

Accenture

3<sup>rd</sup> Quarter Fiscal 2017 Earnings Call  
Conference Call Transcript

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**CORPORATE PARTICIPANTS**

**Angie Park** – *Managing Director and Head, Investor Relations*

**Pierre Nanterme** – *Chairman and Chief Executive Officer*

**David Rowland** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Ladies and gentlemen, thank you for standing by, and welcome to Accenture's 3<sup>rd</sup> Quarter Fiscal 2017 Earnings Call. At this time, all lines are in a listen-only mode. Later we'll conduct a question-and-answer session and instructions will be given at that time. If you need assistance from an operator, please press star then zero. And as a reminder, today's conference is being recorded.

I'd now like to turn the conference over to Managing Director, Head of Investor Relations, Angie Park. Please go ahead.

### **Angie Park**

Thank you, Ryan, and thanks, everyone, for joining us today on our third quarter fiscal 2017 earnings announcement. As Ryan just mentioned, I'm Angie Park, Managing Director, Head of Investor Relations.

With me today are Pierre Nanterme, our Chairman and Chief Executive Officer, and David Rowland, our Chief Financial Officer.

We hope you've had an opportunity to review the news release we issued a short time ago. Let me quickly outline the agenda for today's call. Pierre will begin with an overview of our results. David will take you through the financial details, including the income statement and balance sheet for the third quarter. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the fourth quarter and full fiscal year 2017. We will then take your questions, before Pierre provides a wrap up at the end of the call.

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

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

During today's call, 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](http://Accenture.com).

As always, Accenture assumes no obligation to update the information presented on this conference call.

Now, let me turn the call over to Pierre.

### **Pierre Nanterme**

Thank you, Angie, and thanks, everyone, for joining us today.

This was another strong quarter for Accenture. We delivered revenue growth in the upper end of our guided range and again gained significant market share.

I am particularly pleased with our very strong new bookings for the quarter and year to date, which demonstrate that our services and capabilities continue to be both highly relevant to our clients and very differentiated in the marketplace. We generated very strong cash flow for the quarter and returned substantial cash to shareholders, all while continuing to make significant investments to drive future growth.

Here are a few highlights for the quarter:

- We delivered excellent new bookings of \$9.8 billion.
- We grew revenues 7% in local currency to \$8.9 billion, with broad-based growth once again across the different dimensions of our business.
- We delivered earnings per share of \$1.52 on an adjusted basis, an 8% increase.
- Operating margin was 15.5% on an adjusted basis, consistent with the third quarter last year.
- We generated strong free cash flow of \$1.7 billion.
- And we returned approximately \$1.4 billion in cash to shareholders through share repurchases and the payment of our semi-annual dividend.

So, we had another good quarter, and as we enter the fourth quarter, I feel confident that we are well-positioned to deliver our business outlook for the year.

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

### **David Rowland**

Thanks, Pierre, and thanks to all of you for joining us on today's call. As Pierre mentioned, we were pleased with our third-quarter results, which were in the range we expected and position us very well to achieve our full-year financial guidance.

Before I get into the details of the quarter, I thought it would be useful to highlight how we're delivering on an essential aspect of our growth strategy and our model for driving superior shareholder value. You've heard me say many times previously that our growth strategy was conceived with an important objective in mind, which is to create durability in our revenue growth at a level which is consistently above market, thereby taking share and strengthening our position as a market leader. And against that objective, we've created a diverse business that spans 13 industry groups, 15 geographic markets and five businesses, which has created a powerful growth model in both scale and durability.

Our third-quarter and year-to-date results are a good illustration of our growth model in action – where being a market leader across many dimensions of the market has resulted in consistent growth levels that we estimate are more than two times the rate of growth of the basket of publicly traded companies. And importantly, we have delivered these results in a highly dynamic environment, which is exactly the way our growth strategy is intended to work.

With that said, let me also comment on a few of the highlights in the context of our three financial imperatives for driving shareholder value.

- Net revenue growth of 7% in local currency in the third quarter continued to be highlighted by strong double-digit growth in all three areas of the New, including digital-, cloud- and security-related services. We continued to see positive growth in most geographic markets and industries, and while we saw encouraging signs in several areas of pressure previously noted we did experience lower than expected revenues in Health & Public Service in North America. At the same time, we continue to be very pleased with the momentum in Europe and the Growth Markets, which combined delivered 10% growth in the quarter.
- Operating margin on an adjusted basis of 15.5% in the third quarter was consistent with last year and resulted in 20 basis points of expansion on a year-to-date basis. This level of margin expansion continues to include significant investments in our business and our people, and on a year-to-date basis, we have delivered very strong earnings per share growth of 10% over FY16 adjusted EPS.
- Free cash flow of \$1.7 billion in the quarter and \$2.7 billion year to date keeps us on a trajectory to deliver free cash flow in excess of net income for the full year, while returning at least \$4.2 billion cash to shareholders through repurchases and dividends. And we continued to invest significantly to acquire scale and capability in key growth areas with a year-to-date capital investment of \$1.2 billion across 27 transactions.

So, we're pleased with our overall results in the third quarter which continue to demonstrate the durability of our growth, profitability and cash flow.

With that said, let's get into the details of the quarter, starting with new bookings. New bookings were \$9.8 billion for the quarter. Consulting bookings were \$5.2 billion, with a book-to-bill of 1.1. Outsourcing bookings were \$4.6 billion, also with a book-to-bill of 1.1. We were very pleased with our new bookings which represents 8% growth in local currency reflecting the second-highest level of new bookings in our history, with a record high in consulting bookings.

Turning now to revenues, net revenues for the quarter were \$8.87 billion, a 5% increase in USD and 7% in local currency, reflecting a foreign-exchange headwind of approximately 2%, compared with the 2.5% impact provided in our business outlook last quarter. Our consulting revenues for the quarter were \$4.8 billion, up 4% in USD and 6% in local currency. Outsourcing revenues were \$4 billion, up 6% in USD and 7% in local currency.

Looking at the trends in estimated revenue growth across our five business dimensions, growth was led by Operations, which posted double-digit growth for the sixth consecutive quarter, and Application Services, which delivered high single-digit growth. Both Operations and Application Services growth was fueled by significant rotation to the New. Strategy and Consulting Services combined continued to grow low single-digits. Across those businesses, the dominant driver continues to be strong double-digit growth in the New with all three components – digital, cloud and security – growing strong double-digits as well.

Taking a closer look at our operating groups, Products led all operating groups with 15% growth, driven by strong growth across all industries and geographies, led by Consumer Goods, Retail & Travel Services.

Financial Services grew 6% in the quarter, driven by strong growth in Banking & Capital Markets globally and overall strong growth in both Europe and the Growth Markets.

Resources grew 4% and returned to positive growth this quarter as expected, reflecting growth across

all geographies. Globally we saw very strong growth in Chemicals & Natural Resources and good growth in Utilities, while the challenges in Energy continued.

Communications, Media & Technology also grew 4% reflecting strong double-digit growth in Software & Platforms, which more than offset roughly flat growth in the other two industries. We saw solid overall growth in North America and very strong growth in the Growth Markets, partially offset by continued contraction in Europe.

Finally, H&PS came in lower than expected at 2% growth, as we did not see the uptick that we anticipated in both Public Service and Health in North America. Our North America business was negatively impacted by slower than expected decision-making and initiation of new projects due to continued uncertainty on healthcare legislation and state and federal budgets. We now expect these factors to continue to impact our business at least through the fourth quarter.

Moving down the income statement, gross margin for the quarter was 32.8%, compared to 31.9% in the same period last year. Sales and marketing expense for the quarter was 11.1%, consistent with the third quarter last year. General and administrative expense was 6.2% compared to 5.3% for the same period last year.

This quarter we recorded a settlement charge related to the termination of our U.S. pension plan, consistent with my comments in March. This \$510 million charge decreased quarter three operating margin by 570 basis points, lowered our quarter three tax rate by 7.2%, and decreased net income by \$312 million and diluted earnings per share by \$0.47. The following comparisons exclude this impact and reflect adjusted results.

Operating income was \$1.4 billion in the third quarter, reflecting a 15.5% adjusted operating margin, consistent with quarter three last year. Our effective tax rate for the quarter was 26.6%, compared with an effective tax rate of 26.5% for the same period last year. Diluted earnings per share were \$1.52, compared with EPS of \$1.41 in the third quarter last year.

Our days services outstanding were 41 days, compared to 42 days last quarter and 41 days in the third quarter of last year. Free cash flow for the quarter was \$1.7 billion, resulting from cash generated by operating activities of \$1.8 billion, net of property and equipment additions of \$136 million. Our cash balance at May 31<sup>st</sup> was \$3.4 billion, compared with \$4.9 billion at August 31<sup>st</sup>.

With regards to our ongoing objective to return cash to shareholders, in the third quarter, we repurchased or redeemed 4.9 million shares for \$589 million, at an average price of \$120.50 per share. At May 31<sup>st</sup>, we had \$3.7 billion of share repurchase authority remaining.

Finally, as Pierre mentioned, on May 15, 2017, we made our second semi-annual dividend payment for fiscal '17 in the amount of \$1.21 per share, bringing total dividend payments for the fiscal year to approximately \$1.6 billion.

So, with three quarters in the books, we feel good about our results to date and we're working hard to deliver quarter four and another successful year.

Now let me turn it back to Pierre.

### **Pierre Nanterme**

Thank you, David. Our strong results for the quarter and year-to-date demonstrate that we continue to execute very well against our growth strategy. We are successfully driving the business transformation

of Accenture while at the same time consistently delivering above-market performance.

Today, the breadth of capabilities we provide end-to-end is truly unique in the marketplace, and we are well-positioned to compete at scale in each of our five businesses – driving synergies across them to deliver value and business outcomes for our clients.

We continue to rotate our business to the New – digital-, cloud- and security-related services – which again grew at a very strong double-digit rate in the quarter and now account for 50% of total revenues. I am absolutely delighted that we have achieved this significant milestone for our business so rapidly.

Our rotation to these new high-growth areas, the differentiation of our capabilities in the market and the diversity of our business have enabled us to continue to gain significant market share.

The need to go digital remains a top priority for our clients, and we are investing aggressively to drive innovation and deliver digital transformation. A great example is the capability we have built in Accenture Interactive. And I am again delighted that for the second year in a row, *Advertising Age* has named Accenture Interactive the largest provider of digital marketing services, both globally and in the U.S.

Accenture Interactive is working with many of the world's leading brands to transform the customer experience. As an illustration, with Carnival, the cruise operator, we are helping develop a new platform using wearable technology, the Internet of Things and analytics to transform the guest experience with intelligent personalization. Carnival will be able to anticipate every passenger's preferences, likes and needs.

And we continue to broaden the services we provide through Accenture Interactive. In the third quarter, we acquired two creative and design agencies in Australia—The Monkeys and Maud. And we acquired Kunstmaan in Belgium to expand our digital and user experience capabilities.

In today's digital and highly connected world, security is essential, and we are building a market-leading security capability to help clients become more resilient. I am pleased that in the third quarter we saw very strong double-digit growth in our security business, and we are bringing deep and differentiated expertise to our clients.

We are working with a California-based utility to protect its critical assets, including nuclear power plants, through our expertise in cybersecurity as well as identity and access management.

Increasingly, the work we do is enabled more and more by new IT, including automation, robotics and intelligent platforms.

We are helping a global healthcare company embrace digital across its entire enterprise. Our team is using Accenture myWizard, our intelligent automation platform, to improve application quality and productivity.

We are working with the U.S. Transportation Security Administration to modernize their enterprise applications using Agile and DevOps software development.

And during the quarter, we expanded our capabilities in intelligent automation with the acquisition of Genfour in the UK ... and earlier this month, we acquired SolutionsIQ, a leading provider of Agile services, adding some of the most experienced Agile coaches in the industry to our team.

We continue to hold a unique position in the technology ecosystem as the leading partner of both the established providers and emerging players. Just last week, Microsoft named Accenture its SI Partner of the year for the 10<sup>th</sup> year in a row. In May, we received three SAP Pinnacle Awards, more than any other company, for our work helping clients design, deploy and manage SAP enterprise systems.

And we have expanded our collaboration with SAP to co-innovate, co-develop and jointly go-to-market with new solutions that combine our industry expertise and analytics capabilities with SAP Leonardo, a new system that integrates digital technologies including machine learning, analytics and the Internet of Things.

Turning now to the geographic dimension of our business, and our results for the quarter. In North America, we delivered revenue growth of 3% in local currency, driven by the United States. As David mentioned, this was below our expectations, given the increased uncertainty in the marketplace in Health & Public Service related to healthcare legislation and state and federal budgets.

In Europe, I am very pleased that we had another strong performance, growing revenues 9% in local currency, driven primarily by double-digit growth in the United Kingdom, Germany and France.

And in Growth Markets, we delivered another excellent quarter, with 13% growth in local currency, led by very strong double-digit growth in Japan, as well as double-digit growth in Australia and Singapore.

Before I hand it back to David, I want to take a moment to acknowledge some of the external recognition we've received for our brand and differentiated strategy. And again, we never take this for granted.

I am delighted that for the 12<sup>th</sup> year in a row we were recognized on BrandZ's list of the Top 100 Most Valuable Global Brands ... and for the 6<sup>th</sup> consecutive year we were included in Forbes' ranking of the top global brands. We improved our rankings and drove significant increases in brand value on both lists.

And for the second year in a row, we were among the top 25 companies on the Barron's 500 ... and we were also included on Barron's list of most respected companies.

I strongly believe that over the years we have built a durable business model for Accenture, based on two major building blocks: first, our accelerated rotation to the New, which enhances our relevance to clients; and second, our highly diverse portfolio of business, which enables us to drive durable performance over cycles of uncertainty and volatility.

And that is why, looking ahead, I remain very confident in our business strategy and our market position.

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

**David Rowland**

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

For the fourth quarter of fiscal '17, we expect revenues to be in the range of \$8.85 billion to \$9.10 billion. This assumes the impact of FX will be negative 0.5% compared to the fourth quarter of fiscal '16 and reflects an estimated 5% to 8% growth in local currency.

For the full fiscal year '17, based upon how the rates have been trending over the last few weeks, we

now assume the impact of FX on our results in U.S. dollars will be negative 1% compared to fiscal '16.

For the full fiscal '17, we now expect our net revenues to be in the range of 6% to 7% growth in local currency over fiscal '16.

For operating margin, on an adjusted basis, we now expect fiscal year '17 to be 14.8%, a 20 basis point expansion over fiscal '16 results.

We now expect our annual effective tax rate on an adjusted basis to be in the range of 22.5% to 23.5%.

For earnings per share, on an adjusted basis, we now expect full-year diluted EPS for fiscal '17 to be in the range of \$5.84 to \$5.91, or 9% to 11% growth over adjusted fiscal '16 results.

For the full fiscal '17, we continue to expect operating cash flow to be in the range of \$4.6 billion to \$4.9 billion, property and equipment additions to be in the range of \$600 million, and free cash flow to be in the range of \$4 billion to \$4.3 billion.

We continue to expect to return at least \$4.2 billion through dividends and share repurchases, and also continue to expect to reduce the weighted average diluted shares outstanding by slightly more than 1% as we remain committed to returning a substantial portion of cash to shareholders.

And, finally, for the full year, we now expect to invest in the range of \$1.8 billion in acquisitions.

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

**Angie Park**

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.

Ryan, would you provide instructions for those on the call?

**QUESTIONS AND ANSWERS**

**Operator**

Okay. Ladies and gentlemen, if you do wish to ask a question, press star then one at this time. Once again, it's star one if you have a question. Our first question will come from the line of Tien-tsin Huang with JP Morgan. Please go ahead.

**Tien-tsin Huang**

Hi. Good morning. Thanks. Let me start by asking about bookings. Bookings were good, in line with where we were at. You said it would improve in the second half. It did in third quarter. Do you expect that momentum to carry into the fourth quarter? Have you replenished the pipeline etc. going into 4Q?

**David Rowland**

Yes, we still—hi, Tien-tsin, by the way—we feel good about our bookings position in the fourth quarter and we expect to have another very good quarter of bookings. So we think that momentum does continue.

**Tien-tsin Huang**

Okay. And then on just the New revenue here versus the, I guess if you want to call it legacy or the non-New, any surprise in the trend there? Just thinking about the math and if there's been any change



in momentum in either.

**David Rowland**

No, I would say, on that front, it's really been more of the same. Our growth in the New continues to go at very, very high levels, well above 30% growth in the quarter which is what we've seen pretty consistently this year. The market demand is tremendous and it plays extremely well to the investments that we've made over the last several years now, and building capabilities to be the leader in that part of the marketplace. So we are extremely pleased. It is broad-based literally across our operating groups, our 15 geographic units, and if you look at the three components of digital, cloud and security, again, very strong double-digit growth, really, across the board. So we couldn't be more pleased with what we see in that part of our business.

**Tien-tsin Huang**

Thank you.

**David Rowland**

Thank you.

**Operator**

Next question comes from the line of Edward Caso with Wells Fargo. Please go ahead.

**Edward Caso**

Hi. Good morning.

**David Rowland**

Good morning, Ed.

**Edward Caso**

Yes, I was curious about your efforts on the acquisition front. Obviously, you're providing all your cash flow back to investors and, therefore, using the cash on your balance sheet to fund your fairly aggressive acquisition program. At what point do you hit a level where you desire to have your cash?

**David Rowland**

Well I think, and we've talked about this before, Ed, that we are fortunate in that, with the strength of our overall financials including our balance sheet, we have a lot of levers at our disposal as we manage our business, really, for many years to come. When we look at our need to acquire critical skills and capabilities and important growth areas in the market, we don't see that changing, certainly over the next three years, and so we think that's going to continue to be an important part of our investment strategy. We think it'll be an important part of an engine for growth overall and, ultimately for us, as you know, this is all about quickly assimilating these capabilities and driving organic growth over time. So we really see more of the same with our acquisition strategy going forward and we think we have the financial flexibility to accommodate that while also returning cash to shareholders.

**Pierre Nanterme**

Yes, not much to add. I think we have an extremely clear strategy at Accenture which is all about rotating to the New. And in order to enable this strategy, we set very clear financial context we shared with all of you, on how we're going to allocate our cash and our free cash flow, at the same time investing more than ever to the transformation of Accenture to build the relevant services of the future and create durable performance over the next cycle of change and, at the same time, continuing with a very good return-to-shareholder approach, both in terms of share buy-back and in terms of dividends. So we believe that this strategy is working very well and, as David mentioned, we still have

opportunities to invest even more should that be required, leveraging more of our balance sheet one way or the other. So I feel extremely good with where we are from an investment standpoint, from a financial strength standpoint and from our strategic allocation of cash.

**Edward Caso**

My other related question is around the assimilation of these employees. These are generally smaller, more entrepreneurial firms that generally have a different character of employee than the traditional Accenture trained and developed person. Can you give us any sense for the attrition at these acquired companies relative to the base and how you're managing that? Thank you.

**Pierre Nanterme**

Thanks for the question, because it was clearly, when we decided our new strategy of rotating to the New, that was clearly a big question we had in front of us. We benefitted at Accenture from a very strong culture, you know very well based on what we've been doing for multiple decades. And then when you're rotating to the New and the New is so different in terms of human capital, we're talking about the millennials, but again, in terms of disciplines such as design-led thinking, such as experience-driven projects such as prototyping, such as being more agile, DevOps, no doubt you need to attract people who are going to be different from where you are. Simply said, we made what I think is a very profound and important evolution in our industry which is creating this concept of, at Accenture we have a culture of cultures.

So we celebrate the diversity of the cultures. So we are extremely respectful of the culture at Fjord, which is our design, digital marketing organization, with now 1,000 people. We have the largest digital design studio in the world. We are extremely respectful of the people we're hiring from security. As you know very well, and I will not elaborate, these people are different in the security space and they are working like a tribe around their own discipline, and we are extremely respectful to keep that culture. That's why we created end-to-end Accenture Security under the leadership of Kelly Bissell, an incredibly strong security leader, with oversight by Omar Abbosh, our Chief Strategy Officer.

So we developed this concept of culture of cultures, very different from this old and I think outdated concept of one culture. On the other hand, we are extremely stringent on our values. And we're making a big difference around cultures, they have to be different. It is what brings richness in our company and innovation. But the values shouldn't be compromised and are not for negotiation, and the values that Accenture will never negotiate are Respect for Individuals, Inclusion and Diversity, Ethics, Compliance, Client First—

**David Rowland**

Stewardship.

**Pierre Nanterme**

Stewardship, and all of this has nothing to do with culture. It's just the appropriate business and personal behavior you and I and everybody on the planet should develop and I think we've been very good in creating and developing this culture of cultures concept, right, David? All the integrations we have made, all, and I'm not saying that lightly, have been successful.

**David Rowland**

Yes. We carefully manage the retention of the people in these companies that we acquire and our performance, really, over the last three years in terms of retaining talent has been very good.

**Edward Caso**

Thank you.

**David Rowland**

Thank you.

**Operator**

And our next question comes from the line of Bryan Bergin with Cowen. Please go ahead.

**David Rowland**

Good morning, Bryan.

**Bryan Bergin**

Hi. Thank you. As the New becomes a majority share of your business, how should we think about potential changes in corporate revenue trajectory or, particularly, margin expansion? Do you foresee any inflection in either over the medium term?

**David Rowland**

Again, I will stop short of saying anything that would imply guidance for next year or beyond but I would say that broadly speaking, if you look at two of our three overriding financial objectives, the first one being to drive durable growth which is consistently above the market, as I said, taking share and extending our position as a market leader and then the second overriding objective, which is consistent modest margin expansion while investing in increasing scale in our business and driving EPS growth faster than revenue growth, we remain committed to those as multi-year objectives that we work very hard to achieve. I think the rotation to the New creates more opportunity for achieving those as opposed to a threat. That, I think, gives us better positioning and a better opportunity to continue to deliver on those over time.

**Bryan Bergin**

Okay. Just a follow up then, just as far as expanding additional markets, the interactive business, I thought, was a great example of getting you access into an area within the same office. Are there other areas that you're potentially looking at within client wallets that are logical extensions that you might be targeting?

**Pierre Nanterme**

Security is another one with the business resulting with Accenture Security. Clearly, we are expanding our access to new leaders given the depth and breadth of our services, you're absolutely right. It is our ambition to increase the coverage of the leaders we might serve with clients, from the CEO, the CFO, the COO, the CIO, now the Chief Digital Officer with the launch of Accenture Digital. They are new leaders under this terminology and we want to be the partner of choice for the newly appointed CDOs, which should be quite a natural act. You mentioned the CMOs with what's gathering with Accenture Interactive, and we have all the business leaders in the different parts of the business. So, if I'm looking at Accenture, we have now certainly with the five businesses we have, but in these businesses you have other activities such as Analytics, Interactive, Mobility, Cloud, Security. I could mention Accenture Credit Services we have in the U.S., which is providing access in banks to credit parts of the organization. And I mentioned a lot, so I guess, and I would claim that we're certainly the organization in professional services with, today, the broader access to any client leadership group.

**Bryan Bergin**

Thank you.

**David Rowland**

Thank you.

**Operator**

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

**Lisa Ellis**

Hi. Good morning, guys.

**David Rowland**

Hi. Good morning, Lisa. How are you?

**Lisa Ellis**

I'm good. So, question just around the mix of the business. I noticed GDN mix downticked slightly this quarter. That's quite unusual. I think that's the first time in years that's happened and, at the same time, you had a really strong headcount growth quarter at over 10%. But then David, in your comments, you called out that you're seeing very strong growth in the New in areas like Applications Services, which suggests more like build-related activities, which I would associate with offshore. So, kind of a two-part question coming out of that, one, are you with the strong headcount growth and GDN mix sort of stabilizing, are we going to see an acceleration in revenue per head that might cause some break in the linearity in the business? Then also, just secondarily, can you just talk a little bit about the mix of the type of work you're seeing in the New as it gets to be over 50% of the business and if that's sort of fundamentally different in terms of mix of service lines relative to the core?

**Pierre Nanterme**

Yes. Maybe I'm going to start with providing our strategic direction on this. We're working extremely hard, as you know, at Accenture on growing robotic automation and bringing intelligent capabilities to significantly improve our productivity, especially where we have large scale operations, so in Technology and in Operations. So we're working hard on what you said, how moving forward we're going to have less direct correlation between revenue and headcount. Clearly, the big game on this is to accelerate our investment in robotic automation and intelligent services which is exactly where Bhaskar Ghosh for Accenture Technology and Debbie Polishook for Accenture Operations are working extremely hard. And we're starting to see some very encouraging results where we could drive more revenues with a bit less people in some parts of Accenture Operations and in some parts of our BPO. We're starting to feel this point of inflection. Certainly, we need another year or 18 months to see whether this trend might accelerate and change the dynamic between revenue and headcount growth which is something, of course, we are pursuing systematically.

On the second question, what is the composition of our work in terms of the New? The good news is we are rotating everything to the New, Strategy, Consulting, Digital of course, Technology and Operations and all our services in the New are going very well. Strategy and Consulting growth in the New is double-digit. But as well, it is driving significant growth in Accenture Technology and in our platforms. If I'm looking at the business we're driving in Analytics through SAP HANA and tomorrow with our SAP Leonardo it's driving significant growth in the new SAP, in the new Microsoft, in the new Oracle and I could mention others.

As well, it is creating activity in Operations. Think about what we are doing in Customer Analytics, linked to Accenture Analytics or to Accenture Interactive, it's driving business with our platforms as-a-service in terms of Analytics, what we're calling Accenture Analytics Insights Platform. This is a service which is directly linked to the New and to the new services we are providing from an analytical standpoint. So it's really the New that is driving growth in each of our five businesses in a very meaningful way and we love that.

**David Rowland**

Yes. And, Lisa, I would say that you may remember that it was the third quarter of last year and then again in the fourth quarter where I had made comments that we were starting to see an improving trend in the progression of revenue per billable head and so you asked will we start to see that. I think we have seen instances of that if you looked over the last three or four quarters. The other thing, just to remind you and others who are looking at the headcount numbers, GDN includes our locations around the world, including GDN headcount and, let's say, the more mature markets and so GDN is in the United States as an example, it's not just India and the Philippines.

**Lisa Ellis**

Terrific, thanks. And just one quick follow up, Pierre, I think on your comment there on the New. So, would you characterize at this point, if you just compared this year versus maybe this time last year or two years ago, that the mix of work in the New now is much more diverse across your service lines? You're fully into what I'd call more like build-and-run activities?

**Pierre Nanterme**

Absolutely right and I think we see, and I'm pleased with that, we see this New maturing. So, all services, you have a kind of a maturity curve where you're starting with more pioneering strategy, consulting-rich programs, kind of prototyping in the early phase of the maturity curve. What we see is now all these new capabilities, I'm thinking about Interactive, Mobility, Analytics, Cloud, Security, soon coming the artificial intelligence, blockchain and immersive reality, and certainly, in the near future, quantum computing, all of these new capabilities are getting more mature, are driving, on balance, bigger programs and as we're moving from small prototyping to bigger programs, suddenly it is expanding in several service lines from Strategy to Consulting but as well, to Technology and to Operations. So this business is maturing very well at Accenture, with a positive effect in all our five businesses, if you will, and indeed we see more bigger deals which is the sign of the market maturing.

**David Rowland**

Thank you, Lisa.

**Operator**

Okay, and our next question comes from the line of Bryan Keane with Deutsche Bank. Please go ahead.

**Bryan Keane**

Hi, guys. I wanted to ask about the Accenture business dimensions. The growth rates there have surprised me. I guess on one hand, App Services which grew mid-single digits in fiscal year '16 has gone up to high single digits and I know there's a lot of worries in the marketplace about a secular decline in that business so that's been a surprise on the positive end. Then on the other hand, Strategy and Consulting which grew double-digits in fiscal year '16 is kind of hovering below my expectations at low single digits. So just trying to understand the strength in App Services versus the weakness in Strat and Consulting.

**David Rowland**

Yes, I think when you—I'll make a few comments and Pierre may have some as well but first of all when you look at App Services, it's important to focus on the point that our growth is coming from the higher value, application engineering, systems integration type work that is driven by the adoption of new IT in this rotation to the New. So, to some extent, it kind of ties back to Lisa's question and Pierre's answer, is that what you're starting to see as the adoption rate of new IT and digital broadly is increasing. You're starting, in our business, to see more systems integration, application work associated with the implementation of digital technologies, new IT, etc. and I think that is really what's

driving our Application Services.

We've said before, Pierre has said many times, that our strategy in App Services is to rapidly grow and expand in the SI piece. The application outsourcing is a different marketplace, it is largely commoditized and we will continue to have an application maintenance footprint but our Application Services business is really all about the systems integration, application engineering, enabling the adoption of new IT and digital technologies for our clients and that's reflected in the pick-up in growth rate.

Maybe just one more comment, on the Strategy and Consulting combined again, that can ebb and flow. Pierre also alluded earlier and it's worth noting again, is that you really have to decompose the Strategy and Consulting number to really understand what's going on. And if you look at our Strategy and Consulting business that relates to projects in the new, that part of Strategy and Consulting is growing mid-teens, so let's say in the 15% range. So, it's very, very strong growth for those services related to enabling the New with our clients. The area that is not as robust right now, let's say, is the more traditional strategy and consulting that's not specifically tied to this rotation to the New.

**Bryan Keane**

Okay, that's helpful. Then just as a follow-up, on contributions of acquisitions, how much did the acquisitions contribute to the quarterly revenue growth? I know we talked about 2.5 points for the back half of the year. I don't know, since you took up the amount that you're going to spend on acquisitions, I think it went up a little bit to \$1.8 billion from \$1.5 billion, if that changed anything for the outlook. Thanks so much.

**David Rowland**

Yes, that doesn't materially change the number because, obviously, we're acquiring these—let's say that increase is more in the back, the last three months of the year so that has more of an impact on '18 than it does this year. Having said that, we still think we're going to be at, roughly in the ballpark of 2% for the full year. Previously I've said the back half of the year would be 2.5%. It will be just incrementally kind of above that but not materially above that. So, really, it's consistent with what I said before, slightly higher in the back half of the year than the 2.5%.

**Bryan Keane**

Okay. Thanks so much. I was just curious, on the third quarter itself, was it up to 2.5 points so far or not quite yet?

**David Rowland**

Yes, in that zone.

**Bryan Keane**

Okay. Thanks so much.

**David Rowland**

Thank you.

**Operator**

The next question comes from the line of Jim Schneider with Goldman Sachs. Please go ahead.

**David Rowland**

Good morning, Jim.

**Jim Schneider**

Hello. Good morning. Thanks for taking my question. I was wondering if you could maybe comment on the North America piece of the business, what you're hearing from clients just broadly speaking. Can you maybe just give us a sense about whether the North America slowdown was purely isolated to the Health & Public Service area or what are you hearing from clients generally and whether you expect that to be a kind of one-off, one quarter thing or something that could continue for a couple of quarters?

**David Rowland**

Yes, first of all, as it relates to our expectations and then Pierre may add some comments as well but let me just deal with the results relative to our expectations. So, we had seen slower growth in H&PS in quarter 1 and quarter 2. You'll remember quarter 2 was at 2% which is where we ended up in quarter 3. We had expected, not based on hope but based on what we felt was kind of tangible evidence in the second quarter, that we were going to see an uptick in growth in the third quarter and the second half of the year and that's what I called out 90 days ago. What we saw was that that uptick, if you will, or that freeing up of the initiation of new projects and, let's say, a return to more normal decision-making patterns on contracting new work, that just simply did not improve as we had expected.

So, if you look at North America and the difference between where we landed and where we expected to land, the difference is, the vast majority of that, is in Health & Public Service for the reasons I've mentioned in the script. It's the difference between North America growth being at 3% and 5%, order of magnitude, and it was the difference, it was a point of growth at the Accenture level in total. So it was meaningful. Having said that, we have a very strong Health and Public Service practice and at some point the logjam will break and work will be initiated and we'll be right there in the game when that happens. And of course, broadly in North America, we feel that way as well.

**Pierre Nanterme**

Yes. Absolutely right and I understand you asking this question on North America. For me, on the positive side, we continue to grow more than the market and gaining significant market share in North America despite the fact that our level of growth is lower. But the level of growth of the market as we are analyzing it has been, as well, slowing down. Second, our rotation to the New in North America is excellent and we're going to get close to 50% as with the rest of Accenture, so we have zero issues in terms of executing our strategy. And, three, we continue to invest, so we are not changing our investment profile and we believe it's the right time to invest to be prepared for the future and to be prepared when the market will pick up again.

Now, what is the situation and indeed a big difference from what we expected three months ago is, and as you probably know, you're in the U.S., I'm French, so you probably have certainly a better-informed point of view on this, but there is an expectation that indeed the new administration will launch critical reforms in order to boost the business and the economic growth. And these economic reforms probably would stress the ones which are the most important, the healthcare reform, the tax reform, the trade reform and anything linked to the infrastructure investments. All of these four were the ones supposed to indeed unleash more growth for the business, so the business could invest and drive more growth and by driving more growth and driving more investment would have a positive impact.

Fact of the matter is, that would alter this, to be honest, three months ago, because just reading the observers and all the analysis, we believed that these four reforms would happen relatively rapidly in the U.S. and the fact of the matter, they are not yet being announced or executed and so we are in this zone where the business is still waiting. It's still positive, but waiting for these reforms to happen to invest. And so it has a negative effect, especially on H&PS which has been the vertical more impacted by this kind of wait-and-see mode on what's going to happen with the reforms. We have evidence that indeed these last couple of quarters the overall health and public services market in the U.S. has been

slowing down, and so to some extent we are moderating with the market, while continuing to do much better than the market. And so I feel positive that when the market will be back, because that will happen, we will be better positioned than anyone else given the investment and the positioning we are taking. So I'm looking at that with my French glasses and I encourage the U.S. to accelerate their reforms.

### **David Rowland**

And as I said, it's a perfect illustration, though, of the power of the diversity of our model, where Europe and the Growth Markets combined in the third quarter grew double digits, 10% and so that is intentionally the way our business is constructed for this exact reason. And so it is working as designed.

### **Pierre Nanterme**

And it's interesting to see, sorry to elaborate, but I think it's important for all the people listening to the call, because you might wonder, why things are doing so well in Europe. We have 9% growth and you know it's not vibrant, but I think in Europe you have less uncertainties now. I think we have good prospects that probably Germany might re-elect Angela Merkel, it's a pole of stability. I guess the election of Emmanuel Macron in France has been recognized and celebrated by the market because it's pro-European, so it has created a very positive impact around whether Europe will disappear or not. Having Germany and France being extraordinarily pro-business is recreating a very solid coalition. And the Brexit thing is moving at its pace but at least we know it's going to happen, so it's not an uncertainty.

The uncertainty is what exactly, is it going to be – hard, soft, gentle, probably the Europeans will figure out as already they've been figuring out over the centuries. But it's interesting, if you take China, not much uncertainty. The president is very clear on what it is he wants to achieve, is driving his five-year reform program. So you see what I mean. It's interesting that if there is one place, that's a big place in the world, where you have this kind of wait for the reforms to happen, it is currently in the United States but I'm personally feeling very good that these reforms will happen and the business will pick up again.

### **Jim Schneider**

That's helpful. Thank you for the color and just as a quick follow-up, going back to the M&A question for a second, if you look at the run rate of M&A that you're doing in Q4 of this year, would you expect that to accelerate incrementally from here heading into fiscal '18? And then I think, Pierre, you made an allusion to using the balance sheet for M&A. Does that imply you're willing to put some debt on the balance sheet to finance more M&A at this point?

### **David Rowland**

I think as it relates to your last question, we've said consistently for as long as I remember, that we always—we're well aware of that being an option and given the right circumstances, we would have no concern about doing that. We would, as we always do, we would make very smart decisions as to when and at what level we do that, but that is certainly an option that is open to us and we have no concerns at all about using that option given the right circumstances.

### **Pierre Nanterme**

Yes. So far we've set, David and I, we are extremely disciplined and our financial model is extremely clear and has been communicated to all of you. We expect 20% to 30% of our annual growth to be driven by acquisitions, so our growth is 70% to 80% organic. Let's be clear and reconfirm that. And 20% to 30% of the annual growth, might come from acquisitions depending on the opportunities. These things are lumpy but that's the zone. We expect that anything between 20% to 35% every year of our free cash flow would be dedicated to acquisitions and the rest, as we do, would be returned to our shareholders in a program which I think is extremely attractive to all of you, with the mix of share



buybacks and dividends. So this is our ongoing thesis from a financial algorithm, if you will. Now, we have opportunities by leveraging more of the balance sheet to, if we have any relevant opportunities that would bring differentiation that would bring more transformation, more leadership in the new in some spaces, it could be artificial intelligence, blockchain, immersive realities, quantum computing or say what, to make some significant steps but so far, we are with our ongoing thesis I just mentioned before and we are very pleased with where we are and I'm very pleased that we have what we need if we have, for good reason, to move faster or make different transactions.

**David Rowland**

Yes.

**Jim Schneider**

Thank you.

**David Rowland**

Great. Thank you.

**Operator**

Our next question will come from the line of David Koning with Baird. Please go ahead.

**David Koning**

Yes. Hi, guys. Thank you.

**David Rowland**

Hi, David.

**David Koning**

I guess, first of all, just when we think of the New, I think you said about 50% of revs now and we looked back, a year ago it was about 40% of revs, so it's growing like 25%, 30%, something like that, whereas the rest of the business is declining high single digits, it looks like. Is that just existing clients that are just shifting their preferences rather than really some of that old stuff just going away, it's just a shift? And then I guess, second to that, overall growth has decelerated a little bit. Is that because the yield on some of the new projects are a little less than some of the legacy?

**David Rowland**

Yes, first of all when you look at overall growth, and when we provided guidance of 5% to 8% at the beginning of the year and of course, we're going to land very solidly within that range, we have said that growing double digits each and every year is just an unrealistic expectation. We work hard to drive as much growth as we can but each and every year, we're not going to drive double-digit growth. We look at our growth rate against what the market is growing and in a market that, let's say generally has grown, let's say anywhere in the 2.5% to 4% range, let's say if you looked over the last two to three years, if we're growing 7% as we are this year, we're growing two times the rate of the market growth. Are we lower than where we were double-digit growth the last two years? We are, but we're growing two times the rate of overall market growth which is clearly, clearly the indicator of a leader in the sector. So that's what we're all about. Then growth in the 5% to 8% range and where we've guided to for the full year, 6% to 7% growth is actually quite strong growth in the market.

**Pierre Nanterme**

Yes, just reflecting on when I'm looking at the performance of the company and we are in the right place or not. Summarizing what we are delivering at Accenture, we said our revenue would be in the range of 5% to 8%, right, David? I mean, so far we are at 7%, right in the zone. Then the question

might be, is 7% good or not? The only way to understand whether 7% is good or not is to compare with the rest of the market. And we believe that at 7%, we're growing twice the market, and growing twice the market for a company of our size is an incredible positive result.

Second, part of our philosophy as well, at the same time our revenues are growing 7%, our EPS is growing 10%. We're growing the EPS more than our revenues and again, I think it's a sign of good financial performance. I remember someone said we want to grow EPS at the same rate as our revenues. We are growing EPS even slightly higher than the revenue which is, of course, an exceptional performance from David. Then, for me, if David is taking care of the numbers and I'm taking care of the strategy, that's why we are a good duo. For me, if there is a highlight for this quarter and I hope that's the one you're going to take, it's this 50%. There are all sorts of metrics, there are all sorts of numbers there, which I think are all landing in the right place. We're probably beating our guidance we set three months ago on each and every dimension and providing extraordinarily good financials.

Then what's important, I think, for all of you and for me, are we executing the strategy which is going to create a new Accenture, which could be competitive for the future and the answer is yes, that's why I wanted to put even in the announcement we made, for the first time outside, in what we're calling the famous b-head, that we beat the milestone of 50%. And I would like all of us, analysts, investors, because you're putting a lot of confidence in Accenture, to celebrate this milestone because it's a very big and important milestone for us at Accenture. We will properly celebrate in Boston with a very nice glass of Coca-Cola or other things by the way but no champagne yet, and it is very important, joke past.

Imagine what it is, in probably four years, we are rotating 50% of the business of a company of \$35 billion to the New. That's what has been achieved, and we're not going to stop there. We will continue accelerating because we want by 2020 to have the vast majority of our revenues being in the New. But this milestone of 50% was, for me at least, was for me the highlight of the quarter and I hope it is as well something you will consider extremely important in the successful execution of our strategy, together with the rest of our very strong financial performance.

## **CONCLUSION**

### **Pierre Nanterme**

So, that being said, thanks again for joining us on today's call. Needless to say, and with the few words I just said before the conclusion, that I and the leadership team of Accenture, we feel good about where we are. And we feel good about where we are because we continue to build on our strong position in the marketplace. What we have said, we are rotating our business to the New which is now 50% of our revenues and again, I would like to pound that, because for me, it's exceptional. We are gaining significant market share, growing on average twice as fast as the market, and I think this is very noticeable, in each and every market if you look at this, North America, Europe and the Growth Markets. The minimum is twice the market. In some markets we are growing much more than twice, sometimes four times the market and we continue to gain market share, and we continue, and this is where I'm delighted with what we're doing, we continue to invest in new capabilities to drive future growth and to create the future of the company while delivering value for all of you, but as well for all our stakeholders including our 400,000 people who are working every day very hard to transform the company and make Accenture the partner of choice for many of our clients.

We look forward to talking with you again next quarter. In the meantime, if you have any questions please feel free to call Angie and the team. All the best and talk to you very soon.