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# EDITED TRANSCRIPT

## ACN – ACCENTURE’S Q1 FISCAL 2012 EARNINGS CONFERENCE CALL

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

**Julio Quinteros** *Goldman Sachs - Analyst*

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

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**George Price** *BB&T Capital Markets - Analyst*

**Nathan Novak** *Robert W. Baird & Co. - Analyst*

## PRESENTATION

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### Operator

Ladies and gentlemen, good afternoon. Thank you for standing by and welcome to Accenture's first-quarter fiscal 2012 earnings conference call. At this time, all lines are in a listen-only mode. Later, there will be an opportunity for your questions. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Managing Director of Investor Relations, Ms. KC McClure. Please go ahead.

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### KC McClure - Accenture - Managing Director, Investor Relations

Thank you, Tom, and thanks everyone for joining us today on our first-quarter fiscal 2012 earnings announcement. As Tom 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 the first quarter. Pierre will then provide a brief update on market positioning and progress against our growth strategy. Pam will then provide our business outlook for the second 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 revenue before reimbursement or net revenues. Some of the matters we'll discuss on this call are forward-looking, including the business outlook. 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, and that such statements are not a guarantee of our future performance. 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 quarterly reports on Form 10-Q 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 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.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Thank you, KC. And thanks everyone for joining us. I'm pleased to tell you about our excellent results for the first quarter, which demonstrate that we continued to execute very well against our growth strategy. Here are a few highlights:

- We delivered strong new bookings of \$7.8 billion.
- We grew revenues 14% in local currency to \$7.1 billion, with all five operating groups and all three geographic regions delivering double-digit growth.
- Earnings per share grew 19%, to a record \$0.96.
- Operating income was \$981 million, our highest ever, with strong operating margin of 13.9%.
- We continue to have a very strong balance sheet, ending the quarter with a cash balance of \$5.1 billion.
- And we continued to return cash to shareholders through share repurchases and payment of a semi-annual cash dividend of \$0.675 per share, which was a 50% increase over our prior dividend.

As you can see, we performed very well in Q1, and we are particularly pleased that our growth was broad-based across all dimensions of our business. Now, let me hand over to Pam, who will review the numbers in greater detail. Pam, over to you.

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**Pam Craig - Accenture – Chief Financial Officer**

Thank you, Pierre, and happy holidays, and thank you all for joining us today. I am pleased to tell you more about Accenture's fiscal 2012 first-quarter financial results. We delivered strong bookings and revenue growth in Q1, including, as Pierre mentioned, double-digit local currency revenue growth across our broad base of business, in all five operating groups and all three geographic regions. Our record revenues for the quarter drove record EPS results as well.

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 quarter were \$7.8 billion, and reflected a positive 3% foreign exchange impact compared with new bookings in the first quarter last year. Consulting bookings were \$4.2 billion, outsourcing bookings were \$3.6 billion. Now, let me give you some detail on bookings in the first quarter. In management consulting, we had strong bookings, in large part because of increased client demand for projects that deliver near-term and structural cost take-out, especially for sourcing and other parts of the supply chain. Bookings also reflected demand for services on large-scale business transformation programs, and we continue to see clients seeking to drive new revenues through improved sales and marketing effectiveness. Overall, we see our clients taking proactive action in focused ways to respond to the current, more volatile market conditions.

Turning to technology consulting, our bookings moderated in the quarter but our skills are in high demand. Clients continue to value our independence and track record as they seek strategic help to further optimize global IT operations and leverage cloud-based solutions to reduce fixed costs and increase business agility. Systems integration bookings continued to reflect strong demand for ERP and custom systems, including large-scale transformation programs and the use of newer technologies. Clients continue to extend such solutions across the enterprise and to expand their capabilities in mobile, data management/analytics, and social, to improve processes and customer relationships.

Turning to outsourcing... In technology outsourcing, we see more demand for application outsourcing that is broad-based. We signed many new contracts in the quarter across multiple industries and notably in Europe, as well as expansions for scope and volumes on existing client contracts. This trend reflects clients' needs to reduce ongoing systems costs, so they can direct more IT spending to new technology areas to support changes in their businesses. BPO bookings in Q1 were very strong for a second consecutive quarter. Demand was most pronounced in North America and in our industry-specific offerings, especially in our Resources, Communications, Media & Technology, and Health & Public Service industries.

And demand for our Global Delivery Network continues to grow, as we are leveraging it for increasingly complex work. Across the globe, clients are tapping our global delivery capability, not only to take advantage of cost-effective delivery, but also to tap specialist skills in ERP, specific industries and newer technologies. The work



we are doing in the GDN is increasingly more sophisticated and made up of longer-term committed relationships for maintenance, development and enhancements. In summary, we had a strong bookings quarter with \$100 million or more in bookings at nine clients around the world.

Turning now to revenues... Net revenues for the first quarter were just under \$7.1 billion, an increase of 17% in US dollars and 14% in local currency from the same period last year. These revenues reflected a positive foreign exchange impact of nearly 3% compared with Q1 last year. They were also above our guided range of \$6.8 billion to \$7 billion, as our foreign exchange assumption given last quarter was 3% as well. Consulting revenues were \$4.1 billion, an increase of 14% in US dollars and 11% in local currency. Outsourcing revenues were \$3 billion, an increase of 21% in US dollars and 18% in local currency.

Now, let me give you some highlights of revenue growth in our operating groups. The Products operating group had local currency revenue growth of 17%, driven by strong and well-balanced growth across the broad set of Products industries in both consulting and outsourcing, and around the world. Our core ERP transformation offerings continue to be the backbone of Products. In addition, we saw strong demand for our services related to sales and channel management solutions and supply chain. Notably, we are growing the number of clients where we have deep relationships globally.

Communications, Media & Technology revenues increased 16% in local currency, with growth that was also broad-based geographically and across the CMT industries. Outsourcing growth was very strong, and was driven by clients' continued focus on improving their operations, particularly in supply chain, procurement, finance and customer care, and by demand for additional support for mobility solutions. Consulting revenue reflected our clients' continued focus on increasing operational effectiveness, improving customer service and launching new products and services.

Resources revenues grew 15% in local currency, also with strong growth in both consulting and outsourcing. This revenue growth was driven by ERP and global operating model programs, with particularly high growth in energy and natural resources, and in several of our priority emerging markets.

Health & Public Service revenues increased 11% in local currency, reflecting strong growth in Health again this quarter, including our connected health and health administration offerings. Our repositioning of Public Service continues... with our focus being to help our public service clients drive efficiencies as well as to support human services clients to modernize their systems.

In Financial Services, revenues grew 11% in local currency, due to very strong growth in outsourcing across all industries. This growth reflects clients' focus on near-term cost reduction and operational effectiveness, as this has become an even stronger imperative across our Financial Services industries globally. We did see modest consulting growth in Financial Services, driven by strong growth in insurance across our geographic regions. This growth was partially offset by lower year-over-year consulting revenue in banking and capital markets, which we had largely expected.

In summary, we were pleased with the strong and balanced revenue growth delivered in Q1 by all five operating groups.

Moving down the income statement... Gross margin was 31.8%, down 40 basis points from 32.2% in Q1 last year. Sales and marketing costs were \$837 million, or 11.8% of net revenues, compared with \$731 million or 12.1% of net revenues for the first quarter last year, a 30-basis-point decrease. General and administrative costs were \$433 million, or 6.1% of net revenues, compared with \$386 million, or 6.4% of net revenues, for the first quarter last year – also a 30-basis-point decrease.

This all resulted in record operating income for the first quarter of \$981 million, reflecting a 13.9% operating margin, compared with \$827 million, or a 13.7% operating margin, for the same period last year, a 20-basis-point expansion. As a reminder, we manage our business to operating margin. Although our payroll costs grew slightly faster than revenue, we worked to offset that through tighter management of non-payroll costs. Our margin was also impacted by favorable foreign-exchange movement. Operating margin improved in Health & Public Service and in Products, due primarily to improved contract profitability in those operating groups. Operating income decreased and operating margin fell from a high level in last year's Q1 in Financial Services, reflecting lower contract profitability, higher business development costs, and higher costs related to recently closed acquisitions.

Below operating income, our effective tax rate for the quarter was 28.3%, flat compared with the same period last year. Net income for the quarter was \$712 million, compared with \$606 million for the first quarter last year, an increase of 18%. Diluted earnings per share were \$0.96, compared with \$0.81 in the first quarter last year, an increase of 19%. This \$0.15 increase reflects a \$0.12 increase from higher revenue and operating income in local currency, a \$0.02 increase from favorable foreign exchange rates, and a \$0.02 increase from a lower share count, offset by a \$0.01 decrease from lower non-operating income.

Turning to some other key operational metrics, we ended the quarter with global headcount of about 244,000 people, and we now have approximately 146,000 people in our Global Delivery Network. In Q1, our utilization was 87%, up from 85% in Q4. Attrition, which excludes involuntary terminations, was 12%, down from 14% in Q4 and 15% in Q1 last fiscal year. Lastly, we expect that at least 60,000 people will join our company around the world this fiscal year.



Now let's touch on our cash flow. Free cash flow for the quarter was \$394 million, resulting from cash generated by operating activities of \$475 million, net of property and equipment additions of \$81 million. For the same period last year, free cash flow was \$31 million. The higher level this year included an uptick in client prepayments.

Turning to DSOs, our days' services outstanding were 32 days, up from 30 days last quarter, and down from 33 days in the same quarter last year. Our total cash balance at November 30th was \$5.1 billion, and compares with \$5.7 billion at the end of August. The Q1 ending balance includes a negative impact of approximately \$257 million, reflective of how much other currencies moved versus the US dollar between November 30th and three months prior.

Before I turn things back to Pierre, I will comment on our ongoing objective to return cash to shareholders through share repurchases and dividends. In the first quarter, we repurchased or redeemed approximately 5.3 million shares for \$285 million, at an average price of \$53.36 per share, including 3.4 million shares repurchased in the open market. At November 30th, we had \$5.8 billion of share repurchase authority remaining. Also in November, we paid a semi-annual cash dividend of \$0.675 per share for a total of \$475 million. This represented a \$0.225 or 50% increase over the dividend we paid in May.

In summary, we had a strong first quarter and are off to a good start in fiscal 2012. I continue to be very proud of our Accenture people and their exceptional ability to drive our business in a way that serves our clients and shareholders so well. And now, here is Pierre to give you some interesting color on how we are executing our growth strategy and delivering business value for our clients around the world.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Thank you, Pam. Now I would like to talk about how we are leveraging marketplace opportunities to drive growth, particularly in the context of the current economic environment. Of course, there continues to be volatility in the global economy, largely due to uncertainty around Europe's sovereign debt challenges. We're carefully watching the actions that governments in Europe are taking to stabilize markets, restore confidence and create conditions that would support a return to economic growth. While Europe works on these issues, other parts of the world are exhibiting positive economic growth, especially our priority emerging markets. Moving forward, we will continue to monitor the macroeconomic environment very closely and assess the implications for our business.

In this context, we are executing a growth strategy that resonates with the needs of our clients. We have a relentless focus on industry and technology differentiation, and accelerated geographic expansion. Our clients continue to invest in transformation, and realize that they must address major structural issues resulting from the long-term trends we have previously identified – globalization, regulation, operational efficiency, to which we can also add consumerization. This is driving demand for our services.

Let me give a few examples of the work we are doing for some of our largest clients at the very core of their businesses.

For one of the world's largest pharmaceutical companies, Accenture is the partner of choice on many projects, including an IT infrastructure rationalization program across more than 30 countries.

We are helping one of the world's leading mining companies develop and upgrade its core ERP system. The program is designed to significantly improve and standardize processes to drive business value across the entire organization.

And just this week, we announced an agreement with a leading US property and casualty insurer to provide claims management support on a Software as a Service basis. To be delivered from the cloud, Accenture's claims management services will enable carriers to have valuable capacity and better align costs with the volume of claims activity.

In terms of industry and technology differentiation, we continue to invest in our priority industries. In the communications industry, through Accenture Network Services, we are helping our clients manage the rapid growth in mobile and broadband data traffic, while improving customer service and operating efficiency.

Another example is how we are helping clients across the utilities, energy, chemicals and natural resources industries accelerate enterprise-wide business value through Accenture Advanced Enterprise Services, which links industry-leading processes to a pre-configured ERP solution leveraging leading technology platforms.

Geographic expansion remains key to the execution of our growth strategy. I'm particularly pleased with the progress we are making in our 10 priority emerging markets, which in Q1 grew at a significantly faster rate than the rest of Accenture. And just as important as our growth in these markets is the quality of the relationships we have with our clients there. In addition to helping global clients expand into emerging markets, we have developed major client relationships with leading companies in these markets, several of which are already our Diamond Clients.



To further support our growth strategy, we continue to invest in our brand, which is among the top 50 in the world. Last month, we launched a new global brand campaign featuring clients and how we are helping them create significant and tangible business value. This new campaign is bringing our “High Performance Delivered” brand positioning to the next level.

And of course, we continue to manage our company with rigor and discipline to drive profitable growth. With that, I will turn the call back to Pam, who will provide our business outlook for the second quarter and the full year.

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**Pam Craig - Accenture – Chief Financial Officer**

Thank you, Pierre. As a reminder, each quarter we provide an outlook for the next quarter’s revenue and an update on our annual outlook for the full fiscal year. As our fiscal Q2 takes shape and we turn into calendar year 2012, we recognize, as Pierre said, that we are operating in a macroeconomic environment that continues to be uncertain and volatile with a particular focus on what is happening in the Eurozone. We are vigilant about any impact these and other developments may have on our global business.

So, with that in mind, let me share our view on Q2 and the remainder of the fiscal year. For the second quarter, we expect revenues to be in the range of \$6.5 billion to \$6.8 billion. This range assumes a foreign-exchange impact of negative 1% for the quarter. We have broadened the revenue range we see for the quarter in order to allow for some flexibility in timing of the start of new work in the calendar year.

Now, turning to the full fiscal year, we now assume a foreign-exchange impact also of negative 1%. As you know, we form this assumption based on how the rates have moved over the last couple of weeks, and we have seen them bounce around in the range of negative 1% to negative 2%.

Taking into account our Q1 results, what we see for Q2, and how the pipeline is shaping up for the second half, we continue to expect our fiscal year 2012 revenue outlook to be 7% to 10% growth in local currency. We’ve had strong bookings over the last two quarters, and we have some work to do to shape more business for the second half of our fiscal year and into the next. We continue to expect new bookings for the fiscal year to land in the range of \$28 billion to \$31 billion. We continue to target the same level of bookings in local currency and support the same overall range, even with our updated assumption for foreign exchange. Within that, we also expect system integration bookings to moderate somewhat going forward, and there may potentially be a further lift in outsourcing bookings over what we expected three months ago.

We continue to expect operating margin to be in the range of 13.7% to 13.9%. You should expect some fluctuations quarter-to-quarter as we’ve experienced in the past. We continue to expect our annual effective tax rate to be in the range of 27% to 28%. We now expect our earnings per share for the full fiscal year to be in the range of \$3.76 to \$3.84, down \$0.04, reflecting our updated assumption for foreign exchange. Finally, we continue to expect operating cash flow to be in the range of \$3.6 billion to \$3.9 billion, property and equipment additions to be about \$500 million, and free cash flow to be in the range of \$3.1 billion to \$3.4 billion.

We remain committed to return a substantial portion of the cash we generate to shareholders. In fiscal 2012, we continue to expect to return at least \$3 billion through dividends and share repurchases. We now expect to reduce the weighted average diluted shares outstanding by closer to 2%, due to our current view on the phasing of repurchases over the year.

I would like to give credit to our experienced leadership team and to our people overall, as our business right now is well-balanced and well-positioned for the future. We remain focused on executing our growth strategy with discipline, maintaining a world-class balance sheet and generating strong free cash flow while staying close to our clients, and working with them on their most critical business needs as we drive our business forward. With that, let’s open it up so that we can take your questions. KC?

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**KC McClure - Accenture - Managing Director, Investor Relations**

Thanks, Pam. I would ask that you each keep your questions limited to one question and one follow-up to allow as many participants as possible to ask questions. Tom, would you provide instructions for those on the call, please?



## QUESTION AND ANSWER

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### Operator

Thank you. (Operator Instructions). Our first question today comes from the line of Tien-Tsin Huang. Please go ahead. Representing JPMorgan.

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### Tien-Tsin Huang - JPMorgan Securities - Analyst

Good quarter, good color commentary as well. Thanks for all of that. I guess I observed definitely an uptick in cost takeout projects that you were highlighting there, Pam, in terms of your bookings commentary. So my question there is, is there enough of this cost-cutting work to do to offset this transition away from perhaps some of the discretionary work that you typically see, or some of the transformational projects that you might see? I'm just trying to understand this transition assuming this path continues, and what that might mean for the bookings trajectory.

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### Pam Craig - Accenture – Chief Financial Officer

Well, there's plenty of cost-cutting work, and I would suggest that much of it is indeed transformational, given that there's a lot of structural cost to be addressed as well. Let me let Pierre give some color, too.

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### Pierre Nanterme - Accenture - Chief Executive Officer

When we are talking about cost take-out, probably you would have in mind the work associated with the outsourcing and that kind of work. When you are talking about cost take-out, you have a large variety of activities we are doing from an MC standpoint, especially I'm thinking about all the work we're doing in technology consulting, with all the technology rationalization, if you will, I'm thinking about all the work we could do in management consulting, in terms of driving more operating model efficiency. And I'm thinking of course about all the new technologies, if you will, and innovation we're putting in the market, which are contributing to cost takeout improvement, and I'm thinking about some cloud-based services we are providing to clients through different business models, we're contributing to cost take-out. So it's not only one part of our business, but it's the full range of our services we can bring to bear.

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### Tien-Tsin Huang - JPMorgan Securities - Analyst

Understood. And just as my follow-up, I guess, I think you mentioned, Pam, the wider range for the second quarter revenue guidance. What's driving that? Is it -- sounds like you're buffering for a little bit of transition for the calendar year?

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### Pam Craig - Accenture - Chief Financial Officer

Yes. I mean, our business runners don't see it, but I just thought that it was a good idea to just put a little in there, and so I just put a little in there on the bottom.

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### Tien-Tsin Huang - JPMorgan Securities - Analyst

Understood.

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### Pam Craig - Accenture - Chief Financial Officer

So just in case start-up on a few things is delayed a bit.

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### Tien-Tsin Huang - JPMorgan Securities - Analyst

Okay. Thanks.



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**Operator**

Our next question is from the line of Rod Bourgeois with Bernstein. Please go ahead.

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

Hey, it's great to see the bookings off to such a great start. Congrats on that. I guess where the questions are going to turn from an investor standpoint is all about whether discretionary services spending is beginning to show signs of softening. Yesterday, as you know, Logica in Europe attributed its struggles to a weaker economy in Europe. We argue that a lot of those issues are company-specific coming out of Logica, but still it raises a question about whether the consulting market demand scenario in Europe is starting to fade. Can you comment on that, please?

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**Pierre Nanterme - Accenture - Chief Executive Officer**

To get started with that, we are very pleased with what have been our bookings in Q1 in terms of consulting, and we came in very strong. Again, I think at the end of the day, it all depends on your positioning and what you do with clients and as you know, our positioning has always been to be much more on the kind of CEO/corporate agenda, driving work around what we are calling transformations, i.e. programs which are critical for the company to drive better performance. And I think this is what we continue to focus on, and with the right mix of work from the consulting and the outsourcing. So, so far we do not see a significant shift in the buying pattern of our clients.

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**Pam Craig - Accenture - Chief Financial Officer**

Just to add a little more specific industry color there, Rod, I commented that we did see consulting off a little bit in Financial Services and banking, capital markets, but we also see a lot of opportunity in more imperative-based projects in Financial Services. So it is interesting how that's shifting. The only other industry where we maybe see that a little bit is chemicals.

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

Okay. I mean, clearly, your Q1 bookings were great, but I guess, are you seeing any indication that the pace of bookings is starting to temper, or that could happen over the next year, given all the macro volatility that's going on around the world?

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**Pam Craig - Accenture - Chief Financial Officer**

At this point, we don't see a significant change in client behavior. We see that budgets may not go up very much, but we also don't hear about them going down. What we talked about before in Tien-Tsin's question, cost optimization really is paramount and really that plays to our strengths in terms of getting to real outcomes on business cases there.

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

Okay. And Pam, just real quick on that, would you expect your outsourcing revenue growth rate in fiscal 2012, particularly in the back half, to be meaningfully better than your consulting revenue growth rate? Are you still expecting a relatively balanced revenue growth mix across consulting and outsourcing?

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**Pam Craig - Accenture - Chief Financial Officer**

The way we see it today, Rod, is that we do expect the consulting growth rate to continue to moderate somewhat and we expect the outsourcing growth rate to be double-digit.

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





Okay. Great. Thanks, guys.

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**Operator**

Next question comes from the line of Julio Quinteros with Goldman Sachs. Please go ahead.

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**Julio Quinteros - Goldman Sachs - Analyst**

Great, thanks. Pam, can you comment on the contracted revenue versus last year at this point?

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**Pam Craig - Accenture - Chief Financial Officer**

Contracted revenue.

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**Julio Quinteros - Goldman Sachs - Analyst**

Yes.

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**Pam Craig - Accenture - Chief Financial Officer**

Oh, contracted. I thought you meant like going down.

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**Julio Quinteros - Goldman Sachs - Analyst**

No, no, not contracting. Contracted.

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**Pam Craig - Accenture - Chief Financial Officer**

The revenue that we have under contract, yes.

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**Julio Quinteros - Goldman Sachs - Analyst**

Correct.

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**Pam Craig - Accenture - Chief Financial Officer**

Yes, which we call our visibility. And basically, as we sit here today versus last year, we had 13% more under contract than we did last year.

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**Julio Quinteros - Goldman Sachs - Analyst**

About the same pace coming out of the fourth quarter, sounds like, right?

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**Pam Craig - Accenture - Chief Financial Officer**

Yes.



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**Julio Quinteros - Goldman Sachs - Analyst**

Okay. And then the headcount adds for the year, was the 60,000 a gross or net number?

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**Pam Craig - Accenture - Chief Financial Officer**

That's a gross number of the people we expect to join our Company this year.

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**Julio Quinteros - Goldman Sachs - Analyst**

Any mix contribution there, offshore, global delivery versus on-site, or is it balanced across the board?

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**Pam Craig - Accenture - Chief Financial Officer**

We're expecting to continue everywhere. I mean, we do have hiring down a little bit, but that's in part due to the improved attrition or largely due to the improved attrition so -- and we do have some people joining us from some acquisitions, so it's all in the mix.

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**Julio Quinteros - Goldman Sachs - Analyst**

Thanks.

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**Operator**

Next question is from the line of Bryan Keane with Deutsche Bank. Please go ahead.

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**Bryan Keane - Deutsche Bank - Analyst**

Hi, guys. Great job with the quarter. I guess my question's on EMEA. Constant currency revenue growth was 10%, that accelerated from 8% last quarter. So I guess that's a little bit of a head-scratcher given all the negative headlines we've heard. What's driving that outperformance there, and is there some sustainability in that?

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**Pam Craig - Accenture - Chief Financial Officer**

First of all, Bryan, welcome back. It's great to have you back. And I'll let Pierre take the question, since it's Europe.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Of course, Europe is always a little bit unpredictable. Probably that's why you've been taken by surprise. There are probably more fundamental reasons for that. Indeed, as you know, we're working with large companies. So at the same time, we are of course watching carefully what's happening in Europe from a macroeconomic standpoint, as well as putting the same attention to what's happening with our clients and many if not all of our clients operating in Europe are operating on a global basis. So they are not totally dependent, if you will, on the economic environment in Europe, per se. And we have many projects and programs we are delivering around the world, which are indeed located in Europe, and which is reflected in this 10% growth.

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**Bryan Keane - Deutsche Bank - Analyst**

Okay. Great. That's helpful. My follow-up is just on outsourcing in general, just from your comments and looking at the bookings last two quarters, they're really booming. I guess, what's driving that kind of that change that we're seeing, such a big delta in outsourcing and maybe where is that strength coming from? Is it across the board in the segments? I know we talked a little bit about it, but it's just a little bit surprising to see it come on that strong.



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**Pierre Nanterme - Accenture - Chief Executive Officer**

Yes, I think it is indeed coming across the patch and I think it just reflects -- I mean, first, the nature of the client demand in terms of cost take-out, and I think what we are providing both from an application outsourcing or BPO standpoint is extremely relevant in response to the client's need, and second is the positioning we have taken in both BPO and AO. We continue to drive a lot of innovation compared to the competition. I think in BPO, we have now extremely good solutions we're calling fourth- or fifth-generation BPO, where we are bringing more value in the BPO services to avoid commoditization. As well, if you think about the application outsourcing, we are much more service-level based, business-case driven, so I think as well, what we are proposing is more relevant for our clients.

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**Pam Craig - Accenture - Chief Financial Officer**

Just the way our global delivery network has really gotten so strong in terms of our ability to deliver more and more of these services, as I mentioned in my comments.

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**Bryan Keane - Deutsche Bank - Analyst**

Okay. Congrats on the job.

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**Operator**

We have a question from the line of Darrin Peller with Barclays Capital. Please go ahead.

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**Darrin Peller - Barclays Capital - Analyst**

Would you mind touching for a moment on the actual timing you're seeing in terms of decision-making, maybe touch on budgets, how they're shaping up in terms of when they should be decided. Are you still expecting January, February, maybe even March? Just give us some sense around that.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Hi. When you look at it, and as you can imagine we're looking at it extraordinarily carefully, around where the velocity, speed to decision and so forth are going, and as we speak, and what you're looking at in Q1, we've not seen a significant change in clients' behavior.

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**Darrin Peller - Barclays Capital - Analyst**

Okay. Well, that's helpful. I guess, bottom line is you would expect probably February time frame, right, January, February time frame, still, to help guide in your planning?

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**Pam Craig - Accenture - Chief Financial Officer**

We're not seeing any blips in the way clients are stopping or starting projects. We're just not seeing anything in that. But as I mentioned, we did allow for a little bit just in terms of how the revenue kicks in after the start of the calendar year, just in case something like that does happen.

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**Darrin Peller - Barclays Capital - Analyst**

Right. It's just the type of contracts, perhaps. On the public sector local currency growth rate, I know that health is in there also, but still 11% was pretty impressive considering an environment of fiscal tightening around the globe. I think it's also been somewhat better than what we've seen with peers. Could you give us a sense of what you think is maybe driving that outperformance?



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**Pam Craig - Accenture - Chief Financial Officer**

I'll start and let Pierre go then. We are really, really focused on this repositioning as we've been telling you for several quarters now. I think what's paying off for us is focus and we are really helping or working with the governments around the world on helping them get more efficient, right, helping them get much more efficient in terms of the services they're providing to their citizens and we've really narrowed it down to a few offerings, and it is starting. We're still doing it, right, so we're not done, but we're really pleased with the progress of how this is going.

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**Darrin Peller - Barclays Capital - Analyst**

That's great.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

You said that very well, Pam, so I have nothing to add. That was just brilliant.

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**Darrin Peller - Barclays Capital - Analyst**

Thanks, guys.

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**Operator**

Next we'll go to the line of Moshe Katri with Cowen. Please go ahead.

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**Avishai Kantor - Cowen & Co. - Analyst**

Hi. Avishai Kantor for Moshe. First question, telecom seems to be up very strong, 21% sequentially, and FS up strong, 15% sequentially. Can you elaborate on the drivers for that?

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**Pam Craig - Accenture - Chief Financial Officer**

Sorry, you said telecom's up...

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**Avishai Kantor - Cowen & Co. - Analyst**

I'm sorry, operating income in telecom and FS, in terms of numbers, telecom was up 21% sequentially and in financial services was up 14.7% sequentially, the operating income in those verticals. Can you elaborate on that, what were the drivers?

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**Pam Craig - Accenture - Chief Financial Officer**

Just as I mentioned before with operating margin, there's a lot that goes into that. Generally, contract profitability is the major driver, and then there's a few other puts and takes that go into that every quarter. We did have, just in terms of this quarter versus last year, we had -- last year you may have seen, we took a benefit from bad debts. This year we did not have that. So there's just lots of things that go into that and there's nothing notable in those two operating groups.

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**Avishai Kantor - Cowen & Co. - Analyst**

Okay. And then on a sequential basis revenues in Europe were up much stronger than the US, which grew only 1%. Can you talk about that a little bit?



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**Pam Craig - Accenture - Chief Financial Officer**

I'm not sure I have your sequential 1%. I mean, there's always -- the quarters are different, just in terms of the seasonality of our business, so sequential generally doesn't make sense, and so I'm not sure there's anything too much you can draw from that.

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**Avishai Kantor - Cowen & Co. - Analyst**

Okay. And then last question. Any change in visibility compared to prior quarters?

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**Pam Craig - Accenture - Chief Financial Officer**

Not really, beyond what we provided in the comments. The bookings were strong. And generally, we see clients' budgets continuing to shape up for next year as we expected, so there's nothing really major to point out there.

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**Avishai Kantor - Cowen & Co. - Analyst**

Thank you very much.

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**Operator**

We have a question from Keith Bachman with the Bank of Montreal. Please go ahead.

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**Keith Bachman - BMO Capital Markets - Analyst**

Hi, good afternoon. I understand you manage to operating margins, but I did want to hear a little more color about the gross margins. Utilization rates were up, and attrition was down. Could you just talk about, again, why gross margins were down, and then what you expect the trends to be over the next quarters, and then I have a follow-up. Thanks.

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**Pam Craig - Accenture - Chief Financial Officer**

Well, I mean, I'm going to stick to the story, in that we manage the business to operating margin. I mentioned to you that payroll was up a little bit in gross margin, but it was down a little in sales and marketing, and as I mentioned, most of our people to the degree when they're not charging contracts spread their time between those two lines in terms of the activities that they do. So I think that you just -- again, we manage the business to operating margin, and I think we were -- the contract profitability was good. We had compensation increases that went in on September 1st. We're absorbing those well. So there really isn't too much to add there right now.

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**Keith Bachman - BMO Capital Markets - Analyst**

Then if you're absorbing that compensation, would you expect the gross margins to go up over the next several quarters?

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**Pam Craig - Accenture - Chief Financial Officer**

Again, we manage the business to operating margin. There's a lot of puts and takes. There's contracts that are beginning, contracts that are ending. I mean, there's just so much that's going on in a given quarter so, as you know, we did give annual -- an annual outlook for 10 to 20 basis points expansion in operating margin and that's what we're working to do.

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**Keith Bachman - BMO Capital Markets - Analyst**



Okay. All right. I will cede the floor then. Thank you.

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**Operator**

Nathan Rozof with Morgan Stanley. Please go ahead.

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**Nathan Rozof - Morgan Stanley - Analyst**

Maybe a first one for Pierre here, I'd like to turn it back to Europe. Are you guys seeing any noticeable or perceptible shift in clients' adoption of offshoring, in particular, and if so, if you could kind of speak to the drivers of that or how they are leveraging offshore more, and how it's impacting your business?

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Yes, definitely, this is a trend which is as well catching on in Europe. This offshore adoption, if you will, has already been very vibrant if you take the UK or the Nordic countries. So the question has always been, what's going to be the level of penetration in the Latin countries, and we're starting to see more adoption of offshore or near-shore there as well. And as you know, we have a number of delivery centers, some are more near-shore, others are more offshore. We have the possibility to leverage, of course, our offshore centers, such as India, but as well, we can work from Romania, even from Morocco or other places. So we have a full range of possibilities when it comes to offshore, so we can deal with language, with culture, as well as with time zone. Particularly, we see a higher rate of adoption from an offshore standpoint.

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**Nathan Rozof - Morgan Stanley - Analyst**

Okay. Great. Thank you for that. I wanted to turn it quickly back to the bookings number. Pam, I think you mentioned that there were nine clients who added at least \$100 million in new bookings. I just wanted to check to see if there were any large or chunky bookings closer to the \$1 billion range like we had seen last quarter that may have also benefited bookings this quarter. Thank you.

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**Pam Craig - Accenture - Chief Financial Officer**

We didn't have any giants like that. Otherwise, I probably won't comment any further. But there weren't any like up close to \$1 billion.

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**Nathan Rozof - Morgan Stanley - Analyst**

Great. Thank you.

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**Pam Craig - Accenture - Chief Financial Officer**

Thanks, and also, I just want to say that I'm still sticking to the 10 to 30 basis points. It was pointed out to me that I said 10 to 20, and it is 10 to 30.

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**Operator**

Next we'll go to the line of Ashwin Shrivaiakar with Citi. Please go ahead.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Solid quarter, good execution in tough times, congratulations on that. Not that much of surprising comments on the quarter itself. But I wanted to go to the topic of vendor consolidation. We continue to hear that Accenture continues to gain wallet share versus competition, including especially mid-tier companies that may not have a full range of services, and I just wanted to ask what inning are we in here, how strong of a driver could this be over the next couple of years?



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**Pierre Nanterme - Accenture - Chief Executive Officer**

Yes, thank you, Ashwin for the question and I think this is a driver for our growth as we can see this vendor consolidation moving forward for very good reasons from our clients. If you want, on one hand, to rationalize your IT cost, and second, drive more transformational programs, you need to rely on a lower number of providers which are able to support you on a much more global basis. All this, especially when you're working for large companies, large and global companies like Accenture. So consolidation is still moving forward and is still a driver for our growth, and a way for us to increase the share of wallet in our existing clients.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Okay. And then on currency, I mean, the impact of currency is of course expected, but does the continued volatility change how you hedge the risk, or whether you try to contractually offset some of it, or even where you hold your cash. Because there was that cash impact on the balance sheet this time, right?

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**Pam Craig - Accenture - Chief Financial Officer**

Yes. I mean, first of all, we're not going to be changing anything we do. What we do is we do hedge certain balance sheet risks where we need to, but what was reflected in the cash balance is reflected in the cash we need around the world to run the businesses in those countries, and sometimes it goes one way and sometimes it goes another, and that's just the way it goes. We also are going to continue to hedge part of the work in our GDN, where we have revenues and costs in different currencies, and we're going to continue with that practice. We're very pleased with how that's going.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Okay. Understood. Thank you, guys.

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**Operator**

Next question comes from the line of David Grossman with Stifel Nicolaus. Please go ahead, sir.

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**David Grossman - Stifel Nicolaus - Analyst**

Thank you. Pierre, you talked very positively about emerging markets and sorry if I missed this but what percentage of revenue is in emerging markets and what rate is it growing and how does the competitive landscape look?

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**Pierre Nanterme - Accenture - Chief Executive Officer**

We're not giving the information to that level of detail, but I can just mention two things. First, I'm very pleased with the progress we are making with our priority emerging markets. Again, we've been extraordinarily focused on growing in that part of the world and putting our act together. And second, as I mentioned before, we've been growing in those markets at significantly higher rates than the rest of Accenture.

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**David Grossman - Stifel Nicolaus - Analyst**

And how about the competitive landscape? Is it materially different than what you're seeing in the other geographies?

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Yes, I mean, of course you need to face local competition, but it's not different from what we are facing in most of the markets. At the end of the day, the market is split between the large and global companies, like us, the local providers, and what we are calling more the Indian suppliers as well, which are providing a kind of different kind of services. So what we are facing in those markets is the same competition we used to face in the other markets. So I think we are extremely well-prepared to compete in those markets.



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**David Grossman - Stifel Nicolaus - Analyst**

Thank you. And just one for you, Pam. It looks like the impact of currency on revenue and EPS were more or less proportionate. Does that relationship generally hold true or does it really just depend on other factors?

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**Pam Craig - Accenture - Chief Financial Officer**

Yes, it generally holds true, I would say.

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**David Grossman - Stifel Nicolaus - Analyst**

Okay. Very good. Thank you.

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**Operator**

We'll go to the line of Joseph Foresi with Janney Montgomery. Please go ahead.

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**Joseph Foresi - Janney Montgomery Scott - Analyst**

Hi. My first question here is just on utilization. I see it's at around 87%. Are you running that a bit too hot? I think you talked about maybe potentially bringing it down. Is that an inhibitor at all to servicing any business or how should we think about that in relation to a margin as well?

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**Pam Craig - Accenture - Chief Financial Officer**

I don't think it's too hot. It's maybe on the border of getting too hot, but we don't believe it's too hot. The mid-80s is where we look for it to be, and it's really been tracking in that area, and I think we're doing an excellent job of supply and demand balancing right now.

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**Joseph Foresi - Janney Montgomery Scott - Analyst**

And then just secondly, and thank you for that, just so I can kind of characterize your positioning right now, it sounds like there's nothing really that you're seeing in the marketplace. Would you say that your optimism was just, towards the demand environment, is just as strong as it was last quarter, and the element of conservatism may be coming from headline rather than what you're seeing in the market? Maybe you could just frame that for us.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Yes, I mean, good question indeed. We know we are entering fiscal year 2012 in a position of strength. This is what we mentioned last quarter. We're very pleased with our Q1. We are remaining extremely close to our clients, and what we see as we speak is that indeed the kind of services we are providing are extremely relevant to respond to the needs of our clients. Now, on the other hand, we are very thoughtful, and we're watching carefully what's happening in the marketplace and especially in the macroeconomic environment, and especially in the Eurozone. And this is what we're providing in our guidance and in our direction, I think, exactly the right balance between the confidence in ourselves and the services we are providing, and just being aware of what's happening outside.

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**Joseph Foresi - Janney Montgomery Scott - Analyst**

I'm going to squeeze one last in here, Pam. How should we think about the depreciation of the rupee as we look at your margins? I know you have a larger global delivery model, but maybe you could just talk to that. Thank you.





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**Pam Craig - Accenture - Chief Financial Officer**

Well, I mean, movements of the rupee really only have a modest impact on our margins, because even though we have a large headcount in India it's really not proportional to our total costs, and we do offset them partially by hedging. So I mean, so the whole intent is to really try to minimize that impact on our overall global results.

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**Joseph Foresi - Janney Montgomery Scott - Analyst**

Thank you.

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**Operator**

Go to the line of George Price with BB&T Capital Markets. Please go ahead, sir.

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**George Price - BB&T Capital Markets - Analyst**

Congratulations. Nice quarter, particularly very strong bookings. I guess I know some of the questions have been asked and it's been circled around, but I want to press a little bit more on the guidance. In keeping the 7% to 10% range in light of the strong first quarter results and the second quarter guidance... I've been doing a little preliminary work on what it is for the year, the upper range of the constant currency guidance range implies a fairly significant deceleration in the second half of the fiscal year, maybe to around like the 7% kind of range in constant currency, and obviously even lower if you -- if we think of the low end of the constant currency guidance range. And then if we think outsourcing is going to grow faster than consulting, given what we're observing and your comments, then potentially a real deceleration in consulting. So notwithstanding that I know you want to be conservative in light of what we're seeing in the macro environment, but I guess it's kind of -- if you can give a little more color on that, because it just feels beyond just conservatism.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

I will start and Pam will give more color on this as well. But again, we want to be thoughtful and balanced in our judgment. So again, we have a strong start and we are very pleased with where we are. We have strong bookings, which is giving us some visibility. However, we know that there are remaining uncertainties and volatility in the marketplace, and when we are putting all of this together and we need to apply our judgment, then we believe that the guidance we are giving from 7% to 10% is the right one, given where we are, and what we know and what we are starting from, but Pam, you can further comment.

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**Pam Craig - Accenture - Chief Financial Officer**

I'll probably just sort of repeat what you said. I think similar to last quarter, I mean, we look at this very seriously. We look at puts and takes. And so, Q1 was even stronger than we expected. Q2, we have factored in some prudence, in case there are some slight level of calendar year delays. And then as you look past Q2, we recognize that GDP forecasts globally have maybe inched down a little bit, right, when you think about places like the Eurozone, the UK and Japan, and as I mentioned, we do have some work to do to replenish the pipeline, so we're just kind of trying to take all that into account and be thoughtful and prudent about how we see it.

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**George Price - BB&T Capital Markets - Analyst**

Just kind of segueing to that comment on the replenishing the pipeline, and the work that you have to do, I guess what's driving that? Obviously, you're pulling a lot out of the pipeline in terms of booking it, and that's great, but in terms of having to replenish it, I mean, what's driving -- is there just slower decision-making on things coming in? I mean, a little bit more around that would be helpful.

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**Pam Craig - Accenture - Chief Financial Officer**

I think, coming off of two strong quarters of bookings, then there's replenishment work to do. That's just a given. As I mentioned, we also see some shifting from consulting to outsourcing from how we originally did our plan this year, so that's what we're focused on.



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**George Price - BB&T Capital Markets - Analyst**

Okay. Last thing if I could. Was fiscal 1Q 2012 the first quarter for year-over-year decline in the banking and capital markets consulting work? You mentioned that actually had a year-over-year decline. Was this the first quarter that we saw that and was that driven by consulting, predominantly in Europe, or did you see that in the US as well? Thank you.

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**Pam Craig - Accenture - Chief Financial Officer**

We did not see it in the US, and I believe this is the first quarter. I don't think last quarter had a year-over-year consulting decline. We can confirm that with you, but I don't believe it did, if memory serves me.

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**Pierre Nanterme - Accenture - Chief Executive Officer**

Yes, I don't think so.

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**George Price - BB&T Capital Markets - Analyst**

Great. Thank you for taking my questions.

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**KC McClure - Accenture - Managing Director IR**

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

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**Operator**

Final question today will come from the line of Dave Koning with Robert Baird.

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**Nathan Novak - Robert W. Baird & Co. - Analyst**

This is actually Nathan Novak on the line for Dave. Sort of piggybacking off that last question, but in the Financial Services vertical, last couple of quarters, profitability has been a little worse than let's call it the last or the prior seven quarters. What would it take to materially change to get that back up to 17%, 18%? Is it a mix shift thing, compared to some of the other verticals, or could you talk a little bit more specifically about the drivers there?

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**Pam Craig - Accenture - Chief Financial Officer**

Well, first of all, I think Financial Services has exhibited very strong profitability in the past. So they're probably a little bit more in the pack now, and I think that as you mentioned, operating groups go through different cycles, right, in terms of their business and big stuff starting up and that sort of thing. And I think we have as I mentioned in the comments, right, we just have lower contract profitability right now and they're focusing on business development, and we also had some acquisitions that we're integrating and had some costs related to those.

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**Nathan Novak - Robert W. Baird & Co. - Analyst**

Excellent. Thanks a lot.

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**Pam Craig - Accenture - Chief Financial Officer**

Thank you.



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**Pierre Nanterme - Accenture - Chief Executive Officer**

Thank you, and as you know, Financial Services is very close to my heart so I'm going to work with current leadership to make sure they will show a good gain...

Thanks again for joining us today. We are very pleased with our excellent results in the first quarter and we remain confident in our ability to drive profitable growth. We continue to invest to differentiate Accenture in the marketplace, and to ensure that our strategy and capabilities are closely aligned with our clients' long-term competitive needs.

In closing, I would like to thank each and every one of our dedicated men and women around the world for their commitment to Accenture and to our clients. I would also like to thank our investors for your continued support.

We look forward to speaking with you again next quarter. In the meantime, if you have any questions, please feel free to call KC to make arrangements for follow-up. I wish you a happy holiday season and all the best for a happy new year.

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**Pam Craig - Accenture - Chief Financial Officer**

Thank you.

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**Operator**

Ladies and gentlemen, that does conclude our conference for today. This conference will be available for replay starting at 7:00 p.m. this evening and running through March 22nd, 2012. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701, and entering the access code of 222491. Again, that access code is 222491. International participants please dial 1-320-365-3844, and again the access code is 222491. That does conclude our conference for today. Thank you for your participation, and for using the AT&T Executive Teleconference. You may now disconnect.

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