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Conference Call Transcript

ACN – Accenture’s Q4 Fiscal 2011 Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Accenture's fourth quarter fiscal 2011 earnings call. At this time, all lines are in a listen-only mode. Later there will be an opportunity for your questions. (Operator Instructions). I'd also like to remind you that today's conference is being recorded.

I'll now turn the conference over to KC McClure, Managing Director of Investor Relations. Please go ahead.

KC McClure - Accenture - Managing Director, Investor Relations

Thank you, Kathy. And thanks, everyone, for joining us today on our fourth-quarter and full-year fiscal 2011 earnings announcement. As Kathy just mentioned, I'm KC McClure, Managing Director of Investor Relations. With me today are Pierre Nanterme, our Chief Executive Officer, and Pamela Craig, 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. Pam 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 year. Pierre will then provide a brief update on our market positioning and progress against our growth strategy. Pam will then provide our business outlook for the first quarter and full fiscal year 2012, and then we will take your questions, before Pierre provides a wrap-up at the end of the call.

As a reminder, when we discuss revenues during today's call, we're talking about revenues before reimbursements, or net revenues.

Some of the matters we'll discuss on this call are forward-looking, and you should keep in mind that these forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to, general economic conditions and those factors set forth in today's news release and discussed under the Risk Factors section of our annual report on Form 10-K and other SEC filings.

During our call today, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of those measures, where appropriate, to GAAP in our news release or on the Investor Relations section of our website at www.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 – Chief Executive Officer

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

It's a pleasure to be here today to present our excellent results for Q4 and the full fiscal year. I'm extremely pleased to report that we met or exceeded our business outlook for all of our key metrics, from revenues and bookings to profitability and cash flow. Here are a few highlights:

- We delivered record new bookings of \$8.4 billion for the quarter, and \$28.8 billion for the year.
- Revenues for the quarter increased 14% in local currency to \$6.7 billion, with all 5 operating groups delivering double-digit growth. Full-year revenues increased 15% in local currency to \$25.5 billion, a new record.
- Earnings per share for the quarter were \$0.91, a 38% increase over Q4 last year. For the full year, earnings per share were a record \$3.40, up 28% over fiscal-year 2010.
- We expanded operating margin for both the quarter and the full year.
- We generated free cash flow of \$1.2 billion for the quarter and \$3 billion for the full year, exceeding the top end of our annual range by more than \$300 million.
- We continue to have a rock-solid balance sheet, with a cash balance of \$5.7 billion.
- We continued to return cash to shareholders, with more than \$2.8 billion in share repurchases and dividend payments during the year.
- And we just announced a semi-annual cash dividend of \$0.675 per share, which is a 50% increase over our prior dividend.

Clearly, we are executing and delivering extremely well across all dimensions of our business.

Now Pam will review the numbers in greater detail. Pam, over to you.

Pam Craig - Accenture - Chief Financial Officer

Thank you, Pierre. Thank you all for joining today.

I am pleased to tell you more about Accenture's fiscal year 2011 fourth-quarter and full-year financial results. As Pierre just said, we delivered records across the board, including very strong year-over-year revenue growth across the dimensions of our business overall in the fourth quarter and for the full fiscal year. In addition to the strong earnings results, which reflected the highest annual EPS we've ever achieved, we also met or



beat all of the elements in our original fiscal year '11 annual business outlook a year ago, including records for new bookings, free cash flow, and operating margin. As we look ahead into fiscal '12, we are pleased with our progress in building market share and with how we are positioned to drive our business forward.

Unless I state otherwise, all figures are GAAP except the items that are not part of the financial statements or that are calculations.

New bookings for the fourth quarter were a record \$8.4 billion and reflect a positive 9% foreign exchange impact compared with new bookings in the fourth quarter last year. Consulting bookings were a record \$4.2 billion, and represented a book-to-bill of 1.1. And outsourcing bookings were \$4.3 billion, the highest in over seven years.

New bookings for the full fiscal year were also a record at \$28.8 billion, above the upper end we signaled in June of the \$25 billion to \$28 billion range that we had all year. These bookings reflect a foreign-exchange impact that turned out to be 400 basis points better than we originally assumed a year ago, positive 3% compared with new bookings for fiscal '10. Consulting bookings for fiscal '11 were \$15.4 billion, and outsourcing bookings were \$13.4 billion.

Now, let me give you some detail on these record-high bookings in the fourth quarter.

- In Management Consulting, bookings reflect client demand for our services to optimize their top line growth and drive operational efficiency. Demand continues for improving sales and marketing effectiveness to support our clients' growth strategies. We see strong activity for projects that deliver cost take-out, both near-term and structural. And we are helping our clients design and implement global operating models as they endeavor to expand their global footprints.
- In Technology Consulting, clients continue to value our independence and track record in seeking strategic help to plan, transform, and streamline global IT operations, and to leverage and exploit new technology waves, including the cloud.
- Systems Integration bookings continue to reflect strong demand for ERP, in response to business trends for globalization, regulation, and operational efficiency. We are supporting clients in their global expansion and complex integration programs, and to extend their ERP systems to achieve better data management and analytics. We are also seeing an uptick in demand in new technologies for digital and social, for growing needs in integrated mobile platforms, and for software as a service.

Turning to Outsourcing... In Technology Outsourcing, demand remains strong, as our clients continue to focus on reducing the costs of their legacy systems and on consolidating the number of IT vendors they use. Through our continuously improving Global Delivery Network, we are better and better equipped to respond to clients' needs for both complex and cost-effective delivery. At many of our clients, we are expanding our relationships into more longer-term committed relationships for maintenance, development, and enhancements.

BPO bookings in Q4 were very strong, and the highest in 12 quarters, as we have growing demand for both horizontal offerings in Finance & Accounting and Procurement, aided in part by our Ariba Sourcing acquisition earlier in the year, as well as industry-specific offerings in Resources, Communications & High Tech, and Health & Public Service.

In summary, we had a bookings quarter that was strong across both Consulting and Outsourcing, with \$100 million or more in bookings at 10 clients around the world.

Now, turning to revenues... Net revenues for the fourth quarter were \$6.7 billion, an increase of 23% in US dollars and 14% in local currency from the same period last year, reflecting a foreign-exchange impact of positive 9%. These revenues were above our guided range of \$6.4 billion to \$6.6 billion, a range that had assumed a foreign-exchange impact of positive 8%. Adjusting for actual exchange rates, we were about \$40 million higher than the top end of the range we provided in June. Consulting revenues for the quarter were \$3.9 billion, an increase of 25% in US dollars and 16% in local currency. And outsourcing revenues were \$2.8 billion, an increase of 21% in US dollars and 13% in local currency.

Net revenues for the full fiscal year were \$25.5 billion, an increase of 18% in US dollars, and 15% in local currency. Consulting revenues for the full year were \$14.9 billion, an increase of 21% in US dollars and 17% in local currency. And outsourcing revenues were \$10.6 billion, an increase of 15% in US dollars and 13% in local currency.

We saw revenue growth across all of our operating groups in the fourth quarter.



Resources revenues grew 18% in local currency. This revenue growth was driven by ERP and global operating model programs in many parts of the globe, with particularly high growth in our priority emerging geographic markets. Revenue growth was primarily driven by Consulting, with Outsourcing revenue growth lower. This trend is expected to continue for the near term.

The Products operating group had local-currency revenue growth of 16%, driven by strong and well-balanced growth in both Consulting and Technology offerings across the Products industries around the world. Our core ERP transformation offerings continue to be the backbone of our revenue. In addition, Products revenues reflected continued growth for operational effectiveness, supply chain, CRM and an uptick in analytics.

In Financial Services, revenues grew 13% in local currency, and reflected strength in both types of work, particularly for Technology Outsourcing. Clients continue to invest in replacing their core systems, in initiating more cost-reduction projects, and in improving operational effectiveness. Growth was also driven by global operating model programs and post-merger integration projects.

Communications & High Tech revenues also increased 13% in local currency, and reflected very strong Outsourcing growth, driven by clients' continued focus on improving their operations, particularly in supply chain, procurement and finance. Consulting revenues reflect a focus on operational effectiveness, improving customer service, and supporting the launch of new products and services.

I would also like to note that on September 1st, we renamed this operating group Communications, Media & Technology. The three industries that make up the operating group – Communications, Electronics & High Tech, and Media & Entertainment – remain the same.

Finally, Health & Public Service revenues increased 12%, driven by strong growth in our Health offerings, including health administration and electronic medical records. Our growth in H&PS overall was also positively impacted by better delivery efficiency compared to last year. As we have mentioned in previous quarters, our repositioning in Public Service continues to progress. I'm extremely pleased with the net revenue results we stepped up and delivered in fiscal '11.

Moving down the income statement, let me run through the components of operating income. For the fourth quarter, gross margin was 33.1% compared with 34% in the same period last year, a decrease of 90 basis points. Gross margin for the full year was 32.9% compared with 33.6% in fiscal '10, a decrease of 70 basis points.

Sales & Marketing costs for the fourth quarter were \$821 million, or 12.3% of net revenues, compared with \$698 million, or 12.9% of net revenues, in the same period last year, a decrease of 60 basis points. And Sales & Marketing costs for the full year were \$3.1 billion, or 12.1% of net revenues, compared with \$2.7 billion, or 12.3% of net revenues, in fiscal '10, a decrease of 20 basis points.

General & Administrative costs for the fourth quarter were \$472 million, or 7.1% of net revenues, compared with \$433 million, or 8% of net revenues, in the same period last year, a decrease of 90 basis points. And G&A costs for the full year were \$1.8 billion, or 7.1% of net revenues, compared with \$1.7 billion, or 7.7% of net revenues, in fiscal '10, a decrease of 60 basis points.

This all resulted in operating income for the fourth quarter of \$923 million, reflecting a 13.8% operating margin, compared with \$714 million, or 13.2% operating margin, for the same period last year, a 60-basis-point expansion. I was pleased with the profitability delivered in the fourth quarter, and note particularly the improved profitability in Products. Full-year operating income of \$3.5 billion reflected a 13.6% operating margin, compared with \$2.9 billion, or a 13.5% operating margin for fiscal '10, and within our guided range for operating margin of 13.6% to 13.7%.

As a reminder, we manage our business to operating margin and manage a number of levers. Throughout the year, we worked the level and mix of our cost of delivery and sales so that in the fourth quarter we achieved operating margin expansion of 60 basis points. At the same time, we continued to make investments in people and initiatives to fuel strong growth over the year. We were pleased with our continued progress in managing G&A costs at a growth rate lower than revenues and with our delivery, as we finished out this year, of the modest margin expansion we had originally aimed for.

Below operating income, our effective tax rate for the fourth quarter was 27%. The year-to-date effective tax rate was 27.3%, in line with our annual guided range of 27% to 28%.

Net income for the fourth quarter was \$683 million, compared with \$510 million in the same period last year. For the full year, net income was \$2.6 billion, compared with \$2.1 billion in fiscal '10, also a record this year, and an increase of 24%.



Diluted earnings per share for the quarter were \$0.91, compared with \$0.66 in the same period last year, an increase of 38%. The \$0.25 increase is made up of \$0.14 from higher revenue and operating income in local currency, \$0.06 from favorable foreign-exchange rates, \$0.02 from a lower effective income tax rate, \$0.02 from a lower share count, and \$0.01 from higher non-operating income.

For the full fiscal year, diluted earnings per share were \$3.40, compared with \$2.66 in fiscal '10, an increase of 28% and at the top end of our guided range of \$3.36 to \$3.40. The \$0.74 increase is made up of \$0.42 from higher revenue and operating income in local currency, \$0.11 from a lower share count, \$0.09 from a lower effective income tax rate, \$0.08 from favorable foreign-exchange rates, and \$0.04 from higher non-operating income.

Turning to some other key operational metrics... We hired 70,000 people in fiscal '11, and ended the year with a global headcount of about 236,000 people. Our Global Delivery Network grew from 116,000 people at the beginning of the fiscal year to 141,000 people at the end. In Q4, our utilization was 85%, flat with Q3 and in line with our targeted level. Attrition, which excludes involuntary terminations, was 14%, compared with 15% in Q3.

Now let's touch on our cash flow. Free cash flow for the quarter was a record \$1.24 billion, an increase of \$90 million over the same period last year, resulting from cash from operating activities of \$1.38 billion, net of property and equipment additions of \$137 million. For the full fiscal year, free cash flow of \$3.04 billion was also a record high, and about \$340 million above the top end of our previously guided range, as DSOs were better than we expected. This reflected cash from operating activities of \$3.44 billion, net of property and equipment additions of \$404 million.

Turning to DSOs, our days services outstanding were 30 days, down from 32 days in the third quarter and flat with the end of last fiscal year. This metric continues to reflect the strong financial discipline of our people around the world.

Turning to cash, our cash balance at August 31st was \$5.7 billion, compared with \$4.8 billion at August 31st last year.

Now an update on how we are returning cash to shareholders. In the fourth quarter, we repurchased or redeemed 13.1 million shares for \$731 million, at an average price of \$55.85 per share, including 11 million shares repurchased in the open market. For the full year, we repurchased or redeemed 42.8 million shares for \$2.2 billion, at an average price of \$50.79 per share, including about 24 million shares repurchased in the open market.

In fiscal '11, we delivered on our commitment of returning cash to shareholders through the more than \$2.8 billion in share repurchases and dividend payments we made during the fiscal year. Our weighted average diluted shares came down more than 3% over the fiscal year. Since our IPO, we have returned a total of 91% of free cash flow generated to shareholders. During this time, we have also seen our public float increase from 14% of outstanding shares at IPO to approximately 90% today.

Earlier today, we announced that our Board of Directors declared a semi-annual cash dividend of \$0.675 per share. This dividend will be paid on November 15, 2011, and represents a \$0.225 per share, or 50%, increase over the previous semi-annual dividend we declared in March. In addition, the Board has increased our share repurchase authority by \$5 billion. That authority now totals approximately \$6 billion.

In summary, we had a strong quarter, and ended the year in many ways above where we expected. I am very proud of Accenture people and their extraordinary ability to drive our business in a way that serves both our clients and our shareholders so well.

Lastly, I'd just like to mention that we were also pleased to see that we were added to the S&P 500 index on July 5th.

Now let me turn the call back to Pierre to give you an update on some key aspects of our growth strategy.

Pierre Nanterme - Accenture - Chief Executive Officer

Thank you, Pam. Our strong results for the quarter and the full year demonstrate that we are executing the right growth strategy – a strategy that resonates with our clients. We are operating at the heart of our clients' business, and are delivering unique value propositions that are built on strong business cases. Our focus continues to be on driving sustainable and profitable growth through industry differentiation, technology leadership and geographic expansion.



We continue to grow our portfolio of Diamond clients – both the number of Diamond clients and the amount and scope of work we are doing for them in mature and emerging markets. This focus is bringing even greater depth and breadth to our business.

We are serving clients in more than 40 industries, and continue to invest in industry differentiation. To accelerate the execution of our growth strategy, we have prioritized our investments around specific industries where we see opportunity for even greater return.

Last quarter, I mentioned our focus on the health sector. This quarter, I'm delighted to share the progress we are making in insurance and banking, where we recently announced two acquisitions.

The acquisition of Duck Creek Technologies, a leading provider of software solutions for property and casualty insurance companies in the US and in the UK, is enabling us to provide a complete end-to-end solution, from underwriting through claims to policy administration.

In banking, we announced our plan to acquire Zenta, one of the largest residential and commercial mortgage processors in the US. This should position us as a leading provider of services to the credit industry, where we see significant opportunity to help clients adapt to the changing regulatory requirements.

In addition to building on our core, we continue to expand our technology leadership through our strategic initiatives to ensure we are positioned to capitalize on future technology waves.

In digital marketing, we are helping clients with digital strategy, website transformation, social media, and digital data management. In China, we are helping one of the largest online retailers improve user interaction and increase conversion rates to grow sales volume.

In smart grid, we now have more than 100 projects delivered or underway in over 20 countries.

And we continue to extend our cloud capabilities, and are seeing increased demand for software as a service. At a client in the energy-management industry, we're doing one of the largest global software as a service implementations, involving work in 70 countries and almost 20,000 users.

Geographic expansion is another key area of focus. In fiscal '11, we made good progress, growing revenues in our 10 priority emerging markets by 30% in local currency, to \$3 billion. We are very pleased with this result, and intend to build further on this success in fiscal year '12.

We continue to run Accenture as a high-performance business, managing the company with rigor and discipline. We remain focused on pulling all the levers, including improving sales efficiency, optimizing utilization, carefully managing G&A, and lowering our cost to serve by further leveraging our Global Delivery Network.

Of course, we are carefully watching the macroeconomic environment. Clearly, there's more volatility and uncertainty in the global economy as governments, primarily in the US and Europe, continue to work to solve the deficit and debt issues they are facing. At the same time, the long-term trends that we previously identified – challenges of globalization, increased regulation, and the need for operational efficiency – are even more prevalent today than they were a few months ago. Our clients continue to take steps to adjust to this new environment. And this continues to drive demand for our services.

With that, I will turn it back over to Pam, who will provide our business outlook for fiscal year 2012.

Pam Craig - Accenture - Chief Financial Officer

Thank you, Pierre. To tee up our fiscal year 2012 business outlook, I'd like to first share with you some of our thoughts on how we see this fiscal year shaping up. We believe, as Pierre just shared, that our strategy and our proven ability to serve our clients' needs, combined with critical business and technology trends, position us very well as we move forward. With that said, we recognize that global macroeconomic risks have increased, and global growth has slowed in the last few months. This is not lost on us and, as you expect of us, we remain vigilant about understanding any impacts and managing our global business tightly.

So let's start with a couple of assumptions. First, we do continue to assume positive economic growth in the global economy, although lower than where we assumed it in April, and we have factored that in.



Second, regarding the impact of foreign exchange, we have looked at how the rates have been trending over the last couple of weeks. And at this time, we assume the impact of foreign exchange on our results in US dollars to be flat for fiscal '12 compared to fiscal '11. The US dollar is currently strengthening, and this could end up causing a headwind to actual dollar growth this fiscal year. As we have done in the past, we will update the foreign exchange assumption each quarter based on how the rates are trending compared to fiscal '11.

Our outlook components remain the same. We plan to provide annual outlook in the areas we have in the past, and we will continue to update you on these measures quarterly. We will continue to provide a quarterly outlook for revenue, so that you have a basis for understanding our level of business by quarter as we progress through the year.

So starting with revenue, for the first quarter, we expect revenues to be in the range of \$6.8 billion to \$7.0 billion. This assumes a foreign exchange impact of positive 3% compared to the first quarter in fiscal '11. For the full fiscal year, we continue to expect net revenue to grow in a range of 7% to 10% in local currency over fiscal '11. Although there have been puts and takes over the past five months, this is consistent with what we stated at our Investor & Analyst Conference on April 14th and confirmed last quarter.

For the full fiscal year '12, we are targeting new bookings to be in the range of \$28 billion to \$31 billion. And as you know, our bookings can be lumpy from quarter to quarter. In fiscal year '12, we expect operating margin to be in a range of 13.7% to 13.9%, a 10- to 30-basis-point expansion. We will continue to balance profitability with making investments to position our business for the future. You should expect some fluctuations quarter to quarter, as you've seen in the past.

We expect our annual effective tax rate to be in the range of 27% to 28%. For earnings per share, we expect full year diluted EPS for fiscal '12 to be in the range of \$3.80 to \$3.88, or 12% to 14% growth, consistent with what we stated at our April Investor & Analyst Conference of at least 12% growth.

Now let's turn to cash flow. For the full fiscal year, we expect operating cash flow to be in the range of \$3.6 billion to \$3.9 billion, property and equipment additions to be \$490 million, and free cash flow to be in the range of \$3.1 billion to \$3.4 billion.

To update you on our thinking for uses of cash... we are on course to continue our strategy this fiscal year. We will continue pursuing strategic and targeted acquisitions as a part of our growth strategy. We also remain committed to return a substantial portion of the cash we generate to shareholders. In fiscal '12, we now expect to return at least \$3 billion through a raised dividend and through share repurchases, and also now expect to reduce the weighted average diluted shares outstanding by approximately 3%.

In closing, we know we need to stay very close to what generates value for money for our clients, and in doing so, we will be focused on doing what we do best: drive profitable growth for Accenture, provide valuable work for our people, maintain our strong balance sheet, and generate significant free cash flow, a substantial portion of which we would then expect to return to shareholders.

With that, let's open it up so that Pierre and I can take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Rod Bourgeois with Sanford Bernstein.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

So, I wanted to ask about the lumpiness of bookings. In the May quarter the bookings were solid but not spectacular. And your bookings in both consulting and outsourcing this quarter look really strong. So I'm just wondering about the lumpiness of bookings on the positive side in the August quarter and what that might look like from a lumpiness standpoint as you move into the November quarter. And specifically, could you give us an idea of to what extent the Nokia deal contributed to the bookings in the August quarter as well?

Pam Craig - Accenture - Chief Financial Officer



First of all, as you might imagine we were very pleased with the bookings. Regarding consulting, you may recall last quarter we did expect them to tick up a bit in terms of the book-to-bill, and they did. And so that was good, and I think the outsourcing has just been building and coming on stronger each quarter. Most of those deals over \$100 million that we had were in outsourcing, and we saw a book-to-bill there of 1.5. So, the Nokia deal was indeed in the quarter, but we don't comment specifically on that.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

Do you expect the bookings trend in the November quarter to be a little less strong because potentially not as helped by chunky bookings items?

Pam Craig - Accenture - Chief Financial Officer

I think we do expect that they will build throughout the year, lumpy, but do that similar to the way they did in fiscal '11. So, yes, potentially a little lighter.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

And then the follow-up question is really just about what's happening in the demand environment as you look forward. Clearly with your guidance, you're feeling comfortable with where things are. But the question is, are you seeing any early signs of economic stress starting to affect demand patterns? Are you seeing any delays in decision-making, any projects being delayed? Are you seeing priorities at clients shifting from growth or development towards maintenance and cost takeout, just to give us a gauge of whether there might be early signs of the economy starting to affect the demand patterns at all...

Pierre Nanterme - Accenture - Chief Executive Officer

Hello, Rod. This is Pierre here. As we speak today, and we have multiple conversations every day with our clients, we do not see that such things are happening. We have very good discussions, and clients are very well aware of what's happening outside. And indeed, they continue to think about how they are going to transform their operations to be more effective in the current environment. The trends we've been talking about these last quarters are still there outside, and we continue to see our clients investing.

Rod Bourgeois - Sanford C. Bernstein & Co. - Analyst

And then just finally, as a clarification, your growth rate in the US is remaining much stronger than in EMEA. Would you expect that to continue in fiscal '12?

Pam Craig - Accenture - Chief Financial Officer

The growth rate that we provided for the Americas represented a reflected strength in the US, in Brazil and in Canada, all of them. And we do expect the US to continue to be strong as we go forward.

Operator

Julio Quinteros with Goldman Sachs.

Julio Quinteros - Goldman Sachs - Analyst

Just real quickly, when you think about the pace of bookings and what you guys have seen so far, and what you're expecting for at least the rest of this calendar year, how much of your visibility at this point comes from having a sense on calendar 2012 budgets or capital projections? So maybe if you can just frame your own expectations for bookings, the target for fiscal '12 as it relates to any conversations you guys have had about calendar '12 tech budgets, if you will.



Pam Craig - Accenture - Chief Financial Officer

Julio, as you know, in our business, our visibility is much better in the first part of the year. And as we sit here today, we have roughly 13% more contracted revenue in place at this time this year versus last year. And that's based on strength in outsourcing. So I think the predictability in the second half of the year, given the macroeconomic uncertainty, especially in Europe, that's what we're thinking about. And yes, calendar-year budgets will kick in, but the visibility that we have right now is very good based on the first few months which especially affects consulting.

Julio Quinteros - Goldman Sachs - Analyst

And so that would explain the back-half implied growth versus what you're expecting, at least implied by the \$6.8 billion to \$7 billion. So the tougher comps as you think about those in the back half of fiscal '11, comparing those to the back half of fiscal '12 will partly explain it. But clearly at this point it just seems like there's some element of that, that's just slower visibility as you really roll over into the second half of your fiscal '12. Or is there anything beyond that to think about there?

Pam Craig - Accenture - Chief Financial Officer

No, I think that's fair.

Operator

(Operator Instructions) Moshe Katri with Cowen and Company.

Moshe Katri - Cowen and Company - Analyst

Pierre, can you talk a bit about what you're seeing out there, specifically in the UK and continental Europe? And again, going back to some of the discussions that you're having with your customers, maybe talk about what's driving demand and what's some of the concerns that you may have in terms of looking at those territories?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, thanks, Moshe for the question. Of course, we all know that Europe is, as we speak, probably challenged with the global economic environment, but more specifically with, of course, the sovereign debt. We know, as well, that all the governments are working extremely hard, as we speak, to find the right solution. And we expect that indeed they are going to find the right solution and so we can move forward.

Now, if you look at Europe, you have very different countries in different situations. I think the north of Europe is remaining strong, including Germany. And you have good momentum in those economies. Even France is doing well. If you look at all Europe, they are planning anything between 1% to 2% growth. And that kind of growth is probably what Europe has been experiencing these last years. So to some extent there is nothing really new in that part of the world which has been operating on slower economic growth for years. Now, if you look at our clients, our clients are the largest and more global organizations. So, as you know, they are not operating only in Europe but they are operating on a global basis. And when they consider their investments, they are considering investing on a scale which is going beyond Europe per se. And that's the kind of discussion we have with them when it comes to global operating model, merger and acquisition, global expansion. All the discussions we have are going beyond Europe per se.

Moshe Katri - Cowen and Company - Analyst

And then, Pam, just a follow-up. Regarding targets for fiscal year 2012, you had a pretty big jump in your GDN headcount in fiscal year 2011. Can you share with us some numbers?

Pam Craig - Accenture - Chief Financial Officer

Yes, in fiscal '11 we hired 70,000 people. And the first half of this past year was on a run rate less than that. And we expect the first half of '12 to be roughly comparable to the first half of last year.

Moshe Katri - *Cowen and Company - Analyst*

So that's for GDN. And how about the total hiring?

Pam Craig - *Accenture - Chief Financial Officer*

That was for the total.

Moshe Katri - *Cowen and Company - Analyst*

And how about GDN?

Pam Craig - *Accenture - Chief Financial Officer*

Probably similar. I don't really have that many details on that, but I would expect it to be similar.

Operator

Keith Bachman with Bank of Montreal.

Keith Bachman - *Bank of Montreal - Analyst*

Hi, Pam. I wanted to ask a similar question on hiring, if I could. If you think about any buckets of hiring, so to speak, in other words where do you anticipate hiring in terms of -- I know you just mentioned the global GDN -- but in terms of consulting versus some of the outsourcing areas or any kind of categorization you could give us on where the hiring will be targeted? And then the follow-up is just on the Financial Services. It looked to be down a little bit sequentially. And I was just wondering if you could help us think about Financial Services growth within the context of the guidance you provided, both for the quarter and the year. Thanks.

Pam Craig - *Accenture - Chief Financial Officer*

Okay, great. So two separate questions. I think just in terms of recruiting, there's really nothing to point out there specifically. We're matching supply and demand for our business around the world, both locally and in the Global Delivery Network. So there's really not too much more color to add there.

In terms of Financial Services, we do have our eye on the consulting part of Financial Services in Europe, probably for obvious reasons just in terms of what's going on there. We have a lot of critical transformational work going on with those clients, as Pierre talked about. But we may see a little, just slight, cutback in some other consulting work. And that is reflected in the Q4 results and also in our outlook.

Operator

Nathan Rozof with Morgan Stanley.

Nathan Rozof - *Morgan Stanley - Analyst*



First off, I just wanted to ask about the pipeline, more the velocity of deals entering and moving through the pipeline. Clearly deals are still coming out in a very strong manner. But have you seen any change in the pace of new deals entering the pipeline or the speed with which you're able to convert new prospects into wins?

Pam Craig - Accenture - Chief Financial Officer

Yes, I think we, of course, look at that and we look at the pipeline every which way. And the average days the opportunities are in the pipeline is slightly up. But interestingly, with that trend, we ended up with a win rate that was higher. So that really, then, delivered the record bookings. And also the way those bookings are converting to revenues is also faster at the moment. So the conversion rate is very good. The aging is slightly up.

Nathan Rozof - Morgan Stanley - Analyst

And related to that, are you seeing any increase in the level of scrutiny by the client in terms of number of signoffs needed or the number of executives who have to sign off on new projects?

Pierre Nanterme - Accenture - Chief Executive Officer

No, we've not seen any of this happening as we speak.

Operator

We'll go to Ashwin Shirvaikar with Citigroup.

Ashwin Shirvaikar - Citigroup - Analyst

I just wanted to go back to revenues here. Obviously, you're keeping the 7% to 10% revenue growth, as we expected. But there's considerable investor skepticism. So is it possible to parse out in a little bit more detail some of the sources of growth such as maybe globalization? Or how much of FY11 bookings might flow through and what are you assuming for project activity maybe?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, I will answer the question and Pam might give more color, as required. But overall, we are entering this year in a position of strength, as we mentioned before. We are pleased with the backlog we have. We are pleased with the level of the pipeline. We have good activity. And as we speak, we have not seen any change in the clients' behavior. When we look at the business we can see growth in most of the dimensions of our business, if you will. Most of the industries we are working with are on massive transformations for all sorts of good and valid reasons. We mentioned Financial Services. We all know what's happening in that industry. You have all the new imperatives created with Basel III. And they need to change their operating models in a way which is more structural now than tactical in the past. And what I'm saying for Financial Services is true across the patch in all the industries.

When you look at this from a geographic standpoint, of course we are very pleased with our growth in our priority emerging markets where we see, as well, more opportunities moving forward. And we are accelerating our growth in those markets. But as well, we continue to see good potential in the more mature economies as the need for transformation for all those big waves of globalization, regulation, more efficiency in the operations, and as well those new technology waves as being reasonably profound to carry forward in terms of demand.

Pam Craig - Accenture - Chief Financial Officer

Maybe I'll just give you a little color on, I mentioned the puts and takes on the 7% to 10% growth rate that we first talked about in April at our Investor & Analyst Conference. So just in terms of some of that, clearly in the macro, we see that the forecast for GDP has ticked down, say, a half a point to a point in that time frame. And we have moderated our consulting growth in FS Europe, as I had mentioned, and also parts of management consulting. And then on the positive side we indeed had the signing of the Nokia deal. We also have the two acquisitions in



Financial Services, one closed, one about to be closed, that Pierre mentioned. And we also had a higher run rate of revenues through the fourth quarter and with bookings, as I mentioned, that are converting at a faster pace. So that's how it all came out in terms of just, at a high level, in terms of the 7% to 10% that we see at this moment.

Ashwin Shirvaikar - Citigroup - Analyst

I just wanted to ask a follow-on question on the flexibility of your cost structure, if I may. If you do happen to see fluctuations in the top line, to what extent do you retain flexibility in your cost structure today?

Pam Craig - Accenture - Chief Financial Officer

I think this is something that we view as job two, after delivering revenue, which is, indeed, to manage our costs in line with the size of our business. And as you know, we have a lot of levers at our disposal that we manage in order to deliver operating margin. And we will indeed use those, as necessary, both to deliver growth, as we did this year, where our business grew faster than we expected it to, and if it goes the other way, same thing, Pierre?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes. My three favorite words, if you will, are growth, rigor and discipline, in that order. And I think when it comes to rigor and discipline, this is where the answer is coming. I think for a long period of time we have a track record of balancing supply/demand in the right way. We are extraordinarily specific in the way we forecast our business. And we are looking at what's happening in every part of the world in our different organizations. So this is what we will continue to do to make sure that we are matching supply and demand in a very disciplined and rigorous way.

Operator

Jason Kupferberg with Jefferies.

Jason Kupferberg - Jefferies & Co. - Analyst

I just wanted to pick up on the comment you just made, Pam, in terms of the puts and takes of where we were in April versus where we are now. And you mentioned a little bit of moderation in the consulting revenue growth outlook. How does that feed into your expectations for the fiscal '12 bookings mix between consulting and outsourcing? How do you guys see that split playing out versus how it trended in fiscal '11?

Pam Craig - Accenture - Chief Financial Officer

I think we don't expect the mix of bookings to change significantly, but it may tilt back towards outsourcing slightly. That's how we see it today.

Jason Kupferberg - Jefferies & Co. - Analyst

And when you think about the underlying drivers that enabled you guys to beat your original fiscal '11 guidance by the amount that you did, to what extent do you see some of those factors still being prevalent in the market as we think about the potential for upside to your fiscal '12 outlook? Currency comes to mind as one, and clearly there doesn't appear there will be as much of a lift in fiscal '12 as there was in fiscal '11. But when you consider the non-FX type factors, how should we think about those?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, if you look at this and reflect on fiscal '11, as Pam mentioned, we have seen more deals in that range of bigger size, especially when it comes to the outsourcing. And I think this trend is reflecting indeed the need for, on one hand, more transformation, but as well more transformation on the cost side. And I think this trend is reasonably profound in the business as all our clients will have to, one way or another, adjust their



operating model to the new normal of the economy. They will need to structurally shift their costs and that's why I think we see that kind of trend around business process outsourcing and outsourcing.

Jason Kupferberg - Jefferies & Co. - Analyst

So basically the big cost transformation deals in BPO, that's a continuing trend?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, we can see this trend as costs are going to be important. Of course we have many activities around working with our clients to generate more top-line revenue with them. But it's the kind of balance between generating more revenues, as well as doing a better job in terms of cost management. And this is where all of what we are providing – in terms of cost management, procurement, sourcing, and outsourcing – is vibrant, as we speak.

Pam Craig - Accenture - Chief Financial Officer

The other thing I'll just add to that, Jason, is globalization and complexity. The clients are really trying to do some pretty big things in order to continue to invest to compete globally. And so that has really played to our strengths. And of course what's happening with the tech waves, with cloud, with the analytics, mobility, those are all generating, I think, additional demand throughout this past year.

Operator

Joseph Foresi with Janney Montgomery Scott.

Joseph Foresi - Janney Montgomery Scott - Analyst

My first question here is, as you look back on '08 and '09, maybe you could drill down on what you think is probably the most significant difference between the economic slowdown we have coming up now versus then. Is it a matter of clients having visibility now? Is it the underlying fundamental trends that you've talked about? I want to give you a chance to point that out to investors.

Pierre Nanterme - Accenture - Chief Executive Officer

Thanks a lot, Joe. It's an excellent question, of course. I think what's different is the current situation is not taking anyone by surprise. And I think this is the main difference. The uncertainty is coming from a very specific situation in Europe with the sovereign debt in some very specific countries. And it's very public now that our governments, especially in Europe, are working hard to fix that problem. That's point number one.

Point number two is our clients are significantly stronger, as we speak now. They are really in a very strong cash position. They are all posting good results, as we speak, if not record results. Some are much bigger and are operating on a much broader scale, so they are more resilient, as well. And three, they're getting into the current environment, in a way which is, they are more fit, if you will. They are now more looking forward than on a pure short-term basis to understand what it takes to compete in the new environment in a way which is, again, probably more structural than tactical. I think all of this is reasonably different compared to the same period in '08, '09.

Joseph Foresi - Janney Montgomery Scott - Analyst

And then just my follow-up question, building on that, when we look at Europe, should we look at that on a country by country basis? And I know you talked about potentially seeing some slight cutback there. Is that on the discretionary side in Financial Services? I'm just wondering how to think about Europe. Thanks.

Pierre Nanterme - Accenture - Chief Executive Officer



Yes, probably Europe, you're right, should be looked at in different countries because when you look at this market, it is very different. As you know, Germany is doing very well. France is okay. The Nordic countries are still in good shape. The UK is trying to recover. And then you have some very specific situations in the South. So indeed it is very different. That being said, as we speak, and if you look at the IMF or all the economies, they are still planning for Europe positive growth, slower but positive growth, that's the way we are looking at Europe. Client by client, country by country, and industry by industry.

Operator

Arvind Ramnani from UBS.

Arvind Ramnani - UBS - Analyst

So you initially talked about 7% to 10% growth for fiscal '12 in April of this year. And then since then you've had two stronger-than-anticipated quarters, thereby pushing out your fiscal '12 revenue goalpost even further. So given the weak macro and the opportunity that you could essentially pull back some of your growth rates as far as revenue grows, do you consider looking at these two quarters and saying, let's get a little conservative? Or none of the macro really is impacting you guys?

Pierre Nanterme - Accenture - Chief Executive Officer

Yes, thanks for the question. And as you've seen, we've been very consistent since the Investor & Analyst day. Because I think the uncertainty in the macroeconomic environment has not happened these last two months. This was something which has been around for quite a while, ever since '10. And we've always been factoring in our forecast the put and takes in what might happen in the economic environment. We started to do that in April. We look at it every quarter to understand what's the situation. And based on what we know from the client demand, what we understand from the macroeconomic environment, we continue to believe that the 7% to 10% is the right forecast for Accenture as we are entering fiscal year '12.

Arvind Ramnani - UBS - Analyst

Also in the past, you've talked about your subcontractor costs for specialized skill sets impacting margins. Now, given the weaker macro, are you looking to convert more of these subcontractors to permanent employees?

Pam Craig - Accenture - Chief Financial Officer

Just on the subcontractor usage, we started out the year with using more of them, maybe, than we had planned for because of how the demand was coming in stronger. And we've now backed off on that a little bit, so that our subcontractor usage is a little bit lesser part of our mix as we finish the year.

Arvind Ramnani - UBS - Analyst

And one last one, if I can slip it in. How are you going to manage your recruiting and utilization rates given that attrition rates will probably reduce over the next few months?

Pam Craig - Accenture - Chief Financial Officer

As we always do, Arvind, this is just what we expect to happen. And sometimes, I think the level of attrition that we saw, we view as a very healthy level. And as Pierre mentioned earlier, managing supply and demand is an extremely important part of what we do.

Operator

David Grossman with Stifel Nicolaus.



David Grossman - Stifel Nicolaus - Analyst

Pam, last quarter you talked about conversion rates improving. And I think you saw a similar dynamic, I think you repeated this quarter. And that stands in contrast to maybe things sitting in the pipeline a little bit longer. Could you just help us understand perhaps what drives that dynamic?

Pam Craig - Accenture - Chief Financial Officer

Yes. Things are sitting in the pipeline a little bit longer. However, in terms of things coming out of the pipeline, we were converting more, so that relates to win rates. And then also we're converting it faster to revenue, because sometimes things are booked but they don't become revenue for a while.

David Grossman - Stifel Nicolaus - Analyst

Right and that's what I'm specifically referring to.

Pam Craig - Accenture - Chief Financial Officer

We would just see more contracts and work with clients that needs to get going faster in a bigger way. And in our mix, we saw that this quarter.

David Grossman - Stifel Nicolaus - Analyst

And is that typically a positive leading indicator, when things do get finalized and closed that they convert to revenue more quickly, in your experience?

Pam Craig - Accenture - Chief Financial Officer

I believe it is, yes. I think it shows that the demand is strong, let's get started. And so clearly, I think that is a positive indicator, yes.

David Grossman - Stifel Nicolaus - Analyst

And just one other question. I know you don't manage to the gross margin and you're more focused on operating margin. However, can you help us understand, the investment in the growth initiatives that started a while back, was that the primary headwind to gross margin in 2011 versus '10? And could you help us understand how to think about what are the puts and takes to gross margin next year?

Pam Craig - Accenture - Chief Financial Officer

Yes, just to answer this question specifically about initiatives. Most of those flow through on the sales and marketing line, so they are not in gross margin per se. And I think that just what happens between the sales and marketing line and gross margin is that there are various things that people do, in addition to serving contracts, that are in gross margin, that go into both of those lines. And so sometimes you just see some back and forth between those during the year.

David Grossman - Stifel Nicolaus - Analyst

And is there any sense you can give in terms of how we should think of gross margin next year, in '12?

Pam Craig - Accenture - Chief Financial Officer

No, because we guide and manage the business to operating margin. And so I would stick with that.



Pierre Nanterme - Accenture - Chief Executive Officer

So thanks again for joining us on today's call. As you've heard, we are very pleased with our excellent performance in fiscal year '11 and are entering fiscal year '12 from a position of strength.

Our strategy and offerings are closely aligned with our clients' long-term competitive needs. And the 236,000 Accenture men and women around the world are fully mobilized and focused on running our business efficiently and on delivering solid business outcomes to our clients.

In closing, we remain confident in our ability to drive profitable growth through the focused execution of our strategy.

We look forward to talking with you again on our Q1 fiscal year '12 earnings call in December. In the meantime, if you have any questions please feel free to call KC to make arrangements for follow-up. All the best.

Operator

Ladies and gentlemen, this conference will be available for replay after 7 p.m. today through midnight December 14. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering the access code 214430. International callers dial 320-365-3844 using the same access code 214430. And that does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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