

Accenture

1st Quarter Fiscal 2019 Conference Call

Conference Call Transcript

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CORPORATE PARTICIPANTS

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Pierre Nanterme – *Chairman and Chief Executive Officer*

David Rowland – *Chief Financial Officer*

PRESENTATION

Angie Park

Thank you, Greg, and thanks everyone for joining us today on our first-quarter fiscal 2019 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 the first quarter. Pierre will then provide a brief update on our market positioning before David provides our business outlook for the second quarter and full-fiscal year 2019. We will then take your questions, before Pierre provides a wrap up at the end of the call.

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

During 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 first-quarter results, continuing our strong momentum from fiscal year '18.

We again delivered revenue growth significantly ahead of the market ... solid new bookings ... and expanded operating margin while investing significantly in the business.

We continue to see excellent demand for our services ... especially in digital, cloud and security as well as new technologies ... confirming the relevance of our growth strategy and the differentiated solutions we bring to our clients.

Here are a few highlights for the quarter:

- We delivered new bookings of \$10.2 billion.
- We grew revenues 9.5% in local currency to \$10.6 billion, with continued broad-based, positive growth – including double-digit growth in many parts of our business.
- We delivered earnings per share of one dollar and 96 cents, a 9% increase.
- Operating margin was 15.4%, an expansion of 20 basis points.
- We generated strong free cash flow of \$950 million.
- And we returned more than \$1.7 billion in cash to shareholders through share repurchases and dividends.

So, we are off to a strong start in fiscal year '19. I feel very good about the momentum in our business ... and I am confident in our ability to deliver our updated business outlook for the year.

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

David Rowland

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

Building further on Pierre's comments ... let me start by saying that we were very pleased with our overall results in the first quarter which came in as expected and position us extremely well to achieve our full-year objectives.

Before getting into the results of the quarter, I want to remind you that both our Q1 results and the FY18 comparisons reflect the adoption of the new revenue and pension accounting standards – which impact our revenues and operating margin percentage in an immaterial way. In addition – as we have previously discussed – we adopted the accounting standard for income taxes on intracompany transfers, and the impact is reflected in both our results and our business outlook.

With that said, let me begin – as I normally do -- by summarizing a few of the important highlights for the quarter.

- Strong revenue growth of 9.5% in local currency continues to reflect broad-based momentum in our business – and once again demonstrates the durability of our growth model with double-digit growth in three of our five operating groups – and in both North America and the Growth Markets. We estimate that our growth continued to significantly outpace the market, underpinned by strong organic growth of over 8% in local currency.
- Our operating margin of 15.4% expanded 20 basis points compared with last year and reflects strong underlying profitability which continues to allow us to invest at scale in our

people and our business. And, we delivered very strong EPS of \$1.96 – up 9% compared to last year, even with an FX headwind of approximately 2%.

- Regarding cash flow, we generated significant free cash flow of \$950 million – while at the same time returning roughly \$1.7 billion to shareholders through repurchases and dividends. We're also pleased that we invested a little over \$200 million in the quarter to acquire nine companies to bolster our skills and capabilities in strategic, high-growth areas of our business. And, we continue to expect to invest up to \$1.5 billion in acquisitions during fiscal '19.

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

New bookings were \$10.2 billion for the quarter.

- Consulting bookings were \$5.9 billion, with a book-to-bill of 1.0.
- Outsourcing bookings were \$4.3 billion, with a book-to-bill of 0.9.

This level of new bookings was in the range we expected and follows our typical pattern of lower new bookings in the first quarter, which then build throughout the year.

Looking forward, we feel good about our pipeline and are encouraged by our new bookings potential in the second quarter.

Turning now to revenues... revenues for the quarter were \$10.6 billion... a 7% increase in USD and 9.5% in local currency... and at the top end of our guided range.

- Consulting revenues for the quarter were \$6 billion – up 8% in USD and 10% in local currency.
- Outsourcing revenues were \$4.6 billion – up 7% in USD and 9% in local currency.

Before I comment on the underlying growth drivers, I want to mention that we've made some minor changes to our business dimensions – which we do from time to time as our business evolves. For fiscal '19, we have renamed Application Services to Technology Services and expanded the definition to include Infrastructure Outsourcing – which was previously included under Accenture Operations. These changes were made to reflect the synergies between our infrastructure and cloud services business – and our application services business – and the revised name of Technology Services simply reflects the broader scope.

So now, looking across the business dimensions, we were especially pleased with the balanced growth in the first quarter. Both Strategy & Consulting Services combined and Technology Services grew at a very healthy high single-digit rate – and Operations continued its trend of double-digit growth. And, the New, including digital, cloud and security-related services, continued to deliver very strong double-digit growth as well.

I would also like to highlight the continued strong demand for Intelligent Platform Services, which grew double-digits and was an important contributor to our growth. As a reminder, these services primarily relate to deploying next-generation technologies in SAP, Microsoft, Oracle,

Salesforce, and Workday – where we continue to be the #1 service provider for all of these important partners.

Taking a closer look at our operating groups...

- Resources led all operating groups with 21% growth in local currency, driven by continued double-digit growth across all three industries and all three geographies.
- Communications, Media & Technology grew 14%. Continued strong momentum was driven by double-digit growth in Software & Platforms – which was the primary contributor to overall double-digit growth in North America and the Growth Markets.
- Products delivered its 14th consecutive quarter of double-digit growth with 10% growth in the quarter – driven by broad-based demand across all three industries and all three geographies.
- H&PS grew 5% driven by strong growth in Public Service, as well as double-digit growth in both Europe and the Growth Markets. As expected, we saw modest overall growth in North America, which reflects some continued pressure in our U.S. Federal business.
- Finally, Financial Services grew 1% – which is in the range we expected – reflecting strong growth in Insurance and slight contraction in Banking & Capital Markets. Overall for Financial Services, we saw double-digit growth in the Growth Markets and modest growth in North America – partially offset by a contraction in Europe. We expect growth in the same range in Q2 before seeing improved growth rates in the second half of the year.

Moving down the income statement... gross margin for the quarter was 31.1%, compared with 31% for the same period last year. Sales and marketing expense for the quarter was 10.1%, consistent with the first quarter last year. Our General and administrative expense was 5.6% compared to 5.7% for the same quarter last year.

Operating income was \$1.6 billion in the first quarter, reflecting a 15.4% operating margin, up 20 basis points compared with Q1 last year. Our effective tax rate for the quarter was 19.8%, compared with an effective tax rate of 20.5% for the first quarter last year.

Diluted earnings per share were \$1.96, compared with EPS of \$1.79 in the first quarter last year. This reflects a 9% year-over-year increase.

Days Services Outstanding were 42 days, compared to 39 days last quarter and 43 days in the first quarter of last year.

Free cash flow for the quarter was \$950 million, resulting from cash generated by operating activities of \$1 billion, net of property and equipment additions of \$78 million. Our cash balance at November 30th was \$4.4 billion, compared with \$5.1 billion at August 31st.

With regards to our ongoing objective to return cash to shareholders...

In the first quarter, we repurchased or redeemed 4.9 million shares for \$788 million, at an average price of \$162.01 per share. At November 30th, we had approximately \$5.2 billion of share repurchase authority remaining.

Also, in November, we paid a semi-annual cash dividend of \$1.46 per share, for a total of \$933 million. This represented a 13 cent per share, or 10% increase over the dividend we paid in May.

So, in summary, we're off to a very good start in fiscal '19 – and working hard to sustain our strong revenue growth, profitability and cash flow for the remainder of the year.

Now let me turn it back to Pierre.

Pierre Nanterme

Thank you, David.

Our strong first-quarter performance demonstrates that our strategy of building highly differentiated capabilities for the digital world ... applying innovation at scale ... and anticipating the next waves of technology disruption continues to position us as the market leader.

We continue to leverage the unique leadership position we have built in the New — digital, cloud and security services. Our revenues from the New again grew at a very strong double-digit rate in the first quarter and accounted for more than 60% of total revenues.

While the New has become the core of our business, we continue to invest and innovate to capture new growth opportunities.

You may recall at this time last year, we launched new digital capabilities in Industry X.0, Applied Intelligence and Accenture Interactive. We are making excellent progress in all of these areas, and today I want to update you on our strong position in Applied Intelligence.

With Accenture Applied Intelligence, we bring together our capabilities in analytics, machine learning and artificial intelligence — combined with our deep understanding of industry disruptions — to help clients become data-driven and invent new business models to create superior value.

Today, we have more than 20,000 people focused on Applied Intelligence, including 6,000 with deep expertise in artificial intelligence and data science.

We are as well leveraging our unique position in the ecosystem — and working with all the leading providers of artificial intelligence technologies — enabling us to bring cutting-edge solutions to our clients. And we recently launched new partnerships in artificial intelligence with Amazon, Google and Microsoft.

Applied Intelligence also comes to life through our Innovation Architecture and our global network of studios, labs and innovation centers ... where we co-innovate with clients to accelerate the development and delivery of leading-edge, industry-specific solutions. And our intellectual property in this area, which now includes approximately 1,500 patents, is an important asset that further differentiates us.

In addition, we continue to make significant investments in Applied Intelligence. In the last two quarters, we acquired Kogentix, a U.S. company in big data and machine learning ... and, through Accenture Ventures, we made minority investments in Ripjar, a data intelligence company focused on security, and Quantexa, a data analytics firm specializing in fraud detection.

Of course, Accenture Applied Intelligence benefits significantly from synergies across all our businesses to bring clients end-to-end value propositions.

- For Schlumberger, we are combining the industry expertise of Accenture Strategy with the data and artificial intelligence capabilities of Accenture Applied Intelligence to improve the productivity of their people, repair bay utilization and asset turnaround. With innovative video analytics, artificial intelligence and machine learning, we are significantly reducing the time machines spend offline for repairs, driving higher returns on investments.

At the same time, with the breadth and scope of capabilities we have built across Accenture — and our unique ability to combine them at scale in an industry context — we remain the partner of choice for our clients' largest and most complex transformation programs.

- We are working with Sprint on an enterprise-wide digital transformation to co-create new customer experiences and optimize their digital marketing and operations. The changes have driven a substantial increase in customers buying their phone digitally ... significantly higher customer satisfaction ... and millions of dollars in operational cost savings.

Turning now to the geographic dimension of our business ... I am very pleased that in the first quarter we again delivered strong growth in all three of our geographic regions — and gained significant market share.

- In North America, we delivered 10 percent revenue growth in local currency, driven primarily by double-digit growth in the United States.
- In Europe, revenues grew 6 percent in local currency, with double-digit growth in Italy and Ireland as well as mid to high single-digit growth in the United Kingdom, Germany and Spain.
- And I'm just delighted that we delivered another excellent quarter in Growth Markets, with 17% growth in local currency. Japan again led the way with very strong double-digit growth, and we had double-digit growth in Brazil, in China and in Singapore as well.

Before I turn it back to David ... as you know, the capabilities we are building in the New, along with our highly skilled and diverse talent, and disciplined management, are absolutely key to our long-term and durable success. And I am particularly proud of some recent recognition we received for our leadership in these areas.

The Wall Street Journal ranked Accenture in the top 10 on their Management Top 250 list ... and the Journal's editors also named Accenture as one of just seven companies to do everything well. They consider us a leader in the way we manage Accenture, across the board.

In addition, we were recognized by multiple industry analysts as a leader in IoT services — which underpin our Industry X.0 business — demonstrating that we also have the pioneering capabilities to continue differentiating Accenture in the New and driving future growth.

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

David Rowland

Thank you, Pierre.

Let me now turn to our business outlook...

For the second quarter of fiscal '19, we expect revenues to be in the range of \$10.1 to \$10.4 billion. This assumes the impact of FX will be about negative 4% compared to the second quarter of fiscal '18 and reflects an estimated 6% to 9% growth in local currency.

For the full fiscal year '19... based upon how the rates have been trending over the last few weeks, we now assume the impact of FX on our results in USD will be about negative 3% compared to fiscal '18.

For the full fiscal '19, we now expect our revenues to be in the range of 6% to 8% growth in local currency over fiscal '18.

For operating margin, we continue to expect fiscal year '19 to be 14.5% to 14.7%, a 10 to 30 basis-point expansion over fiscal '18 results.

We continue to 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 '18.

For earnings per share, we now expect full-year diluted EPS for fiscal '19 to be in the range of \$7.01 to \$7.25, or 4% to 8% growth over adjusted fiscal '18 results.

For the full fiscal '19, we continue to expect operating cash flow to be in the range of \$5.75 to \$6.15 billion, property and equipment additions to be approximately \$650 million, and free cash flow to be in the range of \$5.1 to \$5.5 billion. Our free cash flow guidance reflects a very strong free cash flow to net income ratio of 1.1 to 1.2.

Finally, we continue to expect to return at least \$4.5 billion through dividends and share repurchases 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.

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

Operator

Ladies and gentlemen. If you'd like to ask a question, please press star and then 1 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're using a speaker phone, please pick up the handset before pressing the numbers. Once again, if you have a question, please press star, 1 at this time. And one moment please, for your first question. Your first question comes from the line of Tien-tsin Huang from JP Morgan. Please go ahead.

Tien-tsin Huang

Hi, good morning everyone.

David Rowland

Hey, good morning, Tien-tsin.

Tien-tsin Huang

Always good to hear from you. Happy Holidays. Just the gross margin, I wanted to start out with if that's okay. It looks like it's expanding now a couple of quarters, which is encouraging. I know you manage to operating margin, but what's driving the better gross margin in here? Can we infer that pricing and contract profitability are in a good place?

David Rowland

Overall, there's really three things that drive our operating margin overall and really all three things apply to gross margin as well. You just mentioned it. You start with contract profitability and we are pleased with the progression of our contract profitability and we've also been very pleased with the progression of our pricing. You know, Tien-tsin, that we have invested substantially in our strategic areas of focus to build what we think is significantly differentiated capability in the marketplace. I'm referring to the components of the New.

And as we've said before, in those areas where we have significant differentiation and where there's high demand, then we tend to get some pricing power. And, of course, beyond the contract profitability and pricing, we have been very efficient in how we have managed our overall payroll efficiency, as well as our non-payroll expenses. And, I know I speak for Pierre, I think our organization has done a particularly good job in recent quarters and certainly, this quarter we just closed, in driving our profit objectives.

Tien-tsin Huang

That's great. And now for my quick follow-up, I'll ask – I asked this last quarter as well, the Financial Services piece, you mentioned the same thing you said last quarter, you're looking for second half growth improvement. Do you still feel good about that? Has that changed at all? Have you replenished the pipeline?

Pierre Nanterme

Yes, I mean no change from what we said in the prior quarter. FS delivered as expected. So we expected a lower Q1 and certainly as well, the same in Q2. But we have the pipeline and we have the committed bookings, which are making us comfortable enough that in the second part of the year, Q3 and Q4, FS will get back to their mid single-digit growth we would expect from them.

Tien-tsin Huang

Thank you. Thanks for the clean results at year-end.

David Rowland

Thank you, Tien-tsin, happy holidays.

Pierre Nanterme

Thank you.

Operator

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

Jamie Friedman

Thank you and happy holidays as well. David, in your prepared remarks you had called out some changes in the definitions of business dimensions, Operations and Technology Services. I just wanted to check that in the fact sheet the presentation of the growth is adjusted. So it says double-digit growth in Operations, high single-digit growth in Technology Services – is that contemplated in those changes?

David Rowland

Yes, it is, it is reflected in those numbers.

Jamie Friedman

Okay, I guess I'll go to the operating group for my follow-up. So Resources, great to see the continued performance here for a couple quarters again. I'm just getting questions from clients about the potential cyclical of that OG, or is this more secular? What's going on, that that is growing so quickly?

Pierre Nanterme

On Resources, I mean the good news, if you look at the three industries making up Resources, they are all growing double-digit in Q1, and we are pleased with that. Chemicals & Natural Resources, Energy, Utilities – so it's broad based. We are not dependent on one industry in Resources. And we love that, probably if there is a word David and I would love the most it is broad-based. Because it's making our model more durable. If you look at this, what's hot as we speak? Again, all what we are calling the Intelligent Platform Services around the SAP, all the other platforms. So in Resources you have what we anticipated as well and discussed with you a few quarters ago, the next wave of ERP implementation, to take the benefits of these new platforms. As well, digital is starting to kick in more and more in this B-to-B business, if you will, or B-to-B-to-C business, because in utilities, and in the oil and gas, of course they have a B-to-C business, where you need to provide a digital experience. So they are becoming more digital. They are becoming more intelligent platform services-driven and we're starting to expand more of our Industry X.0 services. I'm talking about things such as asset virtualization and digital twins, as well as the new 3D platforms in order to reinvent all the supply chains and the production of these large companies. So I feel, again, absent an oil price massive drop, so if we are staying in the zone, we might be more in a kind of what you're calling secular or maybe a structural part of the reinvention of these industries.

Jamie Friedman

Okay, thank you very much. Happy Holidays.

David Rowland

Same to you, Jamie.

Operator

Your next question comes from the line of Rod Bourgeois from DeepDive Equity. Please go ahead.

David Rowland

Hello, Rod.

Rod Bourgeois

Hi there, hey. Thanks for the call here. Hey, I wanted to talk about the change of the calendar and the new year budget and all the macro uncertainties that are swarming around. Do you feel you have good visibility into your clients' discretionary spending plans as we move into the new year budget? And I guess more specifically, as you look at those client budgets, are you seeing clients' priorities shifting in any significant way to respond to the heightened macro concerns that are out there?

Pierre Nanterme

I mean, frankly, from a macro standpoint, we talked a lot, I think, during the last call, I already signaled all this volatility, uncertainty in the environment. This is what it is. Frankly, nothing has really changed if you look at these macro uncertainties. It's all about the trade. It's all about the economic growth. It's all about the budgets, that's still there. So, frankly, the clients we are working with, which are all leaders in their industries and all, I would call them, the best brands and sometimes the global giants. I'm referring to our [190 plus] [corrected] Diamond clients. They are figuring out this environment. There is nothing really new for them or for us in what's happening. Their budgets have been set and the pattern on the budgets is pretty clear. All the traditional legacy commoditizing services are going to be under big pressure. And the budgets are being reallocated to the New or to what we are calling the New at large.

Everything is digital. The cloud prospects are very good, security services. I would add what we're calling intelligent platforms. So all these waves of new platforms with deep analytics, artificial intelligence, and this is what it is.

So what's out there is probably what we have read, the budgets will continue to grow, maybe to a lesser extent than last year, but I think it will continue to grow. But the reallocation between commoditizing IT services and digital might be even more dramatic. You need to be on the right side of the fence. With 60% of our revenues in the New, we believe we're on the right side of the fence. That's why we're growing 9.5%.

Rod Bourgeois

Great. And as a follow onto that, I mean as you look at the new calendar year, will there be any meaningful changes in your mix? In other words, could Outsourcing accelerate relative to Consulting or vice versa or any of the subsegments it might make a meaningful change in mix as you look at the pipe for next year?

Pierre Nanterme

No.

David Rowland

I mean there's nothing about '19 specifically that would influence the mix trend that you've seen now for several quarters. So I think that trajectory of an increasingly higher percentage of our revenue being in the New, as well as the trajectory of stronger growth with our Consulting type of work. I think that continues.

Rob Bourgeois

Got it. Thanks guys.

David Rowland

Thank you.

Operator

Your next question comes from the line of Brian Essex from Morgan Stanley. Please go ahead.

Brian Essex

Hi, good morning, and thank you for taking the question. Good morning, Happy Holidays. Hey, I was wondering if I could dig into healthcare a little bit? I think that was a little softer this quarter than last. Maybe what's happening behind the scenes there and how you see that unfolding throughout the rest of the year?

David Rowland

Actually, you mentioned healthcare specifically and I assume that's what you meant as opposed to H&PS.

Brian Essex

Yes, H&PS in general, yeah.

David Rowland

Okay, so if you look at H&PS overall, then really the story is pretty clear and maybe the best point to share is the fact that if you look at our H&PS business absent the impact of the cycle that our U.S. Federal business is going through. So if you look at the rest of the public service business and if you look at health, absent the U.S. Federal business, H&PS is growing upper single digits, really right at almost touching double-digit growth. And so, actually, we're quite pleased with the performance of our health and public service business.

If you look at the health business specifically, we've seen continued strong trends in the payor side of the business. And at the same time in the most recent quarter, we've seen some green shoots and encouraging signs on the broader provider part of the business as well.

We have double-digit growth in H&PS in both Europe and the Growth Markets. And again really, if you look at North America, it's really a story of the U.S. Federal business going through kind of a natural cycle as contracts wind down and reconnecting with growth. But overall, absent that, H&PS is doing quite well.

Brian Essex

That's super helpful. Maybe for a quick follow-up, David, if you could give us a little bit of color on the tax rate? I think that was a little bit better benefit than we expected in the quarter. You held your guidance for the year and I think previously, in previous quarters, you noted potential

for upward pressure there. Maybe if we can kind of like fine-tune our expectations on the tax rate?

David Rowland

There wasn't anything unusual in Quarter 1, relative to what we said when we provided annual guidance and, of course, we haven't changed our annual guidance. And so, Quarter 1 played out as we expected and, again, our annual guidance has remained unchanged. So the things that influence our tax rate this year, four of which we've talked about continually over the years is geographic mix of income, changes in prior-year tax liabilities, final determinations and then tax impacts on equity compensation. And then in addition to those four that we've traditionally talked about, we have the U.S. Tax Reform, which we've said previously, the statement remains true today, that it would have modest upward pressure. And then we have the adoption of the new tax standard regarding inter-company transfers. But, again, that is exactly as we stated. It has about a 3% headwind in our tax rate in '19 and going forward. And then, of course, how that plays out in any particular year is based on all of those factors coming together. And so, this year, all of that is reflected in our tax rate.

Brian Essex.

Very helpful, thank you.

David Rowland

Thank you.

Operator

Your next question comes from the line of David Togut from Evercore ISI. Please go ahead.

David Togut

Good morning, Happy Holidays.

David Rowland

Same to you, David, good morning.

David Togut

You know, recent surveys of bank CEOs, they're calling out their 2019 tech spending priorities as being online and mobile banking, security and payments. We know you're very strong in security, but can you talk about what you're offering the banks in terms of online and in mobile banking, payments and kind of how that ties into your second half recovery plan from a revenue growth standpoint?

Pierre Nanterme

We are very active in mobile banking. So to be honest, I couldn't be more pleased with the different activities you're mentioning because they resonate pretty well with what we are doing, security, payments and mobile-first, mobile banking. It's the new wave after the big wave we had before on risk and regulatory management where there have been a lot of investments so far. Everything being mobile, we have certainly among the best references in the market. Unfortunately, they are not public as we speak, maybe next time. I mean the next earnings, we will try to make some public and so, you will see what we are doing and it is pretty spectacular.

More or less with most of our clients in banking, we embarked on the digitalization of their channels, so they are truly omnichannel from physical to digital, with a focus on mobile-first, mobile banks.

Security, as you know, is an area where we decided to invest two or three years ago with Accenture Security. And Accenture Security is doing strong double-digits as David would say, which is growing big, in my own terms. And payments is the bread and butter of the banks, you are absolutely right to mention that. It is certainly the activity which is more subject to disruption by the new players, the Fintech and others, and the platforms as well, given all the payments. So, indeed, we are very active to look at what are the strategies for the banks in order to face the new competition of the big platforms, as well as the Fintech. So we are well-equipped to provide a good response to our clients in these three areas.

David Togut

Understood and as my follow-up, I'd like to ask about your Industry X.0 solutions, especially what type of demand you're seeing for Industry X.0 as the trade war grows and as global companies are trying to manage complex supply chains?

Pierre Nanterme

Strong demand. Again, if you're looking at what we're calling the New, you have digital, you have cloud and you have security. In digital, you have three main activities, Accenture Interactive doing extremely well in digital marketing, strong double-digits. You have Applied Intelligence, I decided to focus on because artificial intelligence as we speak is the name of the game, and I wanted to make sure with all of you about the investments we are making and the leadership we have established in analytics, machine learning and artificial intelligence. X.0 we launched exactly a year ago and made that public, growing extremely fast.

So I would say that probably strong double-digit will not reflect what we are talking about. It's extremely fast. On the back of the reinvention of the supply chain and manufacturing, from R&D, to production, to post-sales.

I mentioned in the heavy equipment, everything we are doing and maybe we'll have a deep dive on Industry X.0 soon, to talk about the digital twins, which is as well the new way to do manufacturing in the X.0 world. I'm talking about the virtualization of the assets and I'm talking about the implementation of the new platforms, 3D, analytics-rich. I'm talking about our partners such as, Dassault, of course, but as well Siemens and other platforms, Dassault Systèmes, Siemens and other platforms we're working with, including General Electric in some industries in the U.S. So we are well-equipped in the different markets.

These are three examples, but we're going to come back to you with an update on X.0, maybe in two or three quarters when things will have been built to a larger scale. But, today, I mentioned that we're already recognized as the leader in IoT services, Internet of Things services, which are a significant part of X.0, by multiple analysts and I'm delighted with that.

David Togut

Thank you.

David Rowland

Thank you, David.

Operator

Your next question comes from the line of Harshita Rawat from Bernstein. Please go ahead.

David Rowland

Good morning, Harshita.

Harshita Rawat

Hi, good morning. Thank you for taking my question. My question is on bookings growth. And I know you called out the first quarter tends to be a seasonally low quarter in terms of bookings, but bookings growth on a year-over-year basis was also weak. And I know you talked about the macro environment earlier and it does appear that 2019 enterprise IT demand environment, while still being robust, could be weaker versus 2018. So my question is, is the weak bookings growth this quarter primarily reflecting seasonality or is there any macro impact there especially on consulting-type of engagements, which are often leading indicators in the case of a slowdown?

David Rowland

Yeah, I would say that in our case, it's more seasonality. Again, we have seen – this isn't the case every year, but certainly most years, we tend to see softer bookings in the first quarter. I think also, when you look at our first quarter bookings, it's important to look at them in the context of what we've done in the six months or the two quarters previously, where we had, I believe, our largest and second-largest bookings quarters in our history in those two quarters. Or to say it differently, over a six-month period, we had a record level of bookings. And so, I think that's in play as well as you kind of rebuild and reestablish the pipeline.

I also made the comment in the script and so I'll just say it again, that we are pleased with our pipeline. And as we look at the second quarter, in particular, we're very encouraged with our bookings potential as we look at the second quarter.

Harshita Rawat

Thank you very much.

David Rowland

Thank you.

Operator

Your next question comes from the line of Brian Bergin from Cowen. Please go ahead.

Bryan Bergin

Hi, thank you, Happy Holidays.

David Rowland

Same to you.

Bryan Bergin

I wanted to ask on talent competition strategy, you had a nice reduction in attrition. Can you give us some color on what you're seeing around the wage inflation environment, particularly in the U.S., and then how that's comparing to other key regions for you?

David Rowland

I think the talent market and some areas of the New, where the supply is tight, it's a competitive market. Having said that, one of the hallmarks of Accenture is that we have established ourselves, and have been and continue to be a real magnet for talent in the marketplace. And I think that there's three reasons behind that. The first is that people in the marketplace know that Accenture is the leader in the New. So we are working in the areas that are the most attractive to the most attractive people in the marketplace. The second thing is that talent is attracted to market leaders and companies that have demonstrated superior performance. And certainly, we've done that over the years. And then the third thing, and this is something that Pierre talks about from time to time and it's an important part of Accenture, is our culture and our values and the environment that people work in, how we treat them and how we value what they do. And those are the three things that really make Accenture distinctive. We have no issue attracting talent and don't expect that to be an issue going forward.

Bryan Bergin

Okay, thank you. And my follow-up, around the interactive business and M&A strategy, can you remind us how you see your services comparing to the traditional model and are there aspects of that traditional advertising model that you would be interested in building or building up further organically or through acquisition?

Pierre Nanterme

I said before that probably the word we like the most, with David, is broad-based. The word we hate the most is traditional. And, no, we have no appetite to build anything traditional, anything legacy, anything that has been done by the industry for 50 years. All the hypothesis, being serious again, if you will. I was serious, by the way, but even more serious on this. Our point is to be part of the disruption of this industry and we want to be a disrupter. And by being a disrupter, we want to be a digital-native marketing and experience provider from design to what we have today, design, production, commerce, campaigns, including programmatic, and, of course, analytics and artificial intelligence to capture the preferences and to make the campaigns more impactful.

We will always look to things that are going to be either more creative or more new, if you will, but the point is if it's too traditional, it's going to commoditize and if it's commoditizing, this is not the market we want to be in.

Bryan Bergin

Thank you.

David Rowland

Thank you David, or Bryan, excuse me.

Operator

Your next question comes from the line of David Grossman from Stifel Financial. Please go ahead.

David Rowland

Good morning, David.

David Grossman

Good morning. So just first, I have a question on the business segments outside of the New. Can you give us any sense for what the growth trends are in that segment of your business, you know, back of the envelope our math suggests declines and if that math is right, are you seeing any leading indicators that would suggest that business is plateauing? And also, perhaps you could address just kind of what the margin trends are in the kind of non-New as well?

David Rowland

Yeah, I mean the math is clear. It is contracting and I think that math is clear. We've talked about it previously. In terms of the margin trends, as we've also mentioned, is that tends to be the common characteristic is that that's the most commoditized part of the marketplace. And as you can imagine, therefore, there is significant competition and pricing pressure. And at the end of the day, to some extent, we are disrupting that part of our business intentionally. We're disrupting it by focusing our efforts on growing in the New and then for those legacy services, if you will, we are again using new technology to even reinvent those, and in some cases, automate the way those things are done as one form of disrupting that part of our business. And so, all our focus is on the New and the rest of the business will continue to evolve the way it evolves.

David Grossman

Okay, got it. Thanks for that. And then, just secondly, it appears that you've executed a fairly healthy pace of acquisitions year to date. So given that pace and that we're early in the year, should we reconsider the contribution that you'll get from inorganic growth this year?

David Rowland

Yeah, at this point, with only one quarter on the books, it's really too early to adjust the number. And so, there's a lot – it's hard to predict the timing of acquisition flows for those remaining three quarters. So right now, we still see about a point and a half, which is what I said on last quarter's call. Obviously, we'll provide an update at the end of the second quarter, but right now think in terms of about a point and a half. In the first quarter, it was just below that. So I mentioned that our organic growth, which is very important to us, was just over 8%, and then the balance of that by definition below a point and a half was inorganic.

David Grossman

Okay, got it. Thanks very much and have a great holiday.

David Rowland

Thank you.

Operator

Your next question comes from the line of Bryan Keane from Deutsche Bank. Please go ahead.

David Rowland

Hello, Bryan.

Bryan Keane

Hi guys, good morning. Just wanted to ask, you know, if we do fall into an economic slowdown, can you talk a little bit about the resilience of the business model and what you guys would expect and what you've seen in the past from changes in economic conditions?

Pierre Nanterme

Yes, and I'm very pleased to comment on that because during the Investor and Analyst Day or many earnings calls, you probably heard me and David using a lot durability, sustainability of our business model, being able to resist over a cycle of downturn. So, again, I mean, when it's raining hard, either you watch the rain or you build an umbrella. At Accenture, we decided to build an umbrella. And what the umbrella is made of, if you will, probably seven key elements which I truly believe are making Accenture more resilient and more durable across different cycles.

I mean, very rapidly, I would say the number one is the quality of our client portfolio. We have this Diamond client approach, [more than 190] [corrected]. And it's all the best brands, companies operating at scale, with a global footprint and they know how to deal with the economic conditions. So, first, working with the right clients.

Second, and maybe even the most important, is all what we discussed during this call, to be in the right services. For us, it's the New, versus traditional IT. Today, it's very clear that the clients are allocating more budget to the New, and the traditional IT will suffer even more. With more than 60% of our revenue in the New, growing strong double-digit, we are building the New services which are in demand.

Three is the balanced growth. I mean you see two of our three regions in double-digit growth. Absent FS, Europe would have been at 10%, double-digit growth. We have 8 of our 13 industries from high single to double-digit growth. So we have this balanced growth, which I think is making us resilient.

Next is diversity, the diversified portfolio of businesses. Strategy, consulting, digital, technology, operations. And then you can move, even in digital, interactive. X.0, applied intelligence, Accenture Security. We have certainly a portfolio in professional services, which is on one hand the most diversified, but which as well is creating more synergies than any other portfolio.

Finally, the disciplined management of the costs, I think we demonstrated last year between H1 and H2 in '18, the ability of Accenture in less than a quarter to fix our challenge in term of cost with discipline. And then to make that resilient as you could see with our profitability in Q1.

And finally, and for me it's absolutely critical, doing all of this while keeping our investment capacity intact in order to be able to invest what we do, more than our competitors who might be impacted in the downturn, in new growth and to seize new growth opportunities when maybe the competition will have to stop their investments. So these seven elements are clearly for me the backbone of our durability and of our resilience, and we're working hard on these seven attributes, if you will.

Bryan Keane

That's super helpful, thanks. And as a follow-up just on Financial Services, there's a lot of folks seeing weakness in capital markets and in Europe. Could you just talk about maybe what you guys are seeing exactly there, maybe how it might be different than the market because you guys are expecting a rebound in 3Q and a lot of other IT folks can be a little bit more hesitant on calling a rebound on that business? Thanks.

Pierre Nanterme

Yeah, I mean good question because, indeed, as David said, Banking & Capital Markets has been slightly negative, so it's not the right place to be. Now the proof of all of this is do we have the pipeline and do we have the committed bookings? So the hard facts are making us more comfortable about that rebound. The reality is, and especially in Europe, that we have the pipeline and we have the committed bookings as we speak and we will continue to build. That's making us comfortable enough to predict a rebound in the second part of the year. So it's really based on the facts we see in our pipeline and in our bookings, especially in the areas which have been mentioned before, the new platforms, the mobile-first online banking, the transformation. It's still a lot on risk and compliance and regulatory management, fraud management. We look at this extremely carefully, as you might imagine, and we have the elements in the pipeline and the bookings, which are making us comfortable enough.

Bryan Keane

Great. Happy Holidays, guys.

Pierre Nanterme

Thank you.

Operator

Your next question comes from the line of Dave Koning from Baird. Please go ahead.

Dave Koning

Hey guys, thank you. I guess my first question, just the Growth Markets have been incredibly strong and pretty stable right around kind of 14% to 17% now for maybe six quarters. Historically, there was some more volatility there. Sometimes it would slow down, sometimes it would be really strong. Do you think those will be volatile in the future still, or is there something about it now that can kind of maintain the mid teens-ish growth for a long time?

David Rowland

Growth Markets. I'm certainly not going to suggest that we're going to comment on mid-teens growth over the long term. But, again, many of the things that Pierre has been talking about in terms of being diversified and broad-based, we see that in our Growth Markets model as well. When you talk about Growth Markets at Accenture, while we have a lot of great stories, for us, it really starts with Japan. And when you look at the business that we have built in Japan, which in the context of the Japanese market, is a reflection of the Accenture strategy in the sense that it's diversified across several industries and it represents the full scope of the services that we provide from consulting to operations. You know, that creates some resiliency for all the reasons that Pierre mentioned in a Japanese context. And so, that will give us some resiliency and durability over time.

Japan's not the only story. We have other important markets, if you think about our business in Australia. You go to Latin America, even in the context of challenging macro conditions in Latin America, we actually have had very strong growth in Latin America. Again, for all the reasons that Pierre has mentioned in terms of our go-to-market strategy and what we're doing to be relevant to our clients, leverage our investments and to have durability in our model. So I'm not going to guide to a double-digit percentage, but we feel very good about our Growth Markets business.

Pierre.

Pierre Nanterme

Yeah, and you give me the opportunity, if you look at Japan, we moved directly to the positioning in the New, to become the number one in digital-related services in Japan. Not number one in the market overall, but number one in this specific segment. Because as well, in Japan, we didn't have any traditional IT services creating a kind of drive. So we kept rapidly to the target positioning. And imagine that, right David, we have 20 consecutive quarters of double-digit growth in Japan, 20. It's just fabulous.

And in Brazil, they say how are you growing double-digits in Brazil, with terrible economic conditions? Because in Brazil, we are the number one. We are the market leader. And when times are tough, you remember the flight to quality. I would use the same comparison which ... flight to leadership. When times are tough, clients are going to the leader with all the characteristics we have and the values.

But maybe in closing, because I know we're starting to be a bit late, and we still have one question. I would like to take this opportunity to recognize a fabulous leader of Accenture, Gianfranco Casati. Leadership means a lot. Gianfranco Casati is leading the Growth Markets and he is providing more than an exceptional leadership in growing this market. So hats off for Gianfranco Casati. And we have Egawa-san in Japan, what has been done these last four years with Egawa-san is absolutely second to none.

So when you have great leaders and the best in the industry, you have good results.

Angie Park

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

Operator

Okay, that question comes from the line of Lisa Ellis from MoffettNathanson. Please go ahead.

David Rowland

Good morning, Lisa. We're going to let you bring us home.

Lisa Ellis

All right. I had a question actually about the work Accenture is doing in cloud, which tends to get less focus, I guess, than digital. Can you just characterize a bit, like what the mix or focus of Accenture's cloud work is across public, private, hybrid, etc.? And then also, as cloud begins to sort of enter, I guess, phase two, how much run activity are you seeing in cloud?

Pierre Nanterme

Yeah, I mean very good question and, indeed, there are so many deep dives we could do with you guys. And we need more time, Angie, next time. But if I look at the cloud, which frankly, is growing again double-digit at Accenture. We did not talk about cloud because it seems to be already old stories in the New. But you're absolutely right, Lisa, it's super, it's spot-on now. Our activities are around, one, what we are calling Journey to the Cloud, supporting our clients moving from on-premise to the cloud. And with the cloud, in the mix of the hybrid public/private. And we're working with all our partners, I would say especially, certainly, Amazon and Azure on this Journey to the Cloud and others, but it's activity number one.

Activity number two, because you have synergies is always related to SaaS solutions. We are number one with the SaaS providers, especially with Salesforce.com. Again, more than strong double-digits with Salesforce.com this quarter. And all these Software-as-a-Service, cloud-native solutions are getting more and more traction, Salesforce.com, Workday and a few others as well.

And three, is the cloud infrastructure. And that's why we decided to move our infrastructure from Operations to Technology, because we see unique synergies between the three elements of Software-as-a-Service, cloud-based, we could run with our Infrastructure Services. And that's why we have now, all of this in a single place and organization around Accenture Technology to drive more synergy.

So you're absolutely right, but our growth in cloud is very big, right, David?

David Rowland

Absolutely.

Pierre Nanterme

Each quarter, and we have very strong prospects in the cloud moving forward.

Lisa Ellis

Thank you. And then just a super quick follow-up 'cause I think important as we're going into 2019 and everyone is getting a bit concerned about discretionary IT spending in the macro environment. On the digital side of your business, which is now approaching 50%, directionally, how much of the funding for digital comes from outside the IT budget? Is it like half or more than half or a quarter, just directionally?

Pierre Nanterme

Hard to say. Frankly, it's – I don't know, David, if you have a point of view on this? I think it's quite hard to provide probably a direction on this.

David Rowland

Yes, let us maybe come back to that in the right public forum, but we'll come back and try to give some insight on that maybe on our next call.

Lisa Ellis

Wonderful, thanks guys. Happy Holidays.

Pierre Nanterme

A bit more analytics to make sure we're providing an accurate answer. So we're going to use some machine learning and applied intelligence, Lisa, to provide the right answer.

Lisa Ellis

Okay, great. Thank you. Thanks a lot. Happy Holidays, guys, and thanks for running a little long. I know it's late in the year. So thank you.

David Rowland

Thank you.

Pierre Nanterme

I mean, thanks again for joining us on today's call and thanks again for all your good questions, because this is the opportunity for David and I, indeed, to provide more insights around our strategy, and it's so important for you, for us and for our clients.

With the first quarter behind us, I feel very good about where we are as we build on, first, the strong momentum in our business ... and we enhance our leadership in the New ... and we continue driving growth ahead of the market. So we're pleased with all of this. We have the momentum, and I guess we're up for a strong start and a good year at Accenture.

Of course, I want to wish all our investors and analysts and everyone at Accenture a very happy holiday season and all the best for the New Year.

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

All the best! And enjoy the holiday season and a Happy New Year.