

Accenture

4<sup>th</sup> Quarter Fiscal 2017 Earnings Call

Conference Call Transcript

September 28, 2017 / 8:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Angie Park** - *Managing Director, Investor Relations*

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

**David Rowland** - *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Ladies and gentlemen, thank you for standing by. Welcome to Accenture's fourth quarter fiscal 2017 earnings conference call.

At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given at that time. If you should require assistance during the call, please press star then zero. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Angie Park. Please go ahead.

### **Angie Park**

Thank you, Greg, and thanks, everyone, for joining us today on our fourth quarter and full year fiscal 2017 earnings announcement.

As the operator just mentioned, I'm Angie Park, Managing Director, Head of Investor Relations. On today's call you will hear from 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 both the fourth quarter and the full fiscal year. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the first quarter and full fiscal year 2018. 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 the 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.

### **Pierre Nanterme**

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

We are very pleased with our excellent financial results for both the fourth quarter and the full fiscal year. For the year, we clearly strengthened our leadership position in the New – digital, cloud and security-related services. And once again, we gained substantial market share.

We significantly increased our investments, including record investments in strategic acquisitions. And I am particularly pleased that we did all of this while continuing to return substantial cash to shareholders. Here are a few highlights for the year:

- We delivered very strong new bookings of \$37.4 billion.
- We generated record revenues for the year of \$34.9 billion, a 7% increase in local currency, with broad-based growth once again across our business.
- We delivered earnings per share of \$5.91 on an adjusted basis, an 11% increase.
- Operating margin was 14.8% on an adjusted basis, an expansion of 20 basis points.
- We generated excellent free cash flow of \$4.5 billion.
- We returned \$4.2 billion in cash to shareholders through share repurchases and dividends.
- And we just announced a semi-annual cash dividend of \$1.33 per share, a 10% increase over our prior dividend.

So, we had another very strong year, and I feel very good about our business, the execution of our strategy, and the momentum we have as we enter the new fiscal year.

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

### **David Rowland**

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

Let me start by saying that we were extremely pleased with our results in the fourth quarter, which completed another outstanding year for Accenture. Our results continue to provide strong validation of our leadership position in the marketplace, the relevance of our offerings and capabilities to our clients, and our ability to manage our business in a dynamic environment to deliver significant value to our clients, our people, and our shareholders.

Once again, our fourth quarter results reflect our ongoing focus to deliver strong and consistent financial results across our three key imperatives for driving superior shareholder value, so let me summarize a few important highlights before I get into the details.

Net revenue growth of 8% represented the strongest quarter of the year, as we continued to benefit from our diverse and durable growth model which is powered by being a market leader in the New. Our digital, cloud, and security-related services continued to drive very strong double-digit growth and represented over 50% of our total revenues.

Growth continued to be broad-based, with positive growth across the vast majority of our industry groups, geographic markets and businesses, with many parts of our business delivering double-digit growth. And we estimate that we grew more than three times the rate of

growth of the basket of publicly traded companies as we continue to take share and strengthen our position as a market leader.

Our operating margin of 14.2% came in as expected and up 10 basis points from last year, resulting in 20 basis points of expansion on an adjusted basis for the full year. Importantly, we delivered this expansion while investing at record levels in our business and our people. And with EPS of \$1.48 in the fourth quarter, we delivered double-digit EPS growth in both the quarter and the full year. And finally, we delivered another strong quarter of free cash flow, \$1.8 billion in free cash flow, to be specific.

In terms of capital allocation, it's noteworthy that we closed 10 transactions in the quarter, giving us 37 transactions for the full year, with record invested capital of \$1.7 billion, which provided scale and capabilities in key growth areas and further strengthened our leadership position in the New.

So, we had a strong close to fiscal '17, which yielded another year of broad-based growth and significant market share gains, underpinned by strong profitability and cash flow.

With those high-level comments, let me turn to some of the details, starting with new bookings. New bookings were \$10.1 billion for the quarter. Consulting bookings were \$5.1 billion, with a book-to-bill of 1.0. Outsourcing bookings were \$5.0 billion, with a book-to-bill of 1.2. Our strong new bookings in the quarter represent 12% growth in local currency and reflected an all-time high in new bookings in constant currency.

Our bookings were well balanced, and we achieved our target book-to-bill across each of our five businesses. As you would expect, the dominant theme driving our bookings in the quarter continued to be high demand for digital, cloud, and security-related services, which we estimate represented more than 60% of our new bookings. For the full fiscal year, we delivered \$37.4 billion in new bookings, which represents 6% growth in local currency.

Turning now to revenues, net revenues for the quarter were \$9.1 billion, an 8% increase in both USD and local currency, reflecting a roughly flat foreign exchange impact. This result was at the top of our FX-adjusted range. Consulting revenues for the quarter were \$4.9 billion, up 7% both in USD and local currency. Outsourcing revenues were \$4.2 billion, up 9% in USD and 8% in local currency.

Looking at the trends in estimated revenue growth across our five business dimensions, growth was led by Application Services and Operations, which both posted double-digit growth. Strategy and Consulting Services combined were flat in the quarter. And the New, including digital, cloud, and security-related services, continued to deliver very strong double-digit growth, as I mentioned earlier.

Taking a closer look at our operating groups, Products delivered its ninth consecutive quarter of double-digit revenue growth, with 10% growth in local currency, led by strong growth across all three industries, especially in Europe and the Growth Markets.

Financial Services posted its strongest growth of the year with 9% growth in the quarter, led by double-digit growth in Banking & Capital Markets as a result of strong demand for our services in both Europe and the Growth Markets.

Communications, Media & Technology also experienced an uptick in business momentum, with 7% growth in the quarter driven by continued strong double-digit growth in Software & Platforms and low single-digit growth in the other two industries. We were very pleased with our overall growth in CMT in both North America and the Growth Markets, and we did see some improvement in Europe following several quarters of contraction.

Resources grew 5% in quarter four, building further on the improved growth rates we saw last quarter. The highlight of the quarter was double-digit growth in Chemicals & Natural Resources, as well as balanced growth across each of the three geographic areas, each growing 5% in the quarter. We continued to see challenging market conditions in Energy.

Finally, H&PS grew 4%, led by strong growth in Public Service globally. We continue to be pleased with overall growth in H&PS in both Europe and the Growth Markets. And while we saw some improvement in North America, our health business continues to be impacted by uncertainty in U.S. healthcare legislation.

Moving down the income statement, gross margin for the quarter was 31.5% compared to 31.3% in the same period last year. Sales and marketing expense for the quarter was 11% compared with 11.1% for the fourth quarter last year. General and administrative expense was 6.4% compared to 6.1% for the same quarter last year.

Our operating income was \$1.3 billion in the fourth quarter, reflecting a 14.2% operating margin, up 10 basis points compared with quarter four last year.

As a reminder, the fourth quarter last year includes gains related primarily to our Duck Creek transaction. The following comparisons exclude these impacts and reflect adjusted results.

Our effective tax rate for the quarter was 23.9% compared with an effective tax rate of 24.3% for the fourth quarter last year.

Our diluted earnings per share were \$1.48, compared with EPS of \$1.31 in the fourth quarter last year. And this reflects a 13% year-over-year increase.

Days services outstanding were 39 days compared to 41 days last quarter and 39 days in the fourth quarter of last year.

Our free cash flow for the quarter was \$1.8 billion, resulting from cash generated by operating activities of \$1.9 billion, net of property and equipment additions of \$191 million. And our cash balance at August 31st was \$4.1 billion compared with \$4.9 billion at August 31st last year.

With regard to our ongoing objective to return cash to shareholders, in the fourth quarter we repurchased or redeemed 5.2 million shares for \$657 million at an average price of \$127.09 per share. At August 31st, we had approximately \$3.1 billion of share repurchase authority remaining.

As Pierre mentioned, our Board of Directors declared a semi-annual cash dividend of \$1.33 cents per share. This dividend will be paid on November 15th, and represents a \$0.12 cent per share or 10% increase over the previous semi-annual dividend we declared in March.

So, before I turn it back over to Pierre, I want to reflect on where we landed for the full year across the key elements of our original business outlook provided last September. Of course,

I'm pleased that once again we successfully managed our business to deliver all aspects of the business outlook we provided at the beginning of the fiscal year.

- Net revenues grew 7% in local currency for the full year, again demonstrating the power and durability of our growth model in a highly dynamic environment. Even with unexpected headwinds in some parts of our U.S. business, we delivered in the upper end of our guided range. And in fact, outside of the U.S., we delivered almost 10% growth in the rest of our business.
- On an adjusted basis, operating margin of 14.8% reflected a 20 basis point expansion over '16 and was consistent with our guidance.
- On an adjusted basis, diluted earnings per share were \$5.91, reflecting 11% growth over fiscal '16, and was at the upper end of our guided range.
- Our free cash flow of \$4.5 billion was above our original guided range and reflected a free cash flow well in excess of our net income.
- And we delivered on the objectives of our capital allocation strategy by investing \$1.7 billion in acquisitions, while at the same time returning \$4.2 billion to our shareholders through dividends and share repurchases.

So, again, we had a strong year by any measure and certainly as it relates to delivering against the guidance we provided at the beginning of fiscal '17. Now let me turn it back to Pierre.

### **Pierre Nanterme**

Thank you, David. Our very strong performance in fiscal '17 – on top of our outstanding results for the last two fiscal years – demonstrates that we are executing our growth strategy very well, in a durable and sustained way.

As I reflect on our performance for the last three years, I am very pleased that we delivered compound annual revenue growth of 9% in local currency, as well as 9% compound growth in adjusted earnings per share. And I am especially proud of the shareholder returns we generated over this same three-year period. We delivered a compound annual total return to shareholders of 20%, twice the total return of the S&P 500.

We continue to benefit from the actions we have taken to transform Accenture, to rotate our business to new high-growth areas and to invest ahead of the curve.

The breadth and scale of the capabilities we provide end-to-end across strategy, consulting, digital, technology, and operations are absolutely unique in the marketplace. And this is why Accenture remains the partner of choice for the world's leading companies in executing large-scale transformation programs.

- We are helping a leading global bank with a mission-critical program to meet new regulatory requirements. Leveraging our global capabilities across consulting, digital, technology and operations, we are delivering significant changes to the core banking platform – which handles over \$100 trillion of transactions per year.

I am especially pleased with the leadership position we have built in the New – digital, cloud, and security-related services, all underpinned by New IT. In fiscal '17, the New accounted for about \$18 billion or 50% of total revenues, a very significant increase from roughly 40% of total revenues just one year ago, and 30% of total revenues the year before. We have truly transformed Accenture's capabilities to help our clients embrace the New, applying innovation and intelligence at the heart of their organizations.

- We are collaborating with Roche, the healthcare company, to develop an analytics platform that will improve care for millions of patients around the globe. Built on the Accenture Intelligent Patient Platform, this new solution enables Roche to analyze data in a secure environment and generate insights to provide patients with more customized care.

The rigor and discipline we use in running our business is key to consistently executing our growth strategy, and we systematically apply this same discipline to our investments, including acquisitions.

Acquisitions enhance our differentiation in the marketplace and are an engine to drive organic growth. Over the last three years, we deployed \$3.4 billion in roughly 70 acquisitions. This includes a record \$1.7 billion in fiscal year '17 alone.

And over the last year, we expanded our relationships with key ecosystem partners, including Amazon Web Services, Google, Microsoft, Oracle, Salesforce and SAP. And just last month, we formed a new partnership with Apple to help businesses transform how they engage with their customers using innovative solutions built on iOS.

Now turning to the geographic dimension of our business, we continue to rotate to the New consistently and successfully around the world, especially in our largest markets. We delivered another year of strong and balanced revenue growth, gaining market share in each of our geographic regions.

In North America, we delivered 4% revenue growth in local currency for the year, driven by the United States.

In Europe, we grew revenues 8% in local currency, with double-digit growth in Germany and Switzerland as well as high single-digit growth in the U.K., France and Spain.

And I am particularly pleased that in Growth Markets we delivered 12% growth in local currency, driven primarily by very strong double-digit growth once again in Japan, as well as double-digit growth in Australia, Singapore, and China.

Before I turn it back to David, I want to share a few thoughts on our commitment to developing talent. As a professional services company, our people ultimately make the difference in delivering high-quality services to clients. This is why we are so focused on attracting the best people and investing to further develop their skills.

To ensure we have the most relevant talent at the most senior levels, we promoted 600 new managing directors in fiscal year '17 and hired more than 300 managing directors from outside Accenture. These leaders are bringing highly differentiated industry expertise and specialized skills, especially in the New.

At the same time, we are making a significant investment in re-skilling our people to help them stay relevant in key areas such as cloud, artificial intelligence, and robotics. In just over 18 months, we have trained more than 160,000 people in New IT alone, including automation, Agile development and intelligent platforms.

And at Accenture, we embrace diversity as a source of creativity and competitive advantage. We bring together people of different genders, races, cultures and perspectives, which makes us smarter, more innovative and more relevant.

I am so privileged to lead our company of 425,000 talented people working in 55 countries around the world, who bring their unique knowledge and experience to our clients each and every day.

With that, I will turn it over to David to provide our business outlook for fiscal year '18. David, over to you.

### **David Rowland**

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

For the first quarter of fiscal '18, we expect revenues to be in the range of \$9.1 billion to \$9.35 billion. This assumes the impact of FX will be about positive 2% compared to the first quarter of fiscal '17, and reflects an estimated 5% to 8% growth in local currency.

For the full fiscal year '18, based upon how the rates have been trending over the last few weeks, we currently assume the impact of FX on our results in USD will be about positive 3% compared to fiscal '17. For the full fiscal '18, we expect our net revenue to be in the range of 5% to 8% growth in local currency over fiscal '17.

For operating margin, we expect fiscal '18 to be 14.9% to 15.1%, a 10 to 30 basis-point expansion over adjusted fiscal '17 results. We expect our annual effective tax rate to be in the range of 23% to 25%. This compares to an adjusted effective tax rate of 23% in fiscal '17.

For earnings per share, we expect full-year diluted earnings per share for fiscal '18 to be in the range of \$6.36 to \$6.60, or 8% to 12% growth over adjusted fiscal '17 results.

Now turning to cash flow, for the full fiscal '18 we expect operating cash flow to be in the range of \$5 billion to \$5.3 billion, property and equipment additions to be approximately \$600 million, and free cash flow to be in the range of \$4.4 billion to \$4.7 billion, generating free cash flow in excess of net income.

We expect to return at least \$4.3 billion through dividends and share repurchases, and also expect to reduce the weighted average diluted shares outstanding by about 1%, 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. 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. Operator, would you provide instructions for those on the call?



## QUESTION AND ANSWER

### Operator

Thank you. Ladies and gentlemen, if you'd like ask a question, please press star then one on your touchtone phone. You will hear a tone indicating you have been placed in queue. You may remove yourself from queue at any time by pressing the pound key. If you are using a speakerphone, please pick up the handset before pressing the numbers. Once again, if you have a question, please press star-one at this time. And one moment, please, for your first question.

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

### Bryan Bergin

Good morning. Thank you. Within your revenue guide for fiscal '18, can you just talk about what your organic growth assumption is there within the total guide, and then as well as your M&A spend projection for the year and that contribution? Thanks.

### David Rowland

Yes. Thank you, Bryan. Yes, when we look at next year, we expect, from an investment standpoint in acquisitions, that we would be in the range of 25% to 30% of our cash flow. If you calculate that in dollar terms, it's in the range of \$1.1 billion to \$1.4 billion. And as we've said many times previously, we certainly have the ability to go above that range if the opportunities present themselves during the fiscal year.

And so, our inorganic strategy is an engine for organic growth and, as a means of bringing on critical skills and capabilities in high-growth areas, will continue. It's an important part of our strategy. That assumption, combined with what we've just done in fiscal '17, would translate to inorganic revenue contribution in the range of 2.5% to 3% in fiscal '18.

### Bryan Bergin

Okay, thank you. The follow up I have, just on platforms, can you just talk about how much of your business is derived from your various platforms? It seemed like a lot of the award announcements this quarter involved some sort of a proprietary platform, your cloud, your Insights Platform, insurance products. Give us a sense of what that's doing in changing the model of your business. Thanks.

### Pierre Nanterme

Yes. So, if you look at all the platforms, and David, you probably know the number better than me, it would be what, in the range of 20%?

### David Rowland

Yes, in that range, 20 to 25%, if you looked at the major platforms.

### Pierre Nanterme

Yes. So, it is significant, but it is not the majority of what we do. So, we like a lot what we are doing with our platforms, because for us it's a source of delivering huge value for our clients and it's as well the base to sell our consulting and other businesses on the back of this.

Now, as you know, we are leading with SAP. We are leading with Oracle, with Microsoft, with Salesforce, with Workday. With Microsoft as well, we are today their leading partners. And you've seen that we are opening new fronts with coming leaders such as Google, such as

Amazon Web Services, we're going to develop platforms on top of the cloud. And you've certainly heard about the announcement we made with Apple to develop solutions based on iOS.

So, we are very active on platforms. We are very pleased with what we are doing. And I am especially pleased that we are leading with their new platforms. When we talk about SAP, we are talking about SAP HANA, Oracle in the cloud, the new generation of service, with Microsoft, and you probably have seen an announcement we made between Avanade, Accenture, and Microsoft recently, just last week.

And so, we are always aiming and leading not with the solutions of yesterday, but with the solutions of tomorrow, and taking a leadership position, which is exactly what we do.

**David Rowland**

Yes. Thank you, Bryan.

**Bryan Bergin**

Thanks, guys.

**Operator**

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

**David Rowland**

Hey, good morning, Tien-Tsin.

**Tien-Tsin Huang**

Good morning, always good to talk to you guys. I guess I'll ask on organic growth. Assuming what you did in organic in '17, it looks like a little bit of deceleration implied at the midpoint in terms of organic growth. Am I looking at that correctly? Is there anything to explain that assumption?

**David Rowland**

No, I would say, first of all, Tien-Tsin, as you know, while our range reflects what we think is possible across a broad three-point range, we are always focused on being toward the upper end of the range.

And if you were to look at, let's say, the upper third of the range and if you look at the 2.5% to 3%, and if you were to then look at that against the market growth for organic...the organic market growth, it would continue to reflect us taking significant share, which is our strategic objective. And so, it's not intended to imply deceleration. We feel good about the market as we see it.

**Tien-Tsin Huang**

Yes, that's a fair point.

**Pierre Nanterme**

Yes. But just to add on this and to be very clear, I think what we are planning for next year is extremely consistent with '17 and, to be honest, it's consistent with '16. Now, it depends on where you land in the range. And as David said, we are targeting to be more in the upper part of the range.

But the contribution of inorganic has always been, in the recent past, in the range of 2% plus, and anything between the 2% to 3%. And so, our organic growth is very consistent with the prior year and, as David said, has been built, if you will, to grow significantly more than the market. And when I say significantly more, it's probably a minimum of twice the market. So, that's the way we see our organic growth today and potentially tomorrow, so very consistent.

**Tien-Tsin Huang**

Right. Yes, for sure at the upper half, it would, yes, be consistent with what we have for organic over the last actually three years, like you said. I know it's splitting hairs over a percentage point here, but that's helpful.

My follow-up, just I guess on geographic growth, both of you called out North America versus the rest. Do you expect the trends to change between North America and rest of world for Accenture in fiscal '18?

**Pierre Nanterme**

Yes, and I'm going to take my non-American hat...

**David Rowland**

Uh-oh.

**Pierre Nanterme**

And say that I am feeling confident that my U.S. colleagues and leaders will drive more growth next year. To be serious again, we shared with you these last few quarters that indeed the growth in the U.S. didn't come exactly as expected, for reasons we shared with you. That probably the markets and our clients were expecting some reforms, and these reforms have not come as expected and created a kind of wait-and-see positioning with our clients, especially in the health and public sectors with all the uncertainties around the healthcare reforms.

Now we have a year behind us. And I believe that my scenario, if you will, that the business has factored what they could or could not expect from the administration. So, to some extent, there is less uncertainty with what might come. Now, we still believe that we're going to see tax reform or some evolution that's going to be good for the business. But on balance, what we expect is that next year the contribution of the U.S. and North America will be incrementally better than this year.

**David Rowland**

Yes, absolutely.

**Tien-Tsin Huang**

Great. Thanks.

**Pierre Nanterme**

I believe in the U.S., my friend.

**Operator**

Your next question comes from the line of Keith Bachman with Bank of Montreal. Please go ahead.

**David Rowland**

Hey, Keith.

**Keith Bachman**

Good morning. Thanks very much. I wanted to ask about the Consulting business to start off with. If I look at the signings growth, it's a bit of a sine curve where 2013 was a negative year, '14 was very good, '15 was a down year, '16 was tremendous. This year the signings are call it low single digits. It would seem that, based on that cycle, '18 should be a pretty good year for signings in the Consulting business, but I just wanted to hear your feedback on how you're looking at that business in particular.

**Pierre Nanterme**

So, let me maybe take it, and then, David, you can add on it. First, let's start extremely rapidly by positioning what is the role of Consulting at Accenture. As you know, at Accenture we have different...we have not different businesses, we have synergistic businesses; Strategy, Consulting where we shape the agenda with the clients, advisory services, if you will; Digital and Technology, where we are building leading-edge solutions; and Operations, where we operate on behalf of the clients.

And they are not independent businesses at all. The formula of Accenture is end-to-end integration of the services to deliver transformation and to commit on an outcome. The role of the Consulting business in that supply chain, if you will, is to shape the clients' agenda, is to work with the clients and orchestrate the rest of our businesses, and it's, of course, to sell consulting services in addition to the rest. So, they are, for us, the business orchestrator, if you will, of the relationship with the clients.

So, at the end of the day, when we are looking at the performance of Accenture, indeed we are looking at each part because we want each part to operate in the best market conditions. But no doubt that we are much more focused on the value that all of this capability brings in driving overall growth faster than the market.

Now, so the role of Consulting is to shape, is to orchestrate the depth and breadth of our services. And when I look at the market conditions, we would expect certainly our Consulting business to be at the mid-single-digit range. And this is where we believe that the Consulting market is all about. But again, I would like all of you not to take Consulting in isolation, because this is not the operating model of Accenture.

**Keith Bachman**

Okay, fair enough then. Thank you for that response. My second question is, David, could you talk a little bit about the puts and takes associated with the operating margin range? What are the variables that would cause you to be at the lower end of the range and what are the variables that would cause you to be at the higher end of the range?

**David Rowland**

Yes. So, there are a lot of things in the mix when we look at operating margin. First of all, just to kind of state the mathematically obvious, 10 basis points is, let's say, just under \$40 million for the year, which on our base of operating expenses is small in the context of the total operating expense of our business. Of course, it's significant in the context of delivering the year and the quarter. But there are a number of things in the mix.

First of all is an assumption on the level of investments that we will continue to make in our business and our people. And I can tell you that our intent in fiscal '18 is to continue to ramp up our investments and to invest at a rate that is faster than our rate of revenue growth. And so, in

essence, what that means is that our business model, again as a reminder, is that we actually strive to have a much higher level of margin improvement underneath our business, if you will, of which a substantial portion of that margin expansion we invest into the business and our people, with in the range of 10 to 30 basis points of expansion being delivered in our results.

And so, the things that drive that, first of all would be the progression of contract profitability. So, that gets to fundamentally the economics of the work that we do for our clients. And in a normal year, we would expect that our contract profitability would continue to progress in a positive way, and certainly that's our assumption next year.

The other big driver of our profitability is the level of payroll efficiency that we have in our business. There are many things that go into that, including the geographic distribution of our heads, the level of utilization we run at, as well as the extent to which we're choosing to make talent investments and bring on board critical skills that we think are going to position us well for the future.

And really I could stop there. Those are the two biggest drivers, how we manage the overall relationship of payroll progression to revenue and then, also very importantly, what we do with the economics of the portfolio of contracts that we deliver to our clients each year.

**Keith Bachman**

All right. Thank you, gentlemen, appreciate the questions.

**David Rowland**

Thank you.

**Operator**

Your next question comes from the line of Darrin Peller from Barclays. Please go ahead.

**Darrin Peller**

Hey, thanks, guys. Just to follow up on that point on the margin front, there is clearly a very high demand for labor around some of the new opportunities that you guys are doing so well in. With that in mind, could you just give us a little more specifics on what type of wage inflation you'd expect to see, what type of pricing you can use to offset that? Is there enough talent out there? Are you finding any challenges around that? What's the environment like right now on those two fronts?

**David Rowland**

Yes. It's hard to answer the wage inflation and price inflation question in aggregate, because there are so many components of our business and you really have to get into each component. Also, I don't like commenting on the wage inflation because it can be misinterpreted not only externally but sometimes internally as well by our people. It's just hard to talk about in aggregate.

What I can tell you is that our business discipline is that we work very hard looking at the wage dynamics, if you will, across each of the markets that we operate in. We have specific targets for where we want to be to market in all of our workforces. Obviously, our goal is to always be at a level where we can attract the best talent in the market.

We are very, very disciplined in the way we manage the progression of wage inflation and what we are able to do in our pricing, because that fundamentally drives our economics. So, that's kind of a foundational element, if you will, of how we manage the operations of our business.

And I would say in general I don't see anything unusual about '18 either from a wage standpoint or a pricing standpoint. Let's say in the round, I don't see anything different in '18 than really the last couple of years we have operated in.

### **Pierre Nanterme**

Yes. And maybe to add three elements on this to your question, are we attracting the people and based on what conditions, that's why I wanted to communicate to the group that we are clearly focusing on attracting the best talent. And the fact that we have been able, in fiscal year '17, to recruit 300, three hundred managing directors from the outside is for me just the illustration that indeed we are an attractive company, and we have no issue to hire even what I would call iconic talent, i.e., some of the best and most differentiated talent in the marketplace.

And they are coming to us for, let's say, three reasons again, another three. First, with \$18 billion in the New, 50% of our revenues and double-digit growth year after year, they understand that we are serious about leading in the New. And of course, it's attractive for that.

And then second, they're joining us because we are the only professional services company having end-to-end businesses. And so, they know if they are joining in Strategy or in Consulting they will benefit from the rest of Accenture, or if they are joining Technology and Operations, they will benefit from our Consulting and advisory services.

And three, we are competitive in the way we compensate and reward these people. And certainly, they have been watching the stock evolution over these last three years, and they love that.

### **Darrin Peller**

Okay. All right, that helps. Pierre, just one quick follow-up. When thinking about the New, first of all, what would be the most exciting areas that you're expecting right now for 2018, embedded in that large piece of revenue that's now 50%, that you find is the most exciting and the most innovative right now, the most in demand? And then, did you talk, David, about a growth profile of the New for 2018 versus the rest of the business? And thank you very much, guys.

### **Pierre Nanterme**

Yes. I am excited with everything regarding the New. So, by selecting a few, I don't want to disappoint other parts of the business because, for instance, all that we are doing in Accenture Interactive is absolutely great. And I am very excited that we're going to launch next year new services around some of the ultimate intelligent and performance marketing services. So, I'm very excited with the next generation of marketing services we might launch.

I'm absolutely, of course, excited with all the artificial intelligence, machine learning, and what we have in front of us where, again, we're going to, in '18, make significant investments. We are already looking, if we want to look at things which are more pioneering, if you will, at the usage of quantum computing in the business. And I'm not seeing a lot of our peers or companies already making business cases based on quantum, which is what we are doing with Biogen, these biogenetic companies where we are working with them in using quantum computing to do genome analysis and segmentation and other kinds of services. Immersive realities is

something we like a lot, how we're going to use virtual and augmented reality in the context of the business.

And maybe finally, data-driven activities and services. Data is the new currency of the world. It's not any more the dollar, the pound, or the euro. It is the data. And all the digital capabilities will reinforce and strengthen the way you can use the data to deliver value. So, we are extraordinarily focused on a data-centric agenda in all the services we're going to propose.

So, an exciting agenda in front of us. And stay tuned in '18. We'll make a few announcements.

**David Rowland**

Right. And just to close out your question, even as the New has continued to scale so significantly, we do expect continued strong double-digit growth in the New in fiscal '18.

**Darrin Peller**

Great. All right.

**David Rowland**

Okay?

**Darrin Peller**

Thanks a lot.

**David Rowland**

Great. Thank you.

**Operator**

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

**Jamie Friedman**

Hi. Thank you. It's Jamie at Susquehanna.

**David Rowland**

Hi, Jamie.

**Jamie Friedman**

Hi. You were going kind of quick there, David. I think there was an incremental disclosure, at least incremental to me. Did you disclose the New as a percentage of the bookings, too? I thought you said 60%.

**David Rowland**

Yes. Right, I did say that. I don't know that I've said that previously. You're right, good catch on your part. Every once in a while we sneak things in there, but I did say in the fourth quarter the New represented about 60% of our new bookings. And I did that as just an illustration again of the extent to which our business continues to rapidly rotate to the New.

**Jamie Friedman**

Okay. And then, if I could, for my follow-up, I'm not sure if I should go operating group or business dimension. I'm going to go business dimension. So, Pierre, with your previous comments about Strategy/Consulting, I'm looking at the fact sheet, bottom left corner. It

decelerated to flat growth. If I'm hearing you right, you're suggesting that'll accelerate now to mid-single-digit. Maybe, if you could, provide some of the characterization of that market. Is there any cannibalization going on in that market, like it might move from Strategy/Consulting, say, to App Services to Operations and it just doesn't appear in Strategy/Consulting? Some perspective on the trajectory of Strategy would be helpful. Thank you.

**David Rowland**

Yes, let me just mention a few things, and then Pierre, I'm sure, will also round it out. But maybe just to kind of get grounded in the facts a little bit, first of all, Pierre did say, and so let me just state again, that when you look at Strategy and Consulting combined, we expect that it will be in the mid-single-digit range. Let me also say that it's true that in '17, the year we closed, Strategy/Consulting was lower than what we had expected when we started the year.

And I would say that a primary contributor to that was what we've commented on throughout the year with the dynamic in the United States. And so, the fact is, if you look across our broad business, there are many parts of our business, many geographic markets, where the Strategy and Consulting growth is very much aligned with kind of this mid-single-digit expectation. So, it's important to note that in the mix in '17 was the impact of some of the things that we've talked about in the U.S.

The third thing I would say is that there is some ebb and flow of the revenue growth across our businesses. If you look at last year, meaning '16, for example, we had strong double-digit growth in Consulting and Strategy. And certainly, the nature of the work that we were doing in '16 really contributed to and set the table for the very strong revenue growth that we had in both Application Services and Operations in fiscal '17. And so, there is some connection between our businesses that I think is important to point out as well.

The final thing I would say is that if you peel the Consulting and Strategy growth back and look at the growth of Strategy/Consulting for work that is related to the New, that portion of Strategy/Consulting is growing double-digit. And so, the services related to the New continue to grow quite fast.

And Pierre, you want to add anything? No? Okay.

**Jamie Friedman**

Yes, that's very helpful.

**David Rowland**

Hopefully that helped, Jamie.

**Jamie Friedman**

Thank you.

**David Rowland**

Yes. Thank you.

**Operator**

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

**David Rowland**

Good morning, Lisa.



**Lisa Ellis**

Hi. Good morning, guys. First question is M&A-related. I just wanted, David, maybe just a little color on how we should think about the M&A contribution. I was just kind of looking at you just said you spent \$1.7 billion in fiscal '17 and that will, roughly speaking, contribute 2.5 to 3 points of revenue growth in fiscal '18, which is roughly the same number or slightly lower. So, should we be thinking about it more just as a form of R&D spend, essentially, versus a revenue accelerator?

**David Rowland**

So, let me just be clear. Maybe I misunderstood what you said. So, the inorganic contribution in fiscal '17 was in the range of 2%. It was just a tad higher than 2%. It rounds to 2%.

And the 2.5% to 3%, Lisa, as you know, we talk about inorganic on a rolling four-quarter basis. And it truly is a pretty straight mathematical computation if you look at the timing of when we did our acquisitions throughout fiscal '17, as well as it's hard to predict exactly when acquisitions will occur as we look out over the four quarters of '18. But if you make a reasonable assumption about the phasing, all of that in the mix would put us in the 2.5% to 3% range, which would be a stronger contribution than what we had...incrementally stronger contribution than we had in '17.

**Pierre Nanterme**

Yes. Maybe, David, just for, all for clarity, I think that it will be good if you explain how we're tracking these acquisitions on what, on 12 to 18 months, and then it's becoming organic, because otherwise it might be confusing for the audience. So, could you re-explain how we measure this?

**David Rowland**

Yes. So, our organic revenue is based on a rolling four quarters, trailing four quarters of our acquisitions. And so, in the quarter we acquire a company, it's in our inorganic for four quarters. And then it becomes part of our organic, because our model, Lisa, as you know, is that we don't buy these companies to have them operate as an appendage. We rapidly integrate them, really as an engine for organic growth.

Did I misunderstand your question, or was that helpful?

**Lisa Ellis**

Yes, that was helpful. I guess I was clarifying, right, that this expenditure on...a lot of how we should think about the acquisitions, because they are these small tuck-ins, is like an R&D investment, right? And so, yes, you've got the sort of mathematical addition of the run rate revenue from those companies, but then largely they just roll into your base kind of organic development model after that. Is that right? Meaning versus creating sort of an acceleration in the underlying organic revenue themselves, it's more, it's just an addition for one year and then beyond that it just rolls into the base.

**Pierre Nanterme**

It is absolutely right. And of course, if you would look over five years, the contribution of our acquisitions does represent a significant part of the growth of Accenture. You can look at this on the aggregate level, year after year. So, you're right. We're acquiring companies for deep capabilities, what you're referring to as R&D. And then after a period of time, it's becoming organic and is totally absorbed in the organization and in our organic numbers.

**David Rowland**

Yes.

**Lisa Ellis**

Okay. And then if you don't mind, as my follow-up a question on the Outsourcing side and a follow up to the earlier question around the acceleration in Outsourcing. Both bookings and then book-to-bill are both running very strong. Are you seeing a continued evolution in demand there for the New? So, should we be interpreting that as that's now longer duration work related to the New? And in that context, are you also then seeing a shift in the competitive set that you're competing against for that work?

**David Rowland**

So, let me comment that when you look at Outsourcing as a type of work, or if I was to say if you look at Application Services and Operations, which were big growth contributors in '17, a high percentage of those revenue streams are in the New. So, it's important to understand that when we talk about Operations, we're not focused on legacy operations. We're focused on the Operations marketplace that we have created and defined, which is all based around business as-a-service, in the cloud with security, all powered by the New.

And so, yes, I think you could conclude that there is a cycle that, as the New technologies have matured and they are more in kind of an operations mode, if you will, as opposed to early stage development, deployment, etc., there is a natural cycle. And I think that certainly contributes to what we're seeing in Operations and even Application Services, to some extent.

**Pierre Nanterme**

Yes. And in Application Services, to add on this, because what you said is very important, David, is indeed Outsourcing is rotating to the New, or what we're calling Outsourcing. And Application Services, we are now selling more and more of our services based on automation, robotics, intelligent solutions-based. And again, we are reinventing Application Services to differentiate.

So, when you look at your question from a competitive standpoint, to some extent you can segregate the market between the players still trying to sell more or harder the legacy-order classic IT, and the players, and we are part of that camp, if you will, who are reinventing this service by providing much more of the new technologies and new features to capture more growth.

And I believe that if our Outsourcing business is double-digit and is very vibrant, it's because it has rotated to the New and not because we are trying to sell more of the legacy.

**David Rowland**

Yes.

**Lisa Ellis**

Terrific. Thank you.

**David Rowland**

All right. Thank you, Lisa.

**Operator**

Your next question comes from the line of Joseph Foresi from Cantor. Please go ahead.

**Joseph Foresi**

Hi. I wanted to come at acquisitions I guess slightly differently. How do you manage the integration of all these businesses? And at what point do you think it might start to impact the culture? And is the pipeline there incredibly fertile?

**Pierre Nanterme**

I love your question, because of course in order to rotate to the New, we had to activate this evolving strategy of making more acquisitions to get to talent we couldn't develop organic, and we had to bring from the market. Then the big question is how do you integrate and how to you manage the culture.

And this is something we communicated, but I'm pleased to do that with a larger group, that we developed this concept, which might be perceived as extremely simple, but is more, certainly, profound than it sounds like, which is at Accenture we are developing a culture of cultures. Indeed, we're coming from a long tradition, like many global groups, of the one.; One culture, having everything with one. You wanted to be one in the world.

And I think this cycle is behind many of the big companies, certainly behind us. As you're operating in multiple countries, i.e., multiple cultures, or when you are accommodating multiple services, i.e., multiple cultures, you need to create an environment which is going to celebrate different cultures.

And when we think about the one, the glue, if you will, it's more around our values, the kind of intangible things we might expect from all our practitioners, that we're going to keep their cultures. As an illustration, I will take Fjord, because I think it's making exactly the right illustration of what you are saying.

When we decided to be in the design and experience-led kind of services, quite far from Accenture, we identified a company called Fjord, 180 people at the time, less than 10 studios around the world. We said we're going to keep the Fjord culture, the studio, the way they work. We're going to keep the Fjord identity and brand. And indeed, we're going to integrate them in Accenture more from a backbone standpoint, from a value standpoint, but they were sharing our values anyway, and they will benefit from our distribution channels.

After less than four years, we are celebrating 1,000 people in Fjord. They have a formidable brand in the marketplace. But if you would talk to the Fjord people, they are an interesting hybrid. They live and breathe the Fjord and they live and breathe the Accenture.

That's what now we want to accommodate with this concept of culture of cultures, which I think is reasonably a strong evolution for a large, big global group who had been developing with the concept of everything is one. At Accenture, as we said, we love diversity.

**Joseph Foresi**

Got it. And then my follow-up, can you talk about the decline in the half of the business outside the New? How do you think about it? And can it get worse as the IT budgets get reallocated to the New? Thanks.

**Pierre Nanterme**

Yes. At the end of the day, our job is to be relevant to the client agenda and to understand at what speed they're going to evolve the kind of services we could provide. What we do see is the

overall. If you look at the overall spend we could address, it's growing if you add the marketing spend to the IT spend, and to the spend they are allocating to what we're calling more at the heart of the operations, which all the industrial Internet will tap on.

So, if you look at this from the legacy IT, it's flat or shrinking. If you look at the addressable spend for us, it is growing. That's why at Accenture we had decided five years ago, in our strategy, to stretch and to extend our reach from where we were famous before, support functions, finance, HR, supply chain, and IT, to be relevant still in that space of support and IT, stretching to the front line addressing the marketing spend and stretching to the operations in the field line through the industrial Internet so we could expand the addressable budget we are tapping on.

And we benefit from this stretching the boundaries of our scope, because should we have stayed in the prior scope, then it would be much harder. So, all the work is to extend your scope to expand the addressable spend.

**Joseph Foresi**

Got it. Thank you.

**Conclusion**

**Pierre Nanterme**

Okay. I think, Angie, we're getting at the end of the call. So, let me wrap up, and thanking again all of you for joining us on today's call.

In closing, very simply, we delivered an excellent fiscal year '17, we believe. We finished the year strong, and I am extremely pleased with the momentum as we enter the new fiscal year. I believe that with our highly relevant and differentiated capabilities we are building, the dedicated and passionate Accenture people, and the very disciplined management of our business and investments, I am very confident in our ability to continue driving profitable growth and delivering value to our clients and shareholders.

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

**Operator**

Ladies and gentlemen, this conference will be available for replay after 10:30 Eastern Time today through December 21st. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code 428382. International participants dial 320-365-3844. Those numbers once again are 1-800-475-6701 or 320-365-3844, with the access code 428382.

That does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.