

Accenture

2nd Quarter Fiscal 2019 Conference Call

Conference Call Transcript

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CORPORATE PARTICIPANTS

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David Rowland – *Interim Chief Executive Officer*

KC McClure – *Chief Financial Officer*

PRESENTATION

Angie Park

Thank you, Trish, and thanks everyone for joining us today on our second-quarter fiscal 2019 earnings announcement. As Trish just mentioned, I'm Angie Park, Managing Director, Head of Investor Relations.

On today's call you will hear from David Rowland, our Interim Chief Executive Officer, and KC McClure, 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. David will begin with an overview of our results... KC will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics for the second quarter. David will then provide a brief update on our market positioning before KC provides our business outlook for the third quarter and full fiscal year 2019. We will then take your questions, before David 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 our 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 David.

David Rowland

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

Before we get into the quarter, I want to take a moment to acknowledge Pierre and how important he was to Accenture throughout his decades-long career and his leadership as chairman and CEO.

From a personal standpoint, it's certainly a different feeling doing an earnings call without him — but as you'll hear in our comments, I'm confident Pierre would have been really pleased with all we accomplished in the second quarter and first half of fiscal '19.

With that said ... we delivered outstanding results in the second quarter ... and I want to share some of the highlights:

- We delivered record new bookings of \$11.8 billion.

- We grew revenues 9% in local currency to \$10.5 billion, with continued double-digit growth across many parts of the business.
- We delivered earnings per share of \$1.73, a 9% increase on an adjusted basis.
- Operating margin was 13.3%, an expansion of 20 basis points.
- Free cash flow was outstanding at \$1.2 billion.
- And, we continue to return substantial cash to shareholders through share repurchases and dividends — including \$2.7 billion on a year-to-date basis. Today, we announced a semi-annual cash dividend of \$1.46 per share, which will bring total dividend payments for the year to \$2.92 per share — a 10% increase over last year.

So, with the first half of the year behind us, I feel very good about the broad-based strength of our financial results and the momentum we see across the business as we enter the second half. Later, KC will mention that we are raising key elements of our business outlook, and I am confident in our ability to deliver another strong year.

Now, it gives me great pleasure to hand over to our new CFO — KC McClure — who will review the numbers in greater detail.

Over to you KC...

KC McClure

Thank you, David — it is both an honor and a privilege to follow in your footsteps and serve as Accenture's CFO.

Let me start by saying that we were extremely pleased with our overall financial results in the second quarter, which were aligned with our expectations ... and position us very well to achieve our full-year financial guidance. Our second-quarter results continue to provide strong validation of the relevance of our offerings and capabilities to our clients, and our ability to manage our business in a dynamic environment ... both to deliver significant value to our clients, our people and our shareholders.

With that said, let me summarize the highlights in the context of our three financial imperatives:

- Strong revenue growth of 9% in local currency reflects the consistency and durability of our growth model — where being a leader across many dimensions of our market — has resulted in a growth level that we estimate at more than two times the rate of the market. We had double-digit growth in three of our operating groups and in the Growth Markets. The broad-based momentum continued with growth in 12 of the 13 industry groups ... and in each of the components of the New ... digital, cloud and security, which we estimate grew strong double-digits.
- Operating margin of 13.3% reflects 20 basis points of expansion, both for the quarter and on a year-to-date basis. This level of margin expansion is driven by strong underlying profitability which, importantly, allows us to continue to make significant investments in our people and in our business. And, we delivered EPS of \$1.73, which represents 9% growth on an adjusted basis compared to last year, even with an FX

headwind of approximately 4%.

- And finally, we delivered free cash flow of \$1.2 billion in the quarter and \$2.2 billion year-to-date — which puts us on a very strong trajectory to achieve our guidance for the full year. We continue to execute on our strategic capital allocation objectives with roughly \$2.7 billion returned to shareholders via dividends and share repurchases year-to-date. And, we have made investments of \$515 million in acquisitions, primarily attributed to 15 transactions in the first half of the year ... and we continue to expect to invest up to \$1.5 billion this fiscal year.

Now, let me turn to some of the details starting with new bookings.

New bookings were \$11.8 billion for the quarter, a record high, with a book-to-bill of 1.1. Year-to-date bookings of \$22 billion are aligned to our expectations for the first half of the year.

- Consulting bookings were \$6.7 billion, also a record high, with a book-to-bill of 1.2.
- Outsourcing bookings were \$5.1 billion, with a book-to-bill of 1.1.

We were very pleased with our new bookings ... which were broad-based and aligned to our strategic areas of focus. They reflect our continued differentiation in the market, and the high level of trust our clients place in us to partner with them in driving critical work in supporting their strategy to adopt and implement new technologies.

The dominant driver of our bookings in the quarter continued to be high demand for digital, cloud and security-related services, which we estimate represented approximately 65% of our new bookings.

Turning now to revenues ...

Revenues for the quarter were \$10.5 billion ... a 5% increase in USD and 9% in local currency, above the top end of our previously guided range.

- Consulting revenues for the quarter were \$5.8 billion — up 6% in USD and 9% in local currency.
- Outsourcing revenues were \$4.7 billion — up 5% in USD and 9% in local currency.

Looking at the trends in estimated revenue growth across our business dimensions — Strategy & Consulting Services and Technology Services both posted strong, high single-digit growth — with Operations continuing its trend of double-digit growth. And, as previously mentioned, the New continued to deliver strong double-digit growth.

Taking a closer look at our operating groups ...

- Resources led all operating groups with 22% growth in local currency, driven by continued strong double-digit growth across all three industries and all three geographies.

- Communications, Media & Technology grew 12% reflecting continued strong double-digit growth in Software & Platforms — which was the primary contributor to overall double-digit growth in North America and the Growth Markets and strong growth in Europe.
- Products, our largest operating group, delivered its 15th consecutive quarter of double-digit growth at 10%. Demand continued to be broad-based across all three industries and all three geographies.
- H&PS grew 3% driven by solid growth in Public Service as well as double-digit growth overall in both Europe and the Growth Markets. We saw slight contraction in North America, which reflects some continued pressure in our U.S. Federal business, where we expect improvement in the second half of the year.
- Finally, Financial Services grew 2%, as expected, and the trends remain consistent with last quarter, with double-digit 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 contraction in Europe. We continue to expect improved growth rates in our Financial Services business in the second half of the year.

Turning to the geographic dimensions of our business ... I am very pleased that we again delivered strong growth in all three of our geographic regions:

- In North America, we delivered 8% revenue growth in local currency, driven by continued strong growth in the United States.
- In Europe, revenues grew [7%] [corrected] in local currency, with double-digit growth in Italy, France, and Ireland as well as high single-digit growth in the UK.
- And we delivered another very strong quarter in Growth Markets, with 16% growth in local currency, led by Japan, which again had very strong double-digit growth. We had double-digit growth in Brazil, China and Singapore as well.

Moving down the income statement ...

Gross margin for the quarter was 29.2%, compared with 28.9% for the same period last year.

Sales and marketing expense for the quarter was 9.8%, compared with 10.1% for the second quarter last year.

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

Operating Income was \$1.4 billion in the second quarter, reflecting a 13.3% operating margin, up 20 basis points compared with Q2 last year.

As a reminder, in Q2 of last year we recognized a charge related to U.S. tax law changes. The following comparisons exclude the impact and reflect adjusted results.

Our effective tax rate for the quarter was 17.1%, compared with an adjusted effective tax rate of 15.1% for the second quarter last year.

Diluted earnings per share were \$1.73, compared with adjusted EPS of \$1.58 in the second quarter last year. This reflects a 9% year-over-year increase.

DSOs were 40 days, compared to 42 days last quarter and 40 days in the second quarter of last year.

Free cash flow for the quarter was \$1.2 billion, resulting from cash generated by operating activities of \$1.4 billion, net of property and equipment additions of \$140 million.

Our cash balance at February 28th was \$4.5 billion, compared with \$5.1 billion at August 31st.

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

In the second quarter, we repurchased or redeemed 6.7 million shares for \$1.0 billion, at an average price of \$149.46 per share. At February 28th, we had approximately \$4.5 billion of share repurchase authority remaining.

As David mentioned ... our Board of Directors declared a semi-annual dividend of \$1.46 per share, representing a 10% increase over the dividend we paid in May last year. This dividend will be paid on May 15th, 2019. As a reminder, beginning in the first quarter of fiscal 2020, we will move from a semi-annual to a quarterly dividend payment schedule.

So, at the halfway point of fiscal '19, we feel really good about our results to date and our positioning to deliver on our full-year business outlook. We continue to be extremely focused on achieving our financial objectives, which are growing revenues faster than the market, delivering consistent, modest margin expansion and strong earnings growth, while investing at scale for market leadership, and generating strong cash flow ... which is both invested in the business and returned to shareholders through disciplined and smart capital allocation.

With that, let me turn it back to David.

David Rowland

Thank you, KC.

As I reflect on our second-quarter and year-to-date results, I think they say a lot about the important attributes that truly differentiate Accenture as a market leader.

Of course, the overarching headline is the consistency and durability of our strong financial performance — which KC described very well in her comments.

But I think it is equally important to understand how closely aligned our results are with our strategic priorities — because what drives the results is just as important as the outcome.

So, I want to take a few minutes to describe how our results clearly reflect our strategy in action.

First, the foundation of our growth strategy is to drive strong momentum in the New — and that has certainly been the case so far this year ... with continued double-digit growth across digital, cloud and security, even as these businesses have reached significant scale and now represent the majority of what we do.

- With Accenture Interactive, we continue to lead a significant disruption in the market ... leveraging our position as the world's largest provider of digital marketing services ... with award-winning capabilities to help leading brands transform their customer experience. In fiscal '19, we have invested significantly in this area — and have announced six acquisitions so far this year to further enhance our scale and differentiation in high-priority markets.
- In Applied Intelligence, we've also made significant investments to scale the business and strengthen our distinct positioning ... which combines advanced analytics and artificial intelligence with our deep understanding of industries and business functions. We currently have more than 20,000 people focused on Applied Intelligence, including 6,000 deep in artificial intelligence and data science. And, we've developed more than 250 proprietary, industry-specific assets that significantly differentiate us in the market.
- We're making excellent progress with Industry X.0, which is using advanced digital technologies to help clients transform their core operations ... from R&D and engineering to production and aftermarket support. We're building a market-leading capability, with more than 10,000 people supporting Industry X.0, and we continue to expand our capabilities in dozens of Innovation Centers in our global network, from Munich to Tokyo to Detroit.
- We are also rapidly scaling Accenture Security, where we've made further progress this year in building a market-leading cyber-security business. Today, we're one of the largest providers in this market — growing double digits year-to-date with revenues that we estimate will be well above \$2 billion in fiscal '19.

The second pillar of our strategy is Accenture Technology, which we believe represents the strongest technology capability in our industry. So far this year, we've sharpened our focus on three key areas within Accenture Technology that power growth across our business.

- First, you've heard us talk about Intelligent Platform Services, where we're a global leader partnering with the largest players — SAP, Microsoft, Oracle, Salesforce and Workday. This business continues to account for about 40% of our total revenues and has grown double digits so far this year.
- Intelligent Software Engineering Services is the next area of focus, where we're leveraging the capabilities of more than 30,000 engineering professionals to deliver products and custom systems in a time of accelerating technology disruption. We believe that demand for custom, cloud-based applications will grow significantly in the coming years, and we're well-positioned to meet that demand.
- And, with Intelligent Cloud & Infrastructure Services, we're a leading integrator for cloud partners such as Microsoft Azure, Amazon Web Services and Google Cloud Platform, providing clients with powerful, differentiated solutions as they accelerate the adoption of cloud-enabled technologies.

Accenture Operations is the third pillar of our strategy, and we continue to lead the market with new and innovative approaches to help clients drive top-line growth and efficient and intelligent operations. During the second quarter, we introduced SynOps — our unique approach to orchestrating data, applied intelligence and digital technologies with human expertise to reinvent business processes and enable intelligent operations. Accenture Operations has contributed double-digit growth so far this year — and in fact has been a consistent market leader with double-digit growth for seven consecutive years.

And to complete the picture, we've continued to invest in growing our Strategy and Consulting capabilities — which are the foundation of our deep and differentiated industry expertise. In the first half alone, we've scaled key growth areas in Strategy and Consulting with the addition of more than 400 new managing directors through promotions and external hires.

And I was so delighted that Accenture was recognized just last week among the top companies in the Forbes ranking of American management consulting firms — receiving more 5-star ratings than any other company.

Of course, what makes Accenture truly special is our ability to combine our capabilities across these strategic areas of focus to drive large-scale, transformational change for our clients — and you see strong evidence of this in the \$22 billion of new bookings we've generated so far this year.

Underpinning all of these strategic pillars are Accenture's unique position in the ecosystem ... our relentless focus on innovation ... and the significant capacity we have to invest strategically and at scale.

In summary, our strong financial performance is the direct result of our ability to continue executing our growth strategy with a high level of focus and precision in all we do.

Finally, our results also underscore the strength and depth of our leadership team — and the resiliency of our organization. Accenture has always been a collection of extremely talented individual leaders — who are motivated first and always by the power of the team. And that certainly is evident in our second-quarter and year-to-date results.

Before I hand it over to KC, I want to provide a brief update on our CEO succession. As you would expect, our Board continues to execute a very rigorous and comprehensive process which is going very well. Given the strength of our leadership bench, our expectation is that we will name an internal candidate, and that the process will be completed by the end of this fiscal year.

With that, I'll turn it over to KC to provide our updated business outlook. KC...

KC McClure

Thanks David.

And before I turn to our business outlook, let me clarify that our European revenue growth this quarter was 7% in local currency, not 6%.

With that, let me now turn to our business outlook ...

For the third quarter of fiscal '19, we expect revenues to be in the range of \$10.8 to \$11.1 billion. This assumes the impact of FX will be about negative 4.5% compared to the third quarter of fiscal '18 and reflects an estimated 5.5% to 8.5% growth in local currency.

For the full fiscal year '19 ...

Based upon how the rates have been trending over the last few weeks, we continue to 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 6.5% to 8.5% growth in local currency over fiscal '18.

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

We now expect our annual effective tax rate to be in the range of 22.5% to 23.5%. 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 \$7.18 to \$7.32, or 7% to 9% growth over adjusted fiscal '18 results.

For the full fiscal year '19, we now expect operating cash flow to be in the range of \$5.85 to \$6.25 billion, property and equipment additions to be approximately \$650 million, and free cash flow to be in the range of \$5.2 to \$5.6 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 our 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, KC.

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.

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

Operator

Certainly. Ladies and gentlemen, if you would like to ask a question, please press *1 on your phone. You will hear a tone indicating that you've been placed in queue and you may remove yourself from the queue at any time by pressing the # key. If you are using a speaker phone, please pick up the handset before pressing the numbers. Once again, if you have a question, press *1 at this time.

And our first question is from the line of Tien-tsin Huang with JP Morgan, please go ahead.

Tien-tsin Huang

Good morning.

David Rowland

How are you? Good luck to your team tonight, by the way.

Tien-tsin Huang

Yeah, thanks for making me nervous already. Can't wait to watch, thanks for that. Yeah, so good results obviously. Just, I'm a little surprised by the strength in Growth Markets, let's say year-to-date, because it's been growing in the mid-teens. Just curious if this is sustainable, and could we see more balanced growth across the geos based on what we've seen in bookings?

David Rowland

Well, Growth Markets has really been a great story for us, and as we've highlighted several times, the real strength of the Growth Markets has been what has been an amazing story led by our leader Egawa-san in Japan. And in Japan, we do have a very broad-based, durable business which reflects all of the elements of our strategy, which are constructed to create some durability.

There are other important markets in the Growth Markets as well, though. For example, interesting, you look at Brazil, which is a market that even with the backdrop of some macro challenges, our Brazil business has been very strong. You look at China, for example, this quarter, where we also had double-digit growth, which is not material in the context of Accenture overall, but yet, it's an important part of that Growth Markets story.

If you're asking me would I expect that we will grow forever at the rates of growth that we've been at recently in Growth Markets, I wouldn't necessarily make that assumption, but we are extremely well positioned in the Growth Markets. And ultimately, the measure that we hold ourselves against is that we continue to grow significantly faster than the market and take share. And I think we're well positioned to do that in the Growth Markets going forward.

Tien-tsin Huang

Gotcha. And just for my follow-up, just on the CEO succession, until that's completed, can we expect business as usual? Will you still be active in M&A and whatnot?

David Rowland

It is absolutely business as usual. The statement that I've made and our leadership team has embraced is we don't hit the pause button at all. So we continue to move forward. We operate and I'm executing the responsibilities in the same way that Pierre would have executed them if he was on the call today. So, no pause. We continue to drive our business forward.

Tien-tsin Huang

Thank you, guys.

David Rowland

Thank you.

Operator

And we will move to the line of Jason Kupferberg with Bank of America, please go ahead.

Jason Kupferberg

Hey, good morning guys and congratulations. The rebound in Consulting was I think even stronger than most had expected and clearly, it can be lumpy quarter-to-quarter, but I think the book-to-bill in Consulting was the best in the past three years. So can you just maybe go a little bit deeper into which specific areas within Consulting and which geographies performed particularly well? And just based on the pipeline, do you expect the book-to-bill for Consulting and overall to remain north of 1.0 in the second half?

KC McClure

Hi, Jason. Thank you for your question. We were very pleased with our Consulting bookings this quarter, that were very broad-based across all parts of our business and all geographies. In terms of what was driving the demand, we spoke a lot about it, David carried a lot of the conversation in these areas of our business, but it was across, first, all the areas of the New. So we estimated that our bookings in the New were about 65% of our overall bookings and that continues as well in Consulting.

If you look at also the power of what we're seeing in our Intelligent Platform business, which includes a significant portion of work in Consulting as well, which is across Salesforce, Microsoft, Workday, Oracle [and SAP] [corrected]. So that was also a very strong driver of our growth in Consulting.

As it relates to it going forward, we feel very comfortable about our pipeline. As we look at the back half of the year, we always, as you know, have work to do for the back half of the year to close our pipeline, but we feel pretty well positioned as we sit here today with our pipeline in Consulting.

David Rowland

It's one of the important parts about what differentiates Accenture, because when you look at our strategic areas of focus, as I outlined in my script, all of those things, the common thread across all of that is that many of them are enabled by a strong Strategy and Consulting practice that is deep in both industry skills and differentiation, but also in functional skills and differentiation. And that is part of the end-to-end model that we talk about at Accenture. And, of course, the Consulting and Strategy capability underpins that and really in many ways is the tip of the spear for most of the pillars of our strategy. And as I mentioned, we continue to invest significantly in building that capability and staying ahead of the market.

Jason Kupferberg

Okay, well, that all makes sense. Can you just clarify how much of the 50 basis-point revenue guidance raise here was organic and then can you just make a couple updated comments on Financial Services? I know you talked last quarter about it getting back to mid single-digits in the second half. Is that still the expectation and would that be more of perhaps a Q4 event just given, I think, the comparison gets easier?

KC McClure

As it relates to organic and inorganic, we still see our inorganic growth rate for the full fiscal year to be about 1.5%. We are at about 1.5% now, Jason, for the first half of the year. And as we look at our inorganic guidance for the back half of the year, we look at a few things. First of all, our pipeline and the timing of when we estimate the deals that are in our pipeline would close and provide revenue this year. We also, obviously, do some risk adjustment on those numbers

overall. So as we sit here today, we are seeing that inorganic growth is still about 1.5%, so there's no change to our guidance overall for the year as it relates to inorganic.

As it relates to Financial Services, we do see an uptick still in the back half of the year. So we were very pleased with Financial Services bookings, which came in as expected, but were very strong across all the elements of our Financial Services business, including Banking & Capital Markets as well as Insurance, and across all of our geographies. So that bodes well for what we had anticipated seeing and we continue to anticipate seeing, which is an uptick in the back half of the year for Financial Services.

As it relates to what quarter that will happen in the back half of the year, it really just depends, Jason, on the pace and the scale of that uptick as we proceed throughout the back half of the year.

Jason Kupferberg

Okay, understood. Thank you, guys.

David Rowland

Thank you.

Operator

And we'll go to the line of Jim Schneider with Goldman Sachs, please go ahead.

David Rowland

Good morning, Jim.

Jim Schneider

Good morning, David and KC, how are you? Thanks for taking my question. I was wondering if you could maybe talk a little bit, going back to the Q4 call last year, I think you called out some macro risks of the business at that point — Brexit, trade tensions, etc. Can you maybe just kind of give us an update on what clients are saying about those potential macro risks and how it's kind of impacting, if at all, your kind of outlook for the rest of the year, and to the extent any of that has materialized in terms of client activity?

David Rowland

Yes, so, when you look at the risks that we've talked about, which includes Brexit and it includes the trade disputes, among others, as you well know, really those risks still exist today. So our view of our macro environment, the potential for some slowdown in overall economic growth, that has not changed as all.

Having said that, consistent with what we've said before, for global companies to operate in this volatile dynamic environment is the new norm, but it's been the new norm now for several years. And so, as we talk to our clients, they continue to focus on, for the most part, driving their business forward.

And the two themes remain the same. Our clients continue to focus on investing in digitizing their business, both for top-line growth, differentiation in the market, but also as a way to create operating efficiency in the business. And so, we believe that companies continue, for the most part, continue to be on their front foot looking to invest in digitizing the business.

And the other theme that continues to be at play, maybe incrementally stronger, is the whole focus on strategic cost management and cost rationalization, which is always aimed at creating capacity to invest more in the New. And I think as we talked about last time, all of that really plays to our strength because where companies are investing is in these areas of new services which, of course, is where we have put 100% of our focus.

We also commented on the last call that we continue to see client budgets grow. I think we said last quarter they would grow in '19, maybe at a slightly lower clip, but in the same range as what we had seen the previous year. We haven't seen anything that changes our point of view on that. And, of course, the best illustration of that is the 11.8 billion in bookings that we just posted.

And so, look, the market is always challenging. There's nothing different about it today than it was a year ago. The market is never easy. It's always challenging, but as I talk to our C-suite executives and our clients, there is a willingness and a desire really to invest and drive the business forward, and that's not changed.

Jim Schneider

That's helpful color, thanks. And then maybe the follow-up, David, I think in your prepared remarks, you talked about going after custom cloud applications as a significant opportunity. It's interesting commentary to me. I'm curious, was that concentrated in one or two different verticals or whether it's more broad-based, is it financials or something else? And maybe talk about how differentiated you feel that strategy is in the market relative to some of your traditional competitors? Thank you.

David Rowland

Yeah, it is absolutely broad-based and it is an interesting point of view to share, and it's an interesting trend that we see in the market. Quite different from what you might have expected three to four years ago where everyone was talking about package, package, package. And if you think about it, it's easy to understand. As strong as the functionality is in the next-generation packages and platforms that companies are embracing, really to get the full power of the data, the artificial intelligence, the machine learning, there is the need to do a lot of custom apps, software development in the cloud so to speak, to really exploit all of the advantages of kind of the broader landscape of new technology and new platforms.

And I see that with our own company and I see that with so many of our companies that I meet with. And so, these are not, as you would expect, these are not like large-scale, necessarily, individual projects, but it's a rapid pace of quick development of custom apps in order to really exploit and take advantage of the power of data, artificial intelligence, machine learning, all of those things that require some customization for individual companies.

And so, I think it's broad-based and pervasive and it's really kind of the art, if you will, behind the power of the technology and really customizing it to the needs of a particular company.

Jim Schneider

Thank you.

David Rowland

You're welcome.

Operator

And we'll open the line of Edward Caso with Wells Fargo, please go ahead.

Edward Caso

Good morning. Congrats on a strong quarter here. I was wondering if you – it looks like you're targeting another billion dollars in acquisitions in the back half. Can you sort of help us in what areas you're focused and how they may be changing? Thanks.

KC McClure

So, right, Ed. Our guidance for the full year is up to 1.5 billion. So given where we are, it would be about a billion if we get to the up to range. In terms of what we're looking at, it should be no surprise that it's really aligned to our important strategic growth areas, and I'll just point to what we've already done to date. So you see a mix of various things. Obviously, very much in the New with acquisitions that we've done in the past and Accenture Interactive. We've also done acquisitions in Industry X.0, as well as very specific industry plays that tie, though, to these new technologies, both in Products and Financial Services, just to point out a few.

So it really is a key part of our strategy and the areas that we look at are no different than what we do overall in our business, which are really tied to leading in the New and finding disruptive technologies and acquisitions in those areas of the business.

David Rowland

Yeah, and just to add to what KC said, just using what we've done, what we've announced, let's say, really as of today. We've done roughly about seven acquisitions in Accenture Interactive. We've done three in Industry X.0. We've done four in Technology. If you look at Technology, three of those were directly tied to deepening our skills in the platforms. I think there were a couple in Oracle and one SAP, as an example. There was another one around data and analytics.

And then we had several vertical-specific acquisitions. Several in Financial Services, as an example. And so, I think that's a good representation of – we're all about investing in the New. So that's a good roadmap for our acquisition strategy, as well as our highest-growth, highest-priority verticals. And that's a good roadmap going forward, just as it's been in the past.

Edward Caso

My other question is just seeking some help on translating strength in Consulting to Outsourcing. How tight is the linkage still between those two or is Consulting really more contained and less of a link than it used to be to Outsourcing? Thank you.

KC McClure

Ed, I don't think there's really any significant difference in terms of the linkage that we've seen. And so, if you take a look at what we do in our Consulting business, obviously, it first starts with strategy, which can be projects that are specific to strategy, but also oftentimes serve as the beginning for an end-to-end solution for our clients. That's no different than really what we have seen in the past.

As we look at the Consulting front-end capabilities that we have more in the Management Consulting space and we connect up to, for example, the Intelligent Platform space, which leads into Outsourcing as well, there is still that very same connection that we've had in the past. So we don't really see any big difference, Ed, in terms of what you would think about as it relates to

Consulting and Outsourcing, both, as that relates to doing end-to-end services here at Accenture.

Edward Caso

Thank you.

David Rowland

Thank you.

Operator

And we will open the line of Joseph Foresi with Cantor Fitzgerald, go ahead.

Joseph Foresi

Hi, my first question here is it seems like you've sort of hit a second gear in digital and I know in some of your literature, you've talked about going from sort of the consumer to more of the enterprise part of it. Could you maybe describe a little bit more about the strength of this demand, because I think it's surprisingly strong sort of late in what we would consider the cycle, and maybe where you think it's coming from?

David Rowland

Well, first of all, when we look at digital as we define it, there's really not any aspect of our digital business that we consider to be late in cycle. I mean, so let's just start there. If you look at Accenture Interactive, which is the business that, relatively speaking, is the most mature within our business. Accenture Interactive, if you look at the G2000 and if you look at the rate of adoption of the power of digital and really reimagining and recreating customer experiences and all of the analytics and revenue enhancement and all of the other offerings that go around that. The rate of adoption, while we are let's say several years into that cycle, there's still a lot of runway in that business going forward. I don't think you would find any G2000 company that would tell you that they think they're kind of done with that.

That is an ongoing process and so, that has a lot of potential going forward. And, of course, we're constantly investing and kind of reimagining in our business to find the next S-curve or the next growth curve, which is exactly what we're doing in Interactive as we speak.

If you look at Industry X.0, I think that it's widely recognized that the potential of Industry X.0 is massive, but yet, very, very early cycle in terms of the adoption. And so, if you look at the kinds of things that we are doing, digital services factories for manufacturing companies. When you look at the adoption of intelligent products or connected smart products, digitizing the manufacturing process as a way to accelerate time to market. Again, that is very early adoption. And I think if you look at Applied Intelligence, and I don't think you would find any company that says that they think they've arrived in terms of fully exploiting the power of data, artificial intelligence, machine learning, etc. And I could continue on.

Accenture Security, companies have a big agenda, multi-year agenda still, to really deal with all that is required to fully secure the enterprise, their customer, data, customer relationships, etc. So we look at this as a longer cycle and a cycle where we are still early innings, if you want to use the baseball game analogy. So we think there's runway when you look at the elements of our digital business.

Joseph Foresi

Got it. And then my second question and I know this is kind of strange, but we get this occasionally from investors. I think most people think that the overall economy is maybe late cycle, and I'm wondering with all the digital work, do you believe it's more discretionary than it's been in the past? Last cycle and last downturn, Accenture did very well and held in very well. I'm wondering sort of what your thoughts would be assuming that we eventually hit an end of the road on that side as well? Thanks.

David Rowland

Well, I'll tell you what we believe, what we observe and then at some point perhaps, we'll see how this plays out. But our observation is that with the pace of disruption in global business, with the pace at which industries are getting disrupted, companies are getting disrupted, there's a recognition, we believe, we see among companies that you cannot afford to hit the pause button. You cannot afford to slow down. And I think that when we hit the eventual soft spot, what you will see is companies doubling down more and pushing harder on the operational efficiency and cost rationalization agenda in order to fuel what is the lifeblood, which is constantly reimagining, reinventing and investing in growth, continuing up this adoption curve of the power of the new technology.

And so, what we see, what we believe, is that there's going to be resiliency in companies' willingness to invest in their definition of the new because to do otherwise would just fundamentally jeopardize the existence of the enterprise going forward. We'll see the extent to which that plays out, but that is the observation that we have.

Joseph Foresi

Thank you.

David Rowland

You're welcome.

Operator

And we will open the line of Darrin Peller with Wolfe Research, please go ahead.

Andrew Bauch

Hey guys, this is Andrew Bauch on behalf of Darrin Peller.

David Rowland

Hi, Andrew.

Andrew Bauch

Hey, how are you? I want to dig into H&PS briefly. I know last quarter you highlighted some of the challenges on the Federal side due to the budget uncertainty. I'm just wondering if you could provide just a little bit more color on what's happening here and some insight and expectations for the rest of the year?

KC McClure

Sure, happy to do that. It's nice to meet you. In terms of H&PS and the U.S. Federal business, consistent with what we said last quarter, our Federal business is really going through the natural cycle of a few contracts winding down. So we do see improvement in our U.S. Federal

business in the back half of the year and that will also be part of, obviously, the increase in our H&PS business, improving in the back half of the year.

As it relates, I'll give a little bit of color, since you talked about budgets. The partial government shutdown that we experienced this quarter was not material at the Accenture level for either the quarter nor will it be for the year. As it relates to H&PS, it was about 2% of an impact in the quarter, but we do not expect it to be material at all for the H&PS business for the full year.

Andrew Bauch

Got it, thank you. And then just wanted to touch on Accenture Interactive one more time. I mean, obviously, over the last couple of years, the growth rate would imply you're taking some meaningful share in the digital agency. I just wanted to get a better understanding of how the competitive environment has kind of evolved over time and if you're seeing more pushback from the incumbents building out their own digital practices and so on?

David Rowland

I would say there's really no change. I think when you look at Accenture and let's say the competitors that have been part of the disruption. And so, I think about Deloitte Digital, PWC Digital, IBM has a business that is focused on this space to some extent. I think this is an attractive market. It's a top of the C-level agenda discussion. And so, I think companies continue to invest and attempt to compete. And so, I think that those companies that have been successful at disrupting and really bringing technology and industry depth and differentiation, the consulting and strategy and then also the ability to operate.

What I just described, we think is unique to Accenture. But the other companies are competing hard. I think the incumbents intend to try to rotate, to look more like the disrupters in the market, but that's a difficult thing to do because when you look at the things that are relevant to Accenture Interactive, some of these things at the core are things that, capabilities that we've built over decades.

So to build a front-end consulting and strategy practice, for example, is tough to do. To have the technology capability and DNA to underpin that business is tough to do. To have the operations capability, so one of our big offerings in Operations now is Accenture Interactive Operations. You don't just create that overnight.

And so, we think that we're well positioned in that market going forward, but it's an attractive market and we don't underestimate any of the competitors.

Andrew Bauch

Thank you so much for the color.

David Rowland

You're welcome.

Operator

And we'll open the line of Lisa Ellis with MoffettNathanson.

Lisa Ellis

Hi guys. So a question about hybrid cloud. I think one of the most striking trends across the IT landscape this year is the emergence of strong hybrid cloud growth, meaning with a strong on-

premise and more private component to it. I'd love some color just on how, as you are evolving your cloud business, how you are sort of evolving it to reflect that trend, which arguably gives some hope to the legacy incumbent data center outsourcers who have more of an incumbent position within the private space?

David Rowland

Lisa, are you just having fun with me asking me a deep technology question? Is this a test?

Lisa Ellis

Come on, David, you had to read the first part of the script today.

David Rowland

Alright, I'll channel Paul Daugherty. But in all seriousness, I mean as always, the way you characterized it is exactly right. And I will say that Accenture's position, really from the very beginning, was that the cloud adoption would evolve to be more of a hybrid environment. We've had that belief from the very earliest days of discussion about cloud adoption and that is exactly the way it has played out. And I think that – and there's a lot of things that influence the need to do that. Part of it is an issue around a client's comfort or willingness to put certain data, certain apps on the public cloud. Of course, there's also the opportunity to exploit the power of the public cloud, which is, maybe exceeds the potential power of any private cloud with all those capabilities and especially the machine learning and artificial intelligence kind of capabilities that are embedded in many of the cloud offerings.

And so, I guess I could just say that that is the definite trend. There's a lot of work that we do for our clients in helping them think through their cloud migration strategy. So if anybody thinks that that is kind of behind us, I would say to the contrary. In fact, again, I was just with one of our client CEOs two weeks ago and the first thing that he wanted to talk about was cloud migration strategy. And it was all around the context of this hybrid cloud, and the private versus the public, and in the public, the strategy across the range of very strong providers.

And so, it is a dynamic going forward and it's exactly the approach that I think every single company is taking in their adoption of the power of cloud.

Lisa Ellis

Terrific. And then my follow-up maybe, KC, it's for you. Can you comment a little bit on how revenue per head and also contract duration are trending? The reason I'm asking is because just looking at the longer-term trends, headcount growth has moderated a little bit, as has the longer-term trend on book-to-bill, but that's not consistent with your revenue growth, which has remained very strong. So I'm just wondering if you could comment on some of the second order drivers?

KC McClure

Sure. So first in terms of the length or conversion. We haven't really seen any change at all in our bookings-to-revenue conversion rate. And then as it relates on the revenue per head, Lisa, I'll first start with, we have a real focus, obviously, on pricing. And what we've been able to do in areas where we have invested for differentiation is we have seen pricing improvement in those parts of our business. And so, that really is, that continues to be a very strong focus of ours and we have made progress and continue to make progress in that area. Again, always more work to do in that space, but that really first starts with pricing. And that gives us the most leverage as it relates to getting productivity out of our payroll.

Then if you take a look at our overall payroll expense which is the large bulk of what we do, a large bulk of our cost structure is in our payroll. So we're very focused on making sure that we have the most efficient use of our payroll, directed at our clients, and recovering what is the right and proper rate for that work in the marketplace. So we have been making progress on that. It's something that we continue to be focused on. It's a never-ending job, but we are pleased with the progress that we're making and you do see that coming through, not only in our revenue per head but as a real driver of our operating margin expansion.

Lisa Ellis

Perfect, thank you. Thanks, guys.

David Rowland

Thank you, Lisa, I appreciate it.

Angie Park

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

Operator

Okay and our final question then will be from Harshita Rawat from Bernstein, please go ahead.

Harshita Rawat

Hi, good morning. Thank you for taking my question. Hi, can you hear me?

David Rowland

Yes, hello, good morning.

Harshita Rawat

Good morning. So I wanted to ask about artificial intelligence and automation, both of which have been meaningful investment areas for you, both from an internal efficiency and also from a client perspective. Could you perhaps talk about where are we in the journey of AI potentially breaking the linearity between headcount and revenue in your business? And on the other side, from a client IT demand perspective, is this now a meaningful investment area and if so, in what verticals?

David Rowland

Yes, so first of all, I think when you look at the adoption of artificial intelligence and automation, consistent with what I said earlier, I think any company that I think you could talk to would tell you that they are early in that cycle. And so, I think from a market standpoint, in terms of the work that we do for our clients in that area, I would say artificial intelligence, especially, is still early cycle.

When you talk about automation, I would say that the adoption rate of that is higher, although still, I would say relatively early cycle. When you look at then the connection to the relationship between headcount and revenue with Accenture, I'm not going to predict the timing with which we would see a direct impact of that. Clearly, as we do multi-year financial planning and we think about the evolution of our business and our own economic model, we see some potential for a different dynamic there, but the pace and timing, I just wouldn't want to predict.

Harshita Rawat

Thank you.

David Rowland

Thanks again to everyone for joining us on today's call.

As you can tell, at the midpoint of fiscal '19, we're very pleased with our financial results and the momentum in our business.

With our highly differentiated growth strategy and disciplined management of the business, we're very confident in our ability to continue driving profitable growth and delivering significant value for our clients, our people and our shareholders.

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

Have a great day!