

Accenture

1st Quarter Fiscal 2020 Conference Call

Conference Call Transcript

December 19, 2019 / 8:00 a.m. Eastern

CORPORATE PARTICIPANTS

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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 first-quarter fiscal 2020 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 the first quarter. Julie will then provide a brief update on our market positioning before KC provides our business outlook for the second 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.

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.

Today we are very pleased to announce strong financial results for the first quarter, continuing our momentum from fiscal year '19.

We are especially pleased with our revenue growth of 9 percent in local currency — well ahead of the market — which was broad-based across all dimensions of our business. We also delivered strong profitability and again returned substantial cash to our shareholders.

Our strong results across industries and geographic markets reflect the diversity and scale of Accenture's business around the world. We are very well-positioned to continue creating value for all our stakeholders.

We are off to a great start in Q1, and we feel confident in our ability to deliver another strong year in fiscal '20.

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

KC McClure

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

We were very pleased with our Q1 results which were strong across all dimensions of our business and position us well to achieve our full-year business outlook. Once again, the broad-based strength of our results demonstrates the durability of our business, the relevance of our services in the marketplace, and our scale and leadership in the world's largest and key geographic markets.

Our results reflect very strong execution against our three financial imperatives for driving superior shareholder value:

- Revenue growth of 9 percent in local currency was well above the top end of our guided range for the quarter. Growth was broad-based across all dimensions of our business, with the majority of industries growing at a high single- or double-digit rate. Results continue to be driven by strong double-digit growth in digital, cloud and security related services. And, our 9 percent growth represents continued market share gains as we extend our leadership position.
- Operating margin was 15.6 percent for the quarter, an increase of 20 basis points. Importantly, we delivered this expansion while investing significantly in our people and in our business to position us for long-term market leadership. We delivered very strong EPS of \$2.09 which represents 7 percent growth, which includes an FX headwind of about 2 percent.
- And, finally, we delivered free cash flow of \$692 million and returned \$1.2 billion to shareholders through repurchases and dividends. We also invested \$110 million in acquisitions in the quarter to bolster our skills and capabilities in strategic, high-growth areas of our business. And, we expect to invest up to \$1.6 billion in acquisitions this fiscal year.

Now, let me turn to some of the details for the quarter.

New bookings were \$10.3 billion.

- Consulting bookings were \$6.0 billion, with a book-to-bill of 0.9.
- Outsourcing bookings were \$4.3 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 continue to be dominated by high demand for digital, cloud and security related services which we estimate represented more than 65 percent of our new bookings.

Overall, Q1 bookings landed in the range that we expected and followed our historical pattern of lower bookings in the first quarter. As you know, quarterly bookings can be lumpy, and looking forward, we have a strong pipeline and expect strong bookings in Q2.

Turning now to revenues...

Revenues for the quarter were \$11.4 billion... a 7 percent increase in USD and 9 percent in local currency.

- Consulting revenues for the quarter were \$6.4 billion – up 7 percent in USD and 9 percent in local currency.
- Outsourcing revenues were \$5.0 billion – up 7 percent in USD and 9 percent in local currency.

Looking at the trends in estimated revenue growth across our dimensions – Technology Services and Strategy & Consulting Services both posted strong, high single-digit growth, and Operations continued its trend of double-digit growth, for the 24th consecutive quarter.

Taking a closer look at our operating groups...

- H&PS grew 13 percent in local currency, driven by double-digit growth in both Health and Public Service, including double-digit growth in North America and Growth Markets, and strong growth in Europe.
- Products grew 12 percent reflecting continued strength in our largest operating group, with double-digit growth in Life Sciences and Consumer Goods, Retail, & Travel Services. We continued to see strong demand for our services across all three geographies.
- Resources grew 7 percent in the quarter with double-digit growth in Energy and strong growth in Utilities. Overall, we saw double-digit growth in both Europe and Growth Markets.
- Communications, Media & Technology delivered 7 percent growth reflecting continued double-digit growth in Software & Platforms, with double-digit growth in Europe and strong growth in Growth Markets.
- Finally, Financial Services grew 6 percent this quarter. 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 and strong growth in North America – partially offset by contraction in Europe. We expect to see continued challenges in Banking & Capital Markets in Europe in the near term.

Turning to the geographic dimensions of our business...

I am very pleased with the continued demand across all three of our geographic markets which illustrates the diversity of our business which continues to serve us well:

- In North America, we delivered 9 percent revenue growth in local currency, driven by double-digit growth in the United States.
- In Europe, revenues grew 7 percent in local currency, with double-digit growth in Italy, Germany and Ireland, and high single-digit growth in France.
- And we delivered another very strong quarter in Growth Markets, with 13 percent growth in local currency, led by Japan, which again had very strong double-digit growth. We also had double-digit growth in Brazil and Singapore.

Moving down the income statement...

Gross margin for the quarter was 32.1 percent, compared with 31.1 percent for the same period last year.

Sales and marketing expense for the quarter was 10.5 percent, compared to 10.1 percent for the first quarter last year.

General and administrative expense was 6.1 percent compared to 5.6 percent for the same quarter last year.

Operating income was \$1.8 billion for the first quarter, reflecting a 15.6 percent operating margin, up 20 basis points compared with Q1 last year.

Our effective tax rate for the quarter was 23.6 percent, compared with an effective tax rate of 19.8 percent for the first quarter last year.

Diluted earnings per share were \$2.09, compared with EPS of \$1.96 in the first quarter last year.

Days Services Outstanding were 43 days, compared to 40 days last quarter and 42 days in the first quarter of last year.

Free cash flow for the quarter was \$692 million, resulting from cash generated by operating activities of \$787 million, net of property and equipment additions of \$95 million.

Our cash balance at November 30th was \$5.8 billion, compared with \$6.1 billion at August 31st.

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

In the first quarter, we repurchased or redeemed 3.8 million shares for \$729 million, at an average price of \$189.65 per share. At November 30th, we had approximately \$3.0 billion of share repurchase authority remaining.

Also, in November, we paid our first quarterly cash dividend of \$0.80 per share, for a total of \$508 million. This represented a 10 percent increase over the equivalent quarterly rate last year. And, our Board of Directors declared our second quarterly cash dividend of \$0.80 per share to be paid on February 14th, also a 10 percent increase over the equivalent quarterly rate last year.

So, in summary, we were very pleased with our Q1 results and we are off to good start in Fiscal 20.

Now let me turn it back to Julie.

Julie Sweet

Thank you, KC.

Our first-quarter performance reflects continued strong demand for our services as well as the disciplined execution of our growth strategy.

Accenture is uniquely positioned to partner with our clients to successfully achieve transformation across the enterprise. We have unparalleled technology capabilities and ecosystem partnerships, deep industry and function expertise, a focus on continuous innovation, digital at scale and incredibly talented people. We create value for our clients — from building out their digital core, to helping them innovate across their growth agenda and realize significant value from optimizing their operations.

The New — digital, cloud and security — is now our core, accounting for about 65 percent of total revenues ... and we are focused on continuous innovation across these services.

In cloud, for example, we have more than 300 patents and pending patent applications. We have 90,000 cloud professionals and are the leading global partner of Amazon Web Services, Google Cloud Platform and Microsoft Azure.

And I am very pleased that we just launched myNav — a groundbreaking new platform to help clients accelerate their cloud transformations.

Identifying the right cloud solutions can be complicated ... so the key is simulating and testing a scaled-up model to quantify value and build the business case — giving clients confidence in the potential benefits so they can move forward quickly.

This is just another great example of our continuous innovation mindset and how we drive speed to value for our clients.

Over the past few months, I have been spending time in many of our key geographic markets around the world, meeting with our clients, our people and our ecosystem partners. We have scale in every major market... and we are the leader — number one — in both North America and Europe, and number three in Growth Markets, where we continue to rapidly gain market share. As an example, we have reached scale in China with more than 17,000 people, and this is a key strategic market for us and our global clients.

Let me double-click on our major markets. Our eight largest countries as we move around the world — the U.S. ... the UK, Italy, Germany, France and Spain in Europe ... and Japan and Australia in the Growth Markets — these countries account for nearly 80 percent of our revenues, and they all generate a billion dollars or more in annual revenues. They also are home to more than 85 percent of our 200 Diamond Clients — our largest relationships with the world's leading companies.

Our extensive global presence has always positioned us uniquely in the market to deliver best-in-class global programs for the largest multinational companies ... and today, it has created yet another competitive advantage, which is the ability to create value at speed and scale by leveraging our global expertise, tailored to the local context.

Leveraging our global network of more than 100 innovation hubs that we have built over the last few years, we can bring innovation from every corner of the world to our clients.

While the theme of transformation is common across the globe, it plays out at the intersection of industry, technology and geography. We see growing and significant differences by country, while at the same time, our global footprint gives us the opportunity to leverage our learnings and our talent from around the world to accelerate outcomes for our clients.

Let me bring this to life with a few examples from our Resources business. The ways in which energy is produced, consumed and distributed are changing dramatically, but the shape and pace of the change — and the opportunities for Accenture — are different around the world.

In Europe, we are working with clients in France and Italy to help them succeed in the transition to a low-carbon economy. For ENGIE, the French multinational utility company, we are teaming with Salesforce and Vlocity — in which we have a minority investment — on a global unified CRM platform for more than 15,000 employees. The new platform gives ENGIE a common, intelligent view of its customers across more than 70 countries and empowers employees to strengthen customer relationships and provide personalized recommendations to support ENGIE's new "Zero Carbon transition" strategy for the Fortune Global 500.

In Italy, we are collaborating with Snam, which operates the largest gas transmission network in Europe, to identify Internet of Things technologies on the Microsoft Azure platform leveraging connected devices as well as machine learning, artificial intelligence and advanced analytics to optimize the monitoring and maintenance of energy infrastructure to make it smarter and more sustainable, as well as more efficient.

In the United States, we are working with Southern Company, the gas and electric utility, which is building the first new nuclear reactor in the U.S. in 30 years. Partnering with Southern Company, Accenture built a new cloud-based construction work management system on the Amazon GovCloud platform from scratch in just six months. This enabled Southern Company to expand and accelerate plant construction as it strives to bring this clean, carbon-free energy production online for 500,000 homes and businesses.

Let me pause for a moment — and take a step back. Each of these examples demonstrates the power of our unique business model — which spans services from strategy to operations, with digital and technology at the core. This enables us to create the multi-disciplinary teams that are needed to not just create a vision of transformation but to execute and scale and give our clients the confidence that they will achieve real value.

If you think about the environment our clients are navigating — unprecedented change, the need for speed and major investments to drive their enterprise transformation, our unique model and capabilities give us an incredible competitive advantage to be the partner of choice for the world's leading companies.

Now let me turn to Accenture's greatest and undeniable strength, which is our people. During the first quarter, the number of Accenture people surpassed 500,000 — a significant milestone. I want to thank each and every one of them for their incredible commitment and dedication to serving our clients.

As always, we continue to strengthen our leadership team, which now includes more than 8,000 managing directors. I was delighted that earlier this month, we promoted 787 new managing directors and senior managing directors, including a record 260 new women managing directors — accounting for 36 percent of the promotions to this level.

And before I turn it back to KC, I just want to mention some of the great recognition we have recently received for our long-term success and cutting-edge capabilities.

We are especially proud that Droga5, which joined Accenture Interactive last April, was named agency of the decade by Adweek, which characterized Droga5 as a “dominating creative force.”

Interbrand ranked Accenture Number 31 on its list of top global brands, our highest ranking ever. Our brand value increased 14 percent for the second year in a row ... and I want to recognize Amy Fuller, our chief marketing officer, her team, and all our people for the great work to continually strengthen the Accenture brand.

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

KC McClure

Thanks, Julie.

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

For the second quarter of fiscal 20, we expect revenues to be in the range of \$10.85 – \$11.15 billion. This assumes the impact of FX will be about negative 1 percent compared to the second quarter of fiscal '19 and reflects an estimated 5 percent to 8 percent growth in local currency.

For the full fiscal year '20...

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

For the full fiscal '20, we now expect our Revenue to be in the range of 6 percent to 8 percent growth in local currency over fiscal '19.

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

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

For earnings per share, we now expect full-year diluted EPS for fiscal '20 to be in the range of \$7.66 to \$7.84, or 4 percent to 7 percent growth over fiscal '19 results.

For the full fiscal '20, we continue to 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 free cash flow to be in the range of \$5.7 to \$6.1 billion.

Finally, we continue to expect to return at least \$4.8 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.

Operator, 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 1 then 0 on your telephone keypad. You may withdraw your question at any time by repeating the 1, 0 command. If you're using a speaker phone, please pick up the handset before touching the numbers. Once, again, if you have a question, press 1 then 0 at this time. One moment for your first question.

Your first question comes from the line of Lisa Ellis from MoffettNathanson, please go ahead.

Lisa Ellis

Hi, good morning, guys, and happy holidays. I just wanted to ask a question on acquisitions. I think, KC, you mentioned you're expecting to spend up to about \$1.6 billion on acquisitions this year. Can you just give a little bit more color on the expected contribution to revenue growth this year from acquisitions? And then also, what your focus areas are for M&A? Thank you.

KC McClure

Sure. So, happy holidays to you too, Lisa. In terms of our expected contribution to revenue in full fiscal 20 from inorganic, we continue to expect it to be about 2 percent, which was in the line of what we also had last year. And in terms of focus areas, I'm going to hand it over to Julie.

Julie Sweet

Great. Well, let me give a little color. So, happy holidays to you too, Lisa, and thanks for joining us. So our acquisition strategy continues to be centered really around three focus areas. The first is scaling in the hot skill areas where we see a big market opportunity. The second is continuing to add skills and capabilities in the New. And then the third is deepening our industry and functional expertise. And as you might imagine, acquisitions don't always fit exactly into one of those three. They often cross those.

So let me just give you a little bit of a sense of just the three that we just announced in the last few months. So if you start in the U.S., we announced that we're acquiring Clarity Insights,

which is a leading provider of data science and applied intelligence capabilities. They're very focused on three industries, healthcare and financial – banking, capital markets and insurance, which are priority areas for us globally and, in particular, in the U.S. And at the same time, they bring with them accelerators that will help us bring more speed to value for our clients. And they're focused on one of our most important markets, so they're helping us scale where we already have scale, but it's a very hot area in applied intelligence because it really crosses our services.

And then if you move around the world and go to Europe, Silveo, which we announced and expect to close actually just in a couple of days, which is headquartered in London, they're a company that's focused on supply chain and manufacturing and, particularly, solutions on SAP and Dassault Systemes, which are both important partners. And so, they are very much a part of our Industry X.0 strategy and at the same time, providing scale and functional expertise in core areas for us, SAP, Dassault Systemes and supply chain.

And then if you move again around the world to China, where I was just there a few weeks ago, we're really excited about FutureMove Automotive. I actually spent a few hours there myself where we're touching and feeling the work that they're doing and they're a digital and mobility service provider for the automotive industry in China. Incredibly advanced, working with leading automakers there and what's so exciting is not only does this acquisition help us really partner with our clients in China, but their advanced services and what they're doing with the connected car is something we'll be able to leverage and bring as innovation all around the world because we have important clients who are not only operating in China but in the U.S. and Europe.

And so, that sort of gives you a flavor and as you can probably tell, I'm so enthusiastic about what our team is delivering here because it's very much targeted on making an impact, close to clients in our markets around the world, but also, bringing us skills that we can leverage around the world.

Lisa Ellis

Terrific, thank you. And then maybe just for my follow-up, I know this is the time of year you're in a lot of discussions with clients around your 2020 programs with them. What are you seeing that's going to be different about 2020 in terms of the types of work you're doing with clients compared to 2019? Thanks.

Julie Sweet

It's very much more of the same in the sense of enterprise-wide transformation and then a focus on innovation, particularly around the growth agenda and then continuing to optimize operations. And that's been the theme and it continues to be the theme. In fact, I think since September 1st, I've met with over 100 C-suite executives and I'm very confident that we have a pulse on the demand and that we have the capabilities they need.

Operator

Your next question comes from the line of Joseph Foresi from Cantor Fitzgerald, please go ahead.

Joseph Foresi

Hi, I wondered if we could talk about the cadence on bookings? And you've said many times in the past that it can be lumpy. We saw it a little bit light ending, I guess, this quarter. So maybe

you could talk about how you see the cadence and what we should expect from a seasonality perspective?

KC McClure

Sure. Hey, Joe, thanks for joining. So, you're right, you've heard us talk about – and you know us very well. You know that our history of bookings, you do see lumpiness. And I think really the most important thing that's within that is we are very pleased with the demand for our services in the marketplace. And if you think about that in the backdrop of bookings. So we're coming off a quarter, Q4, which was a record bookings quarter and that was a record by more than a billion. We had strong bookings that came in the range that we expected in quarter one and we talked about that last quarter. We tend to have a seasonally lower quarter in Q1, so again this met our expectations.

And then very importantly, we have a strong pipeline and we see strong bookings in quarter two. And I think the other part of demand that's important, and you saw this in our results in the first quarter as well, is that we had broad-based demand in our revenue and we far exceeded the upper end of our guidance by more than \$160 million. So you see the demand in the market coming through our bookings, both in terms of what we've done last quarter, bookings coming in the range that we expected this quarter, a strong pipeline with strong bookings expected in quarter two, as well as broad-based overdelivery of our expected range in the first quarter in revenue, which allowed us to increase our revenue range for the year.

Joseph Foresi

Got it. And then maybe you could talk a little bit about your expectations from a demand perspective across the verticals and the geographies? I'm particularly interested in Financial Services and what's going on with the European banks, but any color from a very high level across those geo and verticals would be very helpful. And Happy Holidays as well.

Julie Sweet

Hi, Joe, this is Julie. Happy Holidays. So maybe this is kind of going across, let me just start with Financial Services. So on the Financial Services side, as you say, Europe continues to be a challenging market in the industry and for us. And so, we expect that we're going to continue to face challenges there, particularly in the UKI. But overall, our Financial Services business, if you look at North America and the Growth Markets, remains robust, but we continue to expect challenges in Europe.

If you just look at and take it up across the dimensions of our business and our industries, North America delivered very strong results, we are seeing continued momentum there. We have a very strong business in Europe. And so, while we've got pockets of pressure in Financial Services, and the other area I would call out in Europe is we have seen pressure in Industrial and Automotive. But otherwise, Europe remains a strong business and, in fact, 12 out of 13 of our industries this quarter had positive growth.

And then the Growth Markets keep being strong really across the board. And the only other place of pressure that I would call out was in North America, we did also see, not surprisingly, some pressure in Industrial and Automotive.

Operator

Your next question comes from the line of Tien-tsin Huang from J.P. Morgan, please go ahead.

Tien-tsin Huang

Thanks, good morning. Good revenue acceleration here. I want to first ask on gross margin expansion, actually. It's one of the largest increases we've seen in some time, just looking at the model here. What would you attribute that large expansion to, and then the same thing on SG&A, that's moving up. Have we seen increased prospecting and deal pursuit costs, given your positive comments on bookings?

KC McClure

Thanks for the question and hello, Tien-tsin. In terms of how we look at our business, as you well know, we first thought we'd start with looking at operating margin, and because the way our payroll costs work, as you well know, Tien-tsin, based on the activities that we have people doing from quarter to quarter and the demand that we see in the marketplace, you can see differences in the different segments of our income statement. So as it relates to the gross margin increase this quarter, it is tied to the sales and marketing, what's happening in sales and marketing, where we have more people out working our pipeline, so that will help our gross margin and then you'll see the offsetting impact in sales and marketing.

And you're right, that does tie in to the statements we made of continuing to have a very strong pipeline.

Tien-tsin Huang

Okay, that's helpful. And then KC, real quick, if you don't mind, just on the Consulting revenue growth. That has been improving here and, I guess, widening the gap to your Consulting bookings growth or pattern. What explains the faster conversion? Thanks for the second question. I appreciate it.

KC McClure

So we really haven't seen any change in conversion, Tien-tsin, of our overall bookings, just overall to revenue. That can be within a range and that can vary. So as we look at what we've done in Consulting bookings, we feel very good with our bookings for the quarter, as well as our pipeline and see also strong bookings in quarter two as well in Consulting. And if you look at what our production of our bookings in relation to revenue, we look at that over a prolonged period of time and so, we're still in the zone that we like, which is a book-to-bill ratio of about 1.0.

Julie Sweet

Tien-tsin, hi, nice to talk to you. And I would say, as we talked about last quarter, from the revenue side, we're very pleased with mid to high single-digit growth. And you're going to have some quarters you're in the mid, some quarters you're in the high growth, that's the zone we want to be in, because the context for our Strategy & Consulting business, you need to look at it in the context of our overall business. Big drivers of growth are the fact that we can bring together these multi-disciplinary teams to drive enterprise-wide transformation.

That is our huge competitive advantage. It's the demand that we see in the market and it's our ability to actually go from Strategy to Operations to field these teams that really is what's going to drive big growth in our business. And, of course, at the core, we've got the Digital and Technology. So we look at our Strategy & Consulting business in the context of the needs we are trying to fulfill for our clients, which are very much around these multi-disciplinary teams that span our services, which frankly, nobody else can do at our scale.

Operator

Your next question comes from the line of Darrin Peller from Wolfe Research, please go ahead.

Darrin Peller

Thanks, guys. It's amazing to see the headcount where it is right now. And so, if you could just quickly comment on your thoughts on talent management and going forward from this kind of a level. You know, your ability to hire what you need, which you've always been obviously extremely strong at, and then maybe just comment on the linearity in the model now, maybe looking forward, given where you are around the New and the type of revenue?

Julie Sweet

Sure, and maybe let's just start with our philosophy around people and size, because every time we hit a milestone, it's always, can you keep doing it, are you able to get the people? And so, first of all, our philosophy is that we can continue to grow in size as long as what our people are doing is the high-value work that drives our financial objectives. And so, we're very focused on what our people are doing versus how many people we have, because the size part of it is about our ability to manage, and we're really good at that. Like over the years, we've made the adjustments, we've done the things we need to do to focus on our clients and our people.

And so, the big focus for us is on what our people are doing, which ties to the demand that we see in the market. We are early innings of digital transformation, enterprise-wide transformation. We are constantly seeing new emerging tech. For example, we are doing some great work with Fukuoka of Japan where we're putting in one of the most significant early examples of using blockchain to drive their business. They're creating a platform that allows their customers to access other financial products. That's very new, cutting-edge, we're still at the beginning. So we see the demand for these new high-value services still quite early.

Then you look at the model itself. We don't see the model today as being linear. I mean one of the things that people often talk about is, well, you're continuing to grow. But underneath that we've been automating, we've been using people and their talents differently. I mean we often talk about the automation in our Operations business where, there we actually didn't let people go, we automated and then upskilled them to do the higher-value work, but not just in Operations, if you look at our other assets.

So we're constantly – we don't have a linear model today, because we are constantly doing what we're doing for our clients, which is leveraging technology to change the mixture of how we are using tech and our people to again continue to focus on the higher-value services. And I, hopefully that gives you kind of the color for how we think about our model.

Darrin Peller

Yeah, that is helpful. A quick follow-up is on pricing. I mean, again, it seems like as you've trained your people to do the higher part of the food chain, you're able to pass that through. Any changes on that pattern or is pricing harder just given competition has also picked up for digital? Thanks, guys.

KC McClure

So pricing, the environment for pricing remains competitive and that's always the nature of the work that we do. Now within that, we are able to see pricing differentiation in areas where we're differentiated, where we've invested. And we do continue to see that we have pricing improvement in some areas of our business continuing in this quarter. It's a constant focus for

us, and that really is the key part of, the key first lever to really driving our margin expansion is pricing. So we are always, we always have been and we'll always continue to be focused on driving pricing that's the right value for the clients and for Accenture.

Operator

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

Harshita Rawat

Hi, good morning. Thank you for taking my question. I want to ask about Industry X.0. It's a relatively new business for you and somewhat early innings. So can you talk about the journey in Interactive, which was a new business for you many, many years ago and now a huge revenue contributor. So can you talk about that journey, the lessons there and how you plan to go about scaling Industry X.0? Thank you.

Julie Sweet

Thanks, Harshita, that's a great question and we often internally talk about the analogies because as you remember with Accenture Interactive, that growth came from a mixture of both inorganic and organic, and very much fueled, though, by the power of Accenture. So even as we were bringing in the skills and capabilities that we didn't have traditionally, like Droga5 and before them Monkeys and Karmarama, these creative agencies, the value proposition for our clients is to take these other capabilities and pair them with the traditional strengths of Accenture, for example, in building digital platforms. And that is what has been able to drive the growth in Accenture Interactive.

And as we look at Industry X.0, this is an opportunity for us to serve areas of the company that we serve today, but not as much at scale, just like with Accenture Interactive. We weren't as relevant to the CMO as we are today once we built Accenture Interactive, as well as new business creation. And Industry X.0 while, of course, we have served and we have practices, still significant practices in manufacturing and supply chain, Industry X.0 is really about the digitization of manufacturing, the creation of connected products. And then also, these digital platforms and engineering around the software.

And while, again, just like Accenture Interactive, when we began, we're in parts of these. What we're doing is we're adding the complementary skills that will allow us to take the power of Accenture and really scale and bring all of that to our clients, who themselves are going through a whole change because manufacturing is now digitizing and it's the convergence of IT with operating technology. And we expect to grow Industry X.0 as we have with Accenture Interactive through a combination of organic and inorganic.

So you saw us last year buy companies like Mindtribe and Pillar in the U.S., which are all about connected products. We saw the FutureMove acquisition I just mentioned, in China, which is about automotive and connected services. Silveo in London, and that's really about digitizing manufacturing, leveraging our ecosystem. But at the same time, we're building on the scaled digital and technology capabilities, which is what our clients need to do as we all go through, when they see this transformation to digitize these areas of the company that haven't been digitized in the same way that you have the customer front-end.

Harshita Rawat

Thank you very much.

Operator

Your next question comes from the line of David Koning from Baird, please go ahead.

David Koning

Maybe my first question, just when we look back at some of the metrics you've given around the New and the percent of total revenue and we go back a couple years, it looks like that was growing 20 to 30 percent and some of the legacy was declining maybe low double. Today, it looks like the New might be growing low to mid-teens and legacy is actually kind of improved to maybe slightly declining. I'm just wondering that pace of change, what might be driving that, and if that's even the right way to think about it?

KC McClure

Hi, Dave. So in terms of looking at the New, I think really what you're touching on is the growth rates that we've had over the last few years, and we continue to have very strong growth rates in the New. And if you look at that scale of our business and you would anticipate that, even with very strong growth rates, would slow a bit, but again, be very strong just based on scale. And if you look at the other portion of our business, let's call it the non-new or the core, we continue to see that that is stabilizing. It's been decreasing at about a mid-single digit rate and that's by design. That's our strategy, but it's been pretty consistent over the last few quarters.

David Koning

Great, thanks. And just one quick follow-up, just on accounting. There was an other income line in Q1 that was about 11 million positive this quarter. Last year, that line was about 25 to 35 million negative all through the year. Was there a one-time item in Q1, and does that more normalize the rest of the year?

KC McClure

Yeah, so, we did have this quarter a small benefit below operating income where we, indeed, do have non-operating income this quarter as opposed to what you saw in quarter one of last year which was non-operating expense. So as a reminder, last year we adopted a new revenue, a new accounting standard that required that we mark our investments to fair market value. And while we don't have a large investment portfolio, what you will see, David, from time to time that may cause a little bit more variability in what we have in non-operating income and non-operating expense.

And this quarter, we did have a gain in non-operating income on some of our investments and that was offset by some FX losses as well, but it was a net gain this quarter in non-operating areas, and it will fluctuate probably slightly more than it has in the past, really just because of that accounting change.

Operator

Your next question comes from the line of Bryan Keene from Deutsche Bank, please go ahead.

Bryan Keene

Hi, guys, good morning. I just want to ask about the beat and the upside surprise for you guys. Was it in Consulting, in particular? Because I know a lot of investors were concerned Consulting was weakening and actually it strengthened. So just trying to figure out if that also surprised you guys or was there something else that created the upside?

KC McClure

So we were really pleased overall with our revenue growth for this quarter, Bryan. And, obviously, at 9 percent growth which was, as you mentioned, a beat, \$160 million higher than we expected. But the other thing that we were very pleased with is the fact that it was also a broad-based overdelivery. Now if I had to point out two areas, in particular, I'd point to Health & Public Service, particularly in North America, which was strong both in the health industry, as well as in the public sector industry and that's a statement overall for North America, including our Federal practice. And then also, Products, that continues to have very significant growth in Life Sciences, as well as Consumer Goods, Retail & Travel.

And so, what you'll see is that, and we continue to expect, Bryan, that we will have for the full year, Consulting in the mid to high single-digits growth, and outsourcing also in the mid to high single-digits.

Julie Sweet

And, Bryan, I would just add – this is Julie, that again as I talked about earlier, obviously, we look at Strategy & Consulting, Tech Services and Operations separately and report on that. Remember that our focus really has been, because of the demand we see in the market, on our unique business model that brings these services together. And so, it's not so much, for us, the way we manage our business, it's not that wait, there's a big surprise in Strategy & Consulting, 'cause KC's giving the answer around industries and clients because a lot of our work is actually bringing all of these services together to meet the needs we're seeing in the market.

And so, while we do report this to give you that insight into the types of work, when we are thinking about what's happening, it's much more focused. It is only focused on clients, what are their needs and how are we bringing these services together? And that really is the power of Accenture, is that we're able to bring these services together. And if you think about what our clients need right now, as I said, I've literally in the last four months, almost four months, spent time with over 100 C-suite executives. And top of mind for them is the importance of making sure they're going to get value. And that's why they want to partner with us, is because we're bringing the teams and we're able to really give them confidence in outcomes and we're able to point to the execution we've done with other clients and demonstrate the value and that we're bringing that learning.

And I think, particularly, as we see this inflection in the marketplace, moving from pilots and use cases to this enterprise-wide transformation, multi-year programs, it's more important than ever that we're able to bring these services together for our clients.

Bryan Keene

That's helpful, and just as a follow-up on Europe, it was up 7 percent constant-currency. I think that's up from 4 last quarter. Again, a lot of investor concern around Europe, and you guys are showing an acceleration there. You talked about, I think, 12 of 13 industries showed improvement. So I guess I'm a little surprised to hear about that improvement. Can you just talk about, broadly, what's going on in Europe and why you are seeing that improvement?

KC McClure

And I will maybe just reiterate a couple of the points and some that you also mentioned. So we were pleased with our business in Europe this quarter and we did have broad-based growth and it was in 12 of the 13 industries. And importantly, it was high single to double-digit growth in 9 out of the 13. And so, that's really important to us. And that's something that we're very focused

on and we're very proud of, the overall broad-based nature of our business in Europe and the diversity that we have, which I think you'll see has been and continues to provide some durability in that market.

Now, as we've mentioned, we do continue to have a focus on Banking & Capital Markets in Europe and that's particularly in the UK. So we do have some more work to do in that area. And also, as Julie mentioned, we do have some pressure in Industrial and Automotive as well in Europe. I just would point back to the double-digit growth that we had in Italy, Germany and Ireland as well. And so, we're very focused on continuing in those markets to drive the transformation that Julie was talking about, that she sees and talks with all the C-suite about, in her travels around the world.

Operator

Your next question comes from the line of Aschwin Shirvaikar from Citi, please go ahead.

Aschwin Shirvaikar

You mentioned the Droga5. I'm going to take you up on that one. Obviously, Accenture spent many years growing the various parts of that business, steadily expanding from the technology part to creative. Droga5 recently won the Kimberly-Clark child care account and based on our checks, you're increasingly going head on with the traditional agencies for what I call the whole shooting match. Can you speak to what you're seeing there just quickly, and where you think you're missing any pieces, so you can go win full accounts end-to-end, what the traction you currently have there is?

Julie Sweet

Sure. Well, Kimberly-Clark is a great example of what we see is the demand in the market, which is for a company to bring together not only world-class creative, but the digital capabilities, as well as the advisory capabilities to truly transform the customer experience. And you hear that term now a lot. We believe we're the only company today that actually has all of the capabilities that are needed in order to deliver a very different customer experience.

And so, while you think of it as going up straight against the agencies. What we think about it is, what the clients are looking for is not just the creative agency. And you see that in the industry, as the industry, the broader creative industry, is also expanding into these capabilities. The fact of the matter is, it's very difficult to have creative, it's equally difficult to have depth and breadth in the digital and technology capabilities that our clients need.

And so, we believe that our competitive advantage here is to have such strong creative capabilities, coupled with just unparalleled digital and technology capabilities at a huge scale in every major market. 'Cause remember, Accenture Interactive, we have built around the world and we have, I was in the studios in China, we have it in Australia, across Europe, as well as the U.S. So we're extremely proud of the work that Accenture Interactive, under the leadership of Brian Whipple and his entire team have done that is powered by the rest of Accenture. It's all of these skills and capabilities. That is very hard for anyone to replicate in our view.

Aschwin Shirvaikar

That makes sense. The second question is you mentioned the incremental elements of non-linearity in the model in the prior question on headcount. What's the longer-term impact on margins and cash flow, if I can extend that question to those metrics?

KC McClure

So, Aschwin, in terms of how we think about – there are two elements – in terms of margin. I think it's important to just point out that we always continue to look for modest margin expansion, but more importantly to us, is that we're doing more than just the modest margin expansion, as you well know, that goes to our bottom line. We are doing more underlying margin expansion, so that we can invest at scale in our people and in our business for long-term market leadership. So that's the key part.

And on free cash flow, that continues to be – there's no change there. I mean this year, you'll see that we've managed that part of our business by looking at free cash flow to net income ratio. And this year again, it's 1.1 to 1.2 and if you think about that, while I won't guide for that long term, strong free cash flow will continue to be an anchor of how we run Accenture.

Angie Park

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

Operator

Your final question comes from the line of Bryan Bergin from Cowen, please go ahead.

Bryan Bergin

Hi, good morning, thank you. I want to ask the question on how the mix of your client counterparts has changed. So if we think of enterprise budgets, can you give me a sense of how your revenue stream currently maps across an organization, whether it's CIO or CMO budget, or like board-level initiatives? The reason I ask is you've diversified the business so much over the last several years, I'm just really curious how this has evolved and how you really are mapping across the various budgets now, today?

Julie Sweet

Well, I guess what I'd say is if you think about what we're doing with respect to, for example, Accenture Interactive, that work is almost always a combination of marketing plus CIO, often plus the business units because the work is not, really is around customer experience. And so, where the budget sits really varies by company. And some companies, you'll have budgets sit with the chief digital officer. So what we, our focus is less on the specific budgets and more how are we serving the different needs of the enterprise. And remember, we go back to really, we think about it in three things. Building the digital core – so 40 percent of our business, growing double-digit today, is in our Intelligent Platform Services, our five big platforms, because that's all about next-gen platforms. Similarly, our cloud business is there. Then we have the optimizing operations. So you've got a \$6 billion scaled business growing high single-digits to double-digits, which is all about optimizing and making sure that within the functions, as well as industries, they've got access to the best technologies in the most efficient way.

And then on top of that, you have the growth agenda, like Accenture Interactive, which is \$10 billion, we announced last quarter, with strong growth, as well as the new areas like connected products and services. And so, we continue to focus, our big next focus area is Industry X.0, which is growing on our historic work in manufacturing and supply chain to the New and really going after that part of the enterprise, along with the market, because that's not digitized as fast as say customer experience. And that's really how we think about the business.

Bryan Bergin

Okay, that's helpful. And then just lastly, I heard your inorganic 2 percent, you expect for fiscal '20. Was it close to that in 1Q as well? And Happy Holidays.

KC McClure

Happy Holidays to you too, Bryan. We look at that over a full year, so I would say 2 percent inorganic for the full year is the number that I would continue to focus on.

Julie Sweet

Okay, thanks, Bryan. Thanks everyone again for joining us on today's call.

We are very pleased with our strong start in fiscal '20, as you've just heard, and we are well-positioned to achieve our updated business outlook for the year.

We will stay laser-focused on continuing our current momentum, capturing the opportunities in the marketplace and creating value for our clients and all of our stakeholders.

I want to wish you all — our investors and analysts and everyone at Accenture and your families all the best for the New Year.

And finally, I want to thank each of our people around the world. You are what makes Accenture unique and special.

I'll see everyone on the road!