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# EDITED TRANSCRIPT

ACN – ACCENTURE’S Q1 FISCAL 2015 EARNINGS  
CONFERENCE CALL

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## Accenture's Q1 FY '15 Earnings Conference Call

### CORPORATE PARTICIPANTS

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

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

**David Rowland** *Accenture - CFO*

### CONFERENCE CALL PARTICIPANTS

**Tien-Tsin Huang** *JPMorgan - Analyst*

**Edward Caso** *Wells Fargo Securities, LLC - Analyst*

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

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

**Ashwin Shirvaikar** *Citigroup - Analyst*

**Moshe Katri** *Cowen and Company - Analyst*

**Dan Perlin** *RBC Capital Markets - Analyst*

**Jason Kupferberg** *Jefferies & Company - Analyst*

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

### PRESENTATION

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#### Operator

Welcome to Accenture's first-quarter FY15 earnings conference call.

(Operator Instructions)

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

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

Thank you, Tom. Thanks everyone for joining us today on our first-quarter FY15 earnings announcement. As Tom just mentioned, I'm KC McClure, Managing Director, Head of Investor Relations. With me today are Pierre Nanterme, our Chairman and Chief Executive Officer and David Rowland, our Chief Financial Officer. We hope you've had an opportunity to review the news release we issued a short time ago.

Let me quickly outline the agenda for today's call. Pierre will begin with an overview of our results. David will take you through the financial details including the income statement and balance sheet, along with some key operational metrics for the first quarter. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the second quarter and full FY15. We will then take your questions before Pierre provides a wrap up at the end of the call.

As a reminder, when we discuss revenues during today's call, we are talking about revenues before reimbursements or net revenue. Some of the matters we'll discuss in this call, including our business outlook, are forward-looking and as such are subject to known and unknown risks and uncertainties including but not limited to those factors set forth in today's news release and discussed in our annual report on Form 10-K and quarterly reports on Form 10-Q and other SEC filings. These risks and uncertainties could cause actual results to differ materially from those expressed in this call.

During our call today, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures where appropriate to GAAP in our news release or in the Investor Relations section of our website at Accenture.com. As always, Accenture assumes no obligation to update the information presented on this conference call. Now, let me turn the call over to Pierre.



## Accenture's Q1 FY '15 Earnings Conference Call

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

Thank you, KC. Thanks, everyone for joining us today. We had an excellent first quarter, and I'm extremely pleased with our results.

Our revenue growth was broad-based, including strong growth in both Consulting and Outsourcing, as well as double-digit local-currency growth in four of our five operating groups. We expanded operating margin, delivered double-digit EPS growth and returned substantial cash to our shareholders. Our very strong results demonstrate that we're executing a growth strategy that is both highly relevant to our clients and highly differentiating for Accenture.

David will provide more detail in a moment, but here are a few highlights from the quarter:

- We delivered new bookings of \$7.7 billion, in line with our expectations.
- We grew revenues 10% in local currency, gaining significant market share.
- We delivered outstanding earnings per share of \$1.29, a 12% increase.
- We delivered operating margin of 15%, a 20 basis-point expansion.
- We generated very strong free cash flow of \$821 million and continue to have a rock-solid balance sheet, ending the quarter with a cash balance of \$4.5 billion.
- And, we returned \$1.3 billion in cash to shareholders through share repurchases and the payment of our semi-annual dividend of \$1.02 per share, a 10% increase over our previous dividend.

So, we are off to a very good start in FY15, and we have raised our outlook for revenue growth for the full fiscal year. Now, let me hand over to David, who will review the numbers in greater detail. David, over to you...

**David Rowland - Accenture - CFO**

Thank you, Pierre. Happy Holidays to all of you. Thank you for joining us on today's call.

As you heard in Pierre's comments, we delivered a very strong first quarter building further on the momentum that we established in the second half of last year.

Just a few months ago, at our Investor/Analyst Day, I outlined our focus on three imperatives for delivering shareholder value, and certainly, our quarter one results and the updated guidance that I will provide shortly illustrate our ability to manage and drive our business in a differentiated way.

So before I get into the details, let's look at our results in the context of the three imperatives. Starting with durable revenue growth, we expanded our business by over \$500 million in the quarter, with 10% growth in local currency. We had positive growth across all operating groups with four of the five achieving double-digit growth, strong balanced growth across all three geographic areas, and the highest growth rates in over two years in both Consulting and Outsourcing.

With respect to sustainable margin expansion, we expanded operating margin by 20 basis points, while at the same time investing in our business. The actions that we put in place during the second half of last year are yielding results. While optimizing profitability requires an ongoing relentless focus, we're very encouraged by the progress we've made in recent quarters.

And finally, regarding strong cash flow and disciplined capital allocation, we generated over \$800 million in free cash flow and delivered roughly \$1.3 billion to shareholders through repurchases and dividends.

With that said, let's now turn to some of the details, starting with new bookings. New bookings for the quarter were \$7.7 billion, with Consulting bookings of \$3.9 billion and a book-to-bill of 0.9, and Outsourcing bookings of \$3.8 billion and a book-to-bill of 1.0. This level of new bookings is consistent with what we signaled on the September earnings call, that bookings would be lighter in quarter one and then build throughout the year.



## Accenture's Q1 FY '15 Earnings Conference Call

We're pleased with the composition of our new bookings, specifically with the portion of our new bookings which we expect to be recognized as revenues this fiscal year, which improved our revenue visibility and supported increasing our revenue guidance for the full year. We see positive trends in our overall pipeline and are well-positioned to deliver a higher level of bookings in the second quarter.

Turning now to revenues. Net revenues for the quarter were \$7.9 billion, an increase of 7% in US dollars and 10% in local currency, reflecting a negative 3% FX impact compared to the negative 2% impact provided in our business outlook last quarter. On both an FX-adjusted and unadjusted basis, we were well above the top end of our guided range. Consulting revenues for the quarter were \$4.1 billion, up 4% in USD and 7% in local currency. Outsourcing revenues were \$3.8 billion, up 11% in USD and 14% in local currency.

Before I cover the operating groups, let me provide some insight on the primary drivers of our growth in the quarter. Digital related services continued to be a growth engine and contributed very significantly to our overall growth, with strong results across the board in Accenture Analytics, Accenture Mobility and Accenture Interactive. Operations and Application Services were also highlights in the quarter. Operations generated double-digit growth in both BPO and infrastructure services. We saw strong growth in Application Services as well.

Looking at the operating groups, we were very pleased with the 15% growth in Communications, Media & Technology. Overall growth was broad-based driven by strong double-digit growth in both Consulting and Outsourcing across all three industries and in North America and the Growth Markets. Digital related services, cost optimization and continued execution of large transformational projects were the primary drivers of growth.

In H&PS, the 13% growth in the quarter was led by very significant growth in our Health business, particularly in the public sector driven by our work with Federal Health clients, State health exchanges, and Medicaid-related work. Digital related services were also a strong growth driver across H&PS.

Financial Services grew 11%, led by Banking and Capital Markets globally with particularly strong growth in Europe. Clients continue to be focused on three main areas, risk and regulatory, cost optimization and digital related services, especially in distribution and marketing.

Products, our largest operating group, delivered 10% growth, driven by double-digit growth in both Consulting and Outsourcing and another quarter of broad-based strength across all industries and geographic areas. Digital and cost optimization were significant areas of focus for clients in this operating group as well. Application Services was also a driver, with strength in ERP related work.

Resources grew 2%, up from last quarter, as we continue to be pleased with the progress we're making in positioning for sustained positive growth this year. Ongoing challenges in Natural Resources continue to offset growth in the other three industries, most notably Chemicals, where we had significant double-digit growth. Cost optimization is a dominant theme across Resources, which has resulted in strong demand for Operations and Application Services.

Moving down the income statement, gross margin for the quarter was 32.2% compared with 33.3% for the same period last year, down 110 basis points. Sales and marketing expense for the quarter was 11.5% of net revenues compared with 12.6% of net revenues for the first quarter last year, down 110 basis points. General and administrative expense was 5.6% of net revenues compared with 6.1% of net revenues for the first quarter last year, down 50 basis points.

Operating income was \$1.2 billion for the first quarter, reflecting a 15% operating margin, up 20 basis points compared with quarter one of last year. Our effective tax rate for the quarter was 25.1%, equal to the effective tax rate for the same period last year.

Net income was \$892 million for the first quarter compared with \$812 million for the same quarter last year. Diluted earnings per share were \$1.29 compared with EPS of \$1.15 in the first quarter last year. This reflects a 12% year-over-year increase.

Turning to DSOs, our days services outstanding continue to be industry leading. They were 37 days, up from 36 days last quarter.

Free cash flow in the quarter was \$821 million, resulting from cash generated by operating activities of \$873 million, net of property and equipment additions of \$52 million. Cash flows in the quarter were positively impacted by a shift in the timing of a portion of compensation payments, which were paid in quarter one in prior years and beginning this year, will be paid in quarter two, with no impact to full-year cash flow.

Moving to our level of cash. Our cash balance at November 30 was \$4.5 billion compared with \$4.9 billion at August 31 and reflects our share repurchases this quarter in addition to the higher dividends we paid in November.

Moving to some other key operational metrics. We ended the quarter with a global headcount of about 319,000 people. We now have approximately 218,000 people in our Global Delivery Network.



## Accenture's Q1 FY '15 Earnings Conference Call

In quarter one, our utilization was 91%. We've updated the methodology we use to calculate our utilization metric to include all billable headcount. This change increased utilization by about 3% and accounts for the increase from quarter four.

Attrition, which excludes involuntary terminations, was 13% compared to 15% in quarter four and 11% in the same period last year. Lastly, we now expect at least 90,000 people will join our company in FY15.

Turning to our ongoing objective to return cash to shareholders. In the first quarter, we repurchased or redeemed approximately 8.4 million shares for \$670 million, at an average price of \$80.25 per share. At November 30, we had approximately \$4.1 billion of share repurchase authority remaining. Also, in November, we paid a semi-annual cash dividend of \$1.02 per share, for a total of \$679 million. This represented a \$0.09, or 10%, increase over the dividend we paid in May.

So in summary, we're off to an excellent start in FY15. That said, the environment continues to be challenging, which requires that we manage our business with rigor and discipline each and every day, which we are committed to doing. Now, let me turn it back to Pierre.

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

Thank you, David. At our Investor & Analyst Conference in October, we provided an update on our growth strategy including the investments we've made and the actions we've taken to make Accenture even more relevant, differentiated and competitive in the marketplace. Our excellent results this quarter demonstrate the successful execution of our strategy across the different dimensions of our business—and that we are growing significantly ahead of the market.

Let me share with you a few examples of the outcome-based work we are doing for our clients, as well as some key investments and initiatives we have announced recently.

In Accenture Strategy, our unique approach combining business strategy and technology strategy is resonating well with C-suite executives. A great example is the work we are doing with one of the largest banks in Canada, where our industry experts are designing and implementing a global technology strategy to drive 20% ongoing annual savings by optimizing the bank's portfolio of applications.

In Accenture Digital, we continue to invest to expand our capabilities in Accenture Interactive to better serve chief marketing officers. Earlier this month, we announced the acquisition of Reactive Media, one of the Australia's leading independent digital agencies. Reactive specializes in creating differentiated customer experiences through digital channels such as apps and eCommerce websites.

And we are benefiting from the investments we have made to enhance our capabilities in Accenture Analytics. We are working with a European auto company to improve forecasting, pricing and promotion for thousands of parts across 18 countries. We are leveraging our expertise in supply chain analytics and the Spare Parts app from our recent i4C acquisition to help our client drive \$65 million in new parts revenue.

In Accenture Technology, we just announced a major strategic initiative with Microsoft to drive enterprise cloud adoption. The Accenture Hybrid Cloud Solution for Microsoft Azure will provide a new way for clients to transform to a truly enterprise-wide hybrid cloud environment. This unique solution is being co-engineered across Accenture, Microsoft and Avanade, our joint venture, to bring new capabilities and innovation to our enterprise clients.

In Application Services, we continue to compete to win by providing our clients with the very best technology services at the most competitive cost. We recently expanded our relationship with a long-standing client in Resources to drive an IT transformation to enable greater business agility. We are managing more than 200 ERP, data and digital applications across a wide range of platforms, leveraging the capabilities of our Global Delivery Network in India, the United States, Spain, Brazil and Costa Rica.

Finally, in Accenture Operations, the capabilities we've built were key to a recent win with a global automotive client. We are operating an end-to-end marketing service across multiple brands and markets. By combining our industry expertise with our strategy, digital, analytics and operations capabilities, we are helping transform the company's digital marketing and increase digital sales.

I'm also very pleased that in Capital Markets, we signed our second client for Accenture Post-Trade Processing, our industry business service to manage securities operations for investment banks, which we created a year ago with Societe Generale as our first client.

Turning to the geographic dimension of our business. I'm very pleased with the balanced growth we delivered in the first quarter across our three regions. In North America, we grew revenues 12% in local currency. Our business in the United States continues to perform extremely well with strong double-digit revenue growth in the quarter.



## Accenture's Q1 FY '15 Earnings Conference Call

In Europe, despite the continued challenging economic environment, we grew revenues 9% in local currency, driven by double-digit growth in Germany, Italy, France and Norway.

And in our Growth Markets, we delivered revenue growth of 9% in local currency. I'm very pleased that Brazil is back with strong double-digit growth. We continue to perform very well in Japan with another quarter of double-digit growth. I'm also pleased with our strong growth in Australia.

So, we see very good momentum in our business and have delivered an excellent first quarter on top of a strong second half of FY14. At the same time, we are monitoring carefully the macroeconomic environment. The significant fall in global oil prices since last June could boost growth in the global economy, but also creates a more challenging environment for companies in the energy sector, and certainly contributes to greater uncertainty and volatility in the marketplace.

We continue to operate in a fast-changing environment, driven by so much disruption. In this context, we see significant opportunity and demand for Accenture's highly relevant and differentiated services. To capture additional market share and drive sustainable, profitable growth, we will continue to leverage our strong client relationship, our deep industry expertise, our unique position in the technology ecosystem, our broad global footprint, and even more important, the passion of our 319,000 men and women of Accenture.

With that, I will turn the call over to David to provide our updated business outlook for FY15. David, over to you...

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### David Rowland - Accenture - CFO

Thanks, Pierre. Let me now turn to our business outlook. For the second quarter of FY15, we expect revenues to be in the range of \$7.25 billion to \$7.50 billion. This assumes the impact of FX will be a negative 5% compared to the second quarter of FY14.

For the full FY15, based upon how the rates have been trending over the last few weeks, we now assume the impact of FX on our results in US dollars will be negative 5% compared to FY14. For the full FY15, we now expect our net revenues to be in the range of 5% to 8% growth in local currency over FY14.

For the full FY15, we continue to expect new bookings to be in the range of \$34 billion to \$36 billion. For operating margin, we continue to expect FY15 to be 14.4% to 14.6%, a 10 to 30 basis-point expansion over FY14 results.

We continue to expect our annual effective tax rate to be in the range of 26% to 27%. For earnings per share, we now expect full-year diluted EPS for FY15 to be in the range of \$4.66 to \$4.80, or 3% to 6% growth over FY14 results. Absent the higher FX headwind, which impacts EPS by \$0.14, our EPS range would have increased by \$0.06 driven by the higher revenue growth range.

Now turning to cash flow. For the full FY15, we continue to expect operating cash flow to be in the range of \$3.95 billion to \$4.25 billion, property and equipment additions to be approximately \$450 million, and free cash flow to be in the range of \$3.5 billion to \$3.8 billion. Finally, we continue to expect to return at least \$3.8 billion through dividends and share repurchases and also expect to reduce the weighted average diluted shares outstanding by approximately 2% as we remain committed to returning a substantial portion of cash to our shareholders.

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

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### KC McClure - Accenture - Managing Director of IR

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

## QUESTION AND ANSWER

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### Operator

(Operator Instructions)



## Accenture's Q1 FY '15 Earnings Conference Call

Tien-Tsin Huang, JPMorgan.

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**Tien-Tsin Huang - JPMorgan - Analyst**

Good quarter here. I guess I'm surprised to see you increase your revenue growth guidance this early in the fiscal year. It seems a little uncharacteristic. It's good, obviously, but it sounds like it's due to faster booking conversion, if I heard that correctly? Is that a structural change that could persist here for a few quarters? Or is this more of a temporary phenomenon that we should consider?

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**David Rowland - Accenture - CFO**

Certainly, the composition of our bookings in the first quarter was an influencer of the 10% growth. As I commented -- Tien-Tsin, you and others have heard me reference previously, what I refer to as annual contract value. So it's the portion of our total bookings or the total contract value that converts to revenue in the fiscal year. We were very pleased with that number in the first quarter. Really that's been a trend that we've seen, really, going even to the back half of last year as our growth went from 7%, as you know in the third quarter, to 8% in the fourth quarter.

You've also heard me mention that, as important as the larger transformational projects are to us, we also have been focusing our client teams more on thinking about the annual contract value of the work that we sell and deliver to clients. I think we see some of that reflected in the growth in the first quarter and also in the second half of last year.

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**Tien-Tsin Huang - JPMorgan - Analyst**

All right, good. So as my follow-up then, I noticed you didn't update your bookings forecast despite the big FX headwind. So I know it's a really wide range, but is that effectively a raise in constant currency bookings, to try to better tie that to the constant currency revenue comments? Thanks.

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**David Rowland - Accenture - CFO**

It is, just mathematically, it's effectively a raise for the reasons you're pointing out. On the bookings front, we feel very good about our pipeline. We are only one quarter into the year. We still think that the \$34 billion to \$36 billion range is the right range for us to be focused on. And for that reason, we didn't change it even though the FX did change.

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**Tien-Tsin Huang - JPMorgan - Analyst**

Good stuff. Thanks.

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**David Rowland - Accenture - CFO**

All right. Thank you, Tien-Tsin.

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**Operator**

Edward Caso, Wells Fargo Securities.

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**Edward Caso - Wells Fargo Securities, LLC - Analyst**

I was hoping you could give us a little bit more color on the impact of oil prices both on the positive side, where you think you would see it, and also on the negative side within your energy sector? Maybe, and talk a little bit about what your clients - are you seeing them react at this point, are they reacting already? Thank you.



## Accenture's Q1 FY '15 Earnings Conference Call

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

Yes, this is Pierre. I'll pick up that one. As we speak, and I will comment almost as of today, we've not -- I've not yet seen any form of significant impact in our business with what's happening. I believe that these big organizations in energy, oil and gas are just watching the situation.

It has been very volatile these last few weeks. I guess our clients, these companies are waiting a bit to understand whether there is going to be some form of stabilization. When you have some form of stabilization, you can start executing your strategy. But as we speak, we've not seen any different pattern with our clients. I would characterize my dialogue as being in a watching mode, not panicking.

**Edward Caso - Wells Fargo Securities, LLC - Analyst**

Now, the energy vertical, I believe, is about 6%. Is it, long term -- can you give us a sense for what the mix is, Consulting versus Outsourcing? How quickly, if your clients get more nervous, it could get dialed back?

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

Yes. If you look at it -- I guess, it's not going to be very different from the mix of Accenture, from a Consulting and Outsourcing standpoint. So indeed, a good portion of the business is going to be around outsourcing contracts with long-term commitment.

As you know, we have some clients where we are doing business process outsourcing operations -- a very large and important client where we are doing finance and accounting. So it is the kind of operations which are contracted for long term and which are of course mission-critical for the client. So to answer your question, the level of vulnerability would be more around the short-term consulting projects and so forth, which would be a part of this 6%. So I guess that would probably impact something like a portion of 3%, if you will.

**Edward Caso - Wells Fargo Securities, LLC - Analyst**

THANK YOU.

**Operator**

Brian Essex, Morgan Stanley.

**Brian Essex - Morgan Stanley - Analyst**

I was wondering if you could circle back a little bit more to ACV. Tremendous -- unless I'm doing my math wrong, a tremendous employee headcount growth in the quarter. When I look at that relative to the softer bookings, although it's higher conversion rates, how much visibility do you have in the headcount? Maybe you can help give us a little bit of color in terms of where you're hiring and the mix of hiring, given that revenue per head is going down a little bit. What is the visibility that leads to that aggressive headcount growth?

**David Rowland - Accenture - CFO**

Yes. Well first of all, just in terms of visibility and how that influences our supply planning. First of all, as you know, we are very effective at managing the supply side of our business. It's a core competency of ours. We are managing, adjusting and tuning the supply side including hiring daily, if not hourly.

Now, in terms of the growth in headcount, certainly -- and I think the tone of the comments hopefully indicated as much, we feel very good about our business. We exited last year with good momentum. That momentum translated into strong growth in the first quarter.

It translated into a lower dollar value of bookings but yet a very high quality of bookings with respect to how it will benefit revenue this year. If you reflect on the guidance that we gave for the second quarter, the upper end of that range is 10% growth in local currency. So what all of that points to is confidence in our business and that underpins what we're doing on the headcount front.





## Accenture's Q1 FY '15 Earnings Conference Call

Now, as it relates to headcount, one of the many but important differentiating characteristics of Accenture is GDN. We continue to invest heavily in GDN including on the talent side. So if you look at the recruiting that we did in the first quarter, as you can see in the numbers, it's biased towards GDN, but yet, it's important to recognize that we're hiring in just about every geography around the world. We're hiring meaningful numbers of people in all of our local markets. So I think the headcount just reflects the confidence we have in our business.

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**Brian Essex - Morgan Stanley - Analyst**

Okay. Is there any, just as a follow-up -- is there any geo in particular that you're particularly excited about? I know at the Analyst Day, Pierre was pretty confident about BPO in Europe. Is that actually materializing now? Are you seeing greater traction in that geo in particular with regard to BPO? Maybe impact to longer-term upside, downside to your full-year forecast?

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

Of course, the country I'm most excited with would be France by no doubt, where we had a quarter I would characterize as fabulous. Based on fact, nothing to do with my nationality of course. But I'm pleased with what's happening.

I'm extremely pleased with the sustainability of our performance in the United States. It is very important. It is the largest market of Accenture. It is, I would say, THE global market where things are happening in our industry.

This is where things are happening from a digital standpoint, from an innovation standpoint, as well as from a disruption standpoint, from an energy standpoint, we can comment on all of this. And it's for us, all goodness that we are doing so well in the US. We are gaining market share and it's been the case now for these last four years. So it's not the story of a quarter.

I am extraordinarily impressed with what we are doing in Europe. And I'm mentioning impressed, because we all know that the economic context and conditions in Europe are very different from the US. Driving 9% local-currency growth in the European market is very significant, including growth in our most mature markets. I mean, growing in Italy double-digit. Growing in France double-digit. Growing in Germany double-digit.

It's a big achievement for Accenture. Why we've been able to do that, to get back to your first question, indeed, we have -- these last couple of years, we have excellent traction in Outsourcing, Application Outsourcing. We have been able to evolve our portfolio of business to BPO. We have some very landmark deals especially in Electronics and High-Tech, in business processing outsourcing, but as well in Banking in Italy just to give two illustrations explaining France and Italy.

The good news, I would say, of this quarter from a European standpoint is Consulting is back, which is demonstrating that our clients are starting to reinvest in Consulting, first in digital related services. I couldn't be more pleased with our digital business at Accenture. I would characterize it as on fire, not being emphatic, but as well, we see good opportunities again back in big ERP.

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**Brian Essex - Morgan Stanley - Analyst**

Very helpful, thank you.

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**Operator**

Lisa Ellis, Sanford Bernstein.

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

So can you describe in a little bit more detail, I know you watch the book-to-bill numbers pretty closely. And now, two quarters in a row the consulting book-to-bill has been less than 1. I know that -- what you're saying is that's because the mix of those services are such that they are rolling through quicker. Can you just talk about that? What -- is it the conversion time? Or what exactly is going on under the covers there?



## Accenture's Q1 FY '15 Earnings Conference Call

**David Rowland - Accenture - CFO**

Yes. I guess, just a couple of thoughts. First of all, as you know, Lisa, watching our business, the bookings as we've always said -- probably said 1,000 times, the bookings can be lumpy across the quarters. I think some of what you see this quarter is lumpiness. Sometimes, it's really an insignificant difference as to whether or not we close, let's say, one or two larger deals the last week of the quarter or the first week of the next quarter, it's really just a timing issue.

I will say, by the way, I'll just take this opportunity to point out that in the quarter, we did have six clients with bookings over \$100 million. That's a healthy number by anyone's standards. But for us, it's a little bit lighter than what we've seen in some quarters in the last four to six, so that was an influencing factor in the first quarter.

Nonetheless we were very pleased with the quality of what we sold, as I said. So, we don't read anything through in terms of the fact that we had several very strong quarters. Last quarter was a little bit lighter.

This quarter is, as I characterized it, but yet, if you look at our guidance range for the full year and if you just do the math, then that tells you kind of what we're thinking about in terms of kind of on average, what our bookings would be for the next three quarters. Of course, that would put the bookings right back in the sweet spot of our book-to-bill.

So if I go to where you started, we still focus very much on the book-to-bill metric of 1.0 to 1.1 for consulting and at least 1.2 for outsourcing. But that doesn't mean that we hit it every quarter. When we don't hit it every quarter, we're not worried about that. We are really focused on how we perform against those metrics really over a, kind of a, multi-quarter period. I think for this fiscal year, you'll see it play out in a way that the book-to-bills will look normal to you, if you will.

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

Then, just one real quick follow-up. I know you always talk about, don't focus -- focus on the operating margin number and not the distinction between gross margin versus net because expenses can kind of fall into different buckets. But in an environment with an increasing mix of consulting, I was sort of surprised to see that mix -- that the gross margins continued to decline. I would have, I guess, thought it was the other way around. Can you just talk a little bit about that dynamic?

**David Rowland - Accenture - CFO**

Absolutely. I would have been disappointed, Lisa, had you not asked that question. I could have written it for you. Hey, it's a good question.

At the risk of being redundant, I am just going to anchor back to some of the things I have said before. But I'll give you some nuggets for the quarter as well. So just for the benefit of everyone who is listening, we do really focus on operating margin. At the end of the day, what we really focus on at the highest level is driving a business so that our payroll cost and our non-payroll cost evolve in a way that supports margin expansion.

So if you look at payroll, as an example, we're much more concerned about the overall efficiency of the payroll than we are the portion of the payroll that is reflected in sales and marketing versus cost of services at any particular point in time. I think without -- maybe if I stay at the level that is appropriate, let me just point out a couple of things on gross margin. The first thing is, and this is a little bit of the dynamics that you have to understand, is that our contract profitability actually was up year-over-year.

So this is not an issue of contract -- it's not an issue, but this is not, in gross margin, driven by contract profitability pressures in the quarter. Now -- so what is it then? Well we have a lot of other costs that go into gross margin. We have recruiting costs. We're hiring a lot of people in the first quarter. We have training costs. When we hire people we train them. We have, types of our investments show up in gross margin.

I characterize that what we're focused on is investing in our business, while at the same time growing revenue and expanding profits. You have other things like other components of payroll, variable comp, as you know, shows up in gross margin. So there are many factors that show up in gross margin. To the root of your question, it was not contract profitability. Contract profitability increased and operating margin increased overall at 20 basis points. That's what we're all about.

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

Terrific. Thanks.



## Accenture's Q1 FY '15 Earnings Conference Call

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**David Rowland - Accenture - CFO**

Okay. Thank you.

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**Operator**

Ashwin Shirvaikar.

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**Ashwin Shirvaikar - Citigroup - Analyst**

I guess a couple of questions on revenues. One is with regards to the contribution of acquisitions to this quarter. If you could talk about that. Then a related -- not really a related question, but also a revenue question.

How do you get the FX headwind of 5%? I'm getting 3.5%. You guys do a pretty good job of telling us what the revenue mix is. So I'm kind of wondering if we should maybe use FX as a part of being conservative overall, given the uncertainty of rates?

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**David Rowland - Accenture - CFO**

Yes. So let me just start off with the -- on the inorganic piece. I think last quarter I said that it would be around 1% -- 1% to 1.5% for the year. Quarter one was clearly in that zone, which means -- the simple extrapolation is that most of our growth was organically driven. So when you look at the 10% in the context of what I just said, it's another indicator of the health of our business.

Ashwin, on the FX, we go through a process. It's been a process we've done for as long as I can remember, which is probably back to the first quarter of being a public company. We do a process where we look at the rates on a daily basis in the two to three weeks leading up to the earnings call. We look at what the trends are in the most recent two to three weeks.

There's no -- it's really more -- it's objectively driven. We don't try to speculate on what rates might do going forward. If you look at the objective analytics based on the distribution of our currencies and how the rates have trended, then you come up with a solid 5%. I'd just say, it's a solid 5%.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Okay. We could, maybe take that one up offline. But the second question I have is with regards to margins. You just went through, on the previous question, a pretty good description of the various costs and such. But the margin improvement of 20 basis points, I'm kind of curious, as you look at it and you look at your forward bookings, what's in your pipeline, in other words, one of the factors that has got to be helping you on a forward-looking basis is that your mix has gone from 46% consulting to 50% consulting. But also, you're hiring so many people, it's got to be GDN, which should presumably help margins. My perception has also been based on my checks that the strong digital and mobility-type work that comes through is higher margin. So I'm really curious what -- on the operating margin basis, what's the offset that gets you to 20 basis points? I would expect you guys to do 30 to 40 basis points.

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**David Rowland - Accenture - CFO**

Well, by the way -- so that was a statement or a question at the end?

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**Ashwin Shirvaikar - Citigroup - Analyst**

The last part was a question.



## Accenture's Q1 FY '15 Earnings Conference Call

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**David Rowland - Accenture - CFO**

We, again, we're managing our business to drive sustainable margin expansion in the 20 to 30 basis-point range. As part of that, critically important, is we're committed to investing in our business, which includes investing in our people. We balance those things in the context of our results to deliver as predictably as we can in that 10 to 30 basis-point range. We landed at 20. So that's it.

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**Ashwin Shirvaikar - Citigroup - Analyst**

Okay. Any color on, is this start-up cost in terms of the BPO that you just signed? Any other color?

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**David Rowland - Accenture - CFO**

No, not really. Nothing to add beyond what I said. There's --

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**Ashwin Shirvaikar - Citigroup - Analyst**

Okay. Thanks.

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**David Rowland - Accenture - CFO**

Yes. Okay. Thank you, Ashwin.

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**Operator**

Moshe Katri, Cowen and Company.

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**Moshe Katri - Cowen and Company - Analyst**

Just, not to beat a dead horse here, but under the discussion on margins, I think attrition went up by a couple hundred basis points, I think, 200 or 300 basis points. Again how does that reconcile with the drop in gross margins? It's a pretty big expansion in the -- sorry, I meant to say utilization rates, I think, went up to 91%. How does it reconcile with the gross margin drops during the quarter? Thanks.

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**David Rowland - Accenture - CFO**

Yes. Thanks for the question. That gives me the opportunity to reiterate something that I said in the script. Because it's an important point to understand. So you are aware that starting a few quarters ago that -- with our headcount reporting, we now have billable headcount as a line item. We have aligned the billable headcount with the utilization metric more directly. As a result of that -- so what does that mean? That means that we've now included people in the utilization metric that are typically people who are working on outsourcing contracts that previously were excluded. So they are now included in that metric, which, the change increased our utilization to 91%, 3%. Absent that change, the utilization effectively did not change at all, okay? So the utilization is really just, we redefined how we report utilization to include all billable headcount, which I think is going to be easier for certainly for us and for the outside world going forward.

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**Moshe Katri - Cowen and Company - Analyst**

That does make sense. Then just briefly, (inaudible) pointed to the weaker spending sentiment and overextended budget cycles in the financial services vertical. Does that sound (inaudible) Is this something that you guys see out there? Can you give us color? Any color on that?



## Accenture's Q1 FY '15 Earnings Conference Call

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

Moshe, hi, this is KC. I'm sorry, we're having a tough time hearing you. You're breaking up a little bit.

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**Moshe Katri** - *Cowen and Company - Analyst*

Okay. I'll try again.

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

Which vertical were you asking about?

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**Moshe Katri** - *Cowen and Company - Analyst*

Financial services.

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

Did you just want a little color on financial services?

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**Moshe Katri** - *Cowen and Company - Analyst*

What I said was that our survey pointed to weaker spending sentiment and overextended budget cycles in the financial services vertical. Then I'm asking if you guys can comment on that. Are you seeing this in your business? Thanks.

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

Yes. On Financial Services, double-digit growth this quarter. When we look at the growth this quarter, the growth was quite well-balanced. So when I look at this, I would say that things are going well. We had growth in Outsourcing, good growth in Consulting, back again in Financial Services and going pretty well across the board.

So I do not see anything specific in Financial Services. These last two quarters, we've been driving good growth with that vertical. We feel good about it, including and I'm taking the opportunity, as I mentioned in my presentation, we have our second client joining Accenture Post-Trade Processing, the unique capability in BPO, where we are providing post-trade services. We had Societe Generale last year. We have our second client. So our new services are getting even more traction.

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**Moshe Katri** - *Cowen and Company - Analyst*

Great. Thank you.

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

Thank you.

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**Operator**

Dan Perlin, RBC Capital Markets.



## Accenture's Q1 FY '15 Earnings Conference Call

**Dan Perlin - RBC Capital Markets - Analyst**

So I have just a couple quick ones. Your business now is 20% or more in digital and cloud-based solutions. I'm just wondering, more specifically, when we think about the types of revenue that you're recognizing within that, is that really what's driving your visibility and improved trajectory and then ultimately the margin trajectory that we're seeing at the operating line? Or is there something else?

It also seems as though that business is now bigger than your legacy ERP. I'm wondering if that's giving you better visibility into the future? Thanks.

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

Yes. When you look at our drivers for growth and I will relate it to the presentations we made in the I/A Day, we had two plus one. Clearly, digital related services are a business where we invested significantly these last seven years and where we are getting a very significant return. As we mentioned, our digital related services are in the range of \$5 billion and indeed are growing in excess of 20%. So indeed, it is an engine for growth. This is what that was supposed to be.

We invested a lot organic, also through some very targeted acquisitions, as you'll remember, Fjord, Acquity, AvVenta, more recently i4C, or this acquisition we made in Australia with Reactive Media. We will continue to do so. Indeed, it is for us a very important investment, a source of growth because this is where the market is turning to. I mean the second big engine for growth is what we characterize as everything related to rationalization of the operations for our clients, which is resonating very well with our business in Operations.

No surprise, our business in Operations -- this business is growing double-digit growth. So in excess of 10%. Here you have two clear engines for growth, very sustainable, very strong. Again, when I look at Operations, it's not by surprise, we invested heavily in some acquisitions -- if you take procurement, Ariba, a few years ago and more recently, Procurian.

And the third one, when I said two plus one, because this one is more lumpy, as David would say, is around the large-scale transformation programs. Every year, we have a number of large-scale transactions because this is the specialty of Accenture. We benefit from these two, three engines for growth.

So we will continue moving forward to invest both in digital and both in our rationalization capabilities, if you will, especially around Application Services growing double-digits and Operations growing double-digits. And we will continue having our large-scale transformation programs.

**Dan Perlin - RBC Capital Markets - Analyst**

Okay. The other thing I just wanted to touch on. You mentioned that big ERP is kind of an opportunity or coming back. I wanted to make sure there was kind of, I guess, a clarification point on that. Are you talking about your partnerships now with cloud-based ERP implementation? Or is this legacy ERP? Then, if it's legacy, can you just talk a little bit about what's the nature behind that now? You would think that would be shifting away from them? Thanks.

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

Both. We are extremely pleased with the traction we are getting -- I failed to mention one. We are already leading on HANA implementations with SAP on a global basis. So the new ERP HANA-based solution, cloud-enabled. We've already become number one in implementing the solution in the marketplace. But we see as well, the more classic legacy ERP to support the global expansion of very large clients. I have in mind two or three recent situations where we've been winning some very significant ERP in finance and accounting, in supply chain to support the transformation and the expansion of leading global groups. For these groups, you need the more classic, I will say, backbone that might be around Oracle, that might be around SAP, or that might be around Microsoft.

We see a few coming back again. As we speak, as least I have three illustrations in my mind coming in Europe for very large global groups and very large ERP. So we are pleased with that business. Of course, the digital related services are hyper-growth, are driving the growth, so this is where we are investing. But we are pleased with where we are with our ERP business, which has been stabilizing these last quarters.

**Dan Perlin - RBC Capital Markets - Analyst**

Excellent. Thank you.



## Accenture's Q1 FY '15 Earnings Conference Call

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**David Rowland - Accenture - CFO**

Thank you.

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**Operator**

Jason Kupferberg, Jefferies.

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**Jason Kupferberg - Jefferies & Company - Analyst**

So maybe just to finally put the gross margin questions to bed, because I think all that extra color around the different buckets of cost and the COGS line was very helpful. But given that there are these other buckets of cost outside of underlying core contract profitability, are you basically telling us that the trend of year-over-year decline in gross margin will probably continue because of pressure from those other areas? Or do you think that we're closer to a stabilization point in terms of year-over-year trend in gross margin? The reason I ask – and again, I appreciate the focus on operating margin, but just so that we get the models kind of tuned right and they mitigate the need for other questions like this in the future.

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**David Rowland - Accenture - CFO**

Yes. I think -- by the way, I appreciate these questions because I know what you're trying to do in connecting the dots. I mean what I would say is -- I'm not going to comment specifically on gross margin guidance because we really guide to operating margin. But what I'll say is that if you look at contract profitability as a factor, we are forever focused on improving our contract profitability over time. That will be an objective for the remainder of this year, just as it's an objective every year. So we're always focused and challenging our teams to improve the profitability of the portfolio of contracts that we're doing in our business.

The other thing, when you said it would be a headwind or it would be a drag, it's not -- again, some of these things are investments. We wouldn't view that as a negative thing if it's in the context of expanding operating margin. So I'm not suggesting that we just completely ignore -- we do look at the functional areas within our GAAP P&L, but what we're really managing to is operating margin. If we're expanding contract profitability, let's say, investing more or rewarding our people more or whatever, the element may be in gross margin. At the same time, expanding operating margin, that's all by design. We're not solving to expand gross margin. We're solving to expand operating margin. Fundamentally underneath that, we are focused on improving the profitability of the work we do with clients. Then we're also solving for investing more in our business and in the context of those things, driving operating margin expansion. If we do that, that's what's most important.

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**Jason Kupferberg - Jefferies & Company - Analyst**

Okay. That all makes sense. Just to shift to the top line, which was obviously really strong here. You did talk about the increased visibility leading to the uptick in the guidance range. So I know in the past, you had given some actual percentages in terms of the percent of your revenue target for the full year that's actually under contract, and I was just wondering if you could give us where you stand on that percentage now versus maybe where you were a year ago?

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**David Rowland - Accenture - CFO**

Yes. What I would say, we really got away from giving that number because it was one that we found was creating -- it was creating more confusion than it was helpful. What I will -- I won't give a specific number, but I'll just characterize that we have a very good position with our contracted revenues. They are very well-positioned relative to the revenue guidance range, let me put it that way. Again, as we have been focused more and more on annual contract value that certainly gives us better contracted revenue visibility in the fiscal year.

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**Jason Kupferberg - Jefferies & Company - Analyst**

Okay, understood. Thank you.



## Accenture's Q1 FY '15 Earnings Conference Call

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**David Rowland - Accenture - CFO**

Great. Thank you.

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

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

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**Operator**

Bryan Keane, Deutsche Bank.

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**Bryan Keane - Deutsche Bank - Analyst**

So in the quarter, the 10% constant-currency revenue growth was a few points above the guided range. For the past few years, we didn't see Accenture really beat its current quarter range much. So I guess what would you point to that caused the upside surprise in the given quarter?

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**David Rowland - Accenture - CFO**

Well, truthfully, it was broad-based. I think that it wasn't one thing. It was really better performance across our five operating groups than what we had assumed -- even what we had assumed when we provided the guidance as we were working to be at the upper end. I think as Pierre said, digital, the level of growth in digital is just extremely strong. We had assumed it would be strong. It's very strong. Digital, operations, app services, those are all drivers and we saw elements of that across all five operating groups. Really, you could say, across all three areas. So it was just broad-based.

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

But if there is one to close that for me, it's standing apart, and which is probably overachieving and even taking us by surprise. And it's good news, it's all about digital related services. This is a wave we decided to ride, there is strong demand, we wanted to take a leadership position with Accenture Digital. We are now evaluated by Gartner as the largest and the number one organization providing digital related services, and in excess of 20% growth. It has probably taken us a little bit by surprise. And this is the kind of surprise we love.

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**Bryan Keane - Deutsche Bank - Analyst**

Okay. Then just on the pricing front, I know, I think it was three quarters ago, you kind of put a scare through the market talking about pricing pressure and application work. It doesn't really seem to be, I can't see it in the numbers, so can you just comment on that? Then just lastly as a bonus question, since I'm last, Resources -- so what are you expecting? Do you expect that vertical to get weaker in your guidance? Or do you expect it to maintain its growth? Thanks so much.

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**David Rowland - Accenture - CFO**

Yes. Let me just work backwards. On Resources, our chief executive for Resources is still very much focused on driving growth for the year. We've made a lot of progress. We should acknowledge that team's efforts and what they've done to position the business going forward. So that continues to be our goal, but yet we have a close eye, very close eye on energy, obviously. Back up, what was the other question?

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

Pricing.





## Accenture's Q1 FY '15 Earnings Conference Call

**David Rowland - Accenture - CFO**

On pricing, pricing is stable. We've actually been pleased with, I think I can say, we've been pleased with the pricing trends in the recent few quarters. I'm just going to characterize it as stable with some strength in certain areas of our business but overall, stable. But obviously in an environment that continues to be very, very competitive.

**Bryan Keane - Deutsche Bank - Analyst**

Okay. Congrats on the strong quarter.

**David Rowland - Accenture - CFO**

Thank you.

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

Thank you. Thanks a lot for all the good questions. Thanks David as well. So thanks again for joining us on today's call. With the first quarter behind us, and given the very strong momentum in our business, I feel confident about the year ahead and our ability to deliver our revised business outlook.

Moving forward, we will continue to look at opportunities to invest in differentiated capabilities to position Accenture for growth and success in the marketplace and continue gaining market share.

I want to wish everyone on today's call a very happy holiday season and best wishes for the New Year.

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

All the best, Happy Holidays.

**Operator**

Ladies and gentlemen, this conference will be available for replay starting at 10:30 AM this morning and running through March 26 at midnight. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering the access code of 345-5557. That number again is 800-475-6701, please enter the access code of 345-5557. International participants may dial 320-365-3844, again, the access code is 345-5557. That does conclude our conference for today. We thank you for your participation in using the AT&T executive teleconference service. You may now disconnect.

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