

THOMSON REUTERS STREETEVENTS

# PRELIMINARY TRANSCRIPT

ACN – ACCENTURE'S Q1 FISCAL 2017 EARNINGS  
CONFERENCE CALL

DECEMBER 21, 2016 / 8:00 A.M. EST



### CORPORATE PARTICIPANTS

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

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

**David Rowland** *Accenture - CFO*

### CONFERENCE CALL PARTICIPANTS

**Tien-tsin Huang** *JPMorgan - Analyst*

**James Friedman** *Susquehanna Financial Group / SIG - Analyst*

**Lisa Ellis** *Bernstein - Analyst*

**Bryan Bergin** *Cowen and Company - Analyst*

**Ashwin Shirvaikar** *Citigroup – Analyst*

**Frank Atkins** *SunTrust Robinson Humphrey - Analyst*

**Brian Essex** *Morgan Stanley - Analyst*

**Jason Kupferberg** *Jefferies LLC - Analyst*

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

### PRESENTATION

---

#### Operator

Ladies and gentlemen, thank you for standing by. Welcome to Accenture's first quarter FY17 earnings conference call.

(Operator Instructions)

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

---

#### **KC McClure - Accenture - Managing Director, Head of IR**

Thank you, Greg, and thanks everyone for joining us today on our first quarter FY17 earnings announcement. As Greg just mentioned, I'm KC McClure, Managing Director, Head of Investor Relations. With me today are Pierre Nanterme, our Chairman and Chief Executive Officer, and David Rowland, our Chief Financial Officer.

We hope you've had an opportunity to review the news release we issued a short time ago. Let me quickly outline the agenda for today's call. Pierre will begin with an overview of our results. David will take you through the financial details, including the income statement and balance sheet for the first quarter. Pierre will then provide a brief update on our market positioning, before David provides our business outlook for the second quarter and full FY17. 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, 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.



## Accenture's Q1 FY '17 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 results for the first quarter.

We grew revenues ahead of the market, gaining significant market share, and I am particularly pleased that our growth continues to be broad-based across the dimensions of our business, including very strong double-digit growth in new high-growth areas such as digital-, cloud- and security-related services. Here are a few highlights from the quarter:

- We delivered strong new bookings of \$8.3 billion.
- We generated revenues of \$8.5 billion, with 7% growth in local currency.
- We delivered very strong earnings per share of \$1.58, a 23% increase.
- We expanded operating margin 40 basis points to 15.6%.
- We generated strong free cash flow of \$1 billion.
- And we returned nearly \$1.4 billion in cash to shareholders through share repurchases and dividends.

So, we are off to a strong start in FY17. I feel very good about our business, and the speed at which we are executing our strategy to drive differentiation for Accenture and accelerate our rotation to “the New.”

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

---

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

Thank you, Pierre. Happy holidays to all of you, and thanks for taking the time to join us on today's call. As you heard in Pierre's comments, we were very pleased with our results in the first quarter which came in as expected, and represent a positive first step to achieving our full-year objectives. Our focused execution of our strategy continues to extend our leadership position in the marketplace and strengthen our ability to deliver significant value to our clients and our shareholders.

Once again, we delivered on all three of our financial imperatives for driving shareholder value. I'm particularly pleased with the continued progress we're making in expanding our operating margin while investing significantly in our business and our people. Our ongoing focus on our Fit For Purpose agenda is serving us well as we seek to optimize the economics across each of our five businesses.

So before I get into the details, let's look at our results in the context of the three imperatives:

- Strong local-currency growth of 7% continues to support our strategic objective to grow faster than the market and take share. We delivered positive growth in the majority of our industry groups and geographic markets, with five industry groups growing double-digits. Strong momentum in “the New” continued to be the driver of our growth.
- With respect to sustainable margin expansion, we expanded operating margin by 40 basis points, while continuing to make significant investments to build scale and differentiation in strategic and high-growth areas of our business.



- And finally, regarding strong cash flow and disciplined capital allocation, we generated \$1 billion in free cash flow in the quarter, which supported our ongoing objective of investing in our business while returning significant cash to our shareholders. As it relates to our capital investments, we invested roughly \$600 million, primarily attributed to 10 acquisitions, and we're well-positioned to invest at least \$1 billion to acquire critical capabilities this year, especially in "the New."

With that said, let me turn to some of the details, starting with new bookings. New bookings were \$8.3 billion for the quarter. Consulting bookings were \$4.9 billion, with a book-to-bill of 1.1, and Outsourcing bookings were \$3.4 billion, with a book-to-bill of 0.9.

Our new bookings came in the range we expected this quarter, and represented 9% growth in local currency. This level of new bookings follows our typical pattern of lower new bookings in the first quarter, which then build throughout the year. We're very pleased with our estimated bookings in Strategy and Consulting Services combined, and of course, Digital-, Cloud- and Security-related services continued to be an important theme in the work we're contracting with our clients. Looking forward, we feel good about our pipeline, and we expect to deliver strong bookings in quarter two.

Turning now to revenues. Net revenues for the quarter were \$8.5 billion, a 6% increase in USD, and 7% in local currency, reflecting a foreign-exchange headwind of roughly 1%, compared to the flat impact provided in our business outlook last quarter. Adjusting for the actual FX impact, we were at the upper end of our guided range for the quarter. Consulting revenues for the quarter were \$4.6 billion, up 6% in USD and 7% in local currency. Our Outsourcing revenues were \$3.9 billion, up 7% in USD and 7% in local currency.

Looking broadly at the trends and estimated revenue growth across our five business dimensions, growth was led by Operations, which posted double-digit growth for the fourth consecutive quarter. Strategy and Consulting Services combined, as well as Application Services, delivered mid-single-digit growth. And across those four businesses, we saw strong double-digit growth in "the New," with all three components, Digital, Cloud and Security, growing double-digit as well.

Taking a closer look at our operating groups, Products, our largest operating group, led with 17% growth reflecting continued double-digit growth across all industries and geographies. Our significant growth in Products reflects the rapid adoption of Digital-, Cloud- and Security-based solutions across all Products industries.

Financial Services grew 6% in the quarter, with overall positive growth in both Insurance and Banking & Capital Markets, primarily driven by very strong growth in Europe. We did see contraction in Banking & Capital Markets in North America, but expect to return to positive growth during this fiscal year.

H&PS came in as expected at 5% growth, with balanced growth across Health and Public Services globally, and strong double-digit growth in the Growth Markets.

Communications, Media & Technology grew 4%, and reflected strong overall growth in both North America and the Growth Markets. We saw strong double-digit growth in Media & Entertainment, and solid growth in Electronics & High Tech. We continued to see contraction in Europe, driven primarily by Communications.

Finally, Resources revenues decreased 2% in the quarter, driven by continued challenging market conditions in both Energy and Chemicals & Natural Resources, especially in North America. The bright spot continues to be Utilities, which again delivered double-digit growth in the quarter, but not at the level required to offset the pressure in the other two industries. We expect our Resources operating group to continue to navigate a challenging environment throughout this fiscal year, but remain very focused on delivering flat to slightly positive growth for the full year.

Moving down the income statement. Gross margin for the quarter was 32.1%, compared to 32% in the same period last year. Sales and marketing expense for the quarter was 10.4%, compared with 10.9% for the first quarter last year. General and administrative expense was 6%, compared to 5.8% for the same period -- the same quarter last year.



## Accenture's Q1 FY '17 Earnings Conference Call

Our operating income was \$1.3 billion in the first quarter, reflecting a 15.6% operating margin, up 40 basis points compared with quarter one last year.

Our effective tax rate for the quarter was 20.4%, compared with an effective tax rate of 29.3% for the first quarter last year. The lower effective tax rate was primarily due to higher benefits from adjustments to prior-year taxes, as well as our early adoption of the new accounting standard on employee share-based payments.

Net income was \$1.1 billion for the first quarter, compared with net income of \$869 million for the same quarter last year. Our diluted earnings per share were \$1.58, compared with EPS of \$1.28 in the first quarter of last year, and this reflects a 23% year-over-year increase.

Days services outstanding were 44 days, compared to 39 days last quarter, and 41 days in the first quarter of last year. Free cash flow for the quarter was \$1 billion, resulting from cash generated by operating activities of \$1.1 billion, net of property and equipment additions of \$85 million. Our cash balance as of November 30 was \$4.1 billion, compared with \$4.9 billion at August 31.

With regards to our ongoing objective to return cash to shareholders, in the first quarter we repurchased or redeemed 5 million shares for \$588 million, at an average price of \$116.44 per share. At November 30, we had approximately \$4.9 billion of share repurchase authority remaining.

Also, in November, we paid a semi-annual cash dividend of \$1.21 per share, for a total of \$785 million. This represented an \$0.11 per share, or 10% increase over the dividend we paid in May.

So in summary, we're very pleased with our quarter one results, and we're off to a good start in FY17. Now let me turn it back to Pierre.

---

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

Thank you, David. Our very strong first-quarter results demonstrate that we continue to execute a strategy that is resonating very well with our clients, and driving differentiation for Accenture in the marketplace.

We continue to make significant investments to rotate our business to “the New” – digital-, cloud- and security-related services – which together now account for more than 40% of our total revenues, and again this quarter grew at a very strong double-digit rate.

The need to go digital continues to drive strong demand from our clients around the world. We are working with ENGIE, the multi-national utility, to transform its retail business model by completely rethinking the customer experience. We are leveraging the service design and innovation of Fjord, part of Accenture Interactive, to help ENGIE create new services to disrupt the market.

With Hess, the global energy company, we're implementing a cloud-based, as-a-service operating model. With our cloud solutions and predictive analytics, Hess is able to increase efficiency and improve maintenance across its asset base, while benefiting from consumption-based pricing.

And we're working with one of Europe's largest home improvement retailers to create and implement a new multi-channel strategy to accelerate its digital transformation. Our retail experts at Javelin, part of Accenture Strategy, and our designers at Fjord are helping shape and deliver a more personalized customer experience.

We continue to invest across the business to accelerate our rotation to “the New,” both organically and through acquisitions, and in the first quarter, we deployed \$600 million in strategic acquisitions.

In digital, we are acquiring OCTO Technology, a leading digital consulting firm based in Paris. We also acquired Karmarama, a creative agency in the UK, and Allen International, a design consultancy that specializes in banking.



In cloud, we acquired DayNine, a leading Workday consulting and services provider, and Nashco Consulting, which expands our capabilities in ServiceNow.

In security, we acquired Defense Point Security, enhancing our cyber security capabilities for U.S. federal agencies, and we completed the acquisition of Redcore in Australia.

We also further strengthened the capabilities of Accenture Strategy with the acquisition of Kurt Salmon, which brings deep expertise in the retail industry.

At the same time, we continue to leverage our unique position in the technology ecosystem. Our clients value our independence as the leading partner of both the established providers and emerging players. With Google, we formed a new alliance to create industry-specific cloud and mobile solutions to help clients advance their digital transformation agendas and improve business performance.

We expanded our Salesforce capabilities to include new platforms for Financial Services, Consumer Goods and Life Sciences companies, and we now have significantly more people skilled in Salesforce than any other provider.

We are always looking ahead to anticipate what's next, and our unique Innovation Architecture enables us to take an innovation-led approach to help our clients invent the future. A key element is Accenture Ventures, which includes a robust Open Innovation program that works with start-ups, accelerators and entrepreneurs. And we recently formed a strategic relationship with Partech Ventures, a leading venture capital firm, to help clients tap into the rich pool of innovation from start-ups in Europe and Silicon Valley.

Turning to the geographic dimension of our business... we continue to grow ahead of the market in each of our geographic regions. In North America, we grew revenues 6% in local currency, driven by strong double-digit growth in several key industries, including Consumer Goods, Retail & Travel Services, Life Sciences and Media & Entertainment.

In Europe, we had another strong quarter with 7% growth in local currency, driven by double-digit growth in several of our major markets, including the UK, Germany and Switzerland, as well as high single-digit growth in Spain.

And in Growth Markets, we were very pleased with our 10% growth in local currency, led by strong double-digit growth in Japan and China.

In closing, our rotation to "the New" is clearly at the heart of our strategy to position Accenture for future growth. The strong capabilities we are building are not only recognized by our clients, but also by many prominent industry analysts.

And I'm very proud of the recognition we have received for the relevance and depth of our services, ranging from the strength of our overall position in digital services, to our specific expertise in analytics, cloud and digital experience, to our leadership in emerging technologies like intelligent automation, Internet of Things and blockchain.

So, with the first quarter behind us, I'm pleased with our results, and especially with the balance we are striking between delivering results today while continuing to invest to drive future growth.

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

---

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

Thank you, Pierre. Let me now turn to our business outlook.

For the second quarter of FY17, we expect revenues to be in the range of \$8.15 billion to \$8.4 billion. This assumes the impact of FX will be negative 2%, compared to the second quarter of FY16, and this range reflects an estimated 5% to 8% growth in local currency.



## Accenture's Q1 FY '17 Earnings Conference Call

For the full FY17, 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 2% compared to FY16.

For the full FY17, we continue to expect our net revenue to be in the range of 5% to 8% growth in local currency over FY16.

For operating margin, we continue to expect FY17 to be 14.7% to 14.9%, a 10 to 30 basis-point expansion over FY16 results.

We continue to expect our annual effective tax rate to be in the range of 22% to 24%.

For earnings per share, adjusting for the updated FX assumption, we now expect full-year diluted EPS for FY17 to be in the range of \$5.64 to \$5.87, or 6% to 10% growth over adjusted FY16 results.

For the full FY17, we continue to 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.

Finally, we continue to expect to return at least \$4.2 billion through dividends and share repurchases, and also continue to 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 we can take your questions. KC?

---

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

Thanks, David. I would ask that you each keep to one question and a follow-up to allow as many participants as possible to ask a question. Greg, could you provide instructions for those on the call, please?

### QUESTION AND ANSWER

---

**Operator**

Thank you.

(Operator Instructions)

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

---

**Tien-tsin Huang - JPMorgan - Analyst**

Hey, good morning. Good day to you all.

---

**David Rowland - Accenture - CFO**

Good morning, Tien-Tsin.



### **Tien-tsin Huang - JPMorgan - Analyst**

Just the -- I guess, second quarter in a row here, not beating revenue guidance. Maybe where are you seeing change in business momentum? Looks like Strategy, Consulting in North America has slowed a little bit. Can you comment there? What, any big changes dramatically in terms of just business momentum? Thank you.

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

I'll just comment on how we feel about the revenue, and then Pierre will chime in with some additional color as well. I mean, let me start, Tien-Tsin, with the fact that when we provide guidance, we provide it because we expect we're going to land in that range. And as pleased as we've been in the past where we've exceeded the range, that hasn't been our intent. We don't set guidance with the expectation that we're going to beat it.

So having said that, in that context, again, we're very pleased with 7% growth. And there's really two reasons under, I would I say, three reasons underneath that. One is that that growth does reflect we believe, significantly higher growth than the market. And when you look at what that means in dollar terms, when you look at the dollar share gains that we've taken underneath that 7% growth, it's tremendous.

The second reason we're pleased with the 7% growth is because when you peel underneath the five operating groups, and look at it across the 13 industries and the 20-some odd geographic markets that we operate around, in around the world, the vast majority of those had positive growth, and in many cases, double-digit growth. So if you look at our 13 industries, 5 of the 13 had double-digit growth.

And of course, the third reason we're pleased with the growth is because of the continued very strong growth in "the New." And so we feel very good about the growth, to be clear. We did signal previously that we had some areas in our business that were more challenged. We talked about Chemicals & Natural Resources and Energy for some time now. And I would say that quarter one, for the most part was more of the same, maybe a little bit more pressure in North America in the first quarter.

We signaled last quarter that we had a period of lower growth that we were going to be going through in Communications Europe, and that played out as expected. And then I did mention Banking & Capital Markets in North America, which is more attributed to a revenue pattern on a few large clients in the quarter, with the expectation that we'll return to positive growth. But even in Banking & Capital Markets, if you look globally, we had very good growth, and in Europe in Banking & Capital Markets, we had double-digit growth.

So our guidance assumed that growth rates in many areas of our business would be lower. And that's what's played out. Sorry for that long answer. But Pierre, I'll see if you want to add anything?

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

No, I mean, not much to add on this. I guess to answer very directly your question, do we see any change in the marketplace? My simple answer is no. I think we do not see any new trends or new situations, as David said very well. We had some very specific situations, but otherwise, again, our growth is broad-based across the different countries, different industries, so the different dimensions of the business.

And I mean, for us the name of the game is to be in the guidance. So probably we set some sort of track record of beating the guidance, but that is not the intent. The intent is to deliver in the guidance, and to provide you with the right information on how we see the business.





---

**Tien-tsin Huang - JPMorgan - Analyst**

Understood. No, that's helpful. You did signal those items. Maybe my quick follow-up, just the updated thinking on Outsourcing versus Consulting growth in FY17? And thanks for the time, guys.

---

**David Rowland - Accenture - CFO**

Okay. Thank you, Tien-Tsin. If you look at the full year, our view has not changed for Consulting as a type of work and Outsourcing as a type of work. Last quarter, and this is true today, our view is high single-digits for Consulting, and mid to high single-digits for Outsourcing, and that is unchanged from 90 days ago.

---

**Operator**

Your next question comes from the line of James Friedman from Susquehanna. Please go ahead.

---

**James Friedman - Susquehanna Financial Group / SIG - Analyst**

Hi, good morning. It's Jamie at Susquehanna. Wanted to ask a quick question about the operating margin trajectory. David, I noticed that the Products OG operating margin expanded about 300 basis points to 18%. If you could share whether that's sustainable, and what some of the inputs are that are pushing that margin so high?

---

**David Rowland - Accenture - CFO**

Yes. If you look at Products specifically, they are doing quite well both in terms of the top-line growth and the profitability. There's no doubt about it. When you look at their expansion in margin, I think, at a high level I think that's a reflection of two things. Number one is I think it's a really good illustration of the power of executing the strategy.

So what you see in Products is a high level of rotation to "the New." You see a strong component of Consulting and Strategy Services combined, so very much operating, kind of at the heart of the industry and the client agenda. And I think what you see in their profitability is a reflection of that. It's the power of being able to bring to the fullest extent our business architecture around five businesses, rotating to "the New," with very, very deep industry expertise. That's what's at play there.

As part of that, they also are more efficient, just as a tactical point, in sales and marketing costs. So overall, we were pleased with our profitability. We were pleased with our contract profitability. We were pleased with our payroll cost structure overall. And as I've said before, when our payroll is efficient, and our contract profitability is good, then good things happen. And of course, in the mix we continue to invest significantly in the business at the same time.

---

**James Friedman - Susquehanna Financial Group / SIG - Analyst**

Yes, and just as my follow-up, more generally, how should we contemplate the margin characteristics of "the New" versus the rest? We would think that in "the New" you would have higher bill rates but would also have higher pay rates. So any inputs that you might have there would be helpful?



---

**David Rowland - Accenture - CFO**

Yes, our intent is that -- so let me talk about intent, as opposed -- to be clear, I'm not commenting specifically on the quarter. Our intent is that our profitability profile in "the New" would be accretive to Accenture. And there's obvious reasons for that.

Number one is you're talking about a new and emerging high-impact, high-value marketplace, where there's a scarcity of skilled partners who can do what we do at scale. And so, those market conditions typically lend themselves to the opportunity for good economics. And so, that's how we look at "the New," and that's our focus.

---

**James Friedman - Susquehanna Financial Group / SIG - Analyst**

Thank you.

---

**David Rowland - Accenture - CFO**

Thank you.

---

**Operator**

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

---

**Lisa Ellis - Bernstein - Analyst**

Hi, good morning, guys.

---

**David Rowland - Accenture - CFO**

Hi, Lisa. Good morning.

---

**Lisa Ellis - Bernstein - Analyst**

Hi. Can you talk a little about the maturity of the service lines in Digital, and -- because you guys probably have the best broad-based visibility into the evolution of that market? So specifically how is the mix evolving from the earlier stage, shorter duration, kind of concept and design work into full scaling and rollout, and how do you see that changing in your pipeline as you look forward?

---

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

Yes, sure. Thanks a lot, Lisa for your question. What we believe is on one hand, it's still certainly early days of this digital transformation. Now, as you're saying, we're starting to see some more maturity in the way our clients are buying our services.

So we have moved from the very early days of small project or prototype, proof of concept, testing the water with digital, to try to understand what are the new business models. I think this wave at least for the B2C, for the B2C, is behind us, for



## Accenture's Q1 FY '17 Earnings Conference Call

the business to consumer, sorry, is behind us. And now the business to consumer digital-related services are maturing more rapidly, driving bigger transformation projects.

Now, if you move to more the B2B, related to Internet of Things or industrial Internet, we're still in wave one, where indeed we're working more around prototyping the future, finding user cases for the smart glasses, for the analytics, and for the drones and all of the like. And so, the maturity probably will come in the next 12 months. So I still see a bit of a difference between the B2C and the B2B.

And accordingly if you look at Accenture, we have been scaling to leadership our services from a B2C standpoint. I'm thinking of course, about the great success of Accenture Interactive, where now we are in a leading position. I'm thinking as well of all what we are developing in e-commerce kind of services, or analytics supporting as well the business to consumer. And at the same time, we are investing in scaling our services more on the B2B, especially around Internet of Things, the industrial Internet and other types of services, such as artificial intelligence as well.

---

**Lisa Ellis - Bernstein - Analyst**

Terrific, and thank you. And then, as my follow-up, can you comment on Accenture's perspective on the policy debate around H-1B visas. Clearly, you're not in the cross-hairs of that, but you are in the top five I think, H-1B visa users, so curious for your perspective on that?

---

**David Rowland - Accenture - CFO**

I don't think this is really the forum for us to elaborate on our view of that. Typically, we wouldn't comment on policy matters like that. What I would say is that from our perspective, we have a very strong, robust workforce in the United States. We have, I think I'm correct, 50,000 employees -- 50,000 employees in the United States, and the vast majority of those are U.S. citizens or permanent residents.

And so, our model -- so I can speak for Accenture, our model is to build resident skills if you will, in all of the major markets where we operate. And again, the U.S. is a reflection of that. So speculating, I don't think, serves -- really would make sense at this point in terms of where it might go, and it would be tough to predict.

---

**Lisa Ellis - Bernstein - Analyst**

Thank you. Happy holidays, guys.

---

**David Rowland - Accenture - CFO**

Thank you. Same to you.

---

**Operator**

Your next question comes from the line of Bryan Bergin, Cowen. Please go ahead.

---

**Bryan Bergin - Cowen and Company - Analyst**

Hi, thank you.



---

**David Rowland - Accenture - CFO**

Hi, Bryan.

---

**Bryan Bergin - Cowen and Company - Analyst**

Hi. Can you make some comments around the outlook for clients' 2017 budgets, and then, how do you characterize that now versus this time last year?

---

**David Rowland - Accenture - CFO**

Clients' 2017 budgets and versus last year?

---

**Bryan Bergin - Cowen and Company - Analyst**

Yes, so their outlook and what you're seeing in their behavior to start?

---

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

Yes. We're watching carefully especially as we're getting at the back end of calendar 2016, what's happening in 2017. First, we look at this from different angles, of course, our experience with clients, what we see from the analysts – industry analysts – and then making our judgments. First, we could confirm that, indeed, we see the rotation of the budgets from legacy technology services to digital-related services and frankly, it's playing in our favor. No doubt that we continue to see that shift in the budgets of our clients.

Interestingly, the overall budget including digital is probably increasing more than decreasing, because you have the budget coming from, for instance, digital advertising and digital marketing now are becoming part of the addressable market for a company like us. So our rotation to digital, cloud and security has opened new opportunities for us, and it's confirmed by the industry analysts who are all mentioning the shift from legacy technology to digital-related services.

For the rest, I guess, as mentioned by David, we're pleased with our pipeline. We have good prospects for the second quarter bookings. So all of this is confirming to me that demand is still there. But again, more and more driven by what we're calling "the New," and new services around digital, in contrast to the legacy services.

---

**Bryan Bergin - Cowen and Company - Analyst**

Okay. Thanks. Just my follow-up, the Operations group business performance has obviously been solid. Can you talk about I guess, the split across the different business mix there, particularly how the BPO business is doing across verticals? Thanks.

---

**David Rowland - Accenture - CFO**

Yes, the anchor of our Operations business and, therefore, the strength is really our BPO business, which is world-class, industry-leading, and the drivers of growth have been -- are -- remain pretty consistent. When you look at F&A, when you look at procurement, those are two of the primary anchors, and always behind the results in Operations in BPO in any given quarter. So, yes, it's BPO-centric, and we're very pleased with our results in the first quarter. And I would say it's more -- it's really more of the same of the story we've been telling now for many quarters.



---

**Bryan Bergin - Cowen and Company - Analyst**

Thanks, guys. Happy holidays.

---

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

Yes, I would like to call out BPO, and I would like to take the opportunity to congratulate Debbie Polishook and all the team, and Manish and all the like, who have been doing an extraordinary job for Accenture. And to some extent, if you have ideas, I would like to rename and to rebrand BPO, because I think it's more the terminology of the past. And what we are doing is moving beyond what we used to call business process outsourcing. Because what's done by Debbie and the team is a profound reinvention of the way you're operating that business, by bringing now platform-based services at scale, highly efficient and highly intelligent.

Second, more and more providing that business as a service, which is of course, contributing to support the agenda of our clients where they move -- they want to move from fixed to variable, and CapEx to OpEx. Three, it's going beyond managing operations that is bringing analytics, cloud services, amazing richness in what they do. And I truly believe a tribute to the team that they have been reinventing the kind of services, and that is why we're growing [double digits] [corrected], which is much more than the BPO business, and gaining significant market share.

I mean, the line is always the same. The appetite from clients is for new technologies, new services, new ways of operating the business, and this is all the rotation we have engaged in Accenture these last three years. We are benefiting now, and hopefully in the coming years, to move us away from the legacy commoditizing services.

---

**Operator**

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

---

**David Rowland - Accenture - CFO**

Good morning, Ashwin.

---

**Ashwin Shirvaikar - Citigroup - Analyst**

Good morning, guys. Thank you for doing the call, I guess, a day early. So in that spirit, happy holidays.

---

**David Rowland - Accenture - CFO**

Same to you.

---

**Ashwin Shirvaikar - Citigroup - Analyst**

I just wanted to -- I know, David, you mentioned this is perhaps not the right forum for policy views, but with regards to a lot of the political change that we are seeing, could you potentially go into sort of the demand implications of a Trump presidency, especially as it relates to changes in regulation in healthcare and banking?



---

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

Yes, I just -- Ashwin, I know that that is the topic of the day, and everyone is interested in, and trying to speculate and anticipate what a Trump presidency may bring, but again, I just don't -- we're just not going to speculate on that. I mean, time will tell. Frankly, it's impossible to tell right now, and anybody who tells you they have an informed view of it is probably misleading you. We'll see.

I think if you put Trump aside, I think there are a lot of good things underpinning the U.S. economy right now, certainly, some challenges as well. But when we look at it through our lens of our business, we feel good about our market in the United States and our growth prospects in the United States. And we have not identified anything that we believe is going to materially change that for the fiscal year that we're in.

---

### **Ashwin Shirvaikar - Citigroup - Analyst**

Understood.

---

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

Adding on this, and I'm commenting, of course, on the new or the coming presidency, talking about Accenture and what it is we're achieving. First, we know we're in a world that's highly volatile, uncertain, almost every day something might happen around the world. There are going to be many elections every year. In 2017, we will have elections in France, my country. There are going to be elections in Germany, and so on and so on.

So what it is we want to achieve is to build a durable business model with at scale and relevant services, which at the end of the day should be as much as we could, independent of any form of short-term political impact or other effect. I think this is what we demonstrated these last -- if you look 2015, FY15, FY16, we've been able to grow double-digit. Here we have a very strong 7% in Q1, despite the environment.

So the environment is the environment. There's not much we could do. And so, for us our strategy is to take our future in our hands, and drive a strategy which is going to be sustainable and durable. And I believe that nothing's going to stop us from executing our strategy and making Accenture successful.

---

### **Ashwin Shirvaikar - Citigroup - Analyst**

And for the follow-up question, I know you mentioned obviously, the tax rate impact in the quarter. A part of the benefit was accounting standards. So just want to check, is that a one-time true-up, or should we expect from a modeling perspective a lower level?

---

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

Yes, the -- if you remember last quarter when I signaled that we were going to adopt the new accounting standard, I signaled that it had about a two-point impact on our tax rate. And so it was in the mix. We're not quantifying the impact in quarter one, but it was in the mix this quarter. We don't have a materially -- we don't have a different view from what I commented on 90 days ago. I will say that, as I said last quarter, I believe, is that the ultimate impact depends on what happens to the stock price, is the way the accounting works. And so if the stock price appreciates between when a grant is issued and versus when it's awarded, then that creates a tax benefit. If the stock price goes down between the issuance and the date that it's awarded, the award date and the date that you get the share, then it would create a tax headwind or would have a -- negatively impact tax rate. So to be clear, it will depend in the future on what happens to the stock price



and you're looking at the difference between when it was granted and when they actually get -- it's vested and they get the award.

---

**Ashwin Shirvaikar - Citigroup - Analyst**

Got it. Understood. Thank you guys.

---

**David Rowland - Accenture - CFO**

Thank you.

---

**Operator**

Your next question comes from the line of Frank Atkins from SunTrust. Please go ahead.

---

**Frank Atkins - SunTrust Robinson Humphrey - Analyst**

Thanks for taking my question.

---

**David Rowland - Accenture - CFO**

Hi, Frank.

---

**Frank Atkins - SunTrust Robinson Humphrey - Analyst**

Need to ask a little about sales and marketing expense, a significant driver of margin in the quarter. Where could we see that going looking forward?

---

**David Rowland - Accenture - CFO**

I would say sales and marketing expense -- first of all, it does ebb and flow by quarter. It's driven by -- obviously it's an activity-driven cost, depending on opportunity pursuits, closing deals, et cetera. So it does vary by quarter. Having said that, in our Fit For Purpose agenda that we're driving as a multiyear effort to optimize our economics, to create capacity in our P&L, both to meet our margin expansion goals, to drive our share price, but to also importantly create significant headroom in our P&L to invest in our business, that is all in the mix of our Fit For Purpose agenda and this is one example of the power of the focus that we have on increasingly managing each of these businesses and optimizing the economics for each business individually.

That includes optimizing sales and marketing cost for each of the businesses individually, recognizing that the way you approach sales and marketing in a Strategy practice is fundamentally different than the way you do it in an Operations practice. So we continue to focus on optimization across all of our business activities and our entire cost structure, of which sales and marketing is a key component of that. So we'll see how it goes. It does vary by quarter. But we were pleased with the efficiency of our costs overall in the first quarter, certainly with the 40 basis points of expansion.



---

**Frank Atkins - SunTrust Robinson Humphrey - Analyst**

And then for my follow-up, as we kind of step back and look at the 10 to 30 bps in target expansion over time, if we were just to take the midpoint, the 20 bps of margin improvement, how do you see that breaking down in terms of either gross margin or efficiency gains or changes in G&A or sales and marketing? What are the kind of buckets driving that?

---

**David Rowland - Accenture - CFO**

I'm not going to break it down that way, because that's really not the way we manage our business as we've said. What I would say is that the two biggest influencing factors to margin expansion are, one, payroll efficiency. So if we expand margins over time, that almost certainly means that we are increasingly driving a better relationship between payroll cost and revenue. And the second big contributing factor is our client or contract profitability. And those are the two factors. And so it would be reasonable to assume that to the extent we have an expectation or ambition to expand operating margin over time, both of those things are contributors.

---

**Frank Atkins - SunTrust Robinson Humphrey - Analyst**

Thank you very much.

---

**David Rowland - Accenture - CFO**

Thank you.

---

**Operator**

Your next question comes from the line of Brian Essex from Morgan Stanley. Please go ahead.

---

**David Rowland - Accenture - CFO**

Good morning, Brian.

---

**Brian Essex – Morgan Stanley - Analyst**

Good morning. Thank you for taking the question.

---

**David Rowland - Accenture - CFO**

Happy to do it.

---

**Brian Essex – Morgan Stanley - Analyst**

Happy holidays. Wanted to ask a little about M&A. Unfortunately, you guys are buying all of our best software channel checks. As you build that business and maybe you're more integrated with processes and integrators in certain cloud





segments, whether it's specific to now Workday or Salesforce.com or regionally, along with Pierre's comments of building a more durable business, how much more visibility are you gaining in "the New" relative to your historical model? How much visibility do you have, whether it's Consulting or ongoing application development and maintenance business, because of that shift in your business?

---

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

There is a shift in the nature of the services we are doing. Now, the services would apply in consulting, in strategy consulting, systems integration and solution implementation, outsourcing and the like. So they're all very similar in the nature of the business of what we've been doing for many years. Now, it's the nature of the services which are of course different because they are in digital or software in the cloud. The software in the cloud at the end of the day is an application package you have to implement, and we know how to do that. I don't believe that the shift in our rotation to "the New" is changing the visibility on the business or is changing the fundamentals of our business. Now, we are fundamentally changing the nature of the services we are providing in digital marketing, in cloud, in security services and so forth. But I don't think it is changing the visibility or it has a profound impact on the business model.

---

### **Brian Essex – Morgan Stanley - Analyst**

Is that the case? -- as you shift -- the model has shifted more towards Consulting than Outsourcing. Is that the case from an overall mix perspective? As you partner with your clients for agile development and you have centers of excellence to work alongside them, does that give you more visibility on the Consulting side?

---

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

Yes, I mean certainly. You've seen the results these last few quarters around our Consulting business, which has been significantly moving up. And of course the digital has been a driving force in this Consulting growth. But when you look at it, you still have the same continuum with clients. It's starting with strategy and here more digital strategy than corporate strategies from the past. Then you need to create operating models, digital operating models for clients, and you need to understand very well the industry drivers and disruptions, all of what we're calling Accenture Consulting. Then you build solutions and this is the job of Accenture Digital and Accenture Technology. And then you operate on behalf of the business, if clients want to do that.

At the end of the day, that's why we build this business architecture from strategy to building solutions, to operating on behalf of clients. And we are the only one in the marketplace to have this continuum of services, because this is what we believe the client's going to buy moving forward. And there is always going to be a role for the outsourcing because again, you envision the business, you build solutions and you operate solutions, and we want to be a leading company in these three activities, if you will.

And if you look at digital, indeed it's starting more with the strategy and the consulting piece of the business but there are already many activities we have from an outsourcing standpoint. Coming in my mind would be cloud, where we're managing cloud services on behalf of clients; there would be cyber security, where a significant part of our cyber security services are managed services. And three, I'm thinking about analytics we are more and more, as well, driving on behalf of the clients, including some marketing campaigns. So again, you need to look at it as a continuum of services we're providing to clients. So we're there for whatever they want to execute.

---

### **Brian Essex – Morgan Stanley - Analyst**

Very helpful. Thank you very much.



---

**David Rowland - Accenture - CFO**

Thank you, Brian.

---

**Operator**

Your next question comes from the line of Jason Kupferberg from Jefferies. Please go ahead.

---

**David Rowland - Accenture - CFO**

Good morning, Jason.

---

**Jason Kupferberg – Jefferies LLC - Analyst**

Good morning, David. Just wanted to start with a question on I guess you've got the three pressure points in the business right now, the North America Banking & Capital Markets, the North America Resources or at least parts of Resources in North America, and then European Comms. So I was just hoping you could maybe give us a sense of, in aggregate, how big are those three in terms of percentage of your revenue and do you feel like individually that they've kind of troughed here in Q1?

---

**David Rowland - Accenture - CFO**

Yes. So it's interesting you asked that question. Pierre and I were talking about this just recently, just as we analyze our business. If you look at the few areas where there are some market dynamics that are creating pressure on our business, the areas you called out, that represents less than 15% of our revenue. 85% of our business, and I don't mind putting this out in traffic, so-to-speak, the remaining 85% of our business is growing double digit. Is growing double-digits.

So when you look at 85% of our business, it's really a very consistent pattern with what we've seen now for many quarters. We have these few concentrated areas where the market dynamics are such that it has created some challenges in the quarter that we just closed. And in some cases, to be fair and we called it out and pointed to some of the challenges will extend into future quarters this fiscal year. But I think the point of that, and it gets back to the statement as to why we're so pleased with our business, is that the vast majority of our business is really doing quite well and continuing to grow and expand consistent with what we've seen for many quarters.

---

**Jason Kupferberg – Jefferies LLC - Analyst**

It does speak to the benefits of the diversification you obviously have. Just as a follow-up, obviously the equity markets have been pretty excited about the U.S. election. Now as we head into January, is there a thought process that some enterprises may hesitate on new project starts and ramp-ups just at the outset of the calendar year until there is greater clarity on the initial priorities of the new administration? And have you built anything into your guidance to sort of risk-adjust for that?

---

**David Rowland - Accenture - CFO**

Go ahead, Pierre.



---

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

David might comment on your risk adjustment or things like this. But no, I think we've not seen a change in the U.S. in projects. And for me, let me share with you what I see. What I think is different with the digital transformation of the industries, the way we look at it, is -- and I don't want to be too emphatic but this being disrupted and being put out of the business is clearly in the minds of all CEOs on the planet, including the U.S. There is a very strong feeling and understanding that if you're not changing your business models, if you're not surfing this revolution of "the New," if you're not adopting fundamentally new ways of operating, digitally enabled, you can be put out of the business.

I think this force of "I could disappear if I'm not really changing" now -- and you have all the facts behind this -- this driving force for me is, or these driving forces are more significant than any presidential election. When you fear about your future as a company, when you fear you can be put out of the business, I don't think you're going to stop your transformation because there is an election. Myself, leading a company as CEO, believe me, I would not change my transformation agenda because there's going to be a French election.

---

### **Jason Kupferberg – Jefferies LLC - Analyst**

Thanks. Very helpful.

---

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

Thank you, Jason.

---

### **KC McClure - Accenture - Managing Director, Head of IR**

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

---

### **Operator**

Okay. That question comes from the line of Bryan Keane from Deutsche Bank. Please go ahead.

---

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

Good morning, Bryan.

---

### **Bryan Keane – Deutsche Bank - Analyst**

Good morning, guys. Thanks for fitting me in. Just want to ask about Consulting. Consulting had been healthy double-digit growth last fiscal year, I think it was 14% constant currency in 3Q, and then 13% in 4Q. It dropped a little bit down to 7%. So just in particular, curious to see what's happening in Consulting. Then you also said, David, you expect it to be high single digits for the year. That would suggest a little bit of a rebound going forward in Consulting, so would be interested in your thoughts there.



---

### David Rowland - Accenture - CFO

Yes. So let me just, kind of do a little fact connecting, just for a second. So Bryan, when the comment earlier, when I answered it, that was for Consulting type of work, where I said high single. And so when we talk about Consulting type of work and relate that to our five businesses, that includes Accenture Strategy, Accenture Consulting and the application development part of Application Services. So when you look at those three areas, which roll into Consulting type of work, the high single digit is our view. When you look at Strategy and Consulting combined, and now I'm talking about the businesses, two of the five businesses, that grew mid single digits in the first quarter, which was right in the range we had expected.

On last quarter's call, I believe I stated that the growth for Consulting, and Strategy and Consulting combined for the year would be mid to high single digits. And so we're pretty much in that range. Again, we are very pleased with our Consulting bookings in the quarter, and that goes across Strategy and Consulting combined and the app development part of App Services, and typically bookings lead to revenue growth. So hopefully that clarified. But the bottom line is from a business standpoint we see a lot of demand drivers, including back to digital and "the New" as Pierre alluded to a couple of times, that really serve us well in our Strategy and Consulting business. It's a very active marketplace at this point in time.

---

### Bryan Keane – Deutsche Bank - Analyst

Okay. Helpful. And then a lot of questions in the industry around pricing, both in Consulting and Outsourcing. Would love to get your thoughts on, are you seeing pockets of pricing pressure versus pricing power throughout the business. Thanks so much and happy holidays.

---

### David Rowland - Accenture - CFO

Thank you. Same to you. We have been very pleased with our pricing. I would say for the most part we, again, are very pleased with our pricing results. The one area where there's pricing pressure and we talked about this is where you have areas that are highly or rapidly commoditizing and you look at application maintenance type services as the primary example. That's where pricing is most intense and most competitive. But in that area we're holding our own in the context of that market. Otherwise, we've been very pleased with our pricing.

---

### Pierre Nanterme - Accenture - Chairman & CEO

Okay. Time to wrap up and thanks again to all of you for joining us on today's call.

Before we wrap up, I want to mention that KC McClure, who has been our excellent Head of Investor Relations for the past six years, is moving to another role at Accenture, as the finance director for our Communications, Media & Technology operating group. Accordingly, Angie Park will become our new excellent Head of Investor Relations. And Angie has tremendous experience, has held many finance roles during her more than 20 years at Accenture. So compared to me, Angie, you're just a kid with my 37 years.

I want, of course, to take this opportunity to really thank KC for her dedication to delivering value to our shareholders and to our business, and to supporting so well David and I in Investor Relations. Thanks a lot, KC. I look forward to working now with Angie, and I know she will with be reaching out to many of you very soon, so we could continue being extremely close and friendly in Investor Relations for all of you.

With that, let me wish all of you -- investors, analysts and our Accenture people who are listening to the call -- a very happy holiday season. All the best for the New Year.



## Accenture's Q1 FY '17 Earnings Conference Call

We look forward to talking with you again next quarter. And in the meantime, if you have any questions, please feel free to call, now, Angie and her team. All the best.

### Operator

Ladies and gentlemen, this conference will be available for replay after 10:30 Eastern time today through March 23rd. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701, and entering the access code 405525. International participants dial 320-365-3844. Those numbers once again are 1-800-475-6701 or 320-365-3844, with the access code 405525. That does conclude your conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2016 Thomson Reuters. All Rights Reserved.

