

Accenture

4<sup>th</sup> Quarter Fiscal 2019 Conference Call

Conference Call Transcript

September 26, 2019 / 8:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

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

**Julie Sweet** – *Chief Executive Officer*

**KC McClure** – *Chief Financial Officer*

## **PRESENTATION**

### **Angie Park**

Thank you, operator, and thanks everyone for joining us today on our fourth-quarter and full-year 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 Julie Sweet, our 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. Julie 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 both the fourth quarter and full fiscal year. Julie will then provide a brief update on our market position before KC provides our business outlook for the first quarter and full fiscal year 2020. We will then take your questions, before Julie provides a wrap-up at the end of the call.

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

During our call today we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures, where appropriate, to GAAP in our news release or in the Investor Relations section of our website at [Accenture.com](http://Accenture.com).

As always, Accenture assumes no obligation to update the information presented on this conference call.

Now, let me turn the call over to Julie.

### **Julie Sweet**

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

As a company and a leadership team, we focus every day on delivering on our commitments and creating value for our clients... and today we are proud to announce that we have delivered another year of outstanding financial results, meeting or exceeding each of the objectives we laid out in our initial fiscal '19 business outlook.

And I know that Pierre, our chairman and CEO who passed away in January, would have been very proud of the accomplishments this year of our nearly 500,000 people including more than 7,000 outstanding managing directors. I would like to add a special thank you to David Rowland, for his inspiring and exceptional leadership during these past several months, and to our entire global management committee, who came together under David's leadership to ensure that we delivered on our commitments, and which also was the ultimate way to honor Pierre, and his incredible contribution to Accenture.

Let me share a few highlights for the year:

- We generated record new bookings of \$45.5 billion, including our highest-ever quarterly bookings of \$12.9 billion in Q4.
- Revenues for the year were \$43.2 billion, an 8.5% increase in local currency.
- We delivered earnings per share of \$7.36, a 9% increase on an adjusted basis.
- Operating margin was 14.6%, an expansion of 20 basis points.
- We generated outstanding free cash flow of \$6.0 billion.
- We returned \$4.6 billion in cash to shareholders through share repurchases and dividends.
- And we just announced our first quarterly cash dividend of \$0.80 per share which reflects a 10% increase over the equivalent quarterly rate last year.

We have demonstrated once again the durability and resilience of our business ... and the strong demand for our services positions us very well for fiscal '20.

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

### **KC McClure**

Thank you, Julie—and thanks to all of you for taking the time to join us on today's call. We were very pleased with our results in the fourth quarter which completes another outstanding year for Accenture. Our results continue to provide strong validation of our leadership position in the marketplace, our relevance to clients, and our ability to manage our business in a dynamic environment... all to deliver significant value to our clients, our people and our shareholders.

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

- Revenue growth of 7.2% in local currency continued to be highlighted by strong double-digit growth in all three areas of the New—including digital, cloud and security-related services. Growth continued to be broad-based, with the vast majority of our industries at high single to double-digit growth levels. We continue to extend our leadership position with growth at about two times the market.
- Operating margin was 14.2% for the quarter, an increase of 20 basis points, resulting in 20 basis points expansion for the full year. Importantly, we delivered this expansion while investing at record levels in our business and in our people to position us for long-term market leadership. We delivered very strong EPS of \$1.74 which represents 10% growth, even with an FX headwind of about 2%.

- And, finally, we delivered free cash flow of \$1.9 billion, which surpassed our expectations, driven by our strong growth in profitability and continued superior DSO management.

Now, let me turn to some of the details.

New bookings were a record \$12.9 billion for the quarter and surpassed our previous all-time high by over \$1 billion. We had a very strong overall book-to-bill of 1.2.

- Consulting bookings were \$6.1 billion, with a book-to-bill of 1.0.
- Outsourcing bookings were \$6.8 billion, with a book-to-bill of 1.4.

We were extremely pleased with our bookings this quarter which were broad-based and strong across many dimensions of our business. They continued to be dominated by high demand for digital, cloud and security-related services which we estimate represented more than 65% of our new bookings.

For the full fiscal year, we delivered \$45.5 billion in new bookings. These record bookings reflect the relevance of our services and the high level of trust our clients place in us as their partner.

Turning now to revenues...

Revenues for the quarter were \$11.1 billion... a 5% increase in USD and 7.2% in local currency.

- Consulting revenues for the quarter were \$6.2 billion—up 5% in USD and 7% in local currency.
- Outsourcing revenues were \$4.9 billion—up 6% in USD and 8% 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 delivered its 8<sup>th</sup> consecutive quarter of double-digit revenue growth at 12% in local currency. Growth continued to be strong across all three industries and all three geographies.
- Products grew 8% reflecting continued strength in our largest operating group. We had strong growth across all three geographies, and very strong double-digit growth in Life Sciences.
- H&PS grew 8% this quarter, reflecting double-digit growth in Health and strong growth in Public Service. We were especially pleased with the strong growth in both Growth Markets and North America, with North America benefitting from continued strong growth in our U.S. Federal business.

- Communications, Media & Technology grew 5% reflecting continued double-digit growth in Software & Platforms. And overall, we saw double-digit growth in Europe and strong growth in Growth Markets.
- Finally, Financial Services delivered 4% growth, in line with our expectations. Insurance again grew double-digits and we saw continued improvement in Banking & Capital Markets globally. 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 which illustrates the diversity of the business that continues to serve us well:

- In North America, we delivered 8% revenue growth in local currency, driven by continued strong growth in the United States.
- In Europe, revenues grew 4% in local currency, with double-digit growth in Italy and Ireland, and high single-digit growth in the Netherlands.
- And we delivered another very strong quarter in Growth Markets, with 12% growth in local currency, led by Japan, which again had very strong double-digit growth. We had double-digit growth in China and Singapore as well as high single-digit growth in Brazil.

Moving down the income statement...

Gross margin for the quarter was 31.1%, compared with 30.8% for the same period last year.

Sales and marketing expense for the quarter was 10.6%, compared with 10.4% for the fourth quarter last year.

General and administrative expense was 6.2% compared to 6.5% for the same quarter last year.

Operating income was \$1.6 billion in the fourth-quarter, reflecting a 14.2% operating margin, up 20 basis points compared with Q4 last year.

Our effective tax rate for the quarter was 26.6%, compared with an effective tax rate of 28.0% for the fourth quarter last year.

Diluted earnings per share were \$1.74, compared with EPS of \$1.58 in the fourth quarter last year.

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

Free cash flow for the quarter was \$1.9 billion, resulting from cash generated by operating activities of \$2.1 billion, net of property and equipment additions of \$241 million.

Our cash balance at August 31<sup>st</sup> was \$6.1 billion, compared with \$5.1 billion at August 31<sup>st</sup> last year.

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

In the fourth quarter, we repurchased or redeemed 2.1 million shares for \$407 million, at an average price of \$189.78 per share.

And, our Board of Directors declared a quarterly cash dividend of 80 cents per share to be paid on November 15<sup>th</sup>, a 10% increase over the equivalent quarterly rate last year.

Now, I would like to take a few minutes to summarize our outstanding year. And as Julie mentioned, we were extremely pleased that we successfully executed our business to meet or exceed all aspects of our original outlook that we provided last September.

- Revenues growth of 8.5% in local currency for the full year was above the top end of the guided range that we provided at the beginning of our fiscal year. This result is a strong indication of the durability and resilience of our growth model, which is underpinned by our focus on achieving market-leading scale across key industries, geographic markets, and services. This includes our strategic focus to lead in the New, which represented approximately 65% of revenues for the year.
- Operating margin of 14.6% reflected a 20 basis point expansion over FY18 and was aligned with our original outlook.
- Diluted earnings per share was \$7.36—reflecting 9% growth over adjusted FY18 EPS—and was above our original guided range. As a reminder, in FY18 EPS was adjusted to exclude the impact of tax law changes.
- Free cash flow of \$6.0 billion was well above our original guided range, reflecting a free cash flow to net income ratio of more than 1.2 driven by strong profitability and continued industry leading DSOs.
- And, finally, we exceeded our objectives for capital allocation by returning \$4.6 billion of cash to shareholders while investing roughly \$1.2 billion across 33 acquisitions to acquire critical skills and capabilities in strategic, high-growth areas of the market.

So again, we had a truly outstanding year and we feel really good about our positioning as we head into fiscal '20.

Now let me turn it back to Julie.

**Julie Sweet**

Thank you, KC.

Our strong results reflect the power of our growth strategy. Our strategy starts with what our clients need... and our clients need to transform their entire enterprise. What we see is that most of our clients are still in the very early stages of their transformation journeys. The starting points and speed are different by industry and by company, but the scope of the ambition is consistently broad.

Our fiscal '19 results reflect the strong demand for our services and the significant growth opportunities in front of us.

I am extremely pleased that we finished the year with 200 Diamond Clients, which represent our largest relationships with many of the world's most iconic companies.

I'm also proud to share with you that in FY19 Accenture Interactive achieved a significant milestone, reaching over \$10 billion in revenue.

And finally, this quarter we had 16 clients with new bookings over \$100 million.

Clients choose Accenture for their largest and most complex transformation programs because they know we are uniquely positioned to create value by combining our unparalleled technology expertise, our privileged ecosystem relationships, our focus on innovation, and our broad industry depth. Our proven track record of global implementations at scale, coupled with our capabilities from strategy to operations, creates significant value for our clients.

Let me double click on a few of these important elements of our business, starting with our deep technology expertise and our privileged ecosystem relationships. Transformation for our clients begins with their understanding that technology is core to their business...and they turn to us because technology is core to our business. The depth, breadth, and scale of our technology expertise combined with the power of our deep ecosystem relationships—where we are a leading partner with all the key players—is critical to being our clients' partner of choice.

Another element I want to highlight is our deep and broad industry expertise across our 13 diverse industry groups. This breadth has always provided us durability and resilience in our business and today, it has created another competitive advantage. CEOs are increasingly looking to benchmark themselves against the best companies, regardless of industry... and they are turning to us for our cross-industry expertise. Because we bring both deep industry expertise in their industry as well as across other industries, we can help drive even more value at speed for our clients.

Let me bring this to life with an example of a solution that we originally developed for the communications industry and are now using to accelerate value in other industries.

For comms companies ... building out their networks and providing excellent customer service across all channels are the biggest imperatives.

We helped Verizon use artificial intelligence... coupled with our deep understanding of the industry... to create digital assistant experiences at scale that can now address more than 70% of Verizon's calls. In many cases, a 20-minute call with an agent has been reduced to a 3- to 4-minute digital interaction, significantly improving the customer experience. Verizon's agents have enhanced their skills and now have more time to handle the most complex calls—which is also the most interesting work.

As you can imagine, call centers represent a significant opportunity to drive value in many industries. Recognizing this, we were able to tailor our solution to the unique needs of our clients in both utilities and public service.

At Enbridge, the global energy company, we implemented a solution in their gas utility operations to address inquiries similar to Verizon's—such as billing questions and service changes—to improve their customer experience. Now callers are able to complete many transactions digitally, and customer satisfaction is up significantly.

And the New Mexico Human Services Department is using our solution to help employees answer questions about Medicaid faster and more accurately. For example, the State has reduced the time it takes to complete the process of providing Medicaid coverage to newborn babies by up to 75%. And our solution has freed up employees to focus on more complex tasks, enhancing their experience as well.

Let me wrap up by talking a bit more about our people and the inclusiveness of our culture. Our people and culture are our biggest competitive advantage and our unwavering commitment to inclusion and diversity enables us to recruit the most talented people in our markets. This creates an environment which unleashes innovation and allows our people to perform at their very best.

Today, I am announcing yet another milestone on our path to gender equality by 2025—with nearly 500,000 people around the world, and as a technology powerhouse, we are now 44% women.

In addition to gender, we are focused on leading in all areas of inclusion and diversity. And I am proud to announce that for the second year in a row, we have been ranked number one on Refinitiv's Diversity & Inclusion Index, which was previously produced by Thomson Reuters and identifies the 100 publicly traded companies around the world with the most diverse and inclusive workplaces, based on environmental, social and governance data for more than 7,000 companies.

With that, I'll turn it over to KC to provide our fiscal '20 business outlook. KC...

**KC McClure**

Thanks Julie.

Now let me now turn to our business outlook...

For the first quarter of fiscal '20, we expect revenues to be in the range of \$10.9 - \$11.2 billion. This assumes the impact of FX will be about negative 2% compared to the first quarter of fiscal '19 and reflects an estimated 5% to 8% growth in local currency.

For the full fiscal year '20...

Based upon how the rates have been trending over the last few weeks, we currently assume the impact of FX on our results in USD will be approximately negative 1% compared to fiscal '19.

For the full fiscal '20, we expect our revenue to be in the range of 5% to 8% growth in local currency over fiscal '19.

For operating margin, we expect fiscal year '20 to be 14.7% to 14.9%, a 10 to 30 basis-point expansion over fiscal '19 results.



We expect our annual effective tax rate to be in the range of 23.5% to 25.5%. This compares to an effective tax rate of 22.5% in fiscal '19.

For earnings per share we expect full-year diluted EPS for fiscal '20 to be in the range of \$7.62 to \$7.84, or 4% to 7% growth over fiscal '19 results.

For the full fiscal '20, we expect operating cash flow to be in the range of \$6.35 to \$6.75 billion, property and equipment additions to be approximately \$650 million, and our free cash flow to be in the range of \$5.7 to \$6.1 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 expect to return at least \$4.8 billion through dividends and share repurchases as we remain committed to returning a substantial portion of cash to our shareholders.

With that, let's open it up so that we can take your questions. Angie...

## **QUESTIONS AND ANSWERS**

### **Angie Park**

Thanks, 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.

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

### **Operator**

Thank you. Ladies and gentlemen if you wish to ask a question, please press \*, then 1 on your touch tone phone. You will hear a tone indicating that you are in queue. You may remove yourself from queue at any time by pressing the # key. Once again, for questions, please press \*, then 1.

The first question is from the line of Tien-tsin Huang, JP Morgan. Please go ahead.

### **Tien-tsin Huang**

Thanks and good morning. No surprises on the outlook, but I did want to ask on the bookings here. So Outsourcing bookings were strong. You said that large deals did come through. You suggested that they would, which is great. But on the Consulting booking side, that was flattish for the - I guess, looking at the second half of the year. So can we expect a rotation here perhaps into more Outsourcing revenue and maybe bookings, looking into fiscal '20, can you give us maybe your views on Outsourcing versus Consulting growth in fiscal '20?

### **KC McClure**

Yes, sure. So thanks, Tien-tsin, for the question. Maybe start with the last part of your question. In terms of how we're thinking about growth in fiscal '20 for Consulting and Outsourcing, we expect for the full year that growth for Consulting and Outsourcing, they'll both be in the mid to high single-digit range. And that's baked within our 5% to 8% guidance for the year.

And taking your bookings question, as you mentioned, we had record bookings for this quarter, \$12.9 billion. And if you peel that back and look at our Consulting bookings, we also had

bookings at 6.1 billion in Consulting type of work. And that's one of our highest booking quarters ever and it was at our book-to-bill target of 1.0 or higher.

And, importantly, Tien-tsin, as well, we feel really good about the pipeline that we have as we enter into the beginning parts of fiscal '20. And we say that on an overall broad base in terms of all aspects of our business. And so, when you peel that back and you look at overall what we've done in terms of bookings for the fourth quarter in Consulting, our overall bookings at 12.9 billion, a record, as well as our strong pipeline as we head into fiscal '20, we see balanced growth across both types of work.

### **Operator**

The next question is from the line of Bryan Bergin of Cowen. Please go ahead.

### **Bryan Bergin**

Hi, thank you. I wanted to follow up just on that bookings question. It seems like the variability quarter-to-quarter has become more volatile, can you just talk about the major drivers of that and is that something that we should expect to continue in fiscal '20?

### **KC McClure**

In terms of our bookings, I think if you take a look at how we position bookings and think of it from a quarterly basis, and we've said this kind of historically, they can be lumpy from quarter to quarter. And really, what we're looking at in terms of our overall bookings is that we meet over a prolonged period our bookings targets, which for Consulting are anything from 1.0 and above, which we did this year in this quarter. And for Outsourcing, which tends to be 1.1 and above over a prolonged period. In this quarter, we did 1.4.

So we expect that there will be some variability. You saw that certainly this year where we had really strong bookings in quarter two. We had a little bit lighter as it relates to the rest of the full year in quarter three. And we signaled that based on our pipeline, we thought that we would have very strong bookings in Q4 and, indeed, we did.

So that's something that we're very used to. As we think about FY20, we tend sometimes to have, Q1 might be a little bit of a lighter bookings in relation to the rest of the year. But, again, coming off a particularly, very strong year and quarter four, that may be the case as well for this year. But we feel very strong. We feel very good about our strong pipeline as we enter into '20.

### **Bryan Bergin**

Okay, thanks. And then just to follow-up on your talent and resourcing model. As you approach 500,000 employees, can you talk about what you're doing to reduce the manual effort around work? I think in the past, you've disclosed automated FTE or efforts within your Operations group. So any update you can provide there, and it's in the context of just the uptick that we saw in attrition to 19% and your comfort levels there? Thanks.

### **Julie Sweet**

I'll let KC address the specific uptick around the attrition, but let me give you a broader perspective on how we look at talent. One of our greatest strengths is how we manage talent and people. And so, if you look at it at any given time, we are always adjusting the use of technology in our business and the talent that we then need to hire. And so, we have talked about it in the context of our Operations business, but when you think about the work that we do in Technology with our myWizard platform where we're using the latest in artificial intelligence

and analytics to help our clients. That was work that five years ago, we used people. And so, we don't think about this as a particular sort of strategy to do X, but that at any given time, we are continuously innovating how we are giving services and then adjusting what that means for our talent. And we do that really seamlessly quarter-to-quarter and year-to-year.

**KC McClure**

And, Bryan, just to answer your question on the actual attrition number. We did have a slight uptick this quarter by about 1%, but we feel good about the strong retention rates that we have in key strategic areas of our business. And that includes areas such as our Digital practice, as well as Strategy and Consulting.

And just, as you know, we really have no issues in attracting the people that we need. So people choose Accenture because of our strategy, our strong financial performance and the experience that we provide to our people, continuous learning, the amount of investments we make in training, in innovation and it really does make Accenture one of the best places to build a career.

**Operator**

And next, we have David Togut of Evercore. Please go ahead.

**David Togut**

Thank you, good to see the bookings strength. I'd like to ask about any changes you're seeing in average contract length, especially given the ongoing strength in Outsourcing bookings and possibly in the evolution of your shift to the New, are you in a more of an operating and run stage with a lot of bigger clients?

**KC McClure**

David, there's really no change to the duration of our contracts and our bookings. No change.

**Julie Sweet**

David, I would think about – really thinking about what we're seeing in the business – because really our clients are focusing on enterprise-wide transformation. And what that requires is that we bring all of our capabilities together, from Strategy to Operations. And you saw that in the bookings we had this last quarter of 16 clients with over 100 million. And just to give you an example there, we're working in Products, with one of the Products companies, Fortune Global 100, who is transforming HR using everything from our Strategy capabilities to our Operations capabilities to transform the experience from hiring to retirement and at the same time, drive down costs.

And our competitive advantage in this market is that we are able to bring all of those capabilities. And what we're seeing is that boards and CEOs are really focusing on the enterprise-wide transformation which means large and strategic programs, which is what we are very uniquely positioned to deliver.

**David Togut**

Understood. Just as a quick follow-up, you announced a leadership change Tuesday at the head of your Products group, your largest operating group. What changes should we expect with Simon Eaves taking over Products leadership?

**Julie Sweet**

That's going to be a very seamless transition to Simon. He's been working in Products for most of his career and brings the deep, both industry and operational, and sales expertise. So that should be very seamless.

**Operator**

And next, we have questions from the line of Bryan Keene, Deutsche Bank. Please go ahead.

**Bryan Keene**

Hi guys. I want to ask about Digital. If I look inside the New, Digital appeared to be slowing a little bit more than Cloud and Security, and it's off its high growth rate in fiscal year '18. So just thinking about it, is Digital getting more penetrated or more competitive inside there? I know it's still growing, it looks like high teens, maybe low 20%, but it is off of the growth rate that it was growing there previously. So we would get questions about penetration. Thanks.

**KC McClure**

Bryan, I'll answer the question for the growth rate. I'll hand it over to Julie to talk about what's happening within the Digital business. So Digital in terms of what we estimate for the full year, we estimate Digital to be about a \$21 billion business. So it's very significant in terms of scale. It's about 50%, almost, pushing 50% of our overall revenue base. So with that scale, as you mentioned in terms of growth, I mean we are at the very high teens in terms of growth rates. So we're really pleased with what we're seeing and the continued very strong high teens double-digit growth that we have in Digital. And we expect that as we look into next year, that overall, we will have in the New, which includes Digital, we'll continue to have double-digit growth overall in FY20.

**Julie Sweet**

I think it's important to look at, again, what are clients are doing when we think about where we are in our growth strategy. As I said earlier, we do see our clients at the very early stages of their transformation. And so, really think about what is happening in three buckets. The first is they are building out their digital core, which is establishing the technology foundation. And so, in the scale parts of our business, Intelligent Platform Services, which is all about the next-gen platform, that's 40% of our business today, growing double-digits because our clients need to establish that new foundation that's going to fuel the enterprise transformation.

At the same time in the digital core, we're still in the early stages of scaling areas like data, right, how our clients are going to be able to find and curate that data which is just really beginning when you think about how much data there is. Security, which is only at 2.5 billion and then the move to the cloud. So within building the digital core, we have scale plays like Intelligent Platform Services growing double-digits and then we have the next scale plays which are also growing double-digits.

Then the second big area our clients are focused on is driving the growth agenda which is all about creating better customer experiences, which is fueling Accenture Interactive, which hit \$10 billion this year. But it's also fueling the focus on new products and services which is what X.0 is about. That's very early stages, having connected products and services. And so, that'll be the next area that we are really focused on scaling in the growth agenda.

And then the third area is in optimizing their operations. And, again, scale part of our business, Operations, which is growing double-digits. And that's because it helps our clients reduce costs

to increase their investment capacity, but it also enables our clients to do the transformation because we have invested in Operations to use machine learning and other forms of emerging technologies. And so, they are accessing those technologies through our platform in Operations.

But then at the same time, you have, again, X.0, we're seeing the early stages of digitizing manufacturing, creating the connected plant, which will be the next play that we are scaling. And then, of course, at any given time, we're in the innovation space, we're looking at the emerging technologies that will fuel growth. But in each of the areas of what our clients are doing, we have scale today growing double-digits and then we have the next plays that we're scaling.

### **Bryan Keene**

That's helpful. I just have one follow-up for KC. On tax rate, I see tax rates going up, it looks like about 100 to 300 basis points and I know there's some moving pieces inside the tax rate. So if you can just talk about what factors we should be considering there for tax this fiscal year?

### **KC McClure**

Yeah, sure, Bryan. Our range, just to maybe to anchor to where we're starting, so our range for fiscal '20 is up about a half a point compared to where we started last year for fiscal '19. And the increase from fiscal '19 to fiscal '20 is primarily due to the U.S. tax reform provision that's phased in over two years. And as a reminder, there are four factors that I think you probably know well, but just may bear repeating, that can influence our tax rate in any given year. And the first one is our geographic mix of our income, the second is the changes in our prior-year tax liability, the third is our final determinations and the fourth is the tax impacts on our equity compensation.

### **Operator**

Thanks. Our next question is from the line of Harshita Rawat of Bernstein.

### **Harshita Rawat**

Hi, good morning. Thank you for taking my question. My question is for you, Julie. Given your background in M&A and what's happening in the marketplace, should we expect Accenture to potentially look at larger deals now versus the tuck-ins you've done historically? And then as a follow-up question, over the last couple of periods, you've done a lot of acquisitions in Accenture Interactive. So going forward, what should we expect of the focus in your M&A activity?

### **Julie Sweet**

Thanks for the question, Harshita. Let me start with the overall strategy around acquisitions which has served us extremely well, and we think about acquisitions to do three things. To scale hot areas in the market. So for example, this year, we did about six acquisitions in Technology, three of them in particular around the Intelligent Platform Services that I've already talked about. We're seeing double-digit growth and we want to help scale our capabilities.

The second is to add new capabilities. And this has been a lot of our acquisitions in the New, which has been, about 20 of the acquisitions have been in Digital and Security, particularly as you pointed out, in Accenture Interactive and that is all about adding new capabilities.

And then the third is really getting deeper industry and functional expertise. And so, this year we did four in the area of Financial Services, where we really expanded our expertise in that industry through these acquisitions.

So you should expect that our strategy is always going to be around those three areas and that it is meant to fuel our organic growth. Now, with respect to whether we would do a larger acquisition, we've always said that we could do a larger acquisition, but it would really need to make sense for us in the context of what we look to acquisitions to do. So there's certainly no plan to do that but, obviously, we have the capability if that ever made sense.

And then, finally, as we think about going forward, certainly Accenture Interactive is an important focus point and we've done a lot of acquisitions there. As you think about where we're scaling, to the next scale place like X.0, you should expect to see that we're going to focus on, in that area as well. And so, in each year, we're going to look at where we need to either scale, add new capabilities or add industry expertise, and it'll really change based on what we're seeing in the market and what's available.

**Harshita Rawat**

That's very helpful. Thank you very much.

**Operator**

And the next question is from the line of Keith Bachman, Bank of Montreal. Please go ahead.

**Keith Bachman**

Hi, thank you very much. Julie, I'd like to direct this first one to you and that's how do you think about Accenture's business line related to more challenging economic cycles? And to put a little more context on the question, it would seem to me that Operations is pretty resilient if, in fact, the economy got tougher. The one I question is Strategy and Consulting. And if I look back to 2009 when the economy got really tough, the Strategy and Consulting element declined double-digits. And so, if we look at out the next year or two, if we hit more difficult economic times, how is Strategy and Consulting different today, that it might be more or less immune from economic cycles? And I have a quick follow-up for KC.

**Julie Sweet**

Sure. Well, we sort of take a step back and think about what we've been trying to achieve over the last five years. And that has been our rotation to the New. Meaning focusing on the most relevant services that our clients need to transform their businesses. So our Strategy and Consulting business today is focused on these new services. How do you take blockchain and apply it to financial services? How do you use data and combine it with deep customer insights and use the skills of an Accenture Interactive to create a different customer experience?

And we believe that in a downturn scenario, our relevance to our clients comes in the fact that they are still going to need and, in fact, we think during that time, even more so to use these capabilities that we have in order to drive their growth agenda, optimize their operations and, of course, still build the digital core. And so, that's where we see the resilience of our current business model.

**Keith Bachman**

Okay, thank you. KC, just a quick one for you. On the cash flow, particularly operating cash flow, looks like capex is up a little bit. But if I focus on operating cash flow, you're guiding it to be more or less flattish, year over year. And while I understand that your cash flow metrics on guidance are almost an output, but is there anything you wanted to call out as being unusual that would make the year over year comparisons on operating cash flow a little more

challenging or either pluses or minuses on the operating cash flow? And that's it for me. Thank you.

### **KC McClure**

Thanks, Keith. In terms of operating cash flow and our overall free cash flow. There's a minor uptick, \$50 million in capital expenditures. So that's not really very different. But really the way we look at free cash flow is the goal that we have is for it to be over 1, at 1 or better in terms of the ratio to net income. And so, with our guidance this year, we're actually at 1.1 to 1.2, so that's outstanding. Another year of outstanding free cash flow.

Now this year, in FY19, we did above 1.2. And why did we do even better, and what are the influences that can put us in one place or the other? It really has to do with a couple items that I would point out. In this year, in particular, we had significant outstanding performance continuing in our DSO. And so, for every day of DSO, it's about 130 million, give or take, to our free cash flow. So we always assume at the beginning of the year that, we give ourselves a little bit of room to stay in the low 40s, because that would still be outstanding within our business.

And I'll just point out maybe a couple other things that influenced the fourth quarter, for example. The timing of things such as cash tax payments and just overall timing of accounts payable. Those are things that can really change the timing of our free cash flow. But for next year, we have just another stellar free cash flow performance baked into our guidance at 1.1 to 1.2. And we continue to be very proud of how we operate our business in that respect.

### **Keith Bachman**

Many thanks.

### **Operator**

The next question is from the line of Rod Bourgeois, DeepDive Equity. Please go ahead.

### **Rod Bourgeois**

Hey, there and welcome, Julie. Julie, I just wanted to ask a big picture question here. Do you have any strategic changes or major priorities that you plan to implement as you take the helm?

### **Julie Sweet**

Rod, our strategy starts with our clients and so, we are going to continue to stay focused on our clients. And so, there's no major change in our strategy, because a new CEO didn't change our clients.

### **Rod Bourgeois**

Got it. And is there anything significant happening in any of the verticals that may change the vertical mix as you move into next year? It looks like the range of growth outcomes that you're getting across your verticals has narrowed some. Some of the really high performers have slowed and some of the weaker performers have improved. So are the verticals' performances next year prone to be more parity, or could the spread widen?

### **KC McClure**

Thanks, Rod. This is KC. I would say that in terms of our verticals next year, obviously, talking about our operating groups, within our range of 5% to 8%, we see that all of them have the ability to be within that range. And certainly, the opportunity exists also for some of them, and I think of Resources in particular, to perform above that range.

**Operator**

Thank you. Next question is from the line of James Friedman, Susquehanna. Please go ahead.

**James Friedman**

First, thank you for all these incremental disclosures. They're very helpful. The observation of the Diamond Clients, the 100 million, the decomposition of the growth, it's all appreciated. I just wanted to ask you briefly about the business dimension of strategy and consulting. So that dimension, I'm looking at the bottom left corner, the Q4 in the purple grid. Yeah, so, the mid single-digit growth for the Q4 did trend just below the flipside, which was high single-digit growth for that dimension for the year. And I know each quarter can be lumpy, but any expectation about that staying here, or potentially accelerating, that's contemplated in the guidance would be helpful.

**KC McClure**

Sure. Hi, Jamie. I think for the question, in terms of our overall Strategy and Consulting businesses, as you mentioned, it's \$14 billion, is what we estimate that business to have been in the fiscal year that we just closed, 2019. It's a little bit less than, it's right around a third of our business. And at that scale, we're really pleased when we have growth in the mid to high single-digits range. And so, for the year, we see that it was high single-digits, for this quarter, in Q4, we saw that it was mid. But we're happy when it's in the mid to high single-digit range. And as you mentioned, it will ebb from quarter to quarter. But I think it's important, and just picking up on some of the things that Julie talked about, as you know, that Consulting and Strategy, it's a really important capability because that helps us drive value across the C-suite. Not only in the role of delivering pure strategy and advisory work to clients to shape their transformation agenda, but also to bring the entire full scope of Accenture's transformation capabilities, including technology, industry, all at a global scale. And as Julie put it in her examples, as well as with our 16 clients at over \$100 million, we saw that really in evidence this quarter as well.

So it's a bit of a dual purpose that we have in Strategy and Consulting advisory work. And we're really pleased with, overall, our performance in the year, our performance in the quarter and we feel with the bookings that we had in Q4, 6.1 billion, which is in Consulting type of work overall, but a portion of that obviously within Consulting and Strategy, we feel well-positioned in this regard for fiscal '20.

**James Friedman**

Okay, thanks, KC. And then I just wanted to ask about Operations. So incredible double-digit growth again, above company average, above the industry. So I know you shared some already, but any texture there would be helpful. Can we keep that up and is that contemplated in the guide? Thank you.

**KC McClure**

Yes, so, Jamie, yes. We're really proud of what Debbie and the team have been able to do in Operations over the last years, where they continue to have double-digit growth. And for next year for Operations, we do see that that will continue, probably in, maybe in the high single to the low double-digit growth range, is what we see in Operations.

**Julie Sweet**

And maybe just take a minute to expand on why Operations is so strategic for us and for our clients, and it really is for two reasons. So, first of all, Operations is a great and proven way to



create value for our clients because it helps them reduce costs, create more investment capacity. But the Operations business today is very different than say even five years ago, because we have invested to bring these great technologies to the platform which we call SynOps. And if you're a CEO and you think about where do I want to build my own capabilities around artificial intelligence and emerging technologies? Do I want to do that in order to transform Finance or HR or the marketing backbone, or do I want to do that in places that are going to truly differentiate me in terms of my products, for example?

And the equation is often, why don't we go to Accenture that has built that platform, that's doing it across hundreds of clients with deep and long expertise in the enterprise, and access that technology to transform how we're doing those functions, so that I can put my investment into these other areas that are going to differentiate us in the market. And that is really helping drive the next wave of growth for Operations and we think that's going to be even more important as we see this enterprise-wide transformation.

### **Operator**

And our next question is from the line of Jason Kupferberg of Bank of America. Please go ahead.

### **Jason Kupferberg**

Good morning, guys. Can you just tell us how much M&A contribution you're expecting in the fiscal '20 revenue growth? And can we also just get a follow-up comment on the tax rate with the increase in '20? Is that the new normal we should be thinking about in the let's call it medium term just based on the phase-in of the tax law changes?

### **KC McClure**

Thanks, Jason. In terms of the contribution that we have assumed for FY20 in our 5% to 8% guidance range, it's about 2% inorganic, which is around the same as we landed in FY19. In terms of our tax rate, maybe again, I will just answer that our range is only up 50 basis points from where we started the year and there's various things that can impact our tax rate throughout the year. So we're not really in a very different space from where we started last year. But you're right that in FY20, we have phased in the U.S. tax reform provision that phased in over two years. So we do think that that's really where our rate will be for this year. I'm not going to guide to – we don't guide to out years on our tax rate. But we will then work our four other factors that can influence our tax rate overall, but we do have in '19 to '20, the second year of phasing of the U.S. tax reform.

### **Jason Kupferberg**

And I'm just curious, on attrition, just to come back to that. I know you guys aren't having any issue attracting the talent that you want and need. But should we expect, just in light of the generally tight labor market, especially for digital talent, that this kind of high-teens zip code is just sort of a new normal?

### **KC McClure**

Jason, I don't think there's anything that you should expect that's different than what you've seen – I know you've followed us for a long time – than we've had in the past. When we're in the higher teens to mid-teens in attrition, that's a level that historically we feel we can manage and that's how we built our business. So there's nothing that you should expect that's very different and nothing that we're concerned about.

**Angie Park**

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

**Operator**

Thank you. And that question is from the line of Lisa Ellis from MoffetNathanson. Please go ahead.

**Lisa Ellis**

Good morning, guys. A question on Outsourcing bookings again, just in follow-up, I think, from Tien-tsin's question opening the call. I know, the Accenture of old we'd always think of Accenture's Outsourcing business being heavily things like ERP management and whatnot, but that is clearly not what it is now. Can you decompose a little bit what makes up Outsourcing at this point? Is this like cloud, managing clouds on behalf of clients? Is this a lot of like digital marketing ongoing management, just to give a sense for like what's underneath that? Thank you.

**Julie Sweet**

Well, Lisa, what's interesting is that the breadth of what we do there is actually not different. It's just how we're doing it. So, for example, we're still doing Application Outsourcing, but we're doing it using DevOps and Agile and something we call Living Systems, because it's a different way of doing Application Outsourcing that's allowing the Application Outsourcing that we do for our clients to help drive their business transformations. We have, of course, a \$6 billion business in Operations. And, again, the kinds of functions in that we're doing are similar, although we've added marketing and scaled marketing over the last couple of years. But again, it's how we're doing it. It used to be about labor arbitrage 10 years ago. It's very, very different now.

And so, the breadth in terms of the activities that we're going after has not changed. What makes it so successful for us is that we have evolved how we do it. And so, you can see Application Outsourcing, because of the techniques we're using, is now helping our clients get to things like Agile and DevOps at scale and be able to help drive their business differently.

**Lisa Ellis**

Terrific, thanks. And then a quick follow-up for KC on one more guidance question. Can you articulate what macro outlook for 2020 is embedded in the guidance and then, realizing it's still September, are you seeing enough visibility into budget outlooks and stuff for next year that you're feeling – what's your confidence level around that macro outlook? Thank you.

**KC McClure**

Thanks, Lisa. And as you mentioned, this is an obvious point, but at the beginning of the year, this is our longest range of time that we're giving an outlook. But with that, as you know, we guided to 5% to 8% growth for next year. And that contemplates a market that we see growing about the same as it has done in '19. So for us, our addressable market, we think it's probably somewhere in the 3% to 4% range overall for next year.

**Julie Sweet**

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

KC and I and the entire team are extremely pleased with our excellent performance for fiscal '19.

We see significant opportunity ahead and we are laser-focused on delivering value for all of our stakeholders.

Let me end by thanking our stakeholders—thanking our clients for placing their trust in us, our investors for their continued confidence, our ecosystem partners for their shared commitment to our clients, our exceptional leadership team and finally all of our people around the world. You are what makes Accenture so special.

I'll see everyone on the road! Thanks.