

Accenture

3<sup>rd</sup> Quarter Fiscal 2018 Conference Call

Conference Call Transcript

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**CORPORATE PARTICIPANTS**

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

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

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

## PRESENTATION

### Angie Park

Okay, Steve, and thanks everyone for joining us today on our third-quarter fiscal 2018 earnings announcement. As the operator 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 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 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 on 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](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.

Accenture had a truly outstanding third quarter. We delivered excellent results ... from new bookings and revenues ... to operating margin, EPS and cash flow ... and we gained significant market share, once again.

The durability of our performance demonstrates the relevance of our growth strategy and our ability to continue delivering strong results and returns for our shareholders ... while at the same time investing significantly in new growth opportunities to strengthen our position for the long term.

Here are a few highlights from the quarter:

- We delivered record new bookings of \$11.7 billion.

- We grew revenues 11% percent in local currency to \$10.3 billion, and our growth continues to be well-balanced across the dimensions of our business.
- We delivered earnings per share of \$1.79 on an adjusted basis, an 18 percent increase.
- Operating margin was 15.7%, an expansion of 20 basis points on an adjusted basis.
- We generated very strong free cash flow of \$1.8 billion.
- And we returned approximately \$1.6 billion in cash to shareholders through share repurchases and the payment of our semi-annual dividend.

So, we are entering the fourth quarter with excellent momentum in our business, and I feel confident that we are very 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...

### **David Rowland**

Thank you, Pierre, and thanks to all of you for taking the time to join us on today's call.

As you heard in Pierre's comments, we're extremely pleased with our results in the third quarter which once again reflect strong momentum across every dimension of our business. Based on the strength of our third-quarter results and the strong confidence and visibility we have in our fourth quarter – we will be increasing key elements of our full-year outlook which I'll cover in more detail later in our call. Importantly, both our third-quarter results and our updated outlook for the full year reflect very strong execution against all three financial imperatives for driving superior shareholder value, which I covered in some detail at our Investor/Analyst Day in April.

So, before I get into the details of the quarter, let me summarize the major headlines of our third-quarter results:

- Net revenue increased more than \$1.4 billion, reflecting growth of 11% in local currency, and representing the third consecutive quarter of double-digit growth. The strong top-line growth exceeded our expectations and reflected strong and balanced growth across all operating groups and geographic areas with several growing double digits. The growth continues to significantly outpace the market reflecting both our leadership position in the New and the durability of our diverse, yet highly focused growth model.
- Operating margin of 15.7% expanded 20 basis points compared to adjusted operating margin last year – consistent with our expectations – and reflected strong underlying profitability which allowed us to invest at scale in our people and our business. And we delivered very strong EPS of \$1.79 on an adjusted basis – up 18% over fiscal 17 adjusted EPS.
- And our free cash flow of \$1.8 billion reflected both our strong profitability and excellent DSOs. We continue to execute our strategic capital allocation objectives with year-to-date investments of over \$450 million in acquisitions and roughly \$3.8 billion returned to shareholders via dividends and share repurchases.

With that said, let me turn to some of the details starting with new bookings.

New bookings were \$11.7 billion for the quarter, the highest level of new bookings in our history, and represents 15% growth in local currency.

- Consulting bookings were \$5.9 billion, with a book-to-bill of 1.0.
- And Outsourcing bookings were \$5.8 billion, with a book-to-bill of 1.3.

Our new bookings were extremely well-balanced across the dimensions of our business. Accenture Interactive, Accenture Applied Intelligence and Accenture Industry X.0, as well as Cloud and Security, were all important themes and represented roughly 60% of our total new bookings.

Turning now to revenues...

Net revenues for the quarter were \$10.3 billion, an increase of 16% in USD and 11% in local currency reflecting a foreign-exchange tailwind of roughly 5%, compared to the 5.5% impact provided last quarter. This result was approximately \$200 million above the upper end of our FX-adjusted range.

- Consulting revenues for the quarter were \$5.7 billion, up 18% in USD and 12% in local currency.
- Outsourcing revenues were \$4.6 billion, up 14% in U.S. dollars and 10% in local currency.

Looking at the trends in estimated revenue growth across our business dimensions, the overriding theme was strong and balanced growth across all business dimensions. We saw an uptick in Strategy & Consulting services which grew high single-digits – while both Application Services and Operations posted double-digit growth. And, the New, including digital, cloud and security, continued to deliver very strong double-digit growth reflecting many of the market themes and key points of differentiation which we discussed at our Investor Analyst Day.

I would like to also highlight the strong demand for Intelligent Platform Services which continued to be an important contributor to our growth. As you know, Intelligent Platform Services brings together our industry, functional and next-generation application capabilities, powered by our Innovation Architecture, to drive mission-critical programs for our clients. And these services primarily relate to deploying next-generation technologies in SAP, Oracle, Microsoft, Salesforce and Workday.

Taking a closer look at our operating groups...

- Communications, Media & Technology led all operating groups with 18% growth in local currency reflecting continued strong momentum in many parts of the business, especially Software & Platforms and Communications & Media which both posted double-digit growth, as well as double-digit growth across all three geographies.
- Resources grew 12% in the quarter driven by strong double-digit growth in Energy and Chemicals & Natural Resources. We continued to see strong demand for our services

across all geographies with double-digit growth in North America and the Growth Markets and strong growth in Europe.

- Products delivered its 12<sup>th</sup> consecutive quarter of double-digit growth with 11% growth in the quarter, led by Industrial and Consumer Goods, Retail, & Travel Services. Growth was strong across all geographies, with double-digit growth in both Europe and the Growth Markets.
- Financial Services grew 8% in local currency, reflecting strong growth in both Banking & Capital Markets and Insurance. Growth was strong across all three geographies, led by double-digit growth in the Growth Markets.
- And finally, H&PS grew 7% driven by double-digit growth in Public Service. We continue to be pleased with double-digit growth in Europe and the Growth Markets and solid growth in North America.

Moving down the income statement...

Gross margin for the quarter was 32.2%, compared to 32.8% in the same period last year. Sales and marketing expense for the quarter was 10.7% compared to 11.1% for the third quarter last year.

And our General and administrative expense was 5.7% compared to 6.2% for the same quarter last year.

We have two items impacting metrics this quarter. As a reminder, in Quarter 3 last year, we recorded a settlement charge related to the termination of our U.S. Pension Plan. And this quarter, we recorded charges of \$122 million related to tax law changes which increased our Quarter 3 tax rate by 7.6% and decreased diluted earnings per share by \$0.19. The following comparisons exclude these impacts where applicable, and reflect adjusted results.

Operating income was \$1.6 billion in the third quarter, reflecting a 15.7% operating margin, an increase of 20 basis points compared to adjusted operating margin in Quarter 3 last year. Our adjusted effective tax rate for the quarter was 26.8%, compared to an adjusted effective tax rate of 26.6% for the third quarter last year.

Adjusted diluted earnings per share were \$1.79, compared to an adjusted EPS of \$1.52 in the third quarter last year. And this reflects an 18% increase over last year's results.

Days Services Outstanding were 39 days, compared to 40 days last quarter and 41 days in the third quarter of last year.

Our free cash flow for the quarter was \$1.8 billion, resulting from cash generated by operating activities of \$2.0 billion, net of property and equipment additions of \$174 million.

Our cash balance at May 31<sup>st</sup> was \$3.9 billion, compared with \$4.1 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 4.7 million shares for \$720 million, at an average share price of \$153.60 per share. At May 31<sup>st</sup>, we had approximately \$1.4 billion of share repurchase authority remaining.

Finally, as Pierre mentioned, on May 15, 2018, we made our second semi-annual dividend payment for fiscal 18 in the amount of \$1.33 per share, bringing total dividend payments for the fiscal year to approximately \$1.7 billion.

So, in summary, we are extremely pleased with our outstanding third-quarter results and are now focused on Quarter 4 and closing out a strong year.

Now let me turn it back to Pierre.

**Pierre Nanterme**

Thank you, David.

At our Investor & Analyst Conference in April, we provided an update on our strategy of building differentiated capabilities for the digital world ... applying innovation at scale ... and ensuring that we anticipate the impact of the next waves of technology disruption for our clients.

Our excellent results for the third quarter demonstrate that we continue to execute this strategy very well.

The end-to-end capabilities we have built – at scale and in an industry context – are unique in the marketplace. Our ability to integrate these services – from strategy and consulting ... to digital, technology, operations and cybersecurity – enables us to deliver targeted business outcomes for clients.

Our rapid rotation to the New – digital, cloud and security – continues to drive significant growth for Accenture. Revenues in the New again grew at a very strong double-digit rate in the third quarter, and accounted for about 60% of total revenues for the first time – highlighting that the New has now become the core of our business.

Digital transformation is now a clear imperative for our clients. And we are uniquely positioned to deploy digital services end-to-end, at scale across industries and geographies.

With Accenture Applied Intelligence, we are bringing together our capabilities in data, analytics and artificial intelligence – combined with our deep understanding of industries and business functions – to help clients reimagine their core processes.

- With Bepensa, a Coca-Cola bottler in Mexico, we are leveraging the Accenture Insights Platform to mine the data from two billion transactions a year to provide a holistic view of the business, better serve its 300,000 daily customers and significantly increase market share.

We are also gaining significant traction with Accenture Industry X.0, where we are reinventing manufacturing with smart, connected products and services using advanced technologies ... including the Internet of Things, connected devices and digital platforms.

- We are helping Biesse Group, the Italian manufacturer, expand beyond products into digital services. Biesse is rolling out connected services ranging from maintenance alerts to in-depth analytics across its installed base of 20,000 industrial machines, driving new revenue streams as well as significant cost savings.
- And we continue to build our Industry X.0 capabilities. This month, we announced our agreement to acquire designaffairs, a design firm based in Germany that specializes in smart products and services for manufacturers. And this complements very well our acquisition of Mackevision in the second quarter.

Accenture also remains the partner of choice for the world's leading companies on large-scale, mission-critical transformation programs. And our ability to mobilize and integrate end-to-end services to deliver value and business outcomes is clearly setting us apart in the marketplace.

- We are helping DowDuPont with the post-merger integration of Dow Chemical and DuPont, as well as preparations for their planned spin-offs. We have expanded the scope of our services to include substantial work in digital, strategy and management consulting – with the goal of enabling each of the future companies with the distinctive capabilities needed to lead in their respective markets.

Turning now to the geographic dimension of our business ... I am very pleased that we again delivered strong growth in the third quarter across all three of our geographic regions ... with double-digit growth in most of our major markets.

- Starting in North America, we delivered 11% growth, driven by further acceleration in the United States.
- In Europe, revenues grew 9% in local currency, driven by strong, double-digit growth in Germany, Italy, Ireland, France and Spain.
- And in Growth Markets, I'm delighted that we delivered another exceptional quarter with 17% growth in local currency – led once again by very strong double-digit growth in Japan, as well as double-digit growth in Australia, Brazil and Singapore.

Before I hand it back to David, I want to take a moment to touch on Accenture's role in helping to solve important societal challenges.

Trust and responsibility are increasingly critical in evaluating companies as a potential partner, employer or investment. And at Accenture, we feel a responsibility to encourage the use of emerging technologies as a positive force for the economy and broader society.

For example, we are using blockchain and biometrics to support ID2020, which is helping to solve the challenges of identity faced by more than 1.1 billion people around the world.

In Japan, we used artificial intelligence and machine learning to create a revolutionary system to dispatch emergency vehicles more quickly – ultimately saving lives.

And I'm particularly proud of the work our people do across the Accenture Labs in Bangalore, Dublin, San Francisco and Sophia Antipolis to use cutting-edge technologies in innovative ways

through our Tech4Good initiative – like an AI smartphone solution that helps the blind navigate the world and live more productive lives.

Creating innovative solutions that improve the way the world works and lives is our mission at Accenture – and quite simply the right thing to do.

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

**David Rowland**

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

For the fourth quarter of fiscal 18, we expect net revenues to be in the range of \$9.80 to \$10.05 billion. This assumes the impact of FX will be about flat compared to the fourth quarter of fiscal 17 and reflects an estimated 7% to 10% growth in local currency.

For the full fiscal year 18...

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 positive 3% compared to fiscal 17.

For the full fiscal 18, we now expect our net revenues to be in the range of 9.5% to 10% growth in local currency over fiscal 17.

For operating margin, we continue to expect full fiscal 18 to be 14.8%, consistent with adjusted fiscal 17 results.

We now expect our annual effective tax rate to be in the range of 27% to 28%. The increase in our guidance from last quarter is primarily due to the \$122 million tax charge that I mentioned earlier. The charge includes two components, an additional \$41 million provisional charge related to the adoption of the U.S. Tax Act, as well as an \$81 million expense from a non-U.S. tax law change. Excluding the impact of these tax law changes, we now expect our adjusted annual effective tax rate to be in the range of 22.5% to 23.5%.

For earnings per share, we now expect our diluted EPS for fiscal 18 to be in the range of \$6.26 to \$6.31. Excluding the impact of tax law changes, we now expect adjusted full-year diluted EPS to be in the range of \$6.66 to \$6.71, or 13% to 14% growth over adjusted fiscal 17 results.

For the full fiscal 18, we now expect operating cash flow to be in the range of \$5.5 to \$5.8 billion, property and equipment additions to be approximately \$600 million, and free cash flow to be in the range of \$4.9 to \$5.2 billion.

Finally, we continue to expect to return at least \$4.3 billion through dividends and share repurchases, and continue to 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-



## QUESTIONS AND ANSWERS

### **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.

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

### **Operator**

Ladies and gentlemen. Now that we're in the Questions and Answers session, if you wish to ask a question, please press the star followed by the 1. You'll hear a tone indicating that you placed yourself in queue and all questions will be pulled in the order they are received. Our first question will come from the line of Jason Kupferberg of Bank of America. Please go ahead.

### **Jason Kupferberg**

Hey, good morning guys. How are you?

### **David Rowland**

Good morning, Jason. How are you?

### **Jason Kupferberg**

Good, good, good, thanks. Great set of constant-currency results here obviously. So we're just continuing to get a lot of questions around FX, just given some of the recent moves. I wanted to just get some of your initial thoughts, you know, if FX spot rates today or in recent weeks were to in theory hold going forward, how should we think about the potential FX headwind to revenue and EPS next year, just so we can start to get our models calibrated?

### **David Rowland**

Yeah, this will be the only comment I'll make relative to next year, quantitatively by the way, but I don't mind saying this because it's just really an extrapolation of the math. As we do our analysis, so looking at the rates that we used as a basis for the FX impact that I just provided for this year. If those rates were to hold constant, as we do our analysis, it would create a headwind of about 2%. So it would have a negative 2% impact on our results next year.

### **Jason Kupferberg**

Okay, both top and bottom line?

### **David Rowland**

Yeah.

### **Jason Kupferberg**

Okay, great. So just as my follow-up, obviously really good to see the constant-currency top-line raise for this year. Is most all of that organic? And I know you did announce a couple of additional acquisitions since the last earnings call but, you know, it didn't seem like there'd be enough time left in this year for them to contribute much. So are we still thinking kind of 2.5ish percent per M&A contribution in fiscal 18?

**David Rowland**

Yeah, the beat, if you will, in Quarter 3 was 100% organic and, therefore, that's the basis for us raising our guidance for the year. There is no change in our view on inorganic for the full year. We still think we'll land the full year with it making about a 2.5% contribution. And against that 2.5% contribution for the year, it was a little higher than that in the first half of the year. It's a little lower than that in the second half of the year and averages to about 2.5% for the year.

**Jason Kupferberg**

Okay, well, nice job. Thanks for the comments.

**David Rowland**

Thank you.

**Operator**

Our next question will come from the line of Tien-tsin Huang of JP Morgan. Please go ahead.

**David Rowland**

Hey, good morning, Tien-tsin.

**Tien-tsin Huang**

Good morning. Good morning, good revenue acceleration here, so just on the revenue front, I'll ask if there are any call-outs, what surprised you, perhaps Strategy, Consulting accelerating? Just curious what drove the data, you said 200 million above the FX-adjusted range to the top line of the guidance?

**David Rowland**

Yeah, you know, the good news is that the additional revenue was really broad-based. You know, literally every operating group delivered above their expectations. As you might guess, the strongest over-delivery came from the three operating groups with the double-digit growth, so CMT, Products and Resources were the biggest contributors to the strong revenue performance. As you also alluded to, I called out in my script, Strategy and Consulting combined was also quite strong at high single-digits and we were very pleased with that. But it was really the over-delivery from a top-line standpoint was broad-based, and I think it aligns with the fact that we had such strong broad-based, record-setting new bookings that underpin that, and just reflective of the strong momentum in the market overall.

**Tien-Tsin Huang**

Sure, good. So maybe my follow-up quickly again, this is just on the outsourcing bookings that 1.3x book-to-bill. So what's the – are larger deals back? Just curious if there was anything chunky that contributed to that or if there was anything unusual?

**David Rowland**

Yeah, we did have – we had some large – I mean as you would expect, we had some larger deals in there. We had a couple of, in particular, larger deals. I think the total number of deals more than 100 million, I didn't say it, but it was – I think it was 12, if I'm remembering that correctly. And so, that is in the zone, probably on the high end of what we see in a typical quarter. You know, I don't know that big deals are back necessarily, because we've always had a good flow of big deals. But as we look at our pipeline going forward, our – what we call our mega pipeline actually looks really good. And actually, I'm being told that we had 13 deals over 100 million, not 12.

**Tien-Tsin Huang**

Thank you, sir.

**David Rowland**

Alright, thank you, Tien-Tsin.

**Operator**

Bryan Bergin of Cowen. Please go ahead.

**Bryan Bergin**

Hi, good morning, thank you. I wanted to ask on the headcount growth versus revenue growth. Can you comment on whether you're seeing any change in the inflection of the resource requirements that you need for this high level of growth due to the automation traction of the platform business? And then can you just give us some color on the pickup in attrition?

**David Rowland**

Yeah, so our headcount did grow at a pace below our revenue growth and we have seen that several quarters if you look over the last eight quarters or so. Certainly, there's the potential for that trend to be more common as we look forward, both as it relates to the productivity efficiencies that we're – that we will drive into the business, including through technology. And as well, we are always, you know, constantly focused on, you know, on pricing improvement and increasing the revenue yield per head in our revenue. And so, you know, it is a part of our strategy of extracting more value from our business, for our shareholders and our employees. And, you know, in a perfect world, we would see a higher revenue yield per head going forward. And our challenge is to achieve that through the mix of our services, the pricing, etc.

On the attrition front, there's, you know, not anything we're particularly concerned about. The attrition did tick up but, you know, we feel very good about our ability to attract the talent in the marketplace that we need. You know, we are an employer of choice, certainly in our sector. We have no issues recruiting the people that we need in the market and we also are quite pleased with our overall retention, including retention of critical skills even with what was a slight tick up in overall attrition. So we don't have any particular concerns there.

**Bryan Bergin**

Okay, thanks. And then on the H&PS segment, have you seen improvement in those healthcare contracts that you cited last quarter? Anything around the contract profitability? Thank you.

**David Rowland**

Yeah, very pleased with the H&PS profitability as we were all the operating groups. Every single operating group, if you look at, you know, this concept of underlying profitability that we talk about sometimes at the Accenture level, which is the underlying profitability above and beyond our reported profitability that, where we use the headroom to invest in our people and our business. Every single one of our operating groups had really strong improvement in underlying profitability. Now underneath that, they had investments, etc., that are reflected in the operating margin numbers that we report. But we were quite pleased with all of our operating groups and H&PS included, which did show sequential improvement in profitability and that is as we expected and as we signaled in the first half of the year.

**Bryan Bergin**

Thank you.

**David Rowland**

Thank you.

**Operator**

Jamie Friedman of Susquehanna Financial Group, please go ahead.

**Jamie Friedman**

Hey, good morning, guys. Good set of results here. I'm sorry if I don't have the greatest connection but, David, I wanted to ask in your prepared remarks, I thought you said something that was new, at least new to me, where you decomposed the bookings, it was the Industry X.0 and the Interactive. I thought you said 60%. If you wouldn't mind just repeating that if you have that there, that would be helpful?

**David Rowland**

Yeah, and it was a subtle change and, frankly, the intent was to – we talk about the New so much, that I was just taking the opportunity to remind people what, you know, the components of the New are. So I called out the five components by name and the only intent was to, again, remind the components of the New, especially as we have changed some of the terminology as we've evolved Digital to talk about Accenture Interactive, Accenture Applied Intelligence and Accenture Industry X.0. And the New overall, so those five components in aggregate represented about 60% of our total bookings and that's consistent with the comments that Pierre made where, from a revenue standpoint, the New represents approximately 60% of our revenues at this point as well.

**Pierre Nanterme**

Maybe I can jump on this one, because nobody's asking me any questions, since they're all for you, David, so I'm jumping in. Because you mentioned that we have evolved the terminology but, of course, it's more than the terminology, and the reality is that we are constantly evolving the content of our capabilities in the New. Accenture Interactive has been there since Day One, no change. We continue growing, developing and scaling. We had Accenture Mobility around enterprise apps and connected platforms. We have evolved now to Industry X.0, to build a capability totally focused on smart and digital manufacturing. Same thing we've been doing with Accenture Analytics, which we started with, we upgraded this year to Accenture Applied Intelligence by adding on top of the analytics, machine learning and applied intelligence. So it's important for all of you to understand that almost every year or every couple of years, we will always significantly improve, upgrade what we're calling the New to make sure we are always ahead of the curve and bringing innovation at the heart of our existing capabilities.

**Jamie Friedman**

Thanks, Pierre. And then I did have one for you, Pierre, which was with regard to the growth in Strategy, Consulting and Application Services, is it fair to think of those as lead indicators for the company or would that be an exaggeration?

**Pierre Nanterme**

I think for us it's important we're growing Strategy, Management Consulting and Intelligent Platforms, so the high-value part of our systems integration, because it's demonstrating that what we are selling is highly differentiated. It's more of the high end of the value chain of our

services. And, of course, it is important in the context of contributing to our margin and, ultimately, profitability. So I'm very pleased that we moved Strategy, Consulting to high single-digits. I think this is a good place to be and it's a demonstration that our services are more and more differentiated with that piece, which is clearly around industry-specific solutions and very cutting-edge consulting work. The same with Application Services, the systems integration piece is on fire, right, and especially with what we're calling the Intelligent Platforms. So all this new digital, artificial intelligence, analytics-rich platforms, where we are leading with all of them, to be honest, in the marketplace. And, again, it's a significant contributor to our rotation to the New. So it's a sign of good health. You're absolutely right.

**Jamie Friedman**

Thank you.

**Operator**

James Schneider, Goldman Sachs, please go ahead.

**David Rowland**

Hey, good morning, Jim.

**James Schneider**

Good morning, David. Just a question on the CMT. That continues to be very, very strong there. You know, the growth accelerated even further. Can you give me a sense about what the components of that growth are and what kind of work you're seeing there that maybe you didn't see, you know, a year or two ago? Is there anything kind of incremental on that front?

**Pierre Nanterme**

I'll take this one. I mean CMT, we talked a lot about CMT these last years. Needless to say, it's a set of industries under massive transformation, if you take the different companies, high tech, telecom and what we're calling software and platforms. Software and platforms are the driving force of the growth in terms of CMT because these companies are investing massively in the context of leading in the market. So here the business is to support the leaders providing – I mean you know well the names – the leading platforms in the marketplace. So we're supporting them in supporting their growth. And we are an enabler of networks.

On the other side of the spectrum, you will find telecom. Telecom, it's more transformation. These companies are facing significant challenges, and you know now they are embarked in some massive M&A consolidations. And so a lot is happening, including they're all launching new networks. You know, we're moving from – we have been moving from the 3s to 4s, to the 5<sup>th</sup> G, you put the fiber on top of it. So they need to continue investing and, again, they need people like us to support their transformation, as well as being an enabler of their network implementation.

And then in between you have the high tech. And high tech companies, again, are not only CMT companies, but they are enablers of many industries in providing the equipment, providing the technology. And I'm extremely pleased with the progress we're making in high tech across the board, especially with some recent excellent progress we have made with aerospace and defense, which we decided to focus on as a very promising industry. And with the focus we put, as an illustration, on this industry, it is as well a good contributor to our overall growth.

So three different segments with three different sets of issues, but we are the enabler of their change, their transformation and, ultimately, their leadership in the marketplace.

**James Schneider**

Thanks, that's helpful. And then maybe just regarding the tax rates. David, I know you said you won't talk about fiscal 19, but can you maybe just talk about your overall tax rate or your overall tax planning? How that's evolved over the last few quarters or so, and whether you think that there's any kind of change to what you previously said about the tax rate on a go-forward basis given all that context?

**David Rowland**

Yeah, I mean first of all, it goes without saying that the tax environment, you know, continues to be highly complex and fluid, if not even volatile, perhaps. And so, it is a significant effort with a lot of talented people that stay on top of our tax planning and, you know, all of the matters and policy progression in all the tax jurisdictions around the world. You're right, I'm not going to comment on FY19 beyond what I have said previously. I would prefer that we just give, you know, one update in September when we provide guidance. And there's basically two statements that I've made, or that we've disclosed, just to remind you. So one thing that we've disclosed and that I've commented on is the accounting change on income tax effects of intercompany transfers, the ASU 2016-16, and we disclosed that in isolation, that would have about a 3.5% impact on our tax rate. And so, that's one item that we called out which is in our future.

Now that impact would be in isolation and, obviously, there are other elements of our tax planning that we're constantly working on. And so, that's not to imply necessarily, that that would be the ultimate impact, but that item alone will have that impact. And, of course, the other item that we called out, obviously, is the U.S. tax reform. And previously, we had said that that would have a modest – create modest upward pressure on our tax rate.

And so, those are really among a longer list of items that we're focused on. You know, those are the two things that we've talked about the most and that we've had disclosures on.

**James Schneider**

Thank you.

**David Rowland**

Thank you.

**Operator**

Harshita Rawat of Bernstein, please go ahead.

**Harshita Rawat**

Hi, good morning. Thank you for taking my question. So, Pierre, it does appear that we are in one of the strongest enterprise IT demand environments in many years. And do you have a sense of whether this is a cyclical and tax reform-related uptick or is this more structural in nature because IT is again perceived to be an investment area versus a budget that needs to be managed?

**Pierre Nanterme**

I tend to believe it's more a structural shift than something which is more cyclical or on the short term, and for many reasons. I mean, first, it's incredibly pervasive across all the industries. So when you look at our rotation to the New, it's amazingly consistent across all our industries, whatever you're taking, the B2C and now the B2B. Same thing, it's amazingly consistent across the world when you look at the rotation to the New, from the U.S. to Europe, to Brazil, Australia and Japan, you see the same level of demand across the world. So it's something which is extremely significant.

Next, when you look at this IT revolution, as it's called, that digital revolution, it's coming through waves. So it's not one tech, it is now a continuous flow of new technologies coming one after the other to change the game. So we started with some basic Internet technology solutions, more on the B2C. Now we're moving, to look at it, everything connected. If you look at this, that would be a big market in itself.

So what we're calling the Internet of Things, but everything connected. Then you move to the artificial intelligence at large. And everybody would believe we are more at the very beginning of this wave than anything else. Then the blockchain, we talked these last three years and we incubated. Now it's starting to pick up and by the way, we have put our act together. We have made significant investments and now we're taking a position of leader in these blockchain technologies.

And it's not enough. You're moving to immersive realities, virtual realities and then you have the new IT, the new ways of developing systems, DevOps, Agile and then I can continue with quantum computing. So look at the series of incredible digital – technology disruptions, where in the past probably you would have one for 40 years. Now, you have one every 18 months. So I tend to believe that we are in a true fourth revolution, industrial revolution, based on digital, and it's something which is going to be more secular than cyclical.

**Harshita Rawat**

Great, thank you. And just as a follow-up against this context of this strong IT demand environment, is there any change in your thinking about your continued ability to hire and retain talent in this tightening labor market?

**Pierre Nanterme**

We have no issue. I mean this data when you look at this, and you are taking a bit your microscope, you will see some tick up in the attrition, but we are in the zone, as David said, I mean rightfully. The reality is, are we able to attract the best talent in the marketplace, sometimes we're calling them iconic talent, from the outside? The answer is yes. Are we retaining our best managing directors? We have, and we have now 7,000 managing directors, the level of attrition is incredibly low, in the ranks of our managing directors.

Every day, we have people willing to join Accenture. And, finally, our brand is attractive. And the brand is attractive because of the success of the rotation to the New and the pivot we've been executing, to be now perceived and it's not a perception, it's a reality, as a highly innovative company, accommodating multiple cultures in the same company from designers, to business scientists, to the more classic programmers and developers and to people extraordinarily knowledgeable in leading and cutting-edge IT. Plus, all the efforts we made to make Accenture what we're calling Truly Human, Tech4Good, what I mentioned in my script. All of this is

creating an environment where, I tend to believe, Accenture is very attractive. Evidence is, recently we won many awards in terms of the best place to work, most attractive place to work.

And I'm very pleased, as you're giving me the opportunity to mention that, that we're not only the best place to work for everybody, but as well, with a great sense of diversity in it. So we have received many recognitions for women, for LGBT and I'm extremely pleased that we are attractive for everybody, as we should be. All the talent, all the backgrounds, all the different genders and all the diversity, and we have a good brand supporting that.

**Harshita Rawat**

Perfect. Thank you very much for taking my question.

**Pierre Nanterme**

Thank you.

**Operator**

Rod Bourgeois of DeepDive Equity, please go ahead.

**David Rowland**

Good morning, Rod.

**Rod Bourgeois**

Hey, good morning. Good to talk to you guys. Hey, within the intelligent platforms business where you work on ERP systems, can you talk about which ERP platforms are contributing the most to your growth and also, perhaps, the software market trends that are catalyzing your demand in that ERP services space?

**Pierre Nanterme**

I mean as you know, Rod, we're working with all the usual suspects from a platform standpoint. So, you know, I would mention, you know, the names you all know in the leading platforms, from SAP, Oracle, Microsoft, Salesforce.com, Workday, to mention maybe the names everybody would know. All these platform and software providers, this is their rotation to the New. So the ones that were not in the cloud are now in the cloud. And all of them, they have added features in terms of analytics, in terms of artificial intelligence inside. That's why now we're calling them at Accenture intelligent platforms because they are not any more the old ERP we knew, they are ERP in the cloud, rich in terms of new functionalities, analytics and artificial intelligence.

So this market has been very good for Accenture. We've been driving excellent growth from our, let's call it the ERPP business or intelligent platform business. We are again the partner of choice, and the market is vibrant as well, because many clients have been waiting for the new platforms to arrive, to upgrade and move. And I believe we are more again at the beginning of this wave of replacing the old ERP with the new one because it's going to drive a lot of benefits in terms of, again, of leveraging the cloud, leveraging analytics and leveraging artificial intelligence.

So we have a very strong position. We organized our capabilities in our operating groups but as well in Accenture Technology to have at scale capabilities to support all these leading platforms and we are getting a very good return.



**Rod Bourgeois**

That's helpful. And just a quick follow-up. Can you give any color on the relative contributions of the components of New to your overall growth? I'm particularly interested in your view on which component in the New has the most future potential to evolve with success akin to the Accenture Interactive business? So as an example, is IoT the best candidate for future growth potential or is something else catching your attention there?

**Pierre Nanterme**

I would say all our new babies have the potential to grow successfully for many years. Now, in the family, some are already operating at scale, grown up. I mean, you mentioned Accenture Interactive, now three years in a row number one in Advertising Age as the fastest-growing and largest digital experience agency. By the way, I'm pleased that you give me the opportunity to mention to the group that we won seven awards at the Cannes Lions with an acquisition we made in Dublin with a company called Rothco. So we are in the interactive game, big time. We are winning not only awards, but as well big clients.

So with Accenture Interactive, it is scaled to lead, if you will, it's more mature than the others. Next, I would mention certainly cloud as well, is more scaled to lead. So these two are scaled to lead. And Applied Intelligence is as well at a very significant scale. But the name of the game for us is to infuse the latest cutting-edge, artificial and algorithmic technologies in that unit we're calling Applied Intelligence.

And then we have two with a big potential to grow, because they are not yet operating at the same scale. I'm thinking about Accenture Security, where we have put together all our cybersecurity capabilities and it's growing – you know, David would say strong double-digit. I would probably add hyper-strong double-digit just to give you a sense of, it's a bit more than strong double-digit.

And the last one we launched with Industry X.0, I mentioned, which is all the digital applied to manufacturing. This is clearly for us a significant investment we're going to make this year and in the coming three years because it's all about replicating to the B2B industries, the success we have with the B2C. And we're making good progress and I'm pleased. And more to come, because every year we're going to launch new capabilities in the New when they will mature.

**Rod Bourgeois**

It sounds like you don't have a favorite baby, you love all of them.

**Pierre Nanterme**

I mean this is the way we are in France, we love all of them.

**Rod Bourgeois**

Thank you, guys.

**David Rowland**

Thanks, Rod.

**Operator**

Bryan Keane of Deutsche Bank, please go ahead.

**Bryan Keane**

Yeah, hi guys. Congrats on very solid results here. Just want to follow-up on the bookings and the strength in the bookings. Was that a lot of renewals in there or is that new business that pushed that higher? And then just thinking about the pipeline now, does it become a little more depleted since you had such a big quarter this quarter?

**David Rowland**

I mean there's a lot of new business in the 11 billionish – 11 billion plus bookings, 11.7 billion in the quarter. I mean you don't get to that number with, let's say a disproportionate or unusual level of renewals. And the other part of the question was with pipeline. Yeah, I mean any time we have, you know, a bookings quarter that large, then I mean obviously it has some impact on the pipeline, but having said that, you know, we have had a lot of replenishment even during the quarter, so we feel good about our pipeline. But yet, as you can imagine, we're very focused on our pipeline replenishment as we think about turning the page into fiscal 19 and, you know, let's say the next challenge of growth.

So, we always have work to do on our pipeline. We feel good about it, but we're always focused on expanding that.

**Bryan Keane**

Okay, and then just wanted to follow-up on the fourth quarter revenue guidance. I know the top line was strong at 11% constant currency this quarter. I think the guidance implied something like 7 to 10% constant currency for the fourth quarter, which is a bit below the strength of this quarter. Just thinking about that growth considering the strong bookings. Is that just a little bit of conservatism built in there or, you know, another possibility is some of the M&A business has fallen off, that's causing a little lower growth rate than we saw. Thanks so much.

**David Rowland**

Yeah, I mean, you know, I don't know if it's conservatism, 11% growth is really outstanding and as well, the upper end of our range, that 10% is also outstanding. And so, you know, as we always say, we have a three-point range, you know, you never like the bottom part of the range and, of course, we're always focused on being as high in the range as we possibly can. And to the extent we were to deliver at the upper end of the range, we would continue to gain massive share in the marketplace. I mean that level of growth would, you know, would be outstanding and we would be very, you know, very pleased with that at the upper end of the range.

So, you know, I wouldn't say, there's not the intent to be conservative. There's the intent to have a reasonable range and, again, the upper half of the range is quite strong.

**Bryan Keane**

Okay, thanks.

**Angie Park**

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

**Operator**

Our last question will come from the line of Brian Essex, Morgan Stanley, please go ahead.

**Brian Essex**

Great. Thank you for taking our question. Yeah, I was just wondering if maybe you could unpack the digital a little bit. I get a lot of questions in terms of what's maybe migrational in nature and Pierre did a great job kind of differentiating the ERP part of the equation. But you also had some great stories on, you know, truly transformational digital projects, I think Pierre had one in his prepared remarks. I know on the operational side, your Operations team has some great supply chain examples, particularly in the beverage market. How much of the digital would you say is truly transformational versus more kind of migrational in nature, where you're just taking an application and putting it into a new operating environment?

**Pierre Nanterme**

It's getting more and more transformational. I mean you're right. I mean you have the first waves, you always try to catch the low-hanging fruit, that's growing that way. And the low-hanging fruit, for instance, would be taking my current applications, no change, no transformation and I move that to the cloud just to benefit from the cost difference with the classic infrastructure, what you're calling the migration. So we've seen some of the journey to the cloud. You're taking the existing, you lift and drop to the cloud and you're making the benefits. You still have some of this work, of course, but what I find and I found very interesting is, indeed, the market is shifting, at least with us and our clients, to using digital as more transformational.

For instance, when you move or change from the existing ERP to the new ERP in the cloud, and then you're using the analytics and the artificial intelligence features in order to drive more value in the company in terms of forecasting, for instance, or other activities, then it is more transformational. As we speak we're working in some very large organizations in CMT, again, in the context of aerospace and defense, to deploy these new digital platforms, from engineering services to production to post-sale, end-to-end, with 3D features in it and so forth. It's truly transformational and it's not just low-hanging fruit, a simple migration.

So we see more and more now, as the market is maturing and as the leaders are understanding better the power of the digital transformation, the shift from simple migration to grab the easy costs, to more profound digital transformation to win the big prize. So from the low-hanging fruit to the big prize, this is a different way, the migration to the transformation. We see more of those.

**Brian Essex**

Great. That's very helpful. And one quick follow-up for David. David, I think last quarter you said you might come in a tick under a billion dollars for M&A. Do you still have that outlook or has it changed at all for the remainder of the year?

**David Rowland**

Yeah, it will land somewhere in the range of 650 to 750 million of invested capital. We're fine with that. You know, we're not in the business of just trying to do deals for the sake of doing deals. We want to the right deals. And so, that's going to be the level that we're going to be at this year. But we are committed to that being an important part of our strategy going forward. And as we've said, up to 25% of our operating cash flow is our strategic capital allocation model objective. We always have an active pipeline and that's true today. And so, you know, it's something that we have continued to focus on as an important part of our strategy.

**Brian Essex**

Super helpful. Thank you for squeezing me in.

**David Rowland**

Great, thank you.

**Operator**

We'll now turn the conference back over to our host and panelists for any closing remarks.

**Pierre Nanterme**

Yeah, I mean thanks a lot, again, to all of you for joining us on today's call.

In closing, and I'm sure you heard that throughout the call, we and I feel very good about where we are. We feel confident in our ability to finish the year strong.

We believe that with the highly differentiated capabilities we have built in the New, our continued investments across Accenture and the disciplined management of our business, we are extremely well-positioned to continue driving profitable growth and delivering value for our clients, our people and our shareholders.

We look forward to talking with you again next quarter. And in the meantime, if you have any questions, please feel free to call Angie and her team.

All the best and thanks again for joining and supporting Accenture.