

Accenture

3rd 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, Greg, and thanks everyone for joining us today on our third-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 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 third quarter. David will then provide a brief update on our market positioning before KC provides our business outlook for the fourth 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.

Accenture delivered another strong quarter, and I couldn't be more pleased with our overall performance as we continue to execute our growth strategy and create significant value for all of our stakeholders — our clients, employees and shareholders.

We again delivered revenue growth well ahead of the market, as well as strong profitability and free cash flow, while continuing to make substantial investments for long-term market leadership.

Here are a few of the highlights for the quarter:

- We delivered new bookings of \$10.6 billion, which was in the range we expected.

- We generated record revenues of \$11.1 billion — at the top of our guided range — with 8.4% growth in local currency.
- We delivered earnings per share of \$1.93, an 8% increase compared to adjusted earnings per share last year.
- Operating margin was 15.5%, an expansion of 20 basis points.
- Our free cash flow was very strong, at \$2 billion.
- And we returned \$1.4 billion in cash to shareholders through our share repurchases and the payment of our semi-annual dividend.

So, all in all, it was another strong quarter by any measure.

Looking forward, I feel very good about our business and our ability to deliver a strong fourth quarter — and in doing so, to complete what will be another truly outstanding year for Accenture.

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

KC McClure

Thank you, David, and thanks to all of you for joining us on today's call. Let me start by saying we were very pleased with our third-quarter results, which were aligned to our expectations ...and were strong across many dimensions of our business.

Once again, our results demonstrate the power of our highly differentiated growth strategy. As we have often stated, a key intent of our growth strategy is to create durability in our revenue growth at a level that is consistently above the market, taking share and strengthening our position as a leader. Against this objective, we have created a unique footprint that includes scale and leadership in the world's largest and most critical geographic markets and industries. This footprint, along with our highly relevant offerings...delivered within our end-to-end service model ... is key to being a market leader in helping our clients rotate to the New.

Our third-quarter and year-to-date results are an illustration of our growth model in action. And based on the strength of our results and the confidence and visibility we have in our fourth quarter, we are increasing key elements of our full-year outlook, which I will cover in more detail later in the call.

Importantly, our results and updated guidance reflect very strong execution against our three financial imperatives for driving superior shareholder value:

- Revenue growth of 8.4% in local currency in the third quarter continued to be driven by strong double-digit growth in all three areas of the New — including digital, cloud and security-related services. This strong top-line growth was broad-based, with several areas growing double digits or high single digits. Revenues landed in the range we expected, and importantly, we did see the anticipated improvement in Financial Services and the U.S. Federal business.

- Operating margin of 15.5% expanded 20 basis points for the quarter and reflects strong underlying profitability, allowing us to invest at scale in our people and in our business. And we delivered very strong EPS of \$1.93, which represents 8% growth compared to adjusted EPS last year, even with an FX headwind of over 4%.
- And we had record free cash flow for both the quarter, of \$2.0 billion, and year-to-date, of \$4.2 billion, which reflect both our strong profitability and our excellent DSO management. We are well positioned to deliver free cash flow in excess of net income for the full year. We continue to execute against our strategic capital allocation objectives, with year-to-date investments in acquisitions of approximately \$1.1 billion and over \$4.1 billion returned to shareholders via dividends and share repurchases.

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

New Bookings were \$10.6 billion for the quarter.

- Consulting bookings were \$6.0 billion, with a book-to-bill of 1.0.
- Outsourcing bookings were \$4.6 billion, with a book-to-bill of 0.9.

This quarter, our bookings continued to be well-balanced across the dimensions of our business. And the dominant driver of our bookings in the quarter continued to be high demand for digital, cloud and security-related services, which we estimated approximated 65% of our new bookings.

Overall, Q3 bookings landed in the range we expected. As you know, quarterly bookings can be lumpy... which you've seen in our year-to-date results... and that is consistent with our historical pattern. Looking forward, we have a very strong pipeline and we expect strong bookings in Q4.

Turning now to revenues...

Revenues for the quarter were \$11.1 billion, a 4% increase in US dollars and 8.4% in local currency, and were at the top of our previously guided range.

- Consulting revenues for the quarter were \$6.2 billion — up 3% in US dollars and 7% in local currency.
- Outsourcing revenues were \$4.9 billion — up 5% in US dollars and 10% in local currency.

Looking at the trends in estimated revenue growth across our business dimensions... Technology Services posted strong, high-single-digit growth; Strategy & Consulting Services grew mid-single digits; and Operations continued its trend of double-digit growth.

Taking a closer look at our operating groups...

- Resources grew 19% in local currency, delivering its 7th consecutive quarter of double-digit revenue growth. Continued momentum was driven by double-digit growth across all three industries and all three geographies.
- Products grew 8%, reflecting continued strength in our largest operating group. Demand continued to be broad-based across all three industries and all three geographies.
- Communications, Media & Technology grew 7%, reflecting continued strong double-digit growth in Software & Platforms, and we had strong, balanced growth across all three geographies.
- H&PS delivered 6% growth, in line with our expectations. Europe led with double-digit growth, and we were very pleased with the strong growth in North America, which reflected strong growth in our U.S. Federal business.
- Finally, as expected, we saw an uptick in Financial Services this quarter, with 4% growth. Insurance again grew double-digits across all geographies, and we saw some improvement in Banking & Capital Markets globally, including in Europe. Overall, Financial Services delivered double-digit growth in Growth Markets, strong growth in North America, partially offset by contraction in Europe.

Turning to the geographic dimensions of our business...I am very pleased with the continued demand across all three of our geographic regions:

- In North America, we delivered 9% revenue growth in local currency, driven by continued strong growth in the United States.
- In Europe, revenues grew 5% in local currency, with double-digit growth in Italy and Ireland, as well as mid-single-digit growth in the UK.
- And we delivered another very strong quarter in Growth Markets, with 13% growth in local currency, led by Japan, which again had very strong double-digit growth. We had double-digit growth in China and Brazil as well.

Moving down the income statement...

Gross Margin for the quarter was 31.8%, compared with 31.2% for the same period last year.

Sales and Marketing expense for the quarter was 10.7%, compared with 10.3% for the third quarter last year.

General and Administrative expenses was 5.6%, compared to 5.5% for Q3 of last year.

Operating Income was \$1.7 billion in the third quarter, reflecting a 15.5% operating margin, up 20 basis points compared with Q3 last year.

As a reminder, in Q3 of last year we recognized a charge related to tax law changes. The following comparisons exclude the impact and reflect adjusted results.

Our Effective Tax Rate for the quarter was 25.6%, compared with an adjusted effective tax rate of 26.8% for the third quarter last year.

Diluted Earnings per Share were \$1.93, compared with adjusted EPS of \$1.79 in Q3 of last year.

DSO was 39 days, compared to 40 days last quarter and 39 days in the third quarter of last year.

Free cash flow for the quarter was \$2.0 billion, resulting from cash generated by operating activities of \$2.1 billion, net of property and equipment additions of \$140 million.

Our cash balance at May 31st was \$4.8 billion, compared with \$5.1 billion at August 31st.

And with regards to our ongoing objective to return cash to shareholders...

In the third quarter, we repurchased or redeemed 2.8 million shares, for \$488 million, at an average price of \$173.95 per share. At May 31st, we had approximately \$4.1 billion of share repurchase authority remaining.

Finally, as David mentioned... on May 15, 2019, we made our second semi-annual dividend payment for fiscal '19 in the amount of \$1.46 per share, bringing total dividend payments for the fiscal year to approximately \$1.9 billion.

So, in summary, we are very pleased with our third-quarter results and are now focused on Q4 and closing out another strong year.

With that, let me turn it back to David.

David Rowland

Thank you, KC.

Our strong results for the third quarter and year-to-date demonstrate that we continue to execute our growth strategy extremely well.

In particular, we continue to benefit from our leadership position in the New — where revenues again grew at a double-digit rate, with broad-based growth across all components of the New, including Accenture Interactive, Applied Intelligence, Industry X.0, Cloud and Security.

And, as KC mentioned, our third-quarter and year-to-date performance is powered by our unique leadership footprint in the marketplace — with breadth and scale across the most-strategic geographies, industries and capabilities — and this provides for durability and consistency in our performance and uniquely positions us to deliver seamless, outstanding service to our global clients.

While there are many positive aspects of our third-quarter results, today I want to focus on Accenture Technology — which is the largest part of our business overall and also accounts for the majority of our revenues in the New. So in many ways, Accenture Technology is really the engine of our strong leadership position in the New.

We believe Accenture has the strongest and most innovative technology capability in our industry — with scale and leadership in all the areas that are most relevant to our clients. Today, all companies are digital businesses, and certainly Accenture is a digital technology company at our core ... with advanced capabilities such as data and analytics, automation, artificial intelligence and machine learning.

Last quarter, I highlighted three key focus areas in Accenture Technology that power growth in our business — and today I'd like to dig a little deeper.

First, in Intelligent Platform Services, we apply our digital capabilities, innovation and industry expertise on top of the leading core platforms — SAP, Microsoft, Oracle, Salesforce and Workday — to help clients drive large-scale, enterprise-wide transformation.

We are proud to be a leading partner of all the key players, and we see continued strong demand for Intelligent Platform Services, which again grew at a double-digit rate in quarter 3 and accounts for about 40% of total revenues.

- As one example, we're helping a leading fashion retailer with a global implementation of SAP S/4HANA that leverages myConcerto, our proprietary AI-powered development platform. myConcerto brings together our deep industry knowledge and differentiated tools and methodologies to help clients innovate and accelerate platform implementation. Our work is driving greater synergies across the retailer's global brands and building a strong foundation for future growth.

The second area — Intelligent Software Engineering Services — is focused on developing and delivering the custom systems that our clients are increasingly demanding. With more than 30,000 people, we have one of the largest teams of specialized software engineers and architects ... solving the most challenging problems in agile and creative ways ... using data, the cloud, artificial intelligence and other new technologies.

- As an example, we're helping Swisscom, Switzerland's leading telecom company, transform into a digital service provider. By leveraging our proprietary Digital Omni Channel Platform — with AI, machine learning and analytics — we are increasing the precision and personalization of the customer experience across all their channels.

And third, in Intelligent Cloud & Infrastructure Services, we provide clients with powerful, differentiated solutions — from cloud strategy and migration to managed services and cloud security. We are the leading partner of Microsoft Azure, Amazon Web Services and Google Cloud Platform, which are often at the heart of our clients' agendas to adopt new and leading technologies and rotate their own businesses to the New.

To date, Accenture has worked on more than 25,000 cloud computing projects for clients — including 80% of the Fortune Global 100 — and we have more than 77,000 people trained in cloud technology.

- A good example is our work with Del Monte Foods to unlock innovation and streamline their operations by migrating hundreds of servers and critical SAP enterprise-wide applications to the cloud in less than four months. They are benefiting from a more agile operating environment, real-time customer insights and a 35% reduction in IT costs, freeing up resources to grow the core business.

There are three common threads that run through all these areas in Technology.

One is innovation, and in fact, technology is at the heart of our innovation agenda. A great illustration is our AI-powered myWizard platform, which you've heard us mention many times previously, which differentiates our service delivery by improving clients' business performance with superior productivity and predictability. And we continue to leverage our unique Innovation Architecture, which integrates our capabilities from research, ventures, labs, innovation centers and delivery centers.

Second is our powerful ecosystem relationships as the largest independent provider of technology services. While scale is certainly a factor, it is also our ability to co-innovate with our partners, delivering outcomes and value at speed in the New — and looking to the “next New” — that differentiates us in the marketplace.

And the final piece that underpins our technology leadership and is pervasive across everything we do is our unmatched, industrialized global delivery capability, which uniquely positions Accenture to deliver large-scale, complex programs.

Let me now switch gears and comment on our continued commitment to invest for long-term market leadership — including operating investments related to assets and solutions, talent, and innovation, as well as capital investments to acquire critical skills and capabilities in strategic, high-growth markets.

So far this year, we have deployed approximately \$1.1 billion in capital on acquisitions, with the majority focused in the New and especially Accenture Interactive, where we've completed nine deals so far this year.

I am particularly pleased with the acquisition of Droga5 — by far our biggest of the year — which adds a large, New York-based creative agency that significantly strengthens our capabilities to design, build and run customer experiences that grow brands and businesses.

But before I hand it back to KC, I want to take a moment to acknowledge some of the external recognition we've received.

Accenture rose to Number 28 on BrandZ's list of Top 100 Most Valuable Brands ... and we also achieved our highest ranking ever on Forbes' list of the top global brands. And we had our highest-ever double-digit increases in brand value on both lists.

I'm also very pleased that we were named for the first time in two Fast Company rankings for innovation — first, in the category of World's Most Innovative Companies, and second, for World-Changing Ideas. And finally, Accenture was ranked Number 1 on Barron's new list of the Most Sustainable International Companies.

Before I close, I want to briefly mention that our CEO succession process is going very well, and as I said last quarter, we expect to complete the process 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.

Let me now turn to our business outlook...

For the fourth quarter of fiscal '19, we expect revenues to be in the range of \$10.85 to \$11.15 billion. This assumes the impact of FX will be about negative 2% compared to the fourth quarter of fiscal '18 and reflects an estimated 5% to 8% growth in local currency.

For the full fiscal year '19...

Based on how the rates have been trending over the last few weeks, we continue to assume the impact of FX on our results in US dollars will be approximately negative 3% compared to fiscal '18.

For the full fiscal '19, we now expect our revenues to be in the range of 8% to 9% growth in local currency over fiscal '18.

For operating margin, we now expect fiscal '19 to be 14.6% — a 20 basis-point expansion over fiscal '18 results.

We continue to 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 \$7.28 to \$7.35, or 8% to 9% growth over adjusted fiscal '18 results.

For the full fiscal '19, we continue to expect operating cash flow to be in the range of \$5.85 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.

And 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.

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

Operator

Thank you. Ladies and gentlemen, if you'd like to ask a question, please press * then 1 on your touch tone 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 *1 at this time. And one moment please.

Your first question comes from the line of Ashwin Shirvaikar from Citi. Please go ahead.

Ashwin Shirvaikar

Thank you. Good morning David, good morning KC.

David Rowland

Good morning.

Ashwin Shirvaikar

I wanted to start with a question on bookings, which I would think with the book to bill lower than 1, since you have detailed it a bit. Particularly when I look at the comment that says 65% of bookings are in the New implies the third is from legacy services. Is this what sort of where we have a need to go at clients with higher productivity requirements? Is this a trend we should be looking at more carefully in the future because that's what affects bookings growth? And in the New, as that grows, is there a visibility question we should be asking in regards to a higher cloud component, a higher agile development component? Does that also bring with it lower visibility?

KC McClure

Okay, thanks, Ashwin. Let me just cover a lot of the questions there that you had on bookings. Maybe I'll first start with, as I mentioned, bookings really were in the range that we expected and they were quite well-balanced, and we like that they are about 65% in the New. And so, just as a reminder — and you know this well for covering us so long — bookings can be lumpy by quarter. So you see that in the results this year where we have really strong bookings, record bookings in Q2. But our historical pattern is we've always had some lumpiness and variability quarter to quarter in bookings. So as it relates to what we're seeing, the second half is really playing out largely as expected. We like our position where we are year-to-date. It really is where we anticipated that we would be this time of the year.

And so, then looking forward and talking about your visibility question, based on the strength of our pipeline and the visibility that we do have, we do see stronger bookings in Q4. There's not

really an element of the New that impacts that visibility. We like that we have the majority of our bookings in the New, and we feel that we're really well-positioned based on where we are to-date with what we can see for Q4 bookings to be well-positioned for next year.

And I think that really just points to, as you were talking about our offerings, the relevance of our offerings and our capabilities in the marketplace.

Ashwin Shirvaikar

Got it. And then with the anticipated improvement in Financial Services, it's good to see that come through. Looking forward, should we assume that continues to step up?

KC McClure

So, as you said, we were also pleased with the uptick in Financial Services that we saw this quarter. And that did come in as expected, and I did note and I will say again that we were particularly pleased with our strong growth in North America and the continued double-digit growth that we have in the Growth Markets. And while Europe did contract, we did see improvement in Banking & Capital Markets. And as it relates to what we think for the rest of the year, we still see the second half of the year in Financial Services being stronger than the first half of the year, which is what we had anticipated, and you see the first part of that happening in Q3.

Ashwin Shirvaikar

Got it, thank you.

Operator

Your next question comes from the line of Tien-tsin Huang from JP Morgan. Please go ahead.

Tien-tsin Huang

Good morning guys, how are you?

David Rowland

Good morning, Tien-tsin, how are you?

Tien-tsin Huang

I'm good. I'm good. I'm good. Let me ask on the margin side. It looks like gross margin drove the raise in margin guidance. Is that correct, and what would you attribute that to — is it favorable mix, pricing, contract execution? It looks like you did bump it up overall.

KC McClure

Yeah, hi Tien-tsin. As you know, we really do run our business, first of all, to operating margin. So that's really how we manage the business. And the first thing that we do look at though, within gross margin, is how our contract profitability is performing. And overall for both the quarter and for the year, we're happy with our improvement in contract profitability. And that really does all start with pricing. So as we have more and more of our work in the New and in areas where we see strong demand and where we have highly differentiated skills, we do see that we're able to price at a better rate than in other areas. So you'll see that is part of what's driving our gross margin, which is, in fact, a big part of driving operating margin.

It's also important to note though, even within gross margin, we do have our investments, and that's really key for what we're doing. So, again, that's why we run our business on operating

margin, but from quarter to quarter, we are also absorbing investments in our people, in our business, in our gross margin as well.

Tien-tsin Huang

Got it. That's healthy. And just to follow-up on Ashwin's question on bookings, the lumpiness there. Not to simplify it, but is it as — can we attribute that to just normalization, given the outperformance you saw in the prior quarter and the time required to refill the pipeline? I mean, obviously the bookings came in quite strong last quarter.

David Rowland

Yeah, Tien-tsin, let me just jump in because you will remember — some may remember this became a little bit of, maybe even an unnecessary distraction in quarter 1 — and just to make sure that maybe we're even more clear on our messaging. So let me just say that we are very, very pleased with the demand environment. So let's be clear on that. That's reflected in our revenue growth year-to-date, it's reflected in the revenue growth that we see in the New, it's reflected in what we feel is a very strong pipeline position as we closed out the third quarter, and it's reflected in our statement and our confidence that we will have strong bookings in the fourth quarter.

So to be clear, we're not concerned about bookings. Bookings do vary by quarter. Very often, it can be influenced by the timing of when the large deals close. And in the scheme of our big business, if we have deals that close in the month of June, let's say, as opposed to a few weeks earlier in the month of May, obviously that doesn't make any difference in the health of our business and what we see from a demand standpoint. So we're very encouraged by the demand environment, and as KC said, the bookings are lumpy — as they have always been in our business — and I would focus more on the confidence that we have in the fourth quarter than I would the fact that Q3 was at \$10.6 billion.

Tien-tsin Huang

Got it. Message delivered. Thank you.

David Rowland

Thank you.

Operator

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

Bryan Keane

Hi guys. Good morning and congrats on the solid results. Just want to ask about Strategy and Consulting. I know in the past, it hovered around mid-single digits, then it bumped up a little bit, went as high as double digits and then now, I think it decelerated a tad in mid-single digits. So can you just talk a little bit about maybe the ups and downs of that business and the slight deceleration we saw in the quarter?

KC McClure

Yeah, thanks, Bryan. So, overall, as you mentioned, we do feel good about our business in Strategy and Consulting, and we do feel good about mid-single digit growth, and we did have very solid bookings this quarter as well. And as you mentioned, growth will ebb and flow from quarter to quarter. And really, as we look at our Strategy and Consulting business, just a reminder that there's really kind of a dual purpose of what we're trying to accomplish there. First

of all is just the main objective of the role of delivering strategy and consulting work to our clients. But then also it's really to bring, as you know, the full scope of our end-to-end services. A lot of the overall transformation work and any of the larger scale deals in the pipeline that we may have are also led by and brought by our Strategy and Consulting business. In that context, as we stated before, we see Strategy and Consulting combined, if it's in the mid to high single digits — and that will ebb and flow by quarter — we think that's in the right zone for us.

Bryan Keane

Okay, helpful. And as a follow-up, I want to ask about acquisitions. It sounds like it's been about \$1.1 billion capital deployed in acquisitions. Can you just talk about how much you plan to spend in acquisitions and as we go into next year, are we still thinking a point or two of acquisitions kind of as a revenue contribution is kind of the right metric to think about?

KC McClure

Yes, so maybe I'll just get some of the financial data and David can talk a little bit more on it. So, overall, for this fiscal year, we think that we will probably spend, based on where we are to-date, probably closer to \$1.3 billion for acquisitions. And, overall, for this year, then we believe, based on what we've seen and the pipelines that we have in front of us and the deals we've already closed, we think the revenue...the inorganic revenue contribution this year will be closer to 2% from the closer to 1.5% that we had previously mentioned.

David Rowland

Yeah, and I would say just in terms of how to think about this going forward... Our inorganic strategy, or our acquisition strategy — as we've said through the years, really using inorganic as an engine for organic growth — that continues to be a focus area for us and that as a strategic objective is really unchanged as we look forward.

And really, if you look at what we've done year-to-date, I'm really pleased with how we've executed that. I think over about 80% of what we've done is focused on the New. We've done, of course, several deals in Interactive, as I called out, but we've also done deals in both Industry X.0 and Applied Intelligence. We've also done several deals in Accenture Technology, in both our Intelligent Platform Services, where we were strengthening our skills and differentiation in a few of the platforms. And then we've also done deals to acquire high-end software engineering capabilities, again in our Intelligent Software Engineering Services.

And then to round it out, as will always be the case, we have a handful of deals in the mix that are vertical-specific. And it's interesting — and just as an illustration of the importance of Banking & Capital Markets to us over the long haul as an important industry — we've made several investments in Banking during this period of time. So this will be an important part of our strategy, and you should really expect more of the same as we look forward.

Bryan Keane

Okay, helpful. Thanks for taking the questions.

David Rowland

Thank you.

Operator

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

Lisa Ellis

Hi, good morning. A question actually on the non-New, but I guess I'd say looking at performance of some of your peers over the last few months, one of the notable, striking observations is that some of the traditional services appear to be deteriorating. And so, I just was hoping you could unpack for us a little bit in Accenture's non-New — so meaning the other 35% or so — just remind us a little bit what exactly is in there and so, what trends are you seeing in those traditional services? Thank you.

David Rowland

Yeah, first of all, from a business-trend standpoint, we really haven't seen a change in the pattern at all. If you were to, even if you just took the information that we provide, you could extrapolate that the 35% is declining, let's say, in the single-digit range, and that's a pattern that we've seen now for some time. And so, to be clear, all of our growth — and this is by design — comes from our rotation to the New and the success that we've had in driving those services.

In many ways, we are in some instances, we are actually accelerating that because we are — in the interest of our clients, for example — we're taking some legacy services, think legacy application maintenance type services, and we are introducing some new technology to do that work in a more innovative way. And in doing so, you see those legacy services in application maintenance, as an example, decline, but that is by design. You might say we're cannibalizing ourselves, which is in support of our strategy, but we also do it in delivering value to our clients.

The other thing that you have in the New — and this is not to say that this is ... this is not a comment on market demand — but you do have a lot of, let's say, more traditional classic consulting services would be in the New. And while there's still demand for some of those classic consulting services, where our real opportunity is and where we're really focusing on our skills, capabilities and serving our clients is the strategy and consulting services tied to work that we do in the New. And so, the classic services have less focus, therefore less growth, because we're doing everything rotated to the New.

So, hopefully that, but the bottom line is we really haven't seen any change in the dynamic of the growth rate in the non-New versus the growth in the New. And it's really happening exactly as we intend per our strategy.

Lisa Ellis

Got it. Okay, terrific. Thank you. That's helpful. And maybe a quick one for KC. It looks like attrition picked back up a little bit this quarter. Can you just comment on what you're seeing on the labor front? Thank you.

KC McClure

Yes, it is at 18%. It's in a range though that we have been before, Lisa, so overall, 18% is not something that we're concerned about. But I would like to say that within that, if I peel it back a little bit, I do feel really good, and we feel really good, about the strong retention rates that we have in the areas that David just talked about — a lot of the strategic high-growth areas of our business, including Strategy and Consulting, as well as many other components of the New. And maybe just to close out, as a reminder, we really have no issues in getting the talent that we need. We are really quite a magnet for talent based on the strategy that we have, our financial performance is attractive and overall, our talent strategy and the experience that we provide to our people, the right workplace and our culture-of-cultures strategy. It's really an

environment where innovation is at the heart of everything that we do, and that's very attractive to many people in the workplace.

Lisa Ellis

Terrific. Thanks. Good to talk to you.

David Rowland

Thanks, Lisa.

Operator

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

Dave Koning

Oh, yeah, hey, guys, thank you. And I guess my first question, I know in the details you send out, the New has been over 60% now for four quarters. The prior 7 quarters, it stepped up every single quarter — and I think you did call out on this call, it's more like 65% now — but is there any reason that that pace of like change into the New seems to maybe be slowing? I know the growth is really good, but is there anything changing at all there?

David Rowland

I don't think there's anything changing. I mean I think you're going to see as we continue to talk about the New in the quarters ahead, I think you're going to see the same type trend line in terms of how it increases as a percentage of our revenue. So I think as we get to the fourth quarter, we typically round the number that we quote externally. And so, I think you'll see the typical pattern continue to evolve.

Dave Koning

Okay, well that's great. And the other thing, I know it sounds like the environment remains strong, it hasn't changed a lot, but the last 7, 8 quarters or so have been kind of in the 8-11% constant currency, and I think you're kind of guiding 5-8 or so in Q4. Is that kind of the typical "set the bar" to somewhere that's pretty easy to hit and if you execute well you kind of beat that, or is there something a little different maybe related to the bookings this quarter, that you're just trying to be a little more conservative?

KC McClure

Hey, Dave, I would say that I wouldn't characterize our guidance range as any different in terms of our practice. I mean, as you know, so the 5-8% for Q4, we aim towards the upper end of that range. That's no different than what we have historically done and what we always try to do. And there's not really any difference because the bookings in Q3 or what we see in Q4. And I think it's pretty much our standard way of looking at the quarter in giving the right balance that we believe the revenue expectations we would want to set with all of you.

Dave Koning

Gotcha. Well, thank you, good job.

David Rowland

Thank you.

Operator

Your next question comes from the line of Edward Caso from Wells Fargo. Please go ahead.

Edward Caso

Hi, thanks for taking my call here. I wanted to ask about non-linear growth with your headcount now at 481,000 and it seems like a lot more of the digital world is sort of platforms and non-people-based solutions. Can you talk about your investments in that area and where you see it maybe going as a percent of revenue? Thank you.

David Rowland

You know, we have talked about that before and, Ed, at the level that I guess is appropriate for us to talk about in this forum, I'll say again that certainly we believe that non-linear growth over time will be more in the mix. You are right that platform-based solutions bring IP to the table, solution aids, etc., of which I've referenced several in my script, are increasingly a bigger part of the services industry and increasingly a bigger part of our differentiation. And so, over time, we will be focused even more, and I'm sure we'll become even better, at capturing the value of the IP and the solution aids, etc., that we bring to our clients to deliver services and to deliver value to our clients.

The pace at which it happens is harder to predict. We're quite comfortable as we look forward in terms of our ability to manage the size of the talent organization we have. And as we look out, as you would expect we do, over a multi-year horizon, there's not anything about the progression of our headcount that concerns us in terms of executing our business strategy.

So non-linear growth, I think, will be more in the mix in the industry, and I would expect Accenture would lead the way. But the timing and the slope of the curve, I think, is still yet to be defined and we'll see how that plays out.

Edward Caso

Thanks. The other question, I think in the past, you might have given us a view on the FX for the coming fiscal year '20, I wonder if you could help us out in that department, your sort of initial views on the FX headwind or benefit in F20?

KC McClure

Yeah, hi, Ed. We won't provide any FY20 guidance, including FX, until we give the full FY20 guidance that we typically do at the end of our fourth quarter.

Edward Caso

Great, thank you. Congrats.

David Rowland

Thanks, Ed.

Operator

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

Rod Bourgeois

Hey there. Good to talk to you guys. I wanted to ask how you're feeling about the trends in valuations that you're paying for acquisitions? Maybe you can talk about how you're performing against your ROI targets for your average acquisition that you've completed in recent history?

David Rowland

Well, as we've said before, we are very rigorous in tracking our return on our investment for our acquisitions. As a management team, we do it very rigorously and we actually review that with the Finance Committee of the Board every quarter, and so it is a big focus.

And as I've said before, we are really pleased with the performance of our portfolio and really have been for the last several years as we really started to ramp up our game in this area. As it relates to valuations in certain areas of the market, which you know well, valuations have gotten pretty frothy, and we consider that as we do the analysis of buy versus build. We will never be irrational in overpaying for an asset in the market. But on the other hand, we also look at things through a strategic lens, and we understand that if something has significant strategic value and there's a scarcity of the skill in the marketplace, then we make the judgment about paying a little bit more in those instances, and there's been instances where we've done that.

So as you would expect of us, Rod, we are extremely thoughtful. There are areas like applied intelligence in the analytics space, for example, and you know this, where the valuations are super high; Industry X and in some areas there the valuations are super high. And so, we navigate that within our financial objectives. Again, we have a willingness where it is the right strategic play, but by and large, we focus on valuation because we're very return-focused in the way we execute our strategy.

Rod Bourgeois

Got it. That makes sense. Hey, just a follow-up on the outlook in consulting growth versus outsourcing growth. I was impressed last quarter with the strength in outsourcing growth and it upticked again this quarter, while consulting slowed a little bit. So is your outlook for growth in consulting versus outsourcing at a similar clip, or do you expect one to look stronger than the other in the next few quarters as you look at what's happening in the pipeline?

KC McClure

So, Rod, let me give you a little bit of color on how we see that playing out in FY19. So for the fourth quarter, we think consulting and outsourcing are both going to be about mid to high single-digit growth, and that would put for the full year both consulting and outsourcing at high single-digit growth range.

Rod Bourgeois

Alright, great, thank you, guys.

David Rowland

Thanks, Rod.

Operator

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

Jamie Friedman

Hi, thank you guys. Hi, Jamie from Susquehanna. David, thanks for the deep dive on Accenture Technology. You articulated the dimensions of the Intelligent Platforms, Intelligent Software Engineering, and the Cloud and Infrastructure. I was wondering can you help us? I know you said that Intelligent Platforms is 40% of revenue, a big number. I was wondering, can you give us some sense of the sizes of the other two?

David Rowland

I don't think... We've not communicated that externally, and I don't think I want to do that on this particular call, but we take that point and we have anticipated that we will start to introduce some quantitative numbers behind those parts of our business. But right now, it's a little bit premature to do that. But expect that we'll do that as we move forward.

Jamie Friedman

So maybe a different direction then. KC, you commented in your observations about the operating groups that the platforms — which David had described in his prepared remarks — is populated very well in CMT, or you said it was a driver of growth, that Software and Platforms was driving growth in CMT. Can you give us an idea of how we would... the presence of say platforms in the other operating groups? Do they over-index in any of the other operating groups?

KC McClure

Jamie, thanks for that question because that provides a good opportunity to make sure we're clear with the use of the word "platform" maybe. So platforms, as David was talking about and we talk about quite a bit, they're pervasive in all parts of our business — all operating groups, all geographies — in all parts of business dimension. So that's what we talk about when we discuss platforms.

David Rowland

And by the way, again, in that case, when we talk about the platforms, it's the work that we do around SAP, Microsoft, Oracle, Salesforce and Workday, and we refer to that as our Intelligent Platform Services business. It's the work we do around those platforms; platform in that context.

KC McClure

Right. So that's all five of those, and that is pervasive everywhere. When I commented specifically, Jamie, on CMT — CMT has three industry groups that make up the operating group of CMT, one of which is called Software & Platforms. So I know that it's the use of "platforms" name twice, but that's why I specifically called that out within CMT. But most importantly, the IPS that David talked about, the five platforms that we quantify in IPS, Intelligent Platform Services, are pervasive everywhere.

David Rowland

Yeah, so in CMT, it was the industry-segment reference she was making as the driver of growth.

Jamie Friedman

I got you. I got to go back to the 10-K. Okay, thanks for the clarification, guys, appreciate the context.

David Rowland

Thank you.

Operator

Your next question comes from the line of Jason Kupferberg from Bank of America. Please go ahead.

Jason Kupferberg

Hey, good morning, guys. So just to clarify on the comment about bookings improving in Q4. Do you mean in absolute terms? Do you mean the book-to-bill? Do you mean acceleration in year-over-year growth? Would it be all the above?

KC McClure

Yeah, it's pretty much all the above. I mean mainly, I'm focusing on in absolute terms, but it would generally be all the above.

Jason Kupferberg

Okay, got it. And just on Accenture Interactive. Obviously, you mentioned all the deal activity there, which is quite interesting. I wanted to see if we can just get an update on how fast that business is growing organically or the annualized revenue run rate. I know you've talked about it in some investor days in the past. I know you've been getting a little bit bigger on the agency-of-record side there, so was just hoping to get a general update qualitatively and quantitatively on that part of the New.

David Rowland

Yeah, so the last time we sized it was for FY18, and it was \$8.5 billion. And when you look at this business this year, it has continued to grow strong double-digit growth. Then if I say it the way Pierre would have said it, I mean very strong double-digit growth. So you can think of it as not in the teens, but higher than that. And that growth continues. And, of course, within that, as important as the acquisitions are in how we've executed our growth strategy in the context of a \$8.5 billion-plus business, the vast, vast, vast majority of that growth, of course, is organic. And so, it is fundamentally an organic-driven business where we have used the strategic acquisitions as really an igniter, if you will, of the organic growth, which ultimately led to the scale of \$8.5-plus billion.

Jason Kupferberg

Okay, I appreciate the comments.

David Rowland

Sure.

Angie Park

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

Operator

Okay, that question comes from the line of Bryan Bergin from Cowen. Please go ahead.

Bryan Bergin

Hi, good morning, thank you. I wanted to follow-up on the margin question. You've had solid performance this year. Can you comment on what's being done differently this year to yield that margin expansion, really getting back on track with your model versus last year? 'Cause I think you called out contract profitability earlier. But are there any other particular factors that are standing out?

KC McClure

Thanks for your question, Bryan. We're really focused, as I mentioned before, on pricing. So we're always focused on pricing — and I talked about this a little bit last quarter — that's nothing

new. But we continue to really be taking a look at our business in terms of getting the right value for the offerings that we're bringing and pricing them the right way in the marketplace...to benefit both us but also as well to make sure that we're doing the right arrangements for our clients. So I think that's really what I would say is the difference that is yielding probably most of the power within our margins is what we're able to do in pricing.

Bryan Bergin

Okay, that's helpful. And then just to close out here. Industry X.0 — it seems like peers are also emphasizing connected products and IoT here with a pickup in recent deals. Can you give us an update just on that business — how you see that space, how you feel about the outlook and then any metrics you can share yet on that business?

David Rowland

It is central to our strategy. We are super-excited about the potential in Industry X. We've said that many times before. It is... Relative to Accenture Interactive, which still has a big growth proposition in front of it, X is lower on the maturity curve, if you will, and so there's a lot of runway in front of Industry X.0. And so, in many ways it's still relatively immature. But we are working hard to be positioned right at the heart of that wave, and we're well-positioned now to be a leader in that wave. So we are very focused on it. It is a top short-list strategic objective, and we're excited about the market potential.

Bryan Bergin

Thank you.

David Rowland

Thank you.

Okay, so, thanks again for joining us on today's call.

As you can tell, we feel very good about where we are and confident in our ability to finish the year strong.

With our highly differentiated capabilities ... continued investments across Accenture ... and disciplined execution of our growth strategy ... we're very well-positioned to continue delivering profitable growth and significant value to all of our stakeholders.

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

Hope all of you have a great day! Thanks.