the ongoing momentum in our business, with the differentiated capabilities we're building, our continued rotation to The New, and our disciplined management of the business. We're very confident in our ability to continue gaining market share and driving profitable growth.

On behalf of Pierre and our entire leadership team, I want to thank all Accenture people around the world for their hard work, dedication, and commitment to our clients and our business, and to delivering another excellent year.

We look forward to talking with you again next quarter. In the meantime, if you have any questions at all, please feel free to reach out to KC. Thank you.



Operator

Ladies and gentlemen, that does conclude our conference call for today. On behalf of today's panel, we would like to thank you for your participation in today's fourth-quarter FY16 teleconference call. Thank you for using AT&T. You may now disconnect.

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